



Think Ahead

The background of the slide is a composite image. The upper portion shows a blurred city skyline with several tall skyscrapers under a clear blue sky. In the foreground, there is a lush green field with trees displaying vibrant autumn foliage in shades of orange and red. At the very bottom of the frame, rows of blue solar panels are visible, angled towards the viewer.

**SEIZING
OPPORTUNITIES
IN CHINA'S
SUSTAINABLE
INVESTMENT**

About ACCA

We are ACCA (the Association of Chartered Certified Accountants), a globally recognised professional accountancy body providing qualifications and advancing standards in accountancy worldwide.

Founded in 1904 to widen access to the accountancy profession, we've long championed inclusion and today proudly support a diverse community of over 252,500 members and 526,000 future members in 180 countries.

ACCA now has over 29,000 members and 125,000 future members in China, with representative offices and contact points in 11 cities including Beijing, Shanghai, Guangzhou, Shenzhen, Chengdu, Shenyang, Qingdao, Wuhan, Changsha, Hong Kong SAR and Macau SAR.

ACCA's unwavering commitment to building sustainable economies is at the heart of our global vision. Through our policy positions and insights, we strive to inform and influence decision-makers, promote ethical and responsible business practices, and support the transition to a better future.

For this research report on *Seizing opportunities in China's sustainable investment*, we are grateful to our members in mainland China and Hong Kong SAR who contributed their expertise and on-the-ground experiences through survey and case studies. By harnessing the collective intelligence of our diverse community, we are able to provide a comprehensive understanding of the evolving investment outlook in the dynamic Chinese market.

ACCA is delighted to collaborate with HKTDC on this important research. We hope this work will inspire professionals, investors, policymakers, and the wider business community.

Find out more at
www.accaglobal.com

About the HKTDC

The Hong Kong Trade Development Council (HKTDC) is a statutory body established in 1966 to promote, assist and develop Hong Kong's trade. With 50 offices globally, including 13 in Mainland China, the HKTDC promotes Hong Kong as a two-way global investment and business hub.

The HKTDC organises international exhibitions, conferences and business missions to create business opportunities for companies, particularly small and medium-sized enterprises (SMEs), in the mainland and international markets. The HKTDC also provides up-to-date market insights and product information via research reports and digital news channels.

The HKTDC's mission is to create opportunities for Hong Kong companies. We focus on delivering value by promoting trade in goods and services, while connecting the world's SMEs through Hong Kong's business platform. In striving to be the best trade promotion organisation in the world, the HKTDC is committed to:

- Developing and expanding new frontiers by exploring, learning and innovating
- Building on Hong Kong's economic success through global business
- Creating and delivering value to our customers
- Maintaining trust, respect and openness in all our relationships

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Executive Summary

Sustainability has, beyond any doubt, emerged as one of the most critical concerns of the 21st century. As a concept, it has become deeply embedded in almost every aspect of contemporary society – from consumer behaviour to education to governmental priorities. Inevitably, it has also moved to centre stage for the global business community.

Sustainable investment refers to the practice of making financial investments in an organisation or project in a way that prioritise sustainability considerations alongside financial returns, thereby generating a positive impact for both society and the environment. These investments are intended to support long-term sustainability and responsible business practices in addition to achieving financial goals.

It is becoming increasingly important for business investors, sustainability professionals, and institutional leaders to understand the current sustainable investment landscape. A thorough grasp of emerging investment strategies, and innovative solutions can help these stakeholders identify opportunities to integrate ESG principles into their operations and decision-making.

Within China, the world's second-largest economy and its most significant manufacturing base, a further driver for sustainability is the stringent regulatory requirements linked to the central government's 'Dual Carbon' target. Beyond that, a number of other factors are also driving the country's prioritisation of a greener agenda. These include the need to enhance the environmentally-friendly credentials of the country's manufacturing base in a way that meets the concerns of both domestic and overseas stakeholders. Furthermore, there is a clear requirement to bolster the brands of mainland companies in sustainable terms, while demonstrating to all stakeholders, strategic partners, clients and official bodies how seriously the country takes its responsibilities on sustainability matters.

Given the interconnected nature of economic activity across the globe, China's commitment to sustainability on both the business and investment fronts is, of course, subject to constant scrutiny from overseas and domestic stakeholders as well as international monitoring bodies given the size of its manufacturing base and its growing global prominence.

China's policymaking has also been given added significance as its practices and values are, effectively, exported by the many mainland businesses expanding globally, particularly in the case of those countries aligned with the objectives of the *Belt and Road Initiative (BRI)*. In fact, China's *BRI* related investment is increasingly focused on green infrastructure, renewable energy and green transition. As well as complying with territory-wide ESG practice, such businesses must also align their operational protocols with the sustainability priorities of the jurisdiction they are operating within.

This highlights the interconnected nature of sustainability, with such shared values now underpinning business resilience, customer relationships, corporate reputation, and ultimately the value created by companies on a truly international basis, with such concerns uniting emerging and mature markets, as well as everything in between.

The sustainable investment landscape in China is witnessing a dual-directional growth trend, marked by significant developments in outbound and inbound investments. Chinese companies are increasingly looking beyond their borders to invest in sustainable projects and opportunities abroad. This outward expansion not only diversifies investment portfolios but also contributes to the global advancement of sustainable practices and technologies. Conversely, foreign investors are showing a growing interest in China's sustainable investment market. The influx of inbound investments into China suggests international recognition of the country's potential as a hub for sustainable initiatives and green finance.

Turning to Hong Kong's particular role within this, the city has long functioned as a key facilitator for mainland businesses that are keen to enhance their sustainability credentials. This has partly stemmed from its legacy role as a conduit for international capital investments to flow into mainland China (bringing-in strategy), as well as its preeminent contribution to helping manage mainland China's outbound investment portfolio (going-global strategy) – about two-thirds of such capital is funnelled through Hong Kong. A recent survey reveals that over 90% of companies in the Guangdong-Hong Kong-Macao Greater Bay Area (GBA) acknowledge Hong Kong as a strong facilitator for sustainable development, citing its strengths in a wide range of green applications and financial services. This is largely attributed to the city's service providers maintaining international standards and understanding the mainland's sustainability need.

As sustainability has become an increasingly significant element of the global business mix, Hong Kong's contribution has expanded accordingly, as has the breadth of its contributions. As testimony to this, the city now plays a decisive role in ensuring Chinese businesses are able to comply with the diverse sustainability standards of their various stakeholders.

It is notable, for instance, that a significant number of GBA companies have gone on record as acknowledging the depth and quality of Hong Kong's resources across many related areas, including green applications, financial products and services. Taken together, this interconnected resource base has established Hong Kong as the key stakeholder within the GBA when it comes to the promotion and implementation of sustainable development practices.

To deliver deeper insights into the sustainability journey of mainland companies, the HKTDC and ACCA have recently completed a joint research initiative specifically focussed on this issue.

Our joint survey revealed a significant deficit in sustainability expertise, with respondents citing shortfalls in knowledge (37%), talent (28%) and practical experience (27%) as potential roadblocks to their sustainability goals. This highlights a critical gap in China's burgeoning sustainability business landscape and talent development. While businesses are making commendable progress in adopting sustainable practices, the lack of specialised talent poses a significant risk to the successful implementation and long-term sustainability of these initiatives. By proactively addressing the talent gap, business leaders can ensure that China's green business ambitions are met with the necessary expertise and skills. This will not only contribute to a more sustainable future, but also create a competitive advantage for businesses operating in a rapidly evolving global market.

Other key findings are as follows:

- Overall, the majority of research participants noted an uptick in the current business environment and a more optimistic business outlook compared to 12 months ago, with this seen as likely to boost China-oriented investment levels.
- Survey respondents tend to pay attention to Government's policy priorities on environmental impacts, especially on carbon emissions.
- When evaluating investment opportunities, most survey respondents cited economic considerations as their first priority, followed by the specific sustainable capability setup and a number of related governance factors.
- Survey findings also showed that respondents are committed to adopting sustainability practices. While 60% had only allocated a maximum of 3% of their income to such objectives, a significant portion (40%) spent a greater proportion in green measures.
- While some 99% of enterprises (30% tend to increase while 69% tend to remain at the same level) plan to sustainably invest over the next three years, cost pressures were cited as a major hurdle when it comes to implementing sustainable investment strategies in China.
- Creating long-term values (73%) and complying with regulatory requirements (71%) were identified as the main motivations for adopting sustainability practices.^[1]
- While only around 50% of the surveyed enterprises reported 'moderate,' 'slight,' or 'extreme' familiarity with green financing options in China, a significant majority of over 70% would consider using a green financing channel to meet their future needs.
- Overall, the progress/effort made towards integrating sustainable investment into current business and operational models was seen as more than satisfactory.

In addition, certain key lessons were gleaned from the panel of industry experts interviewed by the *HKTDC* and *ACCA*.

- When focusing on cutting the carbon emissions of all stakeholders understanding the local context is of paramount importance, especially when trying to fully access the array of opportunities available in China's sustainability market.
- Companies are actively transitioning their investment strategies and operational protocols toward more sustainability-focused initiatives. This strategic shift reflects stakeholder expectations that companies should focus on generating value in a sustainable and socially responsible manner. Green financing and technology are among the key methods companies now use to achieve their sustainability goals. Securing green financing, including green bonds or loans, can see interest margins reduced if sustainability targets are hit. In addition, such finance expands access to capital, while diversifying the available pool of institutional investors in any given market.
- Investing in sustainable projects no longer requires companies to sacrifice profitability. Indeed, as the number of sustainable investment opportunities has grown rapidly – particularly within China – many such prospects are perfectly aligned with well-defined sustainable finance priorities, while remaining financially viable.
- Furthermore, many mainland companies have already successfully integrated sustainability into their operational models and are now continuously evaluating and fine-tuning their approach to ensure optimal outcomes. This requires looking beyond traditional financial indicators and to consider non-financial elements such as corporate governance and social impact.
- The level of reporting and disclosure that organisations must comply with is continually rising. While access to the required data and staying informed of the evolving requirements remain challenging, actionable plans and bespoke strategies can help overcome any such obstacles.

1. Source: 'ACCA – Sustainability reporting: SME guide'

1. New Norm for Chinese Businesses

1.1 Predominance of Sustainability

Chinese businesses are increasingly recognising the importance of sustainability. This emphasis has been driven not only by the need to follow regulatory requirements in line with China's 'Dual Carbon' targets but also by demands from a diverse set of stakeholders including institutional investors and corporate clients, as well as end-customers both domestically and abroad. This shift is also evident among those Chinese enterprises and investors aiming to extend their reach into *Belt and Road* countries and other international markets.

Such developments are no coincidence, as global warming and climate change pose formidable challenges to humanity. Notably, the elevation in the Earth's temperature has reached alarming levels amid increased greenhouse gas emissions, such as carbon dioxide and methane,

primarily due to human activities. Addressing these complex climate-change issues requires widespread alterations in numerous sectors of the global economy, particularly in energy production, land use and control of greenhouse gas emissions.

In response to such escalating threats, China is actively working to reduce carbon emissions and promote sustainable development practices. The country's proactive approach is anchored in its commitment to transitioning to a green economy and a more sustainable future. During the course of its *14th Five-Year Plan (2021-2025)*, China is committed to strategically charting a course towards its carbon peak and carbon neutrality goals. This represents a significant shift in the government's development paradigm, which now emphasises environmentally friendly and sustainable measures.



As highlighted in *The Outline of the 14th Five-Year Plan for National Economic and Social Development and the Long-Range Visions Through the Year 2035 of the People's Republic of China*, the country now envisions a transformational shift towards green production and lifestyle, leading to a gradual decrease in carbon emissions after hitting a peak. This vision and the related plans aim to fundamentally improve the ecological environment and the realisation of building a 'Beautiful China'. They herald a momentous shift in the country's development agenda that sees it moving beyond reliance on carbon, while signalling a key pivot towards environmentally mindful considerations within national development frameworks.

Such developments inevitably have far-reaching implications for businesses operating within China, as well as for those Chinese enterprises adopting the 'going-out' strategy to expand internationally. Intriguingly, nearly 90% of mainland enterprises surveyed by *HKTDC* reported plans to 'go global' within the forthcoming one to three years. Approximately 72.8% aim to capitalise on opportunities within the *RCEP* and *Belt and Road* markets, while 65.1% of respondents have set sights on advanced economies such as Europe and North America. Their primary objectives for 'going out' encompass various areas, including logistics and transportation (28.8%), marketing and sales (26.9%),

establishing overseas factories (23.3%), and sourcing internationally (15.9%).^[2] As part of this expansion strategy, these businesses need to incorporate considerations of extreme weather risks - including catastrophic flooding, extreme heat, and windstorms - into their supply chain risk management to ensure its comprehensiveness. Likewise, in expanding their global footprint, they must acknowledge the importance of compliance with the sustainability requirements of their target markets.

In the circumstances, businesses will have to navigate an increasingly challenging landscape of environmental regulations, invest in cleaner technologies and adopt sustainability as the core principle of their operations, with the latter encompassing everything from managing the climate-related risks to enhancing supply chain sustainability. These business strategies will certainly require significant upfront investment and broad organisational shifts. However, the long-term benefits could also be substantial, as they offer the potential to enhance corporate value and brand perception, enable long-term cost savings, and unlock opportunities in the growing world of green financing.

2. Source: 'Hong Kong: The Premier Platform for Mainland Companies to Expand into the BRI and RCEP Markets', Hong Kong Trade Development Council

1.2 Navigating the Priorities of Modern Chinese Business

With regard to the domestic landscape, China is making strides in its commitment to the *Paris Agreement* by establishing 'Dual Carbon' targets for peak carbon and carbon neutrality. Speaking at the general debate of the 75th session of the *United Nations General Assembly* in September 2020, Chinese President Xi Jinping announced that China would scale up its intended nationally determined contributions by adopting vigorous policies and measures to see carbon dioxide emissions peak before 2030 and achieve carbon neutrality before 2060. It followed that carbon peaking and neutrality were included in China's overall plan for environmental protection at a meeting of the *Commission for Financial and Economic Affairs* under the *CPC Central Committee* presided over by President Xi in March 2021.

These goals represent a significant increase in the ambition of China's climate policies, while signalling an important commitment to accelerating the country's path to a green and low-carbon economy. However, achieving these aims requires extensive efforts in reshaping the country's energy generation and usage, including implementing energy efficiency measures, expanding renewable energy and continuing to reduce reliance on coal. Specifically, the central authorities adopted a document entitled *Guidelines for Carbon Dioxide Peaking and Carbon Neutrality in Full and Faithful Implementation of the New Development Philosophy*, which defined the working guidelines, main objectives and key tasks for achieving carbon peak and neutrality^[3]. This was followed up with an action plan for carbon peaking before 2030, issued by the *State Council* in October 2021^[4], which covered a number of areas, including:

- Green and low-carbon transformation of energy
- Energy saving, carbon reduction and efficiency improvement
- Reaching peak carbon emissions in the industrial sector
- Reaching peak carbon emissions in urban and rural construction
- Green and low-carbon transportation
- Circular economy to assist in carbon reduction
- Green, low-carbon scientific and technological innovation

These commitments and actions have multiple implications for businesses and investments in China. As outlined in this year's government work report delivered at the *14th National People's Congress* on 5 March 2024, the Chinese government is set to strengthen the construction of a more ecologically-based society and further promote green, low-carbon development. Accordingly, the government will vigorously promote the green transformation of the industrial structure, energy structure, transport structure, and urban-rural construction development. It is also set to enhance the ability to statistically calculate and verify carbon emissions, establish a carbon footprint management system and expand the coverage of the national carbon market industry. As a result, the country as a whole is working towards green and low-carbon development across multiple sectors.

Businesses with a focus on renewable energy, electric vehicles, energy-efficient technology and other green industries could see an increase in opportunities as China steps up its efforts to transition away from fossil fuels, a move that will potentially impact domestic and foreign companies operating in such sectors across the mainland. However, such developments will also bring about changes to the regulatory environment while impacting the financing environment. Taken together, these changes suggest that investors must align their strategies with the country's transition towards a more sustainable, low-carbon economy.

- Stricter regulations: companies face stricter environmental regulations as China works to decrease its carbon emissions. This could, for instance, lead to increased costs for companies in such traditionally high-emitting sectors as oil, gas, coal and manufacturing. Similarly, companies involved in high-carbon industries may experience challenges due to regulatory changes aimed at reducing carbon emissions.

3. For further details, please refer to: [China Announces Plans for Carbon Neutrality](#)

4. For further details, please refer to: [China Reveals Action Plan for Carbon Dioxide Emissions to Peak Before 2030](#)

More recently, China's *Standardisation Administration*, along with several other departments, issued guidelines establishing carbon peaking and carbon neutrality standards. The authorities aim to formulate or update at least 1,000 national and industry standards by 2025 to keep pace with the international community.^[5]

In another development, in 2023, the *National Development and Reform Commission* released a plan for the launch of carbon-peaking pilot projects in 100 cities and industrial parks nationwide^[6]. In early 2024, the *Ministry of Industry and Information Technology* then announced guidelines for the establishment of a system of carbon peaking and carbon neutrality standards for the industrial sector, in order to achieve peak carbon by 2030 in line with the country's target^[7]. These developments have already started to impact businesses and investment across a number of different sectors.

On the financial front, China's peak carbon and neutrality ambitions have also brought about changes in the country's financing environment as it works towards implementing 'green financing' policies. In March 2024, for example, the *People's Bank of China* and six other bodies issued a set of guiding opinions relating to stepping up financial support for green and low-carbon development^[8]. This document's key areas of focus included optimising green finance standards, strengthening the disclosure-based regulatory regime and fostering the development of the green financial market and related products. As a result, such policies are expected to make it easier for companies operating sustainably to get access to capital, while discouraging the financing of projects harmful to the environment.

Sustainability is, therefore, increasingly becoming a determinant factor in the decision-making process of those investors and corporations engaging with Chinese businesses. Companies that fail to integrate sustainability and carbon-reduction measures into their operations risk negatively impacting their brand image and financial performance. It is, therefore, socially responsible for Chinese investors considering domestic ventures or international business co-operation to prioritise sustainability and embrace a long-term commitment to reducing carbon emissions. Businesses that wish to thrive in mainland and foreign markets must demonstrate a commitment to sustainability, regardless of the method. This is evidenced by a recent survey by the *Hong Kong Trade Development Council (HKTDC)*, which showed that 99.7% of surveyed enterprises in the GBA intended to incorporate – or enhance the number of – ESG elements in their business operations within the next two years.^[9]

1.3 Global Sustainability Pledge

Another factor that businesses in China cannot ignore is a higher level of scrutiny from international stakeholders. This is against the background of China now functioning as an integral player in international investment dynamics. The country is not merely a major recipient of foreign direct investment (FDI) but also a key exporter of capital. As revealed by the *United Nations Conference on Trade and Development's (UNCTAD) World Investment Report 2024*, released in June this year (see graphs below), China ranked second as the destination of inbound FDI, trailing only the US, and third as a source of FDI outflow, behind the US and Japan. As the world's second-largest economy, China undoubtedly attracts the attention of international businesses on a daily basis. Stakeholders of its inbound and outbound investments are likely to keep a close eye on their Chinese counterparts, hence, compliance with sustainability within China and globally is of paramount importance.

5. For further details, please refer to: [China Announces Guidelines for Establishing Carbon Peaking and Carbon Neutrality Standards](#)

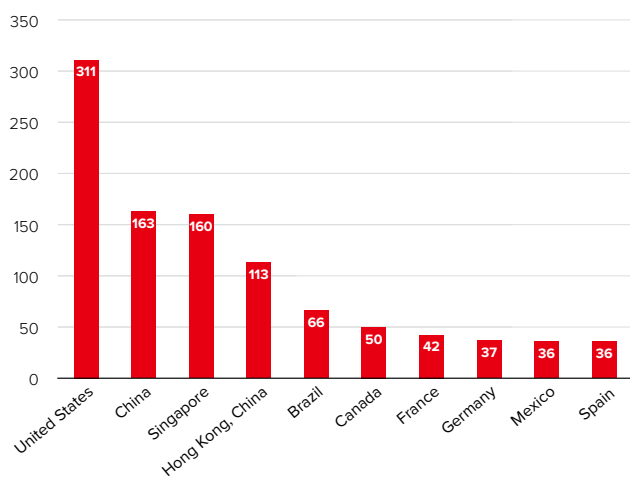
6. For further details, please refer to: [China Rolls Out Plan for Carbon-Peaking Pilot Projects](#)

7. For further details, please refer to: [China Issues Guidance on Establishing Carbon Standards for Industrial Sector](#)

8. For further details, please refer to: [China Issues Guidance on Financial Support for Green and Low-Carbon Development](#)

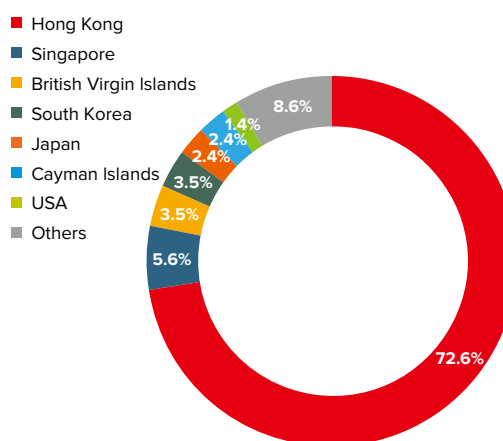
9. Source: 'Sustainability in the GBA: Unlocking Opportunities and Empowering Growth', Hong Kong Trade Development Council (in partnership with United Overseas Bank)

FDI inflows by major host economies (Billions of US dollars)

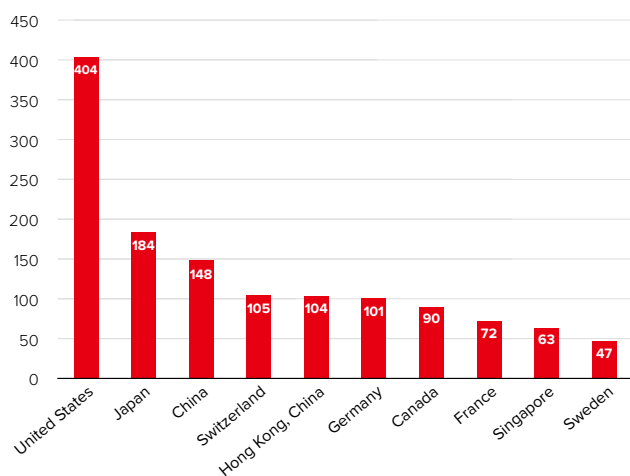


It is worth noting that Hong Kong serves as both the primary source of FDI for mainland China (accounting for more than 70%) and the largest destination for the mainland's outbound direct investment (about 60%), as demonstrated in the graphs below. About two-thirds of such mainland-related capital is funnelled through Hong Kong. This is down to Hong Kong's role as the leading business platform for channelling international capital investments into mainland China, as well as a major hub for managing outbound investments from the mainland into many overseas markets.

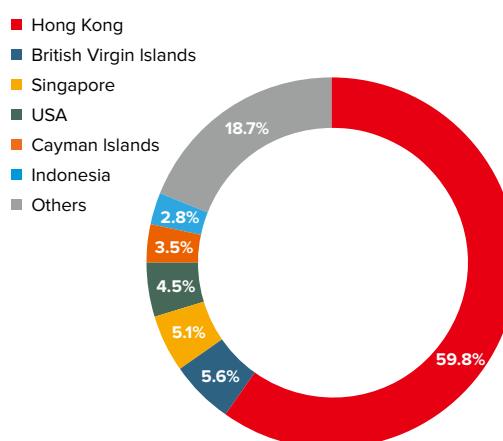
Flow of Inward FDI by Major Source (2022)



FDI outflows by major source economies (Billions of US dollars)



Flow of Outward Direct Investment by Major Destination (2022)



Remark: 2023 figures
Source: '2024 World Investment Report: Investment Facilitation and Digital Government', United Nations Conference on Trade and Development (UNCTAD)

Sources: 2023 China Statistical Yearbook; 2022 Statistical Bulletin of China's Outward Foreign Direct Investment

As sustainability plays a crucial role in the sphere of international business, Hong Kong has been instrumental in ensuring Chinese businesses comply with the variety of sustainability requirements imposed by different stakeholders. According to the above-mentioned *HKTDC* survey, more than 90% of GBA companies saw Hong Kong as having existing strengths on the green application, financial products and services fronts, and assets that would allow it to take a lead role within the GBA in terms of sustainable development practices.^[10] The reality here is that Hong Kong's service providers maintain international standards while having a comprehensive understanding of mainland China's sustainability requirements. Consequently, Hong Kong is the ideal platform for ensuring that mainland businesses not only comply with local sustainability requirements but also with those of the investors' origin countries and those of any co-operation partners involved in such inbound or outbound business projects.

This is of utmost importance for those engaging with Chinese enterprises on a financial and business basis as countries worldwide, recognising the potential of green finance to drive sustainable economic activities, are making a significant effort to comply with the objectives of the *Paris Agreement* - limiting global warming to below 2°C, striving to maintain a level of 1.5°C above pre-industrial times, and attaining net-zero emissions by 2050.^[11]

A typical example of this is Europe, where investors tend to be hugely committed to countering climate change and promoting sustainability. This has seen the European Union (EU) emerge as one of the leaders of the global sustainability movement. Via its *Regulation on the Governance of the Energy Union and Climate Action*^[12], the EU has set clear rules for planning, monitoring and reporting progress towards its 2030 climate and energy targets. The EU has also instituted a taxonomy of sustainable finance, which functions as the defining criteria for economic activities compatible with a net-zero trajectory towards 2050.

Mirroring the EU's efforts, the ASEAN bloc is advancing its sustainable energy use and setting ambitious climate goals, notably via its updated *ASEAN Taxonomy for Sustainable Finance*, a policy that promotes the transition from fossil fuels to net-zero emissions.^[13] Globally, many countries, including the US, Japan, South Korea and Canada, have explicitly adopted 2050 as their target year for net-zero emissions, with renewable energy investments and green infrastructure development seen as the key means of making good on that objective. Overall, this highlights the growing global prioritisation of sustainability, a commitment that unites governments and the international business community.

Accordingly, many globally-oriented businesses have now integrated sustainability into their core operational models. This has seen them proactively establishing sustainable supply chains, many of which have close links to the mainland's manufacturing base, while advocating circular economic practices, utilising green financing, publicly assessing climate impact via ESG reports and investing in green R&D. This is to the extent that companies and investors that fail to integrate such concerns into their planning risk reputational damage and business losses. Those engaging with their Chinese counterparts, meanwhile, must address climate change issues, while ensuring adherence to sustainable practices and investment protocols. Such a focus also applies to China's outbound investment portfolio, including bilateral investments, and collaborations with mature economies and partners along the *BRI* routes.

10. For details, please refer to: 'Sustainability in the GBA: Unlocking Opportunities and Empowering Growth', Hong Kong Trade Development Council (in partnership with United Overseas Bank)

11. The Paris Agreement is an international treaty within the United Nations Framework Convention on Climate Change (UNFCCC) that focuses on the mitigation of greenhouse gas emissions, adaptation to climate change, and finance related to these activities. It was adopted at the 21st Conference of the Parties (COP21) in Paris in December 2015 and came into force in November 2016.

12. For more details, please refer to: *Governance of the Energy Union and Climate Action*

13. A standout aspect of these efforts is the ASEAN Taxonomy for Sustainable Finance, most recently upgraded to version 3, which advocates transitioning away from fossil fuels to achieve net-zero emissions.

1.4 Corporate Approaches

While investors and corporations have notably become more aware of both sustainability issues and the related regulations, it remains unclear to what extent such evolving considerations are being incorporated into their strategies and operations. The Chinese government, however, has actively adopted a range of policies in support of its Dual Carbon targets and its macro plans. To date, these include moves to align industrial policy with green growth via both industrial and financial metrics.

As part of this green transition, corporations have been obliged to develop comprehensive business plans with a focus on, among others, energy conservation, carbon reduction, greater use of clean energy and enhanced resource recycling. In addition, partnerships with green service providers are prioritised in order to ensure compliance with sustainability objectives. Transitioning to more sustainable practices, however, is not without significant challenges, including sourcing the required finances and resources necessary for initiating fundamental changes, while negotiating the problem arising from any knowledge or skill deficits.

To gain a deeper understanding of companies' engagement with these issues and their current business positions, the HKTDC and the ACCA have undertaken a joint research initiative, including a comprehensive survey of the sustainability strategies and beliefs of a representative selection of mainland China, Hong Kong and Macao-based businesses. In specific terms, the study aims to assess corporate understanding and the varied perspectives relating to sustainability, as well as developing an understanding of the various costs and benefits, as well as the sundry strategic approaches to securing sustainability. In addition to quantitative analysis, in-depth interviews with industry professionals were conducted as a means of providing insights into the qualitative aspects of such issues.



2. Sustainable Investment in China: Survey Findings

Between May and June 2024, an online survey of 283 companies was conducted with regard to their progress in adopting sustainable practices and their plans for green investment. All of the participating companies were private or state-owned mainland enterprises or Hong Kong / Macao / overseas invested enterprises operating / investing in mainland China. Service-sector companies comprised 69% of the respondents, while the remaining 31% were manufacturing enterprises. Large-scale enterprises, with an annual turnover exceeding RMB2 billion, comprised 38% of the total, while 38% had annual sales ranging from RMB100 million to RMB2 billion and 24% had an annual turnover of less than RMB100 million.

Methodology: Online survey
Target group: Companies with Chinese business
Sample size: n=283
Survey period: May-June 2024

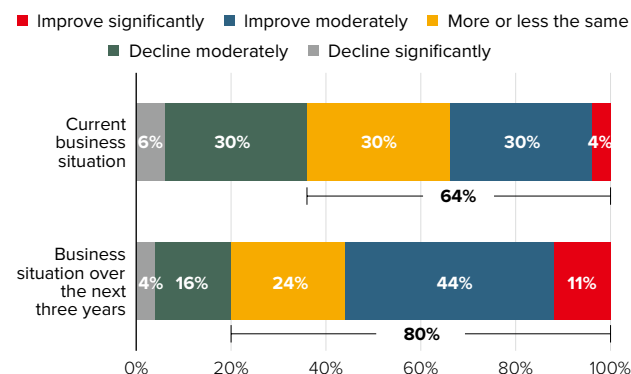
* A detailed profile of the respondents can be found in the report's appendix.

2.1 Positive Business and Investment Outlook

Enterprises confident of more positive business outlook

Overall, companies viewed the 2024 business environment as more positive than its 2023 counterpart. In all, some 64% of respondents said the current business environment has improved / stabilised, while 34% maintained business had improved this year. With regard to the business outlook over the next three years, 80% were optimistic, with 55% expecting business to improve and 24% expecting the situation to remain more or less the same as in 2023.

Business situation



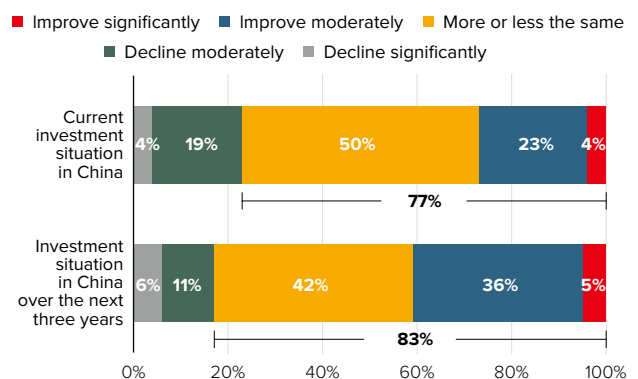
Base: All enterprises (n=283)

Investment in China set to accelerate

In other findings, some 77% of enterprises plan to increase or maintain their level of investment in China this year. Among these, 27% indicated their intent to increase any such investment, either moderately or significantly, while about half were committed to maintaining their current level of investment this year.

Looking ahead, the survey suggests that this rise in China-bound investment looks set to accelerate over the next three years in line with recovering sentiment. In all, some 41% of respondents believe that investment in China will improve either moderately or significantly over the next three years, while 42% expect investment to be maintained at the current level.

China investment: current and expected



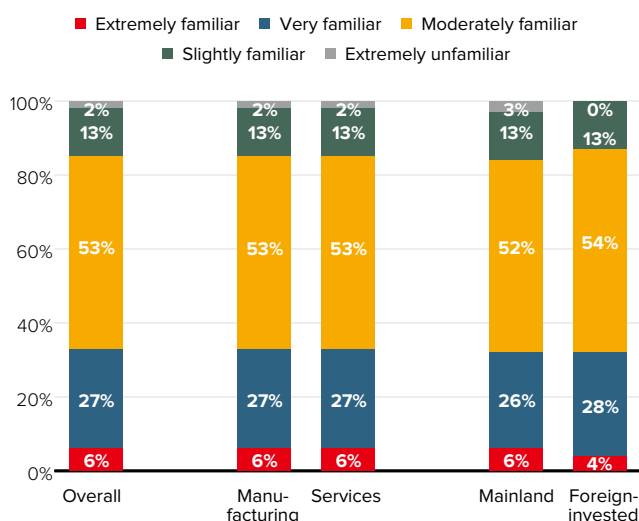
Base: All enterprises (n=283)

2.2 Comprehensive Understanding of Sustainable Investment Usage and Benefits

Healthy awareness of sustainable business practices / investment

Among participating companies, there is a generally healthy awareness of the importance of sustainability, as shown, for example, by widespread moves to integrate environmental principles into boardroom agendas. In specific terms, the majority (85%) of interviewed enterprises expressed their awareness of the concept and acknowledged the importance of sustainable business / investment. At the other end of the scale, only 13% of respondents indicated they were only 'slightly familiar' with the issues, while just 2% considered themselves 'extremely unfamiliar'.

Familiarity with the concept and importance of sustainable business / investment



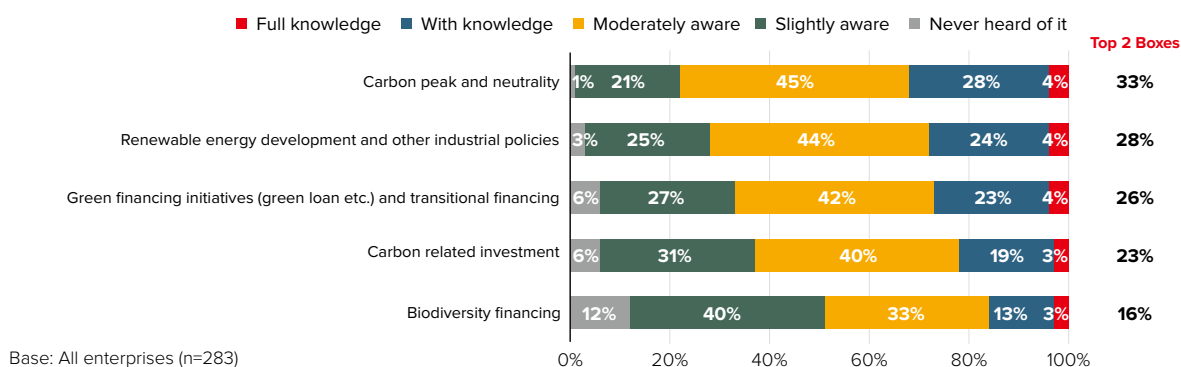
Base: All enterprises (n=283), Manufacturing enterprises (n=88), Service enterprises (n=195), Mainland Chinese enterprises (n=170), Foreign-invested enterprises (n=113)

There is no major difference between the manufacturing and services sectors, with only a slightly higher proportion (87%) of foreign-invested enterprises indicating an awareness of sustainable business / investment practices.

Carbon peak / neutrality, renewable energy and green financing most recognised China policy priorities

It has been widely recognised that China attaches considerable importance to tackling climate change and cutting carbon dioxide emissions. Accordingly, it has adopted a series of measures specifically geared to meeting such challenges. Of these, carbon peak / neutrality is the most recognised policy among survey respondents at 33% (Top 2 boxes). Renewable-energy development comes in second at 28%, followed by green-financing initiatives (26%). Despite this, there remains ample room to increase knowledge of a number of other policies that promote sustainable investment practices, including carbon-related investment and neodiversity financing.

Are you aware of any government policy directions in China that promote sustainable investment practices?



Note: Top 2 boxes = total percentage of respondents affirming 'with knowledge' or 'full knowledge'

Key drivers: Economic factors, sustainable capability and governance

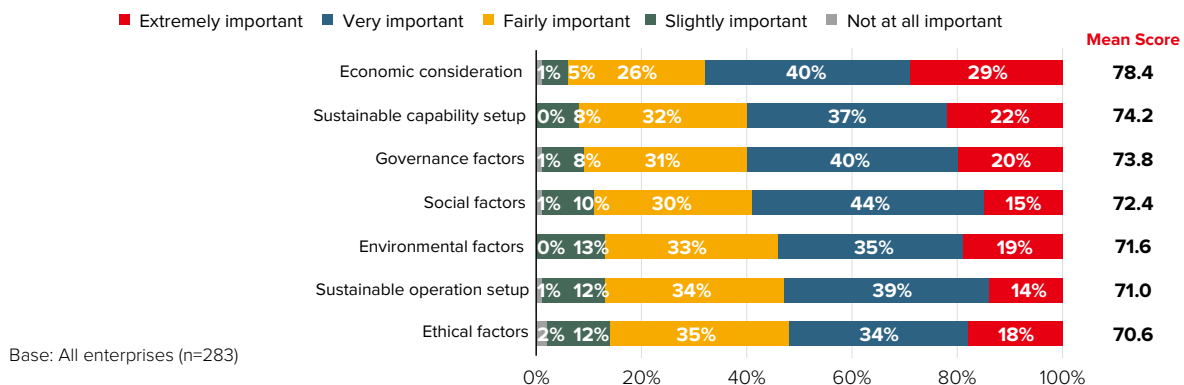
Finding ways to maintain the momentum of the green agenda, while ensuring that existing targets are met, is famously far from easy, frequently obliging enterprises to strike something of a balance. Highlighting this, some 70% of survey participants indicated that economic factors were very or extremely important (with a mean score of 78.4 out of 100) when evaluating business / investment opportunities in China. Furthermore, almost 60% viewed establishing a sustainable capability (mean score of 74.2) and appropriate governance (mean score of 73.8) as essential, closely followed by addressing relevant social factors (mean score of 72.4).

2.3 Sustainability Investments

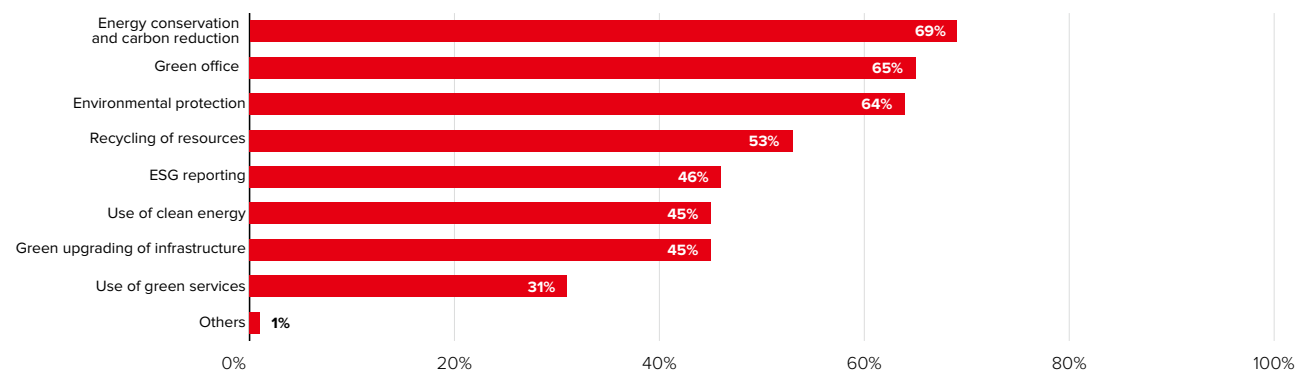
Carbon reduction, green office and environmental protection measures are widely implemented and set to be continued / enhanced

More and more enterprises are actively incorporating a variety of sustainable measures into their daily operations. In fact, more than 60% of survey respondents said they had implemented energy conservation and carbon reduction measures (69%), including remodelling, to save energy / reduce carbon emissions and restrict greenhouse gas production. Other widely-adopted measures included green office practices (65%), such as the use of efficient energy-saving equipment, paperless offices and online systems; and environmental protection (64%), such as the use of environmental equipment and eco-friendly raw materials to reduce pollution. Additionally, 46% of participating companies had commenced ESG reporting, while 31% had already started to use green services, such as certification, monitoring and testing, assessment reviews and green financial products.

Factors when evaluating sustainable business / investment opportunities in China



Sustainable business / investment measures implemented within China

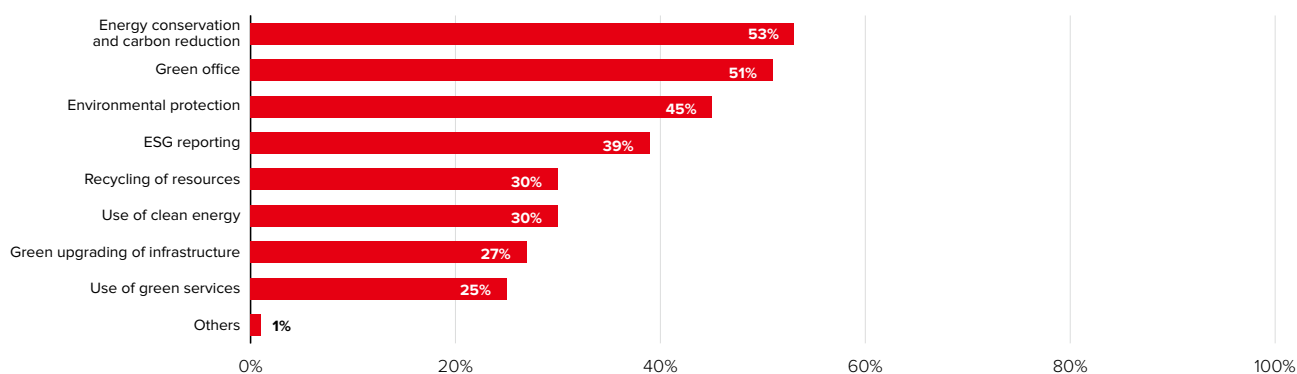


Enterprises are also demonstrating considerable commitment when it comes to sustainable business / investment. According to the survey, about half of all interviewed companies plan to prioritise increased funding for energy conservation (53%), green office practices (51%) and environmental protection (45%) in the next three years in order to enhance the sustainability of their business operations / investments in China. ESG reporting (39%) is also a focus for more investment, largely as it provides information on the progress of enterprises' sustainable development practices while also highlighting their commitments in this area.

Differing sustainable business / investment priorities by sector and investment source

While energy conservation and carbon reduction are the priorities for manufacturers and domestically-backed enterprises, service-oriented companies and foreign-invested enterprises tend to put greater emphasis on funding green office practices.

Areas where companies plan to increase China focussed sustainable business / investment funding over the next three years



Base: All enterprises (n=283)

Sustainable business / investment priorities for China enterprises over the next three years

	Overall		Manufacturing		Services		Mainland		Foreign-invested	
	Current Implemented	Next 3Y	Current Implemented	Next 3Y	Current Implemented	Next 3Y	Current Implemented	Next 3Y	Current Implemented	Next 3Y
Energy conservation and carbon reduction	68.9	52.7	76.1	65.9	65.6	46.7	67.1	51.2	71.7	54.9
Green office	65.0	51.2	53.4	40.9	70.3	55.9	68.8	54.1	59.3	46.9
Environmental protection	63.6	45.2	68.2	55.7	61.5	40.5	61.8	42.9	66.4	48.7
Recycling of resources	53.0	29.7	55.7	31.8	51.8	28.7	52.4	29.4	54.0	30.1
ESG reporting	45.6	39.2	47.7	36.4	44.6	40.5	42.4	41.8	50.4	35.4
Green upgrading of infrastructure	45.2	26.5	47.7	21.6	44.1	28.7	43.5	24.7	47.8	29.2
Use of clean energy	44.9	29.7	55.7	36.4	40.0	26.7	44.1	29.4	46.0	30.1
Use of green services	31.1	25.1	20.5	11.4	35.9	31.3	32.9	25.9	28.3	23.9

Base: All enterprises (n=283), Manufacturing enterprises (n=88), Service enterprises (n=195), Mainland Chinese enterprises (n=170), Foreign-invested enterprises (n=113)

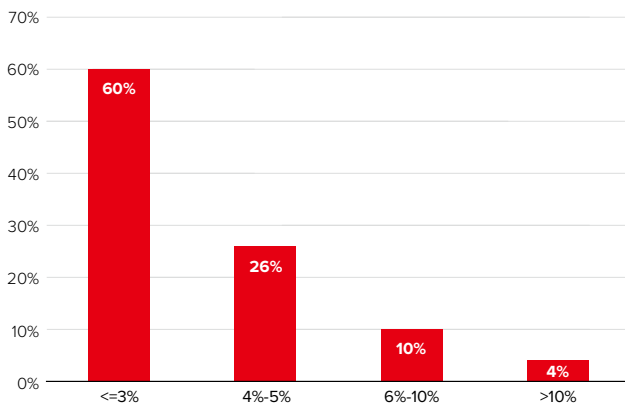
2.4 Funding Sustainability

Enterprises' strong financial commitment towards sustainability

Overall, it appears that companies are making a significant financial commitment when it comes to ensuring their sustainability objectives are delivered upon. More specifically, according to the survey findings, some 14% of respondents had dedicated more than 5% of their annual revenue towards the implementation of green practices. This is despite the finding that a larger portion of participants (60%) had only allocated a maximum of 3% of their income to such objectives. Indeed, a significant portion, constituting 40%, exceeds this threshold by investing a greater proportion in green measures.

This figure is a potential benchmark for businesses keen to align with the mainland's market norm for sustainability support. It is a particularly useful indicator for larger-sized corporations, which represent the most substantial proportion of the companies surveyed.

Funding / spending on green measures as % of annual turnover / receipts

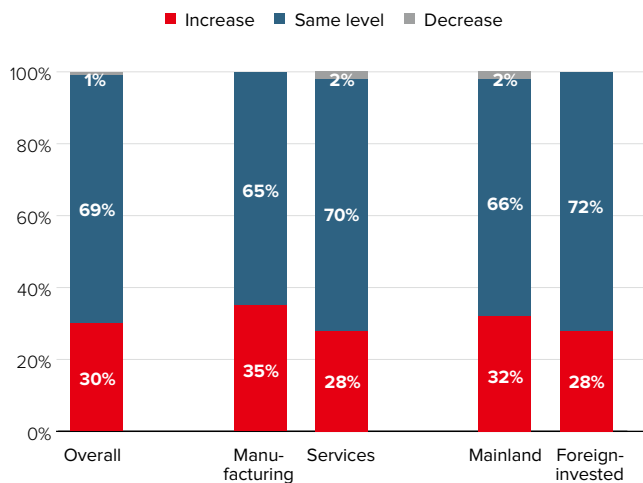


Base: All enterprises (n=283)

Sustainable investment set for significant growth in the next three years

Prioritising sustainable development is clearly a growing trend, with almost all the interviewed enterprises indicating they have plans in place to engage in sustainable investments over the next three years. In specific terms, 30% aim to increase their funding / spending related to sustainable business / investments in China, while 69% plan to maintain their existing level of commitment. Overall, manufacturers (35%) and domestically-backed businesses (32%) indicated the highest level of commitment to upping their spending on sustainable initiatives.

Planned funding / spending on sustainable business / investments in China over the next three years



Base: All enterprises (n=283). Manufacturing enterprises (n=88), Service enterprises (n=195), Mainland Chinese enterprises (n=170), Foreign-invested enterprises (n=113)

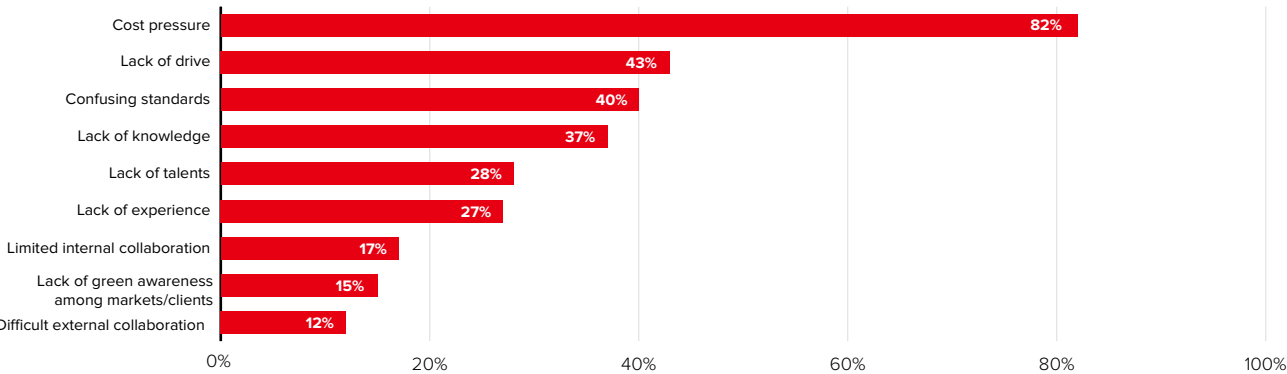
2.5 Challenges and Opportunities

Prioritising green and sustainable development / investments is believed to incur additional costs

Respondents generally consider that cost pressures (82%), a lack of drive (43%) and confusing standards (40%) are the three main factors hindering China-centric enterprises when it comes to successfully integrating sustainability business / investment measures. More specifically, many enterprises have concerns that while substantial upfront investment is required, any benefits likely to accrue may be limited or uncertain in the short term. There are also uncertainties over the likelihood of securing funding from green-financing channels.

Respondents also indicated that shortfalls in related knowledge (37%), talent (28%) and a lack of practical green practice experience (27%) may undermine China-focussed sustainability business / investment commitments.

Challenges when implementing sustainability business investment strategies in China



Base: All enterprises (n=283)



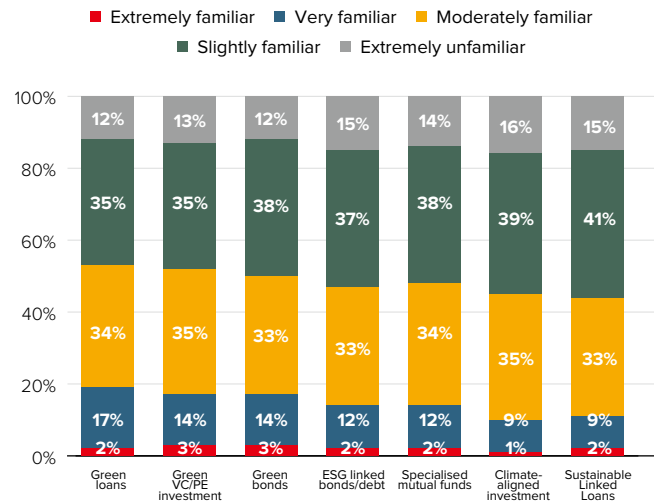
Creating long-term values and complying with regulatory requirements driving the adoption of sustainability practices

Many survey respondents had clear ideas as to the likely benefits of committing to a green transformation and adhering to sustainable development principles. To this end, 73% of respondents saw creating long-term values as their key motivation, followed by meeting the regulatory requirements of government policies / laws and regulators (71%) and enhancing corporate reputation and image (70%). In general terms, respondents believed favouring green investment options would help them align with trends in the macro environment and secure market opportunities over the long term. The likelihood of a bolstered brand image and a resulting upturn in competitiveness delivering significant economic benefits was also widely cited.

Awareness of green financing in China remains low

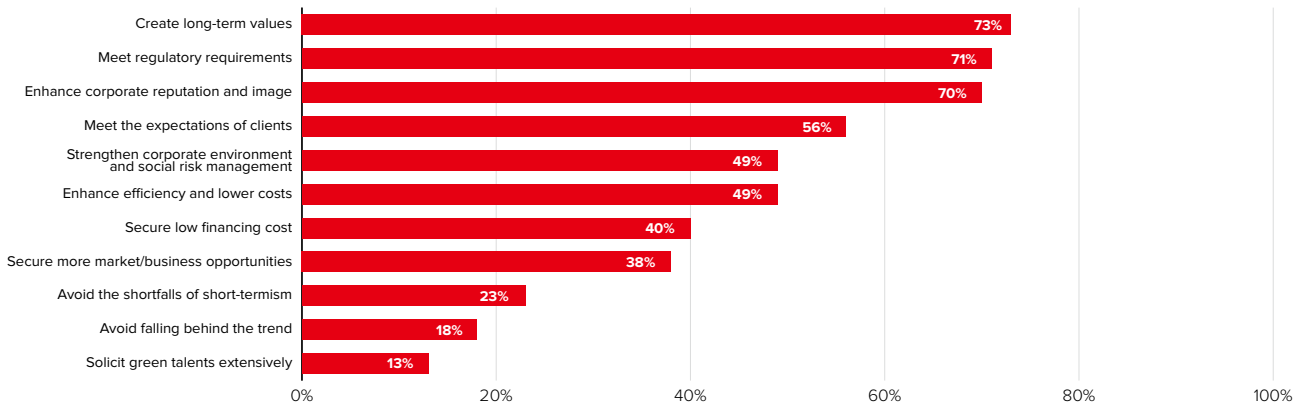
In general, the awareness of green financing options in China is still relatively low, with some 47%-56% of respondents indicating a lack of familiarity with many of the available forms of green financing. Ultimately, given green finance's facility to ensure a smooth transition to a low-carbon, sustainable future, there is a massive and pressing imperative for this knowledge gap to be bridged.

Familiarity with specific forms of green financing in China



Base: All enterprises (n=283). Manufacturing enterprises (n=88), Service enterprises (n=195), Mainland Chinese enterprises (n=170), Foreign-invested enterprises (n=113)

Motivations for incorporating sustainability business / investment strategies in China



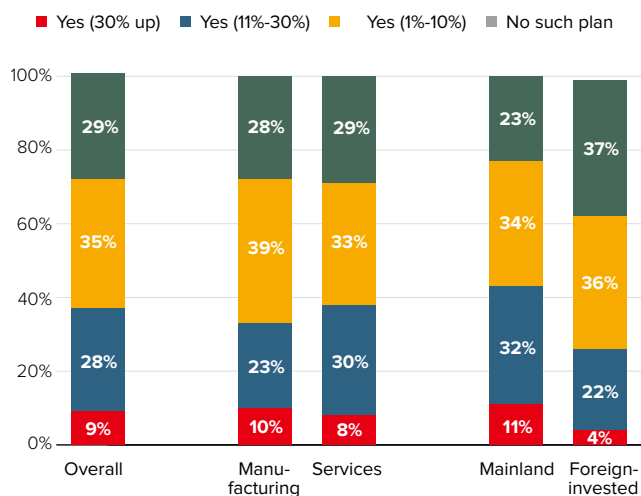
Base: All enterprises (n=283)

More than 70% of survey participants open to green financing options

Most respondents (71%) would welcome an opportunity to make wider use of green financing channels (including green loans and green bonds), while reducing their reliance on traditional financing options. Drilling down a little deeper, some 9% of interviewed enterprises would consider raising more than 30% of their overall funding requirements via green-financing channels.

Notably, respondents from both the manufacturing and service sectors manifested similar attitudes towards green financing. In terms of backing, a higher level of domestically-funded enterprises (77%) than foreign-invested businesses (63%) affirmed an interest in using green financing to fund their future China-focussed sustainable initiatives.

Proportion of funding considered sourceable via green financing channels for future business / investment in China

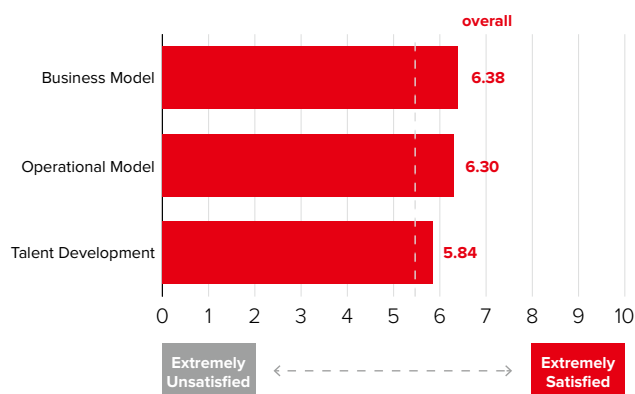


Base: All enterprises (n=283). Manufacturing enterprises (n=88), Service enterprises (n=195), Mainland Chinese enterprises (n=170), Foreign-invested enterprises (n=113)

Overall, respondents were largely satisfied with progress towards sustainable investment integration on a number of business and operational fronts

The survey also asked respondents to self-assess their progress and efforts towards integrating sustainable investment in China on a 10-point scale across three ESG metrics – 'business model', 'operational model' and 'talent development'. Overall, most participants were more than satisfied on the business model front (with a mean score of 6.38 out of 10) and with regard to the operational model (mean score of 6.30). Talent development, however, was accorded the lowest score (mean score of 5.84), but the potential / likelihood of improvement was also clearly highlighted.

Rate of the sustainable investment progress across three ESG fronts



Base: All enterprises (n=283)



3. Sustainability in practice – case studies

The trend towards greater sustainability in China is affecting the operations of organisations of all kinds. Multinational corporations are fuelling the trend and adopting a broad range of sustainable business approaches and best practices that, in turn, are shaping the global economy. Chinese corporations are increasingly accelerating the development of clean and renewable energy capacity.

For instance, banks and professional service providers underpin the green economy through partnerships and careful funding approaches in the financial sector, while real estate developers are adopting the most sustainable approaches to design and construction.

The case studies in this section, based on expert interviews with senior management of certain multinational corporations operating in diverse sectors in China - including those companies named below - examine the major challenges, opportunities and best practices for recalibrating core business strategies and operations to drive the transition to a more environmentally and socially responsible future. Each case discusses key initiatives, the importance of collaboration and a vision for the future.

Banco Nacional Ultramarino Macao (BNU), for instance, is financing China's green economy by providing lower-interest loans for electric vehicles. *First Abu Dhabi Bank China (FAB China)* promotes sustainable collaboration between partners of the *Belt and Road Initiative (BRI)* on renewable energy projects. While professional service firms, such as KPMG China focuses on helping clients comply with stringent reporting requirements and develop decarbonisation roadmaps.

On the industry side, *China General Nuclear Power Corporation (CGN)* actively incorporates ESG principles and pursues green financing for investments in areas like wind and solar power. Meanwhile, Hong Kong-headquartered *Swire Properties* has set ambitious science-based net-zero emissions targets and obtained highest-rating green building certification for most of its real estate portfolio as it continues to integrate sustainability practices in mainland China and Hong Kong.

Together, these case studies reveal a rapidly evolving sustainability ecosystem that aligns investment strategies with market trends to navigate regulatory challenges.



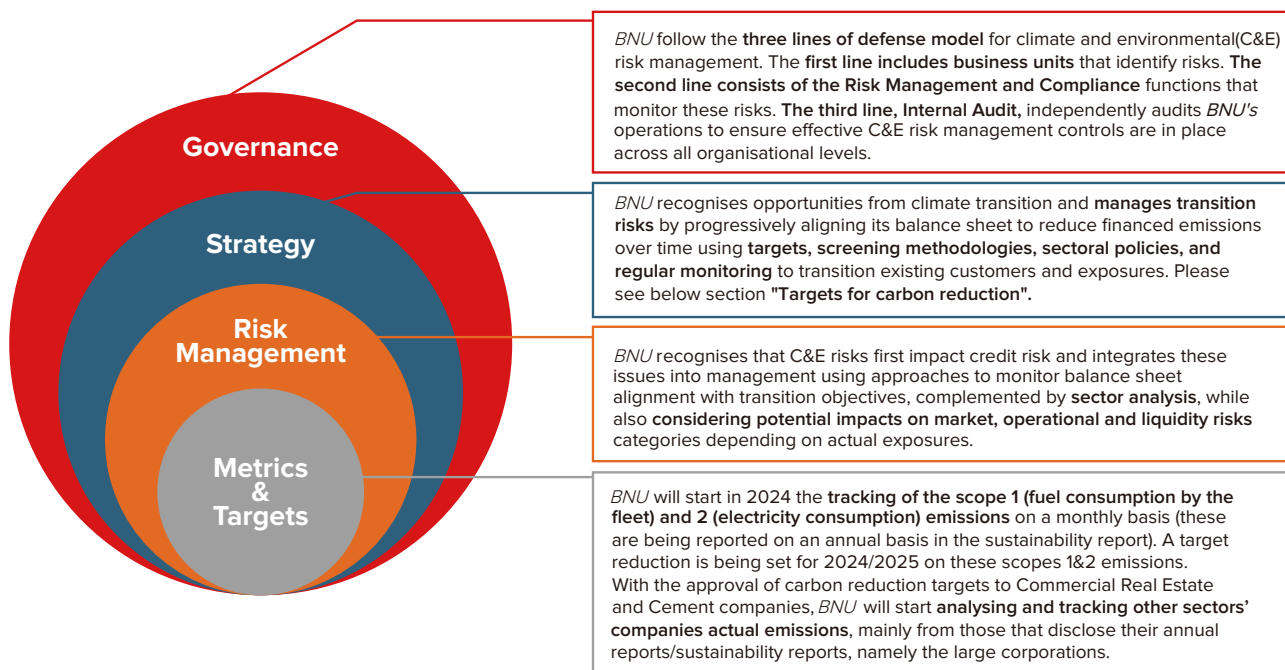
3.1 Banco Nacional Ultramarino

Understanding the local context is increasingly important when trying to tap into the vast array of opportunities available in China's sustainability market, according to Carlos Álvares, Chief Executive of *BNU*.

BNU is part of the *CGD Group*, a 143-year-old state-owned financial conglomerate from Portugal with operations in 17 countries in Europe, the Americas, Africa and Asia. It is based in Macao, a Special Administrative Region of China with Portuguese heritage.

BNU has sustainability goals deeply engrained in its corporate DNA. As its parent company is state-owned, the bank must comply with the rules of the *European Central Bank* and the *European Banking Authority*. But it also has to follow those put in place by its parent company, which provides precise guidance in an effort to, as Álvares puts it, 'take out carbon emissions from all of our stakeholders.'

***BNU's* response to the recommendations of the Task Force on Climate Financial Disclosures (TCFD)**



Such a guiding principle certainly influences its business operations in China. *BNU* has moved forcefully to integrate sustainability considerations into all its products and operations in Macao, mainland China and beyond.

Investment in China requires strict adherence to ESG standards and green guidelines, with an emphasis on eradicating carbon emissions. While numerous opportunities are available for investors in China's expansive sustainability market, a detailed understanding of local sustainability practices remains essential if such investors want to engage successfully in the market.

Describing the current state of the market, Álvares said: 'There are a lot of opportunities for banks to finance projects that tackle sustainability problems with various stakeholders in China and elsewhere. We are happy with this, not only because of the business that it can give us, but because it's very important for the future of humanity and the planet that we are all aligned in the same way.'

One example of this alignment is the bank's work with *Transmac*, a Macao public bus operator, to finance the conversion of its entire fleet of buses to electric by the end of this year. The company has already replaced 200 buses with electric-powered models, resulting in an 18% drop in emissions. It plans to deploy another 150 this year.

Consumer channels

However, Álvares points out that *BNU* is primarily a retail bank and this means that it needs to promote its sustainability agenda through consumer channels.

In one visible example of this, *BNU* promoted loans at lower interest rates for people buying electric cars. The project was conducted in coordination with local government bureaus and partner organisations. Pointing out that such collaborations are the key to achieving ESG objectives, Álvares said: 'Banks cannot do everything themselves. Regulatory authorities, banks, different suppliers and customers, all need to be on the same path.'

One challenge that the Bank faces is the difficulty of quantifying the appetite for sustainability projects in Greater China. Explaining the problem, Álvares said: 'The big issue is data availability and data quality. Everything is so new to all of us. Organisations worldwide are trying to improve and become more transparent, but the threat of greenwashing is pervasive.'

Local market

In this regard, it is very helpful for *BNU* to be operating in a close-knit enclave like Macao, which is just 30 sq. km in size and has a permanent population of only 670,000. Detailing the advantages, Álvares said: 'It's very easy to put in place government programmes in coordination with the banks. We work very closely with the *Macao Banking Association* and the *Monetary Authority*. When the government wants to put something in place, it happens really fast.'

BNU augments its local market co-operation by working closely with mainland Chinese and Portuguese government entities as well as such trans-national agencies as the *International Forum for Clean Energy*. Programmes such as the *Belt and Road Initiative (BRI)*, of which Macao is a part, also play into the need for sustainability efforts to be broad-based and multi-stakeholder in nature.

Macao often acts as a springboard for *BNU* to expand its sustainable business efforts throughout the GBA. The GBA covers nine cities in Southern China along with the special administrative regions of Hong Kong and Macao. As Álvares points out, while, geographically, the GBA is only about half the size of Portugal, both its GDP and population are about eight times higher. This translates into a lot of opportunities for Portuguese companies.

Specialised pilot projects have already provided some inroads for them. The bank has launched operations and services in Hengqin, an island next to (and three times the size of) Macao which has been designated as a special economic zone and a sandbox for 'green city' development. Hengqin is swiftly becoming a bedroom commuting community for Macao workers. *BNU* has financed projects in Hengqin and has offered green-oriented bonds and investment products to consumers.



International efforts

The bank's sustainability work in Macao and the GBA also serves as a template for its parent group's efforts internationally, including those within the *BRI* cooperation sphere. These efforts include knowledge transfers via *CGD*, which provides banking services in many *BRI* economies. Explaining the bank's aim, Álvares said: '*BNU* is on a mission to share best practices with its subsidiaries globally in order to put them on the environmental path.'

He added that it is also a function of the bank's close work with the local government, saying: 'One of the pillars of Macao's economic development is to be a platform between China and the Portuguese-speaking countries. This includes sharing its expertise on sustainable development practices.'

Portugal is also a global leader in 'blue economy' solutions and has made it a priority to develop and invest in sustainable ocean technology and clean marine transportation. Álvares sees the growing amount of blue research and development as another unique advantage *BNU* brings to its China-oriented sustainability work, saying: 'We work very closely with these Portuguese entities and facilitate dialogue between them and Chinese government agencies.'

Sustainable future

Álvares believes that the future for sustainable finance in China is bright both in terms of opportunity and innovation. Expanding on this, he said: 'Chinese companies need to invest a lot in carbon transition, to comply with ESG requirements, and this is a big opportunity for the banks that finance them.'

This, he argues, will bring greater recognition to sustainability-forward brands such as *BNU*, especially among young consumers who are more attuned to environmental issues. Álvares points out that, in the future, increasing the awareness of the sustainable actions of client organisations will be important, saying: 'This will create an opportunity to link the digital practices of firms to machine learning and to artificial intelligence because we need to deal with ESG data and this data needs to give us answers in an intuitive way.'



Álvares believes that China — a global leader in AI — will increasingly become a market where new machine learning technologies are used to examine ESG data which will inform investment decisions and help companies and consumers make better ESG-oriented choices. Outlining his view of *BNU*'s future role, he said: 'We are going to learn with our clients, and we are going to push them to profit with us in sustainable ways.'

However, Álvares also stressed that, at the same time it is important to not simply port over global sustainability practices to China, saying: 'You need to understand the local context because it's different from what is happening in Europe. We always need to adapt what we are importing from home.'

'Continuously fostering partnerships is also very important. In our work, we need to constantly bring together Chinese entities, Portuguese entities and Macao entities, and coordinate how they can work closely together.'

Global best practices

Álvares argues that the path to success in China's sustainable investment market is to closely follow global best practices, saying: 'You need a governance model that assures you that you are keeping to the right path, and you need to put in place clear rules, and share those rules with investment partners and customers. It's very easy for *BNU* to do that because we can replicate what our parent company is doing and it is state-of-the-art.'

Álvares is firmly of the opinion that organisations need to fully integrate ESG, adding, perhaps, half-jokingly: 'One of these days I'm going to change the names of some departments inside the bank so that everybody knows that we aren't just looking at the environment as an individual action item, but something that is integrated with the brand and value proposition of all our products.'

**'YOU NEED TO UNDERSTAND
THE LOCAL CONTEXT BECAUSE
IT'S DIFFERENT FROM WHAT IS
HAPPENING IN EUROPE.'**

—*BNU*

3.2 KPMG China

The amount of reporting and disclosures that organisations now have to meet is growing. While access to data and changing requirements pose roadblocks, these challenges can be overcome, says Pat Woo, Head of ESG, Hong Kong, at *KPMG China*.

As organisations in China ramp up their sustainability efforts, many are finding themselves having to deal with ever more stringent financial and non-financial reporting and compliance requirements. *KPMG China* has seen the evolution of these requirements first-hand and regularly works with clients to adapt to the changing sustainability environment.

Pat Woo, Partner and Head of ESG for *KPMG China* in Hong Kong, works with clients to plan and put in place environmental, social and governance (ESG) strategies that are compliant with regulatory requirements and in line with the growth goals and expectations of stakeholders.

Expanding on this, Woo said: 'We work with asset managers, banks and insurance companies based in Hong Kong and mainland China, while helping Chinese entities listed in Hong Kong – or with investments here – comply with ESG reporting.'

With sustainability standards becoming more stringent both globally and in China, organisations have to meet increasingly demanding expectations, while outbound Chinese clients also have to navigate stakeholder expectations and regulations abroad.

Although financial reporting requirements relating to sustainability metrics are beginning to harmonise globally, there is still a significant amount of variance between different jurisdictions.

Woo, however, sees many of these differences as more related to divergent approaches to disclosure rather than to carbon emission levels per se, saying: 'The mainland stock exchanges have come out with their ESG reporting requirements, the *Hong Kong Stock Exchange* has come up with its own requirements, as have the Europeans. If you are dual-listed in Hong Kong and mainland China, while also having significant European operations, you'll have to adhere to three different standards when reporting.'

This creates a number of challenges for Chinese firms, with many having to contend with requirements that are continuously being revised. The *Hong Kong Stock Exchange*, for instance, updated its ESG reporting requirements in April 2024 in order to include climate-related disclosures.

As a result, it now requires listed companies to phase in reporting of Scope 1, 2 and 3 emissions for direct and indirect emissions as outlined in the *Greenhouse Gas Protocol (GHG Protocol)* – the most widely used GHG accounting standard – as developed by the *World Resources Institute (WRI)* and the *World Business Council for Sustainable Development (WBCSD)*.

Decarbonisation pathway

As well as helping clients adhere to reporting requirements, Woo also helps them assess – in his words – 'the strategic angle, that is how sustainability expectations impact the organisation as a whole.'

According to Woo, this often involves developing a comprehensive climate scenario analysis in order to develop a decarbonisation pathway. Digging deeper into this, he said: 'We run climate scenarios through a client's portfolio in order to create a baseline position for their carbon footprint, and then gradually plot a line for decarbonising their financed emissions.'

A common challenge is the shortage of actionable data, both in China and in many international markets. In this regard, Woo claims a lack of consistent climate disclosure and other ESG data shortfalls create challenges for sustainability-oriented investors in China, although he believes there are ways to fill in the blanks, saying: 'Companies can use proxy data for certain aspects, which gives them a heat map and indications as to where they – or their investment targets – need to focus their decarbonisation efforts and future investment decisions.'

'Furthermore, the data gaps in China are quickly narrowing, as a growing number of data analytics firms specialising in compiling and assessing domestic ESG data are beginning to emerge.'

Climate risks

Assessing the objectives of Chinese clients over the immediate term, Woo said: 'They are trying to adhere to certain climate-related standards globally, as well as develop answers to questions stakeholders have with regard to the climate policy relating to the investments they are managing. Over the longer term, organisations are looking to assess and manage risk in cases where investments may be impaired because of climate considerations, creating so-called 'stranded assets'.

'Physical risks, such as floods, wildfires and storms, need to be evaluated in the context of climate scenarios to determine their potential chronic implications, as seen in the catastrophic flooding and landslides that took place in mid-2024 in southern China. This creates a climate risk that may impair asset value going forward.'

Woo maintains that this higher level of experience when it comes to assessing and managing physical climate risks across China's vast geography can also be useful for outbound investors considering opportunities in many of the *Belt and Road Initiative (BRI)* economies, saying: 'Many markets in these regions are subject to extreme heat, as we've seen in Saudi Arabia and India. As this could lead to an increase in operational stoppages for certain assets, a comprehensive review of how climate may be impacting them is needed. This gives any portfolio more resilience.'

Transition risk is slightly more difficult to assess and measure, as it is linked to the efforts of individual countries when it comes to implementing the national reduction targets required to transition to lower carbon economies. These efforts, Woo says, have an indirect, but material, impact on business operations. Transition risk for legacy infrastructure can also be considerable and can act to dampen sustainable investment appetites.

A bank, for instance, may have historically lent money to a coal mine operator for equipment that has a useful life of 30-50 years. Now, though, on account of a country's decarbonisation trajectory, the borrower may have to transition to clean fuels and change the equipment earlier than planned. Woo says such items then become 'stranded assets'.

Policy clarity and clear communication from policymakers can, however, mitigate any such risk. With China having been very specific and prescriptive with its targets, Woo believes this has simplified the situation somewhat, saying: 'China has 2030 as its peak carbon target and plans to achieve carbon neutrality by 2060. Policies have flowed from this and have provided very clear signals to the market as to what needs to be done. Investors definitely have a clearer road forward thanks to this level of policy clarity.'

This, though, may mean that some investors will have to look more closely at the transition risks in China, possibly with an eye to retiring certain assets earlier.

Non-financial clarity

There are several international frameworks designed to measure sustainability in financial terms that are now widely in use across China. One that, according to Woo, has become both increasingly recognised globally and a popular choice for many Chinese firms is that provided by the *Partnership for Carbon Accounting Foundation*, a global partnership of financial institutions.

He did, however, warn that more work needs to be done when it comes to standardising non-financial sustainability measures, or, as he terms it: 'anything that is outside of the financial report.' This covers such things as an organisation's pollution impact and its efforts to support conservation and biodiversity.

Detailing the problem as he sees it, Woo said: 'What is needed is a much more robust way of managing and controlling non-financial reporting. Financial reporting has been around for more than 100 years, while the provision of non-financial information is still quite nascent.'

It's only in the past few years, he says, that there have been any real moves to create a level of standardisation. In the near future, though, he believes regulators in China and elsewhere will start looking at non-financial data assurance more closely, concluding: 'It is an area of sustainability management where regulation is needed in order to enforce comparability and ensure increased accuracy.'

'IT IS AN AREA OF SUSTAINABILITY MANAGEMENT WHERE REGULATION IS NEEDED IN ORDER TO ENFORCE COMPARABILITY AND ENSURE INCREASED ACCURACY.'

—KPMG

3.3 China General Nuclear Power Corporation

Although CGN has integrated sustainability considerations across its operations, the company remains committed to continually evaluating and fine-tuning its approach to ensure the greatest possible impact, says Jing Shan, Vice General Manager of the Finance and Asset Management Department.

'Sustainable development provides common ground for understanding among all stakeholders, as it has become an important concept and trend globally,' says Jing Shan, who has seen firsthand the rapid growth in the importance of sustainable investing over the last decade, as well as the rising demand from stakeholders for greater transparency and more detailed reporting.

The core business of CGN is nuclear power generation. Facing strict regulations in domestic and international markets, CGN Power has actively integrated sustainability principles into its operations, a process accelerated after its 2014 listing in Hong Kong and its 2019 A-share market listing on the mainland. CGN's other subsidiaries, which extend across the wind and solar sectors, and civilian nuclear technology applications, also adhere to the same approach.

Shan believes there is now a global consensus that sustainable investing is important, a consensus that is also evident in China, saying: 'It is particularly the case with regard to the advancement of policies around carbon neutrality and green finance.'

While there is huge growth potential, he maintains there is still a lack of strong systematic frameworks to fully support the investment process, saying: 'Domestic financial institutions often focus more on financial indicators rather than on equally crucial non-financial aspects such as corporate governance or social impact. There is still much room for improvement.'

Ensure funding security

In recent years, guidelines from the government's *State-owned Assets Supervision and Administration Commission* have emphasised the importance of enhancing ESG mechanisms and management systems for listed central SOEs in order to improve performance. This has provided clear direction as they look to prioritise sustainable development in their strategies and operations.

Talking from his own company's perspective, Shan said: 'As a clean energy company focused on nuclear power generation, we place high importance on ensuring funding security when formulating financial strategies and implementation processes.'

'For more than a decade, we have leveraged our clean energy brand through such strategies as Green+ to facilitate financing. This has involved preferring green standards and principles for key projects in areas such as credit facilities and third-party certified overseas green bond issuance. We were among the earliest domestic firms in this field and have received significant market attention by aligning our branding with sustainable practices.'

The same also applies to overseas business, including many projects in countries within the *Belt and Road Initiative (BRI)*. Indeed, overseas assets account for about 15% of the company's total.

Detailing both its global and domestic approaches, Shan said: 'In the early stages, we invested in renewable energy projects and construction in Europe. We are now also actively involved in such areas as hydrogen energy and renewables across Southeast Asia and South America.'

'Domestically, our investments have mainly focussed on industrial projects in clean energy sectors through about a dozen specialised companies. Additionally, the life-cycle management of nuclear power and similar projects has to strictly follow sustainable investing requirements at each stage – from site selection to decommissioning. Environmental, safety, quality, and other non-financial impacts are all carefully evaluated as part of the decision-making process.'

In the case of cross-border projects, challenges are more likely to arise in implementation areas, such as accessing financing in some currencies or jurisdictions. Still, in broad terms, he believes, most markets support sustainable development.

Digging a little deeper into this, he says: 'While tax and foreign exchange policies may vary from country to country, from the perspectives of safety, quality, environment, and compliance, the issues addressed tend to be harmonising internationally rather than diverging.'

Sustainability operations and financing

Turning to the use of green financial instruments, he says: 'Overseas, we rely heavily on offshore green bond issuance. Domestically, though, we tend to utilise a variety of green financial products, including China's earliest carbon bond, which was launched back in 2014, well before renewable energy gained widespread attention. This innovative bond allowed us to link returns to our carbon emissions performance.'

Since then, the company has worked actively to expand its suite of domestic green financial instruments, a move driven by a combination of policy support and the evolution of the market. *CGN* has also experimented with blue bonds as a way to fund marine sustainability projects. Overall, it has put a lot of effort into adhering to green financing principles for project evaluation, fund allocation and transparent reporting.

Addressing the importance of this, Shan says: 'We have initiated third-party verified carbon accounting conducted prior to all major green bond issuances, especially in Europe.'

'When making investment decisions, we conduct comprehensive assessments incorporating both environmental and social factors as well as financial viability. Only those projects deemed financially sound in yield terms and other criteria, which also comply with local regulations, stakeholder expectations and our internal sustainability strategy across the project lifecycle get the go-ahead.'

Maintaining this balanced approach inevitably requires constant communication with stakeholders, including those that provide equity and debt capital. This means regular investor updates and disclosures on the part of *CGN*. The company has also found that many bond investors – particularly pension and insurance funds – appreciate transparency when it comes to the company's ESG performance given their long-term investment horizons.

Emphasising the importance of this, Shan said: 'By more fully integrating sustainability into our core operations and investment due diligence frameworks using sustainability-based criteria, we have been better able to create shared value. However, current disclosure requirements focus primarily on retroactive compliance with information requests rather than proactively providing guidance for strategic sustainability plans.'

Initial sustainability adoption focused less on reporting and more on future success may require a longer-term sustainable development vision to be mapped out, one that involves screening both equity and debt-funded projects.

Looking to the future, Shan said: 'Going forward, we must improve our systems for systematic planning and goal-tracking in order to keep pace with the rapidly-evolving global regulatory requirements and stakeholder expectations. Overall, we aim to be more proactive on the research front and to have a more organised approach rather than simply passively responding to external pressures. This will ensure our sustainable investments genuinely deliver when it comes to environmental and social benefits.'



**'AS A CLEAN ENERGY COMPANY
FOCUSED ON NUCLEAR
POWER GENERATION, WE
PLACE HIGH IMPORTANCE
ON ENSURING FUNDING
SECURITY WHEN FORMULATING
FINANCIAL STRATEGIES AND
IMPLEMENTATION PROCESSES.'**
—CHINA GENERAL NUCLEAR POWER

3.4 Swire Properties

Swire Properties has initiated a transition to a more sustainable real estate development model across its mainland China and Hong Kong portfolio. Fanny Lung, *Swire Properties*' Finance Director, says that by committing to a science-based decarbonisation pathway aligned with the 1.5°C goal reduction to reach net-zero carbon by 2050 and obtaining green building certifications for nearly all projects, the company is demonstrating how investing in energy-efficient technologies, biodiversity and sustainability reporting can benefit the bottom line.

Fanny Lung, *Swire Properties*' Finance Director, has noticed a 'profound change' underway in the real estate industry as environmental concerns have come to the forefront and companies have increased their commitment to building a greener future.

Explaining how this change has come about, Lung said: 'Following discussions with our tenants, we've found that many have sustainability or net-zero ambitions. They also prefer leasing green buildings that meet the demands of their employees for healthy, environmentally friendly workspaces.'

This industry transformation is in line with the objectives laid out by China's *Ministry of Finance* as it sought to make sustainability reporting mandatory for Chinese companies by 2030 and compliant with the requirements of the *International Sustainability Standards Board (ISSB)*.

For its part, *Swire Properties* has set ambitious emissions reduction targets as part of its transition strategy. The company was also the first real estate developer in either mainland China and Hong Kong to adopt a 1.5°C-aligned science-based target as part of its commitment to achieving net-zero carbon by 2050 across all of its holdings.

At present, renewable energy already powers 64% of the real estate giant's existing portfolio in mainland China. In addition, all of its wholly-owned, under-development projects have secured green building certification, as have nearly 94% of its existing buildings.

Groundbreaking, renewable tech

According to Lung, among the company's priorities for its mainland and Hong Kong property portfolios are increasing the use of renewable energy, encouraging greener operation, and mandating environmental, social and governance (ESG) reporting by 2030.

At the same time, pioneering green technology has also become a core strategy for *Swire Properties*. In line with this, at the *Taikoo Li Xi'an* commercial site in Xi'an, where construction is currently underway, the company has deployed innovative ground source heat pump technology as a means of using renewable geothermal energy to meet the majority of building's heating and cooling requirements.

With the pumps said to be capable of meeting 60% of the site's winter heating needs by utilising heat from the ground, Lung said: 'This will be the first instance of ground source heat pump technology being used in a large-scale commercial development in western China.'

This innovative heat generation technology was developed through *Swire Properties*' long-standing collaboration with *Tsinghua University*. Established in 2008, their Joint Research Center has allowed the company to deliver cost-effective energy efficiency by retrofitting many of its existing buildings.

According to Lung, the fruits of this partnership have allowed it to reduce energy consumption by 23 million kilowatt-hours annually over the past five years, while cutting carbon emissions by 16,000 tons annually – the equivalent of planting 700,000 trees.



Similarly, the *Integrated Photovoltaics, Energy Storage, Direct Current and Flexible (PEDF) Power System* installed at Beijing's *Taikoo Li Sanlitun* has cut onsite energy consumption by some 5-10%. The winner of a *Top 10 Building PEDF Best Practices Award* in China, this pilot system has notably increased the efficiency of on-site renewable energy generation.

Commitment to greener practices

Detailing how broad-based the company's commitment is to greener practices, Lung says: 'Our move to design and develop sustainable projects has been driven by support from all of our stakeholders, including tenants, shareholders, investors, employees, local communities and the government.'

To ensure it stays on track, the company has adopted distinct KPIs for the various environmental challenges it faces, including energy/carbon management, tracking energy use across its portfolio, and benchmarking renewable energy adoption and greenhouse gas emissions reduction against its 2030 targets. It also tracks water usage, recycling / waste diversion rates and biodiversity status.

In order to assess the economic impact of its green initiatives, *Swire Properties* quantifies the savings accruing from all of the efficiency measures implemented across its property portfolio. At the same time, impact analyses are conducted to monitor how sustainability practices affect asset values in terms of increased rent premium, as well as returns on green development projects and renewable energy investments.

Tangible financial benefits

Lung highlighted that by obtaining green financing, such as green bonds and loans, provides 'a reduction in interest margin' by attaining agreed sustainability targets; it is also a means of 'diversifying institutional green investors to European and global markets,' while expanding access to capital.

In specific terms, the company's implementation of a range of energy efficiency improvements has seen consumption fall by more than 109 million kilowatts across its global property investments and hotels in 2022. This equates to the average annual usage of 33,000 households and represents an estimated HK\$134 million saving on energy costs.

Certain energy efficiency projects, such as LED lighting retrofits and variable speed drives for HVAC systems, 'generally have a relatively short payback period of around five years or less,' she said. In other words, such sustainability initiatives can pay off in the long run through lower operating costs.

Focusing on longer-term perspectives

When weighing the costs and benefits of a project, Lung maintained that there are important considerations beyond the bottom line.

Expanding on this, she said: 'We can't simply look at the payback period in terms of energy cost savings alone. We must also account for other long-term benefits that may be less tangible, such as the potential reduction in future maintenance needs and improvements to indoor air quality.'

She also noted that energy-efficient, certified green buildings can often be perceived as more valuable in real estate terms – a factor that can significantly impact tenant retention and satisfaction. By 2030, she said, the positive impact of improved tenant retention in sustainable properties could exceed HK\$400 million in terms of cumulative financial benefits.

Looking ahead, Lung emphasised that nature, & biodiversity integration and wellness will also be priorities for *Swire Properties*. Citing Hong Kong's *Taikoo Place* as an example, she said the integration of *Taikoo Square* and *Taikoo Garden* into the development will increase the available green space by 70,000 square feet, raising the green area ratio to 30% of the site's total area. In addition, more than 260 plant species will be incorporated, including some 20% native to the location, higher than the industry average.

In addition to making the area more attractive to local urban wildlife, such as birds and butterflies, there are expected to be other benefits, with Lung saying: 'As a showcase of urban biodiversity, it will help reduce heat effects and improve the microclimate through nature-based solutions.'

'Overall, biodiversity will be the next frontier in the fight against climate change. With that in mind, we are now committed to embracing nature as a key means of building thriving, sustainable communities.'

An aerial photograph of a modern, multi-story building with a green-tinted glass facade. The building is surrounded by lush green trees. On the roof, there is a large array of blue solar panels. The building has a flat roof with some mechanical equipment visible. The surrounding area includes other buildings and a paved area.

**'WE CAN'T SIMPLY LOOK AT THE
PAYBACK PERIOD IN TERMS OF
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—SWIRE PROPERTIES

3.5 First Abu Dhabi Bank China

Arthur Zou, Chief Executive of *FAB China*, said investing in sustainable projects no longer requires companies to sacrifice profitability. At the same time, the number of sustainable investment opportunities is rapidly growing, particularly in China, where many prospects perfectly align with the bank's commitment to promoting sustainable finance.

Zou added that the synergies between China's and the Middle East's decarbonisation goals have provided *FAB China* with a unique platform to promote best practices in sustainable finance while helping organisations in both regions achieve their goals.

Maintaining that the prospects for sustainable projects are now brighter than they have ever been, Zou said: 'In the past, we always talked about balancing acts but, going forward, sustainable development projects have proven themselves to be economically viable alternatives, which nations, corporates, institutions, and individual investors alike are keenly embracing.'

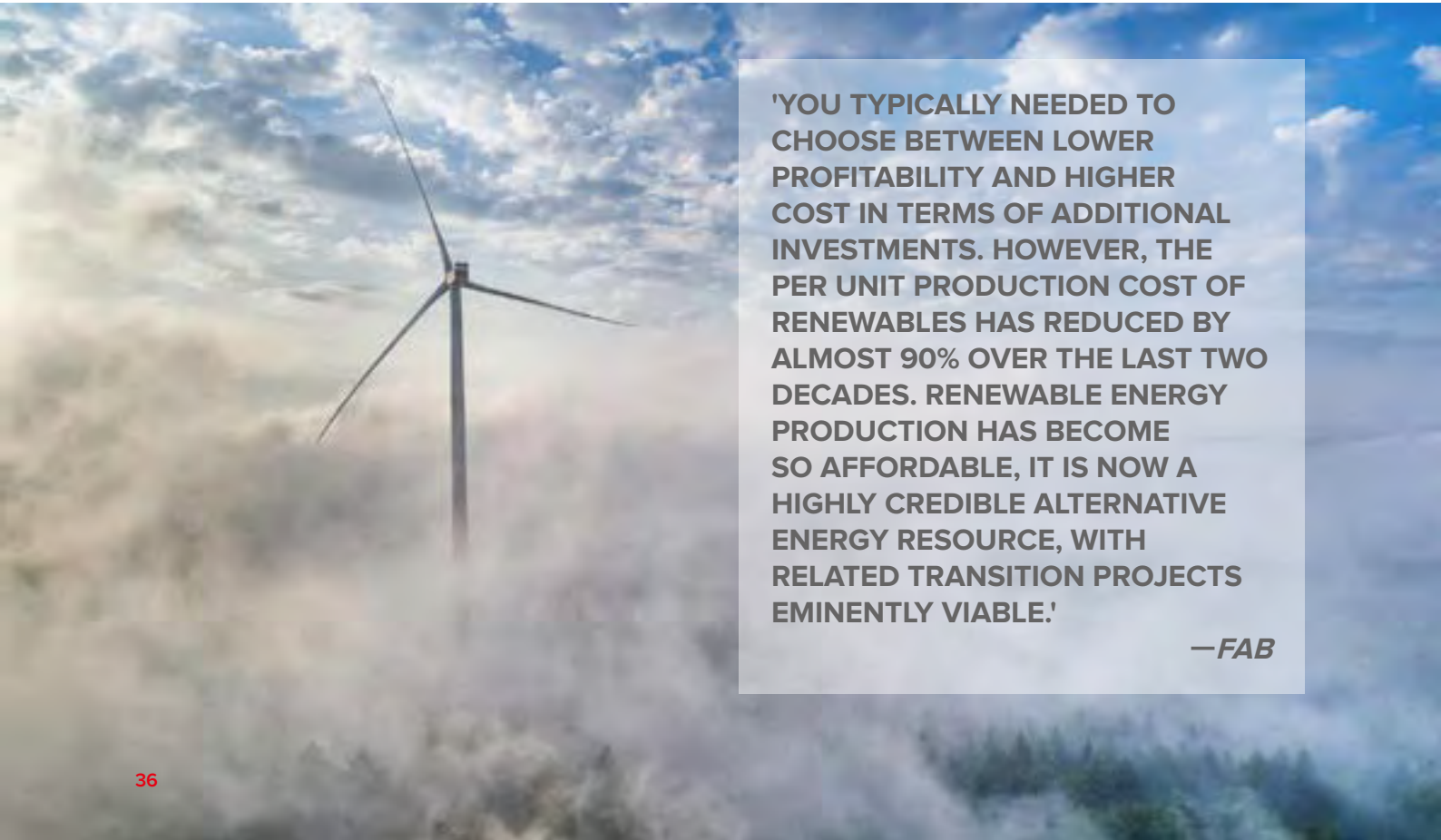
In the run-up to COP28, held in Dubai in 2023, *FAB* became the first bank globally to join the COP28 Net-Zero Transition Charter, reflecting the bank's significant advances on climate action alongside its extensive commitment to transition to a low carbon economy.

National strategies

Noting that sustainable development has become an important element of China's policymaking, Zou said China's 2060 carbon neutrality goal and its attempts to achieve peak carbon emissions by 2030 'have created tremendous opportunities for the sustainable finance community.'

He believes sustainability is also a key part of the national strategies of many Middle East countries. Most *Gulf Cooperations Council (GCC)* states, particularly the United Arab Emirates (UAE), and have rigorous carbon reduction and energy transition targets. China offers a market for capital from these countries as they look to advance their long-term commitments and focus on sustainability.

FAB is the largest bank in the UAE and the second-largest bank in the Gulf region, with total assets of AED 1.2 trillion (USD 320 billion) as of June-end 2024. The bank has a diversified franchise with a strong regional presence and a strategic global footprint in 20 markets.



'YOU TYPICALLY NEEDED TO CHOOSE BETWEEN LOWER PROFITABILITY AND HIGHER COST IN TERMS OF ADDITIONAL INVESTMENTS. HOWEVER, THE PER UNIT PRODUCTION COST OF RENEWABLES HAS REDUCED BY ALMOST 90% OVER THE LAST TWO DECADES. RENEWABLE ENERGY PRODUCTION HAS BECOME SO AFFORDABLE, IT IS NOW A HIGHLY CREDIBLE ALTERNATIVE ENERGY RESOURCE, WITH RELATED TRANSITION PROJECTS EMINENTLY VIABLE.'

—FAB

Belt and Road Initiative (BRI) projects

Another contributing factor to *FAB*'s success has been transnational collaboration. In this regard, Zou said *FAB* benefits uniquely from the strong ties between China and the UAE. 'For its part, China has the technology, manufacturing capability, and R&D expertise required in most sustainability sectors. Meanwhile, the UAE has a complementary role as a global hub for green venture capital and start-ups while also providing best practices, ideas, and capital,' he said.

Maintaining that these synergies have created sustainable investment opportunities along with the *Belt and Road Initiative (BRI)* for *FAB*, Zou said: 'We work closely with leading funds and corporates in China, and most of them have sustainable investment development increasingly as their important strategy and mandate, especially with regard to renewables.'

FAB has also financed several renewable energy projects in the UAE and elsewhere with Chinese support, and many of these collaborative projects have already had positive outcomes.

Reflecting on how the economic appeal of such renewable energy projects has changed, Zou said that if you invested in such projects 10 or 15 years ago: 'You typically needed to choose between lower profitability and higher cost in terms of additional investments. However, the per unit production cost of renewables has reduced by almost 90% over the last two decades. Renewable energy production has become so affordable, it is now a highly credible alternative energy resource, with related transition projects eminently viable.'



4. Rising to the challenges and levelling up sustainability integration – lessons learned

Sustainability has become an increasingly decisive consideration for businesses worldwide. As such issues move up the global agenda, companies have faced growing pressures from multiple stakeholders to adopt responsible and ethical practices. Nowhere is this transformation more evident than in China, the world's second-largest economy and a crucial market for multinational corporations.

As China undergoes sweeping changes in its economic model and shifts towards clean energy and low-carbon growth, its policymakers have sent clear signals that sustainability will be a priority for development by implementing a raft of regulations and targets around emissions reduction, renewable energy expansion and green financing. For businesses operating in China, addressing sustainability factors along with ESG considerations has become essential for remaining compliant with the evolving regulatory landscape and overall policy direction.

However, integrating sustainability also presents strategic opportunities. Firms that demonstrate strong environmental and social credentials can gain competitive advantages by boosting their reputation among consumers and investors. They can also tap into new low-carbon markets and technologies driving China's economic transition.

The survey, research and interviews that informed this report provide insights into how corporations are respond to these changes. The findings from in-depth interviews with senior executives at multinational corporations in diverse sectors with operations in China and a large-scale survey of more than 280 professionals active in the country provide a clear and detailed look at sustainability practices among multinationals in China along with best practices, challenges and the future outlook. The findings make it clear that sustainability is rapidly becoming embedded within corporate strategies for domestic and global operations.

Overall, the research also reveals that sustainability strategies in the region are well established and that familiarity, experience and ambitions related to ESG, sustainability and green investing in China are ballooning. Sustainability leaders consider this experience essential for success as China continues strengthening its global trade and investment ties. This growing focus on sustainability endures even in China's currently tough investment environment. Most respondents to the survey felt that China's current investment climate is, at best, in a holding pattern. This muted outlook reflects the caution that currently overshadows China's economic landscape.

However, most business leaders are more optimistic about the future than the current situation. Over the next three years, most business leaders believe opportunities in China will improve, and, as a result, have plans to increase their investments in the country through to 2027. This report finds that growing confidence in China's markets will complement the rapid expansion of sustainable business and investment practices, both internally and worldwide.

4.1 Clear lines of communication and understanding local context

One key finding from the research is that firms' China-focused sustainability and ESG initiatives benefit significantly from clear government policy signals and support. Survey respondents say that their China business investment strategies and objectives need to incorporate sustainability to succeed, while the vast majority are familiar with sustainable investment concepts, and nearly a third believe they are very attuned to sustainability's importance. This alignment is also reflected by the fact that more than half of all respondents see ESG factors and sustainable capabilities as important when evaluating business opportunities in China.

China's policies relating to decarbonisation, energy transition and other green goals are many and various, and the research shows they are generally well-communicated to the business community. Policy clarity, in turn, makes implementing sustainable practices that much easier, as Pat Woo, Partner and Head of ESG in Hong Kong at *KPMG China*, notes: 'China has a peak carbon target of 2030 and plans to achieve carbon neutrality by 2060 ... investors definitely have a clearer road forward thanks to a level of policy clarity.'

The government's clarity of direction and clear policy signals are intentional, as they accelerate corporate sustainability efforts. 'It's very easy to put in place government programs,' says Carlos Álvares, Chief Executive of *Portugal's Banco Nacional Ultramarino Macao*. 'When the government wants to put something in place, it's really fast.'

4.2 Staying the course – exploiting green funding and technology

Sustainability practices are still evolving in China and elsewhere across the world. Our research shows, however, not only are firms in China seeing results from their green and sustainable business activities but they are also aligned with their existing goals and expectations.

Even where there is a relative lack of knowledge of specific green finance tools, most business leaders are receptive to using such tools for funding their future activities. Green funding channels are more widely acceptable than ever before, with most survey respondents indicating that they plan to use sustainable products for at least part of their fundraising, and many believing that a quarter or more of their future funds will come through such products.

Most importantly, firms in China are now more confident that their business and operational models are well-aligned with their sustainable aspirations. They believe that commonality exists and there is little need to shoehorn in green goals simply to be compliant. This implies the rapid development of global sustainability reporting practices is understood by the market and stakeholders and is functionally linked to core business performance metrics.

There are still areas where businesses in China need to do more, such as developing sustainability talent to manage green investment or sustainability projects. Notably, most survey respondents were not particularly satisfied with how well they were linking their sustainability goals to the talent development in their firms.

However, Chinese firms are speedily incorporating sustainability-linked processes within their operations, while investing in establishing frameworks for measuring their performance, and leveraging synergies between their decarbonisation and sustainability goals and those of their partners to mutual benefit. All of this is being done in an increasingly transparent policy environment, one aligned with fast-maturing global sustainability best practices. It is highly likely that, within such a supportive and collaborative environment, firms will be able to develop the talent and expertise that will advance their green business aspirations in China and globally.



The growing focus on sustainability has profound implications and represents real opportunities for sustainability professionals. Many of them are taking on increasingly pivotal roles as organisations look to integrate sustainability considerations into core business operations and strategies. Armed with expanding skillsets^[14] in areas such as sustainability reporting, sustainability-focused financial analysis and integrated thinking, sustainability professionals are well-positioned to spearhead efforts to champion, implement and systematically integrate sustainable practices.^[15] Their effectiveness relies on seamlessly interconnecting non-financial metrics with traditional reporting and identifying material sustainability factors relevant to investment decision-making, financing activities and portfolio management. This further highlights the need for advanced information systems and data analytics capabilities that can bridge siloed financial and non-financial data to provide a holistic view of long-term value creation. By facilitating integrated analysis and the disclosure of financial and sustainability performance, sustainability professionals can help transform organisations into more resilient, future-fit enterprises driving progress towards overcoming critical global challenges.

4.3 Taking it on the road – balancing profitability and other sustainable factors

China's growing focus on green sensibilities is providing a competitive advantage for firms keen to build up their international portfolio. There are several reasons for this, but the primary driver is that green investments abroad – particularly those in emerging market economies - can benefit from the growing sustainable policy synergies between China and its trading partners.

Renewable energy, sustainable infrastructure and clean transportation projects that serve mutual decarbonisation goals have helped to increase trans-national collaboration between China and its trading partners. Additionally, China's growing experience and technological capacity for clean energy generation and other green technologies are increasingly making it the partner of choice as other countries seek to tap into its expertise.

The rapidly changing economics of energy transition projects has been another key enabler of Chinese firm's ambitious green investment aspirations abroad.

4.4 Varying levels of maturity, but strong commitment – setting sustainability performance indicators

Another important finding is that, while overall familiarity with China's sustainability objectives is high in the market, the level of specific knowledge around various concepts varies greatly. Some sustainability practices and products, for example, are more mature than others. Many China business leaders are familiar with such well-established notions as carbon neutrality targets and renewable energy policies. These two concepts have long been established in the public sustainability discourse, and market awareness of the causal links between reducing carbon through renewables and overall sustainability goals is clear.

When it comes to less mature and tangible concepts in China, however, familiarity drops accordingly. Very few survey respondents, for instance, were familiar with China's policy direction in the case of biodiversity financing, even though there is a growing recognition that 'biodiversity will be the next frontier in the fight against climate change', as Fanny Lung, *Swire Properties'* Finance Director, observes.

Narrowing the gap will come about in several ways. One is through increased standardisation, and the adoption of metrics that evaluate a firm's actions around conservation, biodiversity and other so-called 'non-financial' sustainability measures. As *KPMG's* Woo observes, regulators in China and elsewhere will start looking at non-financial data assurance more closely: 'Regulation is needed in order to enforce comparability and ensure increased accuracy.'

14. Source: 'ACCA – Green finance skills: the guide'

15. Source: 'ACCA – Chief Value Officer – the important evolution of the CFO'

Despite the varying levels of maturity and market knowledge, overall sustainability activities are already well-advanced in China. Most of the survey respondents have already launched energy, carbon reduction and 'green office' initiatives, and implemented some degree of environmental protection work. They also intend to increase their investment in these areas over the next three years. Nearly half of the respondents are already formally reporting their sustainability commitments and activities.^[16] Yet again, less mature sustainability concepts have lower adoption rates for our survey respondents in China, notably 'green service' take-up. Generally, though, China-based businesses are committed to integrating sustainability into their operations. In order to further increase the adoption rate of green initiatives, organisations can consider setting performance indicators relating to sustainability elements for employees.^[17]

4.5 Compliance, reputation and values – staying informed

Sustainability investment leaders in China are primarily driven by pragmatic concerns about protecting their reputations and regulatory compliance when it comes to their sustainability and green efforts. Business leaders want to do good and to have that good recognised by their stakeholders. Most survey respondents are incorporating sustainability into their business strategies as they see it as critical to meeting regulatory requirements and enhancing their corporate reputation. More significantly, they see these goals as intrinsically linked to their ability to use sustainability as a lever for creating long-term value for their firm.

In China, as elsewhere, sustainability efforts can communicate an organisation's resilience and forward-thinking strategies to its stakeholders and the broader society. 'You need to really integrate sustainability in your organisation,' says *Banco Nacional Ultramarino's Álvares*, noting that his organisation and others must demonstrate to the market that 'we aren't just looking at the environment as an individual action item, but something that is integrated with the brand and value proposition of all our products'.

As commitment to sustainability grows in China, so too does investment in green measures. This report found that more than 40% of survey respondents spend at least 3% of their annual turnover on green measures. More than one in seven respondents invest over 5% of their revenue into sustainability. For most Chinese companies, these spending levels will likely be maintained, if not increased, for years to come.

Ironically, if not understandably, the growing cost of sustainability compliance in China is also seen as the primary hurdle for firms. Cost pressure makes it challenging for firms to fully integrate their green practices into their broader business activities. After cost, no other issue is as significant a barrier, and several issues – such as lack of internal or external collaboration and lack of awareness – are only problems for a few. All of this points to the high levels of awareness and well-coordinated efforts on the part of China's government to ensure enterprise stakeholders understand and grasp the importance of sustainability.

That said, the lack of familiarity with some sustainability concepts and green financing products (as discussed above) means there is still room for growth as China's sustainable finance industry matures. While green finance tools such as green bonds and loans have limited awareness among survey respondents, familiarity is even lower for more specialised finance vehicles, such as ESG-linked bonds and climate-aligned investment products.

But rather than viewing this as an obstacle, green-oriented financial service providers in China should regard it as an opportunity. As sustainability plays an increasingly important role in business operations worldwide, and China continues to clarify and prioritise related goals, companies will need to find new and varied vehicles to both ensure their primary activities are contributing to a lower carbon footprint and align their core operations with these objectives over time.

16. Source: 'ACCA – Sustainability reporting hub'

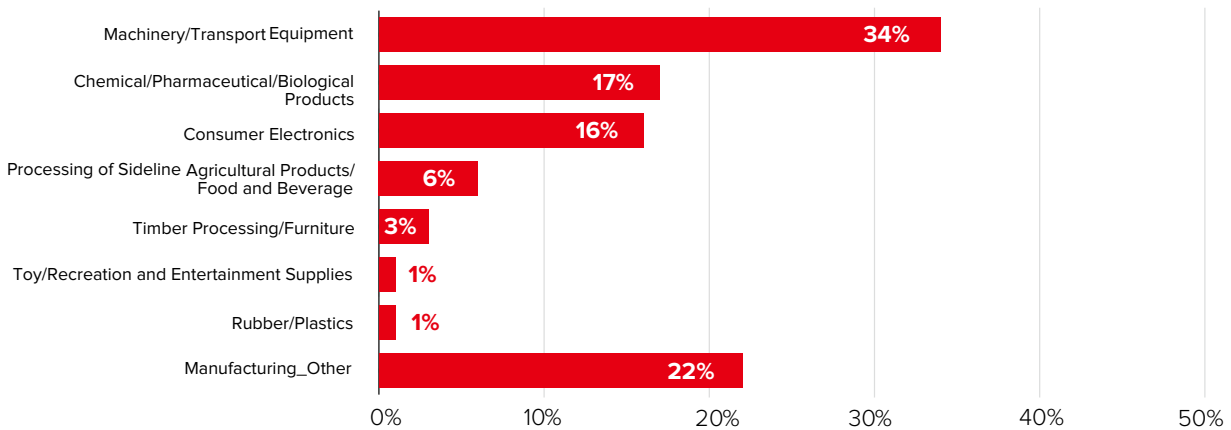
17. Source: 'ACCA and CAANZ – Sustainability in transactions'



Appendix

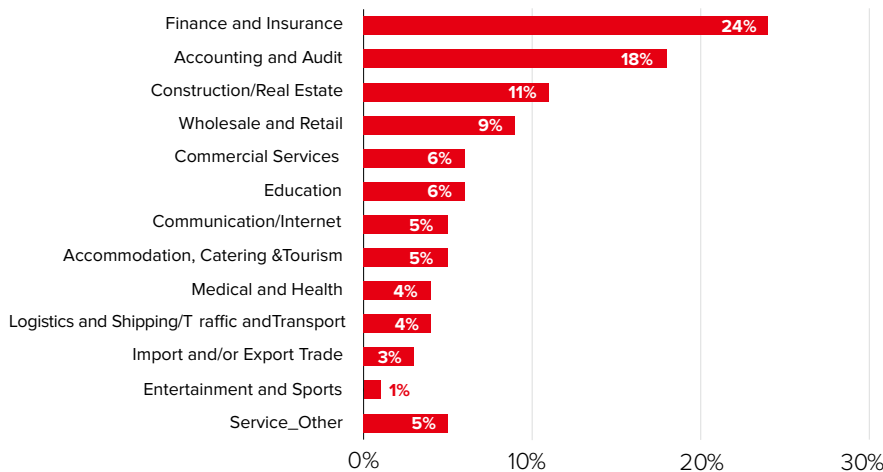
Quantitative survey: Respondents' profile

Manufacturing Industry



Base: Manufacturing Industry (n=88)

Service Industry

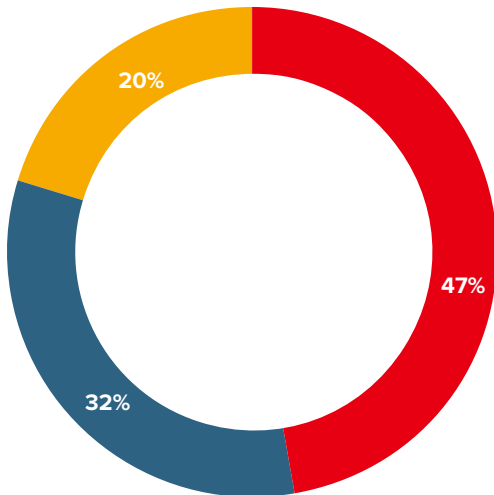


Base: Service Industry (n=195)

Appendix

Company size based on number of employees in China

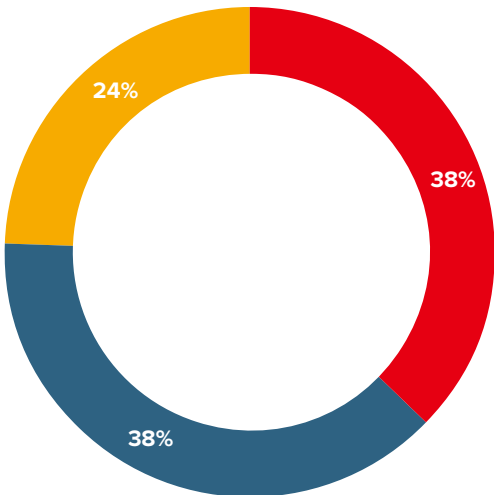
- Mega-Corporation
- Large Enterprise
- SME



Base: All enterprises (n=283)

Annual turnover generated from mainland operations or investment in China

- Above RMB 2,000 mn/annum
- RMB 100 mn - 2,000 mn/annum
- Below RMB 100 mn/annum



Base: All enterprises (n=283)

Remark:

Industry	Manufacturing	Service
Mega-Corporation	With a staff complement of over 2,000	With a staff complement of over 500
Large Enterprise	With a staff complement of 301 to 1,999	With a staff complement of 51 to 499
SME	With a staff complement of 20 to 300	With a staff complement of 10 to 50

Note: Percentages may not total 100 due to rounding.

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- **Fanny Lung**
Finance Director, Swire Properties
- **Jing Shan**
Vice General Manager of the Finance and Asset Management Department,
China General Nuclear Power Corporation
- **Pat Woo**
Head of ESG Hong Kong, KPMG China

Note: Names are in alphabetical order

