

# The Significance of ESG Initiatives in Hong Kong – A Path to Sustainable Growth

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CARRIE AU

ADVISORY DEPARTMENT  
JAPANESE CORPORATE BANKING DIVISION  
(HONG KONG)

T +852-2823-6091

E CARRIE\_NC\_AU@HK.MUFG.JP

**MUFG Bank, Ltd.**

(Incorporated in Japan with limited liability)

A member of MUFG, a global financial group

In response to the growing awareness of climate change and corporate social responsibility, ESG investment has become a focal point in corporate management. Governments worldwide including Hong Kong are setting ESG standards and imposing reporting obligations on companies. This article highlights the latest ESG policies and discusses the importance and regulatory trends of ESG initiatives in Hong Kong.

## ESG POLICY TRENDS IN HONG KONG

The Hong Kong government is promoting sustainable development while balancing economic prosperity and environmental protection. Following the "Strategy of Hydrogen Development in Hong Kong" announced in June 2024, the 2024 Policy Address introduced various measures in green finance, new energy, green logistics, waste reduction, and recycling. These comprehensive policies underscore the emphasis on ESG and highlight the Hong Kong government's strong commitment to sustainable development and environmental conservation.

| Area                 | Content (Extract)   |
|----------------------|---|
| Green Finance        | <ul style="list-style-type: none"><li>▪ HKEX launched the international carbon market (Core Climate<sup>1</sup>) at the end of 2022, which is the world's only carbon market to offer Hong Kong dollar and Renminbi settlement for trading of international voluntary carbon credits</li><li>▪ The Financial Services Board (FSTB) has published a roadmap on the full adoption of the International Financial Reporting Standards – Sustainability Disclosure Standards (ISSB Standards) in December 2024, marking Hong Kong as the pioneering jurisdiction to align the local requirements with ISSB Standards</li></ul>  |
| New Energy           | <ul style="list-style-type: none"><li>▪ Allocate around HKD 750 million subsidy to the taxi trade and franchised bus companies to purchase electric vehicles</li><li>▪ Launched the subsidy scheme for the trial of hydrogen fuel cell electric heavy vehicles</li><li>▪ Set a target for sustainable aviation fuel (SAF) consumption targets to speed up the reduction of carbon emissions in the aviation industry</li><li>▪ Promote green and low-carbon hydrogen energy, actively support the industry to establish a solar-to-hydrogen facility for demonstration and introduce a bill next year to ensure the safe use of hydrogen fuel</li></ul>                             |
| Green Transportation | <ul style="list-style-type: none"><li>▪ Develop Hong Kong into a green maritime centre through offering initiatives</li><li>▪ Offer cash incentives to ships meeting relevant international standards on decarbonisation by the Marine Department</li><li>▪ Announced the Action Plan on Green Maritime Fuel Bunkering in November 2024. Develop infrastructure such as green maritime fuel bunker terminals to co-operate with GBA ports and major trading partners to construct green shipping corridors</li><li>▪ Provide green ships with smart information concerning navigational safety and enhance the ship monitoring systems to ensure safety of fuel bunkering</li></ul> |

<sup>1</sup> There are currently over 90 participants, trading quality carbon credits from over 50 internationally certified projects, including forestry, solar, wind and biomass energy in Asia, South America and West Africa. All carbon credits projects are verified against international standards, such as Verified Carbon Standard under Verra and the Verified Emission Reductions by Gold Standard.

|                                      |  |
|--------------------------------------|--|
| <b>Waste Reduction and Recycling</b> | <ul style="list-style-type: none"> <li>Reinforce publicity and education on waste reduction and recycling in the community</li> <li>Expand the community recycling network by increasing public collection points from about 500 to 800</li> <li>Optimize service hours at GREEN@COMMUNITY recycling facilities to provide better service and set up self-service recycling stations and smart recycling facilities in public housing estates</li> <li>Established a legislative framework as a part of the producer responsibility scheme to facilitate future progressive inclusion of products such as plastic beverage containers and cartons, expanding waste-to-resources capacities</li> <li>Schedule I-PARK 1<sup>2</sup> to begin operation in 2025, the construction of I-PARK 2 is also in progress, working towards the goal of “zero landfill”</li> <li>Inject HKD 100 million into a new round of the Cleaner Production Partnership Programme to expedite green transformation, renovation and upgrading of local and Hong Kong-owned factories in Guangdong Province</li> <li>Provide subsidies to the private sector for installing quick-charging facilities, targeting a total of 3,000 quick chargers to be installed by 2030</li> </ul> |
|--------------------------------------|--|

## IMPORTANCE OF ESG INITIATIVES

In addition to government policy trends, the market itself is increasingly prioritizing ESG considerations, highlighting the critical importance of ESG initiatives for sustainable management and long-term economic growth. To begin with, consumers are more willing to pay higher prices for environmentally friendly products and services. According to the 2023 PwC Global Consumer Insights Survey (Figure 1), consumers in mainland China particularly value ESG factors when purchasing products and services. It has become evident that companies' ESG initiatives influence consumer purchasing decisions. Active engagement in ESG-related efforts can be said to lead to gaining consumer trust.

**Figure 1 PwC Global Consumer Insights Survey (Extract)**

| Willing to pay 20% higher than the average price                    | Global | Hong Kong | Mainland China | USA | Japan | Singapore | South Korea | Thailand | Malaysia |
|---|--------|-----------|----------------|-----|-------|-----------|-------------|----------|----------|
| High reputation rating company                                      | 17%    | 13%       | 22%            | 19% | 5%    | 6%        | 9%          | 20%      | 21%      |
| Made from recycled, sustainable, or eco-friendly materials          | 17%    | 7%        | 21%            | 17% | 6%    | 8%        | 9%          | 16%      | 15%      |
| Locally produced and sourced (supplied from local farmers' markets) | 17%    | 7%        | 22%            | 18% | 6%    | 7%        | 9%          | 18%      | 22%      |
| Origin traceability and transparency                                | 16%    | 9%        | 20%            | 17% | 5%    | 8%        | 7%          | 20%      | 15%      |
| Low CO <sup>2</sup> emissions in manufacturing or supply chain      | 16%    | 10%       | 20%            | 16% | 6%    | 8%        | 11%         | 21%      | 18%      |
| Biodegradable and home-disposable                                   | 15%    | 7%        | 20%            | 15% | 6%    | 7%        | 11%         | 16%      | 15%      |

Besides, data also shows that companies with superior ESG performance have significant advantages in investment returns and performance. Research by the MSCI Sustainability Institute<sup>3</sup> indicates that from 2012 to 2023, the cumulative return gap between the top 20% and bottom 20% of companies with the highest ESG ratings has continued to widen, suggesting that higher-rated companies perform better. Accenture's report<sup>4</sup> also shows that companies with high ESG ratings excel in operating profit and annual dividend yield growth. In other words, incorporating ESG elements tends to have better performance and investment returns, is more likely to attract more attention from investors and potentially benefiting from easier access to funding.

<sup>2</sup> The first waste-to-energy facility for treating municipal solid waste

<sup>3</sup> [17 years of MSCI ESG Ratings and long-term corporate performance](#) from MSCI Sustainability Institute

<sup>4</sup> [Investing for impact: ESG in private equity](#) from Accenture

## MANDATORY ESG DISCLOSURE FOR LISTED COMPANIES IN HONG KONG

ESG reporting is a global practice, and Hong Kong is in step with it. In April 2024, the Hong Kong Stock Exchange published a consultation summary on ESG disclosure, renaming the "ESG Reporting Guide" to the "ESG Reporting Code" and strengthening ESG regulations. The ESG Reporting Code aligns with international standards and introduces new climate disclosure requirements consistent with ISSB standards. The revised rules for listed companies, effective January 1 this year, aim to enhance the transparency of sustainability information and increase disclosure requirements. Although the disclosure obligation mainly targets listed companies currently, as the importance of voluntary ESG information disclosure increases in the Hong Kong and mainland China markets, this trend is expected to rapidly expand to non-listed companies as well. Companies should actively disclose their ESG initiatives and implement ESG governance to enhance their reputation among consumers, investors, and stakeholders.

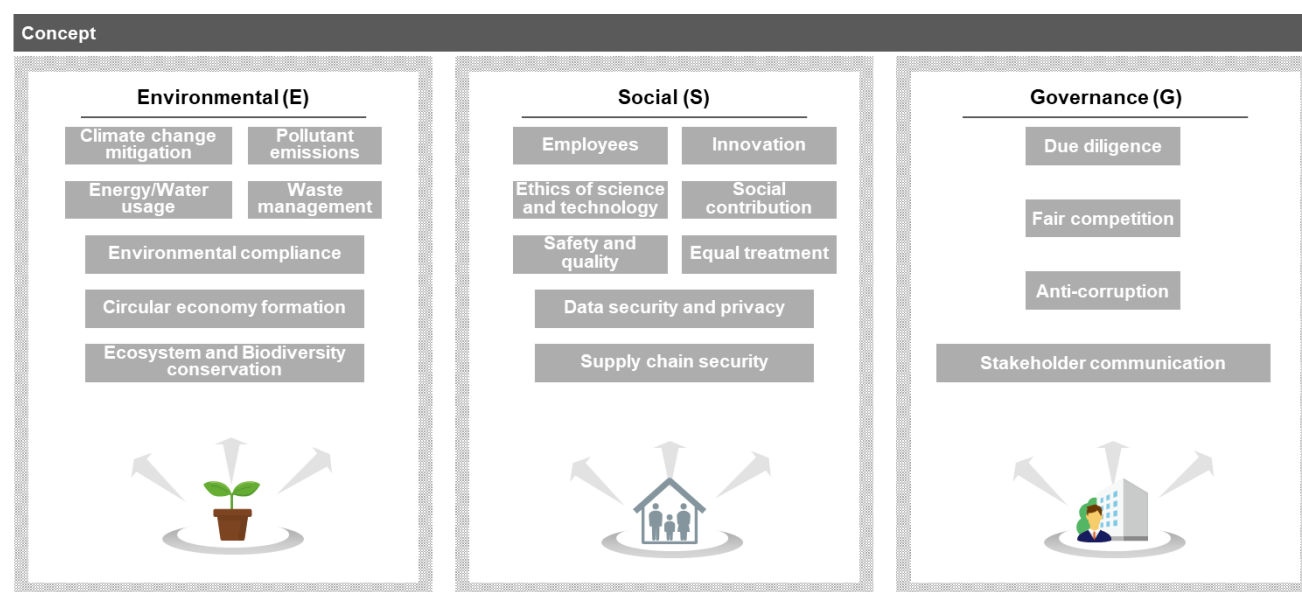
Given the continuing trends in ESG disclosure, ESG requirements for supply chains are becoming increasingly important as companies strive to meet sustainability goals and regulatory standards. It is becoming common for large companies to verify whether their business partners meet ESG standards. Their suppliers are required to undergo assessments of their environmental impact and labor conditions to ensure sustainable procurement. For example, BYD<sup>5</sup> prioritizes clean energy in its suppliers' manufacturing processes, ensuring energy and water conservation along with environmentally friendly production methods. The Swire Group<sup>6</sup> sets strict standards for labor conditions, ensuring workers' rights are protected and fair wages are paid. These efforts promote the development of sustainable business models for long-term growth. Also, by meeting ESG standards, companies can enhance their brand image, increase their competitiveness, and secure more business opportunities, including strengthening relationships with current business partners.

## STARTING ESG INITIATIVES

To start working on ESG initiatives, companies should first incorporate ESG elements into their management plans. This involves setting ESG targets and establishing mechanisms to regularly evaluate progress. Implementing educational programmes to raise awareness among employees about the importance of ESG is also essential. The appendix of this article includes a "Simple ESG Self-Assessment Checklist" to help companies assess their current situation. For deeper analysis and improvement suggestions, consulting ESG experts is recommended. Expert advice can help set specific, achievable goals. ESG goals should be set with a long-term perspective, regularly evaluated, and revised as necessary.

Below figure 2 provides an idea of the direction for setting KPIs when companies formulate their ESG strategies.

**Figure 2 Ideas for Setting KPIs when Formulating ESG Strategies**



<sup>5</sup> BYD's [Code of Conduct for BYD Supplier](#)

<sup>6</sup> Swire Properties' [Supplier Code of Conduct](#)

## MUFG's COMMITMENT TO ESG

MUFG group is committed to sustainable growth, raising our sustainable finance target in April 2024 from JPY35 trillion to JPY100 trillion. We aim to achieve net-zero emissions in our financial portfolio by 2050 and in our operations by 2030. We are expanding our ESG product lineup and offering sustainable investment options to support our customers in achieving carbon neutrality. This enables more companies and individuals to make environmentally conscious choices.

|                                |   |
|--------------------------------|---|
| <b>Loans</b>                   | <ul style="list-style-type: none"><li>■ Green, Social, and Sustainability Loans</li><li>■ Sustainability-Linked Loans</li><li>■ Transition Loans</li></ul>                              |
| <b>Bonds</b>                   | <ul style="list-style-type: none"><li>■ Green, Social, and Sustainability Bonds</li><li>■ Sustainability-Linked Bonds</li><li>■ Transition Bonds</li></ul>                              |
| <b>Deposits</b>                | <ul style="list-style-type: none"><li>■ Green Deposits: Term deposits nominally matched with green loans (available in multiple APAC locations)</li></ul>                               |
| <b>ESG Advisory</b>            | <ul style="list-style-type: none"><li>■ ESG Customized advice on themes such as ESG ratings, KPI benchmarks, etc.</li><li>■ Establishment of ESG financing frameworks</li></ul>         |
| <b>Derivative Transactions</b> | <ul style="list-style-type: none"><li>■ ESG Interest Rate Swaps, Cross-Currency Swaps, Coupon Swaps</li><li>■ ESG Structured Deposits (available in Hong Kong and Singapore)</li></ul>  |
| <b>Trade Finance</b>           | <ul style="list-style-type: none"><li>■ Sustainable Trade Asset Finance</li><li>■ Sustainability-Linked Trade Finance (available in Hong Kong, Singapore, India and Malaysia)</li></ul> |

## COMMENTS

The ESG landscape in Hong Kong is transforming rapidly, with its significance increasingly acknowledged by companies, consumers, and investors. Building a sustainable future requires companies to raise ESG awareness and take concrete actions. Consequently, integrating ESG elements into business strategies is essential for contributing to society as a whole.

However, Japanese companies in Hong Kong face several challenges in promoting ESG initiatives. For instance, many Hong Kong subsidiaries with sales functions lack ESG-related KPIs set by their headquarters and have insufficient resources for ESG information gathering and reporting. Companies must recognize the global evolution of ESG practices and respond to the latest regulations. Coordination with headquarters to set KPIs based on group-wide ESG policies may be necessary. Additionally, engaging professional or consulting agencies for information collection, analysis, and evaluation is also recommended.

Furthermore, as China's carbon neutrality efforts intensify, it is essential to explore ways to convert production bases in China to green, low-carbon ones. Japanese companies are encouraged to leverage their technological advantages and promote ESG initiatives to achieve a sustainable society.

In conclusion, ESG initiatives are not merely about compliance but are vital for enhancing corporate profitability and ensuring long-term success. As consumer awareness continues to grow, more consumers are choosing to purchase products and services with strong ESG credentials, even willing to pay a premium for them. By integrating ESG elements into their business strategies, companies can not only fulfil their social responsibilities but also enhance brand value. Strategic thinking from an ESG perspective will be a decisive factor in shaping the future and resilience of companies in an increasingly conscientious market.

## APPENDIX

### Simple ESG Self-Assessment Checklist

| Questions            |   | Yes | No | In Progress |
|----------------------|---|-----|----|-------------|
| <b>Environmental</b> |   |     |    |             |
| 1                    | Do you measure and report greenhouse gas (GHG) emissions?                 |     |    |             |
| 2                    | Have you identified the scope of GHG emissions measurement <sup>7</sup> ? |     |    |             |
| 3                    | Have you set targets for reducing GHG emissions?                          |     |    |             |
| 4                    | Have you implemented an energy management system?                         |     |    |             |
| 5                    | Do you track and report energy consumption?                               |     |    |             |
| 6                    | Do you measure and report water usage?                                    |     |    |             |
| 7                    | Have you set targets for reducing water consumption?                      |     |    |             |
| 8                    | Do you measure and report waste generation?                               |     |    |             |
| 9                    | Have you set targets for reducing waste generation?                       |     |    |             |
| <b>Social</b>        |   |     |    |             |
| 10                   | Have you established policies to ensure fair labor practices?             |     |    |             |
| 11                   | Do you implement initiatives for community development?                   |     |    |             |
| 12                   | Have you established policies for diversity and inclusion?                |     |    |             |
| <b>Governance</b>    |   |     |    |             |
| 13                   | Have you established policies regarding governance structure?             |     |    |             |
| 14                   | Do you have a risk management framework that includes ESG risks?          |     |    |             |

<sup>7</sup> The measurement scope is classified into three categories: Scope 1 refers to direct emissions from resources owned or controlled by the company. Scope 2 refers to indirect emissions from the consumption of purchased electricity, heat, steam, and cooling. Scope 3 refers to other indirect emissions that occur across the entire supply chain.

|           | Publish date | Title   |
|-----------|--------------|---|
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