

HUAYU EXPRESSWAY GROUP LIMITED

華昱高速集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1823)

Environmental, Social and Governance Report
For the year ended 31 December 2019

Environmental, Social and Governance Report

CONTENTS

1	About this Report	2
1.1	Overview	2
1.2	About Our Business	2
1.3	Scope of this Report	2
1.4	Reporting Reference	2
1.5	Endorsement and Approval	2
2	Stakeholder Engagement and Materiality Assessment	3
3	Environment	3
3.1	Emissions	3
3.2	Use of resources	5
3.3	The environment and natural resources	5
4	Social	6
4.1	Employment and Labour Practices	6
4.2	Health and Safety	7
4.3	Development and Training	7
4.4	Supply Chain Management	8
4.5	Product Responsibility	9
4.6	Anti-corruption	10
4.7	Community Investment	10
A1	Appendix I: HKEX ESG Content Index	11

Environmental, Social and Governance Report

1 ABOUT THIS REPORT

1.1 Overview

This is the Environmental, Social and Governance (“ESG”) report of Huayu Expressway Group Limited (the “Company”) and its subsidiaries (together, “Huayu” or the “Group”) for the year ended 31 December 2019 (the “Year”).

1.2 About Our Business

The Group is principally engaged in the construction, operation and management of the Sui-Yue Expressway (Hunan Section) expressway in the People’s Republic of China (“PRC”), which is a dual three-lane expressway with a length of approximately 24.08 km.

In the final quarter of 2018, the Group also commenced the new business line of liquor and spirits trading, where the Group collaborated with the Kweichow Moutai Group and became the sole distributor of the Huamaojiu (a famous brand liquor produced by Kweichow Moutai Group). As of 2019, we had over 70 distributors throughout the PRC.

1.3 Scope of this Report

This report covers the period from 1 January 2019 to 31 December 2019, which aligns with the Group’s annual report. The main scope of this report covers the Group’s expressway operation and liquor and spirits trading business in PRC.

The reported ESG data covers the expressway operation (including the expressway, office and dormitories) locates in Hubei, and the liquor and spirits trading office in Shenzhen. For environmental KPIs, the liquor and spirits trading office is excluded from the disclosure as we are not able to separate the consumptions and emissions of the office from the building it locates in.

1.4 Reporting Reference

This ESG report has been prepared in accordance with the HKEX Environmental, Social and Governance Reporting Guide (“ESG Guide”). An “HKEX ESG Content Index” mapping the disclosures in this report to the ESG Guide is provided in Appendix I.

1.5 Endorsement and Approval

This ESG report has been reviewed and approved by the Board of Directors.

Environmental, Social and Governance Report

2 STAKEHOLDER ENGAGEMENT AND MATERIALITY ASSESSMENT

Stakeholder engagement is an important process which aids our decision-making process. It helps us to continuously improve and make progress toward our ESG commitments. From time to time, we validate the ESG materiality results through engaging with our internal stakeholders including senior management such as key departmental heads, who possess not only hands-on knowledge of our operations, but also understand well of our key investors and business partners.

With the facilitation of a third-party consultant, we collected our management's views through engagement surveys and interviews and the results are summarized as follows:

	Aspects	Relevance to business
Social	Health and safety	Occupational health and safety are crucial to our toll road operation, and we are committed to the prevention of workplace injuries and occupational disease.
	Anti-corruption	Integrity is a core value of the Group and must always be upheld by all our staff.
Environmental	Use of electricity	The major sources of our electricity consumption are the lighting needs at our toll stations and the daily operation of our dormitory and office.
	Use of water	The major source our water consumption is the staff consumptions at our office and dormitory.

3 ENVIRONMENT

3.1 Emissions

The Group as an expressway operator and a liquor distributor does not generate a significant amount of emissions. Instead, most of the air emission are from the vehicles using our expressway, which we have limited control. In managing road user's emissions and our own emissions, we continue to monitor such emissions from our operations and strictly comply with the relevant laws and regulations.

Toll road operation

For our toll road operation, the major source of air and waste emissions are the vehicles using the expressway, for our own emissions are rather minimal compared to the number of vehicles passing through the expressway. While we have limited control on the emissions of the road users, we seek to reduce their impact to the environment by ensuring a smooth traffic within our control to reduce congestions.

Environmental, Social and Governance Report

The noise produced by the traffic flow is another major emission from our toll road operation. In order to mitigate the noise impact towards sensitive receivers such as schools and residential buildings developed along the road, we have been installing noise barriers at sections of the expressway to reduce traffic noise since late 2017, and the installation of noise barriers was completed in the reporting year.

During snow and ice weather, deicing salt is used to maintain a safe road condition for drivers. To reduce the impact to the surrounding environment, we have been using an environmentally friendly deicing salt to minimize the impact of washed out from these salt residuals, impacting the quality of the environment within the vicinity of the road.

Offices and staff dormitory

For our expressway office and staff dormitory, the major types of emission from our office and dormitory includes, domestic wastewater, general waste and an insignificant amount of hazardous waste. This is the same for our liquor and spirits trading office, where we engage only in office operations and outsource the logistics and warehousing activities to third-party service providers to directly link up the supplier and sales points.

In managing the general waste at our offices and dormitory, we adopt the '3R' principles of 'reduce, reuse and recycle' at our offices and dormitory. General wastes are centrally collected in a designated area and be collected by local sanitation department regularly to ensure proper disposal of general wastes. There is also a minimal amount of hazardous waste generated in our operations, which includes used batteries, light tubes and waste oils. On the handling of these hazardous wastes, we appoint qualified third-parties to ensure proper disposal in compliance to local laws and regulations. To reduce our domestic wastewater discharge, our expressway office in Hubei has an in-house wastewater treatment plant in place to treat the wastewater generated at our facilities, and the treated water is reused for greening and fish keeping.

Greenhouse gas emissions

The carbon emissions of the Group mainly come from the use of fuels and purchased electricity. Our major fuel consumption includes the diesel and gasoline used for our vehicles, and the natural gas used at our canteens. While greenhouse gas emissions are not considered material to our operations, we still seek to reduce our carbon emissions by different energy conservation measures as described in section 3.2.

Regulatory compliance

During the reporting period, we were not aware of any material non-compliance with laws and regulations relating to environmental emissions.

Environmental, Social and Governance Report

3.2 Use of resources

Toll road operation

As no road lights are provided on the expressway, the only electricity consumption at our toll road operation is from the toll stations. During the year, we have completed the replacement of existing high-mast lighting with LED lights, which helps cut down our energy consumption.

Office and staff's dormitory

The two major types of resources consumption at our office and dormitory are energy and water. Energy consumptions includes electricity, natural gas used at our canteen, and the diesel and gasoline used by our vehicles. As part of our effort to lower our environmental impact, we encourage our employees to conserve energy and water saving in the office and dormitory. Initiatives carried out during the year included:

- Turning off lights and electronic equipment when unused for a prolong period pf time;
- Duplex printing and reuse of single-sided paper;
- Implementing paperless office, gradually switching to electronic communication method;
- Setting up recycling bins the office to collect general waste for recycling; and
- Use of solar water heating at our dormitory.

Summary of resources consumption in 2019

The details of our resources consumption in 2019 are as follows:

	Unit	2019 consumptions
Total energy consumption	kWh	2,118,047
– Electricity	kWh	1,759,591
– Gasoline	litre	17,714
– Diesel	litre	19,687
Water	m ³	28,466

3.3 The environment and natural resources

The significant environmental issues faced in our business regarding emissions and the use of resources are already disclosed in the above sections.

Environmental, Social and Governance Report

4 SOCIAL

4.1 Employment and Labour Practices

Employment

We acknowledge that talents are the foundation of our business growth of our business. We are committed to create a corporate culture that fosters mutual trust, respect and teamwork, and provide them with a rewarding and pleasant working environment.

For employees' remuneration, recruitment and dismissal, we strictly abide to by local labour laws such as the Labour Law in Hong Kong and the Labour Contract Law of the People's Republic of China. New joiners are provided with all relevant employee policies and guidance documents to provide them with a better understanding of the Group's human resources human resources and the rights and responsibilities they are entitled to, for example probation, promotion, dismissal, appraisal and leaves and other benefits.

We care about the well-being of our staff and we co-organize recreational activities like badminton competition with the labour union. At the dormitory, we provide also recreational facilities like basketball court and snooker tables for employees' enjoyment in their free time.

Labour practices

The Group respects each individual's basic human rights and strictly prohibits the employment of forced and child labour. During the recruitment process, we verify applicants' identification document to prevent child labour. We also respect the freedom of expression of our staff, and encourage them to discuss any concerns they have with their supervisors or the labour union. As an escalation channel, there is also a 'General Manager mailbox' placed in the office for staff to report their concerns.

Staff composition as at 31 December 2019

Category		2019
Total number of staffs		269
By gender	Male	131
	Female	138
By age group	Below 30	106
	30 – 50	146
	Above 50	17
By employment type	Full-time	269
	Part-time	0

In 2019, the overall turnover rate was 24%, with male turnover rate at 21% and female turnover rate at 27%.

Environmental, Social and Governance Report

Regulatory compliance

During the reporting period, we were not aware of any material non-compliance with laws and regulations relating to employment and the employment child or forced labour.

4.2 Health and Safety

At Huayu, the health and safety of employees is our top priorities. To provide a safe working environment for employees, we strictly abide to relevant health and safety regulations in the PRC and Hong Kong.

In our business operations, majority of the safety risks happen in our expressway operations, where employees work at roads full of moving vehicles. To ensure the safety of our employees and road users, we have formulated the 'Safe Production Management Policy' and established a dedicated committee led by management in overseeing health and safety of our employees and in our operations.

To promote health and safety awareness among our staff, we provide different safety training to employees depending on their needs. All new employees must receive basic safety training before performing their duties, and special positions like drivers, electricians, security personnel and cooks shall receive professional training tailored to their duties. We also provide personal protection equipment such as reflective vests to employees and provide free biannual body check and medical insurance for timely diagnosis and treatment of occupational health issues.

To minimize safety risks in our operations, we perform regular and ad-hoc safety inspections. The safety inspection concerns issues like potential safety hazards, the proper implementation of safety precaution procedures and the equipment conditions etc. For any potential safety issue identified, we formulate corrective measures and designate the employee responsible for the matter to ensure preventive actions are timely implemented.

In 2019, we recorded 4 work-related injuries from our expressway operations, which resulted in a total of 110 lost days.

Regulatory compliance

During the reporting period, we were not aware of any material non-compliance with laws and regulations regarding occupational health and safety.

4.3 Development and Training

Here at Huayu, we believe that talents are the foundation of our sustainable development, and that a well-trained team is key to improving the overall performance of the Group. Therefore, we have established separate employee training policies tailored for the different business operations of the Group.

For our expressway operations, we provide various training to our employees, including topics like etiquette, business-related processes, management skills and professional skills. To help new joiners settle in, we provide them with training on our corporate culture, rules and regulations, and the business process of their position.

Environmental, Social and Governance Report

Besides internal training, we also encourage our expressway employees to attend external training to strengthen their job performance. Upon successful application, employees may receive rebates to their training cost. Depending on the length of service, the maximum rebate amount can range from RMB2,000 to RMB50,000.

For employees in the liquor trading business, we have established a dedicated Employee Training Management System to provide guidance to the training process. Under the system, the Human Resources department of the liquor trading segment formulates training plans based on the input of different departments. We provide various training to employees including new employee orientation, internal training, external training and sponsorship for employees continued education.

Training statistics for 2019

Category	Unit	2019
Percentage of employee receiving training	%	100%
Average training hours by employment category		
– Senior management	hours	16.0
– Middle management		14.1
– Non-management		33.5

4.4 Supply Chain Management

Expressway operation

We have established a 'Procurement Management Policy' to guide the procurement of product and services of the Group. The policy clearly lists the procedures from budgeting to the management and assessment of suppliers. In general, we select suppliers mainly based on factors including price, quality and qualification. For large-scale procurement practice, departments are also required to enlist at least three qualified suppliers for comparison before making orders.

To maintain the quality of our suppliers, we assess the performance of our suppliers either annually or at the end of their contracts. Any price fixing and corruption incidents were identified, the supplier will be disqualified as a listed supplier of the Group.

Liquor and spirits trading

As the sole distributor of the Huamaojiu, we rely on our upstream suppliers to provide liquor and packaging materials of the liquor, which will be sent directly to our downstream distributors for further distribution and retail. We have established the 'Supply Department Standardised Management Manual' to guide our collaboration with upstream suppliers, and the 'Market Management Manual' for our collaboration with downstream distributors.

The 'Supply Department Standardised Management Manual' defines roles and responsibility of the Supply Department and provide guidance on the whole procurement process. Prior to collaboration, we assess suppliers' compliance to relevant national standards, regulations and our own requirements. Approved suppliers will be included in our list of qualified suppliers, which would be regularly updated through our assessment of their performance, and suppliers with poor performing will be excluded.

Environmental, Social and Governance Report

For downstream distributors and sales channels, our collaboration with them is managed by the 'Market Management Manual'. Distributors and sales channels are prohibited from selling Huamaojiu in places that are not specified in our contract with them and shall price the products as per our mutual agreement. Based on the number of violations, distributors may be subject to disciplinary actions such as repurchase of product at distributors' cost, deduction of deposit and annual rebates, or even cancellation of their distributor status.

4.5 Product Responsibility

We seek to provide high-quality services and products in both our expressway and liquor trading business. For liquor trading, since we merely source and distribute Maotai Group's Huamaojiu, we are not involved in the manufacturing or retail process and mainly follows the strict requirements of the Maotai Group on product quality and recall procedures. For expressway operation where we have more control, we aim to provide high-quality road services with the below two goals in mind:

- Maintaining a safe and efficient expressway
- Maintaining high service quality

Maintaining a safe and efficient expressway

The overall management of the expressway is handled by our road construction department in accordance to the relevant road safety laws and regulations. The department is also responsible for other daily operations including hardware maintenance, emergency planning, and coordination with government departments on special road arrangements.

We conduct routine inspections of the expressway to ensure road safety. Through our frequent inspections, we are able to notice any structural damage of the road and its hardware in a timely manner, for example cracks on the road surface and worn out road surface markings, and immediately repair the damages with the help from our outsourced maintenance team.

We have also established an emergency management mechanism for the Expressway that covers emergency and contingency responses to various situations, including peak hours on festivals and holidays, road accidents, construction and extreme weather conditions. Collaborating with the local government and service area operators, we also perform emergency drill at least once a year to ensure rapid and appropriate response to different types of emergencies.

Maintaining high service quality

In terms of service quality, we have carried out various initiatives to ensure a high service quality at our toll stations. To start with, we require all new toll collectors to attend a one-week training on how to politely interact with road users. For existing employees, we provide similar training on their etiquette as a toll collector every two years and low performers will receive additional training. To incentivize our staff, we conduct road user surveys on the performance of toll collectors, and the high-performers will be rewarded with monetary prize.

We also put great efforts on improving the efficiency of the toll collection process. Besides providing training on the toll collection process to our employees, we also look for innovative means to speed up the payment process. Currently e-payment options like WeChat Pay and Alipay are available at our toll stations to offer road users with faster and more convenient payment methods.

Environmental, Social and Governance Report

Regulatory compliance

During the reporting period, we were not aware of any material non-compliance with laws and regulations regarding product responsibility.

4.6 Anti-corruption

The Group is committed to achieving the highest standards of openness, probity, and accountability. To ensure employees at all levels can conduct themselves with integrity, impartiality and honesty, the Group strictly follows local jurisdiction laws such as the Prevention of Bribery Ordinance of Hong Kong and the Criminal Law of the People's Republic of China.

All our employees are made aware of our zero tolerance regarding bribery, extortion, fraud or money laundering whether in dealing with public officials or individuals in the private sector. Any staff of the Group are not allowed to demand or accept a bribe, including money, gifts, rewards, services or privileges, in connection with his/her duties. In our liquor and spirits trading business, we encourage employees to report to the General Manager any misconduct in handling marketing expenses, and validated reports will be awarded with 5-10 marks in the monthly performance appraisal. As for our expressway operation, to better monitor the toll collection process and prevent any dishonest act of collecting extra money, we have installed surveillance Cameras at our tollhouses.

Regulatory compliance

During the reporting period, there were no concluded legal cases regarding corrupt practices brought against the issuer or its employees, and we were not aware of any material non-compliance with laws and regulations regarding anti-corruption.

4.7 Community Investment

As a responsible company, we actively contribute to charitable causes. During the year, we have organised a series of charity dinners in different provinces under the name of Huamao and supported various sports events in Guangdong. Besides sponsoring charitable events, we also donate RMB2 for every bottle of Huamaojiu sold through the Guizhou Charity Fund (貴州慈善基金會).

We also take pride in providing safe, time-saving, economical and comfortable expressway transportation services to road users in need. Our investments in the constructions and maintenance of the expressway opened up the connections between the local residences to other parts of the country, making substantial positive influences on regional economic development. During the year, we have continued to offer free passages through the expressway during Spring Festival and other major holidays in accordance with national policy.

Environmental, Social and Governance Report

A1 APPENDIX I: HKEX ESG CONTENT INDEX

	Aspects	Section	Remarks
A	Environmental		
A1	Emissions	3.1	
A1.1	The types of emissions and respective emission data.	3.1	Data is not tracked as majority of the air emissions are from road users and we do not generate a significant amount of air emissions ourselves.
A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume per facility).	3.1	Greenhouse gas emissions are not considered material to the Group and we will consider including this disclosure in the future.
A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	3.1	Only a minimal amount of hazardous waste is produced during our production and the data is not tracked.
A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	3.1	Non-hazardous wastes are not considered material to the Group and the data is not tracked.
A1.5	Description of measures to mitigate emissions and result achieved.	3.1	
A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	3.1	
A2	Use of Resources	3.2	
A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility).	3.2	
A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	3.2	
A2.3	Description of energy use efficiency initiatives and result achieved.	3.2	

Environmental, Social and Governance Report

	Aspects	Section	Remarks
A	Environmental		
A2.4	Description of whether any issue exists in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	3.2	Our water consumption is provided by municipal sources and we do not anticipate any issue in the sourcing of water.
A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	–	Packaging materials are not used in our operation.
A3	The Environment and Natural Resources	3.3	
A3.1	Description of the significant impacts of activities on the environment and natural resources and the action taken to manage them.	3.3	
B			
B1	Employment	4.1	
B1.1	Total workforce by gender, employment type, age group and geographical region	4.1	
B1.2	Employee turnover rate by gender, age group, and geographical region.	4.1	
B2	Health and Safety	4.2	
	Policies and compliance with relevant laws and regulations relating to providing a safe working environment and protecting employees from occupational hazards.		
B2.1	Number and rate of work-related fatalities	4.2	
B2.2	Lost days due to work injury	4.2	
B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	4.2	

Environmental, Social and Governance Report

	Aspects	Section	Remarks
B			
B3	Development and Training		
	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	4.3	
B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	4.3	
B3.2	The average training hours completed per employee by gender and employee category.	4.3	
B4	Labour Standard	4.1	
	Policies and compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.		
B4.1	Description of measures to review employment practices to avoid child and forced labour.		
B4.2	Description of steps taken to eliminate such practices when discovered.		
B5	Supply Chain Management	4.4	
	Policies on managing environmental and social risks of the supply chain.		
B5.1	Number of suppliers by geographical region	N/A	
B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	4.4	

Environmental, Social and Governance Report

	Aspects	Section	Remarks
B			
B6	Product Responsibility	4.5	
	Policies and compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.		
B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	N/A	
B6.2	Number of products and service-related complaints received and how they are dealt with.	N/A	
B6.3	Description of practices relating to observing and protecting intellectual property rights.	N/A	
B6.4	Description of quality assurance process and recall procedures	N/A	
B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.		
B7	Anti-corruption	4.6	
	Policies and compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.		
B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases	4.6	
B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	4.6	

Environmental, Social and Governance Report

	Aspects	Section	Remarks
B			
B8	Community Investment	4.7	
	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests		
B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport)		
B8.2	Resources contributed (e.g. money or time) to the focus area.		