

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 2017

Environmental, Social and Governance Report

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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 2017 (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 planned length of approximately 24.08 km.

1.3 Scope of this Report

This report covers the period from 1 January 2017 to 31 December 2017, the same as the Group’s annual report. The main scope of this report covers the Group’s operation in the Hong Kong office and the expressway business in Mainland China.

Responding to the upgrade in HKEx’s requirement on environmental KPIs from “Recommended disclosure” to “Comply or Explain” starting from the year 2017, we will also report on our material environmental KPIs in addition to general disclosure on policies.

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” that maps the information contained in the report to the ESG Guide is provided in Appendix I and a summary list of “Material Environmental KPIs” is provided in Appendix II.

1.5 Endorsement and Approval

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

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2 STAKEHOLDER ENGAGEMENT AND MATERIALITY ASSESSMENT

2.1 Stakeholder Engagement

Materiality assessment is essential in identifying the focus of our ESG management strategies. Engaging our stakeholders provides important input for our decision making, which helps us to continuously improve and make progress toward our ESG commitments.

During the year, we have primarily conducted engagement with our senior management, who has hands-on knowledge of our operations as well as close relationships with key investors and business partners, in collecting views and identifying materiality for the Group. With the facilitation of a third party consultant, engagement surveys and interviews were conducted and assessed.

2.2 Materiality Assessment

Views and opinions collected during the stakeholder engagement process have been assessed and summarized.

The assessment result shows that, the most material environmental issue for the group is Use of electricity; the most material social issue for the group is Health and safety. During the year, we have collected and disclose the amount of electricity used and also greenhouse gas emitted from our office and toll stations.

As our first attempt in environmental data disclosure as per HKEx requirements, we would start by disclosing data of the most material environmental issue for the Group which is being the Use of Electricity. We have planned to progressively expand our scope of disclosure to further improve the transparency of our ESG efforts.

3 ENVIRONMENT

3.1 A1 Emissions

Given the nature of our business, we do not produce significant air emissions, greenhouse gas, hazardous waste or wastewater discharge. However, we still pay extensive efforts to minimize our emissions and strictly comply with the relevant laws and regulations where reasonably practicable.

Toll road operation

For millions of vehicle use annually, it is not hard to identify that the major source of waste and gas emissions are from the vehicles on the expressway. To maintain an unjammed and non-interrupted rides, we have established an efficient toll collection system and specified technical training to improve the efficiency of manual toll collection. It helps to maintain a smooth transportation, improves the transportation efficiency, therefore reducing vehicles' fuel consumption and cut down on waste gas emission.

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A relatively large quantity of garbage is produced by road users in the service area. We have set up numbers of recycling bins to classified garbage into categories. The '3R' principles – reduce, reuse and recycle – have been widely adopted across our operations. Wastes are centrally collected in a designated area and be collected by local sanitation department regularly. It helps to keep the surrounding environment clean and hygienic.

We understand that road and highway traffic noise poses a negative impact on the residents of the surrounding area. During the year, we have installed noise barriers in parts of the expressway to mitigate the problem. The barrier protects the surrounding residents from unwanted sound. The potential benefits include lessened sleep disturbance, stress reduction and reduce the risk of hearing impairment. We plan to expand the coverage gradually in the future where economically practicable.

Office and staff's dormitory

Our business operation only generates an insignificant amount of wastewater. While the majority of it is produced by our office and staff's dormitory. Wastewater produced from our facilities is diverted to an in-house waste water treatment plant for a pre-treatment before discharge. The wastewater treatment and discharge practices in the service area operated by the Company has satisfied the national standard during the year.

The common hazardous waste we produced, though in a limited amount, constitutes old electronic equipment such as computers and batteries. We have appointed qualified third-party companies for proper handling and disposal, so as to ensure that the process complies with the local laws and regulations on hazardous waste disposal.

Greenhouse gas emissions

Apart from the use of electricity, the group does not generate any significant amount of greenhouse gas. Based on the amount of electricity used, we have calculated the total amount of greenhouse gas emitted during the year is 1,727 tons of CO₂¹.

3.2 A2 Use of resources

Toll road operation

We continued to carry out energy saving renovations at toll stations and service areas. During the year, we have replaced 50% of the old light tubes at the toll stations with LED lighting systems. It does not only cut down on energy consumption, but also improves the overall lighting conditions at night.

¹ With reference to the conversion factors published by the National Development and Reform Commission (NDRC) of People's Republic of China.

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Office and staff's dormitory

Employees are actively encouraged to develop good habits of energy and water saving in the office and dormitory. Initiatives carried out during the year includes:

- Turning off lights and electronic equipment when leaving the working areas;
- Keeping the air conditioning temperature at a reasonable degree;
- Promoting double-sided printing and re-use of paper;
- Implementing paperless office, gradually switching to electronic communication method;
- Setting up recycling bins the office to collect general waste for recycling; and
- Distributing tips for energy and water saving internally through emails and posters.

Data disclosure

During the year, we have collected the use of electricity within our group:

Use of Electricity in 2017

Production facility	Total usage (in kWh)
Office	1,273,740
Toll stations	597,523
Annual Total	<u>1,871,263</u>

3.3 A3 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.

3.4 Regulatory Compliance

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

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4 SOCIAL

4.1 B1 Employment and Labour Practices

For employees' remuneration, recruitment and dismissal, the Group strictly abides by the Labour Law, the Labour Contract Law and the Regulation of Prohibition of the Use of Child Labor Regulations of the People's Republic of China. The Group has adopted a fair and transparent recruitment scheme that attracts and retains excellent staff, avoids discrimination against women, the disabled and any disadvantaged minority.

The performance-driven salary system is implemented to provide employees with fair and reasonable promotion and wage standards. Additionally, the Group has implemented the competency assessment to better mobilize the enthusiasm of employees so as to better mobilize the enthusiasm of employees and help them in their professional development.

The Group cares about the staff and their benefits and well-beings. In terms of employee benefits and holidays, the company pays employees social security such as pension, medical care, unemployment, work-related injuries according to relevant state regulations. Apart from public holidays, employees also enjoy paid annual leave and sick leave.

Regulatory compliance

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

4.2 B2 Health and Safety

The Group is committed to providing a safe and healthy working environment for our employees. Our staff mainly engage in providing services at toll stations and administrative duties at office; the working environment mainly entails indoor areas. During the year, no incidence of serious injury or accident arose. Although the work nature is low-risk, the Group pledges full compliance in terms of all key occupational health and safety legislations, for example the Occupational Safety and Health Ordinance of Hong Kong and the Law of the People's Republic of China on the Prevention and Control of Occupational Diseases of Mainland China.

We ensure our employees have access to potable water and sanitary facilities. Our work areas have adequate lighting and ventilation, and are properly installed with smoke detectors, fire extinguishers, and first-aid boxes etc. All of our offices and toll stations are smoke free.

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The Group regularly identifies and evaluates potential hazards in the production and living areas, clearing major risk sources and developing appropriate control methods. Measures to safeguard our employees from accidents and occupational diseases include:

- Providing insurance for our staff;
- Facility hygiene control;
- Emergency preparedness for accidents and incidents; and
- Training to educate employees on occupational health and safety issues;

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 B3 Development and Training

The Group is a firm believer in nurturing employees' knowledge and skills via ongoing training. We are convinced that a team with strong industry knowledge and expertise will help enhance our competitiveness. During the year, we offer diversified vocational training to enhance staff's capabilities to discharge their respective duties. Courses include, new employee orientation training, on-the-job training, safety and emergency training.

We strive to improve the overall quality of the employees and enhance their sense of belongings so that employees can continuously grow in a harmonious working environment. The Group also has implemented regular staff appraisal to strengthen communication in the job performance between the management and the staff.

4.4 B4 Labour Standards

The Group respects each individual's basic human rights and strictly prohibits the employment of forced labour and child labour. We do not employ workers who are prohibited under local labour laws and regulations, such as child labour. Workers employed by us are all working at their own volition and they have the freedom to express their own opinions at work. A formal complaints procedure is in place to facilitate any exchange of opinion between employees and management.

Regulatory compliance

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

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4.5 B5 Supply Chain Management

Supplier Selection Policy

The Group's co-operating parties, including equipment suppliers, construction contractors, design companies, supervisory authorities, consulting firms, intermediary advisors, are regarded as working partners of the Group. Though we care a great deal about service/product quality, we not only assess and evaluate our suppliers' capability, quality, compliance status, pricing, and certifications. Extra attention is also paid to review suppliers' ESG performance, particularly regarding regulatory compliance on the environment, employment, and labour as well as health and safety.

Only those suppliers who comply with our requirements in product safety and quality, business reputation and other indicators mentioned above are eligible to be appointed by the Group.

Prohibiting Unethical Behavior

The Group policy prohibits unethical behaviors that could interfere, or appear to interfere, with employees' abilities to make free and independent decisions regarding purchase and procurement. Any product made over RMB100, 000 is needed to make comparisons for at least 3 different suppliers before making orders. For the Group's internal needs, a procurement list will be composed and stock-taking will be performed to ensure the effective use of resources.

4.6 B6 Product Responsibility

It has always been our goal to provide a safe, time-saving, economical and comfortable expressway transportation services to the road users. Our efforts during the year can be divided into two major areas.

Safeguarding the safety and quality of the highway

The Company comply strictly with the National Highway Maintenance Technical Specifications and Assessment Criteria to conduct routine inspections, frequent inspections and regular inspections to ensure the safety of the structure of the expressway. The Company will continue to promote the management of the Expressway in an all-round way, enhance the quality of road maintenance and the efficiency of the services rendered.

Speaking of the quality and service, the Company put great efforts to release timely road traffic information, offer mobile payment service and encourage the initiatives of staff training of maintenance and repair. Video cameras are installed to monitor and ensure the safety of drivers on the Expressway at all times. The Group currently cooperates with a sophisticated construction company Shenzhen Shengyan Road and Bridge Construction Co., Ltd to work with the expressway maintenance, which has been working in the field for over 6 years. And what's worth mentioning is, the Group has formulated a medium-term maintenance plan based on the 5-year maintenance system, which has a guideline for the yearly maintenance work. Under continuous improvements and amendments according to the annual inspection result of the technical conditions of the Expressway, the guideline has proved itself increasingly detailed, efficient and effective.

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The Group has 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. The mechanism significantly helps guide the traffic and evacuate traffic flow under these circumstances. The Group also has other training programs to enhance the quality of customer service, including specific professional training, fire drill, traffic safety training, first aid training, etc..

Enhancing the quality of service

In terms of customer service, the Group has a feedback and complaint mechanism, and it is convenient for customers to complain through telephone and emails to get to the Customer Services Department. Also, the Group have established a non-disclosure mechanism for customer confidential; all access to customer information is well recorded in the system or in other documentary ways, only authorised department staff have the right to get access to customers' information, and no staff are allowed to take documents away from the office. During the reporting period, the Group has not received any significant complaint.

Regulatory compliance

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

4.7 B7 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 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. Relevant controls system has been set up to implement to prevent the occurrence of corruption. Employees are encouraged and rewarded to report any gifts or cash received from customers, suppliers or any parties that relate to their work and duties.

When it comes to conflict of interest, the employees are required to fill in the conflict of interest declaration to state the relevant situation, and relevant trading might be withdrawn due to independence issue.

Regulatory compliance

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

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4.8 B8 Community Investment

We 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 to the regional economic development.

During the year, we continuously offer free passages through the expressway in Spring Festival periods and other major holidays in accordance with national policy.

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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	Different types of emission produced by our operation can be found in section 3.1.
A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume =, per facility).	3.1	The major source of greenhouse gas emission is from the group's use of electricity. The total amount has been calculated based on the conversion factor from NDRC.
A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	3.1	It is considered that this aspect is comparatively immaterial amongst others. Its data disclosure will be reviewed in the future.
A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	3.1	It is considered that this aspect is comparatively immaterial amongst others. Its data disclosure will be reviewed in the future.
A1.5	Description of measures to mitigate emissions and result achieved.	3.1	Measures to reduce emissions of different types has been disclosed in section 3.1.
A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	3.1	Waste management has been discussed in section 3.1.

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	Aspects	Section	Remarks
A	Environmental		
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	Different type of energy consumption has been discussed in section 3.2. During the year, we have collected data for use of electricity, as it is one of our material environmental aspects.
A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	3.2	It is considered that this aspect is comparatively immaterial amongst others. Its data disclosure will be reviewed in the future.
A2.3	Description of energy use efficiency initiatives and result achieved.	3.2	Measures to improve energy efficiency has been discussed in section 3.2.
A2.4	Description of whether any issue exists in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	3.2	Initiative to improve water efficiency has been discussed in section 3.2.
A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	–	Our company provide expressway services, we produce no packaging material from our operation.
A3	The Environment and Natural Resources	3.3	The significant environmental issues faced in our business regarding emissions and the use of resources are already disclosed in sections 3.1 and 3.2.
A3.1	Description of the significant impacts of activities on the environment and natural resources and the action taken to manage them.	–	

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	Aspects	Section	Remarks
B	Social		
B1	Employment	4.1	–
B2	Health and Safety	4.2	–
B3	Development and Training	4.3	–
B4	Labour Standards	4.4	–
B5	Supply Chain Management	4.5	–
B6	Product Responsibility	4.6	–
B7	Anti-corruption	4.7	–
B8	Community Investment	4.8	–

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APPENDIX II: MATERIAL ENVIRONMENTAL KPIS

	Unit of Measurement	2017 Annual Total
Use of Electricity	kWh	1,871,263