

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 2020

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 2020.

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. The Group is also engaged in the trading of liquor and spirits in collaboration with the Kweichow Moutai Group and is the sole distributor of the Huamaojiu (a famous brand of liquor produced by Kweichow Moutai Group).

1.3 Scope of this Report

This report covers the Group’s expressway operation and liquor and spirits trading business in PRC. Unless otherwise stated, the reported ESG data covers the Group’s expressway operation (including the expressway, office and dormitories) in Hubei and the liquor and spirits trading offices in Shenzhen.

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.

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2 STAKEHOLDER ENGAGEMENT AND MATERIALITY ASSESSMENT

We value the opinions of stakeholders and consider their input key to the sustainable development of the Group. We maintain effective communication with different stakeholders through an array of communication channels and collect the views of different stakeholders. We also validate from time to time the material ESG issues 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.

Previously through the facilitation of a third-party consultant, we collected our management's views through engagement surveys and interviews and identified the below material ESG issues, which we consider to be still applicable to the Group's operations.

	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 of our water consumption is the staff consumptions at our office and dormitory.

3 ENVIRONMENT

3.1 Emissions

The Group does not a significant amount of emissions itself and the major source of emissions come from the vehicles using our expressway instead. In managing road user's emissions and our own emissions, we strictly comply with the relevant laws and regulations.

Toll road operation

For toll road operations in Mainland China, the major source of air emissions is the vehicles using the expressway and the emissions from our own activities are rather insignificant compared to the vast number of vehicles passing through the expressway. While we have limited control over the emissions of the road users, we follow government instructions in refraining vehicles with substandard emission performance. Within our control, we also strive to ensure smooth traffic by swiftly responding to traffic accidents to reduce congestions and the subsequent road emissions.

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The noise produced by the traffic flow is another major emission from our toll road operation. In order to mitigate the noise impact towards noise sensitive receivers such as schools and residential buildings developed along the road, noise barriers were installed at sections of the expressway to reduce the noise impact.

In winter, we use deicing salt to maintain a safe road condition for drivers under snow and ice weather. To reduce the impact on the surrounding environment, we have been using an environmentally friendly deicing salt to minimise the impact of the salt residuals on the quality of the environment within the vicinity of the road.

Offices and staff dormitory

In the office and staff dormitory of our toll road operations, the major types of emission and wastes are 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 activities and outsource the logistics and warehousing activities to third-party service providers.

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 and handled by local sanitation departments to ensure proper disposal of general wastes. Non-confidential documents, books, cartons and plastic bottles would be separated from the wastes for recycling. There is also a minimal amount of hazardous wastes generated in our operations, which are mainly used batteries, light tubes and waste oils. We appoint qualified third parties to collect and dispose of such hazardous wastes in compliance with 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 greenhouse 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.

Summary of environmental emissions in 2020

The details of our environmental emissions in 2020 are as follows:

Emission type	Unit	2020
General wastes ¹	tonne	1.8
Hazardous wastes ¹	kg	12
Greenhouse gas emission (Scope 1)	tonnes CO ₂ e	88
Greenhouse gas emission (Scope 2)	tonnes CO ₂ e	950

¹ Reported non-hazardous and hazardous waste amounts covers the liquor and spirits trading office only.

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Regulatory compliance

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

3.2 Use of resources

Toll road operation

The major energy consumption in our toll road operations is at the toll stations. To save energy, we are using LEDs for all our high-mast lighting, which are more energy-efficient compared to conventional lightings.

Office and staff's dormitory

At our office and dormitory, we use energy and water to support our daily operations and the basic living needs of employees living at the dormitories. Energy consumption 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 in the office and dormitory. Initiatives carried out during the year included:

- Turning off idle lights and electronic equipment;
- Duplex printing and reuse of single-sided paper;
- Encouraging electronic communication to reduce water consumption;
- Setting up recycling bins in the office to collect general waste for recycling; and
- Use of solar water heating at our dormitory.

Summary of resources consumption in 2020

The details of our resources consumption in 2020 are as follows:

	Unit	2020 consumptions
Total energy consumption	kWh	1,865,130
– Electricity ²	kWh	1,557,456
– Gasoline	litre	14,738
– Diesel	litre	17,379
Water ²	m ³	17,203

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.

² Reported electricity and water consumptions exclude the liquor and spirits trading office as the data was not separable from the aggregate data of the building it located in.

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4 SOCIAL

4.1 Employment and Labour Practices

Employment

The Group strictly complies with the laws and regulations such as the “Labour Law of the People’s Republic of China”, “Labour Contract Law of the People’s Republic of China” and “Social Insurance Law of the People’s Republic of China” in the employment and management of talents. We strive to create a corporate culture that fosters mutual trust, respect and teamwork, and provide them with a rewarding and pleasant working environment.

Employees’ remuneration, recruitment and dismissal, we strictly abide by local labour laws such as the Employment Ordinance (Cap. 57) in Hong Kong and the Labour Contract Law of the People’s Republic of China. We have formulated different policies to govern the recruitment, dismissal, appraisal, remuneration and other benefits of employees in different business units. We communicate with new joiners all relevant policies and guidance documents to provide them with a better understanding of the Group’s human resources management system and make sure they are well-informed about their rights and responsibilities.

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

Labour practices

The Group strictly prohibits the employment of forced and child labour. During the recruitment process, applicants’ identification document is verified to prevent the hiring of underage 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. To encourage employees to report misconducts, we have also put up a ‘General Manager mailbox’ in the office where staff can report their concerns.

Staff composition

As at 31 December 2020, the Group has a total of 223 full-time employees. The breakdown of employees by gender and age group is as follows:

Category		Number of staff	Turnover rate
Total		223	52%
By gender	Male	104	48%
	Female	119	55%
By age group	Below 30	91	81%
	30 – 50	119	30%
	Above 50	13	46%

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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 of child or forced labour.

4.2 Health and Safety

At Huayu, the health and safety of employees are our top priorities. To provide a safe working environment for employees, we strictly abide by relevant health and safety regulations such as the provisions of the “Production Safety Law of the People’s Republic of China” and the “Law of the People’s Republic of China on the Prevention and Control of Occupational Diseases”.

In our business operations, the majority of the safety risks happen in our expressway operations, where employees work on 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 the 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 protective 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 minimise 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 2020, we recorded 3 work-related injuries from our expressway operations, which resulted in a total of 13 lost days.

Protecting our employees from COVID-19

During the 2020 COVID-19 outbreak, we adopted various measures to protect our employees and prevent the spreading of the disease in our workplace. Following the request of the subdistricts we operate in, we organised employees to receive COVID-19 vaccination, and regularly issued epidemic prevention notices to employees. When there were small scale outbreaks observed, we also closely monitor the outing trips of employees to ensure a safe working environment.

Regulatory compliance

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

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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.

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 for 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 2020

Category		Percentage of employee receiving training	Average training hours
By gender	Male	78%	0.3
	Female	90%	0.3
By employment category	– Senior management	20%	8.0
	– Middle management	80%	1.1
	– Non-management	89%	0.2

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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

We are the sole distributor of the Huamaojiu and rely on our upstream suppliers to provide liquor and packaging materials of the liquor. The liquor products are sent directly from our upstream suppliers to 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.

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 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.

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4.5 Product Responsibility

We attach great importance to the quality of the services and products we provide. For liquor trading, since we are the distributor of 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 with 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 of 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 responses 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 incentivise our staff, we conduct road user surveys on the performance of toll collectors, and the high-performers will be rewarded with monetary prizes.

We also put great efforts into 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 faster and more convenient payment methods.

Regulatory compliance

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

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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 have in place an Expense Management Regulation to govern expense claims and we encourage employees to report to the General Manager any misconduct in handling marketing expenses, and validated reports will be awarded 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. We take pride in providing safe, time-saving, economical and comfortable expressway transportation services to road users in need. Through the operation and maintenance of the expressway, we open up the connections between the local residences to other parts of the country, making substantial positive influences on regional economic development. While there was no community activity in the year due to COVID-19, we offered free passages through the expressway during the COVID-19 outbreak in accordance with national policy to play our part in the fight against the pandemic.

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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 the majority of the air emissions are from road users and the Group itself does not generate a significant amount of air emissions.
A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume per facility).	3.1	
A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	3.1	
A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	3.1	
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	

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	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	The Group uses municipal water and does not anticipate any issue in the sourcing water that is fit for purpose.
A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	–	The Group does not use packaging materials in its operations.
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	

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	Aspects	Section	Remarks
B			
B3	Development and Training	4.3	
	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.		
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	

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	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	

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	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.		