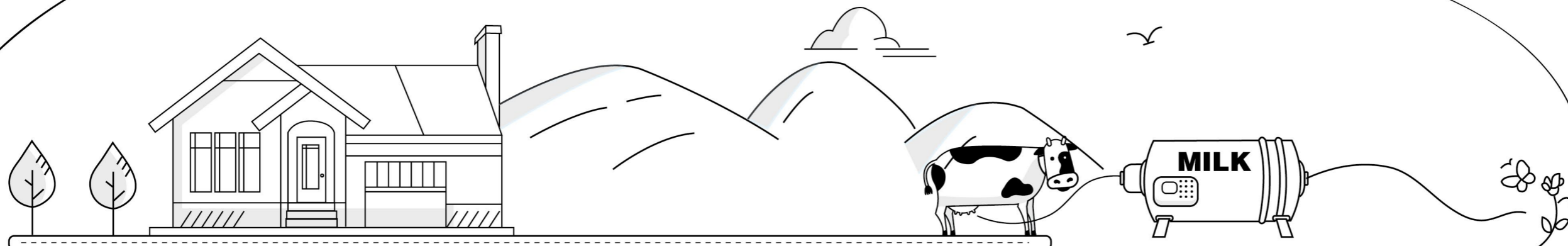


China Shengmu Organic Milk Limited

# 2020

## Environmental, Social and Governance (ESG) Report





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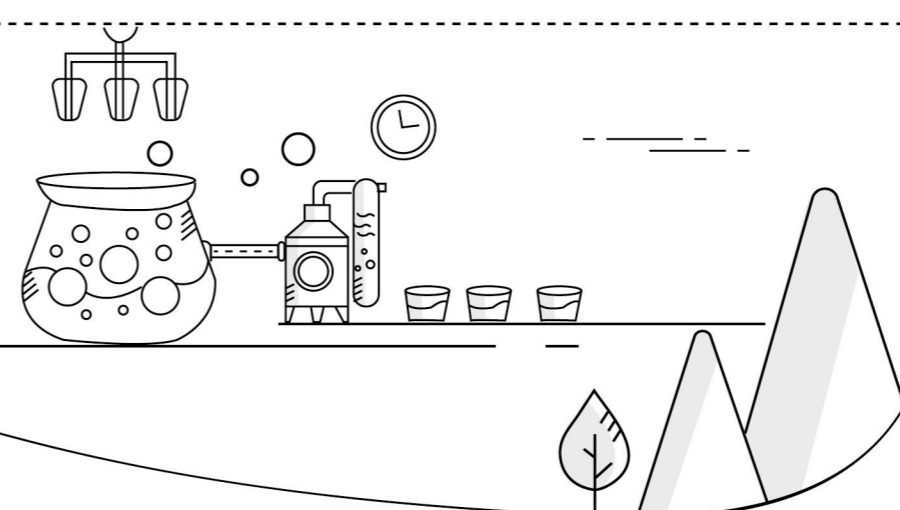
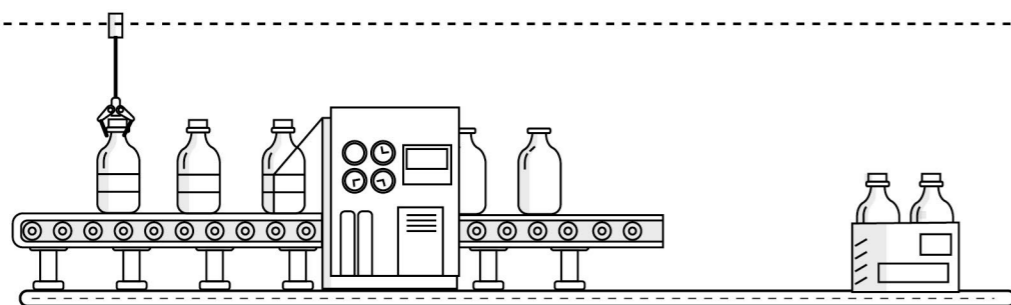
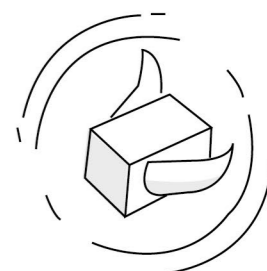
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## About This Report

It is the fifth consecutive year that China Shengmu Organic Milk Limited has disclosed the progress of its sustainable development, and the first year that a separate Environmental, Social and Governance report (sustainability report) has been published to communicate with stakeholders on the Group's social responsibility concept, actions and performance, and to respond to the stakeholder needs.

### Reporting Period

The reporting period is from 1<sup>st</sup> January to 31<sup>st</sup> December, 2020. Some of the statements and data are beyond the reporting period in an appropriate manner.

### Reporting Scope

The report covers the headquarters, branches and subsidiaries of China Shengmu Co., Ltd, which is consistent with the scope of the Consolidated Financial Statement.

### Data Source

The data and information in the report was extracted from China Shengmu Co., Ltd.'s relevant documents, reports and statistical results.

### Reporting Reference

The report was prepared in accordance with *Appendix 27 Environmental, Social and Governance Reporting Guide of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (HKEX ESG Reporting Guide)*

### Response to the Four Principles of the HKEX ESG Reporting Guide

**Materiality:** To prepare this report, company conducted a materiality analysis to determine the completeness and accuracy of its contents. The process and results of materiality analysis are presented in section "Sustainable Development Management" of this report.

**Quantitative:** The report disclosed quantitative data on both environmental and social aspects to demonstrate the performance of indicators.

**Balance:** Company strives to achieve objective and unbiased information disclosure. The contents of the report came from company's internal management documents, statistics and public disclosure, as well as public media reports, with no improper revisions.

**Consistency:** Unless otherwise stated, the data disclosed in this report was from the unified information collection process and working mechanism established by company to ensure the comparability of data year after year.

### Reporting Specification

For convenience, China Shengmu Co., Ltd. is referred to as "China Shengmu", "Shengmu", "The Group", or "we" in the report.

### Access to this report

You can download the Chinese and English versions on the website of the Hong Kong Stock Exchange.

## About Us



China Shengmu Organic Milk Limited is a "breeding, raising and processing" integrated desert organic recycling dairy enterprise, which successfully listed on the main board of the Hong Kong Stock Exchange (1432.HK) in July 2014, becoming the world's first organic raw milk stock and the only domestic raw milk brand that has obtained dual certification of China and EU organic standards. The Group's organic farming is centred on the safe milk source bases. Basing high quality organic raw milk, The Group has a solid partnership with downstream emulsion companies.

## Message from the CEO



2020 was a bumper year for China Shengmu. In addition to operating 14 organic farms and 19 non-organic farms, we actively adjusted the structure of organic milk. By improving the yields of dairy cows, internal management and operating efficiency, our profitability increased significantly. In 2020, the Group achieved sales revenue of 2.661 billion Yuan (a year-on-year increase of 4.8%) and the net profit attributable to equity shareholders of the parent company was 407 million Yuan (a year-on-year increase of 1,365.9%), thus submitting satisfactory results to shareholders, investors and stakeholders.

Driven by the mission of "providing the world's highest quality desert organic milk", the Group has built a complete industrial eco-system for organic desertification control in China's desert hinterlands that includes organic desert-based grass planting, organic milk farming and organic milk processing, forming a closed-loop organic ecosystem and exemplifying the combination of desert governance and circular economy. Relying on its integrated desert-based organic recycling industry chain, the Group produces high-quality, nutritious and healthy organic raw milk, allowing all Chinese nationals to enjoy high-quality dairy products and contributing to the sustainable development of China's dairy industry.

In 2020, the Group applied to join the United Nations Global Compact (UNGC). We recognise the UNGC Ten Principles in light of human rights, labour standards, environment and anti-corruption, and promise to fully respond to the United Nations Sustainable (SDGs) our strategies and operations, in order to promote global sustainable development with a cooperative, innovative and adaptive attitude.

At the same time, the Group submitted an application for evaluation and certification to the B Corp (Benefit Corporation). We carried out internal inquiries, discussions and comprehensive assessments on the Group's governance, employees, environment, community contribution, environmental contribution, etc., to help the Group become an officially certified enterprise based on mutual benefit. We firmly believe that a business with purpose promotes social change and a highly transparent operation model allows us to create social value for all stakeholders. In 2020, with a brand value of 15.931 billion Yuan, the Group once again appeared on the "Inner Mongolia Top 100 Brand List".

In the future, China Shengmu will continue to adhere to the development concept of "youthful, open, transformative, sustainable and shared development", provide customers with desert-based green organic milk of the highest quality, transform and upgrade itself into a new sustainable agricultural company, fulfil its commitment to sustainable development, and join hands with stakeholders in contributing to modernisation of the dairy industry and global sustainable development!

CEO of China Shengmu  
Zhang Jiawang

# Sustainable Development Management

- ✓ Response to UN SDGs
- ✓ Sustainability Management Structure
- ✓ Stakeholder Engagement
- ✓ Materiality Analysis



Sustainability—  
We Care. We Act.



## Response to United Nations Sustainable Development Goals (UN SDGs)



China Shengmu has consistently helped employees in need and poverty-stricken families in the regions where it has operated for many years, such as by helping improve the lives of poor residents and sending condolences and blessings to poor residents during festivals.



China Shengmu is committed to providing people with nutritious and healthy milk. With high nutritional value and pure and safe milk sources, our products provide desert-based organic milk of the highest quality in the world.



The Group places emphasis on employee security and prohibits gender-based discrimination by implementing equal pay for equal work for men and women, protecting the legal rights and benefits of female employees, and continuously increasing the proportion of female management.



China Shengmu provides a large number of jobs in the regions where it operates, which drives the income of local farmers. It also prohibits forced labour and child labour, provides employees with a competitive salary and welfare system, and continuously strengthens logistics support for employees' work and lives, in order to build a Shengmu "Home" culture.



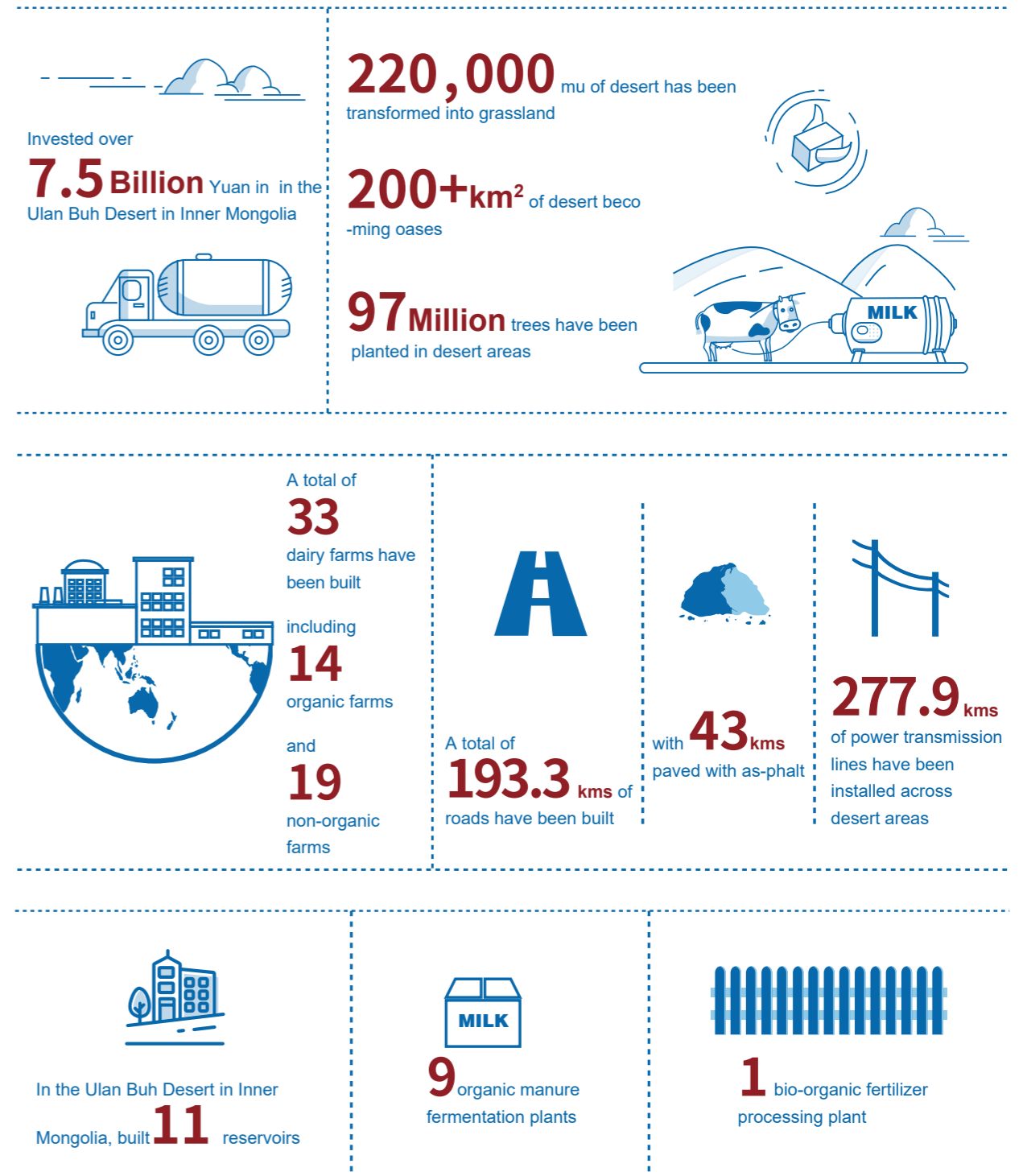
China Shengmu has created the world's first desert-based integrated organic circular chain of "planting, breeding and processing" in the Ulan Buh Desert to produce organic raw milk of the highest quality in the world. At the same time, we promote sand control through industrial development such as planting trees and building organic grassland to turn the desert into an oasis and build an organic ecosystem, which improves the local ecological environment and biodiversity and enhances our ability to adapt to climate change.



The Group continuously improves corporate governance, strengthens anti-corruption measures and strives to establish an efficient and transparent governance system.

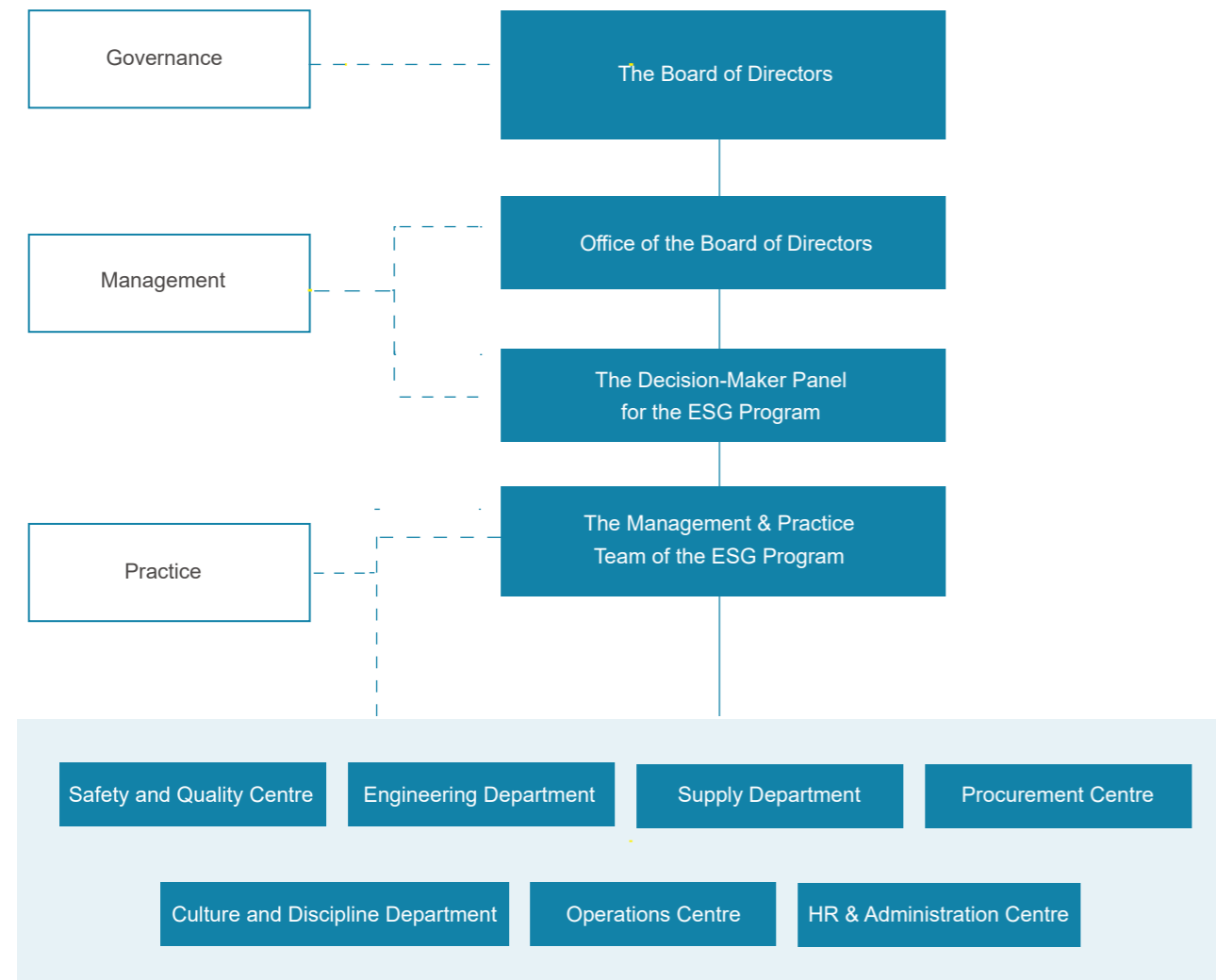


The Group has established a symbiotic and win-win relationship with its partners, working with upstream and downstream partners in the industry chain to jointly advance sustainable management.



## Sustainability Management Structure

The Group continuously optimises its ESG governance structure, ESG internal management mechanism and work processes, and integrates sustainable development management into its governance and daily control. In 2020, the Group optimised its ESG management structure as follows. The board of directors has the ultimate responsibility for ESG matters, such as formulating the Group's sustainable development management policies, strategies and goals, and regularly monitoring the implementation of ESG work. The office of the board of directors is the ESG project decision-making group responsible for launching and implementing ESG work and reporting to the board of directors on a regular basis. The ESG project management executive group is composed of various functional departments and is responsible for carrying out ESG work, reporting ESG information and submitting it to the ESG project decision-making group for summary and review.



## Stakeholder Engagement

The Group pays consistent attention to the expectations and demands of stakeholders, maintains regular and effective communication with them, and integrates their opinions into its strategic decision-making and management optimisation practices in a timely manner. In 2020, the Group highly valued and continued to optimise its approach to engagement with various stakeholders, and improved the stakeholder management mechanism to enhance its operating performance.

### Stakeholder Concerns and Communication Channels

Key stakeholder	Issues of Concern	Communication Channel	Main Responses
 Shareholders	<ul style="list-style-type: none"> <li>• Consistent and stable return on investment</li> <li>• Timely disclosure of information</li> <li>• Compliance operations</li> </ul>	<ul style="list-style-type: none"> <li>• Shareholders' meeting</li> <li>• Annual Report and corporate announcements</li> </ul>	<ul style="list-style-type: none"> <li>• Improving business operation and consolidating the Group's leading position in the industry</li> <li>• Regular disclosure of information</li> <li>• Improving internal compliance systems</li> </ul>
 Employees	<ul style="list-style-type: none"> <li>• Creating space for personal career development</li> <li>• Adequate compensation and benefits</li> <li>• Improving health security and safety protection</li> </ul>	<ul style="list-style-type: none"> <li>• Intranet</li> <li>• WeChat subscription</li> <li>• General manager Mailbox</li> <li>• Transparent communication meetings</li> </ul>	<ul style="list-style-type: none"> <li>• Improving internal management schemes such as employee recruitment and promotion</li> <li>• Enriching employee life</li> <li>• Providing diverse job and life securities</li> </ul>
 Suppliers	<ul style="list-style-type: none"> <li>• Fair and open procurement process</li> <li>• Fulfilling contracts and agreements on time</li> <li>• Driving business growth and achieving win-win results</li> </ul>	<ul style="list-style-type: none"> <li>• Public notices on procurement and bidding</li> <li>• Regular communication on quality requirements</li> <li>• Supplier conference</li> </ul>	<ul style="list-style-type: none"> <li>• Ensuring the transparency of the procurement process</li> <li>• Guarantee of timely payment</li> <li>• Promoting communication with suppliers</li> <li>• Supporting supplier growth</li> </ul>
 Customers and Partners	<ul style="list-style-type: none"> <li>• High-quality products and services</li> <li>• Grasping customer needs</li> <li>• Promoting industrial common development</li> </ul>	<ul style="list-style-type: none"> <li>• Customer communication</li> <li>• Communication in the industry</li> </ul>	<ul style="list-style-type: none"> <li>• Strengthening product quality controls</li> <li>• Enhancing innovation</li> <li>• Promoting experience exchange in the industry</li> </ul>
 Government	<ul style="list-style-type: none"> <li>• Driving the development of local and peripheral industries</li> <li>• Compliant operations</li> <li>• Paying taxes according to law</li> </ul>	<ul style="list-style-type: none"> <li>• Government meetings</li> <li>• Regular visits</li> <li>• Supervision and inspection by government officials</li> </ul>	<ul style="list-style-type: none"> <li>• Providing jobs, contributing to tax revenue</li> <li>• Cooperating with government supervision, improving internal compliance monitoring systems</li> <li>• Complying with laws and regulations</li> </ul>
 Community	<ul style="list-style-type: none"> <li>• Supporting community development</li> <li>• Participating in public service</li> </ul>	<ul style="list-style-type: none"> <li>• Dialogue with community representatives</li> <li>• Public service and Volunteer activities</li> </ul>	<ul style="list-style-type: none"> <li>• Maintaining close communication</li> <li>• Charitable donation and assistance</li> </ul>

## Materiality Analysis

In 2019, in accordance with the requirements of the ESG Reporting Guide of the Stock Exchange, the Group conducted a large-scale survey of internal and external stakeholders to comprehensively evaluate the importance of ESG issues to the Group and stakeholders. In 2020, we discussed the risks and opportunities of various ESG issues through business review and summary, benchmarking of ESG work results, internal workshops for review, etc., and based on two dimensions - "importance to stakeholders" and "importance to the sustainable development of China Shengmu" - analysed and determined the material issues for this year. These issues serve as an important basis and guidance for the Group's sustainable development management in the future.

Matrix of ESG Material Issues in 2020



# Sustainable Operations

Adhering to the model of sustainable operation, the vision of “shaping the world’s first organic milk brand” and the mission of “providing the world’s highest quality desert organic milk”, we have continuously ramped up the construction of high-quality milk sources and digital smart dairy farms, exerted stringent quality control throughout the production process from raw materials to finished products, and gradually built an organic industry chain.

- ✓ High-Quality Raw Milk Guarantee
- ✓ Strengthening Industrial Communications
- ✓ Bolstering Supply Chain Management
- ✓ Compliance Operations

Responding to the ESG material issues in this chapter

- Product Quality • Dairy Farm Management • Animal Welfare
- Research and Development Innovation • Industrial Cooperation and Communication
- Supplier Management • Risk Management • Corporate Governance
- Anti-Corruption

Responding to UN SDGs in this chapter



We care about  
Sustainable  
Operation



## High-Quality Raw Milk Guarantee

In order to implement the *Opinions of the General Office of the State Council on Promoting the Revitalisation of the Dairy Industry and Guaranteeing the Quality and Safety of Dairy Products*, the Group has revised the *Quality Management System for Raw Material and Raw Milk*. In its production activities, the Group adheres to the strictest standards for production activities, adopting state-of-the-art technologies and standardised management to realise “fine dairy cow breeding, high-quality foraging and standardised production” and promote lower-cost, higher-quality and more efficient farming to consolidate the foundation for the development of the dairy industry. Our original grass-to-grass organic industrial chain, including organic environment, organic planting, organic breeding and organic processing, forms a closed-loop industrial chain to create high-quality organic milk.

As at the end of 2020, the Group had constructed 33 dairy farms and merged two. Among them, 21 were built in the desert, including 14 organic dairy farms; the total number of cows in stock reached 110,700, including more than 59,000 organic dairy cows.



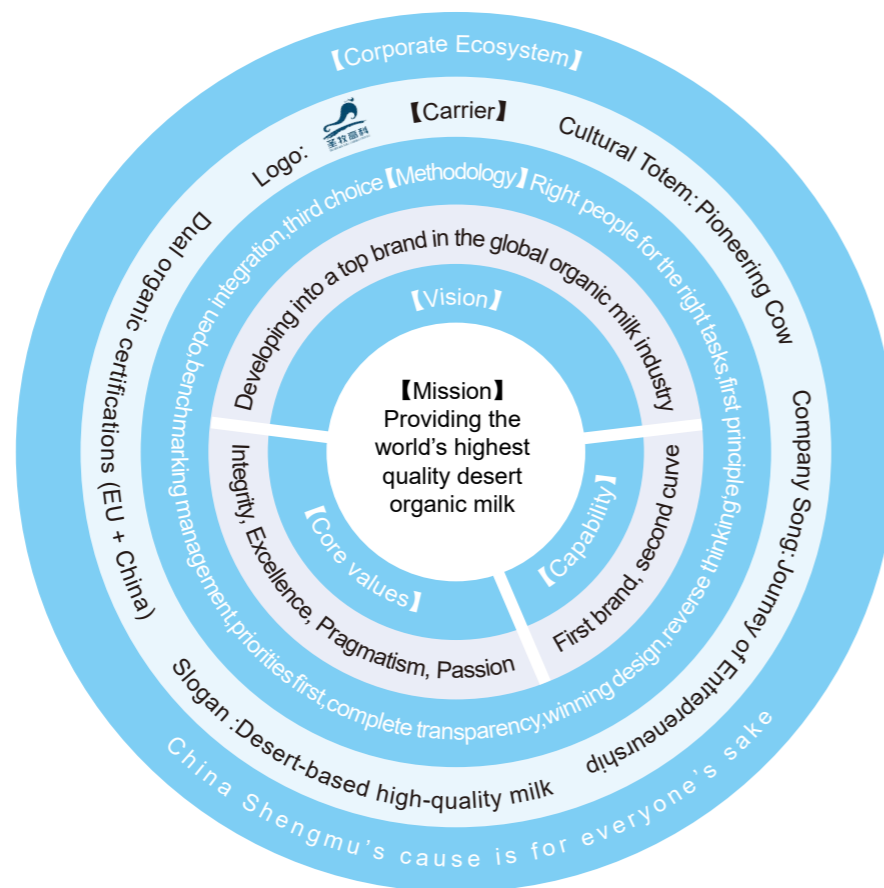
the total number of cows in stock reached

**110,700**

including more than

**59,000**

organic dairy cows.



### ✓ Organic Environment:

Our milk is exclusively produced in Bayan Nur, Inner Mongolia. The adequate sun radiation, long hours of sunshine and day-night temperature differences are conducive to the growth of forage crops. There are more than 200 lakes in the desert which together with arable soil beneath the top sand layer form a natural environment with “fertile soil and sufficient water”. In addition, the Ulan Buh Desert, where our dairy farms are located, has geographical advantages. It is located in the golden milk source belt of 40°42' north latitude, where the climatic environment is suitable for construction of the organic industry chain.

### ✓ Organic Planting:

We have self-built organic dairy farms to grow organic forage grass. Our process management and product treatment strictly follow organic standards with no pesticides or chemical fertilisers used; the seeds used are naked seeds without coating, of non-genetically modified varieties, and are irrigated with cow manure from dairy farms as organic fertiliser. The dairy farms are planted with alfalfa, corn, oil sunflower, etc., to provide dairy cows with nutritious organic meals of a proper formula.

### ✓ Organic Breeding:

We have 14 self-built organic dairy farms in the hinterland of the Ulan Buh Desert, each of which can accommodate 2,500-4,500 dairy cows. Our free-range dairy farms have more than 59,000 organic dairy cows in stock, each covering an area of 60-80 square metres. In order to improve animal welfare, we have equipped the cow barns with sand pads, fans, grooming brushes, clothing, sprinkler systems, wind fences, lighting and other facilities to ensure a sound breeding environment for cows. In addition, we provide spacious fields for cows to receive full exercise. Nutritious food and mineral water are also provided to ensure that their diet and medication are free of antibiotics and hormones. We also equip our farms with security teams composed of professional nutritionists and doctors to ensure that the cows are comfortable throughout the milk production process. In 2020, we installed standard sprinkler systems in 34 cow barns of 16 dairy farms. A total of 24 large fans and 530 small fans have been installed in cow barns to improve the breeding environment.



Large fans for cows



Warm coats for cows



Grooming brushes for cows

## ✓ Building Digital Core Platform-Based Smart Farms:

We have built a digital core platform to help the Group achieve lean operation and smart management and promote stable and high-quality business development by establishing a business and finance-integrated model. We use the SAP S/4HANA digital core suite to build an end-to-end business and a finance-integrated system and digital core platform for the Group to achieve business improvement in terms of operating costs, industrial chain coordination and digital agriculture.

The integration of business and finance from purchase to payment, sales to collection, and breeding to cost accounting has been realised, which improves financial efficiency, reduces breeding costs and connects the data of front-end dairy farms and back-end operation units, thereby achieving integrated and refined operating cost management and improving the overall economic benefits of dairy farms.

The industrial chain from upstream grassland planting to downstream dairy product processing has been extended, realising rapid expansion of the industrial chain and enhancing synergies along the entire industrial chain.

The core foundation has been laid for digitalisation of smart farms in the future. Smart technologies will be used to realise the transformation to digital agriculture, precision agriculture and smart agriculture, and to create a fully intelligent agricultural industry chain.

In 2020, through the development of smart farms, factors such as feeding formulas and refined dairy farm management were improved, the annualized yield of each dairy cow increased **0.7 tons**,

and the average annual yield of each dairy cow increased to

**10.34 tons.**



## Strengthening Industrial Communications

With an accurate grasp of the market demand, the Group builds high-quality milk sources and actively participates in the construction of China's high-quality dairy industry to help upgrade the quality of China's dairy industry. We continuously deepen industry exchanges, raise the level of scientific research and seek "industry-university-research" combined development in order to provide more competitive sources of raw milk for the global market and build and improve strategic partnerships with more peers and suppliers.

### ✓ Strategic Cooperation

In 2020, Mengniu became our largest shareholder. In the face of fierce competition in the dairy market, we will further deepen our collaboration with Mengniu Group, optimise the layout of high-quality raw milk, and strengthen supply chain coordination and management to achieve better operational benefits.

### Case

#### 100,000-Cow Milk Source Base Construction

In May 2020, under the guidance of the policy to promote economic recovery in an all-round way, the 300,000-cow milk source base project of China Dairy Industry Park started construction in the cities of Bayan Nur, Tongliao and Hohhot. At the same time, 56 dairy financing projects were signed at the Conference for Promotion of Precision Finance Services for the Dairy Industry to boost the development of the dairy industry. The western centre of China Dairy Industry Park will increase the planting area for high-quality forage grass by 200,000 mu (13,333.33 hectares) based on the existing scale of development of the dairy industry in Bayan Nur, and will build a demonstration base for scientific planting to create an integrated sand-based forage grass industry. To expand the existing dairy industry cluster, the "Mengniu - Shengmu Ulan Buh Phase II 100,000-cow Milk Industrial Park" was launched.



In order to ensure that the Group is supplied with high-quality and safe materials, in 2020, we signed the *Agreement on Material Supply Framework* with Inner Mongolia Fuyuan International Industry (Group) Co., Ltd., Beijing Dabeinong Technology Group Co., Ltd. and Inner Mongolia Aiyangniu Technology Co., Ltd., reaching strategic cooperation in material supply to ensure our material supply, reduce procurement costs, improve procurement efficiency and optimise supplier structure, thereby achieving a win-win outcome between supply and demand.

We actively promote the combined development of "industry, university and research" by carrying out joint research with many well-known institutes such as the Institute of Animal Husbandry of the Chinese Academy of Agricultural Sciences, Inner Mongolia University and China Agricultural University, actively participating in the special national key research and development programs of the Ministry of Science and Technology of the PRC, and proposing suggestions on the upgrade and transformation of the local dairy farming industry, appraisal of animal husbandry subsidies, cost analysis of organic animal husbandry, seminars on safe and healthy dairy cow breeding, and construction of high-end organic dairy farms.

**The "industry-university-research" projects participated in by China Shengmu in 2020**

Partner	Project Achievement
Institute of Animal Husbandry of the Chinese Academy of Agricultural Sciences	We launched an integrated project on animal husbandry and breeding and demonstrated organic breeding in dairy farms.
China Agricultural University Lanzhou Institute of Animal Husbandry and Veterinary Medicine of the Chinese Academy of Agricultural Sciences Beijing Sanyuan Foods Co., Ltd.	We cooperated in organic dairy cow breeding projects.
Research Institute of the Chinese Academy of Agricultural Sciences	We jointly carried out research on new varieties of forage grass No. 1, 2 and 3 that are resistant to alpine and arid conditions.
Inner Mongolia Agricultural University	Research on forage grass for domestic animal husbandry Research on the "Research and Demonstration of Desertification Management and Deserticulture Technology in Arid Desert Areas of Inner Mongolia" project
Research Institute of Inner Mongolia Autonomous Region	We conducted localised grass industry research.
Beijing Institute of Animal Science and Veterinary Medicine of the Chinese Academy of Agricultural Sciences	Breeding of new varieties of sand-based alfalfa in irrigation areas
Ministry of Science and Technology of the PRC	We participated in a special project within the national key research and development plan: "Research on the Restoration and Protection of Typical Fragile Ecosystems".
Chinese Academy of Forestry	Special research on "Technology Integration and Demonstration of the Ecological Desertification Control Industry Chain with Efficient Use of Water"

**Case**

**SAP Joined Hands With Shengmu Group to Build Smart Dairy Farms to Digitally Empower China's Organic Dairy Industry**

In September 2020, we reached a cooperation agreement with SAP. With the help of SAP's world-leading solution suite, we established a core management and business platform to support our digital operations to optimise the management and control of dairy farm operating costs, improve overall operational efficiency and synergy between the upstream and downstream of the industrial chain, and build smart dairy farms driven by smart technology. The two sides will help the Group build a large-scale and specialised modern breeding and organic milk operating system, open up new horizons for digital transformation of the traditional livestock breeding industry, and achieve leap-forward development.



Case

Shengmu Research Institute

In 2020, the Group and Li Shengli, the chief scientist of the National Dairy Industry and Technology System, established the Shengmu Research Institute and signed a three-year strategic cooperation agreement. This agreement will rely on Li Shengli's multi-dimensional and all-round technical guidance, on-site expert diagnosis and resource integration to carry out projects such as technical training, joint inspections, innovative dairy farms, expert consultations, visits and learning. With the reasonable and efficient allocation of various industry resources by the chief scientist's team, the Group will strengthen the organic integration of internal and external technical resources and create an environment conducive to attracting, training and using technical talents. Through the introduction of advanced breeding technologies and concepts in the industry, our core competitiveness will continuously improve. In addition, the chief scientist team of the National Dairy Industry and Technology System will provide corresponding consulting services and technical support for the reconstruction of existing Shengmu test sites.



Industrial Communication

We actively cooperate with the autonomous region government to carry out scientific research projects under the "14th Five-Year Plan" and major special dairy industry projects in the autonomous region. In order to improve the level of scientific and technological R&D, we use our own advantages to carry out industry exchanges. We took the initiative to join the China Animal Husbandry Association, Dairy Association of China, China Desertification control and Desert Industry Society, China Green Food Association and other industry associations to give full play to our role as a brand leader and brand-name company. We actively participate in various communication and exchange meetings with dairy industry peers and upstream and downstream industries to promote the coordinated development and common progress of the industry.

In 2020, we participated in the drafting of the group standard, *Modern Dairy Industry Evaluation - Dairy Farm Grading and Evaluation*, issued by the Dairy Association of China to grade and evaluate the modernisation of dairy farming, accelerate the modernisation of the dairy industry, standardise dairy farming in China and promote the formation of an industrial value chain, thereby contributing to the sustainable and healthy development of China's dairy industry.



Bolstering Supply Chain Management

While maintaining a good cooperative relationship with suppliers, we have strict management requirements for suppliers. We continuously improve the *Supplier Management System* and incorporate suppliers into the scope of honest and clean governance, anti-corruption, quality control and management, while including energy conservation and environmental protection in the supply chain management requirements to reduce social and environmental risks in the industrial chain. We insist on coordinated development with suppliers and use our own technological advantages and industry experience to drive the overall level of the upstream and downstream of the industrial chain. In 2020, we revised the *Supplier Management System*, improved the supplier management process, put forward higher requirements on suppliers in terms of energy conservation and procurement, and strengthened communication with suppliers. We strictly control the supplier access assessment mechanism to ensure product quality from the source. We have formulated different verification management methods for different types of suppliers.

- New suppliers** Suppliers are admitted only after their business qualifications, management and control systems, etc. are strictly reviewed.
- Suppliers that have started supplying** Cooperation with suppliers is evaluated monthly from the three aspects of material evaluation, supply process and service evaluation.
- Organic raw material suppliers** Unannounced inspections are carried out regularly to ensure their high-quality supply of raw materials.

We select suppliers based on the concept of energy conservation and environmental protection, and constantly look for partners who are environmentally friendly and focus on energy savings. For cooperating suppliers, we conduct environmental assessment of their "pollution discharge permit" and "environmental protection certificate" and include their qualifications in the supplier evaluation standards.

We have incorporated the anti-corruption concept into supply chain management by formulating the *Purchase Centre Integrity and Self-Discipline Convention*, and required all cooperating suppliers to sign the *Anti-Commercial Bribery Contract*. In 2020, all suppliers signed the *Anti-Commercial Bribery Contract*. We also actively held special communication meetings with suppliers on integrity and anti-corruption, stressed the relevant requirements and conducted regular inspections of supplier behaviour.

We continuously strengthen communication with and training of suppliers, insisting on sharing our business experience with suppliers on topics such as dairy cow breeding, grassland planting, combined farming and breeding, and product quality improvement. We actively support strategic suppliers and guide their business development to be more closely integrated with us, so as to better provide the high-quality materials we need and achieve the integrated development of both the supply and demand sides. As an organic farm practitioner, we aim to create an integrated organic supply chain. For this reason, we actively encourage regular suppliers to carry out organic certification to ensure the high-quality supply of materials and optimise supplier qualifications. In 2020, we organised four training sessions on organic systems for 4 suppliers including Dalian Xinglongken Organic Products Co., Ltd. to help them transform into organic suppliers and fill the gap in demand for domestic organic suppliers. In 2020, the Group had 34 organic suppliers.

In 2020

we organised four training sessions on organic systems for

**4** suppliers

**4** training sessions



In 2020

The Group had **34** organic suppliers



Supplier visits in 2020

**Number of suppliers in 2020**

Number of domestic suppliers **319**



Number of overseas suppliers **33**

## Compliance Operations

The Group stringently operates in compliance with laws and regulations and continuously strengthens internal control. The Group strictly abides by the *Supervision Law of the PRC*, *Contract Law of the PRC*, *Company Law of the PRC*, *Anti-Monopoly Law of the PRC*, *Anti-Unfair Competition Law of the PRC*, *Appendix 14 of the Listing Rules of the Hong Kong Stock Exchange*, *Corporate Governance Code*, *Basic Internal Control Norms for Enterprises* and other relevant laws and regulations. We have revised internal audit and supervision systems including the *Internal Audit Management System*, *Internal Audit Implementation Rules* and *Project Audit Management Measures*, and set up risk management positions in the audit centre that are responsible for organising various systems to carry out risk assessment, analysing risk factors in management, identifying key links of risk control, eliminating hidden risks and improving risk management. Based on the risk assessment results, the Group formulates an annual audit work plan to ensure that the audit work is carried out in an orderly, planned and step-by-step manner.

We continuously improve the level of risk prevention, using risk identification as an entry point to determine the main types of risks that affect the Group's operations. We have established risk management tools such as the *Risk Classification Framework*, *Risk Information Sheet* and *Risk Assessment Sheet* to help analyse the causes and hazards of risks and check the control measures for risk points. In 2020, we issued a total of 5 "risk warnings" to help the Group effectively prevent production and operation risks from different levels.

The Group attaches great importance to the work of fighting corruption and upholding integrity. We have introduced the *Whistleblowing Management* and *Whistleblowing Reward System*, established open internal whistleblowing channels and set up a cultural discipline department within the Group with strict methods for handling regulatory and disciplinary violations. This department is responsible for the investigation and handling of violations and disciplinary breaches, collection of evidence and channel development for violations, job supervision, disciplinary supervision and effectiveness evaluation. We have set up a "Billboard for Whistleblowing and Supervision" in the office area to encourage employees to participate in internal anti-

corruption, and regularly conduct anti-corruption, integrity and education seminars for employees. In 2020, there was one corruption case in the Group, and the economic loss of 15,000 Yuan was recovered through investigation, which played a positive role in maintaining an honest and clean atmosphere within the Group.

We place high emphasis on the protection of intellectual property rights by strictly abiding by the *Patent Law of the PRC*, *Copyright Law of the PRC* and other relevant laws and regulations. We evaluate and avoid patent risks from multiple dimensions such as technology project establishment and development, avoid product infringement and cultivate a culture of intellectual property innovation. Through training and effective incentives, we improve employees' respect for intellectual property rights and continuously encourage innovation. In 2020, we applied for a total of 221 patents on products, materials, processes, technology, etc., 120 of which were granted.



In 2020, we applied for a total of **221** patents on products, materials, processes, technology, etc.

**120** of which were granted



# Environmental Responsibility

The Group fully recognises that the development of the dairy industry is closely related to the ecological environment. We actively demonstrate corporate responsibility in environmental governance and environmental protection. Adhering to the concept of "sustainable development", we implement environmental responsibilities in all aspects of production, operation and organic industry development.

- ✓ Desertification Control through Industrial Development
- ✓ Resourceful Utilisation of Manure
- ✓ Reducing Emissions
- ✓ Saving Resources

Responding to the ESG material issues in this chapter

- Ecological Conservation • Use of Resources
- Emission Management • Waste Management

Responding to UN SDGs in this chapter



We care about  
Environmental  
Responsibility

## Desertification Control through Industrial Development

Taking the improvement of local ecologies as its mission, the Group has implemented various practices for desert greening. While carrying out production and operation activities, we have effectively contributed to ecological governance and biodiversity protection. Since 2009, we have invested a total of over 7.5 billion Yuan in desertification control and regional microclimate improvement based on the "low coverage desertification control theory". As at 31 December 2020, the Group had planted 97 million trees of various varieties in the Ulan Buh Desert in Inner Mongolia, greening more than 200 square kilometres of desert, and owned 220,000 mu (14,666.67 hectares) of organic grassland, turning "yellow desert" into an "oasis bank", creating an organic ecosystem in the desert. According to the statistics of the Desert Forestry Experimental Centre of the Chinese Academy of Forestry (referred to as the "Desert Forestry Experimental Centre"), comprehensive management of the Ulan Buh Desert has achieved initial results: the amount of radiation in the desert has been reduced by 40-45% compared with the 1980s, and the amount of dust has been reduced by 80-90%. At the same time, the local climate has improved significantly. For instance, average wind speed has decreased by 21.41%, and precipitation has increased by 30.36%. The Ulan Buh Desertification control operation has also provided an

important barrier for the prevention and control of sandstorms in the Beijing-Tianjin-Hebei region. According to estimates by the Desert Forestry Experimental Centre, the amount of sand that flows into the Yellow River from the Ulan Buh Desert has been reduced by 300,000 tons each year. In the next 30 years, the shelter forest planted by the Group can sequester 1,086 tons of carbon.

As at 31 December 2020

planted in the Ulan Buh Desert in Inner Mongolia

**97 Million** trees of various varieties

greening more than **200+ km<sup>2</sup>** of desert

owned **220,000 Mu** of organic grassland

turning "yellow desert" into an "oasis bank", creating an organic ecosystem in the desert



### Case

#### Construction of the organic circular desertification control industry

Over the years, the Group has firmly implemented the concept of "clear water and green mountains are as good as mountains of gold and silver". Determined to control desertification, we have advanced the comprehensive management of the Ulan Buh Desert, protect biodiversity, improve the local environment and promote the ecological protection and high-quality development of the Yellow River Basin in Bayan Nur to realise the union of economic and ecological benefits. In 2020, we continued with the construction of an organic circular desertification control industry based on ecological governance and circular economy:



#### Ecological governance

Adhering to the "combination of farming and breeding and organic circulation", we adopted the desertification control concept of combining xeric trees, desert shrubs, perennial forage grass and annual forage grass to build three-dimensional ecological protection combining trees, shrubs and grass, strengthen wind protection, sand fixation and windbreak forest belt construction to reduce the sources of large-scale sandstorms.



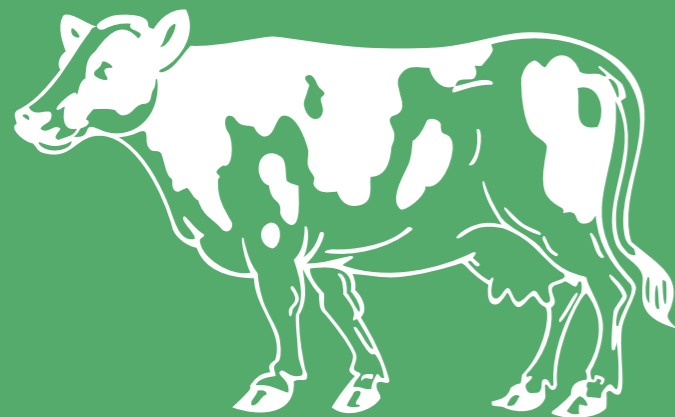
#### Circular economy

We have built 11 reservoirs with an average area of 50,000 to 60,000 square metres, using organic fertiliser produced from cow dung from organic dairy farms. On the one hand, these efforts can effectively conserve local water sources, and improve soil fertility and crop drought resistance; on the other hand, they effectively contribute to the Group's circular economy construction and guarantee organic production throughout the entire process.



## Resourceful Utilisation of Manure

The Group attaches great importance to solid and liquid fertilisers derived from manure produced during dairy farm operation. Under the guidance of “combining farming and breeding”, we have realised the rational utilisation of resources, advanced breeding as a circular industry and promoted the construction of an ecological civilisation. We strictly abide by anti-seepage treatment requirements for oxidation ponds to reduce the environmental impact on rivers, scenic spots, nature reserves and other ecologically sensitive areas. According to the actual local conditions, we schedule the discharge of fertilisers into fields and ensure they remain harmless based on the maximum carrying capacity of the land. In cooperation with third-party companies, we have further improved the effectiveness of recycling measures based on oxidation pond fertiliser and organic fertiliser production. We also carried out training on relevant knowledge and account filling to improve staff’s compliance operations and eco-protection awareness, and conducted inspections on a regular basis to ensure that manure from each farm is properly managed.



## Reducing Emissions

The Group strictly complies with the *Environmental Protection Law of the PRC* and the *Regulations on the Prevention and Control of Pollution Caused by Intensive Livestock and Poultry Farming*. We attach great importance to resource consumption by revising and continuously improving the Group’s *Environmental Management System* and other related systems. In daily management, we are strictly self-disciplined, effectively implementing the environmental management system, reducing emissions, saving energy and reducing consumption to reduce and prevent damage and pollution to the natural environment, and promote the simultaneous growth of economic, social and environmental benefits.

### ✓ Exhaust Gas and Wastewater

We strictly abide by the *Law of the People’s Republic of China on Air Pollution Prevention and Control*, *Law of the People’s Republic of China on Water Pollution Prevention and Control*, *Regulations on the Prevention and Control of Pollution Caused by Intensive Livestock and Poultry Farming* and *Classification Management Catalogue to Pollutant Emission Permit for Stationary Sources of Pollution*. We have formulated and continuously improved the *Sewage Treatment Management System*, *Environmental Protection Facilities and Equipment Management System*, and other internal systems. We regularly organise special environmental inspections to identify all potential pollution sources in the production and operation process, ensure compliance discharge, and eliminate environmental pollution caused by improper disposal of exhaust gas and wastewater. In 2020, in response to the national initiative to reduce agricultural non-point source pollution, the Group actively carried out technological transformation and purchase of environmental protection equipment, incorporating environmental protection facility management into the production management system, standardising the supervision and management of equipment and emissions, and reducing the impact of exhaust gas and wastewater on the surrounding environment.

In 2020, we continued with the renovation of boilers at dairy farms. Several dairy farms in Hohhot and Bayan Nur switched to air-source heat pumps or carried out special boiler renovation projects to reduce exhaust gas emissions during operation, thereby reducing emissions of SO<sub>2</sub>, NO<sub>x</sub>, smoke and other pollutants, representing a significant decrease in direct emissions compared to 2019.

	2020	2019	2018
Exhaust pollutant emissions (m <sup>3</sup> )	30,117,120.00	50,138,880.00	143,431,271.04
SO <sub>2</sub> emissions (tons)	1.07	2.61	20.78
NO <sub>x</sub> emissions (tons)	1.54	2.13	28.84
Smoke and dust emissions (tons)	0.86	1.32	6.94

## Other Waste

The hazardous waste generated in the Group's production activities mainly includes medical waste, waste engine oil, cow carcasses due to disease, etc., and general waste includes slag, fly ash and domestic garbage. We strictly abide by the *Law of the PRC on the Prevention and Control of Environmental Pollution by Solid Wastes* and other relevant laws and regulations, and in accordance with the *Hazardous Waste Management System* and other internal management systems, we have strengthened the safe management of hazardous waste to prevent the spread of disease. On a farm-by-farm basis, we have implemented a waste management responsibility system with the farm owner as the first responsible person. We carry out waste collection, transportation, storage and disposal in accordance with internal management and health protection requirements. We sign disposal agreements with qualified processing companies, and fill in and maintain hazardous waste transfer forms and management accounts to ensure the compliance and effective disposal of hazardous waste. Recyclable general waste is separately recycled and disposed of to realise the reuse of resources.

	2020	2019	2018
Hazardous waste (tons) (Medical waste and cow carcasses)	2,554.91	3,046.71	/
Hazardous waste per 10,000 Yuan of sales revenue (tons/10,000 Yuan) <sup>1</sup>	0.010	0.012	/
General waste (tons)	480.33	637.31	/
General waste per 10,000 Yuan of sales revenue (tons/10,000 Yuan) <sup>1</sup>	0.002	0.003	/
Waste in total (tons)	3,035.25	3,684.02	7,527.41

<sup>1</sup> In 2020, the Group refined the disclosure method of waste generation per 10,000 Yuan of sales revenue, respectively disclosing the amount of hazardous waste generated per 10,000 Yuan of sales revenue and the amount of general waste generated per 10,000 Yuan of sales revenue. At the same time, combined with the actual situation, we supplemented the amount of hazardous waste generated per 10,000 Yuan of sales revenue and the amount of general waste generated per 10,000 Yuan of sales revenue in 2019.

## Saving Resources

In the development process guided by ecological priority and green development, the Group strengthens resource utilisation and sustainable operation capabilities to realise ecological agriculture and organic circulation of resources in the entire industry chain. While vigorously developing the organic industrial chain, we strengthen the use of natural resources in agricultural production, improve our own resource utilisation efficiency, and achieve an organic balance between high-quality development and ecological protection. The operation of the Group does not involve the use of packaging materials.

## Energy Management

The Group deepens the implementation of the *Energy Management System* and the energy management and control system by strengthening energy management during operations. We set annual energy consumption targets for each department and track their completion monthly. We encourage energy-saving renovation and equipment purchases to reduce resource use. We advocate for green offices, encouraging employees to form good habits by saving water and turning off lights, and to reduce resource waste.

Energy type	2020	2019	2018
Electricity (KWh)	72,235,814.93	64,435,754.73	73,814,661.94
Coal (tons)	5,559.34	7,376.28	15,644.6
Diesel (tons)	3,035.32	3,901.91	4,467.19
Energy use per 10,000 Yuan of sales revenue (tons of standard coal/10,000 Yuan) <sup>2</sup>	0.07	0.07	0.09

<sup>2</sup> In 2020, the Group adjusted the disclosure method of energy use per 10,000 Yuan of output value as energy use per 10,000 Yuan of sales revenue. At the same time, combining with the actual situation, we supplemented the 2019 energy use per 10,000 Yuan of sales revenue.

Note: According to the *General Principles for Calculation of Comprehensive Energy Consumption (GBT2589-2020)*, the calculations were made with the conversion factor for electricity at 0.1229 kg standard coal/kWh, diesel at 1.4571 kg standard coal/kg, and coal at 0.7143 kg standard coal/kg.

Case

Application of air-source heat pumps in livestock farms

In 2020, in response to the national strategies of energy conservation, emission reduction and carbon neutrality, starting from the actual energy demand of dairy farms, we improved the energy use structure by purchasing new air energy equipment to enhance low-carbon green development across the industry chain. In 2020, several dairy farms in Hohhot switched to air-source heat pumps, which on the basis of meeting the demand for heating, significantly reduced emissions of CO<sub>2</sub>, SO<sub>2</sub>, NO<sub>x</sub> and other exhaust gases. Bayan Nur City completed the upgrade of the first batch of dairy farms that were eligible for renovation with air-source heat pumps, which is expected to be expanded to more than half of farms in 2021.



Greenhouse Gas

The Group's greenhouse gas emissions are mainly derived from indirect energy emissions from the use of electricity and direct emissions from the use of coal and diesel.



Greenhouse Gas Emissions (Unit: tons)

	2020	2019	2018
Greenhouse gas emissions(tons of CO <sub>2</sub> equivalent)	94,203.16	94,189.94	126,632.18
Scope 1 emissions	24,278.89	31,816.13	55,179.58
Scope 2 emissions	69,924.27	62,373.81	71,452.59
CO <sub>2</sub> emissions per 10,000 Yuan of sales revenue (tons/10,000 Yuan) <sup>3</sup>	0.35	0.35	0.44

<sup>3</sup> In 2020, the Group adjusted the disclosure method of carbon dioxide emissions per 10,000 Yuan of output value as carbon dioxide emissions per 10,000 Yuan of sales revenue. At the same time, combining with the actual situation, we supplemented the 2019 carbon dioxide emissions per 10,000 Yuan of sales revenue.

Note: Scope 1 greenhouse gas emissions are calculated by CO<sub>2</sub> emissions of fossil fuels consumption converted from coal and diesel on the basis of the 2006 IPCC Guidelines for National Greenhouse Gas Inventories. Scope 2 greenhouse gas emissions are calculated on the basis of the Emission Factors of China Regional Power Grid Baseline in Emission Reduction Project of 2017 and the Stock Exchange ESG Environmental Performance Indicators Reporting Guidelines. Electricity consumption per MWh in North China is converted into 0.9680 tons of CO<sub>2</sub> emissions.

Water Resource Management

The Group is well aware that water is a precious natural resource in the desert. In our production and operation, we promote water-saving actions such as water-saving transformation, water-saving irrigation and water recycling, and cherish and efficiently use every drop of water. We have switched to more water-saving cleaning nozzles, reused pipeline flushing water for greening and road cleaning, and retrofitted the recycling of equipment cooling water to reduce the use and waste of water resources.

	2020 <sup>4</sup>	2019	2018
Water Consumption (tons)	2,195,325.00	907,765.00	2,036,411.80
Water Consumption per 10,000 Yuan of sales revenue (tons/10,000 Yuan) <sup>5</sup>	8.25	3.42	/

<sup>4</sup> In 2020, the Group improved the animal welfare protection for dairy cows and added new heat stress facility sprinklers in 4 farms, so the water consumption has shown an increase trend compared with 2019.

<sup>5</sup> In 2020, the Group adjusted the disclosure method of water consumption per 10,000 Yuan of output value as water consumption per 10,000 Yuan of sales revenue. At the same time, combining with the actual situation, we supplemented the 2019 water consumption per 10,000 Yuan of sales revenue.

# Employees

The Group serves its employees wholeheartedly. We continuously improve our talent management system and actively safeguard employees' rights and interests by establishing a diversified training system to help employees grow. We care for employees' lives by helping disadvantaged employees and building a talent team that matches the Group's strategic development.

- ✓ Protecting Rights and Interests
- ✓ Training and Development
- ✓ Occupational Health
- ✓ Employee Care

Responding to the ESG material issues in this chapter

- Employment and Labour Standards
- Compensation and Benefits
- Employee Training and Development
- Occupational Health

Responding to UN SDGs in this chapter



We care about  
Our Employees

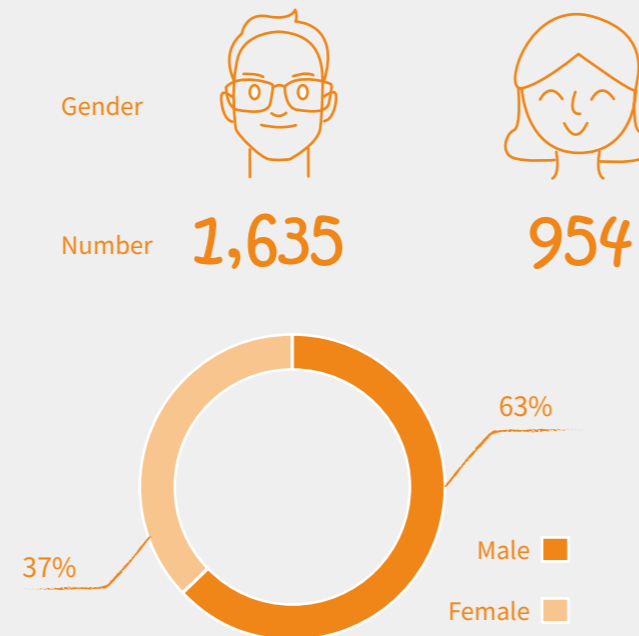


## Protecting Rights and Interests

In 2020, the Group further improved its recruitment channels. We established cooperative relationships with colleges and institutes such as Inner Mongolia Agricultural University, Hetao University and Yangling Vocational and Technical Academy, where we carry out campus recruitment every year for dairy cow breeding and health-care positions. We expanded general recruitment channels such as Zhaopin.com, 58.com and Animal Husbandry Talent Network (xumuzx.com) to recruit for administrative, technical and management positions. Moreover, we have cultivated talents for such positions as farm heads, farm managers, supporting department managers, etc. through internal training, recruited first-line production operators for dairy farms through employee recommendation, and established a talent introduction system that is closely in line with business needs.

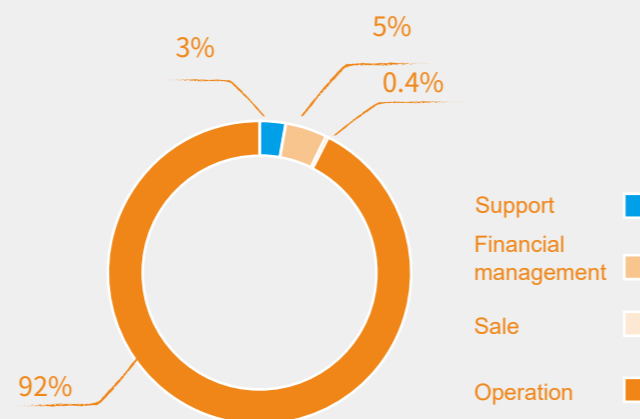
In the process of employment, the Group strictly abides by the *Labour Law of the People's Republic of China*, *Labour Contract Law of the People's Republic of China* and other relevant laws and regulations. We have formulated the *Administrative System for Recruitment and Employment* to prohibit and resist any form of child labour, forced labour and other labour disputes. Adhering to the equality of men and women, equal pay for equal work, and non-discriminatory employment practices, we have created an equal and diverse working environment with respect for the customs of ethnic minorities and fair treatment of employees of different nationalities, races, genders, ages, religions and cultural backgrounds. We insist on the employment principles of "open recruitment, equal competition, comprehensive assessment and merit-based recruitment" to ensure that all employees enjoy fair, impartial and open job opportunities. As at 31 December 2020, we had a total of 2,589 employees.

### Employees by Gender



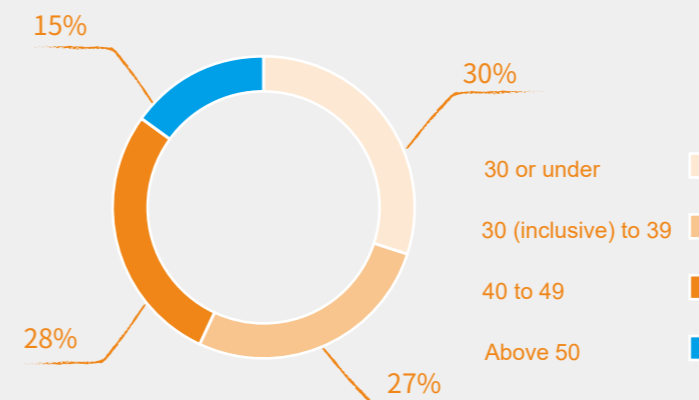
### Employees by Function

System	Number	System	Number
Support	72	Sale	11
Financial management	117	Operation	2,389



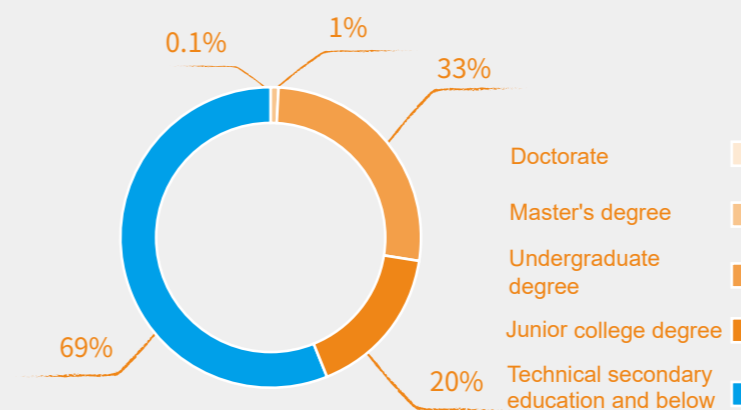
### Employees by Age

Age	Number	Age	Number
30 or under	770	40 to 49	722
30 (inclusive) to 39	706	Above 50	391



### Employees by Education Level

Education level	Number	Education level	Number
Doctorate	3	Master's degree	14
Undergraduate degree	268	Junior college degree	521
Technical secondary education and below	1,783		



The Group has formulated 10 human resource and administrative systems with 34 items in total, covering organisational development, recruitment management, training management, performance management, salary and benefits, employee relations, document and file management, process and system management, etc. In 2020, the Group revised and improved 13 management systems, including the *Organisation and Staffing Management System*, *Salary Management System*, *Management System for Professional Technical Title Evaluation*, *Management System for Employee Recruitment and Employment* and *Management System for Approval Authorisation on Human Resource Matters*, etc. in order to standardise all aspects of human resource and administrative work and effectively protect the rights and interests of employees.

In 2020, the Group established a reserve talent pool and evaluated talents from five dimensions of education, work experience, discipline compliance, ability and quality, and personal performance to select and assess reserve talents at the director and manager levels. During the year, the Group took inventory of its talents. A total of 192 people from the operation system at or above the level of farm heads, farm managers and supporting centre managers participated in the talent stock-take. The Group hired a third-party evaluation agency to conduct a 360-degree evaluation of behaviour and a Ruitu evaluation of the comprehensive competency at the director level and above. Evaluation on the potential talent reserve of the grassroots management personnel was carried out on farm managers. Finally, a talent evaluation report was formulated, which provided a basis for the Group's talent development and also allowed employees to have a better understanding of their own value, and thus to clarify the direction of improvement.

## Training and Development

In 2020, the Group established a standard talent competency model to identify the qualities of various employees who are outstandingly competent or able to achieve good performance, so that employees understood the Group's expectations for their career development. This model provided guidance and reference for the Group's personnel recruitment, selection and employee training. In 2020, our internal promotion rate reached 15%.

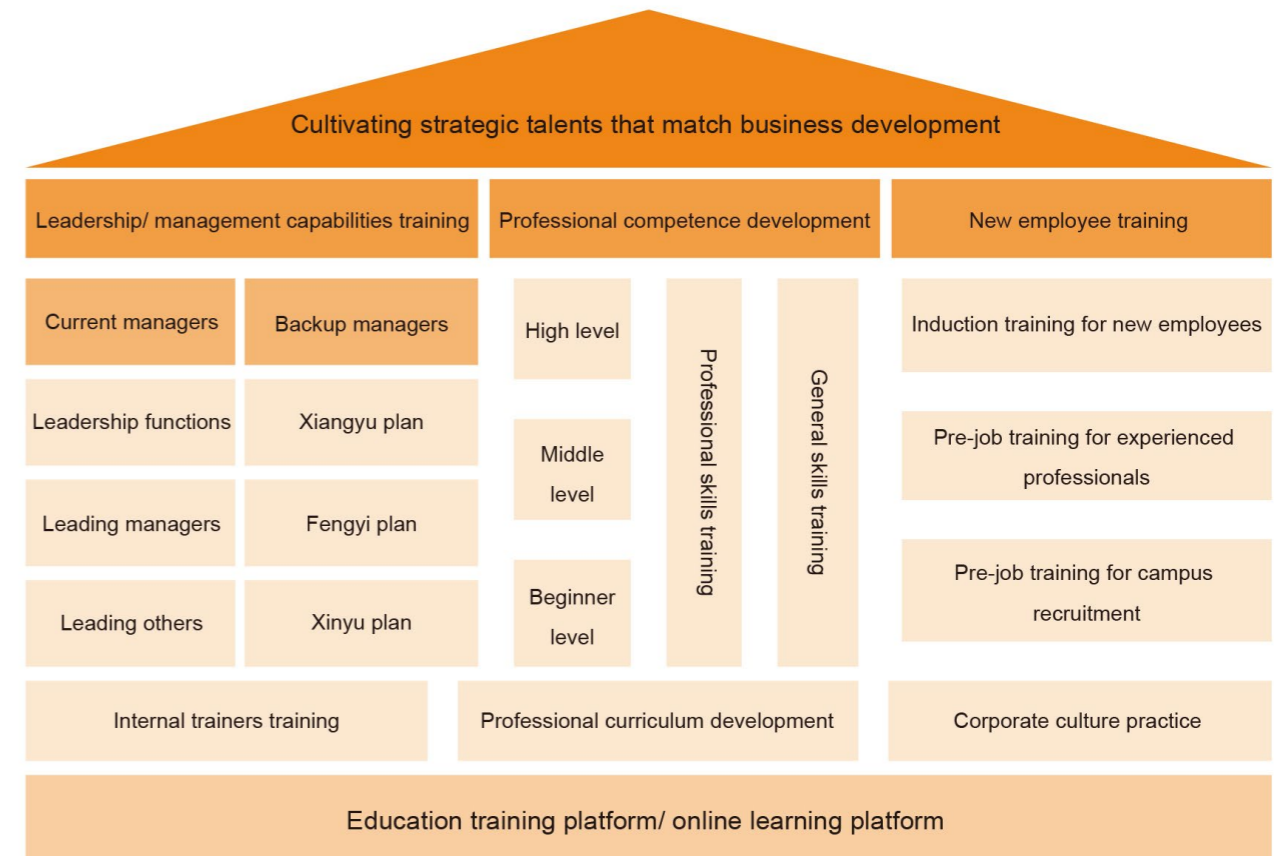
**Talent Competency Standards Model**

Farm head		Director		Manager	
Competency dimensions	Items	Competency dimensions	Items	Competency dimensions	Items
Constructing thinking mode	Systematised thinking	Constructing thinking mode	Systematised thinking	Ensuring work results	Efficient execution
	Customer orientation		Business perspective		Seeking excellence
	Strategies delivery	Ensuring execution	Professional		
Ensuring work results	Promoting execution	Ensuring work results	Continuous improvement	Promoting interpersonal coordination	Teamwork
Promoting interpersonal coordination	Establishing and maintaining relations		Professional leadership	Leading the team to succeed	Assuming management responsibilities
Leading the team to succeed	Building an efficient team	Promoting interpersonal coordination	Synergy	Exerting personal effectiveness	Resilience
					Proactive
Exerting personal effectiveness	Making good use of data	Exerting personal effectiveness	Making good use of data		Proactive

In 2020, Shengmu College officially changed its name to Development College. Relying on the education training platform and online education platform, we have built three systems of leadership training, competency training and induction training to cultivate strategic talents that match the Group's business development. The Group has formulated the *Training Management System* to continuously improve the vocational skills training system covering all stages and aspects to help employees improve their work skills, professional quality and work efficiency. The system clarifies the requirements for management personnel. Senior managers host open lectures at least twice a year within the Group, while middle-level managers host open lectures at least once a year within the Group and four times a year within the department. Key process personnel are required to be trained by employees with extensive work experience before they enter their position, which is only after successful qualification. In 2020, the average duration of training for the Group's employees was 40 hours.

On the basis of core business skills training, the Group offers cross-post functional training to employees, such as sales training for customer service employees or management skills training for non-management employees, so that employees have the opportunity to learn skills and working methods in different businesses and positions. In order to meet the comprehensive development needs of employees, in addition to training directly related to the business, the Group offers a wealth of training courses on topics such as management skills, personal financial planning, stress management, English, etc. to improve employees' vocational and life skills.

The Group cooperates with various educational institutions to provide internship opportunities and work-study programs, and pays living expenses to interns in accordance with local regulations, so that they enjoy the same benefits as regular employees during their internship. During the internship period, the Group ensures that all interns receive formal feedback on performance evaluation, and provides them with opportunities for conversion to regular employees, thereby replenishing the talent pool for the long-term development of the Group.



**Talent Training System**

Case

The Group launched the 2020 Online Training Camp for Manager Growth

In order to implement the Group's talent training and development system, systematically promote the online learning project for manager growth, improve the management level and occupational skills of middle managers, and enhance learning and communication between employees, the Development College organised and implemented the "Online Training Camp for Manager Growth" for manager- and director-level personnel from February to March 2020. During the 43-day training camp, 23 compulsory courses were held in seven categories such as management cognition and time management. A total of 289 people participated in the training camp. By the end of the training camp, 196 people had completed all required courses and obtained a certificate of completion.



Case

The Development College launched internal micro-courses on dairy farm operation in 2020

In order to pass on experience and skills and address the Company's actual issues in practice, we have developed an internal training program that meets the needs of both the Company and employees. In the second half of 2020, the Development College implemented a micro-course development project on dairy farm operation. The first batch of courses developed covered seven modules in ten courses on dairy farm operation - breeding, health care, milking, feeding, calves, equipment, safety and environmental protection. In January 2020, at the beginning of the new year, the Group's Development College launched a micro-course series entitled "Nine Tips to Easily Learn Micro-course Development", which divided the whole process of micro-course development into nine links - topic selection, content extraction, micro-course naming, micro-course introduction, micro-course elaboration, micro-course conclusion, design routines, and scripting and production tools, including a total of 12 micro-lessons.



Case

Shengmu Research Institute launched a training program on dairy cow signals

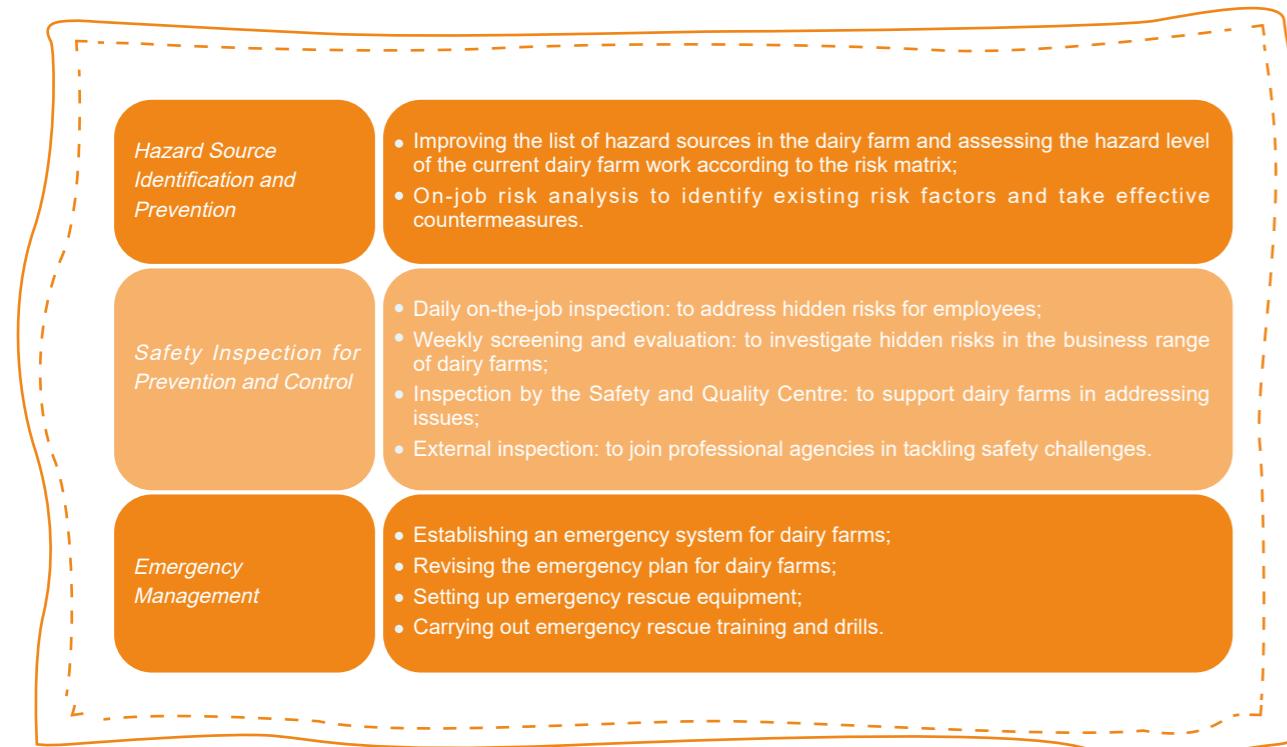
In November 2020, Shengmu Research Institute, jointly established by China Shengmu and Li Shengli, chief scientist of the National Dairy Industry and Technology System, launched a dairy cow signal training program. The training was held at the B27 and H1 farms, and lecturers from the Sino-Dutch Dairy Development Centre were invited to give on-site lectures. Combining theoretical explanations and practical operations, the training was divided into six sections - feeding, drinking, air, lighting, space and rest - guiding employees to review issues encountered in the operation of dairy farms from the three dimensions of "watch, think and act", eliminate UNO signal sources in a timely manner, and provide a healthy, stress-free, comfortable and high-welfare living environment for the cows. The trainees and lecturers conducted in-depth discussions on the issues with dairy farms and industry indicators, as well as practical experience and management concepts. The training allowed employees to extensively and profoundly spread knowledge on dairy cow signals to frontline employees of dairy farms, thereby achieving the purpose of applying techniques to practice.



## Occupational Health

We always attach great importance to our occupational health and safety (OHS) management system. We have firmly established OHS awareness among employees and improved our employee production safety and occupational disease management system to ensure the occupational health and safety of employees. In 2020, the Group had no deaths due to work-related injuries.

The Group strictly abides by the *Production Safety Law of the PRC*, *Law of the PRC on Prevention and Control of Occupational Diseases*, *Production Safety Regulations of Inner Mongolia Autonomous Region*, *Temporary Provision Rules for Health Supervision and Management in Workplaces*, *Measures for Declaration and Administration of Occupational Hazards in Workplaces* and *Supervision and Administration Regulations on Labour Protection Articles* and other relevant laws and regulations. The Group formulated the *Production Safety Administration System* to provide standardised and systematic regulations on production safety management and supervision institutions, education and training, labour protection supply management, production safety and accident handling, etc. The Group has implemented "Three Preventions and Three Schemes" for safety management, which involve safety inspection, hazard source identification and emergency management for prevention, as well as the three schemes of standardisation, culture building and information application.



We have achieved auditing and certification of *OHSAS 18001:2007 System* and *Environment Administration System's ISO 14001:2004 System* in 2017. In 2020, the Group further improved the occupational health management system by updating the *Occupational Health Management System*, implementing pre-job, on-the-job, and off-the-job occupational disease screening, strengthening the management of protective articles, and updates and replaced equipment with major hidden dangers. A total of 34 measures for occupational disease prevention and control were formulated for 10 areas of the dairy farm such as organising physical check-ups for occupational disease and improving the six-facet occupational health file to reduce the incidence rate. In terms of safety training, education and safety culture construction, the Safety and Quality Management Centre refined the Group's safety accident case database, organised all dairy farms to propagandise safety culture, increased employee training and education, formulated safety training standards at all levels, and introduced the "Ten-Point Ban" and other measures to foster employees' safe production awareness and safe working habits.

## Employee Care

The Group persists in building a "home" culture with Shengmu characteristics. We continuously strengthen logistics to support employees' work and lives, optimise the factory work environment and organise cultural and sports activities to enrich the spiritual life of employees and promote team cohesion.

In 2020, the Group replaced the canteen chefs and carried out kitchen renovation to improve both the variety and quality of dishes offered. We built basketball courts, employee activity rooms, pregnant women's lounges and other facilities and places for employees, and refurbished the factory green belt to optimise the factory environment. We organised large-scale activities such as basketball games, sports games, cooking competitions and a "cowman festival" to improve the physical fitness of employees while strengthening team building.



### Case

#### Satisfaction survey on the staff canteen

In 2020, in order to enhance communication with employees and ensure their health and safety, the Group launched a survey on employee canteen satisfaction. This survey covered 11 dairy farms with a questionnaire involving multiple dimensions such as meal expenses, recipes, canteen hygiene and service quality. The survey results showed that 74.46% of the employees interviewed were satisfied with the sanitary condition of the canteen in their dairy farm. As the Group attaches great importance to the health of its employees, the results of the questionnaire survey were reviewed and analysed for the formulation of improvement plans.





Shengmu High-Tech's University Tours for the Families of Outstanding Employees



Shengmu March 8 Red Flag Bearers Selection



The first "Cowman Festival" Desert Hiking Challenge

The Group continuously improves its employee welfare system. We pay social security and provident funds for employees, pay employer liability insurance for employees of dairy farms, organise employees to take health examinations in Inner Mongolia Maternal and Child Health Hospital and Beijing Friendship Hospital, send blessings and gifts to employees on holidays and special dates, such as delivering birthday cakes and flowers to employees on their birthdays, throwing group birthday parties, distributing cash benefits during the Spring Festival and Mid-Autumn Festival, sending gifts such as flowers and silk scarves to female employees on Women's Day, and organise activities for the selection of March 8th Red Flag Bearers. We organise women's health training for female employees and organise outstanding employees to participate in family summer

campus, such as tours to our industrial bases called "Shengmu Organic Travels" and university tours to Xi'an, Yan'an and other cities. We make prize payments to employees' children who have passed college entrance examinations to win undergraduate placements.

In 2020, to help employees of the Group overcome temporary difficulties caused by special circumstances such as non-work injuries, accidents and serious illness, the Group set up a special fund for mutual aid for employees, and conducted effective management of the fund by formulating the *Employee Fund for Mutual Aid*. All in-service employees who meet the conditions can apply for the fund. In 2020, a total of 5 families with employees in need received help.

## Public Service in Community

The Group keenly fulfils its corporate social responsibilities, devoting itself to charitable causes and targeted poverty alleviation by leveraging its advantages to support community development. In 2020, the Group invested a total amount of 1,000,000 Yuan in charities and organised 150 employees to participate in volunteer activities for a total of 300 hours.

- ✓ Fighting the Epidemic to Fulfil Social Responsibilities
- ✓ Serving Community with Targeted Poverty Alleviation



Responding to the ESG material issues in this chapter

- Precision Poverty Alleviation
- Community Communication

Responding to UN SDGs in this chapter



## Fighting the Epidemic to Fulfil Social Responsibilities

During the 2020 epidemic, the Group donated scarce anti-epidemic materials such as masks, alcohol and milk to Bayan Nur, Alxa League, medical teams bound for Hubei, etc. to fulfil its social responsibility as a corporate citizen.

### Case

#### Donation of supplies to medical teams leaving Inner Mongolia for Hubei

Since the outbreak of the epidemic, the Group has paid great attention to its development. We donated 210 boxes of Nestle coffee, 150 boxes of Youlemei milk tea, 2,000 bags of "Laozang" dried bean curd and 2,514 cartons of Shengmu milk to medical teams bound for Wuhan including Inner Mongolia Second Medical Team, Inner Mongolia Third Medical Team, Inner Mongolia Fourth Medical Team, Inner Mongolia Fifth Medical Team, Inner Mongolia Sixth Medical Team, Inner Mongolia First Emergency Transport Team for Hubei, Inner Mongolia Second Emergency Transport Team for Hubei and Inner Mongolia Medical Team for Jingmen. During the fight against the epidemic, the Group donated epidemic prevention materials worth nearly 150,000 Yuan to Hubei.



We donated

**210**

boxes of Nestle coffee,



**150**

boxes of Youlemei milk tea,



**2,000**

bags of "Laozang" dried bean curd



**2,514**

cartons of Shengmu milk



### Case

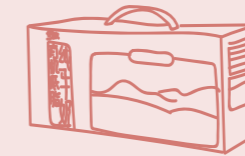
#### Donation of anti-epidemic materials to Bayan Nur

The Group donated 1,620 cartons of Shengmu milk and 84,000 masks to Bayan Nur, and raised a donation of 85,346.64 Yuan to the Dengkou Epidemic Command.

The Group donated

**1,620**

cartons of Shengmu milk,



and

**84,000**

masks to Bayan Nur,



and raised a donation of

**85,346.64**

Yuan to the Dengkou Epidemic Command.



### Case

#### Donation of anti-epidemic materials to Hohhot

The Group donated 2,552 cartons of Shengmu milk and 1,400 masks to Hohhot, and raised donations of 75,841 Yuan to Wuhan via the Red Cross.



## Serving Community with Targeted Poverty Alleviation

We share development results with the community such as providing a large number of jobs for Bayan Nur City and surrounding areas, spurring local farmers to increase income, and improving the regional climate to create ecological and economic benefits. The Group has formulated the *Administration System of Philanthropic Activities* to stipulate the process of affirming the target of philanthropic sponsorship, implementing the correlated plan and assessing its results. To further regulate community and volunteer service, the Group has created the *China Shengmu Headquarters' Volunteer Activity Program* to facilitate standardised routine volunteer services and spread the concept of volunteer contribution.

### Case

#### Focusing support on Majiayao Village in Helin County

In 2018, the Group actively participated in the fight against poverty with "Hundred Enterprises Pairing with Hundred Villages", and focused its support on Majiayao Village, Dahongcheng Township, Helin County. From 2018 to 2019, the Group donated 20 cattle to support the local beef industry. Before the 2020 Spring Festival, the Group organised relevant personnel to visit Majiayao Village, delivering 20 barrels of edible oil, 30 bags of rice and 28 bags of flour among other daily necessities to financially strained households for them to have a peaceful and warm Spring Festival.

The Group organised relevant personnel to visit Majiayao Village, delivering

**20** barrels of edible oil.



**30** bags of rice



**28** bags of flour



### Case

#### Helping Financially Strained Households in Dongshuiquan Village

In May 2020, in response to the call of Shaerqin Industrial Zone for building a well-off society in an all-round way and winning the battle against poverty, the Group assisted financially strained households in Dongshuiquan Village by donating piglets worth 3,100 Yuan according to the actual needs of financially strained households.

The Group assisted financially strained households in Dongshuiquan Village by donating piglets worth

**3,100** Yuan according to the actual needs of financially strained households.



# Disclosures and KPIs Compliance with HKEX ESG Reporting Guide

Environmental, Social and Governance Reporting KPIs		Page
<b>Environment</b>		
A1 : Emissions		
General Disclosure		P28
A1.1	The types of emissions and respective emissions data.	P32-34
A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	P36-37
A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	P34
A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	P34
A1.5	Description of measures to mitigate emissions and results achieved.	P31-33, P35-37
A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	P34
Aspect A2: Use of Resources		
General Disclosure		P35
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).	P35
A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	P37
A2.3	Description of energy use efficiency initiatives and results achieved.	P35-36
A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	P37
A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	Not Applicable
Aspect A3: The Environment and Natural Resources		
General Disclosure		P28-30
A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	P30-31
<b>Social</b>		
B: Employment and Labour Practises		
B1: Employment		
General Disclosure		P38
B1.1	Total workforce by gender, employment type, age group and geographical region.	P40-41
B1.2	Employee turnover rate by gender, age group and geographical region.	/
B2: Health and Safety		
General Disclosure		P46
B2.1	Number and rate of work-related fatalities.	None

B2.2	Lost days due to work injury.	/
B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	P46
B3: Development and Training		
General Disclosure		P42
B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	P43
B3.2	The average training hours completed per employee by gender and employee category.	P43
B4: Labour Standards		
General Disclosure		P40
B4.1	Description of measures to review employment practices to avoid child and forced labor.	P40
B4.2	Description of steps taken to eliminate such practices when discovered.	P40
Operating Practices		
B5: Supply Chain Management		
General Disclosure		P25-26
B5.1	Number of suppliers by geographical region.	P26
B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	P25-26
B6: Product Responsibility		
General Disclosure		P18
B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	Percentage: 0%
B6.2	Number of products and service related complaints received and how they are dealt with.	Not Applicable
B6.3	Description of practices relating to observing and protecting intellectual property rights.	P27
B6.4	Description of quality assurance process and recall procedures.	P18-20, P27
B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	Not Applicable
B7: Anticorruption		
General Disclosure		P27
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.	P27
B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	P27
Community		
B8: Community Investment		
General Disclosure		P50
B8.1	Focus areas of contribution (e.g. education, environmental concerns, labor needs, health, culture, sport).	P52-54
B8.2	Resources contributed (e.g. money or time) to the focus area.	P52-54

## Feedback Form

Dear readers,

Thank you for reading the *Environmental, Social and Governance Report of China Shengmu Organic Milk Limited in 2020*. We sincerely hope to get your comments and suggestions regarding this report and our work as well. Please send the filled feedback form to us via mail, or call your valuable advice directly. Really appreciate it.

Tel: 0471-3188858

Email: zgsm@smorganic.cn

1 Which of the following stakeholder do you belong to?

- Shareholder  Employee  Supplier  Customer  Government  Supervising regulator  Community  
 Other (please specify)

2 Have you read any Environmental, Social and Governance Report of China Shengmu Organic Milk Limited?

- Yes  No

3 What is your overall evaluation for the report?

- Readability (i.e. intelligible expression, beautiful design, attractive content, and easy to find the required information)  
 3 (good)  2 (general)  1 (poor)
  - Reliability (The information in this report is true and reliable)  
 3 (good)  2 (general)  1 (poor)
  - Completeness (The report should reflect positive and negative information, and meeting your needs for information)  
 3 (good)  2 (general)  1 (poor)
  - In addition to the contents that have been disclosed, what kind of information would you like to read?
-

