

2022

**COMMUNICATION
ON PROGRESS—2022**



中国圣牧
CHINA SHENGMU

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ABOUT THIS REPORT

This is the sixth report of China Shengmu Organic Milk Limited to disclose the Company's information on sustainable development, environment, society and governance. It is the annual ESG report for 2021.

Reporting Period

The report covers the Company's sustainability performance during the period from January 1 to December 31, 2021.

Reporting Scope

This report discloses the information of the headquarters, branches and subsidiaries of China Shengmu Organic Milk Limited, which is consistent with the scope of the consolidated financial statement.

Data Source

The data and cases in this report are mainly from the official documents, statistical reports and relevant public data of China Shengmu Organic Milk Limited.

Preparation Principles

This report is prepared in compliance with the "comply or explain" provisions of the Environmental, Social and Governance (ESG) Reporting Guide (the ESG Reporting Guide for short), which is set out in Appendix 27 to Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (SEHK for short), and makes all recommended disclosures according to the Guide.

Response to four principles of ESG Reporting Guide:

Materiality: This Report shall disclose the materiality matrix of major topics, elaborate the determination process and final results of major topics, and list important stakeholders and targeted communication measures. For more information, please see sections of "Stakeholder Communication" and "Materiality Analysis" in the chapter "Sustainability Management".

Quantitative: The environmental data disclosed in this Report shall be marked with reference standards, calculation methods and parameters.

Balance: This Report strives to achieve objective and unbiased information disclosure. The contents of the report come from internal management documents, statistics, public information, and media reports, without improper modification.

Consistency: Compared with the Company's ESG Report in 2020, this report has no significant adjustment in the scope of disclosure, uses consistent statistical methodologies and further refines some disclosure categories corresponding to the ESG Reporting Guide of SEHK. Each chapter and section of this report shows the comparison of ESG data over the years.

References

For better expression, China Shengmu Organic Milk Limited is referred to as "China Shengmu", "Shengmu", "The Company", or "we" in the report.

Access to This Report

This report can be viewed or downloaded from the website of the SEHK and the official website of Shengmu. It is prepared in Chinese and English respectively. For any ambiguity between the two versions, the Chinese version shall prevail.

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ABOUT US

China Shengmu Organic Milk Limited, as the largest organic dairy company in the country, produces desert organic raw milk in a circular way integrating planting, raising, and processing. The business covers the entire value chain of the dairy industry, including pasture growing, dairy farming, raw milk processing, and high-end liquid milk production. In July 2014, the Company successfully listed on the main board of the SEHK (stock code: 1432), becoming the world's first stock in the organic raw milk industry and the first domestic raw-milk brand to be certified by organic standards of China and the EU. With the safe milk source base as the core, the Company adopts an organic approach to pasture growing and dairy farming, produces high-quality organic raw milk, and consolidates partnership with downstream liquid milk product enterprises.

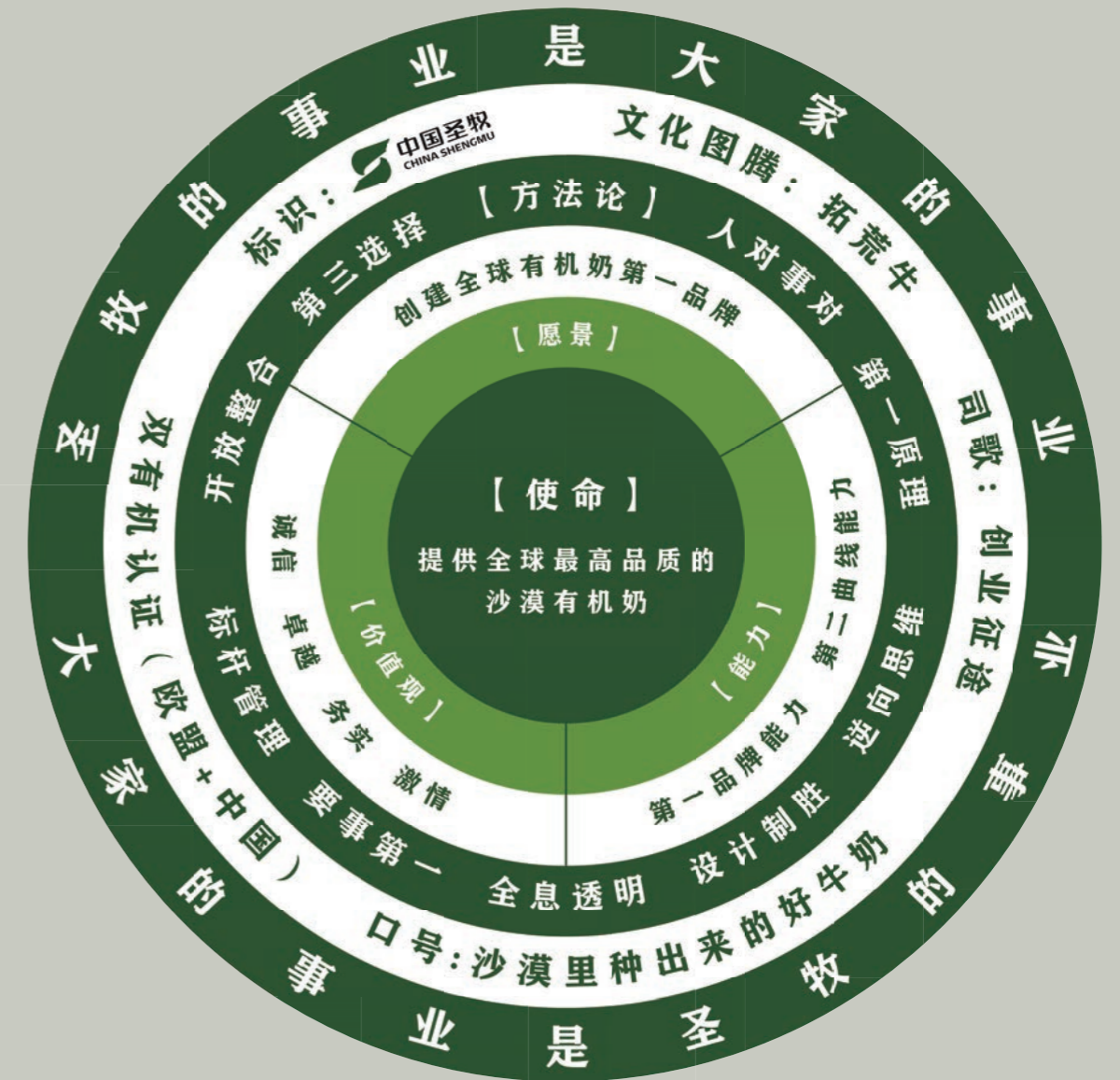
Since its inception, China Shengmu, with the vision of developing into a top brand in the global organic milk industry, has always adhered to the core values of "Integrity, Excellence, Pragmatism and Passion". The Company has innovatively combined desert governance with circular agriculture, taken advantage of the favorable geographical conditions and natural environment of Ulan Buh Desert to improve the ecological environment and develop the sand industry on a large scale, and thus formed an organic industry chain. It has become a pioneer in China's organic circular industry in desert and the world's largest producer of desert organic raw milk. As the dairy industry is speeding up its modernization, capital, talent and other essential resources are rapidly concentrated in the leading enterprises. In the process of industry transformation, China Shengmu has put forward a new development philosophy, adhering to the concept of "Youth, Openness, Reform" and jointly promoting "Sustainable and Common Development" of the industry to build a top brand in the global organic milk industry.



Key Performance

- RMB **7.5** billion invested in Ulan Buh Desert;
- **230,000** mu of deserts transformed into fine grasslands;
More than **200** square kilometers of deserts afforestation;
97 million desert trees planted;
- **33** pastures built, including **19** organic pastures and **14** non-organic pastures (4 DHA pastures);
- **193.3** kilometers of roads built, including **43** kilometers with asphalt pavement;
- **277.9** kilometers of wires installed in the desert;
- **11** reservoirs built in Ulan Buh Desert;
- **9** organic manure fermentation plants built;
1 biological organic manure processing plant built;
- Officially became a corporate member of the United Nations Global Compact (UNGC);
- Became the first livestock farming company to be included as a case study in the Corporate Net Zero Roadmap — Delivering the Paris Agreement and the Sustainable Development Goals, a report jointly published by the UNGC and Boston Consulting Group (BCG);
- Included as a case study in the World Economic Forum's New Nature Economy report series, and stood out in the category of “New Nature Economy” and won the Golden Key Award by its original organic eco-friendly desertification control system;
- Selected as 2021 Enterprise for Best Practices (Sustainable Production and Consumption) in Achieving Sustainable Development Goals by UNGC;
- As the first enterprise in the dairy industry to officially become a full member of the International Federal of Organic Agriculture Movement (IFOAM) – Organics International;
- Nine pastures were rated S in the Modern Dairy Industry Evaluation – Dairy Farm Grading and Evaluation, and another five were awarded China's Good Agricultural Practice (GAP).

Corporate Culture



Brand Concept

In 2022, Shengmu comprehensively upgraded its brand identity to show its brand image more in line with modern aesthetics. At the same time, it means that Shengmu will open up a new era of green, low-carbon, organic and sustainable development of animal husbandry industry.

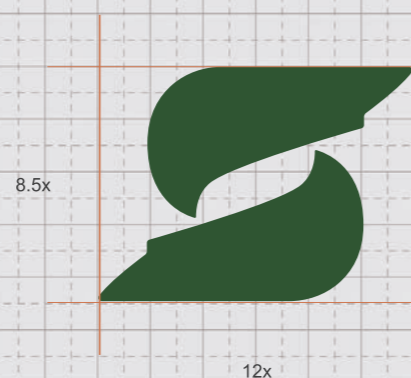
Root and Origin



The team of China Shengmu has cut through thorns and planted grass to grow pastures in Ulan Buh Desert, creating the world's first sand-grass organic circular industry chain. Through their ecological conservation effort, they have grown the world's largest organic ecosphere. It has realized a virtuous circle in which social value, ecological value and economic value feed off each other, and created the "China Shengmu Model" for sustainable development.

Keywords

China Shengmu:
The main image of the LOGO extracts the English initial "S" of Shengmu as an element to create a super symbol exclusive to the Company.



MESSAGE FROM CEO

2021 was a milestone year in the history of the Communist Party of China and our country. It was also an important year for China Shengmu to remain true to its mission, seize opportunities, and take solid steps to build a top brand in the global organic milk industry.



To insist on sustainable development, we are firm and advancing with the times.

In the first year covered by the 14th Five-Year Plan and against the backdrop of the national drive to promote rural vitalization in all respects, we applied the new development philosophy, moved faster to shift to high-quality, green and low-carbon development, and promoted agricultural modernization and rural development, aiming to become a leading enterprise in organic raw milk industry. In 2021, we continued to advance the sustainable development strategy and practice the new development concept of “Youth, Openness, Transformation, Sustainable and Common Development”, taking a more solid step to a top brand in the global organic milk industry.

In 2021, we officially became a member enterprise of the United Nations Global Compact (UNGC). In July, UNGC officially released the Corporate Net Zero Roadmap — Delivering the Paris Agreement and the Sustainable Development Goals, in which our good practice in reducing carbon emissions from livestock farming is introduced in the agri-food industry. This fully demonstrates the UNGC’s high recognition of our achievements in sustainable development and ESG practice.

In 2021, in response to the national strategy of carbon neutrality, we launched the sustainability and carbon neutrality project, and hired Boston Consulting Group (BCG), known as the world’s top think tank, to effectively carry out carbon baseline inventory combined with pasture practices, and continue to promote carbon reduction and carbon sequestration. We set environmental management objectives and took into account local conditions for a green and sustainable operating model, and actively explored to build the first “carbon-neutral” pasture.

To provide consumers with quality organic milk, we keep meticulous and strive for excellence.

“Providing the world’s highest quality desert organic milk” is our mission and the foundation of our development. We believe that China has the capacity to produce the best milk in the world, and we are proud to be able to do our part in making that happen. Insisting in “Growing Good Pastures, Raising Good Cows and Producing Good Milk”, we have been committed to desertification control in Ulan Buh Desert and producing high-quality organic raw milk for many years, and have actively promoted desert organic milk products and the concept of organic agriculture in China.

We have met the world-class standards. In August 2021, after passing strict review by the International Federal of Organic Agriculture Movement (IFOAM) – Organics International, we were granted its full membership, and became the first member from Chinese dairy farming industry with voting rights in the IFOAM and the IFOAM-ASIA, the right to participate in the formulation of international organic product standards and the right to elections. This will allow us to demonstrate, lead and promote the perfection of international standards for organic products and enhancing China’s position in international organic agriculture. This honor will also motivate us to contribute more to the rapid development of China’s organic dairy industry.

We are strict in quality control. Benchmarking with relevant international and domestic standards, Shengmu has established an exclusive quality management system in all aspects, through which we achieved continuous improvement in raw milk product quality. At present, the core quality indicators of Shengmu’s raw milk, such as somatic cells and microorganisms, continue to be at the forefront of the industry. Among pastures of Shengmu, nine of them were rated S in the Modern Dairy Industry Evaluation – Dairy Farm Grading and Evaluation, and another five were awarded China’s Good Agricultural Practice (GAP).

Guided by social responsibility, we are committed to creating win-win results and a better future for all.

For our employees, we insist on that everyone is empowered to maximize their potential. We provide every employee with the opportunity for sustainable development and continue to improve the working environment. Through a scientific and diverse training system and a dual-channel promotion mechanism, we offer competitive remuneration and benefits and a diversified development platform to expect employees to grow together with the Company while showing their talent and style.

We actively give back to society and contribute to public wellbeing. In the face of the normalization of the current global epidemic, we stand with other walks of society and play an active role in the fight against the epidemic. At the same time, we devote ourselves to poverty alleviation and rural vitalization, and use our business expertise to promote rural development and improve the life quality of local residents.

As a responsible global citizen, we pledge to support the Ten Principles of the UNGC and the realization of the United Nations Sustainable Development Goals (SDGs). We have sorted out the connection between corporate operations and the specific targets of SDGs, actively performed our social responsibilities, and worked with more than 15,000 other companies and stakeholders from more than 160 countries in the UNGC to promote global sustainability.

The year 2022 will be critical for China to embark on a new journey toward the second Centenary Goal, and will see the CPC convene its 20th National Congress. In the new situation, along with new tasks and new expectations will come new opportunities for China’s organic dairy industry. We will continue to uphold our core values of “Integrity, Excellence, Pragmatism and Passion” as always, pursue progress while ensuring stability, and be bold in trials and innovation. We will continually give play to our demonstrating and guiding role as a market leader, write more Shengmu stories on the road to sustainable development, and create a legend in China’s organic dairy industry.

CEO of China Shengmu Organic Milk Limited
Jiawang Zhang



SUSTAINABILITY MANAGEMENT

Response to UN SDGs

Based on its active practice and contribution to the SDGs, Shengmu's original organic ecological sand control industry system was selected as 2021 Enterprise for Best Practices (Sustainable Production and Consumption) in Achieving Sustainable Development Goals by UNGC.



SDG Targets

1.2 By 2030, reduce at least by half the proportion of men, women and children of all ages living in poverty in all its dimensions according to national definitions

1.5 By 2030, build the resilience of the poor and those in vulnerable situations and reduce their exposure and vulnerability to climate-related extreme events and other economic, social and environmental shocks and disasters.

1.A Ensure significant mobilization of resources from a variety of sources, including through enhanced development cooperation, in order to provide adequate and predictable means for developing countries, in particular least developed countries, to implement programmes and policies to end poverty in all its dimensions.

China Shengmu' s Response

1.The Company supports the development of stockbreeding industry in Dengkou County, Bayannur City, where the Company operation is located, to directly promote the employment of the poor and increase their income.

2.The Company supports rural vitalization, actively participates in the business-village partnership for rural development campaign, and promotes the integrated development of industries in Majiayao Village.

SDG Targets

3.8 Achieve universal health coverage, including financial risk protection, access to quality essential health-care services and access to safe, effective, quality and affordable essential medicines and vaccines for all.

3.9 By 2030, substantially reduce the number of deaths and illnesses from hazardous chemicals and air, water and soil pollution and contamination.

China Shengmu' s Response

1.The Company formulated the Occupational Health Management System; prevents occupational health risks and ensures employee health by following the requirements for occupational health and safety management.

2.As a leading organic milk producer in the industry, Shengmu produces the best desert organic milk in the world of high nutrition and with pure and safe milk sources.

SDG Targets

5.1 End all forms of discrimination against all women and girls everywhere.

5.A Undertake reforms to give women equal rights to economic resources, as well as access to ownership and control over land and other forms of property, financial services, inheritance and natural resources, in accordance with national laws.

5.C Adopt and strengthen sound policies and enforceable legislation for the promotion of gender equality and the empowerment of all women and girls at all levels.

China Shengmu' s Response

1.The Company forbids gender discrimination and implements equal pay for equal work among male and female employees with the male to female ratio of 6:4.

2.The Company set up the women's union to protect female employees' rights and benefits, continuing to increase the proportion of female employees in the management.

SDG Targets

6.4 By 2030, substantially increase water-use efficiency across all sectors and ensure sustainable withdrawals and supply of freshwater to address water scarcity and substantially reduce the number of people suffering from water scarcity.

China Shengmu' s Response

1.The Company continues to implement water-efficient irrigation and increase input into infrastructure; built reservoirs and channeled the spillover of Yellow River in the ice flood season to the organic plant base to water the trees and grass in the desert as a supplement to underground water to save water resources.

SDG Targets

8.2 Achieve higher levels of economic productivity through diversification, technological upgrading and innovation, including through a focus on high-value added and labour-intensive sectors.

8.5 By 2030, achieve full and productive employment and decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal value.

8.7 Take immediate and effective measures to eradicate forced labour, end modern slavery and human trafficking and secure the prohibition and elimination of the worst forms of child labour, including recruitment and use of child soldiers, and by 2025 end child labour in all its forms.

8.8 Protect labour rights and promote safe and secure working environments for all workers, including migrant workers, in particular women migrants, and those in precarious employment.

China Shengmu' s Response

1.The Company has created a lot of jobs for local communities, including Dengkou County, to increase farmers' income; forbids forced labor and child labor.

2.The Company values corporate culture building, provides competitive salary and benefits for employees, and creates a "family" culture of Shengmu, continuously improving logistics services for employees.

3.The Company released the Employee Care Management System to care about employees with a variety of benefits.



SDG Targets

17.16 Enhance the global partnership for sustainable development, complemented by multi-stakeholder partnerships that mobilize and share knowledge, expertise, technology and financial resources, to support the achievement of the sustainable development goals in all countries, in particular developing countries.

17.17 Encourage and promote effective public, public-private and civil society partnerships, building on the experience and resourcing strategies of partnerships.

China Shengmu' s Response

1.The Company builds a close strategic partnership with peer companies, universities and other partners, and gives full play to each other's advantages in resources to jointly promote the development of green organic agriculture.

2.The Company has established an interest linkage mechanism with suppliers and provides them with technical and financial support to jointly build an organic supply chain.

SDG Targets

16.5 Substantially reduce corruption and bribery in all their forms.

16.6 Develop effective, accountable and transparent institutions at all levels.

16.B Promote and enforce non-discriminatory laws and policies for sustainable development.

China Shengmu' s Response

1.The Company constantly improves corporate governance, strengthens anti-corruption, and strives to establish an efficient and transparent governance system.

SDG Targets

15.1 By 2020, ensure the conservation, restoration and sustainable use of terrestrial and inland freshwater ecosystems and their services, in particular forests, wetlands, mountains and drylands, in line with obligations under international agreements.

China Shengmu' s Response

1.The Company continues to implement water-efficient irrigation, increase infrastructure investment, build reservoirs, and channel the spillover of the Yellow River during the ice flood season into the organic planting base to water trees and grass in the desert, balancing groundwater utilization, and saving water resources. The Company has also built an organic biosphere in the desert to improve the local ecological environment and biodiversity.

SDG Targets

13.3 Improve education, awareness-raising and human and institutional capacity on climate change mitigation, adaptation, impact reduction and early warning.

China Shengmu' s Response

1.The Company promotes industrial sand control, and plants trees and grows organic pastures in the desert to form an organic ecosystem, improving local ecological environment and biodiversity and the ability to adapt to climate change.

2.The Company took the lead in proposing a carbon emission reduction route and released corresponding strategies and plans. We have effectively completed the carbon inventory work, and become the first domestic animal husbandry enterprise to include the intestinal fermentation, fecal management and energy consumption of dairy cows in the inventory calculation. In 2021, the total carbon emissions of main emitters on pastures were about 660,000 tons, decreased by about 5.7% year-on-year, and completing more than 87% of the established science-based emission reduction target. The cumulative carbon sequestration by forests, grasslands and farmlands reached 1.11 million tons, and the carbon reduction target for the year was basically achieved.

SDG Targets

12.2 By 2030, achieve the sustainable management and efficient use of natural resources.

12.4 By 2020, achieve the environmentally sound management of chemicals and all wastes throughout their life cycle, in accordance with agreed international frameworks, and significantly reduce their release to air, water and soil in order to minimize their adverse impacts on human health and the environment.

12.5 By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse.

12.6 Encourage companies, especially large and transnational companies, to adopt sustainable practices and to integrate sustainability information into their reporting cycle.

China Shengmu' s Response

1.The Company has built the world's first circular desert organic dairy industry chain integrating pasture growing, dairy farming and raw milk processing in Ulan Buh Desert to produce high-quality organic raw milk.

2. By the end of 2021, more than 95% of the coal-fired boilers on the pastures were replaced by air source heat pumps, significantly reducing slag waste generated.

3.The Company hires qualified companies to treat hazardous waste by means of high-temperature sterilization, grinding and fermentation.

4.The Company uses advanced solid-liquid separation technique on cow manure, and after harmless fermentation, uses solid cow manure as the bedding materials for dairy cows. In this way, cow manure is recycled to enhance the comprehensive value of resources.

5.The Company applies the sustainability to business development and operation, and takes scientific measures to achieve the sustainable use of natural resources, reduce pollution and protect the environment.

6.The Company regularly discloses its sustainability values, practices and performance in the annual ESG report.

Sustainability Management Structure

China Shengmu attaches importance to ESG risk control and continuously improves its ESG governance structure and mechanism. According to the current situation of ESG management and its business development needs, the Strategy and Sustainable Development Committee is set up under the Board of Directors.



Internal Stakeholders	Responsibilities	Members
Board of Directors	Formulate corporate sustainability management policies, strategies and objectives, and identify material issues; Regularly check on the progress on sustainability; Identify and evaluate risks and opportunities.	Directors
Strategy and Sustainable Development Committee	Oversee and evaluate the Company's sustainability performance and report to the Board of Directors; Control possible sustainability risks.	Chairman and members
Sustainable Development Department	Advance routine sustainability work, regularly convene meetings to solve problems; Oversee and report on project progress.	Head and team members
Other departments	Communicate between the superior and subordinates, and advance the implementation of specific tasks; Regularly report to the Sustainable Development Department on the project progress; Report problems (i.e. the inadequacy of resources) encountered in the implementation process promptly.	Heads: Heads of departments, and general managers of pastures, forage planting, and feed mills Team members: EHS specialists and supporting staff

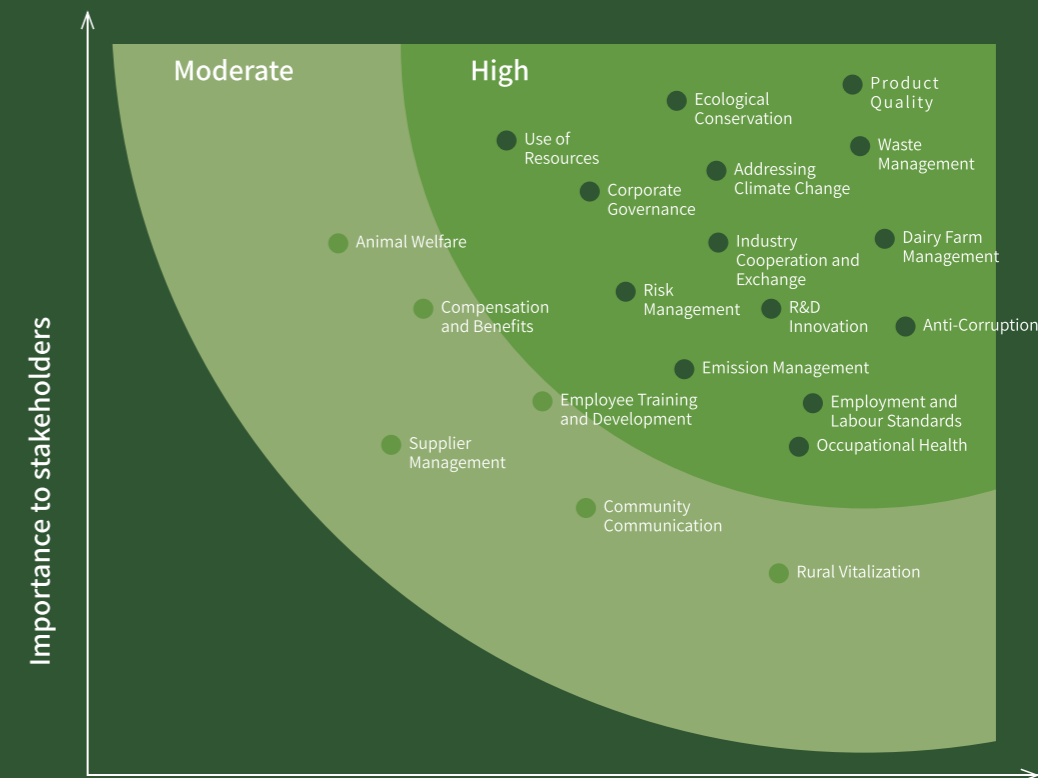
Stakeholder Communication

According to the demands of stakeholders, we have established the regular stakeholder communication mechanism. We hope to maintain good interaction with stakeholders through targeted and diversified communication methods, so as to actively respond to their demands and further advance and improve the sustainability management of Shengmu.

Key Stakeholder	Main Concerns	Communication Channels	Main Responses
Shareholders	Sustainable and stable return on investment Timely information disclosure Compliance operations	Shareholders' Meeting Annual Report and corporate announcements	Improving business operation and consolidating Shengmu's leading position in the industry Regular information disclosure Improving internal compliance systems
Employees	Creating space for career development Providing diverse compensation and benefits Improving health and safety protection	Intranet WeChat Official Account General Manager Mailbox Transparent communication meetings	Improving internal management regulations such as employee recruitment and promotion Enriching employee life Providing diverse job and life securities
Suppliers	Fair, just and open procurement process Contract fulfillment on time Driving business growth for win-win results	Procurement and bidding announcement Regular communication on quality requirements Supplier conference	Ensuring the transparency of the procurement process Guaranteeing timely payment Promoting communication with suppliers Supporting supplier growth
Customers and Partners	High-quality products and services Grasping customer needs Promoting industrial development	Customer communication Communication in the industry	Strengthening product quality controls Enhancing innovation Promoting experience exchange in the industry
Government	Driving the development of local and peripheral industries Compliant operations Paying taxes according to law	Government meetings Regular visits Supervision by government officials	Providing jobs, and contributing to tax revenue Cooperating with government supervision, and improving internal compliance monitoring systems Complying with laws and regulations
Communities	Supporting community development Engaging in charity	Dialogue with community representatives Volunteer activities	Maintaining close communication Charitable donation and assistance

Materiality Analysis

After reviewing and evaluating ESG topics in 2021 from the perspective of stakeholders, we summarize key ESG topics of Shengmu as the basis for the reporting preparation. Then we review the evaluation results of material topics in 2020, and refer to the ESG management of peers to screen and update the ESG database in 2021 by considering our overall business development in 2021. Finally, we evaluate the topics from the two dimensions of "importance to corporate development" and "importance to stakeholders" to form the materiality matrix.





EMPOWERING THE SUSTAINABLE ECOSYSTEM TOWARD CHINA' S 30 · 60 GOALS

As human activities continue to drive up greenhouse gas (GHG) emissions and global warming. The world has reached the consensus on reducing carbon emissions to achieve carbon neutrality. The dairy industry faces challenges of achieving carbon neutrality since China proposed the 30 · 60 Goals. In this context, Shengmu took the lead to respond to the 30 · 60 Goals and Paris Agreement's commitment to "reduce the global climate by 1.5 degrees Celsius", the Company formulated a scientific and effective route for emission reduction with science-based target. By embedding carbon reduction into all operational links, the Company strives to build a green and low-carbon ecosystem driven by two wheels: carbon reduction in pasture growing, dairy farming and raw milk processing, and carbon sequestration by farmlands, forests and grasslands, to contribute to addressing climate change and sustainable development.

The Company has had a clear understanding of its carbon emissions inventory, and submitted it to SBTi (Science Based Targets initiative) and RE100 (Renewable 100 Percent) with the hope of obtaining their certifications by 2022.





Scientific Route to Carbon Reduction with Science-based Target

As China goes all out to achieve the 30·60 Goals, Shengmu answers the call of the times, plays a pioneering role in the industry, plans carbon emissions scientifically, and strives to achieve carbon neutrality in the industry. In cooperation with Boston Consulting Group (BCG), the Company scientifically established the carbon baseline inventory audit process and mechanism, including intestinal fermentation, fecal management and energy consumption of dairy cows; under the guidance of international scientific methodology, the Company completed the 2020 carbon baseline inventory, and drew the roadmap to the carbon emissions target 2020-2022 based on the inventory results and the 2020 carbon emissions to meet the carbon reduction target in a scientific and orderly manner.

In 2021, Shengmu did a remarkable job in scientific carbon emissions reduction. According to Shengmu 2020-2022 roadmap of carbon emissions target, the Company was expected to reduce carbon emissions to 654,000 tons and the emission intensity by 6.54% by the end of 2021. Compared with the actual figures of about 660,000 tons and 5.7%, respectively, the Company completed about 87.16% of the target. Especially in the top three emitters: dairy farming, forage cultivation and feed processing, carbon emissions decreased to 570,000 tons, 77,000 tons and 13,000 tons respectively in 2021. As to carbon sequestration, an impressive total of 1.11 million tons of carbon emissions were sequestered by our forests, grasslands and farmlands.

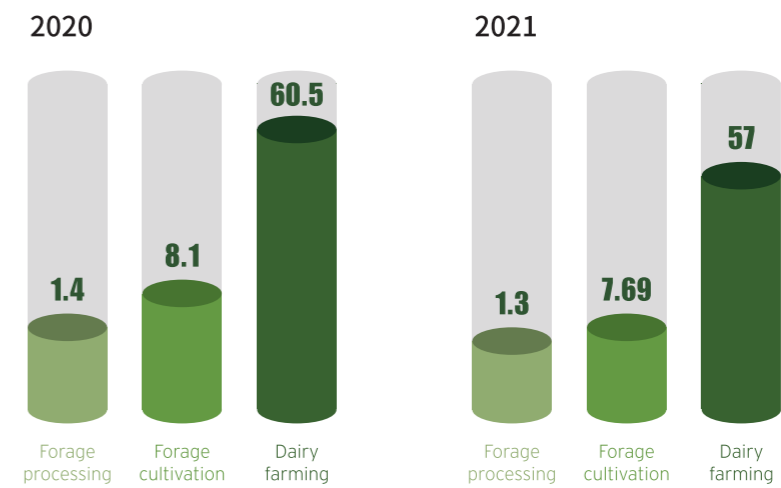
Shengmu 2020-2022 Roadmap of Carbon Emissions Target

Shengmu 2020-2022 Planned Carbon Emissions and Carbon Reduction Rate (10,000 tons of carbon dioxide equivalent, %)



Comparison of the Actual Carbon Emissions of Shengmu in Main Links in 2020-2021

(10,000 tons of carbon dioxide equivalent)



- The carbon emission of the dairy farming mainly comes from the carbon dioxide emission brought by intestinal fermentation and fecal management of dairy cows, and comprehensive energy of the pasture.
- The carbon emission of the forage cultivation mainly comes from nitrogen emission caused by soil fertilization and carbon dioxide emission caused by irrigation energy utilization of forage planting.
- The carbon emission of the forage processing mainly comes from the carbon dioxide emission caused by the energy utilization of concentrated forage processing.
- Carbon emission data are based on Chinese Certified Emission Reduction (CCER)'s Carbon Afforestation Methodology and 2019 Refinement to the 2006 IPCC Guidelines for National Greenhouse Gas Inventories as standard statistics.



Building a Low-carbon Operating System for Carbon Neutrality

The Company is committed to sustainable development, abides by the commitment in the Paris Agreement to "Limit The Temperature Increase to 1.5 °C above Pre-Industrial Levels", and builds a green and low-carbon operating model, centering on forage planting, dairy farming, forage processing, transport, etc. to create an ecosystem for low-carbon development. At the same time, Shengmu actively promotes low-carbon office and encourages green commuting to achieve corporate, social and environmental sustainability, and contribute to the realization of China's 30·60 Goals and global response to climate change.

In 2021, the Company became the first livestock farming company in China to be included as a case study in the Corporate Net Zero Roadmap — Delivering the Paris Agreement and the Sustainable Development Goals, a report published jointly by the UNGC and BCG.

Shengmu's Carbon Reduction Operation System

Objective: To deliver on the Paris Agreement's commitment to "Limit The Temperature Increase to 1.5 °C above Pre-Industrial Levels".

Green farmingw

- Adjust feed composition and mix, manage and optimize the herd structure, and shorten calving interval;
- Use IVF technology to improve the 21-day pregnancy rate and thus enhance the reproductive efficiency of cows;
- Upgrade the manure storage and treatment method, and recycle the manure as bedding materials for cows;
- Replace coal-fired boilers with air source heat pumps and recover heat from fresh milk that is cooling in the parlor to improve energy efficiency.



Green planting

- Increase the proportion of green electricity used for forage grass planting;
- Improve the environment of pastures and dairy farms, expand the forest area, and improve the efficiency of ecological carbon sequestration.

Green processing

- Upgrade feed processing equipment and improve the energy mix;
- Use Yucca extract in feed additives to reduce the amount of methane-containing additives.

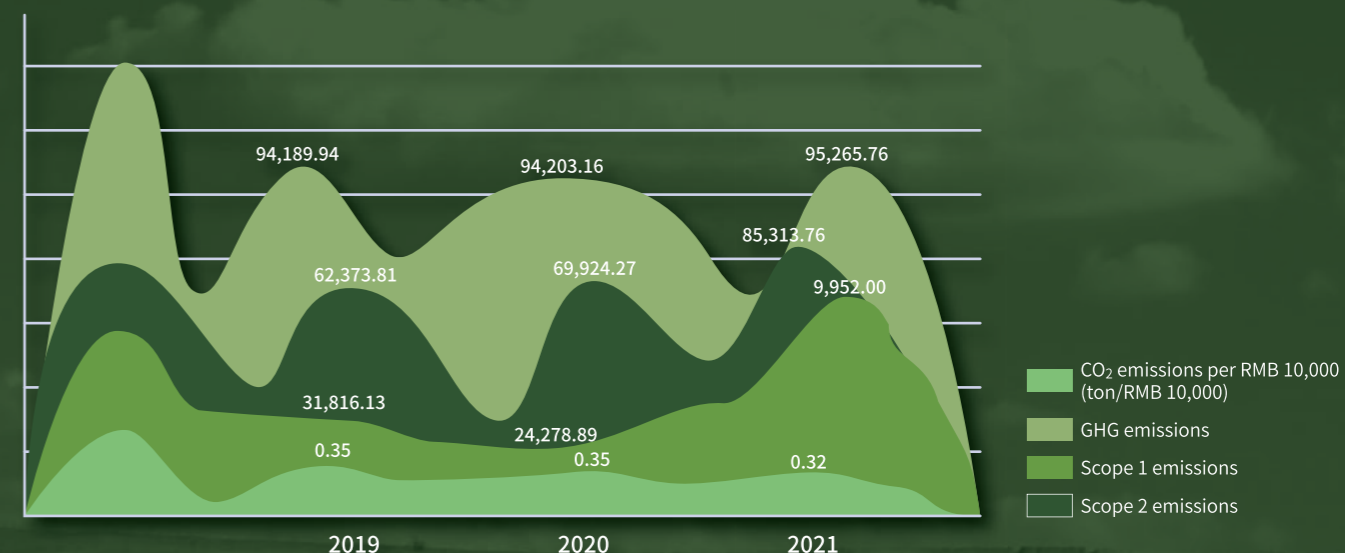
Green transport

- Promote the use of new energy vehicles; and the replacement rate of new energy vehicles such as loading trucks and mixers reaches 70%.

Shengmu's GHG emissions mainly come from indirect emissions from the use of electricity and direct emissions from the use of coal and diesel. Shengmu pursues green development in daily operations and management, continues to promote the use of new energy, increases the proportion of green electricity, and optimizes the energy mix to reduce GHG emissions and emission density from the source.

Shengmu has long promoted green office and low-carbon lifestyles, encourage to use less paper and electricity in office work, striving to cut paper use to half and electricity use by 15%. Shengmu has also advocated green transport, and encouraged employees to carpool or choose public transport, enhancing employees' awareness of environmental protection and working together to achieve the Company's science-based carbon reduction target.

Annual Comparison of GHG Emissions (ton)



The calculation of Scope 1 GHG emissions is based on 2006 IPCC Guidelines for National Greenhouse Gas Inventories, and CO₂ emissions from fossil fuels are converted from the use of coal and diesel oil. The calculation of Scope 2 emissions is based on 2017 Baseline Emission Factors for Regional Power Grids in China and the ESG Reporting Guide of Stock Exchange of Hong Kong. Every MWh of electricity consumed in North China is converted to 0.9680 tons of CO₂ emissions produced.



Increasing Farmers' Income to Contribute to Social Sustainability

Serving the needs of the people is one of Shengmu's missions. In 2021, Shengmu continued to adhere to the concept of "business for social good", and explored a mechanism of more closely-knitted partnership with farmers combining our business edge. Shengmu signed contracts with about 30 cooperatives and rural households and provided advanced practice for forage planting, increasing farmers' income, and promoting social sustainability while realizing corporate development.

In 2021, through the sustainable industry ecology, Shengmu helped more than 20,000 farmers and herdsmen nearby to increase production and income, and provided nearly 3,000 jobs for people of ethnic minorities.



01 RESPONSIBLE FOR QUALITY



China Shengmu, with the vision of developing into a top brand in the global organic milk industry, actively implements the UN SDGs, and tries its best to build an integrated desert organic circular industry chain, including pasture growing, dairy farming, and raw milk processing. Guided by the sustainability concept, the Company has made successful attempts in developing the organic dairy industry in Ulan Buh Desert, and formed the unique Shengmu Model, leading the high-quality development of China's organic dairy industry.

In 2021, the Company exercised strict quality control from the organic environment of raw milk production to the supply of organic products, improved the product quality by digital and intelligent pasture technologies, built a healthy organic ecosystem with suppliers and partners, and continuously and steadily supplied high-quality raw milk, to meet people's daily demand through responsible operations.



“ Supplying High-quality Raw Milk

With the mission of "providing the world's highest quality desert organic milk," the Company is strict with quality control, ramps up to build high-quality milk sources and a whole-process organic industry chain, promotes the construction of digitally- intelligent pastures to supplies high-quality raw milk.

Organic Industry Chain to Ensure the High-Quality Raw Milk Supply

The Company strictly abides by the Food Safety Law, Regulations on the Supervision and Administration of Quality and Safety of Dairy Products, and other governing laws and regulations, and formulated Quality Management System of Raw and Auxiliary Materials and Raw Milk. The Company promotes the "6S" lean management on pastures, benchmarks AQ, Arlagarden, ISO9000 and other related laws, regulations and international and domestic standards on livestock breeding, and incorporates 100% of pasture management and key parts. The Company also formulated Shengmu Pasture Quality and Safety Management System to standardize the management of 93 key points in four categories including quality control of raw and auxiliary materials from the source, health and welfare of dairy cows, milk quality assurance, and operation support, building the comprehensive quality management model that is customer-centered, all-employee-involved, and ever-improving. The Company works to build a whole-process organic industry chain covering organic environment, organic cultivation, organic farming and organic products, to improve breed of dairy cows, produce high-quality forage grass, and standardize the production process. It has been doing its best to improve cow welfare and continue to produce the best raw milk in the industry.

The Company focuses on upgrading central inspection laboratory, increasing inspection frequency, tightening testing standards, and making a comprehensive internal risk identification, prevention and control plan to completely eliminate quality risks and ensure the quality of raw milk.



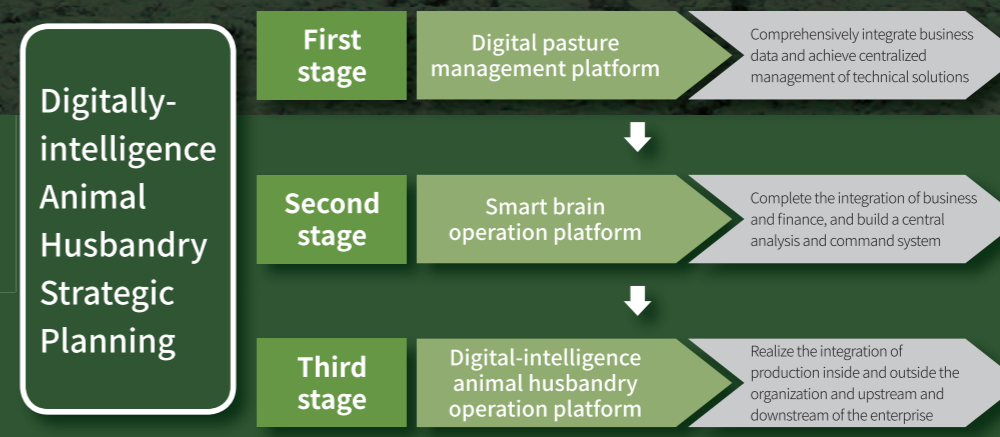
In terms of the quality evaluation standard for raw milk, China Shengmu continues to be at the forefront of the industry, with the average somatic cell count (SCC) and colony count of 13.9 (10000/mL) and 0.8 (10000 CFU/ml), respectively far lower than those of the EU and the US standards (EU: SCC standard ≤ 400000/ml, TBC standard ≤ 100000 cfu/ml; US: SCC standard ≤ 750000 / ml, TBC standard ≤ 100000 cfu/ml).

Accelerating Digitization to Empower Dairy Farming

Key Performance

10% increase in annual milk output per cow through intelligent pasture management in 2021.

Digitization is the inevitable choice for enterprises to improve operational efficiency and market competitiveness, and digital management of milk sources in all respects represents a general trend of the future. We implement the strategic plan of developing digital and intelligent animal husbandry. Using digital tools to establish a digitally-intelligent pasture management platform and a central control system, we connect upstream and downstream business, and improve the efficiency of animal husbandry. We work to build a traceable, flexible and plannable digitally-intelligent animal husbandry industry, and form a strong competitiveness in raw milk production.



In 2021, the Company actively developed the digital pasture management platform, a budget management platform based on performance evaluation, and the materials demand plan based on herd forecast. We launched SAP-ERP, trained the management team on digital abilities, and embarked on a new journey toward intelligent, information-based and digital operations and management.

Successfully Launch Shengmu High-tech SAP-ERP

- Through the digital transformation of the six modules of procurement and warehouse management, production management, quality management, sales management, financial management, and cost management, a digital platform for integration and intelligent decision-making is created.
- It helps to achieve vertical penetration of business management, promotes the integration of logistics, capital and information, and the data is from the same source, providing more reliable, timely, accurate and comprehensive information support for corporate leaders to make decisions; realize the horizontal integration of the whole business of forage bases, food companies, feed mills and pastures, and promote the standardization, refinement and transparency of internal management and control; coordinate the three main management lines of pasture operation, functional support and financial management to establish a unified group business management system, realizing integrated management of operation, support and finance.

Carry Out Digital Management Capability Improvement Training

- Senior managers:** organize and carry out the online training of Business Digital Strategy: Leading the Next Generation of Enterprises, and discuss how managers can develop new strategies and business models through courses such as digital transformation and platform business models, so that enterprises can thrive in the digital age. Three executives participated in the training.
- Middle management:** Provide data modeling and decision-making courses, learn the processing and analysis of management data, and establish corresponding quantitative models, skills and methods, etc., continuing to improve the digital capabilities of management talents. 43 middle managers participated in the course learning.



Enhancing Supply Chain Management

A sound supplier management system can guarantee a sustainable supply chain and the quality and safety of dairy products. China Shengmu has always attached great importance to building a responsible supply chain, and continued to improve the supplier management system. Through strict supplier assessment, deep communication and cooperation, and training activities, we actively support strategic suppliers to build a responsible supply chain.

Formulating Supplier Management System

We adhere to transparent procurement, and organize bidding and procurement with the principles of fairness, justice and openness. We have formulated a convention on the integrity and self-discipline of procurement personnel, and signed the anti-bribery contract with all suppliers. We implement strict punishment and urge suppliers to comply with laws and regulations, thus to provide institutional guarantee for the quality of raw and auxiliary materials.

We formulated Supplier Management System, strengthening management from the their entry, evaluation and exit. We have also strictly examined the qualification of new suppliers, and carefully tested the quality of raw and auxiliary materials to ensure the quality of raw milk from the source.

Key Performance

In 2021, There were 365 suppliers, including 38 organic suppliers, 361 domestic suppliers, 4 overseas suppliers, and 152 alternative suppliers.

01 Supplier access

Continuously raise the entry threshold for new suppliers, require their certificates of quality, environmental protection, safety, organic qualifications, etc., and conduct a comprehensive evaluation of the quality of its original auxiliary materials with high standards. Only qualified suppliers can obtain the entry qualification.

02 Supplier evaluation

Carry out monthly evaluation of suppliers in terms of materials, supply process, and service, etc., require problem rectification on unqualified suppliers, and give positive incentives to qualified suppliers; conduct unannounced inspections on organic raw material suppliers to ensure high-quality supply of raw materials.

03 Supplier exit

Strictly implement the supplier exit mechanism. Suppliers who adulterate or violate integrity management will be blacklisted and eliminated. If there are problems such as potential safety hazards, economic losses, substandard assessments, etc., the suppliers will be withdrawn.

Supporting Supplier Capacity Building

Enhancing supplier capacity is an effective way to achieve a sustainable supply chain, and also to improve Shengmu's product quality. We have established an interest linkage mechanism with suppliers, and provided them with technical and financial support to drive their development and jointly build an organic supply chain.

Key Performance

In 2021, we trained 25 domestic suppliers on organic standards and relevant terms and conditions, and 53 suppliers on feeds and forage hygiene indicators, to improve their sustainability capacity.

Technical support

Regularly visit, inspection and exchange with all suppliers every year to discover and solve existing problems promptly. We would make constructive suggestions on planting scale, production process, quality control and long-term planning of suppliers, share our good practices in dairy farming, forage cultivation and product quality improvement, and encourage suppliers to apply for organic certification. These efforts will not only improve suppliers' capacity, but also ensure the supply quality.

Financial support

By strengthening communication and cooperation with banks, we secure favorable loan policies and green loans for suppliers. We also introduced new financing products and simplified financing procedures to improve the financing efficiency and reduce operating costs. Our suppliers' financing costs are around the LPR level, which lays the foundation for the healthy growth of the industry chain.

The 2021 Supplier Workshop Themed Sincerely Work Together for Win-win Cooperation

In May 2021, the Company held a supplier workshop under the theme of "Sincerely Work Together for Win-win Cooperation", inviting 29 excellent suppliers from all over the country to discuss possibilities of strategic cooperation. In the future, we will seek common growth with suppliers, fully promote the implementation of the strategic procurement plan, cultivate a team of high-quality suppliers, and join hands with suppliers to enable the high-quality development of pastures with the latest products and technologies.





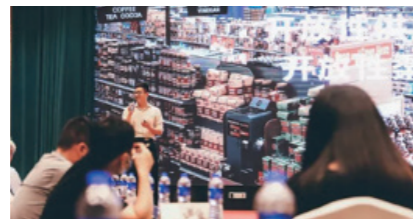
Boosting Industry Development

As the world's largest producer of desert organic raw milk and the first Chinese raw milk brand certified by both China and EU organic standards, the Company has a natural advantage in promoting the sustainable development of China's organic milk industry. In 2021, Shengmu used experience and the development model accumulated over the years to promote and deepen industry exchanges, strengthen strategic cooperation with industry partners and research institutes, integrate advantageous resources in talent, technology, and capital, and stimulate the innovation vitality. The Company actively contributed to developing a high-quality dairy industry in China, featuring organic, eco-friendly and sustainable development.

Deepening Industry Exchanges and Playing the Demonstration and Leading Role

To comprehensively and timely grasp the frontier trend of the global organic market, and to gain more cooperation and development in cross-regional and international communication, we have followed closely the latest developments in the dairy industry, and actively participated in domestic and international major events including the Organic World Congress 2021 organized by IFOAM and the 2021 Dairy Conference of China to strengthen communication with excellent peers and experts, learn advanced ideas in the world, and share good practices, contributing to the high-quality and sustainable development of the global dairy industry, especially in China.

A speaker from China Shengmu sharing his insights into the status quo and prospects of the organic industry with peers at the Organic World Congress held in September 2021.



China Shengmu Officially Becomes a Full Member to IFOAM

In 2021, the International Federal of Organic Agriculture Movement (IFOAM), the highest trade association of the global organic industry, granted full membership to China Shengmu after strict vetting. The Company thus became the first member from Chinese dairy farming industry with voting rights in the IFOAM and the IFOAM-ASIA, the right to participate in the formulation of international organic product standards and the right to elections. This will allow us to demonstrate, lead and promote the improvement of international standards for organic products and enhance China's position in international organic agriculture.



China Shengmu Participated in the 12th Dairy Conference of China to Contribute to the Industry Vitalization

At the 12th Dairy Conference of China held in Hefei, Anhui province in July 2021, Shengmu High-tech was ranked on The Marvel and Splendor of Dairy China: The Outstanding Company Directory during Realizing the 13th Five-Year Plan published by the Dairy Association of China. At the contract signing ceremony, China Shengmu signed contracts with COFCO Biotechnology Co., Ltd., Da Bei Nong Group, and Ai Yang Niu, to jointly drive the development of the dairy industry.



China Shengmu Holds a Desert Forum on Dairy Farming

In May 2021, China Shengmu held a forum on dairy farming under the theme of "Organic, Eco-Friendly and Sustainable Development" in Ulan Buh Desert. The forum brought together more than 300 well-known experts, scholars, executives from dairy enterprises, strategic suppliers and downstream partners, financial institutions, etc. Focusing on organic agriculture, breeding, feeding nutrition, animal health, and parlor transformation, the participants discussed the trend and reform of the industry, to empower the development of the Company and the wider dairy industry.



Strategic Partnerships for Mutual Benefits

China Shengmu continues to sharpen its market competitiveness and drive the high-quality development of the industry through innovation and cooperation. In 2021, upholding win-win cooperation, we worked to build a close strategic partnership with peers and universities, and leveraged our advantages in cooperation to seek innovation and create more value, striving to provide a more competitive source of raw milk for the global market.

Enterprise cooperation

- Signed the whole-organic-industry-chain strategic cooperation agreement with Ai Yang Niu and Jiusan Kangnuo, focusing on the growing demand for organic feed from China Shengmu, giving full play to the advantages of Jiusan Group's land resources and Non-Genetically Modified Organism(Non-GMO) crop planting, and jointly building organic feed raw material planting base with more than one million mu; with the help of the Ai Yang Niu platform, a closed-loop system of "supply-planting-management-collection-storage-transport-processing-sale" for organic order with whole-process supervision and traceability is realized, jointly building a domestic leading "whole-range organic farm", opening up and optimizing the whole industrial chain of organic agriculture.
- Signed a strategic cooperation agreement on joint breeding of Holstein cattle with Shanxi Provincial Animal Husbandry Genetics and Breeding Center to give full play to each other's advantages, realize in-depth cooperation in the fields of production performance measurement, selection and breeding of Holstein cattle core herds, and independent breeding of reserve bulls, to accelerate the development of seed cow herds, improve the independent innovation capacity of Holstein cattle germplasm, and enhance the comprehensive competitiveness of the dairy cattle seed industry.

Industry-university-research collaboration

- Cooperate with Inner Mongolia Agricultural University in talent training, scientific research, internship and experimental base construction, etc., to provide talents and intelligent support for scientific and technological research.
- Undertake scientific research projects such as the integration and demonstration of low-carbon technology for large-scale dairy farming, key technologies for intelligent low-carbon breeding of dairy cows, etc., injecting new momentum into the green organic agriculture development.
- Start the innovative pasture operation of the Shengmu Research Institute, invite industry leaders, experts and scholars to join the Shengmu Research Institute think tank, and help the development of Shengmu in all dimensions through industry-university-research collaboration.



Signing the whole-organic-industry-chain strategic cooperation agreement with Ai Yang Niu and Jiusan Kangnuo in Harbin



The contract signing ceremony to jointly build an industry-university-research collaboration platform with Inner Mongolia Agricultural University

Operation in Compliance

To effectively prevent and control materials risks and minimize their impact on corporate operation and development, the Company strictly abides by The Supervision Law, The Contract Law, The Company Law, The Anti-monopoly Law, The Anti-unfair Competition Law and other laws and regulations. We also strengthen internal control, risk management and combating corruption, protect intellectual property rights, and promote operation in compliance.

Improving the Internal Control and Risk Management Systems

In accordance with the Corporate Governance Code (Appendix 14 to the Listing Rules) of SEHK, and The Basic Standard for Enterprise Internal Control, we improve the institutional mechanism of internal control and risk management, conduct internal audit and risk assessment to improve the ability to prevent risks, supporting sustainable corporate development.

Internal control

- Internal audit supervision systems including Internal Audit Management System, Detailed Rules for the Implementation of Internal Audit and Administrative Measures for Engineering Project Audit were formulated.
- A risk management post is set up in the Audit Center, responsible for organizing business divisions to assess risks, analyze existing risk factors in corporate management, determine the key risk control links, eliminate risks identified, and improve risk management. Based on the results of risk assessment, the annual audit work plan is prepared to guide the orderly, planned implementation of audit work.

Enterprise risk management

- Determine the main types of business operation risks through risk identification, and building the Risk Classification Framework, Risk Information Table and Risk Assessment Form as tools to help analyze the causes, assessing the harm of risks and checking the effect of targeted countermeasures.
- In 2021, we issued 5 Early Warnings against Risks to prevent risks in production and operation.

Focusing on Anti-corruption Development

The Company attaches importance to stakeholder engagement in the fight against corruption. Last year, we improved organization and systems to regulate the code of conduct for employees in work and life, punish those violating law and discipline, and contribute to a good social order and morals.

- Set up a Department of Corporate Culture and Discipline, issued strict measures for dealing with violations of discipline, and be responsible for the investigation and handling of violations, clue collection and channel development, job and discipline supervision and performance evaluation.
- Introduced and implemented Shengmu's Regulations on Punishments of Violations of Corporate Culture and Discipline, explained the clauses to employees, and received 395 signed letter of confirmation on the Regulations from managers and higher level; regularly held workshops and training programs on anti-corruption and self-discipline to raise employees' awareness.
- Formulated the Reporting Management and Reward System, set up a bulletin board to present reporting handling in the office, established safe internal channels to protect anonymous and non-anonymous whistleblowers, and encouraged employees to participate in internal fight against corruption.

Strengthening Intellectual Property Rights Protection

We focus on intellectual property rights protection, and strictly abide by The Patent Law, The Copyright Law and other laws and regulations. A special fund was set up for patent declaration and protection. We identify, avoid and guard against potential intellectual property right risks that may arise in the course of technological innovation. We also improve the structure of patented technology and the quality of intellectual property. Training is organized to cultivate a stronger team of professionals. In the Company, we encourage and respect intellectual property and innovation.



RESPONSIBLE FOR ENVIRONMENT

Countries all over the world have recognized that climate change is one of the most serious challenges facing mankind, and the inevitable choice is to achieve carbon neutrality as soon as possible. As the largest developing country, China has pledged to peak carbon emissions by 2030 and achieve carbon neutrality by 2060, which poses a great challenge for China's dairy industry. In response, China Shengmu, with an eye on development in the long run, has taken the initiative, turned crises into opportunities, and continued to pursue eco-friendly and green development. We have pledged to develop the first carbon-neutral pastures in the country, promote the effective use of resources in the whole industry chain, reduce carbon emissions and achieve harmonious co-existence between man and nature.





“ Harmonious Co-existence with Nature



Shengmu integrates the sustainability into the whole lifecycle of industry development, and makes use of natural resources in the desert to build an integrated organic and circular industry chain covering pasture growing, dairy farming and raw milk processing. We promote sand control by developing local industries, curb land desertification and maintain biodiversity, and improve the natural environment. We have turned the previously inaccessible 330,000 mu desert into a “green garden”, contributing a new model of sand control to the world and a good practice in combining desert management and circular economy. In 2021, China Shengmu was awarded the GoldenKey·Champion, the highest honor of GoldenKey – SDG Solutions, by virtue of our unique organic eco-friendly desert control system in the category of New Nature Economy. It was also included as a case study in the World Economic Forum’s New Nature Economy report series.

Improving the Desert Climate Through the Wind-Breaking and Sand-Fixing System

By planting suitable plants in different areas, we have built a sand industry system and a three-dimensional ecosystem composed of trees, shrubs and forages: the big trees constitute the first line of defense, smaller trees and shrubs the second and third lines of defense, to break wind and fixate sand, curb land desertification. As a result, the desert climate has been significantly improved. By the end of 2021, we had planted more than 97 million desert trees in Ulan Buh Desert and transformed 410,000 mu of desert area, increasing precipitation from 80 mm/year to 320 mm/year, up by 30.36%, and reducing desert radiation by 40%-45%, sand and dust by 80%-90%, and average wind speed by 21.41% from the levels in the 1980s.

Treating Cow Manure to Improve Soil Health

The Company advocates kindness to nature. Relying on our advantage in combining pasture growing with dairy farming, we employed advanced technology and upgraded facilities to systematically treat the manure of dairy cows, and then returned the treated manure to the land within the maximum carrying capacity of the land, thus achieving efficient, reasonable and sustainable use of manure. This is also good for restoring degraded soil and improving the soil health. In 2021, the Company returned organic fertilizer to 220,000 mu of farmland, reducing the use of chemical fertilizer by about 7.5 million tons.

Improving Soil Health Through Lean Management

Following the principle of “raising a cow in three mu of land and returning the cow’s manure to three mu of land,” Shengmu constantly upgrades the processing and use management for organic fertilizer. In the transformation of the composting site, the I-beam structure was adopted to enhance the visibility, ventilation and rain protection, which will greatly shorten the ripening and fermentation cycle of organic fertilizer. Then advanced technology is used to apply fertilizer accurately to improve its utilization efficiency. The processed organic fertilizer can increase the aggregate structure of sandy soil, improve the soil’s performance of water and fertilizer conservation and thus its fertility, and also improve the drought resistance of crops.

It is expected that in the next 5 to 10 years, all our cultivation bases will see comprehensive improvement in soil health, and a benign cycle of energy and matters among agricultural cultivation, dairy farming and the ecological environment, further promoting the sustainable development of agriculture and animal husbandry.



Improving the Living Environment to Protect Animal Welfare

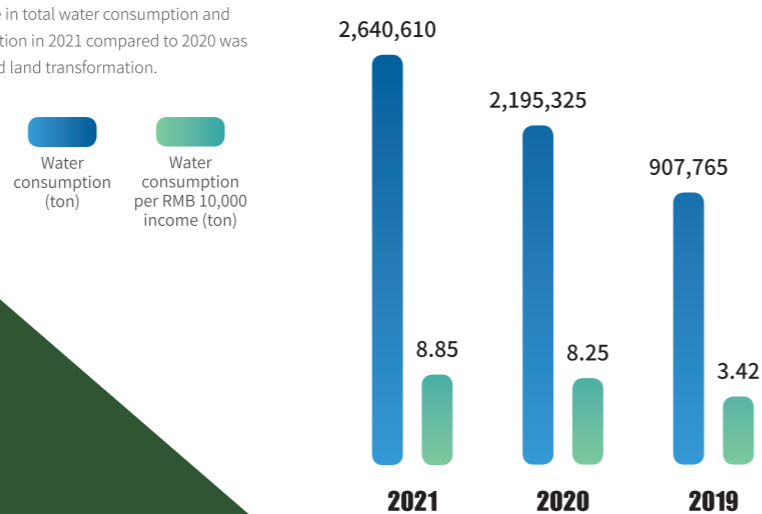
Shengmu attaches great importance to animal welfare, adopts low-density, low-pressure, high-quality raising styles, and strives to provide the most comfortable living environment for dairy cows. Each cow in the pasture claims an activity area of 60-80 square meters, spacious enough for them to stretch their legs. Full-time workers arranged to clean the barn every day to guarantee a sanitary environment. Regular hours established for cows, which is conducive to preventing mastitis and other diseases, and thus improving the quality of raw milk. The pasture is equipped with playgrounds, sand cushions, fans, cow brushes, cold suits, windbreaks, lighting equipment, sprinkler systems, etc. to ensure the health and comfort of dairy cows.

In 2021, nine of our pastures were rated S in the Modern Dairy Industry Evaluation – Dairy Farm Grading and Evaluation, and another five were awarded China's Good Agricultural Practice (GAP). The number of selected pastures leads the domestic industry.

Strengthening Water Conservation Across the Industry Chain

Rational use of water resources is an important guarantee for the sustainable development of the Company's organic dairy business. Therefore we attach great importance to the sustainable use and conservation of water resources, strengthen water conservation management across the industry chain, realize science-based water use, and reduce the waste of water resources. Last year we continued to implement water-efficient irrigation, increase infrastructure investment, build reservoirs, and channel the spillover of the Yellow River during the ice flood season to our organic cultivation bases for watering trees and grass in desert, as a supplement to groundwater, to save water resources. By the end of 2021, we had built 11 reservoirs and drilled 503 wells, and the combined water storage capacity of the reservoirs is enough to irrigate 12,300 mu of organic forage.

The slight increase in total water consumption and unit water consumption in 2021 compared to 2020 was due to the continued land transformation.



Scenes of a High-quality Cow Life at Pastures



A spacious, clean barn



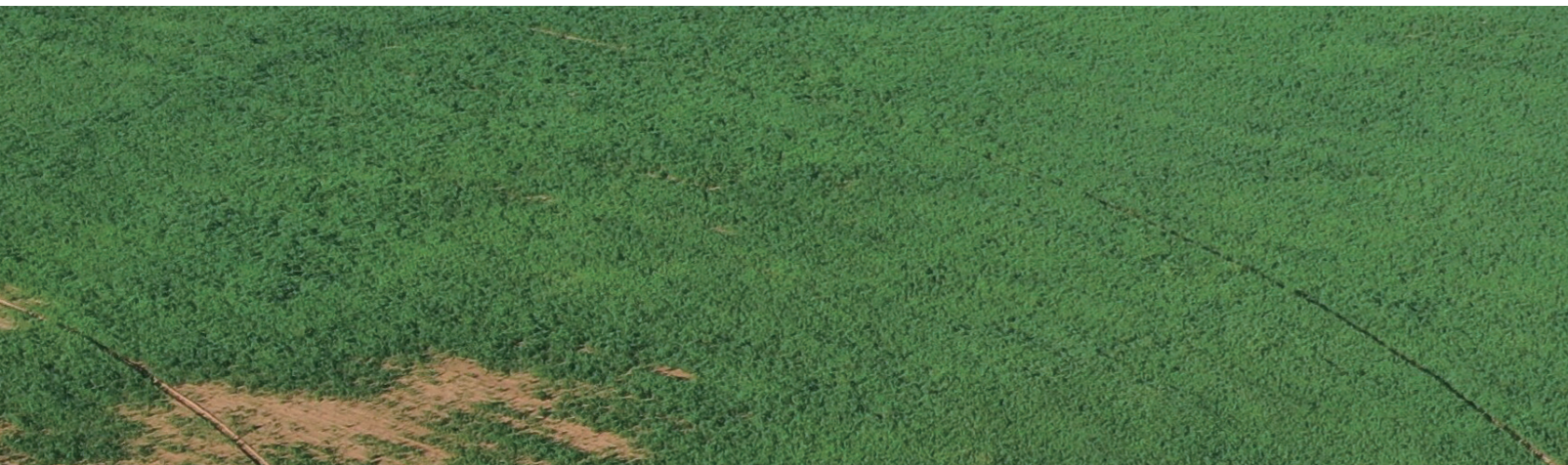
Enjoying music



Resting on dry, cozy sand beds



Taking a sunbath



Green Operations for High-quality and Sustainable Development

The Company strictly abides by The Environmental Protection Law of the People's Republic of China, The Animal Husbandry Law of the People's Republic of China and other laws and regulations, and always insists on the orientation of ecological conservation and green development. The Company also strengthens emissions and energy use management across the industry chain, reduces pollutant emissions, improves energy use efficiency, and builds eco-friendly pastures, achieving a win-win situation for environmental protection and sustainable corporate development.

Reducing Emissions to Improve Environmental Protection Effectiveness

The Company strictly complies with Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution, Law of the People's Republic of China on Prevention and Control of Water Pollution, Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste, Regulations on the Prevention and Control of Pollution Caused by Large-Scale Breeding of Livestock and Poultry, National Hazardous Waste List, Discharge Standard of Malodorous Pollutants and other regulations. Meanwhile we constantly improve our Environmental Protection Management System and Hazardous Waste Management System, and carry out special management and regular verification of the waste gas, waste water and solid waste generated in business operations, so as to control pollution from the source, reduce emissions and better protect the environment.

In 2021, after all the traditional coal-fired boilers were replaced by air-source heat pumps at our pastures, we managed to switch from coal to electricity for heating, and effectively reduced the emissions of SO₂, NO_x, soot and other exhaust gases. At the same time, we tightened control of hazardous wastes at the source, and hired qualified third-party companies to treat hazardous waste by means of high-temperature sterilization, grounding and fermentation. We also recycled cow manure and put it into better use.

	2019	2020	2021
Total exhaust gas emissions	50,138,880.00	30,117,120.00	10,896,480
SO ₂ emissions (ton)	2.61	1.07	1.14
NO _x emissions (ton)	2.13	1.54	1.32
Soot and dust emissions (ton)	1.32	0.86	0.45
Hazardous waste (ton)	3,046.71	2,554.91	2,682.31
Hazardous waste generated per RMB 10,000 (ton)	0.012	0.01	0.009
General waste (ton)	637.31	480.33	32
General waste generated per RMB 10,000 (ton)	0.003	0.002	0.0001
Solid waste (ton)	3,684.02	3,035.25	2,682.31

- The exhaust gas comes from the waste gas produced by the power operation of breeding equipment on the pasture.
- Hazardous waste comes from medical waste and the remains of sick and dead cows.
- General wastes mainly refer to the slag produced by coal-fired heating boilers at pastures. In 2021, more than 95% of coal-fired boilers were replaced by air-source heat pumps, resulting in a significant reduction in slag emissions.

Recycling and Reuse of Waste in Shengmu—Inner Mongolia University Collaboration Pasture

We promote pollution control and emissions reduction in Shengmu—Inner Mongolia University Collaboration Pasture. It uses advanced technology to separate solid cow manure from liquid manure, and after harmless fermentation, uses solid cow manure as the bedding materials for dairy cows. This not only solves the sourcing problem of bedding materials, but also finds a new use of manure, reduces the emissions of pollutants and the pressure of co-friendly disposal, and realizes the recycling of resources.



Bayannur Replacing Coal-fired Boilers with Electricity for Heating 16 Pastures

Considering that indoor winter heating equipment on pastures was outdated, inefficient, energy-intensive and polluting, After the renovation of heating equipment in all pastures in Hohhot, we continued to upgrade those in pastures in Bayannur. By the end of 2021, 16 pastures in Bayannur have replaced coal-fired boilers with electricity for heating, covering an area of 75,000 square meters, which can save 4,820 tons of coal and reduce carbon dioxide emissions by 3,121.3 tons, as well as the emissions of SO₂, NO_x, soot, dust and other exhaust gas, and thus reduce environmental pollution and realize green operation of pastures.



Upgrading Green Operations in Energy Conservation and Carbon Reduction

generate both economic and environmental benefits.

Taking low-carbon and sustainable development as lead, we have taken a series of measures to continuously upgrade green operations and strengthen energy conservation management. The energy mix is optimized by means of clean transformation of equipment, new-energy substitution, and advocacy of green office operations. All this is to ensure efficient use of energy, reduce our impacts on the environment, and generate both economic and environmental benefits.

In 2021, 95% of pastures completed clean equipment transformation, replaced traditional coal-fired boilers with air-source heat pumps which drive the equipment by electricity, capturing heat in the air for heating with more energy efficiency. We also vigorously promoted the use of green electricity in business operation. We replaced fuel vehicles with new energy vehicles, and strived to increase the proportion of green electricity to 20%-40%. At the same time, we promoted green office and encouraged employees to take low-carbon means of transport and save electricity, helping the Company achieve its overall energy conservation and carbon reduction goals.



03

RESPONSIBLE FOR EMPLOYEES



Talents are the most important for an enterprise to develop, and they are the biggest asset of enterprises. Creating an enabling environment for the growth of talents will provide strong support for corporate development in the long run. China Shengmu regards talent cultivation as an important part of corporate management and development. To attract, cultivate, inspire talents and maximize their potential, the Company strives to build a high-quality and specialized platform for animal husbandry professionals, establish a sound internal talent training mechanism, constantly improve the employee system, and promote work-life balance, to fully tap the vitality and potential of employees. We also support employees to grow with the Company for common development, and work with them to create greater value for society.



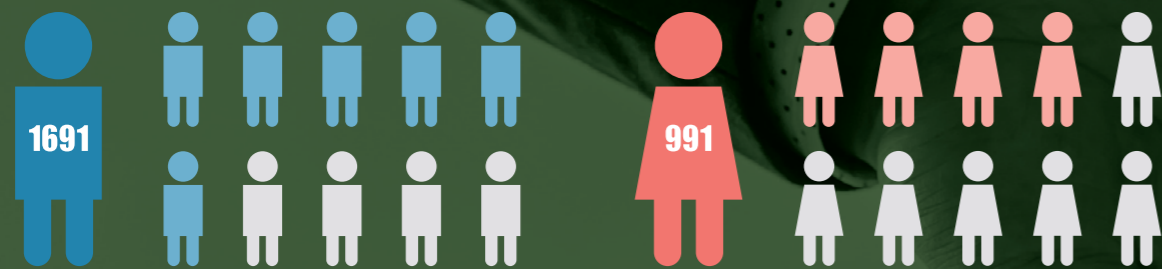


Protecting Employees' Right

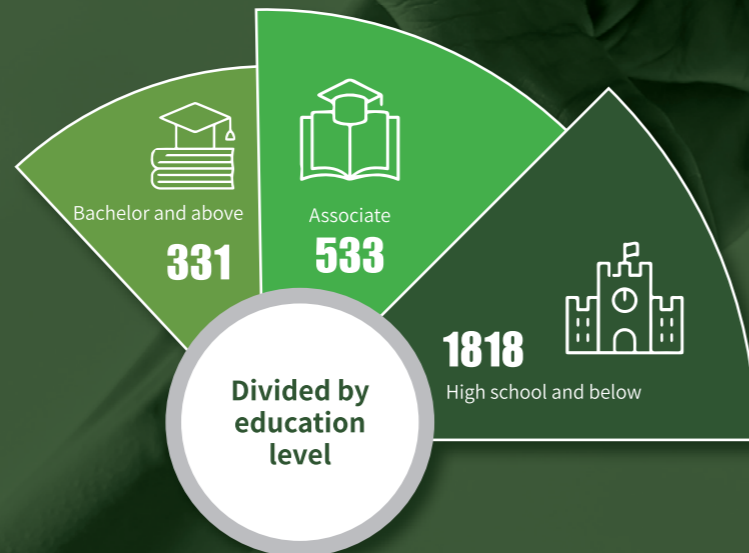
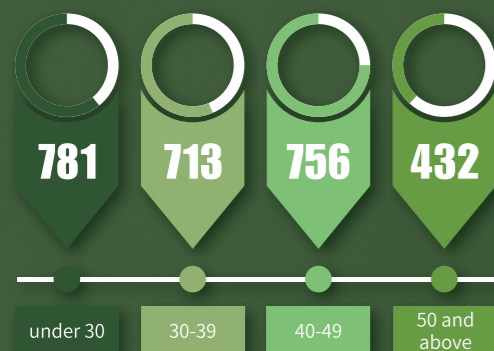
Employees are our most important asset. We work to create an enabling workplace, protect employee rights, and offer high-quality training programs and unimpeded career development channels, so as to attract and retain talents. We abide by Labor Contract Law of the People's Republic of China, Social Security Law of the People's Republic of China and other governing laws and regulations, and protect the lawful rights of employees. We forbid discrimination in recruitment, advocate fair and non-discriminatory employment policies, and pledge not to discriminate against any employee because of gender, race, physical condition, religious belief, etc. We stick to equal pay for equal work, and forbid child labor and forced labor.

As of December 31, 2021, we had 2,682 employees.

Divided by gender



Divided by age



Broadening Channels for Introducing Professionals

Following the strategy of strengthening Shengmu with talents, we constantly broadens talent recruitment channels and improves the recruitment process. We offer competitive salaries and incentives to provide strong talent support for our high-quality development. We have improved the recruitment platform and strengthened cooperation with universities to attract talents. We also participate in the employment-oriented education project which will cultivate professionals according to our business needs. We have ramped up publicity to increase our influence among college students, further building the professionals training model that consists of three steps: training personnel to meet specific business needs, building internship bases, and improving human resources.

In 2021, we implemented the rotation system for key posts to stimulate the talent flow. We valued both morality and competency in the selection and employment, persisted in training interdisciplinary talents, stepped up efforts to train and promote young employees, especially researchers and technical specialists, and enabled every employee to grow with the Company.

Building Scientific and Rational Mechanisms for Compensation and Promotion

Scientific and rational compensation and promotion mechanisms can enable employees to maximize their potential, create inexhaustible momentum for corporate development, and generate greater value. Shengmu upholds principles of fairness, stability, incentive and economy, and provides employees with a competitive salary and sound benefits, so as to attract and retain outstanding talents, and build a strong talent team for our sustainable and rapid development.

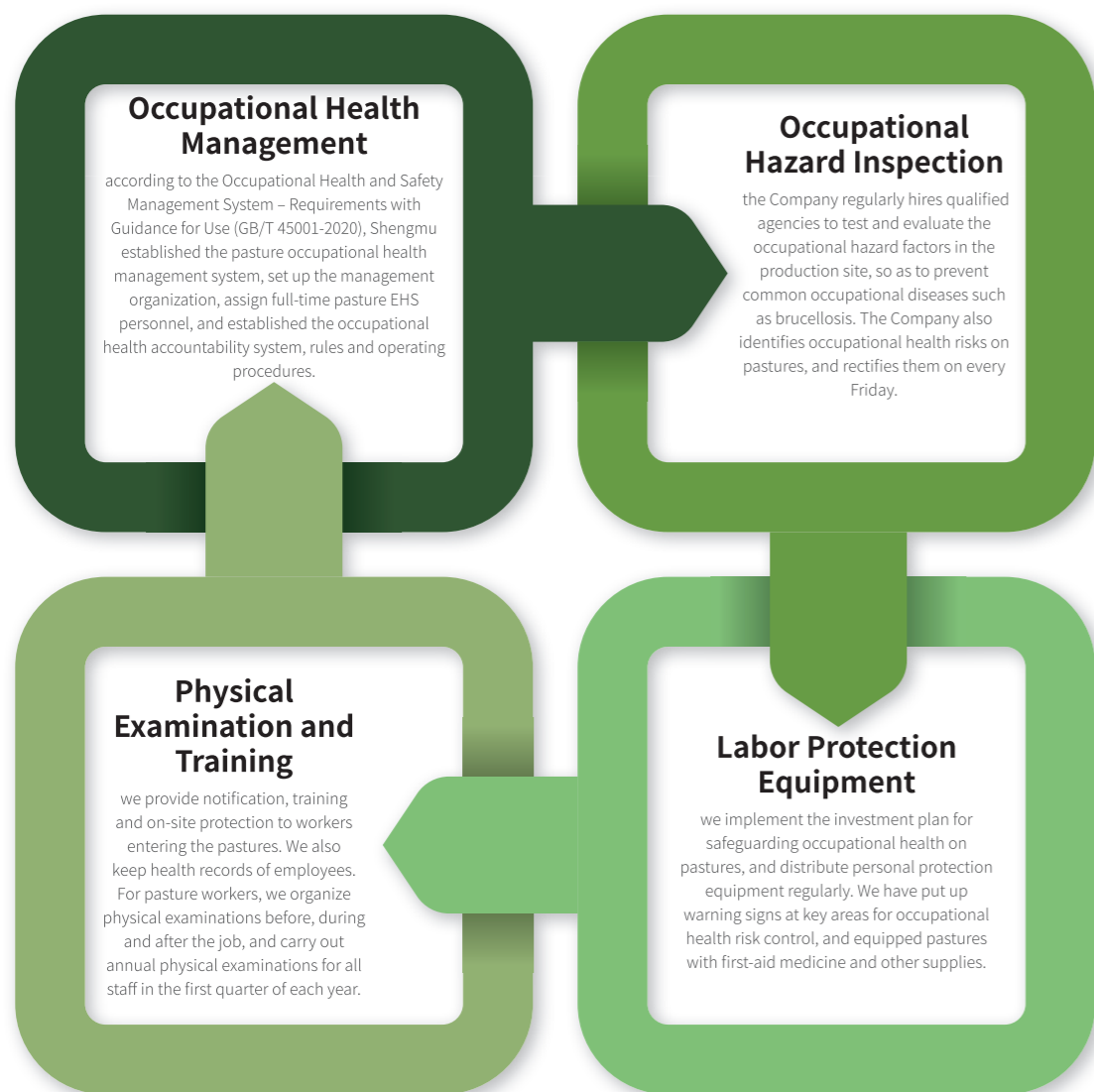
Shengmu implements a dual-channel promotion system for managerial personnel and technical specialists according to their job requirements and professional expertise. The internal promotion rate has exceeded 15% for two consecutive years. Unimpeded career development paths and an enabling environment are not only good for employee growth, but also promoting corporate development.



Caring for Employees' Health and Safety

The Company manages occupational health and safety in accordance with Law of the People's Republic of China on Prevention and Control of Occupational Diseases, Law of the People's Republic of China on Work Safety and other governing laws and regulations. The coverage rate of social insurance and accident insurance for employees is 100%, and we strictly implement the Work-Related Injury Reporting System in daily operations.

Last year, we formulated the Occupational Health Management System, and organized training activities. In accordance with the requirements for occupational health and safety management, Shengmu has continued to improve mechanisms for systematic risk control and occupational health and safety management.



Shengmu attaches great importance to workplace safety and holds firmly to the safety red line.

Shengmu attaches great importance to workplace safety and holds firmly to the safety red line. In the production process, we specify responsibilities for occupational safety and regulate safety management, to minimize safety accidents, protect the health and safety of workers, and ensure corporate development and stability.



Considering employees' professional background, qualifications and career path, Shengmu supports and encourages them to pursue further studies or obtain certifications while on the job, and provides on-the-job education opportunities for employees through institutionalized programs. In September 2021, the Company signed a cooperation framework with Inner Mongolia Agricultural University to deepen the partnership and build joint field training base and talent cultivation and training base. The two parties also jointly launched programs to prepare workers with the high-school diploma for the associate's degree and those with the associate's degree for the bachelor's degree. In 2021, we helped five applicants with high-school diploma successfully get admitted into the associate program, and 27 out of the 28 applicants with associate's degree successfully into the undergraduate program.

Middle and Senior Leadership Improvement—Special Training Camp for the Middle-level Management

In 2021, in order to improve the management ability and job performance of directors and managers in each business line, Shengmu organized two sessions of special training camp for the middle-level management. The training took place in different months throughout the year with 6 training classes for each camp, including nine courses on corporate culture, management skills, etc. In 2021, the training camp covered 77 participants with RMB 352,900 invested.



Diverse Training Programs

Believing in “continuous learning and continuous improvement”, Shengmu has built a complete staff training system and encourage employees to sharpen their professional skills to be both specialized and versatile. We work to ensure that employees on different career paths and at different stages can find training programs that suit them, including skills training, professional training, field-specific training and management training, so as to achieve personal growth and career advancement. In 2021, in the forms of internal rotation, internal and external training, and online courses, we organized 165 training sessions for 6,460 participants, with 40 hours of training per person.

In 2021, the Company and Hohhot Business and Trade Vocational Training School jointly launched the New-Type Apprenticeship Training Program to train apprentices through business-school cooperation and work-study integration. 81 students from animal disease prevention and control, and livestock breeding participated in the program.

Employee Skill Training—the Micro-course Competition

In 2021, we strived for innovation and changes in the form of internal training, and organized the first Micro-course Competition by making full use of the convenience and popularity of online courses. The four-month competition was divided into four stages: publicity, learning, production, and evaluation. This competition produced 54 micro-courses, including the operation system, financial management system, investment management system and support system, and 17 of them were selected as excellent courses. All the courses were uploaded to the platform for all staff.

Through the competition, we aim to build learning ecosystem of selecting an excellent team, developing a number of high-quality courses and a training model, which is suitable for the selection and training of internal trainers.

New Employee Training Camp — Help Graduates to Transform from Students to Employees

In 2021, we continued to carry out new employee training camps in different colleges and universities to help graduates improve their job adaptation through team building, military training, corporate culture introduction, professional knowledge training, and accepting ceremony. The camps are conducive to helping them realizing their transformation from "school students" to "business employees", and taking a good start for career.





Employees' Care and Happy Work

In addition to scientific and rational compensation and benefits and a healthy and safe working environment, Shengmu pays close attention to the growth needs of employees. Being people-oriented, we attach great importance to employees' physical and mental health, and strive to enhance employees' sense of belonging to the Company with a warm working atmosphere. We advocate happy work and happy life, encourage employees to work hard and play hard by participating in a wide range of cultural and sports activities. In addition to sending our best wishes and gifts to employees and their families on holidays, such as the International Children's Day and the International Women's Day, we regularly organize various activities that are beneficial to physical and mental health, to enrich employees' spare time and show the Company's care. These efforts have effectively enhanced the overall cohesion of the Company.

In 2021, the Company introduced the Employee Care Management System, stipulating benefits such as wedding gifts, condolence gifts and education incentives for their children, showing our care for employees outside the workplace. At the same time, to tide employees over trying times caused by non-work-related injuries, accidents, serious diseases, and for other special reasons, we set up the mutual-aid fund which benefitted 12 employees this year.

In 2021, we organized the Shengmu Professionals Festival, 10th anniversary of our entry into the desert and other major events, and we also carried out the cooking competition, basketball games, badminton games and chess games, warmly welcomed by the employees.

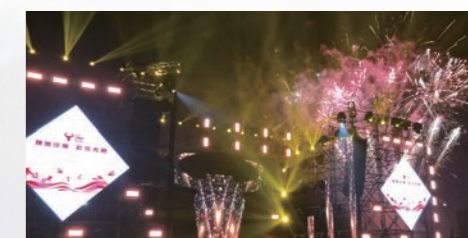
Improve employee satisfaction

As to employee satisfaction, we have established a relatively complete employee experience monitoring mechanism based on employee satisfaction surveys. In 2021, we efficiently completed quarterly employee surveys on our canteens in four dimensions: the dining environment, food taste, nutrition, and services, and then submitted the survey results to the management for their reference. Meanwhile, to improve the logistics service and employees' dining experience, and add fun to the workplace, we organized a chef competition which attracted many employees to participate and watch, and also provided a platform for pasture chefs to compete with each other and upgrade their skills. According to the survey results, the employee satisfaction with canteens kept increasing from the first to the fourth quarter of 2021.



The Shengmu Professionals Festival

From May 19 to 21, 2021, we held the Shengmu Professionals Festival under the theme of "Getting together for a more glorious future". The event brought together more than 300 well-known experts, scholars, executives from dairy enterprises, strategic suppliers and downstream partners, financial institutions, and media representatives, etc. To enhance participants' interaction and exchange, the Desert Music Festival and desert camping were organized, entertaining the participants with a music feast. There was also a hiking challenge in Ulan Buh Desert. The 2021 Shengmu Professionals Festival was an high-standard influential event carefully prepared by Shengmu, the Company aims to build the Shengmu Professionals Festival into an annual gala of China's dairy industry, gathering forces and empower the high-quality development of the Company and China's dairy industry.



The "Shengmu Loves You" Day

Shengmu designates the 21st day of each month as the "Shengmu Loves You" Day, and hosts a birthday party for employees whose birthday falls in that month, where they will receive birthday cards, and enjoy birthday cakes and other gifts, in a heartwarming atmosphere created by colleagues and their pasture's general manager. Over the years, the Company has been working hard to create a warm and comfortable working and living environment for employees to build a strong, capable and united team, and enhance employees' sense of happiness and belonging.



04

RESPONSIBLE FOR COMMUNITY

Giving back to society is an important part of our sustainability practice and CSR performance. We have long been committed to building a beautiful community, paying attention to social needs, and creating both economic and social benefits in the pursuit of corporate development. We rise to our social responsibility, and strive to grow together with the community. By giving full play to our advantages, we respond to community concerns promptly, actively help vulnerable groups, share value and resources with the community, and contribute to the harmonious development of the local community. In 2021, we donated more than RMB 2.06 million in cash and in kind to the fight against COVID-19, poverty alleviation and military-civil integration, and raised more than RMB 540,000 for the mutual-aid fund.





Fighting against COVID-19



We actively organized employee donations to the anti-pandemic endeavor

In 2021, in the face of regular pandemic prevention and control, Shengmu formulated and strictly abided by the strategy of “guarding against imported cases and preventing a resurgence of the outbreak at home.” All our staff and third-party service teams were vaccinated, and had zero infection.

At the same time, we actively organized employee donations to the anti-pandemic endeavor. In October 2021, we donated milk and other materials worth about RMB 300,000 to the local Red Cross and COVID-19 prevention and control headquarters in Ejina Banner of Alxa League, Inner Mongolia.



Using Industrial Strengths for Rural Vitalization

We firmly believe that a prosperous industry ecosystem is key to rural vitalization

We firmly believe that a prosperous industry ecosystem is key to rural vitalization. In response to the call of the local government, we support a number of specialized cooperatives of farmers and herdsmen, established a close partnership with them, developed an integrated development model for multiple industries, and made great efforts to promote the deep integration of primary, secondary and tertiary sectors. By moving products higher on the industry chain and maximizing the development potentials of industries, we hope to benefit more farmers and herdsmen through the development of local industries.

In the business-village partnership for rural development campaign, China Shengmu and Majiayao village jointly launched a special project for beef cattle breeding. Shengmu strives to play a leading role to strengthen the momentum and stimulate vitality with the village. By combining the dairy industry with rural vitalization, we provide people with better milk, and promote the development of local rural economy at the same time.

In 2021, we actively learned about the living conditions of the villagers in difficulties, and sent gifts to them on festivals and holidays.





Business for Social Good

Shengmu Believing in business as a force for good

Believing in “business as a force for good”, Shengmu, while ensuring healthy corporate operations and development, responds to social needs, leverages its business expertise and advantages, and actively participates in public welfare undertakings to fulfill our social responsibility, improve the public wellbeing and contribute to social harmony. Social service and public welfare are an important part of our corporate culture, and we convey to employees the message of giving back to society. We have formulated Public Welfare Activity Management System, specifying the donation process of materials, the donation plan, project evaluation and assessment. At the same time, the China Shengmu Headquarters Volunteer Activity Plan was rolled out to regulate the organization of volunteer services on a regular basis, and spread the volunteering spirit. Last year, we were in constant action in response to the domestic regular pandemic control and different social needs.

Donating to flooded areas in Henan

In July 2021, Zhengzhou was hit by a torrential rain which flooded a large area of urban and rural areas in the city, resulting in a particularly severe natural disaster. We encouraged staff to donate RMB 199,000 to the victims in Henan.

Donating beddings to a local school

Learning that the Central School of Sha'erqin Town could not afford to purchase beddings for resident students, in August 2021, we bought standard beddings for students, easing their financial burden and allowing them to go back to studies as soon as possible.

Helping sell Hami melons

Due to COVID-19 restrictions, many buyers could not make it to Alxa League when the Hami melons were ripe, resulting in a sales crisis for more than 3,700 mu of them. In September 2021, the Company bought 27,500 kg of Hami melons at its own expense, effectively solving the sales problem facing the farmers.



SEHK ESG REPORTING GUIDE CONTENT INDEX

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FEEDBACK FORM

Dear readers,

Thanks so much for reading the ESG Report 2021 of China Shengmu Organic Milk Limited in your busy schedule. We sincerely look forward to your evaluations and valuable comments on this report, so that we can further improve our ESG work, CSR capability and management.

The following questions adopt a five-grade marking system.

Tel: 0471-3188858

Email: zgsm@smorganic.cn

1. Your overall evaluation on our ESG Report 2021:

1 point 2 point 3 point 4 point 5 point

2. This report can reflect the significant impact of China Shengmu Organic Milk Limited on environment, society and governance:

1 point 2 point 3 point 4 point 5 point

3. The information and indicators disclosed in this report are clear, accurate and complete:

1 point 2 point 3 point 4 point 5 point

4. Your overall evaluation of Shengmu's communication with stakeholders:

1 point 2 point 3 point 4 point 5 point

5. Your overall evaluation on the layout and design of this report:

1 point 2 point 3 point 4 point 5 point

6. Your overall evaluation on the dissemination of this report:

1 point 2 point 3 point 4 point 5 point

7. Which part of the report are you most concerned ?

8. Your other comments and suggestions on this report:



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