



2024

CHINA SHENGMU ORGANIC MILK LIMITED  
ENVIRONMENTAL, SOCIAL AND  
GOVERNANCE (ESG) REPORT

# About the Report



This report marks China Shengmu Organic Milk Limited's ninth annual report on its environmental, social, and governance (ESG) performance.

## Reporting Period

The report highlights our sustainability performance for the period from January 1, 2024, to December 31, 2024.

## Reporting Scope

The report covers the information of China Shengmu Organic Milk Limited and all of its branches and subsidiaries, which is consistent with the scope of Shengmu's consolidated financial statements.

## Data Sources

Data and case studies used in the report mainly come from the official documents, statistical reports, and publicly disclosed sources of China Shengmu Organic Milk Limited. Unless otherwise specified, all data denominated in “Yuan” are presented as RMB; all data denominated in “USD” are calculated based on the 2024 annual average exchange rate (1 RMB=0.14042 USD) as announced by the People’s Bank of China (PBoC).

## Reporting Guidelines

The report is compiled in accordance with the ESG Reporting Code in Appendix C2 to the Rules Governing the *Listing of Securities on The Stock Exchange of Hong Kong Limited* (hereinafter referred to as the “HKEX ESG Reporting Code”), including provisions on “comply or explain” basis and mandatory disclosure requirements therein contained. We have also referenced IFRS S2 (Climate-related Disclosures) issued by the International Sustainability Standards Board (ISSB).

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

### Materiality:

This report presents the materiality matrix, outlines the process used to identify material issues, and discloses the final results. It also highlights key stakeholder groups and the targeted strategies adopted to communicate with them. For more information, please refer to the sections “Stakeholder Engagement” and “Identification of Material ESG Issues” in the chapter “Sustainability Management.”

### Quantitative:

This report specifies the standards, methodologies, and parameters used in the reporting of our environmental data.

### Balance:

The report aims to provide an objective and impartial picture of the Company's performance. The information presented is sourced from internal records, statistical reports, and publicly available sources, and has been presented without inappropriate modifications.

### Consistency:

Compared with the Company's ESG Report 2023, there is no major changes in the reporting scope or statistical methods in this report. However, we have gone beyond the requirements of the HKEX ESG Reporting Code by implementing more refined disclosure categories. For a year-over-year comparison of ESG data, please see the corresponding chapters of this report.

## References to China Shengmu Organic Milk Limited

As used herein, “Shengmu”, “we”, “us”, “our” and “the Company” all refer to China Shengmu Organic Milk Limited.

## Accessibility

This report can be read or downloaded on the website of the HKEX or Shengmus official website. This report is available in Chinese and English. The Chinese version shall always prevail in case of any discrepancy or inconsistency between the Chinese version and its English translation.

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# Message from the CEO

As the new year begins, let's take a moment to reflect on the past twelve months and the actions we've taken to uphold our commitment to ESG principles. We have safeguarded ecological balance at the source, maintained rigorous product quality standards, and fulfilled our commitment to the environment, society, and customers through tangible actions. We have written a significant chapter in the sustainable development of the organic dairy industry.

## Environmental Stewardship: Coexisting with Nature and Promoting Green Development

Committed to eco-friendly business practices and green development, we are actively working to address the challenges of global climate change. Our comprehensive organic ecosystem integrates organic forage cultivation, organic dairy farming, and desertification control, with dairy at its core. Our focus is on creating a green, low-carbon ecosystem by promoting energy conservation, emissions reduction, and biodiversity protection. In 2024, Shengmu presented its multi-capital report at the United Nations Convention to Combat Desertification (UNCCD) COP16, secured China's first environmental performance-linked commercial loan, and Inner Mongolia's first ESG-linked loan, and won the 2024 Hong Kong Green and Sustainable Finance Awards.

## Customer Focus: Delivering High-Quality and Organic Products

We are committed to delivering the world's best organic milk from desert farms. We achieve this by ensuring traceability, transparency, and standardization across our entire organic value chain and enabling precise quality control at every stage of production. This helps us guarantee high-quality, safe, and healthy organic raw milk for our customers. Our commitment to animal welfare is reflected in the continuous upgrades to our smart pastures, where dairy cows are fed premium organic forage and provided with optimal living conditions to guarantee the quality of our raw milk. In 2024, Shengmu joined the International Cooperation Committee of Animal Welfare, under the China Association for the Promotion of International Agricultural Cooperation, and became a standing director of the organization, working closely with our upstream and downstream partners to build a resilient and sustainable business ecosystem.

## Social Responsibility: Fostering the Growth of Employees and Partners

Committed to the well-being and professional development of our employees, we are doing our best to foster a supportive environment where they can thrive. This includes paying attention to their physical and mental health and building a positive and collaborative corporate culture. Beyond our internal focus, we actively embrace our corporate citizenship responsibilities by supporting community engagement and public welfare initiatives and creating jobs for local communities, thereby contributing to the overall prosperity and harmony of society. In 2024, we participated in the Second Organic Districts World Congress (ODC) and the Second International Conference on Organic Agriculture in Deserts and Drylands. We also joined the World Business Council for Sustainable Development (WBCSD), a significant step that underscores our dedication to collaborating with stakeholders and building a more sustainable future.

As we move forward, we will continue to uphold our commitment to organic and green agricultural practices and provide sustainable solutions for all sectors, contributing to a greener, more harmonious, and sustainable world.

**Zhang Jiawang**  
CEO and Executive Director of China Shengmu Organic Milk Limited



# About Us

China Shengmu Organic Milk Limited, as China's largest organic dairy company, produces desert organic raw milk in a circular way integrating planting, breeding and processing. The business covers the entire value chain of the dairy industry, including pasture growing, dairy cow cultivation, and raw milk processing. In July 2014, the Company successfully listed on the main board of the HKEX (stock code:1432), becoming the world's first stock in the organic raw milk industry and the first domestic raw milk brand to obtain 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 partnerships 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 the 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 the desert and the world's largest producer of organic raw milk. As the dairy industry speeds up its modernization, capital, talent, and other essential resources are rapidly concentrating towards 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 "Sustainability and Common Development" of the industry to build a top brand in the global organic milk industry.

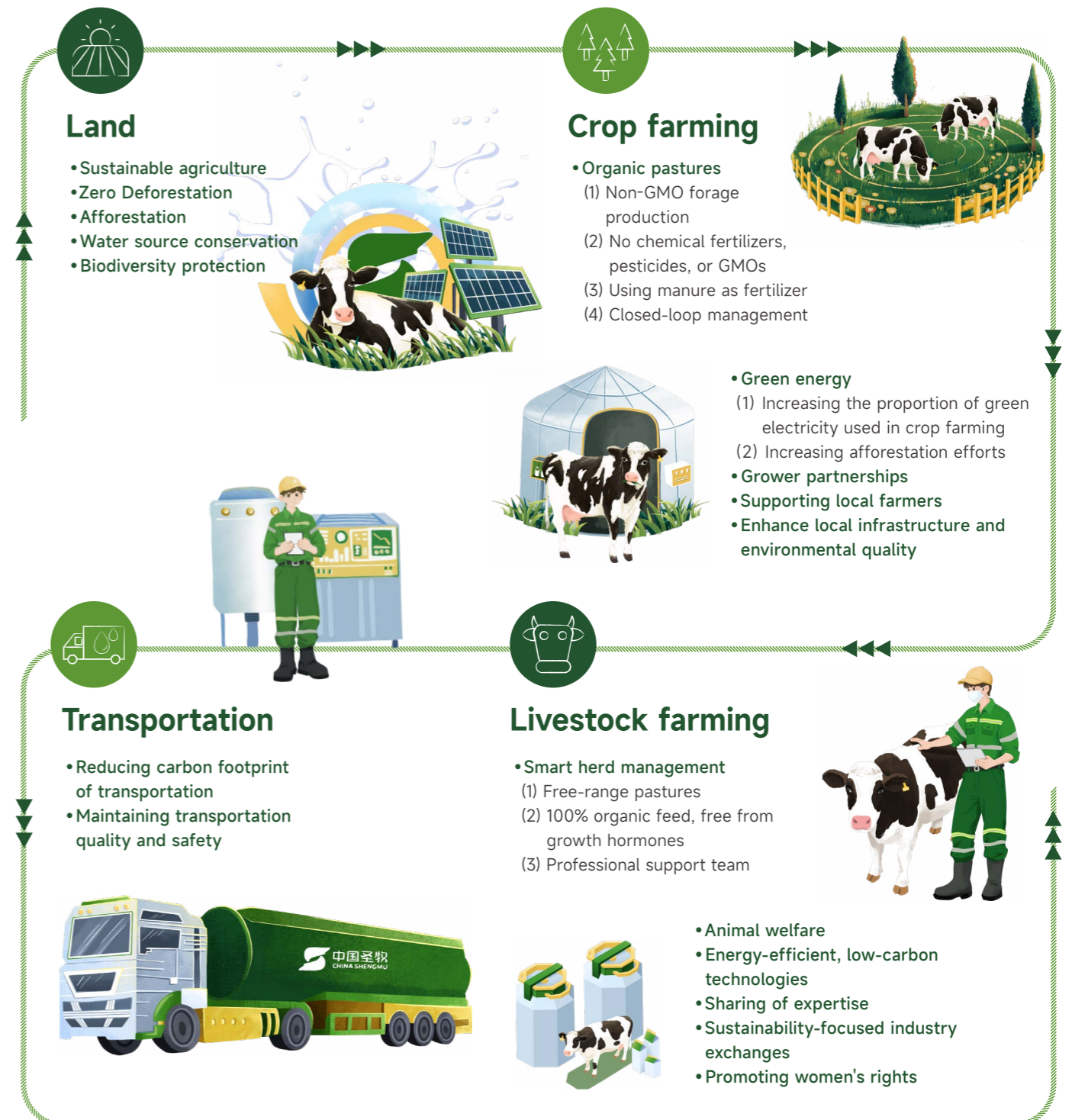


# Shengmu's "S" Plan

The brand concept of Shengmu is an extension of the connotation of its "S Plan" and lies at the core of its determination to embark on a new path towards organic, eco-friendly and sustainable development, embodying Shengmu's commitment to sustainable development, promoting green transformation of development, and steadfastly following the road of high-quality development guided by eco-prioritized and green development. It practices the concept of green agriculture and low-carbon milk, adheres to the harmonious coexistence of humans and nature, and creates a new natural economic business mode centering on "benefiting nature and promoting benevolence in business".



We always uphold a firm commitment to sustainable development, and place nature positive at the heart of our sustainable development strategy. Sustainability is integrated across all aspects of our operations. We combine desert rehabilitation with regenerative agriculture, utilizing scientific management practices and advanced technology to enhance both environmental and economic outcomes. In doing so, we contribute to the advancement of sustainable agriculture.



# Corporate Culture



# Highlights



Won the GoldenBee 2024 Sustainability Reporting Award in the Employee Welfare category



Received the Hong Kong Green and Sustainable Finance Awards from by HKQAA



Won the Best Financial Strategy Award at the 2024 Top 100 CFOs Summit



Received the Pioneering Award for ESG Disclosure Contribution from Hong Kong Quality Assurance Agency (HKQAA)



Maycur Electronic Archives System won the 2024 Pioneering Digital Product Award in the Best Practice category



# Major Achievements in 2024

## Environmental Performance



**23,333.33** hectares

desert has been transformed into high-quality pastures

**220** square kilometers

desert transformed into oasis

**98+** million

trees planted in the desert

**2.71%**

The water consumption intensity reduced from the level in 2023

**8.8%**

The greenhouse gas (GHG) emission intensity (scope 1 and 2) reduced from the level in 2023

## Social Performance



**21** pastures of Shengmu were rated as S

including **7** organic pastures

**7** pastures of Shengmu were certified by China Good Agricultural Practice (GAP)

including **5** organic pastures

**2**

testing centers were certified to ISO/IEC 17025 by China National Accreditation Service for Conformity Assessment (CNAS)

**382**

upstream and downstream partners got supports in the dairy industry chain

**5,235**

employees participated in professional and technical training

**USD 298,471.68**

of donations to charities

## Governance Performance



Revenue was

**USD 473.76** million

The annual milk yield per cow reached

**12.05** tons

with a year-on-year growth of

**5.9%**

The inventory of cows was

**144,448**

organic cows

**111,809**

compared to 2023 increased by

**16.3%**

The inventory of non-organic dairy cows was

**32,639**

Built

**34** pastures

**21** organic pastures

including

**1** A2 pasture

and

**13** non-organic pastures

including

**2** DHA pastures

Organized a total of

**28** training sessions on integrity, compliance, anti-corruption, and safety and health

The fulfillment rate addressing major risks was

**97.43%**

Successfully obtained

**70** trademark registration certificates

# Shengmu's Contributions to the SDGs

We have made an effort to contribute to SDGs by incorporating sustainability management into our organic dairy and desertification control system. We are committed to upholding sustainability to safeguard our home planet.



### SDG targets

1.3 Implement nationally appropriate social protection systems and measures for all, including minimum standards, to extend the coverage of the poor and the vulnerable by 2030.  
1.4 By 2030, ensure that all men and women, in particular the poor and the vulnerable, have equal rights to economic resources, as well as access to basic services, ownership and control over land and other forms of property, inheritance, natural resources, appropriate new technology and financial services, including micro-credit.  
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, to provide adequate and predictable means for developing countries, in particular the least developed countries, to implement programmes and policies to eradicate poverty in all its dimensions.

### Shengmu's actions

1. We supports the growth of Dengkou County's livestock industry, creating direct employment opportunities and increasing income for vulnerable populations.
2. We have integrated innovative desertification control methods with organic agriculture, transforming the local crop farming and animal husbandry supply chains, and turning desertification control into a key driver of the local economy.

In 2024, we purchased **157,300 tons** of silage in Hohhot

drive **1,250** framers

generate income **USD 12.45 million**



### SDG targets

2.4 By 2030, ensure sustainable food production systems and implement resilient agricultural practices to increase productivity and production, help maintain ecosystems, strengthen capacity for adaptation to climate change, extreme weather, drought, flooding and other disasters and progressively improve land and soil quality.  
2.A Increase investment, including through enhanced international cooperation, in rural infrastructure, agricultural research and extension services, technology development and plant and livestock gene banks to enhance agricultural productive capacity in developing countries, in particular the least developed countries.

### Shengmu's actions

1. We have improved soil fertility and the drought resistance of crops by adopting organic farming practices and using manure as a natural organic fertilizer.
2. By industrializing desertification control, we have enabled the production of high-value organic agricultural products on previously unusable land.
3. Adopted scientific cow breeding practices to increase milk production.

The annual milk yield per cow reach **12.05 tons**

with a year-on-year growth of **5.9%**



### 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.

### Shengmu's actions

1. We provide free annual physical examinations, actively monitor workplace hazards, and have installed automated external defibrillators (AEDs) to ensure employee well-being.
2. We provide high-quality, nutritious organic milk, sourced from our desert farms, for customers.

Investment in health examinations **USD 79,208.61**



### SDG targets

4.3 By 2030, ensure equal access for all women and men to affordable and quality technical, vocational and tertiary education, including university.  
4.4 By 2030, substantially increase the number of youth and adults who have relevant skills, including technical and vocational skills, for employment, decent jobs and entrepreneurship.

### Shengmu's actions

1. We have launched the Ace-100 Differentiated Talent Development Program to diversify career paths and improve the leadership and professional skills of our employees.
2. Recognizing that the growth of employees directly contributes to the Company's continued success, we encourage employees to pursue further education and obtain professional certificates or titles.

**11** employees applied for intermediate professional certifications

**2** directors are appointed

**8** employees applied for senior associate professional certifications

**46** managerial candidates are selected



### SDG targets

5.1 Eradicate 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.

### Shengmu's actions

1. We have a zero-tolerance policy toward gender discrimination and are committed to equal pay for equal work. The male-to-female employee ratio in the Company is 6:4.
2. We have established a women's federation to protect the rights of female employees and promote opportunities for women in leadership roles.

we had **859** female employees



### SDG targets

6.3 By 2030, improve water quality by reducing pollution, eliminating dumping and minimizing release of hazardous chemicals and materials, halving the proportion of untreated wastewater and substantially increasing recycling and safe reuse globally.  
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.

### Shengmu's actions

1. We have installed a smart metering system to achieve real-time monitoring of water use through the Internet of Things and prevent water waste.
2. We recycle wastewater from our milk collection centers, significantly reducing our reliance on groundwater and minimizing slurry discharge.

We improved our waste heat recovery system, reducing groundwater consumption by **0.4 tons** per ton of milk produced



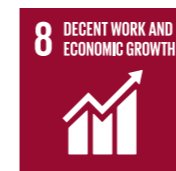
### SDG targets

7.2 By 2030, substantially increase the proportion of renewable energy in the global energy mix.  
7.3 By 2030, double the global energy efficiency improvement rate.

### Shengmu's actions

1. Actively improved the energy mix, built a number of photovoltaic and methane power stations, and electrified loaders in our pastures.

the construction of **2.5 MW** Smart Pasture Solar Power can reduce carbon dioxide emissions by **3,767.6 tons** annually



### 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 labor-intensive sectors.  
8.5 By 2030, achieve full and productive employment, decent work and equal pay for equal work for all women and men, including for young people and persons with disabilities.  
8.7 Take immediate and effective measures to eradicate forced labour, 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 create safe and secure working environments for all workers, including migrant workers, in particular women migrants, and those in precarious employment.

### Shengmu's actions

1. We support diversity, equity (including pay equity), and inclusion in the workplace and have a zero-tolerance policy toward child labor and forced labor.
2. We are trying to create a sense of belonging in the workplace by fostering a supportive culture that enhances the wellbeing of our employees and their families.
3. We have directly and indirectly created jobs for local residents and increased the annual per capita income of local farmers and herdsmen.

Investment in employee activities **USD 12,019.6**



**SDG targets**  
9.4 By 2030, upgrade infrastructure and improve industry to make it more sustainable, and enhance resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities.

**Shengmu's actions**  
1. We utilize smart weeding robots to improve weed removal efficiency and promote sustainable land management.  
2. We have adopted innovative manure recycling techniques, significantly reducing carbon dioxide emissions associated with manure treatment.  
3. We are actively transitioning to renewable energy.

We deployed smart weeding robots to remove over **95%** of the weeds in our pastures.



**SDG targets**  
10.2 By 2030, empower and promote the inclusion of all people in social, economic and political life, regardless of age, gender, disability, race, ethnicity, origin, religious belief, economic status or other distinction.

**Shengmu's actions**  
1. We respect and accommodate the customs and living habits of our ethnic minority employees, ensuring a workplace where all individuals are valued and treated equally.

The number of employees from ethnic minority groups at the Company reached **715**



**SDG targets**  
11.A Support positive economic, social and environmental links between urban, peri-urban and rural areas by strengthening national and regional development planning.

**Shengmu's actions**  
1. The high-quality pastures and infrastructure built by us in the Ulan Buh Desert have contributed to ecological sustainability and provided significant benefits to local communities.

**23,333.33** hectares desert has been transformed into high-quality pastures

**220** square kilometers desert transformed into oasis



**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 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.

**Shengmu's actions**  
1. To produce high-quality organic raw milk, we have created the world's first desert-based a value chain based on organic and circular agricultural practices, integrating forage cultivation and animal husbandry  
2. We partner with certified companies to ensure the safe and responsible treatment of all hazardous waste materials, utilizing processes such as high-temperature sterilization, crushing, and fermentation.  
3. We regularly disclose our sustainability management strategy, practices and performance through annual ESG reporting.

conducted **32** environmental protection training sessions



**SDG targets**  
13.3 Strengthen education, publicity and climate change mitigation, adaptation, impact reduction and early warning, and enhance the capabilities of personnel and institutions in this regard.

**Shengmu's actions**  
1. Our integrated circular ecosystem efficiently manages manure and waste, minimizing environmental impact.  
2. We have developed a comprehensive emissions reduction strategy aligned with China's Dual Carbon Targets (i.e., peaking emissions by 2030 and achieving carbon neutrality by 2060) and the goal of the Paris Agreement ("to pursue efforts to limit the temperature increase to 1.5° C above pre-industrial levels).  
3. In 2024, we achieved a "B" rating for the first time in the CDP's climate change, water security, and forest risk assessments.

Our GHG emissions totaled **653,271.15** tCO<sub>2</sub>e



**SDG targets**  
15.1 By 2020, in line with obligations under international agreements, ensure the conservation, restoration and sustainable use of terrestrial and inland freshwater ecosystems and their services, in particular forests, wetlands, mountains and dry lands.  
15.5 Take urgent and significant action to reduce the degradation of natural habitats, halt the loss of biodiversity and, by 2020, protect and prevent the extinction of threatened species.

**Shengmu's actions**  
1. Our agricultural practices have positively transformed the ecology in the Ulan Buh Desert, creating a more favorable regional microclimate, and the number of species in the desert has increased to hundreds, including several endangered species designated as state-level conservation priorities.

Compared with the 1980s, the number of species in the Ulan Buh Desert has increased to **hundreds**, including several endangered species designated as state-level conservation priorities.



**SDG targets**  
16.5 Substantially reduce corruption and bribery in all their forms.  
16.6 Develop effective, accountable and transparent institutions at all levels.  
16.7 Ensure responsive, inclusive, participatory and representative decision-making at all levels.  
16.b Promote and enforce non-discriminatory laws and policies to push sustainable development.

**Shengmu's actions**  
1. We have continuously strengthened our corporate governance framework and implemented robust anti-corruption measures to ensure efficient, ethical, and transparent operations.  
2. We utilize advanced technologies, including cattle traceability systems, herd management software, big data analytics, and collaborative platforms, and have established a comprehensive indicator system to enable intelligent pasture management.

The representation of women in management positions is **25.75%**



**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 partnership experience and funding strategies.

**Shengmu's actions**  
1. We have established strategic partnerships with universities and industry peers to promote the development of green, organic, and sustainable agriculture.  
2. To build a robust organic supply chain, we align our interests with our suppliers and provide technical and financial support to our suppliers.

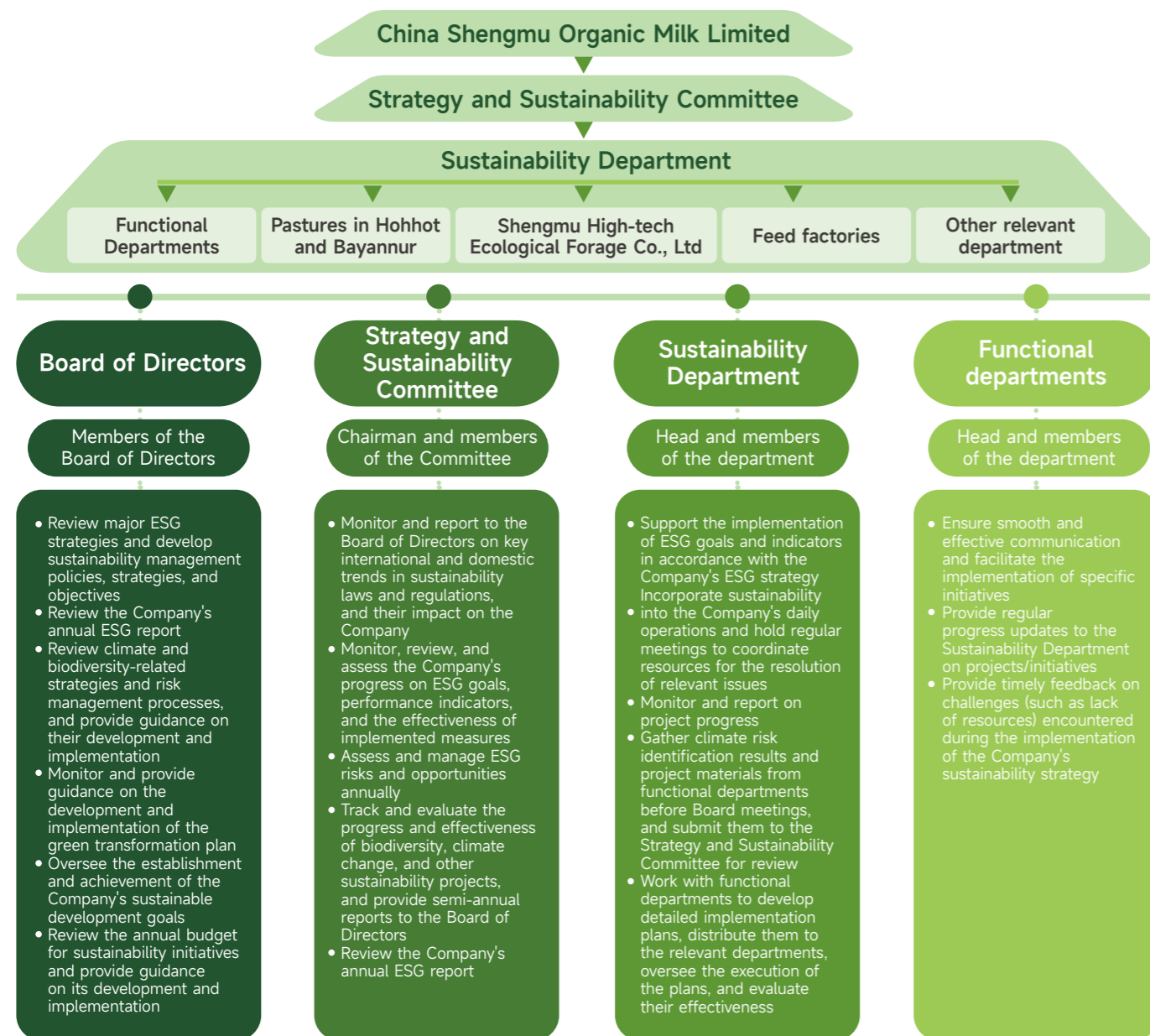
In 2024, we had **358** supplier partners, including **36** organic suppliers.

# Sustainability Governance

Committed to sustainable and inclusive development, Shengmu's sustainability efforts are guided by the United Nations Sustainable Development Goals (SDGs). To ensure optimal resource allocation and effective implementation of its sustainability strategy, the Company has established a three-tiered sustainability management structure, led by the Board of Directors. This framework enables Shengmu to efficiently advance its sustainable development objectives, aligning them closely with its mission, business model, expertise, and level of influence.

## Governance Structure

Building upon our robust corporate governance framework, we have established an effective sustainability governance structure. Recognizing our ESG management and business development needs, we have formed a Strategy and Sustainability Committee under the Board of Directors. This committee supports the Board in fulfilling its ESG governance responsibilities. Each year, we conduct a comprehensive assessment of sustainability risks and opportunities and use the results to shape our annual work plan and guide the management of key ESG issues. We continuously enhance our management systems, implement targeted ESG initiatives, and maintain a closed-loop management process that integrates planning, execution, and continuous improvement.



## Sustainability Performance and Compensation

To ensure effective implementation of our ESG strategy, we are exploring strategies to link compensation directly to ESG performance. This linkage has been formalized through our key policies like the *Executive Compensation Structure* and the *Management Equity Ownership Policy*. It has been initiated at the management level, with our CEO's annual bonus and incentive compensation being tied to the Company's ESG performance, especially in critical areas like animal health and welfare, and carbon emissions reduction. The CEO's progress against these ESG goals is monitored through a comprehensive annual performance evaluation and mid-year review, which also serve to enhance overall management effectiveness. Looking ahead, we plan to refine these compensation mechanisms based on experience gained and develop ESG key performance indicators (KPIs) for members of the Board of Directors and frontline supervisors. (For further details, please refer to the Executive Compensation Structure, available on our official website.)

## Sustainability Training and Communication

We are committed to equipping our directors, supervisors, and senior managers with the ESG knowledge and management skills needed to lead our sustainable transformation. To achieve this, we actively participate in relevant training programs and industry forums such as the UNCCD COP16 and the International Conference on Organic Agriculture in Deserts and Dry Lands. These platforms allow us to exchange best practices and technologies, explore the future of organic agriculture, and contribute to a greener, more sustainable agricultural sector.

## Stakeholder Engagement

We are committed to thoroughly understanding the expectations and concerns of our key stakeholders, including shareholders, employees, suppliers, customers, partners, the government, and communities. To achieve this, we utilize diverse communication channels, which we continuously expand. The feedback we collect from stakeholders informs the effective implementation and continuous improvement of our sustainability strategy.

Main stakeholders	Main concerns	Primary means of communication	Primary response to concerns
Shareholders	Sustained return on investment Timely information disclosure Regulatory compliance	Annual General Meetings Annual reports and announcements	Enhance our performance and strengthen our industry leadership Ensure regular disclosure of relevant company information Strengthen the internal compliance system
Employees	Career development Compensation and benefits Occupational safety and health	Internal website WeChat official account General Manager's Mailbox Staff meetings	Improve employee recruitment, promotion, and other related internal management systems Promote work-life balance Provide various employee benefits
Suppliers	Transparent, fair and open procurement Timely performance of contractual obligations Their own growth and mutually beneficial outcomes	Procurement and tendering notices and information dissemination Regular communication of quality requirements Supplier conferences	Ensure transparency throughout the procurement process Ensure timely payment to suppliers Ensure effective communication with suppliers Support the growth of suppliers
Customers and partners	High-quality products and services Customer needs Development of the industry	Customer communication Industry-level exchanges	Strengthen quality control Improve innovation capabilities Promote industry networking
Government	Development of local communities and related industries Compliance operation Timely payment of taxes in accordance with law	Meetings with government representatives Regular visits Inspection by government officials	Create jobs and pay tax Support government oversight and improve internal controls Comply with laws and regulations
Communities	Support for local communities Participation in charity work	Communication with community representatives Charity and volunteer activities	Maintain close communication with local communities Provide donation and assistance to those in need

## Identification of Material ESG Issues

Identifying and managing key ESG issues is key to our sustainability strategy and our commitment to transparency. Our process for identifying these issues is guided by our internal *Material Issues Management Policy* and regularly benchmarked against key standards such as IFRS S1 (*General Requirements for Disclosure of Sustainability-related Financial Information*) and the *Environmental, Social and Governance Reporting Code of the Hong Kong Stock Exchange* (hereinafter referred to as "HKEX ESG Reporting Code"). Central to this process are dual materiality assessments, which evaluate both the impact of ESG factors on our financial performance and our broader economic, environmental, and social footprint. This process, together with our risk management system and internal controls, enables us to proactively address ESG risks, seize opportunities, and drive progress toward our sustainability goals.

### Shengmu's Process for Managing Material ESG Issues

#### 01 Identification

Following a systematic review that considered international standards (including GRI Standards, HKEX ESG Reporting Code, SASB Standards, and the SDGs), relevant market trends, and our own strategic priorities, we have identified 23 material ESG issues for the reporting period.

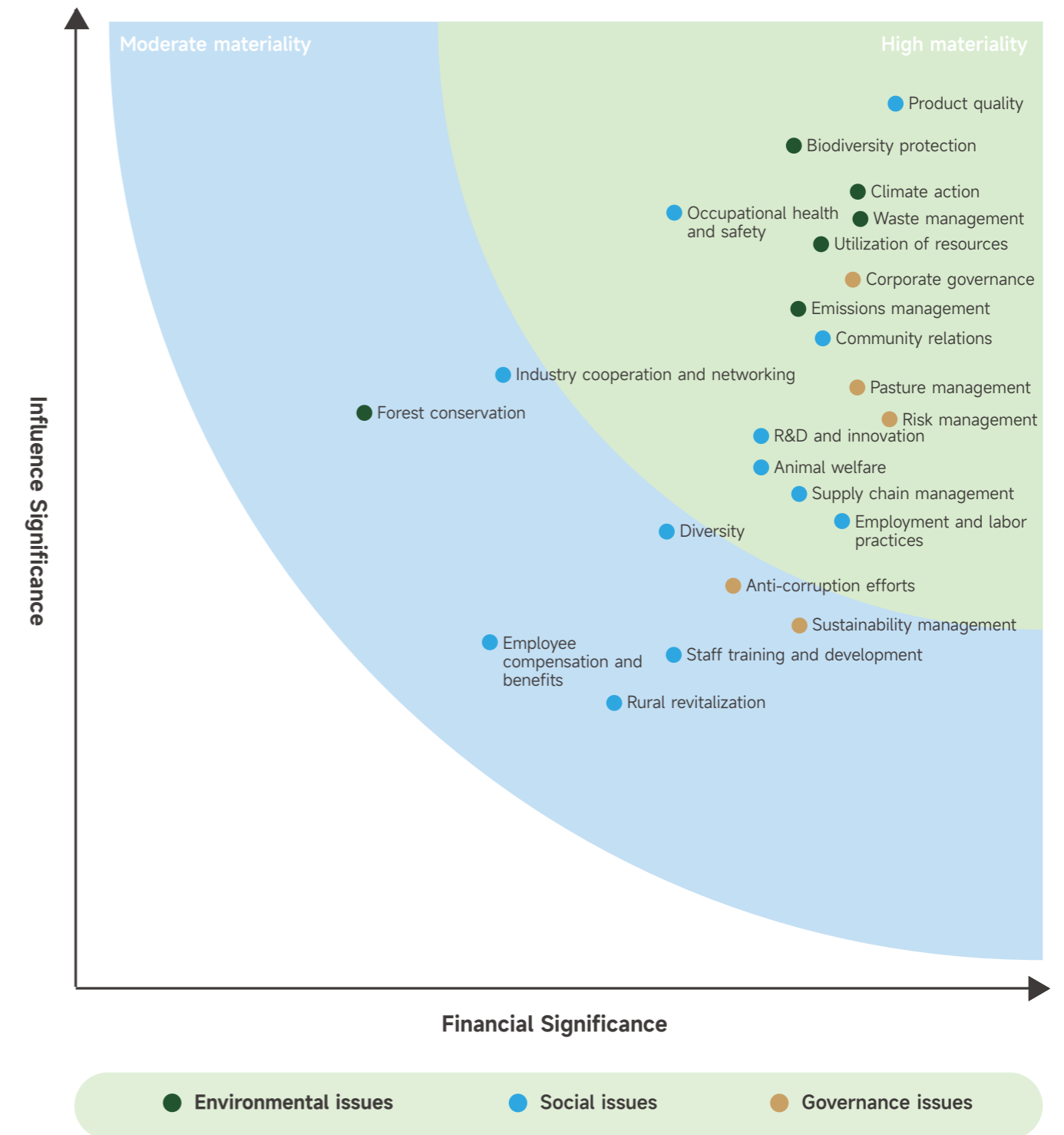
#### 02 Assessment

We then conduct a materiality assessment, identifying issues that significantly impact our financial performance and our economic, environmental, and social footprint. This assessment is informed by international standards and frameworks, including the HKEX ESG Reporting Code, SASB Standards, and the SDGs, as well as feedback gathered from key stakeholders such as shareholders, employees, and partners through interviews and surveys.

#### 03 Approval

The Sustainability Department annually reviews the materiality matrix and, after confirming it with stakeholders, submits it to the Sustainability Committee. Prior to being included in our annual ESG report, the matrix needs to be reviewed and approved by the Board of Directors, the Sustainability Committee, and the Audit Committee.

### Shengmus matrix of material topics



# 01

## Corporate Governance

We are committed to maintaining full compliance with all applicable laws, regulations, and public company requirements through continuous improvement of our corporate governance system. This includes optimizing our board structure to enhance independence, professionalism, and decision-making efficiency, as well as continuously improving our risk management system and internal controls. By proactively adapting to the evolving business environment and building a resilient corporate management model, we are laying a solid foundation for our sustainable development.

### Contributions to the SDGs

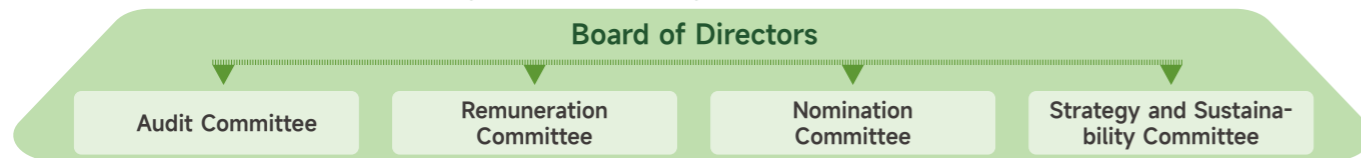


# Governance



Shengmu operates in strict accordance with its *Articles of Association* and all applicable laws and regulations. We continuously improve the operational mechanisms of our Board of Directors and its committees to ensure they effectively address our specific needs. We have put in place relevant processes and built a robust and standardized governance system to support the modernization of our corporate governance.

## • Shengmu's corporate governance structure •



## Composition of the Board of Directors

Our Board of Directors consists of nine members: one executive director, five non-executive directors, and three independent non-executive directors, including one female director. Our Board of Directors, Supervisory Board, and senior management bring diverse professional backgrounds, skills, and experience to the table. This diversity enables us to thoroughly analyze issues from multiple perspectives and strengthen the effectiveness and compliance of our corporate governance. (For detailed information on the professional backgrounds and composition of our Board of Directors, the Supervisory Board, and senior management, please see our 2024 Annual Report.)

## Diversity of the Board of Directors

The Company recognizes that a diverse Board of Directors is essential for effective governance. Diverse perspectives foster robust discussions, facilitate balanced decision-making, and strengthen the Board's independence. In selecting board members, we consider a variety of factors, including gender, age, ethnicity, culture, education, occupation, skills, knowledge, and tenure. The Board is responsible for aligning the Company's talent acquisition strategy with its evolving business objectives and strategic priorities. The Board also periodically reviews its Diversity Policy to ensure continued relevance.

## Business Ethics

Shengmu is deeply committed to cultivating a culture of integrity and actively combating corruption and bribery at every level of the organization. We strictly adhere to the *Law of the People's Republic of China on Administrative Supervision*, the *Anti-Monopoly Law of the People's Republic of China*, the *Anti-unfair Competition Law of the People's Republic of China*, and all other applicable laws and regulations. To ensure full regulatory compliance and promote ethical conduct, we have established a dedicated Disciplinary Oversight Department. This department is responsible for overseeing the implementation of our internal anti-corruption policies, including the *Gift and Cash Handling Policy*, the *Entertainment Expenses Policy*, the *Employee Stock Ownership Policy*, and *Employee Disciplinary Measures*. These policies explicitly prohibit employees from accepting any form of kickbacks, commissions, undue benefits, or gifts. Furthermore, our policies strictly forbid management personnel from leveraging their positions for personal gain, whether for themselves, relatives, or other affiliated parties. These measures underscore our unwavering commitment to upholding the highest standards of business ethics throughout the organization.

## Data Security

We are fully committed to complying with the *Data Security Law of the People's Republic of China*, the *Personal Information Protection Law*, and all other applicable data protection laws and regulations. To safeguard corporate information and customer privacy, we have established a comprehensive management system that spans the entire data lifecycle, supported by a suite of internal policies, including our *Data Security Policy* and *Server Room Management Standards*. This system is led by our Data Center, which functions as the central decision-making body for data governance and is responsible for formulating and implementing our overall data management strategy. We have also formed several specialized teams under the Data Center, including the Compliance and Privacy Protection Working Group, the Data Security Execution Working Group, and the Data Standardization Working Group, each with clearly defined responsibilities within our data governance framework.

## Intellectual Property (IP) Protection

Shengmu strictly complies with the *Patent Law the People's Republic of China*, the *Copyright Law of the People's Republic of China*, and all other relevant laws and regulations. We allocate dedicated funds to support trademark and patent applications, as well as the protection of proprietary technologies. As part of our commitment to technological innovation, we proactively identify, assess, and mitigate intellectual property risks. We also continuously optimize our patent portfolio to strengthen the quality of our IP assets.

# Strategy



Shengmu is committed to sustainable growth through smarter and greener practices. We align our operations with national and local government policies and leverage the resources of the Ulan Buh Desert to achieve our strategic objectives.

## Corporate Governance Risks and Potential Impacts

	Potential risk	Potential financial impact	Risk management and response measures
<b>Compliance risks (S/M/L)</b>	<ul style="list-style-type: none"> <li>As corruption becomes more sophisticated and covert, investigations become increasingly difficult.</li> </ul>	<ul style="list-style-type: none"> <li>Reduction in company assets.</li> <li>Increased legal and compliance costs.</li> </ul>	<ul style="list-style-type: none"> <li>Establish policies and systems to govern employee conduct</li> <li>Conduct regular inspections and integrity reviews.</li> </ul>
<b>Internal control risks (S/M/L)</b>	<ul style="list-style-type: none"> <li>Employees may treat internal control processes as formalities. Key and emerging risks may be overlooked.</li> </ul>	<ul style="list-style-type: none"> <li>Financial losses due to incomplete controls.</li> <li>Investment losses due to poor decision-making.</li> </ul>	<ul style="list-style-type: none"> <li>Establish a robust digital risk management system with functions such as key risk identification and critical data monitoring and alerting.</li> <li>Develop a risk framework for animal husbandry and provide related risk control tools.</li> </ul>
<b>Digital information management risks (S/M/L)</b>	<ul style="list-style-type: none"> <li>Risks arising from limited end-user understanding of data systems.</li> <li>Data leakage risks caused by third-party involvement in system development.</li> </ul>	<ul style="list-style-type: none"> <li>Increased costs for data recovery and remediation.</li> <li>Financial losses due to data leaks.</li> </ul>	<ul style="list-style-type: none"> <li>Implement timely upgrades to data systems and provide regular training for key technical personnel.</li> <li>Sign confidentiality agreements with third parties.</li> <li>Sign confidentiality agreements with departing employees and ensure timely updates to access permissions.</li> </ul>

\*Note: S = Short-term; M = Medium-term; L = Long-term

## Corporate Governance Opportunities and Potential Impacts

	Potential opportunity	Potential financial impact	Opportunity management and response measures
<b>Compliance opportunities</b>	<ul style="list-style-type: none"> <li>Discover new business models and development opportunities when exploring compliance pathways in emerging sectors.</li> </ul>	<ul style="list-style-type: none"> <li>Increased revenue due to new business models.</li> </ul>	<ul style="list-style-type: none"> <li>Increase investment, obtain and maintain authoritative organic certifications, and ensure the quality of raw materials.</li> </ul>
<b>Technology opportunities</b>	<ul style="list-style-type: none"> <li>Leverage digital technologies to address the dairy FMCG industry's challenges, including sales fluctuations, freshness demands, supply chain complexity, and logistics network scale.</li> </ul>	<ul style="list-style-type: none"> <li>Enhanced operational efficiency and reduced labor costs.</li> </ul>	<ul style="list-style-type: none"> <li>Establish a model for smart governance by accelerating technology integration and expanding the application of blockchain and AI in the supply chain.</li> </ul>
<b>Branding opportunities</b>	<ul style="list-style-type: none"> <li>Enhance brand reputation and gain trust of clients and financial institutions by actively fulfilling social responsibilities and broadening stakeholder communication channels.</li> </ul>	<ul style="list-style-type: none"> <li>Increased brand value.</li> </ul>	<ul style="list-style-type: none"> <li>Strengthen stakeholder engagement by implementing a multi-channel communication strategy that includes social media, corporate websites, and public relations efforts.</li> <li>Integrate marketing and communication resources to promote a positive brand image.</li> </ul>

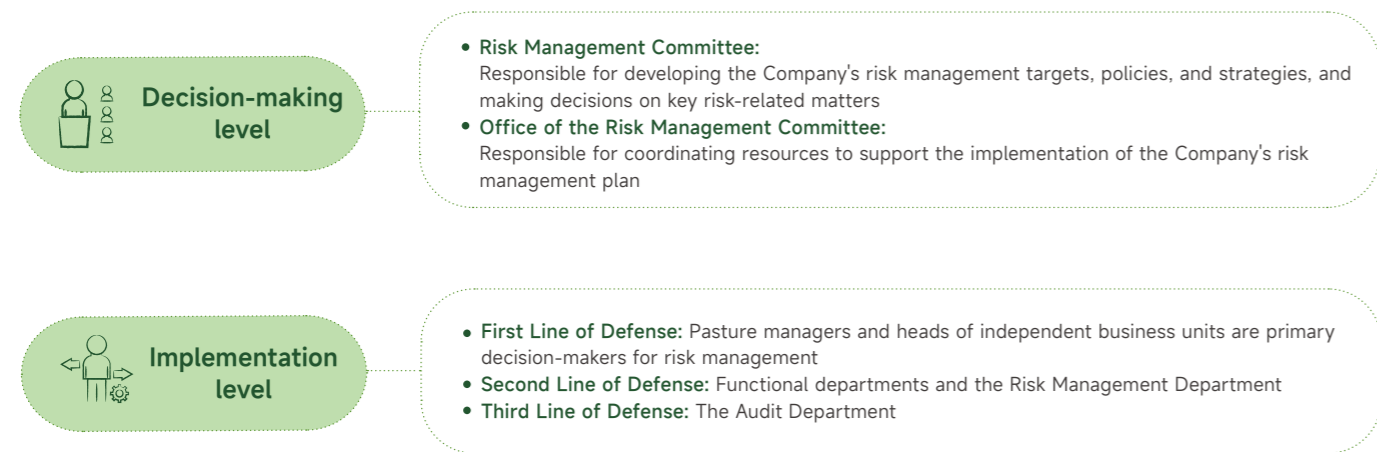
# Risk Management



Shengmu maintains a robust risk management framework in alignment with the *Corporate Governance Code* (Appendix 14 of the Hong Kong Stock Exchange Main Board Listing Rules) and the *Basic Standards for Corporate Internal Controls*. We have established a systematic process for identifying, assessing, controlling, and monitoring risks. We also regularly update our risk response strategies to enhance the effectiveness of our risk management system and strengthen the Company's resilience to potential risks.

## Risk Governance Structure

Our risk governance structure, encompassing the Risk Management Committee, the Office of the Risk Management Committee, and the three lines of defense, is responsible for managing risk across our value chain. This includes developing internal control systems, overseeing key risk management initiatives, evaluating their effectiveness, and providing management support to address identified risks and drive continuous improvement. We also establish reward and penalty mechanisms to ensure effective response to major risks.



## Risk Management Process

We follow a structured risk management process that includes: identifying and assessing potential risks; developing and implementing risk control measures and targets; and monitoring the risk control process and validating the effectiveness of these measures. This process helps us ensure robust risk management.



## Integrity Risk Management

We use a comprehensive range of tools, such as internal audits, integrity pledges, and employee engagement, to strengthen the effectiveness and efficiency of our integrity risk management. In 2024, we reported zero cases or related lawsuits of embezzlement, bribery, conflicts of interest, money laundering, or insider trading.

<b>Integrity risk control</b>	We manage integrity risks through a robust system of internal controls, including enhanced inspections in high-risk areas, routine audits, peer reviews, and comprehensive ethics training and awareness programs. Furthermore, to foster a clean industry ecosystem, we require suppliers and partners to sign integrity-based business agreements.
<b>Whistleblower protection</b>	We encourage employees to report any concerns regarding potential misconduct in financial reporting, pasture operations, corporate compliance, or other areas. Employees can confidentially report such concerns directly to our Audit Committee, which is composed primarily of independent, non-executive directors. All reports are addressed promptly and fairly, and we have a strict policy prohibiting retaliation against whistleblowers, including wrongful dismissal or other unjust disciplinary actions.
<b>Reporting channels</b>	Phone: 15148021310 and 15148031310 Email: jjjc@smorganic.cn

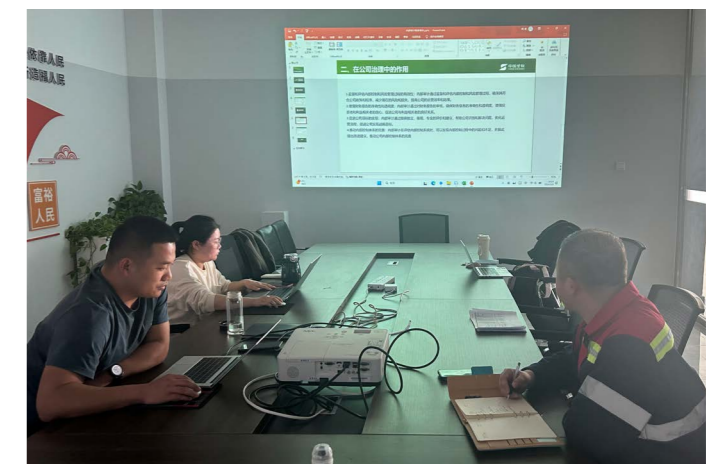
## Data Security

To safeguard our data and customer privacy security, we've implemented a robust data security governance system, which includes data security awareness training and standardized data management procedures. In 2024, we reported zero privacy breaches.

<b>Routine data security management in the office</b>	Our data security policy mandates the use of antivirus software and designated office software. We strictly prohibit the transmission of sensitive corporate information through unencrypted email or instant messaging. All internal confidential information must be securely managed within our group's established communication channels.
<b>Intranet security</b>	We strictly prohibit the use of our intranet for non-work-related activities, including publishing, browsing, or sharing unauthorized information. Hacking activities are strictly prohibited on all mobile and office devices.
<b>Data security management</b>	We protect customer data stored in our information systems through encryption. Access to and collection of customer data is strictly limited to authorized personnel for work-related purposes only. We have also put in place data destruction and backup/recovery procedures to ensure the security of our data.

## Compliance Culture

We integrate risk and compliance awareness into day-to-day operations and foster a proactive compliance culture through targeted training on risk management and internal controls.



· We conducted internal control training sessions in 2024 ·



## Indicators and Targets



We employ a science-based approach to develop and manage our corporate governance indicators, targets, and strategies and regularly assess our progress. This approach ensures our steady advancement towards our sustainable development objectives.

### Targets

Target	Progress in 2024	Completion status
100% participation rate among employees in anti-corruption training	100%	Completed
100% participation rate among employees in business ethics training	100%	Completed

### Indicators

	Indicator	Unit	2024	2023	2022
Anti-corruption efforts	Number of corruption lawsuits	/	0	0	0
	Participation rate among employees in anti-corruption training	%	100	/	/
	Employee participate rate in business ethics training	%	100	/	/

# 02

## Product Responsibility

Shengmu is committed to delivering the world's best organic milk from desert farms. We achieve this through our end-to-end organic value chain, which spans environment management, crop farming, animal husbandry, and product management. To boost dairy cow production and improve product quality, we prioritize raw milk quality, meticulously control production processes, and integrate animal welfare principles into our operations. By consistently delivering safe, high-quality, nutritious, and healthy products, we contribute to a healthier China and support the country's shift of focus to quality.

### Contributions to the SDGs



# Governance



Shengmu is committed to the highest standards of raw milk quality and food safety. We strictly comply with all relevant regulations and laws, including the *Food Safety Law of the People's Republic of China*, the *Product Quality Law of the People's Republic of China*, the *Dairy Product Quality and Safety Regulations*, the *National Food Safety Standard: Raw Milk*, and the *Food Recall Management Measures*. Our Safety and Quality Center is the cornerstone of our quality control efforts, overseeing the implementation of internal product management policies such as the *Raw Materials and Raw Milk Quality Management Policy*, the *Milk Collection Center Management Policy*, and the *Nutrition and Health Management Policy*. Furthermore, we implement 6S lean management principles across our pasture to ensure meticulous quality control at every stage, from feed procurement to raw milk production and transportation.

We have also formulated a *Customer Relationship Management Policy*. This policy clearly defines departmental responsibilities and procedures for handling complaints, enabling us to promptly understand customer needs, ensure effective communication, and conduct thorough root cause analyses. We use analysis results to inform the development of corrective actions, provide customers with feedback on resolution, and maintain detailed records throughout the entire closed-loop process. This process ensures timely and effective responses to customer needs and concerns.

We focus on animal welfare and have established an *Animal Welfare Policy* to guide our practices. Our dairy cow management integrates humane care with sustainability principles. Through scientific feeding management and regular health and behavioral assessments, we ensure the well-being of our cows. We also contribute to the advancement of industry standards for animal welfare by actively promoting best practices in animal welfare and sharing our expertise with both upstream and downstream partners.



## Follow Basic Animal Welfare Principles

<b>Freedom from hunger and thirst</b>	By ready access to fresh water and nutritious feed to maintain full health and vigor.
<b>Freedom from discomfort</b>	By providing an appropriate and safe environment, including shelter and a comfortable resting area with sufficient space and appropriate temperature.
<b>Freedom from pain</b>	By preventing abuse and ensuring that animals do not suffer during feeding, transportation, and end-of-life handling.
<b>Freedom from fear and distress</b>	By ensuring conditions which avoid mental suffering and providing a quiet and comfortable environment.
<b>Freedom from disease</b>	By implementing scientific health management practices along with preventive measures for injuries and diseases.

Sustainable procurement is fundamental to our operations. Guided by our *Supplier Management Policy*, our Procurement Center standardizes and oversees all aspects of supplier management, from onboarding to ongoing monitoring, performance evaluation, and suspension protocols. This system ensures we have a fair, transparent, and sustainable supply chain.

# Strategy



We are committed to building a robust organic ecosystem that upholds the principles of food safety, biosafety, production safety, and environmental safety in Ulan Buh Desert. We proactively identify both risks and opportunities across our value chain, and develop tailored strategies to ensure operational stability in a complex, evolving market. We also continuously optimize our industrial structure and strengthen our core competencies.

## Product-Related Risks and Potential Impacts

	Potential risk	Potential financial impact	Risk management and response measures
<b>Operational risks (S)</b>	<ul style="list-style-type: none"> <li>Consumers have higher expectations for organic brand certification, increasing pressure on traceability and data transparency within the supply chain.</li> </ul>	<ul style="list-style-type: none"> <li>Ongoing investment needed to maintain and update organic certification.</li> <li>Increase investment in organic certification to ensure that all processes, from raw material sourcing to processing, meet organic standards.</li> </ul>	<ul style="list-style-type: none"> <li>Implementation of advanced technologies (such as blockchain and IoT) to improve traceability and data transparency may raise operating costs.</li> <li>Conduct third-party quality testing and certification, and provide detailed information on product raw materials, production processes, and quality control to build consumer trust.</li> <li>Strengthen supply chain oversight by enhancing supplier evaluation criteria across economic, social, and environmental aspects, and offer technical training and support.</li> </ul>
<b>Compliance risks (S/M/L)</b>	<ul style="list-style-type: none"> <li>Potential violations of animal protection laws and public food safety regulations.</li> </ul>	<ul style="list-style-type: none"> <li>Legal liability and financial penalties.</li> <li>Decline in revenue and profit.</li> </ul>	<ul style="list-style-type: none"> <li>Mitigate quality risks through source control, production process management, quality monitoring, traceability, and independent third-party testing and certification.</li> <li>Maintain a strong focus on animal welfare throughout the breeding process, ensuring dairy cow health and disease prevention measures, and promoting a comfortable environment for dairy cows throughout the milk production process.</li> </ul>
<b>Reputation risks (S)</b>	<ul style="list-style-type: none"> <li>Product quality issues could undermine consumer trust and damage brand reputation.</li> </ul>	<ul style="list-style-type: none"> <li>Decrease in brand premium ability, leading to a decline in revenue.</li> </ul>	<ul style="list-style-type: none"> <li>Establish and strengthen a comprehensive quality management system.</li> <li>Rigorously adhere to food safety regulations and conduct regular food safety risk assessments and self-inspections.</li> </ul>

\*Note: S = Short-term; M = Medium-term; L = Long-term

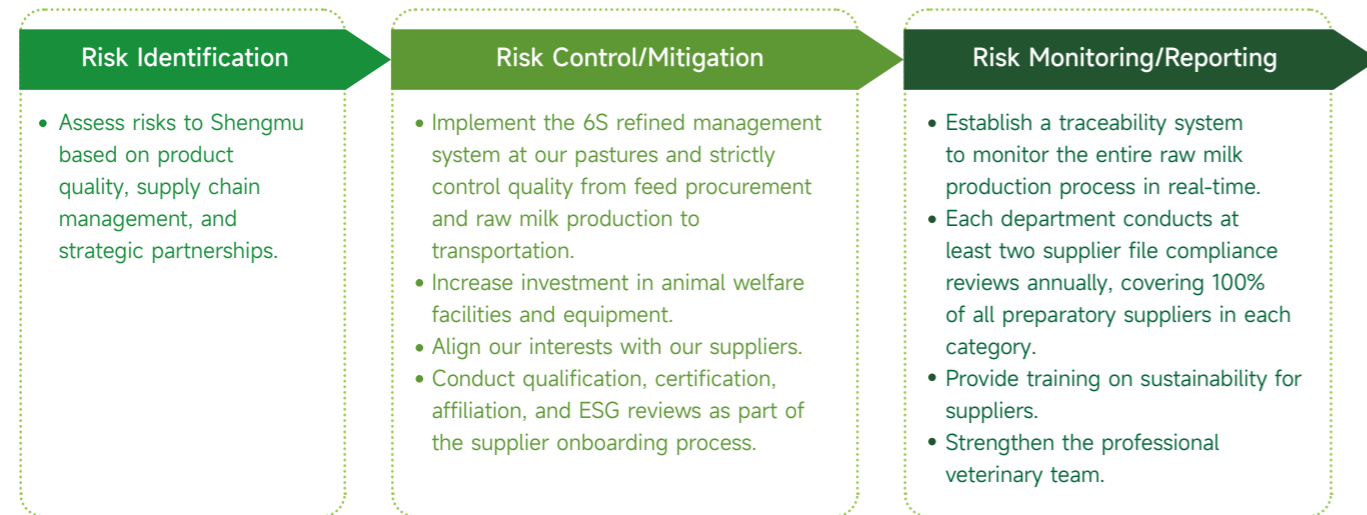
## Product-Related Opportunities and Potential Impacts

	Potential opportunity	Potential financial impact	Opportunity management and response measures
<b>Operational opportunities</b>	<ul style="list-style-type: none"> <li>Strengthen value chain cooperation by enhancing mutual trust with suppliers; collaborate with industry experts to promote breeding technology innovation.</li> </ul>	<ul style="list-style-type: none"> <li>Improved production efficiency and increased revenue.</li> </ul>	<ul style="list-style-type: none"> <li>Foster strong, transparent relationships with suppliers to ensure a stable supply chain.</li> <li>Carefully select and cultivate high-quality suppliers, supporting their technological upgrades and service optimization.</li> </ul>
<b>Market opportunities</b>	<ul style="list-style-type: none"> <li>Growing consumer demand for healthy food, with a focus on the quality of raw materials in the supply chain.</li> </ul>	<ul style="list-style-type: none"> <li>Increased consumer willingness to pay a premium for welfare-friendly products, leading to higher sales.</li> <li>Welfare-friendly farming can reduce stress in dairy cows, lower disease incidence, and decrease veterinary costs.</li> <li>Downstream partners may be more inclined to partner with welfare-oriented farming companies, ensuring supply chain compliance and reducing cooperation risks.</li> </ul>	<ul style="list-style-type: none"> <li>Increase investment, obtain and maintain authoritative organic certifications, and ensure the quality of raw materials.</li> <li>Develop new organic products aligned with market demand and leverage market premiums to boost profitability.</li> <li>Increase investments in animal welfare facilities and professional veterinary teams, implementing comprehensive technical standards and procedures for dairy cow living conditions, vaccination, and disease prevention.</li> </ul>
<b>Branding opportunities</b>	<ul style="list-style-type: none"> <li>Establishing a full organic closed-loop system to differentiate the brand and promote sustainability.</li> </ul>	<ul style="list-style-type: none"> <li>Transform ecological value into financial growth.</li> </ul>	<ul style="list-style-type: none"> <li>Expand the organic industry chain by increasing the scale of organic planting and breeding, deepening the ecological cycle model.</li> <li>Strengthen brand promotion, emphasizing organic certification logos and health benefits.</li> </ul>

# Risk Management



We proactively identify and manage product safety risks and opportunities, guided by product safety laws and regulations, stakeholder needs, and other relevant factors.



## Raw Milk Quality Assurance

We continuously explore advanced quality control standards and technologies, regularly conducting on-site pasture assessments and formula optimizations with expert teams. From pasture planting to dairy cow breeding to milk processing, every step strictly adheres to organic standards, with no use of pesticides, fertilizers, or chemical additives throughout the process. This commitment has made us the first raw milk brand in China to achieve dual certification under both China and EU organic standards. In 2024, there were no product quality-related lawsuits.



### Raw Material Quality Control



The quality control of incoming raw materials is closely monitored through compliance inspections, sensory inspections, and hygiene and physicochemical tests.

- Compliance Inspection:** Suppliers must provide inspection reports for raw materials upon delivery to the factory (or farm), and the reports must meet the group's quality standards or agreements. Feed labels must comply with the relevant provisions of GB10648 and Announcement No.1773.
- Sensory Inspection and Hygiene and Physicochemical Tests:** Raw materials are accepted only after passing a sensory inspection in accordance with the Compilation of Forage Quality Standards, as well as hygiene and physicochemical tests.

### Quality Control in Milk Transportation



- Transportation personnel must follow the designated routes and locations specified by the company. Milk trucks must be in proper condition and free from damage. If issues such as leakage occur, repairs must be made promptly.
- It is prohibited to open the lead seal, resell milk, or adulterate the product during transport. The vehicles must be dedicated solely to milk transportation, with no other cargo allowed.

### Nutrition and Health Management



- We provide scientifically designed diets for dairy cows, implement regular health monitoring, and adjust nutrition plans as needed. We also focus on research and development of functional milk and innovative feeding methods to enhance dairy cow health and production performance.

### Raw Milk Quality Control



- From milking to delivery, the entire raw milk production process is monitored in real-time through a scientifically rigorous approach.
- Experts are invited to conduct training and exchange sessions on raw milk testing processes and chronic antimicrobial testing methods, enhancing raw milk testing capabilities and ensuring high quality.



Shengmu No. 6 Pasture was designated as a source of milk for Chinese students by the China Dairy Association

Shengmu No. 12 Pasture was designated as a source of milk for Chinese students by the China Dairy Association

## Animal Welfare Guarantee

We attach great importance to animal welfare and maintain stringent high-security breeding standards. Our approach encompasses feeding management, health management, humane treatment, and behavioral and psychological well-being, ensuring all animals are raised under healthy, safe, and humane conditions. We adhere to fully organic breeding practices, guaranteeing that diet, drinking water, and medication are hormone-free and antibiotic-free. This commitment effectively improves dairy cow output and raw milk product quality.



### Feeding Management

**Feed and Drinking Water:** We provide high-quality feed that meets nutritional demands of the animals and ensure a continuous, 24-hour supply of clean drinking water.

**Environmental Control:** We maintain appropriate temperature, humidity, and ventilation conditions tailored to the animals' species and growth stage. We provide a hygienic living environment, which is regularly cleaned and disinfected.

**Space and Activity:** We ensure animals have ample space for movement, prevent overcrowding, and allow them to express their natural behaviors.

### Health Management

**Regular Inspections:** Professional veterinarians conduct regular health checks to promptly detect and treat any illnesses.

**Vaccination:** We implement scientific epidemic prevention plans, including vaccinations, to prevent the occurrence and spread of infectious diseases.

**Drug Use:** We minimize the use of conventional antibiotics for preventive purposes in dairy cow breeding and production. Drug withdrawal periods are strictly adhered to, with conventional pastures following standard periods and organic pastures following double withdrawal periods. We do not use growth-promoting hormones or feeds, relying solely on refined feeding to optimize dairy cow production.

### Humane Treatment

**Production Management:** We do not use genetically modified or cloned dairy cows for production, and we ensure that pregnant dairy cows and calves under three months old are not used for production.

**Employee Training:** All employees involved in animal management receive comprehensive animal welfare training to enhance their awareness and professional skills.

**Gentle Handling:** We employ gentle and harmless handling and driving techniques to avoid causing fear or harm to animals.

### Behavior and Mental Health

**Environmental Enrichment:** We enrich the animals' living environment by providing toys, social interactions, and other stimuli to meet their behavioral and psychological needs.

**Stress Reduction:** Through scientific management practices, we minimize animal stress levels in all aspects, promoting their mental well-being.

## Case: Improving Animal Welfare and Promoting Sustainable Development

In March 2024, Shengmu became a standing director of the International Cooperation Committee of Animal Welfare under the China Association for the Promotion of International Agricultural Cooperation. To enhance animal welfare, all our pastures are equipped with playgrounds, sand mats, fans, cow brushes, cold-proof clothing, windbreaks, lighting, and sprinkler systems. Additionally, each pasture has dedicated nutritionists and veterinarians to ensure fully organic farming practices, including hormone-free and antibiotic-free diets, drinking water, and medication. These measures guarantee the health and comfort of our dairy cows throughout the milk production process.



## Sustainable Supply Chain

We are optimizing our internal processes and progressively integrating environmental, social, and governance (ESG) criteria into our comprehensive supplier management framework to strengthen supply chain resilience.

In 2024



**358**  
supplier partners  
including

**354**  
domestic suppliers

**4**  
overseas suppliers

**100%**  
suppliers signed ethical  
procurement agreement

### Supplier Sourcing

We gather supplier information through diverse channels, including invitations and self-registration, and conduct preliminary qualification reviews to ensure alignment with our procurement needs.

### Supplier Vetting

Adhering to principles of fairness, impartiality, and transparency, we evaluate supplier qualifications, environmental quality, certifications, and related affiliations. We prioritize suppliers who demonstrate integrated environmental protection and social responsibility in their business operations.

### Supplier Performance Evaluation

Based on category-specific characteristics, we conduct holistic evaluations of suppliers across quality, delivery, sustainable development (economic, environmental, social, and innovation), service, and other relevant dimensions. Suppliers are then categorized into A, B, C, and D tiers based on their performance scores.

### Supplier Incentives

A/B-tiered suppliers are incentivized through priority cooperation and benchmarking opportunities under comparable conditions. D-tiered suppliers are provided with specific rectification measures and deadlines to facilitate improvement.

### Supplier Support

We foster close collaborative relationships with our suppliers, offering financial support and technical assistance to enhance their overall capabilities.

# Indicators and Targets



We have established indicators and targets related to the management of products and supply chain, and continue to monitor performance and disclose progress in order to facilitate the Company's sustainable development.

## Targets

	Target	Progress in 2024	Completion status
Product governance	Within 5 years: At least 10 farms achieving GAP certification Within 10 years: At least 12 farms achieving GAP certification	7	In progress
	Within 5 years: At least 4 inspection laboratories achieving CNAS certification Within 10 years: At least 6 inspection laboratories achieving CNAS certification	2	In progress
	Within 5 years: At least 2 pastures achieving leading food safety management system certification (e.g., FSSC/ISO/BRC) Within 10 years: At least 6 pastures achieving leading food safety management system certification (e.g., FSSC/ISO/BRC)	1	In progress
	Within 5 years: A non-conformity rate below 2% in the Global Food Safety Initiative (GFSI) audit Within 10 years: A non-conformity rate below 1% in the GFSI audit	0%	Completed
Supplier management	Within 5 years: At least 85% of suppliers passing the desk/on-site assessment Within 10 years: At least 95% of suppliers passing the desk/on-site assessment	83.24%	In progress
	All suppliers supported in implementing remediation plans	11.18%	In progress
	Within 5 years: 60% of suppliers participating in the capacity-building program Within 10 years: 80% of suppliers participating in the capacity-building program	2%	In progress

## Indicators

	Indicator	Unit	2024	2023	2022
Food safety	Non-conformity rate in the GFSI audit	%	0	0	/
	Percentage of products with major non-conformities	%	0	0	/
	Remediation completion rate for minor non-conformities	%	0	0	/
	Number of product recalls issued	/	0	0	/
	Total weight of recalled products	Tons	0	0	/
Use of antibiotics	Percentage of dairy cows treated with medically important antibiotics	%	0	0	/
	Percentage of dairy cows treated with non-medically important antibiotics	%	0	0	/
Animal and feed procurement	Percentage of contracts signed by producers located in areas with high or very high baseline water stress	%	96	89.9	/
Number of suppliers by region	Number of domestic suppliers	/	354	400	352
	Number of foreign suppliers	/	4	2	/
Supplier screening	Number of first-tier suppliers	/	115	/	/
	Number of key first-tier suppliers	/	37	/	/
	Percentage of total payments to first-tier suppliers	%	26	/	/
	Number of non-first-tier suppliers	/	243	/	/
	Number of key suppliers (first-tier and non-first-tier)	/	94	/	/
	Percentage of suppliers signed ethical procurement agreement	%	100	100	/
Supplier assessment and/or development	Number of suppliers evaluated through desk/on-site assessments	/	298	/	/
	Percentage of suppliers evaluated through desk/on-site assessments	%	83.24	/	/
	Number of suppliers with significant actual or potential negative impacts	/	0	/	/
	Percentage of suppliers with significant actual or potential negative impacts	%	0	/	/
	Number of suppliers terminated for significant actual or potential negative impacts	/	0	/	/
	Number of suppliers supported in implementing remediation plans	/	40	/	/
	Percentage of suppliers supported in implementing remediation plans (for significant actual or potential negative impacts)	%	11.18	/	/
	Number of suppliers participating in our capacity-building program	/	6	/	/
Percentage of suppliers participating in our capacity-building program	%	2	/	/	

# 03

## Climate Neutrality

Recognizing the carbon neutrality challenges within agriculture and animal husbandry, Shengmu, as China's largest organic raw milk supplier, has developed a scientific and effective carbon reduction strategy aligned with China's Dual Carbon Targets (i.e., to peak emissions by 2030 and to achieve carbon neutrality by 2060) and the *Paris Agreement's* 1.5-degree Celsius target. We have integrated carbon reduction initiatives into all operational aspects, aiming to establish a green, low-carbon ecosystem driven by carbon reduction in planting, breeding, and processing, as well as carbon sequestration through agriculture, forestry, and grassland management. This approach reflects Shengmu's contribution to addressing climate change and fostering sustainable development.

### Contributions to the SDGs



# Governance



Robust governance is essential for effective climate change management. Our Board of Directors and its Strategy and Sustainability Committee jointly oversee climate-related matters, including the supervision and evaluation of company initiatives and the monitoring of project progress and effectiveness. Furthermore, we link 5% of the Board's bonus incentive to climate-related performance to drive the achievement of our strategic climate objectives. (For detailed governance structures and responsibilities, please refer to the Sustainability Governance section.)

# Strategy



Shengmu conducts comprehensive analyses of climate risks and opportunities, integrating these findings into our overall risk management, strategic planning, and financial forecasting. This approach facilitates our goal attainment and fosters a green, low-carbon ecosystem through carbon reduction in farming and breeding, and carbon sequestration in agriculture, forestry, and grassland management.

## Climate Scenario Analysis

We utilize publicly available scenarios from the United Nations Intergovernmental Panel on Climate Change (IPCC), tailored to align with China's Dual Carbon Targets, to define the following two potential pathways:



### Global 1.5° C Pathway (SSP1-1.9)

This scenario assumes strict adherence to the Paris Agreement by all nations, achieved through technological innovation, policy coordination, and climate finance. Fossil fuel reliance is significantly reduced, renewable energy becomes dominant, global carbon neutrality is achieved by 2050, and temperature rise is limited to 1.5°C. In this context, Shengmu's operations in China will achieve 100% green electricity coverage for our pastures and a 50% reduction in dairy cow carbon emission intensity.

### High Emissions Scenario (SSP5-8.5)

This scenario projects insufficient global climate action, with a continuation of current policies and high dependence on fossil fuels. Global temperature rise reaches 3-4°C, leading to increased frequency of extreme droughts and floods, heightened water resource pressure on pastures, and a more than 30% increase in raw material supply chain costs.

**Timeframes:** Short-term (0-1 year), medium-term (2-5 years), and long-term (6+ years).

## Climate Risks and Potential Impacts

	Climate scenario	Potential risk	Potential financial impact	Risk management and response measures	
Physical risks	Extreme heat (S)	The 1.5°C scenario	Number of annual heat stress days for dairy cows may increase by 10, leading to a 3% decrease in milk production.	Decline in feeding conditions, reduced milk production, and lower revenue.	
		The 3°C scenario	Annual heat stress days may increase by 30, leading to a decrease of 10%-15% in milk production.		
	Extreme precipitation (S)	The 1.5°C scenario	Localized waterlogging may damage pasture infrastructure.	Infrastructure maintenance costs increase by 5%.	<ul style="list-style-type: none"> <li>Regularly identify, analyze, and evaluate risks such as climate change, and develop climate-related emergency response plans.</li> <li>Improve pasture climate resilience and optimize dairy cow feeding and management practices.</li> </ul>
		The 3°C scenario	15% risk of flooding in our core pastures, potentially halting production	Production loss increases by 20%.	
	Disease transmission (S)	The 1.5°C scenario	Increased disease transmission; mosquito-borne virus transmission rates rise by 2%.	Reduced milk yield and revenue.	
The 3°C scenario		Risk of outbreaks (e.g., foot-and-mouth disease, anthrax) increases by 50%.			
Droughts (S)	The 1.5°C scenario	Regional precipitation may fluctuate ±5%; forage cost volatility increases.	Forage costs rise by 8%; procurement costs increase.		
	The 3°C scenario	Precipitation may drop by 20%; 25% risk of forage supply chain disruption.	Potential reduction in production capacity, unstable delivery cycles, and impact on sales revenue.		
Transition risks	Policy risks (S/M/L)	The 1.5°C scenario	Pasture emissions standards may tighten, requiring proactive carbon reduction planning	Compliance transformation leads to a 10% cost increase.	<ul style="list-style-type: none"> <li>Build low-to-zero carbon pastures.</li> <li>Invest in the Ulan Buh Desert Dairy Cow Smart Low-carbon Feeding Technology Integration and Demonstration Project and explore smart low-carbon feeding solutions.</li> </ul>
		The 3°C scenario	Local governments may adopt differentiated environmental thresholds, increasing cross-regional operational complexity.	Hidden costs increase by 15%.	
	Technological risks (S/M/L)	The 1.5°C scenario	Outdated technology could limit our ability to respond to extreme weather events, and milk production may drop by 15% during heatwave.	Decreased revenue.	<ul style="list-style-type: none"> <li>Conduct regular inspections, enhance disease control, improve detection, and obtain insurance coverage</li> </ul>
		The 3°C scenario	Extreme heat may lead to widespread health issues among dairy cows, affecting production and pasture operations.	Economic losses per pasture may exceed USD 2.81 million per year.	
	Market risks (S/M/L)	The 1.5°C scenario	Carbon intensity of raw milk may not meet customer requirements, leading to a drop in orders.	Orders decrease by 30%; revenue declines.	<ul style="list-style-type: none"> <li>Strictly follow organic standards for crop planting and management, conduct regular field assessments, optimize feed formulas with expert teams, and enhance traceability and transparency in the supply chain.</li> <li>Develop low-carbon or carbon-neutral raw milk.</li> </ul>
		The 3°C scenario	Heatwaves may cause raw milk quality fluctuations, potentially triggering price competition.	Gross profit margin drops to 12%.	
	Reputation risks (S)	The 1.5°C scenario	Implementing an effective emissions reduction strategy can help maintain current ESG rating.	Decreased financing costs.	<ul style="list-style-type: none"> <li>Prioritize climate risk management, and avoid negative environmental incidents.</li> </ul>
		The 3°C scenario	Environmental incidents at pastures may spark negative social media attention, leading to a drop in brand trust.	Declined orders and decreased revenue.	
	Legal and compliance risks (S/M/L)	The 1.5°C scenario	Revisions to laws such as the <i>Regulations on Pollution Prevention and Control of Large-scale Animal Farms</i> and the <i>Air Pollution Prevention and Control Law</i> may increase the maximum fine for illegal emissions to USD 0.42 million per violation.	Increased legal and compliance costs.	<ul style="list-style-type: none"> <li>Keep a close eye on regulatory trends in the animal farming and dairy sectors to enable early action.</li> </ul>
		The 3°C scenario	Climate disasters may trigger environmental pollution incidents, increasing the risk of class action lawsuits.	An individual claim may reach up to 3% of annual revenue.	

\*Note: S = Short-term; M = Medium-term; L = Long-term

## Climate Opportunities and Potential Impacts

	Climate scenario	Potential opportunity	Potential financial impact	Opportunity management and response measures
Value chain opportunities (S/M/L)	The 1.5°C scenario	Using organic fertilizers derived from manure can eliminate the need for chemical fertilizers.	Reduced raw material procurement and waste disposal costs.	<ul style="list-style-type: none"> <li>Implement a circular agriculture model that integrates crop farming and livestock breeding, use manure as raw materials for organic fertilizers, and prevent soil and water pollution caused by improper livestock waste disposal.</li> <li>Participate in industry forums to share best practices in integrated agriculture.</li> </ul>
	The 3°C scenario	We may provide emissions reduction services to industry peers through technology transfer.	Increased revenue.	
Product and service opportunities (S/M/L)	The 1.5°C scenario	Market demand and pricing for low-carbon organic raw milk may increase.	Shengmu scales up organic pastures to expand production and sales.	<ul style="list-style-type: none"> <li>Develop a five-year growth plan to accelerate the transition to organic milk, set clear targets for the transition of pastures to carbon neutrality and the production of zero-carbon raw milk, and contribute to both environmental sustainability and economic growth through increased production of organic and zero-carbon milk.</li> </ul>
	The 3°C scenario	Global supply chain shifts may drive demand for regional low-carbon milk supply centers.		
Technology opportunities (S/M)	The 1.5°C scenario	Introduction of new feed additives may reduce methane emissions from dairy cows by 55%.	Environmental protection efforts result in increased policy support and an enhanced brand image, leading to greater market share.	<ul style="list-style-type: none"> <li>Conduct R&amp;D to optimize cattle feed composition and structure.</li> </ul>
	The 3°C scenario	Extreme heat may accelerate commercialization of heat stress-resistant gene-editing technology, opening up opportunities in the livestock breeding market.	Increased revenue.	
Policy opportunities (S/M)	The 1.5°C scenario	Pastures achieving a raw milk carbon intensity of 0.07 kg CO <sub>2</sub> e/kg or less could receive a government subsidy of 0.5 yuan per kilogram.	Improved profit.	<ul style="list-style-type: none"> <li>Actively engage in climate action to qualify for relevant government subsidies</li> </ul>
	The 3°C scenario	Under extreme heat, government may introduce special subsidies for forage planting.		

\*S = Short-term; M = Medium-term; L = Long-term

## Climate Resilience

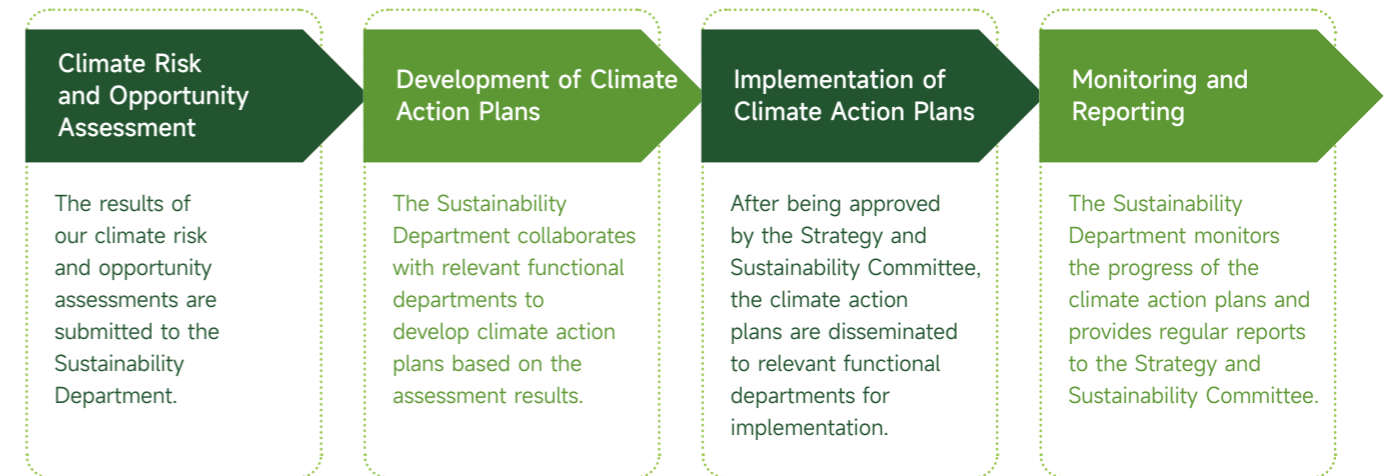
Shengmu's climate transition plan extends beyond direct climate change mitigation, encompassing critical environmental considerations such as water resource management, forest preservation, and biodiversity conservation. This comprehensive approach ensures our sustainable development strategy effectively addresses multifaceted environmental challenges and promotes ecosystem health and stability. Focusing on the Ulan Buh Desert, we are expanding our organic pasture footprint through integrated crop and animal farming practices. We have developed a five-year growth plan to accelerate the transition to organic milk production, meeting the increasing consumer demand for organic, low-carbon dairy products. Concurrently, we have set ambitious targets for carbon-neutral pastures and zero-carbon raw milk production, implementing eight key emission reduction measures across dairy cow enteric fermentation, manure management, comprehensive energy utilization, and ecological carbon sequestration to achieve these goals.

## Risk Management



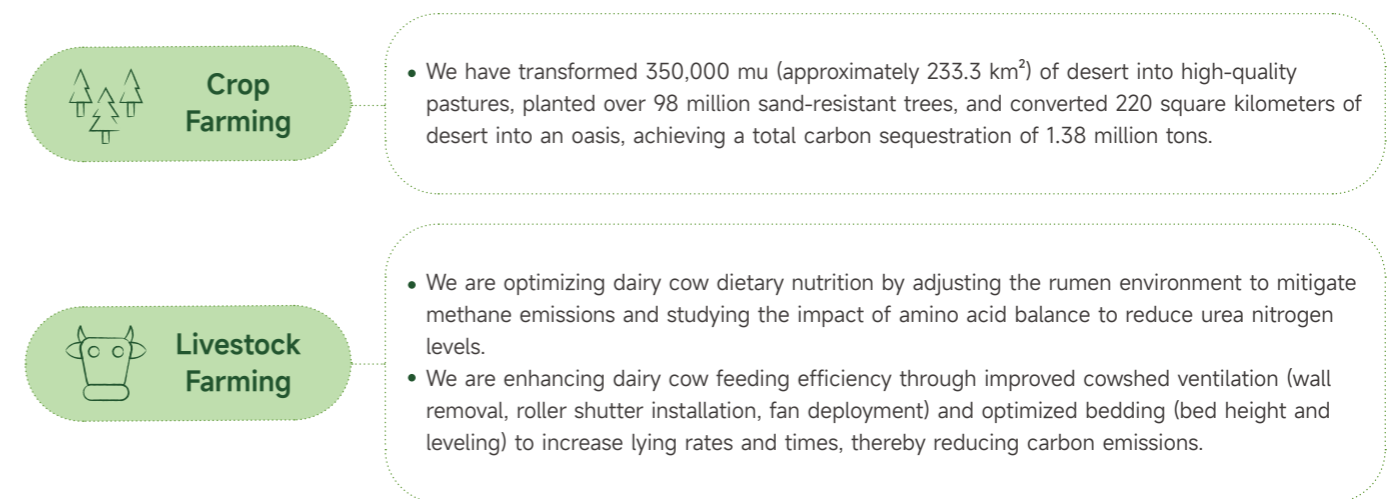
Shengmu conducts regular assessments of climate change-related risks and opportunities through a combined bottom-up (reporting to senior management) and top-down (interviews conducted by senior management) approach. We also use a risk matrix to prioritize major risks and opportunities across various domains.

### Climate risk and opportunity management process



### Energy Management

We proactively develop energy management plans and conduct energy audits to identify areas for improved energy performance. Progress in energy consumption reduction is regularly evaluated.



In 2024



Total energy consumption

606,570.67 GJ

Energy consumption per 10,000 yuan of revenue

0.061 TCE

## Adoption of Green Electricity

We are committed to optimizing our energy mix by progressively increasing the utilization of renewable energy and decreasing reliance on fossil fuels, thereby achieving substantial reductions in GHG emissions. In collaboration with loader manufacturers, we are developing electric loaders tailored for the livestock industry to minimize diesel consumption on our pastures. Additionally, we are implementing decentralized solar power systems on cattle sheds to support the energy transition of traditional animal husbandry.



Case

### Shengmu Launched Solar-Powered Pastures

Shengmu is dedicated to promoting the green and low-carbon development of our pastures. In 2024, we launched the Smart Pasture Solar Power Project, integrating solar power systems into our breeding and livestock operations and establishing a solar-powered pasture operation model. According to projections, the 2.5MW Smart Pasture Solar Power Project will reduce GHG emissions by 3,767.6 tons of CO<sub>2</sub>e annually, starting in 2025.

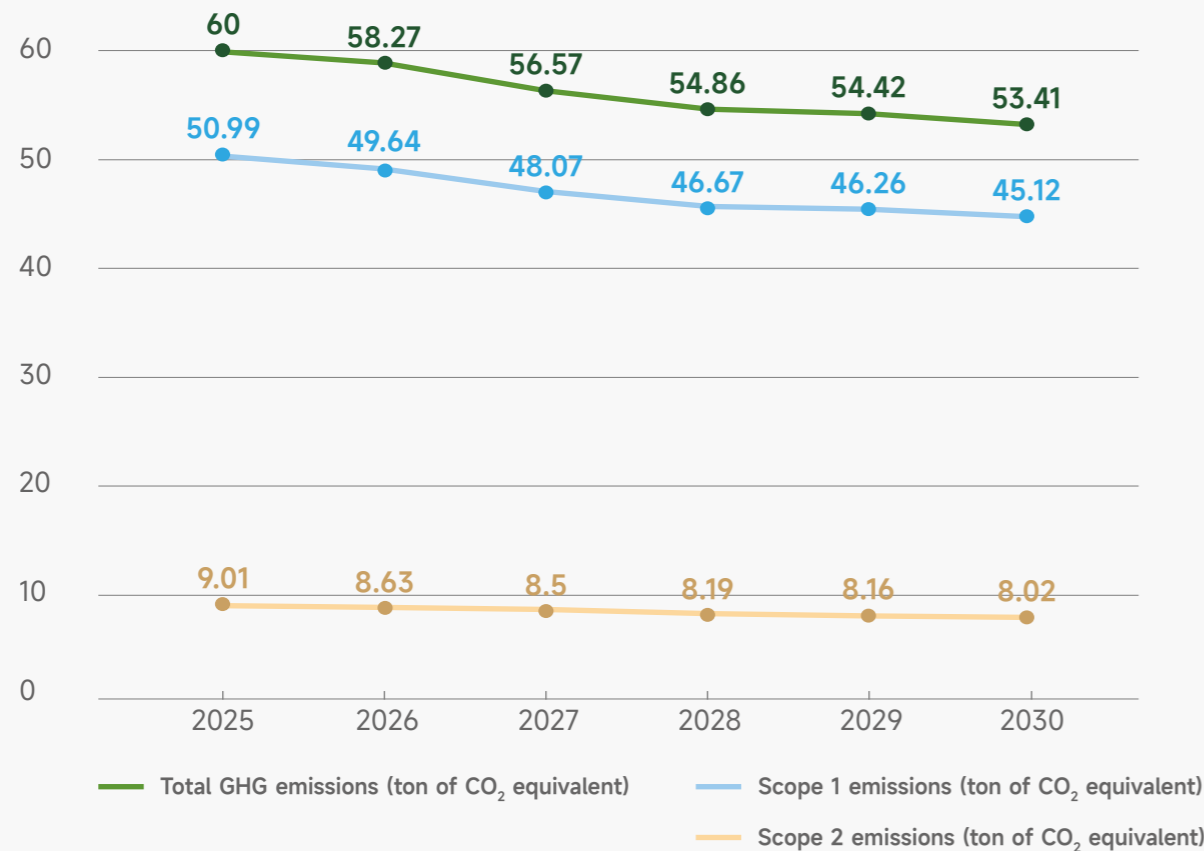
## Indicators and Targets



### Targets

Shengmu, in line with China's "carbon peaking and carbon neutrality goals" and the *Paris Climate Agreement's* commitment to limit global warming to 1.5° C, has developed a scientifically sound and effective carbon reduction plan under the SBTi framework. By 2030, the total emissions will be reduced to 514,300 tons, with scope one emissions dropping to 451,200 tons and scope two emissions to 80,200 tons. Additionally, we have set a reduction target for scope three emissions, aiming to lower them to 300,000 tons within ten years.

Shengmu's Emissions Reduction Roadmap



## Indicators

In accordance with our science-based carbon reduction strategy, we have integrated emissions reduction considerations into all operational processes. We establish and manage climate-related indicators using a data-driven approach, and conduct regular reviews and evaluations of our emission reduction performance.

	Indicator	Unit	2024	2023	2022
GHG emissions	Total GHG emissions		653,271.15	662,373.52	626,000.00
	Scope 1 emissions		499,646.00	491,988.00	524,506.95
	Increase in Scope 1 emissions		574,646.00	579,988.00	524,506.95
	Decrease in Scope 1 emissions	(tCO <sub>2</sub> e)	75,000.00	88,000.00	/
	Scope 2 emissions		124,849.00	106,388.00	101,493.05
	Scope 3 emissions		28,776.15	63,997.52	/
	Scope 4 emission		209,012.09	/	/
	GHG emissions per cow (scope 1 and scope 2)	Tons per cow	4.32	4.04	4.59
	GHG emissions per 10,000 yuan of revenue (scope 1 and scope 2)	tons per 10,000 yuan	1.85	1.70	1.88
	GHG emissions per ton of milk (scope 1 and scope 2)	Tons per ton	0.85	0.82	0.99
Energy management	Total energy consumption	GJ	606,570.67	522,337.90	/
	Electricity consumption	kWh	132,549,861.4	116,221,187.00	107,750,814.00
	Coal consumption	Tons	0	0	0
	Diesel consumption	Tons	3,027.72	2,404.67	3,071.26
	Energy consumption per cow	TCE per cow	0.14	0.12	0.13
	Energy consumption per 10,000 yuan of revenue	TCE per 10,000 yuan	0.061	0.051	0.053
	Percentage of electricity consumption coming from the grid	%	78.69	80.12	/

\* Scope 1 emissions were calculated in accordance with the 2006 IPCC Guidelines for National Greenhouse Gas Inventories. Specifically, CO<sub>2</sub> emissions resulting from the combustion of fossil fuels were estimated on the basis of coal and diesel consumption data. Scope 2 emissions were calculated in accordance with the 2017 Regional Grid Baseline Emission Factors for Emissions Reduction Projects in China and the HKEX's Reporting Guidance on Environmental KPIs. For North China, we used an emission factor of 0.9419 tons of CO<sub>2</sub> per MWh of electricity consumed. Our Scope 3 emissions, which were from milk truck transportation, were significantly lower than in 2023, due to optimized transportation routes and a substantial reduction in mileage. Scope 4 greenhouse gas (GHG) emissions are calculated based on the carbon sequestration from crops cultivated by Shengmu High-tech Ecological Forage Co., Ltd in 2024.

\* Energy consumption was calculated in accordance with the General Rules for Calculation of the Comprehensive Energy Consumption (GBT2589-2020), using emission factors of 0.1229 kilograms of coal equivalent per kilowatt-hour of electricity consumed and 1.4571 kilograms of coal equivalent per kilogram of diesel combusted.

# 04

## Symbiosis with Nature

A healthy ecological environment is a fundamental public good, often overlooked until its absence is felt. As a pioneer in China's organic dairy industry, Shengmu is committed to fostering harmonious relationships with nature. Through desertification control and the development of organic pastures, we employ scientific management and innovative practices to protect grasslands and enhance the environment. We are building a green ecological system that exemplifies the harmonious coexistence of people and nature, ensuring a legacy of a healthy environment for future generations.

### Contributions to the SDGs

6 CLEAN WATER AND SANITATION  
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE  
12 RESPONSIBLE CONSUMPTION AND PRODUCTION  
15 LIFE ON LAND



# Governance



Shengmu adheres to the *Law of the People's Republic of China on the Prevention and Control of Air Pollution*, the *Law of the People's Republic of China on the Prevention and Control of Water Pollution*, the *Regulations on the Prevention and Control of Pollution from Large-scale Animal Farms*, and other relevant laws and regulations. We integrate environmental considerations into our ESG governance framework, clearly defining the responsibilities of the Board of Directors and management and establishing a comprehensive top-down management system. Furthermore, we tie 10% of our directors' bonus (5% for forest preservation and 5% for water safety) to environmental governance performance to drive the achievement of environmental targets and the implementation of sustainable management practices. To equip the Board of Directors with capabilities to address environmental issues effectively, we provide regular training to directors on environmental matters, industry best practices, and standards, and facilitate regular exchange with external stakeholders and environmental experts.

In 2024, committed to continuously improving our environmental management framework and exploring innovative green development models, we published *Shengmu's Environmental Statement*, the *Zero Deforestation Pledge*, and the *Sustainable Agriculture Pledge*, and revised our *Environmental Protection Policy*. (For more detailed information on our environmental governance structure and the division of relevant responsibilities, please refer to the Sustainability Governance section.)

# Strategy



Shengmu's production and operational activities depend heavily on natural resources, including land, water, energy, and materials, and have both positive and negative impacts on the natural environment. We utilize the Low Emissions Analysis Platform (LEAP) to evaluate and analyze environmental risks and opportunities within our operational scope. The evaluation results inform our governance, strategy, risk management, and capital allocation decisions.

## Environmental Risks and Potential Impacts

	Potential risk	Potential financial impact	Risk management and response measures
Physical risks	<b>Chronic risks (M/L)</b> Some pastoral areas are located in regions with high water shortage risk. A lack of water resources could disrupt the operations of our pastures.	Decreased production capacity and revenue.	<ul style="list-style-type: none"> <li>Develop technology to support water conservation, recycling, and efficiency improvement, and establish corporate water conservation targets.</li> <li>Require suppliers to prioritize water conservation.</li> </ul>
	Extreme weather events could lead to a shortage of feed such as soybeans and forage.	Rising feed prices and procurement costs.	<ul style="list-style-type: none"> <li>Develop environmental emergency response plans.</li> </ul>
	<b>Acute risks (S)</b> Global warming and changing precipitation patterns may lead to water shortages, affecting water prices.	Increased production costs.	<ul style="list-style-type: none"> <li>Implement water conservation, recycling, and conservation measures.</li> </ul>
Transition risks	<b>Legal and policy risks (M)</b> As the Chinese government increases its focus on forest and biodiversity protection and adjusts the scope of sensitive areas, suppliers may face risks, including the loss of business licenses or the need to relocate.	Rising procurement costs for the Company due to increased supplier production and operational expenses.	<ul style="list-style-type: none"> <li>Strengthen supply chain management, timely notify suppliers at risk of losing business licenses, and develop contingency plans for supplier replacement.</li> </ul>
	Stricter water resource protection policies in the Yellow River Basin increases regulatory pressure on the Company.	Increased legal and compliance costs. Increased operational costs.	<ul style="list-style-type: none"> <li>Rigorously monitor the quality of source water and effluent to ensure regulatory compliance</li> <li>Invest in water recycling technologies.</li> <li>Strengthen source control and review suppliers' water pollution prevention technologies and measures.</li> </ul>

	Potential risk	Potential financial impact	Risk management and response measures
Transition risks	<b>Technological risks (S/M/L)</b> Underdeveloped supply chain monitoring technology hinders some suppliers' ability to provide environmental data, thereby complicating supply chain traceability.	Increased operating costs due to additional investment in supply chain management.	<ul style="list-style-type: none"> <li>Strengthen supply chain management, foster a responsible, transparent business environment, support suppliers in transitioning to environmental sustainability, and increase investments in green technology and green management.</li> </ul>
	Water shortage could impact water prices, necessitating increased investment in water-saving equipment.	Higher operating costs due to investment in water-saving and recycling equipment and related training.	<ul style="list-style-type: none"> <li>Implement nature-based solutions in pastoral areas to improve local microclimates and increase rainfall.</li> </ul>
<b>Reputation risks (S/M)</b>	If Shengmu fails to address the environmental risks associated with soybean sourcing, or purchases soybeans from forest-risk areas, the Company's brand image could suffer.	Decreased trust among investors and consumers, leading to revenue reduction and, in severe cases, operational suspension.	<ul style="list-style-type: none"> <li>Prioritize environmental risk management and avoid negative environmental incidents.</li> </ul>

\*Note: S = Short-term; M = Medium-term; L = Long-term

## Environmental Opportunities and Potential Impacts

	Potential Opportunity	Potential financial impact	Opportunity management and response measures
<b>Resource efficiency (S/M)</b>	Enhanced waste heat recovery process for fresh milk can reduce groundwater usage by 0.4 tons per ton of milk and generate 5 kWh of heat simultaneously.	Decreased energy procurement costs.	<ul style="list-style-type: none"> <li>Actively upgrade production processes, invest in equipment upgrading, boost energy efficiency, and reduce resource consumption.</li> </ul>
<b>Capital flow and financing (S)</b>	New financing solutions and expanded corporate financing channels.	Increased access to capital enables the Company to obtain USD 14.04 million in funding for a 2-year period.	<ul style="list-style-type: none"> <li>Align with national green development policies and promote the integration of finance and environmental protection.</li> </ul>
<b>Adaptability (S)</b>	Shengmu could optimize the local microclimate through water source conservation, leading to increased regional precipitation.	Reduced irrigation costs for suppliers and lower water costs.	<ul style="list-style-type: none"> <li>We are planting trees in the Ulan Buh Desert and creating windbreaks with shrubs, trees, and herbaceous crops to reduce wind speed. So far, the average wind speed in the desert has been reduced from 6-7 m/s to 4-5 m/s.</li> </ul>

\*Note: S = Short-term; M = Medium-term; L = Long-term

# Risk Management



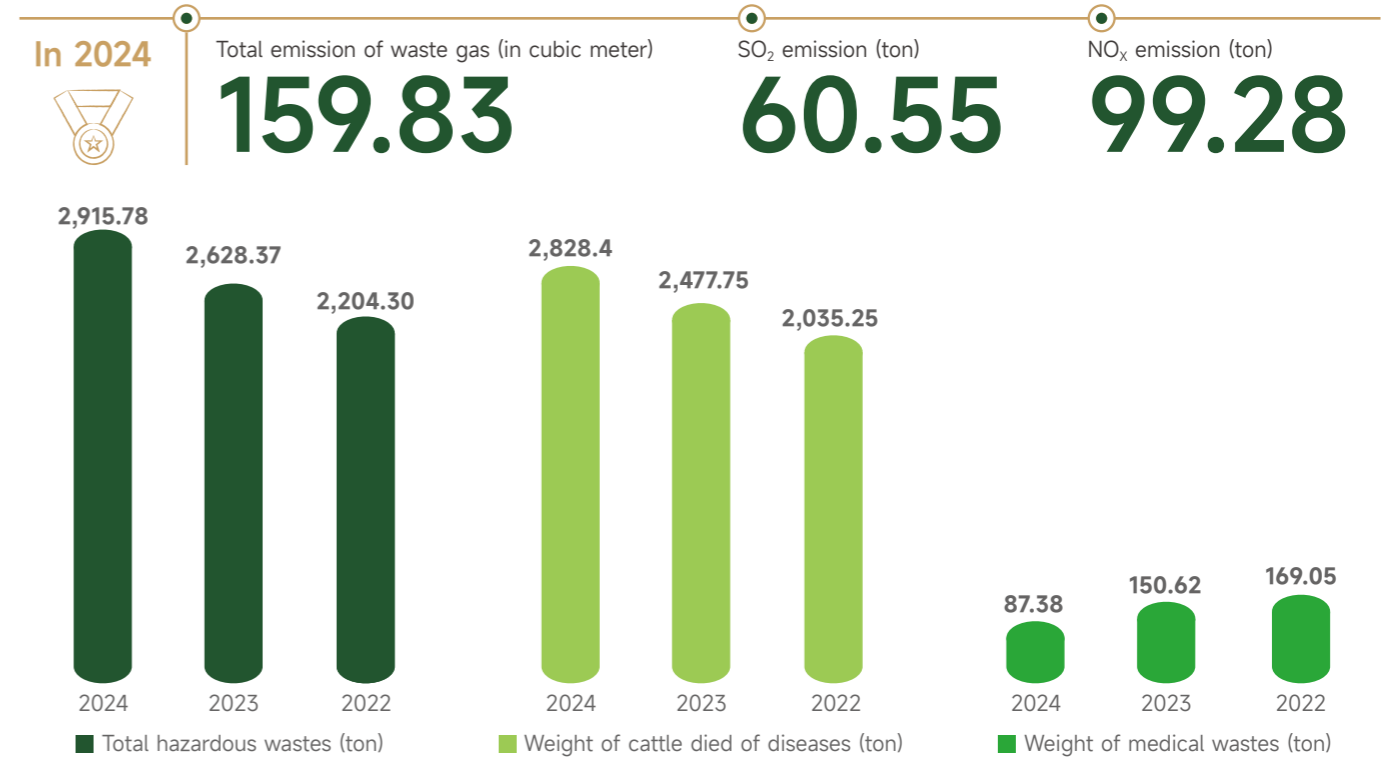
Shengmu utilizes the ENCORE database, as recommended by the Taskforce on Nature-related Financial Disclosures (TNFD), to assess the impact and dependencies of our business activities on nature. We then conduct a materiality assessment of these identified impacts and dependencies, adhering to the materiality analysis standards outlined in the *Natural Capital Protocol* developed by the Capitals Coalition.

## Environmental Risk Management Process



## Pollution Prevention and Control

We prioritize the recycling of wastewater and solid waste generated during operations. For non-recyclable waste, we strictly adhere to a "treatment before discharge" policy to minimize our environmental impact.



### Case: Regenerative Organic Agriculture Drove Green Development in the Ulan Buh Desert

To foster a thriving organic ecosystem in the Ulan Buh Desert and combat desertification, Shengmu High-tech Ecological Forage Co., Ltd. has implemented an integrated organic system. This system, which mitigates sand encroachment and enhances soil health, connects organic planting, breeding, and processing in a closed-loop cycle: forage feeds livestock, livestock produce manure, manure fertilizes the pastures, and the pastures yield more forage. We dedicate three mu (approximately 2,000 m<sup>2</sup>) of pasture to each cow, and the manure generated by each cow is then recycled to fertilize an equal area of pasture (three mu). This creates a closed-loop, organic system with multiple benefits, including improved soil fertility, enhanced water and nutrient retention capability of soil. Moreover, this approach enables us to recycle all manure as fertilizer, capture methane emissions, and fully embrace circular agriculture.



### Case: Shengmu Promoted Green Development through Integration of Forage Cultivation and Dairy Cattle Raising

Shengmu has integrated forage cultivation with dairy cattle raising to optimize resource efficiency and minimize environmental impact. A key aspect of this approach is the recycling of cattle manure. In 2024, several of our pastures adopted liquid fertilizer spraying technology, which ensures even distribution of fertilizer without causing waterlogging. Additionally, some pastures introduced a process that separates manure into solid and liquid fractions. The liquid fraction undergoes anaerobic digestion, while the solid fraction is recycled as cattle bedding, further enhancing resource efficiency.

## Water Conservation

Rational water management is fundamental to Shengmu's sustainability governance. We prioritize the sustainable use and protection of water resources, striving to enhance water conservation practices across our entire value chain and minimize water waste.

### Water Management

**Smart Water Use Monitoring System:** We have implemented a smart water meter monitoring system, enabling real-time pasture water use monitoring via the Internet of Things. This allows for the prompt identification and correction of water resource inefficiencies through backend analysis.

**Wastewater Recycling at Milk Collection Centers:** We optimize dairy wastewater recycling to reduce groundwater extraction and biogas discharge from our pastures. To date, 18 pastures have implemented this system, resulting in an 8% year-over-year reduction in water consumption.

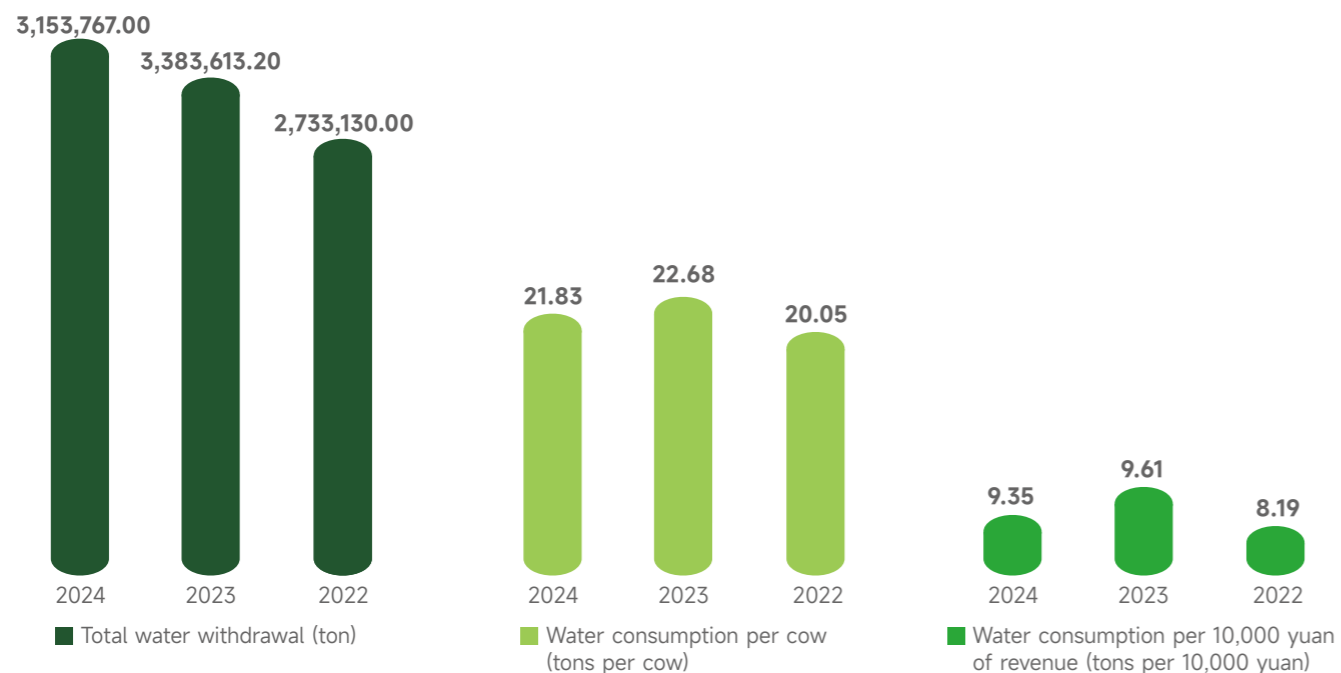
**Optimization of Oxidation Pond Filtration:** We have procured and installed filtration equipment for oxidation ponds to mitigate the environmental risks associated with oxidation pond drainage, while simultaneously addressing farmland irrigation water shortages and improving water resource utilization efficiency.



· Milk Collection Center Wastewater Recycling Project ·



· Oxidation Pond Desilting Equipment ·



## Biodiversity Protection

To minimize the adverse effects of our operations on biodiversity and natural ecosystems, we employ a four-pronged approach: avoidance, reduction, mitigation, and restoration. We prioritize the protection of regional natural environment and create shelterbelts and engineer sand control systems based on natural restoration principles. These efforts enhance windbreak and sand fixation efficiency while also boosting water utilization efficiency, lowering operating costs, and decreasing our dependence on groundwater resources.

We are actively exploring circular animal farming models. By using organic fertilizers, we improve the aggregate structure, water and nutrient retention capability, and overall fertility of soil. We also recycle dairy cow manure as organic and foliar fertilizers while capturing methane in the process. Through optimized composting fields and precision fertilization techniques, we've significantly accelerated the decomposition and fermentation cycle of organic fertilizers and increased their utilization efficiency. Our closed-loop system, which integrates crop farming, livestock production, and ecosystem protection, is expected to be fully implemented within 5 to 10 years, leading to substantial improvements in soil quality across our farms.

In 2024



Percentage of pastures managed according to NRCS conservation practice standards (by area)

100%



### Shengmu Secured China's First ESG Linked Commercial Loan

热烈庆祝

中国圣牧有机奶业有限公司  
(HK.1432)

全国首单自然受益型商业贷款  
内蒙古自治区首单ESG挂钩贷款

成功发放



融资规模:1亿元 主体评级:AA 融资期限:2年



On June 25, 2024, Shengmu reached a major milestone by securing China's first ESG-linked commercial loan. The loan, totaling RMB 100 million with a two-year term, was issued by the Inner Mongolia Branch of the Bank of China. Shengmu was certified by Lianhe Equator Environmental Impact Assessment Co., Ltd. for meeting the sustainability criteria required for the loan. It is a testament to the dedication of both Shengmu and the Bank of China to supporting China's high-quality development strategy and the 2030 Agenda for Sustainable Development. This collaboration between Shengmu and the Bank of China underscores Shengmu's commitment to advancing ecological civilization and provides a new model for financing green development.



Case

Shengmu Presented Its Multi-Capital Report at the UNCCD COP16

At the 16th session of the Conference of the Parties (COP16) to the United Nations Convention to Combat Desertification (UNCCD), held in Riyadh, Saudi Arabia, from December 2-13, 2024, the Sustainability Department of Shengmu presented its multi-capital report, first of its kind among Chinese companies. We adopted a multi-capital accounting approach to comprehensively evaluate the impact and dependencies of our operations across natural, social, human, and manufactured capital. This approach generates monetized, quantitative data that informs strategic decision-making. This report highlights our leading practices in biodiversity conservation, natural capital management, and multi-capital assessment and our impact on ecosystems, employee well-being, and social responsibility. We are setting a new benchmark for sustainable development.



Case

Shengmu Won Hong Kong Green and Sustainable Finance Awards

In October 2024, China Shengmu Organic Milk Ltd. won two awards at the 2024 Hong Kong Green and Sustainable Finance Awards Ceremony and 35th Anniversary Forum of the Hong Kong Quality Assurance Agency (HKQAA). Mr. Zhang Jiawang, President of China Shengmu Organic Milk Ltd., won the Leadership Award for Green and Sustainable Finance Development, and another senior manager of the Company won the Strategist Award for Green and Sustainable Finance Development. These awards recognized Shengmu's notable advancements in driving green finance and sustainable development.



## Indicators and Targets



We have established clear targets to reduce environmental pollution from our operations and are actively monitoring and improving our performance against these targets.

### Targets

	Target	Progress in 2024	Completion status
<b>Emissions</b>	Within 5 years: Reduce total emissions to 70 tons Within 10 years: Reduce total emissions to 65 tons	159.83 tons	In progress
<b>Hazardous waste</b>	Reduce medical waste generation intensity to less than 0.001 tons per cow	0.0006 tons per cow	Completed
	Reduce disease-associated mortality of cattle less than 0.001 tons per cow	0.0196 tons per cow	In progress
<b>Non-hazardous waste</b>	Reduce manure production to less than 9 tons per cow	0	Completed
<b>Utilization of resources</b>	Within 5 years: Reduce water consumption intensity to less than 22 tons per cow Within 10 years: Reduce water consumption intensity to less than 20 tons per cow	21.83 tons per cow	In progress
<b>Food waste</b>	Within 5 years: Reduce production process losses to 4% of total milk output Within 10 years: Reduce production process losses to 3% of total milk output	0%	Completed
	Within 5 years: Reduce losses in transportation and storage to 2% of total milk output Within 10 years: Reduce losses in transportation and storage to 1% of total milk output	0.014%	Completed

### Indicators

	Indicator	Unit	2024	2023	2022
<b>Water management</b>	Percentage of water withdrawal in highly/extremely water-stressed areas	%	100	100	/
	Incidents of non-compliance with water quality regulations	/	0	0	/
<b>Pollution prevention and control</b>	Total emissions	Cubic meters	159.83	126.94	162.13
	SO <sub>2</sub> emissions	Tons	60.55	48.09	61.43
	NO <sub>x</sub> Emissions	Tons	99.28	78.85	100.71
	Smoke emissions	Tons	0	0	0
	Hazardous waste generation per cow	tons per cow	0.02	0.018	0.016
	Hazardous waste generation per 10,000 yuan of revenue	tons per 10,000 yuan	0.009	0.007	0.007
	Non-hazardous waste	Tons	0	0	0
<b>Use of land and its environmental impact</b>	Animal waste and manure generated	Tons	1,827,859.4	1,295,453.77	/
	Percentage of land managed according to a nutrient management plan	%	100	100	/
	Percentage of pastures managed according to NRCS conservation practice standards (by area)	%	100	100	/
	Animal protein production from Concentrated Animal Feeding Operations (CAFOs)	Metric tons	737,772.46	726,154.34	/

\* Since 2022, Shengmu has achieved 100% manure recycling through innovative technology. The processed manure is recycled for farmland fertilization or as cattle bedding, creating a circular agriculture system for our pastures. This has reduced both hazardous waste from manure and the indicator of manure production intensity to zero, prompting the need for retroactive data adjustments.

# 05

## Commitment to Employees

At Shengmu, we believe that talent drives success and are committed to a people-centric approach. We prioritize employee well-being, safeguard their rights, and actively foster their professional growth. We are dedicated to ensuring a safe and healthy workplace, cultivating a culture of care, and building an inclusive, equitable, and positive environment where our employees can thrive.

### Contributions to the SDGs

- 4 QUALITY EDUCATION**  

- 5 GENDER EQUALITY**  

- 8 DECENT WORK AND ECONOMIC GROWTH**  

- 10 REDUCED INEQUALITIES**  

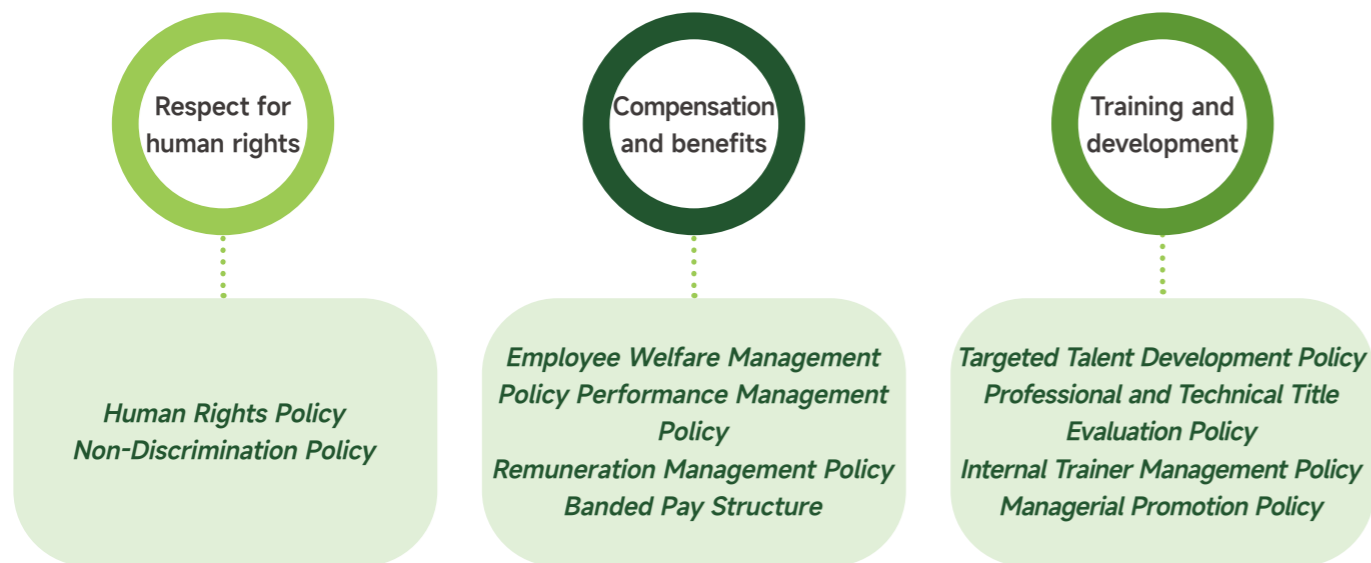



# Governance



As the department responsible for human capital management, the Human Resources Department is committed to upholding internationally recognized human rights principles and standards. These include the *International Bill of Human Rights*, *International Labor Conventions*, the *ILO Declaration on Fundamental Principles and Rights at Work*, and the *UN Guiding Principles on Business and Human Rights*. We also strictly adhere to all applicable national laws and regulations, including the *Labor Law*, *Labor Contract Law*, *Social Insurance Law*, and other relevant laws and regulations of the People's Republic of China, as well as our own internal policies. We continuously improve our labor relations management system, strengthen incentives and accountability mechanisms, and implement comprehensive policies to safeguard employee rights in areas such as compensation, benefits, career development, and the work environment. (For detailed information, please refer to our Environmental, Social and Governance (ESG) Policy on our official website.)

## Employee Management Policies



Dedicated to ensuring the safety and well-being of our employees, the Safety and Environmental Protection Department rigorously adheres to the *Workplace Safety Law*, the *Occupational Disease Prevention and Control Law* and all other relevant laws and regulations of the People's Republic of China. We have established various management systems, including a robust workplace safety responsibility system, to foster a strong safety culture and promote employee awareness. Our commitment to employee physical and mental health is paramount, and we strive to cultivate a safe, healthy, and harmonious work environment for everyone.



# Strategy



Developing a leading talent training center is a key priority and fundamental to our corporate development strategy. We proactively identify risks and opportunities related to human capital within our operations and develop targeted strategies to address them. This allows us to maximize the value of our human capital to support the Company's stability and long-term, sustainable growth.

## Human Capital Risks and Potential Impacts

	Potential risk	Potential financial impact	Risk management and response measures
<b>Policy and legal risks (S/M/L)</b>	Labor disputes or arbitrations may arise due to non-compliance with employment laws, potentially leading to litigation or administrative penalties.	<ul style="list-style-type: none"> <li>Direct costs: compensation, attorney fees, and arbitration fees.</li> <li>Long-term impact: reputational damage, difficulty attracting talent, and increased management costs.</li> </ul>	<ul style="list-style-type: none"> <li>Ensure strict compliance with equal employment opportunity regulations and sign legally compliant labor contracts with employees.</li> <li>Ensure timely payment of employee social security.</li> <li>Ensure wages meet or exceed local minimums</li> <li>Strictly adhere to female employee protection regulations.</li> <li>Prohibit child and forced labor.</li> </ul>
<b>Reputation risks (S)</b>	Employees may cause safety accidents due to lack of awareness or improper operation.	<ul style="list-style-type: none"> <li>Production line disruptions, delays in delivery, and economic losses.</li> <li>Damage to corporate reputation, reduced customer trust, and decreased market competitiveness.</li> </ul>	<ul style="list-style-type: none"> <li>Strengthen health and safety protections, provide employees with necessary safety equipment, and offer regular health examinations.</li> <li>Strengthen workplace safety accountability and standardize safety protocols company-wide.</li> </ul>
<b>Operational risks (S/M/L)</b>	A lack of adequate training can hinder employees' ability to adapt to evolving business needs, potentially impacting the Company's long-term growth.	<ul style="list-style-type: none"> <li>Reduced work efficiency and product quality and increased production costs.</li> </ul>	<ul style="list-style-type: none"> <li>Develop a comprehensive talent development system.</li> <li>Offer clearly defined career development pathways and ample opportunities for professional growth.</li> </ul>

\*Note: S = Short-term; M = Medium-term; L = Long-term

## Human Capital Opportunities and Potential Impacts

	Potential opportunity	Potential financial impact	Opportunity management and response measures
<b>Operational opportunities</b>	A diverse, equitable, and inclusive workplace can boost employee satisfaction and engagement and unlock talent potential.	<ul style="list-style-type: none"> <li>Increased employee engagement, higher productivity and creativity, and improved efficiency and profitability.</li> </ul>	<ul style="list-style-type: none"> <li>Prohibit discrimination based on gender, age, race, religion, education, culture, or any other factor.</li> <li>Ensure equal pay for equal work and respect the customs of ethnic minorities.</li> <li>Facilitate the election of employee representatives to enhance communication and strengthen the relationship between employees and the Company.</li> </ul>
<b>Market opportunities</b>	Robust compensation, benefits, and talent development programs can help address labor shortages due to less-than-optimal living and working environments and restricted access to medical and educational resources in rural areas.	<ul style="list-style-type: none"> <li>Reduced recruitment and training costs, increased employee loyalty, higher productivity, enhanced market competitiveness, and greater profitability.</li> </ul>	<ul style="list-style-type: none"> <li>Continuously improve the compensation and benefits program and ensure they remain attractive and equitable.</li> <li>Improve living conditions, provide recreational opportunities, and establish an employee assistance fund.</li> <li>Develop a diverse and highly skilled talent pool.</li> </ul>

# Risk Management



Shengmu is committed to proactively managing human resource risks through a comprehensive system that ensures fair and effective treatment of employees regarding compensation, benefits, career development, workplace environment, and safety. This is achieved through a multi-dimensional approach encompassing risk identification, control/mitigation, and monitoring/reporting.



## Employee Rights

Shengmu is dedicated to upholding the highest standards of ethical and compliant employment practices. We believe that a motivated and creative workforce is built upon a foundation of fairness, respect, and open communication. To that end, we provide a robust compensation and benefits system and are committed to safeguarding the legal rights and interests of all employees. In 2024, we recorded zero employment-related litigation and zero incidents of child labor and forced labor.

In 2024



The representation of women in management positions is

**25.75%**

The number of employee representatives is

**43**

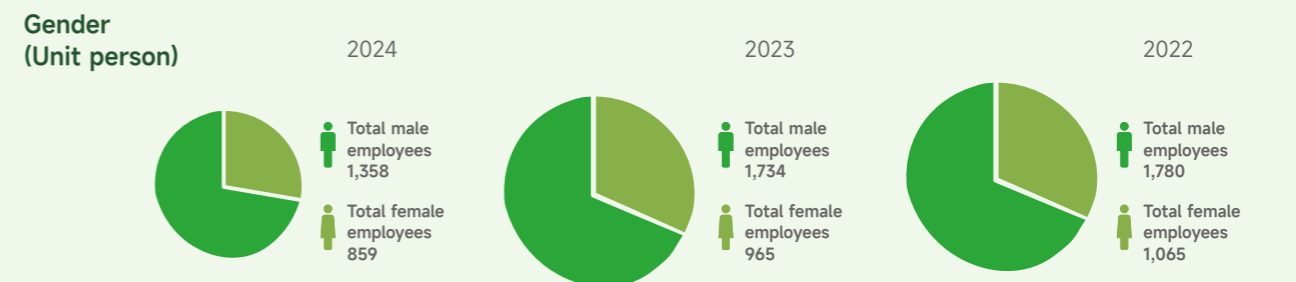
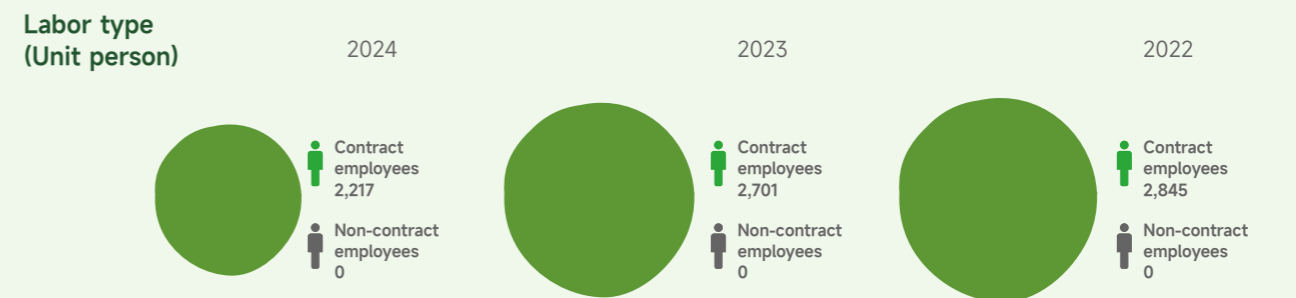
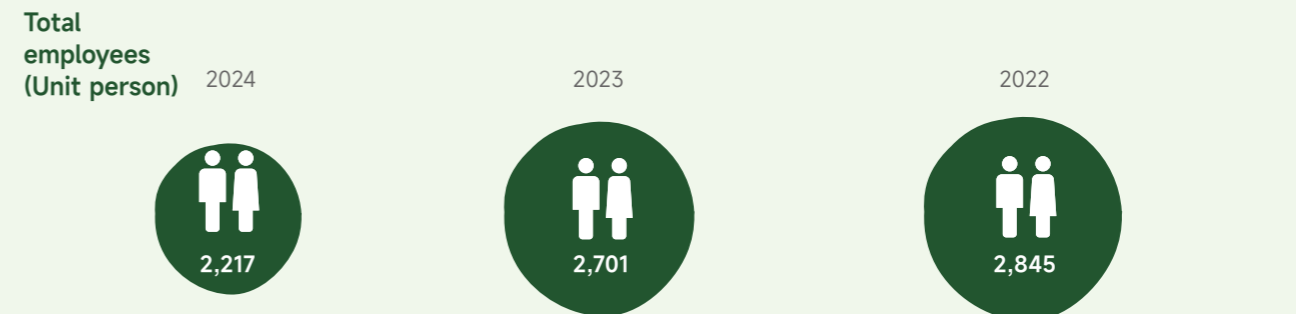
## • Compensation and Performance

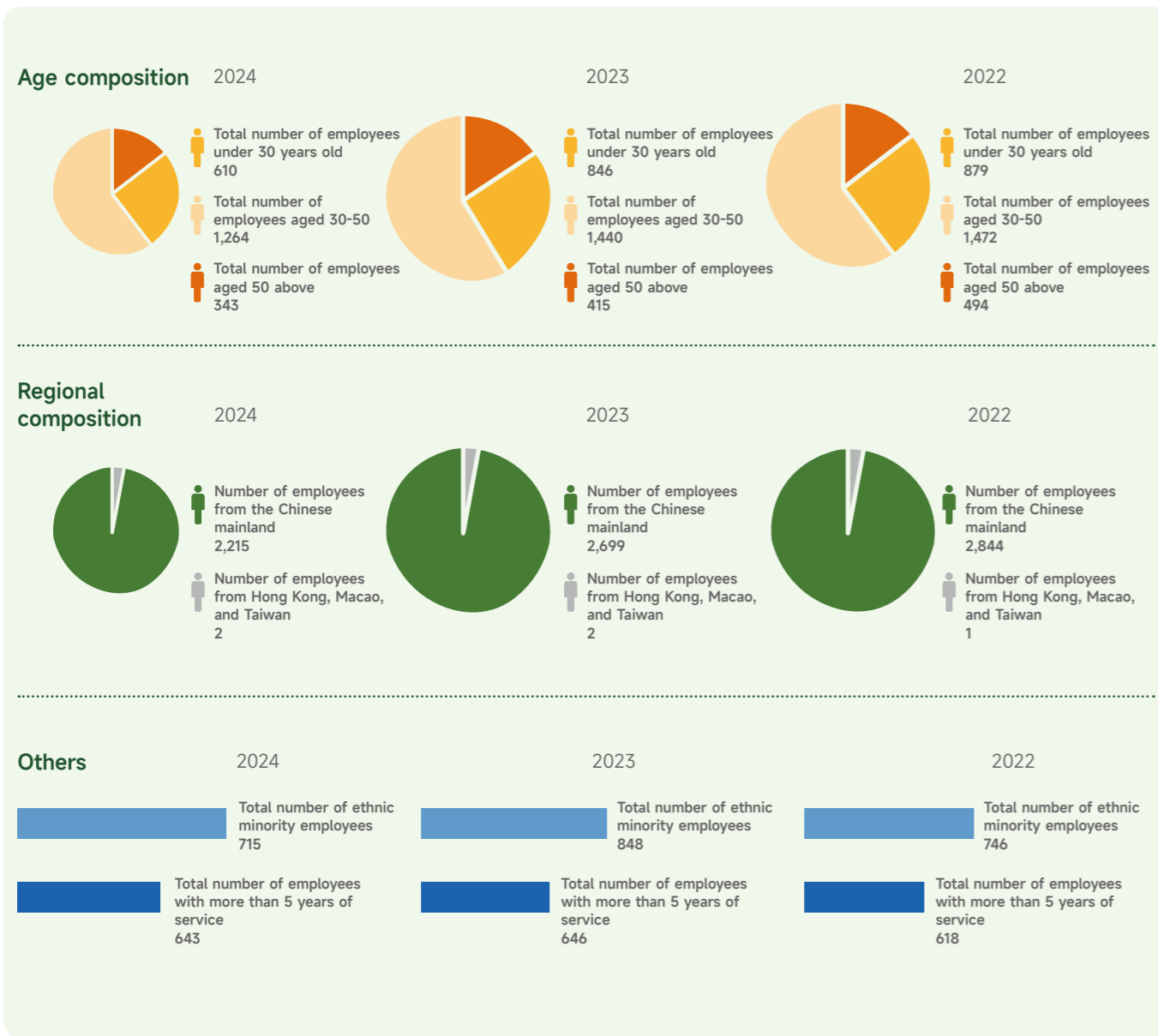
- We offer a competitive and equitable compensation and benefits program, adhering to the principle of equal pay for equal work. We ensure that all employees receive market-aligned compensation that provides a living wage.
- Our established and continuously refined employee performance management system is based on transparent performance plans and regular feedback. We utilize annual, quarterly, and monthly performance contracts to provide a clear framework for employee development, promotion, and salary adjustments.

## • Employee Engagement in Governance

- We are committed to engaging employees in our governance and actively soliciting employee feedback to continuously improve our working environment. Regular employee representative meetings serve as a cornerstone of this approach, ensuring open communication and the full protection of employee rights. In 2024, all our employees were either represented by independent trade unions or covered by collective bargaining agreements.

## Diversified quantitative performance of Shengmu employees





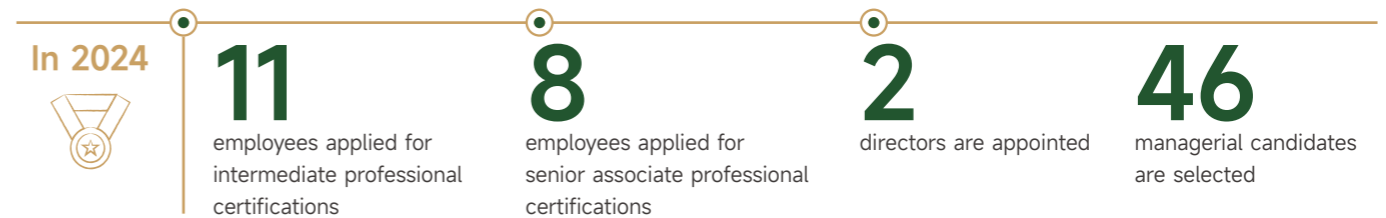
### Case Shengmu's Commitment to Employees Recognized with Golden Bee Award

Shengmu's commitment to employee well-being and comprehensive ESG reporting has been recognized with the Golden Bee 2024 Award for Excellence in Corporate Sustainability Reporting, specifically for Employee Responsibility Information Disclosure. The award was presented on December 5, 2024, at the 17th International Seminar on Sustainability Reporting. Shengmu's 2023 ESG Report stood out for its detailed account of the company's initiatives and achievements in key areas such as employee welfare, occupational health and safety, and training and development. The report effectively showcased our dedication to fostering a positive and supportive work environment. This recognition highlights our significant contributions to prioritizing employee responsibility, promoting social responsibility, and maintaining transparent sustainable development reporting practices.



## Employee Development

To support employee development, we have established a comprehensive talent development system, anchored by the Ace-100 Program. This program, structured within our "13224" talent development framework, focuses on cultivating employee growth in leadership, professional competency, and general skills. Furthermore, we have enhanced career development pathways across five job levels, creating clear management promotion channels and platforms for employee advancement.



### Ace-100 Program

<h4>Leader development</h4> <p>Developing future company leaders, primarily for pasture general manager and support department director roles.</p> <p>• 63 training sessions held</p>	<h4>Reserve talent development</h4> <p>Building a pipeline of future team leaders and managers from our intern pool, and improving their professional and technical capabilities.</p> <p>• 854 training sessions held</p>	<h4>New employee training</h4> <p>Providing new employees with essential skills and fostering the right mindset, competencies, capabilities, and growth potential.</p> <p>• 1,050 training sessions held</p>
<h4>Top talent development</h4> <p>Developing well-rounded top talent, targeting potential pasture general managers and pasture department managers.</p> <p>• 1,156 training sessions held</p>	<h4>Craftsmanship spirit training</h4> <p>Fostering a spirit of craftsmanship and enhancing professional skills for department heads, team leaders, and key talent for our grassroots units.</p> <p>• 1,133 training sessions held</p>	<h4>Trainer development</h4> <p>Building a strong pool of internal trainers and enhancing their instructional capabilities to ensure consistent and effective implementation of our training system. This initiative targets department heads, general managers, core trainers, and pasture-based administrative personnel.</p>

We continuously optimize our talent development system, supporting diverse talent development through varied, tiered training programs that enhance value creation. In 2024, we introduced the *Talent Development Points Management Program* to improve pasture managers' effectiveness in selecting, training, and retaining talent-key drivers of our long-term competitiveness.



**Case** Shengmu and Xilingol Vocational College Launched a Joint Vocational Education Program

Inner Mongolia Shengmu High-tech Animal Husbandry Co., Ltd. partnered with Xilingol Vocational College under the Ministry of Education's higher education supply-demand alignment initiative. Together, they established a dedicated internship center aimed at aligning academic training with industry needs. The partnership focuses on co-developing student training objectives and curricula, offering hands-on practical experience, and building an integrated platform that connects learning, internships, and future employment opportunities.

### Occupational Health

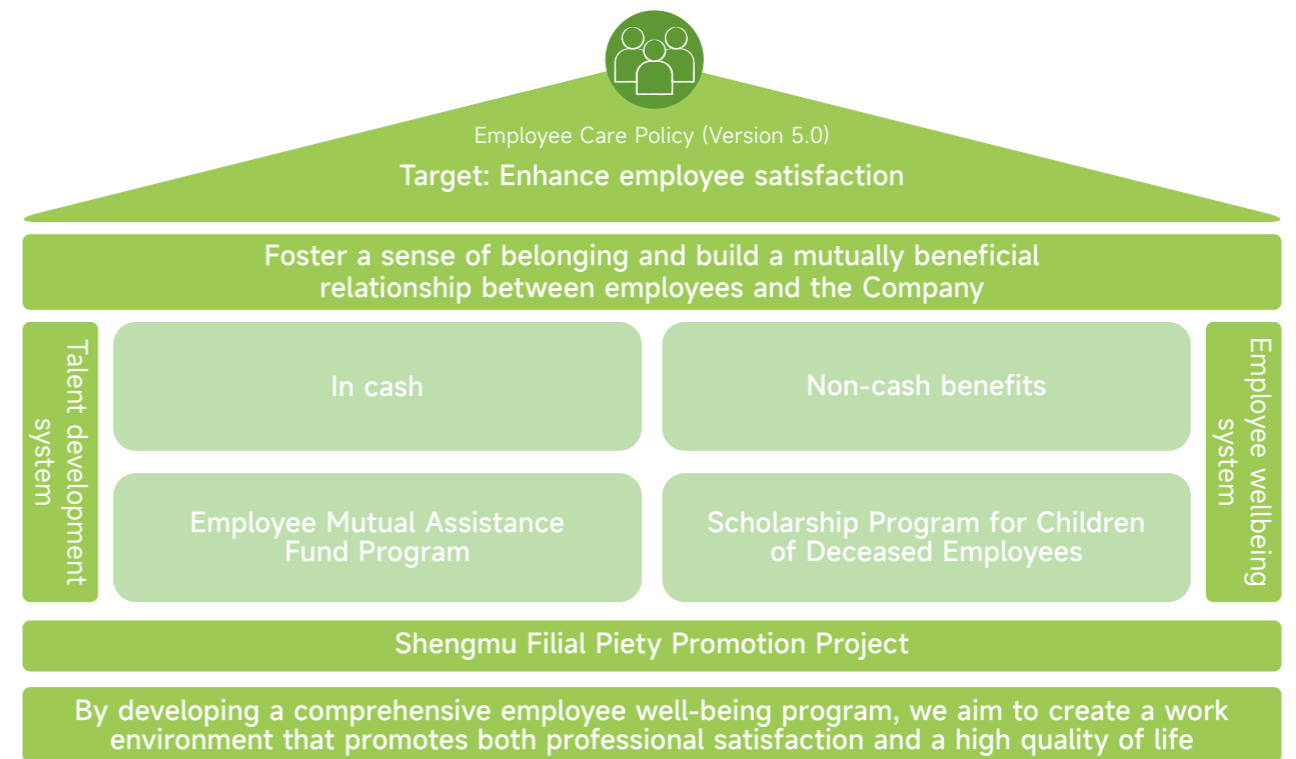
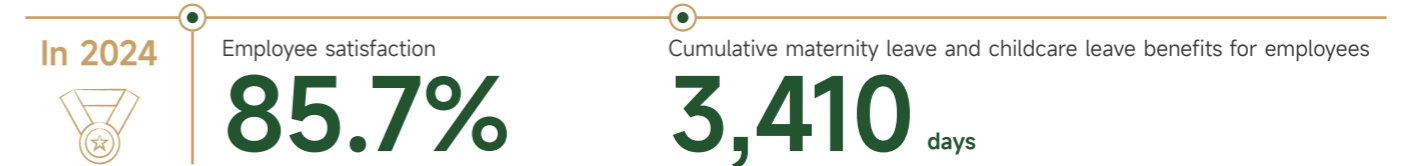
Shengmu is deeply committed to protecting the health, safety, and well-being of our employees. We actively promote occupational health management by regularly monitoring and evaluating occupational disease risk factors in production areas, comprehensively addressing workplace safety hazards, and providing comprehensive occupational health protection training. We strive to foster a safe, healthy, and harmonious working environment for all. In 2024, we recorded no employee health and safety lawsuits and reported zero work-related fatalities.

<b>Risk Assessment</b>	Regular monitoring and evaluation of occupational disease risk factors, coupled with comprehensive workplace safety hazard rectification.
<b>Risk Control</b>	Providing employees with comprehensive information on potential occupational hazards, their potential consequences, and appropriate occupational disease prevention measures and treatment options. We also maintain rigorous labor protection equipment standards for qualified product procurement.
<b>Health Examinations</b>	Arranging pre-employment, on-the-job, and post-employment physical examinations for employees in hazardous workplaces, and maintaining detailed occupational health monitoring files.
<b>Contractor Safety</b>	Requiring contractors to conduct pre-employment, on-the-job, and post-employment health assessments for employees in hazardous roles and provide appropriate personal protective equipment (PPE) that meets our established standards.



### Employee Well-being

Shengmu believes that a welcoming and supportive work environment is essential for employee well-being and success. We are dedicated to creating a workplace where every employee feels valued, respected, and supported. To that end, we organize a range of employee care initiatives, manage employee assistance fund programs, provide comprehensive benefits, and actively cultivate a warm and harmonious workplace atmosphere that fosters a strong sense of belonging.



### Case Showing Gratitude and Support for Our Employees During the Holiday Season



As part of our continued commitment to employee well-being, Shengmu China's senior management team visited our Hohhot and Bayannur locations in January 2024. The visits were an opportunity to extend pre-holiday greetings and express gratitude for the hard work of our employees. During these visits, management engaged in meaningful conversations with frontline staff and presented gifts as a token of appreciation for their dedication and contributions throughout the year.

# Indicators and Targets



We have established key performance indicators (KPIs) and targets to monitor our progress and transparently disclose our performance in human capital management. Our commitment to these indicators enables us to maintain a reasonable employee structure that supports the Company's sustainable development.

## Targets

	Target	Progress in 2024	Completion status
Diversity	Within 5 years: Increase the percentage of female employees to 40% Within 10 years: Increase the percentage of female employees to 45%	38.75%	In progress
	Within 5 years: Increase the representation of women in management positions to 30% Within 10 years: Increase the representation of women in management positions to 35%	25.75%	In progress
	Within 5 years: Increase the representation of women in senior management to 15% Within 10 years: Increase the representation of women in senior management to 20%	14.29%	In progress
	Within 5 years: Increase the representation of women in management positions in revenue-generating functions (e.g., sales) to 15% Within 10 years: Increase the representation of women in management positions in revenue-generating functions (e.g., sales) to 20%	9.99%	In progress
	Within 5 years: Increase the representation of women in STEM-related positions to 15% Within 10 years: Increase the representation of women in STEM-related positions to 20%	9.99%	In progress
	Occupational health	Lost-time injury rate: Less than 0.1 per 200,000 working hours	0.31%
Employee satisfaction surveys	Within 5 years: satisfaction rating 95% Within 10 years: satisfaction rating 98%	85.7%	In progress

## Indicators

	Indicator	Unit	2024	2023	2022
Recruitment and employment	Number of new hires	/	1,523	2,259	1,732
	Percentage of vacancies filled by internal recruitment	%	43	42.0	41.3
Gender composition	Representation of women in management positions	%	25.75	/	/
	Representation of women in junior management positions	%	28.96	/	/
	Representation of women in senior management positions	%	14.29	/	/
	Representation of women in management positions in revenue-generating functions	%	9.99	/	/
	Representation of women in STEM-related positions	%	9.99	/	/
Others	Number of employee representatives	/	43	40	5
Employee turnover	Employee departures	/	106	172	153
	Employee turnover rate	%	4.56	6	5
	Female employee turnover rate	%	3.37	/	/
	Male employee turnover rate	%	5.30	/	/
	Turnover rate of employees aged under 30	%	4.98	/	/
	Turnover rate of employees aged 30-50	%	4.46	/	/
	Turnover rate of employees aged 50 above	%	4.19	/	/
	Employee turnover rate in Chinese mainland	%	4.56	2	2
	Employee turnover rate in Hong Kong, Macao, and Taiwan	%	0	0	0
	Voluntary employee turnover rate	%	4.73	/	/

	Indicator	Unit	2024	2023	2022
Employee training	Total training hours	Hours	<b>92,436.53</b>	64,088	59,696
	Training hours per employee	Hours per employee	<b>41.69</b>	41	40.6
	Average training time for male employees	Hours	<b>52.84</b>	42	41
	Average training time for female employees	Hours	<b>24.04</b>	39	39
	Average training time for senior management	Hours	<b>28</b>	21	20.5
	Average training time for middle management	Hours	<b>17</b>	31.5	30
	Average training time for rank-and-file employees	Hours	<b>41.4</b>	42	41
	Total number of employees trained	/	<b>40,864</b>	49,071	40,979
	Investment in employee training	USD	<b>873,019</b>	297,668	153,559
	Percentage of senior management participating in training	%	<b>100</b>	100	14
Percentage of middle management participating in training	%	<b>100</b>	65	57	
Occupational health	Investment in health examinations	USD	<b>79,208.61</b>	67,834.92	56,529.59
	Total Recordable Incident Rate (TRIR)	%	<b>0</b>	0	/

	Indicator	Unit	2024	2023	2022
Occupational health	Percentage of employees who died from work-related injuries	%	<b>0</b>	0	/
	Lost-time injury rate	%	<b>0.31</b>	/	/
	Number of employees injured in work	/	<b>7</b>	/	/
	Number of workdays lost due to employee injuries	Days	<b>376</b>	/	/
	Lost workday rate (per 200,000 working hours)	%	<b>16.88</b>	/	/
	Number of workdays lost due to contractor injuries	Days	<b>0</b>	/	/
	Frequency of contractor lost-time injuries (per 200,000 working hours)	%	<b>0</b>	/	/
	Frequency of contractor injuries (per 200,000 working hours)	%	<b>0</b>	/	/
Employee wellbeing	Investment in employee activities	USD	<b>12,019.6</b>	169,060.76	176,404.51
	Cumulative maternity leave and childcare leave benefits for employees	Days	<b>3,410</b>	3,603	4,041
Compensation and benefits	Employee satisfaction	%	<b>85.7</b>	96.16	94.35
	Average salary of female employees	USD	<b>1,274.56</b>	/	/
	Average salary of male employees	USD	<b>2,322.06</b>	/	/

# 06

## Commitment to Local Communities

Shengmu recognizes its responsibility as a corporate citizen and is dedicated to aligning our corporate values with positive social impact. Our goal is to amplify our influence and collaborate with partners across our value chain to foster a more resilient and positive business ecosystem. We are deeply committed to understanding and addressing the needs of the communities in which we operate. We actively engage in public welfare, charitable initiatives, rural revitalization, and other projects that contribute to societal harmony and prosperity.

### Contributions to the SDGs



# Governance



Shengmu has designated the Administration Department as the primary entity responsible for overseeing and managing our community engagement, public welfare, and charitable activities. This centralized responsibility ensures a comprehensive management process, from the initial planning stages to thorough results evaluation. The department carefully plans and executes a range of charitable projects focused on key areas such as community development, education, environmental protection, and other public welfare initiatives. This strategic approach ensures the effective fulfillment of our corporate social responsibility and the positive impact of our charitable endeavors.

# Strategy



We are committed to building a business community that share benefits and risks. By continuously identifying and evaluating risks and opportunities within our value chain, with a particular focus on the environmental impact of our upstream and downstream operations, we strive to support society in achieving higher-quality sustainable development while simultaneously generating long-term economic value for our stakeholders.

## Value Chain Risks and Potential Impacts

	Potential risk	Potential financial impact	Risk management and response measures
<b>Risk type (S/M/L)</b>	In response to evolving social needs and rising public expectations, the Company may face public disputes if it fails to properly address public welfare goals and balance the interests of all stakeholders.	<ul style="list-style-type: none"> <li>Increased operating costs due to dispute management and brand recovery efforts</li> <li>Damage to brand value</li> </ul>	<ul style="list-style-type: none"> <li>Establish a public opinion monitoring system</li> <li>Maintain close collaboration and communication with government entities, non-profit organizations, communities, and other stakeholders</li> <li>Partner with stakeholders to implement rural revitalization projects</li> <li>Promote the development of inclusive agricultural finance</li> </ul>

\*Note: S = Short-term; M = Medium-term; L = Long-term

## Value Chain Opportunities and Potential Impacts

	Potential opportunity	Potential financial impact	Opportunity management and response measures
<b>Operational opportunities</b>	Collaborating with industry experts to drive innovation in breeding technology	<ul style="list-style-type: none"> <li>Improved production and operational efficiency and increased revenue</li> </ul>	<ul style="list-style-type: none"> <li>Actively develop an industry exchange platform, introduce advanced breeding technologies, and enhance production efficiency</li> </ul>
<b>Branding opportunities</b>	By engaging in community service and organizing charitable events, the Company can establish a positive social image and build consumer and public trust in the brand.	<ul style="list-style-type: none"> <li>Enhanced premium pricing power</li> <li>Improved brand assets and financing capabilities</li> </ul>	<ul style="list-style-type: none"> <li>Plan and execute influential charity events, taking into consideration the Company's characteristics and advantages</li> <li>Support community development and create job opportunities</li> <li>Encourage employee participation in charity work</li> <li>Expand communication channels to increase brand visibility</li> </ul>

# Risk Management



Shengmu is committed to proactively identifying, assessing, and mitigating ESG risks throughout our value chain. We continuously refine our risk identification mechanisms and implement comprehensive risk management practices across all functional areas, including supplier management and public welfare initiatives. Our robust risk management framework is designed to protect the rights and interests of all stakeholders across our value chain and promote mutually beneficial cooperation.



## Support for the Industry

Shengmu recognizes that sustainable development is critical to the future of the global dairy industry. We are committed to championing organic and green agricultural practices and actively sharing our practical experience and expertise with the wider industry. By collaborating with industry leaders and experts, we aim to make a significant contribution to the sustainable development of agriculture.



Case

### Shengmu Participated in the International Conference on Organic Agriculture Demonstration Areas

In August 2024, Shengmu participated in the Second Organic Districts World Congress (ODC) and the Second International Conference on Organic Agriculture in Deserts and Dry Lands. We showcased our leading practices in transforming barren sandy land into a thriving oasis within the Ulan Buh Desert, highlighting our contributions to desert ecological restoration and the development of organic agriculture. At this conference, Shengmu signed cooperation memorandums with IFOAM Asia and The Organic Center - US. These partnerships will promote in-depth collaboration on sustainable development initiatives, establish an international research platform dedicated to desert and dryland organic agriculture, and facilitate the sharing of expertise and technology to advance global organic agriculture.



**Case** Shengmu Joined the World Business Council for Sustainable Development (WBCSD)

In July 2024, Shengmu officially became a member of WBCSD, marking a significant milestone in our sustainability journey. We have developed the world's first desert-based organic circular agriculture model, which integrates forage cultivation, animal husbandry, and environmental protection. This innovative model offers a sustainable framework for other companies engaged in desertification control endeavors. Moving forward, we will continue to advance sustainable practices, promote a business model centered on environmental sustainability and ethical practices, and work towards creating a better future for all stakeholders.



**Social Welfare**

At Shengmu, we prioritize public welfare initiatives, particularly in the areas of environmental protection and education. We are committed to integrating public welfare and charitable giving into the core of our sustainability strategy.

**Resource Allocation and Fundraising**

We strategically integrate and coordinate internal and external resources to effectively support impactful public welfare projects.

**Partnership Maintenance**

We actively establish and maintain close communication and collaborative relationships with key stakeholders, including government agencies, non-profit organizations, and schools. These partnerships are essential for the successful implementation of our public welfare activities.

**Compliance Oversight**

All of our charitable activities are conducted in full compliance with applicable laws, regulations, and industry standards. We also employ a robust internal audit mechanism to ensure the transparency and fairness of all our charitable projects.

**Impact Evaluation and Communication**

We rigorously evaluate the outcomes of our charitable projects. To enhance our social influence and strengthen our brand reputation, we also actively promote our public welfare initiatives and achievements through PR campaigns, social media, and other communication channels.

**Indicators and Targets**

China Shengmu scientifically sets and manages social responsibility-related indicators and targets, formulates and implements strategies in a targeted manner, and regularly reviews and evaluates the results of our efforts, steadily advancing the company's sustainable development.

**Targets**

	Target	Progress in 2024	Completion status
Industry cooperation	Submit at least two industry-academia partnership proposals per year	6	Completed

**Indicators**

	Indicator	Unit	2024	2023	2022
Charitable donations	Total amount of charitable donations	USD	298,471.68	354,344.45	879,537.19
Industry cooperation	Number of industry-academia partnership proposals submitted	/	6	/	/



## Outlook 2025

In 2025, we will continue to uphold our commitment to high-quality and sustainable development, grounded in ecological principles and green practices. We will continue to champion green agriculture and low-carbon raw milk, working alongside our stakeholders to build a future where humanity and nature thrive in harmony.

### Building a Green Ecosystem

We will continue to maintain our focus on the desert farm-sourced organic milk value chain, seamlessly integrating desertification control, sustainable forage cultivation, and animal welfare, while following a circular economy model. Through the consistent implementation of ecological, circular, water-efficient, regenerative, and organic agricultural practices, we will create low- to zero-carbon pastures and develop low- and zero-carbon raw milk, accelerating our transition to green and low-carbon operations. Through industrialized desertification control, we aim to transform the Ulan Buh Desert into a thriving region for high-quality organic milk production. We hope our endeavor there will serve as a replicable model for the development of ecological civilization in China and ecological restoration worldwide.

### Driving High-Quality Development Through Innovation

We will embrace a new development paradigm rooted in collaboration, innovation, inclusion, and sustainability, fostering openness to change and prioritizing shared growth. We will continue to uphold our commitment to driving sustainable agriculture forward through high-quality growth. This commitment will be reflected in our increased investments in scientific and technological innovation, the adoption of low-carbon technologies and green production methods, and the refinement of our business model that integrates desertification control, forage cultivation, and dairy cattle rearing. We will prioritize biodiversity protection and integrate sustainable development principles into every aspect of our corporate governance. We believe that by strengthening our ESG framework, improving operational efficiency, and upholding the highest standards of ethical conduct and regulatory compliance, we can demonstrate industry leadership in sustainable agriculture.

### Investing in Our Workforce and Local Communities

We will attract, retain, and empower exceptional talent, enabling every Shengmu employee to contribute meaningfully to the Company and society while achieving personal aspirations. We will actively support rural revitalization and engage in impactful social welfare initiatives, fostering a better society for all.

### Safeguarding Our Planet

We will strengthen collaboration with suppliers and industry chain partners, enforcing rigorous quality control to ensure every drop of Shengmu organic milk reflects our respect for nature and our commitment to the environment. We will work collaboratively with relevant institutions, industry peers, experts, and universities to shape a sustainable dairy industry and contribute to global climate action.

We are committed to creating a sustainable legacy in the Ulan Buh Desert. Through unwavering conviction, innovation, and practical action, Shengmu will help shape the next chapter of sustainable development in the region, contributing to a richer global ecological civilization. We are dedicated to transforming Ulan Buh into a vibrant ecosystem that future generations can cherish.



# Verification Statement

## Scope and Objective

Hong Kong Quality Assurance Agency (“HKQAA”) was commissioned by China Shengmu Organic Milk Limited (“Shengmu”) to conduct an independent verification for its sustainability disclosures (the “selected disclosures”) stated in its 2024 Environmental, Social and Governance Report of Shengmu (“the Report”). The selected disclosures covered the sustainability performance of Shengmu in the period from 1st January 2024 to 31st December 2024.

The objective of this verification is to provide an independent opinion with a reasonable level of assurance on whether the sustainability disclosures are prepared in accordance with the following reporting criteria:

- The Environmental, Social and Governance Reporting Guide (“ESG Guide”) set out in Appendix C2 of the Listing Rules of The Stock Exchange of Hong Kong Limited (version effective from 31st December 2023, which remains applicable to annual reports for financial years commencing before 1st January 2025).

The verification team also review the disclosures in the Report by making reference to the following disclosure frameworks, as the Report has been prepared with references to:

- IFRS S2 Climate-related Disclosures (“IFRS S2”) 2023

## Level of Assurance and Methodology

HKQAA’s verification procedure has been conducted with reference to the International Standard on Assurance Engagements 3000 (Revised), Assurance Engagements Other than Audits or Reviews of Historical Financial Information (“ISAE 3000”) issued by the International Auditing and Assurance Standards Board. The evidence gathering process was designed to obtain a reasonable level of assurance as set out in the ISAE 3000 by using a risk-based approach.

Our verification procedure included, but not limited to:

- Sampling the sustainability information stated in the Report, e.g. claims and performance data for detail verification;
- Verifying the raw data and supporting information of the selected samples of the sustainability information;
- Interviewing responsible personnel; and
- Checking the internal control mechanism

## Roles and Responsibilities

Shengmu is responsible for the organization’s information system, the development and maintenance of records and reporting procedures in accordance with the system, including the calculation and determination of sustainability information and performance. HKQAA verification team is responsible for providing an independent verification opinion on the selected disclosures provided by Shengmu for the reporting period. The verification was based on the verification scope, objectives and criteria as agreed between Shengmu and HKQAA.

## Independence

HKQAA did not involve in collecting and calculating data or compiling the reporting contents. Our verification activities were entirely independent and there was no relationship between HKQAA and Shengmu that would affect the impartiality of the verification.

## Limitation and Exclusion

The following limitations and exclusions were applied to this verification due to the service scope, nature of verification criteria, and characteristics of the verification methodology.

- I. Our verification scope is limited to verifying the transcription/transformation of the raw data or information into the selected disclosures, e.g., claims and performance data stated in the Report. This sustainability information may be subject to inherent uncertainty.
- II. Evaluating the quality of execution and implementation effectiveness of the ESG practices, the appropriateness of the assumptions made, and the estimation techniques applied are outside the scope of our verification.
- III. The verification of raw data or information is based on the use of a sampling approach and reliance on the client’s representation. As a result, errors or irregularities may occur and remain undetected.
- IV. Any information outside the established verification period has been excluded.

## Conclusion

Based on the evidence obtained and the results of the verification process, it is the opinion of the verification team that, with a reasonable level of assurance, the report has been prepared, in all material respects, in accordance with the ESG Guide set out in Appendix C2 of the Listing Rules of The Stock Exchange of Hong Kong Limited (version effective from 31st December 2023, which remains applicable to annual reports for financial years commencing before 1st January 2025).

In addition, the verification team considered that the Report has been prepared by making references to the contents or parts of the contents of the IFRS S2 Climate-related Disclosures 2023.

## Signed on behalf of Hong Kong Quality Assurance Agency

K.T. Ting  
 Chief Operating Officer  
 April 2025  
 Ref: 14955862-VER and 14955731-VER

# HKEX ESG Reporting Code

Subject Areas, Aspects, General Disclosures and KPIs	Description	Page
<b>A. Environmental</b>		
<b>A1: Emissions</b>		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	P52
KPI A1.1	The types of emissions and respective emissions data.	P55、 P59
KPI A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	P55、 P59
KPI A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	P59
KPI A1.5	Description of emission target(s) set and steps taken to achieve them.	P54-P58
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, and a description of reduction target(s) set and steps taken to achieve them.	P54-P58
<b>Aspect A2: Use of Resources</b>		
General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	P52
KPI A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility).	P49
KPI A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	P56
KPI A2.3	Description of energy use efficiency target(s) set and steps taken to achieve them.	P47-P48
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency target(s) set and steps taken to achieve them.	P56、 P58
KPI A2.5	Total packaging material used for finished products (in tons) and, if applicable, with reference to per unit produced.	N/A

Subject Areas, Aspects, General Disclosures and KPIs	Description	Page
<b>Aspect A3: The Environment and Natural Resources</b>		
General Disclosure	Policies on minimizing the issuer's significant impacts on the environment and natural resources.	P52
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	P52-P53
<b>B. Social</b>		
<b>Employment and Labor Practices</b>		
<b>Aspect B1: Employment</b>		
General Disclosure	Information on: (a)the policies; and (b)compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	P62-65
KPI B1.1	Total workforce by gender, employment type (for example, full- or part-time), age group and geographical region.	P65-66
KPI B1.2	Employee turnover rate by gender, age group and geographical region.	P71
<b>Aspect B2: Health and Safety</b>		
General Disclosure	Information on: (a)the policies; and (b)compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	P62
KPI B2.1	Number and rate of work-related fatalities occurred in each of the past three years including the reporting year.	P73
KPI B2.2	Lost days due to work injury.	P73
KPI B2.3	Description of occupational health and safety measures adopted, and how they are implemented and monitored.	P68
<b>Aspect B3: Development and Training</b>		
General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	P67-68
KPI B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	P72
KPI B3.2	The average training hours completed per employee by gender and employee category.	P72

Subject Areas, Aspects, General Disclosures and KPIs	Description	Page
<b>Aspect B4: Labor Standards</b>		
General Disclosure	Information on: (a)the policies; and (b)compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labor.	P62
KPI B4.1	Description of measures to review employment practices to avoid child and forced labor.	P64
KPI B4.2	Description of steps taken to eliminate such practices when discovered.	P64
<b>Operating Practices Aspect B5: Supply Chain Management</b>		
General Disclosure	Policies on managing environmental and social risks of the supply chain.	P34-35
KPI B5.1	Number of suppliers by geographical region.	P39
KPI B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, and how they are implemented and monitored.	P39-41
KPI B5.3	Description of practices used to identify environmental and social risks along the supply chain, and how they are implemented and monitored.	P39
KPI B5.4	Description of practices used to promote environmentally preferable products and services when selecting suppliers, and how they are implemented and monitored.	P39
<b>Aspect B6: Product Responsibility</b>		
General Disclosure	Information on: (a)the policies; and (b)compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labeling and privacy matters relating to products and services provided and methods of redress.	P34-35
KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	P41
KPI B6.2	Number of products and service related complaints received and how they are dealt with.	P34
KPI B6.3	Description of practices relating to observing and protecting intellectual property rights.	P26
KPI B6.4	Description of quality assurance process and recall procedures.	P36-37
KPI B6.5	Description of consumer data protection and privacy policies, and how they are implemented and monitored.	P29

Subject Areas, Aspects, General Disclosures and KPIs	Description	Page
<b>Aspect B7: Anti-corruption</b>		
General Disclosure	Information on: (a)the policies; and (b)compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	P26、 P29
KPI B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	P29
KPI B7.2	Description of preventive measures and whistle-blowing procedures, and how they are implemented and monitored.	P29
KPI B7.3	Description of anti-corruption training provided to directors and staff.	P30-31
<b>Community Aspect B8: Community Investment</b>		
General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	P76、 P79
KPI B8.1	Focus areas of contribution (e.g. education, environmental concerns, labor needs, health, culture, sport).	P79
KPI B8.2	Resources contributed (e.g. money or time) to the focus area.	P79

Subject Areas, Aspects, General Disclosures and KPIs	Description	Page
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	b. Management's role in the governance processes, controls and procedures used to monitor, manage and oversee climate-related risks and opportunities, including information about:	
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	Financial position, financial performance and cash flows	P45-P46
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Risk Management	The processes and related policies the issuer uses to identify, assess, prioritize and monitor climate-related risks.	P47
	The processes the issuer uses to identify, assess, prioritize and monitor climate-related opportunities (including information about whether and how the issuer uses climate-related scenario analysis to inform its identification of climate-related opportunities).	P47
	The extent to which, and how, the processes for identifying, assessing, prioritizing and monitoring climate-related risks and opportunities are integrated into and inform the issuer's overall risk management process.	P47
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Risk Management	The processes and related policies the entity uses to identify, assess, prioritize and monitor climate-related risks.	P43
	The processes the entity uses to identify, assess, prioritize and monitor climate-related opportunities, including information about whether and how the entity uses climate-related scenario analysis to inform its identification of climate-related opportunities.	P43
	The extent to which, and how, the processes for identifying, assessing, prioritizing and monitoring climate-related risks and opportunities are integrated into and inform the entity's overall risk management process.	P43
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# Feedback Sheet

Dear reader,

Thanks for reading the 2024 Environmental, Social and Governance (ESG) Report of Shengmu. For better ESG practices and CSR capabilities, we will appreciate it if you could give your feedback on the report.

1. How would you rate the report?

1  2  3  4  5

2. How would you rate the report's effectiveness in reflecting Shengmu's ESG impact?

1  2  3  4  5

3. How would you rate the clarity, accuracy, and comprehensiveness of the information and indicators presented in the report?

1  2  3  4  5

4. How do you rate Shengmu's efforts in stakeholder engagement ?

1  2  3  4  5

5. How do you rate the layout and design of the report?

1  2  3  4  5

6. How would you rate the visibility of the report?

1  2  3  4  5

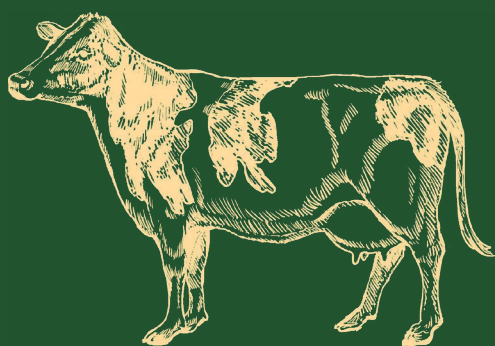
7. Which part of the report attracts you most?

8. Other suggestions and advice on the report:



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