



2023

ENVIRONMENTAL, SOCIAL AND
GOVERNANCE (ESG) REPORT

About the Report

The 2023 ESG Report is the eighth annual report of China Shengmu Organic Milk Limited to disclose the information on its environmental, social and governance performance.

Reporting Period

The report highlights our sustainability performance for the period from January 1, 2023, to December 31, 2023.

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.

Reporting Cycle

The report is issued on an annual basis, consistent with the release cycle of the Company's financial statements.

Data Source

Data and cases 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 2023 annual average exchange rate (1 RMB=0.14191 USD) as announced by the People's Bank of China (PBoC).

Reporting Guidelines

The report is compiled in accordance with the ESG Reporting Guide 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 Guide"), including provisions on "comply or explain" basis and mandatory disclosure requirements therein contained. Furthermore, information disclosure on climate in the report is made in partial compliance with requirements set out in the *Guidance on Climate Disclosures published by the HKEX*.

Response to the Four Reporting Principles in the HKEX ESG Reporting Guide

Materiality:

The report shall disclose the materiality matrix of major topics, elaborate the determination process and final results of major topics, describe significant stakeholders and targeted communication measures. For details, please refer to "Stakeholder engagement" and "Identification of material topics" sections in "Sustainability Management".

Quantitative:

The key performance of the relevant historical data disclosed in the report can be measured, so that the benefits of environmental, social and governance and management systems can be assessed and verified. The environmental data disclosed in this Report shall be marked with reference standards, methodologies, and parameters.

Balance:

The report aims to provide an objective and impartial picture of the Company's performance. Information used comes from internal documents, statistical reports, and publicly disclosed sources and is presented without any inappropriate modifications.

Consistency:

Compared with the Company's ESG Report in 2022, there are no major changes in the reporting scope or statistical methods in this report. The statistical caliber of some data has been adjusted, and the past historical data has been retrospectively adjusted, so that various ESG performance data can be compared horizontally, as detailed in each chapter of this report.

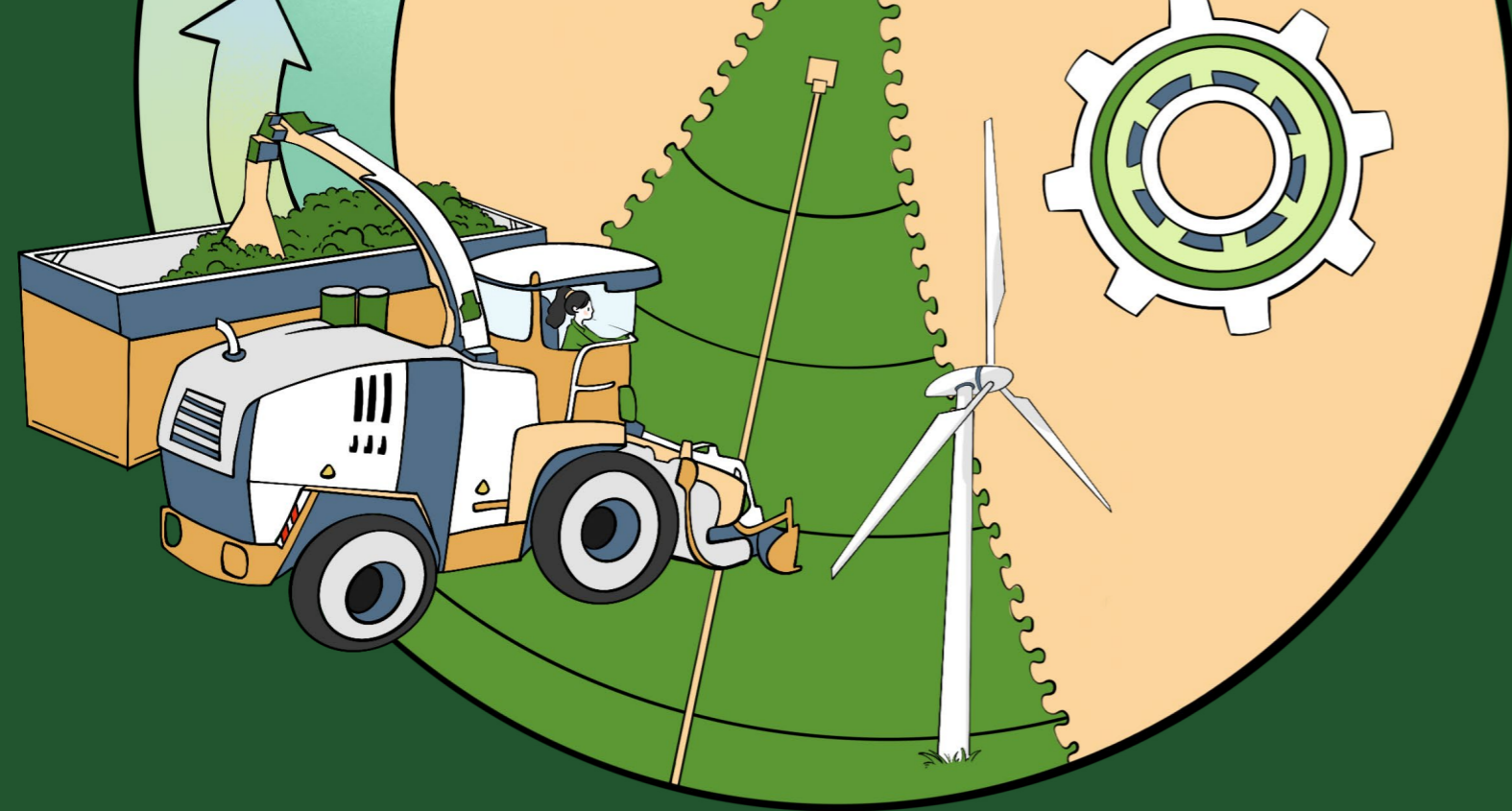
References to China Shengmu Organic Milk Limited

As used herein, "China Shengmu", "Shengmu", "the Company", and "we" all refer to China Shengmu Organic Milk Limited.

Accessibility

This report can be read or downloaded on the website of the HKEX or Shengmu's 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.





Contents

About the Report	02
Message from the CEO	06
About Us	08
Corporate Culture	09
Brand Concept	10
Major Achievements in 2023	12
Honors and Awards	14
Our Actions to UN SDGs (SDGs)	16

01

Sustainable Corporate Governance	20
1.Sustainability Management	22
2.Sustainability Influence	24
3.Intelligent Operation	25
4.Compliance Operation	26

04

Employer Responsibility	50
1. IFRS Sustainability Disclosure	52
2.Guaranteeing Employees' Rights and Interests	54
3.Protecting Health and Safety of Employees	58
4.Facilitating Career Development	61
5.Focusing on Humanistic Care	64

02

Product Responsibility	28
1. IFRS Sustainability Disclosure	30
2.Supplying High-quality Raw Milk	32
3.Strengthening Supply Chain Management	34
4.Guaranteeing Animal Welfare	35
5.Facilitating Dairy Industry	36

05

Community Responsibility	66
1. IFRS Sustainability Disclosure	68
2.Delivering Caring and Kindness with Donations from Shengmu	70
3.Giving Full Play to Industrial Advantages to Promote Rural Revitalization	71

03

Environmental Responsibility	38
1. IFRS Sustainability Disclosure	40
2.Intensifying Pollution Prevention and Control	43
3.Promoting Energy Conservation and Carbon Reduction	45
4.Protecting Natural Resources	48

Outlook 2024	72
Verification Statement	74
HKEX ESG Reporting Guide Indicators	76
Feedback Form	80



Message from the CEO

The passage of time is just like the flow of water, which goes on day and night. As sustainable development was unprecedentedly brought into spotlight across the world in 2023, it has become a consensus of the international community to jointly promote the long-term and harmonious development of environmental protection, social responsibility, and good governance (ESG). In the face of unexpected situations and challenges at home and abroad, we have responded calmly, adhered to long-termism, and strengthened scientific research and innovation, leading the industry, achieving outstanding performance, leading the industry, and continuously enhancing corporate operation and competitiveness for sustainable development.

Sticking to Ecological Priority and Moving Towards Green and Low-carbon Development

We always adhere to the concept of green agriculture and low-carbon organic milk, and resolutely embark on the road of high-quality development guided by ecological priority and green development. In 2023, we followed the natural nature, acted as shepherds, and sought a sustainable development path with diverse and harmonious life forms in the natural world, and won the 2023 Ernest & Young Sustainability Excellence Awards for the case of "A New Natural Economic Mode with Benefiting Nature as a Core". Furthermore, we actively pushed ahead our pastures' environment management system certification, continued to respond to the Carbon Disclosure Project (CDP) questionnaires on climate change and forests, and never ceased examining and improving our climate risk management.

Persisting with Quality Control and Building a Top Brand for Organic Milk

We persist with quality control over the whole supply chain from grass planting to cow breeding to milk processing, building the world's first fully organic dairy farming system in the desert, and continuing to pursue innovation and improvement of our products and services to set a quality benchmark for China's organic milk. In 2023, all lab projects of Shengmu passed CNAS review, demonstrating strong technical testing capability and quality assurance in the field of raw milk production. Relying on pastures, we focus on animal welfare in breeding, and reinforce the closed-loop organic ecological benefits of organic planting and breeding to create a high-quality, high-yield, low-pollution and low-risk green agricultural mode and let light-hearted cows to produce high-quality organic milk.

Seeking Common Prosperity with Partners for Sustainable Development

We always uphold the common prosperity of business value and social value, and regard shareholders, employees,

strategic partners, suppliers and communities as shared destiny, continuously reinforcing the mechanism of mutual influence, empowerment, value creation, risk sharing, and benefit sharing. In 2023, Shengmu attended the first FAO Global Conference on Sustainable Livestock Transformation and the WAFI Entrepreneurship Forum, hoping to spread the advantages of organic agriculture concept and practices to a wider audience. We actively promoted scientific and technological innovations to empower high-quality development, and we implemented a diverse talent structure to safeguard employee rights and continuously cultivated a competitive talent pool. We focused on the construction of sustainable supply chains and strive for win-win cooperation with strategic partners. We cared for vulnerable groups, carried out educational assistance activities, and conveyed love and responsibility.

We raise cows in deserts, nurture people in desert, and persist in sustainable development in desert. Looking to the future, we firmly believe in long-termism and will continuously build an internationally leading organic industry in Ulan Buh desert, and implement the guiding principles of General Secretary Xi Jinping on "building Inner Mongolia into a production, processing and export base in China for green agricultural and animal products" to provide a demonstration model for the further promotion of organic agriculture on a global scale.

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





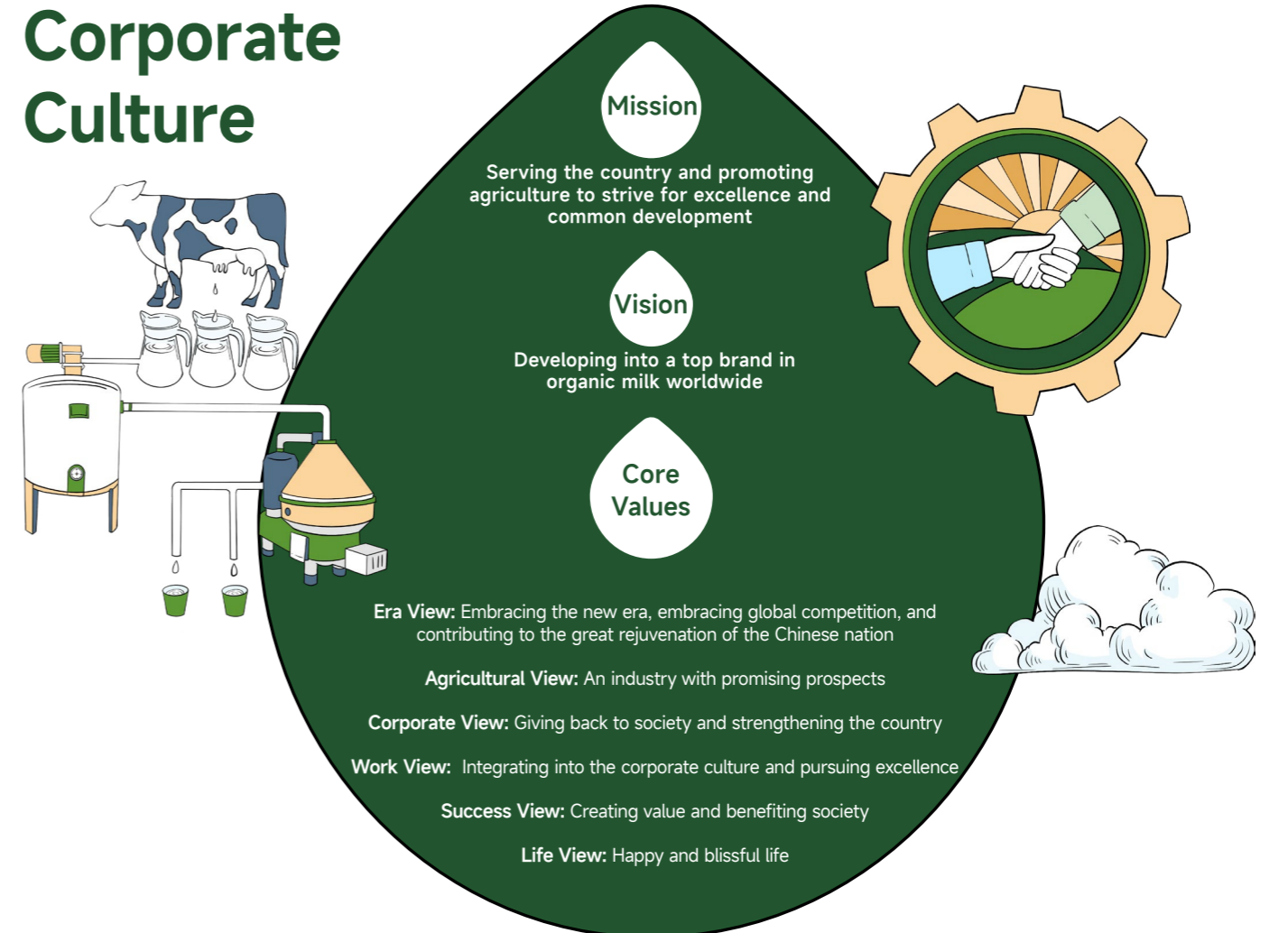
About Us

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.

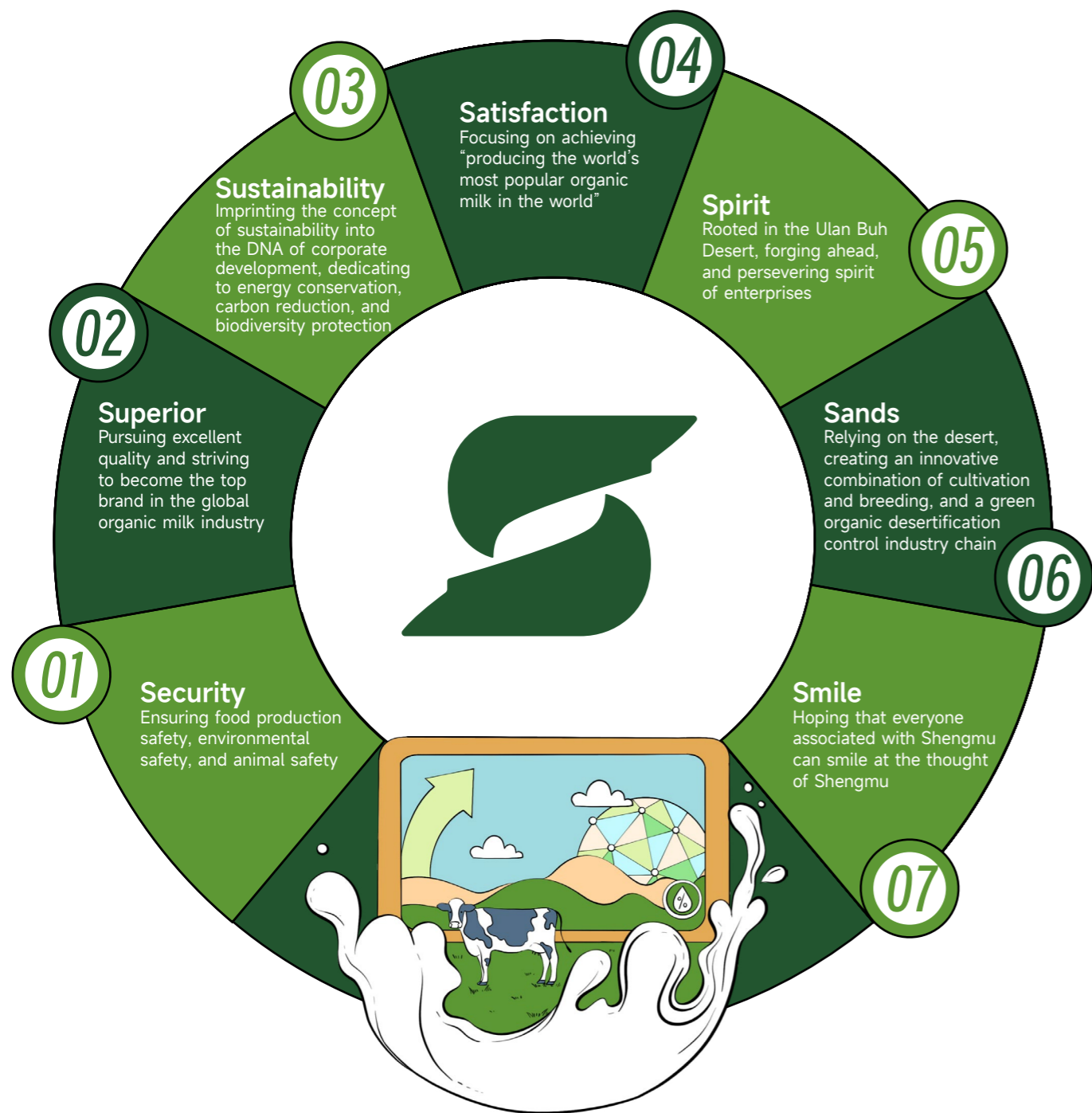
Corporate Culture



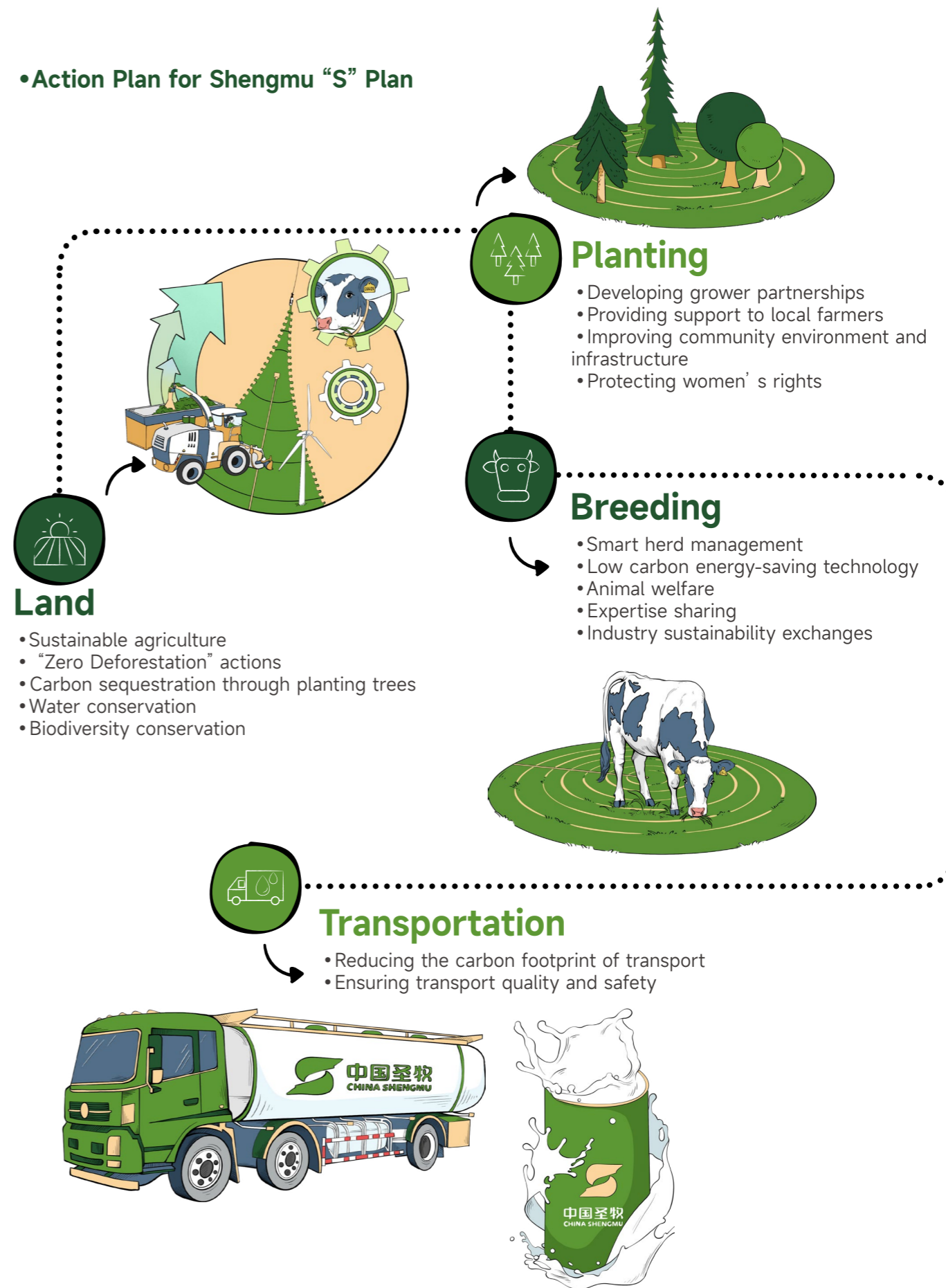
Brand Concept

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”.

•The Connotation of Shengmu’s “S” Plan



•Action Plan for Shengmu “S” Plan



Major Achievements in 2023

Environmental Performance



23,333.33 hectares

desert has been transformed into high-quality pastures

220 square kilometers

desert transformed 220 into oases

98+ million

trees planted

1.38 million tons

a cumulative carbon sequestration achieved

11.96%

The greenhouse gas (GHG) emission per cow (scope 1 and 2) reduced from the level in 2022

7.59%

The energy consumption intensity per cow reduced from the level in 2022

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/IEC17025 by China National Accreditation Service for Conformity Assessment (CNAS)

346 upstream partners got supports in the dairy industry chain

64,088 hours professional and technical training via both online and offline channels employees received

41 hours with an average per person

USD 361,100

of donations to charities

10,092 local livestock-farming households got help and generated

USD95.51 million tons

Governance Performance



Revenue was **USD 499.67** million with a year-on-year growth of **5.52%**

The inventory of cows was **136,566** compared to the previous period increased by **4.44%**
 organic cows **96,165** non-organic cows **40,401**

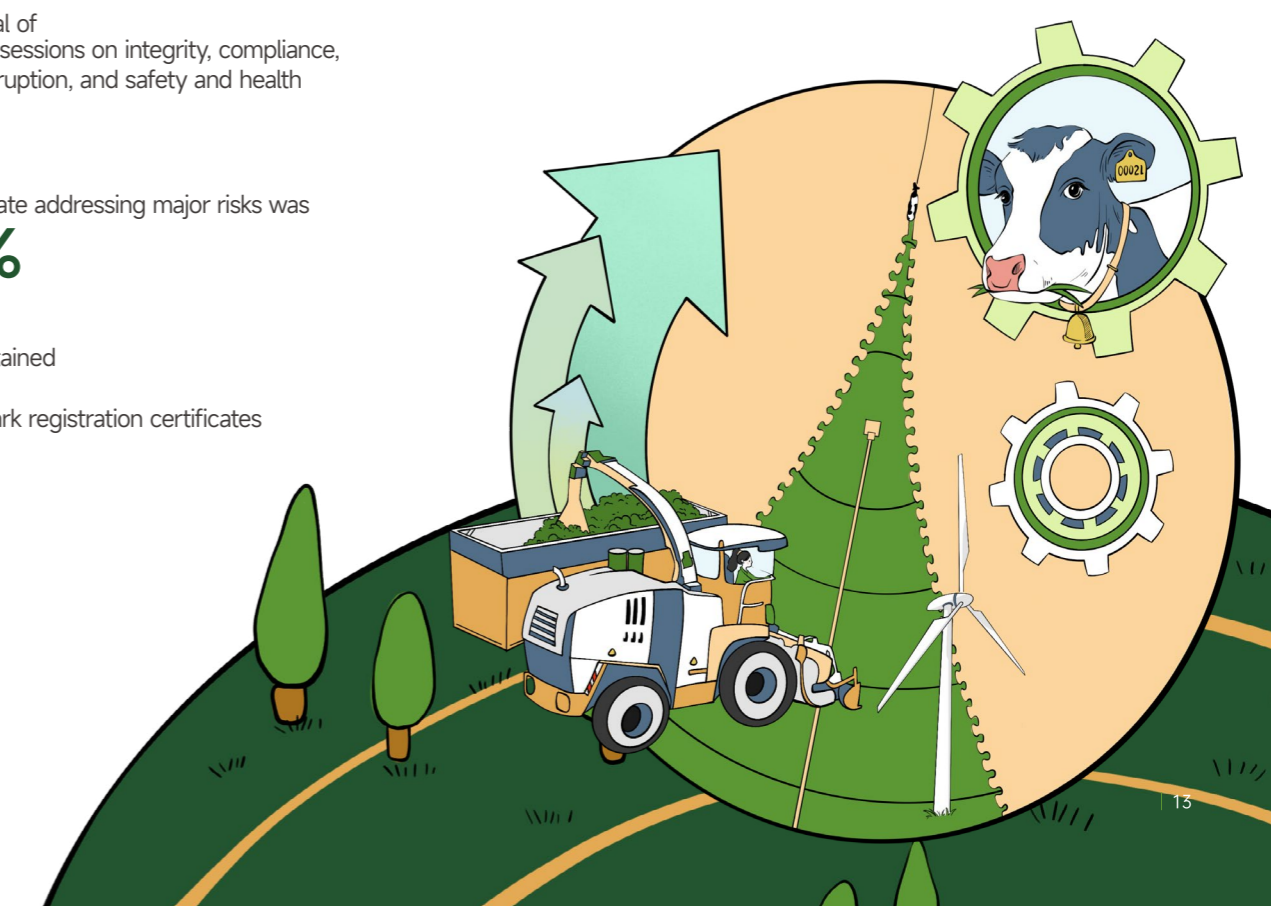
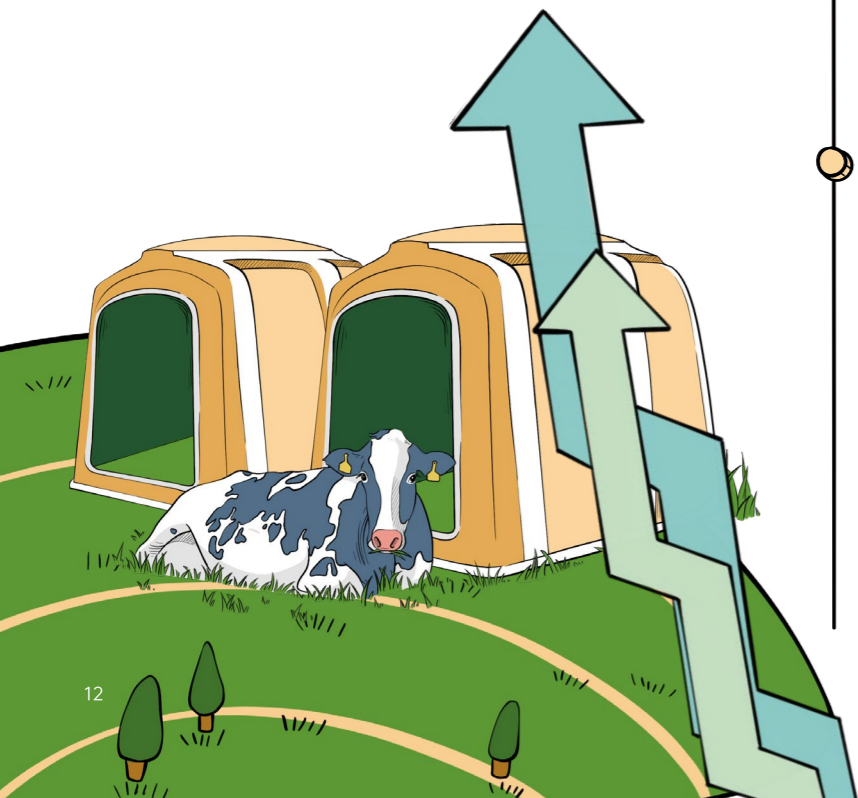
The annual milk yield per cow reached **11.38** tons increased by nearly **8.20%** year on year

Built **34** pastures including **18** organic pastures including **1** A2 pasture and **16** non-organic pastures including **2** DHA pastures

Organized a total of **32** training sessions on integrity, compliance, anti-corruption, and safety and health

The fulfillment rate addressing major risks was **92.3%**

Successfully obtained **47** trademark registration certificates



Honors and Awards



Received the title **“Nation Key Leading Enterprises in Agricultural Industrialization”** by the Chinese Ministry of Agriculture and Rural Affairs



Won the **Pioneering Award for ESG Disclosure Contribution** sponsored by the Hong Kong Quality Assurance Agency (HKQAA)



Shortlisted as **GoldenKey-SDG Forerunner Enterprises** selected by the China Sustainability Tribune



Included in **Corporate Climate Target Setting, Action and Global Collaboration Towards A Net-zero Future - Accelerate 2030 Agenda for Sustainable Development Through Global Development Initiative**, a report issued by the United Nations Global Compact



Won the **18th People's Corporate Social Responsibility - Green Development Award** hosted by People.cn



Received the **“7th China Excellent IR Best ESG Award”** sponsored by the International Road Show Center (IRSC)



Selected as the **2023 Excellent ESG Practices Case of Listed Company** by the China Association for Public Companies (CAPCO)



Selected as the **top 10 projects in the 2023 Paulson Prize for Sustainability** by the Paulson Institute



Rated as **Ernst & Young Sustainability Excellence Awards - Best Case of the Year**



Our Actions to UN 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.
 11.5 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.

Our actions

1. Facilitated the development of animal husbandry in Dengkou County, Bayannur City, where the Company is based, and promoted the employment of the poor and increased local the income and prosperity of the population.
 2. Engaged in the rebitalization of the countryside, and organized the foundation ceremony of the project of revitalizing the milk industry of the county and the Shengmu Industrial Park to build the Shengmu Dairy Industrial Park.

- USD 361,100 of donations were made to charities
- Efforts have been made to help 10,092 local livestock-farming households generate RMB673 million in income



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.

Our actions

1. Adopted organic farming practices and increased the use rate of organic fertilizers to improve soil fertility and the drought resistance of crops.
 2. Recycled cow manure to produces organic fertilizers and upgraded our manure composting plants to greatly shorten the composting process of organic fertilizers and increase their production efficiency. The processed organic fertilizers can improve aggregate stability and moisture and nutrient retention capacity of sandy soil.
 3. Adopted scientific cow breeding practices to increase milk production.

- The annual milk yield per cow reached 11.38 tons, representing a nearly 8.20% year-on-year increase



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.

Our actions

1. Updated the *Safety Management Policy*, conducted occupational health and safety training, and took measures to prevent occupational diseases and accidents and protect the health of employees.
 2. Promoted employee health by offering an annual free physical examination and regularly assessed occupational hazards in the workplace.
 3. Equipped pastures and administrative buildings with Automated External Defibrillator (AED) to safeguard the health of our staff.
 4. As the industry's leading organic milk producer, Shengmu's products have high nutritional value, and the pure and safe source of milk is guaranteed. We provide the world's highest quality desert organic milk.

- USD 68,556.72 was invested for offering occupational health examinations
- USD 484,608.46 was invested in buying safety protective equipment
- USD 480450.50 was invested in employer's liability insurance premiums



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.

Our actions

1. Launched the Ace-100 Differentiated Talent Development Program to diversify career paths and improve the leadership and professional skills of our employees at all levels.
 2. Encouraged employees to pursue further education and obtain professional certificates or titles, so as to promote the continuous development of the Company and employees.

- One employee with bachelor's degree was enrolled in postgraduate program; and three employees with master's degree were enrolled in doctoral program
- 12 employees applied for middle-rank professional title, and five employees applied for vice-senior professional titles
- 20 and 100 employees were selected as directors and managers respectively



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.

Our actions

1. Eliminated gender discrimination and achieved gender pay equity. The ratio of male to female employees in the Company is 6:4.
 2. Established a women's federation to protect the rights of female employees and increased the proportion of female management.

- A total of 966 female employees were hired
- Women account for 16% of middle management



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.

Our actions

1. Installed a smart water metering system to achieve real-time monitoring of water use through the Internet of Things (IoT) and prevent any waste of water resources in a timely manner.
 2. Recycled the waste water of the dairy farms, reduced the use of groundwater, and cut the discharge of biogas slurry.

- The new process saved 0.4 tons of groundwater per ton of fresh milk



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.

Our actions

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

- Distributed photovoltaic power generation facilities with a capacity of 2.5MW for cow sheds were installed



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.

Our actions

1. Created a diverse and inclusive environment based on the principles of equal and diverse employment, adhered to equal pay for equal work, and resolutely eliminated the use of child labor and forced labor.
 2. Attached a lot of importance to corporate culture and created Shengmu's "family" culture to enrich the life of employees and extend employees' care to their families.
 3. Directly and indirectly created jobs for local residents and increased the annual per capita income of local farmers and herdsmen.

- Employees raised a USD 193,692.96 of mutual aid fund
- USD 170,859.64 was invested in staff activities and tourism



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.

Our actions

1. Replaced all boilers with air heat source pumps, improved the recycling process of waste heat, and effectively reduced energy consumption.
2. Recycled cow manure to produce organic fertilizers and bedding for dairy cows, thereby enhancing the comprehensive value of resources and greatly reducing CO2 emissions.
3. Increased the use of renewable energy, and used electric loaders at pilot pastures.

• **8,039 tons of carbon dioxide equivalent (CO2e) have been reduced in GHG emissions through the replacement of bedding for cows**



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.

Our actions

1. Paid attention to workplace diversity and cultural diversity, cared for ethnic minority employees, respected their customs and living habits, and ensured that ethnic minority employees enjoy equal treatment.

• **848 ethnic minority employees were hired**



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.

Our actions

1. In the Ulan Buh Desert, Shengmu built high-quality pastures, improved infrastructures, and transformed a large area of desert into oases, greatly benefiting local residents.

- **A cumulative amount of USD 1.21 billion was invested in the Ulan Buh Desert**
- **23,333.33 hectares of desert areas were transformed into high-quality pastures**
- **220 square kilometers of desert areas were transformed into oases**
- **193.3 km-long roads were built**
- **277.9 km-long power lines were built**
- **11 reservoirs were built**
- **Nine organic manure composting plants were set up**
- **One bio-organic fertilizer processing plant was established**



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.

Our actions

1. Created the world's first desert-based organic circular industry chain that integrates planting, breeding and processing to produce high-quality organic raw milk;
2. Engaged qualified third-party providers with hazardous waste disposal qualifications to dispose of our hazardous wastes through sterilization, pulverization, fermentation, etc.
3. Integrated sustainability into industrial development and our daily operations, and took scientific management measures to promote sustainable use of natural resources, reduce pollution, and minimize environmental impacts.
4. Regularly disclose our sustainability management strategy, practices and performance in annual ESG report.

• **36 training sessions on environmental protection were launched**



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.

Our actions

1. Promoted industrial desertification control by planting trees and building organic pastures to turn the desert into an oasis and build an organic ecosystem, improving the local ecological environment and biodiversity, and enhancing the ability to adapt to climate change.
2. Took the lead in the organic milk industry to propose an emissions reduction pathway, released the carbon reduction strategy and action plan, and effectively completed carbon inventories.
3. Completed the questionnaires of the Carbon Disclosure Project (CDP) on climate change and forests and emphasized GHG emissions measures including reducing fossil energy consumption, carbon sequestration in deserts, and forest protection measures such as herbaceous sand fixation and water conservation.

• **GHG emissions were 662,373.52 tons of carbon dioxide equivalent (CO2e)**
 • **Compared with that data in the 1980s, the amount of solar radiation in the Ulan Buh Desert decreased by 40%-45%; sand and dust storms decreased by 80%-90% average wind speed decreased by 21.41% and precipitation increased by 30.36%**



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.

Our actions

1. Worked with Bayannur Daily to launch a tree planting event with the theme "Greening the Ulan Buh Desert" at Shengmu's the sixteenth pasture in Bayannur.
2. Through continuous transformation of desert ecology, the Ulan Buh Desert has formed a regional microclimate, and the number of species has increased to hundred, including nationally endangered species. In addition to forage crops and medicinal herbs, new varieties of plants such as alfalfa, oats, corn, and dandelions have grown widely in the original desert areas. Animals such as lizards, foxes, hares, and gazelles also began to appear frequently, and even birds like waterfowl, egrets, and owls began to settle in this desert oasis.

• **Compared with levels in the 1980s, the number of species has increased to several hundred, including national level endangered species.**



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.

Our actions

1. Continuously improve corporate governance, reinforce the fight against corruption, and strive to build an efficient and transparent governance system.
2. The application of digital system integrating logistics, capital flow, and information flow into one achieved horizontal integration of forage crop cultivation, food production, feed factories, and pasture management, and realized standardization, refinement, and transparency of internal management and control.

• **The proportion of females in our upper management reached 15.38%**



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.

Our actions

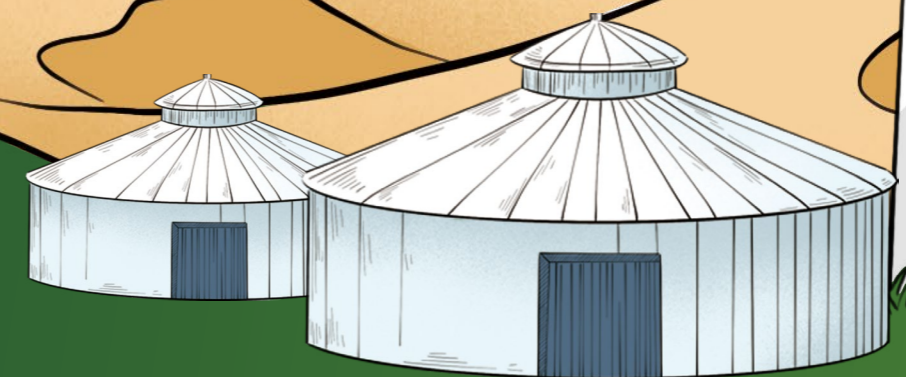
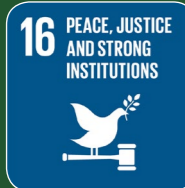
1. Established close strategic partnerships with universities and other companies in the dairy industry, and combined strengths with our partners to jointly promote the development of green and organic agriculture.
2. Established an interest linkage mechanism with suppliers to provide them with technical and financial support, and worked together to build organic supply chain.

• **346 upstream partners on the industry chain got support**

01

Sustainable Corporate Governance

Shengmu is committed to developing sustainable and stable corporate management, establishing a more independent, efficient and professional Board of Directors, focusing on corporate compliance, risk management and internal control, and taking national laws, regulations and regulatory requirements as the criterion to strengthen the implement of the system, promote the improvement of business practices, accelerate digital operations, effectively safeguard the rights and interests of investors, and strive to create a sustainable development model for global enterprises.

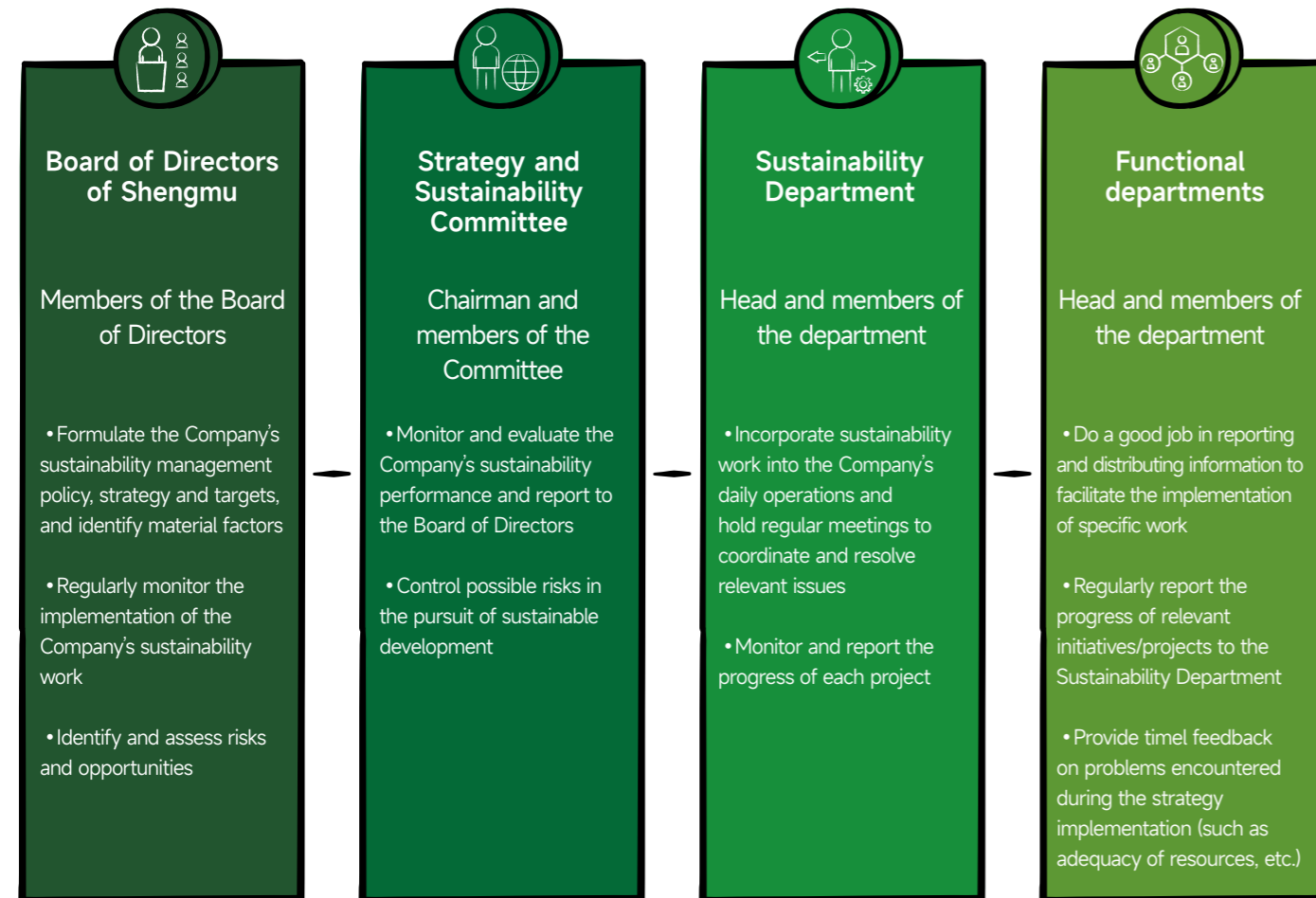
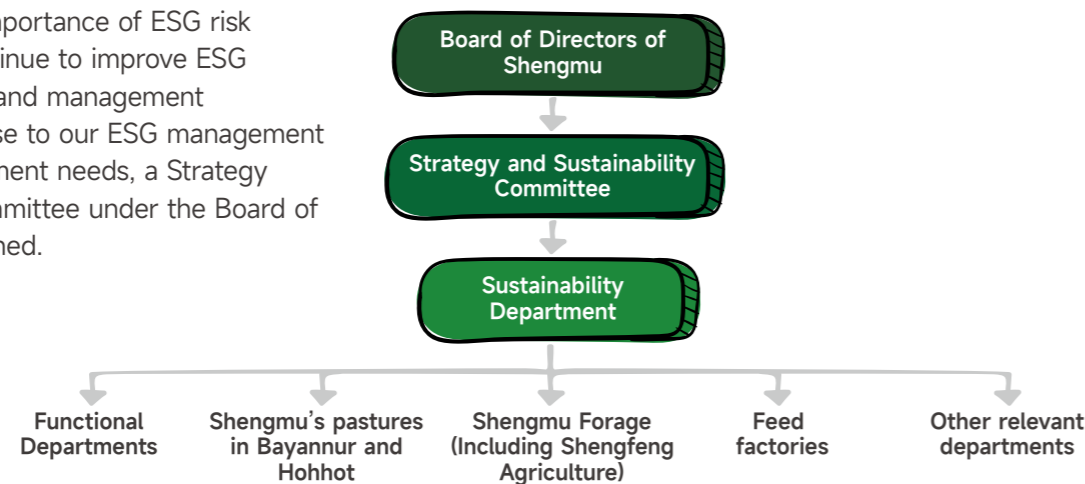


Sustainability Management

Shengmu's sustainable development management work is guided by the UN 2030 SDGs, and continuously integrates corporate social responsibility (CSR) into daily operations. To achieve the optimal allocation of resources and inputs and more efficiently drive progress towards SDGs, the Company has formed a three-level sustainability management structure with the Board of Directors as the highest decision making body, strengthening communication with stakeholders, and actively promoting the realization of sustainable development goals that best match Shengmu's mission, business model, professional capabilities and influence.

Sustainability Management Structure

We highly value the importance of ESG risk management and continue to improve ESG governance structure and management mechanism. In response to our ESG management and business development needs, a Strategy and Sustainability Committee under the Board of Directors was established.



Stakeholder Engagement

We have established a normalized stakeholder communication mechanism based on the demands of various stakeholders through targeted and diversified communication methods to actively respond to the needs of relevant parties, thereby promoting the implementation and improvement of Shengmu's sustainable development work.

Major stakeholders	Major concerns	Means of communication	Response
Shareholders	Sustained and stable return on investment Timely information disclosure Business compliance	Annual general meetings of shareholders Annual reports and corporate announcements	Improve business performance and consolidate the leading position in the industry Regularly disclose relevant company information Improve the internal compliance system
Employees	Career development space 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 Enrich employees' lives Provide diversified work and life security
Suppliers	Transparent, fair and open procurement Timely performance of contractual obligations Growth of suppliers and win-win outcomes	Procurement and tendering announcements and information publicity Regular communication of quality requirements Supplier conferences	Ensure transparency throughout the procurement process Ensure timely payment to suppliers Promote effective communication with suppliers Support the growth of suppliers
Customers and partners	High-quality products and services Customer needs Common 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 Taxes payment in accordance with law	Meetings with government representatives Regular visits Inspection by government officials	Provide jobs and contribute to tax revenue Support government supervision and improve the internal compliance monitoring system Comply with laws and regulations
Communities	Development of local communities Charity work	Communication with community representatives Charity and volunteer activities	Maintain close communication with local communities Carry out charity donation and assistance

Identification of Material Topics

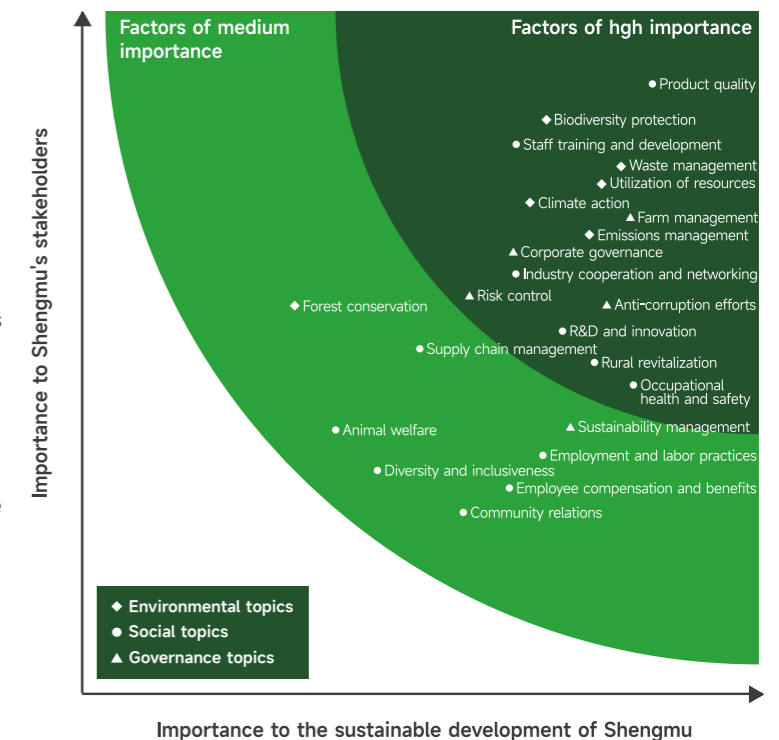
The Company strives to combine material topics with sustainability governance, and continues to improve its sustainability governance to meet stakeholders' needs and expectations to the utmost extent.

The selection of Shengmu's material topics

The selection of material topics:
The Company identifies 23 material topics by benchmarking against international standards and initiatives including GRI Sustainable Development Report Standard, HKEX's ESG reporting guideline, SASB Standards and the UN SDGs.

The analysis of material topics:
The Company derives the matrix of material topics in the report based on the importance of the topic to the Company and its stakeholders, as well as the importance of the influence on the Company's financial and sustainable development.

Matrix of material topics and prioritization:
In view of each topic's influence on finance, stakeholders and sustainable development, the Company ranks all topics in terms of materiality and responds all topics in the report. Topics of high materiality and topics of medium-to-high materiality will be disclosed in the report.



Sustainability Influence

As the sustainability philosophy plays an increasingly important role in world economic growth, physical capital is not the sole determinant of corporate value, and multiple non-financial factors also matter significantly to corporate value creation and long-term development.



As Shengmu has close relations with the nature, human capital and society, its production and operations can produce material impacts and reliance on multiple forms of capital. Since our operations involve activities in the primary industry (husbandry), the second industry (food processing) and the tertiary industry (distribution, logistics, etc.), any unsustainable production and consumption in response to market demands might undermine each link's effort to promote ecological environment, people's well-being and social development. In 2023, Shengmu evaluated and analyzed the materiality of influence and dependence in the value chain, and finally identified and determined that natural capital, human capital and social capital have significant impact and dependence on the key links of Shengmu's production and operation. At the same time, the value created by each capital is monetized.

	Natural capital	Social capital	Human capital	Manufacturing capital
Influence on Shengmu	Environmental compliance Prevention and control of natural disasters Green operations	Product quality Anti-corruption compliance	Labour rights Staff representatives	Intelligent operation Inclusive finance
Influence on society	Discharge of waste Emission of GHGs Emission of waste gases Climate regulation	Food health Rural revitalization Sustainable industry chains Industrial development Public charity	Staff training Employee health and safety Employee well-being Gender rights	—
Reliance on capital	Fresh water Pastures Lands	Partners on industry chains Industry-level resources Social recognition	Working experience Skills and knowledge Labour availability	Animal welfare Intellectual property
Monetization performance	RMB160.6102 million USD22.7923 million	RMB3.280146 billion USD465.4855 million	RMB282.8038 million USD40.1327 million	RMB39.1229 million USD5.5519 million

Intelligent Operation

Based on strategic development considerations and the goal of realizing smart management, Shengmu deeply applies cloud platform, SAP system, RPA robot, Internet of Things, big data and other technologies, integrating the original scattered application systems to break the information "isolated island". An integrated and unified application platform has been established with SAP-ERP as the core and supplemented by systems in various professional field.



Case

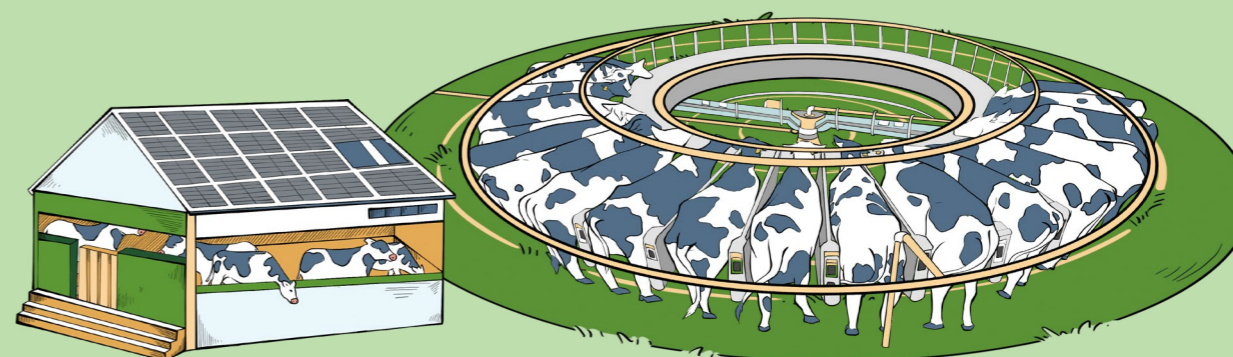
Using digital elements to build intelligent pastures

Shengmu takes advantage of digital technology to build standardized, refined and intelligent pastures, allowing technology to inject new impetus into this traditional industry. With the technical assistance of Tencent Cloud, China Shengmu has taken a series of measures to seek digital transformation.

Improving work collaboration. Based on enterprise WeChat, Shengmu has built a digital base for on-site management of organization and personnel to achieve collaboration among various business modules. Through product functions such as Tencent Micro Card and Lexiang, Shengmu has realized the integration of gate machine, access control, consumption and work attendance information and one-card access in various departments from the group to the pasture, and set up a unified online platform for corporate culture and community, properly carrying out knowledge asset accumulation and professional training.

In an effort to achieve the transformation from cow farming in desert to digital breeding, Shengmu has explored to utilize digital technology to cow growth chain and pasture management chain. Shengmu has established a big data platform base as a data source, and then applied block chain AI and other technologies to build a cow traceability management and control system, a herd management system, a big data system and a collaborative system to achieve a 360-degree all-round cow indicator system management. On this bases, various data models are generally constructed, ultimately realizing intelligent management nad control of all aspects of pasture and providing intelligent auxiliary decision-making for the management.

In 2023, big data and AI technologies were gradually piloted and implemented in all pastures of Shengmu. At the same time, Shengmu will also promote the implementation of more intelligent pastures and digital-real integration applications in the agricultural and animal husbandry industry chain, including digital twin pastures and block chain tracing system, to achieve further refined management and improve both quality and efficiency.

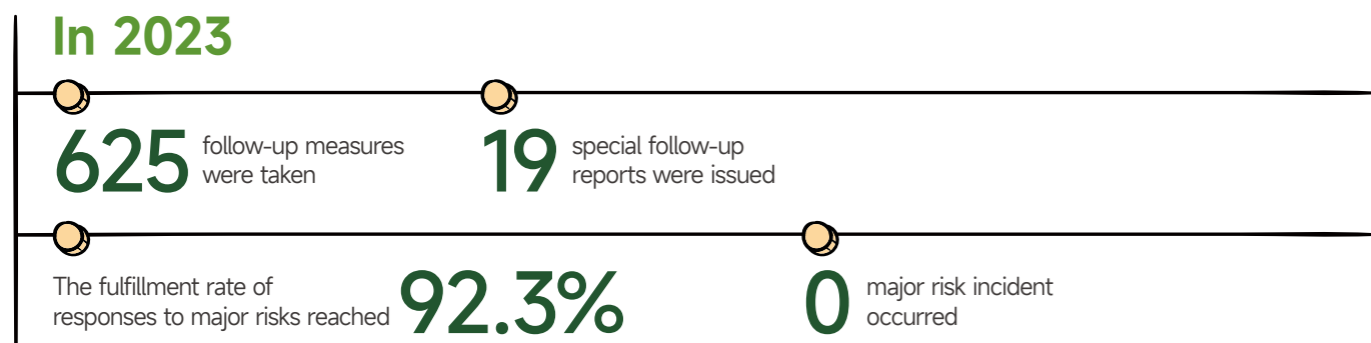


Compliance Operation

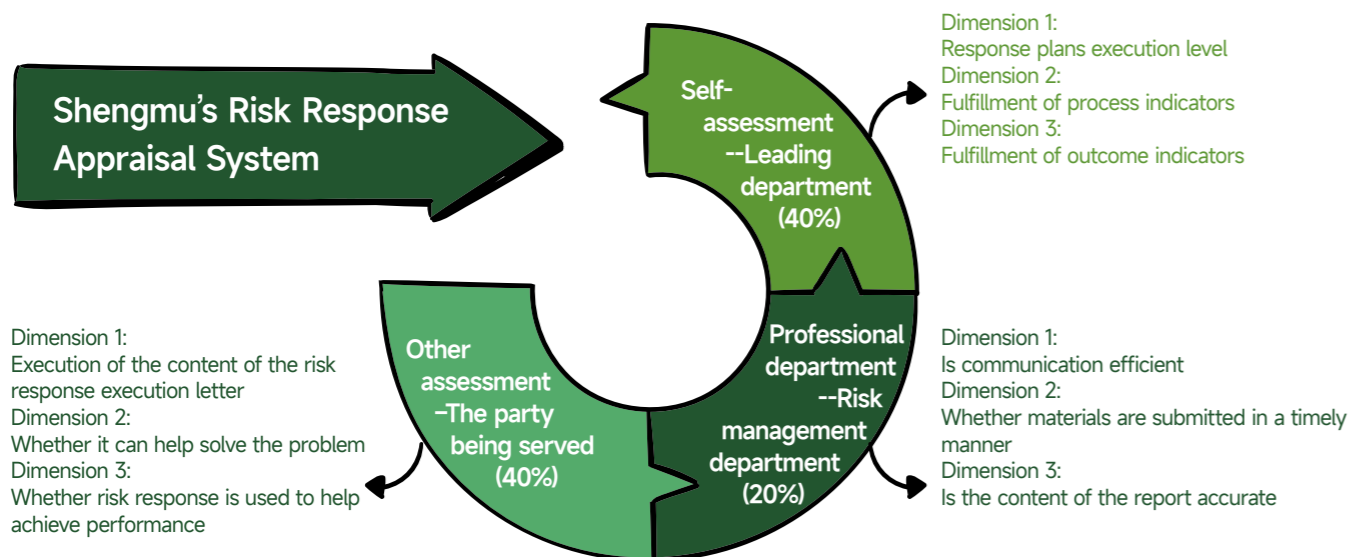
In order to effectively prevent and control major risks and minimize the impact of risks on the Company's operation and development, the Company strictly abides by the *Supervision Law*, *Contract Law*, *Company Law*, *Anti-Monopoly Law*, and *Anti-Unfair Competition Law* to strengthen internal control, risk management and anti-corruption, protect intellectual property rights, and promote compliance operations.

✓ Innovative Risk Management

We follow the requirements of the *Corporate Governance Code* in Appendix 14 to HKEX listing rules and the *Basic Standards for Enterprise Internal Control* to improve internal control and risk management systems and mechanisms, organize internal audits and risk assessments, strengthen risk prevention level, and provide guarantee for corporate sustainable development.



In 2023, we formulated 26 implementation plans of risk response, developed a risk response appraisal system to incorporate risk management into the overall scope of assessment, improved digital intelligence of risk management, and established and executed functions such as key risk information capture and core data early warning. We also independently developed a risk framework for animal husbandry to provide risk tools to empower the business.



✓ Anti-corruption and Integrity

The Company attaches great importance to anti-corruption and integrity. By improving the construction of organizations and systems, the Company comprehensively regulates employee organization, work and life disciplines, punishes violations of laws and disciplines, and creates a good and upright entrepreneurial atmosphere for Shengmu's high-quality development. In 2023, the Company found no major corruption cases.

Integrity policy	The Company formulated a series of policies and systems such as the <i>Measures for the Management of Gifts</i> , <i>Business Entertainment Expenses Management System</i> and <i>Standard Code of Conduct for Employee Investment and Shareholding</i> to standardize daily work management.
Integrity commitment	We organized 377 employees at the manager level and above to establish "Integrity files", arranged 83 employees at the director and above level to sign "Integrity commitment letters", and organized 57 employees in positions of authority and power to attend the warning education on integrity for supply chains in Mengniu Dairy.
Integrity review	We strengthened daily inspections to promote the implementation of strict corporate governance systems and standards, such as prohibition against smoking, alcohol, gambling and data falsification, etc., carried out special inspections to facilitate high-quality development, ensure that inspections and rectification problems are not repeated, and safety, environmental protection, bidding and procurement, and sales are the focus.
Integrity ecology	Adhering to the tenet of "cooperation and development for an integrity ecology", we signed an integrity agreement with all suppliers and partners to optimize business cooperation and integrate integrity into Shengmu's ecosystem.
Self-examination and self-correction	We carried out special campaign on self-examination and self-correction to a total of 83 middle and senior managers.
Integrity reminder	During important holidays, such as May Day, Mid-Autumn Festival, National Day, and Spring Festival, timely integrity publicity and reminders on integrity are carried out to effectively prevent corruption problems.
Reporting method	Reporting hotline: 15148021310 15148031310 Reporting email: jjjc@smorganic.cn

✓ Protection of Intellectual Property Rights

We strictly abide by the *Patent Law*, the *Copyright Law* and other relevant laws and regulations, set up a special fund for the declaration and protection of trademarks, patents, and technologies, discover, avoid and prevent potential intellectual property (IP) risks that may arise in technological innovation, and optimize patent technical layout and improve the quality of intellectual property rights. Before or when deploying business strategy and plan, we develop a trademark and brand strategic planning, clarify project drivers and grasp the scope, quantity, and subsequent protection of trademark registration.



02

Product Responsibility

Shengmu has always been committed to realizing the grand vision of “developing into a top brand in the global organic milk industry”, strictly controlling quality throughout the entire value chain from raw material procurement to the supply of organic raw milk, and building a full-process organic industry chain covering organic environment, organic planting, organic breeding and organic products. We have also worked together with our supply chain partners to build an organic ecosystem, taking high-quality product as the cornerstone to promote enterprises to achieve sustainable and high-quality development.



IFRS Sustainability Disclosure

Governance

In terms of ensuring the quality of raw milk, we have identified the Safety and Quality Center as the core hub for quality control and strictly monitored quality management tasks from product source to terminal. Shengmu cooperates with various pastures to ensure that the production process and the quality of raw milk comply with the national and international food safety and quality standards.

In terms of supply chain management, the Procurement Center developed the *Supplier Management Policy* to systematically manage the selection, evaluation, cooperation, and performance appraisal of suppliers to ensure the quality of materials and a stable supply, and build a fair, transparent and sustainable supply chain system.

Strategy

With the mission of “providing the world’s highest quality desert organic milk”, Shengmu takes root in the Ulan Buh Desert, joins hands with partners, and follows the basic rules of food safety, biological safety, production safety and environmental safety to promote corporate development and create an organic ecosystem. By identifying risks and opportunities related to the industry chain and formulating corresponding response strategies, we ensure that the Company maintains stable operation in a complex and ever-changing market environment, continuously optimizes the industrial structure, and enhances core competitiveness.

Relevant Risks and Potential Impacts of Product Responsibility

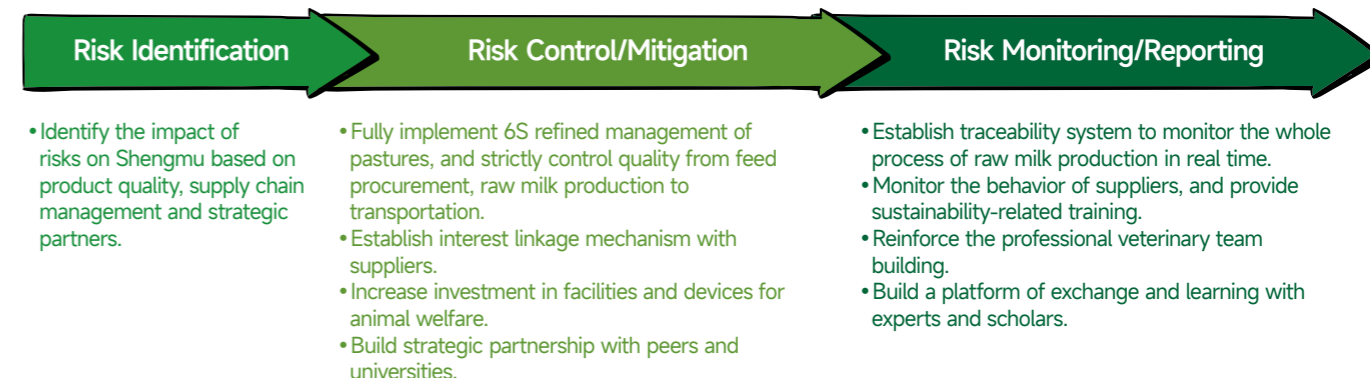
	Potential Impacts	Risk Management and Countermeasures
Operation risks (S)	Consumers’ higher requirements for organic brand certification bring pressure on industry chain traceability and data transparency, and lead to the increase of operating costs.	<ul style="list-style-type: none"> Strengthen supply chain supervision, improve supplier standards, and provide technical training and support. Proactively disclose production information on initiative to enhance credibility.
Compliance risks (S/M/L)	Violations of animal protection and public food safety incidents cause income loss.	<ul style="list-style-type: none"> Prevent all kinds of quality risks through source control, production process management, quality monitoring and tracing, and independent third-party testing and certification. Consistently focus on animal welfare in the process of farming, improve the health and disease prevention and control capacities of cows, and ensure the health and comfort of cows in the whole process of milk production. Improve the internal management system, strengthen supply chain monitoring, and enhance transparency and regulatory compliance.
Reputation risks (S)	Product quality issues may trigger a crisis of consumer trust, and impact on brand reputation.	<ul style="list-style-type: none"> Establish and improve a strict quality management system. Strictly abide by food safety laws and regulations, and conduct regular food safety risk assessments and self-inspections.

Note: S for short-term; M for medium-term; L for long-term

Relevant Opportunities and Potential Impacts of Product Responsibility

	Potential Impacts	Opportunity Management and Countermeasures
Operation opportunity	Value chain cooperation is consolidated by enhancing mutual trust with suppliers; by exchanging with industry experts, we promote the innovation of breeding technologies, improve the level of production and operation, and increase income.	<ul style="list-style-type: none"> Build deep relationships of mutual trust with suppliers to ensure a stable and transparent supply chain. Strictly screen and foster high-quality suppliers, and promote their technical upgrading and service optimization. Establish an industry exchange platform, introduce advanced breeding technologies, and improve production efficiency.
Market opportunity	The increasing market demand for healthy food and more attention paid by consumers to the quality of raw materials in supply chain add premium to certified organic products.	<ul style="list-style-type: none"> Increase input and maintain authoritative organic certification to ensure the quality of raw materials at source. Strengthen brand promotion, and highlight organic certification marks and health values. Develop new organic products that meet market needs, and take advantage of market premium to improve profitability.
Brand opportunity	We earnestly fulfill our social responsibility, expand the communication channels of stakeholders, build a responsible brand image, and win the trust of customers and financial institutions.	<ul style="list-style-type: none"> Build multiple communication channels, and promote communication and interaction with stakeholders through social media, corporate official website, public relations activities, etc. Create a positive brand image, integrate marketing and communication resources, and improve brand reputation.

Risk Management



Targets and Indicators

We have established indicators and targets related to Shengmu’s social responsibility, and continuously monitored the performance and disclosed the progress to facilitate sustainable development of the Company.

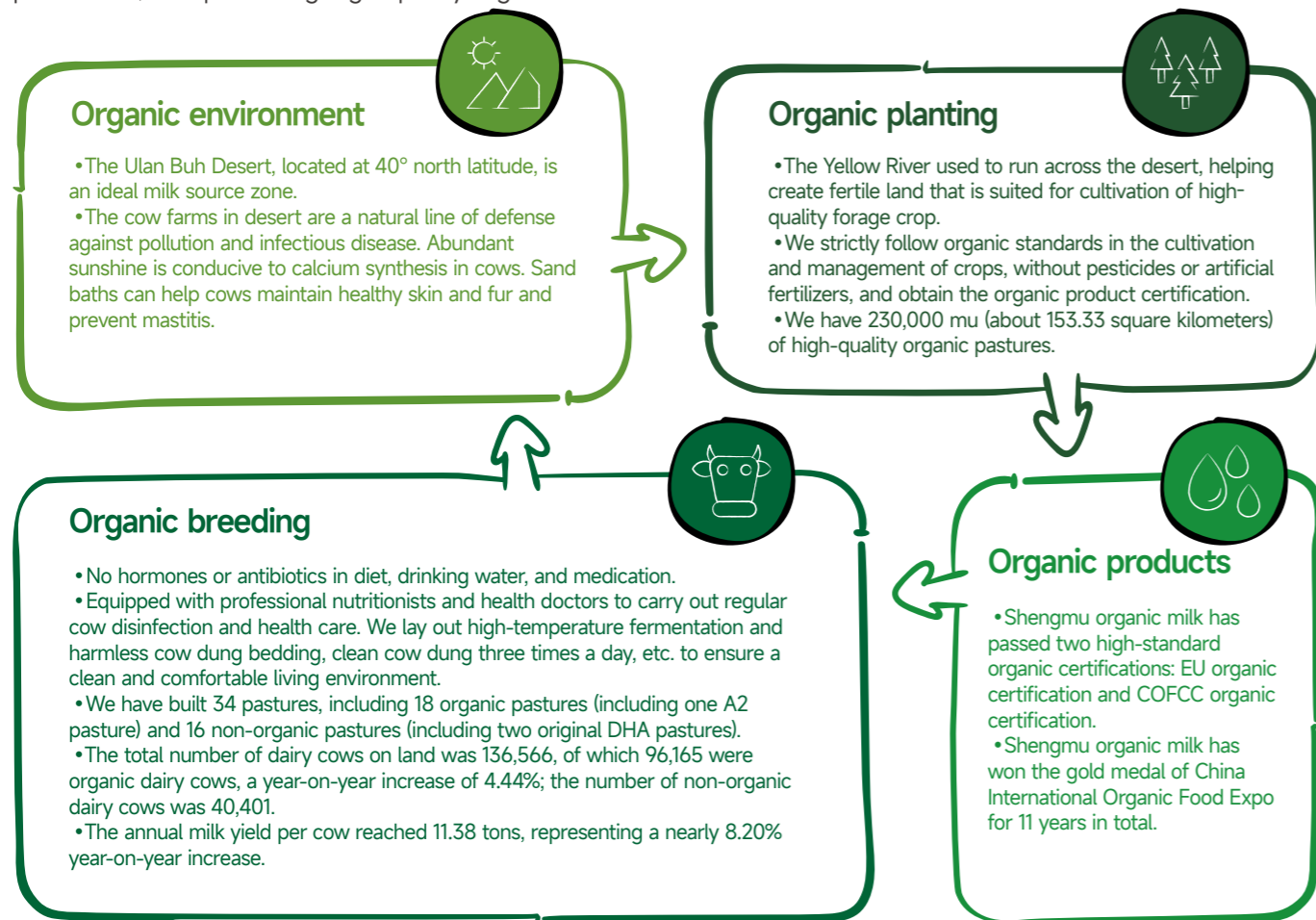
	SASB Indicator	Content of the Indicator	Unit	2023
Food safety	FB-MP-250a.1	Product defect rate examined by Global Food Safety Initiative (GFSI)	%	0
		Substantial defect rate of products	%	0
	Corrective action completion rate for minor non-conforming products	%	0	
Animal and feed procurement	FB-MP-250a.3	Number of product recalls announced	number of times	0
		Total weight of recalled products	ton	0
Use of antibiotics in animal products	FB-MP-260a.1	Proportion of cows treated with medically important antibiotics	%	0
		Proportion of cows treated with non-medically important antibiotics	%	0
Animal and feed procurement	FB-MP-440a.2	Proportion of contracts signed by producers located in areas of high or very high baseline water pressure	%	89.90

Supplying High-quality Raw Milk

As a key leading enterprise in agricultural industrialization, Shengmu constantly promotes agricultural modernization and improves product quality and safety standards. We continue paying attention to the welfare of dairy cows, and strive to build a full-process organic production model covering the entire industrial chain, with the commitment to supplying the market with the best organic raw milk.

Creating Organic Industrial Chain

We innovatively combine desert governance with circular agriculture, take advantage of the favorable geographical conditions and natural environment of the Ulan Buh Desert, and carry out large-scale ecological governance and the desert industrial construction, thus forming an original "planting, breeding and processing" organic industrial chain, achieving improved breeding of dairy animals, high-quality forage, standardized production, and producing high-quality organic milk.



Strictly Controlling Product Quality

We regard quality and safety as the foundation of the enterprise, strictly abide by the *Food Safety Law of the PRC*, *Dairy Product Quality and Safety Regulations*, and *National Food Safety Standards for Raw Milk* as well as our own internal quality management policies such as the *Raw Materials and Raw Milk Quality Management Policy*. In order to ensure the safety of the entire industrial chain, we have established a management strategy with quality as the core, and fully implemented the 6S refined management model of the pastures. Focusing on the core concept of "safety of milk is the most important", we have implemented various management strategies from raw and auxiliary material procurement, milk production at source to transportation. Strict quality control is implemented in all aspects to ensure the safety of milk source.

In 2023

21 pastures were rated as S by Modern Dairy Industry Evaluation including 7 organic pastures

7 pastures were certified by China Good Agricultural Practice (GAP) including 5 organic pastures

2 testing centers were certified to ISO/IEC17025 by China National Accreditation Service for Conformity Assessment (CNAS)

the Eighth Pasture obtained Dairy Cow Cultivation - Quality Management System Certificate

The qualified rate of S-grade milk reached

93.91%



Ensuring the quality and safety of raw materials and auxiliary materials

- During the supplier admission process, all indicator of raw and auxiliary material samples are tested. Only those how pass the test can enter the admission review process; cooperative suppliers conduct quarterly quality assessments, and only the top three can continue to cooperate. High-quality supplier are selected and the raw milk quality is ensured from the source.
- Carry out competency certification for dairy cow feed testing institutions and conduct benchmarking with multiple testing institutions to ensure the accuracy of dairy cow feed testing results.
- Establish an internal feed traceability system to achieve full-process testing and archiving from feed procurement to pasture use.

Ensuring the quality and safety of raw milk

- From the moment the cow produces milk to the raw milk comes out, the production process is monitored in real time in a scientific and rigorous way.
- Invite experts to conduct training and exchange meetings on raw milk testing procedures and slow-antibody testing methods to improve raw milk testing capabilities and ensure the high quality of raw milk.

Ensuring the quality and safety of milk transportation

- Transporters should transport milk according to the location and route specified by the Company; ensure that the milk delivery trucks is in good condition and not damaged; in case of leakages or any other problems, repair must be done in a timely manner.
- During the transportation process, transporters are required to keep their phone on for a close contact, and there should be no phenomenon of shutting down or not answering the phone.
- During transportation, it is not allowed to open seals without permission, resell milk, adulterate, etc.; a dedicated vehicle must be used, and goods are not allowed to be carried in the same vehicle.

At the same time, we rely on a sound planning and management system and efficiently integrate resources to meet various customer needs to the great extent. Whether it is to meet the unstable ordering demand of small customers or cooperating with large customers' switching needs from conventional products to organic milk and functional milk, we can provide strong support and guarantee.

Service improvement

- Provide authoritative milk SGS test report and routine quality test report;
- Assist in applying for sales certificate of organic products;
- Strictly review the qualifications of pastures and promote the technical upgrading of pastures.

Supply guarantee

- Make annual plan, rolling plan + monthly plan and ten-day plan;
- Ensure a stable and sufficient supply with an annual achievement rate of 103%.

Strengthening Supply Chain Management

Shengmu continues to optimize the supplier management mechanism, and is committed to improving communication and cooperation with suppliers, increasing support for strategic suppliers, jointly building a responsible supply chain system, and working with partners to seek steady development.

Supplier Management

We adopt the method of transparent procurement according to the law, formulate the *Supplier Management System*, strengthen supplier management in procedures including supplier access, evaluation and withdrawal, select high-quality suppliers, and ensure the quality of raw materials. We formulate a convention on integrity and self-discipline for purchasing personnel, sign anti-commercial bribery contracts with all cooperative suppliers, severely punish suppliers for violations of relevant laws and regulations, and optimize the business environment. We stick to the responsible procurement, and promise that 100% of the soybeans purchased by the Company come from countries and regions without deforestation risk and land conversion risk.

In 2023



<h4>Supplier access</h4> <p>All suppliers are required to provide certificates such as quality, environmental, safety, and organic qualifications. We conduct a comprehensive assessment of the quality of their raw and auxiliary materials with high standards. If the assessment is qualified, they can directly obtain access qualifications. If the assessment is pending and the access qualification will be obtained after the rectification is completed.</p>	<h4>Supplier evaluation</h4> <p>We conduct quarterly supplier cooperation evaluation from aspects such as material evaluation, supply process, service evaluation, etc. Positive incentives will be given to qualified suppliers. Unqualified suppliers are required to rectify deficiencies. Otherwise, they will be blacklisted.</p>	<h4>Supplier withdrawal</h4> <p>We strictly implement the supplier exit mechanism. Suppliers who engage in adulteration, violate integrity management, have safety risks, provide false qualification document, or are ranked in the bottom 10% of the comprehensive ranking will be added to the blacklist and undergo exit management.</p>
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Supplier Capability Building

We have established close interest alignment and technical partnership with suppliers, and are committed to solving their financial problems and providing necessary technical support, enhancing the comprehensive capabilities of supplier partners, creating a supplier ecosystem, and promoting joint development.

<h4>Technical support</h4> <ul style="list-style-type: none"> We regularly visit, inspect, and communicate with suppliers every year to timely identify supplier risks and solve existing problems, give constructive advice to cooperative suppliers on planting base scale, production operation processes, quality control, and long-term planning, and share experience in dairy cow cultivation, forage planting, planting and breeding integration and quality improvement. While carrying out regular cooperation to ensure suppliers' profits, we also promote and encourage suppliers to carry out organic certification, provide training on organic planting and organic certification, and collaborate with suppliers to grow together. 	<h4>Financial support</h4> <ul style="list-style-type: none"> By conducting green certification for our supply chain, we help suppliers obtain substantial interest rate discounts. We strengthen the cooperation with banks to provide "Chun Yu Loan" for silage corn suppliers. Through innovating financing products, simplifying financing procedures, improving financing efficiency, and reducing operation costs, the financing cost of our suppliers has been kept around LPR, laying the foundation for the sustainable development of our industrial chain.
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Case

China Shengmu joined hands with suppliers to reach strategic cooperation in supply and demand of silage corn.

In 2023, Shengmu reached the strategic cooperation of "integrating planting and breeding" of silage corn. By implementing the Company's policies and providing resources and financial support, Shengmu successfully enhanced the confidence of suppliers for cooperation, enlarged the planting area, formed a virtuous circle of complementary advantages between supply and demand, resource sharing, cost sharing and income sharing, achieved a win-win goal, and demonstrated efficient supply chain management and the development model of innovative agricultural industrialization.

Guaranteeing Animal Welfare

Cattle health is an essential guarantee to improve the production level of dairy cows. In the process of breeding, constant attention is paid to improving animal welfare, promoting the health conditions and disease prevention and control abilities of dairy cows, ensuring health and comfort in milk production of dairy cows, and allowing dairy cows to produce high-quality organic milk.

<h4>Comfortable temperature</h4> <p>We have installed cooling systems such as fans and sprinklers in pastures to ensure cows stay cool in the summer and thermal insulated curtains and hot water storage tanks to keep cows warm in the winter.</p>	<h4>Nutritional balance</h4> <p>Our professional nutritionists and health doctors create balanced diets for dairy cows and ensure cows are scientifically fed and cared for.</p>
<h4>Clean environment</h4> <p>We clean the manure three times a day to ensure that "the manure has been cleared and the feed has provided".</p>	<h4>Entertainment</h4> <p>We have built a playground for dairy cows and performed rotary tillage with regular sand changes to keep it soft.</p>
<h4>High-quality rest</h4> <p>We lay beds with high-temperature fermented harmless cow dung bedding every day, allowing the cows to sleep on "Simmons". Scientifically designed lighting systems and automatic cow brushes are designed to improve the quality of cows' rest and life.</p>	<h4>Disease prevention & control</h4> <p>We have formed professional veterinary team to formulate technical standards and operating procedures for disinfection of living environment of dairy cows, regular mosquito and fly killing, health care and hoof trimming, vaccination, and disease prevention and control to effectively prevent and reduce the incidence of dairy cow disease.</p>

Case

Story of pasture employees and calves: Devoting myself to what I love with respecting for life as the work bottom line

Gongbao Lengzhi, a Tibetan employee working at the Calf Department of the 19th pasture of Bayannur, has won the respect of all with his excellent professionalism and dedicated work attitude. Upholding the philosophy of "treating calves as children", Gongbao Lengzhi has always insisted on adopting unique and meticulous breeding methods for calves, such as observing the calves' subtle behaviors during routine inspection, detecting potential illnesses through observing the details of the calves' milk intake, so as to achieve early discovery and treatment of illness and nip it in the bud. Gongbao Lengzhi always ensures the suitable quantity of grass used for barns, which not only saves cost but also makes sure calves living under the most comfortable conditions. These seemingly ordinary but wise practices have brought benefits to other employees in the department. "Respecting life and protecting life are the bottom line I set for living and for working," said Gongbao Lengzhi.

Facilitating Dairy Industry

Shengmu actively participates in the revitalization of dairy industry and joins hands with industry partners and authoritative experts to thoroughly discuss the future trends and development strategies of China's dairy industry through domestic and foreign communication platforms, integrate core resources such as excellent talents, advanced technologies and sufficient funds, and jointly build a bridge for cooperation to establish an ecosystem of dairy industry with shared resources and coordinated development, and take practical actions to fully promote the high-quality leap of China's dairy industry.

Strengthening Strategic Partnerships

We adhere to the concept of win-win cooperation and establish close cooperative relationships with strategic partners such as peers, scientific research institutions, and universities, to achieve complementary advantages and resource sharing, and jointly create a development situation of joint progress and win-win cooperation. Meanwhile, we actively carry out cross-sector and in-depth strategic cooperation with multiple parties to jointly explore and practice the deep integration path of desert governance and green sustainable development.

Case

Shengmu convened the First International Conference on Organic Agriculture in Deserts and Dry Lands

On September 4, 2023, the First International Conference on Organic Agriculture in Deserts and Dry Lands was held by China Shengmu in Bayannur, with the theme of "Ecological and Societal Restoration by Farming Organically". The purpose of this conference was to learn from the best practices of organic agriculture in preventing and transforming desertification, and to provide support for mitigating and adapting to climate change and restoring biodiversity. The conference built a platform for communication and cooperation on desert governance and organic agricultural development in dry lands, and played a positive role in promoting the development of organic agriculture in deserts and dry lands all over the world.

At the conference, China Shengmu Organic Milk Limited signed a MOU with IFOAM ASIA, and decided to establish an international organic agriculture network for deserts and dry lands, build a platform open to all stakeholders in the organic industry in deserts and dry lands around the world, and promote cooperation in organic agriculture through jointly agreed actions.



Strategic cooperation between China Shengmu and multiple partners promotes the implementation of the philosophy that "lucid waters and lush mountains are invaluable assets" in the desert.

On July 14, 2023, a seminar on the green development of desert sponsored by China National Sand Control and Desert Industry Society (CNSC) and the People's Government of Bayannur Municipality and hosted by China Shengmu was held in Bayannur. Experts and scholars from CNSC, Beijing Forestry University, and Inner Mongolia Academy of Agricultural & Animal Husbandry Sciences made themed reports and conducted exchanges on desert governance in the Ulan Buh Desert. CNSC and China Shengmu signed the Cooperation Agreement on Exemplary Programs of Lucid Waters and Lush Mountains as Invaluable Assets and Research Projects of Sustainable Utilization of Water Resources in Desert. China Shengmu will join hands with various partners to adhere to the integrated protection and systematic management of mountains, rivers, forests, fields, lakes, grass and sand as the core, continue to innovate industrial sand control model, continuously improve the comprehensive benefits of sand control, and strive to set a green desert control model with sound ecology and solid industrial development.



Deepening Industry-level Exchanges

We keep a keen insight into the dynamics of dairy industry, actively participate in various domestic and international industry events such as the Dairy Conference of China, share our own practical achievements and advanced experience, and work together with outstanding peers and experts in the industry to explore and plan the strategic blueprint for the sustainable development of dairy industry in the future.



Case

China Shengmu attended FAO Global Conference on Sustainable Livestock Transformation, demonstrating the original circular economic model of Chinese enterprises

In November 2023, China Shengmu attended the Global Conference on Sustainable Livestock Transformation of Food and Agriculture Organization (FAO) of the United Nations held at the FAO headquarters in Rome. Participants carried out in-depth exchanges on cooperation around the four themes of "better production, better nutrition, better environment, and better life". China Shengmu demonstrated its effective practices in improving the quality of livestock products, ensuring food safety, optimizing the utilization of environmental resources and improving farmers' livelihood by sharing its original circular economic model of "forage-dairy cow-manure-organic fertilizer-pasture planting".



Shengmu attended the 14th Dairy Conference of China and the 2023 China Dairy 20 Summit, sharing a promising blueprint with peers

In July 2023, as a member of China Dairy Top 20, Shengmu was invited to attend the 14th Dairy Conference of China and the 2023 China Dairy 20 Summit to discuss with representatives and experts of the industry about the ways for Chinese dairy enterprises to achieve high-quality development in the new era. At the conference, D20 companies, represented by China Shengmu, elaborated on the ten new competition categories of the industry, jointly issued the *Chongqing Declaration on High-quality Development of Dairy Industry in China*, demonstrated the experiences and practices for innovative development of enterprises, and expressed their confidence and determination in high-quality development.



China Shengmu attended WAFI Entrepreneurs Forum, exchanging views with industry partners on the transformation of agriculture and food

In November 2023, China Shengmu attended the Entrepreneurs Forum of World Agrifood Innovation Conference in Beijing. China Shengmu discussed food security, agricultural transformation, entrepreneurial leadership, opportunities and challenges of agricultural and food transformation and other issues with well-known enterprises, research institutions and experts from all over the world, and put forward replicable cases and solutions to promote the sustainable development and multi-party cooperation of global livestock industry.



Investors of China Shengmu conducted a field research and communication activity for investors to promote in-depth exchanges between the capital market and the dairy industry

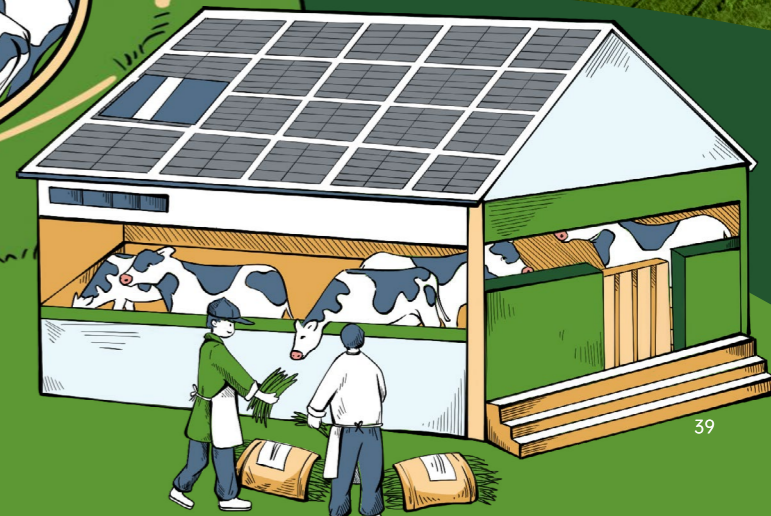
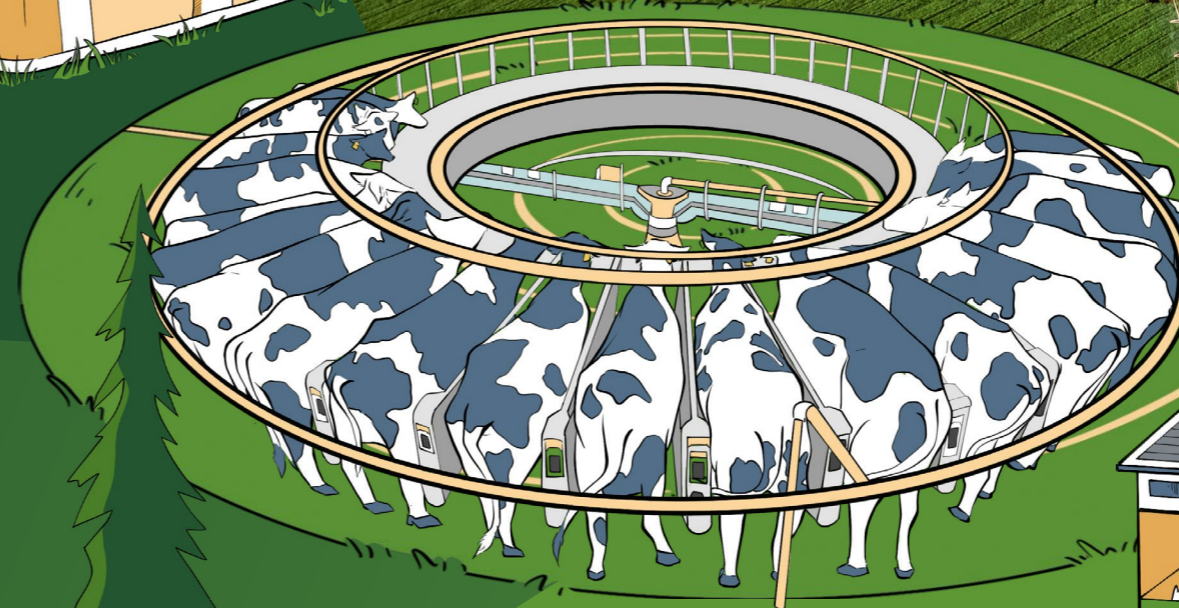
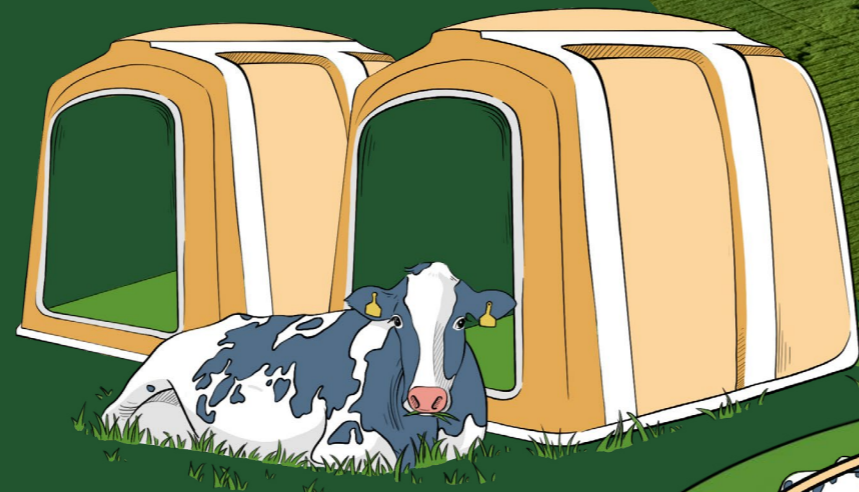
On June 29, 2023, China Shengmu joined hands with Mengniu Dairy to conduct field research for investors in Dengkou County of Bayannur, Inner Mongolia, inviting more than 50 well-known domestic and foreign investment institutions, brokerage analysts, representatives from ESG rating agencies and the media community to carry out in-depth discussion on the organic raw milk business of China Shengmu and its sustainable development strategy. This activity enhanced investors' impression of Shengmu in desert governance, improvement of ecological environment, high-quality raw milk production and ESG practices. Through interactions and exchanges, China Shengmu effectively deepened capital market's understanding of advantages of upstream milk sources and the sustainable development strategy, and increased investors' confidence in the dairy industry.



03

Environmental Responsibility

A sound ecological environment is the most universal way to improve people's well-being. We take it for granted, but none can live without it. Green and low-carbon development is crucial for the high-quality economic development and a good ecological environment. With the overall green transformation of economy and society in China, it is time for enterprises to initiate self-revolution for the adjustment of industrial structure and the change of development mode, which constitutes a challenging opportunity.



IFRS Sustainability Disclosure

Governance

Being committed to environmental protection, Shengmu pursues the harmonious coexistence between man and nature throughout the production process, and establishes a complete green management system to provide a set of feasible solutions for the industry to achieve the carbon peaking and carbon neutrality goals. The Board of Directors is deeply involved in discussions on carbon emission reduction, discharge reduction, the use of green energy and other issues, and advance relevant work within the scope of environmental governance of Shengmu from top to bottom. On key environmental issues such as climate change, the duties of the Board of Directors include:

- To review and guide climate-related strategies
- To supervise the setting of carbon reduction targets of the Company
- To supervise and guide the formulation of green transformation plans
- To monitor the progress of advancing the Company's carbon reduction targets
- To monitor the implementation of the green transformation plans
- To review and guide the climate risk management process

The Strategy and Sustainability Committee is established under the Board of Directors. It is composed of the Chairman of Board, the President of the Company and two other directors. It is responsible for supervising and evaluating the progress and effectiveness of the Company's climate change and other sustainable development issues and projects. The committee reports to the Board of Directors every six months.

The Sustainability Department under the Strategy and Sustainability Committee is responsible for soliciting issues and project materials related to climate change, such as energy conservation and emission reduction, carbon emission management and desert governance, from various functional departments before the board meeting, and submitting them to the Strategy and Sustainability Committee for review. After the program is passed, the Sustainability Department will work with relevant functional departments to formulate detailed implementation plans, assign them to corresponding functional departments, and supervise the implementation progress and effectiveness of the program.

Strategy

Shengmu has always attaches importance to the impacts that production and operation exert on environment and climate. The goals of achieving carbon peak by 2030 and carbon neutrality by 2060 set by China have put forward new requirements for Shengmu to handle issues regarding environment and climate change. Focusing on the carbon peaking and carbon neutrality goals and the *Paris Climate Agreement*, Shengmu submitted its emissions reduction target to the Science Based Targets initiative (SBTi) in 2021 and made a commitment to reduce the global temperature by 1.5° C aligned with the *Paris Climate Agreement*. At the same time, Shengmu emphasizes the harmonious coexistence between human and nature, makes a commitment to zero deforestation, scientifically formulates a "carbon baseline" inventory audit process including cattle intestinal fermentation, manure management and energy consumption, and draws a "Shengmu Emission Reduction Roadmap" based on the inventory results to scientifically achieve carbon reduction targets.

Shengmu pays special attention to the protection of natural resources. By carrying out projects of diversified capital accounting, Shengmu incorporated the identified material topics and results into corporate decision-making and management, and took into account environmental and social factors in major events and project decisions.

Risks and Potential Impacts Related to Environmental Responsibility

		Potential Impacts	Risk Management and Countermeasures
Physical risk	Acute risk (S)	The Company's pastures are located in the Ulan Buh Desert, where sandstorms may damage the infrastructure and affect the health of dairy cows.	<ul style="list-style-type: none"> Carry out risk assessment on a regular basis and formulate environment-related contingency plans.
	Chronic risk (L)	Extreme weather, such as rainstorm, caused by global climate change, may cause the shortage of feed such as soybean and forage grass, leading to increasing prices and consequent increase of procurement cost.	
Transformation risk	Policies and laws (S/M/L)	China has established a strict policy management system in the field of environment. Especially since China put forward the carbon peaking and carbon neutrality goals, the relevant policy requirements have become more stringent, and the regulatory pressure faced by enterprises has gradually increased. If they are not properly managed, enterprises may also face the litigation risk. Policies and regulations are becoming stricter, and some business premises are located within the "ecological redline" area or pose a major threat to regional biodiversity, resulting in high taxes or fines.	<ul style="list-style-type: none"> Strictly abide by national environmental laws and regulations, vigorously promote low-carbon transformation, and set corporate carbon emission reduction targets. Pay close attention to and understand the emerging laws and regulations, focus on the new trends and requirements of animal husbandry and dairy industry mentioned in the laws and regulations, and make arrangements as early as possible. Ensure not crossing the "ecological redline" and conform to the <i>Yellow River Protection Law</i> since Shengmu operated in the Ulan Buh Desert in 2010.
	Science (S)	Low-carbon technology transformation is faced with challenges including the increasing costs, increasing demand for scientific and technological talents and new energy development. Ecological-friendly transformation is faced with challenges including increasing costs and increasing demand for scientific and technological talents.	<ul style="list-style-type: none"> Improve the production efficiency of pastures and reduce energy consumption by implementing technical transformation projects. Carry out diversified capital accounting projects to help enterprises identify nature-related opportunities.
	Market (L)	Consumers prefer to buy organic milk, and are concerned with the actual actions taken by the enterprise in mitigating climate change. The change of consumption tendency may lead to the decline of demand for certain products.	<ul style="list-style-type: none"> Increase the cost input and reduce carbon emissions in the process of cattle feeding and raw milk production. Adopt the original organic circular industrial chain throughout the process created by Shengmu, strictly follow the organic standards for planting and managing organic crops, conduct on-site evaluation on pastures and formula optimization with expert teams on a regular basis, and continuously enhance the traceability and transparency of the industrial chain.
	Reputation (S)	If the Company's emission reduction management and energy efficiency management measures are not effective, exerting a destructive impact on the climate and the Company's reputation, it will be difficult for the Company to attract and retain stakeholders, such as consumers, employees and business partners, resulting in a decrease in the Company's demand for organic milk, orders, and the Company's operating income. Negative incidents related to biodiversity will have an impact on the Company's reputation, thus affecting its financial performance.	<ul style="list-style-type: none"> Attach importance to the management of climate change and other environmental topics, and avoid negative incidents as much as possible. Establish a "zero deforestation" supply chain to promote the sustainable development of suppliers.

Note: S for short-term; M for medium-term; L for long-term

Opportunities and Potential Impacts Related to Environmental Responsibility

		Potential Impacts	Opportunity Management and Countermeasures
Financial opportunity		Carrying out climate/nature-related management facilitates receiving low-interest loans from financial institutions.	<ul style="list-style-type: none"> Promote benefit-sharing locally and obtain low-interest loans from financial institutions after earning green finance certification of supply chain.
Market opportunity		The market demand for healthy food is increasing, and consumers pay attention to the quality of raw materials in supply chain, adding market premium to certified organic products.	<ul style="list-style-type: none"> Make efforts to become the first domestic raw milk brand to be certified by organic standards of China and the EU.
Brand opportunity		The Company establishes a responsible brand image to win the trust of customers and financial institutions and enhance brand value.	<ul style="list-style-type: none"> Actively fulfill environmental responsibilities and pursue the goal to become the "TOP 1 brand" of organic milk in the world.

Risk Management

Shengmu regularly carries out the identification, analysis and evaluation of risks such as climate change. The methods used for identification and evaluation are a combination of bottom-up (that is, business is submitted to senior management level by level) and top-down (through interview with senior management) patterns, and finally the risk matrix method was used to select the important risks and opportunities in various fields such as climate change.



Targets and Indicators

In accordance with the Company's scientific and effective carbon reduction targets, Shengmu integrates carbon reduction into all operational links, builds a dual-driven green low-carbon ecosystem of "carbon reduction in planting and breeding, and carbon sequestration in agriculture, forest and grassland", and contributes "wisdom of Shengmu" to addressing climate change and sustainable development.

	SASB Indicator	Content of the Indicator	Unit	2023
GHG emission	FB-MP-110a.1	Scope 1 Emissions	ton	491,988.00
Energy management	FB-MP-130a.1	Total energy consumption	GJ	1,537,563.92
		Proportion of electricity from the grid	%	80.12%
Water Management	FB-MP-140a.1	Total water withdrawal	ton	3,383,613.20
		Proportion of water withdrawal in areas with high/extreme water shortage	%	100
	FB-MP-140a.3	Violations of the requirements of water quality licenses, standards and laws and regulations	number of violations	0
Land use and ecological impact	FB-MP-160a.1	Animal wastes and manure produced	ton	1,295,453.77
		Proportion managed according to the nutrition management plan	%	100
	FB-MP-160a.2	Proportion of pasture managed according to NRCS protection plan standards (by area)	%	100
	FB-MP-160a.3	Animal protein yield under CAFOs	metric ton	726,154.34

Intensifying Pollution Prevention and Control

We strictly abide by the *Animal Husbandry Law of the People's Republic of China* and the *Regulation on the Prevention and Control of Pollution from Large-scale Breeding of Livestock and Poultry*. Meanwhile, our *Environmental Protection Policy* is under ongoing improvement. For waste gas, waste water, solid waste, etc. generated in the operation process, resource recycling is the highest priority, and waste that cannot be recycled must be treated before being discharged.

Solid waste management

In the light of the *Soil Pollution Prevention and Control Action Plan*, we formulated the *Hazardous Waste Management Policy* to further standardize the management requirements of general solid waste, hazardous waste, construction waste and household waste across the whole process covering generation, collection, storage, transportation, and disposal.

Waste gas management

We strictly comply with the *Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution*, and devote to reducing the emissions of waste gas.

Policy implementation

We continued to improve the *Environmental Protection Policy*, increase supervision during the production process and conduct regular environmental and safety inspections to ensure the reduction of pollutants from the source. In 2023, Shengmu focused on training in four aspects including environmental laws and regulations, compliance, ledger training and environmental emergency drills. A total of 36 environmental training were held, with 2,600 people participated in.

Shengmu abides by the environmental laws and regulations of the place where it operates, sets clear objectives to reduce the environmental pollution caused by the business, and continuously monitors and improves its performance in relevant aspects.

In 2023

Total emission of waste gas (in cubic meter)

78.90

SO₂ emission (ton)

0.05

NO_x emission (ton)

78.85

Soot emission (ton)

0

achieving net-zero emission of waste gas in two consecutive years

Total hazardous wastes (ton)

2,628.37

Weight of medical wastes (ton)

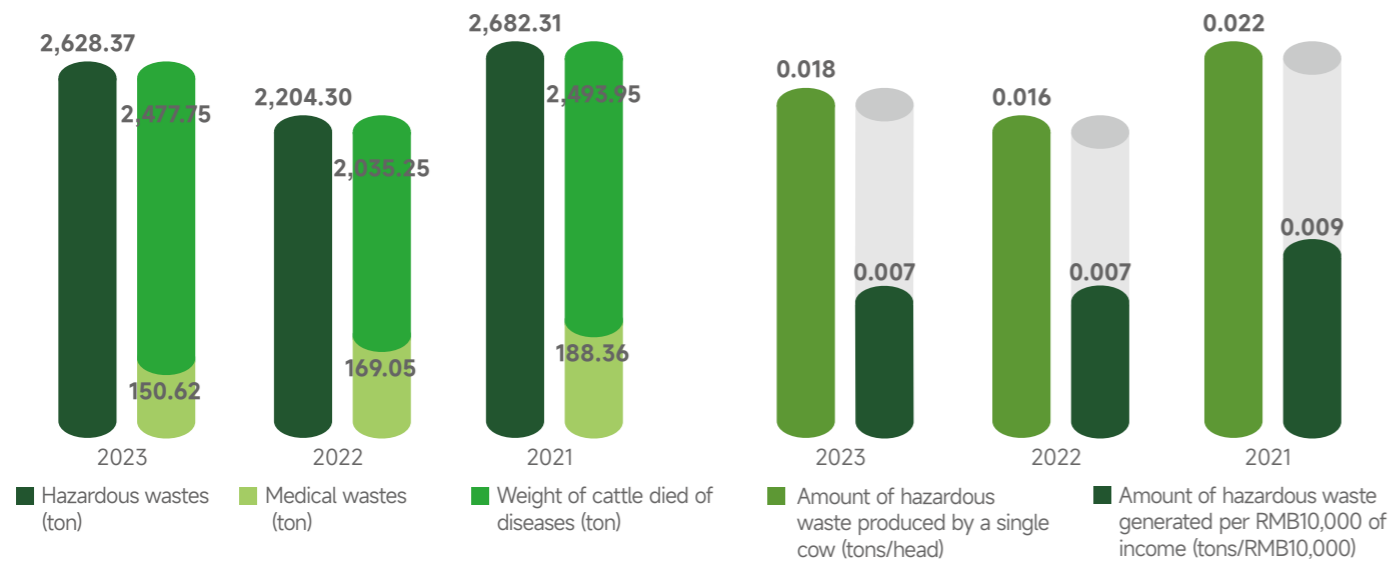
150.62

Weight of cattle died of diseases (ton):

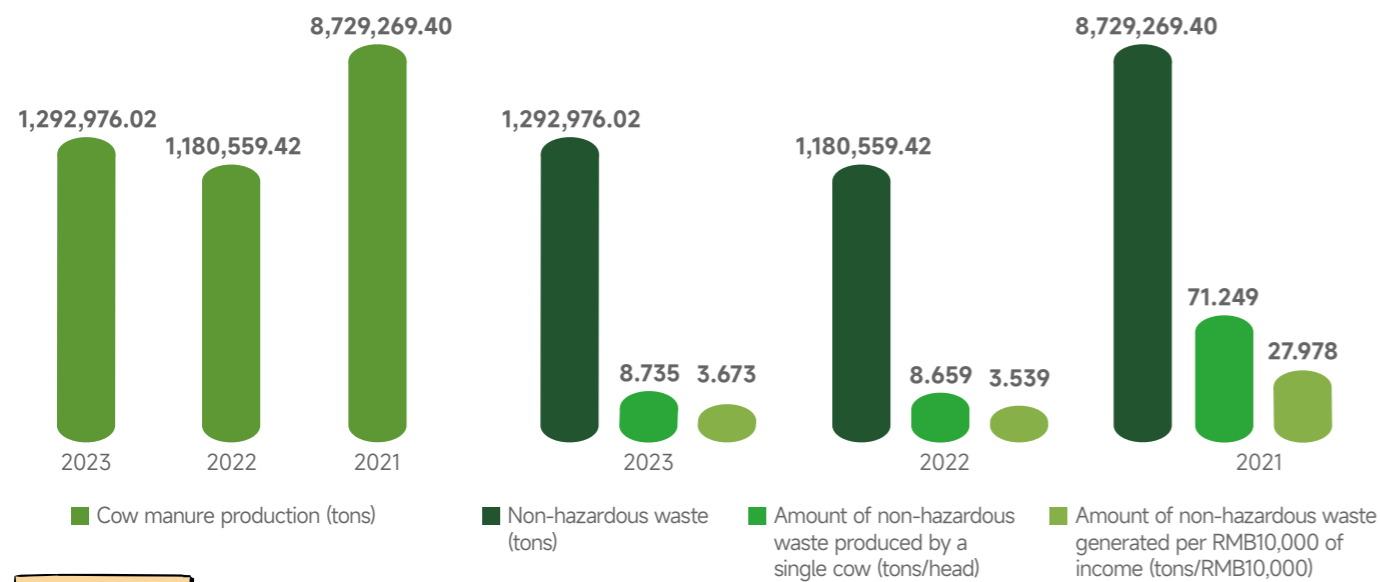
2,477.75

Total non-hazardous waste (tons)

1,292,976.02



* Due to business expansion and new pasture construction, the amount of hazardous wastes in 2023 increased compared with that in 2022, but the amount of hazardous wastes generated per RMB10,000 of income was the same as that in 2022, indicating hazardous waste management.



Case

Bedding of Cow Manure

In 2023, China Shengmu launched four projects of cow manure bedding. By changing manure treatment from drying field to aerobic fermentation, the treated manure was used as organic bedding. Such project can not only reduce the use of sand and gravel, but also reduce greenhouse gas emissions. In 2023, China Shengmu completed the replacement of cow bedding materials on four pastures, and reduced the emission of 8,039 tons of CO₂ equivalent through manure management. Cow manure can be recycled on pasture, thus reducing environmental risks.



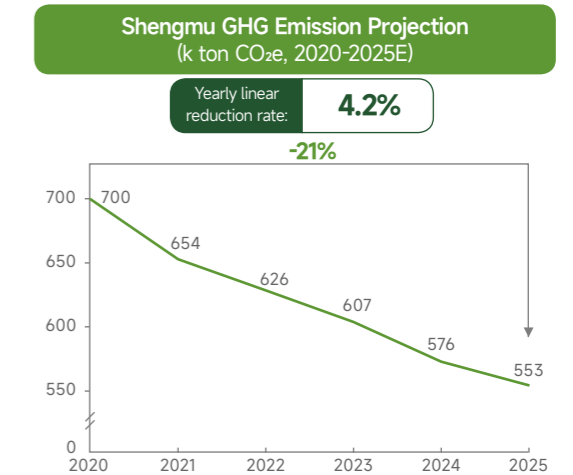
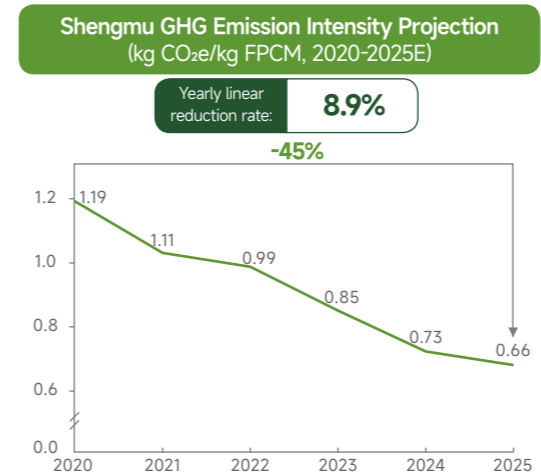
Promoting the environmental system certification of pastures

In 2023, China Shengmu carried out the environmental system certification of one pasture, and finally completed the certification through on-site training, system establishment, preliminary examination and certification review. Based on the requirements of environmental system certification, the Company further clarified various management elements and applicable laws and regulations in the environmental field, improved and standardized various management policies, continuously promoted the effectiveness and management level of operation, and comprehensively advanced the high-quality development of pastures.



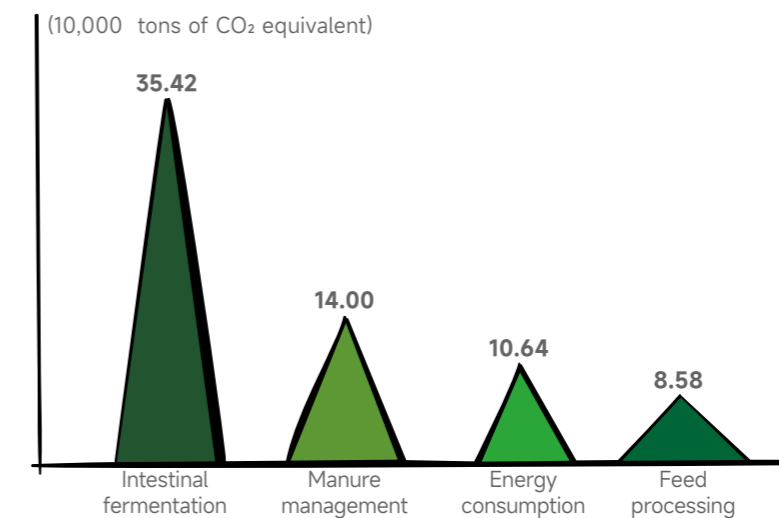
Promoting Energy Conservation and Carbon Reduction

In terms of climate change, Shengmu conforms to the requirements of the times, plays a leading role in the industry, makes scientific carbon emissions planning, and strives to achieve the target of carbon neutrality in the industry. The Company started to respond to CDP questionnaires on climate change and forests in 2022. As a classic standard for disclosure methodology and corporate procedure of carbon emission, CDP questionnaire on climate change empowers enterprises to continuously examine and improve their own risk management system in the field of climate change.



The target carbon emissions in 2023 were reduced to 607,000 tons, the actual carbon emissions were 598,000 tons, and carbon emissions per kilogram of fat and protein corrected milk are 0.85Kg CO₂e/Kg FPCM, with a target completion rate of 100%. Main measures for energy conservation and carbon reduction:

- Control dietary protein levels, promote low-protein diets, study the impact of amino acid balance on production, reduce the amount of soybean cake, avoid nitrogen waste, reduce urea nitrogen levels, and increase reproductive rate.
- Improve the feed efficiency of dairy cows by breaking down walls, installing roller blinds, and equipping with fans to improve ventilation in the barn; modify the bed height and level the bed to increase the lying rate and time of cows, improve the feed conversion rate of cows, and reduce carbon emissions.
- Actively deploy the use of renewable energy, continue to build a number of photovoltaic power stations and biogas power stations from 2023, and electrify pasture loaders.



	2023	2022	2021
Total GHG emissions (ton of CO ₂ equivalent)	662,373.52	626,000.00	654,000.00
Scope 1 emissions (ton of CO ₂ equivalent)	491,988.00	524,506.95	568,686.24
Increase in Scope 1 (ton of CO ₂ equivalent)	579,988.00	524,506.95	568,686.24
Reduction in Scope 1 (ton of CO ₂ equivalent)	88,000.00	/	/
Scope 2 emissions (ton of CO ₂ equivalent)	106,388.00	101,493.05	85,313.76
Scope 3 emissions (ton of CO ₂ equivalent)	63,997.52	/	/
GHG emissions per cow – Scope 1 and 2 (ton/head)	4.04	4.59	5.34
GHG emissions per RMB10,000 of income (ton/RMB10,000)	1.70	1.88	2.10
GHG emissions per kilogram of milk (ton/kg)	0.82	0.99	1.10

* The Scope 1 GHG emissions are calculated in accordance with 2006 IPCC Guidelines for National Greenhouse Gas Inventories, and CO₂ emissions from fossil fuels are converted from the use of coal and diesel oil. The Scope 2 GHG emissions are calculated in the light of 2017 Baseline Emission Factors for Regional Power Grids in China and the HKEX Reporting Guidance on Environmental KPIs. Each MWh of electricity consumed in North China is converted to the production of 0.9680 tons of CO₂ emissions, which is calculated from electricity consumption.

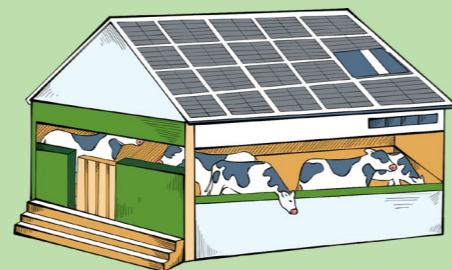
* New Scope 3 GHG emissions introduced in 2023 includes indirect greenhouse gas emissions from waste disposal and upstream and downstream transportation, of which the emission factors related to hazardous waste disposal come from the Guidelines for the Compilation of Provincial Greenhouse Gas Inventories, and the emission factors related to upstream and downstream transportation come from 2006 IPCC Guidelines for National Greenhouse Gas Inventories.

* In 2023, the scope of accounting for Scope 1 of GHG emissions was expanded. For Scope 1, the increase of GHG emissions expanded from fuel combustion to carbon emissions from intestinal tract and manure of cattle, and the data of the past two years were retrospectively adjusted. The reduction of Scope 1 GHG emissions came from carbon sequestration of biomass such as afforestation, while other types of biomass were added to the calculation in 2023. The relevant emission factors come from the 2006 IPCC Guidelines for National Green House Gas Inventories.

Case

Installing Distributed Photovoltaic Panel in the Barn

As the Group was introducing the development of green electricity, in order to increase the use of green electricity, China Shengmu cooperated with photovoltaic enterprises in 2023 and took consideration of the policy guidance from the government and the overall evaluation to install photovoltaic panels on the barn roofs of smart pasture. The project of building distributed photovoltaic project with a distributed scale of 2.5MW has been approved. It is expected that it can meet the demand of daytime power consumption for the operation of devices on the smart pasture after it is put into use. This project is of great significance to support traditional animal husbandry to achieve energy transformation and grow into green and low-carbon new pasture.



Promoting the Use of New Energy Vehicles

Against the backdrop of advancing the carbon peaking and carbon neutrality goals, in order to reduce the use of fossil energy and increase the proportion of new energy, China Shengmu cooperated with loader manufacturers in 2023 to develop electric loaders that are suitable for breeding and can reduce the diesel consumption on pasture. By the end of 2023, this project completed the trial of two finished vehicles for pasture and achieved satisfactory results.



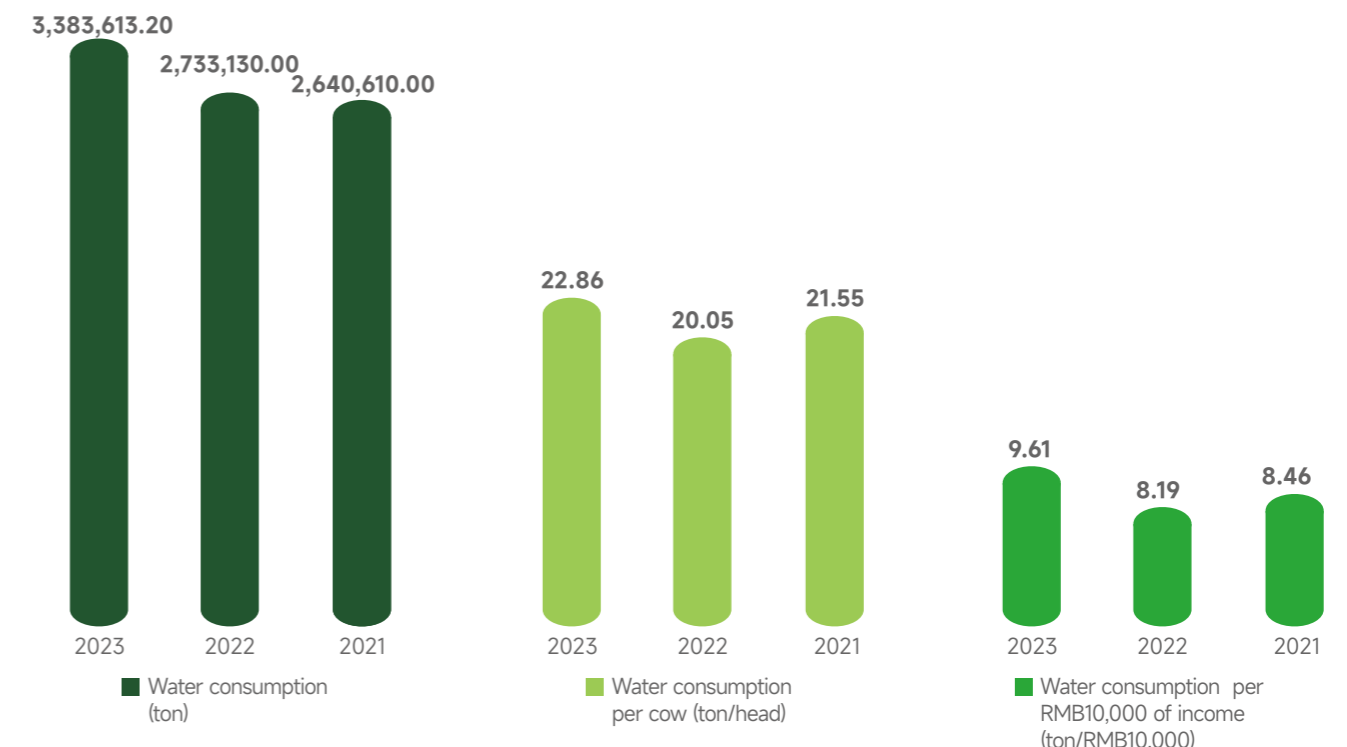
	2023	2022	2021
Electricity (kWh)	116,221,187.00	107,750,814.00	90,576,236.69
Coal consumption (ton)	0	0.00	2,503.79
Diesel consumption (ton)	2,404.67	3,071.26	2,687.56
Energy use per cow (ton of standard coal/head)	0.12	0.13	0.14
Energy use per RMB10,000 of income (ton of standard coal/ RMB10,000)	0.051	0.053	0.054

* According to the General Rules for Calculation of the Comprehensive Energy Consumption (GBT2589-2020), the power conversion coefficient is 0.1229 kgce/kWh, and the diesel conversion coefficient is 1.4571 kgce/kg. Calculations shall be conducted accordingly.

* As a result of business expansion, electricity consumption in 2023 was higher than that in 2022, while energy consumption per unit slightly decreased over the same period, indicating improvements in the energy consumption structure.

Protecting Natural Resources

Reasonable utilization of water resources serves as a prerequisite for the sustainable development of Shengmu. Attaching great importance to the sustainable utilization and conservation of water resources, we strive to strengthen the water-saving management across the entire value chain so as to reduce resource waste.



* As a result of business expansion, gross water consumption in 2023 was higher than that in 2022. Meanwhile, due to the improvement of waste heat recovery technology in the milking parlor, the electricity consumption was converted into water consumption, so the unit water consumption was higher than that in 2022.

Case

Developing the project of waste heat recovery of fresh milk in the milking parlor

In 2023, in order to improve energy efficiency and reduce emissions, Shengmu cooperated with a third party to develop the project of waste heat recovery in the milking parlor, and put it into use on five pastures, achieving the results of energy saving and emission reduction. Each ton of fresh milk could reduce the use of 0.4 tons of groundwater and provide 5kWh of heat. The original fresh milk cooling technology adopts two-stage cooling. Groundwater is used in the first stage; while the improved technology replaces the original groundwater cooling with one ton of circulating cold water, and recycles the waste sensible heat of fresh milk to heat the cleaning water in the milking parlor. The advantages of the new technology include: it is more conducive to the quality assurance of fresh milk; the cooling process is stable and not affected by the environment; it reduces the working load of refrigeration equipment; it decreases the energy consumption of water heating in the milking parlor; there is no need to use the underground water for cooling; and less waste water is produced in the milking parlor.



Installation of filtration devices for oxidation pond on pastures

In 2023, in the context of the Company's low-carbon and water-saving efforts, a total of 16 filtration devices were installed in the oxidation ponds on pastures of the group. With these devices, the Company can greatly reduce the environmental risk concerning the drainage of oxidation ponds. The oxidation pond water enters the drip irrigation system for planting through the device, solving the problem that the oxidation pond water cannot be returned to the field in summer, and solving the water shortage problem for autumn farmland irrigation and configuring a mixing tank in combination with the oxidation pond to effectively comprehensively utilize the oxidation pond water. After three months of operation, the accumulated filtered water in the oxidation pond reached 25,000 cubic meters, which was used to replenish water of the droppers for 646 mu (about 43.067 hectares) of silage corn around the oxidation pond. When the equipment is fully put into use, it is expected to save 500,000 cubic meters of groundwater for irrigation.



China Shengmu was awarded the 18th People's Corporate Social Responsibility Award- Green Development Award

In December 2023, the 2023 People's Corporate Social Responsibility Ceremony and the Awarding Ceremony of the 18th People's Corporate Social Responsibility Award, which were instructed by People's Daily and hosted by people.cn, were held in Beijing. Themed on "Embracing the future with bravery, persistence and endeavor", the event was composed of five parts, including "Getting rich in the countryside", "Green solutions sheet", "Building to lasting industry", "Pursuing dreams for the future" and "Thousands of miles of galaxy toward prospect". Representatives from political, business, education, media and other communities were invited to attend the ceremony, providing a great opportunity for enterprises to demonstrate their outstanding practices and fruitful achievements in the field of social responsibility. China Shengmu was awarded the 18th People's Corporate Social Responsibility Award- Green Development Award for its long-term efforts and outstanding contributions in the field of ecological civilization construction and social responsibility.

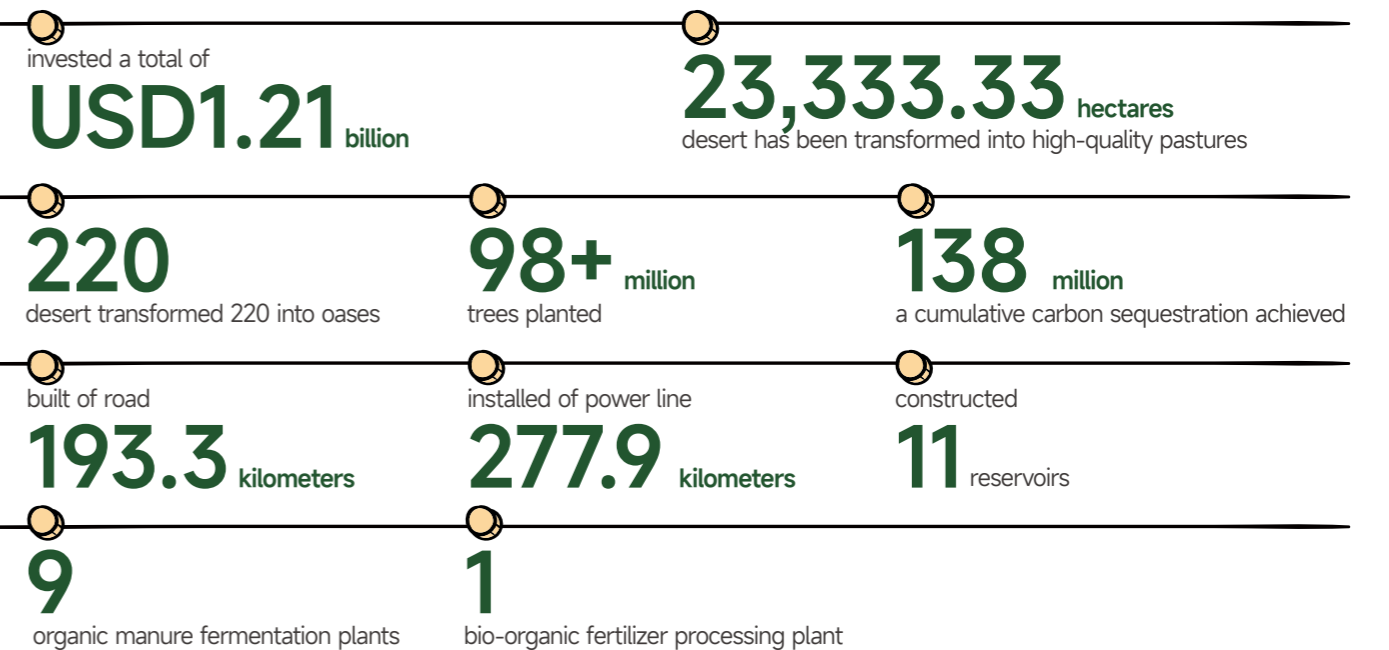


Shengmu adheres to the concept of "grass is suitable for grass, and forest is suitable for forests". Based on the "low coverage sand control theory", Shengmu builds a systematic sand industry system and creates a three-dimensional ecosystem that combines "trees, shrubs, and pastures" to integrate large areas. Trees serve as first-level protection, and trees and shrubs serve as second- and third-level protection, providing comprehensive wind protection and sand fixation to reduce land desertification.

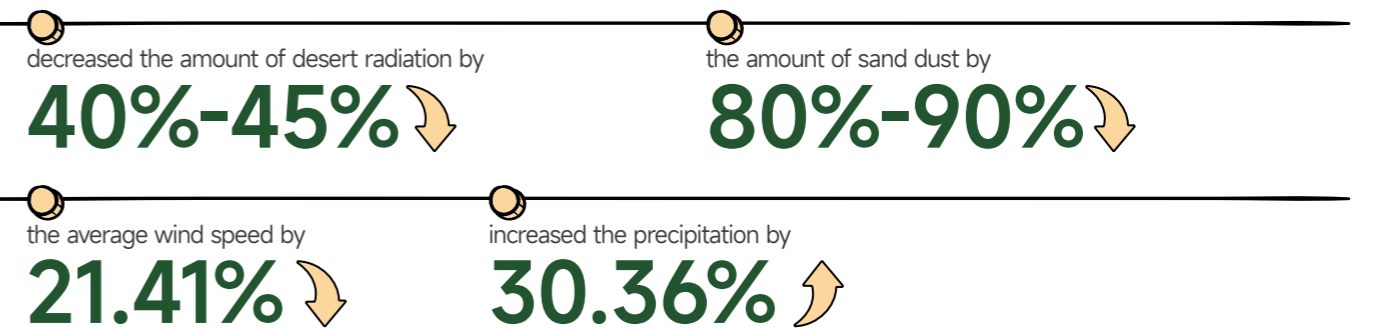
Through our relentless work, we have created a regional microclimate in the Ulan Buh Desert. Since 2014, there have been nine heavy fog events in the Ulan Buh Desert. The desert has even experienced a few snowfalls, which are extremely rare, in recent years. Change in regional climate has led to an increase in biodiversity in the desert. In addition to forage crops and medicinal herbs, new varieties of plants such as alfalfa, oats, corn, and dandelions have been proliferating in the once arid areas. Lizards, foxes, hares, yellow sheep and other animals have also begun to appear frequently. Even waterfowl, egrets, owls and other birds have begun to settle in this desert oasis.

In 2023

For more than 10 years, Shengmu has been in the Ulan Buh Desert:



Compared with the 1980s



04

Employer Responsibility

Talents are the key driver for the growth of an enterprise. Shengmu has always adhered to the core management ideas of “people-oriented” and “caring for employees”, giving top priority to respecting and safeguarding the legitimate rights and interests of employees, and is committed to building a career development platform for the employees and making efforts to create a inclusive, fair and orderly, healthy, safe, comfortable and friendly, a positive work environment, and work together with employees to build a harmonious and progressive home.



IFRS Sustainability Disclosure

Governance

The Human Resources Department, in charge of human capital management, stays compliant with national laws and regulations, and act in accordance with the Company's rules and policies. With continuous efforts to improve labor relations management system, we ensure that employees' rights are protected in all aspects, including compensation and benefits, career development and working environment. In 2023, the *Compensation Management Policy* and *Broadband Compensation Management Policy* outlined in a more sound, rational framework came into effect, enabling us to unleash employees' passion and creativity through effective performance-linked compensation and discipline management scheme.

Safety and Environmental Protection Department, in charge of safety and health governance, ensures that the Company strictly abides by the *Work Safety Law of the People's Republic of China*, *Prevention and Control of Occupational Diseases Law of the People's Republic of China*, and other national laws and regulations. While implementing a work safety accountability scheme and seeking to raise employee safety awareness, we care about the physical and mental health of employees, and endeavor to create a safe, healthy and harmonious working environment.

Strategy

Enshrining the core enterprise development strategy of cultivating high-quality talents, we identify human capital risks and opportunities in the Company's daily business operations, formulate targeting strategies to unlock human potential to the greatest extent, so as to promote the robust operation and sustainable development of the Company.

Risks and Potential Impacts Related to Human Capital

	Potential impacts	Risk Management and Countermeasures
Policy and Legal Risks (S/M/L)	Failure to comply with employment-related laws and regulations in the course of employment may give rise to labor disputes or arbitration, exposing the Company to litigation risks or administrative penalties.	<ul style="list-style-type: none"> Enshrine employment equality. Enter, sign and execute employment contracts in accordance with governing laws and regulations. Timely pay for social security. Ensure that employee wages are not lower than the local minimum standard. Abide by the national special rules on labor protection of female employees. Explicitly prohibit the use of child labor and forced labor.
Reputation Risks (S)	Insufficient employee health and safety protection schemes may lead to safety accidents due to lack of safety awareness and improper operation.	<ul style="list-style-type: none"> Continue to improve production safety facilities, secure safety protection equipment, enhance the level of hygiene management, and cover the costs of employee health check-up. Actively implement production safety responsibilities, standardize the safety management system, and regulate all aspects of production and business management.
Operation Risks (S/M/L)	Failure to provide employees with adequate training resources may result in employee capabilities failing to keep up with the Company's development needs, affecting the Company's long-term development.	<ul style="list-style-type: none"> Establish a comprehensive information sharing mechanism and platform. Introduce digital tools to optimize the information management process. Enhance employee engagement to build team cohesion.

Note: S for short-term; M for medium-term; L for long-term

Opportunities and Potential Impacts Related to Human Capital

	Potential Impacts	Opportunity Management and Countermeasures
Business operation opportunity	A diversified, equal and inclusive working environment helps to enhance employees' happiness and sense of belonging, and fully tap into their potential.	<ul style="list-style-type: none"> Eliminate any form of differentiation and discriminatory behavior; Elect employee representatives to facilitate the communication between employees and the Company; and elect deputies to the local people's congress to build collaborative bonds amongst the Company, the local government, and the society.
Market opportunity	Comprehensive compensation and welfare scheme and talent training scheme can ease shortage of local herdsmen due to underdeveloped living, working, education and medical conditions.	<ul style="list-style-type: none"> Continuously optimize the salary and welfare system in accordance with the relevant laws and regulations and in consideration of the Company's current operational status. Improve employee's living conditions, organize cultural and sports activities, and provide aids to employees in financial and other difficulties. Build a differentiated talent team and help employees to improve their professional skills.

Risk Management

By identifying risks and opportunities, the Company continues to improve and update human resources management system from all aspects, ensuring that the employees receive fair treatment and effective safeguard in terms of compensation and welfare, career development, working environment and safety.



Targets and Indicators

We set up a series of human capital-related indicators and targets, and continuously track employee performance and report on developments to support the Company's sustainable development with an optimized manpower structure.

	SASB Indicator	Content of the Indicator	Unit	2023
Health and safety of employees	FB-MP-320a.1	Total recordable incident rate (TRIR)	%	0
		Workplace fatality rate	%	0

Guaranteeing Employees' Rights and Interests

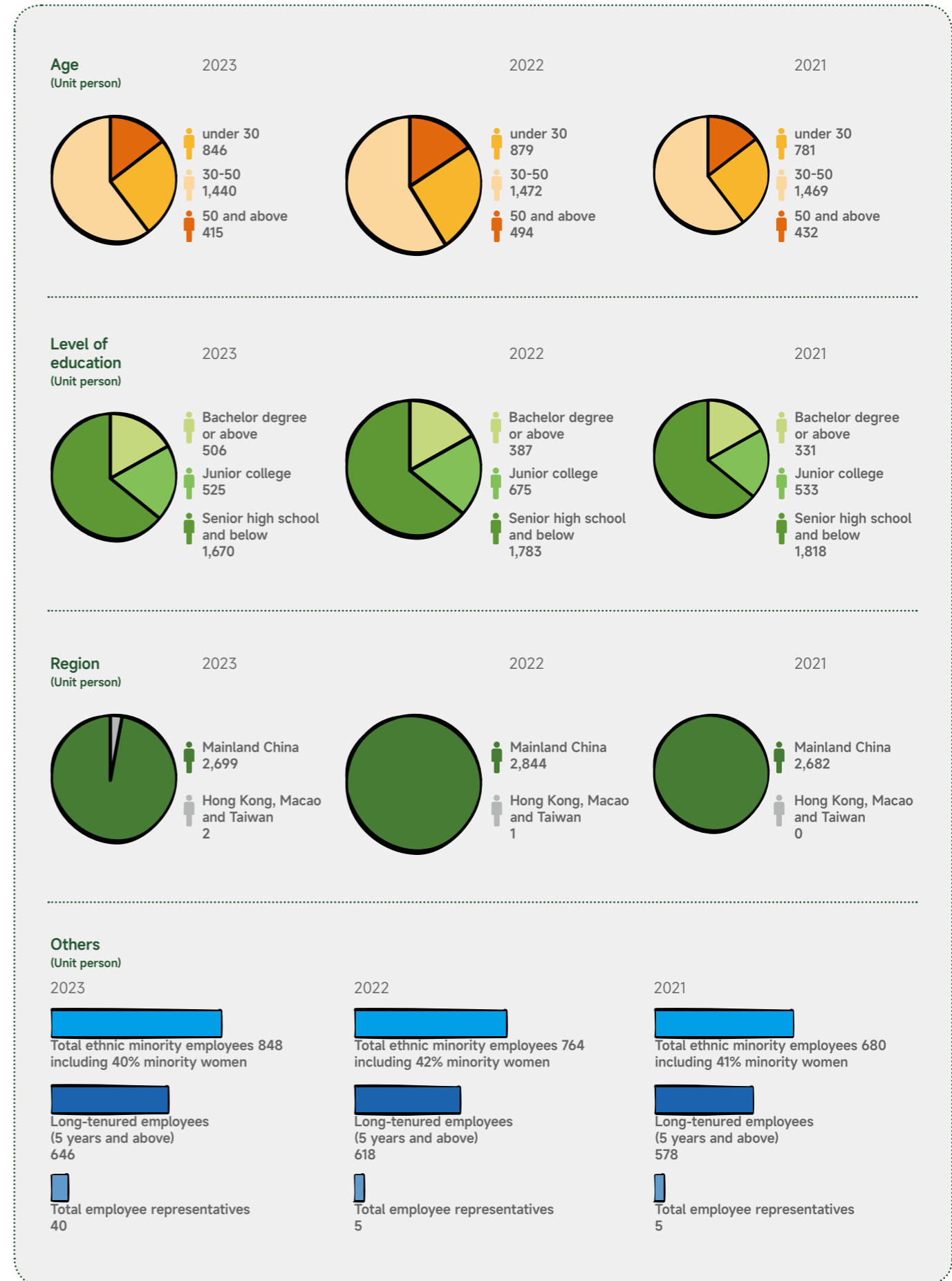
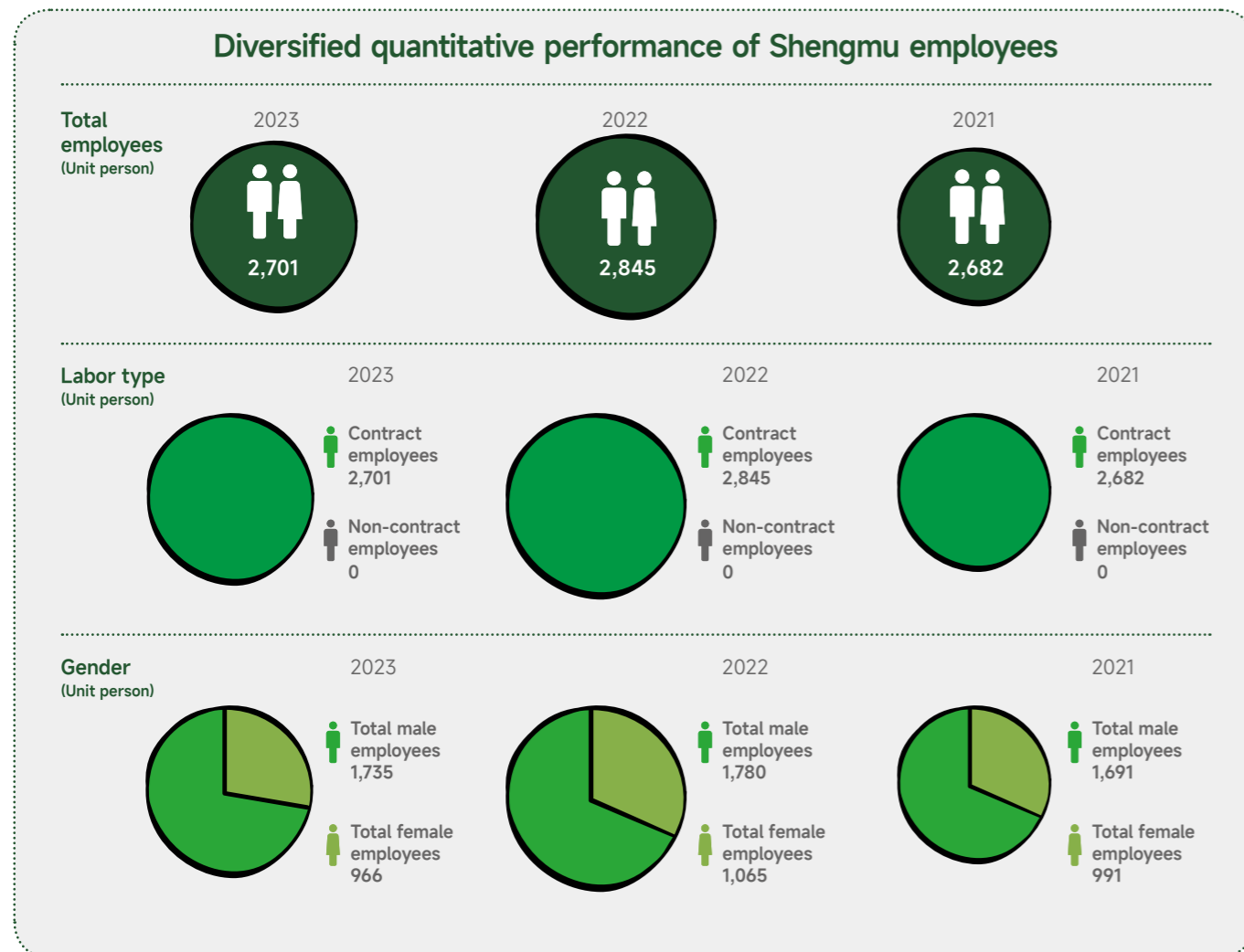
We advocate a people-centered concept, effectively safeguard employees' legitimate rights and interests in terms of equal employment, compensation and welfare, and other aspects. We organize training on labor law and regulations and interpretation meetings on social security and employment policies. In 2023, no child labor or force labor incident occurred in Shengmu.

Optimizing Compensation and Welfare System

We constantly optimize the compensation and welfare system, adhere to the principle of equal pay for equal work, and provide employees with highly competitive compensation. In 2023, we established and implemented a more scientific and reasonable compensation management system, incorporating factors such as employee organizational contribution, job evaluation, competency, and cultural discipline performance into the compensation and performance evaluation system. While stimulating the vitality of talents, we fully respect employees' fruits of labor.

Building Diverse and Inclusive Workplace

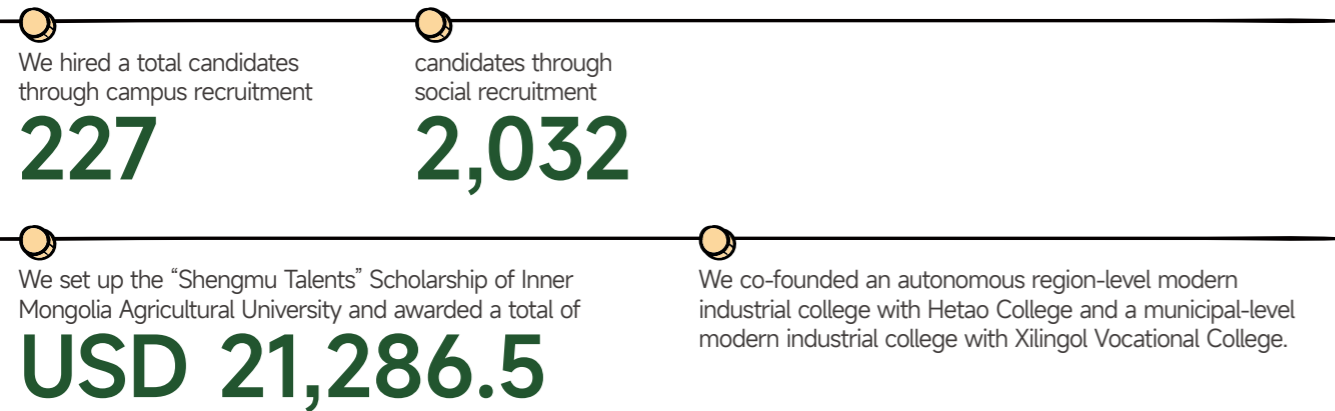
We explicitly prohibit differential treatment and discrimination based on gender, age, race, religion, education, and culture. We attach great importance to the career development of female employees, providing them with a suitable development platform. Meanwhile, we care about ethnic minority employees by respecting their customs and lifestyles and helping them in work and life, with the aim to build a high-quality, multi-ethnic work team.



✓ Expanding Employment Channels

We continue to attract outstanding talents through external recruitment platforms, internal competitions and campus recruitment. At the same time, we have expanded employment channels and realized the organic integration and allocation optimization of university-enterprise resources to increase the reserve of technical, management and compound talents.

In 2023



Case

Shengmu joined hands with universities for win-win development to boost employment

Paying attention to effective integration between the talent supply chain and the industrial value chain, Shengmu strives to establish long-term strategic cooperative relationships with various universities to obtain customized talent supply, create internship and training bases, and enable in-depth integration of industry, academia, and research, thus easing the employment pressure of graduates.

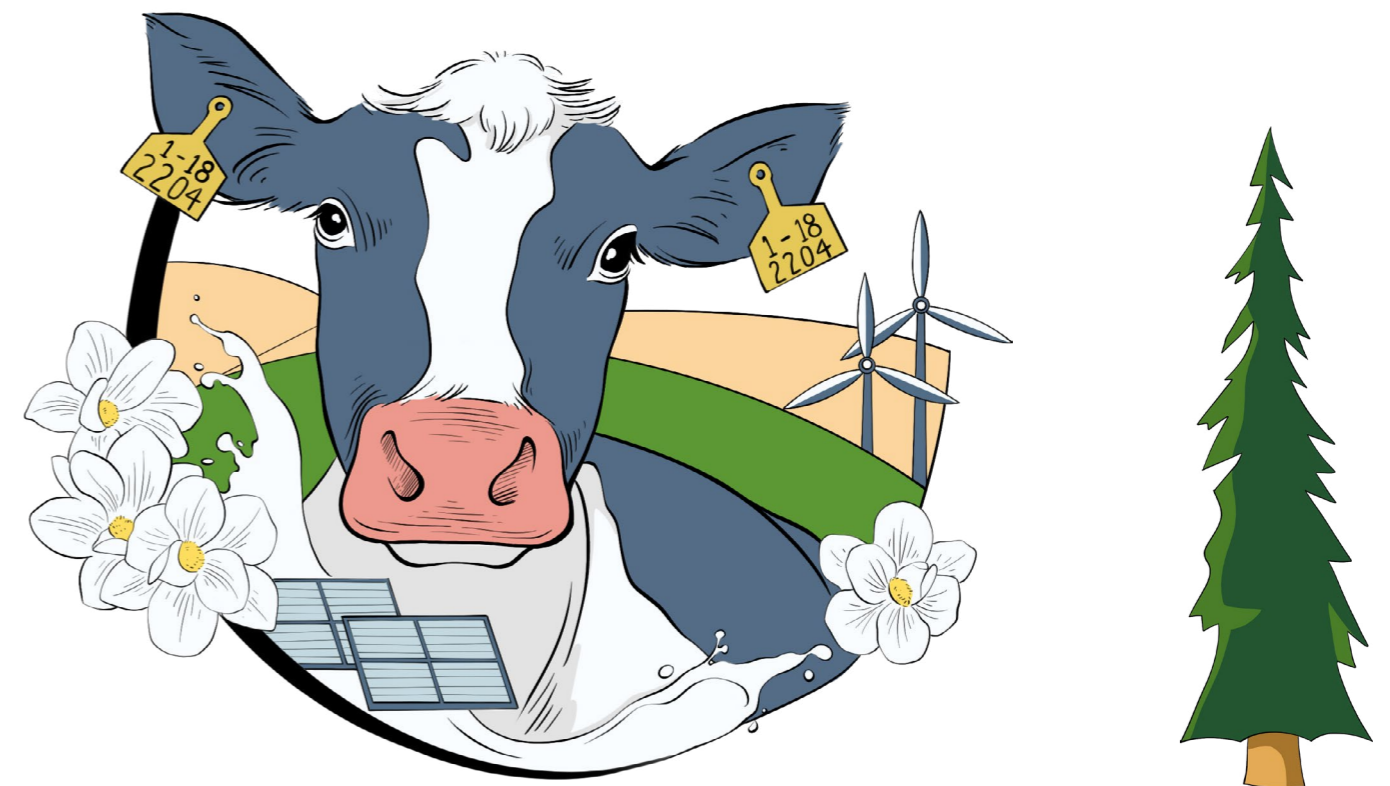
In October 2023, China Shengmu and Gansu Polytechnic College of Animal Husbandry and Engineering held a symposium on university-enterprise cooperation at in Bayannur, Inner Mongolia. The two sides had in-depth discussion on feasible university-enterprise cooperation modes in terms of talent cultivation and the construction of employment base, and held the opening ceremony of the joint employment center. Meanwhile, the two sides further agreed to promote joint employment and training, secure graduates' job hunting whilst providing the Company with high-quality talents.



The Company effectively protects the rights and interests of employees, supports their development, cares for their lives, and maintains a relatively stable employee structure. In 2023, the employee turnover rate in Shengmu's functional positions remained stable at 2%, the same as in 2022.

● Employee turnover statistics

		2023	2022	2021	
Total number of employees turnover		人	48	52	46
Turnover rates		%	2%	2%	2%
Employee turnover by gender	Male employee turnover rate	%	69%	85%	91%
	Female employee turnover rate	%	31%	15%	9%
Employee turnover by age	Turnover rate of employees under 30	%	25%	19%	9%
	Turnover rate of employees aged 30-50	%	60%	67%	80%
	Turnover rate of employees aged 50 and above	%	15%	13%	11%
Employee turnover by region	Employee turnover rate in mainland China	%	2%	2%	2%
	Employee turnover rate in Hong Kong, Macao and Taiwan	%	0%	0%	0%



Protecting Health and Safety of Employees

The Company adheres to the core values of people-oriented safety management, always insists on treating employee safety as primary concern, attaches great importance to production safety, sticks to safety red lines, continuously strengthens and improves the safety management system, and is committed to providing all-round protection for the life safety of all employees. We pay 100% of social insurance for our employees, including pension, medical insurance, work injury insurance, unemployment insurance and maternity insurance. In 2023, no workplace death occurred in Shengmu.

Content of the indicator	Unit	2023	2022	2021
Investment in occupational health examination	USD10,000	6.86	5.31	4.29
Investment in safety protective equipment	USD10,000	48.46	71.24	69.11
Investment in the renovation of sterilization rooms dormitory and other construction expenses	USD10,000	2,618.74	95.08	48.11
Investment in employer's insurance	USD10,000	48.05	20.54	27.06
Investment in medical insurance and work injury insurance	USD10,000	57.22	53.76	51.77

*In 2023, expenses on sterilization rooms, dormitory renovation and other construction included the construction costs of a new pasture.

Workplace Safety Management

We adhere to the concept of "life first, safety first" and the purpose of "production must focus on safety". In accordance with national and local safety-related laws and regulations, we strictly implement safety management responsibilities, conduct strict search for safety hazards, and severely punish violations and ask accountability for safety accidents. At the same time, the Company adopts a "four zero-tolerance" requirement towards casualties, accidents, infectious disease and safety blind spots. In 2023, we updated and implemented the Workplace Safety Management Policy and Workplace Health Management Policy, stipulating the Company's workplace safety management throughout all business operations including production, operation, use, storage, transportation and disposal.

In 2023

The Company obtained the Occupational Health and Safety Management System Certificate for its excellent performance in occupational health and safety management of dairy cow cultivation and all associated activities.



Case

Installation of skid-mounted explosion-proof fuel dispensers to enhance workplace safety

The Company has long been committed to improving the safety management level and ensuring operation and production safety. In 2023, we stepped up the safety evaluation of skid-mounted fuel dispensers in Bayannur and formulated 20 safety evaluation reports. We also strengthened lightning protection inspection of our pastures and skid-mounted fuel dispensers in Hohhot and Bayannur, generated a total of 32 detailed lightning protection inspection reports, and thus effectively safeguarding the sound and safe operation and production in Shengmu.



Employee Health Management

We always pay close attention to the physical and mental health of employees, provide free annual health examination services, take practical actions to ensure the dining safety of all employees, and regularly conduct rigorous monitoring and assessment of occupational disease risk factors in the production area, and focus on occupational health and safety in the working environment. We also carry out comprehensive investigation and timely rectification of potential health and safety hazards. In addition, we actively implement the "Yongjun Plan" to care for employees, add emergency rescue facilities and equipment, and provide employees with timely and effective first aid measures.

In 2023

1,268

on-the-job occupational health examinations for employees working at our pastures

600

other unscheduled on-the-job occupational health examinations

Case

Installation of live-saving Automated External Defibrillators (AEDs) in the workplace to ensure an AED could be accessed within 4 minutes

In 2023, the Company continued to install automated external defibrillators (AED) in every office building and pasture. It also organized a series of first aid trainings to improve employees' emergency response capabilities and skills to provide immediate response to cardiac arrests, safeguarding workplace health.

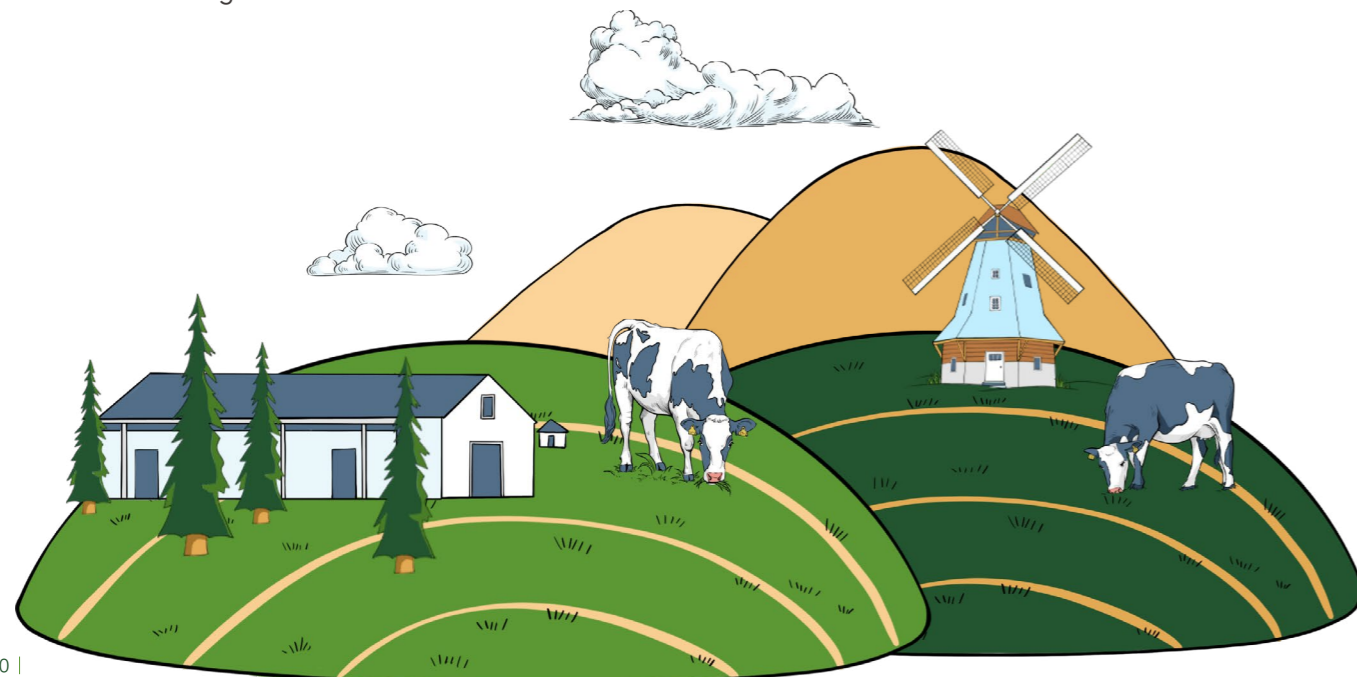


Health and Safety Education

We actively conducted safety training and continuously improve the internal training system. Through strengthening education and guidance, we strive to enhance the occupational safety awareness of employees and take practical actions to effectively protect their health and safety. In 2023, the Company organized all kinds of online and offline safety trainings.

Specialized training conducted by the Safety and Environmental Protection Department	Targeting the entire workforce, various trainings were carried out covering workplace safety management system, occupational health management system, dual-prevention mechanism, methods of safety risk screenings, and prevention of occupational diseases. A total of 25 trainings were organized in 2023.
Regular training conducted at pastures	Monthly safety trainings targeting pasture workers were organized at all pastures of the Company to enhance employees' safety awareness and safe operation conduct. A total of 384 trainings were carried out in 2023.
New employee on-boarding safety training	For new employees, on-boarding safety training was carried out, focusing on essential DE safety knowledge and operating standards education, covering practical skills such as fire and explosion prevention, electrical safety, and the use of protective equipment.
Training during key safety monitoring periods such as during public holidays	The Company conducted work safety training sessions prior to major festivals and important events, such as Chinese New Year, International Workers' Day, Mid-Autumn Festival, National Day, Safety Month and Fire Prevention Month. A total of 8 trainings were conducted throughout 2023.
Other safety trainings	Throughout the Company, regular safety drills such as fire drills and emergency evacuation drills were carried out to improve employees' self-rescue and mutual rescue skills in the event of emergencies.

At the same time, we insisted on checking the qualifications of those responsible for production safety, occupational health and hazardous chemicals management positions and administrators. As of the end of the reporting period, a total of 204 employees have obtained the "three certificates" for work safety, occupational health, and hazardous and chemical management, and have effectively worked with certificates in accordance with laws and regulations.



Facilitating Career Development

The Company integrates the concept of "continuous improvement through continuous learning" into comprehensive talent training system, adheres to the orientation of specialization, professionalization, internationalization and corporatization, introduces internal mentor model, and establishes a talent development mechanism focusing on internal management talents. In addition, the Company also facilitates internal promotion and supports the career development of talents, providing a solid talent base for the development of the Company.

Content of the indicator	Unit	2023	2022	2021
Total hours of training	hour	64,088	59,696	/
Total training hours per employee	hour/person	41	40.6	40
Average training hours for male employees	hour	42	41	41
Average training hours for female employees	hour	39	39	38
Average training hours for the senior management	hour	21	20.5	/
Average training hours for the mid-level management	hour	31.5	30	20
Average training hours for the front-line employees	hour	42	41	41
Total number of employees trained	number of people	49,071	40,979	6,460
Total investment on employment training	USD10,000	30.08	15.52	12.06
Percentage of the senior management trainings	%	100%	14%	/
Percentage of the mid-level management trainings	%	65%	57%	44%
Percentage of male employees trained	%	100%	100%	100%
Percentage of female employees trained	%	100%	100%	100%

Building Talent Training System

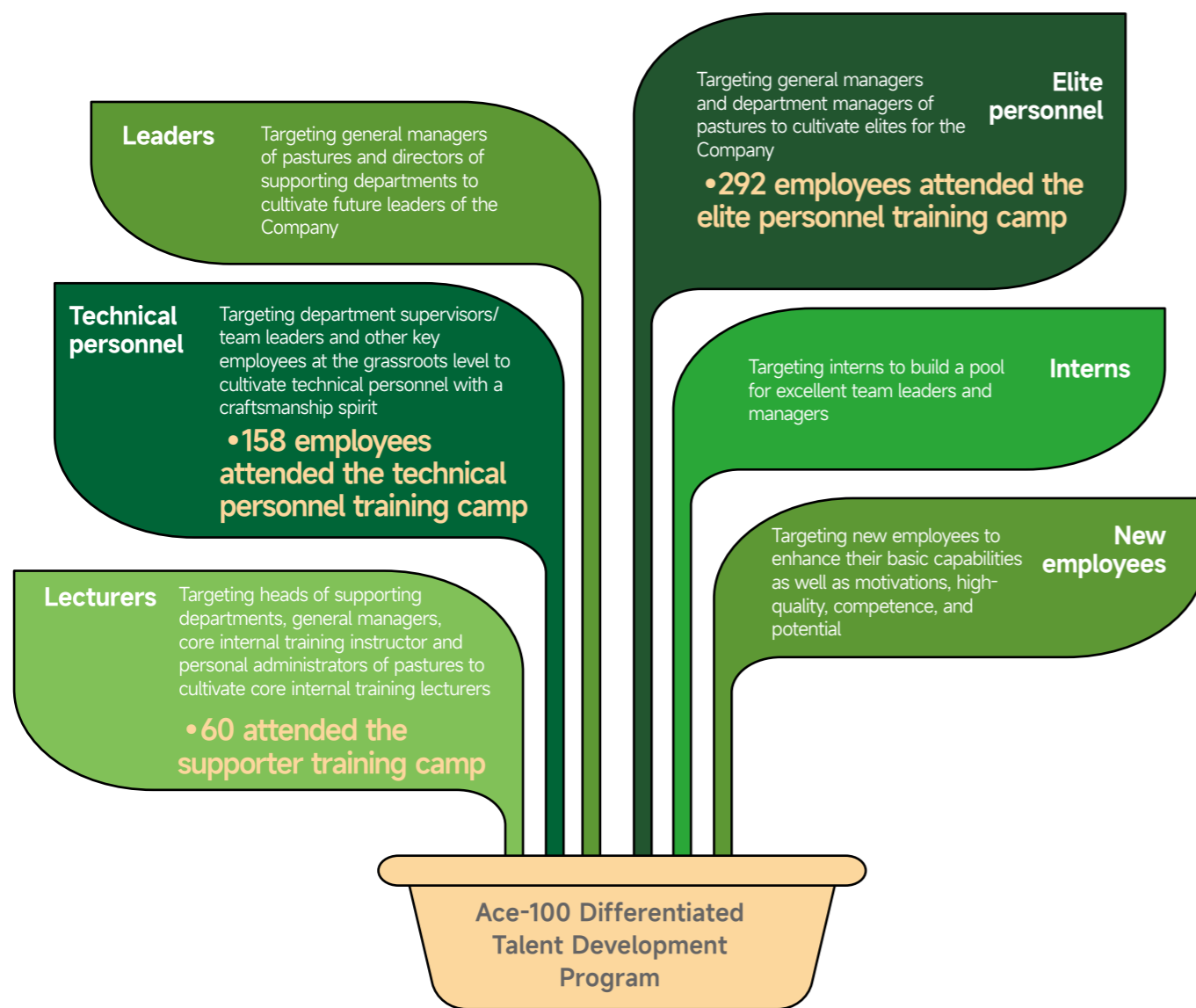
We provide differentiated training for personnel at all levels. The Ace-100 program enables to enhance the leadership and professional skills of all levels of management and technical personnel. At the same time, we are committed to discovering and cultivating talents with high-potential, and building a talent pool to ensure a sustainable supply of talent for core and key positions.

In 2023

2,159
training sessions were organized

49,071
employees were trained

41 hours
with an average per person



Case

Shengmu elite personnel training camp cultivates future senior managers

Pasture managers form an important part of the Company's strategic talent pool to provide management support and drive the Company's sustainable development. Shengmu continuously provides future general managers and department managers of pastures with a series of customized professional training, hands-on practice and mentor programs to cultivate their leadership and team building capabilities in terms of pasture management. By doing so, not only do we fulfil the Company's need in key posts, but we also manage to support the Company's sustainable development and inject strong impetus into industrial upgrades.

We focus on the all-round development of employees and provide diversified training programs to comprehensively improve employees' performance in theoretical literacy, professional skills, general abilities, and leadership.

Shengmu manager training camp

A development institute has been established for middle and senior managers of Shengmu to cultivate and improve their comprehensive management capability.

- 2 special manager training camps were held.
- 48 director-level participants were trained with a passing rate of **100%**. 5 "outstanding student" were awarded.

Selection and training of reserve cadres

Provide Company's reserve cadres with internal mentorship and career development planning, improve their comprehensive capability in terms of management, business operations and team building via a series of systematic professional trainings.

- 20 director-level and 100 manager-level reserve cadres were selected.

Professional and general management skills training

Targeting at the entire workforce, the online courses can improve employees' political accomplishment and professional skills. Targeting at pasture managers, the trainings can improve their professional skill; targeting at grassroots managers, the trainings can improve their management skills.

- 10 professional online courses were offered.
- 2 training sessions of Cow Signaling were organized with 40 participants; and four training sessions on Stress-free cattle handling were carried out with 80 participants.

✓ Motivating Employees to Pursue Further Study and Professional Titles

Concerned about the professional development of employees, we have an incentive system to support and encourage employees to pursue further study, vocational certificates, and professional titles during their employment with the Company. We also inspire the enthusiasm and initiative of employees for learning, build an enabling environment for career development, and advance the Company's talent development.

In 2023

- 1 employee with bachelor's degree were accepted by postgraduate program
- 3 employees with master's degree were accepted by doctoral program
- 12 employees applied for the middle-rank professional titles
- 5 employees applied for the senior professional titles

✓ Smoothing Channels for Promotion

We have established an employee development platform, improved the selection and competition mechanisms, set up a talent pool, and implemented incentive policies to encourage employees to fully display their strength through self-recommendation or attending examinations or contests. These have not only provided fair opportunities for employees but also effectively reduced the employee turnover rate, ensuring the stability of the talent pipeline.

In 2023

- 20 selected director-level
- 100 manager-level reserve cadres

Focusing on Humanistic Care

The Company is committed to creating an efficient, healthy, and caring workplace. By helping those in need, we have carried out diverse humanistic activities to enhance their sense of belonging and cohesion, and provide them with a happy, harmonious and warm working environment.

Content of the indicator	Unit	2023	2022	2021
Investment in team building activities and company trips	USD10,000	17.09	17.83	0.00
Accumulated days of maternity and childcare leave	day	3,603	4,041	2,607

Enhancing Employees' Satisfaction

We establish an employee satisfaction management mechanism. In 2023, we conducted four quarterly surveys and result analysis on employee satisfaction with the canteen service in terms of dining environment, nutrition, food taste and service attitude, and proposed improvements and requirements based on the survey results.

In 2023

72%

of the employees participated in the satisfaction survey

96.16%

satisfaction rate

At the same time, we hold employee representative congress on time to ensure that the legitimate rights and interests of all employees are fully protected, democratic management promotes company development, and continuously enhances employees' sense of belonging.

Case

Shengmu employee representative congress strengthens the harmonious bonds between the Company and the workforce

In April 2023, Shengmu held an employee representative congress and approved a number of important corporate policies on recruitment and employment, salary management, integrated working hours system, welfare management, leave management and mutual fund management. The congress ensures that the Company operates in a standardized, fair and just manner, while creating a friendly and safe working and living environment for the employees.



Extending happiness and care

We pay attention to creating a caring work atmosphere. By organizing recreational and parent-child activities, we balance the life and work of employees. We also offer our hands to those employees in need to enhance the sense of happiness amongst employees and their family members and create a humanistic working and living environment.

Building of a platform for employee care

We are devoted to cultivating a caring culture. A fund has been established to carry out a variety of support programs, providing financial support and other welfare packages for employees in difficulty.

Fostering a sense of family

We inherit and carry forward the traditional virtues of respecting the elderly and caring for the young of the Chinese nation, and practice the culture of filial piety with practical actions. By carrying out activities such as trips for employees to take their parents, parent-child summer camps and various welfare activities, employees' sense of belonging and emotional ties to the Company are further enhanced.

In 2023

total was raised for employees in need

USD193,698.96

Case

Summer camp for outstanding employees and their family members aims at fostering a sense of family

In August 2023, we organized a university-visiting summer camp in Beijing for outstanding employees and their family members. Participants visited famous scenic spots, including Tsinghua University Art Museum, Summer Palace, Tiananmen Square, the Great Wall, Olympic Sports Center, and the Palace Museum. The activity has strengthened the emotional bonds between employees and their family members, leaving them with a happy and unforgettable memory.



Shengmu employees' "Love You Day" with every bit of heart-warming care

To promote the corporate culture and convey the care and warmth of the Shengmu family, Shengmu have set up the 21st day of each month as Shengmu's "Love You Day". On that day, a birthday party will be held for employees whose birthday falls in the month. At the carefully decorated party venue, a cake and gifts will be presented.



Shengmu "magpie bridge" matchmaking event builds an emotional communication platform for Shengmu employees

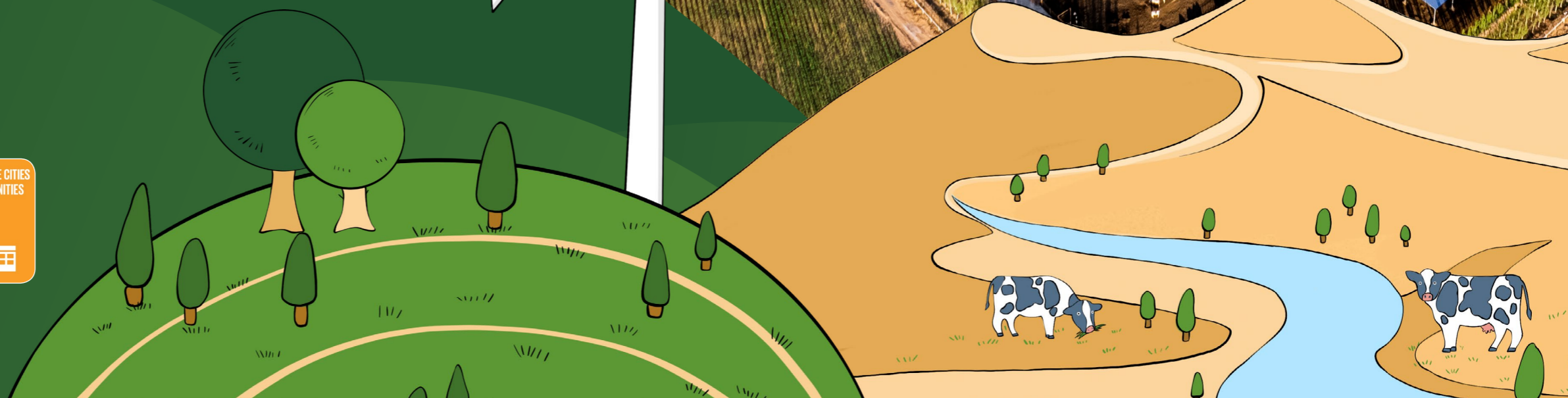
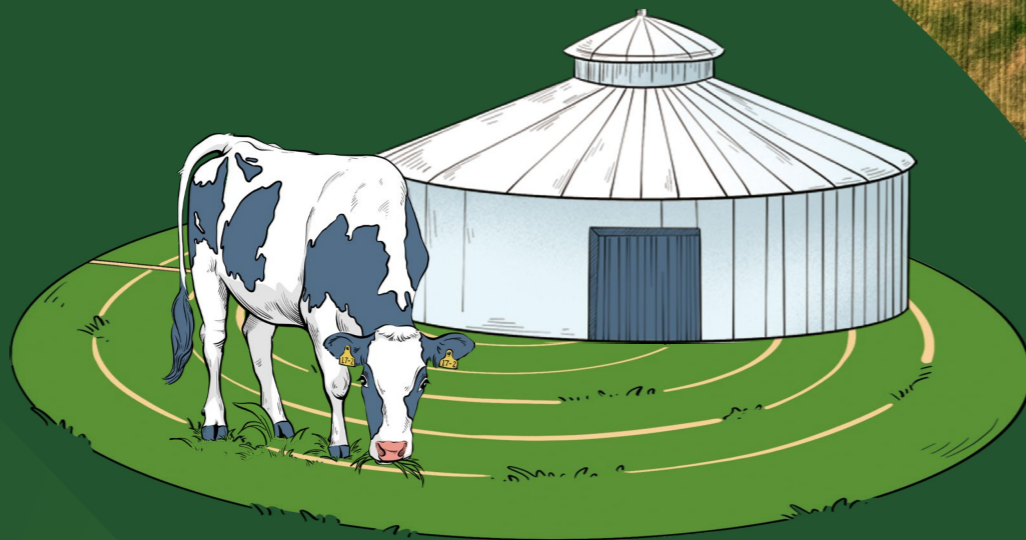
To facilitate networking and friendship building between employees, especially single employees who want to find their life partners, the Company organized an internal matchmaking event on the Chinese Valentine Day of 2023. Named after the traditional Chinese love story of the magpies forming a bridge to connect lovers, the event promoted friendship amongst single employees.



05

Community Responsibility

While pursuing self-development, Shengmu pays close attention to the communities and social demands. We give back to society with our actual deeds by expanding public welfare practices in areas such as community building, committing ourselves to rural revitalization, and passing the power of kindness.



IFRS Sustainability Disclosure

Governance

It is clarified that the Administration Department of Shengmu is responsible for matters relating to community responsibility, public welfare and charity work, ensuring the effective fulfillment of its corporate social responsibility and sound operation of charitable activities.

The specific measures taken by the Administration Department to promote the implementation of public welfare projects are:

Planning and implementation of charity work	According to the Company's overall strategy and requirements of social responsibility, planning and implementing a series of charitable projects in the fields of community, education, environmental protection and other public welfare.
Resource allocation and fund-raising	Integrating internal and external resources, raising charitable funds, and allocating them to various public welfare projects in a reasonable manner to ensure the efficient use of charitable funds.
Maintenance of partnerships	Establishing and maintaining good communication and cooperation relationships with governmental agencies, non-profit organizations, schools and other partners to jointly promote the launching of various public welfare activities.
Compliance supervision	Ensuring that all charitable activities comply with national laws, regulations and industrial rules; and supervising the transparency and fairness of charitable projects through a sound audit mechanism.
Evaluation and dissemination of outcomes	Evaluating the effects of charity projects that have been implemented, and informing both internal and external stakeholders of Shengmu's public welfare practices through public relations and publicity, so as to enhance its social influence and brand image.

Strategy

It is our aspiration to become a caring enterprise that pays attention to and meet the needs of society. By constantly identifying and evaluating the risks and opportunities in the field of community responsibility and management of public welfare and charity work, we enhance our capacities of fulfill social responsibility, improve the outcomes of public welfare projects, and promote the Company's public image and brand image. We strive to create economic value while giving back to society earnestly and promoting the harmonious development of communities.

Risks and Potential Impacts of Community Responsibility

	Potential impacts	Risk Management and Countermeasures
Reputation risk (S/M/L)	Faced with diversified social needs and increasing public expectations, if Shengmu improperly handles it when setting public welfare targets and balancing the interests of different parties, it is likely to trigger controversy of public opinions.	<ul style="list-style-type: none"> Establish a public opinion monitoring system. Maintain close cooperation and good communication with governments, non-profit organizations, communities and other stakeholders. Join hands with stakeholders to carry out rural revitalization projects. Promote the development of agricultural inclusive finance.

Note: S for short-term; M for medium-term; L for long-term

Opportunities and Potential Impacts of Community Responsibility

	Potential Impacts	Opportunity Management and Countermeasures
Brand opportunity	By engaging in community services and carrying out public welfare activities, the Company can build a good social image and reputation, enhance the trust of consumers and the public in the brand, and increase its market share and competitiveness.	<ul style="list-style-type: none"> Plan and implement public welfare activities with influence and social value in accordance with the Company's characteristics and advantages. Promote community development and create jobs. Encourage employees to participate in various public welfare activities. Expand communication channels and increase brand recognition.

Risk Management

Shengmu actively practices community responsibility, regards risk management as a core priority in its public welfare and charity activities and daily operations, and has successfully built a rigorous and sophisticated management system through scientific planning, fine execution and continuous improvement to ensure that the enterprise's public welfare actions meet social expectations. Shengmu is determined to make contributions to community development, environmental protection, education support and many other fields, and to achieve the harmonious coexistence of economic benefits and social benefits.



Targets and Indicators

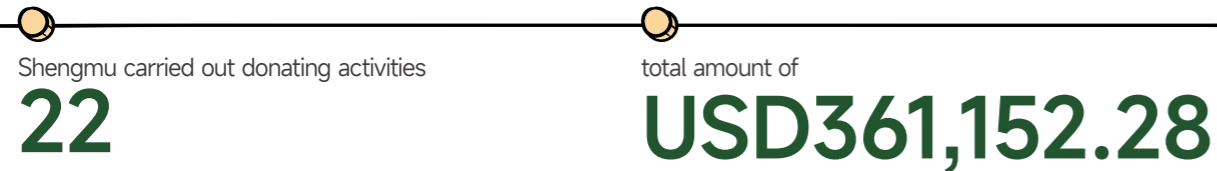
We set up indicators related to the public welfare of Shengmu, and continuously monitor the performance and disclose the progress to create value for communities on a reasonable level.

	Target	Unit	2023	2022	2021
Charitable donation	Total amount of annual public welfare investment	USD 10,000	36.11	88.89	29.27

Delivering Caring and Kindness with Donations from Shengmu

While caring for the growth of young people, Shengmu provides health and nutrition support for the staff who work on the front line of public services, practicing the philosophy of caring for the society and building a harmonious and beautiful life.

In 2023



Case

Shengmu provides services on the front line as a caring enterprise

With a strong sense of social responsibility, China Shengmu is devoted to public welfare undertakings. In 2022, the Company organized many donation activities for key public services and social and cultural institutions in different fields, such as fire brigade, the Red Cross Society in Dengkou County, Retirement Bureau, and Agui Temple. Shengmu provided nutritious dairy products for the fire brigade to improve the physical strength of firefighters who safeguarded people's lives and properties at all times, and expressed Shengmu's respect for their selfless dedication. Through donation to the Red Cross Society in Dengkou County, Shengmu helped it to carry out humanitarian relief and various public welfare activities, bringing health and care to people in need. Considering the historical contributions and practical needs of veterans, the Company donated dairy products to the Retirement Bureau, which was a manifestation of respect and care for them and helped to improve their quality of life. Donations to Agui Temple and other religious and cultural sites represented its support for the protection of traditional culture and the harmonious development of communities. Through these activities, Shengmu not only passed the power of care and kindness, but also strengthened the close ties between enterprises and various fields of society, jointly promoting social progress and development.



Shengmu spreads love and ignited hope through student aid on Children's Day

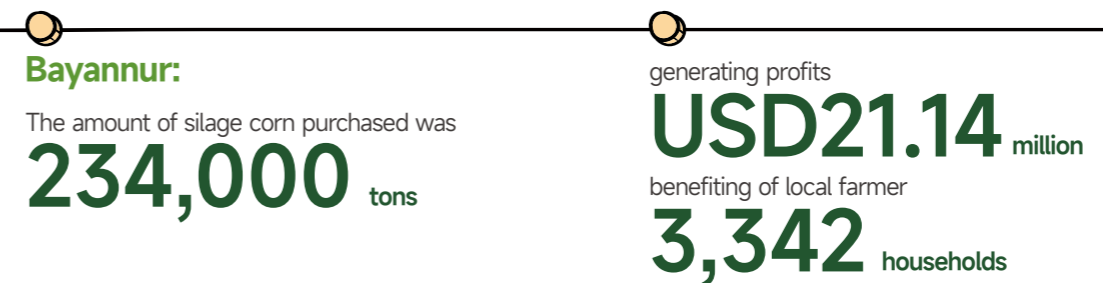
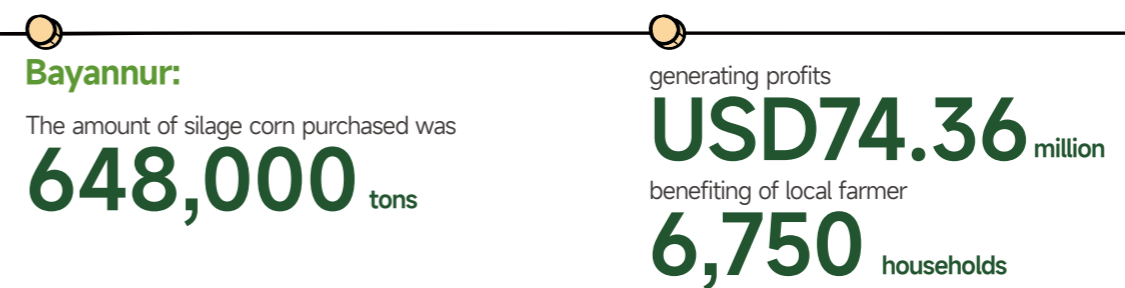
China Shengmu cares about the growth of children and teenagers and cooperates with a number of enterprises to carry out student aid activities. On June 1, 2023, China Shengmu joined hands with Hohhot Tianhao Cement Co., Ltd. to carry out the activity of "Student Aid on Children's Day", donating USD 1419.1 in cash to 150 students of Shaerqin Central School, which not only eased the students' financial burden, but also stimulated their thirst for knowledge and expectation for the future, further enhancing the society's attention to the development of children and teenagers in underdeveloped areas.



Giving Full Play to Industrial Advantages to Promote Rural Revitalization

The Company introduces new development philosophy, actively promotes the transformation and upgrading of the industry towards the direction of a green and high-quality industry, and injects strong impetus into the process of agricultural and rural modernization. Meanwhile, we persist in fulfilling our social responsibility, make full use of our advantageous resources, actively participate in rural construction and development projects, and promote the development of surrounding areas with practical actions.

In 2023



Case

The ecological construction of Shengmu empowered rural revitalization and increased the income of farmers

China Shengmu has always been combing the ecological construction of the Ulan Buh Desert with rural revitalization, and actively devoted itself to promoting the improvement of ecological environment and regional prosperity and development. In recent years, Shengmu has continuously increased its investment in eco-agriculture, consolidated the basic construction of industrial environment, and vigorously supported farmers of surrounding areas to plant 18,278.85 hectares of silage, which benefited 10,092 households of farmers and increased their income by USD95.51 million, with an increase of USD9465.40 of per capita income, radiating 1.45 million mu (about 96,731 hectares of external base). Meanwhile, Shengmu provided jobs for thousands of people of ethnic minorities and promoted national solidarity and progress through industrial revitalization. In response to the revitalization plan for the dairy industry of the Inner Mongolia Autonomous Region, Shengmu has invested USD1.21 and transformed a total of 23,333.33 hectares of desert into high-quality pasture, greatly improving the local ecological environment and making it full of vitality. In terms of infrastructure construction, Shengmu has completed 193.3 kilometers of road construction, 277.9 kilometers of wire installation, and established supporting facilities including 11 reservoirs, 9 organic manure fermentation plants, and one bio-organic fertilizer processing plant, bringing modern agricultural production conditions to desert areas.



Outlook 2024

The canal network meandering across the land of Hetao is the demonstration of people's wisdom to adapt to natural conditions for thousands of years; and also a big and ripe fruit of people's pursuit for a better life and their passionate creativeness. On this land full of wisdom and diligence, China Shengmu also has contributed its ecological share.

In 2024, Shengmu will continue making efforts to ecological industrialization and industrial ecology, vigorously promote industrial sand control, strive to make the Ulan Buh Desert a demonstration zone that produces the best organic milk in the world and a national ecological civilization demonstration zone, and provide organic and natural solutions for the global response to climate change.

We will promote sustainable development through practicing longtermism.

The Company will continue to improve the governance system of sustainable development, deeply promote the integration of the idea of sustainable development into corporate governance, and promote the improvement of the quality and efficiency of business operations. We will strive to ensure the integrity and compliance operations, maintain the strict control of product quality throughout the entire process by collaborating with industrial chain partners such as suppliers, and join hands with industry elites, including associations, institutions, peers, experts and universities, to seek the future of sustainable development of dairy industry.

We will promote growth of everything with the way of nature.

The Company will continue to adopt the desert organic milk industrial chain consisting of desert governance, the combination of planting and breeding, and organic circulation, constantly put the development models of ecological agriculture, circular agriculture, water-saving agriculture, regenerative agriculture and organic agriculture into practice, vigorously build the "low-neutral carbon pastures", research and develop "low-neutral carbon raw milk", accelerate the transformation into a green and low-carbon enterprise, and create a new natural economic business model with natural benefits as the core to protect our home planet.

We will promote people-centered philosophy and devote with love and the sense of responsibility.

The Company will adhere to the implementation of a diversified talent strategy, protect the rights and interests of employees, and continue to cultivate a highly competitive talent team. At the same time, the Company will pay more attention to the construction of a sustainable supply chain and win-win cooperation with strategic partners; care for disadvantaged groups, actively carry out student assistance activities, and convey love and responsibility.

In the future, Shengmu will adhere to the new development philosophy that focuses on "youth, openness, reform, sustainability and common development", promote the high-quality development of sustainable agriculture, develop the original practices of planting grass to control sand and raise cow to promote biodiversity, and leave future generations with lucid waters and lush mountains and a prosperous Ulan Buh!



VERIFICATION STATEMENT

● Scope and Objective of Verification

Hong Kong Quality Assurance Agency ("HKQAA") has been engaged by the China Shengmu Organic Milk Limited (Stock Code: 1432) "Shengmu" to undertake an independent verification of its 2023 Environmental, Social and Governance Report ("the Report"). The Report stated the economic, environmental and social performance of Shengmu in the period of 1st January 2023 to 31st December 2023 for its main operations in China. The objective of this verification is to provide a limited assurance on the reliability of the report content in accordance with the Appendix C2 "Environmental, Social and Governance Reporting Guide ("ESG Guide")" of the Main Board Listing Rules of The Stock Exchange of Hong Kong Limited.

● Level of Assurance and Methodology

The process applied in this verification was based on the International Standard on Assurance Engagements 3000 (Revised), Assurance Engagements Other Than Audits or Reviews of Historical Financial Information issued by the International Auditing and Assurance Standards Board. Our evidence gathering process was designed to obtain a limited level of assurance as set out in the standard for the purpose of devising the verification conclusion. The extent of this verification process covered the criteria set in the ESG Guide.

The verification process included verifying information relevant to reporting and management procedures, including stakeholder engagement methods and result, and materiality assessment processes. In addition, system and process for collecting, collating and reporting sustainability performance data were verified. Raw data and supporting evidence of the selected representative samples were also thoroughly examined during the verification process.

● Independence

China Shengmu Organic Milk Limited is responsible for the collection and presentation of the information presented. HKQAA does not involve in calculating, compiling, or in the development of the Report. Our verification activities are independent from Shengmu. There was no relationship between HKQAA and Shengmu that would affect the independence of HKQAA for providing the verification service.

● Conclusion

Based on the verification results, HKQAA has obtained limited assurance and is in the opinion that:

- The Report has been prepared in accordance with the ESG Guide;
- The Report illustrates the sustainability performance of Shengmu in a balanced, clear and timely manner; and

Nothing has come to HKQAA attention that the selected sustainability performance information and data contained in the Report has not been prepared and presented fairly and honestly, in material aspects, in accordance with the verification criteria. In conclusion, the Report reflects truthfully the sustainability commitments, policies and performance of Shengmu, and discloses their sustainability performance that is commensurate with their sustainability context and materiality.

Signed on behalf of Hong Kong Quality Assurance Agency

K.T. Ting
Chief Operating Officer
April 2024

HKEX ESG Reporting Guide Indicators

Aspects, general disclosures and KPIs	Description	Page of disclosure
Subject Area A: Environmental		
Aspect A1: Emissions		
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 and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	P40-43
KPI A1.1	The types of emissions and respective emissions data.	P43-44
KPI A1.2	Direct (Scope 1) and energy indirect (Scope 2) greenhouse gas emissions (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	P45-46
KPI A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	P43-44
KPI A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	P43-44
KPI A1.5	Description of emission target(s) set and steps taken to achieve them.	P42、 P45-46
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.	P42、 P44
Aspect A2: Use of resources		
General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	P40-42、 P47
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).	P47
KPI A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	P47
KPI A2.3	Description of energy use efficiency target(s) set and steps taken to achieve them.	P40-42、 P47
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.	P48
KPI A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	Not applicable

Aspects, general disclosures and KPIs	Description	Page of disclosure
Aspect 3: The Environment and Natural Resources		
General Disclosure	Policies on minimizing the issuer's significant impacts on the environment and natural resources.	P49
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	P49
Aspect 4: Climate Change		
General Disclosure	Policies on identification and mitigation of significant climate-related issues which have impacted, and those which may impact, the issuer.	P40-42
KPI A4.1	Description of the significant climate-related issues which have impacted, and those which may impact, the issuer, and the actions taken to manage them.	P40-42
Subject Area B: Social		
Employment and Labor Practices		
Aspect B1: Employment		
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.	P52-54
KPI B1.1	Total workforce by gender, employment type (for example, full- or part-time), age group and geographical region.	P54-55
KPI B1.2	Employee turnover rate by gender, age group and geographical region.	P57
Aspect B2: Health and Safety		
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.	P58-60
KPI B2.1	Number and rate of work-related fatalities that occurred in each of the past three years including the reporting year.	P58-60
KPI B2.2	Lost days due to work injury.	P58-60
KPI B2.3	Description of occupational health and safety measures adopted, and how they are implemented and monitored.	P58-60

Aspects, general disclosures and KPIs	Description	Page of disclosure
Aspect 3: Development and Training		
General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	P61-63
KPI B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	P61
KPI B3.2	The average training hours completed per employee by gender and employee category.	P61
Aspect B4: Labor Standards		
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.	P52-54
KPI B4.1	Description of measures to review employment practices to avoid child and forced labor.	P52-54
KPI B4.2	Description of steps taken to eliminate such practices when discovered.	Not occurred
Operating Practices		
Aspect B5: Supply Chain Management		
General Disclosure	Policies on managing environmental and social risks of the supply chain.	P34
KPI B5.1	Number of suppliers by geographical region.	P34
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.	P34
KPI B5.3	Description of practices used to identify environmental and social risks along the supply chain, and how they are implemented and monitored.	P34
KPI B5.4	Description of practices used to promote environmentally preferable products and services when selecting suppliers, and how they are implemented and monitored.	P34

Aspects, general disclosures and KPIs	Description	Page of disclosure
Aspect B6 : Product Responsibility		
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.	P30-33
KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	Not applicable
KPI B6.2	Number of products and service related complaints received and how they are dealt with.	P30-33
KPI B6.3	Description of practices relating to observing and protecting intellectual property rights.	P27
KPI B6.4	Description of quality assurance process and recall procedures.	P32-33
KPI B6.5	Description of consumer data protection and privacy policies, and how they are implemented and monitored.	Not applicable
Aspect B7 : Anti-corruption		
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.	P27
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.	P27
KPI B7.2	Description of preventive measures and whistle-blowing procedures, and how they are implemented and monitored.	P27
KPI B7.3	Description of anti-corruption training provided to directors and staff.	P27
Community		
Aspect B8 : Community Investment		
KPI 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.	P68-71
KPI B8.1	Focus areas of contribution (e.g. education, environmental concerns, labor needs, health, culture, sport).	P68-71
KPI B8.2	Resources contributed (e.g. money or time) to the focus area.	P68-71

Feedback Form

Dear readers:

Thanks for reading the *2023 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 do you rate the report?

1 2 3 4 5

2. The report reflects Shengmu's major impacts on environment, society and governance:

1 2 3 4 5

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

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 do you rate the publicity of the report?

1 2 3 4 5

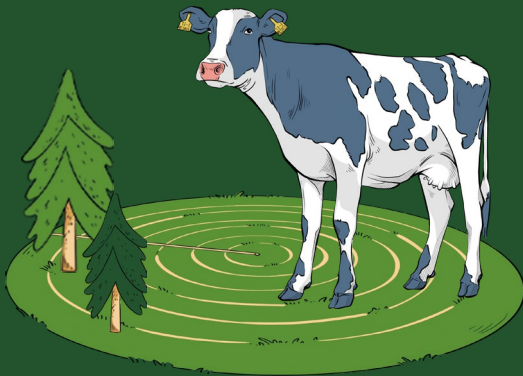
7. Which part of the report attracts you most?

8. Other suggestions and advice on the report:




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