CHINA SHENGMU ORGANIC MILK LIMITED
中國聖牧有機奶業有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1432)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2022

FINANCIAL HIGHLIGHTS

(All amounts are in RMB'000 unless otherwise stated)	**For the year ended 31 December**		
	2022	2021	**Movements**
Operating income[1]	**3,335,669**	3,093,764	**+7.8%**
Revenue	**3,176,253**	2,984,616	**+6.4%**
Gross profit margin	**31.9%**	35.7%	**-3.8 ppt**
Profit attributable to owners of the parent	**416,460**	471,713	**-11.7%**
Sales volume (tonnes)	**635,451**	584,787	**+8.7%**
Average milk yield per milkable cow (tonnes/year • head)	**10.52**	10.27	**+2.4%**
Herd size (heads)	**136,344**	122,518	**+11.3%**

DIVIDEND

The Board of the Company recommended the payment of final dividend of HKD1.13 cents per ordinary share (2021: nil).

HIGHLIGHTS

- **Organic raw milk yield increases, strengthening the Group's leading position in the industry:**

  During the year, the Group converted one more farm into an organic farm, increasing the total number of organic farms to 20 and the Group's average daily organic fresh milk production to 1,295 tonnes. The Group recorded sales of organic raw milk of 458,000 tonnes (accounting for 72.0% of total sales of raw milk), representing a year-on-year increase of 15.9%. The gradual increase in organic fresh milk production has strengthened the Group's leading position in the organic raw milk industry.

- **Key operating indicators continue to improve:**

  The herd size grew by 11.3% as compared with the end of last year, while the self-reproduction rate of productive biological assets has reached a new high. The average milk yield per milkable cow increased by 2.4% year-on-year.

- **Smart Shengmu has achieved remarkable results in the digital development:**

  The "SAP-ERP Project" of China Shengmu was awarded the "Industry Chain Emerging Enterprise Award of the Year" in the 2022 "Dingge Award (鼎革獎)";

  The "SAP-ERP Project" of China Shengmu was awarded the "Digital Innovation Model Award of the Year" at the 2022 Sci-Tech Innovation Festival; and

  China Shengmu was awarded the "Outstanding Case of Digital Transformation in China's Dairy Industry" at the 13th China Dairy Industry Conference.

- **Encouraging a dual-carbon strategy and leading the industry in taking corporate social responsibility (CSR):**

  In July 2022, China Shengmu was awarded the title of "2022 Corporate Social Responsibility - Leading Enterprise" in the Golden Bee Influencer List at the 17th International CSR Forum;

  In September 2022, China Shengmu was awarded the "Innovation in Climate Action Award" issued by the International Dairy Federation (IDF);

  In November 2022, the 27th United Nations Climate Change Conference (COP27) released the "China Enterprise Action Report for Sustainable Consumption", and China Shengmu's practice of turning the "bare desert" into an "fertile oasis" for sand control was selected for the report; and

  In December 2022, "The First Tranche of Ultra-Short Term Debentures (Social Responsibility Debentures) of China Shengmu Organic Milk Limited in 2022" were successfully issued, being the first social responsibility debentures and also the first private enterprise "Panda Debentures" with credit risk mitigation warrant (CRMW) placement (配售信用風險緩釋憑證) in China.

(1) Operating income is calculated as revenue plus other revenues.

In this announcement, "**we**", "**us**" and "**our**" refer to the Company (as defined below) and unless the context otherwise requires, the Group (as defined below).

The board (the "**Board**") of directors (the "**Directors**") of China Shengmu Organic Milk Limited (the "**Company**" or "**China Shengmu**") hereby presents the consolidated financial results of the Company and its subsidiaries (the "**Group**" or "**Shengmu**") for the year ended 31 December 2022 together with comparative figures for the year ended 31 December 2021.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	**For the year ended 31 December** **2022** **RMB'000**	2021 RMB'000
REVENUE	3	**3,176,253**	2,984,616
Cost of sales		**(2,163,571)**	(1,920,226)
Gross profit		**1,012,682**	1,064,390
Loss arising from changes in fair value less costs to sell of biological assets		**(291,385)**	(248,771)
Fair value changes of financial guarantee contracts		**(1,584)**	(2,954)
Other income and gains	3	**46,109**	23,039
Selling and distribution expenses		**(55,177)**	(53,828)
Administrative expenses		**(140,984)**	(111,674)
Impairment losses on financial and contract assets, net		**231**	(6,814)
Other expenses		**(42,001)**	(56,089)
Finance costs	5	**(57,446)**	(71,170)
Share of the profit and loss of associates		**(20,372)**	(25,697)
PROFIT BEFORE TAX	4	**450,073**	510,432
Income tax expense	6	**—**	(861)
PROFIT FOR THE YEAR		**450,073**	509,571
Profit attributable to:			
Owners of the parent		**416,460**	471,713
Non-controlling interests		**33,613**	37,858
		450,073	509,571
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	8		
Basic		**RMB0.0499**	RMB0.0563
Diluted		**RMB0.0496**	RMB0.0563

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (CONTINUED)

	For the year ended 31 December	
	2022	2021
	RMB'000	RMB'000
PROFIT FOR THE YEAR	**450,073**	509,571
OTHER COMPREHENSIVE INCOME/ (LOSS)		
Other comprehensive income that may not be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**301**	(650)
Net other comprehensive income/(loss) that may not be reclassified to profit or loss in subsequent periods	**301**	(650)
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:		
Equity investments at fair value through other comprehensive income:		
Changes in fair value	**(34,200)**	12,038
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods	**(34,200)**	12,038
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**(33,899)**	11,388
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**416,174**	520,959
Attributable to:		
Owners of the parent	**382,561**	483,101
Non-controlling interests	**33,613**	37,858
	416,174	520,959

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	As at 31 December 2022	31 December 2021
		RMB'000	RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**1,703,982**	1,699,637
Right-of-use assets		**554,068**	519,306
Other intangible assets		**9,145**	7,591
Investments in associates		**34,352**	59,048
Biological assets		**3,052,124**	2,698,642
Other financial assets		**57,000**	91,200
Long term receivables		**2,036**	6,355
Total non-current assets		**5,412,707**	5,081,779
CURRENT ASSETS			
Inventories		**880,650**	768,105
Biological assets		**66,327**	65,598
Trade receivables	9	**276,856**	248,137
Prepayments, other receivables and other assets		**102,048**	107,641
Other financial assets		**459,000**	72,000
Restricted bank deposits		**199,867**	256,490
Cash and bank balances		**490,177**	531,835
Total current assets		**2,474,925**	2,049,806
CURRENT LIABILITIES			
Trade and bills payables	10	**1,476,138**	1,253,354
Other payables and accruals		**296,179**	302,088
Derivative financial instruments		**—**	7,172
Tax payable		**—**	618
Lease liabilities		**2,586**	—
Super short-term loan		**100,000**	—
Interest-bearing bank borrowings		**795,610**	1,299,529
Total current liabilities		**2,670,513**	2,862,761
NET CURRENT LIABILITIES		**(195,588)**	(812,955)
TOTAL ASSETS LESS CURRENT LIABILITIES		**5,217,119**	4,268,824

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

	As at	
	31 December 2022	31 December 2021
	RMB'000	RMB'000
NON-CURRENT LIABILITIES		
Lease liabilities	**10,797**	—
Interest-bearing bank borrowings	**944,640**	379,639
Total non-current liabilities	**955,437**	379,639
Net assets	**4,261,682**	3,889,185
EQUITY		
Equity attributable to owners of the parent		
Share capital	**69**	69
Treasury shares held under share award scheme	**(26,188)**	—
Reserves	**4,081,306**	3,679,764
	4,055,187	3,679,833
Non-controlling interests	**206,495**	209,352
Total equity	**4,261,682**	3,889,185

NOTES:

1. CORPORATE AND GROUP INFORMATION

The Company is an exempted company incorporated in the Cayman Islands with limited liability. The registered office address of the Company is P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

The Company is an investment holding company. During the year, the Company's subsidiaries were primarily engaged in the production and distribution of raw milk in the People's Republic of China (the "PRC").

2. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES OF THE GROUP

Basis of Preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") (which include all International Financial Reporting Standards, International Accounting standards ("IASs") and Interpretations) issued by the International Accounting Standards Board ("IASB") and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for certain biological assets, agriculture produce and derivative financial liabilities which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2022. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

2. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES OF THE GROUP (CONTINUED)

Basis of Preparation (continued)

Basis of consolidation (continued)

Generally, there is a presumption that a majority of voting rights results in control. When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES OF THE GROUP (CONTINUED)

Basis of Preparation (continued)

Going concern

The Group had net current liabilities of RMB195,588,000 as at 31 December 2022 (2021: net current liabilities of RMB812,955,000). In view of the net current liabilities position, the board of directors has given careful consideration to the future liquidity and performance of the Group and its available sources of finance in assessing whether the Group will have sufficient financial resources to continue as a going concern.

Having considered the unutilised banking facilities of RMB3,802,463,000 and unused credit facility of super short-term notes of RMB1,400,000,000 as at the date of this report and cash flow projections for the year ending 31 December 2023, the directors are satisfied that the Group is able to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the directors have prepared the consolidated financial statements on a going concern basis.

Changes in Accounting Policies and Disclosures

The Group has adopted the following revised IFRSs for the first time for the current year's financial statements.

Amendments to IFRS 3	*Reference to the Conceptual Framework*
Amendments to IAS 16	*Property, Plant and Equipment: Proceeds before Intended Use*
Amendments to IAS 37	*Onerous Contracts - Cost of Fulfilling a Contract*
Annual Improvements to IFRS Standard 2018-2020	Amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41

2. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES OF THE GROUP (CONTINUED)

Changes in Accounting Policies and Disclosures (Continued)

The nature and the impact of the revised IFRSs that are applicable to the Group are described below:

(a) Amendments to IFRS 3 replace a reference to the previous Framework for the Preparation and Presentation of Financial Statements with a reference to the Conceptual Framework for Financial Reporting (the "Conceptual Framework") issued in March 2018 without significantly changing its requirements. The amendments also add to IFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 if they were incurred separately rather than assumed in a business combination, an entity applying IFRS 3 should refer to IAS 37 or IFRIC 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group has applied the amendments prospectively to business combinations that occurred on or after 1 January 2022. As there were no contingent assets, liabilities and contingent liabilities within the scope of the amendments arising in the business combination that occurred during the year, the amendments did not have any impact on the financial position and performance of the Group.

(b) Amendments to IAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceed from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items as determined by IAS 2 Inventories, in profit or loss. The Group has applied the amendments retrospectively to items of property, plant and equipment made available for use on or after 1 January 2021. Since there was no sale of items produced prior to the property, plant and equipment being available for use, the amendments did not have any impact on the financial position or performance of the Group.

2. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES OF THE GROUP (CONTINUED)

Changes in Accounting Policies and Disclosures (Continued)

(c) Amendments to IAS 37 clarify that for the purpose of assessing whether a contract is onerous under IAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The Group has applied the amendments prospectively to contracts for which it has not yet fulfilled all its obligations at 1 January 2022 and no onerous contracts were identified. Therefore, the amendments did not have any impact on the financial position or performance of the Group.

(d) Annual Improvements to IFRS Standards 2018-2020 set out amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41. Details of the amendment that is expected to be applicable to the Group are as follows:

- IFRS 9 Financial Instruments: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. The Group has applied the amendment prospectively from 1 January 2022. As there was no modification or exchange of the Group's financial liabilities during the year, the amendment did not have any impact on the financial position or performance of the Group.

3. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	For the year ended 31 December	
	2022	2021
	RMB'000	RMB'000
Revenue from contracts with customers	**3,176,253**	2,984,616

Disaggregated revenue information in respect of contracts with customer

	For the year ended 31 December	
	2022	2021
	RMB'000	RMB'000
Type of goods		
Sale of products	**3,176,253**	2,984,616
Geographical market		
Mainland China	**3,176,253**	2,984,616
Timing of revenue recognition		
Goods transferred at a point in time	**3,176,253**	2,984,616

3. REVENUE, OTHER INCOME AND GAINS (CONTINUED)

	For the year ended 31 December	
	2022	2021
	RMB'000	RMB'000
Other income and gains		
Other income		
Beef cattle	**147,409**	92,099
Raw materials	**12,007**	17,049
	159,416	109,148
Other costs		
Beef cattle	**(147,409)**	(92,099)
Raw materials	**(12,374)**	(15,646)
	(159,783)	(107,745)
Government grants	**12,893**	11,174
Bank interest income	**8,314**	13,792
Other interest income from financial assets at fair value through profit or loss	**8,945**	—
Foreign exchange differences, net	**(2,658)**	1,201
Loss on disposal of items of property, plant and equipment	**(3,204)**	(6,529)
Impairment loss of items of property, plant and equipment	**(8,179)**	(1,427)
Gain on deemed disposal of investments in an associate	**—**	1,856
Gain on partial disposal of investments in an associate	**25,741**	—
Loss on disposal of an associate	**—**	(9,062)
Gain on disposal of a subsidiary	**—**	3,991
Others	**4,624**	6,640
	46,109	23,039

4. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	For the year ended 31 December	
	2022	2021
	RMB'000	RMB'000
Cost of inventories sold	**2,163,571**	1,920,226
Loss arising from changes in fair value less costs to sell of biological assets	**291,385**	248,771
Fair value changes of financial guarantee contracts	**1,584**	2,954
Depreciation of property, plant and equipment	**156,160**	152,269
Less: Capitalised in biological assets	**50,058**	46,906
Depreciation recognised in the consolidated statement of profit or loss and other comprehensive income	**106,102**	105,363
Depreciation of right-of-use assets	**6,470**	3,145
Less: Capitalised in biological assets	**954**	973
Depreciation recognised in the consolidated statement of profit or loss and other comprehensive income	**5,516**	2,172
Amortisation of other intangible assets	**1,232**	821
Less: Capitalised in biological assets	**359**	254
Amortisation recognised in the consolidated statement of profit or loss and other comprehensive income	**873**	567
Research and development costs	**7,158**	5,968
Lease payments not included in the measurement of lease liabilities	**9,654**	4,973
Auditor's remuneration	**2,580**	3,080
Foreign exchange differences, net	**2,658**	(1,201)
Reversal/(impairment) on financial and contract assets, net	**(231)**	6,814
Impairment losses of property, plant and equipment	**8,179**	1,427
Provision for litigations and claims	**35,737**	54,027
Gain on deemed disposal of investments in an associate	**—**	(1,856)
Gain on partial disposal of investments in an associate	**(25,741)**	—
Loss on disposal of an associate	**—**	9,062
Gain on disposal of a subsidiary	**—**	(3,991)
Loss on disposal of items of property, plant and equipment	**3,204**	6,529
Employee benefit expense (including directors' and chief executive's remuneration):		
Wages, salaries, bonuses and allowances	**279,655**	247,711
Other social insurances and benefits	**20,393**	15,129
Equity-settled share option expenses	**19,687**	—
Pension scheme contributions	**10,966**	9,160
	330,701	272,000

5. FINANCE COSTS

	For the year ended 31 December	
	2022	2021
	RMB'000	RMB'000
Interest on bank loans and other loans	**63,918**	63,998
Interest on short-term notes	**80**	—
Fair value loss on interest rate swaps	**(7,172)**	7,172
Interest on lease liabilities	**620**	—
	57,446	71,170

6. INCOME TAX

	For the year ended 31 December	
	2022	2021
	RMB'000	RMB'000
Current - PRC		
Charge for the year	**—**	625
Overprovision in prior year	**—**	236
Total tax charge for the year	**—**	861

7. DIVIDENDS

	For the year ended 31 December	
	2022	2021
	HKD'000	HKD'000
Proposed final dividend of HKD1.13 cents (2021: nil) per ordinary share	**94,709** *Note 1*	—

A final dividend in respect of the year ended 31 December 2022 of HKD1.13 cents (equivalent to approximately RMB0.99 cents)*Note 2* per share was proposed pursuant to a resolution passed by the Board on 28 March 2023. The proposed dividend is subject to the approval of the shareholders at the 2023 annual general meeting and is not reflected as dividend payable in the consolidated financial statements for the year ended 31 December 2022.

Note 1 - Based on the number of issued shares of the Company as at the date of this announcement, being 8,381,295,229.

Note 2 - For the purpose of this announcement, translation of Renminbi into Hong Kong dollars or vice versa has been calculated by using an exchange rate of RMB1.00 equal to HKD1.14. Such exchange rate has been used for the purpose of illustration only and does not constitute a representation that any amounts were, may have been or will be exchanged at such rate or any other rates or at all.

8. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The basic earnings per share amounts are calculated by dividing the profit for the year attributable to ordinary equity holders of the parent, by the weighted average number of ordinary shares of 8,352,133,000 (2021: 8,381,295,000) in issue during the year.

The calculation of the diluted earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent of RMB416,460,000 (2021: RMB471,713,000). The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation of 8,352,133,000 (2021: 8,381,295,000) shares, plus the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of warrants and dilutive potential ordinary shares.

	Number of shares	
	2022	2021
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**8,352,133,000**	8,381,295,000
Effect of dilution – weighted average number of ordinary shares:		
Share awards	**39,366,000**	—
	8,391,499,000	8,381,295,000

9. TRADE RECEIVABLES

	As at	
	31 December 2022	31 December 2021
	RMB'000	RMB'000
Trade receivables	**284,183**	255,464
Impairment	**(7,327)**	(7,327)
	276,856	248,137

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of loss allowance, is as follows:

	As at	
	31 December 2022	31 December 2021
	RMB'000	RMB'000
Within 3 months	**276,639**	242,301
4 to 6 months	**217**	5,088
7 months to 1 year	**—**	748
	276,856	248,137

10. TRADE AND BILLS PAYABLES

An ageing analysis of the trade and bills payables of the Group as at the end of the reporting period, based on the invoice date, is as follows:

	As at	
	31 December 2022	31 December 2021
	RMB'000	RMB'000
Within 3 months	**962,344**	992,300
4 to 6 months	**471,105**	171,532
7 to 12 months	**26,049**	68,999
1 to 2 years	**16,640**	16,943
2 to 3 years	**—**	505
Over 3 years	**—**	3,075
	1,476,138	1,253,354

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

In 2022, due to the strong impact of multiple internal and external factors, domestic economic growth slowed down and the contribution of final consumption to economic growth weakened significantly. The industrial economic growth fell below pre-pandemic level and recovery of the service sector was hampered by the pandemic and structural differentiation became evident. In 2022, GDP of China amounted to approximately RMB121,020.7 billion, representing an increase of 3.0% at constant prices compared with the previous year; total retail sales of consumer goods amounted to RMB43,973.3 billion, representing a decrease of 0.2% from last year; consumption of basic necessities grew steadily, with retail sales of food, oil and beverages recorded by businesses of at least a certain scale (限額以上單位) increasing by 8.7% and 5.3% respectively. Price levels remained stable and the annual consumer price index (CPI) rose by 2.0% compared with last year, among which, food prices rose by 2.8%. The national disposable income per capita for the year was RMB36,883, representing a nominal increase of 5.0% compared with last year and a real increase of 2.9% (excluding price factors), which was largely in line with economic growth.

In terms of agriculture and dairy products, the annual grain production increased due to a bumper harvest and livestock production grew steadily, with total national grain production reaching 686.53 million tonnes, representing an increase of 3.68 million tonnes or 0.5% compared with the previous year. Dairy consumption growth declined due to the pandemic, whilst the production of dairy manufacturing enterprises of at least a certain scale (規模以上乳製品製造企業) reached 31.177 million tonnes in 2022, representing a year-on-year increase of 2.0%. In terms of import, the total volume of all types of dairy products imported into China fell significantly compared with last year. As a result of the rising cost of imported dairy products and the development of high-end domestic dairy products, the growth in domestic milk self sufficiency rate accelerated. In 2022, China's import of dairy products decreased whilst import amount increased: a total of 3.272 million tonnes of various dairy products were imported, representing a year-on-year decrease of 17.1%, which was equivalent to 19.17 million tonnes of raw fresh milk, representing a year-on-year decrease of 14.9%, the cumulative import amount was approximately RMB92.68 billion, representing a year-on-year growth of 3.6%. According to China Customs, in 2022, a total of 1.035 million tonnes of packaged flour were imported, representing a year-on-year decrease of 18.8%; 606,000 tonnes of whey products were imported, representing a year-on-year decrease of 16.2%; and 722,000 tonnes of packaged milk were imported, representing a year-on-year decrease of 27.5%.

In terms of dairy farming industry, raw fresh milk production continued to increase in 2022, whilst production costs remained high and raw fresh milk prices fell, which had a negative impact on the profitability of the industry. Raw fresh milk production for the year amounted to 39.32 million tonnes, representing an increase of approximately 2.5 million tonnes or 6.8% compared with last year. Raw fresh milk prices fell compared with the corresponding period of last year. According to data monitored by the Ministry of Agriculture and Rural Affairs, the average price of raw fresh milk in major dairy producing provinces (regions) in December was RMB4.12 per KG, representing a decrease of 4.3% compared with the corresponding period of last year. In terms of feed, the continued rise in feed prices put greater cost pressure on the dairy farming industry. According to data monitored by the Ministry of Agriculture and Rural Affairs, the national average price of corn in December was RMB3.06/KG, representing a year-on-year increase of 0.5%, while the average price of soybean meal was RMB5.17/KG, representing a year-on-year increase of 37.4%. According to customs statistics, China imported a total of 1.940 million tonnes of hay in 2022, representing a year-on-year decrease of 2.6%, but the actual import value rose by 31.7% year-on-year due to the increase in the average import price. Of which, 1.788 million tonnes of alfalfa hay was imported, representing a year-on-year increase of 0.4%, while 152,000 tonnes of oat hay was imported, representing a year-on-year decrease of 28.2%. In terms of live cow imports, China imported a total of 0.35 million head of live cows in 2022, representing a year-on-year decrease of 3.1%, mainly from countries such as Australia and New Zealand. In recent years, as a result of optimization and integration of industry resources, the number of large farms has increased year on year and the level of dairy farming scale has improved year on year, which has a positive effect on the long-term sustainable development of the industry.

BUSINESS OVERVIEW

The principal business of the Group is dairy farming, production and sales of high-end desert-based organic raw milk and quality non-organic raw milk. The Group focuses on the production and sales of desert-based organic milk, while satisfying the diversified needs of customers for quality raw milk, and continues to develop a variety of functional raw milk to enrich the Group's product mix and enhance its profitability. As at the end of 2022, the Group had 33 farms with a stock of 136,344 cows and fattening cows and a daily production of 1,777 tonnes of fresh milk, of which 20 farms had organic certification and a daily production of 1,295 tonnes of organic fresh milk. In addition, the Group also operated three DHA milk farms with a daily production capacity of 128 tonnes of high quality fresh milk, while the Group's raw organic A2 milk developed by the Group was successfully launched at the end of the year.

Slight fall in raw milk sales prices, improvement in overall sales volumes and continuous growth in revenue

In 2022, the domestic raw fresh milk price dropped compared with the corresponding period of last year, with an average milk price decrease of approximately 4.3%. By virtue of the uniqueness and high quality of organic raw milk, the Group's sales price remained stable. The sales price of raw milk for the year was RMB5.0/KG, representing a decrease of RMB0.1/KG or 2.0% from the average price of RMB5.1/KG for the corresponding period of last year. The Group continued to promote high quality herd expansion in 2022, achieving a total herd increase of 13,826 cows for the year, which included an increase of 4,201 lactating cows, self-reproduction rate has reached the highest level since the establishment of the Group. While the herd was growing, the Group was also actively promoting the increase in average milk yield per milkable cow in 2022, with annual average milk yield per milkable cow increasing from 10.27 tonnes/cow in 2021 to 10.52 tonnes/cow in 2022, which in turn better boosts the overall revenue and profitability of the Company. The Group achieved a total sales volume of 635,451 tonnes of raw milk in 2022, representing an increase of 8.7% compared with the corresponding period of last year. Out of the total sales volume, 457,688 tonnes of organic raw milk were sold, representing an increase of 15.9% compared with the corresponding period of last year and accounting for 72.0% of the total raw milk sales volume, representing an increase of 4.5 percentage points compared with the corresponding period of last year.

The increase in the proportion of organic raw milk sales further strengthened the overall profitability of the Company. The Group achieved sales revenue of RMB3,176.3 million in 2022, representing an increase of 6.4% compared with the corresponding period of last year. The increase was mainly due to the increase in total sales volume of raw milk as a result of the increase in the Group's average milk yield per cow and the increase in the number of cows.

Increase in feed costs and squeeze on gross margin

In 2022, feed prices continued to rise due to the impact of the pandemic, global inflation and the Russia-Ukraine war, and the market price of corn and soybean meal, being the major forages required by the Group for dairy farming, grew by more than double digits on average. In light of this severe situation, the Group adopted various measures to curb cost increases, including empowering suppliers through provision of capital resources to enable them to obtain lower prices and higher quality forage under the same conditions; actively expanding procurement channels and directly procuring from more manufacturers to strengthen the stickiness of cooperation with strategic suppliers; gaining access to better procurement channels by leveraging shareholders and industry resources such as COFCO, Aiyangniu Technology and Dabeinong; establishing a strategic procurement system; taking advantage of resources from various parties to make predictions of price trends of major forages and locking in orders; communicating with the Nutrition Centre of the Group to adjust the formula for dairy farming and improve the performance-to-price ratio of dairy forage supply. At the same time, in accordance with the principle of concentration instead of fragmentation, we optimize the resources of our suppliers with a view to gaining pricing and service advantages through bulk purchases. In 2022, the Group's sales cost for a kilogram of milk was RMB3.40/KG, of which the feed cost for a kilogram of milk was RMB2.71/KG, representing an increase of RMB0.11/KG compared with the corresponding period of last year. The Group has strengthened its internal supply chain management to reduce the impact of rising feed costs on the Company's profitability. The Group has also actively increased the proportion of high-value products to optimize its profit structure, which has further curbed the decline in the Group's gross profit margin against the backdrop of a general decline in gross profit margin in the industry. For the year, the Group recorded a gross profit of RMB1,012.7 million, representing a decrease of 4.9% compared with the corresponding period of last year, and a gross profit margin of 31.9%, representing a decrease of 3.8 percentage points compared with the corresponding period of last year.

Tight control over expenses and maintaining various cost rates at a better level

In order to improve profitability, the Group has launched a comprehensive internal "millimeter campaign" to tightly control expenses. In terms of sales, the Group actively optimized the transportation and logistics of raw milk production and production and sales were not affected by the pandemic, which ensured timely delivery of products to customers. In 2022, the Group's sales expense for a kilogram of milk was RMB0.09/KG, which was in line with the corresponding period of last year. In terms of administrative expenses, the Group implemented an equity incentive program for its core employees during the year in order to enhance the sustainable development of the Company, thus the related manpower and administrative expense increased compared with the corresponding period of last year. In 2022, administrative expenses for a kilogram of milk was RMB0.22/KG, representing an increase of RMB0.03/KG compared with the corresponding period of last year. In respect of finance costs, the Group actively expanded its financing channels and optimized its debt structure. Despite the increase in the scale of interest-bearing liabilities during the year, finance costs still decreased compared with the corresponding period of last year, with finance costs being RMB0.09/KG for a kilogram of milk in 2022, representing a decrease of RMB0.03/KG compared with the corresponding period of last year. Apart from this, the Company also actively leveraged its existing business features and asset characteristics to experiment with new forms of financing in the market. With the Group's significant achievements in ESG and carbon neutral governance, the Group obtained the Green Sustainable Finance Scheme certification from the Hong Kong Quality Assurance Agency in February this year and successfully issued an ultra-short-term financing debentures in a total amount of RMB100 million in December 2022, which was the first social responsibility debentures in the Domestic Interbank Dealers Association. The issuance of the debentures demonstrates that the Group's social responsibility efforts are widely recognized by the market. It also helps low-income groups in the region where the Group operates and the nearby areas to secure stable and substantial income in the future, driving the local poor out of poverty and achieving more valuable and sustainable development.

Herd size

As at 31 December 2022, the Group operated 20 organic farms and 13 non-organic farms, including one fattening cow farm. The Group had 136,344 milkable cows and fattening cows in stock, representing a year-on-year increase of 11.3%, including 92,075 organic cows in stock, representing a year-on-year increase of 15.6%, and 44,269 non-organic cows in stock.

The Group continued to optimize the structure of the herd, with the self-reproduction rate of productive biological assets reaching a new high. The proportion of milkable cows decreased by 2.6% compared with the end of last year, and the reserve herd of cows is in a healthy and positive state of development.

	For the year ended 31 December	
	2022	2021
Number of Farms (number)	**33**	33
Milkable Cows (head)	**64,355**	60,154
Calves and Heifers (head)	**63,980**	54,007
Fattening cows [1] (head)	**8,009**	8,357
Total (head)	**136,344**	122,518

(1) For information in this table for the current and previous years, fattening cows refer to the number of cows raised on a fattening cow farm.

OPERATION REVIEW

Rising organic raw milk production capacity, consolidates the leading position in industry

Although the growth rate of domestic dairy product consumption declined in 2022, the growth rate of high-end organic dairy products consumption is still significant, benefiting from the trend of high-end development of the industry. In order to meet the fast growing demand for high-end organic milk from customers, the Group has been actively increasing its organic raw milk production capacity, with the conversion of one of the Group's farms into an organic farm in 2022, total organic raw milk production for 2022 reached 468,505 tonnes. Against the backdrop of high competitive barriers and difficulties in expanding production in the organic raw milk industry, the Group has maintained a steady expansion of its organic production capacity in recent years, which effectively consolidates the Group's leading position in the organic raw milk market.

Lean operations, increased milk yield per cow and improved raw milk quality

In 2022, the Group continued to promote lean operation management in each farm whilst upgrading the farm facilities to reduce the impact of various stresses on cows and improve cow comfort. Meanwhile, in the current environment of rising feed costs, the Group actively strengthened its management of nutritional feeding for cows by optimizing nutritional formulae based on the cost of different feeds on one hand, and improving herd management on the other hand, so that cows with different productions can be matched with the most suitable feed supply. In addition, the Group developed best feeding practices for cows from different farms to reduce the incidence of cow disease, increase cow production and improve the quality of raw milk. In 2022, the Group's cow milk production levels thus improved significantly, with peak production of both first-born cows and mature cows meeting expected growth targets and average annualised production per milkable cow rising by 0.25 tonnes to 10.52 tonnes per annum. The selling price of raw milk is influenced by the core quality indicators of milk, and the improvement in milk quality has helped the Group maintain a better selling price despite the current environment of falling raw milk prices in the market. During the year, the best-ever passing rate for raw milk with a somatic cell count of <200,000 and microorganisms of <30,000 was achieved and the index values for fat content and protein content also improved compared with the corresponding period of last year, which continue to lead the industry.

Record cow expansion rate achieved under breeding-based strategy

The Group has actively strengthened its dairy cow breeding capacity in the past few years. Through practical and effective selection and breeding measures, the Group has effectively enhanced the level of accuracy and completeness of the genome genealogy of the Group's dairy cows, and implemented the construction of core breeding farms and systematic testing of dairy cow production performance. Core indicators such as milkable cow pregnancy rate, conception rate, cow retention rate and milkable cow culling rate all improved significantly compared with the corresponding period of last year. As a result of the aforesaid, the Group achieved a high growth in reproduction rate of biological assets this year, recording 13,826 more cows in the herd compared with the corresponding period of last year, representing a herd reproduction rate of 11.3%, which is the best level since the establishment of the Group.

Innovative multifunctional raw organic A2 milk to enrich the product matrix

In 2022, the Group looked into a more focused market segment through gaining insight into consumer demand and industry trend, continuously exploring product development and innovation, and ultimately launching the organic A2 raw milk project to meet customer demand. The Group has conducted at least two rigorous DNA tests on each cow in the organic farms (being a total of 20,000 cows) and tested 13 items of single nucleotide polymorphisms (SNP) loci in order to select the best of the best. These best A2 genetic cows are divided into smaller groups and are bred in dedicated cow stalls in dedicated organic farms, where dietary nutrition guarantee, genetic purity guarantee and cow welfare will be monitored to ensure the purity of the raw milk. The successful launch of organic A2 raw milk at the end of the year further enriches the Group's product matrix, and breaks through the homogenisation of the milk industry and promotes raw milk segmentation and product innovation towards more nutritious and scientific functional raw milk.

Improving co-development mechanism and implementing long-term incentive scheme

In terms of human resources, as at 31 December 2022, the Group had a total of 2,845 employees (as at 31 December 2021: 2,682 employees). Total staff costs (including the emoluments of Directors and senior management of the Company and restricted share incentives) in 2022 amounted to RMB330.7 million (2021: RMB272.0 million).

Employees in Hong Kong are provided with retirement benefits, under the Mandatory Provident Fund scheme, as well as life insurance and medical insurance. Employees in Mainland China are provided with pension insurance, medical insurance, employment injury insurance, unemployment insurance, maternity insurance and housing fund contributions in compliance with the requirements of the laws of China.

On 19 April 2022, the Group adopted a long-term share incentive scheme (the "**Share Award Scheme**"). This share incentive scheme aims to improve the corporate governance structure, achieve sustainable development and build a common interest among the Company, shareholders and employees; as well as to attract, retain and motivate outstanding talents, fully motivate core employees and continuously stimulate high-quality growth of the team performance. Under this Share Incentive Scheme, the Group granted an aggregate of 108,942,111 award shares, representing 1.3% of the Group's issued shares, to 59 senior and middle management and 1 director. Subject to vesting conditions being fulfilled, 50% of these award shares will vest on 20 April 2023 and the remaining 50% will vest on 20 April 2024. In addition, the Group continued to promote the professionalisation and rejuvenation of its talent during the year, there was a marked improvement in the academic qualifications and skill titles of its employees. Through various training activities and farm skill competitions, the theoretical knowledge and skills of the employees were effectively enhanced and a positive atmosphere of "learning from each other and helping each other" was nurtured within the Company.

Proactively implementing a dual carbon strategy and digital transformation to enhance corporate brand power and competitive strength

In line with China's "dual carbon" strategic goal and the Paris Agreement commitment to limit global warming to 1.5 degrees Celsius, China Shengmu keeps up with the times and plays a leading role in the industry by scientifically planning its carbon emissions and striving towards the industry's carbon neutral goal. China Shengmu scientifically developed a process and mechanism for the "carbon baseline" inventory check, covering cow intestinal fermentation, manure management and energy consumption, and the 2021 "carbon baseline" inventory check was completed in the first half of 2022 under the guidance of internationally accepted scientific methodology. Based on the results of the inventory check, Shengmu drew up a carbon emission target pathway, established scientific carbon targets, incorporated carbon reduction into various operational aspects, and strived to build a green ecosphere driven by the dual elements of "farming plus carbon reduction (種養加減碳)" and "carbon sequestration by agriculture, forestry and grass (農林草固碳)", contributing "Shengmu wisdom" to sustainable development.

In order to protect the safety of employees, improve the Company's first aid equipment and improve the emergency treatment mechanism, China Shengmu launched the AED equipment installation work for the office building and each farm in 2022.

Giving back to the society is an important part of China Shengmu's commitment to sustainable development and fulfilling social responsibility. China Shengmu emphasizes the need to take into account both economic and social benefits in corporate development, Shengmu donated RMB6.3 million to fight the pandemic and support poverty alleviation in 2022.

The Group's carbon neutral management and ESG initiatives continued to be widely reported and recognised as industry benchmarks. At the World Dairy Summit, China Shengmu was awarded the Innovation in Climate Action Award issued by the International Dairy Federation (IDF). The award focuses on corporate sustainability, including environmental protection and positive impact it has, and aims to encourage innovative practices in the global dairy industry.

The case of China Shengmu turning the "bare desert" into an "fertile oasis" was selected for the "China Enterprise Action Report for Sustainable Consumption".The report was released during the 27th Conference of the Parties (COP27) to the United Nations Framework Convention on Climate Change. The report aims to showcase the contribution of Chinese enterprises in addressing climate change and supporting SDG12 (in terms of responsible consumption and production) and to set a benchmark for sustainable consumption and production by Chinese enterprises.

In terms of digitalisation, the Company was awarded the "Industry Chain Emerging Enterprise of the Year Award" for its outstanding contribution in leading the digital transformation of the cows industry in the 2022 "Dingge Award" Digital Transformation Pioneer List. The "Dingge Award" is a testament to the recognition of the Group's digital transformation efforts by the market and the industry. Under the new technological landscape, the Group has actively explored innovative development models, accelerated the creation of digital intelligent farms with the help of SAP digital core solutions, and precipitated a methodology for digital transformation and upgrading, providing rich experience for the digital transformation and upgrading of similar enterprises in the industry and helping the industry to innovate and strengthen in the wave of digitalization.

Steady expansion of production capacity, construction of demonstration park as scheduled

In order to realize the Group's future strategic plans to achieve growth in organic milk sales and profits, the Group commenced the construction of a dairy farming demonstration zone at its base in the Ulan Buh Desert during the year. The demonstration area is a dairy farming demonstration project under the guidance and support of the local government for high quality, green and low carbon development, with an aim to promote the modernisation of agriculture and rural development. In the future, the Group will continue to make more plans and it anticipates building a 10,000-head dairy farm and a demonstration organic farm in the park, with a total planned investment of approximately RMB650 million for the 10,000-head dairy farm project. 80,000 tonnes of high quality organic milk is expected to be produced each year after commencement of production of the 10,000-head farm project, which will drive the cultivation of 28,000 mu of green maize in the surrounding area, indirectly driving the development of the tertiary industry and increasing the income of thousands of people in the area. The organic demonstration farm will adopt a centralised and intelligent farming model and is expected to produce an average of approximately 20,000 tonnes of fresh milk per year. The organic demonstration farm is equipped with a fully intelligent barn, automatic mixing and feeding system, intelligent milking robot, intelligent automatic feeding robot, automatic manure cleaning robot, intelligent spraying system, ecological manure treatment system and intelligent information management system, etc. Upon completion, the farm will become a leading automated intelligent farming facility in China.

FINANCIAL REVIEW

In 2022, the Group's sales revenue amounted to RMB3,176.3 million (2021: RMB2,984.6 million), representing a year-on-year increase of 6.4%. Profit for the year amounted to RMB450.1 million (2021: RMB509.6 million), representing a year-on-year decrease of RMB59.5 million due to the impact of the increase in bulk feed prices and decrease in milk prices. Profit attributable to owners of the parent amounted to RMB416.5 million (2021: RMB471.7 million), representing a year-on-year decrease of RMB55.2 million. During the year, the Group's gross profit margin was 31.9% (2021: 35.7%), representing a year-on-year decrease of 3.8%.

ANALYSIS ON CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Sales revenue

	For the year ended 31 December	
	2022	2021
Sales revenue (RMB'000)	**3,176,253**	2,984,616
Sales volume (tonnes)	**635,451**	584,787
Average selling price (RMB/KG)	**5.0**	5.1

In 2022, the Group's raw milk sales revenue amounted to RMB3,176.3 million (2021: RMB2,984.6 million), representing a year-on-year increase of 6.4%, mainly benefiting from the optimization of product structure and increase in sales volume. During the year, the Group converted one more farm into an organic farm, which contributed to a year-on-year increase of 15.9% in organic raw milk sales volume. The increase in the proportion of organic raw milk sales contributed to the growth of the Group's sales revenue.

In 2022, milk production levels of the Group's cows improved significantly, with peak production of both first-born cows and mature cows meeting expected growth targets and average annualized milk yield per milkable cow increasing by approximately 0.25 tonnes year-on-year to 10.52 tonnes. The increase in milk yield per cow and the increase in the number of milkable cows enabled the Group to achieve a sales volume of 635,451 tonnes for raw milk during the year (2021: 584,787 tonnes), representing a year-on-year increase of 8.7%.

In 2022, where raw fresh milk prices across the industry were generally declining, the average selling price for raw milk reached RMB5.0/KG (2021: RMB5.1/KG), representing a slight year-on-year decrease of 2.0%, by virtue of the uniqueness and high quality of desert organic raw milk.

Cost of sales, gross profit and gross profit margin

Unit: RMB'000, except percentages

	For the year ended 31 December	
	2022	2021
Cost of sales	**2,163,571**	1,920,226
Gross profit	**1,012,682**	1,064,390
Gross profit margin	**31.9%**	35.7%

In 2022, gross profit margin decreased by 3.8% from 35.7% in 2021 to 31.9% in 2022 due to the combined effect of higher bulk feed prices and lower raw milk prices, despite the year-on-year growth in total sales volume. The Group proactively adjusted its product structure to increase the proportion of sales of high-value products and continuously improved its internal operational capabilities, which allowed the Company to enjoy economies of scale in respect of herd size and key indicators such as average milk yield per milkable cow reached new highs. The combination of these measures has effectively curbed the significant decline in gross margin.

Loss arising from changes in fair value less costs to sell of biological assets

Loss arising from changes in fair value less costs to sell of biological assets mainly represents fair value changes in the dairy cows, due to changes in the physical attributes and market prices of the dairy cows and the discounted future cash flow to be generated by those cows. In general, the value of a heifer increases when it grows up to a milkable cow, as the discounted cash flow from milkable cow is higher than the selling price of heifer. Further, when a milkable cow is ousted and sold, its value decreases.

In 2022, the Group's loss arising from changes in fair value less costs to sell of biological assets was RMB291.4 million (2021: RMB248.8 million), representing a year-on-year increase of 17.1%. This was mainly due to the combined effect of the increase in cow feeding costs as a result of factors such as the increase in feed prices and the decrease in market prices for culled cows, resulting in an increase in losses.

The Group continued to optimize its herd structure, achieving significant improvements in core indicators such as milkable cow pregnancy rate, conception rate, cow retention rate and cow reproduction rate, especially the cow culling rate which dropped by 1.4 percentage points year-on-year. The reduction in cow culling rate in turn contributed to the reduction in fair value loss.

Other income and gains

In 2022, other income and gains amounted to RMB46.1 million (2021: RMB23.0 million). Other income and gains mainly included beef cattle farming business, government subsidies, interest income, gain (or loss) on disposal of equity interests, etc.

During the year, the Group's beef cattle farming business slaughtered 12,583 heads of beef cattle, achieving revenue of RMB123.6 million.

Beef cattle farming business:

	For the year ended 31 December	
	2022	2021
	RMB'000	RMB'000
Sales volume (head)	**12,583**	3,811
Revenue of beef cattle farming business	**123,595**	33,132
Cost of beef cattle farming business	**115,305**	32,407
Gross profit	**8,290**	725
of which: classified to loss arising from changes in fair value less costs to sell of biological assets	**8,290**	725

Selling and distribution expenses

In 2022, selling and distribution expenses amounted to RMB55.2 million (2021: RMB53.8 million). Selling and distribution expenses mainly included logistics and transportation expenses and staff remuneration, etc.

Administrative expenses

In 2022, administrative expenses amounted to RMB141.0 million (2021: RMB111.7 million), representing 4.4% (2021: 3.7%) of sales revenue. Administrative expenses mainly included salary and welfare, travel expenses and transportation expenses of the management and administrative employees, as well as administrative types of expenses such as brokerage and services (including share-settled restricted share award expenses). The Group granted a total of 108,942,111 award shares to 59 senior and middle management staff and 1 Director under the Share Award Scheme and the award shares was a major factor contributing to the year-on-year increase in administrative expenses.

Other expenses

In 2022, other expenses amounted to RMB42.0 million (2021: RMB56.1 million), representing a year-on-year decrease of 25.1%. Other expenses mainly included expenses for provision for litigation and donations.

Finance costs

In 2022, finance costs amounted to RMB57.4 million (2021: RMB71.2 million), representing a year-on-year decrease of 19.3%. During the year, despite the year-on-year increase of 9.6% in interest-bearing liabilities, the Group achieved a steady reduction in interest rates on bank loans and the total interest on loans remained largely the same as that of the previous year. Total finance costs decreased year-on-year as the Company recorded currency swap gains in the year.

Share of the profit and loss of associates

The Group's associates include: (a) Inner Mongolia Mengniu Shengmu Hi-Tech Dairy Products Co., Ltd. (內蒙古蒙牛聖牧高科乳品有限公司), owned as to 49.0% by the Group, which is primarily engaged in the operating and selling of Shengmu organic liquid milk products; (b) Food Union Shengmu Dairy Co., Ltd. (富友聯合聖牧乳品有限公司) ("**Food Union Shengmu**") and Inner Mongolia Shengmu Low Temperature Dairy Product Company Limited (內蒙古聖牧低溫乳品有限公司), both of which the Group held minority interests in producing dairy products with raw milk from the Group; (c) Inner Mongolia Yiyingmei Dairy Co., Ltd. (內蒙古益嬰美乳業有限公司), in which the Group held minority interests, producing high-end organic infant milk powder with the raw milk from the Group in the future; and (d) Mudanjiang Liangyuan Technology Limited (牡丹江糧源科技有限公司), which the Group held minority interests, which is primarily engaged in feed processing. In 2022, the share of losses of the above associates amounted to RMB20.4 million (2021: RMB25.7 million).

Income tax expense

All profits of the Group were derived from its operations in the People's Republic of China (the "**PRC**" or "**China**"). According to the Enterprise Income Tax Law of the PRC (the "**EIT Law**"), the Group's subsidiaries in the PRC are generally subject to a PRC corporate income tax at a rate of 25%. According to the preferential provisions of the EIT Law, the Group's income arising from agricultural activities, such as dairy farming and processing of raw agricultural products, is exempted from enterprise income tax. Under the PRC tax laws and regulations, there is no statutory time limit for such tax exemption as long as the relevant PRC subsidiaries of the Group complete filings with the relevant tax authorities as required.

In 2022, the Group had no income tax expense (2021: RMB0.9 million).

Profit attributable to owners of the parent company and profit attributable to non-controlling interests

In 2022, profit attributable to owners of the parent company amounted to RMB416.5 million (2021: RMB471.7 million), representing a year-on-year decrease of RMB55.2 million or 11.7%, mainly due to the combined impact of the external environment of higher bulk feed prices and a slight year-on-year decrease in raw milk prices.

Profit attributable to non-controlling interests mainly represented the profit for the year attributable to dairy farmers with whom we cooperated in relation to dairy farm management of our farms. In 2022, profit attributable to non-controlling interests amounted to RMB33.6 million (2021: RMB37.9 million).

ANALYSIS OF THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Equity investments measured at fair value through other comprehensive income

As at 31 December 2022, the balance of the Group's financial assets measured at fair value through other comprehensive income amounted to RMB57.0 million (as at 31 December 2021: RMB91.2 million). The Group had engaged an external independent appraiser to evaluate these financial assets using the market approach. The change in fair value was mainly due to the decrease in market value of comparable companies, which was related to the overall performance of the capital market.

Net current liabilities

As at 31 December 2022, the Group's total net current liabilities amounted to RMB195.6 million (as at 31 December 2021: RMB813.0 million), representing a year-on-year decrease of 75.9% in net current liabilities. The Group optimized its financing structure by increasing the proportion of long-term borrowings to 51.4% and reducing the amount of short-term borrowings by approximately RMB400.0 million year-on-year. At the same time, the Group raised its reserves of financial assets such as bank deposits to over RMB1.0 billion to cope with potential risks in the industry.

Liquidity, financial resources and capital structure

As at 31 December 2022, the Group's total equity amounted to RMB4,261.7 million (as at 31 December 2021: RMB3,889.2 million) and the financial leverage ratio (calculated by dividing interest-bearing bank and other borrowings by total equity) was 43.5% (as at 31 December 2021: 43.2%).

As at 31 December 2022, the Group's net borrowings （interest-bearing bank and other borrowings (other than lease liabilities) less cash and bank balances and short-term investment deposits) amounted to RMB891.1 million (as at 31 December 2021: RMB1,147.3 million), representing a year-on-year decrease of 22.3%.

During the year, the Group successfully issued the first social responsibility debentures in the amount of RMB100.0 million in the PRC, which was also the first private enterprise Panda Debentures with credit risk mitigation warrant (CRMW) placement (配售信用風險緩釋憑證) in the PRC. As at 31 December 2022, the Group had interest-bearing liabilities (excluding lease liabilities) of RMB1,840.2 million (as at 31 December 2021: RMB1,679.2 million), all denominated in RMB, of which RMB944.6 million is repayable within one to five years and the remaining interest-bearing liabilities are repayable within one year.

During the year, interest rates on bank borrowings ranged from 1.55% to 4.15% (for year ended 31 December 2021: 1.55% to 5.22%) per annum.

Charge on assets

As at 31 December 2022, the Group had a total restricted bank deposits of RMB199.9 million (as at 31 December 2021: RMB256.5 million), of which RMB114.2 million was pledged to banks in the PRC as deposits for the issuance of letters of credit and bank drafts, and RMB85.7 million was frozen due to litigation.

Capital commitments

As at 31 December 2022, the Group's capital commitments in relation to the acquisition of property, plant and equipment amounted to RMB5.0 million (as at 31 December 2021: RMB2.6 million).

Contingent liabilities

As at 31 December 2022, the Group provided guarantees for bank borrowings of RMB142.9 million (2021: RMB106.5 million) of Bayannur Shengmu High-tech Ecological Forage Co., Ltd (巴彥淖爾市聖牧高科生態草業有限公司). The external guarantees provided by the Group were recognised in the financial statements, adopting the valuation of the guarantees as determined by the independent professional valuer as the best estimate of payment required for the performance of the relevant existing obligations in accordance with the requirements of IFRSs.

The Group made a supplementary provision of RMB35.7 million based on an application for a second trial based on the judgment of a PRC court in a claim against Inner Mongolia Shengmu High-tech Farming Co., Ltd. (內蒙古聖牧高科牧業有限公司) ("**Inner Mongolia Shengmu**"), an indirect wholly-owned subsidiary of the Company, and former directors of the Group, after taking into account the latest development of the case and the legal adviser's opinion.

Foreign exchange risk

The Group's operations are primarily located in Mainland China and the majority of transactions are conducted in RMB. As at 31 December 2022, the Group had no significant foreign exchange risk in respect of its operations except for cash balances of approximately RMB3.3 million, RMB0.2 million and RMB68.7 million denominated in USD, Euro and HKD. As at 31 December 2022, the Group had not entered into any arrangement to hedge against any foreign exchange fluctuations.

Credit risk

The Group only trades with recognized and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. Credit risk related to the Group's other financial assets arises from default of the counterparty with a maximum exposure equal to the carrying amounts of these instruments. Since the Group trades only with recognized and creditworthy third parties, collateral is generally not required.

Environmental policies and performance

In 2022, the Group's operations were in compliance in all material respects with currently applicable national and local environmental protection laws and regulations in the PRC.

Material acquisitions and disposals

In 2022, the Group had the following events: (1) as at 8 June 2022, Inner Mongolia Shengmu entered into an equity transfer agreement with Food Union (Dairy) Hong Kong Limited for the sale of 4.05% equity interest in Food Union Shengmu for a consideration of US$4.5 million. Immediately after completion, Inner Mongolia Shengmu holds 1.85% equity interest in Food Union Shengmu and it continues to be accounted for as an associate under the equity method; and (2) as at 28 June 2022, Inner Mongolia Shengmu entered into an equity transfer agreement with the minority shareholders of Inner Mongolia Shengyou Cattle Industry Co., Ltd. (內蒙古晟有牛業有限公司)("**Shengyou Cattle Industry**") to transfer an aggregate of

15.31% equity interest held by the Minority Shareholders in Shengyou Cattle Industry to Inner Mongolia Shengmu for a consideration of RMB5.2 million. Upon closing, Inner Mongolia Shengmu holds 86.29% equity interest in Shengyou Cattle Industry. Save for the above, the Group did not make any material acquisition and disposals of subsidiaries and associates in 2022.

Future plans for material investments or acquisition of capital assets and expected source of funding

Save as disclosed above in the section headed "Capital Commitments" and in the section headed "Future Plans and Use of Proceeds" in the prospectus, as at the date of this announcement, the Group does not have any plan for material investments or acquisition of capital assets.

Events after the reporting period

Save as disclosed in this announcement, there was no material subsequent event of the Group from the end of the reporting period to the date of this announcement.

FUTURE OUTLOOK

Looking ahead, the Group will actively seek development opportunities under the country's overall strategy of building a strong agricultural country, promoting the revitalization of the countryside, revitalizing the dairy industry and expanding domestic demand, in order to continuously enhance its competitive strength and achieve high-quality sustainable development. The "Implementation Measures of the Responsibility System for Rural Revitalization" seeks to comprehensively promote rural revitalization and accelerate the modernization of agriculture and rural areas. The "14th Five-Year Action Plan to Enhance the Competitiveness of the Dairy Industry" states that by 2025, national milk production will reach about 41 million tonnes, and the proportion of large-scale breeding above 100 heads will reach approximately 75%. The proportion of large-scale farms with grass and animal support and combined farming production will increase by about 5 percentage points. The linkage of farming and processing interests has become closer and more diverse, which in turn enhances the competitiveness of the domestic dairy industry. The "Outline of the Strategic Plan for Expanding Domestic Demand (2022-2035)" refers to the need to vigorously advocate green and low-carbon consumption whilst comprehensively promoting consumption and accelerating the upgrading of consumption; and to actively promote rural modernization and optimize the regional economic layout whilst promoting the coordinated development of urban and rural areas and unlocking the potential of domestic demand. The "Nine Policies and Measures to Promote the Revitalisation of the Dairy Industry in Inner Mongolia Autonomous Region" states that the Inner Mongolia Autonomous Region will formulate corresponding favourable policies relating to the construction of milk source bases, the construction of breeding source bases, the construction of quality forage bases, support for enterprises to become better and stronger, and support for science and technology to facilitate the development of the local dairy industry. The "Inner Mongolia Autonomous Region Policy List for Stabilizing and Promoting High Quality Development of the Industry in 2023" mentions the need to continue to implement actions to revitalize the dairy industry, increase the supply of quality milk sources, encourage the construction of new large-scale cow farms and promote the expansion of quality cow herds. The strong empowerment of national policies and industrial resources shows that the Group has tremendous advantage and development potential in terms of team building, business model and resource endowment. By 2025, relying on the new resource endowment and the support of our major shareholder, China Mengniu Group, the Group will continue to strengthen our cooperation with China Mengniu Group, push forward the implementation of our business plan and achieve our strategic goal of doubling the sales volume of organic raw milk.

In 2023, in light of tough market conditions, the Group will focus on its main business and promote the achievement of various operational targets relating to strategic matters such as the green and organic, animal welfare, native functional raw milk and dual-carbon ESG. In terms of farm management, we will focus on promoting cost reduction and efficiency enhancement on farms, further improving the level of lean management. At the same time, the Group will continue to promote the cow genetic improvement programme and embryo transplant programme to enhance the Group's cows germplasm capability, and increase the scale of beef cows to realise the milk and beef linkage effect of the Group's large-scale farms. The Group will promote the construction of new farms and make key preparations for the construction of farms, the introduction of new cows, the matching of management and operation personnel, the procurement and reserves of feed, etc. At the same time, the Group will actively promote the construction of zero-carbon farms and promote simultaneous carbon sequestration and reduction measures, such that the Group's first zero-carbon farm can be implemented as soon as possible and zero-carbon raw milk can be introduced to the market.

In terms of internal management, in 2023, the Group will continue to practise corporate culture, create a sunny Shengmu, forge a king's division, streamline its operations, strengthen synergy, motivate its employees and reduce costs and increase efficiency. We will nurture a competitive atmosphere of "compare, learn, catch up, help and surpass" within the Company. The Group will also identify and assess the risks of the Company and raise the awareness of risk management among all staff. At the same time, the Group will optimise the organisational structure and promote lean management to achieve a flexible corporate structure and efficient communication and solving for problems, in order to improve management efficiency of the Company. The Group has developed a new organisational structure for the long-term sustainable development of the Group in order to achieve the joint development of the team, business and individuals.

CORPORATE GOVERNANCE PRACTICES

The Company ensures that the Company and its subsidiaries are committed to achieving and maintaining high standards of corporate governance. The Board understands the influence and importance of high standards of corporate governance on the value of the Company, and that good corporate governance is in the interest of the Company and its shareholders as a whole.

For the year ended 31 December 2022, we had adopted, applied and complied with the code provisions contained in the Corporate Governance Code as set out in Part 2 of Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") (the "**Listing Rules**") (as amended from time to time).

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions on terms no less exacting than the required standard of dealings set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules. Having made specific queries to the Directors, all Directors have confirmed that they have complied with the required standards as set out in the Model Code for the year ended 31 December 2022.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Save as disclosed in this announcement, for the year ended 31 December 2022, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities, except that the trustees purchased a total of 77,944,000 ordinary shares of the Company as restricted shares in the open market in accordance with the rules of the Share Award Scheme at an approximate total consideration of HK$29,709,000 (equivalent to RMB26,188,000).

AUDIT COMMITTEE

As at 31 December 2022, the Audit Committee comprised two independent non-executive Directors (Mr. WANG Liyan and Mr. WU Liang) and a non-executive Director (Mr. ZHANG Ping), and was chaired by Mr. WANG Liyan.

The Audit Committee has reviewed, with the Company's management and the external auditors the accounting principles and practices adopted by the Company and discussed auditing, risk management, internal control system and financial reporting matters, including the review of the Group's annual results for the year ended 31 December 2022.

SCOPE OF WORK OF ERNST & YOUNG

The financial information in respect of the announcement of the Group's results for the year ended 31 December 2022 has been agreed by the Group's auditors, Ernst & Young, to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by Ernst & Young in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Ernst & Young on the results announcement.

PROPOSED FINAL DIVIDEND

The Board has recommended the payment of a final dividend of HKD1.13 cents (2021: nil) per ordinary share for the year ended 31 December 2022. Upon shareholders' approval at the forthcoming annual general meeting of the Company, which will be held on Thursday, 15 June 2023 (the "**AGM**"), the proposed final dividend will be paid on or about 30 June 2023 to shareholders whose names appear on the register of members of the Company on Monday, 26 June 2023. No dividend was paid during the year (2021: nil).

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed (i) from Monday, 12 June 2023 to Thursday, 15 June 2023, both days inclusive, for determining shareholders' eligibility to attend and vote at the AGM, and (ii) from Wednesday, 21 June 2023 to Monday, 26 June 2023, both days inclusive, for determining shareholders' entitlement to the proposed final dividend, during which periods no transfer of shares will be registered.

In order to qualify for attending and voting at the forthcoming AGM to be held on Thursday, 15 June 2023, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar, Tricor Investor Services Limited, at 17/F, Far East Financial Centre, 16 Harcourt Road, Hong Kong no later than 4:30 p.m. on Friday, 9 June 2023.

In order to qualify for the proposed final dividend, all transfers, accompanied by the relevant share certificates must be lodged with the Company's branch share registrar, Tricor Investor Services Limited, at 17/F, Far East Financial Centre, 16 Harcourt Road, Hong Kong no later than 4:30 p.m. on Tuesday, 20 June 2023.

AGM

The AGM will be held on Thursday, 15 June 2023. A notice convening the AGM will be published on the websites of Stock Exchange and the Company and despatched to shareholders in due course.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This annual results announcement is published on the website of the Stock Exchange at www.hkexnews.hk and on the website of the Company at www.youjimilk.com. The annual report of the Company for the year of 2022 containing all the information required by the Listing Rules will be dispatched to shareholders and published on the above websites in due course.

APPRECIATION

The Board would like to take this opportunity to express gratitude to our shareholders for their continued support, and to all our staff for their hard work and commitment.

By Order of the Board
China Shengmu Organic Milk Limited
Lu Minfang
Chairman

Hong Kong, 28 March 2023

As at the date of this announcement, the executive Director of the Company is Mr. Zhang Jiawang; the non-executive Directors of the Company are Mr. Lu Minfang, Mr. Sun Qian, Mr. Zhang Ping, Mr. Zhao Jiejun and Ms. Shao Lijun; and the independent non-executive Directors of the Company are Mr. Wang Liyan, Mr. Wu Liang and Mr. Sun Yansheng.