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**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 2023**

**FINANCIAL HIGHLIGHTS**

(All amounts in Renminbi (“RMB”) thousands unless otherwise stated)	For the year ended 31 December		
	2023	2022	Movements
Operating income <sup>(1)</sup>	<b>3,520,212</b>	3,335,669	<b>+5.5%</b>
Revenue	<b>3,383,629</b>	3,176,253	<b>+6.5%</b>
Gross profit	<b>1,025,020</b>	1,012,682	<b>+1.2%</b>
Profit attributable			
to owners of the parent	<b>86,076</b>	416,460	<b>-79.3%</b>
Cash EBITDA <sup>(2)</sup>	<b>991,013</b>	936,875	<b>+5.8%</b>

**KEY OPERATING DATA**

Sales volume (tonnes)	<b>711,465</b>	635,451	<b>+12.0%</b>
Average milk yield per milkable cow (tonnes/year • head)	<b>11.38</b>	10.52	<b>+8.2%</b>
Herd size (heads)	<b>148,029</b>	136,344	<b>+8.6%</b>

**DIVIDEND**

The Board of the Company recommended the payment of final dividend of HKD0.23 cents (2022: HKD1.13 cents) per ordinary share.

## HIGHLIGHTS

- **Stable development of core business, continuous improvement in operational efficiency:**

Against the backdrop of declining milk prices and high feed costs in the industry, the Group focused on its organic milk business with core competitiveness and achieved a year-on-year (“yoy”) increase of 19.7% in sales volume of organic raw milk, a yoy decrease of 2.6% in the cost of sales of a kilogram of raw milk, and a yoy increase of 5.8% in cash EBITDA; and the Group’s performance in terms of operating indicators was remarkable through lean farm management. Daily milk production exceeded 2,000 tonnes for the first time, of which up to 1,667 tonnes of organic raw milk was produced daily; cow herd increased by 8.6% as compared with the end of the previous year, and the average milk yield per milkable cow reached a record high, representing a yoy increase of 8.2%.

- **Decrease in financing costs and growth in high net asset value:**

The Group has deepened bank-enterprise co-operation and optimized its debt structure; explored value synergies along the industrial chain and practised green finance, with the total credit granted exceeding RMB10 billion, the proportion of medium- and long-term interest-bearing liabilities rising to 57.3%, and finance costs dropping by 7.6% yoy, and the abundant cash reserves guaranteeing the Company’s stable operation. Internally, the Group is committed to building high net asset value, with the quality of net income getting better and the profit-to-cash ratio rising steadily; and the value of biological assets is stable, which has suppressed the cyclical pressure of the industry and helped the Company’s sustainable and healthy development.

- **Core products have become more competitive and the Company has been honoured again:**

China Entry-Exit Inspection and Quarantine Association issued the “Ulan Buh Desert Raw Milk” Ecological Product of Origin Protection Certificate to the Group, making the Group the only “Raw Milk” Ecological Product of Origin Protection Enterprise in China.

Shengmu Organic was awarded the Gold Prize of the Organic Products Expo for 11 consecutive years at the 16<sup>th</sup> Asian International Organic Products Expo.

The Group has been appraised by the Ministry of Agriculture and Rural Affairs of the PRC as a national key leading enterprise in agricultural industrialization based on its remarkable achievements in promoting the modernization of the agricultural industry, upgrading the quality and safety standards of agricultural products and promoting the development of the dairy industry.

- **Practise sustainable development and leading the industry in ESG:**

As a leading organic raw milk enterprise in China, the Group leads the industry in sustainable development and promotes the synergy of economic, social and natural environmental benefits to create an organic, ecological and intelligent Shengmu, and to create a sustainable future together with its interested parties.

The Group was selected as one of the 2023 Listed Company ESG Excellent Practice Cases by the China Listed Companies Association for its industry practice of “Ploughing the Desert and Promoting High Quality and Sustainable Development with ESG”.

In August 2023, the Group was honoured with the title of “ESG Disclosure Enhancement Pioneer Organization” at the Hong Kong Green and Sustainability Contribution Awards 2023 presentation ceremony.

In December 2023, the Group was awarded the 18<sup>th</sup> People’s Corporate Social Responsibility Award - Green Development Award for its long-term efforts and outstanding contributions in the fields of ecological civilization construction and social responsibility.

- (1) Operating income is calculated as revenue plus other revenues;
- (2) Cash EBITDA is defined as earnings before finance costs and tax after adjusting the following items: i) depreciation and amortization charged to profit and loss; ii) other income and gains (non-cash items); iii) impairment losses under the expected credit loss model, net of reversals; iv) other expenses (non-cash items); and v) loss arising from changes in fair value less costs to sell of biological assets.

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 2023 together with comparative figures for the year ended 31 December 2022.

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND  
OTHER COMPREHENSIVE INCOME**

	Notes	For the year ended 31 December	
		2023	2022
		RMB'000	RMB'000
<b>REVENUE</b>	3	<b>3,383,629</b>	3,176,253
Cost of sales		<b>(2,358,609)</b>	(2,163,571)
Gross profit		<b>1,025,020</b>	1,012,682
Loss arising from changes in fair value less costs to sell of biological assets		<b>(706,302)</b>	(291,385)
Fair value changes of financial guarantee contracts		<b>(124)</b>	(1,584)
Other income and gains	3	<b>72,319</b>	46,109
Selling and distribution expenses		<b>(62,746)</b>	(55,177)
Administrative expenses		<b>(166,309)</b>	(140,984)
Reversal of impairment losses on financial and contract assets, net		<b>1,651</b>	231
Other expenses		<b>(2,545)</b>	(42,001)
Finance costs	5	<b>(53,104)</b>	(57,446)
Share of profits and losses of associates		<b>(10,174)</b>	(20,372)
<b>PROFIT BEFORE TAX</b>	4	<b>97,686</b>	450,073
Income tax expense	6	<b>(3,074)</b>	—
<b>PROFIT FOR THE YEAR</b>		<b>94,612</b>	450,073
Profit attributable to:			
Owners of the parent		<b>86,076</b>	416,460
Non-controlling interests		<b>8,536</b>	33,613
		<b>94,612</b>	450,073
<b>EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT</b>	8		
Basic		<b>RMB0.0104</b>	RMB0.0499
Diluted		<b>RMB0.0103</b>	RMB0.0496

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

	<b>For the year ended 31 December</b>	
	<b>2023</b>	<b>2022</b>
	<b>RMB'000</b>	<b>RMB'000</b>
<b>PROFIT FOR THE YEAR</b>	<b>94,612</b>	<b>450,073</b>
<b>OTHER COMPREHENSIVE INCOME</b>		
Other comprehensive income that may not be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	—	301
Net other comprehensive income that may not be reclassified to profit or loss in subsequent periods	—	301
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:		
Equity investments designated at fair value through other comprehensive income:		
Changes in fair value	<b>4,000</b>	(34,200)
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods	<b>4,000</b>	(34,200)
<b>OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX</b>	<b>4,000</b>	(33,899)
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<b>98,612</b>	<b>416,174</b>
Attributable to:		
Owners of the parent	<b>90,076</b>	382,561
Non-controlling interests	<b>8,536</b>	33,613
	<b>98,612</b>	<b>416,174</b>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	As at	
		31 December	31 December
		2023	2022
		RMB'000	RMB'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		1,945,138	1,703,982
Right-of-use assets		595,729	554,068
Other intangible assets		10,893	9,145
Investments in associates		23,353	34,352
Biological assets		3,122,650	3,052,124
Prepayments, other receivables and other assets		49,848	—
Other financial assets		61,000	57,000
Cash and bank balances		552,429	—
Long-term receivables		829	2,036
Total non-current assets		6,361,869	5,412,707
<b>CURRENT ASSETS</b>			
Inventories		1,006,841	880,650
Biological assets		91,579	66,327
Trade receivables	9	303,329	276,856
Prepayments, other receivables and other assets		79,053	102,048
Other financial assets		130,000	459,000
Restricted bank deposits		148,783	199,867
Cash and bank balances		395,457	490,177
Total current assets		2,155,042	2,474,925
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	10	1,706,705	1,476,138
Other payables and accruals		390,779	296,179
Lease liabilities		13,380	2,586
Super short-term loan	11	—	100,000
Interest-bearing bank borrowings	11	911,383	795,610
Total current liabilities		3,022,247	2,670,513
<b>NET CURRENT LIABILITIES</b>		(867,205)	(195,588)
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		5,494,664	5,217,119

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

		As at	
		31 December	31 December
		2023	2022
Note		RMB'000	RMB'000
<b>NON-CURRENT LIABILITIES</b>			
	Lease liabilities	38,553	10,797
	Interest-bearing bank borrowings	1,219,856	944,640
	Total non-current liabilities	1,258,409	955,437
	Net assets	4,236,255	4,261,682
<b>EQUITY</b>			
<b>Equity attributable to owners of the parent</b>			
	Share capital	69	69
	Treasury shares held under share award scheme	(76,887)	(26,188)
	Reserves	4,099,886	4,081,306
		4,023,068	4,055,187
	<b>Non-controlling interests</b>	213,187	206,495
	<b>Total equity</b>	4,236,255	4,261,682

## 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, Uglund 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 AND DISCLOSURES

#### **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 2023. 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 AND DISCLOSURES (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 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.

## 2. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

### **Basis of Preparation (Continued)**

#### Basis of consolidation (continued)

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, any non-controlling interest and the exchange fluctuation reserve; and recognises the fair value of any investment retained and 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.

#### Going concern

The Group had net current liabilities of RMB867,205,000 as at 31 December 2023 (2022: net current liabilities of RMB195,588,000). 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 and cash flow projections for the year ending 31 December 2024, 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 IAS 1 and IFRS Practice Statement 2	<i>Disclosure of Accounting Policies</i>
Amendments to IAS 8	<i>Definition of Accounting Estimates</i>
Amendments to IAS 12	<i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction</i>
Amendments to IAS 12	<i>International Tax Reform – Pillar Two Model Rules</i>

## 2. BASIS OF PREPARATION AND 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 IAS 1 require entities to disclose their material accounting policy information rather than their significant accounting policies. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. Amendments to IFRS Practice Statement 2 *Making Materiality Judgements* provide non-mandatory guidance on how to apply the concept of materiality to accounting policy disclosures. The Group has disclosed the material accounting policy information in note 2 to the financial statements. The amendments did not have any impact on the measurement, recognition or presentation of any items in the Group's financial statements.
- (b) Amendments to IAS 8 clarify the distinction between changes in accounting estimates and changes in accounting policies. Accounting estimates are defined as monetary amounts in financial statements that are subject to measurement uncertainty. The amendments also clarify how entities use measurement techniques and inputs to develop accounting estimates. Since the Group's approach and policy align with the amendments, the amendments had no impact on the Group's financial statements.
- (c) Amendments to IAS 12 *Deferred Tax related to Assets and Liabilities arising from a Single Transaction* narrow the scope of the initial recognition exception in IAS 12 so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences, such as leases and decommissioning obligations. Therefore, entities are required to recognise a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability for temporary differences arising from these transactions. The amendments are not expected to have any significant impact on the Group's financial statements.

## 2. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

- (d) Amendments to IAS 12 *International Tax Reform – Pillar Two Model Rules* introduce a mandatory temporary exception from the recognition and disclosure of deferred taxes arising from the implementation of the Pillar Two model rules published by the Organisation for Economic Co-operation and Development. The amendments also introduce disclosure requirements for the affected entities to help users of the financial statements better understand the entities' exposure to Pillar Two income taxes, including the disclosure of current tax related to Pillar Two income taxes separately in the periods when Pillar Two legislation is effective and the disclosure of known or reasonably estimable information of their exposure to Pillar Two income taxes in periods in which the legislation is enacted or substantively enacted but not yet in effect. The Group has applied the amendments retrospectively. Since the Group did not fall within the scope of the Pillar Two model rules, the amendments did not have any impact to the Group.

## 3. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	<b>For the year ended 31 December</b>	
	<b>2023</b>	<b>2022</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Revenue from contracts with customers	<b><u>3,383,629</u></b>	<u>3,176,253</u>

### Revenue from contracts with customers

	<b>For the year ended 31 December</b>	
	<b>2023</b>	<b>2022</b>
<b>Segment</b>	<b>Sales of raw milk RMB'000</b>	<b>Sales of raw milk RMB'000</b>
<b>Type of goods</b>		
Sale of products	<b><u>3,383,629</u></b>	<u>3,176,253</u>
<b>Geographical market</b>		
Chinese Mainland	<b><u>3,383,629</u></b>	<u>3,176,253</u>
<b>Timing of revenue recognition</b>		
Goods transferred at a point in time	<b><u>3,383,629</u></b>	<u>3,176,253</u>

### 3. REVENUE, OTHER INCOME AND GAINS (CONTINUED)

	For the year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Other income and gains		
Other income		
Beef cattle	66,134	147,409
Raw materials	70,449	12,007
Total other income	<u>136,583</u>	<u>159,416</u>
Other costs		
Beef cattle	(66,134)	(147,409)
Raw materials	(70,721)	(12,374)
Total other costs	<u>(136,855)</u>	<u>(159,783)</u>
Government grants*	45,198	12,893
Bank interest income	18,733	8,314
Other interest income from financial assets		
at fair value through profit or loss	10,822	8,945
Foreign exchange differences, net	354	(2,658)
Loss on disposal of items of property, plant and equipment	(5,141)	(3,204)
Impairment loss of items of property, plant and equipment	—	(8,179)
Impairment of inventories	(3,511)	—
Gain on partial disposal of an associate	—	25,741
Others	6,136	4,624
Total other income and gains	<u>72,319</u>	<u>46,109</u>

\* The government grants have been received for the Group's contribution to the development of the local farming industry. There are no unfulfilled conditions or contingencies attaching to these grants.

#### 4. PROFIT BEFORE TAX

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

	For the year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Cost of inventories sold	2,358,609	2,163,571
Loss arising from changes in fair value		
less costs to sell of biological assets	706,302	291,385
Fair value changes of financial guarantee contracts	124	1,584
Depreciation of property, plant and equipment	171,924	156,160
Less: Capitalised in biological assets	(65,554)	(50,058)
Depreciation recognised in the consolidated statement of profit or loss and other comprehensive income	<u>106,370</u>	<u>106,102</u>
Depreciation of right-of-use assets	20,847	6,470
Less: Capitalised in biological assets	(1,375)	(954)
Depreciation recognised in the consolidated statement of profit or loss and other comprehensive income	<u>19,472</u>	<u>5,516</u>
Amortisation of other intangible assets	1,513	1,232
Less: Capitalised in biological assets	(203)	(359)
Amortisation recognised in the consolidated statement of profit or loss and other comprehensive income	<u>1,310</u>	<u>873</u>
Research and development costs	7,093	7,158
Lease payments not included in the measurement of lease liabilities	14,147	9,654
Auditor's remuneration	2,580	2,580
Foreign exchange differences, net	(354)	2,658
Reversal of impairment on financial and contract assets, net	(1,651)	(231)
Impairment losses of property, plant and equipment	—	8,179

#### 4. PROFIT BEFORE TAX (CONTINUED)

	For the year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Provision for litigations and claims	—	35,737
Gain on partial disposal of an associate	—	(25,741)
Loss on disposal of items of property, plant and equipment	5,141	3,204
Employee benefit expense (including directors' and chief executive's remuneration):		
Wages, salaries, bonuses and allowances	307,407	279,655
Other social insurances and benefits	24,724	20,393
Equity-settled share option expenses	32,475	19,687
Pension scheme contributions	12,775	10,966
Total	<u>377,381</u>	<u>330,701</u>

#### 5. FINANCE COSTS

	For the year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Interest on bank loans and other loans	52,295	63,918
Interest on short-term financing bonds	648	80
Fair value loss on interest rate swaps	—	(7,172)
Interest on lease liabilities	161	620
Total	<u>53,104</u>	<u>57,446</u>

## 6. INCOME TAX

	For the year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Current - PRC		
Charge for the year	<u>3,074</u>	<u>—</u>
Total tax charge for the year	<u><u>3,074</u></u>	<u><u>—</u></u>

## 7. DIVIDENDS

A final dividend in respect of the year ended 31 December 2022 of HKD1.13 cents (equivalent to RMB0.99 cents) per share was proposed pursuant to a resolution passed by the Board on 28 March 2023 and was approved at the annual general meeting of the Company on 15 June 2023. The aggregate amount of the final dividend declared and paid in the current year amounted to RMB87,184,000 (2022: nil) and was appropriated from the Company's distributable share premium.

A final dividend in respect of the year ended 31 December 2023 of HKD0.23 cents (equivalent to RMB0.21 cents) per share was proposed pursuant to a resolution passed by the Board on 26 March 2024 and subject to the approval of the shareholders at the 2024 annual general meeting. The proposed dividend is not reflected as dividend payable in the consolidated financial statements.



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

The basic earnings per share amount is 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 8,244,327,000 (2022: 8,352,133,000) 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 RMB86,076,000 (2022: RMB416,460,000). 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 8,244,327,000(2022: 8,352,133,000) shares, plus the weighted average number of ordinary shares which repurchased by the Company and the shares held under the Company's share award scheme.

	<u>Number of shares</u>	
	2023	2022
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	<b>8,244,327,000</b>	8,352,133,000
Effect of dilution – weighted average number of ordinary shares:		
Share award	<u>82,250,000</u>	<u>39,366,000</u>
Total	<u><b>8,326,577,000</b></u>	<u>8,391,499,000</u>

## 9 TRADE RECEIVABLES

	As at	
	31 December 2023	31 December 2022
	RMB'000	RMB'000
Trade receivables	310,656	284,183
Impairment	(7,327)	(7,327)
Net carrying amount	<u>303,329</u>	<u>276,856</u>

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 2023	31 December 2022
	RMB'000	RMB'000
Within 3 months	302,688	276,639
4 to 6 months	—	217
7 months to 1 year	228	—
1 to 2 years	413	—
Total	<u>303,329</u>	<u>276,856</u>

## 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 2023	31 December 2022
	RMB'000	RMB'000
Within 3 months	1,031,541	962,344
4 to 6 months	620,504	471,105
7 to 12 months	44,257	26,049
1 to 2 years	4,982	16,640
2 to 3 years	5,421	—
Total	<u>1,706,705</u>	<u>1,476,138</u>

The trade payables are non-interest-bearing and are normally settled within 90-day terms.

## 11. INTEREST-BEARING BANK AND OTHER BORROWINGS

	As at					
	31 December 2023			31 December 2022		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
<b>Current</b>						
Bank borrowings – unsecured	0.87-3.26	2024	911,383	0.87-4.15	2023	795,610
Super short-term notes - unsecured	—	—	—	3.95	2023	100,000
Total – current			<u>911,383</u>			<u>895,610</u>
<b>Non-current</b>						
Bank borrowings – unsecured	2.4-3.2	2030	1,219,856	2.6-3.05	2025	944,640
Total – non-current			<u>1,219,856</u>			<u>944,640</u>
Total			<u>2,131,239</u>			<u>1,840,250</u>

## 11. INTEREST-BEARING BANK AND OTHER BORROWINGS (CONTINUED)

	As at	
	31 December 2023	31 December 2022
	RMB'000	RMB'000
Analysed into:		
Bank borrowings repayable:		
Within one year or on demand	911,383	795,610
In the third to fifth years, inclusive	1,088,610	944,640
Beyond five years	131,246	—
Subtotal	<u>2,131,239</u>	<u>1,740,250</u>
Other borrowings repayable:		
Within one year or on demand	—	100,000
Subtotal	<u>—</u>	<u>100,000</u>
Total	<u><u>2,131,239</u></u>	<u><u>1,840,250</u></u>

Notes:

- (i) As at 31 December 2023, all of the Group's bank borrowings were denominated in RMB.
- (ii) The super short - term notes with an aggregate nominal amount of RMB100,000,000 were issued by the Company on 27 December 2022 in the Inter-bank Bond Market in the PRC according to the approval by National Association of Financial Market Institutional Investors. The super short-term notes bear annual interest rate of 3.95% and are repayable in 90 days.

## MANAGEMENT DISCUSSION AND ANALYSIS

### INDUSTRY OVERVIEW

In 2023, the macro-economy gradually rebounded amidst the recovery, with China's GDP reaching RMB126,058.2 billion, representing a yoy growth of 5.2%; and the total retail sales of consumer goods for the year amounted to RMB47,149.5 billion, representing an increase of 7.2% compared to the previous year; the sales of basic commodities grew steadily, and the retail sales of food, oil and beverages recorded by businesses of at least a certain scale (限額以上單位) increased by 5.2%; the annual consumer price index (CPI) rose by 0.2% over the previous year, with food, tobacco and alcohol prices rising by 0.3%. The national disposable income per capita for the year was RMB39,218, representing a nominal increase of 6.3% compared to the previous year, while national consumer expenditure per capita for the year was RMB26,796, representing a nominal increase of 9.2% compared to the previous year. Consumption expenditure per capita on food, tobacco and alcohol accounted for 29.8% of consumption expenditure per capita (Engel's coefficient), representing a decrease of 0.7 percentage points from the previous year.

In 2023, in terms of the dairy products industry, consumption of dairy products recovered slowly, but lacked momentum for growth. The production of dairy manufacturing enterprises above the designated size (規模以上乳製品製造企業) in China was 30.546 million tonnes, representing a year-on-year growth of 3.1%. In terms of import, China imported a total of 2.878 million tonnes of various dairy products in 2023, representing a year-on-year decrease of 12.0%, and imported dairy products equivalent to 17.18 million tonnes of raw fresh milk, representing a year-on-year decrease of 10.4%. In the major categories, in 2023, China imported a total of 777,000 tonnes of large packets of powder, representing a year-on-year decrease of 24.9%. Apart from that, imports of condensed milk and packaged milk also declined significantly, by more than 20% compared with the corresponding period, and imports of infant formula decreased by 16%. On the contrary, imports of whey powder and cheese increased by 9.4% and 22.5% respectively during the year. Overall, the total volume of dairy products imported into China has decreased significantly for two consecutive years. With the weakening of the price advantage of imported dairy products and the development of high-end domestic dairy products, the domestic dairy product processing relies more on the supply of domestic raw milk, and the upward trend of the milk supply rate accelerated significantly.

In terms of the dairy farming industry, the upstream supply of raw milk was relatively lax and the growth rate of raw milk production was greater than the growth rate of downstream demand. 41.97 million tonnes of raw milk was produced in China in 2023, representing a year-on-year growth of 6.7%, which was the same as the growth rate in 2022. In view of this, the price of fresh raw milk continued to decline on the basis of last year. As of the last week of December 2023, the average price of fresh raw milk in the primary dairy-producing provinces (regions) as monitored by the Ministry of Agriculture and Rural Affairs was RMB3.66/kg, representing a decrease of 11.2% as compared with the corresponding period last year; the average price for the whole year of 2023 was RMB3.83/kg, representing a year-on-year decrease of 7.9%. In terms of feed costs, although the price of forage decreased slightly as compared with the corresponding period last year, the production cost of raw milk for dairy farms was still high and there was severe cost pressure. According to the monitoring data from the Ministry of Agriculture and Rural Affairs, the national average price of corn in the last week of December 2023 was RMB2.79/kg, representing a year-on-year decrease of 8.5%, and the average price of soya bean in 2023 was RMB4.28/kg, representing a year-on-year decrease of 15.6%. The total volume of imported forage continued to decline. According to customs statistics, in 2023, China imported 1.072 million tonnes of hay, representing a year-on-year decrease of 44.8%. Among them, there was an accumulated 1 million tonnes of imported alfalfa hay, representing a year-on-year decrease of 44.1%, and 72,000 tonnes of imported oat hay, representing a year-on-year decrease of 52.7%. Overall, affected by the slowdown in downstream demand growth and the sustained high costs of upstream forage, the profitability of the dairy farming industry has been further compressed, with some enterprises struggling to continue operations. Cost reduction and efficiency improvement, and a focus on liquidity risk management have become industry commonplace. With the optimization and integration of industry resources, the number of large-scale farms is increasing year by 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. In 2023, the Group's daily fresh milk production exceeded 2,000 tonnes for the first time, reaching 2,119 tonnes. Among them, 18 organic certified farms produced 1,667 tonnes of fresh milk per day; 2 DHA milk farms produced 133 tonnes of fresh milk per day; and 1 organic A2 milk farm produced 34 tonnes of fresh milk per day. The diversified and high-end product structure has enabled the Group to enjoy a clear differentiated competitive advantage in the raw milk industry.

### Herd size

As at 31 December 2023, the Group operated 34 farms, including 2 fattening cow farms. The Group had 148,029 milkable cows and fattening cows in stock, representing an increase of 8.6% as compared with the end of the previous year, with 96,165 organic cows in stock and 51,864 non-organic cows in stock.

During the year, the Group continued to optimize its herd structure and strategically retired inefficient cows, resulting in a significant improvement in the overall quality of the herd, with the proportion of milkable cows accounting for approximately 47.0%, and the healthy and positive development of reserve cows was maintained.

	As at	
	31 December 2023	31 December 2022
<b>Number of Farms (number)</b>	<b>34</b>	33
<b>Milkable Cows (heads)</b>	<b>64,193</b>	64,355
<b>Calves and Heifers (heads)</b>	<b>72,373</b>	63,980
<b>Fattening cows<sup>(1)</sup> (heads)</b>	<b>11,463</b>	8,009
<b>Total (heads)</b>	<b>148,029</b>	136,344

(1) Fattening cows refer to a type of cow that mainly produces beef and the main purpose of which is for selling.

## **OPERATION REVIEW**

### **Organic raw milk sales continued to grow as milk yield reached record high**

In 2023, the Group continued to focus on improving the level of milk yield through lean farm management. The milk yield of milkable cows reached 11.38 tonnes, representing an increase of approximately 0.86 tonnes as compared with the corresponding period, which is the highest level of milk yield since the establishment of the Group. Under the current market environment, the increase in milk yield of milkable cows will effectively enhance the profitability of the Company. With the help of the increase in milk yield, the Group recorded total raw milk sales of 0.711 million tonnes, representing an increase of 12.0% as compared with the corresponding period. Among them, the sales volume of organic raw milk was 0.548 million tonnes, representing an increase of 19.7% as compared with the corresponding period, and the proportion of organic raw milk sales in the total sales of raw milk reached 77.0%. The increase in the proportion of organic raw milk further reinforced the Group's profitability. Despite the decline in raw milk prices in the industry, benefiting from the increase in both the milk yield of milkable cows and the proportion of organic raw milk sales, the Group still recorded growth in sales revenue of RMB3,383.6 million for 2023, representing an increase of RMB207.4 million over the corresponding period.

### **Reducing costs and increasing efficiency, farming costs were effectively controlled**

In 2023, the raw milk market faced severe challenges and the price of raw milk dropped significantly as compared with the corresponding period. During the year, the average price of raw milk sold by the Group was RMB4.76 per kilogram, representing a decrease of 4.9% as compared with the corresponding period. Under such circumstances, the Group actively expanded its cost reduction and efficiency enhancement measures by innovating the farm management model, introducing an excellent nutritional team, optimizing the feeding formula and exploring new technologies and resources. In terms of forage selection, while adopting low-cost forage substitution, the Group also paid attention to the consideration of comprehensive benefits. The optimized forage formula not only effectively controlled the cost of feeding, but also improved the health of the herd and alleviated the impact of stress on the yield and milk index of the cows. In 2023, the Group's cost of sales per kilogram of milk was RMB3.32, representing a decrease of RMB0.08 over the corresponding period.



## **Herd upgrading and optimization, strategic retirement of inefficient cows**

Maintaining the breeding capacity of cows is the basis for ensuring the quality of the herd. In 2023, the Group effectively enhanced the accuracy and completeness of the genomic genealogy of cows through practical and effective selection and breeding measures. In terms of breeding, the Group formulated the Shengmu Breeding Index, placing emphasis on the production and health traits of cows, reducing the proportion of body size traits, and increasing milk protein and mastitis resistance. The Group has also established the IVF system to upgrade the breed of herd, build up a core herd and establish a national core breeding farm. In terms of herd health care, under the concept of focusing on health care and prevention of disease and light on treatment, the proportion of health care expenses was raised and the proportion of treatment expenses was lowered, and overall the herd medication expenses decreased significantly compared with the corresponding period. Meanwhile, the stress of cows was reduced, and the level of passive culling of cows was lowered, such that the health of cows was guaranteed, and the consistency of cows in the whole herd was improved. In the face of changes in supply and demand in the industry, the Group further launched a herd upgrading and optimization plan to improve the standard of cow retention, proactively retire and reduce the size of inefficient cows on the basis of ensuring the continuous optimization of various breeding indexes. As a result, the culling rate of the Group's cows increased as compared with the corresponding period, and with the upgrading of the overall quality of the herd, the Company's overall profitability of dairy farming was also enhanced. Under such influence, the Group's cow reproduction rate was controlled at a relatively healthy level. As at 31 December 2023, the Group's entire herd of cows increased by 11,685 cows as compared with the end of the previous year, and the self-breeding and reproduction rate of productive biological assets was 6.2%.

**The farms are well managed, the Group won the Organic Gold Award, and was awarded the title of National Key Leading Enterprise.**

The Group leverages the resource advantages of the Ulan Buh Desert to care for the welfare of its dairy cows. Relying on the clean desert land, the Group provides a comfortable living environment for dairy cows (warm winters and cool summers in the desert environment), and each farm is equipped with heat protection measures such as fan spraying, as well as warming measures such as windbreaks and temperature-controlled heated water tanks. The farm is kept clean, with manure removed three times a day, such that manure is cleared once the cows move away, and fresh feed is delivered regularly (牛走糞清料到). The farm also has a cow exercise yard, with an average of approximately 80 square metres of activity area per cow, providing sufficient space for cows to relax. In addition to this, the farm also has a variety of measures such as a dedicated nutrition team and a professional veterinary team to ensure the welfare of the dairy cows and create a better life for the cows. As a firm believer in high quality organic raw milk, the Group is determined not to use chemical fertilizers and pesticides in the cultivation of forage, and no hormones and antibiotics are used in the feeding of dairy cows. This has enabled the Group's raw milk quality to remain at an industry-leading level, and during the year, the milk protein rate, milk fat rate, microorganisms <30,000 pass rate, and cell <200,000 pass rate of the Group's raw milk were all further improved as compared with the corresponding period of last year. In the 16<sup>th</sup> Asian International Organic Products Expo, Shengmu Organic won the Gold Award of Organic Products Expo for 11 consecutive years. The improvement of the Group's farm management capability also continued to gain recognition from more industry associations. In 2023, six farms of the Group passed the GAP accreditation review, while seven new farms were accredited with Grade S in the "Modern Dairy Classification and Evaluation of Dairy Farms". In addition, the Group was named as a national key leading enterprise in agricultural industrialization by the Ministry of Agriculture and Rural Affairs of the PRC for its remarkable achievements in promoting agricultural modernization, upgrading the quality and safety standards of agricultural products and promoting the development of the dairy industry, etc.

## **The construction of Deluxe Organic Milk Demonstration Zone was launched, and imported cows were successfully stationed in the zone**

In order to realize the Group's future strategic plan and achieve growth in organic milk sales, the Group has commenced the construction of a dairy farming demonstration zone in the Ulan Buh Desert base. The demonstration zone is a high-quality, green and low-carbon development project to promote the modernization of agriculture and rural development under the guidance and support of the local government. Meanwhile, in order to better coordinate with the customer's business deployment and to enhance the strength of the desert organic milk brand, the demonstration zone will co-operate with Mengniu Deluxe Milk brand, to build the world's first desert oasis farm of Deluxe Milk. During the year, the construction of the demonstration zone was on schedule and the preparatory work for the commencement of production was carried out in an orderly manner. The construction of barns and living quarters for the farm has been completed, and the Group imported over 3,800 high-quality young Holstein cows from Australia which have been successfully stationed in the organic demonstration zone as of the date of this announcement, in view of the low cost of imported cows and the high cost of domestic farming.

## **Take social responsibility with courage, practise sustainable development**

As a leading organic raw milk enterprise in China, the Group has continued to practise sustainable development, improve its corporate sustainable development governance system, promote the synergistic development of economic, social and natural environmental benefits, and build an organic, ecological and intelligent Shengmu, playing a leading role in creating a sustainable future together with its stakeholders. During the year, the Group received awards from various sectors of the society, including being selected as one of the Golden Keys - SDG Leaders; being selected for the report "Implementing Global Development Initiatives and Accelerating the 2030 Agenda for Sustainable Development: Corporate Carbon Neutrality Target Setting, Action and Global Cooperation"; being nominated for the Paulson Award for Sustainable Development; and being awarded the "ESG Disclosure Optimisation Pioneers" by the Hong Kong Quality Assurance Agency at the Hong Kong Green Sustainability Award Presentation Ceremony 2023. The Group was also awarded "ESG Disclosure Enhancement

Pioneer Organisation” by the Hong Kong Quality Assurance Agency at the Hong Kong Green Sustainability Awards 2023 ceremony; the 2023 Outstanding ESG Practice Case for Listed Companies by the Association of Listed Companies in China; the Outstanding Case of the Year by Ernst & Young in the Second Listed Companies Sustainability Summit Forum for “Towards a New Natural Economy Model with Nature’s Benefits at its Core”; and the 18<sup>th</sup> People’s Corporate Social Responsibility Award - Green Development Award for its long-term cultivation and outstanding contribution in the field of ecological civilization construction and social responsibility. In the future, the Group will base on the “farms with cows and forage (種養結合)” to ensure that economic benefits and sustainable development are given equal importance, further promote the sustainable development of agriculture and animal husbandry, protect the Ulan Buh Desert, and contribute to the building of an ecological civilization and the development of a beautiful China.

### **Enhancement of human resources performance, incentive mechanism to stimulate team dynamics**

In terms of human resources, the Group focuses on improving people efficiency and stimulating team dynamics through organizational optimization and performance incentives. In 2023, the Group’s man-to-cow ratio, production per capita and income per capita were all significantly higher than those of the corresponding period. As at 31 December 2023, the Group had a total of 2,701 employees (as at 31 December 2022: 2,845 employees). Total employee costs (including directors’ and senior management’s emoluments and restricted share award of the Group) in 2023 amounted to RMB377.4 million (2022: RMB330.7 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.

In 2023, the Group's long-term share award scheme ("**Share Award Scheme**") was continuously implemented. On 20 April 2023, approximately 50% of the first tranche of a total of 108,942,111 award shares was vested as a result of the achievement of various performance targets of the Company, with the remaining approximately 50% to be vested on 20 April 2024. On 21 April 2023, a second tranche of a total of 99,954,000 award shares was granted by the Group to 66 middle and senior management and 1 director. The Group, through the trustee of the Share Award Scheme ("**Trustee**"), has purchased existing shares of the Company from the open market as award shares in accordance with the Company's instructions, using cash contributed by the Group, and as at 31 December 2023, excluding the shares that have been vested, the Company has purchased an aggregate of 230,986,988 shares of the Company in the open market through the Trustee, representing 2.8% of the Company's issued shares.

## FINANCIAL REVIEW

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

#### Sales revenue

	For the year ended 31 December	
	2023	2022
Sales revenue (RMB'000)	3,383,629	3,176,253
Sales volume (tonnes)	711,465	635,451
Average selling price (RMB/tonnes)	<u>4,756</u>	<u>4,998</u>

In 2023, the Group's raw milk sales revenue amounted to RMB3,383.6 million (2022: RMB3,176.3 million), representing an increase of 6.5% as compared with the corresponding period, which was an increase in total revenue despite the industry backdrop of a general downtrend in the selling price of raw milk in the domestic raw milk market, and brought considerable cash inflow to the Group, which was mainly attributable to the increase in sales of its core product, desert organic raw milk.

The Group focused on its advantageous resources and continued to optimize its product structure. During the year, the sales volume of organic raw milk increased by 19.7% as compared with the corresponding period, with the sales volume of organic raw milk accounting for 77.0% of the total sales volume of raw milk; in terms of product research and development and innovation, the sales volume of "DHA Milk" and "Organic A2 Raw Milk", which were successfully marketed as functional raw milks, grew steadily. In 2023, DHA Milk and Organic A2 Milk achieved sales volumes of 39,355 tonnes and 1,647 tonnes respectively, enriching the product matrix and contributing to revenue growth.

In 2023, in view of oversupply in the industry, the Group took the initiative to retire inefficient cows to improve the structure of the quality dairy herd, and continued to promote the accuracy and completeness of the genome genealogy of cows to achieve continuous improvement in the quality of the herd. In terms of process management and control, the Group strengthened the lean grouping and other operational management initiatives, the level of milk production by cows increases year-on-year, with the milk yield of milkable cows during the year amounting to 11.38 tonnes, representing a year-on-year increase of 8.2% as compared with the corresponding period. The sales volume of raw milk reached 0.711 million tonnes (2022: 0.635 million tonnes), representing a year-on-year increase of 12.0% as compared with the corresponding period. However, due to the weakening of domestic consumption of dairy products, the selling price in the raw milk market continued to decline, the average selling price of the Group's raw milk dropped by 4.9 percentage points to RMB4,756 per tonne (2022: RMB4,998 per tonne) as compared with the corresponding period.

#### **Cost of sales, gross profit and gross profit margin**

Unit: RMB'000, except percentages

	<b>For the year ended 31 December</b>	
	<b>2023</b>	<b>2022</b>
<b>Cost of sales</b>	<b>2,358,609</b>	2,163,571
<b>Gross profit</b>	<b>1,025,020</b>	1,012,682
<b>Gross profit margin</b>	<b><u>30.3%</u></b>	<u>31.9%</u>

In 2023, the cost of sales of raw milk of the Group amounted to RMB2,358.6 million (2022: RMB2,163.6 million), representing an increase of 9.0% as compared with the corresponding period, which was mainly attributable to the increase in sales scale.

In 2023, bulk raw material prices remained at a high level as compared with the corresponding period, and as the production process based on organic raw milk became more stringent, with higher standards for forage quality, this exacerbated the difficulty in controlling the Company's feed costs. The Group achieved a year-on-year decrease of RMB0.08 in the cost of sales of kilogram of milk by expanding channels for cost reduction and efficiency enhancement, innovating the farm management model, optimizing the formula for cow breeding in collaboration with the nutrition team, increasing the utilization rate of forage, better allocating the feeding cost and improving the health of the herd; and internally, continuing to carry out the "Battle of the Milliseconds (毫釐戰役)", strictly controlling various expenses, and achieving new record highs in the yield of milkable cows and other key indexes.

In 2023, due to the lower market price of raw milk, the Group recorded a gross profit margin of raw milk of 30.3% (2022: 31.9%), representing a decrease of 1.6% as compared with the corresponding period. However, by adjusting the organic milk structure to increase the sales volume of organic milk and strengthening internal operation efficiency to reduce costs and increase efficiency, the Group was able to offset the profit impact of the continuous decline in the selling price of raw milk, and achieved a gross profit of raw milk of RMB1,025.0 million (2022: RMB1,012.7 million) for the year, representing a positive increase of 1.2 percentage points as compared with the corresponding period.

### **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 to a milkable cow, as the discounted cash flow from milkable cows is higher than heifers. Further, when a milkable cow is ousted and sold, its value decreases.



In 2023, the loss arising from changes in fair value less costs to sell of biological assets amounted to RMB706.3 million (2022: RMB291.4 million), the increase in loss as compared with the corresponding period was mainly attributable to (i) a substantial increase in the number of retired inefficient cows compared with the corresponding period as the Group proactively retired inefficient cows in order to improve the structure of the high-quality milkable cow herd; and (ii) a yoy decrease in the appraised value of biological assets, as a result of the decrease in the market price of raw milk, the constant high cost of feeds, the decrease in the market price of beef and other factors.

### **Other income and gains**

In 2023, other income and gains amounted to RMB72.3 million (2022: RMB46.1 million), representing an increase of 56.8% as compared with the corresponding period. This mainly included government grants, interest income and beef cow breeding business, etc., of which interest income was RMB29.6 million (2022: RMB17.3 million).

During the year, the Group's beef cow farming business slaughtered 6,854 heads of beef cattle, achieving sales revenue of RMB49.5 million (2022: RMB123.6 million).

### ***Beef cow breeding business***

	<b>For the year ended 31 December</b>	
	<b>2023</b>	<b>2022</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Sales volume (head)	<b>6,854</b>	12,583
Revenue of beef cattle farming business	<b>49,473</b>	123,595
Cost of beef cattle farming business	<b>(58,961)</b>	(115,305)
Gross profit/(loss)	<b>(9,488)</b>	8,290
of which: classified to gain/(loss) arising from		
changes in fair value less costs to sell		
of biological assets	<b>(9,488)</b>	8,290

As a result of the continuous decline in the beef sales market, the slaughtering volume and sales revenue of the Group's beef cow breeding business decreased as compared with the corresponding period, and the gross profit of the beef cow business was at a loss status.

## **Selling and distribution expenses**

In 2023, selling and distribution expenses amounted to RMB62.7 million (2022: RMB55.2 million), representing an increase of 13.7% as compared with the corresponding period. This was mainly attributable to: (i) the growth in the total volume of sales of raw milk; and (ii) the Group's proactive expansion of sales channels in response to the industry cycle, with an increase in the transportation radius as compared with the corresponding period. Selling and distribution expenses include salaries and benefits in addition to transport costs.

## **Administrative expenses**

In 2023, administrative expenses amounted to RMB166.3 million (2022: RMB141.0 million), representing an increase of 18.0% as compared with the corresponding period, and accounted for 4.9% (2022: 4.4%) of sales revenue. This was mainly due to the recognition of the different benefit periods for the expenses related to share awards (2022: from the adoption date of the Share Award Scheme).

Administrative expenses mainly include staff costs, travelling expenses, overheads, brokerage services and depreciation expenses and other administrative types of expenses.

## **Other expenses**

In 2023, other expenses amounted to RMB2.5 million (2022: RMB42.0 million), representing a decrease of 94.0% as compared with the corresponding period. This was mainly due to the recognition of litigation provision expenses of RMB35.7 million in the previous year. Other expenses mainly included donation expenses and litigation provision expenses.

## **Finance costs**

In 2023, finance costs amounted to RMB53.1 million (2022: RMB57.4 million), representing a decrease of 7.6% as compared with the corresponding period. The Group continued to deepen the cooperation between banks and enterprises, practiced green finance, optimized the debt structure and lowered the finance costs. The consolidated financing cost ratio for the year was 2.67%, representing a decrease of 0.98 percentage points as compared with 3.65% for the previous year, which was low compared to rest of the industry and historical figures.

## **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) 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 and produces dairy products with raw milk from the Group; (c) Inner Mongolia Yiyongmei Dairy Co., Ltd. (內蒙古益嬰美乳業有限公司), in which the Group held minority interests and is principally engaged in the production of high-end organic milk powders; 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 2023, the share of losses of the above associates amounted to RMB10.2 million (2022: RMB20.4 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 tax authorities as required.

In 2023, the Group's income tax expense amounted to RMB3.1 million (2022: nil).

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

In 2023, the Group's cash EBITDA was RMB991.0 million (2022: RMB936.9 million), representing an increase of 5.8% as compared with the corresponding period.

As a result of the above combined factors, profit attributable to owners of the parent company for 2023 was RMB86.1 million (2022: RMB416.5 million), representing a decrease of RMB330.4 million as compared with the corresponding period.

Profit attributable to non-controlling interests mainly represents the profit for the year attributable to the dairy farmers with whom we cooperated in relation to dairy farm management of our farms. In 2023, profit attributable to non-controlling interests amounted to RMB8.5 million (2022: RMB33.6 million).

## **LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE**

### **Liquidity and financial resources**

The Group has maintained a prudent financial policy by expanding external financing channels, strengthening co-operation with banks, obtaining sufficient credit lines, ensuring liquidity, reasonably matching the long-term and short-term financing structure and effectively reducing the risk of the Group's use of short-term debts for long-term investments; and internally, centralising the management of funds to improve cash flow operations. The Group's finance department regularly examines the overall cash and debt situation and flexibly arranges financing plans based on the Group's cash flow from operating activities and the maturity profile of financing.

As at 31 December 2023, the Group had cash and cash equivalents of RMB395.5 million (31 December 2022: RMB490.2 million).

### **Interest-bearing bank and other borrowings**

In 2023, the Group's credit facilities exceeded RMB10 billion and the utilization rate was maintained at below 30%, which continuously protected the Company's stable operation. As at 31 December 2023, the Group's available and unutilized credit facilities amounted to approximately RMB8,957.4 million (31 December 2022: RMB5,202.5 million). Having considered (i) the projected cash flows from operating activities of the continuing operations; and (ii) the existing financial assets and leverage level of the Group, the Directors believe that the Group has sufficient financial assets to settle its debts and to finance its day-to-day business operations as well as its contracted capital expenditure as at 31 December 2023.

As at 31 December 2023, the Group had outstanding interest-bearing bank and other borrowings amounting to RMB2,131.2 million (as at 31 December 2022: RMB1,840.2 million), which were all denominated in RMB, of which RMB911.4 million was repayable within one year.

The Group's net borrowings are calculated as interest-bearing bank and other borrowings (excluding lease liabilities) less cash and bank balances and short-term investment deposits. Net borrowings at 31 December 2023 amounted to RMB1,053.4 million (at 31 December 2022: RMB891.1 million), representing an increase of 18.2% as compared with the end of 2022.

In 2023, the interest rate on interest-bearing liabilities ranged from 0.87% to 3.26% per annum (year ended 31 December 2022: 0.87% to 4.15%).

### **Capital Structure**

As at 31 December 2023, the Group's total equity amounted to RMB4,236.3 million (as at 31 December 2022: RMB4,261.7 million), comprising current assets of RMB2,155.0 million, non-current assets of RMB6,361.9 million, current liabilities of RMB3,022.2 million and non-current liabilities of RMB1,258.4 million. Non-current prepayments, other receivables and other assets amounted to RMB49.8 million (2022: nil), which mainly represented the prepayment for the importation of over 3,800 high quality young Holstein cows from Australia during the year.

The Group's financial gearing ratio is calculated as interest-bearing bank and other borrowings (including lease liabilities) divided by total equity. The financial gearing ratio as at 31 December 2023 was 51.5% (as at 31 December 2022: 43.5%).

### **Charge on assets**

As at 31 December 2023, the Group's total restricted bank deposits amounted to RMB148.8 million (as at 31 December 2022: RMB199.9 million), of which RMB63.1 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 2023, the Group's commitments in relation to acquired property, plant and equipment amounted to RMB43.7 million (as at 31 December 2022: RMB5.0 million). The increase was mainly due to the construction of the Smart Farm as scheduled during the year.

## **Contingent liabilities**

As at 31 December 2023, the Group provided guarantees for bank borrowings of RMB69.0 million (as at 31 December 2022: RMB142.9 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.

## **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 2023, the Group had no significant foreign exchange risk in respect of its operations except for cash balances of approximately RMB2.0 million, RMB0.2 million and RMB0.1 million denominated in USD, EURO and HKD. As at 31 December 2023, 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 2023, 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 2023, the Group did not make any material acquisitions and disposals of subsidiaries, associates and joint ventures.

## **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**

China's No. 1 central document for 2024 pointed out it is necessary to adhere to the development of agriculture through industry, quality and green agriculture and accelerate the construction of modern rural industrial system that integrates grain, economy and feed, agriculture, forestry, animal husbandry and fisheries, production, processing and marketing, and the integration of agriculture, culture and tourism, and make agriculture a modernized large industry. In terms of dairy cattle breeding, the document also pointed out that it is necessary to vigorously promote the breakthrough of key core technologies in agriculture such as germplasm, accelerate the expansion of beef cow and sheep farming and dairy production, and vigorously promote the upgrading and transformation of grassland pastoralism. The 2024 Policy on Promoting High-Quality Development of the Milk Industry issued by the Inner Mongolia Autonomous Region mentions the need to stabilise the supply of high-quality milk sources, support the cultivation of high-quality seed sources, increase subsidies for forage storage, promote the increase in production of domestically-produced high-quality alfalfa, and support the expansion of the processing capacity of dairy processing enterprises and the development of deep and intensive processing, etc. The Group will closely follow the policy guidelines of the national and local governments, with the strong empowerment of industrial resources and leveraging on the unique resource endowment of the Ulan Buh Desert, earnestly push forward the implementation of various business objectives and strive to achieve the strategic goal of doubling the sales volume of organic raw milk by 2025 as compared with that of 2020.

In 2024, there remains tension in the supply and demand in the industry, and the enhancement of the enterprise's internal lean management capability is an important means to cope with the external uncertainties. The Group will focus on important issues such as overall cost control, efficiency improvement, herd optimisation, green storage acquisition and commissioning of new farms and farm digitization, in order to achieve a new breakthrough in the Group's operational capability. In terms of business, the Group will make every effort to ensure the high quality growth of the desert organic milk business of its major customer, Mengniu Group, and at the same time construct the Deluxe Milk Organic Industrial Zone with high standards. Operationally, the Group will enhance its digital innovation capabilities and build a highly efficient supply chain to achieve sustainable development.

## **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.

In 2023, we had adopted, applied and complied with the code provisions contained in the Corporate Governance Code as set out in Appendix C1 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 C3 to the Listing Rules. Having made specific queries to the Directors, all Directors have confirmed that they have complied with the required standard set out in the Model Code throughout the year.

## **PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY**

Save as disclosed in this announcement, in 2023, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company’s listed securities, except that the Trustee purchased a total of 206,932,000 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\$72.7 million (equivalent to approximately RMB66.7 million).

## **AUDIT COMMITTEE**

As at 31 December 2023, 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 2023.

## **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 2023 has been agreed by the Group's auditors, Ernst & Young, to the amounts set out in the Group's audited consolidated financial statements for the year ended 31 December 2023. 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 of Directors has recommended the payment of a final dividend for the year ended 31 December 2023 of HK0.23 cents (2022: HK1.13 cents) per ordinary share. The final dividend is proposed to be paid on or about 5 July 2024 to shareholders whose names appear on the register of members of the Company on Friday, 21 June 2024, subject to the approval of shareholders at the annual general meeting of the Company to be held on Friday, 14 June 2024 (the "AGM").

## **CLOSURE OF REGISTER OF MEMBERS**

The register of members of the Company will be closed from (i) Tuesday, 11 June 2024 to Friday, 14 June 2024, both days inclusive, for the purpose of determining shareholders' entitlement to attend and vote at the AGM; and (ii) Thursday, 20 June 2024 to Friday, 21 June 2024, both days inclusive, for the purpose of determining shareholders' entitlement to the Proposed Final Dividend, during which period no transfers of shares will be registered.

In order to qualify for attending and voting at the AGM of the Company to be held on Friday, 14 June 2024, 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, 7 June 2024.

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 Wednesday, 19 June 2024.

## **AGM**

The 2024 AGM will be held on Friday, 14 June 2024. A notice convening the 2024 AGM will be published on the Stock Exchange and the Company's website and despatched to the Shareholders in due course.

## **PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT**

This annual results announcement is published on the websites of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company ([www.youjimilk.com](http://www.youjimilk.com)). The annual report of the Company for the year of 2023, which contains all the information required by the Listing Rules, will be despatched to the shareholders and published on the aforesaid 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, 26 March 2024

*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.*