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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)

FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2021

FINANCIAL HIGHLIGHTS

	For the year ended 31 December		
	2021	2020	Movements
	RMB'000	RMB'000	
Operating income ⁽¹⁾	3,093,764	2,779,148	11.3%
Revenue	2,984,616	2,660,823	12.2%
Gross profit	1,064,390	1,025,118	3.8%
Profit for the year	509,571	460,969	10.5%
Profit attributable to owners of the parent	471,713	406,680	16.0%
Basic earnings per share (RMB)	0.0563	0.0535	5.2%

OPERATION HIGHLIGHTS

- In 2021, the Group received a welcome letter signed by Ms. Sanda Ojiambo, the Director General of the United Nations Global Compact, and thus officially became a corporate member of the United Nations Global Compact (UNGC).
- In 2021, the United Nations Global Compact (UNGC) officially published the “Corporate Net Zero Pathway - Delivering the Paris Agreement and the Sustainable Development Goals”, in which 12 Chinese enterprises including China Shengmu as the first representative enterprise in the livestock industry, China Development Bank, Huawei and Baidu were included in the “Corporate Net Zero Pathway”.
- China Shengmu was selected for the World Economic Forum’s “New Nature Economy Report Series”. With its unique organic ecological sand management system, China Shengmu was selected as the winner of the “Golden Key” award in the “New Nature Economy” category.
- In 2021, the Group was awarded the Protected Ecological Origin Product Mark to promote the branding of the Company’s raw milk, and was the first in the dairy industry to officially become a full member of the International Federation of Organic Agriculture Movements (IFOAM).
- In 2021, nine of the Group’s farms were awarded the Modern Dairy Assessment Rating S and five farms were awarded the Chinese Good Agricultural Practice (GAP).
- In 2021, the Group achieved the transformation of five ordinary farms to organic farms, and sales volume of organic raw milk increased by 38.5% year on year.
- In 2021, the Group achieved significant improvements and upgrades in cost control, efficiency and risk prevention through the successful launch of the SAP-ERP system.

(1) Operating income is calculated based on revenue plus other income.

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 announce the consolidated financial results of the Company and its subsidiaries (the “**Group**” or “**Shengmu**”) for the year ended 31 December 2021 together with the comparative figures for the year ended 31 December 2020.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	For the year ended 31 December	
		2021	2020
		RMB'000	RMB'000
REVENUE	3	2,984,616	2,660,823
Cost of sales		(1,920,226)	(1,635,705)
Gross profit		1,064,390	1,025,118
Loss arising from changes in fair value less costs to sell of biological assets		(248,771)	(224,237)
Fair value changes of financial guarantee contracts		(2,954)	—
Other income and gains/(losses)	3	23,039	(44,457)
Selling and distribution expenses		(53,828)	(32,084)
Administrative expenses		(111,674)	(111,718)
Impairment losses on financial and contract assets, net		(6,814)	1,683
Other expenses		(56,089)	(997)
Finance costs	5	(71,170)	(116,788)
Share of losses of associates		(25,697)	(35,551)
PROFIT BEFORE TAX	4	510,432	460,969
Income tax expense	6	(861)	—
PROFIT FOR THE YEAR		509,571	460,969
Profit attributable to:			
Owners of the parent		471,713	406,680
Non-controlling interests		37,858	54,289
		509,571	460,969
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted	8	RMB0.0563	RMB0.0535

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

	For the year ended 31 December	
	2021	2020
	RMB'000	RMB'000
PROFIT FOR THE YEAR	509,571	460,969
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	(650)	2,013
Net other comprehensive income/(loss) that may not be reclassified to profit or loss in subsequent periods	(650)	2,013
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	12,038	—
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods	12,038	—
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	11,388	2,013
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	520,959	462,982
Attributable to:		
Owners of the parent	483,101	408,693
Non-controlling interests	37,858	54,289
	520,959	462,982

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at	
	Notes	31 December 2021	31 December 2020
		RMB'000	RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		1,699,637	1,772,651
Right-of-use assets		519,306	45,100
Other intangible assets		7,591	6,242
Investments in associates		59,048	122,255
Biological assets		2,698,642	2,572,102
Other financial assets		91,200	—
Long term receivables		6,355	10,498
Total non-current assets		5,081,779	4,528,848
CURRENT ASSETS			
Inventories		768,105	715,078
Biological assets		65,598	15,008
Trade receivables	9	248,137	136,611
Prepayments, other receivables and other assets		107,641	614,578
Other financial assets		72,000	—
Restricted bank deposits		256,490	387,452
Cash and bank balances		531,835	327,651
Total current assets		2,049,806	2,196,378
CURRENT LIABILITIES			
Trade and bills payables	10	1,253,354	1,699,448
Other payables and accruals		302,088	239,981
Derivative financial instruments		7,172	—
Tax payable		618	—
Interest-bearing bank borrowings		1,299,529	1,335,873
Total current liabilities		2,862,761	3,275,302
NET CURRENT LIABILITIES		(812,955)	(1,078,924)
TOTAL ASSETS LESS CURRENT LIABILITIES		4,268,824	3,449,924

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

	As at	
	31 December	31 December
	2021	2020
	RMB'000	RMB'000
NON-CURRENT LIABILITIES		
Interest-bearing bank borrowings	<u>379,639</u>	<u>30,398</u>
Total non-current liabilities	<u>379,639</u>	<u>30,398</u>
Net assets	<u>3,889,185</u>	<u>3,419,526</u>
EQUITY		
Equity attributable to owners of the parent		
Share capital	69	69
Reserves	<u>3,679,764</u>	<u>3,196,663</u>
	3,679,833	3,196,732
Non-controlling interests	<u>209,352</u>	<u>222,794</u>
Total equity	<u>3,889,185</u>	<u>3,419,526</u>

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. 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 2021. 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)

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 RMB812,955,000 as at 31 December 2021 (2020: net current liabilities of RMB1,078,924,000). 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 RMB3,383,116,000 as at the date of this report, the unutilised entrusted loan facility of RMB1,600,000,000 granted by China Mengniu Dairy Co., Ltd. and cash flow projections for the year ending 31 December 2022, 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 9, IAS 39, IFRS 7,
IFRS 4 and IFRS 16

Interest Rate Benchmark Reform – Phase 2

Amendments to IFRS 16

*Covid-19-Related Rent Concessions beyond
30 June 2021 (early adopted)*

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 are described below:

- (a) Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 address issues not dealt with in the previous amendments which affect financial reporting when an existing interest rate benchmark is replaced with an alternative Risk-Free Rate (“**RFR**”). The amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount of financial assets and liabilities when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of IFRS 9 to measure and recognise hedge ineffectiveness. The amendments also provide a temporary relief to entities from having to meet the separately identifiable requirement when an RFR is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity’s financial instruments and risk management strategy. Such amendments did not have no material impact on the financial position and performance of the Group.

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

Changes in Accounting Policies and Disclosures (Continued)

- (b) Amendment to IFRS 16 issued in March 2021 extends the availability of the practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic by 12 months. Accordingly, the practical expedient applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met. The amendment is effective retrospectively for annual periods beginning on or after 1 April 2021 with any cumulative effect of initially applying the amendment recognised as an adjustment to the opening balance of retained profits at the beginning of the current accounting period. Earlier application is permitted.

During the year ended 31 December 2021, no leases of the Group have been reduced or waived by the lessors as a result of the covid-19 pandemic. The amendment did not have any impact on the financial position and performance of the Group.

3. REVENUE, OTHER INCOME AND GAINS/(LOSSES)

An analysis of revenue is as follows:

	For the year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Revenue from contracts with customers	<u>2,984,616</u>	<u>2,660,823</u>

3. REVENUE, OTHER INCOME AND GAINS/(LOSSES) (CONTINUED)

Disaggregated revenue information for revenue from contracts with customers

	For the year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Type of goods		
Sale of products	<u>2,984,616</u>	<u>2,660,823</u>
Geographical market		
Mainland China	<u>2,984,616</u>	<u>2,660,823</u>
Timing of revenue recognition		
Goods transferred at a point in time	<u>2,984,616</u>	<u>2,660,823</u>
Other income and gains/(losses)		
Other income		
Beef cattle	92,099	113,080
Raw materials	<u>17,049</u>	<u>5,245</u>
	<u>109,148</u>	<u>118,325</u>
Other costs		
Beef cattle	(92,099)	(113,080)
Raw materials	<u>(15,646)</u>	<u>(3,889)</u>
	<u>(107,745)</u>	<u>(116,969)</u>
Government grants	11,174	4,088
Bank interest income	13,792	7,651
Foreign exchange differences, net	1,201	(4,966)
Loss on disposal of items of property, plant and equipment	(6,529)	(11,947)
Impairment loss of items of property, plant and equipment	(1,427)	(60,470)
Impairment loss of intangible assets	—	(8,250)
Gain on partial disposal of an associate	1,856	23,144
Loss on losing significant influence of an associate	(9,062)	—
Gain on disposal of a subsidiary	3,991	845
Others	<u>6,640</u>	<u>4,092</u>
	<u>23,039</u>	<u>(44,457)</u>

4. PROFIT BEFORE TAX

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

	For the year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Cost of inventories sold	1,920,226	1,635,705
Loss arising from changes in fair value less costs to sell of biological assets	248,771	224,237
Fair value changes of financial guarantee contracts	2,954	—
Depreciation of property, plant and equipment	152,269	154,715
Less: Capitalised in biological assets	46,906	46,237
Depreciation recognised in the consolidated statement of profit or loss and other comprehensive income	105,363	108,478
Depreciation of right-of-use assets	3,145	3,061
Less: Capitalised in biological assets	973	1,016
Depreciation recognised in the consolidated statement of profit or loss and other comprehensive income	2,172	2,045
Amortisation of other intangible assets	821	1,028
Less: Capitalised in biological assets	254	341
Amortisation recognised in the consolidated statement of profit or loss and other comprehensive income	567	687
Research and development costs	5,968	5,696
Lease payments not included in the measurement of lease liabilities	4,973	8,035
Auditor's remuneration	3,080	2,680
Foreign exchange differences, net	(1,201)	4,966
Reversal/(impairment) on financial and contract assets, net	6,814	(1,683)
Write-down of inventories to net realisable value	—	1,458
Impairment of other intangible assets	—	8,250
Impairment losses of property, plant and equipment	1,427	60,470
Gain on partial disposal of an associate	(1,856)	(23,144)
Loss on losing significant influence of an associate	9,062	—
Gain on disposal of a subsidiary	(3,991)	(845)
Loss on disposal of items of property, plant and equipment	6,529	11,947
Employee benefit expense (including directors' and chief executive's remuneration):		
Wages, salaries, bonuses and allowances	247,711	251,574
Other social insurances and benefits	15,129	7,424
Pension scheme contributions	9,160	4,590
	272,000	263,588

5. FINANCE COSTS

	For the year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Interest on bank loans and other loans	63,998	115,436
Fair value loss on interest rate swaps	7,172	—
Interest on long term payables	—	1,352
	<u>71,170</u>	<u>116,788</u>

6. INCOME TAX

	For the year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Current - PRC		
Charge for the year	625	—
Overprovision in prior year	236	—
Total tax charge for the year	<u>861</u>	<u>—</u>

7. DIVIDENDS

The directors do not recommend the payment of any dividend for the year ended 31 December 2021 (2020: Nil).

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 8,381,295,000 (2020: 7,605,396,000) 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 RMB471,713,000 (2020: RMB406,680,000). 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 8,381,295,000 (2020: 7,605,396,000) 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.

The Group had no potentially dilutive ordinary shares in issue during the year ended 31 December 2021 (2020: Nil).

	Number of shares	
	2021	2020
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	<u>8,381,295,000</u>	<u>7,605,396,000</u>
Weighted average number of ordinary shares in issue during the year used in the diluted earnings per share calculation	<u>8,381,295,000</u>	<u>7,605,396,000</u>

9. TRADE RECEIVABLES

	As at	
	31 December 2021	31 December 2020
	RMB'000	RMB'000
Trade receivables	255,464	136,611
Impairment	(7,327)	—
	<u>248,137</u>	<u>136,611</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 2021	31 December 2020
	RMB'000	RMB'000
Within 3 months	242,301	136,611
4 to 6 months	5,088	—
7 months to 1 year	748	—
	<u>248,137</u>	<u>136,611</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 2021	31 December 2020
	RMB'000	RMB'000
Within 3 months	992,300	1,014,154
4 to 6 months	171,532	512,573
7 to 12 months	68,999	157,604
1 to 2 years	16,943	9,466
2 to 3 years	505	1,501
Over 3 years	3,075	4,150
	<u>1,253,354</u>	<u>1,699,448</u>

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

In 2021, despite the difficult internal and external situation, China's economy still achieved an annual GDP of RMB114,367 billion, representing an increase of 8.1% compared with that of the previous year and a two-year average growth of 5.1%. The annual per capita disposable income of the national residents amounted to RMB35,128, representing a nominal growth of 9.1% compared with that of the previous year and a two-year average nominal growth of 6.9%; excluding the price factor, the real growth was 8.1% and a two-year average growth was 5.1%, basically in line with the economic growth. Consumer prices rose moderately, with the annual Consumer Price Index (CPI) rising by 0.9% compared with that of the previous year. The market for major agricultural products was also well supplied, with producer prices for agricultural products declining steadily and agricultural production generally maintaining a steady and progressive development trend. The overall level of producer prices for agricultural products nationwide declined by 2.2% compared with that of the previous year, with a 7.8% increase in the first quarter, a 0.1% increase in the second quarter, an 8.0% decline in the third quarter and a 5.6% decline in the fourth quarter.

In the dairy industry, on the demand side, according to the 2021 Classified Development Report released by the National Bureau of Statistics, the per capita consumption of milk in households in 2021 was 14.4 kg, representing a year-on-year increase of 10.6%. The increase in milk consumption has accelerated significantly in the recent two years. Since the COVID-19 pandemic, people are paying more attention to a healthy diet and the increase in milk consumption has accelerated significantly, with a growth rate of over 10% in 2021. On the supply side, in 2021, national liquid milk production are 28,429,800 tonnes, representing a year-on-year increase of 9.68%; national dry dairy products production are 1,886,800 tonnes, representing a year-on-year increase of 5.95%; and national milk powder production are 979,400 tonnes, representing a year-on-year increase of 1.76%. In terms of imports, in 2021, on top of a 7.1% year-on-year increase in domestic milk production, China's total imports of dairy products and total imports of large packets of powder were both at record highs, reflecting the strong demand for dairy products in the domestic market. In 2021, China imported a total of 3,947,300 tonnes of various dairy products, representing a year-on-year

increase of 18.5%, equivalent to 22.51 million tonnes of raw fresh milk, representing a year-on-year increase of 17.6%. Among them, the two largest import categories are large packets of powder and whey products. In the international market, skimmed milk powder prices and whole milk powder prices both increased significantly, with the 298th auction held by GDT on 21 December 2021 at US\$3,745 per tonne for skimmed milk powder, representing an increase of 27.8% compared with the corresponding period of previous year; and US\$3,867 per tonne for whole milk powder, representing an increase of 20.5% compared with the corresponding period of previous year.

In the upstream dairy farming industry, the annual raw fresh milk production in 2021 was 36,830,000 tonnes, representing an increase of 2,430,000 tonnes or 7.1% compared with that of the previous year. In 2021, the average price of raw fresh milk in the primary dairy-producing provinces (regions) monitored by the Ministry of Agriculture and Rural Affairs continued to rise, with the average price nationwide reaching RMB4.29/kg, representing a year-on-year increase of 13.2%; in terms of feed, according to data monitored by the Ministry of Agriculture and Rural Affairs, the average price of corn nationwide was 2.93/kg, representing a year-on-year increase of 26.5%; the average price of soybean meal nationwide was RMB3.79/kg, representing a year-on-year increase of 14.0%; According to customs statistics, China imported a total of 1,992,400 tonnes of hay in 2021, representing a year-on-year increase of 17.6%. The average CIF price was US\$377.76/tonne, representing a year-on-year increase of 5.4%, Among them, the total import of oat hay was 212,200 tonnes, representing a year-on-year decrease of 36.5%. The average CIF price was US\$342.62/tonne, representing a year-on-year decrease of 1.0%. All oat hay imports came from Australia; China imported 1,780,300 tonnes of alfalfa hay, representing a year-on-year increase of 31.0%. The average CIF price was US\$381.95/tonne, representing a year-on-year increase of 5.7%. In terms of import source countries, it mainly came from the United States, accounting for approximately 81.8% of the total, representing a year-on-year increase of 20.7%.

In 2021, although the domestic industries continue to be affected by the pandemic to varying degrees, the pace of domestic farms construction remains relatively fast. According to Holstein Magazine's monitoring data on 166 specific construction projects across the country, new and expanded farms projects in the operational process were designed to stock a total of 980,000 cows in 2021, with a total planned investment of nearly RMB39 billion, basically concentrated in the northern region, Ningxia, Inner Mongolia, Heilongjiang divided into the top three total investment; In 2021, the Investment for design size of new farms stocked with more than 5,000 cows accounted for 83%, the Investment for more than 10,000 cows accounted for 62%. If all new farms reach production as planned, it is expected that milk production will increase by approximately 5 million tonnes in 2022 compared with 2021, with 15,000 tonnes of milk increasing per day.

SUMMARY OF PERFORMANCE

The largest producer of organic raw milk

The Group's principal businesses are cows farming, production and sales of high-end desert organic raw milk and premium non-organic raw milk. The Group focuses on the production and sales of desert organic milk, while meeting the diversified demand of customers for premium raw milk, and continues to develop a variety of functional raw milk to enrich the Company's product structure and enhance its profitability. As of 2021, the Group has 33 farms with a stocking capacity of 122,518 cows and a daily production capacity of 1,647 tonnes of fresh milk, of which 19 farms have organic certification and a daily production capacity of 1,171 tonnes of organic fresh milk, making it the largest organic raw milk producer in China. In addition, the Group operates 3 DHA milk farms with a daily production of 159 tonnes of high quality fresh milk.

Revenue and profit continue to rise

The Group achieved sales revenue of RMB2,984.6 million in 2021, representing an increase of 12.2% compared with the same period of the previous year. The increase was due to the increase in raw fresh milk prices and the optimization of the Company's product structure. Gross profit for the year was RMB1,064.4 million, representing an increase of 3.8% compared with the same period of the previous year, while gross profit margin was 35.7%, representing a decrease of 2.8% compared with the same period of the previous year. The decrease in gross profit margin was mainly due to the substantial increase in feeds required by the Group for cows farming, including concentrate feeds and roughage feeds. The Company actively adjusted its product profit structure and implemented multiple measures to reduce costs and increase efficiency, which effectively curbed the significant decline in gross profit margin. For the full year of 2021, the Group achieved a profit for the year of RMB509.6 million, representing an increase of 10.5% compared with the same period of the previous year. The increase in profit for the year was not only due to the increase in the scale of revenue of the Company, but also due to the control of various expenses of the Company.

Transforming to organic farms to improve the profitability structure

The Group's total raw milk sales for 2021 were 584,787 tonnes, representing a slight decrease of 0.8% compared with the same period of the previous year. This was mainly due to a decrease in the average output per cow when the Group's regular farms were converted to DHA milk and organic farms, as well as a higher proportion of first-born cows in the cows structure. Of which, 394,730 tonnes of organic raw milk were sold, representing an increase of 38.5 % compared with the same period of the previous year and accounting for 67.5% of total raw milk sales, representing an increase 19.2% compared with the same period of the previous year. The increase in organic raw milk production was mainly due to the conversion to organic farms and the increase in the average output per organic cow. In addition, sales of high quality non-organic raw milk were 190,057 tonnes, representing a decrease of 37.6% compared with the same period of the previous year, accounting for 32.5% of total raw milk sales.

Rising milk and feed prices

Benefiting from the growth in market demand, the market price of raw milk rose in 2021 compared with the same period in the previous year. The average sales price of raw milk for the Group as a whole was RMB5,104/tonne, representing an increase of 13.1% compared with the same period in the previous year. Among them, desert organic milk, with its unique brand and nutritional value, saw a faster growth in demand, with the average sales price of organic raw milk being RMB5,324/tonne, representing an increase of approximately 4.0% over compared with the previous year. The average sales price of high quality non-organic raw milk was RMB4,646/tonne, representing an increase of 17.8% compared with the previous year. In 2021, the price of agricultural products increased compared with the same period in previous year, and the Group's costs for a kilogram of milk was RMB2.6, representing an increase of 23.2% compared with the same period in previous year. In the face of the severe situation of rising feed costs, the Group imported feed products through the supply chain centre established in Tianjin to reduce the procurement costs of intermediaries, and achieved cost reduction and efficiency gains by ceding payment cycles to suppliers, improving feed quality and reducing feed costs. Despite the general impact on the gross profit margin of the industry, the Group's gross profit increased by RMB39.3 million compared with the same period in the previous year through the optimized product structure, which effectively ensured the profitability of the Company.

Size of Herd

As of 31 December 2021, the Group operated 19 organic farms and 14 non-organic farms, including one fattening cows farm. The Group had 122,518 cows in stock, including 79,652 organic cows and 42,866 non-organic cows.

The Group continued to optimise the structure of cows, with organic cows stock increasing by 35.3% year on year, a self-reproduction rate of 5.6% for productive biological assets. The reserve of cows is sufficient and the size of cows continues to grow with high quality.

Unit: Head

	As at 31 December									
	2021					2020				
	Number of Farms	Milkable Cows	Calves and Heifers	Fattening cows ⁽¹⁾	Subtotal	Number of Farms	Milkable Cows	Calves and Heifers	Fattening cows ⁽¹⁾	Subtotal
Herd size	<u>33</u>	<u>60,154</u>	<u>54,007</u>	<u>8,357</u>	<u>122,518</u>	<u>33</u>	<u>57,658</u>	<u>50,616</u>	<u>2,461</u>	<u>110,735</u>

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

OPERATION REVIEW

Organic raw milk capacity reaches new high on strong demand

With the increasing awareness of health and the upgrading of consumption, organic dairy products, which are pollution-free, additive-free and meet strict organic standards, are trusted and favoured by consumers, and the market demand for organic dairy products has continued to grow. In 2021, Shengmu Organic and Mengniu Deluxe Organic, the two major high-end organic milk brands mainly supplied by the Group, both achieved rapid growth in their product sales. To ensure the fast growing demand for high-end organic milk and to strengthen the Group's leading position in the organic raw milk market, 5 of the Group's farms were converted to organic farms in March 2021, which correspondingly increased the daily production of organic fresh milk by 234 tonnes. In view of a growing demand for natively functional DHA raw milk and with an aim to optimize the Group's product and profit structure, the Group converted 3 ordinary raw milk farms into premium DHA milk characteristic farms.

Lean operation, positive growth in cows expansion rates and S grades for several farms

During the year, the Group carried out lean operation, focused on improving farm management, implemented 6S management on farms and comprehensively implemented various indicators to improve the working environment, enhance the quality of staff and improve economic efficiency. As of the date of this announcement, nine of the Group's farms have been awarded the highest grade of S by the China Dairy Association in the “Modern Dairy Industry Grading and Evaluation Dairy Farms (現代奶業定級評價奶牛場)”, which fully demonstrates the Group's industry-leading level in scale farming operations. Through lean farm operations, in 2021, the Group's milkable cow culling rate decreased from 35.9% for the same period last year to 32.9% for the year, the Group's full cows increased by 11,783 cows compared with the same period last year, representing a full cows expansion rate of 10.6%. At the same time, the genomic accuracy and completeness of the Group's cows genome was enhanced through effective breeding and selection measures, and the construction of core breeding farms and Dairy Herd Improvement (“DHI”) were achieved. In June 2021, the Group signed a strategic cooperation agreement with the Shanxi Animal Husbandry Genetics and Breeding Center (山西省畜牧遺傳育種中心) for joint breeding of Holstein cows. In the future, the two parties will take advantage of their respective strengths and conduct in-depth cooperation in areas such as production performance determination, core cows selection and breeding of Holstein cows and independent breeding of reserve bulls, etc. This strategic cooperation in joint breeding is of great significance to accelerate the Group's efforts to promote the construction of seed cows herds, enhance the independent innovation capability of Holstein cows germplasm and strengthen the comprehensive competitiveness of the cows seed industry.

Breakthrough in branding of raw milk, milk and meat linkage to boost income

As an end product created and exclusively supplied by the Group, Shengmu Organic Milk is well known by consumers for its excellent quality and brand recognition, and was once again awarded the Gold Award for Organic Product of the Year at BIOFACH CHINA in May this year. In order to enhance the Company's raw milk brand strength and strengthen our voice in the industry, the branding of raw milk is also one of the Group's priorities in 2021. Our high quality raw milk and unique desert organic industry chain have enabled us to successfully obtain certifications including Protected Ecological Origin Product, Desert Sustainable Ecological Product and CNAS certification. Silage is one of the most important tasks in the cows farming industry every year. The Group's farming synergy model played an advantageous role in the industry-wide rush for silage. The Group achieved a good harvest of Silage in 2021, not only was the quality of silage dry matter at its best ever level, but the cost of silage purchased was also significantly lower than the market price. The meat and milk linkage is a major tool to enhance the Group's overall efficiency, and the beef cows sales business also gained good momentum during the year. As at 31 December 2021, the Group's stock of beef cows increased from 2,461 in 2020 to 8,357 in 2021, laying the foundation for future enhancement of the value of the Group's entire cows.

ERP project successfully launched, intelligent construction industry leader

In January 2021, the Group's SAP-ERP system was successfully launched, which was a landmark event in the Group's management upgrade. Through the standardisation and digitisation of various internal and external data and processes, the project has greatly facilitated the Group's ability to improve its risk management, efficiency, production and sales synergy, as well as refinement of cost management. The Group's standardised daily cost management with automatic milk cost calculation and automatic cows cost allocation, as well as the accounting model combining the fair method and cost method, is an industry first. The success of this project has created an integrated, consolidated and intelligent decision-making digital platform for the Group, laying a solid foundation for further digital management and smart farming. The Group's SAP-ERP project was selected as an excellent case by SAP and included in a case study by Harvard Business Review for its outstanding project operation level and innovative digital intelligence system construction.

Younger, more professional staff shows results

In terms of human resources, the Group made great efforts to promote the rejuvenation and professionalism of its staff during the year, recruiting high-calibre professionals for core positions and vigorously promoting the establishment and construction of key departments. At the same time, the Group vigorously promoted the construction of personnel ladders, organising different types of graded training and learning for different levels of personnel, including staff skills training, management skills training for middle-level personnel and leadership training for senior management. In addition, the Group has set up a think-tank group of the Shengmu Research Institute, inviting a number of renowned industry experts and scholars to join the group in order to assist the development of the Group's business in all dimensions through synergy between industry, academia and research. Close university-enterprise cooperation with schools such as China Agricultural University, Inner Mongolia Agricultural University and Beijing Academy of Agricultural Sciences has been carried out to achieve resource contribution and complementary advantages, providing the Group with superior resources for long-term development in scientific research and talent training. "The business of Shengmu is everyone's business", the Group upholds the values of integrity, excellence, pragmatism and passion, and focuses on the sustainable development of its employees, and has made greater efforts to promote corporate culture, promote employee

care and create a happy enterprise. During the year, various types of employee activities were launched and more than 10 new employee benefits were introduced, resulting in a significant increase in the sense of belonging and happiness of employees. As at 31 December 2021, the Group had 2,682 employees, representing an increase of 93 compared with the same period in the previous year.

ESG and carbon neutral governance first, setting an example for the industry

In 2021, the Group continued to practice the concept of green and sustainable corporate development and actively contribute to the national carbon neutral strategy. On 18 January 2021, the Group received a welcome letter from the United Nations Global Compact (UNGC), and thus officially became a corporate member of the UNGC. On 27 July 2021, the United Nations Global Compact (UNGC) officially published the “Corporate Net Zero Pathway: Delivering the Paris Agreement and the Sustainable Development Goals”, as the first company representing the livestock industry, the Group was included in the “Corporate Net Zero Pathway”. As a good example of how to reduce carbon emissions from farming activities in the agri-food industry, the Group has achieved significant results in reducing carbon emissions from farming activities and promoting corporate carbon reduction initiatives through recycling and reusing methane from manure, scientific and efficient use of fertilisers, improving soil health and enhancing energy efficiency on farms. In August, the Group was awarded full membership of the International Federation of Organic Agriculture (IFOAM-Organics International), the world’s top trade association for the organic industry, after a rigorous audit. As a result, the Group has become the first member of IFOAM and IFOAM-Asia with voting rights in China’s cows farming industry, and has the power to participate in the formulation of international organic product standards and exercise election rights. In the future, the Group will play an exemplary, driving and facilitating role in promoting the improvement of international organic product standards and enhancing China’s position in the international organic farming arena. On 19 October 2021, the “Action for the Future” 3rd Carbon Neutral Summit and Golden Key - Low Carbon Action Roadshow was held in Beijing. Speaking as a representative of the Golden Key Corporate Low Carbon Initiative, the Group was awarded the first winner of the Golden Key Initiative’s “New Natural Economy” category after a highly competitive competition. On 10 November 2021, during the opening of the 26th United Nations Conference on Climate Change (COP26), the United Nations Global Compact (UNGC) held a high-level online conference on “Corporate Ambition for Climate Action”, in which the Group was invited to participate as a member of the UNGC and actively share its views, strategies and practices in addressing climate change.

Major shareholders increase holdings, strategic synergy for common development

On 6 July 2021, Start Great Holdings Limited, a wholly owned subsidiary of China Mengniu Dairy Company Limited (“**China Mengniu**”), the single largest shareholder of the Group, increased its shareholding in the Company by approximately 1.05 billion shares at a price of approximately HK\$1.1 per share, bringing China Mengniu’s shareholding to 29.99% after the increase. This increase in China Mengniu’s shareholding reflects the major shareholder’s recognition of the Group’s development prospects and corporate value, and the Group will achieve better joint development in the future under China Mengniu’s broad strategy.

FINANCIAL REVIEW

In response to the ongoing impact of the COVID-19 pandemic, the Group has established a mature and comprehensive internal pandemic prevention system. Through the effective operation of this system, the Group’s cows, staff and operating results have not been materially affected.

In 2021, the Group’s sales revenue amounted to RMB2,984.6 million, representing an increase of 12.2% as compared with the sales revenue of RMB2,660.8 million in 2020. Profit for the year increased by RMB48.6 million from RMB461.0 million in 2020 to RMB509.6 million in 2021. Of which, profit attributable to owners of the parent increased by RMB65.0 million or 16.0% from RMB406.7 million in 2020 to RMB471.7 million in 2021. The Group’s gross profit margin decreased from 38.5% in 2020 to 35.7% in 2021 due to the significant increase in feed procurement costs.

ANALYSIS ON THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Revenue

	For the year ended 31 December					
	2021			2020		
	Revenue	Sales volume	Average selling price	Revenue	Sales volume	Average selling price
	(RMB'000)	(tonnes)	(RMB/tonne)	(RMB'000)	(tonnes)	(RMB/tonne)
Raw milk	<u>2,984,616</u>	<u>584,787</u>	<u>5,104</u>	<u>2,660,823</u>	<u>589,621</u>	<u>4,513</u>

In 2021, sales amount of the Group's raw milk business was RMB2,984.6 million (2020: RMB2,660.8 million), representing an increase of 12.2% year on year, mainly benefiting from the increase in raw milk prices and the optimization of product structure due to the transformation of ordinary farms to organic farms.

Dairy Farming Business

	For the year ended 31 December							
	2021				2020			
	Revenue	Sales volume	Average selling price	Revenue as a percentage of Average dairy farming segment revenue	Revenue	Sales volume	Average selling price	Revenue as a percentage of Average dairy farming segment revenue
	(RMB'000)	(tonnes)	(RMB/tonne)		(RMB'000)	(tonnes)	(RMB/tonne)	
Organic raw milk	<u>2,101,609</u>	<u>394,730</u>	<u>5,324</u>	<u>70.4%</u>	<u>1,459,267</u>	<u>285,073</u>	<u>5,119</u>	<u>54.8%</u>
Premium non-organic raw milk ⁽¹⁾	<u>883,007</u>	<u>190,057</u>	<u>4,646</u>	<u>29.6%</u>	<u>1,201,556</u>	<u>304,548</u>	<u>3,945</u>	<u>45.2%</u>
Total	<u>2,984,616</u>	<u>584,787</u>	<u>5,104</u>	<u>100.0%</u>	<u>2,660,823</u>	<u>589,621</u>	<u>4,513</u>	<u>100.0%</u>

(1) Premium non-organic raw milk includes natively functional DHA milk.

In 2021, the Group focused on organic milk business in line with market development and achieved the transformation of five ordinary farms to organic farms during the year. Organic milk sales volume increased by 38.5% from 285,073 tonnes in 2020 to 394,730 tonnes in 2021. Non-organic milk sales volume in 2021 were 190,057 tonnes, including 43,972 tonnes of natively functional DHA milk.

In 2021, the average selling price of the Group's raw milk was RMB5,104 per tonne, representing an increase of 13.1% year on year. The average selling price of organic raw milk was RMB5,324 per tonne, representing an increase of 4.0% year on year, while the average selling price of non-organic raw milk was RMB4,646 per tonne, representing an increase of 17.8% year on year.

Cost of Sales, Gross Profit and Gross Profit Margin

Unit: RMB'000, except percentages

	For the year ended 31 December					
	2021			2020		
	Cost of sales amount	Gross profit amount	Gross profit margin	Cost of sales amount	Gross profit amount	Gross profit margin
Organic raw milk	1,291,384	810,225	38.6%	800,699	658,568	45.1%
Premium non-organic raw milk	628,842	254,165	28.8%	835,006	366,550	30.5%
Total	1,920,226	1,064,390	35.7%	1,635,705	1,025,118	38.5%

In 2021, the Group's cost of sales increased by 17.4% from RMB1,635.7 million in 2020 to RMB1,920.2 million in 2021 due to the increase in bulk feed prices. Meanwhile, the Group actively adjusted its product structure and increased the proportion of sales of high-value products. Through the transformation of five organic farms and three natively functional DHA milk farms, we effectively avoided a sharp decrease in our gross profit margin. The gross profit margin for the year was 35.7%, representing a year-on-year decrease of only 2.8%.

Other Gains and Losses, net

In 2021, the Group's net gains arising from other gains and losses amounted to RMB23.0 million (2020: net losses of RMB44.5 million). The change was mainly due to the impairment loss on fixed assets and intangible assets of RMB68.7 million in 2020.

Selling and Distribution Expenses

The Group's selling and distribution expenses mainly included logistics and transportation expenses and staff's remunerations. In 2021, the Group's selling and distribution expenses amounted to RMB53.8 million (2020: RMB32.1 million). The significant increase in 2021 as compared with 2020 was mainly due to the increase in transportation costs as a result of the increase in the average distance of raw milk transportation.

Administrative Expenses

Administrative expenses mainly comprise salaries and welfare, travel expenses and transportation expenses of management and administrative employees, as well as administrative expenses including attorney and audit fees etc. In 2021, the Group's administrative expenses amounted to RMB111.7 million (2020: RMB111.7 million). In 2021, the ratio of administrative expenses to revenue was 3.7% (2020: 4.2%).

Other Expenses

In 2021, the Group's other expenses amounted to RMB56.1 million (2020: RMB1.0 million), representing an increase of RMB55.1 million as compared with the previous year, mainly due to the provision of RMB54.0 million for litigation during the year.

Financing Costs

In 2021, the Group's financing costs amounted to RMB71.2 million (2020: RMB116.8 million), representing a decrease of RMB45.6 million as compared with the previous year. The decrease was mainly due to the combined effect of optimizing the debt structure and lower financing rates during the year.

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 2021, the Group's loss arising from changes in fair value less costs to sell of biological assets of RMB248.8 million (2020: RMB224.2 million).

Share of Losses 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) invested and owned as to 49% by the Group, which is primarily engaged in the operating and selling of Shengmu organic liquid milk products; (b) 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) (“**Shengmu Forage**”) and its subsidiary in which the Group invested and held minority interests, Shengmu Forage was transferred to other financial assets from December 2021 and ceased to be an associate of the Company; (c) 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 are invested and held by the Group with minority interests, producing dairy products with the raw milk from the Group; (d) Inner Mongolia Yiyangmei Dairy Co., Ltd. (內蒙古益嬰美乳業有限公司) in which the Group invested and held minority interests, producing high-end organic infant milk powder with the raw milk from the Group in the future; and (e) Mudanjiang Liangyuan Technology Limited (牡丹江糧源科技有限公司) in which the Group invested and held minority interests, which is primarily engaged in feed processing. In 2021, the Group's share of losses of the above associates, amounted to RMB25.7 million (2020: RMB35.6 million).

Income Tax Expense

All profits of the Group were derived from its operations in the PRC. 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 2021, the Group’s income tax expense amounted to RMB0.9 million (2020: Nil).

Profit Attributable to Owners of the Parent and Profit Attributable to Non-controlling Interests

In 2021, profit attributable to owners of the Group’s parent amounted to RMB471.7 million (2020: RMB406.7 million), representing a net increase of RMB65.0 million or a growth rate of 16.0% as compared with the previous year, which was mainly attributable to (1) the year-on-year increase in the selling price of raw milk; (2) the year-on-year increase in organic milk sales volume due to the restructuring of organic milk; and (3) the decrease in the Group’s financing costs.

Profit attributable to non-controlling interests mainly represents the profit for the year attributable to dairy farmers with whom we cooperate in relation to dairy farm management in our farms. In 2021, profit attributable to non-controlling interests amounted to RMB37.9 million (2020: RMB54.3 million).

ANALYSIS ON THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Current Assets

As at 31 December 2021, the Group's total current assets amounted to RMB2,049.8 million (31 December 2020: RMB2,196.4 million), primarily consisting of inventories of RMB768.1 million (31 December 2020: RMB715.1 million), trade receivables of RMB248.1 million (31 December 2020: RMB136.6 million), prepayments, other receivables and other assets of RMB107.6 million (31 December 2020: RMB614.6 million), cash and bank balances and restricted bank deposits of RMB788.3 million (31 December 2020: RMB715.1 million), other financial assets of RMB72.0 million (31 December 2020: Nil) and consumable biological assets of RMB65.7 million (31 December 2020: RMB15.0 million). The decrease in the Group's current assets as at 31 December 2021 as compared with 31 December 2020 was mainly due to the recovery of some current accounts during the year.

Current liabilities

As at 31 December 2021, the Group had total current liabilities of RMB2,862.7 million (31 December 2020: RMB3,275.3 million), primarily consisting of trade and bills payables of RMB1,253.3 million (31 December 2020: RMB1,699.4 million), other payables and accruals of RMB302.1 million (31 December 2020: RMB240.0 million), interest-bearing bank borrowings of RMB1,299.5 million (31 December 2020: RMB1,335.9 million), tax payable of RMB0.6 million (31 December 2020: Nil), and derivative financial instruments of RMB7.2 million (31 December 2020: Nil). The significant decrease in the Group's current liabilities as at 31 December 2021 as compared with 31 December 2020 was mainly due to a decrease in trade payable and bills payable of RMB446.1 million as compared with the previous year as the Group relinquished the payment cycle of its suppliers to cope with the increase in bulk feed prices.

Liquidity, Financial Resources and Capital Structure

In 2021, the Group's sources of daily working capital were mainly cash flow generated from internal operations and bank borrowings. As of 31 December 2021, the Group held (a) cash and bank balances of RMB531.8 million (31 December 2020: RMB327.7 million), and (b) interest-bearing bank borrowings of RMB1,679.2 million (31 December 2020: RMB1,366.3 million), all denominated in RMB, of which RMB379.6 million were repayable within one to five years and the remaining interest-bearing bank borrowings were repayable within one year.

The Group's bank borrowings are denominated and bear interest at fixed rates in RMB, except for the equivalent of RMB27.6 million which are denominated in Euros and RMB517.2 million which are denominated in United States dollars and bear interest at fixed rates. The bank borrowings equivalent to RMB517.2 million denominated in United States dollars and bearing interest at fixed rates had entered into currency swap agreement with financial institutions to hedge the impact on the Company's profit or loss due to changes in exchange rates.

As at 31 December 2021, the Group's net borrowings (total interest-bearing bank borrowings net of cash and bank balances) amounted to RMB1,147.3 million (31 December 2020: RMB1,038.6 million).

As of 31 December 2021, annual interest rate of bank loans ranged from 1.55% to 5.22% (for the year ended 31 December 2020: 1.55% to 6.53%).

As at 31 December 2021, the Group's total equity amounted to RMB3,889.2 million (as at 31 December 2020: RMB3,419.5 million) and the financial leverage ratio (calculated based on total debt (total interest-bearing bank borrowings) divided by total equity) was 43.2% (as at 31 December 2020: 40.0%).

Charge on Assets

As at 31 December 2021, the Group had restricted deposits of RMB256.5 million in total (as at 31 December 2020: RMB387.5 million), of which RMB170.8 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 2021, the Group's capital commitments in relation to the acquisition of property, plant and equipment amounted to RMB2.6 million (31 December 2020: Nil).

Contingent Liabilities

As at 31 December 2021, the Group provided guarantee of RMB106.5 million (as at 31 December 2020: RMB94.6 million) for bank borrowings of Shengmu Forage , and provided no (as at 31 December 2020: RMB14.5 million) guarantee for bank borrowings of Food Union Shengmu. The external guarantees provided by the Group were recognised in the financial statements on the basis of the valuation of the guarantees provided by the independent professional valuer regarded as the best estimates required to pay for the performance of the relevant current obligations in accordance with the requirements of IFRSs.

On 16 August 2021, A civil judgment (“**Judgment**”) was issued by the Huhehaote Intermediate People’s Court in relation to a claim made against Inner Mongolia Shengmu High-tech Farming Co., Ltd. (內蒙古聖牧高科牧業有限公司)(“**Shengmu High-tech**”), and two of the Company’s former directors (the “**Former Directors**”) concerning certain payment obligations which the plaintiff claimed it was owed under an investment agreement entered into amongst the plaintiff, Shengmu High-tech, and the former directors in or around July 2014. Pursuant to the Judgment, Shengmu High-tech and the Former Directors were held jointly and severally liable to pay (i) to the plaintiff a sum of RMB118.4 million, together with relevant interest in the sum of RMB16.4 million; (ii) to the plaintiff a sum of RMB0.04 million, being the plaintiff’s legal fees; and (iii) for the litigation expenses in the sum of RMB0.7 million. Furthermore, in connection with the litigation, certain bank accounts of Shengmu High-tech with an aggregate balance of about RMB85.7 million and its 65% shareholding in Bayannur Shengmu Liuhe Farming Co., Ltd. (巴彥淖爾市聖牧六和牧業有限公司), a subsidiary of Shengmu High-tech, were frozen by the Court. As at 31 December 2021, the Group had applied to Inner Mongolia High People’s Court for second instance which still in progress. Provision was made amounting to RMB49.2 million for the probable losses, which was reflected in other expenses of the financial statements, to the Group based on the reasonable estimation of the outcome of the lawsuits after taking into account the legal advice by the management.

Foreign Exchange Risk

The Group’s businesses are principally located in the mainland China and most transactions are conducted in RMB. As at 31 December 2021, the Group did not have significant foreign exchange exposure in its operations, except for cash balances equivalent to approximately RMB0.1 million, RMB0.04 million and RMB0.01 million which were denominated in United States dollars, Euros and Hong Kong dollars, respectively. As at 31 December 2021, the Group did not enter into any arrangement to hedge against any fluctuation in foreign exchange.

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 Policy and Performance

In 2021, 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.

Human Resources

As at 31 December 2021, the Group had a total of 2,682 staff (as at 31 December 2020, 2,589 staff). Total staff costs in 2021 (including the emoluments of Directors and senior management of the Company) amounted to RMB272.0 million (2020: RMB263.6 million).

The Group believes that the dedicated efforts of all of its employees are the very essence of the Group's rapid development and success in the future. The Group provides management personnel and employees with on-the-job education, training and other opportunities to improve their skills and knowledge. In general, the Group determines employee compensation and efficiency incentive based on each employee's performance, qualifications, position and seniority. The Group has made contributions to the social security funds and housing reserve for its employees in accordance with the relevant national and local social welfare laws and regulations.

Sustainable Development

On 18 January 2021, China Shengmu Group received a welcome letter signed by Ms. Sanda Ojiambo, the Director General of the United Nations Global Compact (UNGC), and thus officially became a corporate member of the United Nations Global Compact (UNGC).

The United Nations Global Compact (UNGC) is the world's largest international organization that promotes corporate social responsibility and sustainable development, with approximately 10,000 corporate members and more than 3,000 other stakeholder members from 170 countries. Chinese members include over 420 companies, such as Huawei, Lenovo, State Grid, Sinopec, Haier and Yili, etc.

For more than 10 years, China Shengmu Group has invested a total of RMB7.5 billion in the Ulan Buh Desert, helping over 200 square kilometers of the desert become oasis and building 150 square kilometers of high-quality grassland. As at 27 July 2021, the United Nations Global Compact (UNGC) officially published the “Corporate Net Zero Pathway - Delivering the Paris Agreement and the Sustainable Development Goals”, in which 12 Chinese enterprises including China Shengmu as the first representative enterprise in the livestock industry, China Development Bank, Huawei and Baidu were jointly included in the “Corporate Net Zero Pathway”.

The selection of the Group as one of the United Nations Net-Zero enterprise cases not only represents a recognition of the Group's sustainable development and the environmental, social and governance (ESG) performance, but also demonstrates the responsibility of China Shengmu as the first enterprise in the Chinese livestock industry to respond to the national carbon neutrality strategy. China Shengmu will adhere to organic, ecological and sustainable development, continuously optimize the industrial chain and energy structure, accelerate the planning and implementation of scientific carbon reduction, and contribute to the country's “double-carbon” green goal.

Material Acquisitions and Disposals

In 2021, the following events took place: (1) On 30 September 2021, Shengmu High-tech (an indirect wholly-owned subsidiary of the Company) entered into the Investment Agreement with Modern Farming (Group) Co. Ltd. (現代牧業 (集團) 有限公司), Mudanjiang Wanding Dairy Co., Ltd. (牡丹江萬鼎乳業有限公司) and Mudanjiang Inland Port International Development Co. Ltd. (牡丹江陸港國際發展有限公司), in relation to the proposed formation of the joint venture in connection with the construction of a feed processing base in the Mudanjiang Economic and Technology Development Zone Bonded Logistics Park of the PRC. The registered capital of the joint venture established shall be RMB100 million, of which Shengmu High-tech has completed a cash injection of 7.0%; and (2) On 17 November 2021, Beijing Muhe Farming Technology Development Co. Ltd. (北京牧和農業科技發展有限責任公司) (a wholly-owned subsidiary of the Company), entered into an equity transfer agreement with Shengmu Forage. Upon completion of the equity transfer agreement, Shanghai Youmu Sand and Grass Enterprise Development Co., Ltd. (上海優牧沙草企業發展有限責任公司) has ceased to be a subsidiary of the Company and Alashanmeng Shengmu High-Tech Grass Co., Ltd. (阿拉善盟聖牧高科生態草業有限公司) (“**Alashanmeng Grass**”) has become a wholly-owned indirect subsidiary of the Company, the acquisition has been accounted for as acquisition of assets as the major assets held by Alashanmeng Grass is right-of-use assets. Save for the above, the Company did not made any other material acquisition and disposal of subsidiaries and associates.

Future Plans for Material Investments or Acquisition of Capital Assets and Expected Source of Funding

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

FUTURE OUTLOOK

On 16 February 2022, the Ministry of Agriculture and Rural Affairs released the “14th Five-Year Plan for Action to Improve the Competitiveness of the Dairy Industry”, which states that by 2025, national milk production will reach about 41 million tonnes, and the proportion of large-scale breeding above 100 cows will reach about 75 per cent. The proportion of large-scale farms with grass and animal support and combined farming production will increase by about 5 percentage points, the cost of forage inputs will be further reduced, the level of modern facilities and equipment in farms will be significantly improved, and the average annual cow output will reach about 9 tonnes. The linkage of farming and processing interests has become closer and more diverse, and the competitiveness of the domestic dairy industry has been further enhanced. The document also highlights the coordinated use of central and local financial subsidies, financial capital, implementation of the main self-financing and other multi-channel funds to support. 22 February 2022, the Central Government No. 1 document pointed out that we should give top priority to fully grasp food production and the supply of important agricultural products, further highlighting the importance of food security, which also provides policy support for the next round of new development of China’s dairy industry. Achieving carbon peaking and carbon neutrality is a broad and profound economic and social systemic change, and the dairy industry will also face reshuffling. Whether we can do a good job of carbon emission and carbon neutral governance while balancing and coordinating economic, social and environmental benefits is a key point for companies to achieve sustainable development in the future.

The strong empowerment of national policies and industrial resources indicates that the Group has tremendous advantages and development potential in terms of team building, business model and resource endowment. In the next three to five years, relying on the new resource endowment and with the capital and resources support of our major shareholder, Mengniu Group, the Group will push forward the implementation of our business plan and achieve the strategic goal of doubling organic milk sales and doubling profit growth.

In terms of business, the Group will continue to leverage on the growth situation of the industry to deepen its organic raw milk business, continue to expand the scale of its organic raw milk business and strengthen its desert organic raw milk brand. In accordance with the market demand for downstream dairy products, the production of organic raw milk will be increased in due course. In terms of farm operations, the Group will focus on practicing cost reduction and efficiency enhancement, pay close attention to cost control, empower supply chain management through digitisation and specialization, establish a strategic supplier management system, optimise feed formulations and broaden feed procurement channels. We will practise a cow welfare system, improve outputs, enhance lifetime cow production, rely on the quality resources of the Ulaanbaatar Desert, enhance cow comfort across the board and effectively extend the natural lactation life of cows. At the same time, we are upgrading our moderate cows expansion programme, implementing a breeding three to five year genetic improvement plan, nurturing core cows, optimizing our breeding system, maintaining a good cows structure and achieving quality growth in cows size. In addition, we will focus on developing and innovating high-end raw milk products to enhance the added value of the Group's raw milk products, including A2 raw milk and zero-carbon raw milk. We will continue to build a smart farm to achieve process flow, standardization, digitalisation and intelligence in cows farming and production management.

In terms of human resources, the Group will continue to promote the construction of corporate culture, consolidate the cultural roots, sublimate cultural propaganda and effectively promote the implementation of cultural values in practice. We have in-depth promotion of the three-tier talent cultivation system of the Company, system and departments. We continuously build a talent training platform, strengthen the team's rejuvenation and professionalism, and carry out quality training programs. We improve the common development mechanism and land the long-term incentive mechanism scheme for employees, provide solid talent guarantee for practicing the corporate vision and strategic objectives, stimulate the endogenous power of corporate development, and experience a new team organisational structure for the long-term sustainable development of the Group to achieve the common development of the team, business and individuals.

In terms of sustainable development, the Group will adhere to ecological priority and green development, build a model ESG and carbon neutral governance enterprise in the industry, promote the marketing of raw milk branding and enhance the competitive strength of raw milk. The Group will continue to improve and promote a benign and sustainable agricultural production system that integrates desert management with the return of cow manure and forage to cows, continue to optimize the industrial chain and energy structure, accelerate the planning and implementation of scientific carbon reduction, and aim to achieve a 17% reduction in carbon emission intensity and a 10% reduction in absolute emissions by 2022 through the emission reduction initiatives already in place. We will continue to establish relevant emission reduction initiatives and quantified standards within the Company to contribute to the country's "double carbon" green goal, build a "moat" to differentiate the Group's cows farming industry and realize our corporate vision of creating the world's number one organic milk brand.

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.

We have adopted, applied and complied with the code provisions contained in the Code Corporate Governance (the "**Code**") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") (as amended from time to time) for the year ended 31 December 2021.

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 2021.

PURCHASE, REDEMPTION OR SALE OF THE COMPANY'S LISTED SECURITIES

In 2021, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares.

AUDIT COMMITTEE

The Company established the Audit Committee on 18 June 2014 in compliance with the Code. The Audit Committee was established with written terms of reference in compliance with the Code. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Group. The Company modified the terms of reference of the Audit Committee on 9 April 2019. As at 31 December 2021, 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 the accounting standards and practices adopted by the Group and discussed with the management on the internal control and financial reporting matters, including the review of the annual results for 2021.

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 2021 have 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.

DIVIDEND DISTRIBUTION

The Board does not recommend the payment of final dividend for the year ended 31 December 2021 (2020: Nil).

ANNUAL GENERAL MEETING

The 2022 annual general meeting will be held on or before 30 June 2022. A notice convening the 2022 annual general meeting will be published on the website of the Stock Exchange and the Company and dispatched to the Shareholders in due course.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This annual results announcement is published on the website of the Hong Kong 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 2021 containing all the information required by the Listing Rules will be dispatched to Shareholders and published on the above websites in due course.

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

Hong Kong, 28 March 2022

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.