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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)**

### **PROFIT WARNING**

This announcement is made by China Shengmu Organic Milk Limited (the “**Company**”, together with its subsidiaries, collectively as the “**Group**”) pursuant to Rule 13.09(2)(a) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and the Inside Information Provisions (as defined in the Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

The board of directors of the Company (the “**Board**”) would like to inform the shareholders of the Company (the “**Shareholders**”) and potential investors that, based on a preliminary assessment of the unaudited consolidated management accounts of the Group and the information currently available to the Board, the Group is expected to record a profit attributable to owners of the parent company for the six months ended 30 June 2023 (the “**Reporting Period**”) in the range of RMB20 million to RMB24 million (corresponding period in 2022: RMB229 million), representing a year-on-year (“**yoy**”) decrease of approximately 89% to 91%; cash EBITDA<sup>(Note)</sup> in the range of RMB360 million to RMB375 million (corresponding period in 2022: RMB466 million), representing a yoy decrease of approximately 20% to 23%.

As mentioned above, the profit attributable to owners of the parent company is expected to decrease in the Reporting Period as compared with the corresponding period in 2022, which is mainly attributable to the following reasons:

1. Weak domestic consumption of dairy products led to a downward trend in the market price of raw milk, while the prices of bulk raw materials remained at a relatively high level, posing pressure on the cost of sales in the Reporting Period. As a result, the gross profit of the Group's raw milk decreased by approximately RMB90 million to RMB95 million as compared with the corresponding period in 2022; and
2. Loss arising from changes in fair value less costs to sell of biological assets increased by more than RMB80 million as compared with the corresponding period in 2022, mainly due to (i) the increase in the number of culled cows as compared with the corresponding period in 2022 as the Group proactively culled inefficient cows in order to improve the structure of high-quality milkable cow herd; and (ii) the increase in loss arising from changes in fair value less costs to sell of biological assets, as a result of the decrease in the market price of raw milk, constantly high cost of feeds, the decrease in the market price of beef and other factors.

Although the Group is currently facing uncontrollable challenges in the industry and profits have decreased for the time being, the Group has risen to the challenge and worked diligently, continuing to strengthen its overall management capabilities and enhance its operational efficiency. The development of the Group's core business is solid and resilient, with encouraging growth recorded in herd size and quality, yield, total milk production and revenue from raw milk sales during the Reporting Period. In particular, the yield per milkable cow achieved a record high for the Company, representing a yoy increase of approximately 3.9%.

As at the date of this announcement, the overall financial results of the Group for the Reporting Period are subject to the finalization of all relevant results and accounting treatments. The information contained in this announcement is only based on the preliminary assessment by the Board of the unaudited consolidated management accounts for the Reporting Period and the information currently available, which have not been reviewed by the auditor of the Company. The actual financial results of the Group for the Reporting Period may differ from those disclosed in this announcement. Shareholders and potential investors should refer to the 2023 interim results announcement which is expected to be published in late August 2023.

**Shareholders and potential investors are advised to exercise caution when dealing in the shares of the Company.**

Note: Cash EBITDA is defined as earnings before finance costs and tax after adding back the following items: i) depreciation and amortization included in profit or loss; ii) other income and gains; iii) impairment losses under the expected credit loss model, net of reversals; and iv) loss arising from changes in fair value less costs to sell of biological assets.

On behalf of the Board  
**China Shengmu Organic Milk Limited**  
**Lu Minfang**  
*Chairman*

Hong Kong, 28 July 2023

*As at the date of this announcement, the Board comprises Mr. Zhang Jiawang, as executive Director; Mr. Lu Minfang (Chairman), Mr. Zhang Ping, Mr. Zhao Jiejun, Mr. Sun Qian and Ms. Shao Lijun, as non-executive Directors; Mr. Wang Liyan, Mr. Wu Liang and Mr. Sun Yansheng, as independent non-executive Directors.*