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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**”) wishes to inform the shareholders of the Company (the “**Shareholders**”) and potential investors that, based on a preliminary assessment of the Group’s unaudited consolidated management accounts and the information currently available to the Board, the Group is expected to record a profit attributable to the owners of the parent company for the year ended 31 December 2023 (the “**Reporting Period**”) in the range of RMB75 million to RMB90 million (2022: RMB416 million), representing a year-on-year (“**yoy**”) decrease of approximately 78% to 82%; cash EBITDA<sup>(Note)</sup> in the range of RMB960 million to RMB1,000 million (2022: RMB937 million), representing a yoy increase of approximately 2.5% to 6.7%.

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

1. Against the industry backdrop of weakening domestic consumption of dairy products, which led to a continuous downward trend in the market price of raw milk, despite having strengthened its operational efficiency to achieve a yoy decrease in the cost of sales of a kilogram of raw milk, however, the Group was

impacted by price of bulk raw materials which remained relatively high, and the extent of such decrease was unable to make up for the decrease in the price of raw milk, which resulted in a yoy decrease in the gross profit margin of the Group of approximately 1% to 2% during the Reporting Period as compared with 2022; and

2. Loss arising from changes in fair value less costs to sell of biological assets increased by more than RMB400 million as compared with 2022, mainly attributable to (i) a substantial increase in the number of culled cows as compared with 2022 as the Group proactively culled 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.

Despite the fact that the Group is facing uncontrollable challenges in the industry and profits have decreased for the time being, the Group has risen to the challenge and continued to strengthen its overall management capabilities and enhance its operational efficiency, such that the development of the Group's core business is solid and resilient. During the Reporting Period, encouraging growth was recorded in herd size and quality, yield per milkable cow, total milk production and revenue from raw milk sales. In particular, the yield per milkable cow achieved a record high for the Company, representing a yoy increase of approximately 8.2%.

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 annual results announcement which is expected to be published by the end of March 2024.

**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 adjusting the following items: i) depreciation and amortization included in profit or 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.

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

Hong Kong, 26 February 2024

*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.*