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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, 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 under 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 loss attributable to the owners of the Group’s parent company for the six months ended 30 June 2024 (the “**Reporting Period**”) in the range of RMB130 million to RMB150 million, as compared to a profit attributable to owners of the Group’s parent company of RMB23 million for the corresponding period in 2023.

The estimated loss attributable to the owners of the Group’s parent company for the Reporting Period is mainly attributable to the following factors:

- 1. Year-on-year decline in revenue and gross profit:** Affected by the domestic imbalance between the supply and demand of raw milk, the selling price of raw milk during the Reporting Period was on a continuous downward trend, which caused the year-on-year decline in the Group’s sales revenue; although there was a growth in sales volume and the reduction in operating costs, it was not enough to fully offset the impact of the falling raw milk prices on gross profit;

- 2. Increase in loss from changes in fair value:** In order to cope with the impact of the imbalance in the supply and demand of raw milk and to upgrade the herd structure, the number of inefficient cows retired by the Group proactively increased significantly year-on-year, which, coupled with the low price in the beef market, resulted in an increase in loss arising from changes in fair value less costs to sell of biological assets as compared with the corresponding period in 2023;
- 3. Unsatisfactory market for beef cow:** The demand for beef cow was weaker than expected and the selling price dropped significantly during the Reporting Period, which led to an increase in the loss from the sale of fattening cows by the Group as compared with the corresponding period.

Although the Company's results fell year-on-year due to imbalances in supply and demand within the industry, the Company has continued to seek development in adversity, strengthen the overall management capabilities, improve operational efficiency, and solid development of its core business. During the Reporting Period, the Company recorded encouraging growth in herd quality, milkable cow yield and breeding level, especially in the annualized average yield per milkable cow, which increased by approximately 10.3% year-on-year to exceed 12 tonnes for the first time.

It has become an industry consensus that technology empowers and improves quality and efficiency. The Company's digitalisation strategy has achieved milestones, with the construction of smart farms having been completed and put into operation in the first half of the year, which will be more conducive to the Company's efforts to enhance operational efficiency and strengthen lean management in the future. Meanwhile, based on the significant reduction in the cost of imported cows, the Group imported more than 3,600 heads of high-quality Holstein cows (heifers) from Australia, enhancing the quality of the dairy herd, and is also a strategic layout based on the positive forecast on the rebound of the industry cycle in the future.

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 treatment. The information contained in this announcement is only based on the Board's preliminary assessment of the unaudited consolidated management accounts for the Reporting Period and information currently available, which has not been reviewed by the Company's auditor or the audit committee 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 2024 Interim Results Announcement which is expected to be published in late August 2024 for further information.

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

By Order of the Board
China Shengmu Organic Milk Limited
Chen Yiyi
Chairman

Hong Kong, 2 August 2024

As at the date of this announcement, the Board comprises Mr. Zhang Jiawang, as executive Director; Mr. Chen Yiyi (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.