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 ("**Company**", and together with its subsidiaries, "**Group**") pursuant to Rule 13.09 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("**Listing Rules**") and the Inside Information Provisions (as defined under the Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Chapter 571, the Laws of Hong Kong) ("**SFO**").

The board of directors of the Company ("**Board**") wishes to inform the shareholders of the Company ("**Shareholders**") and potential investors that, based on the preliminary unaudited consolidated management accounts of the Group for the year ended 31 December 2017 ("**Management Accounts**"), the Group is expected to record a loss attributable to owners of the parent for the year ended 31 December 2017 of an amount of approximately RMB1 billion (audited profit attributable to owners of the parent for the year ended 31 December 2016: approximately RMB680 million), which is mainly due to the following:

1. based on the principle of prudence and latest announcement of the Board on the recoverability of individual receivables and customer creditworthiness, the Group is expecting to make a provision of approximately RMB650 million for impairment of receivables;

2. the Group is expected to experience a substantial loss arising from changes in fair value less costs of sales of biological assets of RMB600 million for the year ended 31 December 2017 as a result of (1) the Group controlled the numbers of its dairy cows in light of the weak demand of raw milk in the market, and (2) the general decline in the price of raw milk; and

3. In 2017, facing intense market competition of dairy products, the Group adjusted its market strategy, and both the sales volume and sales price of self-owned brand liquid milk products decreased substantially as compared to last year. Meanwhile, the average price of raw milk also decreased substantially as compared to last year.

The information contained in this announcement is only a preliminary assessment by the management of the Company after reviewing the Management Accounts, and is not based on any figures or information which have been audited or reviewed by the Company's auditor or valuer. Details of the Group's financial information for the year will be reported in the annual results announcement which will be published by the end of March 2018.

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
Shao Genhuo
Chairman

Hong Kong, 23 March 2018

As at the date of this announcement, the executive directors of the Company are Mr. Yao Tongshan, Mr. Wu Jianye, Ms. Gao Lingfeng and Mr. Cui Ruicheng; and the non-executive directors of the Company are Mr. Wen Yongping, Mr. Fan Xiang, Mr. Cui Guiyong, Mr. Sun Qian, Mr. Shao Genhuo and Mr. Zhang Jiawang; and the independent non-executive directors of the Company are Mr. Li Changqing, Ms. Ge Xiaoping, Mr. Fu Wenge, Mr. Wang Liyan and Mr. Li Xuan.