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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)

CLARIFICATION ANNOUNCEMENT

This announcement is made by the Company in response to certain allegations contained in a recently published PRC newspaper article in relation to, among others, the accuracy to certain disclosure in the Prospectus.

The board of directors (the “**Board**”) of the China Shengmu Organic Milk Limited (the “**Company**” together with its subsidiaries, the “**Group**”) has become aware of a press article appearing in China Business Journal (中國經營報) on 26 July 2014 (the “**Article**”) containing certain allegations in relation to the accuracy of certain disclosures in the prospectus of the Company dated 30 June 2014 (the “**Prospectus**”) in relation to its initial global offering of a total of 444,800,000 shares (the “**Global Offering**”). The principal allegations and the Board’s responses to the same are as follows:

Organic Farm

The Article referred to and repeated certain allegations from an earlier press article published by Zhongguo Shangbao (中國商報) in October 2013, which was previously made aware of to the Company. These allegations include primarily (i) the construction of a chemical plant near Bayannur Farm No.6, and (ii) the use of chemical synthetic fertilizers to grow organic feed.

The Company was not aware of the source and/or basis of the allegations by Zhongguo Shangbao (中國商報). Nonetheless, it was aware that the local government may approve the establishment of a chemical plant close to Bayannur Farm No. 6, which could negatively affect its suitability for organic dairy farming. As such, as disclosed in the Prospectus, the Company is currently applying for the permits and certificates for the construction of a new farm at another location in the Ulan Buh desert and plans to relocate the dairy cows and other properties on Bayannur Farm No.6 to this new location in November 2014. The Company confirms that the relocation of Bayannur Farm No. 6 is on schedule.

In addition, after the Company became aware of the earlier press article published by Zhongguo Shangbao (中國商報), as disclosed in the Prospectus, the Company has requested the Inner Mongolia Green Food Development Center (內蒙古自治區綠色食品發展中心) (the “**Inner Mongolia Green Food Development Center**”) to conduct on-site inspections of certain organic dairy farms, including Bayannur Farm No.6. The findings from these inspections were memorialized in an inspection report dated 15 October 2013 which concluded that (a) to the knowledge of the Inner Mongolia Green Food Development Center, the Group had not used any chemical fertilizer; (b) the Group had developed and maintained a comprehensive quality management system and had been managing its organic dairy farms in accordance with the relevant standards applicable to organic dairy farming; and (c) the relevant organic dairy farms met all the bio-safety disposal requirements and pollutant discharge standards for large-scale dairy farming set by the relevant environmental protection authorities.

Organic Certifications

The Article also questioned the credibility of China Organic Food Certification Center (中綠華夏有機食品認證中心) (the “**COFCC**”), and by extension, the organic quality of our products.

As disclosed in the Prospectus, according to Frost & Sullivan, an independent industry consultant, the COFCC is among the institutions most widely recognized for organic milk certification in China.

In addition, as disclosed in the Prospectus, the Company has also received organic certificates for dairy farming and liquid milk products from ECOCERT S.A., an organic certification organization based in Europe. It shows that the Group, together with its associate 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), has fulfilled the organic certifications standards of the European Union for all major stages of the dairy production process: forage growing, dairy farming to produce raw milk, and processing to produce liquid milk products. During the three years ended 31 December 2013 and up to the date of this announcement, none of the Company’s organic certifications issued by COFCC and ECOCERT S.A. has been revoked.

Accuracy of Financial Information

The Article also questioned the accuracy of the Company’s certain financial information contained in the Prospectus.

The Company wishes to reiterate that the financial information contained in the Prospectus is based on or derived from the financial statements of the Group which have been audited by Ernst & Young.

Among the allegations, the Article stated that the average selling price of raw milk produced by the Company was RMB3.75 per kilogram in 2013 which, according to the Article, was calculated based on a total revenue of RMB1,140 million and a total milk production volume of 304,725 tonnes which, in turn, was the result of 35,850 milkable cows and an average annual milk yield of 8.5 tonnes. It further questioned that the Company's net profit margin as disclosed in the Prospectus, particularly the net profit margin for 2013 (being 31.9%), was unreasonably high because the average selling price of raw milk as suggested in the Article (being around RMB3.75 per kilogram) was much lower than the average cost of organic milk as suggested in the Article (being around RMB6.5 per kilogram).

The Company believes that such allegations were raised due to the lack of full understanding of the financial information and analysis as disclosed in the Prospectus by the author of the Article and wishes to clarify as follows:

- (1) As disclosed in the Prospectus, as of 31 December 2013, the Group had a total of 35,850 milkable cows. This figure did not represent the milkable cows that the Group had on a monthly average basis during 2013 and included "both dry cows and cows that were producing milk". On the other hand, the average annual milk yield of the Group (being 8.5 tonnes in 2013) referred to the annual milk production volume divided by "monthly average number of cows that are producing milk". As such, it is over simplistic and thus inappropriate to calculate the total annual milk production volume of the Group as suggested in the Article. It has been disclosed in the Prospectus that in 2013, the Group produced a total of 94,152 tonnes of organic raw milk, 113,300 tonnes of non-organic raw milk and 20,885 tonnes of liquid milk products which were entirely produced from the organic raw milk. Furthermore, as disclosed in the Prospectus, in 2013, (a) the Company sold a total of 68,518 tonnes of organic raw milk (excluding 23,813 tonnes of internally sold organic raw milk), 111,465 tonnes of non-organic raw milk and 20,715 tonnes of liquid milk products; and (b) the average selling price of organic raw milk (sold to external customers), non-organic milk and liquid milk products was RMB5,151 per tonne (being RMB5.15 per kilogram), RMB4,377 per tonne (being RMB4.38 per kilogram) and RMB14,625 per tonne (being RMB14.63 per kilogram), respectively.

(2) With respect to the average cost of organic milk at RMB6.5 per kilogram as stated in the Article, the Company is not aware of the calculation and basis of such figure. Based on the information disclosed in the Prospectus, in 2013, the average cost of sale was RMB2,937 per tonne (being RMB2.94 per kilogram) for organic raw milk, RMB2,805 per tonne (being RMB2.81 per kilogram) for non-organic raw milk and RMB6,728 per tonne (being RMB6.73 per kilogram) for liquid milk products.

The Board confirms that all material information relevant to the Company's listing and the Group has been disclosed in the Prospectus in accordance with the requirements of the Listing Rules and all material information (including the financial information) contained in the Prospectus are true, accurate and not misleading from all material aspects.

Shareholders and prospective investors are advised to exercise caution when dealing in the shares of the Company and should make any investment decision only after carefully reviewing and evaluating all of the information contained in the Prospectus and all announcements published by the Company thereafter.

As a relatively new comer to the dairy industry with an organic element, the Company strives to create a sustainable business model by offering premium non-organic raw milk, organic raw milk and liquid milk products to the community. The Company welcomes the media and the public to monitor its operation and performance, and will continue to be accountable to the community and investors to ensure sound and lawful operation of the Group.

By Order of the Board of
China Shengmu Organic Milk Limited
Yao Tongshan
Chairman and Executive Director

Hong Kong, 28 July 2014

As at the date of this announcement, the board of directors of the Company comprises Mr. Yao Tongshan, Mr. Wu Jianye, Mr. Cui Ruicheng and Ms. Gao Lingfeng, as executive directors; Mr. Wu Jingshui, Mr. Fan Xiang, Mr. Cui Guiyong and Mr. Sun Qian, as non-executive directors; Mr. Wong Kun Kau, Mr. Li Changqing, Ms. Ge Xiaoping and Mr. Yuan Qing, as independent non-executive directors.