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Huishan

CHINA HUIZHAN DAIRY HOLDINGS COMPANY LIMITED

中國輝山乳業控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 06863)

CLARIFICATION ANNOUNCEMENT IN RELATION TO PART 2 OF THE MUDDY WATERS REPORT

Reference is made to the announcements of China Huishan Dairy Holdings Company Limited (the “**Company**”) dated 16 December 2016 and 19 December 2016 respectively (together the “**Clarification Announcements**”) in connection with the Muddy Waters Report. Unless otherwise defined herein, capitalised terms used herein shall have the same meanings as those defined in the Clarification Announcements.

As stated in the Clarification Announcements, Muddy Waters Capital LLC has on 18 December 2016 published a “Part 2” report (the “**Part 2 Report**”) containing allegations against the Group. The Part 2 Report has again made allegations which are groundless and contains various misrepresentations, malicious and false allegations and obvious factual errors of the Group which the Company wishes to clarify as set out below.

Muddy Waters Report commentary: “VAT data from the State Administration of Taxation (“SAT”) show that Huishan reports a significant amount of fraudulent revenue”

The Part 2 Report referred to “CY15 Finished Product Sales” being RMB2,352 million based on data purported to have been obtained from the State Administration of Taxation (“SAT”), while at the same time admitting that “The SAT Data was presented without chops”. The Group having double checked SAT official data and noted that Liaoning Huishan Dairy Group Co., Ltd., Huishan Dairy (Shenyang) Sales Co., Ltd., Huishan Dairy (Jinzhou) Sales Co., Ltd., and Liaoning Huiji Liangpin Trading Co., Ltd., namely the four subsidiaries of the Company referred to in the Part 2 Report, have reported approximately RMB1,002 million, RMB2,198 million, RMB477 million and RMB8.4 million respectively of sales revenue, giving approximately RMB3,685 million combined sales revenue, for the calendar year 2015. These figures also tally with the financial information of the four subsidiaries that have filed with the State Administration for Industry & Commerce (“SAIC”). The relevant members of

the Group report financial information to SAT and SAIC which are consistent, and contrary to what Part 2 Report alleges, financial information reported to the SAIC need not be (and is not) “post-elimination for inter-company sales”.

Muddy Waters Report commentary: “Huishan’s problem was that its yield story was suspicious.”

The Company noted that Table 1 of the Part 2 Report only stipulated milk yield in other countries in the world while it did not include the milk yield of other Hong Kong listed China based dairy farming companies (including YuanShengTai Dairy Farm Limited (stock code 1431) and China Modern Dairy Holdings Ltd. (stock code 1117)) whose reported average milk yield for the year 2015 ranged from 9.1 tonnes to 9.9 tonnes. On the above basis the Company’s milk yield is consistent with our peers. The Group has been working closely with domestic and international cow breeding and farm design experts for years to ensure it provides, if not the best but, a suitable environment for optimising milk production and quality.

Muddy Waters Report commentary: “Huishan’s 1H17 claims about sales increases due to increased ASPs is, in our view, spurious”

The dairy products sold by the Group for the six months ended 30 September 2016 contained higher mix of pasteurized dairy products and products that have been optimised to comprise higher protein ingredients resulting in higher margin. This resulted in an increased average selling price for the Group’s products and in turn, increased sales revenue generally for the Group.

Muddy Waters Report commentary: “Furthermore, Huishan claims that the average selling price for its raw milk is higher than that of the overall market. Key competitors Mengniu and Yili, however, note the tremendous downward pressure on milk prices and that increased focus on high-end products accounted for increased revenue.”

As reported by two Hong Kong listed peers in the dairy farming industry, their average selling price (“ASP”) for the six months ended 30 June 2016 are approximately RMB4,040 per tonne and RMB4,005 per tonne, respectively. By comparison, the Group’s ASP for its raw milk for the six months ended 30 September 2016 is approximately RMB4,144 per tonne, representing at least 2.6% premium over such peers. Further, based on the Group’s raw milk sales contracts signed from September 2016 and thereafter with independent third party customers in the dairy products sector, the ASP based on such contract price is at least RMB4,500 per tonne.

By order of the Board
China Huishan Dairy Holdings Company Limited
Yang Kai
Chairman

Hong Kong, 19 December 2016

As at the date of this announcement, the board of directors of the Company comprises Mr. Yang Kai, Ms. Ge Kun, Mr. So Wing Hoi, Mr. Xu Guangyi and Mr. Kwok Hok Yin as executive Directors; Mr. Li Kar Cheung as a non-executive Director; Mr. Song Kungang, Mr. Gu Ruixia, Mr. Tsui Kei Pang and Mr. Kan Yu Leung Peter as independent non-executive Directors.