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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)

CONTINUING CONNECTED TRANSACTION

Financial Assistance Framework Agreement

The Company hereby announces that, on 4 June 2015, the Company and Shengmu Forage entered into the Financial Assistance Framework Agreement, pursuant to which the Group will provide financial assistance (in the form of guarantees) for the external borrowings of Shengmu Forage.

As at the date of this announcement, certain of the Ultimate Controlling Shareholders and their family members hold in aggregate approximately 37.17% equity interest in Shengmu Forage. Mr. Wu and Ms. Gao are also directors of Shengmu Forage. As a result, Shengmu Forage is an associate of the Ultimate Controlling Shareholders and therefore a connected person of the Company as defined under the Listing Rules. Accordingly, the Group's provision of financial assistance (in the form of guarantees) for the external borrowings of Shengmu Forage under the Financial Assistance Framework Agreement constitutes a continuing connected transaction of the Company as defined under the Listing Rules, and the highest applicable percentage ratio is more than 0.1% but less than 5% under Chapter 14A of the Listing Rules. Therefore, the transaction contemplated under the Financial Assistance Framework Agreement is subject to the reporting and announcement requirements, but is exempt from the independent shareholders' approval requirements.

The Company hereby announces that, on 4 June 2015, the Company and Shengmu Forage entered into the Financial Assistance Framework Agreement, pursuant to which the Group will provide financial assistance (in the form of guarantees) for the external borrowings of Shengmu Forage.

PRINCIPAL TERMS OF THE FINANCIAL ASSISTANCE FRAMEWORK AGREEMENT

The principal terms of the Financial Assistance Framework Agreement are summarized as follows:

Date of agreement:	4 June 2015
Parties:	The Company and Shengmu Forage
Term of agreement:	From the date of the Financial Assistance Framework Agreement to 31 December 2017
Contents:	The Group shall, based on the Shengmu Forage's requirement from time to time, provide guarantees for the external borrowings of Shengmu Forage on normal commercial terms
Annual caps:	For the each of the years ending 31 December 2015, 2016 and 2017, the daily maximum balance of financial assistance (in the form of guarantees) to be provided by the Group to Shengmu Forage shall not exceed RMB300,000,000

BACKGROUND FOR THE FINANCIAL ASSISTANCE FRAMEWORK AGREEMENT AND DETERMINATION OF THE ANNUAL CAPS

According to the Long-term Strategic Cooperation Agreement, the Group is the only customer of Shengmu Forage, and Shengmu Forage's expansion plans are designed specifically to support the Group's expansion plans. The Board has been notified by the management of Shengmu Forage that it needed external financing to implement its expansion plans and wished that the Group will provide guarantee for its external borrowings. Pursuant to the Financial Assistance Framework Agreement, the maximum daily balance of guarantee to be provided by the Group to Shengmu Forage will not exceed RMB300,000,000 for each of the three years ending 31 December 2015, 2016 and 2017. In the determination of such annual cap, the Directors have mainly taken into account the principal considerations that, in order to fully support the expansion plans of the Group, Shengmu Forage is expected to develop and/or acquire additional land area of not less than a total of 280,000 mu as organic planting fields for the three years ending 31 December 2017. Before the land intended for

development has reached the ready-for-use condition, land development procedures such as well drilling, power cable installation, road construction, irrigation and ancillary facilities construction works are required to be implemented, which shall require substantial funds. In light of the abovementioned expansion plans, Shengmu Forage is expected to require additional external borrowings with third-party guarantees.

As of the date of this announcement, the Group has not provided guarantees or other forms of financial assistance to Shengmu Forage.

INFORMATION ON THE GROUP AND SHENGMU FORAGE

The Group is principally engaged in dairy farming business and liquid milk business. The Group is the largest organic dairy product group in China and, together with Shengmu Forage, the only vertically integrated organic dairy group in China that meets E.U. organic standards.

Shengmu Forage is accounted for as an associate of the Company, and is principally engaged in growing organic forage in the Ulan Buh desert where is in the proximity of the Group's organic dairy farms. In March 2014, the Group entered into the Long-term Strategic Cooperation Agreement with Shengmu Forage for a term of 20 years, under which Shengmu Forage undertakes to continue its exclusive supply arrangement for organic forage with the Group and support the Group's future expansion plans. Shengmu Forage and Shengmu Holding also entered into a forage supply framework agreement on 25 June 2014, pursuant to which Shengmu Forage and its subsidiaries shall sell all the forage produced by them to the Group on an exclusive basis for the term from 1 January 2014 to 31 December 2016. As at the date of this announcement, the Group holds 9.01% equity interest of Shengmu Forage. Pursuant to the acting-in-concert arrangement entered into among Shengmu Holding, Mr. Wu and Ms. Gao in relation to their exercise of voting rights at the shareholders meetings and board meetings of Shengmu Forage, the Group controls a total of approximately 31.88% equity interest in Shengmu Forage (representing the total equity interest held by Shengmu Holding, Shengmu Farming, Mr. Wu and Ms. Gao).

REASONS FOR AND BENEFITS OF ENTERING INTO THE FINANCIAL ASSISTANCE FRAMEWORK AGREEMENT

The Directors consider that the entering into the Financial Assistance Framework Agreement and the provision of financial assistance (in the form of guarantees) to Shengmu Forage is beneficial to the Group, having considered the following factors:

1. Shengmu Forage is the Group's major supplier of organic forage from which the Group purchases majority of organic forage feeds. Shengmu Forage and its subsidiaries do not use any synthetic pesticides or synthetic fertilizers to grow organic forage, and are able to provide stable and reliable supply of high-quality forage to the Group. In March 2014, the Group and Shengmu Forage entered into the Long-term Strategic Cooperation Agreement for a term of 20 years, pursuant to which Shengmu Forage undertook to continue the exclusive organic forage supply arrangement with the Group, and to support the Group's future expansion plans. Shengmu Forage and Shengmu Holding also entered into a forage supply framework agreement on 25 June 2014, pursuant to which Shengmu Forage and its subsidiaries shall sell all the forage produced by them to the Group on an exclusive basis for the term from 1 January 2014 to 31 December 2016. Accordingly, provision of assistance for Shengmu Forage to implement its expansion plans is beneficial to the development of the Group.
2. To support the Group's expansion plans, Shengmu Forage will acquire more lands as organic planting fields in the Ulan Buh Desert and other areas, which requires substantial funds for land development and other capital expenditures. Besides funds generated from operation and bank credit borrowings, Shengmu Forage still needs funding supports which can only be obtained with third-party guarantees. Accordingly, provision of guarantees for the external borrowings of Shengmu Forage is beneficial for the implementation its expansion plans.
3. The risks arising from the financial assistance is under control, in view of the close cooperation relationship between the Group and Shengmu Forage, especially given that Mr. Wu and Ms. Gao, Directors of the Company, are also directors of Shengmu Forage (being two of the three directors of Shengmu Forage), which enables the Company to conduct timely assessment of the financial condition of Shengmu Forage and monitor its business and credit status.

After due consideration, the Directors (including the independent non-executive Directors) of the Company are of the view that the continuing connected transaction under the Financial Assistance Framework Agreement is entered into on normal commercial terms after an arm's length negotiation in the ordinary course of business, is in the interests of the Company and its shareholders as a whole, and that the proposed annual caps and terms of the Financial Assistance Framework Agreement are fair and reasonable.

LISTING RULES IMPLICATIONS

Certain of the Ultimate Controlling Shareholders and their family members hold in aggregate approximately 37.17% equity interest in Shengmu Forage. Mr. Wu and Ms. Gao are also directors of Shengmu Forage. As a result, Shengmu Forage is an associate of the Ultimate Controlling Shareholders and therefore a connected person of the Company as defined under the Listing Rules. Accordingly, the Group's provision of financial assistance (in the form of guarantees) for the external borrowings of Shengmu Forage under the Financial Assistance Framework Agreement also constitutes a continuing connected transaction of the Company.

As the highest applicable percentage ratio in respect of the transaction is more than 0.1% but less than 5% under the Listing Rules, the transaction contemplated under the Financial Assistance Framework Agreement is subject to the reporting and announcement requirements, but is exempt from the independent shareholders' approval requirements.

Mr. Yao, Mr. Wu and Ms. Gao, each being an existing shareholder of Shengmu Forage who have material interests in the transaction contemplated under the Financial Assistance Framework Agreement, have abstained from voting on the Board resolutions in relation to the Financial Assistance Framework Agreement.

DEFINITIONS

In this announcement, the following expressions shall have the meanings ascribed to them below unless the context requires otherwise:

“associate”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“connected person(s)”	has the meaning ascribed to it under the Listing Rules

“Company”	China Shengmu Organic Milk Limited (中國聖牧有機奶業有限公司), a company incorporated in the Cayman Islands with limited liability, the issued Shares of which are listed on the Stock Exchange
“Director(s)”	the director(s) of the Company
“Financial Assistance Framework Agreement”	the financial assistance framework agreement entered into between Shengmu Forage and the Company on 4 June 2015, the principal terms of which are set out in the section headed “Principal Terms of the Financial Assistance Framework Agreement” in the announcement
“Group”	the Company and its subsidiaries from time to time
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Long-term Strategic Cooperation Agreement”	the long-term strategic cooperation agreement dated 26 March 2014 entered into between Shengmu Holding and Shengmu Forage, which was subsequently supplemented by a supplementary long-term strategic cooperation agreement dated 25 June 2014, the details of which are set out in the section headed “Business — Suppliers and Procurement — Organic Feed — Shengmu Forage” in the Company’s prospectus dated 30 June 2014
“Mr. Yao”	Mr. Yao Tongshan (姚同山), the Chairman, the chief executive officer, an Ultimate Controlling Shareholder of the Company and an existing shareholder of Shengmu Forage
“Ms. Gao”	Gao Lingfeng (高凌鳳), an executive Director, the vice president, an Ultimate Controlling Shareholder of the Company and an existing shareholder of Shengmu Forage
“Mr. Wu”	Mr. Wu Jianye (武建鄴), an executive Director, the president, an Ultimate Controlling Shareholder of the Company and an existing shareholder of Shengmu Forage

“mu”	an area unit used in China, 1 mu equals to approximately 667 square meters
“PRC”	the People’s Republic of China and for the purpose of this announcement, does not include Hong Kong, Macao Special Administrative Region and Taiwan
“Shengmu Forage”	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) and its subsidiaries from time to time
“Shengmu Farming”	Inner Mongolia Shengmu Holding Co., Ltd (內蒙古聖牧控股有限公司) (formerly known as Bayannur Shengmu High-tech Farming Co., Ltd. (巴彥淖爾市聖牧高科牧業有限公司)), a company with limited liability established under the laws of the PRC and a wholly-owned subsidiary of the Company
“Shengmu Holding”	Inner Mongolia Shengmu High-tech Farming Co., Ltd (內蒙古聖牧高科牧業有限公司), a wholly-owned subsidiary of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Ultimate Controlling Shareholders”	a group of 14 individuals (including Mr. Yao, Mr. Wu and Ms. Gao) who, by an acting-in-concert arrangement, are entitled to exercise, through a holding company, more than 30% of the voting rights at general meeting of the Company and are therefore together regarded as the controlling shareholders as defined under the Listing Rules

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

Hong Kong, 4 June 2015

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; the non-executive directors of the Company are Mr. Wu Jingshui, Mr. Fan Xiang, Mr. Cui Guiyong and Mr. Sun Qian; the independent non-executive directors of the Company are Mr. Wong Kun Kau, Mr. Li Changqing, Ms. Ge Xiaoping and Mr. Yuan Qing.