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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, a bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in China Shengmu Organic Milk Limited (the “Company”), you should at once hand this circular and the accompanying proxy form to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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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)

CONNECTED TRANSACTION

PROPOSED AMENDMENTS TO THE TERMS OF OPTIONS GRANTED UNDER THE PRE-IPO SHARE OPTION SCHEME

**Independent Financial Adviser to the Independent Board Committee
and the Independent Shareholders**



中泰國際
ZHONGTAI INTERNATIONAL

A notice convening an extraordinary general meeting (“EGM”) of the Company to be held at Meeting Room, 2nd Floor, Office Building (Phase I) of Inner Mongolia Shengmu High-tech Dairy Co., Ltd., Food Industry Park, Deng Kou County, Bayannur City, Inner Mongolia Autonomous Region, PRC at 10 a.m. on November 3, 2015 is set out on page 36 to 38 of this circular. A form of proxy for use at the EGM is enclosed with this circular. Such form of proxy is also published on the websites of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk) and the Company (<http://www.youjimilk.com>).

Whether or not you are able to attend the EGM, please complete and sign the enclosed form of proxy in accordance with the instructions printed thereon and return it to the office of the Company’s branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude Shareholders from attending and voting in person at the EGM or any adjourned meeting thereof if they so wish.

October 16, 2015

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DEFINITIONS

In this circular, the following expressions shall (unless the context otherwise requires) have the following meanings:

“Articles”	the articles of association of the Company
“Board”	the board of Directors
“Company”	China Shengmu Organic Milk Limited (中國聖牧有機奶業有限公司), an exempted company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange
“controlling shareholder”	has the meaning ascribed to it under the Listing Rules
“Current Exercise Period”	shall have the meaning ascribed to it in the section headed “Current terms of the Options which are subject to the Proposed Amendments”
“Directors”	the directors of the Company
“EGM”	the extraordinary general meeting of the Company to be convened for the purpose of considering, and if thought fit, approving the Proposed Amendments
“Forage Supply Framework Agreement”	the forage supply framework agreement dated June 25, 2014, entered into between Shengmu Holding and Shengmu Forage which sets out certain specific terms for the purchase of forage by our Group from Shengmu Forage and its subsidiaries for a three-year term from January 1, 2014 to December 31, 2016, the details of which are set out in the section headed “Continuing Connected Transactions — Non-Exempt Continuing Connected Transactions — Continuing Connected Transactions with Shengmu Forage — Purchase of Forage” in the Company’s prospectus dated June 30, 2014
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars and cents, respectively, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Board Committee”	an independent board committee of the Board consisting of WONG Kun Kau, LI Changqing, GE Xiaoping and YUAN Qing, the independent non-executive Directors established for the purpose of reviewing the Proposed Amendments

DEFINITIONS

“Independent Shareholders”	Shareholders other than World Shining and who are not otherwise required to abstain from voting at the EGM under the Listing Rules
“Latest Practicable Date”	October 14, 2015, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this Circular
“Listing Date”	July 15, 2014, the date of listing of the Company on the Stock Exchange
“Listing Rules”	the rules governing the listing of securities on the Stock Exchange
“Lock-up Period”	shall have the meaning ascribed to it in the section headed “Current terms of the Options which are subject to the Proposed Amendments”
“Long-term Strategic Cooperation Agreement”	the long-term strategic cooperation agreement dated March 26, 2014 entered into between Shengmu Holding and Shengmu Forage, which was subsequently supplemented by a supplementary long-term strategic cooperation agreement dated June 25, 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 June 30, 2014
“Option(s)”	share option(s) granted under the Pre-IPO Share Option Scheme
“Pre-IPO Share Option Scheme”	the pre-IPO share option scheme adopted by the Company on April 30, 2014, prior to the Listing Date
“Prospectus”	the prospectus of the Company dated June 30, 2014
“Proposed Amendments”	the proposed amendments to the terms of the Pre-IPO Share Option Scheme, details of which is set out in the section headed “Proposed Amendments and Background”
“Share(s)”	ordinary share(s) of par value HK\$0.00001 each issued by the Company
“Shareholder(s)”	shareholder(s) of the Company
“Share Option Scheme”	the post-IPO share option scheme adopted by the Company on June 18, 2014, the details of which are set out in the section headed “Appendix IV — Statutory and General Information — E. Share Option Scheme” in the prospectus of the Company

DEFINITIONS

“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 on January 21, 2010 and an indirectly wholly-owned subsidiary of our Company
“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), a company with limited liability established under the laws of the PRC on April 28, 2010, including its subsidiary/(ies) from time to time to the extent applicable
“Shengmu Holding”	Inner Mongolia Shengmu High-tech Farming Co., Ltd. (內蒙古聖牧高科牧業有限公司), a company with limited liability established under the laws of the PRC on October 18, 2009, which is our indirect wholly-owned subsidiary
“Shengmu Pangu”	Bayannur Shengmu Pangu Farming Co., Ltd. (巴彥淖爾市聖牧盤古牧業有限責任公司), a company with limited liability established under the laws of the PRC on June 15, 2012 and owned as to 55% by Shengmu Holding and 45% by Mr. WU Jianye (武建鄴)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder”	has the meaning ascribed to it under the Listing Rules
“Ultimate Controlling Shareholders”	a group of 14 individuals (including YAO Tongshan, WU Jianye, GAO Lingfeng, CUI Ruicheng and WANG Zhen, being five of the grantees) who, by an acting-in-concert arrangement, are entitled to exercise, through World Shining, 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
“Vesting Date(s)”	the first business day immediately following the expiry of the Waiting Period (i.e. May 4, 2015)
“Waiting Period”	the period during which the Options are not exercisable which expires on the later date of (i) a year following the date of the grant of the option, and (ii) six (6) months following the Listing Date, being April 30, 2015
“World Shining”	World Shining Investment Limited, a company incorporated under BVI laws on December 11, 2013, controlling shareholder of the Company

DEFINITIONS

“ZTIC”	Zhongtai International Capital Limited, the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the Proposed Amendments and a corporation licensed to carry on Type 1 (dealing in securities), and Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance
“%”	per cent

LETTER FROM THE BOARD

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)

Executive Directors:

Mr. YAO Tongshan (Chairman)
Mr. WU Jianye
Ms. GAO Lingfeng
Mr. CUI Ruicheng

Non-executive Directors:

Mr. WU Jingshui
Mr. FAN Xiang
Mr. CUI Guiyong
Mr. SUN Qian

Independent non-executive Directors:

Mr. WONG Kun Kau
Mr. LI Changqing
Ms. GE Xiaoping
Mr. YUAN Qing

Registered office:

P.O. Box 309
Ugland House
Grand Cayman, KY1-1104
Cayman Islands

Principal place of business

and headquarters in the PRC:

Food Industry Park
Deng Kou County
Bayannur City
Inner Mongolia Autonomous Region
PRC

Principal place of business

in Hong Kong:

Room 606-607, 6/F
China Merchants Building
152-155 Connaught Road Central
Hong Kong

October 16, 2015

To the Shareholders,

Dear Sir or Madam,

CONNECTED TRANSACTION PROPOSED AMENDMENTS TO THE TERMS OF OPTIONS GRANTED UNDER THE PRE-IPO SHARE OPTION SCHEME

1. Introduction

The purpose of this circular is to provide Shareholders with information in respect of certain resolutions to be proposed at the EGM for the proposed amendments to the options of the Pre-IPO Share Option Scheme. YAO Tongshan, WU Jianye, GAO Lingfeng, CUI Ruicheng (each being one of the executive directors of the Company) and WANG Zhen (a director of a subsidiary of the Company), all being grantees, are the Ultimate Controlling Shareholders and connected person of the Company, the Proposed Amendments are considered to be connected transactions under Chapter 14A of the Listing Rules and are subject to approval of Independent Shareholders.

LETTER FROM THE BOARD

On April 30, 2014 and prior to the Listing Date, the Company has conditionally approved and adopted the Pre-IPO Share Option Scheme pursuant to the resolutions of the Shareholders passed on April 30, 2014.

On October 1, 2015, the Board resolved to amend the terms of the Options granted to the grantees under the Pre-IPO Share Option Scheme, subject to the Independent Shareholders' approval at the EGM. Details in relation to the Pre-IPO Share Option Scheme are set out in the section headed "Appendix IV — Statutory and General Information — D. Pre-IPO Share Option Scheme" in the prospectus of the Company.

The principal terms of the Pre-IPO Share Option Scheme are:

Purpose and Participants

The purpose of the Pre-IPO Share Option Scheme is to attract, retain and motivate our Directors, senior management of our Group and Shengmu Forage, to provide a means of compensating them through the grant of options under the Pre-IPO Share Option Scheme for their contribution to the growth and profits of our Group prior to the Listing, and to allow them to participate in the growth and profitability of our Group. Participants of the Pre-IPO Share Option Scheme include (a) our executive Directors, (b) senior management of our Group, (c) management of our subsidiaries, and (d) management of Shengmu Forage.

Conditions

The Pre-IPO Share Option Scheme shall take effect conditional upon (i) the listing committee of the Stock Exchange granting approval of the Pre-Share Option Scheme, the granting of the options thereunder, and the listing of, and permission to deal in, the Shares to be issued pursuant to the exercise of the options granted the Pre-Share Option Scheme; and (ii) the commencement of dealing in the Shares on the Stock Exchange.

All the above conditions have been satisfied as at the Listing Date.

No grant of options on or after the Listing Date

Save for the options which have been granted before the Listing Date, no further options will be granted under the Pre-IPO Share Option Scheme on or after the Listing Date.

Subscription Price

The subscription price per Share of the options granted under the Pre-IPO Share Option Scheme is HK\$1.56.

LETTER FROM THE BOARD

Duration of the Pre-IPO Share Option Scheme

The Pre-IPO Share Option Scheme will remain in force for a period of four years commencing on the date on which an option is granted pursuant to the scheme.

Vesting and Lapse of Options

Options granted under the Pre-IPO Share Option Scheme shall be fully vested on the relevant grantees subject to certain conditions being fulfilled. A resolution of the Board on whether the above-mentioned conditions for vesting are fulfilled on the Vesting Date shall be conclusive. For details of the vesting of Options, please refer to the section headed “Number of Options vested under the Pre-IPO Share Option Scheme since the Listing Date”.

An option granted under the Pre-IPO Share Option Scheme which is vested on the Vesting Date must be exercised by the relevant grantee within six months after the Vesting Date. Options not exercised within such six months shall lapse immediately afterwards. As such, the subsisting Options will lapse if not exercised on or before November 4, 2015.

Lock-up on the Shares

Within two years after the Vesting Date, a grantee shall not sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to purchase, grant or purchase any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares which have been issued to him/her pursuant to his/her exercise of any option granted to and vested on him/her under the Pre-IPO Share Option Scheme.

2. Number of Options vested under the Pre-IPO Share Option Scheme since the Listing Date

Prior to the Listing Date, 504,480,000 Options to subscribe for an aggregate of 504,480,000 Shares were conditionally granted to a total of 189 grantees under the Pre-IPO Share Option Scheme by the Company. Each one (1) Option is conditionally eligible for subscription of one (1) Share, subject to the terms and conditions of the Pre-IPO Share Option Scheme. Out of the 504,480,000 Options eligible to subscribe for 504,480,000 Shares under the Pre-IPO Share Option Scheme, 15,996,000 Options had lapsed as at the Latest Practicable Date since eight (8) grantees holding the said 15,996,000 Options ceased to be employees of the Group.

As of the Latest Practicable Date, 488,484,000 Options for the subscription of 488,484,000 Shares were held by the remaining 181 grantees, representing approximately 7.14% of the total issued share capital of the Company (assuming that the above-mentioned subsisting Options granted under the Pre-IPO Share Option Scheme are exercised, but without taking into account of any Shares which may be allotted and issued upon the exercise of any options which may be granted under the Share Option Scheme).

LETTER FROM THE BOARD

As at the Latest Practicable Date, 488,484,000 Options for the subscription of 488,484,000 Shares have been fully vested to the 181 grantees. The exercise price per Share of the Options granted under the Pre-IPO Share Option Scheme is HK\$1.56. No option granted under the Pre-IPO Share Option Scheme has been exercised as at the Latest Practicable Date.

3. Current terms of the Options which are subject to the Proposed Amendments

For the reasons set out below in the section headed “Proposed Amendments and Background”, the Board proposed to amend the following current terms of the Options.

(1) *Current Restriction during the Lock-up Period*

The Pre-IPO Share Option Scheme provides that, within two (2) years (the “**Lock-up Period**”, being the period from May 4, 2015 to May 4, 2017) after the Vesting Date, a grantee *shall not* sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrants, contract or right to purchase, grant or purchase any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares which have been issued to him/her pursuant to his/her exercise of any option granted to and vested on him/her under the Pre-IPO Share Option Scheme.

(2) *Current Exercise Period*

According to the Pre-IPO Share Option Scheme, Option granted which is vested on the Vesting Date must be exercised by the relevant grantee within six (6) months after the Vesting Date (the “**Current Exercise Period**”). Options not exercised within such six (6) months shall lapse immediately afterwards.

As the Options for the subscription of 488,484,000 Shares were fully vested to the 181 grantees on the Vesting Date (i.e. May 4, 2015), they will lapse if the said Options are not exercised on or before November 4, 2015.

4. Proposed Amendments and Background

After discussion with the 181 grantees, the Board understands that, most of the grantees have been deterred from exercising the Options after considering the continual volatility of Hong Kong capital market since the commencement of the Current Exercise Period on May 4, 2015, the minimum gap of 18 months between the exercise of the Options and the disposal of Shares (the Lock-up Period expires on May 4, 2017), the holding costs, interest expenses (if any) as a result of the Lock-up Period after the exercise, and the uncertainty of the share price fluctuation during the Lock-up Period. The Board also noticed that, the Options which have not been exercised shall lapse upon expiry of the Current Exercise Period on November 4, 2015.

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The purpose of the Pre-IPO Share Option Scheme is to attract, retain and motivate the Directors, the employees and senior management of the Group and Shengmu Forage, to provide a means of compensating them through the grant of Options for their contribution to the growth and profits of our Group prior to the Listing, and to allow them to participate in the growth and profitability of the Group. The Board considered that the purpose of the Pre-IPO Share Option Scheme could no longer be served without amendments being made to the current terms of the Options for the reasons as set out in the section headed “Reasons and Benefits of the Proposed Amendments” below, accordingly and from the perspectives of the Company and Shareholders, the Board proposed the following amendments (the “**Proposed Amendments**”) to the terms of the Options:

- (1) All the Shares issued pursuant to the exercise of Options during the Proposed Exercise Period (as defined hereunder) would not be subject to any restriction currently applicable during the Lock-up Period. Grantees are entitled to sell or otherwise dispose of any interest in the Shares after they exercise the Options during the Proposed Exercise Period.
- (2) The Current Exercise Period (from May 4, 2015 to November 4, 2015) be adjusted in the following manner (the “**Proposed Exercise Period**”):

Proposed Exercise Period	Maximum percentage of Options exercisable during the respective Proposed Exercise Period
From May 4, 2016 to May 4, 2017	50% of the Options vested
From November 4, 2016 to May 4, 2017	50% of the Options vested

If the grantee ceases employment with the Group or Shengmu Forage before May 4, 2016, 100% of the Options held by him/her shall lapse immediately, and if the grantee ceases employment with the Group or Shengmu Forage on or after May 4, 2016 but before November 4, 2016, 50% of the Options held by him/her shall lapse immediately.

Apart from the Proposed Amendments, the other terms of the Pre-IPO Share Option Scheme remain the same.

Reasons and Benefits of the Proposed Amendments

The Board believes that the Proposed Amendments are in line with the purpose of the Pre-IPO Share Option Scheme to attract, retain and motivate the Directors, senior management and employees of the Group and Shengmu Forage, fair and reasonable, and are in the interest of the Company and the Shareholders as a whole, for the following reasons:

- (1) The Current Exercise Period commences from May 4, 2015 and ends on November 4, 2015, while the current Lock-up Period will end on May 4, 2017, which means that there is a minimum gap of 18 months between the exercise of the Options and disposal of Shares issued as a result of the exercise. As such, the grantees are generally deterred from exercising the Options after considering the holding costs, interest expenses (if any) as a

LETTER FROM THE BOARD

result of the Lock-up Period after the exercise, and the uncertainty of the share price fluctuation during the Lock-up Period. The grantees will be entitled to share disposal after the exercise if there is no such restriction pertaining to the Lock-up Period. Lifting the current disposal restriction during the Lock-up Period would therefore provide additional incentives for the grantees to exercise the Options and stay beyond the expiry of the Current Exercise Period (i.e. November 4, 2015) so as to exercise the Options during the Proposed Exercise Period;

- (2) the Current Exercise Period shall expire on November 4, 2015, as such, the commencement of the exercise period for 50% Options and another 50% Options have been effectively extended for another 6 months and 12 months to May 4, 2016 and November 4, 2016 respectively, and the Options held by those ceasing employment prior to the aforesaid commencement date shall lapse accordingly, and hence providing additional incentives for the grantees to stay with the Group for a longer period of time;
- (3) all of the grantees have joined the Group or Shengmu Forage prior to the Listing, and are core members of the Group and Shengmu Forage, providing additional incentives for the grantees to stay with the Group beyond the expiry of the Current Exercise Period on November 4, 2015 is beneficial to the development and stability of the Group; and
- (4) the Company has also considered to issue new share options through the Share Option Scheme as incentive measure after the Options under the Pre-IPO Share Option Scheme have expired, but is of the view that such measure could not fully achieve the incentives effect, given that the 181 grantees are currently entitled to the incentives measures based on the pre-IPO Share Option Scheme in recognition for their contribution to the Group's development and profitability prior to the Listing while the terms of options to be issued under the Share Option Scheme will require adjustment as compared to certain current terms of the Options, so as to be in compliance with the relevant regulations under the Listing Rules, and hence there will be adverse effect on maintaining and providing incentives for the grantees. The options granted pursuant to the Share Option Scheme are subject to the regulations under Chapter 17 of the Listing Rules. In particular, according to Rule 17.03(9), the exercise price ("**Post-IPO Option Exercise Price**") of such options must be at least the higher of: (i) the closing price of the securities as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; and (ii) the average closing price of the securities as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant. The aforesaid exercise price regulation would lead to uncertainty of the actual exercise price which depends on the share price performance of the Company *within proximity of the date of grant* as per Rule 17.03(9) which may demoralize the grantees whose Options have already been vested with fixed exercise price, as well as the potentially undesirable effect that the employees do not have the incentives to contribute to a better performance of the Company prior to the grant of options, which might in turn lead to a higher Post-IPO Option Exercise Price upon grant of the options.

LETTER FROM THE BOARD

5. Information On the Parties and Listing Rules Implications

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.

As at the Latest Practicable Date, 181 grantees consist of (a) 4 directors of the Company; (b) a joint company secretary of the Company; (c) 10 directors of subsidiaries of the Company not mentioned above; (d) 160 other employees of the Group; and (e) 6 employees of Shengmu Forage.

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. 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 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 the Forage Supply Framework Agreement on June 25, 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 January 1, 2014 to December 31, 2016. As at the date of this announcement, the Group holds 9.01% equity interest of Shengmu Forage.

LETTER FROM THE BOARD

The following is a summary of a total of 181 grantees as at the Latest Practicable Date:

Grantee	Number of Shares to be issued upon full exercise of the Option under the Pre-IPO Share Option Scheme
<i>Directors of the Company (4 in total)</i>	
YAO Tongshan	70,419,200
WU Jianye	64,876,800
GAO Lingfeng	31,992,000
CUI Ruicheng	31,992,000
<i>Sub-total:</i>	<i>199,280,000</i>
<i>Senior management of the Company, Directors of subsidiaries of the Company and other employees of the Group not mentioned above (171 in total)</i>	<i>285,335,200</i>
<i>Employees of Shengmu Forage (6 in total)</i>	<i>3,868,800</i>
Total	488,484,000

YAO Tongshan, WU Jianye, GAO Lingfeng, CUI Ruicheng (each being one of the executive directors of the Company) and WANG Zhen (a director of a subsidiary of the Company), all being grantees, are the Ultimate Controlling Shareholders and connected person of the Company, the Proposed Amendments are considered to be connected transactions under Chapter 14A of the Listing Rules and are subject to approval of Independent Shareholders.

YAO Tongshan, the executive director of the Company, is also the sole director of World Shining, the controlling shareholder of the Company. Apart from above, none of the Directors of the Company is a director or employee of the Company's substantial shareholders.

YAO Tongshan, WU Jianye, GAO Lingfeng and CUI Ruicheng, each being one of the 181 grantees and Director of the Company with a material interest in the Proposed Amendments, had abstained from voting at the meeting of the Board on the resolutions to approve the Proposed Amendments.

LETTER FROM THE BOARD

Pursuant to note (2) to rule 17.03(18) of the Listing Rules, any changes to the terms of the Options granted under the Pre-IPO Share Option Scheme must be approved by a resolution of the Shareholders in general meeting. Accordingly, resolution will be proposed at an extraordinary general meeting of the Company for the Independent Shareholders to consider the Proposed Amendments.

6. General

The Proposed Amendments, if approved by the Independent Shareholders at the EGM, will take effect upon approval by the Independent Shareholders and apply to the subsisting Options for the subscription of 488,484,000 Shares. The Board considers that the Proposed Amendments are fair, reasonable and in the interests of the Company and its Shareholders as a whole.

As YAO Tongshan, WU Jianye, GAO Lingfeng, CUI Ruicheng (each being one of the executive directors of the Company) and WANG Zhen (a director of a subsidiary of the Company), all being grantees who are the Ultimate Controlling Shareholders and connected person of the Company, have material interest in the Proposed Amendments, World Shining shall abstain from voting at the EGM because World Shining is owned as to 87.44% by the Ultimate Controlling Shareholders. World Shining held approximately 57.39% of the existing issued share capital of the Company as at the Latest Practicable Date. So far as the Directors are aware after making reasonable enquiry, apart from World Shining, no other Shareholders will be required to abstain from voting at the EGM on the resolutions to approve the Proposed Amendments.

7. EGM

A notice of the EGM to be held at Meeting Room, 2nd Floor, Office Building (Phase I) of Inner Mongolia Shengmu High-tech Dairy Co., Ltd., Food Industry Park, Deng Kou County, Bayannur City, Inner Mongolia Autonomous Region, PRC, on November 3, 2015 at 10 a.m. is set out on pages 36 to 38 of this circular. A form of proxy for the EGM is enclosed. At the EGM, resolutions will be proposed to approve the Proposed Amendments to the terms of the Options granted under the Pre-IPO Share Option Scheme.

Whether or not you intend to be present at the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 48 hours before the time fixed for holding the EGM or any adjournment thereof. Completion and delivery of the form of proxy will not prevent you from attending, and voting at, the EGM or any adjournment thereof if you so wish.

Pursuant to 13.39(4) of the Listing Rules and the articles of association of the Company, any vote of the Shareholders at the EGM must be taken by poll.

LETTER FROM THE BOARD

8. Recommendation

Based on the reasons set out in the section headed “Proposed Amendments and Background”, the Board considers that the Proposed Amendments to the terms of Options granted under the Pre-IPO Share Option Scheme are fair and reasonable and in the interests of the Company and its Shareholders as a whole. Accordingly, the Board recommends that the Shareholders should vote in favour of the ordinary resolution to be proposed at the EGM to approve the amendments to the terms of Options granted under the Pre-IPO Share Option Scheme, as detailed in the EGM notice.

Yours faithfully,
By Order of the Board
China Shengmu Organic Milk Limited
YAO Tongshan
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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)

October 16, 2015

To the Independent Shareholders

Dear Sir/Madam,

**CONNECTED TRANSACTION
PROPOSED AMENDMENTS TO THE TERMS OF OPTIONS
GRANTED UNDER THE PRE-IPO SHARE OPTION SCHEME**

We, the Independent Board Committee of China Shengmu Organic Milk Limited, are advising the Independent Shareholders in connection with the Proposed Amendments to the terms of Options granted under the Pre-IPO Share Option Scheme, details of which are set out in the Letter from the Board contained in the circular (the “**Circular**”) of the Company to the Shareholders dated October 16, 2015, of which this letter forms a part. Terms defined in the Circular shall have the same meanings when used herein unless the context otherwise requires.

Under the Listing Rules, the Proposed Amendments to the terms of Options granted under the Pre-IPO Share Option Scheme constitute a connected transaction for the reasons set out in the section headed “Information on the Parties and Listing Rules Implications” in the Letter from the Board. Accordingly, the conduct of the Proposed Amendments to the terms of Options granted under the Pre-IPO Share Option Scheme will require the approval of the Independent Shareholders at the EGM.

We wish to draw your attention to the letter of advice from ZTIC set out on pages 17 to 28 of the Circular. We have discussed the letter and the opinion contained therein.

Having considered, inter alia, the factors and reasons considered by, and the opinion of, ZTIC, as stated in its aforementioned letter, we consider the Proposed Amendments to the terms of Options granted under the Pre-IPO Share Option Scheme to be fair and reasonable so far as the Independent Shareholders are concerned. We are of the view that, though not in the ordinary and usual course of business of the Group, the proposed amendments to the terms of Options granted under the Pre-IPO Share Option Scheme are in the interests of the Company and its Shareholders as a whole. Accordingly, we recommend that the Independent Shareholders vote in favour of the relevant ordinary resolution in the Notice of EGM to be proposed at the EGM and thereby approve the Proposed Amendments to the terms of Options granted under the Pre-IPO Share Option Scheme.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Yours faithfully,
For and on behalf of the
Independent Board Committee

Mr. WONG Kun Kau	Mr. LI Changqing	Ms. GE Xiaoping	Mr. YUAN Qing
<i>Independent</i>	<i>Independent</i>	<i>Independent</i>	<i>Independent</i>
<i>Non-executive</i>	<i>Non-executive</i>	<i>Non-executive</i>	<i>Non-executive</i>
<i>Director</i>	<i>Director</i>	<i>Director</i>	<i>Director</i>

LETTER FROM ZTIC

The following is the full text of a letter from ZTIC setting out the advice to the Independent Board Committee and the Independent Shareholders in respect of the Proposed Amendments, which has been prepared for the purpose of inclusion in the circular of the Company dated October 16, 2015.



*To the Independent Board Committee and
the Independent Shareholders of*

China Shengmu Organic Milk Limited
Room 606-607, 6/F
China Merchants Building
152-155 Connaught Road
Central, Hong Kong

October 16, 2015

Dear Sir or Madam,

PROPOSED AMENDMENTS TO THE TERMS OF OPTIONS GRANTED UNDER THE PRE-IPO SHARE OPTION SCHEME

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the amendments to the terms of Options, details of which are set out in the “Letter from the Board” (the “**Board Letter**”) contained in the circular of the Company dated October 16, 2015 (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular and the prospectus of the Company dated 30 June 2014 (the “**Prospectus**”) unless the context otherwise requires.

As stated in the Board Letter, the Company proposed to amend certain terms of the Options in relation to the exercise conditions of the Options and the Lock-up Period. Pursuant to note (2) to rule 17.03(18) of the Listing Rules, any change to the terms of the Option granted under the Pre-IPO Share Option Scheme must be approved by the Shareholders, in the way of a resolution of the Shareholders in general meeting. Accordingly, Board resolutions will be proposed at the EGM to give effect to the Proposed Amendments as described above. YAO Tongshan, WU Jianye, GAO Lingfeng, CUI Ruicheng and WANG Zhen (a director of a subsidiary of the Company), all being grantees, are the Ultimate Controlling Shareholders and connected person of the Company, the Proposed Amendments are considered to be connected transactions under the Listing Rules and are subject to approval of Independent Shareholders. Accordingly, the conduct of the Proposed Amendments will require the

LETTER FROM ZTIC

approval of the Independent Shareholders at the EGM. YAO Tongshan, WU Jianye, GAO Lingfeng and CUI Ruicheng, each being one of the 181 grantees and Director of the Company with a material interest in the Proposed Amendments, had abstained from voting at the meeting of the Board on the resolutions to approve the Proposed Amendments.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee, comprised of all the independent non-executive Directors of the Company, has been established to advise the Independent Shareholders whether the terms of the Proposed Amendments are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and whether the Proposed Amendments are in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

As the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, our scope of work under this engagement is to give an independent opinion to the Independent Board Committee and the Independent Shareholders as to whether the terms of the Proposed Amendments are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and whether the Proposed Amendments are in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole. It is not within our scope of work to opine on any other aspects of the Proposed Amendments. In addition, it is not within our terms of reference to comment on the commercial merits of the Proposed Amendments which is the responsibility of the Directors.

As at the Latest Practicable Date, ZTIC did not have any relationships or interests with the Company or any other parties that could reasonably be regarded as relevant to the independence of ZTIC. In the last two years, ZTIC, other than this appointment as the Independent Financial Adviser, has not acted as the independent financial adviser to the Independent Board Committee and Independent Shareholders of the Company. Hence, we are independent from the Company pursuant to Rule 13.84 of the Listing Rules.

BASIS OF OUR ADVICE

In formulating our opinion, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and/or provided to us by the Company, the Directors and the management of the Company. We have assumed that all statements, information, opinions and representations contained or referred to in the Circular and/or provided to us were true, accurate and complete at the time they were made and continued to be so as at the date of the Circular.

We have no reason to believe that any statements, information, opinions or representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render the statements, information, opinions or representations provided to us untrue, inaccurate or misleading. We have assumed that all the statements, information, opinions and representations for matters relating to the Group contained or referred to in the Circular

LETTER FROM ZTIC

and/or provided to us by the Company, the Directors and the management of the Company have been reasonably made after due and careful enquiry. We have relied on such statements, information, opinions and representations and have not conducted any independent investigation into the business, financial conditions and affairs or the future prospects of the Group.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion to the Independent Board Committee and the Independent Shareholders in respect of the Proposed Amendments, we have taken the following principal factors and reasons into consideration.

1. Background of the Proposed Amendments

As disclosed in the Prospectus, the Company has conditionally approved and adopted the Pre-IPO Share Option Scheme pursuant to the resolutions of the Shareholders passed on 30 April 2014. The Company has conditionally granted the Options to a total of 189 grantees to attract, retain and motivate the Directors and senior management of the Group as a means of compensating them for their contribution to the growth and profits of the Group prior to the Listing and allowing them to participate in the growth and profitability of our Group. The following is a summary of a total of 181 grantees as at the Latest Practicable Date:

Grantee	Number of Shares to be issued upon full exercise of the Option under the Pre-IPO Share Option Scheme
Directors of the Company (4 in total)	
YAO Tongshan	70,419,200
WU Jianye	64,876,800
GAO Lingfeng	31,992,000
CUI Ruicheng	<u>31,992,000</u>
Sub-total:	<u>199,280,000</u>
Senior management of the Company, Directors of subsidiaries of the Company and other employees of the Group not mentioned above (171 in total)	285,335,200
Employees of Shengmu Forage (6 in total)	<u>3,868,800</u>
Total	<u><u>488,484,000</u></u>

The total number of Shares which may be issued upon the exercise of all the Options is 504,480,000 Shares. We understand from the management of the Company that out of the 504,480,000 Shares for subscription under the Pre-IPO Share Option Scheme, 15,996,000 Shares lapsed up to the

LETTER FROM ZTIC

Latest Practicable Date because eight (8) grantees are no longer employed by the Group. Options for the subscription of the remaining 488,484,000 Shares were held by the grantees, representing approximately 7.14% of the total issued share capital of the Company as at the Latest Practicable Date, assuming that all the above-mentioned subsisting Options are exercised, but without taking into account of any Shares which may be allotted and issued upon the exercise of any options which may be granted under the Share Option Scheme.

2. Principal terms of the Proposed Amendments

The summary of the terms of the Pre-IPO Share Option Scheme is set out in the Board Letter. We note that the Options which is vested on the Vesting Date must be exercised by the relevant grantee within six months after the Vesting Date. Options not exercised within such six months shall lapse immediately afterwards. Moreover, the Options are categorized into five different categories and each of the categories has different set of vesting conditions, details of which are summarized below.

Grantees	Vesting conditions
Executive Directors, senior management of the Group	Profit for the year of the Company for the year ended 31 December 2014 is not less than 95% of the targeted amount as approved by the Board.
Management of Shengmu Holding	(a) Profit for the year of the Company for the year ended 31 December 2014 is not less than 95% of the targeted amount as approved by the Board; and (b) He/she accomplishes at least 95% of the performance targets assigned by Shengmu Holding to the department which he/she belongs to or, as the case may be, to him/her personally, for the year ended 31 December 2014.
Management of the other wholly-owned subsidiaries of the Company	(a) Profit for the year of the Company for the year ended 31 December 2014 is not less than 95% of the targeted amount as approved by the Board; and (b) He/she accomplishes at least 95% of the performance targets assigned by Shengmu Holding to the company which he/she belongs to or, as the case may be, to him/her personally, for the year ended 31 December 2014.
Management of the non-wholly owned subsidiaries of the Company	The relevant company which he/she belongs to accomplishes at least 95% of the performance targets assigned by Shengmu Holding for the year ended 31 December 2014.

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Grantees

Vesting conditions

Management of Shengmu Forage

Shengmu Forage accomplishes at least 95% of the performance targets set out under the its cooperation agreement with Shengmu Holding for the year ended 31 December 2014.

The details of the Proposed Amendments are set out in the Board Letter and are summarized as follows:-

- (1) all the Shares issued pursuant to the exercise of Options during the Proposed Exercise Period would not be subject to any restriction currently applicable during the Lock-up Period. Grantees are entitled to sell or otherwise dispose of any interest in the Shares after they exercise the Options during the Proposed Exercise Period; and
- (2) the Current Exercise Period be adjusted in the following manner:

Proposed Exercise Period

Maximum percentage of Options exercisable during the respective Proposed Exercise Period

From May 4, 2016 to May 4, 2017

50% of the Options granted

From November 4, 2016 to May 4, 2017

50% of the Options granted

if the grantees of the Pre-IPO Share Option Scheme ceases employment with the Group or Shengmu Forage before May 4, 2016, 100% of the Options held by him/her shall lapse immediately and if he/she ceases employment with the Group or Shengmu Forage on or after May 4, 2016 but before November 4, 2017, 50% of the Options held by him/her shall lapse immediately.

We understand from the management of the Company that the above Proposed Amendments are based on arm's length negotiations and commercial decision between the Company and the grantees of the Pre-IPO Share Option Scheme.

3. Reasons for and benefits of the Proposed Amendments

In accordance with the annual report of the Company for the year ended 31 December 2014, the complete "grass-to-glass" organic production system in desert ("沙漠全程有機產業體系") innovated by the management of the Company in Ulan Buh desert attracted attention from people and was recognized by more and more consumers with favourable comments. By the end of 2014, the management of the Company has (i) completed construction of 6 new dairy farms which have commenced operation; (ii) completed construction of production line for organic yogurt launched an organic yogurt product series in July 2014 which is the first of its kind in the PRC market; and (iii) expanded the distribution network to more than 400 distributors. Further, the management of the Company has actively utilised the listing proceeds to fulfill the expansion plan, such as construction

LETTER FROM ZTIC

of organic farms, purchase of dairy cows, expansion of distribution network and liquid milk production capacity. With the professional expertise of the management of the Company, the Company continued to maintain rapid growth in revenue and profit after tax with Compound Annual Growth Rate (“CAGR”) of 74.44% and 110.79% respectively from 2012 to 2014.

	31 December 2012	31 December 2013	31 December 2014	CAGR
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	%
Revenue	700,763	1,143,709	2,132,428	74.44%
Profit before tax	198,903	375,350	887,544	111.24%
Profit after tax	198,903	374,498	883,808	110.79%
Total asset	1,816,728	3,112,608	6,491,244	89.02%
Net asset	1,218,469	1,707,892	4,255,099	86.87%

Having reviewed the schedule of the achievement of the performance target of the grantees under Pre-IPO Share Option Scheme provided by the management of the Company, we understand that all the grantees of the Pre-IPO Share Option Scheme have outperformed the performance target assigned to them. All the outstanding Options are already vested as at the Latest Practicable Date. The Pre-IPO Share Option Scheme therefore can fulfill the purpose of motivating the grantees of the Pre-IPO Share Option Scheme to contribute to the continuing growth of the profits of the Group prior to the Listing.

However, the existing terms of the Pre-IPO Share Option Scheme may defeat the purpose of compensating the Directors and senior management of the Group for their contribution. We note the following terms of the Pre-IPO Share Option Scheme in the Prospectus:

- (a) *“Within two years after the Vesting Date, a grantee shall not sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to purchase, grant or purchase any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares which have been issued to him/her pursuant to his/her exercise of any option granted to and vested on him/her under the Pre-IPO Share Option Scheme.”; and*
- (b) *“An option granted under the Pre-IPO Share Option Scheme which is vested on the Vesting Date must be exercised by the relevant grantee **within six months after the Vesting Date**. Options not exercised within such six months shall lapse immediately afterwards.”;*

“An option granted under the Pre-IPO Share Option Scheme shall lapse immediately if the grantee ceases his/her employment with our Group or, as the case may be, Shengmu Forage, before the Vesting Date.”

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As all the outstanding Options are already vested, it happens that the grantees of the Pre-IPO Share Option Scheme will need to exercise the Options within six months after the Vesting Date (i.e. 4 November 2015). With the Lock-up Period, the grantees are required to wait for at least 18 months after exercising the Options in order to dispose the Shares issued pursuant to the exercise of the Options. The grantees are thus subject to the price risk of Shares in the volatile Hong Kong stock market during the Lock-up Period which the grantees are not supposed to bear if they can realize the investment gain immediately when there is no such lock-up restriction. Since the grantees will be taxed for salary tax purpose at the time of exercising the Option irrespective of the final price of disposal, the grantees could probably suffer from both salary tax and capital loss if the stock price of the Company falls below the exercise price of the Pre-IPO Share Option Scheme after the grantees exercise the Options. In addition, the time gap between the latest exercise date of the Pre-IPO Share Option Scheme and the end of the Lock-up Period will lead to the extra unnecessary holding cost and interest expenses for the grantees in case they need to borrow money to exercise the Options. In view of the above reasons, we are of the opinion that the Lock-up Period may defeat the original purpose of the Pre-IPO Share Option Scheme to reward the Directors, senior management of the Group and management of Shengmu Forage for their contribution made prior to the Listing. Therefore, if the Proposed Amendment was not approved, the grantees may not choose to exercise the Options even though the Options are already vested and it may in turn demoralize and lead to disincentive for the grantees of the Pre-IPO Share Option Scheme to continue to strive for the business strategy of the Group and the future profitability of the Group may be adversely affected.

In view of the reason above, we are of the opinion that the Proposed Amendments, though not in the usual and ordinary course of business of the Group, but is in the interests of the Company and the Shareholders as a whole.

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4. Analysis of the terms of the Proposed Amendments

In assessing the fair and reasonableness of the Proposed Amendments, we have reviewed the terms of pre-IPO share option schemes as disclosed in the prospectuses of recent newly listed companies on the main board of the Stock Exchange during the latest one-year period from 9 September 2014 to 8 September 2015 (the “**Comparables**”). A summary of the exercise conditions and the lock-up period of the pre-IPO share option schemes of the Comparables is set out below:

Stock Code	Company Name	Exercise conditions		
		Exercise period	Whether the options shall lapse to the extent not exercised on the date the grantees cease employment (the “Termination Date”)	Lock-up Period
0699	Car Inc.	The options are exercisable upon the listing of the company on the Stock Exchange. The exercise period ends on the tenth anniversary date of its adoption date, i.e. 20 Dec 2023 (Scheme I Tranche A&B), 1 March 2024 (Scheme II) and 31 July 2024 (Scheme I Tranche C)	Yes	180 days after listing (i.e. 18 March 2015)
6893	Hin Sang Group (International) Holding Co. Ltd.	The options are vested and exercisable upon the first anniversary of the listing date of the company. The exercise period ends on the tenth anniversary date of the offer date.	No such restriction	No
1443	Fulum Group Holdings Limited	The options are exercisable upon the second anniversary date of the date of listing of the company. The exercise period ends on the fifth anniversary date of the date of listing of the company	No such restriction	No

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Stock Code	Company Name	Exercise conditions		Lock-up Period
		Exercise period	Whether the options shall lapse to the extent not exercised on the date the grantees cease employment (the “Termination Date”)	
1317	China Maple Leaf Educational Systems Limited	The options are exercisable pursuant to the exercisability provisions as determined by the option scheme administrator appointed by the Board. Details of the exercisability condition are not disclosed in the prospectus. The exercise period ends on the tenth anniversary date of the grant date.	Yes but those options which are exercisable at the Termination Date will still be exercisable within a specified period mentioned in the option agreement after the Termination Date	No
1478	Q Technology (Group) Company Limited	The options are exercisable in three batches on the vesting dates on 1 January 2015, 2016 and 2017. The exercise period ends on 31 December 2017.	Yes	No
1022	Feiyu Technology International Company Ltd.	The options are vested in four batches on 31 December 2015, 2016, 2017 and 2018. The exercise period ends on the fifth anniversary date of the listing date of the Company.	Yes but those options which are exercisable at the Termination Date will still be exercisable within one months after the Termination Date	No
0520	Xiabuxiabu Catering Management (China) Holdings Co., Ltd.	The options are vested in four batches on the first/second/third/fourth anniversary date of the listing date of the company. The exercise period ends on the tenth anniversary date of the grant date.	Yes but those options which are exercisable at the Termination Date will still be exercisable within 90 days after the Termination Date	No

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Stock Code	Company Name	Exercise conditions		
		Exercise period	Whether the options shall lapse to the extent not exercised on the date the grantees cease employment (the “Termination Date”)	Lock-up Period
1438	Nirvana Asia Ltd.	The options are vested in two batches on 31 January 2015 and 2016 upon satisfaction of the vesting conditions. The exercise period ends until 31 December 2019.	Yes but the options start to lapse from the date of giving or receiving the terminating notice instead of the Termination Date	No
1035	BBI Life Sciences Corporation	The options under plan A are exercisable upon listing and plan B are exercisable in five batches on 16 January 2015, 2016, 2017, 2018 and 2019. The exercise period ends until 16 January 2019 for plan A and 16 January 2024 for plan B.	Yes but those options which are exercisable at the Termination Date will still be exercisable within three months after the Termination Date	No
6161	Target Insurance (Holdings) Limited	The options are vested in three batches on the first/second/third anniversary date of the listing date of the company. The exercise period ends on 6 Oct 2024.	No such restriction	No
6183	China Greenfresh Group Co., Ltd.	The options are vested and exercisable in three batches after 6/18/30 months from the listing date of the company. The exercise period ends on the third anniversary date of the listing date of the company.	No such restriction	No

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Exercise conditions				
Stock Code	Company Name	Exercise period	Whether the options shall lapse to the extent not exercised on the date the grantees cease employment (the “Termination Date”)	Lock-up Period
2686	AAG Energy Holdings Ltd.	The options are vested and exercisable in several batches during the five years from the first vesting date.	Yes but those options which are exercisable at the Termination Date will still be exercisable within six months after the Termination Date	No
3882	Sky Light Holdings Ltd.	The options are vested and exercisable in three batches on the first/second/third anniversary date of the listing date of the company. The exercise period for each batch is one year.	Yes	No

We note that it was uncommon, with only Car Inc. (stock code: 699) as the exception, for the pre-IPO share option schemes to have lock-up period for the shares issued pursuant to the exercise of the pre-IPO share option. We understand from the management of the Company that the purpose of the Lock-up Period is to retain staff with good performance and to avoid them from ceasing their employment immediately upon exercise of the Options. However, we are of the opinion that dividing the Options into several batches and making each batch of which exercisable over the passage of time will also serve the same retention purpose.

Moreover, we note that most of the pre-IPO share options of the Comparables are exercisable in two to five batches with only four exceptions (Car Inc. (stock code: 699), Hin Sang Group (International) Holding Co Ltd (stock code: 6893), Fulum Group Holdings Limited (stock code: 1443) and China Maple Leaf Educational Systems Limited (stock code: 1317)). Pursuant to the Proposed Amendments, the Options are divided into two batches and are only exercisable after 4 May 2016 and 4 November 2016 respectively. The two exercise dates are 6 months and 12 months later than the original latest exercise date of the Pre-IPO Share Option Scheme.

Finally, we also note that it is common for the pre-IPO share options, with only four exceptions (Hin Sang Group (International) Holding Co. Ltd. (stock code: 6893), Fulum Group Holdings Limited (stock code: 1443), Target Insurance (Holdings) Limited (stock code: 6161) and China Greenfresh Group Co., Ltd. (stock code: 6183)) to lapse when the grantees cease his/her employment. We are of the view that such restriction can help retain staff with good performance. It is also most advantageous

LETTER FROM ZTIC

for the grantees to continue their employment with the Company till the commencement of the Proposed Exercise Period in order to make sure the company will continue to perform and secure the greatest capital gain from exercising their Options. Both factors above will therefore lead to stronger retention effect compared to the original terms of the Pre-IPO Share Option Scheme. As such, we are of the view that the terms of the exercise condition and the Lock-up Period of the Pre-IPO Share Option Scheme after the Proposed Amendments resemble those of the Comparables.

In view of the above, we are of the opinion that the terms of the Proposed Amendments are not more favorable than the terms of the pre-IPO share option scheme offered by independent third parties and are therefore on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

OPINION

We would like to bring to the attention of Shareholders that the Company has consistently achieved profitability growth since 2012. The purpose of the Pre-IPO Share Option Scheme is to reward the contribution made by the grantees prior to the Listing and they did outperform the performance targets assigned to them. If the Proposed Amendments were not approved, this may demoralize and lead to disincentive for the 181 grantees of the Pre-IPO Share Option Scheme to continue to strive for the business strategy of the Group and the future profitability of the Group may be adversely affected.

Having considered the principal factors and reasons for the Proposed Amendments as described above, we are of the opinion that the Proposed Amendments, though not in the ordinary and usual course of business of the Group, are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned, and are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favor of the ordinary resolutions to be proposed at the EGM to approve the Proposed Amendments.

Yours faithfully,
For and on behalf of
Zhongtai International Capital Limited
Bernard Tam
Managing Director

Note: Mr. Bernard Tam is a licensed person registered with the Securities and Futures Commission and a responsible officer of ZTIC to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO. He has over 15 years of experience in the corporate finance industry.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiry, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS**DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES**

So far as is known to any Director or chief executive of the Company, as of the Latest Practicable Date, the interests or short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the “SFO”) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange, were as follows:

(i) Long position in the Shares or underlying Shares

Name	Capacity/Nature of interest	Number of Shares/ underlying Shares	Percentage
YAO Tongshan (姚同山)	Interests held jointly with another person; interest of a controlled corporation ⁽¹⁾	3,646,899,600	57.39%
	Beneficial Owner ⁽²⁾	70,419,200	1.11%
WU Jianye (武建鄴)	Interests held jointly with another person; interest of a controlled corporation ⁽¹⁾	3,646,899,600	57.39%
	Beneficial Owner ⁽²⁾	64,876,800	1.02%

Name	Capacity/Nature of interest	Number of Shares/ underlying Shares	Percentage
GAO Lingfeng (高凌鳳)	Interests held jointly with another person; interest of a controlled corporation ⁽¹⁾	3,646,899,600	57.39%
	Beneficial Owner ⁽²⁾	31,992,000	0.50%
CUI Ruicheng (崔瑞成)	Interests held jointly with another person; interest of a controlled corporation ⁽¹⁾	3,646,899,600	57.39%
	Beneficial Owner ⁽²⁾	31,992,000	0.50%

(1) Pursuant to the acting-in-concert agreement dated October 18, 2010 and a supplementary agreement dated March 24, 2014, the Ultimate Controlling Shareholders other than Mr. YAO Tongshan shall support Mr. YAO Tongshan's decisions in relation to the operation and management of the Group by exercising their voting rights at the meetings of the shareholders of the member companies of the Group in accordance with the decision of Mr. YAO Tongshan upon completion of the Reorganization. For more details, please refer to the section headed "Relationship with our Controlling Shareholders — Our Ultimate Controlling Shareholders Acting in Concert" in the Prospectus. As such, the Ultimate Controlling Shareholders together control 57.39% interest in the share capital of the Company through World Shining Investment Limited ("**World Shining**"). As a result of the acting-in-concert agreement, each of the Ultimate Controlling Shareholders is deemed to be interested in such 57.39% interest in the share capital of the Company. World Shining is owned as to 87.44% by the Ultimate Controlling Shareholders as a group of persons acting in concert. On May 13, 2015, 611,620,800 shares (representing approximately 9.63% of the issued shares of the Company) in the share capital of the Company held by World Shining were charged by it to an independent third party, as security for a loan provided by the said independent third party to it. The aforesaid charge does not fall within the scope of Rule 13.17 of the Listing Rules. For details, please refer to the announcement of the Company dated May 13, 2015. YAO Tongshan, the executive director of the Company, is also the sole director of World Shining, the controlling shareholder of the Company. Apart from above, none of the Directors of the Company is a director or employee of the Company's substantial shareholders.

(2) Interests in options granted pursuant to the Pre-IPO Share Option Scheme.

(ii) **Long position in the shares of associated corporation**

Name	Name of associated company	Percentage of interest
YAO Tongshan (姚同山)	Shengmu Forage	1.73%
WU Jianye (武建鄴)	Shengmu Pangu	45.00%
	Shengmu Forage	8.15%
GAO Lingfeng (高凌鳳)	Shengmu Forage	17.34%

Save as disclosed above and to the best knowledge of the Directors, as of the Latest Practicable Date, none of the Directors or chief executive of the Company had any interest or short position in the shares or underlying shares or debentures of the Company or any of its associated corporations which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

3. NO MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Company and its subsidiaries since 31 December 2014, being the date to which the latest published audited accounts of the Company and its subsidiaries were made up to.

4. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group which is not expiring nor terminable by the Group within a year without payment of any compensation (other than statutory compensation).

5. DIRECTORS' INTERESTS IN THE COMPANY AND ITS SUBSIDIARIES' ASSETS OR CONTRACTS

As at the Latest Practicable Date, save as disclosed herein, (a) none of the Directors was materially interested, directly or indirectly, in any contract or arrangement entered into by any member of the Group subsisting at the Latest Practicable Date and which was significant in relation to the business of the Group; and (b) none of the Directors of the Company had any direct or indirect interest in any assets which have been since 31 December 2014 (being the date to which the latest published audited accounts of the Company were made up), (i) acquired or disposed of by; (ii) leased to; (iii) are proposed to be acquired or disposed of by; or (iv) are proposed to be leased to, any member of the Group.

- (1) On June 25, 2014, Shengmu Forage and Shengmu Holding entered into a framework agreement in relation to the purchase of forage by our Group from Shengmu Forage and its subsidiaries ("**Forage Supply Framework Agreement**"), details of which are set out in the section headed "Continuing Connected Transactions" in the Prospectus. Pursuant to the agreement, Shengmu Forage and its subsidiaries shall sell all the forage produced by it to us on an exclusive basis for a period from January 1, 2014 to December 31, 2016. The total annual amount of purchases made by our Group from Shengmu Forage under the Forage Supply Framework Agreement will not exceed RMB392 million, RMB630 million and RMB911 million for each of the years ending December 31, 2014, 2015 and 2016. The total annual amount of purchases for the year ended December 31, 2014 was RMB372.0 million.

Reasons for and benefits of the transactions under the Forage Supply Framework Agreement are: Shengmu Forage grows organic forage without using any synthetic pesticides or synthetic fertilizers. All of the growing fields developed by Shengmu Forage meet the E.U. standards set by ECOCERT S.A. and are certified organic under the PRC standards by the COFCC. We believe these crops provide organic, nutritious feeds necessary for our dairy cows, allowing them to produce organic and nutritious milk. In addition, farms of Shengmu Forage in the Ulan Buh desert are in the proximity of our organic dairy farms. As such, it is commercially beneficial to our Group to continue to purchase forage from Shengmu Forage in view of their stable and reliable supply of good quality forage and the proximity of its forage farms to our dairy farms.

- (2) On June 25, 2014, Shengmu Pangu, Shengmu Xiwang and Shengmu Holding entered into a framework agreement in relation to the purchase of organic raw milk by our Group (excluding Shengmu Pangu and Shengmu Xiwang) from Shengmu Pangu and Shengmu Xiwang (“**Milk Supply Framework Agreement**”), details of which are set out in the section headed “Continuing Connected Transactions” in the Prospectus. Pursuant to the agreement, organic raw milk of Shengmu Pangu and Shengmu Xiwang are subject to our centralized sales management. Both of them shall sell their organic raw milk to us on a priority basis to meet our requirement. Excessive organic raw milk can be sold to third parties as permitted and managed by Shengmu Holding. The term of the agreement is January 1, 2014 to December 31, 2016. The total annual amount of purchases made by our Group (excluding Shengmu Pangu and Shengmu Xiwang) from Shengmu Pangu and Shengmu Xiwang under the Milk Supply Framework Agreement will not exceed RMB160 million, RMB250 million and RMB400 million for each of the years ending December 31, 2014, 2015 and 2016. The total annual amount of purchases of raw fresh milk for the year ended December 31, 2014 was RMB134.6 million. Reasons for and benefits of the transactions under the Milk Supply Framework Agreement are: we manage our sales of raw milk under a centralized system and Shengmu Dairy serves as the processing center of raw milk for all our subsidiaries. As subsidiaries of our Group, Shengmu Pangu and Shengmu Xiwang are also subject to such centralized sales system.
- (3) On June 25, 2014, Shengmu Pangu, Shengmu Xiwang and Shengmu Holding entered into a framework agreement in relation to the purchase of cows by our Group (excluding Shengmu Pangu and Shengmu Xiwang) from Shengmu Pangu and Shengmu Xiwang (“**Framework Agreement for Sale and Purchase of Cows**”), details of which are set out in the section headed “Continuing Connected Transactions” in the Prospectus. The term of the agreement is January 1, 2014 to December 31, 2016. Under the Framework Agreement for Sale and Purchase of Cows, (I) the total annual amount of purchases made by our Group (excluding Shengmu Pangu and Shengmu Xiwang) from Shengmu Pangu and Shengmu Xiwang will not exceed RMB33 million, RMB62 million and RMB61 million, and (II) the total sales revenue made by our Group (excluding Shengmu Pangu and Shengmu Xiwang) to Shengmu Pangu and Shengmu Xiwang will not exceed RMB65 million, RMB55 million and RMB75 million, for each of the years ending December 31, 2014, 2015 and 2016. Under the Framework Agreement for Sale and Purchase of Cows above, the total purchase amount of cows of the Group (excluding Shengmu Pangu and Shengmu Xiwang) for the year ended December 31, 2014 was RMB15.2 million, while total sales revenue of the

Group (excluding Shengmu Pangu and Shengmu Xiwang) amounted to RMB21.2 million. Reasons for and benefits of the transactions under the Framework Agreement for Sale and Purchase of Cows are: we manage our dairy farming on a centralized basis. As subsidiaries of our Group, Shengmu Pangu and Shengmu Xiwang are also subject to such centralized management.

- (4) On June 25, 2014, Shengmu Pangu, Shengmu Xiwang and Shengmu Holding entered into a framework agreement for a term from January 1, 2014 to December 31, 2016 in relation to the provision of financial assistance to be provided by our Group (excluding Shengmu Pangu and Shengmu Xiwang) to Shengmu Pangu and Shengmu Xiwang (“**Financial Assistance Framework Agreement**”), details of which are set out in the section headed “Continuing Connected Transactions” in the Prospectus. Pursuant to such agreement, our Group will provide financial assistances (in the form of guarantees) to Shengmu Pangu and Shengmu Xiwang on normal commercial terms. The term of the agreement is January 1, 2014 to December 31, 2016. The maximum daily balance of financial assistance to be provided by our Group (excluding Shengmu Pangu and Shengmu Xiwang) to Shengmu Pangu and Shengmu Xiwang shall not exceed RMB60 million, RMB100 million and RMB120 million for each of the years ending December 31, 2014, 2015 and 2016. The maximum daily balance of financial assistance for the year ending December 31, 2014 was RMB40 million. Reasons for and benefits of the transactions under the Financial Assistance Framework Agreement are: it would be difficult for our newly established subsidiaries, including Shengmu Pangu and Shengmu Xiwang, to obtain commercial loans and borrowings without guarantees of our other established subsidiaries. Even if they could obtain such loans and borrowings on their own, they would incur higher finance costs on commercial loans and borrowings without guarantees given by our other established subsidiaries. As such, it is commercially beneficial to our Group to continue to provide financial assistances to Shengmu Pangu and Shengmu Xiwang, which will also lower our overall finance costs.
- (5) On December 8, 2014, Shengmu Farming, Mr. Wu Jianye, Ms. Gao Lingfeng and Mr. Liu Wenguang (an independent third party) and Shengmu Forage entered into the Capital Increase Agreement in relation to the further contribution of a total RMB60,020,000 to the registered capital of Shengmu Forage. Shengmu Farming made cash contribution of RMB6,094,000. After the completion of the Capital Increase Agreement, the registered capital of Shengmu Forage will be increased from RMB168,660,000 to RMB228,680,000. The percentage of equity interest held by the Group in Shengmu Forage will be increased from 8.60% to 9.01%. The aforesaid further capital contribution constitutes a connected transaction of the Company. Please refer to the Company’s announcement dated December 8, 2014 for details (including the reason and benefits for the capital increase).
- (6) On June 4, 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, and the daily maximum balance shall not exceed RMB300,000,000 for the each of the three years ending

December 31, 2015, 2016 and 2017. As Shengmu Forage is a connected person of the Company, the entering into the above Financial Assistance Framework Agreement constitutes a non-exempt continuing connected transaction of the Company. For details please refer to the announcement of the Company dated June 4, 2015.

As at the Latest Practicable Date, Shengmu Forage is owned as to 1.73%, 8.15% and 17.34% by Mr. YAO Tongshan, Mr. WU Jianye and Ms. GAO Lingfeng; and Shengmu Pangu is owned as to 45.00% by Mr. WU Jianye. Each of Mr. YAO Tongshan, Mr. WU Jianye and Ms. GAO Lingfeng is an executive director of the Company.

6. COMPETING INTERESTS

As of the Latest Practicable Date, Mr. WU Jingshui, a non-executive Director, who was also the Vice President of Inner Mongolia Mengniu Dairy Group Limited, a subsidiary of China Mengniu Dairy Company Limited, a listed company on the Stock Exchange. He was also a non-executive director of Yashili International Holdings Ltd., a listed company on the Stock Exchange (stock code: 1230) (principally engaged in production and sale of pediatric milk formula products and nutrition products), and a non-executive director of China Modern Dairy Holdings Ltd., a listed company on the Stock Exchange (stock code: 1117).

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or, so far as is known to them, any of their respective associates was interested in any business (apart from the Group's business) which competes or is likely to compete either directly or indirectly with the Group's business (as would be required to be disclosed under Rule 8.10 of the Listing Rules if each of them were a controlling shareholder).

7. QUALIFICATION AND CONSENT OF EXPERT

The following is the qualification of the expert who has given its advice for inclusion in this circular:

Name	Qualification
ZTIC	a licensed corporation to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

As at the Latest Practicable Date, ZTIC has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and reference to its name and opinion in the form and context in which it appears.

As at the Latest Practicable Date, ZTIC did not have any shareholding in the Company or any other member of the Group or the right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any other member of the Group.

8. EXPERT’S INTEREST IN ASSETS

As the Latest Practicable Date, the expert referred to in the paragraph named “Qualification and Consent of Expert” above does not have any interest in any assets which have been since December 31, 2014 (being the date to which the latest published audited accounts of the Company were made up) acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

9. DOCUMENTS FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at Suite 1509, 15/F, Jardine House, 1 Connaught Place, Central, Hong Kong for a period of 14 days (excluding Saturdays and Sunday) from the date of this circular:

- (i) the Company’s articles of association;
- (ii) the Prospectus;
- (iii) a copy of the new Pre-IPO Share Option Scheme, incorporating the Proposed Amendments;
and
- (iv) this circular.

NOTICE OF EGM

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)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary meeting of China Shengmu Organic Milk Limited (the “**Company**”) will be held at Meeting Room, 2nd Floor, Office Building (Phase I) of Inner Mongolia Shengmu High-tech Dairy Co., Ltd., Food Industry Park, Deng Kou County, Bayannur City, Inner Mongolia Autonomous Region, PRC, on November 3, 2015, at 10 a.m. for the purpose of considering and, if thought fit, passing the following resolution as ordinary resolution of the Company:

ORDINARY RESOLUTION

1. “**THAT:**

the Proposed Amendments as set out below:

(a) **The current terms of the Pre-IPO Share Option Scheme which read**

“Lock-up on the Shares

Within two (2) years after the Vesting Date, a grantee ***shall not*** sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to purchase, grant or purchase any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares which have been issued to him/her pursuant to his/her exercise of any option granted to and vested on him/her under the Pre-IPO Share Option Scheme.”

be hereby substituted and replaced by

“Disposal of shares

All the Shares issued pursuant to the exercise of Options during the Proposed Exercise Period shall not be subject to any restriction to sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to purchase, grant or purchase any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares which have been issued to him/her pursuant to his/her exercise of any option granted to and vested on him/her under the Pre-IPO Share Option Scheme. ***Grantees are entitled to sell or otherwise dispose of any interest in the Shares after they exercise the Options during the Proposed Exercise Period.***”

NOTICE OF EGM

(b) **The current terms of the Pre-IPO Share Option Scheme which read**

“Exercise Period

An option granted under the Pre-IPO Share Option Scheme which is vested on the Vesting Date must be exercised by the relevant grantee within six months after the Vesting Date. Options not exercised within such six months shall lapse immediately afterwards.”

be hereby substituted and replaced by

“Proposed Exercise Period

An option granted under the Pre-IPO Share Option Scheme which is vested on the Vesting Date must be exercised by the relevant grantee during the period and in a manner set out below:

Proposed Exercise Period	Maximum percentage of Options exercisable during the respective Proposed Exercise Period
From May 4, 2016 to May 4, 2017	50% of the Options vested
From November 4, 2016 to May 4, 2017	50% of the Options vested

If the grantee ceases employment with the Group or Shengmu Forage before May 4, 2016, 100% of the Options held by him/her shall lapse immediately, and if the grantee ceases employment with the Group or Shengmu Forage on or after May 4, 2016 but before November 4, 2016, 50% of the Options held by him/her shall lapse immediately.”

be and are hereby approved, confirmed and ratified.

(c) any one director of the Company be and is hereby authorised to do all such acts or things and sign all documents necessary by him/her to be incidental to, ancillary to or in connection with the Proposed Amendments to the terms of Options granted under the Pre-IPO Share Option Scheme.”

Yours faithfully,
By Order of the Board
China Shengmu Organic Milk Limited
YAO Tongshan
Chairman

Hong Kong, October 16, 2015

Notes:

1. A form of proxy for use at the meeting is enclosed herewith.

NOTICE OF EGM

2. The instrument appointing a proxy shall be in writing under the hand of the appointer or his/her attorney duly authorised in writing or, if the appointer is a corporation, either under its seal or under the hand of any officer, attorney or other person authorised to sign the same.
3. Any shareholder entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and vote instead of him. A proxy need not be a shareholder of the Company.
4. In order to be valid, a form of proxy in the prescribed form together with the power of attorney or other authority (if any) under which it is signed must be deposited at the Company's branch registrar in Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time fixed for holding the meeting.
5. The register of members of the Company will be closed from October 30, 2015 to November 3, 2015, both days inclusive, on which no transfer of shares will be registered. Shareholders are reminded that, in order to qualify for attendance of the extraordinary general meeting, they must lodge completed transfer forms together with the certificates for the relevant shares with the Company's branch registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on October 29, 2015.
6. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or at any adjourned meeting thereof (as the case may be) should you so wish, and in such an event, the form of proxy shall be deemed to be revoked.
7. Where there are joint registered holders of any share, any one of such joint holders may vote, either in person or by proxy, in respect of such shares as if he/she was solely entitled thereto, but if more than one of such joint holders are present at the meeting, whether in person or by proxy, the joint registered holder present whose name stands first on the register of members in respect of the shares shall be accepted to the exclusion of the votes of the other registered holders.