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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)

**(1) INVESTMENT AGREEMENTS AND
FORMATION OF JOINT VENTURE WITH
INNER MONGOLIA MENGNIU DAIRY (GROUP) CO., LTD.
AND
MAJOR TRANSACTION IN RELATION TO
DEEMED DISPOSAL OF A SUBSIDIARY
AND**

(2) ISSUE OF UNLISTED WARRANTS UNDER SPECIFIC MANDATE

INVESTMENT AGREEMENTS

The Board is pleased to announce that on 23 December 2018, among other parties, the Company and Inner Mongolia Mengniu entered into the Investment Agreements pursuant to which Inner Mongolia Mengniu has agreed to purchase the Sale Shares in the Target Company.

Pursuant to the Share Purchase Agreement, Shengmu Holding agreed to sell to Inner Mongolia Mengniu 26.67% interest in the Target Company, and Shengmu High-tech agreed to sell to Inner Mongolia Mengniu 24.33% interest in the Target Company. Upon completion of the Share Purchase Agreement, Inner Mongolia Mengniu and the Company will hold 51% and 49% interests in the Target Company respectively. The Target Company will cease to be recognised as a subsidiary in the consolidated financial statements of the Company, and is expected to be recognised as a subsidiary of Inner Mongolia Mengniu in their consolidated financial statements. The Company will retain an equity interest of 49% in the Target Company upon completion of the Share Purchase Agreement.

The consideration for the sale and purchase of the Sale Shares under the Share Purchase Agreement is RMB303,419,400 (equivalent to approximately HK\$345,061,411.09) and Inner Mongolia Mengniu shall pay RMB158,650,667 (equivalent to approximately HK\$180,424,267.62) and RMB144,768,733 (equivalent to approximately HK\$164,637,143.47) to Shengmu Holding and Shengmu High-tech respectively. Among which RMB273,419,400 will be paid within five Business Days after the date of the Payment Confirmation Certificate and the remaining RMB30,000,000 will be paid within five Business Days from the first anniversary date of the Payment Confirmation Certificate, and both tranches of the consideration shall be paid to Shengmu High-tech and Shengmu Holding in accordance with their respective shareholdings in the Sale Shares.

WARRANT SUBSCRIPTION AGREEMENTS

The Board is also pleased to announce that on 23 December 2018, the Company entered into

- (i) the Warrant Subscription Agreement A with the Subscriber A in consideration of Inner Mongolia Mengniu's granting the Loan Facilities to Shengmu High-tech, pursuant to which the Company has agreed, subject to the fulfilment of certain conditions precedent, to issue the Warrants A to the Subscriber A. Taken into account the Consideration Shares proposed to be issued under the Equity Transfer Framework Agreement, the Warrants A shall be issued in two tranches (including 1,080,248,000 Warrants in tranche 1 (the "**Tranche 1 Warrants A**") and 117,079,890 Warrants in tranche 2 (the "**Tranche 2 Warrants A**")) which confer the Subscription Rights of Warrants A on the Subscriber A to subscribe for up to 1,197,327,890 Warrant Shares A during the Subscription Period of Warrants A at the Subscription Price of Warrants A (subject to Adjustment of Warrants A); and
- (ii) the Warrant Subscription Agreement B with the Subscriber B in consideration of HK\$0.0427 per Warrant B, pursuant to which the Company has agreed, subject to the fulfilment of certain conditions precedent, to issue the Warrants B to the Subscriber B. Taken into account the Consideration Shares proposed to be issued under the Equity Transfer Framework Agreement, the Warrants B shall be issued in two tranches (including 127,088,000 Warrants in tranche 1 (the "**Tranche 1 Warrants B**") and 13,774,105 Warrants in tranche 2 (the "**Tranche 2 Warrants B**")) which confer the Subscription Rights of Warrants B on the Subscriber B to subscribe for up to 140,862,105 Warrant Shares B during the Subscription Period of Warrants B at the Subscription Price of Warrants B (subject to Adjustment of Warrants B).

No application will be made for the listing of the Warrants on any stock exchange. Application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Warrant Shares.

LISTING RULES IMPLICATIONS

Upon completion of the Share Purchase Agreement, the assets, liabilities and other financial results of the Target Company will no longer be consolidated into the consolidated financial statements of the Group. Accordingly, adopting 100% of the assets, revenue and profits of the Target Company in calculating the applicable percentage ratios set out in Rule 14.07 of the Listing Rules, the ratios are more than 25% but less than 75%, the Disposal constitutes a major transaction of the Company, and is subject to the reporting, announcement, shareholders' approval and circular requirements under Chapter 14 of the Listing Rules.

The issue of Warrants is in compliance with Rule 15.02 of the Listing Rules.

Pursuant to Rule 13.36(7) of the Listing Rules, the Company may not issue warrants to subscribe for (i) any new Shares of the Company or (ii) any securities convertible into new Shares of the Company, for cash consideration pursuant to a general mandate given under Rule 13.36(2)(b) of the Listing Rules. Therefore, the Warrant Shares to be issued upon exercise of the Warrants will be issued and allotted pursuant to the Specific Mandate to be sought from the Shareholders at the EGM.

IRREVOCABLE UNDERTAKINGS

Each of Nong You Co., Ltd., Yao Tongshan, Zhang Jiawang, Guo Yunfeng, Wang Zhen, Sequoia Capital 2010 CGF Holdco, Ltd., Gao Lingfeng, Wang Fuzhu and Wu Jianye has given an irrevocable undertaking in favour of the Company, China Mengniu, Inner Mongolia Mengniu and the Subscriber A that all voting rights attached to the Shares for which it/he/she is the sole beneficial owner of or is otherwise able to control the exercise of as at the date of the respective Irrevocable Undertakings A, are exercised in favour of the resolutions to approve the Share Purchase Agreement and the Warrant Subscription Agreement A.

The number of Shares held by Nong You Co., Ltd., Yao Tongshan, Zhang Jiawang, Guo Yunfeng, Wang Zhen, Sequoia Capital 2010 CGF Holdco, Ltd., Gao Lingfeng, Wang Fuzhu and Wu Jianye and which are the subject of the Irrevocable Undertakings A amounted to 3,033,691,000 Shares, representing approximately 47.74% of the total issued Shares of the Company as at the date of this announcement.

In addition, each of Nong You Co., Ltd., Yao Tongshan, Zhang Jiawang, Guo Yunfeng, Wang Zhen, Gao Lingfeng, Wang Fuzhu and Wu Jianye has given an irrevocable undertaking in favour of the Company that all voting rights attached to the Shares for which it/he/she is the sole beneficial owner of or is otherwise able to control the exercise of as at the date of the respective Irrevocable Undertakings B, are exercised in favour of the resolution to approve the Warrant Subscription Agreement B.

The number of Shares held by Nong You Co., Ltd., Yao Tongshan, Zhang Jiawang, Guo Yunfeng, Wang Zhen, Gao Lingfeng, Wang Fuzhu and Wu Jianye and which are the subject of the Irrevocable Undertakings B amounted to 2,655,371,000 Shares, representing approximately 41.79% of the total issued Shares of the Company as at the date of this announcement.

EGM

The Company will convene an EGM for the purpose of, among other things, obtaining the Shareholders' approval for the Share Purchase Agreement and the Warrant Subscription Agreements and the transactions contemplated thereunder. In accordance with the Listing Rules, the Subscriber A, which is interested in 4.25% shares in the Company as at the date of this announcement, and its associates will abstain from voting for the ordinary resolutions proposed at the EGM to approve the Share Purchase Agreement and the Warrant Subscription Agreements. In addition, the Warrant Subscription Agreement B is inter conditional to the Warrant Subscription Agreement A, the Subscriber B, which is interested in 6.22% shares in the Company as at the date of this announcement, and its associates will also abstain from voting for the ordinary resolutions proposed at the EGM to approve the Share Purchase Agreement and the Warrant Subscription Agreements.

DESPATCH OF CIRCULAR

A circular containing, among other things, (1) further information regarding the details of the Investment Agreements; (2) further information regarding the details of the Warrant Subscription Agreements; and (3) a notice of the EGM and other information as required under the Listing Rules is expected to be despatched to the Shareholders on or before 4 January 2019.

As each of the Share Purchase Agreement, the Warrant Subscription Agreement A and Warrant Subscription Agreement B is subject to the fulfilment of certain conditions precedent as set out in this announcement, the Share Purchase Agreement, the Warrant Subscription Agreement A and Warrant Subscription Agreement B may or may not become unconditional or be completed. Shareholders and potential investors should exercise caution when dealing in the Shares.

INTRODUCTION

The Board is pleased to announce that on 23 December 2018, the Company entered into (i) the Investment Agreements, among other parties, with Inner Mongolia Mengniu, pursuant to which Inner Mongolia Mengniu has agreed to purchase the Sale Shares in the Target Company; (ii) the Warrant Subscription Agreement A with the Subscriber A, pursuant to which the Company has agreed to issue to the Subscriber A, and the Subscriber A has agreed to subscribe for the Warrants A; and (iii) the Warrant Subscription Agreement B with the Subscriber B, pursuant to which the Company has agreed to issue to the Subscriber B, and the Subscriber B has agreed to subscribe for the Warrants B.

(1) THE INVESTMENT AGREEMENTS

THE SHARE PURCHASE AGREEMENT

Set out below is a summary of the principal terms of the Share Purchase Agreement:

Date:

23 December 2018

Parties:

- (1) Inner Mongolia Mengniu (as purchaser);
- (2) Shengmu Holding (as co-seller);
- (3) Shengmu High-tech (as co-seller);
- (4) the Target Company; and
- (5) the Company.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, other than the 4.25% interest in the Company held by Subscriber A (which is a direct wholly-owned subsidiary of China Mengniu, which in turn held the entire equity interest in Inner Mongolia Mengniu) as at the date of this announcement, Inner Mongolia Mengniu and its ultimate beneficial owners are considered as third parties independent of and not connected with the Company and its connected persons.

Subject Matter

Pursuant to the Share Purchase Agreement, Shengmu Holding agreed to sell to Inner Mongolia Mengniu 26.67% interest in the Target Company, and Shengmu High-tech agreed to sell to Inner Mongolia Mengniu 24.33% interest in the Target Company. Upon completion of the Share Purchase Agreement, Inner Mongolia Mengniu and the Company will hold 51% and 49% interests respectively in the Target Company. The Target Company will cease to be recognised as a subsidiary in the consolidated financial statements of the Company, and is expected to be recognised as a subsidiary of Inner Mongolia Mengniu in their consolidated financial statements. The Company will retain an equity interest of 49% in the Target Company upon completion of the Share Purchase Agreement.

Reorganisation

As at the date of the Share Purchase Agreement, Huhehaote Dairy was held as to 100% by Shengmu High-tech, a wholly-owned subsidiary of the Company. As one of the conditions precedent of the Share Purchase Agreement, the Company shall complete a reorganisation (the “**Reorganisation**”).

Pursuant to the Reorganisation, the Company shall transfer all its downstream dairy business chain and related assets to the Target Company, including but not limited to intellectual properties. Upon completion of the Reorganisation, Huhehaote Dairy shall be held as to 100% by the Target Company and the Target Company shall become a company with complete business chain and assets to conduct production and distribution of organic dairy products (excluding infant formula and other formulas powder products).

Conditions Precedent

Completion of the Share Purchase Agreement is conditional upon the fulfilment or waiver of the following conditions:

- (1) the completion of the Reorganisation (other than those specified in paragraph (3) below);
- (2) the completion of the integration of the Company’s downstream dairy business related assets as stated in the Share Purchase Agreement (other than those specified in paragraph (3) below);
- (3) the Sellers having procured the Target Company and each of the original owners of the intellectual property rights (the “**IP owners**”) specified in the

Share Purchase Agreement to transfer the ownership of such intellectual property rights and the Target Company and the IP owners having conducted the relevant transfer procedures, and the Sellers having also procured the IP owners to sign a licencing agreement with the Target Company;

- (4) the Company and the Sellers having terminated all the authorisations of intellectual property rights to its associates and any other third parties and ensuring that the Target Company has exclusive rights and use of the intangible assets listed in the Share Purchase Agreement. In particular, the Sellers shall have terminated the trademark authorisation to Inner Mongolia Shengmu Low Temperature Dairy Product Company Limited (內蒙古聖牧低溫乳品有限公司) and Shengmu High-Tech (Tianjin) Drinks Co., Ltd. (聖牧高科(天津)飲品有限公司), the results of which are satisfactory to Inner Mongolia Mengniu and there is no litigation or dispute incurred in relation thereto;
- (5) the signing of the employment contracts between the Target Company and each of the senior management and employees as stated in the Share Purchase Agreement, the terms of which are agreed by Inner Mongolia Mengniu and the Sellers, and there is no litigation or dispute between the Target Company or Huhehaote Dairy and the personnel mentioned above that will have a material adverse effect on the Target Company's operation;
- (6) all relevant transaction agreements (including the Share Purchase Agreement, the Shareholders' Agreement and the new articles of association of the Target Company) (the "**Transaction Agreements**") and all relevant documents for SAIC registration being duly executed by all relevant parties;
- (7) the obtaining of all applicable regulatory approvals of the transfer of shares under the Share Purchase Agreement;
- (8) no judgment, decision, order or injunctions issued by court, arbitral institution or relevant government of the PRC that may result in any restrictions, prohibitions or cancellations of the Share Purchase Agreement, and no material litigation or claim to be pending or threatened that may have a material adverse effect on the proposed transfer of the Sale Shares;
- (9) the obtaining of the board of directors and shareholders' approval as required under all applicable laws and regulations (including the Listing Rules) of each of the Company, the Target Company and the Sellers for the transfer of the Sale Shares under the Share Purchase Agreement;
- (10) the signing and performing of any obligations under the Transaction Agreements by the Target Company, the Sellers will not constitute any breach of applicable PRC laws or any contracts of the Target Company or Huhehaote Dairy which will have a material adverse effect on the operation of the Target Company or Huhehaote Dairy;

- (11) the completion of due diligence by Inner Mongolia Mengniu, and the Company, the Sellers, the Target Company and Huhehaote Dairy having provided all business, legal and financial due diligence materials to Inner Mongolia Mengniu, which satisfied Inner Mongolia Mengniu's due diligence request;
- (12) the priority supply agreements having been duly executed by the Company and the Target Company and Huhehaote Dairy respectively, pursuant to which the Company has agreed it will, and it will also procure its subsidiaries, to provide raw milk to the Target Company and Huhehaote Dairy with priority under the same conditions;
- (13) the representations and warranties of the Target Company and the Sellers given under the Share Purchase Agreement remaining true, complete and accurate and no material default under any Transaction Document from the date of the Share Purchase Agreement to the Closing Date;
- (14) no incidents, conditions, changes, or other circumstances which have or is reasonably expected to have a material adverse effect on the assets, financial condition, indebtedness, technology, profit prospects or operations of the Target Company and Huhehaote Dairy, from the date of the Share Purchase Agreement to the Closing Date;
- (15) no change of control of the Sellers, and there is no acquisition of shares of the Sellers or their respective shareholders by the competitors of the Target Company's principal business (other than through acquisitions on a stock exchange) from the date of the Share Purchase Agreement to the Closing Date;
- (16) unless with prior written consent from Inner Mongolia Mengniu, neither Wu Jianye, Yang Ruiguang, Gu Manlong nor Zhao Dongliang shall resign from the Target Company from the date of the Share Purchase Agreement to the Closing Date;
- (17) no claims, disputes or proceedings in relation to the product quality of the Target Company and Huhehaote Dairy which may have a material adverse effect on the Target Company or Huhehaote Dairy from the date of the Share Purchase Agreement to the Closing Date;
- (18) no encumbrance or security interest over the Sale Shares and the Sale Shares being freely transferable; and
- (19) the obtaining of all consents from any borrower and all approvals necessary by the Company, the Target Company and the Sellers to enter into the Share Purchase Agreement and perform their respective obligations thereunder.

Closing

Closing shall take place within five Business Days after closing confirmation is issued by Inner Mongolia Mengniu within ten Business Days after the fulfilment of the last condition precedent.

Consideration

The consideration for the sale and purchase of the Sale Shares under the Share Purchase Agreement is RMB303,419,400 (equivalent to approximately HK\$345,061,411.09), and Inner Mongolia Mengniu shall pay RMB158,650,667 (equivalent to approximately HK\$180,424,267.62) and RMB144,768,733 (equivalent to approximately HK\$164,637,143.47) to Shengmu Holding and Shengmu High-tech respectively. Among which RMB273,419,400 will be paid within five Business Days after the date of the Payment Confirmation Certificate and the remaining RMB30,000,000 will be paid within five Business Days from the first anniversary date of the Payment Confirmation Certificate, and both tranches of the consideration shall be paid to Shengmu High-tech and Shengmu Holding in accordance with their respective shareholdings in the Sale Shares.

The issue of the Payment Confirmation Certificate is subject to satisfaction of the following conditions:

- (1) the completion of registration with the SAIC and obtaining the new business licence (if any), and delivery of the amended SAIC registration documents and the new business licence to Inner Mongolia Mengniu;
- (2) the completion of appointment of directors, supervisors and senior management of the Target Company and due registration with SAIC;
- (3) the delivery of the licences, seal, accounts, bank account passwords and keys to safety box (if any) of the Target Company to Inner Mongolia Mengniu; and
- (4) the issuance of financial reports of the Target Company as of the Closing Date in accordance with the Generally Accepted Accounting Principles of the PRC by auditors recognised by Inner Mongolia Mengniu on the Closing Date.

The consideration for the sale and purchase of the Sale Shares was determined after arm's length negotiations between the parties with reference to (i) the net asset value of the Target Company and Huhehaote Dairy; (ii) the valuation of the Target Company and Huhehaote Dairy prepared by Orient Appraisal Co., Ltd. (東洲資產評估有限公司); and (iii) the development prospects of the Target Company. Taking into account the above, the Directors consider that the consideration for the sale and purchase of the Sale Shares is fair and reasonable.

Termination

The Share Purchase Agreement will be terminated upon, among other things, (i) the agreement of termination by the parties to the Share Purchase Agreement; and (ii) the conditions precedent have not been fulfilled or waived within nine months (or any other date agreed among the parties) from the date of the Share Purchase Agreement.

THE SHAREHOLDERS' AGREEMENT

Set out below is a summary of the principal terms of the Shareholders' Agreement:

Date:

23 December 2018

Parties:

- (1) Inner Mongolia Mengniu;
- (2) Shengmu High-tech;
- (4) the Target Company; and
- (5) the Company.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, other than the 4.25% interest in the Company held by Subscriber A (which is a wholly-owned subsidiary of China Mengniu, which in turn held the entire equity interest in Inner Mongolia Mengniu) as at the date of this announcement, Inner Mongolia Mengniu and its ultimate beneficial owners are considered as third parties independent of and not connected with the Company and its connected persons.

Scope of Business

The approved business scope of the Target Company includes the production and distribution of organic dairy products (excluding infant formula and other formulas powder products).

Board of Directors of the Target Company

The board of directors of the Target Company shall comprise of five (5) directors. Inner Mongolia Mengniu has the right to nominate three (3) directors, whereas Shengmu High-tech has the right to nominate two (2) directors. The board of directors of the Target Company shall have one chairman, who shall be a director elected from the directors appointed at the nomination of Inner Mongolia Mengniu.

Each director will hold one vote for resolutions in the board meetings of the Target Company. The quorum of board meetings shall be 2/3 of the directors. Except in relation to a few special board reserved matters under the Shareholders' Agreement which require approval by 2/3 of the directors, a decision of the board of directors of the Target Company will be decided by a simple majority of the directors entitled to vote and voting on the matter. If the directors of the Target Company fail to agree on the special majority board reserved matters, they may refer to the matter for approval at the shareholders' meeting.

Shareholders' Meeting

Except for certain matters which require approval of shareholders holding at least 2/3 of the voting rights of the shares in the Target Company, including (i) any amendment to the articles of association of the Target Company; (ii) any increase or reduction of the share capital of the Target Company; (iii) any merger, division, termination, dissolution or winding-up, or any alteration of the Target Company; (iv) any equity incentive plan; and (v) any board reserved matters which the directors of the Target Company fail to reach an agreement, decision of shareholders of the Target Company will be decided by a simple majority of the of the shareholders entitled to vote and voting on the matter.

Appointment of Key Personnel

Inner Mongolia Mengniu shall have the right to nominate the general manager of the Target Company (the "**General Manager**") and Shengmu High-tech shall have the right to nominate the chief financial officer of the Target Company, which shall be appointed by the board of the directors of the Target Company. Other senior management shall be nominated by the General Manager and appointed by the board of the directors of the Target Company or the board of the directors can authorise the General Manager to appoint the other senior management.

Non-competition

The Company, Shengmu High-tech and its respective affiliates (other than Food Union Shengmu Dairy Co., Ltd. (富友聯合聖牧乳品有限公司) and Inner Mongolia Shengmu Low Temperature Dairy Product Company Limited (內蒙古聖牧低溫乳品有限公司)) shall not directly or indirectly engage in, operate, participate, own or invest in any business which has the same or in competition with the principal business of the Target Company.

Transfer or Disposal of Shares

Any shareholder of the Target Company may transfer all or any of its shares in the Target Company to its affiliates or other shareholders.

Without the written consent of Inner Mongolia Mengniu, Shengmu High-tech shall not transfer or otherwise dispose of its shares in the Target Company to any third party in whole or in part.

Inner Mongolia Mengniu shall have the right to transfer, sell or otherwise dispose its shares in the Target Company in whole or in part (provided that it should be no less than fair value).

Where Inner Mongolia Mengniu intends to accept an offer from a third party to sell its shares in the Target Company, Shengmu High-tech shall have a right to sell its shares to such third party in the ratio of the shares held by Shengmu High-tech bears to the total number of shares to be transferred by Inner Mongolia Mengniu.

Effective Date and Termination

The Shareholders' Agreement shall become effective immediately on the date of the Shareholders' Agreement.

The Shareholders' Agreement will be terminated upon, among other things, (i) the agreement of termination by the parties of the Shareholders' Agreement ; (ii) either Inner Mongolia Mengniu or Shengmu High-tech ceases to hold any shares in the Target Company; or (iii) the transactions contemplated under the Share purchase Agreement have not been completed within nine months (or any other date agreed among the parties) from the date of the Share Purchase Agreement.

REASONS FOR AND BENEFITS OF THE SHARE PURCHASE AGREEMENT

As one of the leading dairy product manufacturers in the PRC, China Mengniu is equipped with a strong management team and a solid Chinese dairy product distribution network. The Company believes that with China Mengniu's core advantages and the favourable dairy policy introduced by the government of the PRC, it can bring values to the Shareholders of the Company via maintaining a mutually beneficial partnership with China Mengniu. Under the current market conditions, the operation of dairy business requires vast resources of the Group. The Directors consider it is beneficial for the Group to cooperate with China Mengniu.

The Directors believe that the terms of the Share Purchase Agreement are on normal commercial terms, fair and reasonable and are in the best interests of the Company and its Shareholders as a whole.

FINANCIAL INFORMATION OF THE TARGET COMPANY

The net profits (both before and after taxation) for the two financial years ended 31 December 2016 and 2017 of the Target Company based on the unaudited financial statements of the Target Company prepared in accordance with the International Financial Reporting Standards are as follows:

	Year ended 31 December 2016 (unaudited) (RMB million)	Year ended 31 December 2017 (unaudited)
Profit/(loss) before taxation	(68.44)	(1,194.92)
Profit/(loss) after taxation	(76.99)	(1,185.44)

The net assets of the Target Company as at 31 December 2017 based on its unaudited financial statements prepared in accordance with the International Financial Reporting Standards amounted to approximately RMB(562.09) million.

FINANCIAL EFFECTS OF DISPOSAL

Upon completion of the Share Purchase Agreement, the Company will hold 49% interests in the Target Company, the Target Company will cease to be recognised as a subsidiary in the consolidated financial statements of the Company, and is expected to be recognised as a subsidiary of Inner Mongolia Mengniu in their consolidated financial statements. The Company will retain an equity interest of 49% in the Target Company upon completion of the Share Purchase Agreement.

The Group is expected to record a net gain (after deducting the relevant taxes and expenses) from the Disposal of approximately RMB121.98 million (equivalent to approximately HK\$138.72 million) in its consolidated statement of profit or loss for the year ending 31 December 2019 calculated based on, among other factors, the consideration and the net asset value of the Target Company after the Reorganisation.

(2) WARRANT SUBSCRIPTION AGREEMENTS

(i) WARRANT SUBSCRIPTION AGREEMENT A

Background

On 10 December 2018 and 23 December 2018, Shengmu High-tech and Inner Mongolia Mengniu entered into two entrusted loan agreements respectively, where term loan facilities in the aggregated amount of RMB1.3 billion were granted, via the Horinger County Branch of Agricultural Bank of China Limited (the “**Agricultural Bank**”), to Shengmu High-tech. The Company considers that the terms of the Loan Facilities are more favourable than the terms available to the Group from independent third parties.

As announced by the Company on 21 December 2018, the Company entered into the Equity Transfer Framework Agreement with, among others, the 12 individual shareholders in relation to the Acquisition, pursuant to which the Company agreed to issue the Consideration Shares to the 12 individual shareholders as part of the consideration for the Acquisition.

In consideration of Inner Mongolia Mengniu’s granting the Loan Facilities to Shengmu High-tech, the Company and the Subscriber A entered into the Warrant Subscription Agreement A, pursuant to which the Company has agreed, subject to the fulfilment of certain conditions precedent, to issue the Warrants A to the Subscriber A. Taken into account the Consideration Shares proposed to be issued under the Equity Transfer Framework Agreement, the Warrants A shall be issued in two tranches (including 1,080,248,000 Warrants in tranche 1 (the “**Tranche 1 Warrants A**”) and 117,079,890 Warrants in tranche 2 (the “**Tranche 2 Warrants A**”)) which

confer the Subscription Rights of Warrants A on the Subscriber A to subscribe for up to 1,197,327,890 Warrant Shares A during the Subscription Period of Warrants A at the Subscription Price of Warrants A (subject to Adjustment of Warrants A).

Principal terms of the Warrant Subscription Agreement A

Set out below is a summary of the principal terms of the Warrant Subscription Agreement A:

Parties

Subscriber: Start Great Holdings Limited

Issuer: the Company

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, other than the 4.25% interest in the Company held by the Subscriber A as at the date of this announcement, the Subscriber A and its ultimate beneficial owners are considered as third parties independent of and not connected with the Company and its connected persons.

Adjustment to the number of Warrants A

Subject to the satisfaction of the conditions as set out in sections headed "Conditions for the issue of the Tranche 1 Warrants A" and "Conditions for the issue of the Tranche 2 Warrants A" below, 1,197,327,890 Warrants shall be issued upon Inner Mongolia Mengniu having fulfilled its obligation in accordance with the entrusted loan facility agreement in respect of the RMB1 billion Loan Facility (i) to deposit RMB1 billion into the general entrusted loan principal account (一般委託貸款委託人帳戶) in the Agricultural Bank as defined therein (the "**Designated Account**"); and (ii) to send the written confirmation of the draw-down notice to the Agricultural Bank no later than 25 December 2018.

Subject to the satisfaction of the conditions as set out in sections headed "Conditions for the issue of the Tranche 1 Warrants A" and "Conditions for the issue of the Tranche 2 Warrants A" below, and if:

- (a) as of 25 December 2018 (or other date as agreed by the parties), Inner Mongolia Mengniu has deposited into the Designated Account an amount agreed by the Parties in writing which in aggregate is less than RMB1 billion (the "**Deposit Amount**") and has sent the written confirmation of the draw-down notice in respect of the Deposit Amount to the Agricultural Bank; and

- (b) there is no winding up or liquidation judgement rendered or proceeding commenced against the Company within the two months after 28 December 2018 as a result of default by Shengmu High-tech under its RMB1 billion corporate loan corporate bonds (136129. SH);

the number of Warrants A to be issued shall be calculated in accordance with the following formula:

$$\text{“Revised Tranche 1 Warrants A”} = A * (C / D)$$

$$\text{“Revised Tranche 2 Warrants A”} = B * (C / D)$$

where:

A = 1,080,248,000;

B = 117,079,890;

C = Deposit Amount; and

D = RMB 1,000,000,000.

Consideration

The Company has agreed, subject to the fulfilment of the conditions precedent, to issue the Warrants A to the Subscriber A in consideration of the grant of the Loan Facilities by Inner Mongolia Mengniu to Shengmu High-tech at more favourable terms than available from independent third parties (the “**Issue Consideration for Warrants A**”).

Information on the Warrants A

As at the date of this announcement, the Company has issued a total of 6,354,400,000 Shares which are fully paid up and are listed on the Main Board of the Stock Exchange.

If the Subscription Rights of Warrants A attached to the Tranche 1 Warrants A are exercised in full at the Subscription Price of Warrants A, the Company will issue such number of new Shares which will represent approximately 17.0% of the entire issued share capital of the Company as at the date of this announcement or approximately 14.5% of the entire issued share capital of the Company as enlarged by the issue of the Tranche 1 Warrant Shares A (assuming no other changes to the number of the issued Shares and the Subscription Rights of Tranche 2 Warrants A and the Subscription Rights of the Warrants B have not been exercised).

If the Subscription Rights of Warrants A attached to the Tranche 2 Warrants A are exercised in full at the Subscription Price of Warrants A, the Company will issue such further number of new Shares which will represent approximately 1.8% of the entire issued share capital of the Company as at the date of this announcement or approximately 1.6% of the entire issued share capital of the Company as enlarged by the issue of the Warrant Shares A (assuming no other changes to the number of the issued Shares and the Subscription Rights of the Warrants B have not been exercised).

Upon full exercise of the Subscription Rights of Warrants A, a total of 1,197,327,890 Warrant Shares A will be allotted and issued by the Company.

The Warrant Shares A to be issued upon exercise of the Subscription Rights of Warrants A will be issued under the Specific Mandate to be sought at the EGM.

Conditions for the issue of the Tranche 1 Warrants A

Completion of the subscription of Tranche 1 Warrants A is conditional upon the following:

- (1) the RMB300 million Loan Facility having been drawn-down by Shengmu High-tech in full;
- (2) the RMB1 billion Loan Facility having been drawn-down by Shengmu High-tech in any amount;
- (3) the Stock Exchange granting or agreeing to grant a listing of and permission to deal in the Warrant Shares to be issued upon an exercise of the Subscription Rights of Warrants A (and such listing and permission not being subsequently revoked);
- (4) the representations and warranties in the Warrant Subscription Agreement A or any of the agreements, covenants and undertakings mentioned in the Warrant Subscription Agreement A remaining true and correct in all material respects;
- (5) all issued Shares remaining listed on, and not having been withdrawn from, the Stock Exchange and save for any temporary suspension of not more than ten consecutive trading days or any suspension pending clearance of any announcement or in connection with any announcement required to be made under the Listing Rules (in each case, excluding any suspension in the trading of the Shares on the Stock Exchange pending the clearance or release of any announcement or circular relating to the transactions contemplated under this

Agreement), the Stock Exchange not having indicated that it will object to the listing status of the Shares and there being no events or circumstances existing based on which the Stock Exchange could reasonably be expected to raise such objection or that will adversely affect the listing status of the Shares; and

- (6) if required by the Stock Exchange, the Warrant Subscription Agreement A and transactions contemplated thereunder having been approved by Shareholders by ordinary resolution.

The conditions precedent out in (3) and (6) above may not be waived. The conditions precedent set out in (4) and (5) above may only be waived by the Subscriber A. The conditions precedent set out in (1) and (2) above may be waived by agreement of the parties.

Conditions for the issue of the Tranche 2 Warrants A

Completion of the subscription of Tranche 2 Warrants A is conditional upon the following:

- (1) the RMB300 million Loan Facility having been drawn down by Shengmu High-tech in full;
- (2) the RMB1 billion Loan Facility having been drawn down by Shengmu High-tech in any amount;
- (3) the Stock Exchange granting or agreeing to grant a listing of and permission to deal in the Warrant Shares to be issued upon an exercise of the Subscription Rights of Warrants A (and such listing and permission not being subsequently revoked);
- (4) the representations and warranties in the Warrant Subscription Agreement A or any of the agreements, covenants and undertakings mentioned in the Warrant Subscription Agreement A remaining true and correct in all material respects;
- (5) all issued Shares remaining listed on, and not having been withdrawn from, the Stock Exchange and save for any temporary suspension of not more than ten consecutive trading days or any suspension pending clearance of any announcement or in connection with any announcement required to be made under the Listing Rules (in each case, excluding any suspension in the trading of the Shares on the Stock Exchange pending the clearance or release of any announcement or circular relating to the transactions contemplated under this Agreement), the Stock Exchange not having indicated that it will object

to the listing status of the Shares and there being no events or circumstances existing based on which the Stock Exchange could reasonably be expected to raise such objection or that will adversely affect the listing status of the Shares;

- (6) if required by the Stock Exchange, the Warrant Subscription Agreement A and transactions contemplated thereunder having been approved by Shareholders by ordinary resolution; and
- (7) completion of the Equity Transfer Framework Agreement or any agreement that parties to the Equity Transfer Framework Agreement could enter into in future in substitution of the Equity Transfer Framework Agreement to effect the issue of Consideration Shares (or any number of Shares to be issued as part or all of the consideration to the Acquisition).

The conditions precedent set out in (3) and (6) above may not be waived. The conditions precedent set out in (4) and (5) above may only be waived by the Subscriber A. The conditions precedent set out in (1), (2) and (7) above may be waived by agreement of the parties.

If any of the above conditions is not fulfilled or waived, as the case may be, on or before the Long Stop Date of Warrants A (or such other date as may be agreed by the Company and the Subscriber A in writing), the Warrant Subscription Agreement A shall lapse and be of no further force and effect.

The Warrant Subscription Agreement A is not inter conditional to the Warrant Subscription Agreement B.

As at the date of this announcement, other than condition precedent set out in (1) above for the issue of the Tranche 1 Warrants A and Tranche 2 Warrants A all the conditions precedent set out above had not yet been satisfied.

Undertakings

The Company undertakes with the Subscriber A that during the period between the date of the Warrant Subscription Agreement A until the earlier of (i) expiry of the Subscription Period of Warrants A; and (ii) any Warrant A being transferred to a third party of the Subscriber A, unless the consent is obtained from the Subscriber:

- (1) the Company shall procure that the Board shall at all times during the Subscription Period of Warrants A have authority pursuant to the articles of association of the Company and any applicable legal and

regulatory requirements to grant Warrants A and to issue Warrant Shares A on exercise of any Subscription Rights of Warrants A in accordance with the terms of the Warrant Subscription Agreement A and free of any pre-emption rights;

- (2) the Company shall conduct its businesses in the ordinary course consistent with past practice and use their best efforts to preserve intact its present business organisation;
- (3) the Company shall not amend its the articles of association of the Company unless required by the relevant laws and regulations or the Listing Rules;
- (4) other than transactions entered or to be entered into with China Mengniu or its subsidiaries, including but not limited to the entering into of the Share Purchase Agreement, the Company shall not merge with or into any entity or enter into any similar transactions and it will not, and will not enter into any agreement to sell or dispose of any material assets or property of the Group;
- (5) the Company shall not actively seek or assist in any action which would effect a change of control of the Company;
- (6) neither the Company nor any person acting on its behalf will take, directly or indirectly, any action designed to or which constitutes or which might reasonably be expected to cause or result in an Adjustment and the Company will not take any action that would reduce the Subscription Price of Warrants A below a level that may be proscribed by applicable laws and regulations from time to time (if any);
- (7) the Company shall ensure that there is no breach of the Loan Facilities or take any action to cause an event of default under the Loan Facilities;
- (8) except for the Warrants A, the Consideration Shares and the Warrants B, neither the Company nor any person acting on its behalf will take, directly or indirectly, any action which might cause or result in the issue by the Company of any securities or any outstanding securities convertible into or exchangeable for Shares, or warrants, rights or options to purchase Shares from the Company; and
- (9) the Company shall use its best endeavours to maintain a listing for all the issued Shares on the Stock Exchange.

Completion

Completion of Tranche 1 Warrants A shall take place on the second Business Day after the date upon which the last conditions for the issue of the Tranche 1 Warrants A shall have been satisfied or waived or at such other time and place as the Company and the Subscriber A may agree in writing (such date not being later than the Long Stop Date).

Completion of Tranche 2 Warrants A shall take place on the second Business Day after the date upon which the last conditions for the issue of the Tranche 2 Warrants A shall have been satisfied or waived or at such other time and place as the Company and the Subscriber A may agree in writing.

Subscription Price of Warrants A

The Subscription Price of Warrants A is HK\$0.33 per Warrant Share A.

The Subscription Price of Warrants A of HK\$0.33 per Warrant Share A represents:

- (1) a premium of approximately 10.0% over the closing price of HK\$0.30 per Share as quoted on the Stock Exchange on the date of the Warrant Subscription Agreement A; and
- (2) a discount of approximately 0.60% over the average closing prices of approximately HK\$0.332 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the date of the Warrant Subscription Agreement A.

The Issue Consideration for Warrants A and the Subscription Price of Warrants A were determined after arm's length negotiations between the parties taking into account (i) the trading prices of the Shares around the date of the Warrant Subscription Agreement A, (ii) an indicative valuation of the Warrants A conducted by an independent valuer in December 2018, and (iii) the Loan Facilities granted by Inner Mongolia Mengniu to Shengmu High-tech.

(ii) WARRANT SUBSCRIPTION AGREEMENT B

Background

On 23 December 2018, the Company and the Subscriber B entered into the Warrant Subscription Agreement B, pursuant to which the Company has agreed, subject to the fulfilment of certain conditions precedent, to issue the Warrants B to the Subscriber B. Taken into account the Consideration Shares proposed to be issued under the Equity Transfer Framework

Agreement, the Warrants B shall be issued in two tranches (including 127,088,000 Warrants in tranche 1 (the “**Tranche 1 Warrants B**”) and 13,774,105 Warrants in tranche 2 (the “**Tranche 2 Warrants B**”)) which confer the Subscription Rights of Warrants B on the Subscriber B to subscribe for up to 140,862,105 Warrant Shares B during the Subscription Period of Warrants B at the Subscription Price of Warrants B (subject to Adjustment of Warrants B).

Principal terms of the Warrant Subscription Agreement B

Set out below is a summary of the principal terms of the Warrant Subscription Agreement B:

Parties

Subscriber: Greenbelt Global Limited

Issuer: the Company

To the best of the Directors’ knowledge, information and belief having made all reasonable enquiry, other than the 6.22% interest held by the Subscriber B in the Company as at the date of this announcement, the Subscriber B and its ultimate beneficial owners are considered as third parties independent of and not connected with the Company and its connected persons.

Consideration

The issue price of Warrant B is HK\$0.0427 per Warrant B, which shall be paid to the Company in cash.

Information on the Warrants B

As at the date of this announcement, the Company has issued a total of 6,354,400,000 Shares which are fully paid up and are listed on the Main Board of the Stock Exchange.

If the Subscription Rights of Warrants B attached to the Tranche 1 Warrants B are exercised in full at the Subscription Price of Warrants B, the Company will issue such number of new Shares which will represent approximately 2.0% of the entire issued share capital of the Company as at the date of this announcement or approximately 2.0% of the entire issued share capital of the Company as enlarged by the issue of the Tranche 1 Warrant Shares B (assuming no other changes to the number of the issued Shares and the Subscription Rights of Tranche 2 Warrants B and the Subscription Rights of the Warrants A have not been exercised).

If the Subscription Rights of Warrants B attached to the Tranche 2 Warrants B are exercised in full at the Subscription Price of Warrants B, the Company will issue such further number of new Shares which will represent approximately 0.2% of the entire issued share capital of the Company as at the date of this announcement or approximately 0.2% of the entire issued share capital of the Company as enlarged by the issue of the Warrant Shares B (assuming no other changes to the number of the issued Shares and the Subscription Rights of the Warrants A have not been exercised).

Upon full exercise of the Subscription Rights of Warrants B, a total of 140,862,105 Warrant Shares will be allotted and issued by the Company.

The Warrant Shares B to be issued upon exercise of the Subscription Rights of Warrants B will be issued under the Specific Mandate to be sought at the EGM.

Conditions for the issue of the Tranche 1 Warrants B

Completion of the subscription of Tranche 1 Warrants B is conditional upon the following:

- (1) the completion of the subscription of Tranche 1 Warrants A;
- (2) the Stock Exchange granting or agreeing to grant a listing of and permission to deal in the Warrant Shares to be issued upon an exercise of the Subscription Rights of Warrants B (and such listing and permission not being subsequently revoked);
- (3) the representations and warranties in the Warrant Subscription Agreement B or any of the agreements, covenants and undertakings mentioned in the Warrant Subscription Agreement B remaining true and correct in all material respects;
- (4) all issued Shares remaining listed on, and not having been withdrawn from, the Stock Exchange and save for any temporary suspension of not more than ten consecutive trading days or any suspension pending clearance of any announcement or in connection with any announcement required to be made under the Listing Rules (in each case, excluding any suspension in the trading of the Shares on the Stock Exchange pending the clearance or release of any announcement or circular relating to the transactions contemplated under this Agreement), the Stock Exchange not having indicated that it will object

to the listing status of the Shares and there being no events or circumstances existing based on which the Stock Exchange could reasonably be expected to raise such objection or that will adversely affect the listing status of the Shares; and

- (5) the Warrant Subscription Agreement B and transactions contemplated thereunder having been approved by Shareholders by ordinary resolution.

The conditions precedent set out in (1), (2) and (5) above may not be waived. The conditions precedent set out in (3) and (4) above may only be waived by the Subscriber B.

Conditions for the issue of the Tranche 2 Warrants B

Completion of the subscription of Tranche 2 Warrants B is conditional upon the following:

- (1) the completion of the subscription of Tranche 2 Warrants A;
- (2) the Stock Exchange granting or agreeing to grant a listing of and permission to deal in the Warrant Shares to be issued upon an exercise of the Subscription Rights of Warrants B (and such listing and permission not being subsequently revoked);
- (3) the representations and warranties in the Warrant Subscription Agreement B or any of the agreements, covenants and undertakings mentioned in the Warrant Subscription Agreement B remaining true and correct in all material respects;
- (4) all issued Shares remaining listed on, and not having been withdrawn from, the Stock Exchange and save for any temporary suspension of not more than ten consecutive trading days or any suspension pending clearance of any announcement or in connection with any announcement required to be made under the Listing Rules (in each case, excluding any suspension in the trading of the Shares on the Stock Exchange pending the clearance or release of any announcement or circular relating to the transactions contemplated under this Agreement), the Stock Exchange not having indicated that it will object to the listing status of the Shares and there being no events or circumstances existing based on which the Stock Exchange could reasonably be expected to raise such objection or that will adversely affect the listing status of the Shares;

- (5) the Warrant Subscription Agreement B and transactions contemplated thereunder having been approved by Shareholders by ordinary resolution; and
- (6) completion of the Equity Transfer Framework Agreement.

The conditions precedent set out in (1), (2) and (5) above may not be waived. The conditions precedent set out in (3) and (4) above may only be waived by the Subscriber B. The conditions precedent set out in (6) above may be waived by agreement of the parties.

If any of the above conditions is not fulfilled or waived, as the case may be, on or before the Long Stop Date of Warrants B (or such other date as may be agreed by the Company and the Subscriber B in writing), the Warrant Subscription Agreement B (other than the Surviving Provisions as defined in the Warrant Subscription Agreement B) shall lapse and be of no further force and effect.

As at the date of this announcement, all the conditions precedent set out above had not yet been satisfied.

Completion

Completion of Tranche 1 Warrants B shall take place on the third Business Day after the date upon which the last conditions for the issue of the Tranche 1 Warrants B shall have been satisfied or waived or at such other time and place as the Company and the Subscriber B may agree in writing (such date not being later than the Long Stop Date).

Completion of Tranche 2 Warrants B shall take place on the third Business Day after the date upon which the last conditions for the issue of the Tranche 2 Warrants B shall have been satisfied or waived or at such other time and place as the Company and the Subscriber B may agree in writing.

Subscription Price of Warrants B

The Subscription Price of Warrants B is HK\$0.33 per Warrant Share B.

The Subscription Price of Warrants B of HK\$0.33 per Warrant Share B represents:

- (1) a premium of approximately 10.0% over the closing price of HK\$0.30 per Share as quoted on the Stock Exchange on the date of the Warrant Subscription Agreement B; and
- (2) a discount of approximately 0.60% over the average closing prices of approximately HK\$0.332 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the date of the Warrant Subscription Agreement B.

The issue price of the Warrants B and the Subscription Price of Warrants B were determined after arm's length negotiations between the parties taking into account (i) the trading prices of the Shares around the date of the Warrant Subscription Agreement B, and (ii) an indicative valuation of the Warrants B conducted by an independent valuer in December 2018.

(iii) PRINCIPAL TERMS OF THE WARRANTS

The principal terms of the Warrants A and the Warrants B are identical, which are set out as follows:

Number of Warrants A and Warrant Shares A:	A total of 1,197,327,890 warrants. Each of the Warrant A confers the Subscriber A the right to subscribe for at any time during the Subscription Period of Warrants A one (1) Warrant Share A at the Subscription Price of Warrants A, subject to Adjustment of Warrants A. Upon full exercise of the Subscription Rights of Warrants A, a total of 1,197,327,890 Warrant Shares A will be issued. Such number of Warrants can be exercised in whole or in part.
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Number of Warrants B and Warrant Shares B:	A total of 140,862,105 warrants. Each of the Warrant B confers the Subscriber B the right to subscribe for at any time during the Subscription Period of Warrants B one (1) Warrant Share B at the Subscription Price of Warrants B, subject to Adjustment of Warrants B. Upon full exercise of the Subscription Rights of Warrants B, a total of 140,862,105 Warrant Shares B will be issued. Such number of Warrants can be exercised in whole or in part.
Form:	The Warrants will be issued upon completion of Warrant in registered form. Warrant Certificates will be issued to the Subscriber A or the Subscriber B respectively.
Adjustments to the Subscription Price:	<p>The Subscription Price is subject to adjustments if any of the following occurs, with effect from the date of the relevant event or, if earlier, the record date for the event (an “Adjustment”):</p> <ul style="list-style-type: none"> <li data-bbox="654 925 1418 1010">(a) a subdivision, consolidation or reclassification of the Shares; <li data-bbox="654 1042 1418 1244">(b) a reduction of capital (of whatever nature, but excluding a cancellation of capital that is lost or not represented by available assets), or any other reduction in the number of Shares in issue from time to time; <li data-bbox="654 1276 1418 1393">(c) an issue of Shares or other securities convertible into Shares by way of dividend or distribution; <li data-bbox="654 1425 1418 1564">(d) an issue of Shares by way of capitalisation of profits or reserves (including share premium account and any capital redemption reserve); or <li data-bbox="654 1596 1418 1836">(e) a consolidation, amalgamation or merger of the Company with or into another entity (other than a consolidation, amalgamation or merger following which the Company is the surviving entity and which does not result in any reclassification of, or change in, the Shares),

so that, after such Adjustment:

- (i) the total number of Warrant Shares of Warrants A or Warrants B (where applicable) for which the outstanding Subscription Rights would then be capable of being exercised carry as nearly as possible (and in any event not less than) the same proportion of the voting rights attached to the fully diluted share capital of the Company and the same entitlement to participate in the profits and assets of the Company (including on liquidation) as if there had been no such event giving rise to the Adjustment and the Company shall update the register of Warrant Holders accordingly; and
- (ii) the aggregate price payable for all Warrant Shares subject to outstanding Subscription Rights of Warrants A or Subscription Rights of Warrants B (where applicable) shall equal the same aggregate price as would be payable for the number of Warrant Shares of Warrants A or Warrants B (where applicable) subject to outstanding Subscription Rights of Warrants A or Subscription Rights of Warrants B (where applicable) immediately before the occurrence of the event giving rise to the Adjustment.

Subscription Period: The Subscription Rights of Warrants A or Subscription Rights of Warrants B (where applicable) may be exercised, in whole or in part, at the discretion of the relevant Warrant Holder at any time during the eighteen-month period commencing from the date of completion of the respective Warrants.

Ranking of Warrant Shares: The Warrant Shares will rank *pari passu* in all respects among themselves and with all the Shares in issue as at the date of the allotment and issue of such Warrant Shares.

Voting Rights:	The Warrant Holder(s) will not be entitled to receive notices of, attend or vote at any meetings of the Company by reason only of being a holder of the Warrants.
Transferability of Warrants:	The Warrants are freely transferable to any person (other than a connected person of the Company but excluding China Mengniu and its associates) in accordance with the terms of the relevant Warrant Subscription Agreements.
Rights of the holders of Warrants on winding up of the Company:	If (i) the Subscription Period of Warrants A or the Subscription Period of Warrants B (where applicable) has not expired; (ii) any Subscription Rights of Warrants A or Subscription Rights of Warrants B (where applicable) remain unexercised; and (iii) an effective resolution for the winding up of the Company is passed, which is preceded by the making of a statutory declaration of solvency under the Companies Law of Cayman Islands, each holder of Warrants with unexercised Subscription Rights of Warrants A or Subscription Rights of Warrants B (where applicable) shall, for the purposes of ascertaining its rights in the winding up, be treated as if it had, immediately before the passing of the resolution, fully exercised its outstanding Subscription Rights of Warrants A or Subscription Rights of Warrants B (where applicable) and shall be entitled to receive out of the assets available in the liquidation <i>pari passu</i> with the holders of the Shares such sum as it would have received had it been the holder of all such Shares to which it would have been entitled by virtue of that exercise after deducting a sum equal to the sum which would have been payable for Warrant Shares.

SPECIFIC MANDATE TO ISSUE THE WARRANT SHARES

The Warrant Shares to be issued upon exercise of the Warrants will be issued and allotted pursuant to the Specific Mandate to be sought from the Shareholders at the EGM.

APPLICATION FOR LISTING

No application will be made for the listing of the Warrants on any stock exchange. Application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Warrant Shares.

REASONS FOR AND BENEFITS OF THE ISSUANCE OF THE WARRANTS

The Company considered the following means for the issue of Warrant Shares A to the Subscriber A, pursuant to the terms of the Warrant Subscription Agreement A:

- (1) China Mengniu has provided the Loan Facilities which is on terms more favourable than available from independent third party and has agreed to acquire 51% interest in the Target Company according to the Share Purchase Agreement;
- (2) China Mengniu and the Company intend to strengthen their business partnership and have more in-depth collaboration;
- (3) the Warrants A are not interest bearing and thus will not result in any immediate dilution effect on the shareholding of existing shareholders;
- (4) if Warrant A are exercised, the proceeds received by the Company can be used to repay the Loan Facilities; and
- (5) if Warrant A are exercised, the enlarged capital base will be beneficial for the stable long-term business development of the Company.

The Company considered the following factors for the issue of Warrant Shares B to the Subscriber B, pursuant to the terms of the Warrant Subscription Agreement B:

- (1) the Warrants B are not interest bearing and thus will not result in any immediate dilution effect on the shareholding of existing shareholders;
- (2) if Warrant B are exercised, the proceeds received by the Company can be used for its daily operation; and
- (3) if Warrant B are exercised, the enlarged capital base will be beneficial for the stable long-term business development of the Company.

The Directors consider that the Issue Consideration of Warrants A, the Subscription Price of Warrants A and the terms and conditions of the Warrant Subscription Agreement A are fair and reasonable and in the best interests of the Company and the Shareholders as a whole taking into account the above factors.

The Directors consider that the issue price of the Warrants B, the Subscription Price of Warrants B and the terms and conditions of the Warrant Subscription Agreement B are fair and reasonable and in the best interest of the Company and the Shareholders as a whole taking into account the above factors.

FUND RAISING EXERCISE BY THE COMPANY IN THE PAST TWELVE MONTHS

The Company confirmed it had not conducted any capital fund raising activities during the past twelve months immediately prior to the date of this announcement.

SHAREHOLDING STRUCTURE OF THE COMPANY

Set out below is the shareholding structure of the Company (i) as at the date of this announcement; (ii) immediately after the issue of the Tranche 1 Warrant Shares A and Tranche 1 Warrant Shares B (assuming there are no other changes to the issued share capital of the Company); (iii) immediately after the issue of (a) the Tranche 1 Warrant Shares A and the Tranche 1 Warrant Shares B and (b) the Consideration Shares (assuming there are no other changes to the issued share capital of the Company); and (iv) immediately after the issue of (a) the Tranche 1 Warrant Shares A and the Tranche 1 Warrant Shares B; (b) the Consideration Shares; and (c) the Tranche 2 Warrant Shares A and Tranche 2 Warrant Shares B (assuming there are no other changes to the issued share capital of the Company):

Shareholders	As at the date of this announcement		Immediately after the issue of the Tranche 1 Warrant Shares A and Tranche 1 Warrant Shares B		Immediately after the issue of (a) the Tranche 1 Warrant Shares A and the Tranche 1 Warrant Shares B and (b) the Consideration Shares		Immediately after the issue of (a) the Tranche 1 Warrant Shares A and the Tranche 1 Warrant Shares B, (b) the Consideration Shares and (c) the Tranche 2 Warrant Shares A and Tranche 2 Warrant Shares B	
	<i>Number of Ordinary Shares</i>	<i>%</i>	<i>Number of Ordinary Shares</i>	<i>%</i>	<i>Number of Ordinary Shares</i>	<i>%</i>	<i>Number of Ordinary Shares</i>	<i>%</i>
Nong You Co., Ltd.	1,301,651,000	20.48	1,301,651,000	17.21	1,301,651,000	15.78	1,301,651,000	15.53
Warrant A Holders	269,865,600	4.25	1,350,113,600	17.86	1,350,113,600	16.36	1,467,193,490	17.51
Warrant B Holders	395,235,200	6.22	522,323,200	6.91	522,323,200	6.33	536,097,305	6.40
Other public Shareholders	4,387,648,200	69.05	4,387,648,200	58.02	5,076,353,434	61.53	5,076,353,434	60.57
Total	6,354,400,000	100.00	7,561,736,000	100.00	8,250,441,234	100.00	8,381,295,229	100.00 ^{Note}

Note: The percentages of the Shares are rounded to the nearest two decimal places and the total number of the percentages may not add up to 100% due to rounding.

USE OF PROCEEDS

The entire amount of the proceeds of the Disposal are intended to be used for general working capital.

The entire amount of the proceeds of the issue of the Warrants B are intended to be used for general working capital.

Unless otherwise consent by the Subscriber A, any subscription monies paid to the Company upon exercise of the Subscription Rights of Warrants A shall be used to repay the Loan Facilities. If the Subscription Rights of the Warrants A are fully exercised, the total proceeds obtained from subscribing the Warrant Shares A will be HK\$395,118,204.

If the Subscription Rights of the Warrant Shares B are fully exercised, the total proceeds obtained from subscribing the Warrant Shares B will be approximately HK\$46.48 million, which will be used for general working capital.

LISTING RULES IMPLICATION

Upon completion of the Share Purchase Agreement, the assets, liabilities and other financial results of the Target Company will no longer be consolidated into the consolidated financial statements of the Group. Accordingly, adopting 100% of the assets, revenue and profits of the Target Company in calculating the applicable percentage ratios set out in Rule 14.07 of the Listing Rules, the ratios are more than 25% but less than 75%, the Disposal constitutes a major transaction of the Company, and is subject to the reporting, announcement, shareholders' approval and circular requirements under Chapter 14 of the Listing Rules.

The issue of Warrants is in compliance with Rule 15.02 of the Listing Rules.

Pursuant to Rule 15.02(1) of the Listing Rules, the Warrant Shares to be issued on exercise of the Warrants must not, when aggregated with all other equity securities remain to be issued on exercise of any other subscription rights, if all such rights were immediately exercised, whether or not such exercise is permissible, exceed 20% of the total number of Shares in issue at the time the Warrants are issued.

Upon issue of the Tranche 1 Warrant Shares A and Tranche 1 Warrant Shares B (assuming there is no change in the issued share capital of the Company between the date of this announcement and the date upon which the Subscription Rights of Warrants A attached to the Tranche 1 Warrants A and Subscription Rights of Warrants B attached to the Tranche 1 Warrants B are exercised in full), a maximum of 1,207,336,000 new Shares will fall to be issued, which represent approximately 19% of the total number of Shares in issue as at the date of this announcement and approximately 15.97% of the total number of Shares in issue as enlarged by the issue

of the Tranche 1 Warrant Shares A and Tranche 1 Warrant Shares B (assuming there is no other change in the issued share capital of the Company and the Subscription Rights of Warrants A attached to the Tranche 2 Warrants A and Subscription Rights of Warrants B attached to the Tranche 2 Warrants B have not been exercised).

Upon issue of the Warrant Shares A and Warrant Shares B (assuming other than the issue of the Consideration Shares, there is no change in the issued share capital of the Company between the date of this announcement and the date upon which the Subscription Rights of Warrants A and Subscription Rights of Warrants B are exercised in full), a maximum of 1,338,189,995 new Shares will fall to be issued, which represents approximately 19% of the total number of Shares in issue at the time immediately after the Consideration Shares are issued (assuming there is no other change in the issued share capital of the Company) and approximately 15.97% of the total number of Shares in issue as enlarged by the issue of the Warrant Shares A and Warrant Shares B (assuming other than the issue of the Consideration Shares, there is no other changes in the issued share capital of the Company).

Save as disclosed in this announcement, the Company did not have any securities with subscription rights as at the date of this announcement.

Pursuant to Rule 13.36(7) of the Listing Rules, the Company may not issue warrants to subscribe for (i) any new Shares of the Company or (ii) any securities convertible into new Shares of the Company, for cash consideration pursuant to a general mandate given under Rule 13.36(2)(b) of the Listing Rules. Therefore, the Warrant Shares to be issued upon exercise of the Warrants will be issued and allotted pursuant to the Specific Mandate to be sought from the Shareholders at the EGM.

INFORMATION ON THE PARTIES

The Company is an investment holding company. The Group is principally engaged in dairy farming business and liquid milk business.

Shengmu High-tech is principally engaged in dairy farming and the sale of raw milk.

Shengmu Holding is principally engaged in dairy farming and the sale of raw milk.

Inner Mongolia Mengniu is principally engaged in the business of manufacture and sale of dairy products.

China Mengniu is one of the leading dairy product manufacturers in the PRC, principally engaged in manufacturing and distribution of quality dairy products including liquid milk, ice-cream, milk formula and other dairy products.

The Target Company (including Huhehaote Dairy upon completion of the Reorganisation) is principally engaged in the production and distribution of liquid milk.

The Subscriber A is an investment holding company.

The Subscriber B is an investment holding company.

IRREVOCABLE UNDERTAKINGS

Each of Nong You Co., Ltd., Yao Tongshan, Zhang Jiawang, Guo Yunfeng, Wang Zhen, Sequoia Capital 2010 CGF Holdco, Ltd., Gao Lingfeng, Wang Fuzhu and Wu Jianye has given an irrevocable undertaking in favour of the Company, China Mengniu, Inner Mongolia Mengniu and the Subscriber A that (i) all voting rights attached to the Shares for which it/he/she is the sole beneficial owner of or is otherwise able to control the exercise of as at the date of the respective Irrevocable Undertakings A, are exercised in favour of the resolutions to approve the Share Purchase Agreement and the Warrant Subscription Agreement A; and (ii) shall not sell, transfer, dispose of such Shares to any third party or to create encumbrance on such Shares or enter into any arrangement with such effect before (a) the registration with the SAIC upon completion of the Share Purchase Agreement and completion of the Warrant Subscription Agreement; or (b) termination of the Irrevocable Undertakings A, whichever is earlier.

The number of Shares held by Nong You Co., Ltd., Yao Tongshan, Zhang Jiawang, Guo Yunfeng, Wang Zhen, Sequoia Capital 2010 CGF Holdco, Ltd., Gao Lingfeng, Wang Fuzhu and Wu Jianye and which are the subject of the Irrevocable Undertakings A amounted to 3,033,691,000 Shares, representing approximately 47.74% of the total issued Shares of the Company as at the date of this announcement.

In addition, each of Nong You Co., Ltd., Yao Tongshan, Zhang Jiawang, Guo Yunfeng, Wang Zhen, Gao Lingfeng, Wang Fuzhu and Wu Jianye has given an irrevocable undertaking in favour of the Company that all voting rights attached to the Shares for which it/he/she is the sole beneficial owner of or is otherwise able to control the exercise of as at the date of the respective Irrevocable Undertakings B, are exercised in favour of the resolution to approve the Warrant Subscription Agreement B.

The number of Shares held by Nong You Co., Ltd., Yao Tongshan, Zhang Jiawang, Guo Yunfeng, Wang Zhen, Gao Lingfeng, Wang Fuzhu and Wu Jianye and which are the subject of the Irrevocable Undertakings B amounted to 2,655,371,000 Shares, representing approximately 41.79% of the total issued Shares of the Company as at the date of this announcement.

The respective Irrevocable Undertakings shall lapse upon the termination or the non-fulfilment of the conditions precedent of the Share Purchase Agreement or the Warrant Subscription Agreements. However, the lapse of the irrevocable undertaking in respect of one agreement does not affect the effect of the irrevocable undertaking in respect of another agreement, if the other agreement has not been terminated.

EGM

The Company will convene an EGM for the purpose of, among other things, obtaining the Shareholders' approval for the Share Purchase Agreement and the Warrant Subscription Agreements and the transactions contemplated thereunder. In accordance with the Listing Rules, the Subscriber A, which is interested in 4.25% shares in the Company as at the date of this announcement, and its associates will abstain from voting for the ordinary resolutions proposed at the EGM to approve the Share Purchase Agreement and the Warrant Subscription Agreements. In addition, the Warrant Subscription Agreement B is inter conditional to the Warrant Subscription Agreement A, the Subscriber B, which is interested in 6.22% shares in the Company as at the date of this announcement, and its associates will also abstain from voting for the ordinary resolutions proposed at the EGM to approve the Share Purchase Agreement and the Warrant Subscription Agreements.

DESPATCH OF CIRCULAR

A circular containing, among other things, (1) further information regarding the details of the Investment Agreements; (2) further information regarding the details of the Warrant Subscription Agreements; and (3) a notice of the EGM and other information as required under the Listing Rules is expected to be despatched to the Shareholders on or before 4 January 2019.

As each of the Share Purchase Agreement, the Warrant Subscription Agreement A and Warrant Subscription Agreement B is subject to the fulfilment of certain conditions precedent as set out in this announcement, the Share Purchase Agreement, the Warrant Subscription Agreement A and Warrant Subscription Agreement B may or may not become unconditional or be completed. Shareholders and potential investors should exercise caution when dealing in the Shares.

DEFINITIONS

In this announcement, unless the context requires otherwise, the following terms have the meanings as respectively ascribed below:—

“Acquisition”

the proposed acquisition of 100% equity interest in Inner Mongolia Shengmu Sand and Grass Industry Co., Ltd. (內蒙古聖牧沙草業有限公司) by the Company and Shengmu High-tech from the 12 individual shareholders by issue of Consideration Shares and by cash pursuant to the terms and conditions of the Equity Transfer Framework Agreement as disclosed in the announcement of the Company dated 21 December 2018

“Adjustment”	has the meaning given to it under the section headed “Letter from the Board — (2) Warrant Subscription Agreements — (iii) Principal Terms of the Warrants” of this announcement
“Board”	the board of Directors of the Company
“Business Day”	means any day (excluding a Saturday, Sunday and any other public holidays and any day on which a tropical cyclone warning no.8 or above or a “black” rainstorm warning signal is hoisted or remains hoisted in Hong Kong (or Singapore (for the Warrant Subscription Agreement B only)) at any time between 9:00 a.m. and 12:00 noon and is not lowered or discontinued at or before 12:00 noon) on which banks are generally open for business in Hong Kong (and Singapore (for the Warrant Subscription Agreement B only))
“China Mengniu”	China Mengniu Dairy Company Limited, an exempted company incorporated in the Cayman Islands with limited liability, whose shares are listed on the Stock Exchange (Stock code: 02319)
“Closing Date”	the closing date of the Share Purchase Agreement, the completion date of the SAIC registration
“Company”	China Shengmu Organic Milk Limited (中國聖牧有機奶業有限公司), an exempted company incorporated under the laws of the Cayman Islands with limited liability on 11 December 2013 and the shares of which are listed on the Stock Exchange (Stock code:01432)
“Conditions of Warrants A”	means the conditions as set out in the section headed “Letter from the Board — (2) Warrant Subscription Agreements — (i) Warrant Subscription Agreement A — Conditions for the issue of the Tranche 1 Warrants A” and “Letter from the Board — (2) Warrant Subscription Agreements — (i) Warrant Subscription Agreement A — Conditions for the issue of the Tranche 2 Warrants A” of this announcement

“Conditions of Warrants B”	means the conditions as set out in the section headed “Letter from the Board — (2) Warrant Subscription Agreements — (ii) Warrant Subscription Agreement B — Conditions for the issue of the Tranche 1 Warrants B” and “Letter from the Board — (2) Warrant Subscription Agreements — (ii) Warrant Subscription Agreement B — Conditions for the issue of the Tranche 2 Warrants B” of this announcement
“connected person”	has the meaning ascribed to it under the Listing Rules
“Consideration Shares”	688,705,234 new Shares to be allotted and issued by the Company as part of the consideration to the Equity Transfer Framework Agreement
“Director(s)”	the director(s) of the Company
“Disposal”	the purchase of the Sale Shares by Inner Mongolia Mengniu contemplated under the Share Purchase Agreement
“EGM”	the extraordinary general meeting of the Company to be convened to consider, and if thought fit, approving the Share Purchase Agreement, the Warrant Subscription Agreements and the grant of the Specific Mandate
Equity Transfer Framework Agreement	the Equity Transfer Framework Agreement dated 21 December 2018 entered into by the Company, Shengmu High-tech, 12 individual shareholders and Inner Mongolia Shengmu Sand and Grass Industry Co., Ltd. (內蒙古聖牧沙草業有限公司) in relation to the Acquisition and issue of Consideration Shares
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China

“Huhehaote Dairy”	Huhehaote Shengmu High-tech Dairy Co., Ltd. (呼和浩特市聖牧高科乳品有限公司), a company established in the PRC with limited liabilities, a wholly-owned subsidiary of Shengmu High-tech as at the date of this announcement
“independent third party(ies)”	third party(ies) independent of and not connected with the Company and its connected persons
“Inner Mongolia Mengniu”	Inner Mongolia Mengniu Dairy (Group) Co., Ltd. (內蒙古蒙牛乳業(集團)股份有限公司), a company established in the PRC with limited liabilities, a wholly-owned subsidiary of China Mengniu as at the date of this announcement
“Investment Agreements”	the Share Purchase Agreement and the Shareholders’ Agreement
“Irrevocable Undertakings A”	the irrevocable undertakings dated 23 December 2018 given by Nong You Co., Ltd., Yao Tongshan, Zhang Jiawang, Guo Yunfeng, Wang Zhen, Sequoia Capital 2010 CGF Holdco, Ltd., Gao Lingfeng, Wang Fuzhu and Wu Jianye to China Mengniu, Inner Mongolia Mengniu, the Subscriber A and the Company in relation to the Disposal and the issue of Warrants A
“Irrevocable Undertakings B”	the irrevocable undertakings dated 23 December 2018 given by Nong You Co., Ltd., Yao Tongshan, Zhang Jiawang, Guo Yunfeng, Wang Zhen, Gao Lingfeng, Wang Fuzhu and Wu Jianye to the Company in relation to the issue of Warrants B
“Irrevocable Undertakings”	the Irrevocable Undertakings A and the Irrevocable Undertakings B
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Loan Facilities”	the RMB300 million Loan Facility and the RMB1 billion Loan Facility
“Long Stop Date of Warrants A”	31 December 2019

“Long Stop Date of Warrants B”	31 December 2019
“PRC”	the People’s Republic of China which, for the purpose of this announcement, excludes Hong Kong and the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Payment Confirmation Certificate”	the payment confirmation certificate to be issued by Inner Mongolia Mengniu in accordance with the Share Purchase Agreement
“RMB300 million Loan Facility”	the term loan facility in the aggregated amount of RMB300 million granted by Inner Mongolia Mengniu to Shengmu High-tech under the entrusted loan agreement dated 10 December 2018
“RMB1 billion Loan Facility”	the term loan facility in the aggregated amount of RMB1 billion granted by Inner Mongolia Mengniu to Shengmu High-tech under the entrusted loan agreement dated 23 December 2018
“SAIC”	the State Administration for Industry and Commerce of the PRC
“Sale Shares”	the 24.33% interest in the Target Company held by Shengmu High-tech and 26.67% interest in the Target Company held by Shengmu Holding, representing in aggregate 51% of the entire share capital of the Target Company
“Sellers”	the sellers of the Share Purchase Agreement, meaning Shengmu High-tech and Shengmu Holding
“Share(s)”	ordinary share(s) of par value HK\$0.00001 each in the issued share capital of the Company
“Shareholder(s)”	holder(s) of Share(s)

“Shareholders’ Agreement”	the shareholders’ agreement dated 23 December 2018 entered into between the Company, the Target Company, Shengmu High-tech and Inner Mongolia Mengniu in relation to the respective rights and obligations of the shareholders of the Target Company
“Share Purchase Agreement”	the share purchase agreement dated 23 December 2018 entered into between the Company, the Target Company, Shengmu Holding, Shengmu High-tech and Inner Mongolia Mengniu in relation to the purchase of the Sale Shares by Inner Mongolia Mengniu
“Shengmu High-tech”	Inner Mongolia Shengmu High-tech Farming Co., Ltd. (內蒙古聖牧高科牧業有限公司), a company established in the PRC, which is a wholly-owned subsidiary of the Company
“Shengmu Holding”	Inner Mongolia Shengmu Holding Co., Ltd. (內蒙古聖牧控股有限公司), a company established in the PRC, which is a wholly-owned subsidiary of the Company
“Specific Mandate”	the specific mandate to be sought from the shareholders at the EGM to allot and issue the Warrant Shares upon the full exercise of the Subscription Rights of each of Warrants A and Warrants B
“Subscriber A”	Start Great Holdings Limited, a company established in the British Virgin Islands with its registered office at Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, British Virgin Islands, which is a direct wholly-owned subsidiary of China Mengniu
“Subscriber B”	Greenbelt Global Limited, a company incorporated in the British Virgin Islands with limited liability

“Subscription Period of Warrants A”	the eighteen-month period commencing from the completion date of the respective Warrants A
“Subscription Period of Warrants B”	the eighteen-month period commencing from the completion date of the respective Warrants B
“Subscription Price of Warrants A”	HK\$0.33 per Warrant Share A, subject to Adjustment of Warrants A
“Subscription Price of Warrants B”	HK\$0.33 per Warrant Share B, subject to Adjustment of Warrants B
“Subscription Rights of Warrants A”	1,197,327,890 unlisted warrants conferring rights to subscribe for Warrant Shares A at the Subscription Price of Warrants A during the Subscription Period of Warrants A
“Subscription Rights of Warrants B”	140,862,105 unlisted warrants conferring rights to subscribe for Warrant Shares B at the Subscription Price of Warrants B during the Subscription Period of Warrants B
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Company”	Inner Mongolia Shengmu High-tech Dairy Co., Ltd. (內蒙古聖牧高科奶業有限公司), a company established in the PRC, which is a wholly-owned subsidiary of the Company
“Tranche 1 Warrant Shares A”	1,080,248,000 Warrant Shares to be issued by the Company upon the exercise of the Subscription Rights of Warrants A attached to Tranche 1 Warrants A
“Tranche 1 Warrant Shares B”	127,088,000 Warrant Shares to be issued by the Company upon the exercise of the Subscription Rights of Warrants B attached to Tranche 1 Warrants B
“Tranche 2 Warrant Shares A”	117,079,890 Warrant Shares to be issued by the Company upon exercise of the Subscription Rights of Warrant A attached to Tranche 2 Warrants A
“Tranche 2 Warrant Shares B”	13,774,105 Warrant Shares to be issued by the Company upon exercise of the Subscription Rights of Warrants B attached to Tranche 2 Warrants B

“Warrant(s) A”	means an aggregate of 1,197,327,890 unlisted warrants conferring rights to subscribe for up to 1,197,327,890 Warrant Shares A at the Subscription Price of Warrants A (subject to Adjustment of Warrants A), at any time during the Subscription Period of Warrants A
“Warrant(s) B”	means an aggregate of 140,862,105 unlisted warrants conferring rights to subscribe for up to 140,862,105 Warrant Shares B at the Subscription Price of Warrants B (subject to Adjustment of Warrants B), at any time during the Subscription Period of Warrants B
“Warrant(s)”	the Warrant(s) A and the Warrant(s) B
“Warrant Certificate(s)”	means certificate(s) issued by the Company evidencing the title of the Warrant(s) A or Warrant(s) B, respectively
“Warrant Holder(s)”	in relation to any Warrant, the person which is for the time being registered in the register of warrant holders of the Company as the holder or joint holders of such Warrant
“Warrant Share(s) A”	the new Shares to be issued by the Company upon the exercise of the Subscription Rights of the Warrants A
“Warrant Share(s) B”	the new Shares to be issued by the Company upon the exercise of the Subscription Rights of the Warrants B
“Warrant Share(s)”	the Warrant Share(s) A and the Warrant Share(s) B
“Warrant Subscription Agreement A”	the warrant subscription agreement dated 23 December 2018 entered into between the Company and the Subscriber A including the warrant instrument in relation to the terms of the Warrants A, pursuant to which the Subscriber A has agreed to subscribe for, and the Company has agreed to issue, the Warrants A

“Warrant Subscription Agreement B”

the warrant subscription agreement dated 23 December 2018 entered into between the Company and the Subscriber B including warrant instrument in relation to the terms of the Warrants B, pursuant to which the Subscriber B has agreed to subscribe for, and the Company has agreed to issue, the Warrants B

“Warrant Subscription Agreements”

the Warrant Subscription Agreement A and the Warrant Subscription Agreement B

“%”

per cent

For the purposes of this announcement, the exchange rate of HK\$1.00 to RMB0.87932 has been used, where appropriate, for the purposes of illustration only and does not constitute a representation that any amount has been, could have been or may be exchanged at the above rate or at any other rates or at all.

By Order of the Board of Directors
China Shengmu Organic Milk Limited
Shao Genhuo
Chairman

Hong Kong, 24 December 2018

As at the date of this announcement, the executive directors of the Company are Mr. Yao Tongshan, Mr. Wu Jianye and Mr. Wang Yuehua; and the non-executive directors of the Company are Mr. Shao Genhuo, Mr. Wen Yongping and Mr. Sun Qian; and the independent non-executive directors of the Company are Mr. Fu Wenge, Mr. Wang Liyan and Mr. Li Xuan.