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CHINA SHENGMU ORGANIC MILK LIMITED

中國聖牧有機奶業有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1432)

CONTINUING CONNECTED TRANSACTIONS

Raw Fresh Milk Supply Framework Agreement and Financial Assistance Framework Agreement

THE FRAMEWORK AGREEMENTS

The Company announces that, (i) on 30 December 2019, Shengmu High-tech (for itself and on behalf of the Group) entered into the Raw Fresh Milk Supply Framework Agreement with Inner Mongolia Mengniu (for itself and on behalf of the China Mengniu Group) in relation to the sale of raw fresh milk from the Group for a term of three years commencing from 1 January 2020 to 31 December 2022; and (ii) on 30 December 2019, Shengmu High-tech (for itself and on behalf of the Group) entered into the Financial Assistance Framework Agreement with Inner Mongolia Mengniu (for itself and on behalf of the China Mengniu Group) in relation to the provision of entrusted loan for a term of three years commencing from 1 January 2020 to 31 December 2022.

IMPLICATIONS UNDER THE LISTING RULES

As at the date of this announcement, Shengmu High-tech is an indirectly wholly-owned subsidiary of the Group and Inner Mongolia Mengniu is a wholly-owned subsidiary of China Mengniu.

As at the date of this announcement, to the best of the Director's knowledge, information and belief having made all reasonable enquiry, Subscriber A (a direct wholly-owned subsidiary of China Mengniu) held 4.25% equity interest in the Company. Upon full exercise of the Subscription Rights of Warrants A attached to Tranche 1 Warrants A, China Mengniu shall hold approximately 18.16% equity interest in the Company through Subscriber A and shall become a substantial shareholder of the Company. As a result, China Mengniu will be a connected person of the Company and Inner Mongolia Mengniu will therefore be an associate of China Mengniu and also a connected person of the Company. As at the date of this announcement, completion of Tranche 1 Warrants A has already taken place, the Company cannot control the timing as to when Subscriber A will exercise (in part or in full) the Subscription Rights of Warrants A attached to Tranche 1 Warrants A.

Assuming Subscriber A exercises (in part or in full) the Subscription Rights of Warrants A attached to Tranche 1 Warrants A and Inner Mongolia Mengniu becomes a connected person of the Company, the entering into of each of the Framework Agreements and the transactions contemplated thereunder constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the applicable percentage ratios under the Listing Rules in respect of the highest proposed annual caps under each of the Framework Agreements exceed 5%, the entering into of each of the Framework Agreements and the transactions contemplated thereunder are therefore subject to the reporting, announcement and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. The Company intends to comply with the requirements under Chapter 14A of the Listing Rules in advance assuming Subscriber A exercises (in part or in full) the Subscription Rights of Warrants A attached to Tranche 1 Warrants A and Inner Mongolia Mengniu becomes a connected person of the Company.

GENERAL

The Independent Financial Advisor has been appointed to advise the Independent Board Committee and the independent Shareholders, and the Independent Board Committee has been established to advise the independent Shareholders in respect of the transactions under each of the Framework Agreements.

A circular containing, among other things, (1) details of each of the Framework Agreements and the proposed annual caps; (2) a letter of advice from the Independent Financial Advisor to the Independent Board Committee and independent Shareholders in relation to each of the Framework Agreements and the proposed annual caps; (3) the recommendation of the Independent Board Committee in relation to each of the Framework Agreements and the proposed annual caps, and (4) the notice convening the EGM to approve, among other things, the entering into of each of the Framework Agreements and the proposed annual caps, will be dispatched to the Shareholders in accordance with the Listing Rules on or before 31 January 2020, so that the Company could have sufficient time to prepare information for inclusion in the circular.

The Company announces that, (i) on 30 December 2019, Shengmu High-tech (for itself and on behalf of the Group) entered into the Raw Fresh Milk Supply Framework Agreement with Inner Mongolia Mengniu (for itself and on behalf of the China Mengniu Group) in relation to the sale of raw fresh milk from the Group for a term of three years commencing from 1 January 2020 to 31 December 2022; and (ii) on 30 December 2019, Shengmu High-tech (for itself and on behalf of the Group) entered into the Financial Assistance Framework Agreement with Inner Mongolia Mengniu (for itself and on behalf of the China Mengniu Group) in relation to the provision of entrusted loan for a term of three years commencing from 1 January 2020 to 31 December 2022.

THE FRAMEWORK AGREEMENTS AND TRANSACTIONS

The Raw Fresh Milk Supply Framework Agreement

Principal Terms

The principal terms of the Raw Fresh Milk Supply Framework Agreement are summarised as follows:

Date:	30 December 2019
Parties:	Shengmu High-tech (for itself and on behalf of the Group) and Inner Mongolia Mengniu (for itself and on behalf of the China Mengniu Group)
Term:	From 1 January 2020 to 31 December 2022

Principal terms:

The Group shall sell raw fresh milk which meets China Mengniu Group's purchasing standard and quality requirements to China Mengniu Group on a daily basis in accordance with the monthly milk supply plan. The specific amount to be purchased shall be subject to the amount as confirmed by the Group and China Mengniu Group. The daily delivery amount is determined by the amount as weighted by China Mengniu Group.

Purchase price and other terms:

The purchase price of raw fresh milk shall be determined and adjusted in accordance with market conditions and seasonal factors.

The final purchase price of raw fresh milk varies in accordance with the quality grade as agreed between the Group and China Mengniu Group.

Quality of milk supplied by the Group shall comply with the standards set by the government and the requirements of China Mengniu Group. China Mengniu Group shall purchase all raw fresh milk produced by the Group which meets such standards. The Group shall ensure that at least 80% of the raw fresh milk it produces will be sold to the China Mengniu Group.

During the contract period, if the rating of the quality grade of the raw fresh milk from the Group changes, the purchase price shall be calculated in accordance with the latest rating.

The Group shall be responsible for delivering raw fresh milk to the places designated by China Mengniu Group. If the Group is unable to deliver milk punctually, China Mengniu Group shall be notified at least 24 hours prior to the scheduled delivery and the Group shall bear losses suffered by China Mengniu Group.

Payment terms: China Mengniu Group shall pay monthly in accordance with purchase amount of raw fresh milk, payment for raw fresh milk purchased last month shall be settled by the end of the current month. The specific payment date shall be before the 30th calendar day of each month (the 28th day for February).

Amendment and termination: Any amendment to or the termination of the Raw Fresh Milk Supply Framework Agreement shall be made in writing by the parties.

Reasons for and Benefits of Entering into the Raw Fresh Milk Supply Framework Agreement

As one of the leading dairy product manufacturers in the PRC, China Mengniu Group is equipped with a strong management team and a solid Chinese dairy product distribution network, and therefore has a stable sales income and demand for raw fresh milk. The Company believes that the raw fresh milk supply relationship with China Mengniu Group will help to stabilise the price and sales volume of raw fresh milk and generate stable income and cash flow for the Company, and therefore continue to bring value to the Shareholders of the Company.

The dairy farms of the Company are mainly located in the regions of Hohhot and Bayannur, and China Mengniu Group has sufficient raw fresh milk processing capacity in these regions. The supply relationship with China Mengniu Group will be beneficial to the Company because of the coordinated advantages in lower transportation costs.

In order to achieve the target of coordinated development for the dairy business of the Company, the Company entered into a share purchase agreement (the “**Share Purchase Agreement**”) with Inner Mongolia Mengniu on 23 December 2018 to sell 51% of its interest in Inner Mongolia Shengmu High-tech Dairy Co., Ltd (the “**Joint Venture Company**”), which comprised all of the Company’s downstream dairy business chain and related assets. The completion of the Share Purchase Agreement took place on 20 May 2019. According to the Share Purchase Agreement, the Company shall sign a priority supply agreement with the Joint Venture Company and the Company shall provide raw milk to the Joint Venture Company with priority under the same conditions. The downstream business will benefit from the advantage of China Mengniu Group in branding and distribution network, which in turn will enhance the development of the upstream dairy business and be beneficial to the long term sustainable development of the Company.

Historical Transaction Amount

The raw fresh milk sold by the Group to China Mengniu Group for the three years ended 31 December 2016, 2017 and 2018 and the nine months ended 30 September 2019 amounted to RMB809,749,300, RMB827,333,900, RMB1,233,911,700 and RMB1,742,634,700, respectively.

Proposed Annual Caps

The Directors propose that the total annual sale amount by the Group to China Mengniu Group under the Raw Fresh Milk Supply Framework Agreement shall not exceed RMB3,300 million, RMB3,700 million and RMB4,200 million for the three years ending 31 December 2020, 2021 and 2022, respectively.

In determining such annual caps, the Directors have considered the following factors:

- (a) the expected increase in sales volume of raw fresh milk to China Mengniu Group;
- (b) the potential increase of price of dairy products in China;
- (c) the historical and prevailing purchase price for raw fresh milk paid by China Mengniu Group;
- (d) the historical transaction amount of raw fresh milk sold by the Group to China Mengniu Group for the three years ended 31 December 2016, 2017 and 2018 and the nine months ended 30 September 2019 respectively, as mentioned above; and
- (e) the expected number of milkable cows of the Group for the three years ending 31 December 2020, 2021 and 2022.

The Financial Assistance Framework Agreement

Principal Terms

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

Date:	30 December 2019
Parties:	Shengmu High-tech (for itself and on behalf of the Group) and Inner Mongolia Mengniu (for itself and on behalf of the China Mengniu Group)

Term:	From 1 January 2020 to 31 December 2022
Provision of entrusted loans:	China Mengniu Group shall provide entrusted loans to the Group on normal commercial terms based on the requests of the Group from time to time.
Security:	The Group agrees to provide security to China Mengniu Group for the entrusted loan and the scope of security may include biological assets and the equity interests of the joint venture pasture companies.
Amendment and termination:	Any amendment to or the termination of the Financial Assistance Framework Agreement shall be made in writing by the parties.

Reasons for and Benefits of Entering into the Financial Assistance Framework Agreement

China Mengniu Group is an important business partner of the Group and has a strong capital base and financing capabilities. The financial assistance provided by China Mengniu Group to the Group will lower the overall financial risk of the Group.

Historical Transaction Amount

The financial assistance provided by China Mengniu Group to the Group for the three years ended 31 December 2016, 2017 and 2018 and the nine months ended 30 September 2019 amounted nil, nil, RMB1,300,000,000 and RMB1,160,000,000 respectively.

Proposed Annual Caps

The Directors propose that the maximum daily balance of entrusted loan provided by the China Mengniu Group to the Group under the Financial Assistance Framework Agreement shall not exceed RMB1,600 million for each of the three years ending 31 December 2020, 2021 and 2022.

In determining such annual caps, the Directors have considered the maximum daily balance of financial assistance provided by the China Mengniu Group to the Group through entrusted loan for the three years ended 31 December 2016, 2017 and 2018 and the nine months ended 30 September 2019 respectively, as mentioned above.

IMPLICATIONS UNDER THE LISTING RULES

As at the date of this announcement, Shengmu High-tech is an indirectly wholly-owned subsidiary of the Group and Inner Mongolia Mengniu is a wholly-owned subsidiary of China Mengniu.

As at the date of this announcement, to the best of the Directors' knowledge, information and belief having made all reasonable enquiry, Subscriber A (a direct wholly-owned subsidiary of China Mengniu) held 4.25% equity interest in the Company. Upon full exercise of the Subscription Rights of Warrants A attached to Tranche 1 Warrants A, China Mengniu shall hold approximately 18.16% equity interest in the Company through Subscriber A and shall become a substantial shareholder of the Company. As a result, China Mengniu will be a connected person of the Company and Inner Mongolia Mengniu will therefore be an associate of China Mengniu and also a connected person of the Company. As at the date of this announcement, completion of Tranche 1 Warrants A has already taken place, the Company cannot control the timing as to when Subscriber A will exercise (in part or in full) the Subscription Rights of Warrants A attached to Tranche 1 Warrants A.

Assuming Subscriber A exercises (in part or in full) the Subscription Rights of Warrants A attached to Tranche 1 Warrants A and Inner Mongolia Mengniu becomes a connected person of the Company, the entering into of each of the Framework Agreements and the transactions contemplated thereunder constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the applicable percentage ratios under the Listing Rules in respect of the highest proposed annual caps under each of the Framework Agreements exceed 5%, the entering into of each of the Framework Agreements and the transactions contemplated thereunder are therefore subject to the reporting, announcement and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. The Company intends to comply with the requirements under Chapter 14A of the Listing Rules in advance assuming Subscriber A exercises (in part or in full) the Subscription Rights of Warrants A attached to Tranche 1 Warrants A and Inner Mongolia Mengniu becomes a connected person of the Company.

Mr. Wen Yongping, a non-executive Director, is also a vice president of China Mengniu, and he abstained from voting on the resolutions of the Directors approving each of the Framework Agreements and the transactions contemplated under such agreements. Other than Mr. Wen Yongping, no Director is materially interested in the transactions contemplated under each of the Framework Agreements and is required to abstain from voting on the resolutions of the Directors to approve each of the Framework Agreements and the transactions contemplated under such agreements.

In light of the factors mentioned above, the Directors (excluding the independent non-executive Directors) are of the view that the continuing connected transactions under each of the Framework Agreements are entered into on normal commercial terms after arm's length negotiations in the ordinary course of business, are in the interests of the Company and the Shareholders as a whole, and that each of the proposed annual caps and terms of the Framework Agreements are fair and reasonable.

The opinions of the independent non-executive Directors in respect of each of the Framework Agreements, the transactions contemplated under such agreements and the proposed annual caps for such transactions for the three years ending 31 December 2020, 2021 and 2022 will be formed after taking into account the advice to be provided by the Independent Financial Adviser, which will be set out in the circular to be dispatched to the Shareholders on or before 31 January 2020.

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 an indirectly wholly-owned subsidiary of the Group. It 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 Group 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.

OTHERS

The Independent Financial Advisor has been appointed to advise the Independent Board Committee and the independent Shareholders, and the Independent Board Committee has been established to advise the independent Shareholders in respect of the each of the Framework Agreements, the transactions contemplated under such agreements and the proposed annual caps for such transactions for the three years ending 31 December 2020, 2021 and 2022.

A circular containing, among other things, (1) details of each of the Framework Agreements and the transactions contemplated under such agreements; (2) a letter of advice from the Independent Financial Advisor to the Independent Board Committee and independent Shareholders in relation to each of the Framework Agreements and the transactions contemplated under such agreements; (3) the recommendation of the Independent Board Committee in relation to each of the Framework Agreements and

the transactions contemplated under such agreements, and (4) the notice convening the EGM, will be dispatched to the Shareholders in accordance with the Listing Rules on or before 31 January 2020, so that the Company would have sufficient time to prepare information for inclusion in the circular.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms shall have the following meanings:

“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 the circular of the Company dated 7 January 2019 in relation to, among other things, the Warrant Subscription Agreement A entered into by the Company with the Subscriber A
“Board”	the board of Directors
“China Mengniu”	China Mengniu Dairy Company Limited (中國蒙牛乳業有限公司), a company incorporated in Cayman Islands with limited liability, the shares of which are listed on the Stock Exchange (stock code: 2319)
“China Mengniu Group”	China Mengniu and its subsidiaries from time to time
“Company”	China Shengmu Organic Milk Limited (中國聖牧有機奶業有限公司), a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Stock Exchange (stock code: 1432)
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be convened for the purpose of considering and, if thought fit, approving, among other things, the Raw Fresh Milk Supply Framework Agreement and the transactions contemplated under such agreement

“Financial Assistance Framework Agreement”	the financial assistance framework agreement dated 30 December 2019, entered into between Shengmu High-tech and Inner Mongolia Mengniu, in relation to the provision of entrusted loans by the China Mengniu Group to the Group for a three-year term from 1 January 2020 to 31 December 2022
“Framework Agreements”	the Raw Fresh Milk Supply Framework Agreement and the Financial Assistance Framework Agreement
“Group”	the Company and its subsidiaries from time to time
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	a committee of the Board comprising all the independent non-executive Directors, namely, Mr. Fu Wenge, Mr. Wang Liyan and Mr. Li Xuan
“Independent Financial Advisor”	Somerley Capital Limited (新百利融資有限公司), a corporation licensed by the Securities and Futures Commission to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance, who is appointed to advise the Independent Board Committee and the independent Shareholders in respect of each of the Framework Agreements and the transactions contemplated under such agreements
“Inner Mongolia Mengniu”	Inner Mongolia Mengniu Dairy (Group) Company Limited (內蒙古蒙牛乳業(集團)股份有限公司), a company established in the PRC with limited liability and a wholly-owned subsidiary of China Mengniu as at the date of this announcement
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“PRC”	the People’s Republic of China and for the purpose of this announcement, does not include Hong Kong, Macao Special Administrative Region and Taiwan

“Raw Fresh Milk Supply Framework Agreement”	the raw fresh milk supply framework agreement dated 30 December 2019, entered into between Shengmu High-tech and Inner Mongolia Mengniu, in relation to the purchase of raw fresh milk by Inner Mongolia Mengniu from Shengmu High-tech for a three-year term from 1 January 2020 to 31 December 2022
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholder(s)”	holder(s) of the Shares
“Shares”	ordinary share(s) of par value HK\$0.00001 each in the issued share capital of the Company
“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 incorporated in the PRC and an indirectly wholly-owned subsidiary of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“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
“Subscription Period of Warrants A”	the eighteen-month period commencing from the completion date of the respective Warrants A
“Subscription Price of Warrants A”	HK\$0.33 per Warrant Share A, subject to Adjustment of Warrants A
“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
“substantial shareholder”	has the meaning ascribed to it under the Listing Rules

“Tranche 1 Warrants A”	means tranche 1 of Warrants A in relation to 1,080,248,000 Warrant Shares A to be issued by the Company upon the exercise of the Subscription Rights of Warrants A attached to Tranche 1 Warrants A
“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, in accordance with the terms of the Warrant Subscription Agreement A
“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 Subscription Agreement A”	the warrant subscription agreement dated 23 December 2018, entered into between the Company and 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

Translated English names of Chinese natural persons, legal persons or other entities for which no official English translation exist are unofficial translation for identification purpose only.

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

Hong Kong, 30 December 2019

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