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CHINA SHENGMU ORGANIC MILK LIMITED

中國聖牧有機奶業有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1432)

CONTINUING CONNECTED TRANSACTION

Materials Supply Framework Agreement

MATERIALS SUPPLY FRAMEWORK AGREEMENT

The Company announces that, on 5 August 2020, Shengmu High-tech (a wholly-owned subsidiary of the Company) entered into the Materials Supply Framework Agreement with Aiyangniu Technology in relation to the supply of materials by Aiyangniu Technology to Shengmu High-tech for a term of three years commencing from 5 August 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 Company; and approximately 73.66% equity interest in Aiyangniu Technology is held by Inner Mongolia Mengniu, which in turn is a wholly-owned subsidiary of China Mengniu. As at the date of this announcement, China Mengniu indirectly holds approximately 17.80% equity interest in the Company and hence is a substantial shareholder of the Company. As a result, China Mengniu is a connected person of the Company, Aiyangniu Technology is an associate of China Mengniu and therefore also a connected person of the Company. Accordingly, the entering into of the Materials Supply Framework Agreement 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 the Materials Supply Framework Agreement exceed 0.1% but all are less than 5%, the entering into of the Materials Supply Framework Agreement and the transactions contemplated thereunder are subject to the reporting and announcement requirements but are exempt from the independent Shareholders' approval requirement under the Listing Rules.

The Company announces that, on 5 August 2020, Shengmu High-tech (a wholly-owned subsidiary of the Company) entered into the Materials Supply Framework Agreement with Aiyangniu Technology in relation to the supply of materials by Aiyangniu Technology to Shengmu High-tech for a term of three years commencing from 5 August 2020 to 31 December 2022.

MATERIALS SUPPLY FRAMEWORK AGREEMENT

Principal Terms

The principal terms of the Materials Supply Framework Agreement are summarised as follows:

Date:	5 August 2020
Parties:	Shengmu High-tech and Aiyangniu Technology
Term:	From 5 August 2020 to 31 December 2022
Subject:	Aiyangniu Technology shall sell materials (including but not limited to feed, veterinary medicines and dipping liquid for cows) which meet Shengmu High-tech's purchasing standard to Shengmu High-tech. The purchase amount shall be specified by Shengmu High-tech based on its actual needs in each purchase order to be placed with Aiyangniu Technology.
Purchase price:	The purchase price of the materials to be procured under the Materials Supply Framework Agreement shall be determined based on the current market price. Shengmu High-tech will compare quotes of similar materials from at least two other third party suppliers to ascertain the market price and ensure that the purchase price of the materials to be procured under the Materials Supply Framework Agreement will not be higher than the quotes provided by third party suppliers.

Delivery: Aiyangniu shall be responsible for providing appropriate packaging to the materials and delivering the materials to the places designated by Shengmu High-tech.

Payment terms: Aiyangniu Technology shall issue invoice to Shengmu High-tech within seven days after Shengmu High-tech confirms the quantity and quality of the materials supplied by Aiyangniu Technology. Shengmu High-tech shall then confirm the amount stated in the invoice within seven days of receipt and arrange payment by six-month banker's acceptance within 30 days after such confirmation. If Shengmu High-tech fails to arrange payment within the 30-day period, Aiyangniu Technology shall issue a late payment reminder to Shengmu High-tech. If Shengmu High-tech delays the payment for more than 15 days after the 30-day period, Aiyangniu Technology shall have the right to send notice to Inner Mongolia Mengniu and its subsidiaries to deduct the late payment amount from the payment for raw fresh milk due and payable by Inner Mongolia Mengniu and its subsidiaries to Shengmu High-tech.

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

Reasons for and Benefits of Entering into the Materials Supply Framework Agreement

Aiyangniu Technology operates the Aiyangniu Platform which integrates the resources from more than 1,000 suppliers for the leading market players in the dairy farming industry in the PRC and is able to lower the purchase price of certain materials through centralised procurement. The Aiyangniu Platform has a transparent purchase price quotation system for the dairy farms to make their procurement decision. The Aiyangniu Platform also consolidates the market information in relation to the materials commonly used by the dairy farms and shares such information with its business partners. Through the cooperation with Aiyangniu Technology, the Group will be able to closely follow the market trend of materials that it frequently uses and lower its procurement costs.

The Aiyangniu Platform has a stringent selection and quality control mechanism of suppliers. The Aiyangniu Platform supervises the whole delivery process of the materials from the suppliers to the dairy farms to ensure that the materials can meet the quality standard set by the dairy farms. The Aiyangniu Platform also regularly adjusts its list of suppliers based on the quality control performance of the suppliers. The Group believes that the cooperation with Aiyangniu Technology can ensure the quality and safety of materials supplied to the Group which are essential to the production of high quality raw milk by the Group.

Historical Transaction Amount

The Group commenced the procurement relationship with Aiyangniu Technology in 2019. The materials sold by Aiyangniu Technology to the Group for the year ended 31 December 2019 and the seven months ended 31 July 2020 amounted to RMB62,592,424 and RMB63,899,519, respectively.

Proposed Annual Caps

The Directors propose that the total annual purchase amount by Shengmu High-tech from Aiyangniu Technology under the Materials Supply Framework Agreement shall not exceed RMB30 million, RMB30 million and RMB30 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 number of cows of the Group for the three years ending 31 December 2020, 2021 and 2022, respectively;
- (b) the historical purchase price of similar materials paid by the Group to Aiyangniu Technology and other suppliers;
- (c) the historical volume of similar materials purchased by the Group from Aiyangniu Technology and other suppliers; and
- (d) the Group's target of diversifying the choices of suppliers. Given the continuous improvement of cashflow of the Group recently, the Group is able to procure similar materials from other suppliers with lower prices but shorter payment term when comparing to those offered by Aiyangniu Technology; while the Group will continue to procure materials from Aiyangniu Technology but will focus on the types of materials that Aiyangniu Technology can offer competitive pricing when comparing to other suppliers.

IMPLICATIONS UNDER THE LISTING RULES

As at the date of this announcement, Shengmu High-tech is an indirectly wholly-owned subsidiary of the Company and approximately 73.66% of equity interests in Aiyangniu Technology is held by Inner Mongolia Mengniu, which in turn is wholly-owned by China Mengniu. As at the date of this announcement, China Mengniu indirectly holds approximately 17.80% equity interests in the Company and hence is a substantial shareholder of the Company. As a result, China Mengniu is a connected person of the Company, Aiyangniu Technology is an associate of China Mengniu and therefore also a connected person of the Company. Accordingly, the entering into of the Materials Supply Framework Agreement 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 the Materials Supply Framework Agreement exceed 0.1% but all are less than 5%, the entering into of the Materials Supply Framework Agreement and the transactions contemplated thereunder are subject to the reporting and announcement requirements but are exempt from the independent Shareholders' approval requirement under the Listing Rules.

Mr. Zhao Jiejun, a non-executive Director, is also a vice president and the general manager of milk sources and group supply chain of Inner Mongolia Mengniu and the chairman of the board of directors of Aiyangniu Technology. Mr. Zhao abstained from voting on the resolutions of the Directors approving the Materials Supply Framework Agreement and the transactions contemplated thereunder. Other than Mr. Zhao, no Director is materially interested in the transactions contemplated under the Materials Supply Framework Agreement and is required to abstain from voting on the resolutions of the Directors to approve the Materials Supply Framework Agreement and the transactions contemplated thereunder.

In light of the factors mentioned above, the Directors (including the independent non-executive Directors) are of the view that the continuing connected transactions under the Materials Supply Framework Agreement 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 the terms of the Materials Supply Framework Agreement and the proposed annual caps are fair and reasonable.

INFORMATION ON THE PARTIES

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

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

Aiyangniu Technology is principally engaged in the operation of the Aiyangniu Platform.

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.

DEFINITIONS

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

“Aiyangniu Platform”	the Aiyangniu online procurement platform of materials for the dairy farming industry operated by Aiyangniu Technology
“Aiyangniu Technology”	Inner Mongolia Aiyangniu Technology Co., Ltd. (內蒙古愛養牛科技有限公司), a company incorporated in the PRC with limited liability
“associate”	has the meaning ascribed to it under the Listing Rules
“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
“Group”	the Company and its subsidiaries from time to time
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“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 incorporated in the PRC with limited liability and a wholly-owned subsidiary of China Mengniu
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Materials Supply Framework Agreement”	the materials supply framework agreement dated 5 August 2020, entered into between Shengmu High-tech and Aiyangniu Technology, in relation to the supply of materials by Aiyangniu Technology to Shengmu High-tech for a three-year term from 5 August 2020 to 31 December 2022
“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
“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

“substantial shareholder” has the meaning ascribed to it under the Listing Rules

“%” per cent. or percentage

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

Hong Kong, 5 August 2020

As at the date of this announcement, the executive directors of the Company are Mr. Yao Tongshan and Mr. Zhang Jiawang; the non-executive directors of the Company are Mr. Shao Genhuo, Mr. Zhao Jiejun, Mr. Sun Qian and Mr. Lu Boxiang; and the independent non-executive directors of the Company are Mr. Fu Wenge, Mr. Wang Liyan and Mr. Li Xuan.