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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)**

### **RENEWAL OF CONTINUING CONNECTED TRANSACTION**

#### **Fuyuan International Bulk Raw Materials Supply Framework Agreement**

##### **FUYUAN INTERNATIONAL BULK RAW MATERIALS SUPPLY FRAMEWORK AGREEMENT**

The Company announces that on 24 November 2022, Shengmu High-tech (for itself and on behalf of its subsidiaries), an indirect wholly-owned subsidiary of the Company, entered into the Fuyuan International Bulk Raw Materials Supply Framework Agreement with Fuyuan International (for itself and on behalf of its subsidiaries) in relation to the supply of raw materials by Fuyuan International Group to the Group for a term of three years commencing from 1 January 2023 to 31 December 2025.

##### **LISTING RULES IMPLICATIONS**

As at the date of this announcement, Shengmu High-tech is an indirect wholly-owned subsidiary of the Company. Fuyuan International is a non-wholly owned subsidiary of China Modern Dairy, which is in turn a 30%-controlled company of China Mengniu. Accordingly, Fuyuan International is an associate 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, China Mengniu holds 100% equity interest in Start Great, which in turn holds approximately 29.99% equity interest in the Company. Accordingly, each of Start Great, China Mengniu, China Modern Dairy and Fuyuan International is a connected person of the Company.

As the applicable percentage ratios under the Listing Rules in respect of the highest proposed annual cap under the Fuyuan International Bulk Raw Materials Supply Framework Agreement exceed 0.1% but all are less than 5%, the entering into of the Fuyuan International Bulk Raw 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.

Reference is made to the announcement of the Company dated 22 November 2020 in relation to, among other things, the materials supply framework agreement dated 21 November 2020 and entered into between Shengmu High-tech and Fuyuan International (for itself and on behalf of its subsidiaries) in relation to the supply of materials by Fuyuan International Group to Shengmu High-tech from 21 November 2020 to 31 December 2022.

The Company announces that on 24 November 2022, Shengmu High-tech (for itself and on behalf of its subsidiaries), an indirect wholly-owned subsidiary of the Company, entered into the Fuyuan International Bulk Raw Materials Supply Framework Agreement with Fuyuan International (for itself and on behalf of its subsidiaries) in relation to the supply of raw materials by Fuyuan International Group to the Group for a term of three years commencing from 1 January 2023 to 31 December 2025.

## **FUYUAN INTERNATIONAL BULK RAW MATERIALS SUPPLY FRAMEWORK AGREEMENT**

### ***Principal Terms***

The principal terms of the Fuyuan International Bulk Raw Materials Supply Framework Agreement are summarised as follows:

Date:	24 November 2022
Parties:	Shengmu High-tech (for itself and on behalf of its subsidiaries) and Fuyuan International (for itself and on behalf of its subsidiaries)
Term:	From 1 January 2023 to 31 December 2025

Subject: Fuyuan International Group shall sell raw materials (including but not limited to maize, soybean meals, coarse fodder and feed additives, etc.) which meet the Group’s purchasing standard to the Group. The purchase amount shall be specified by the Group in each purchase order to be placed with Fuyuan International Group based on the Group’s actual needs.

Purchase price and pricing mechanism: The purchase price of the raw materials to be procured under the Fuyuan International Bulk Raw Materials Supply Framework Agreement shall be determined based on the current market price. Shengmu High-tech will compare quotes of similar raw materials from at least two other independent third party suppliers to evaluate the fairness of the relevant market price and ensure that the purchase price of the raw materials to be procured under the Fuyuan International Bulk Raw Materials Supply Framework Agreement does not exceed the quotes provided by other independent third party suppliers. If the price of the product supplied by Fuyuan International Group in the same period is higher than the market price of the product or the price quoted by Fuyuan International to an independent third party, Shengmu High-tech shall have the right to adjust the price of an executed order, and Fuyuan International agrees that Shengmu High-tech may deduct the difference from the payment due to Fuyuan International.

The aforesaid adjustment mechanism is put in place to ensure that the price and terms of the provision of products by Fuyuan International Group to the Group are no less favorable than those offered by other independent third party suppliers.

Shengmu High-tech will review the price, quality and safety of the products from time to time to ensure that the products are in line with the Group’s stringent standards and beneficial to the wellbeing of the Group’s dairy cows, as well as to ensure that the transaction terms are fair and reasonable.

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

Payment terms: Fuyuan International Group shall issue invoice to Shengmu High-tech within seven days after delivery of the raw materials. Shengmu High-tech shall enter the invoice into its ledger within seven days of receipt and arrange payment within 30 days thereafter. Permitted payment methods include bank transfer, banker's acceptance bill and trade acceptance bill. Any delay in payment by Shengmu High-tech will be subject to a penalty amount calculated at the demand deposit interest rate for the same period, provided the total penalty shall not exceed 1% of the payment due.

### ***Reasons for and Benefits of Entering into the Fuyuan International Bulk Raw Materials Supply Framework Agreement***

Fuyuan International Group is a large-scale and reputable supplier of raw materials which possesses independent agency sales rights of certain types of feed. Fuyuan International Group is able to meet the Group's requirements in terms of variety, high quality and safety of raw materials for dairy farming and has established convenient transportation arrangements with the Group. The Group believes that the cooperation with Fuyuan International Group can ensure that high quality and safe raw materials are supplied to the Group, which are essential to the production of high quality and fresh raw milk by the Group.

### ***Historical Transaction Amounts***

The Group commenced the procurement relationship with Fuyuan International Group in 2015. The raw materials sold by Fuyuan International Group to the Group for the three years ended 31 December 2019, 2020 and 2021 and the nine months ended 30 September 2022 amounted to RMB51,269,147, RMB30,410,151, RMB19,866,184 and RMB7,021,606, respectively.

### ***Proposed Annual Caps***

The Directors propose that the total annual purchase amount by the Group from Fuyuan International Group under the Fuyuan International Bulk Raw Materials Supply Framework Agreement shall not exceed RMB30 million for each of the three years ending 31 December 2023, 2024 and 2025, 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 2023, 2024 and 2025, respectively, taking into account anticipated purchases and improvement in dairy cow breeding capacity, etc.;
- (b) the historical purchase price of similar raw materials paid by the Group to Fuyuan International Group and other suppliers;
- (c) the historical volume of similar raw materials purchased by the Group from Fuyuan International Group and other suppliers; and
- (d) the Group's initiative to diversify its supply channels.

The Company has also implemented internal control procedures and policies led by the Group's compliance team to monitor connected transactions with an emphasis on, among others, (1) maintenance of a list of connected persons and connected transactions; (2) identifying connected transactions with the assistance of various departments and external legal advisors; (3) analysis on aggregating connected transactions and managing any aggregated transaction amounts; and (4) monitoring utilization of annual caps of continuing connected transactions on a monthly basis.

The Group's compliance team will conduct an annual review to verify if the continuing connected transactions are conducted in compliance with the terms of the Fuyuan International Bulk Raw Materials Supply Framework Agreement and Chapter 14A of the Listing Rules. The compliance team will prepare and submit a report of its findings to the management and Audit Committee of the Company.

The Group's external auditors and independent non-executive Directors shall conduct an annual review and confirm whether the transactions have been entered into in accordance with the terms of the Fuyuan International Bulk Raw Materials Supply Framework Agreement in the Company's annual report in accordance with the Listing Rules.

## LISTING RULES IMPLICATIONS

As at the date of this announcement, Shengmu High-tech is an indirect wholly-owned subsidiary of the Company. Fuyuan International is a non-wholly owned subsidiary of China Modern Dairy, which is in turn a 30%-controlled company of China Mengniu. Accordingly, Fuyuan International is an associate 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, China Mengniu holds 100% equity interest in Start Great, which in turn holds approximately 29.99% equity interest in the Company. Accordingly, each of Start Great, China Mengniu, China Modern Dairy and Fuyuan International is a connected person of the Company.

The transactions under each of the Fuyuan International Bulk Raw Materials Supply Framework Agreement and the Raw Fresh Milk Supply Framework Agreement (as defined in the announcement of the Company dated 17 November 2022) are separate and independent from each other as (a) members of the Group are purchasers under the Fuyuan International Bulk Raw Materials Supply Framework Agreement, whilst members of the Group are sellers under the Raw Fresh Milk Supply Framework Agreement; (b) the products under the respective agreements are of different nature; (c) the subject matters under the two agreements are different in terms of usage, pricing bases and functional properties. Accordingly, the Directors are of the view that the transactions contemplated under each of the Fuyuan International Bulk Raw Materials Supply Framework Agreement and the Raw Fresh Milk Supply Framework Agreement should not be aggregated for the purpose of the Listing Rules.

As the applicable percentage ratios under the Listing Rules in respect of the highest proposed annual cap under the Fuyuan International Bulk Raw Materials Supply Framework Agreement exceed 0.1% but all are less than 5%, the entering into of the Fuyuan International Bulk Raw 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. Lu Minfang, a non-executive Director and chairman of the Board, is also the chairman and a non-executive director of China Modern Dairy. Mr. Zhang Ping and Mr. Zhao Jiejun, each a non-executive Director, are also non-executive directors of China Modern Dairy. Accordingly, Mr. Lu, Mr. Zhang and Mr. Zhao abstained from voting on the resolutions of the Directors approving the Fuyuan International Bulk Raw Materials Supply Framework Agreement and the transactions contemplated thereunder. Other than Mr. Lu, Mr. Zhang and Mr. Zhao, no Director is materially interested in the transactions contemplated under the Fuyuan International Bulk Raw

Materials Supply Framework Agreement and no Director is required to abstain from voting on the resolutions of the Directors to approve the Fuyuan International Bulk Raw 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 Fuyuan International Bulk Raw Materials Supply Framework Agreement is entered into on normal commercial terms and in the ordinary course of business of the Group, is in the interests of the Company and its shareholders as a whole, and the terms of the Fuyuan International Bulk Raw Materials Supply Framework Agreement (including 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 an indirect wholly-owned subsidiary of the Company and is principally engaged in dairy farming and the sale of raw milk.

Fuyuan International is a non-wholly owned subsidiary of China Modern Dairy. Fuyuan International Group is principally engaged in dairy farming, the sale of cows and raw milk, forage planting, the sale of feed, the sale and leasing of machinery for animal husbandry, foreign trade, consulting services and machinery manufacturing.

China Modern Dairy is a company listed on the Stock Exchange. China Modern Dairy, together with its subsidiaries, is principally engaged in dairy farming operations, production and sale of raw milk.

## **DEFINITIONS**

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

“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 the Cayman Islands with limited liability, the shares of which are listed on the Stock Exchange (stock code: 2319)

“China Modern Dairy”	China Modern Dairy Holdings Ltd. (中國現代牧業控股有限公司), a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 1117)
“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
“Fuyuan International”	Inner Mongolia Fuyuan International Industrial (Group) Co., Limited* (內蒙古富源國際實業(集團)有限公司), a company established in the PRC with limited liability and a non-wholly owned subsidiary (as to 99.06%) of China Modern Dairy
“Fuyuan International Bulk Raw Materials Supply Framework Agreement”	the bulk raw materials supply framework agreement dated 24 November 2022, entered into between Shengmu High-tech (for itself and on behalf of its subsidiaries) and Fuyuan International (for itself and on behalf of its subsidiaries), in relation to the supply of raw materials by Fuyuan International Group to the Group from 1 January 2023 to 31 December 2025
“Fuyuan International Group”	Fuyuan International and its subsidiaries
“Group”	the Company and its subsidiaries from time to time
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“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
“RMB”	Renminbi, the lawful currency of the PRC
“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 and an indirect wholly-owned subsidiary of the Company
“Start Great”	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
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“30%-controlled company”	has the meaning ascribed to it under the Listing Rules
“%”	per cent. or percentage

By Order of the Board  
**China Shengmu Organic Milk Limited**  
**Lu Minfang**  
*Chairman*

Hong Kong, 24 November 2022

*As at the date of this announcement, the executive director of the Company is Mr. Zhang Jiawang; the non-executive directors of the Company are Mr. Lu Minfang, Mr. Zhang Ping, Mr. Zhao Jiejun, Mr. Sun Qian and Ms. Shao Lijun; and the independent non-executive directors of the Company are Mr. Wang Liyan, Mr. Wu Liang and Mr. Sun Yansheng.*

\* *For identification purpose only*