

*Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.*



**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  
2023 DABEINONG GROUP MATERIALS SUPPLY  
FRAMEWORK AGREEMENT AND  
REVISION OF ANNUAL CAPS**

**2023 DABEINONG GROUP MATERIALS SUPPLY FRAMEWORK  
AGREEMENT**

The Company announces that on 15 August 2023 (after trading hours), Shengmu High-tech (for itself and on behalf of its subsidiaries), an indirect wholly-owned subsidiary of the Company, entered into the 2023 Dabeinong Group Materials Supply Framework Agreement with Dabeinong Group (for itself and on behalf of its subsidiaries) in relation to the purchase of materials (including but not limited to feed, additives and medicines) by the Group from Dabeinong Group for a term ending 31 December 2025.

As it is anticipated the annual transaction amount between the Group and Dabeinong Group for the two years ending 31 December 2023 and 2024 will exceed the annual caps under the 2022 Dabeinong Group Materials Supply Framework Agreement, Shengmu High-tech and Dabeinong Group entered into the 2023 Dabeinong Group Materials Supply Framework Agreement to (i) terminate the 2022 Dabeinong Group Materials Supply Framework Agreement; (ii) renew the 2022 Dabeinong Group Materials Supply Framework Agreement for a term ending 31 December 2025; (iii) revise the annual caps for the two years ending 31 December 2023 and 2024; and (iv) set an annual cap for the year ending 31 December 2025.

## **LISTING RULES IMPLICATIONS**

As at the date of this announcement, Mr. Shao Genhuo holds 24.49% equity interest in, and is the de facto controller of, Dabeinong Group. Accordingly, Dabeinong Group is an associate of Mr. Shao. Mr. Shao also holds the entire equity interest in Beijing Zhi Nong, which in turn holds the entire equity interest in Nong You, a substantial shareholder of the Company. Accordingly, each of Mr. Shao and Dabeinong Group is a connected person of the Company.

As one or more applicable percentage ratios under the Listing Rules in respect of the highest revised/proposed annual cap under the 2023 Dabeinong Group Materials Supply Framework Agreement exceed 5%, the entering into of the 2023 Dabeinong Group Materials Supply Framework Agreement and the transactions contemplated thereunder are subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. Nong You (and its associates who may hold Shares) will be required to abstain from voting at the EGM in relation to the 2023 Dabeinong Group Materials Supply Framework Agreement and the transactions contemplated under such agreement. Save as disclosed above, to the best of the Directors' knowledge, information and belief having made all reasonable enquiry, no Shareholder is required to abstain from voting at the EGM in relation to the 2023 Dabeinong Group Materials Supply Framework Agreement and the transactions contemplated under such agreement.

## **GENERAL**

An Independent Board Committee has been established to advise the Independent Shareholders in respect of the 2023 Dabeinong Group Materials Supply Framework Agreement, the transactions contemplated under such agreement and the revised/proposed annual caps for the three years ending 31 December 2023, 2024 and 2025.

The Board has appointed Altus Capital as the Independent Financial Advisor to advise the Independent Board Committee and the Independent Shareholders in this regard.

A circular containing, among other things, (1) details of the 2023 Dabeinong Group Materials Supply Framework Agreement and the revised/proposed annual caps; (2) a letter of advice from the Independent Financial Advisor to the Independent Board Committee and Independent Shareholders; (3) a letter from the Independent Board Committee in relation to the 2023 Dabeinong Group Materials Supply Framework Agreement and the revised/proposed annual caps; and (4) the notice convening the EGM is expected to be dispatched to the Shareholders on or around 29 August 2023, so that the Company could have sufficient time to prepare information for inclusion in the circular.

Reference is made to the announcement of the Company dated 28 March 2022 in relation to, among other things, the 2022 Dabeinong Group Materials Supply Framework Agreement for a term from 28 March 2022 to 31 December 2024.

The Company announces that on 15 August 2023 (after trading hours), Shengmu High-tech (for itself and on behalf of its subsidiaries), an indirect wholly-owned subsidiary of the Company, entered into the 2023 Dabeinong Group Materials Supply Framework Agreement with Dabeinong Group (for itself and on behalf of its subsidiaries) in relation to the purchase of materials (including but not limited to feed, additives and medicines) by the Group from Dabeinong Group for a term ending 31 December 2025.

**2023 DABEINONG GROUP MATERIALS SUPPLY FRAMEWORK AGREEMENT**

*Principal Terms*

The principal terms of the 2023 Dabeinong Group Materials Supply Framework Agreement are summarised as follows:

- Date: 15 August 2023 (after trading hours)
- Parties: (1) Shengmu High-tech (for itself and on behalf of its subsidiaries); and  
(2) Dabeinong Group (for itself and on behalf of its subsidiaries)
- Term: From the date of approval at the EGM to 31 December 2025
- Subject matter: Dabeinong Group shall sell to Shengmu High-tech materials (including but not limited to feed, additives and medicines) which meet the purchasing standards of Shengmu High-tech. Shengmu High-tech will purchase by placing written orders based on the Group’s actual demand and Shengmu High-tech will determine the final purchase of goods, specifications, quantity and related quality, delivery and other services. The materials will be supplied to Shengmu High-tech from Dabeinong Group in accordance with the 2023 Dabeinong Group Materials Supply Framework Agreement and the orders confirmed between Shengmu High-tech and Dabeinong Group.

Purchase price and other terms:

The price of materials purchased by Shengmu High-tech from Dabeinong Group shall be based on the prevailing market price at the time of the submission of the relevant purchase order by Shengmu High-tech to Dabeinong Group. Dabeinong Group undertakes to sell at a price which is no higher than the market price of similar materials. For the purpose of determining the prevailing market price, Shengmu High-tech shall request quotations from at least two independent suppliers (excluding Dabeinong Group). If the price of the product supplied by Dabeinong Group in the same period is higher than the market price of the product or the price supplied by Dabeinong Group to a third party, Shengmu High-tech shall have the right to adjust the price of an executed purchase order, and Dabeinong Group agrees that Shengmu High-tech may deduct the difference from the payment due to Dabeinong Group.

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 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.

Subject to the 2023 Dabeinong Group Materials Supply Framework Agreement being approved at the EGM, the 2022 Dabeinong Group Materials Supply Framework Agreement will be terminated on the date of the EGM.

Delivery:

Dabeinong Group guarantees the delivery of purchased materials to Shengmu High-tech in accordance with the requirements of the 2023 Dabeinong Group Materials Supply Framework Agreement and purchase orders.

Payment terms:

Shengmu High-tech shall make payment according to the settlement plan agreed under the purchase order between Shengmu High-tech and Dabeinong Group.

## ***Reasons for and Benefits of the 2023 Dabeinong Group Materials Supply Framework Agreement***

As a leading dairy farming materials provider in the PRC, Dabeinong Group is one of the largest feed premix enterprises in the PRC which also provides services and solutions in the areas of animal husbandry, plantation and agricultural Internet of Things (IoT). The products of Dabeinong Group observe high standards in respect of technology, quality and safety. The manufacturing and sales systems of the dairy farming materials of Dabeinong Group across the country also guarantee the provision of products and after-sales technical service support to our farms from a close distance. The Group believes that the cooperation with Dabeinong Group can ensure the quality and safety of materials supplied to the Group and the provision of after-sales technical support service, which are essential to the production of high quality raw milk by the Group.

In addition, the cooperation with Dabeinong Group allows the Group to take advantage of cost advantages and procurement efficiencies generated under Dabeinong Group's centralized procurement platform. Leveraging on Dabeinong Group's bulk procurement of materials, which are in turn supplied to the Group with or without further processing, the Group is well positioned to efficiently source (through Dabeinong Group) materials from a network of suppliers around the world and collect market information on raw material demand and supply in a timely fashion. This would help reduce the Group's administrative costs associated with procurement of materials and allow the Group to benefit from any bulk purchase discounts available to Dabeinong Group, which would in turn reduce the Group's overall operational cost level.

In light of the factors mentioned above, the Directors (excluding the independent non-executive Directors and Ms. Shao Lijun who has abstained from voting at the relevant Board meeting) are of the view that the 2023 Dabeinong Group 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 the Shareholders as a whole, and the terms of the 2023 Dabeinong Group Materials Supply Framework Agreement (including the revised/proposed annual caps) are fair and reasonable.

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

For the year ended 31 December 2021, the total purchase amount under the 2021 Dabeinong Group Materials Supply Framework Agreement amounted to approximately RMB49.4 million. For the year ended 31 December 2022 and the six months ended 30 June 2023, the total purchase amount under the 2022 Dabeinong Group Materials Supply Framework Agreement amounted to approximately RMB115.3 million and RMB106.5 million, respectively.

### ***Revised/Proposed Annual Caps***

The Directors propose to revise or set (as the case may be) annual caps for the purchase amount by the Group from Dabeinong Group under the 2023 Dabeinong Group Materials Supply Framework Agreement as follows:

**For each of the two years ending  
31 December 2023 and 2024**

*RMB million*

Original annual caps	146
Proposed revised annual caps	300

**For the year ending  
31 December 2025**

*RMB million*

Proposed annual cap	300
---------------------	-----

In determining the proposed revised annual caps for the two years ending 31 December 2023 and 2024 and the proposed annual cap for the year ending 31 December 2025, the Directors have considered the following factors:

- (a) the Group's expected number of dairy cows for each of the three years ending 31 December 2023, 2024 and 2025;
- (b) as the demand for materials in the coming years is expected to exceed the maximum production capacity of the Group's existing feed processing workshops, the Group intends to increase the procurement of feed which does not require further processing;
- (c) the Group plans to adjust its feeding strategy and increase the procurement of feed premix in the coming years, leveraging on Dabeinong Group's expertise and pricing advantage as a large global feed premix enterprise, in order to further control feed costs;
- (d) the historical and current market prices of similar materials supplied by Dabeinong Group and its subsidiaries; and
- (e) the historical transaction amounts in respect of similar materials purchased by the Group from Dabeinong Group and its subsidiaries as well as other suppliers.

### ***Internal Control Mechanism***

The Company has 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 procurement center will regularly monitor the market price of products procured from Dabeinong Group. 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 2023 Dabeinong Group 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 will conduct an annual review and confirm whether the transactions have been entered into in accordance with the terms of the 2023 Dabeinong Group 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, Mr. Shao Genhuo holds 24.49% equity interest in, and is the de facto controller of, Dabeinong Group. Accordingly, Dabeinong Group is an associate of Mr. Shao. Mr. Shao also holds the entire equity interest in Beijing Zhi Nong, which in turn holds the entire equity interest in Nong You, a substantial shareholder of the Company. Accordingly, each of Mr. Shao and Dabeinong Group is a connected person of the Company.

As one or more applicable percentage ratios under the Listing Rules in respect of the highest revised/proposed annual cap under the 2023 Dabeinong Group Materials Supply Framework Agreement exceed 5%, the entering into of the 2023 Dabeinong Group Materials Supply Framework Agreement and the transactions contemplated thereunder are subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. Nong You (and its associates who may hold Shares) will be required to abstain from voting at the EGM in relation to the 2023 Dabeinong Group Materials Supply Framework Agreement and the transactions contemplated under such agreement. Save as disclosed above, to the best of the Directors' knowledge, information and belief having made all reasonable enquiry, no Shareholder is required to abstain from voting at the EGM in relation to the 2023 Dabeinong Group Materials Supply Framework Agreement and the transactions contemplated under such agreement.

Ms. Shao Lijun, a non-executive Director, is also a director of Nong You and general manager of Beijing Zhi Nong. Accordingly, Ms. Shao abstained from voting on the resolution(s) of the Directors approving the 2023 Dabeinong Group Materials Supply Framework Agreement and the transactions contemplated thereunder. Other than Ms.



Shao, no Director is materially interested in the transactions contemplated under the 2023 Dabeinong Group Materials Supply Framework Agreement and accordingly no Director is required to abstain from voting on the resolution(s) of the Directors to approve the 2023 Dabeinong Group Materials Supply Framework Agreement and the transactions contemplated thereunder.

The independent non-executive Directors will set out in the circular to be dispatched to the Shareholders their views in respect of the 2023 Dabeinong Group Materials Supply Framework Agreement, the transactions contemplated under such agreement and the revised/proposed annual caps for the three years ending 31 December 2023, 2024 and 2025, which will be formed after taking into account the advice to be provided by the Independent Financial Advisor.

## **INFORMATION ON THE PARTIES**

The Company is an investment holding company. The Group is principally engaged in dairy farming and the sale of raw milk.

Dabeinong Group is a company whose shares are listed on the Shenzhen Stock Exchange and is principally engaged in the manufacturing and sale of animal feed products. As at the date of this announcement, Mr. Shao Genhuo holds 24.49% equity interest in, and is the de facto controller of, Dabeinong Group. Based on public information available to the Company as at the date of this announcement, each of the remaining top ten shareholders of Dabeinong Group holds less than 10% equity interest in Dabeinong Group.

## **GENERAL**

An Independent Board Committee has been established to advise the Independent Shareholders in respect of the 2023 Dabeinong Group Materials Supply Framework Agreement, the transactions contemplated under such agreement and the revised/proposed annual caps for the three years ending 31 December 2023, 2024 and 2025.

The Board has appointed Altus Capital as the Independent Financial Advisor to advise the Independent Board Committee and the Independent Shareholders in this regard. A circular containing, among other things, (1) details of the 2023 Dabeinong Group Materials Supply Framework Agreement and the revised/proposed annual caps; (2) a letter of advice from the Independent Financial Advisor to the Independent Board Committee and Independent Shareholders; (3) a letter from the Independent Board Committee in relation to the 2023 Dabeinong Group Materials Supply Framework Agreement and the revised/proposed annual caps; and (4) the notice convening the EGM is expected to be dispatched to the Shareholders on or around 29 August 2023, so that the Company could 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:

“associate”	has the meaning ascribed to it under the Listing Rules
“Beijing Zhi Nong”	Beijing Zhi Nong Investment Co., Ltd.* (北京智農投資有限責任公司), a company established in the PRC
“Board”	the board of Directors
“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
“Dabeinong Group”	Beijing Dabeinong Technology Group Co., Ltd.* (北京大北農科技集團股份有限公司), a company established in the PRC with limited liability, the shares of which are listed on the Shenzhen Stock Exchange (stock code: 002385)
“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 2023 Dabeinong Group Materials Supply Framework Agreement (including the revised/proposed annual caps) and the transactions contemplated under such 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. Wang Liyan, Mr. Wu Liang and Mr. Sun Yansheng

“Independent Financial Advisor” or “Altus Capital”	Altus Capital Limited, a corporation licensed by the Securities and Futures Commission to conduct Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the Securities and Futures Ordinance, who is appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the 2023 Dabeinong Group Materials Supply Framework Agreement and the transactions contemplated under such agreement
“Independent Shareholder(s)”	Shareholders other than Nong You and its associates
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Nong You”	Nong You Co., Ltd., a company incorporated in the British Virgin Islands which holds 1,301,651,000 Shares, representing approximately 15.53% of the total number of issued Shares as at the date of this announcement
“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 established 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

“2021 Dabeinong Group Materials Supply Framework Agreement”	the materials supply framework agreement dated 30 December 2020, entered into between Shengmu High-tech and Dabeinong Group, details of which are set out in the announcement of the Company of the same date
“2022 Dabeinong Group Materials Supply Framework Agreement”	the materials supply framework agreement dated 28 March 2022, entered into between Shengmu High-tech and Dabeinong Group, details of which are set out in the announcement of the Company of the same date
“2023 Dabeinong Group Materials Supply Framework Agreement”	the materials supply framework agreement dated 15 August 2023, entered into between Shengmu High-tech and Dabeinong Group, in relation to the supply of materials (including but not limited to feed, additives and medicines) by Dabeinong Group to Shengmu High-tech for a term ending 31 December 2025

For and on behalf of the Board  
**China Shengmu Organic Milk Limited**  
**Lu Minfang**  
*Chairman*

Hong Kong, 15 August 2023

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

*\* For identification purpose only*