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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 2021 DABEINONG GROUP MATERIALS SUPPLY FRAMEWORK AGREEMENT

2021 DABEINONG GROUP MATERIALS SUPPLY FRAMEWORK AGREEMENT

Reference is made to the announcement of the Company dated 20 March 2018 in relation to the entering of the 2018 Dabeinong Group Feed Supply Framework Agreement by Shengmu High-tech (for itself and on behalf of the Group), a wholly-owned subsidiary of the Company, with Dabeinong Group. As the 2018 Dabeinong Group Feed Supply Framework Agreement will expire after 31 December 2020, Shengmu High-tech (for itself and on behalf of its subsidiaries) entered into the 2021 Dabeinong Group Materials Supply Framework Agreement with Dabeinong Group (for itself and on behalf of its subsidiaries) on 30 December 2020 in relation to the purchase of feed, additives and medicines by Shengmu High-tech and its subsidiaries from Dabeinong Group and its subsidiaries for a term of three years commencing from 1 January 2021 to 31 December 2023.

IMPLICATIONS UNDER THE LISTING RULES

As at the date of this announcement, Shengmu High-tech is an indirectly wholly-owned subsidiary of the Company. Mr. Shao Genhuo, a non-executive Director, holds more than 30% equity interests in Dabeinong Group. Mr. Shao also holds the entire equity interests of Beijing Zhi Nong, which in turn holds the entire equity interests of Nong You, a substantial shareholder of the Company. Mr. Shao is therefore a connected person of the Company and Dabeinong Group is an associate of Mr. Shao and therefore also a connected person of the Company as defined under the Listing Rules. Accordingly, the entering into of the 2021 Dabeinong Group 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 2021 Dabeinong Group Materials Supply Framework Agreement exceed 0.1% but all are less than 5%, the entering into of the 2021 Dabeinong Group 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.

INTRODUCTION

Reference is made to the announcement of the Company dated 20 March 2018 in relation to the entering of the 2018 Dabeinong Group Feed Supply Framework Agreement by Shengmu High-tech (for itself and on behalf of the Group), a wholly-owned subsidiary of the Company, with Dabeinong Group. As the 2018 Dabeinong Group Feed Supply Framework Agreement will expire after 31 December 2020, Shengmu High-tech (for itself and on behalf of its subsidiaries) entered into the 2021 Dabeinong Group Materials Supply Framework Agreement with Dabeinong Group (for itself and on behalf of its subsidiaries) on 30 December 2020 in relation to the purchase of feed, additives and medicines by Shengmu High-tech and its subsidiaries from Dabeinong Group and its subsidiaries for a term of three years commencing from 1 January 2021 to 31 December 2023.

2021 DABEINONG GROUP MATERIALS SUPPLY FRAMEWORK AGREEMENT

Principal Terms

The principal terms of the 2021 Dabeinong Group Materials Supply Framework Agreement are summarised as follows:

Date:	30 December 2020
Parties:	Shengmu High-tech (for itself and on behalf of its subsidiaries) and Dabeinong Group (for itself and on behalf of its subsidiaries)
Term:	From 1 January 2021 to 31 December 2023

Subject and delivery: Dabeinong Group and its subsidiaries shall sell to Shengmu High-tech and its subsidiaries materials (including but not limited to feed, additives and medicines) which meet the purchasing standards of Shengmu High-tech and its subsidiaries. The types, specifications, models, quantities, quality as well as delivery and acceptance arrangements of the materials to be procured under the 2021 Dabeinong Group Materials Supply Framework Agreement shall be specified by Shengmu High-tech and its subsidiaries based on their actual needs in each purchase order in writing to be placed with Dabeinong Group and its subsidiaries.

Purchase price: The purchase price of the materials to be procured under the 2021 Dabeinong Group Materials Supply Framework Agreement shall be determined based on the current market price and shall not be higher than the market price of the materials of similar type. Shengmu High-tech and its subsidiaries may compare quotes of similar materials from at least two other third party suppliers to ascertain the market price.

Payment terms: The payment terms and methods will be specified in each order and/or individual agreement to be entered into by the parties thereof pursuant to the 2021 Dabeinong Group Materials Supply Framework Agreement.

Reasons for and Benefits of Entering into the 2021 Dabeinong Group Materials Supply Framework Agreement

As a leading dairy farming materials provider in the PRC, 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 which are essential to the production of high quality raw milk by the Group.

Historical Transaction Amount

The materials sold by Dabeinong Group to the Group for the two years ended 31 December 2018 and 2019 and the eleven months ended 30 November 2020 amounted to approximately RMB45.6 million, RMB12.4 million and RMB28.2 million, respectively.

Proposed Annual Caps

The Directors propose that the total annual purchase amount by Shengmu High-tech and its subsidiaries from Dabeinong Group and its subsidiaries under the 2021 Dabeinong Group Materials Supply Framework Agreement shall not exceed RMB50 million, RMB50 million and RMB50 million for the three years ending 31 December 2021, 2022 and 2023, 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 2021, 2022 and 2023, respectively;
- (b) historical and prevailing market price for the materials of similar type supplied by Dabeinong Group and its subsidiaries; and
- (c) the historical transaction amount of materials of similar type purchased by the Group from Dabeinong Group and its subsidiaries as well as 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. Mr. Shao Genhuo, a non-executive Director, holds more than 30% equity interests in Dabeinong Group. Mr. Shao also holds the entire equity interests of Beijing Zhi Nong, which in turn holds the entire equity interests of Nong You, a substantial shareholder of the Company. Mr. Shao is therefore a connected person of the Company and Dabeinong Group is an associate of Mr. Shao and therefore also a connected person of the Company as defined under the Listing Rules. Accordingly, the entering into of the 2021 Dabeinong Group 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 2021 Dabeinong Group Materials Supply Framework Agreement exceed 0.1% but all are less than 5%, the entering into of the 2021 Dabeinong Group 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.

Taking into account the above, the Directors (excluding Mr. Shao Genhuo, Mr. Fu Wenge, Mr. Wang Liyan and Mr. Li Xuan (the then independent non-executive Director who resigned on 22 December 2020)) consider that the terms of the 2021 Dabeinong Group Materials Supply Framework Agreement are on normal commercial terms, fair and reasonable and in the interests of the Company and its Shareholders as a whole. Mr. Shao Genhuo has abstained from voting at the relevant Board meeting for the approval of the 2021 Dabeinong Group Materials Supply Framework Agreement and the transactions contemplated thereunder due to his relationship with Dabeinong Group. Mr. Fu Wenge and Mr. Wang Liyan, each being an independent non-executive Director, as well as Mr. Li Xuan (the then independent non-executive Director who resigned on 22 December 2020) are also independent directors of Dabeinong Group and have abstained from voting at the relevant Board meeting for the approval of the 2021 Dabeinong Group Materials Supply Framework Agreement and the transactions contemplated thereunder to avoid any potential conflicts of interest. Save as disclosed above, none of the other Directors has a material interest in the transactions contemplated in the 2021 Dabeinong Group Materials Supply Framework Agreement or is required to abstain from voting on the relevant resolution of the Board.

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.

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. Dabeinong Group is ultimately controlled and held by Mr. Shao Genhuo as to 30.85% and each of the remaining top ten shareholders of Dabeinong Group holds less than 10% equity interest.

DEFINITIONS

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

“2018 Dabeinong Group Feed Supply Framework Agreement”	the feed supply framework agreement dated 20 March 2018, entered into between Shengmu High-tech (for itself and on behalf of the Group) and Dabeinong Group, in relation to the purchase of feed by the Group from Dabeinong Group for a term from 20 March 2018 to 31 December 2020
“2021 Dabeinong Group Materials Supply Framework Agreement”	the materials supply framework agreement dated 30 December 2020, entered into between Shengmu High-tech (for itself and on behalf of its subsidiaries) and Dabeinong Group (for itself and on behalf of its subsidiaries), in relation to the purchase of feed, additives and medicines by Shengmu High-tech and its subsidiaries from Dabeinong Group and its subsidiaries for a three-year term from 1 January 2021 to 31 December 2023
“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 incorporated 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
“Director(s)”	the director(s) of the Company
“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 whose shares are listed on the Shenzhen Stock Exchange

“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
“Nong You”	Nong You Co., Ltd., a company incorporated in the British Virgin Islands which holds approximately 15.53% of the total issued shares of the Company 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 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, 30 December 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. Zhang Ping; and the independent non-executive directors of the Company are Mr. Fu Wenge, Mr. Wang Liyan and Mr. Wu Liang.