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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**

#### **PROCESSING SERVICE FRAMEWORK AGREEMENT AND MILK POWDER PURCHASE FRAMEWORK AGREEMENT**

##### **PROCESSING SERVICE FRAMEWORK AGREEMENT**

On 28 March 2024, Shengmu High-tech (for itself and on behalf of the Company and its subsidiaries), an indirect wholly-owned subsidiary of the Company, entered into the Processing Service Framework Agreement with Yiyongmei Dairy, a non-wholly owned subsidiary of Dabeinong Group, pursuant to which Yiyongmei Dairy agreed to provide processing services in respect of the production of milk powder for the Group from time to time during the term of the Processing Service Framework Agreement, commencing on 28 March 2024 to 31 December 2026.

##### **MILK POWDER PURCHASE FRAMEWORK AGREEMENT**

On 28 March 2024, Shengmu High-tech (for itself and on behalf of the Company and its subsidiaries), an indirect wholly-owned subsidiary of the Company, entered into the Milk Powder Purchase Framework Agreement with Yiyongmei Dairy, a non-wholly owned subsidiary of Dabeinong Group, in relation to the purchase of milk powder by the Group from Yiyongmei Dairy from time to time during the term of the Milk Powder Purchase Framework Agreement, commencing on 28 March 2024 to 31 December 2026.

## **LISTING RULES IMPLICATIONS**

As at the date of this announcement, Shengmu High-tech is an indirect wholly-owned subsidiary of the Company. Mr. Shao Genhuo holds 24.66% 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. Yiyongmei Dairy is a non-wholly owned subsidiary of Dabeinong Group. Accordingly, each of Mr. Shao, Dabeinong Group and Yiyongmei Dairy is a connected person of the Company.

As the highest applicable percentage ratios under the Listing Rules in respect of the highest proposed annual cap under each of the Processing Service Framework Agreement and Milk Powder Purchase Framework Agreement respectively exceed 0.1% but is lower than 5%, the entering into of the Processing Service Framework Agreement and the Milk Powder Purchase Framework Agreement and the transactions contemplated thereunder are subject to the annual review, reporting and announcement requirements under Chapter 14A of the Listing Rules but exempted from the circular and independent shareholders' approval requirements.

## **PROCESSING SERVICE FRAMEWORK AGREEMENT**

On 28 March 2024, Shengmu High-tech (for itself and on behalf of the Company and its subsidiaries), an indirect wholly-owned subsidiary of the Company, entered into the Processing Service Framework Agreement with Yiyongmei Dairy, pursuant to which Yiyongmei Dairy, a non-wholly-owned subsidiary of Dabeinong Group agreed to provide processing services in respect of the production of milk powder for the Group from time to time during the term of the Processing Service Framework Agreement, commencing on 28 March 2024 to 31 December 2026.

The principal terms of the Processing Service Framework Agreement are summarised as follows:

Date:	28 March 2024
Parties:	Shengmu High-tech (for itself and on behalf of the Company and its subsidiaries) and Yiyongmei Dairy
Term:	From 28 March 2024 to 31 December 2026

Nature of transaction: Yiyingmei Dairy shall provide processing services in respect of the production of milk powder for the Group from time to time during the terms of the Processing Service Framework Agreement.

Yiyingmei Dairy must inspect, supervise, and control the quality of the raw materials it uses for the processing services and ensure that the final products meet Shengmu High-tech's quality standards. Yiyingmei Dairy is liable for any food safety and quality problems that arise from its processing services. Shengmu High-tech can reject any milk powder products that do not meet its quality standards and Yiyingmei Dairy must compensate Shengmu High-tech for any delivery delays caused by its substandard products. Shengmu High-tech can terminate the Processing Service Framework Agreement at any time if the milk powder products processed by Yiyingmei Dairy do not comply with the relevant PRC regulations.

Pricing terms: The processing fee for processing services borne by the Group under the Processing Service Framework Agreement will be negotiated on an arm's length basis and determined in the ordinary course of business on normal commercial terms. The processing fee shall be determined on a cost plus basis with reference to cost analysis, market research, general industry standard, quality requirements, profit margin settings and price adjustment strategies. Yiyingmei Dairy supplies the packaging for the milk powder products and Shengmu High-tech will pay to Yiyingmei Dairy the cost of the packaging.

Shengmu High-tech has closely observed the market conditions and monitored the prevailing market prices. Before entering into any transactions, under the Processing Service Framework Agreement transactions, Shengmu High-tech will compare quotations for similar transactions with at least two independent third parties for similar processing services (excluding Yiyongmei Dairy or any member of the Daibeinong Group). Shengmu High-tech will review the price and quality of the processed milk powder from time to time to ensure that the milk powder is in line with the Group's quality standards, as well as to ensure that the transaction terms are fair and reasonable, and no less favourable than those available from independent third parties.

**Delivery:** Shengmu High-tech shall pick up the agreed quantities of processed milk powder from warehouses designated by Yiyongmei Dairy. The freight costs for transporting the milk powder from Yiyongmei Dairy to Shengmu High-tech shall be borne by Shengmu High-tech.

**Payment terms:** At the beginning of each month, Yiyongmei Dairy and Shengmu High-tech shall agree on the processing fees for the prior month, after which Yiyongmei Dairy shall issue an invoice to Shengmu High-tech for the agreed fees. Within fifteen working days of receiving the invoice, Shengmu High-tech shall settle the payment in full.

### **Reasons for and Benefits of the Processing Service Framework Agreement**

Dabeinong Group's industry portfolio covers a wide range of areas. In 2010, it became one of the agricultural high-tech enterprises with the highest market value among the listed companies in the agricultural and livestock industry in the PRC. As a subsidiary of Dabeinong Group, Yiyongmei Dairy specialises in the production of infant and toddler milk powder and is committed to creating world-class quality products. Its proximity to Shengmu High-tech in Inner Mongolia gives it an advantage in transportation and cost efficiency, thus preserving its products' freshness and quality.

In 2024, taking into account the challenging conditions, intense competition and other uncertainties in the raw milk market, the Group has adopted a cautious approach for and developed a business model to mitigate potential market risks. Under this business model, the selection of Yiyingmei Dairy as a co-operative partner is in line with the principle of maximizing the Group's benefits in terms of both cost-effectiveness and product quality.

In light of the factors mentioned above, the Directors (including the independent non-executive Directors but excluding Ms. Shao Lijun who has abstained from voting at the relevant Board meeting) are of the view that the Processing Service 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 Processing Service Framework Agreement (including the proposed annual caps) are fair and reasonable.

### **Historical Transaction Amount and Proposed Annual Caps**

The total service fees for milk powder processing services paid by the Group to Yiyingmei Dairy for last three years are as follows:

	<b>For the year ended 31 December 2021 <i>RMB million</i></b>	<b>For the year ended 31 December 2022 <i>RMB million</i></b>	<b>For the year ended 31 December 2023 <i>RMB million</i></b>
<b>Historical transaction amount</b>	0.02	0.15	1.48

For the two months ended 28 February 2024, the total service fees for milk powder processing services paid by the Group to Yiyingmei Dairy amounted to RMB 114,519.

The Directors propose to set annual caps for the transactions contemplated under the Processing Service Framework Agreement as follows:

	<b>For the year ending 31 December 2024 <i>RMB million</i></b>	<b>For the year ending 31 December 2025 <i>RMB million</i></b>	<b>For the year ending 31 December 2026 <i>RMB million</i></b>
<b>Proposed annual cap</b>	21	17	11

In determining the proposed annual caps for the three years ending 31 December 2024, 2025 and 2026, the Directors have considered the following factors:

- (a) the pricing terms of the Processing Service Framework Agreement;
- (b) the historical amount of transactions between the Group and Yiyongmei Dairy for processing services in respect of the production of milk powder;
- (c) the Group's business plan, sales forecast and internal projections of milk powder processing volume for the three years ending 31 December 2024, 2025 and 2026. The raw milk market is expected to recover in 2025 and 2026 and therefore the Group anticipates a decrease in demand for milk powder in the coming two years; and
- (d) the possible future fluctuation in the PRC dairy farming industry.

### **MILK POWDER PURCHASE FRAMEWORK AGREEMENT**

On 28 March 2024, Shengmu High-tech (for itself and on behalf of the Company and its subsidiaries), an indirect wholly-owned subsidiary of the Company, entered into the Milk Powder Purchase Framework Agreement with Yiyongmei Dairy, a non-wholly owned subsidiary of Dabeinong Group, in relation to the purchase of milk powder by the Group from Yiyongmei Dairy from time to time during the term of the Milk Powder Purchase Framework Agreement, commencing on 28 March 2024 to 31 December 2026.

The principal terms of the Milk Powder Purchase Framework Agreement are summarised as follows:

Date:	28 March 2024
Parties:	Shengmu High-tech (for itself and on behalf of the Company and its subsidiaries) and Yiyongmei Dairy
Term:	From 28 March 2024 to 31 December 2026

Nature of transaction: Yiyongmei Dairy shall sell to Shengmu High-tech milk powder which meets the purchasing standards of Shengmu High-tech. Shengmu High-tech will place written orders based on its actual demand and determine the final details of the purchase, such as specifications, quantity, quality, delivery and other services. Yiyongmei Dairy will supply the milk powder to Shengmu High-tech in accordance with the terms of the Milk Powder Purchase Framework Agreement and the confirmed purchase orders.

Purchase price and other terms: The price of milk powder purchased by Shengmu High-tech from Yiyongmei Dairy shall be determined from time to time by the parties on an arm's length basis, with reference to the prevailing market price for milk powder of comparable quality at the time of the submission of the relevant purchase order by Shengmu High-tech to Yiyongmei Dairy. Yiyongmei Dairy undertakes to sell at a price which is no higher than the market price of similar milk powder.

For the purpose of determining the prevailing market price, Shengmu High-tech shall request quotations from at least two independent suppliers (excluding Yiyongmei Dairy or any member of the Daibeinong Group) before making the relevant purchase order. If the price of the product supplied by Yiyongmei Dairy 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 Yiyongmei Dairy agrees that Shengmu High-tech may deduct the difference from the payment due to Yiyongmei Dairy. Shengmu High-tech will review the price and quality of the milk powder from time to time to ensure that the milk powder is in line with the Group's quality standards, as well as to ensure that the transaction terms are fair and reasonable, and no less favourable than those available from independent third parties.

Delivery: Shengmu High-tech shall pick up the agreed quantities of milk powder from warehouses designated by Yiyongmei Dairy. Shengmu High-tech shall bear the transportation costs.

Payment terms: Shengmu High-tech shall make payments to Yiyongmei Dairy for each purchase order of milk powder. For each purchase order, both parties agree on a pick-up date for Shengmu High-tech to collect the milk powder from Yiyongmei Dairy's warehouse. Shengmu High-tech shall pay to Yiyongmei Dairy the total purchase price under the relevant purchase order within five working days of the pick-up date.

### **Reasons for and Benefits of the Milk Powder Purchase Framework Agreement**

Dabeinong Group's industry portfolio covers a wide range of areas. In 2010, it became one of the agricultural high-tech enterprises with the highest market value among the listed companies in the agricultural and livestock industry in the PRC. As a subsidiary of Dabeinong Group, Yiyongmei Dairy specialises in the production of infant and toddler milk powder and is committed to creating world-class quality products. Its industry-leading production process, cutting-edge production equipment and CNAS laboratory approved by the Certification and Accreditation Administration meet the Group's highest requirements for product quality.

In order to speed up the turnover of the Company's own milk powder inventory and to secure milk powder orders from long-term loyal customers, the Group has entered into the Milk Powder Purchase Framework Agreement with Yiyongmei Dairy, under which the Group may procure milk powder that aligns with its stringent quality standards from Yiyongmei Dairy. The Group is then positioned to distribute high quality milk powder to its downstream customers, effectively fulfilling their requirements, thus bolstering customer satisfaction and reinforcing their loyalty to the Group. Meanwhile, the Company can benefit from economies of scale and improve its economic returns.

In light of the factors mentioned above, the Directors (including the independent non-executive Directors but excluding Ms. Shao Lijun who has abstained from voting at the relevant Board meeting) are of the view that the Milk Powder Purchase 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 Milk Powder Purchase Framework Agreement (including the proposed annual caps) are fair and reasonable.

## Proposed Annual Caps

As the Group has not purchased milk powder from Yiyongmei Dairy in the past, no historical transaction amount is available.

The Directors propose to set annual caps for the transactions contemplated under the Milk Powder Purchase Framework Agreement as follows:

	<b>For the year ending 31 December 2024 <i>RMB million</i></b>	<b>For the year ending 31 December 2025 <i>RMB million</i></b>	<b>For the year ending 31 December 2026 <i>RMB million</i></b>
<b>Proposed annual cap</b>	30	25	17

In determining the proposed annual caps for the three years ending 31 December 2024, 2025 and 2026, the Directors have considered the following factors:

- (a) the pricing terms of the Milk Powder Purchase Framework Agreement;
- (b) the historical and current market prices of milk powder of similar quality, as well as the potential fluctuations in the market price for the milk powder in PRC in the future;
- (c) the Group's business plan, market sales forecast and internal projections of demand for milk powder for the three years ending 31 December 2024, 2025 and 2026. The raw milk market is expected to recover in 2025 and 2026 and therefore the Group anticipates a decrease in demand for milk powder in the coming two years; and
- (d) the possible future fluctuation in the PRC dairy farming industry.

## 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.

In the event that the annual caps of either the Milk Powder Purchase Framework Agreement or Processing Service Framework Agreement are about to be exceeded, the Company will revise the annual caps in accordance with the relevant Listing Rules requirements.

The Group's raw milk despatch department will regularly monitor the market price of processing fee for milk powder processing services provided by Yiyingmei Dairy and the market price of the milk powder supplied by Yiyingmei Dairy. 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 Processing Service Framework Agreement and the Milk Powder Purchase Framework Agreement under 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 Processing Service Framework Agreement and the Milk Powder Purchase Framework Agreement and confirm, among others, whether the relevant annual caps have been exceeded, 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. Mr. Shao Genhuo holds 24.66% 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. Yiyingmei Dairy is a non-wholly owned subsidiary of Dabeinong Group. Accordingly, each of Mr. Shao, Dabeinong Group and Yiyingmei Dairy is a connected person of the Company.

As the highest applicable percentage ratios under the Listing Rules in respect of the highest proposed annual cap under each of the Processing Service Framework Agreement and Milk Powder Purchase Framework Agreement respectively exceed 0.1% but is lower than 5%, the entering into of the Processing Service Framework Agreement and the Milk Powder Purchase Framework Agreement and the transactions contemplated thereunder are subject to the annual review, reporting and announcement requirements under Chapter 14A of the Listing Rules but exempted from the circular and independent shareholders' approval requirements.

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 Processing Service Framework Agreement, the Milk Powder Purchase Framework Agreement and the transactions contemplated thereunder. Other than Ms. Shao, no Director is materially interested in the transactions contemplated under the Processing Service Framework Agreement and the Milk Powder Purchase Framework Agreement and accordingly no Director is required to abstain from voting on the resolution(s) of the Directors to approve the Milk Powder Purchase Framework Agreement, the Processing Service Framework Agreement and the transactions contemplated thereunder.

## **INFORMATION OF THE PARTIES**

The Company is an investment holding company. 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.

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 24.66% 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.

Yiyingmei Dairy is held as to 91.36% and 8.64% by Dabeinong Group and Shengmu High-tech, respectively. It is principally engaged in the manufacturing and sale of dairy products, including organic infant and other formula milk powder and cheese.

## **DEFINITIONS**

Unless the contents otherwise requires, the following expressions shall have the following meanings in this announcement:

“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
“Group”	the Company and its subsidiaries from time to time
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Listing Rules”	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Milk Powder Purchase Framework Agreement”	the milk powder purchase framework agreement dated 28 March 2024, entered into between Shengmu High-tech and Yiyongmei Dairy
“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
“Processing Service Framework Agreement”	the processing service framework agreement dated 28 March 2024, entered into between Shengmu High-tech and Yiyongmei Dairy
“Shareholder(s)”	holder(s) of the shares of the Company

“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
“Yiyingmei Dairy”	Yiyingmei Dairy Co., Ltd.* (內蒙古益嬰美乳業有限公司), a company established in the PRC, which is a non wholly-owned subsidiary of Dabeinong Group as at the date of this announcement
“%”	per cent

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

Hong Kong, 28 March 2024

*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*