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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)

SUPPLEMENTAL AGREEMENT IN RELATION TO DISPOSAL OF SHARES BY CONTROLLING SHAREHOLDER

This announcement is made by China Shengmu Organic Milk Limited (the “**Company**”) pursuant to Rule 13.09(2) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and the Inside Information Provisions (as defined under the Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

Reference is made to the announcement of the Company dated 28 January 2016 (the “**Announcement**”) in relation to the disposal of shares in the Company by World Shining, the controlling shareholder (as defined in the Listing Rules) of the Company. Reference is also made to the announcements dated 29 January 2016, 31 January 2016 and 2 February 2016 issued by the Company updating the status of the disposal. Unless otherwise defined, capitalised terms used in this announcement shall have the same meanings as defined in the Announcement.

THE SALE AND PURCHASE AGREEMENT

As mentioned in the Announcement, World Shining entered into the Sale and Purchase Agreement on 27 January 2016 with Nong You in relation to the sale and purchase of an aggregate of 1,525,056,000 shares (representing 24% of the total issued share capital of the Company) for a consideration of HK\$3,355,123,200.

The Board has been informed by World Shining that on 23 September 2016 (after trading hours), World Shining and Nong You (the “**Parties**”) entered into a supplemental agreement (the “**Supplemental Agreement**”) pursuant to which, among others, the number of shares in the Company (the “**Shares**”) to be sold by World Shining to Nong You will be reduced from 1,525,056,000 Shares to 1,207,336,000 Shares, representing a reduction from 24% to 19% of the total issued share capital of the Company.

Pursuant to the Sale and Purchase Agreement, the First Completion has taken place on 28 January 2016. Upon the First Completion, Nong You has paid to World Shining HK\$820,000,000, representing the First Purchase Price, for an aggregate of 372,727,273 Shares (the “**First Completion Target Shares**”) and World Shining has transferred such First Completion Target Shares to Nong You.

On 4 February 2016, World Shining has further transferred to Nong You 1,152,328,727 Shares, representing the total number of the Second Completion Target Shares and the Third Completion Target Shares. Upon such transfer, Nong You has executed a share charge (the “**Existing Share Charge**”) over the Second Completion Target Shares and the Third Completion Target Shares in favour of World Shining. Pursuant to the terms of the Existing Share Charge, World Shining shall be entitled to retain the dividend and voting rights attached to the Second Completion Target Shares and the Third Completion Target Shares until the share charge has been released. Nong You, World Shining and a securities company (the “**Escrow Agent**”) have also entered into an escrow arrangement in relation to these Shares.

KEY TERMS OF THE SUPPLEMENTAL AGREEMENT

As informed by World Shining, the key terms of the Supplemental Agreement, among others, include the following:

Reduction in the number of Shares to be sold

World Shining has conditionally agreed to sell and the Purchaser has conditionally agreed to purchase 1,207,336,000 Shares (the “**Target Shares**”), representing 19% of the total issued share capital of the Company as of the date of this announcement, for an aggregate consideration of HK\$2,656,139,200 (the “**Aggregate Consideration**”), being HK\$2.2 per Share.

Undertakings

World Shining and Nong You agreed to effect the following on the date of signing of the Supplemental Agreement:

(a) Termination of acting-in-concert arrangement between ultimate controlling shareholders of the Company

The current ultimate controlling shareholders of the Company (namely, Mr. YAO Tongshan (姚同山), Mr. WANG Fuzhu (王福柱), Ms. SHI Jianhong (史建宏), Mr. WANG Zhenxi (王振喜), Ms. YANG Yaping (楊亞萍), Ms. YANG Yali (楊亞利), Mr. LU Shunyi (蘆順義), Ms. GUO Yunfeng (郭運鳳), Mr. YUN

Jindong (雲金東), Ms. GAO Lingfeng (高凌鳳), Mr. ZHANG Junke (張俊科), Mr. WANG Zhen (王鎮), Mr. CUI Ruicheng (崔瑞成) and Mr. WU Jianye (武建鄴)) shall enter into a written termination agreement (the “**Termination Agreement**”) to terminate the acting-in-concert relationship among them.

(b) Return of Shares to World Shining

Nong You shall transfer 317,720,000 Shares (the “**Returned Shares**”), representing 5% of total issued share capital of the Company, back to World Shining, being the difference in the number of Shares agreed to be sold under the Sale and Purchase Agreement and the Supplemental Agreement.

(c) Release and physically transfer of Revised Second Completion Target Shares to Nong You by the Escrow Agent

World Shining shall arrange with the Escrow Agent to release and physically transfer 373,189,091 Shares (the “**Revised Second Completion Target Shares**”), representing 5.87% of the total issued share capital of the Company as of the date of this announcement, to Nong You.

(d) Partial release of the Existing Share Charge

The Parties shall sign a deed of partial release (the “**Deed of Partial Release**”) to release the charge created pursuant to the Existing Share Charge in relation to (i) the Revised Second Completion Target Shares; and (ii) the Returned Shares. After the execution of the Deed of Partial Release, 461,419,636 Shares (the “**Charged Shares**”), representing 7.26% of the total issued share capital of the Company as of the date of this announcement, will still be subject to charge pursuant to the Existing Share Charge and the secured obligations under the Existing Share Charge will be reduced to the amount of Final Payment (as defined below).

(e) Undertaking from certain shareholders of the Company

Mr. Yao Tongshan, shall in his capacity as a shareholder of the Company, give an undertaking to Nong You to (i) enter into an employment agreement with the Company; and (ii) commit to a minimum shareholding in the Company of 239,401,890 Shares, representing 3.77% of the total issued share capital of the Company as at the date of this announcement, both for a period of 18 months from the date of Final Completion (as defined below).

Mr. YAO Tongshan (姚同山), Mr. WU Jianye (武建鄴), Ms. GAO Lingfeng (高凌鳳) and Mr. CUI Ruicheng (崔瑞成) shall in their capacity as shareholders of the Company, provide an undertaking to Nong You that they shall vote in favour of the resolutions in relation to the appointment of the directors nominated by Nong You in the shareholders' meeting of the Company.

In case of breach of any of the above undertakings, the Parties may not be obliged to proceed with the Transaction and the Shares that have been transferred to Nong You shall be returned to World Shining in the manner as set out in the Supplemental Agreement.

Second Completion

The second completion (the “**Second Completion**”) of the sale and purchase of the Revised Second Completion Target Shares is subject to, among others,:

- (a) the Board has been expanded to comprise 15 Directors, including 6 Directors who are nominated by Nong You. This condition can be waived by Nong You; and
- (b) Nong You has obtained sufficient funds to proceed with the Second Completion.

At Second Completion which is set on 23 September 2016 (or such other date as may be agreed by the parties) (the “**Second Completion Date**”), Nong You shall pay to World Shining HK\$821,016,000 (the “**Second Payment**”). The Second Payment represents the purchase price for the Revised Second Completion Target Shares at HK\$2.2 per Share.

The Parties expect that the Second Completion will take place on or around 26 September 2016.

If the condition set out above under paragraph (a) is not fulfilled by the Second Completion Date, (i) the Parties are not obliged to proceed with the Second Completion and the Final Completion; (ii) World Shining shall release the Existing Share Charge over the Charged Shares and Nong You shall transfer the Revised Second Completion Target Shares and the Charged Shares back to World Shining; and (iii) World Shining shall return the First Purchase Price to Nong You by 23 October 2016 together with the agreed interest; and (iv) Nong You shall transfer the First Completion Target Shares back to World Shining within three business days upon receipt of the above payment.

If the condition set out above under paragraph (b) is not fulfilled by the Second Completion Date, (i) the Parties are not obliged to proceed with the Second Completion and the Final Completion; and (ii) World Shining shall release the Existing Share Charge over the Charged Shares and Nong You shall transfer the Charged Shares and the Revised Second Completion Target Shares back to World Shining.

Final Completion

The final completion (the “**Final Completion**”) of the sale and purchase of 461,419,636 Share (the “**Final Completion Target Shares**”) which is set on 28 September 2016 (or such other date as may be agreed by the Parties) (the “**Final Completion Date**”) is subject to, among others, the following conditions:

- (a) the Termination Agreement becomes effective; and
- (b) Nong You has obtained sufficient funds to proceed with the Final Completion.

At the Final Completion:

- Nong You shall pay to World Shining the balance of HK\$1,015,123,200 (the “**Final Payment**”). The Final Payment represents the purchase price for the Final Completion Target Shares at HK\$2.2 per Share; and
- World Shining shall release the charge over the Charged Shares.

If the condition set out above under paragraph (a) is not fulfilled by the Final Completion Date, (i) the Parties are not obliged to proceed with the Final Completion; (ii) World Shining shall release the Existing Share Charge over the Charged Shares and Nong You shall transfer the Charged Shares back to World Shining; and (iii) World Shining shall return the First Purchase Price and the Second Payment to Nong You by 28 October 2016 together with the agreed interest; and (iv) Nong You shall transfer the First Completion Target Shares and the Revised Second Completion Target Shares back to World Shining within three business days upon receipt of the above payment.

If the condition set out above under paragraph (b) is not fulfilled by the Final Completion Date, (i) the Parties are not obliged to proceed with the Final Completion; and (ii) World Shining shall release the Existing Share Charge over the Charged Shares and Nong You shall transfer the Charged Shares back to World Shining.

As of the date of this announcement, World Shining was interested in 3,112,720,236 Shares, representing 48.98% of the issued share capital of the Company, of which 461,419,636, representing 7.26% was held by Nong You but the voting power of these Shares is vested with World Shining pursuant to the Existing Share Charge.

The Company will issue further announcements to update investors regarding the progress of the Transaction.

The Directors jointly and severally accept full responsibility for the accuracy of the information as contained in this announcement and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this announcement has been arrived at after due and careful consideration and there are no other facts not contained in this announcement, the omission of which would make any of the statements in this announcement misleading.

By Order of the Board
China Shengmu Organic Milk Limited
Yao Tongshan
Chairman

Hong Kong, 23 September, 2016

As at the date of this announcement, the executive directors of the Company are Mr. Yao Tongshan, Mr. Wu Jianye, Ms. Gao Lingfeng and Mr. Cui Ruicheng; and the non-executive directors of the Company are Mr. Dong Xianli, Mr. Fan Xiang, Mr. Cui Guiyong and Mr. Sun Qian; and the independent non-executive directors of the Company are Mr. Wong Kun Kau, Mr. Li Changqing, Ms. Ge Xiaoping and Mr. Yuan Qing.