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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 ANNOUNCEMENT

CONTINUING CONNECTED TRANSACTION RAW FRESH MILK SUPPLY FRAMEWORK AGREEMENT

Reference is made to the announcement (“**Announcement**”) of the Company dated 28 March 2022 in relation to, among others, the entering into the Raw Fresh Milk Supply Framework Agreement. Unless otherwise specified, capitalized terms used herein shall have the same meaning ascribed to them in the Announcement.

The Board would like to provide supplemental information regarding the pricing policies and internal control procedures in relation to the Raw Fresh Milk Supply Framework Agreement.

PRICING POLICIES

As disclosed in the Announcement, in relation to the raw fresh milk to be sold by Shengmu High-tech to Yiyongmei Dairy pursuant to the Raw Fresh Milk Supply Framework Agreement, the purchase price of raw fresh milk shall be determined and adjusted in accordance with market condition, seasonal factors and quality of raw fresh milk (the “**Base Price**”). The final purchase price of raw fresh milk (the “**Final Purchase Price**”) shall be adjusted in accordance with the quality grade as agreed between Shengmu High-tech and Yiyongmei Dairy.

In respect of the aforementioned factors, the Company would like to further elaborate that pursuant to the Raw Fresh Milk Supply Framework Agreement, specific sale agreements will be entered into between the Company and Yiyongmei Dairy within the scope of the Raw Fresh Milk Supply Framework Agreement. Accordingly, it is contemplated that the Company and Yiyongmei Dairy will enter into a sale agreement

each year during the term of the Raw Fresh Milk Supply Framework Agreement to agree on the Base Price for that year, whereby the Base Price would be determined based on the below various factors and as agreed after arm’s length negotiations between the parties:

- (a) the Company’s expected production costs — Shengmu High-tech has taken into account the expected production costs of cow feeding, feed market condition, packaging, cost of labour, fixed overheads, utilities, human resources and other operational and administrative affairs in respect of the sales of raw fresh milk;
- (b) the Company’s expected logistics costs — Shengmu High-tech has taken into account the oil price and the distance between the customer’s location and Shengmu High-tech’s ranch;
- (c) average gross profit margin — Shengmu High-tech makes reference to the gross profit margin for organic milk of other organic milk producers in the dairy farming industry, and the Company’s gross profit margin for organic milk from the previous year (e.g. approximately 38.6% for the year ended 31 December 2021); and
- (d) reference to the market cycle and the sales price of raw fresh milk produced by other companies in the vicinity.

As disclosed in the Announcement, Yiyongmei Dairy is required to make monthly payments based on the volume of raw fresh milk purchased during the month on or before the 20th of the following month (each a “**Settlement Date**”). The Final Purchase Price for each sale shall be determined at each Settlement Date in accordance with the following formula (the “**Final Purchase Price Formula**”):

$$P = B +/- A$$

where:

P = the Final Purchase Price;

B = the Base Price; and

A = Adjustments by taking into account various milk quality indicators, including the total bacterial count, somatic cell count, level of protein and fat content etc.

The adjustment factors are also applicable to other independent third party customers of Shengmu High-tech when determining the relevant final purchase price of raw fresh milk.

INTERNAL CONTROL PROCEDURES

The Group's pricing mechanism with its customers (including Yiyingmei Dairy and other independent third party customers) are generally the same and therefore the selling price of the raw fresh milk by Shengmu High-tech to Yiyingmei Dairy contemplated under the Raw Fresh Milk Supply Framework Agreement would be comparable to that of the other independent third party customers.

The Group has established internal control measures to ensure that the Final Purchase Price and other terms of the sale of raw fresh milk by Shengmu High-tech to Yiyingmei Dairy contemplated under the Raw Fresh Milk Supply Framework Agreement are no less favourable than the terms offered to independent third party customers in which the sales department has been designated to:

- (a) consider and compare prices and terms of similar products offered by Shengmu High-tech to all other third party purchasers every month;
- (b) conduct market research every month and compare the selling price of similar products offered by three other raw fresh milk producers when determining the Base Price for each year;
- (c) review other terms of orders received from Yiyingmei Dairy and other independent third party customers to ensure that the other terms offered by Shengmu High-tech to Yiyingmei Dairy are no less favourable to that offered to independent third party customers;
- (d) ensure that each sale shall be executed at a Final Purchase Price as determined in accordance with the Base Price and the Final Purchase Price Formula; and
- (e) the Group's external auditors shall conduct an annual review on the pricing mechanism of the continuing connected transactions under the Raw Fresh Milk Supply Framework Agreement in accordance with the Listing Rules.

Save as disclosed above, all other information set out in the Announcement remains unchanged.

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

Hong Kong, 20 April 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.