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YuanShengTai Dairy Farm Limited
原生态牧业有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 1431)

SUPPLEMENTAL ANNOUNCEMENT TO THE ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2023

Reference is made to the annual report for the year ended 31 December 2023 published by YuanShengTai Dairy Farm Limited (the “**Company**”) on 26 April 2024 (the “**2023 Annual Report**”). Unless otherwise specified, capitalised terms used in this announcement shall have the same meanings as those defined in the 2023 Annual Report.

In addition to the disclosures under the paragraphs headed “Event and circumstances leading to recognition of impairment losses on goat CGU” and “Inputs and assumptions used in the Valuation Reports” in the section headed “Management Discussion and Analysis” in the 2023 Annual Report, the Company would like to supplement additional information as follows:

EVENTS AND CIRCUMSTANCES LEADING TO RECOGNITION OF IMPAIRMENT LOSSES ON GOAT CGU

Prior to the acquisition of the breeding facilities, production lines and dairy goats of Shaanxi Lvneng Shengtai Dairy Farming Co., Ltd.* (陝西綠能生態牧業有限公司) (“**Lvneng Shengtai**”) by Ruixiang Chengda in November 2021, the Group conducted the following due diligence on the background, operation and production of Lvneng Shengtai’s assets, including but not limited to:

- (i) conducting background checks;
- (ii) paying site visits;
- (iii) having discussions with the management of Lvneng Shengtai to understand its business operations;
- (iv) reviewing the financial statements for the last three fiscal years of Lvneng Shengtai;

- (v) engaging Jones Lang LaSalle Corporate Appraisal and Advisory Limited (the “**Valuer**”) to prepare a valuation analysis of the Lvneng Dhengtai; and
- (vi) prepared a breakeven analysis to determine the value of Lvneng Shengtai.

Based on the above due diligence, the management of the Group forecasted that after the completion of the acquisition, the breeding farm of Ruixiang Chengda would generate a revenue of approximately RMB11,256,100 and a loss of approximately RMB15,597,000 for the year ended 31 December 2022 which is based on the anticipated sales volume of 1,463,139 kg of goat milk with an average price of RMB7.69 per kg. In reality, 1,463,265 kg of raw goat milk was sold with an average price of RMB6.99 per kg in 2022.

The management of the Group also forecasted the breeding farm would generate a revenue of RMB25,344,000 for the year ended 31 December 2023 which is based on the anticipated sales volume of 3,168,000 kg of goat milk with an average price of RMB8.00 per kg and the plan to expand the herd size by importing around 1,500 goats. In reality, only 932,000 kg of raw goat milk was sold with an average price of RMB7.15 per kg in 2023 and Ruixiang Chengda held off the plan to import the goats due to the economic slowdown in the PRC after the COVID-19 pandemic and the increased price of imported goats.

Due to the factors as detailed below, the Board was not optimistic about the future development of the goat milk industry and decided to recognize an impairment loss amounting to RMB85,925,000 for property, plant and equipment and right-of-use assets of goat milk CGU as a result of the significant loss incurred during the six months ended 30 June 2023. Recognizing the challenges faced in late 2023 and 2024, the Board reassessed the impairment loss for property, plant and equipment and right-of-use assets of the goat CGU as a result of the significant loss incurred for the year ended 31 December 2023.

The change in the management’s expectation on the performance of the Ruixiang Chengda breeding farm was mainly due to the following factors:

- (a) *Raw goat milk price*: according to the statistics published by the Shaanxi Provincial Department of Agriculture and Rural Affairs (陝西省農業農村廳), the average goat milk price in the first half of 2023 was RMB5.87 per kg, representing a decrease of 14% compared to the same period of 2022. Although the average raw milk price of the Group during the year 2023 was approximately RMB7.15 per kg, the increase in the raw goat milk price since early 2023 did not meet the expectation of the Group. According to the statistics, the average goat milk price in April 2024 is below RMB6.5 per kg, showing a downward trend;
- (b) *Sales volume*: the weakened demand due to low birth rate in the PRC and the slower-than-expected economic recovery after the COVID-19 pandemic causing the lower-than-expected demand of raw goat milk. The sales volume of raw goat milk dropped from 1,463,265 kg in 2022 to 932,000 kg in 2023;
- (c) *Hay feed costs*: costs and expenses mainly include hay feed costs, veterinary costs, labour costs, etc. Due to tight supply of hay feed, there was a surge in feeding costs in 2022 and 2023 which caused the significant increase in the feed cost for growing milkable goats. As a result of the rising price of hay feed in 2022 and 2023, the costs and expenses of the Group for growing milkable goats increased as well; and

- (d) *Volume of milk produced by a goat per day:* It was anticipated that the average volume of milk produced by a milkable goat of Ruixiang Chengda would be 2.2 kg per day for the year 2023. According to statistics, the volume of milk produced by domestic milkable goat is less than that of imported milkable goat on average. Since all the milkable goats of Ruixiang Chengda were domestic and due to weather condition and the quality of hay feed during 2023, the actual volume of milk produced by a milkable goat was 1.65 kg per day on average.

INPUTS AND ASSUMPTIONS USED IN THE VALUATION REPORTS

According to the 2023 Biological Assets Valuation Report and the 2024 Biological Assets Valuation Report, the fair value of the biological assets of Ruixiang Chengda is approximately RMB22,992,000 as at 30 June 2023 and approximately RMB17,486,000 as at 31 December 2023 respectively. The valuation approach and methodology for both the 2023 Biological Assets Valuation Report and the 2024 Biological Assets Valuation Report are the same.

The Valuer has reviewed the following information from several sources, including but not limited to:

- (i) milkable goat, lamb, male goat and young goat statistics as at the valuation dates provided by Ruixiang Chengda;
- (ii) feeding costs, labor costs, medical costs and other cost information related to the biological assets provided by Ruixiang Chengda; and
- (iii) various metrics and indicators on the biological assets provided by Ruixiang Chengda.

The Valuer has taken into account the following factors when conducting the valuation:

- (i) the nature of business;
- (ii) the financial condition of the business and the economic outlook in general;
- (iii) the operational contracts and agreements in relation to the business;
- (iv) the projected operating results; and
- (v) the financial and business risk of the enterprise including the continuity of income and the projected future results.

Due to the decrease in raw goat milk price, the weakened demand owing to low birth rate in the PRC and the stalling economic recovery after the COVID-19 pandemic, the increase in operating costs for goats and the lower-than-expected volume of milk produced by each milkable goat per day, and thereby the decrease in the projected operating results of Ruixiang Chengda in 2023, the valuation of the fair value of the biological assets as at 30 June 2023 and as at 31 December 2023 decreased significantly.

The supplementary information provided in this announcement does not affect other information contained in the 2023 Annual Report. Save as disclosed above, the contents of the 2023 Annual Report remain unchanged.

By Order of the Board
YuanShengTai Dairy Farm Limited
Zhao Hongliang
Chairman

Hong Kong, 16 May 2024

As at the date of this announcement, the Board comprises four executive directors, namely Mr. Zhao Hongliang (Chairman), Mr. Zheng Yongjiu (Chief Executive Officer), Mr. Chen Xiangqing (Chief Financial Officer) and Mr. Liu Gang; three non-executive directors, namely Mr. Leng Youbin, Mr. Liu Hua and Mr. Cai Fangliang; and four independent non-executive directors, namely Mr. Meng Jingzong (alias Owens Meng), Mr. Zhang Yuezhou, Mr. Zhu Zhanbo and Ms. Liu Jinping.

** For identification purposes only.*