ASIAN CITRUS HOLDINGS LIMITED

亞洲果業控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 73)

SUPPLEMENTAL ANNOUNCEMENT TO THE ANNUAL REPORT FOR THE YEAR ENDED 30 JUNE 2023

Reference is made to the annual report of Asian Citrus Holdings Limited (the "**Company**", together with its subsidiaries, the "**Group**") for the year ended 30 June 2023 (the "**2022/23 Annual Report**").

In addition to the information as set out in the 2022/23 Annual Report, the Board wishes to provide supplemental information with regard to (i) the change in use of proceeds from the placement of shares by the Company (the "**Placing**"), details of which are set out in the circular of the Company dated 16 March 2021 (the "**Transaction Circular**"); and (ii) the impairment loss on the bearer plants and property, plant and equipment (other than bearer plants) in relation to the Plantation Business under the management discussion and analysis section of the 2022/23 Annual Report. Unless otherwise defined in this announcement, capitalised terms used herein have the same meanings as those defined in the 2022/23 Annual Report and the Transaction Circular.

SUPPLEMENTAL INFORMATION TO 2022/2023 ANNUAL REPORT

Change in use of proceeds from the Placing

As set out under the section headed "USE OF PROCEEDS" in the Transaction Circular, the net proceeds from the Placing (the "**Net Proceeds**") were intended to be used for the following purposes:

(i) approximately HK$68.4 million would be used for the financing of the Consideration, details of which are set out in the Transaction Circular;

(ii) approximately HK$11.0 million would be used for the refurbishment of the Target Land and Properties; and

(iii) approximately HK$15.3 million would be used for the working capital of the Group for daily operations.

The Net Proceeds received by the Company, after deduction of all relevant expenses payable by the Company in connection with the Placing, were approximately HK$94.7 million. As set out under the section headed "USE OF PROCEEDS FROM THE COMPANY'S PLACING OF NEW SHARES UNDER SPECIFIC MANDATE" in the 2022/23 Annual Report, the Company had utilised approximately HK$83.7 million of the Net Proceeds up to 30 June 2023 in the manner disclosed in the 2022/23 Annual Report.

As at the date of this announcement, the unutilised Net Proceeds amounted to approximately HK$11.0 million. The Board has resolved the change the use of the unutilised Net Proceeds. An analysis of the utilisation of the Net Proceeds as at the date of this announcement and the proposed change in the use of the unutilised Net Proceeds is set out as below:

	Planned use of the Net Proceeds as disclosed in the Transaction Circular *HK$'000*	**Actual use of the Net Proceeds from the date of completion of the Placing up to date of this announcement** *HK$'000*	**Unutilised Net Proceeds as at 30 June 2023** *HK$'000*	**Proposed application of the unutilised Net Proceeds** *HK$'000*
Financing of the Consideration	68,400 *(72.2%)*	68,400 *(72.2%)*	— *(0.0%)*	— *(0.0%)*
Refurbishment of the Target Land and Properties	11,000 *(11.6%)*	— *(0.0%)*	11,000 *(11.6%)*	2,000 *(2.1%)*
Plantation Business	N/A	N/A	N/A	5,000 *(5.3%)*
Working capital of the Group for daily operations	15,300 *(16.2%)*	15,300 *(16.2%)*	— *(0.0%)*	4,000 *(4.2%)*
Total	94,700 *(100.0%)*	83,700 *(88.4%)*	11,000 *(11.6%)*	11,000 *(11.6%)*

The Company intends to apply the unutilised Net Proceeds of (i) HK$2 million for the potential refurbishment of the Target Land and Properties; (ii) HK$5 million towards the Plantation Business for passion fruits, mainly including cost for labour, fertilisers and seedlings; and (iii) HK$4 million for the working capital of the Group for daily operations. The unutilised Net Proceeds are expected to be utilised by 30 June 2025. The expected timeline for using the unutilised Net Proceeds is based on the best estimation of the business needs of the Group and market situations made by the Board. It might be subject to changes based on the practical situation of the Group and market conditions. Further announcement(s) in respect of change in timeline, if any, will be made by the Company in accordance with the requirements of the Listing Rules as and when appropriate to update its Shareholders and potential investors.

The Board confirmed that save for the aforesaid changes, there are no other changes in the use of the Net Proceeds.

Reasons for and the benefits of the change in use of Net Proceeds

With reference to the Transaction Circular, the Company initially intended to apply approximately 11.6% or HK$11.0 million of the Net Proceeds towards the refurbishment of the Target Land and Properties. However, having considered the impact of the outbreak of the COVID-19 pandemic (the "**Outbreak**"), the market conditions and the Group's business needs in or around the second half of 2021, during 2022 and 2023, the Board noted that (i) it has becoming increasingly challenging to predict the market demand of the Fruit Distribution Business during the Outbreak given the implementation of various containment policies to prevent the spread of the Outbreak; (ii) the originally estimated economic benefits to be generated from the refurbishment of the Target Land and Properties was adversely affected given the uncertainties around the market demand at the time; and (iii) the economic recovery after the reopening was gradual and not as significant as anticipated. On this basis, the Board has acted prudently and halted the refurbishment plan of the Target Land and Properties.

After due and careful consideration of the current business environment and development needs of the Group including, among others, (i) the prevailing operating environment and business needs of the Fruit Distribution Business, in particular, given the competitive landscape of the Guangdong fruit distribution market, the Group is expected to reallocate a portion of the Net Proceeds originally for establishing a comprehensive distribution centre for its value-added services on processing fruits under its Fruit Distribution Business in the Guangdong province to its orchards under the Plantation Business in the Guangxi province with a view to enhance the overall efficiency in the allocation of resources; (ii) the current intended usage of the Target Land and Property; and (iii) the working capital needs of the Group, the Board is of the view that the certain portion of the remaining Net Proceeds originally intended for the refurbishment of the Target Land and Properties shall be reallocated to (i) contribute towards the fulfilment of development needs of its Plantation Business; and (ii) strengthen the overall working capital of the Group.

Despite the past challenging operating environment, given the continuous recovery of the overall PRC economy, which is likely to drive domestic consumer spending in the long run, together with the gradual improvement in overall fruit production over time, the Board is cautious optimistic on the long-term prospects of the Group.

In view of the foregoing and upon reviewing the Group's operation needs, business segments and their future prospects, the Board is of the view that the change in use of unutilised Net Proceeds will allow the Company to deploy its financial resources more effectively and is in the interests of the Company and its Shareholders as a whole. The Board believes that the above change is in line with the business strategy of the Group and will not materially and adversely affect the existing operations and businesses of the Group.

Impairment loss on plants and property, plant and equipment in relation to the Plantation Business

Further details of the impairment loss on the bearer plants and property, plant and equipment (other than bearer plants) in relation to the Plantation Business for the year ended 30 June 2023 ("**FY2023**") are set out below:

(i) Impairment loss on bearer plants

In connection with the impairment assessment of the bearer plants owned by Guangxi Hepu Guanhua Agriculture Co., Ltd.* (廣西合浦冠華農業有限公司) (the "**Bearer Plants**"), a wholly-owned subsidiary of the Company, as at 30 June 2023 (the "**Valuation Date**"), the Company has engaged Peak Vision Appraisals Limited, an independent valuer (the "**Independent Valuer**"), to conduct a valuation on the bearer plants, details of which were set out in the valuation report dated 28 September 2023 (the "**Bearer Plant Valuation Report**"), of which the Directors based their assessment of the subject impairment loss on. As set out in the Bearer Plant Valuation Report, the Independent Valuer has considered the following valuation methodologies, namely, (a) the cost approach; (b) the market approach; and (c) the income approach. Having considered the three aforesaid general valuation approaches, the Independent Valuer was of the view that the income approach would be appropriate and reasonable in appraising the fair value of the Bearer Plants, given that (i) insufficient comparable transactions in the market for making a reliable estimate of the selling price by adopting market approach; and (ii) future economic benefit not being taken into consideration by adopting asset approach.

In addition to the details on the value of inputs used in the valuation together with the basis and assumptions adopted that were disclosed in note 14 to the consolidated financial statements of the 2022/23 Annual Report, the Board herewith set forth the following information with regard the Bearer Plant Valuation Report, including the bases and assumptions:

(a) information as set out in the survey assessment report on the citrus trees and fruits at Guangxi Beihai Hepu Citrus Orchard* (廣西北海合浦柑橘果園柑橘樹體及果實調查評估報告) prepared by Southwest University* (西南大學) dated 28 September 2023 (the "**Assessment Report**"). According to the Assessment Report, there has been a significant increase in pest and disease damage during the year ended 30 June 2023 with the incidence rates of citrus canker and HuangLongBing* (黃龍病) in citrus trees increased to more than 40%. Additionally common pests have caused significant damage, greatly impacting the yield and value of the citrus trees. As a result of the above, the Management plans to remove the citrus trees severely affected by HuangLongBing* (黃龍病) and citrus canker, resulting in approximately 142,826 remaining citrus trees (including citrus trees planted in area

402 and area 403, with a total site area of approximately 2,278.59 mu, which have been assigned to Mr. Liu Yan Fa* (劉炎發) ("**Mr. Liu**"), for a period of 15 years commencing on 1 July 2019 and ending on 30 June 2034 for a management fee of RMB500/mu, which amounted to approximately RMB1.14 million of management fee per annum), pursuant to a co-operation agreement entered into between the Group and Mr. Liu in July 2019;

(b) selling price for the second half of 2023 and first half of 2024:

— oranges (wholesale): RMB2.6/kilogram

(c) estimated total volume of production ranged from approximately 1,149.9 tonnes (FY23/24) (defined hereafter) gradually increase to approximately 1,196.6 tonnes (FY27/28) (defined hereafter) during the projection period;

(d) direct production costs, which mainly included, fertilizer, pesticide, wages and other planting and growing costs during the projection period are estimated to be between RMB131.31 and RMB138.46 per tree;

(e) a projection period of five years from the year ending 30 June 2024 ("**FY23/24**") to the year ending 30 June 2028 ("**FY27/28**"); and

(f) the weighted average cost of capital (the "**WACC**"), being 17.17%, is applied as the discount rate for the purpose of the valuation under the income approach. The cost of equity of 13.50% was calculated based on the capital asset pricing model. The cost of debt of 4.2% by reference to China Above 5-Year Lending Prime Rate. The weight of debt and equity was estimated to be 13%:87%. Specific risk premium applied in estimating WACC was 5%.

As set out in the Bearer Plant Valuation Report, the fair value of the Bearer Plants as at the Valuation Date was nominal.

The projection period was shortened from 16 years in the valuation as at 30 June 2022 to 5 years in the valuation as at 30 June 2023. This adjustment was made due to the significant deterioration in the yield of the Bearer Plants during the year ended 30 June 2023 (as mentioned under (a) above). Consequently, the economic benefits expected from the Bearer Plants became nominal throughout the projection period, with no significant improvement in the yield. Thus, the Independent Valuer considered that extending the projection period become meaningless. Save for the above, there were no significant changes in the value of the inputs and assumptions from those previously adopted. The Board confirmed that there were no subsequent changes to the valuation method adopted.

(ii) Impairment loss on property, plant and equipment (other than bearer plants)

In connection with the impairment assessment of the property, plant and equipment (other than bearer plants) (the "**PPE**") as at 30 June 2023, the Company also engaged Peak Vision Appraisals Limited (i.e. the Independent Valuer) to conduct a valuation on the PPE, details of which were set out in the valuation report dated 28 September 2023 (the "**PPE Valuation Report**"), of which the Directors based their assessment of the subject impairment loss on. As set out in the PPE Valuation Report, the Independent Valuer has considered that (i) pursuant to International Accounting Standard 36 Impairment of Assets, estimating the value in use of an asset involve (a) estimating the future cash inflow and outflows to be derived from continuing use of the asset and from its ultimate disposal; and (b) applying the appropriate discount rate to those future cash flow; (ii) the estimation of value in use conforms with the income approach to valuation under the International Valuation Standards which focuses on the economic benefits generated by the income producing capability of a business. Having considered that (i) the income approach estimates the future economic benefits and discounts these benefits to its present value using a discount rate appropriate for the risks associated with realizing those benefits; (ii) income approach is well accepted by most analyst and practitioners; and (iii) the free cash flow is available to the business, the income approach has been adopted by the Independent Valuer.

In addition to the details on the value of inputs used in the valuation together with the basis and assumptions adopted that were disclosed in note 14 to the consolidated financial statements of the 2022/23 Annual Report, the Board herewith set forth the following information with regard the PPE Valuation Report, including the bases and assumptions:

(a) according to the Assessment Report, it suggests that the Management to (i) install anti-insect nets covering all relevant cultivation areas to protect against fruit flies; and (ii) remove the old seedlings and replant in the next winter season to improve the quality of passion fruits.

(b) selling price for the second half of 2023 and first half of 2024:

— passion fruit (wholesale): in the region of RMB19.8/kilogram;

(c) estimated total volume of production ranged from approximately 1,136.7 tonnes (FY23/24) and increases to approximately 2,137.5 tonnes (FY27/28);

(d) direct production costs, which mainly included, seedlings, fertilizer, pesticide, wages and other planting and growing costs during the projection period are estimated to be between RMB9.04 and RMB9.78 per kilogram of passion fruit produced;

(e) a projection period of five years from FY23/24 to FY27/28; and

(f) the WACC, being 17.17%, is applied as the discount rate for the purpose of the valuation under the income approach. The cost of equity of 13.50% was calculated based on the capital asset pricing model. The cost of debt of 4.2% by reference to

China Above 5-Year Lending Prime Rate. The weight of debt and equity was estimated to be 13%:87%. Specific risk premium applied in estimating WACC was 5%.

There were no significant changes in the value of the inputs and assumptions from those previously adopted. The reasons for adopting the value-in-use calculation were (i) insufficient comparable transactions in the market for making a reliable estimate of the selling price by adopting market approach; and (ii) future economic benefit not being taken into consideration by adopting asset approach, and the Board confirmed that there were no subsequent changes to the valuation method adopted.

Additional Information

The Board confirmed that the supplemental information provided in this announcement does not affect any other information contained in the 2022/23 Annual Report and, save as disclosed above, the contents of the 2022/23 Annual Report remain unchanged.

Shareholders and potential investors of the Company are advised to exercise caution when dealing in the shares of the Company.

By order of the Board
Asian Citrus Holdings Limited
Li Ziying
Executive Director

Hong Kong, 5 January 2024

As at the date of this announcement, the Board comprises one executive Director, namely Ms. Li Ziying (Chairman); a non-executive Director, namely Mr. James Francis Bittl; and three independent non-executive Directors, namely Mr. Liu Ruiqiang, Mr. Wang Tianshi and Ms. Liu Jie.

* *for identification purposes only*