

Valuation of the Identifiable Tangible and Intangible Assets and Liabilities belonging to China Shengmu Organic Milk Limited

Client : China Modern Dairy Holdings Ltd

Report Date : 30 June 2026

Valuation Date : 31 March 2026

Reference Number : CON102636865



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No opinion is intended to be expressed for matters which we deem to cover legal, compliance, tax, accounting or other specialised expertise or knowledge and are beyond what is customarily employed by valuers. Within our Services, we have assumed the Target Company has obtained all requisite legal registration associated with it and is freely transferable in the market without any legal obstacles.

Our opinion of value is current only as per the Valuation Date. It is based on economic, market and other conditions as they exist on, and information made available to us as of, the Valuation Date and we assume no obligation to update or otherwise revise these materials for events in the time since then. Assessed values may change significantly and unexpectedly even over short periods. An actual transaction regarding the Subject may be concluded at a higher value or lower value, depending on the circumstances surrounding it, its owner, or the motivations and knowledge, or all, of both the buyers and sellers at that time. JLL makes no guarantees as to what values individual buyers and sellers may reach in an actual transaction.

We must emphasise that the realisation of the prospective financial information is dependent on the continuing validity of the assumptions on which it is based. Actual results are likely to be different from those shown in the prospective financial information because events and circumstances frequently do not occur as expected, and the differences may be material.

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1. INTRODUCTION

1.1. Definitions and Abbreviations

Term / Abbreviation	Definition / Long form
Agreement	Service agreement between JLL and the Client
Client	China Modern Dairy Holdings Ltd.
CNY	Chinese Yuan
Fair Value	Fair Value – the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date
IAS	International Accounting Standards issued by the International Accounting Standards Board
IFRS	International Financial Reporting Standards issued by the International Accounting Standards Board
JLL	Jones Lang LaSalle Corporate Appraisal and Advisory Limited
Report	The written account of our methodology, principal assumptions, findings and opinion regarding the value of the Subject
Report Date	The date on which we issue the written account of our methodology, principal assumptions, findings and opinion regarding the value of the Subject
Services	Refers to the services described in the Agreement between JLL and the Client
Subject	The Identifiable Tangible and Intangible Assets and Liabilities belonging to China Shengmu Organic Milk Limited

Term / Abbreviation	Definition / Long form
Target Company, or Shengmu	China Shengmu Organic Milk Limited
Valuation	Means the work products including but not limited to the Report concerning the Services
Valuation Date	31 March 2026, being the date to which the valuation applies

1.2. Executive Summary

In accordance with the instructions of the Client, we have undertaken an investigation and analysis to determine an independent opinion of the Fair Value of the Subject as at the Valuation Date. The Report is issued on 30 June 2026 (the “**Report Date**”).

The purpose of this valuation is for accounting reference and is issued to comply with requirements under Rule 11 of the Hong Kong Code on Takeovers and Mergers.

The Target Company, China Shengmu Organic Milk Limited (stock code:1432), is a dairy company primarily engaged in forage cultivation, dairy farming, and raw milk production. According to the Annual Report 2025 of the Target Company and the discussion with the management of the Target Company, by the end of 31 March 2026, Shengmu operated 34 farms, including organic milk farms, DHA milk farms, organic A2 milk farms, and standard high-quality raw milk farms, with a total of 141 thousand cows in stock, among which 138 thousand were dairy cows in stock.

Our valuation was carried out on a Fair Value basis. Fair Value is defined as “the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date”.

We wish to highlight that the opinion of value is subject to numerous assumptions, qualifications and disclaimers which are provided throughout the Report. Our opinion is also heavily reliant on information provided to us, which we are not in the position to verify for accuracy or truthfulness. Finally, we must emphasize that the realization of prospective financial information is highly uncertain and is dependent on the validity of many assumptions which frequently do not occur as expected, causing significant differences in value.

On top of such assumptions, we have also considered various risks and uncertainties that have potential impact on the Subject which are elaborated on in section 4 below. Furthermore, readers should be aware of the ever-present model risk inherent in any financial model which is a simplified version of reality potentially not accounting for or incorrectly accounting for complex issues.



Based on the results of our investigation and analysis outlined in the Report which follows, we are of the opinion that the Fair Value of the Subject as at the Valuation Date is stated as below.

Asset	Fair Value <i>(CNY'000)</i>
Non-current assets	
Property, plant and equipment	1,716,217
Right-of-use assets	228,535
Other intangible assets	21,434
Investments in associates	82,239
Biological assets	3,120,657
Cash and bank balances	60,422
Current assets	
Inventories	734,939
Biological assets	9,348
Trade receivables	253,204
Prepayments, other receivables and other assets	67,077
Other financial assets	190,000
Restricted bank deposits	12,127
Cash and bank balances	792,186
Total Assets	7,288,385
Liability	
Fair Value <i>(CNY'000)</i>	
Current liabilities	
Trade and bills payables	1,320,467
Other payables and accruals	122,757
Lease liabilities	17,518
Interest-bearing bank borrowings (current portion)	862,661
Tax payable	69
Non-current liabilities	
Lease liabilities (non-current portion)	16,451
Deferred income	12,116
Interest-bearing bank borrowings (non-current portion)	1,271,277
Total Liabilities	3,623,315



Fair Value
(CNY'000)

Net Assets

3,665,068

Note: Numbers may not add up due to rounding.

The following pages outline the methodology, factors considered and assumptions employed in formulating our opinions of value.

For and on behalf of
Jones Lang LaSalle Corporate Appraisal and Advisory Limited

A handwritten signature in dark ink, consisting of several loops and a horizontal line at the end, positioned above the printed name.

Simon M.K. Chan
Executive Director



2. VALUATION PARTICULARS

2.1. Valuation Purpose

The purpose of the Valuation is for accounting reference.

In accordance with the instructions of the Client, JLL is engaged to perform a valuation of the Subject in accordance with the IFRS 3.

China Modern Dairy Holdings Ltd. (stock code: 1117), together with its subsidiaries, is a dairy farming operator and raw milk producer in the People's Republic of China.

2.2. Background of the Subject

The Subject of this valuation exercise is the Identifiable Tangible and Intangible Assets and Liabilities belonging to the Asset Group of China Shengmu Organic Milk Limited.

The Target Company, China Shengmu Organic Milk Limited (stock code:1432), is a dairy company primarily engaged in forage cultivation, dairy farming, and raw milk production. By the end of 31 March 2026, Shengmu operated 34 farms, including organic milk farms, DHA milk farms, organic A2 milk farms, and standard high-quality raw milk farms, with a total of 141 thousand cows in stock, among which 138 thousand were dairy cows in stock.

2.3. Independence Declaration

JLL confirms that to the best of our knowledge and belief, we are independent of the Client and have not contravened any independence requirements stipulated as per our professional memberships. Our fee is not contingent upon our conclusion of value.

2.4. Reliance on External Information

Many of the inputs within the Valuation make use of external information obtained from the Client and / or the Target Company and other public sources. We have relied to a considerable extent upon such information relating to aspects of the Subject including but not limited to its financial features. We have assumed that the information and data provided by these sources is accurate and truthful, but we make no representation as to the accuracy or completeness of such information. For all information sourced, JLL has not audited, corroborated and is not obliged to conduct due diligence to verify for their accuracy and truthfulness. A commonly referenced, though not exhaustive, list of such information includes Client historical and prospective financial information, representations made by the Client and / or their professional advisors, financial/ economic databases and technical papers from the professional services / academic sectors.

2.5. Standards

For this Valuation we have been guided by the following standards according to the different elements involved in our scope of work.

- Regarding financial reporting, International Financial Reporting Standards and International Accounting Standards issued by the International Accounting Standards Board
 - International Financial Reporting Standard 3 – Business Combinations
 - International Accounting Standard 38 – Intangible Assets
 - International Accounting Standard 41 – Agriculture
- Regarding valuation, International Valuation Standards issued by the International Valuation Standards Council

2.6. Identification of Intangible Assets

As part of our valuation process, we have attempted to identify intangible assets as at the Valuation Date and estimate the fair value of these assets in accordance with IAS 38.

IAS 38 requires the recognition of an intangible asset as an asset separately from goodwill if it is separable or arises from contractual or other legal rights and states that the intangible asset should be recognized if, and only if it is probable that the future economic benefits that are attributable to the asset will flow to the enterprise and the cost of the asset can be measured reliably.

The Target Company produces raw milk through the raising of dairy cattle (a biological asset) and derives its primary revenue from this activity. The Target Company's operations are highly dependent on biological assets and related supporting property, plant and equipment (e.g., barns, milking equipment). The Target Company's trademarks and customer relationships are not separable from its related-party arrangements, particularly with its major shareholders; and therefore do not meet the identifiability criterion under IAS 38 and are included in goodwill.

Based on interviews and discussions with the Target Company, as of the Valuation Date, there is no indication that any other identifiable intangible asset, such as patented technology, favorable contracts, non-compete agreements and similar items, exists or meets the recognition criteria in IAS 38.

2.7. Basis of Value

Our Valuation was carried out on a Fair Value basis.

Fair Value is defined as “Fair Value – the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.”

2.8. Valuation Date

The Valuation Date is set to be 31 March 2026.

2.9. Currency

Our opinion of value is presented in CNY unless otherwise stated.

3. VALUATION METHODOLOGY

3.1. Valuation Approaches

There are three generally accepted valuation approaches, namely the market, cost and income approaches.

Market Approach

A market approach determination of value is achieved by comparing the Subject with similar assets or liabilities for which prices are available. Often adjustments are made to reflect the date of the transaction, condition and utility of the comparable relative to the Subject. Subjects for which there is an established, liquid, secondary market may be valued by this approach.

Benefits of using this approach include its simplicity, clarity, speed and the need for few inputs and assumptions. It also introduces objectivity in application as publicly available inputs are used. However, one has to be wary of the hidden assumptions in the inputs as there are inherent assumptions on the value of those comparable subjects. Market approaches also suffer in that it can be hard to find transactions for comparables that are justifiably comparable.

Cost Approach

A cost approach determination of value of a Subject works on the principle that a buyer will not pay any more for an asset / liability than the cost to obtain an equivalent one by purchase or by construction. Therefore, the cost approach considers the cost to reproduce or replace the Subject in accordance with current market prices for similar subjects, with an allowance for accrued depreciation or obsolescence, whether arising from physical, functional or economic causes.



The cost approach generally furnishes the most reliable indication of value for subjects without a known secondary market. It is also advantageous when the subject is not directly income generating and/or is unique thus ruling out the applicability of the other two valuation approaches. Despite the simplicity and transparency of this approach, it does not directly incorporate information about the economic benefits contributed by the Subject.

Income Approach

An income approach determination of value is achieved by the conversion of expected future cash flow or cost savings generated by the Subject into a present value. It is based on the principle that an informed buyer would pay no more for the Subject than an amount equal to the present worth of anticipated future benefits (income or cost savings) from the same or a substantially similar asset or liability with a similar risk profile.

Advantages of this approach lie in its ability to work when information on relevant market comparables is inadequate and when reasonable projections for the quantity and timing of expected future cash flows associated with the Subject can be made. However, this approach relies on numerous assumptions over a long time horizon which by their nature are not able to be independently verified. The result of such an approach may be very sensitive to certain inputs chosen and inevitably, some assumptions may not materialize meaning actual future values may vary greatly from what was forecasted.

3.2. Selection of Approach

In the Report, we have adopted the summation method under the cost approach. The summation method is typically adopted for a subject when its value is primarily a factor of the sum of its parts.

Summation Method

Under the summation method, each identifiable asset and liability of the Target Company is valued using the appropriate valuation approaches, and our opinion of value of the Subject is derived by adding component assets and deducting component liabilities.

In this report, we have considered the type of assets and liabilities and their conditions when arriving at the fair value.

3.2.1. Property, Plant and Equipment

Due to the nature of buildings, structures, machinery and equipment as well as their particular location, relevant comparable transaction cases in the open market are not readily available. All items within property, plant and equipment are valued under the cost approach based on depreciated replacement cost. Depreciated replacement cost is defined as “the current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and all relevant forms of obsolescence and optimization”.

For the valuation process, current price indices are adopted to adjust historical costs to derive the prevailing replacement cost of each asset and also make reference to current construction cost of replacing assets in new condition. The cost approach considers the cost to reproduce or replace the assets in new condition in line with current market prices for similar assets, with full allowance for accrued depreciation arising from condition, utility, age, wear and tear, as well as physical, functional and economic obsolescence. Past and present maintenance policies and service history of the assets are also taken into consideration. This methodology is deemed to provide the most reliable indication of value for these assets which lack an active second-hand trading market.

3.2.2. Right-of-Use Assets

The majority of the right-of-use assets (122,000 mu grassland) is valued under the income approach, by taking into account the anticipated net rental income generated over the remaining tenure and reasonable reversionary income potential of the land. The projected cash flows are discounted at an appropriate rate to arrive at the fair value. A set of reasonable and prudent assumptions relating to development, rental arrangement, operating expenses and discount rate are adopted throughout the valuation process, given the long-term operating nature of the grassland asset.

Other minor right-of-use assets are not revalued separately. Their net book values are recognized as the fair value.

3.2.3. Biological Assets

Calves and heifers

The market approach is adopted to value the calves and heifers. The most recent negotiated selling price for heifers at about 14-month age exists as at the Valuation Date, therefore the fair value of the calves and heifers is developed through the application of market approach with reasonable adjustments to reflect the age differences.



Milkable cows

The income approach is adopted to value the milkable cows. There is no reliable market-based price for milkable cows at this stage, therefore the fair value of the milkable cows is developed through the application of income approach technique known as multi-period excess earnings method (MEEM). MEEM is a derivative of the discounted cash flow ("DCF") method. Using this technique, we estimate the direct economic benefits attributed to the milkable cows. Such economic benefits are then capitalized at a rate which reflects all business risks including intrinsic and extrinsic uncertainties in relation to the subject assets. To estimate the economic benefit, the revenues for the milkable cows are projected over their remaining useful lives. Based on the projected revenues, the costs associated with supporting the milkable cows are netted off. The net income projection is then adjusted by economic capital charges. The capital charges include returns on the assets that are used or used up in the generation of the subject biological assets income projection. Examples of such assets include fixed assets, assembled workforce and working capital.

3.2.4. Other Assets and Liabilities

The Target Company's assets, excluding Property, Plant and Equipment, right-of-use assets, and Biological Assets, primarily consist of inventories, trade receivables, prepayments and other receivables, other financial assets, restricted bank deposits, cash and bank balances, intangible assets, and investments in associates. Other liabilities of the Target Company mainly consist of notes payable, accounts payable, contract liabilities and other payables.

We consider their book values on consolidated financial statements issued by the Target Company are representative of their fair values due to the natures of such assets and liabilities.

4. VALUATION ANALYSIS

4.1. General Assumptions

The following key assumptions in determining the Fair Value of the Subject have been made.

- The Valuation was primarily based on the financial projections and latest historical financial information made available to us. The projections outlined in the financial information provided were prepared on a reasonable basis, reflecting aspects of the Target Company including but not limited to market conditions, economic fundamentals, availability of competent management and sufficient personnel, sufficient facilities and systems for future expansion, and we assume they will materialize;



- The Target Company has, or will have, sufficient capital (financial, human, physical) to achieve or contribute to current and future production;
- There will be no material change in the core operations of the Target Company from what is present and / or expected;
- All relevant laws, statutes, ordinances and regulations pertaining to the Target Company are complied with and (where applicable) licenses and permits are renewable upon expiry;
- Operational and contractual terms stipulated in the contracts and agreements associated with the Target Company will be honored;
- We have assumed that there are no hidden or unexpected conditions associated with the Target Company that might adversely affect the reported values;
- There will be no material change in the existing political, legal, technological, fiscal or economic conditions from present and/or from what is expected, which might adversely affect the business of the Target Company; and
- Our Valuation is conducted based on a going concern assumption, in which the Target Company is viewed as continuing in business for the foreseeable future.

4.2. Sources of Information, Key Inputs and Assumptions

The information used to determine the value of the Subject as at the Valuation Date was based on the management accounts as at 31 March 2026, provided by the management of the Target Company.

4.2.1. Key Assumptions and Inputs for Property, Plant and Equipment (PPE)

The property, plant and equipment are mainly located in Bayannur and Alxa League, Inner Mongolia. These assets primarily consist of various pasture-related facilities and production supporting assets. All assets are well maintained and currently in normal operational condition.

Different from conventional real estate development projects, certain property assets fail to obtain formal property ownership certificates due to non-standard land and building attributes. By contrast, plant and equipment do not require real estate title certificates by nature. All such machinery, facilities and auxiliary assets are fully recorded in the Company's financial books and recognized as its owned assets. We have duly verified the ownership status of all plant and equipment items during our valuation exercise. Consistent with prevailing industry practice for pasture-related assets, our valuation analysis places primary emphasis on their actual usage, operational conditions and economic usability.

PPE Valuation Summary

Category	Original Book Value (CNY)	Net Book Value (CNY)	Fair Value (CNY)
Buildings	492,536,326	274,067,387	371,254,000
Structures	2,005,865,541	1,166,633,463	1,011,111,000
Machinery & Equipment	912,663,240	379,723,896	335,147,000
Construction-in-Progress	4,566,600	4,566,600	4,567,000
Total PPE	<u>3,415,631,707</u>	<u>1,756,325,518</u>	<u>1,716,217,000</u>

Buildings

Buildings are valued based on depreciated replacement cost. The standard total useful life for all buildings is estimated at 40 years. Remaining useful life is determined according to the date of acquisition and actual service duration, functional and economic obsolescence of each asset. Current construction price indices are adopted to calculate replacement cost. Physical wear and tear as well as functional obsolescence arising from long-term usage are fully considered to determine the final assessed value.

Structures

Structures are valued by depreciated replacement cost. The prescribed total useful life for structures is 20 years. Remaining useful life is assessed on an individual basis with reference to their useful years and on-site conditions. Relevant civil engineering price adjustments are applied to compute replacement cost. Physical deterioration, ageing and functional depreciation are taken into account in the valuation process.

Machinery & Equipment

Machinery and equipment are valued based on the depreciated replacement cost. The standard total useful life for this category is 10 years. Remaining useful life is determined by actual operating hours and service periods. Current market price indices for industrial equipment are used to adjust replacement cost. Physical loss, technical obsolescence and economic factors are comprehensively considered in deriving the assessed value.

Construction-in-Progress (CIP)

Construction-in-Progress is valued based on actual accumulated construction costs and current project progress. No material adjustments have been made, and the carrying amount is deemed as the fair value, with only minor rounding differences presented in the final result.

4.2.2. Key Assumptions and Inputs for the Valuation of Right-of-Use Assets (ROU)

The right-of-use assets are mainly located in Bayannur and Alxa League, Inner Mongolia, predominantly comprising pasture and grassland land rights. The 122,000 mu grassland right-of-use is valued via the income approach, by taking into account the net rental income derived from the overall leasing arrangement and the reversionary income potential over the remaining tenure. The projected cash flows are discounted at an appropriate capitalization rate to determine the fair value. A set of reasonable and market-aligned assumptions is adopted throughout the valuation.



For other miscellaneous right-of-use assets, their net book value is adopted as the fair value.

Category	Original Book Value (CNY)	Net Book Value (CNY)	Fair Value (CNY)
122,000 mu Grassland ROU	512,400,000	154,000,000	129,500,000
Other ROU Assets	175,114,279	99,035,417	99,035,200
Total ROU	687,514,279	253,035,417	228,535,200

Valuation Assumption

- The 122,000 mu grassland is currently undeveloped barren grassland without any improvement works, and has remained idle since CSM obtained the 50-year contractual use right from Alxa Left Banner People's Government in 2015, with no water intake permit obtained as at the Valuation Date. We have reviewed and verified the relevant land contracting contract. We assume valid water access permit can be obtained for normal operation, given water supply is the basic leasing prerequisite and all similar pasture leases generally hold relevant permits. The land is qualified to apply for such permit, hence this assumption is made prudently in line with market facts, and it is assumed the lessor will go through relevant formalities to secure the permit.
- The grassland will be fully leased to one single tenant. Such overall leasing is practically feasible, as appealing leasing terms can draw interest from forage, dairy and relevant enterprises, and numerous similar whole-land leasing cases are found in surrounding areas. The tenant shall bear all development costs and complete relevant construction to meet operational standards.
- Reasonable rent-free period and preferential rental terms are offered to the tenant in line with general market practice.

Leasing Terms (Formulated based on general local market research)

- Rent-free period: The first 3 years of the lease term are exempted from payment of rent.
- Phase 1 rent: The subsequent 5 years, the annual rent is CNY50 per mu.
- Phase 2 rent: The next 5 years, the annual rent is CNY100 per mu.
- Stable period rent: After the above phases, the annual rent is fixed at CNY150 per mu for the long-term stable operation.

- Capitalisation rate: a uniform capitalisation rate of 7% is applied with year-end discounting adopted for all cash flow calculations. This rate is uplifted from the 5.34% official industrial land rate in Hohhot by around 30%. Considering higher operational risks of grassland assets affected by natural conditions, industry cycles and relevant policies, the adjustment is made in compliance with risk matching principle.

Operating Costs

Annual operating costs are calculated as 10% of the annual rental income. This ratio is confirmed via local grassland market surveys. As the lessor still needs to cover necessary recurrent outlays including facility maintenance, field patrol, insurance and administrative expenses, and such costs range from 5% to 10% of rental income, we adopt 10% prudently considering harsh local natural conditions. It covers routine land insurance, daily field patrol expenses, as well as basic maintenance costs for on-site fences, water supply and power supporting facilities, which represent the general recurring expenses for holding the grassland right-of-use.

Valuation Result

Based on the above leasing terms and cost assumptions, the fair value of the 122,000 mu grassland right-of-use is CNY129,800,000. For other miscellaneous right-of-use assets, their net book value is adopted as the fair value.

4.2.3. Key Assumptions and Inputs for the Valuation of Biological Assets

In this exercise, we have evaluated the various assumptions and parameters in order to provide a more accurate and reasonable basis for arriving at our assessed value.

Quantity

In conducting our valuation, we have relied on the detailed quantities of Biological Assets provided by the management of the Target Company as at the Valuation Date, which is stated as below.

	Calves & Heifers (Immature Cows)	Milkable Cows (Mature Cows)	Subtotal
Bayannur Farms – Organic	53,608	51,716	105,324
Hohhot Farms – Ordinary	19,244	13,779	33,023
Hohhot Farms – DHA	950	2,066	3,016

4.2.3.1. Calves and heifers

As the most recent market transaction prices existed for the young heifers at average 14 months age, according to IAS 41, the fair value of calves and heifers can be developed through the application of market approach through adjusting the market transaction prices. Two major parameters of quantity and adjusted market prices are used in determining the fair value of calves and heifers.

Quantity

In conducting our valuation, we have relied on the detailed quantities of Biological Assets provided by the managements of the Target Company as at the Valuation Date.

Market Price

We understand from the management of the Target Company that the most recent negotiated selling price to third parties for heifers at an average age of 14 months is CNY 19,000 – 19,500 per head.

The fair value of the Biological Assets at other age groups is then determined with appropriate adjustments to this market-based price according to the discussions with the managements of the Client. We calculate the fair value of Biological Assets at age-groups less than 14 months by subtracting the feed costs, labor costs, medical costs, land rental costs and other miscellaneous costs required to raise the Biological Assets from the specific age (including 2 to 6 months) to 14 months. Conversely, we calculate the fair value of Biological Assets at age groups between 14 and 24 months by adding the feed costs, labor costs, medical costs, land rental costs, insemination costs and other miscellaneous costs required to raise the Biological Assets from the 14 months to the specific age (including 24 months and over 24 months) and to inseminate them. Furthermore, in the valuation, we have considered the necessary adjustments to death and culling rates as well as risk compensation for calves and heifers at different age groups, which is in accordance with the discussions with the management. We obtain the disposal values for an average bull calf and an average mature cow from the Client.

4.2.3.2. Milkable cows

The MEEM is applied in the valuation of the milkable cows. Using this technique, we estimate the direct economic benefits attributed to the milkable cows. To estimate the economic benefit, the revenues for the milkable cows are projected over their remaining useful lives. Based on the projected revenues, the costs associated with supporting the milkable cows are netted off to arrive at a net income projection. The contributory asset charges, which represent returns on other assets (including fixed assets, working capital and assembled workforce) that are used or used up in the generation of the biological asset income projection, are then subtracted from the projection. Such residual economic benefits are then capitalized at an appropriate discount rate.

Net Income Projection

Key inputs for the valuation models of the milkable cows include:

- quantities of milkable cows, culled cows, and salable calves,
- culling rates,
- production volume of raw milk,
- prices of raw milk, calves and culled cows,
- operating costs

Contributory Asset Charges

In deriving the residual cash flow of the Biological Assets, we have deducted returns on contributory assets which represent charges for the use of contributory assets employed to support the operation of the Biological Assets and help generate revenue.

Tax Rate

In accordance with relevant Chinese laws and regulations, the corporate tax rate applicable to income derived from the raising of livestock is 0%.

Discount Rate

In applying the MEEM for the Valuation, it is necessary to determine an appropriate discount rate for the assets under review. We have determined that the appropriate discount rate for the Subject is its weighted average cost of capital (“WACC”).



The concept of WACC is to incorporate the different costs of capital for all sources of the Subject's capital and weight by their proportionate share of total capital to determine the Subject's overall cost of capital.

$$\text{WACC} = (E/V) \times Re + (D/V) \times Rd \times (1-Tc)$$

where

Re = Required return on equity

Rd = Required return on debt

E = Fair value of the firm's equity

D = Fair value of the firm's debt

V = E+D

E/V = Percentage of equity financing

D/V = Percentage of debt financing

Tc = Corporate tax rate

To estimate the required return on equity, we have used a modified CAPM adjusted for further unexplained risk premia, as seen below.

The CAPM is a fundamental tenet of modern portfolio theory which has been a generally accepted basis for marketplace valuations of equity capital. The CAPM technique is widely accepted in the investment and financial analysis communities for the purpose of estimating a company's required return on equity capital. The thinking behind it is that because specific risks can be avoided through portfolio diversification, the expected return on an asset should include only the risk premium for holding market risk. The degree of market risk is estimated via the beta which is determined by referencing comparable publicly traded companies.

The equation of CAPM is shown as follows.

$$\text{CAPM} = Rf + \beta \times Rm$$

where

Rf = Risk Free Rate

β = Estimated Beta

Rm = Equity risk premium



4.3. Opinion of Value

Based on the results of our investigations and analysis outlined in the Report, we are of the opinion that the Fair Value of the Subject as at the Valuation Date are as follow.

Asset	Fair Value <i>(CNY'000)</i>
Non-current assets	
Property, plant and equipment	1,716,217
Right-of-use assets	228,535
Other intangible assets	21,434
Investments in associates	82,239
Biological assets	3,120,657
Cash and bank balances	60,422
Current assets	
Inventories	734,939
Biological assets	9,348
Trade receivables	253,204
Prepayments, other receivables and other assets	67,077
Other financial assets ¹	190,000
Restricted bank deposits	12,127
Cash and bank balances	792,186
Total Assets	7,288,385

Note 1:

According to the management of the Target Company, the other financial assets are short-term bank-managed investment plans. Therefore, in this valuation the fair value of the other financial assets is based on its book value.



Liabilities	Fair Value <i>(CNY'000)</i>
Current liabilities	
Trade and bills payables	1,320,467
Other payables and accruals	122,757
Lease liabilities	17,518
Interest-bearing bank borrowings (current portion)	862,661
Tax payable	69
Non-current liabilities	
Lease liabilities (non-current portion)	16,451
Deferred income	12,116
Interest-bearing bank borrowings (non-current portion)	<u>1,271,277</u>
Total Liabilities	<u><u>3,623,315</u></u>
	Fair Value <i>(CNY'000)</i>
Net Assets	<u><u>3,665,068</u></u>

Note: Numbers may not add up due to rounding.

4.4. Risk Factors

We caution readers to be aware of the following risks which we believe could influence the Fair Value of the Subject. Such risks can range from very subject-specific factors to more systematic factors.

Microeconomic and Macroeconomic Considerations

The Subject can be directly or indirectly affected by characteristics and changing forces of supply and demand for the contributing inputs and / or the produced goods and services associated with the Subject. These forces work to impact the magnitude of the gap between inflows and outflows regarding the Subject and thus its value. Variations in the degree of competition or in barriers to entry are key drivers of changes to supply whilst consumption preferences, income levels or the availability of substitutes are key drivers of changes to demand. Macroeconomic circumstances including inflation, interest rate fluctuations and existing and forecast levels of growth in the broader economy may also have an effect on the valuation of the Subject.

Technological Change

Changes in the rate of advancement of technology, the propensity for any particular technology to have an effect on the Target Company and the degree to which technological advancement is impacting and will continue to impact the Target Company can disrupt its desirability, competitiveness, efficiency and/or indirectly impact the products and services considered substitutes or complements for it and thus the value of the Subject.

Environmental Considerations

Phenomena within the physical environment can severely impact the factors of production and demand factors within an economy for the Subject. The occurrence of natural disasters, resource depletion and variations in climate conditions may influence resource availability and prices for inputs on the supply side or may influence market access and preferences for products and services associated to the Subject from end-user demand.

On the other hand, with tightening environmental regulation as well as growing consumer preference towards sustainable materials and products, lack of green protocol to combat climate changes and natural resources depletion could exert pre-financial impact to company performance, and hence suppress value creation over the long run.

Social and Political Considerations

Various political and social phenomena surrounding the Subject may change so as to affect our opinion of value of the Valuation. Social factors encompassing the perception and preferences of people in general may swing rendering the Subject more or less desirable and thus more or less valuable. Given an increasing awareness over fair trade and human rights, companies are expected to engage with their stakeholders more openly and transparently regarding how they address social factors, including fair pricing practices, safe working environment, health protection, diversity and inclusion, etc. Otherwise, it could be difficult to retain customers and attract human capital, which are key assets to generate investment return on a sustainable way.

Governance Considerations

International or nationwide policy and / or legislative changes that alter existing rights and obligations may directly or indirectly influence the Subject. More importantly, enforcing a corporate governance structure that can sustain unforeseeable challenges, is vital to maintain financial performance and avoid contingent liabilities arising from fines imposed by regulatory authority. Without a good corporate governance and management, it could be difficult to sustain business growth with acceptable risk level, and this would in turn affect the valuation of the Subject.

4.5 General Limiting Conditions

- In the preparation of this Report, we relied on the accuracy, completeness and reasonableness of the financial information, forecast, assumptions and other data provided to us by the Client / Target Company and/or its representatives. We did not carry out any work in the nature of an audit and neither are we required to express an audit or viability opinion. We take no responsibility for the accuracy of such information. Our Report was used as part of the analysis of the Client/Target Company in reaching its conclusion of value and due to the above reasons, the ultimate responsibility of the derived value of the Subject rests solely with the Client.
- We have explained as part of our service engagement procedure that it is the directors' responsibility to ensure proper books of accounts are maintained, and the financial information and forecast give a true and fair view and have been prepared in accordance with the relevant standards and companies ordinance.
- Public information and industry and statistical information have been obtained from sources we deem to be reputable; however, we make no representation as to the accuracy or completeness of such information, and have accepted the information without any verification.
- The board of directors and the management of Client/Target Company have reviewed this Report and agreed and confirmed that the basis, assumptions, calculations and results are appropriate and reasonable.
- Jones Lang LaSalle Corporate Appraisal and Advisory Limited shall not be required to give testimony or attendance in court or to any government agency by reason of this exercise, with reference to the project described herein. Should there be any kind of subsequent services required, the corresponding expenses and time costs will be reimbursed from the Client. Such kind of additional work may incur without prior notification to the Client.
- No opinion is intended to be expressed for matters which require legal or other specialised expertise, which are out of valuers' capacity.
- The use of and/or the validity of the Report is subject to the terms of the Agreement and the full settlement of the fees and all the expenses.
- Our conclusions assume continuation of prudent and effective management policies over whatever period of time that is considered to be necessary in order to maintain the character and integrity of the Subject.



- We assume that there are no hidden or unexpected conditions associated with the subject matter under review that might adversely affect the reported review result. Further, we assume no responsibility for changes in market conditions, government policy or other conditions after the Valuation Date. We cannot provide assurance on the achievability of the results forecasted by the Client / Target Company because events and circumstances frequently do not occur as expected; difference between actual and expected results may be material; and achievement of the forecasted results is dependent on actions, plans and assumptions of management.
- This Report has been prepared solely for internal use purpose. The Report should not be otherwise referred to, in whole or in part, or quoted in any document, circular or statement in any manner, or distributed in whole or in part or copied to any third party without our prior written consent. Even with our prior written consent for such, we are not liable to any third party except for our client for this report. Our client should remind any third party who will receive this report and the client will need to undertake any consequences resulting from the use of this report by the third party. We shall not under any circumstances whatsoever be liable to any third party.
- This Report is confidential to the Client and the calculation of values expressed herein is valid only for the purpose stated in the Agreement as at the Valuation Date. In accordance with our standard practice, we must state that this Report and exercise is for the use only by the party to whom it is addressed and no responsibility is accepted with respect to any third party for the whole or any part of its contents.
- Where a distinct and definite representation has been made to us by parties interested in the Subject, we are entitled to rely on that representation without further investigation into the veracity of the representation.
- The Client / Target Company agrees to indemnify and hold us and our personnel harmless against and from any and all losses, claims, actions, damages, expenses or liabilities, including reasonable attorney's fees, to which we may become subject in connection with this engagement. Our maximum liability relating to services rendered under this engagement (regardless of form of action, whether in contract, negligence or otherwise) shall be limited to the fee paid to us for the portion of our services or work products giving rise to liability. In no event shall we be liable for consequential, special, incidental or punitive loss, damage or expense (including without limitation, lost profits, opportunity costs, etc.), even if we have been advised of their possible existence.
- We are not environmental, structural or engineering consultants or auditors, and we take no responsibility for any related actual or potential liabilities existing, and regarding the effect on the value of the asset, it is encouraged to obtain a professional assessment. We do not conduct or provide such kind of assessments and have not considered the potential impact to the subject property.



- This exercise is premised in part on the historical financial information and future forecast provided by the management of the Client / Target Company and/or its representatives. We have assumed the accuracy and reasonableness of the information provided and relied to a considerable extent on such information in our calculation of value. Since projections relate to the future, there will usually be differences between projections and actual results and in some cases, those variances may be material. Accordingly, to the extent any of the above-mentioned information requires adjustments, the resulting value may differ significantly.
- This Report and the conclusion of values arrived at herein are for the exclusive use of our client for the sole and specific purposes as noted herein. Furthermore, the Report and conclusion of values are not intended by the author, and should not be construed by any reader, to be investment advice or as financing or transaction reference in any manner whatsoever. The conclusion of values represents the consideration based on the information furnished by the Client / Target Company and other sources. Actual transactions involving the Subject might be concluded at a higher or lower value, depending upon the circumstances of the transaction and the knowledge and motivation of the buyers and sellers at that time. The transaction amount does not need to be close to the result as estimated in this report.
- The board of directors, management, staff, and representatives of the Client / Target Company have confirmed to us that they are independent of JLL in this Valuation or calculation exercise. Should there be any conflict of interest or potential independence issue that may affect our independence in our work, the Client / Target Company and/or its representatives should inform us immediately and we may need to discontinue our work and we may charge our fee to the extent of our work performed or our manpower withheld or engaged.

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