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偉俊 生物 科技 有 限 公 司

Wai Chun Bio-Technology Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 660)

SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO THE ANNUAL REPORT FOR THE YEAR ENDED 30 JUNE 2024

Reference is made to the annual report (the “**2023/2024 Annual Report**”) of Wai Chun Bio-Technology Limited (the “**Company**”), together with its subsidiaries, collectively referred to as (the “**Group**”) for the year ended 30 June 2024 (the “**Year**”). Unless otherwise defined, capitalised terms used herein shall have the same meanings as those defined in the 2023/2024 Annual Report.

In addition to the information provided in the note 16 headed “Property, plant and equipment” on page 112 of the 2023/2024 Annual Report, the Company wishes to provide to the shareholders and potential investors of the Company with the following additional information:

VALUATION APPROACH

The methods commonly used to develop approximate indications of value for a business or assets are the income, market, and cost approaches.

The income approach focuses on the income-producing capability of a business or asset. The income approach measures the current value of a business or asset by calculating the present value of its future economic benefits such as cash earnings, cost savings, tax deductions, and proceeds from disposition. Value indications are developed by discounting expected cash flows to their present value at a rate of return that incorporates the risk-free rate for the use of funds, the expected rate of inflation, and risks associated with the particular investment. The discount rate selected is generally based on rates of return available from alternative investments of similar type and quality as of the valuation date.

The market approach measures the value of a business or asset through an analysis of recent sales or offerings of comparable businesses or assets. Adjustments are made to account for differences between the subject business or asset being valued and the comparable businesses or assets used in the analysis.

The cost approach measures the value of a business or asset by the cost to reconstruct or replace it with another of like utility. To the extent that the assets being valued provide less utility than new assets, the reproduction or replacement cost new would be adjusted to reflect appropriate physical deterioration, functional obsolescence, and economic obsolescence. The cost approach recognizes that a prudent investor would not ordinarily pay more for property or an asset than the cost to replace them new.

International Valuation Limited (the “**Valuer**”), an independent firm of professional valuers, considered all three approaches to value for the asset types and chose the most appropriate approach or approaches for each. In estimating the value in use of the cash-generating-unit (the “**CGU**”) in relation to the modified starch manufacturing business for impairment assessment as of 30 June 2024, the Valuer relied primarily on the income approach in the form of a discounted cash flow methodology.

BACKGROUND FOR IMPAIRMENT

The Group is engaged in the production and sales of modified starch and other biochemical products, predominantly corn oil. The production is carried out in the Group’s production base located in Shandong Province, the People’s Republic of China (the “**Shandong Production Base**”). During the Year, the Group ceased actively marketing its other biochemical products, i.e. corn oil, taking into consideration of the following circumstances:

- (i) The gross profit of production and sales of biochemical products were declined significantly to approximately 2% due to the decrease in market demand and the increase in production costs, and further decline in market demand was expected, the Group decided to focus on the production of modified starch products which generate a higher profit yield to the Group;
- (ii) Certain machineries specifically employed for the production of other biochemical products were aged, necessitating capital expenditure on the installation of new machineries; and
- (iii) The production of facilities of both product categories, i.e. modified starch products and corn oil products, share the same factory land, building and certain machineries, the Group anticipated that these resources could be effectively rearranged and utilised on the production of modified starch products.

By the end of the Year, notwithstanding the effort of the Group to promote its modified starch products, the increased revenue from production and sales of modified starch products did not fully compensate the suspension production of other biochemical products. As disclosed in the 2023/2024 Annual Report, the Group recorded revenue and gross profit of approximately HK\$370,069,000 and HK\$34,181,000 respectively, representing a decrease of approximately 52.2% and 32.2% respectively, while the optimised product mix generated 9.2% gross profit to the Group, compared to 6.5% for the year ended 30 June 2023.

In accordance with Hong Kong Accounting Standard 36 “Impairment” (the “**HKAS 36**”) and the relevant policies adopted by the Company, the management of the Company recognised the above deterioration of operating results an indicator of impairment regarding the cash generating unit of its Shandong Production Base.

There were no significant changes in the value of the inputs and assumptions from those previously adopted and there were no subsequent changes in the valuation method used. As disclosed in note 8 to the consolidated financial statements in the Group’s annual report for the year ended 30 June 2023, the segment profit (after depreciation) recorded from the production of modified starch and other biochemical products amounting to approximately HK\$18,067,000, and given that there was no significant decrease in revenue compared to that in the comparable period, there was no impairment indicator noted by the Group and therefore no testing on impairment was took place in accordance to the requirement of HKAS 36. In addition, the machinery specifically employed for the production of other biochemical products was aged and the respective residual carrying amount was not material to the Group as a whole.

ESTIMATION OF IMPAIRMENT

The management of the Group engaged the Valuer to perform valuation on the recoverable amounts of the CGU of the Group’s Shandong Production Base. The Discounted Cash Flow (the “**DCF**”) method was selected as it aligns with the definition of value in use (the “**VIU**”) under HKAS 36, which describes VIU as “the present value of the future cash flows expected to be derived from an asset or cash-generating unit”. This approach is suitable for impairment testing as it determines the recoverable amounts of the cash generating unit b calculating the present value of future cash flow generated by the Group’s operations. By emphasising entity-specific cash flow projections, the DCF model offers a forward-looking analysis that ensures the impairment assessment accurately reflects the asset’s anticipated future performance.

In the determination of value in use of the Shandong Production Base, the management of the Group prepared a five-year profit forecast with reference to historical revenue growth rate, net profit margin and changes in working capital, assuming the product line of other biochemical products would cease generating any revenue in the forecast period. With the aid of the Valuer, the future expected cash flows were discounted to present value by adopting a market discount rate derived from other companies of similar business operations with its shares listed on The Stock Exchange of Hong Kong Limited. The discounted cash flows are presented below:

RMB'000

Present values of adjusted debt-free cashflows:

For the year ending 30 June 2025	(5,331)
For the year ending 30 June 2026	10,977
For the year ending 30 June 2027	10,006
For the year ending 30 June 2028	9,108
For the year ending 30 June 2029	<u>3,721</u>
	28,481
Add: Terminal value (based on growth rate of 2%)	<u>42,900</u>
	<u><u>71,381</u></u>

Major inputs of the valuation model of value in use are further disclosed as below:

Sales growth rate – 2.00%, based on the historical revenue growth rate of the revenue generated from the production of modified starch products, and does not exceeds the long-term economic growth rate.

Net profit margin – 1.63%, refence to the historical operating net profit (excluding the impairment losses on non-financial assets) generated from the production of modified starch products.

Pre-tax discount rate – 12.7%, based on the weighted cost of capital of certain listed companies with similar operation to the Group.

Based on the estimated VIU of the Shandong Production Base of approximately RMB71,381,000 as of 30 June 2024, the Group recognised impairment losses on non-financial assets of approximately HK\$58,149,000 for the Year.

REMEDIAL ACTIONS TO IMPROVE THE FINANCIAL REPORTING PROCEDURES

In additional to the supplemental announcements dated on 13 January 2025 and 14 January 2025 (the “**Supplemental Announcements**”), the Company would like to provide the following information in relation to the remedial actions to improve its financial reporting procedures with a view to ensuring timely compliance with the Listing Rules and to prevent re-occurrence of similar events.

1. The Company has requested the auditors to provide copies of the bank confirmations two months before the end of the financial year in order to keep a complete record for the format and authorization details of the accepted bank confirmations, to avoid any delay in receiving all signed bank confirmations;
2. The Company has implemented the internal control procedure that it will enquire with the banks for the requirements of issuance of bank confirmations one month before the end of the financial year and gather the relevant information for the preparation of bank confirmations;
3. The Company has implemented the internal control procedure that it will assign an accounting staff to communicate with the customers and suppliers before the end of the financial year and remind them to return the signed confirmations to the auditors as soon as possible. The accounting staff will prepare the relevant information and supporting documents in advance for the auditors to perform alternative audit procedures regardless the return status of confirmations.

GENERAL

This announcement is supplemental to and should be read in conjunction with the 2023/2024 Annual Report and the Supplemental Announcements. Save for the supplemental information provided hereunder, all the other information contained in the 2023/2024 Annual Report remains unchanged.

By Order of the Board
Wai Chun Bio-Technology Limited
Lam Ka Chun
Chairman and the Chief Executive Officer

Hong Kong, 17 March 2025

As at the date of this announcement, the Board consists of one executive Director, namely Mr. Lam Ka Chun (Chairman and Chief Executive Officer) and two independent non-executive Directors, namely Mr. Wan Bo and Mr. He Tao.