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AUSTASIA

AustAsia Group Ltd.

澳亞集團有限公司*

(Incorporated in the Republic of Singapore with limited liability)

(Stock Code: 2425)

**ANNOUNCEMENT OF INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2024 AND UPDATE ON THE
SCHEDULE OF THE DEVELOPMENT OF PURE SOURCE FARM 4**

The board (the “**Board**”) of directors (the “**Directors**”) of AustAsia Group Ltd. (the “**Company**”, and together with its subsidiaries, the “**Group**”) presents the consolidated results of the Group for the six months ended 30 June 2024 (the “**Reporting Period**”), together with comparative figures for the six months ended 30 June 2023 (“**1H2023**”).

HIGHLIGHTS:

FOR THE SIX MONTHS ENDED 30 JUNE

FINANCIAL DATA	2024	2023	Change
	<i>RMB'000</i>	<i>RMB'000</i>	
	(Unaudited)	(Unaudited)	
Revenue	1,827,965	1,845,610	-1.0%
Gross profit	219,034	312,468	-29.9%
Losses arising from changes in fair value less costs to sell of other biological assets	(605,594)	(414,615)	46.1%
Loss attributable to owners of the Company	(636,013)	(310,479)	104.8%
Cash EBITDA (Non-IFRS Financial Measure) ^{Note 1}	231,522	337,107	-31.3%
Basic loss per share (RMB)	(0.91)	(0.44)	106.8%
KEY PERFORMANCE INDICATORS	2024	2023	Change
Annualised average milk yield per milkable cow (tons)	13.7	13.4	+2.2%
Herd size of dairy cows (heads)	130,229	124,269	+4.8%
Raw milk sales volume (tons)	392,440	374,034	+4.9%
Herd size of beef cattle (heads)	39,466	35,309	+11.8%

* For identification purpose only

Note 1: We define Cash EBITDA as loss for the period excluding (i) finance costs, (ii) interest income, (iii) income tax expense, (iv) depreciation and amortisation, (v) losses arising from changes in fair value less costs to sell of other biological assets, (vi) foreign exchange difference, (vii) impairment losses on financial assets, and (viii) share based payment expenses.

For the Reporting Period, the Group recorded a revenue of approximately RMB1,828.0 million, representing a moderate drop of 1.0% compared to the same period of 2023. This is mainly attributable to the combined effect of:

- (i) a 4.9% growth in the raw milk sales volume and a 15.8% decrease in the raw milk selling price; and
- (ii) a 71.0% increase in the beef cattle sales volume and a 16.8% decrease in the beef cattle selling price.

The gross profit decreased by 29.9%, from approximately RMB312.5 million to RMB219.0 million. This is mainly caused by the combined effect of:

- (i) a 15.8% decrease in the raw milk selling price and a 16.8% decrease in the beef cattle selling price;
- (ii) a decrease of 19.2% in feed cost. For the Reporting Period, the feed cost for per kg of raw milk decreased from RMB2.55 to RMB2.06; and
- (iii) a loss arising from changes in fair value less cost to sell of beef cattle of approximately RMB52.9 million as compared to a gain of approximately RMB16.9 million of that for the same period of 2023.

The Group recorded a net loss of approximately RMB636.0 million, this is mainly attributable to the losses arising from changes in the fair value less costs to sell of other biological assets of RMB605.6 million. The significant losses are mainly attributable to the decreases in selling price of raw milk and culling cattle that used in the assumption to derive the fair value of biological assets.

During the Reporting Period, the Group's key operational efficiency indicator – annualised average milk yield per milkable cow, continued to improve and reached a new height of 13.7 tons, representing a 2.2% increase.

UPDATE ON THE SCHEDULE OF THE DEVELOPMENT OF PURE SOURCE FARM 4

Reference is made to the prospectus issued by the Company on 16 December 2022 (the “**Prospectus**”), the results announcements of the Company for the year ended 31 December 2022 dated 1 March 2023 and the voluntary announcements dated 1 June 2023, 1 September 2023 and 1 December 2023 (the “**Announcements**”). As disclosed in the Announcements, the Company extended the construction period of Pure Source Farm 4 from April 2023 to December 2023 to from April 2023 to December 2024 (the “**Revised Construction Schedule**”). The Group commenced construction of Pure Source Farm 4 in April 2023.

On 9 February 2024, the company made a further announcement in which after considering the prolonged weak demand for dairy products and the uncertainties associated with dairy market outlooks in 2024 and 2025, the Company has decided to further extend the construction period from April 2023 to December 2024 to from April 2023 to December 2025.

The construction progress of Pure Source Farm 4 included, among others, the completion of engineering surveying and mapping of the land, various aspects of the design and construction of the surrounding wall.

Given the continued difficult operating environment of dairy market, the management of the Company has been evaluating the industrial outlook constantly to decide the most suitable time for the development of Pure Source Farm 4. After internal review and discussion, the Company has decided to pause the construction of Pure Source Farm 4 for the time being. We will continue to monitor the supply and demand situation of the raw milk market and to make further decisions on the schedule of Pure Source Farm 4 development.

FINANCIAL INFORMATION

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2024

	<i>Notes</i>	2024 RMB'000 (Unaudited)	2023 RMB'000 (Unaudited)
REVENUE	4	1,827,965	1,845,610
Cost of sales		(1,814,969)	(1,841,147)
Gains arising on initial recognition of raw milk at fair value less costs to sell at the point of harvest		258,914	291,122
(Losses)/gains arising from changes in fair value less cost to sell of beef cattle		(52,876)	16,883
Gross profit		219,034	312,468
Other income and gains	5	25,077	48,974
Losses arising from changes in fair value less costs to sell of other biological assets		(605,594)	(414,615)
Selling and distribution expenses		(1,814)	(1,425)
Administrative expenses		(112,895)	(109,972)
Other expenses	5	(8,214)	(13,167)
Finance costs	6	(143,937)	(125,842)
LOSS BEFORE TAX	7	(628,343)	(303,579)
Income tax expense	8	(7,670)	(6,900)
LOSS FOR THE PERIOD		(636,013)	(310,479)
Attributable to:			
Owners of the parent		(636,013)	(310,479)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	10		
Basic			
– For loss for the period		RMB(0.91)	RMB(0.44)
Diluted			
– For loss for the period		RMB(0.91)	RMB(0.44)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2024

	2024 <i>RMB'000</i> (Unaudited)	2023 <i>RMB'000</i> (Unaudited)
LOSS FOR THE PERIOD	<u>(636,013)</u>	<u>(310,479)</u>
OTHER COMPREHENSIVE LOSS		
Other comprehensive loss that may be reclassified to profit or loss in subsequent periods		
Exchange differences		
Exchange differences on translation of foreign operations	<u>–</u>	<u>(4,002)</u>
Net other comprehensive loss that may be reclassified to profit or loss in subsequent periods	<u>–</u>	<u>(4,002)</u>
OTHER COMPREHENSIVE LOSS FOR THE PERIOD, NET OF TAX	<u>–</u>	<u>(4,002)</u>
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD	<u>(636,013)</u>	<u>(314,481)</u>
Attributable to:		
Owners of the parent	<u>(636,013)</u>	<u>(314,481)</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2024

	<i>Notes</i>	30 June 2024 <i>RMB'000</i> (Unaudited)	31 December 2023 <i>RMB'000</i> (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		3,258,416	3,361,082
Right-of-use assets		1,451,905	1,518,608
Intangible assets		4,294	5,103
Biological assets		3,322,531	3,541,014
Other long-term assets		11,419	8,779
Long-term receivable		5,007	–
		<hr/>	<hr/>
Total non-current assets		8,053,572	8,434,586
CURRENT ASSETS			
Inventories		884,220	1,311,682
Biological assets		534,720	512,402
Trade receivables	<i>11</i>	304,439	367,049
Prepayments, other receivables and other assets		228,866	277,437
Cash and cash equivalents		104,864	273,999
Pledged deposits		–	209
		<hr/>	<hr/>
Total current assets		2,057,109	2,742,778
CURRENT LIABILITIES			
Trade payables	<i>12</i>	707,114	785,309
Other payables and accruals		375,121	368,999
Interest-bearing bank borrowings		1,837,841	2,016,413
Lease liabilities		152,947	70,513
Deferred income		8,640	3,628
Tax payable		3,118	7,787
		<hr/>	<hr/>
Total current liabilities		3,084,781	3,252,649
NET CURRENT LIABILITIES		(1,027,672)	(509,871)
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		7,025,900	7,924,715
		<hr/>	<hr/>

	<i>Notes</i>	30 June 2024 <i>RMB'000</i> (Unaudited)	31 December 2023 <i>RMB'000</i> (Audited)
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings		1,209,419	1,383,910
Deferred tax liabilities		4,335	4,335
Deferred income		28,083	26,090
Lease liabilities		1,342,185	1,434,714
		<hr/>	<hr/>
Total non-current liabilities		2,584,022	2,849,049
		<hr/>	<hr/>
Net assets		4,441,878	5,075,666
		<hr/> <hr/>	<hr/> <hr/>
EQUITY			
Equity attributable to owners of the parent			
Share capital		2,435,712	2,435,712
Treasury shares		(1,915)	(1,831)
Reserves		2,008,081	2,641,785
		<hr/>	<hr/>
Total equity		4,441,878	5,075,666
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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2024

1. BASIS OF PREPARATION

The interim condensed consolidated financial information for the six months ended 30 June 2024 has been prepared in accordance with International Accounting Standard (“IAS”) 34 *Interim Financial Reporting*. The interim condensed consolidated financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual consolidated financial statements for the year ended 31 December 2023, which have been prepared in accordance with International Financial Reporting Standards (“IFRSs”).

The interim condensed consolidated financial information has been prepared under the historical cost convention, except for biological assets which have been measured at fair value. The interim condensed consolidated financial information is presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand except when otherwise indicated.

As at 30 June 2024, the Group had net current liabilities of approximately RMB1,027,672,000. The consolidated financial statements have been prepared on a going concern basis, because the directors of the Company are of the opinion that based on a cash flow forecast of the Group for the 12 months ending 31 August 2025 prepared by the management, the Group would have adequate funds to meet its liabilities as and when they fall due for at least 12 months from the date of announcement. Based on the forecast, the sufficiency of the Group’s working capital for the next 12 months depends on the Group’s ability to obtain the anticipated cash flows from the Group’s operating activities and the available unutilized bank loan facilities amounting to an aggregate amount of approximately RMB625,214,000, within 12 months from the date of announcement.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2023, except for the adoption of the following revised IFRSs for the first time for the current period’s financial information.

Amendments to IFRS 16	<i>Lease Liability in a Sale and Leaseback</i>
Amendments to IAS 1	<i>Classification of Liabilities as Current or Non-current</i> (the “2020 Amendments”)
Amendments to IAS 1	<i>Non-current Liabilities with Covenants</i> (the “2022 Amendments”)
Amendments to IAS 7 and IFRS 7	<i>Supplier Finance Arrangements</i>

The application of these revised IFRSs in the Reporting Period has had no material impact on the Group’s financial performance and positions for the current and prior periods and/or on the disclosures set out in these interim condensed consolidated financial statements.

3. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has three reportable operating segments as follows: (1) Raw milk business for the production and sales of raw milk; (2) Beef cattle business for raising and sales of beef cattle; and (3) Ancillary business for sales of milk products, feeds and others.

Management monitors the results of the Group’s operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/loss, which is a measure of adjusted profit/loss before tax. The adjusted profit/loss before tax is measured consistently with the Group’s profit before tax except that other income and expenses, non-lease-related finance costs from the Group’s financial instruments as well as head office or corporate administrative expenses are excluded from such measurement.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

For the six months ended 30 June 2024

	Raw milk <i>RMB'000</i> (Unaudited)	Beef cattle <i>RMB'000</i> (Unaudited)	Ancillary <i>RMB'000</i> (Unaudited)	Total <i>RMB'000</i> (Unaudited)
Segment revenue (Note 4)				
Sales to external customers	1,424,316	219,508	184,141	1,827,965
Intersegment sales	104,910	–	164,687	269,597
	1,529,226	219,508	348,828	2,097,562
Elimination of intersegment sales				(269,597)
Revenue				1,827,965
Segment results	(385,197)	(55,295)	11,180	(429,312)
Finance costs (other than interest on lease liabilities)				(102,999)
Unallocated corporate and administrative expenses				(112,895)
Unallocated other income and expenses				16,863
Loss before tax				(628,343)

For the six months ended 30 June 2023

	Raw milk <i>RMB'000</i> (Unaudited)	Beef cattle <i>RMB'000</i> (Unaudited)	Ancillary <i>RMB'000</i> (Unaudited)	Total <i>RMB'000</i> (Unaudited)
Segment revenue (Note 4)				
Sales to external customers	1,612,331	154,192	79,087	1,845,610
Intersegment sales	65,320	–	42,269	107,589
	1,677,651	154,192	121,356	1,953,199
Elimination of intersegment sales				(107,589)
Revenue				1,845,610
Segment results	(160,617)	14,498	3,029	(143,090)
Finance costs (other than interest on lease liabilities)				(86,324)
Unallocated corporate and administrative expenses				(109,972)
Unallocated other income and expenses				35,807
Loss before tax				(303,579)

Geographical information

(a) Revenue from external customers

	Six months ended 30 June	
	2024 RMB'000 (Unaudited)	2023 RMB'000 (Unaudited)
Mainland China	<u>1,827,965</u>	<u>1,845,610</u>

The revenue information above is based on the locations of the customers.

(b) Non-current assets

	30 June 2024 RMB'000 (Unaudited)	31 December 2023 RMB'000 (Audited)
	Mainland China	<u>8,048,565</u>

The non-current asset information above is based on the locations of the assets and excludes financial instruments and deferred tax assets.

4. REVENUE

An analysis of revenue is as follows:

	Six months ended 30 June	
	2024 RMB'000 (Unaudited)	2023 RMB'000 (Unaudited)
Revenue from contracts with customers		
Sales of raw milk	1,424,316	1,612,331
Sales of beef cattle	219,508	154,192
Sales of ancillary	<u>184,141</u>	<u>79,087</u>
	<u>1,827,965</u>	<u>1,845,610</u>
Timing of revenue recognition		
At a point in time	<u>1,827,965</u>	<u>1,845,610</u>

Performance obligations

The Group sells raw milk to dairy product manufacturers, beef cattle to food processing companies and milk products to cafes and other end customers, etc. For sales of raw milk and milk products to its customers, revenue is recognised when control of the goods has been transferred, being at the point the customer received the goods and accepted the quality. For sales of beef cattle to its customers, revenue is recognised upon the acceptance by customers. Payment of the transaction price is determined based on market price. The credit term is normally 30 days upon the invoice date for raw milk customers and 30 to 45 days upon the invoice date for milk products customers, and no credit is provided for beef cattle customers.

Transaction price allocated to the remaining performance obligation

In most of sales contracts, the amount of consideration that the Group has a right to invoice corresponds directly with the value to the customer of each incremental good that the Group transfers to the customer. As permitted by IFRS 15, the transaction price allocated to these unsatisfied performance obligations is not disclosed.

5. OTHER INCOME AND GAINS AND OTHER EXPENSES

	Six months ended 30 June	
	2024 RMB'000 (Unaudited)	2023 RMB'000 (Unaudited)
Other income and gains		
Government grants	7,399	21,130
Insurance claims	10,068	5,430
Technical service fee	1,546	7,280
Gains on modification of leases	809	10,520
Interest income	1,076	1,547
Others	4,179	3,067
	<hr/>	<hr/>
Total	25,077	48,974
	<hr/> <hr/>	<hr/> <hr/>
Other expenses		
Foreign exchange losses, net	2,350	6,079
Loss on disposal of property, plant and equipment	5,195	4,432
Impairment of trade receivables	–	2,386
Others	669	270
	<hr/>	<hr/>
Total	8,214	13,167
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6. FINANCE COSTS

An analysis of finance costs is as follows:

	Six months ended 30 June	
	2024 RMB'000 (Unaudited)	2023 RMB'000 (Unaudited)
Interest on bank loans	102,999	86,464
Interest on lease liabilities	40,938	39,518
Interest on contract liabilities	–	2,189
	<hr/>	<hr/>
	143,937	128,171
	<hr/>	<hr/>
Less: Interest expense capitalised	–	(2,329)
Total	143,937	125,842
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7. LOSS BEFORE TAX

The Group's loss before tax is arrived at after charging/(crediting):

	<i>Notes</i>	Six months ended 30 June	
		2024	2023
		RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Costs of sales of raw milk		1,424,316	1,612,331
Costs of sales of beef cattle		219,508	154,192
Costs of sales of ancillary		171,145	74,624
		<hr/>	<hr/>
Cost of sales		1,814,969	1,841,147
Depreciation of property, plant and equipment		158,563	134,342
Less: Capitalised in biological assets		68,457	58,994
		<hr/>	<hr/>
Depreciation charged to profit or loss		90,106	75,348
Depreciation of right-of-use assets		48,421	52,296
Less: Capitalised in biological assets		32,585	40,645
		<hr/>	<hr/>
Depreciation charged to profit or loss		15,836	11,651
Amortisation of intangible assets		809	769
Lease payments not included in the measurement of lease liabilities		10,892	12,385
Losses arising from changes in fair value less costs to sell of other biological assets		605,594	414,615
Employee benefit expenses (including Directors and chief executive's remuneration):			
Wages and salaries		161,556	152,265
Pension scheme contributions		32,882	30,208
Share-based payment expenses		2,309	5,543
		<hr/>	<hr/>
		196,747	188,016
Foreign exchange differences, net	<i>5</i>	2,350	6,079
		<hr/> <hr/>	<hr/> <hr/>

8. INCOME TAX EXPENSE

	Six months ended 30 June	
	2024	2023
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current income tax		
Charge for the period	2,669	582
(Overprovision)/Underprovision in prior years	(1,737)	8
Foreign withholding tax	6,738	6,310
	<hr/>	<hr/>
Total tax charge for the period	7,670	6,900
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9. DIVIDENDS

No dividend has been paid or declared by the Company for the six months ended 30 June 2024 (1H 2023: nil).

10. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic loss per share amounts is based on the loss for the period attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 700,412,612 and 700,463,112 in issue during the six months ended 30 June 2023 and 2024, respectively, as adjusted to reflect the rights issue during the period.

The calculation of the diluted loss per share amounts is based on the loss for the period attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the period, as used in the basic loss per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

The calculations of basic and diluted earnings per share are based on:

	Six months ended 30 June	
	2024	2023
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Loss		
Loss attributable to ordinary equity holders of the parent used in the basic and diluted loss per share calculation	<u>(636,013)</u>	<u>(310,479)</u>
	Six months ended 30 June	
	2024	2023
	(Unaudited)	(Unaudited)
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic and diluted loss per share calculation	<u>700,463,112</u>	<u>700,412,612</u>

11. TRADE RECEIVABLES

	30 June 2024 RMB'000 (Unaudited)	31 December 2023 RMB'000 (Audited)
Trade receivables	311,683	374,293
Impairment	(7,244)	(7,244)
	<u>304,439</u>	<u>367,049</u>

An ageing analysis of the trade receivables as at 30 June 2024 and 31 December 2023, based on the invoice date and net of loss allowance, is as follows:

	30 June 2024 RMB'000 (Unaudited)	31 December 2023 RMB'000 (Audited)
Within 1 month	290,757	351,535
1 to 2 months	9,660	8,061
2 to 3 months	3,347	2,365
Over 3 months	675	5,088
	<u>304,439</u>	<u>367,049</u>

As at 30 June 2024, included in the Group's trade receivables are amounts due from a related party of RMB13,671,000 (31 December 2023: RMB18,830,000), which are repayable on credit terms similar to those offered to the major customers of the Group.

As at 30 June 2024, trade receivables of RMB260,152,000 were pledged to banks to secure certain bank borrowings granted to the Group (31 December 2023: RMB310,033,000).

The movements in the loss allowance for impairment of trade receivables are as follows:

	30 June 2024 RMB'000 (Unaudited)	31 December 2023 RMB'000 (Audited)
At beginning of period/year	7,244	–
Provision for the period/year	–	7,244
	<u>7,244</u>	<u>7,244</u>

12. TRADE PAYABLES

	30 June 2024 RMB'000 (Unaudited)	31 December 2023 RMB'000 (Audited)
Trade payables	707,114	785,309

An ageing analysis of the trade payables as at 31 December 2023 and 30 June 2024, based on the invoice date, is as follows:

	30 June 2024 RMB'000 (Unaudited)	31 December 2023 RMB'000 (Audited)
Within 2 months	412,663	477,966
2 to 6 months	191,686	157,526
6 to 12 months	63,392	124,107
Over 1 year	39,373	25,710
	707,114	785,309

As at 30 June 2024, the trade payables of RMB61,168,000 are due to a related party which are repayable within 110 days (31 December 2023: RMB34,823,000).

13. EVENTS AFTER THE REPORTING PERIOD

There are no material subsequent events undertaken by the Company or by the Group after 30 June 2024 and up to the date of this announcement.

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

In the 1st half of 2024, China's economy experienced great difficulties. One of the major challenges that most businesses facing is the continuous weakening of consumer confidence that caused obvious decreases in consumer spending. Similar to most of the consumer related sectors, the operating environment and financial performances of dairy farm operators in China have been both challenging and disappointing.

Starting from 2nd half of 2023 up till now, some of the less competitive, small to mid-size individually owned dairy farms with low efficiency have been forced to leave the market. This to a very limited extent reduced surplus raw milk supply in some regions such as Central and Northwest China. However, the nation-wide structural over-supply situation has prevailed. A significant number of recently developed large-scale dairy farms that constructed in 2021 and 2022 have commenced production in 2023 and 2024, which are expected to create more additional raw milk than the volume that have been removed. After a 6.7% growth in 2023, the raw milk production volume in the 1st half of 2024 has grown by another 3.4%. With more and more small to mid-size dairy farms quitting, the industry is experiencing a process of consolidation. It was projected that in 2023, the top 10 dairy farm operators in China increased their dairy herd size by 14%, and their raw milk production volume by about 20%. Going forward the leading operators will have much stronger position and more dominant market share in terms of overall raw milk supply.

The weak demand on dairy products and consumption downgrade on day-to-day staples have become wider and deeper. According to the National Bureau of Statistics (國家統計局), in 2023, the production volume of liquid milk products decreased for the first time since 2018; in the 1st half of 2024, the production volume of overall dairy products decreased by 3% to 14.33 million tons and is expected to decline further in the 2nd half of 2024. As a result, the stockpile of raw milk that has been processed into bulky powder by dairy companies showed a significant increase. According to the statistics of the Ministry of Agriculture and Rural Affairs (農業農村部), on average, from August 2021 to June 2024, the nation-wide raw milk sales price declined by about 27%, from approximately RMB4.4/kg to RMB3.2/kg.

However, the costs of feed continued to improve with prices of some of the key materials and ingredients becoming lower. This has eased the significant cost pressure that troubled the dairy farming industry in 2022 and 1st half of 2023.

Despite of current difficulties and challenges, the outlook of dairy sector in China is still promising. In 2023, the per capita raw milk consumption in China was 42.5 kg, which is far below the average of developed and industrial countries. Over the past 10 years, the Chinese government regarded the development and modernization of dairy industry as one of the key components to the national initiative of "Healthy China"(健康中國). It issued various favorable policies and directives to support the long-term growth of dairy related industries, including dairy farming. On the other hand, China has continued to focus on improving dairy product quality, making sure consumers have high confidence in domestically made dairy products. With more younger generations become main-stream consumers, the variety of dairy products in China have also widened notably. This will also underpin the growth of milk consumption in long-term.

To survive this down cycle, farm operators will have to focus on efficiency to continually reduce production costs, at the same time to improve the milk yield to high level. Only by doing so the significant impact of price decline may be mitigated. Cash flow, rather than profitability, has become the most important part of the day-to-day operation.

The beef cattle market in domestic China has seen its worst period in the 1st half of 2024. On one hand, volume of imported frozen beef and beef products increased significantly, during January to May 2024, China's beef importation volume increased by 24% compared to the same period of 2023, prices of those imported beef products were much lower than the domestically raised beef cattle. On the other hand, with more and more small and mid-size dairy farms closing operations and culling cows, the supply of low-price culling cattle surged to cause a big impact on what would normally be an orderly high-quality beef cattle market.

Nevertheless, starting from May 2024, pork prices in China have shown recovery after more than 2 years of decline. This may provide some support for beef price to stabilize. Overall speaking, if the consumer demand continues to be as weak as it is now, the beef market in China is expected to be in a difficult territory for the rest of the year.

In relation to environment and ecosystems, the Chinese government has been encouraging energy saving and emission reduction in the dairy and beef cattle industries vigorously. The dairy farming industry is required to take the direction of "reducing pollution and carbon, establishing cycle of sustainable ecosystem" to achieve high-quality development of the industry and to create the harmonious coexistence of human and nature, as well as to maintain a sustainable development of the whole industrial chain with a "green ecological" model. Some leading dairy enterprises have made continuous investment in research and innovation in relation to carbon emission reduction, standard setting, equipment research and development, model demonstration, etc., the theme of "sustainable development" has become a focus to almost everyone in the dairy industry.

BUSINESS OVERVIEW

The Group is mainly engaged in dairy farming business of producing and selling high-quality raw milk to dairy products manufacturers and processors, and beef cattle farming and fattening business. In 2023, according to Holstein Farmer Magazine, we were the 3rd largest raw milk producer in China (in terms of production volume) with a total raw milk production volume of approximately 860,000 tons.

We provide raw milk to a diversified group of customers, including leading national and regional dairy product manufacturers and brands such as Mengniu, Bright Dairy, Meiji, New Hope Dairy, ClassyKiss and Honest Dairy. We are not reliant on our controlling shareholders as our customers. We provide our customers with stable supply of high quality and traceable raw milk, including A2 milk, in large scale, to enable our customers to market and develop high-end and innovative dairy products, catering various needs of end customers.

We have two main business segments, namely raw milk business and beef cattle business. We also engage in sales of milk products under our own brand to wholesale customers. In March 2023, our self-owned feed mill commenced production, the feed processed is mainly used internally, with a certain portion sold to external parties.

OPERATIONAL REVIEW

Raw Milk Business

We breed and raise dairy cows in our large-scale and modernized dairy farms. We produce and sell raw milk to downstream dairy product manufacturers and processors. During the Reporting Period, we continue to provide high-quality and reliable raw milk to our customers, who further process those raw milk into healthy and high-quality dairy products to satisfy the needs of end customers.

During the Reporting Period, 77.9% of our revenue was derived from the raw milk business. We have achieved improvements in some of the important operating indicators:

- (a) revenue generated from sales of raw milk was approximately RMB1,424.3 million, representing a decrease of 11.7% compared to the six months ended 30 June 2023 (“**1H 2023**”);
- (b) the annualised milk yield per milkable cow (“**AMY**”) reached 13.7 tons (1H2023: 13.4 tons), representing a Period-on-Period growth of 2.2 %;
- (c) the total raw milk production volume for the Reporting Period was approximately 447,000 tons (1H2023: 408,100 tons), representing a Period-on-Period growth of 9.5%; and
- (d) the total raw milk sales volume was approximately 392,400 tons (1H2023: 374,000 tons), representing a Period-on-Period growth of 4.9%.

However, compared to the same period of last year, the average selling price (“**ASP**”) of raw milk decreased by 15.8%, from RMB4,311/ton to RMB3,629/ton. The drop in ASP mainly attributable to the weaker-than-expected demand for milk and dairy products, as well as the temporary over-supply of raw milk caused by significant increase in new dairy farms and additional dairy cow investments.

During the Reporting Period, we continued to lower the feed costs and have seen significant improvement. Compared to the same period of 2023, the feed cost per kg of raw milk decreased from RMB2.55 to RMB2.06, representing a 19.2% drop. The significant decrease in both selling price and feed costs off-set one another, as a result, the gross margin of the raw milk business remained at the same level as 1H2023. We have adopted systematical and timely review into the whole feeding and milking process, we took measures to adjust the feed formula to strike the optimal balance between milk yield and feed costs. In doing so, our operating teams and nutrients make best effort to switch to compatible additives with similar output enhancement effects and to improve the absorbance level and conversion rate of dairy cows. We also leveraged on our centralized procurement activities. As a result, we have seen notable improvements in feed cost per kg of raw milk.

Dairy Farms

As at 30 June 2024, we owned and operated 11 large-scale modernized dairy farms in Shandong and Inner Mongolia of the PRC. The number of our dairy cow was 130,229 heads (as at 31 December 2023: 130,802 heads), including 64,421 heads of milkable cows (as at 31 December 2023: 66,085 heads). The aggregate gross land area of our dairy farms was approximately 16,992 Chinese mu. Our newest dairy farm in Shandong – Pure Source Farm 3, commenced trial production in January 2023. Our dairy farms are located strategically, 3 of them are within the “Golden Raw Milk Belt” in Inner Mongolia, where the mild climate, wide grassland, ample natural feed and abundant fresh water provide an ideal farming environment for dairy farms to generate high milk yield with good quality. The remaining 8 dairy farms are located in Shandong with close proximities to both major dairy product processing plants and major dairy consumption markets such as the Beijing-Tianjin region and the down-stream Yangzi River Delta region, including Shanghai.

Milk Yield

During the Reporting Period, the Group recorded AMY of 13.7 tons (1H2023: 13.4 tons), representing a Period-on-Period increase of 2.2%. The continued improvements in milk yield were attributable to in-depth understanding of every details of herd management, accumulated upgrades in our genetic breeding technologies over the years, and increase in the number of dairy cows reaching peak lactation phases.

Beef Cattle Business

Our Beef Cattle farms operate synergistically with our raw milk business. We use our own dairy herd as breeders for beef cattle calves. By doing so, we optimize the value of our dairy farms’ existing resources and maximize the whole breeding value chain. In addition, we capitalize on our expertise in genetic breeding of dairy cattle to improve the quality and productivities of our beef cattle. As at 30 June 2024, we owned and operated 2 large-scale beef cattle feedlots in Shandong and Inner Mongolia. The total herd size was approximately 39,500 heads.

For the Reporting Period, revenue of beef cattle business was RMB219.5 million, representing a 42.4% of increase compared to the same period of 2023 (RMB154.2 million), and accounted for 12.0% of our total revenue. The total volume of beef cattle sold was 8,239 tons (1H2023: 4,817 tons), representing an increase of 71.0%. The gross profit margin of the beef cattle business turned negative mainly due to the significant drop of 16.8% in selling price, from approximately RMB32,012/ton to RMB26,643/ton.

Ancillary business

For the Reporting Period, revenue from the ancillary business was RMB184.1 million (1H2023: RMB79.1 million), representing an increase of 132.8% due to significant increase in the product sales volume.

Breeding

We have implemented a genetic improvement program to enhance the breed of our dairy cows. As compared to the common industry practice of relying on imported bovine semen, we use in vitro fertilisation (“**IVF**”) and embryo transfer (“**ET**”) breeding technology to breed better dairy cows. To achieve genetic improvement of dairy cattle breeds, a high genomic female core herd is fundamental. With the high genomic female core herd that our farms were able to provide, we can improve the herd genetic traits from both parental sides, compared to the common industry practices used by most of other large-scale farms operators which only improve the paternal side with semen. As at 30 June 2024, we had a core herd of over 6,960 dairy cows. With this core herd, in addition to in-house breeding, we plan to commercialize the operation of embryos transfer for outside farms within the year. For the Reporting Period, we have successfully transferred 8,697 IVF embryos.

Milk Quality

We put product quality as highest priority throughout our operations. We are certificated by the Standard Quality Food (“**SQF**”) Program, which is a rigorous and credible food safety and quality program that is recognized by retailers, brand owners, and food service providers world-wide. We implement a rigorous internal quality control system to ensure highest standards of our raw milk and beef cattle. We have established a set of standard operating procedures for each business operating procedure throughout the process of production of raw milk and beef cattle, including breeding and reproduction, feeding, milking, identification and treatment of disease, veterinary assistance, and inventory management.

Customers

Unlike many of our competitors in the dairy farming and raw milk production industry, we are independent to our controlling shareholders and our customer development processes are fully autonomous. We have a well-diversified spectrum of customers. We serve both leading national and regional dairy product manufacturers and brands such as Mengniu, Bright Dairy, Meiji, Chi Forest, Honest Dairy and ClassyKiss. For the Reporting Period, sales to the 5 largest raw milk customers accounted for 59.4% of our revenue. We have also increased our raw milk customers to 27 as at 30 June 2024 from 25 as at 30 June 2023.

FINANCIAL REVIEW

Revenue

The following table sets forth the details of the Group's consolidated revenue during the periods indicated:

	Six months ended 30 June	
	2024 <i>RMB'000</i> (Unaudited)	2023 <i>RMB'000</i> (Unaudited)
Types of goods		
Raw milk	1,424,316	1,612,331
Beef cattle	219,508	154,192
Ancillary	184,141	79,087
	<u>1,827,965</u>	<u>1,845,610</u>

During the Reporting Period, the raw milk selling price dropped by 15.8% and beef cattle selling price dropped by 16.8%, though the total raw milk sales volume increased by 4.9% and total beef cattle sales volume increased by 71.0%, the Group's revenue decreased by 1.0% period-on-period to RMB1,828.0 million (1H2023: RMB1,845.6 million).

The following table sets forth the details of sales revenue, sales volume and ASP of raw milk during the periods indicated:

	Six months ended 30 June					
	2024 (Unaudited)			2023 (Unaudited)		
	Sales	Sales	ASP	Sales	Sales	ASP
	Revenue	Volume	Revenue	Volume	Revenue	Volume
	<i>RMB'000</i>	<i>tons</i>	<i>RMB/ton</i>	<i>RMB'000</i>	<i>tons</i>	<i>RMB/ton</i>
Raw milk	<u>1,424,316</u>	<u>392,440</u>	<u>3,629</u>	<u>1,612,331</u>	<u>374,034</u>	<u>4,311</u>

The Group's total revenue of the sales of raw milk decreased by 11.7% period-on-period to RMB1,424.3 million during the Reporting Period (1H2023: RMB1,612.3 million). The decrease was mainly due to the decrease in the raw milk selling price.

Average selling price of raw milk decreased by 15.8% period-on-period to RMB3,629/ton during the Reporting Period (1H2023: RMB4,311/ton).

Total sales volume of raw milk increased by 4.9% period-on-period to 392,440 tons during the Reporting Period (1H2023: 374,034 tons), mainly due to the rise in average yield per milkable cow and the contribution of sales volume of raw milk from newly built Pursource Farm 3.

The following table sets forth the details of sales revenue, sales volume and ASP of our beef cattles during the periods indicated:

	Six months ended 30 June					
	2024			2023		
	(Unaudited)			(Unaudited)		
Sales Revenue <i>RMB'000</i>	Sales Volume <i>tons</i>	ASP <i>RMB/ton</i>	Sales Revenue <i>RMB'000</i>	Sales Volume <i>tons</i>	ASP <i>RMB/ton</i>	
Beef cattle	<u>219,508</u>	<u>8,239</u>	<u>26,643</u>	<u>154,192</u>	<u>4,817</u>	<u>32,012</u>

The Group's total revenue from sales of beef cattle increased by 42.4% period-on-period to RMB219.5 million during the Reporting Period (1H2023: RMB154.2 million). The increase was mainly due to the increase in sales volume.

Total sales volume of beef cattle increased by 71.0% period-on-period to 8,239 tons during the Reporting Period (1H2023: 4,817 tons).

Average selling price of beef cattle dropped by 16.8% period-on-period to RMB26,643/ton during the Reporting Period (1H2023: RMB32,012/ton).

Cost of Sales

The Group's cost of sales primarily consisted of cost of raw milk and beef cattle. The following table sets forth the breakdown of the cost of sales for the periods indicated:

	Six months ended 30 June	
	2024	2023
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Costs of sales of raw milk	1,424,316	1,612,331
Costs of sales of beef cattle	219,508	154,192
Costs of sales of ancillary	<u>171,145</u>	<u>74,624</u>
Cost of sales	<u>1,814,969</u>	<u>1,841,147</u>

Raw Milk Business

The following table sets forth the breakdown of the cost of sales of the raw milk business before raw milk fair value adjustments for the periods indicated:

	Six months ended 30 June			
	2024		2023	
	(Unaudited)		(Unaudited)	
	RMB'000	%	RMB'000	%
Direct Materials	850,672	73.0%	1,008,283	76.3%
Labor Costs	73,839	6.3%	72,425	5.5%
Utilities	119,189	10.3%	118,051	8.9%
Depreciation of property, plant and equipment	72,197	6.2%	68,920	5.2%
Transportation fees	49,505	4.2%	53,530	4.1%
Total	<u>1,165,402</u>	<u>100.0%</u>	<u>1,321,209</u>	<u>100.0%</u>

During the Reporting Period, direct materials (mainly from silage, forage grass, corn and soy-bean products) costs of raw milk business amounted to RMB850.7 million (1H2023: RMB1,008.3 million), representing a period-on-period decreased of 15.6%, mainly due to the decrease in feed prices and adjustment in feed formula.

The feed cost per kg of raw milk decreased by 19.2%. The Group implemented various measures to enhance and streamline the procurement process so as to reduce purchasing costs. The Group has partially mitigated the impact of feed price increases on cost of sales through adjusting feed formula, enhancing animal health, raising milk yield and reducing expenditure. By implementing those measures, the feed cost per kg of raw milk have decreased significantly.

Beef Cattle Business

The following table sets forth the breakdown of the cost of sales of the beef cattle business before beef cattle fair value adjustments for the periods indicated:

	Six months ended 30 June			
	2024		2023	
	(Unaudited)		(Unaudited)	
	RMB'000	%	RMB'000	%
Direct Materials	199,603	81.3%	113,946	79.6%
Labor Costs and Overhead costs	32,375	13.2%	20,473	14.3%
Depreciation of property, plant and equipment	13,483	5.5%	8,677	6.1%
Total	<u>245,461</u>	<u>100.0%</u>	<u>143,096</u>	<u>100.0%</u>

During the Reporting Period, the costs of the beef cattle business amounted to RMB245.5 million (1H2023: RMB143.1 million), representing a period-on-period increase of 71.5%, mainly due to the increase in beef sales volume.

Gross Profit

The following table sets forth the breakdown of gross profit and gross profit margin of our business for the periods indicated:

	Six months ended 30 June			
	2024 (Unaudited)		2023 (Unaudited)	
	Gross profit <i>RMB'000</i>	Gross profit <i>margin</i>	Gross profit <i>RMB'000</i>	Gross profit <i>margin</i>
Raw milk	258,914	18.2%	291,122	18.1%
Beef cattle	(52,876)	-24.1%	16,883	10.9%
Ancillary	12,996	7.1%	4,463	5.6%
Total	<u>219,034</u>	<u>12.0%</u>	<u>312,468</u>	<u>16.9%</u>

During the Reporting Period, gross profit of the Group's raw milk business amounted to RMB258.9 million (1H2023: RMB291.1 million), representing a decrease of 11.1% period-on-period, which was mainly due to the decrease in sales price of raw milk. Gross profit margin of the Group's raw milk business slightly increased to 18.2% (1H2023: 18.1%) which was mainly due to decrease in feed cost in the Reporting Period.

During the Reporting Period, gross loss of the Group's beef cattle business amounted to RMB52.9 million (1H2023: gross profit of RMB16.9 million). Mainly due to the average selling price of beef cattle decreased by 16.8%, from approximately RMB32,012/ton to RMB26,643/ton.

Losses Arising from Changes in Fair Value Less Costs to Sell of Other Biological Assets

As at 30 June 2024, the biological assets of the Group were valued by an independent qualified professional valuer, Jones Lang LaSalle Corporate Appraisal and Advisory Limited.

Losses arising from changes in the fair value less costs to sell of other biological assets were RMB605.6 million (1H2023: RMB414.6 million). The significant losses are mainly due to lower raw milk price used in the assumption to derive the fair value of biological assets.

The estimated feed costs per kg of raw milk used in the valuation process ranged from RMB2.35 to RMB2.90 and RMB2.16 to RMB2.60 as at 31 December 2023 and 30 June 2024, respectively. Estimated average prices of raw milk per kg ranged from RMB4.17 to RMB4.83 and RMB3.85 to RMB4.46 as at 31 December 2023 and 30 June 2024, respectively.

The estimated local market selling price of 14 months old heifers was RMB21,800 per head and RMB21,000 per head as at 31 December 2023 and 30 June 2024, respectively.

The estimated culling price of milkable cows was RMB16,000 per head and RMB14,800 per head as at 31 December 2023 and 30 June 2024, respectively.

During the six months ended 30 June 2024, mainly due to a lower average selling price of raw milk, the Group recorded higher fair value losses.

The estimated feed costs per kg of raw milk used in the valuation process ranged from RMB2.27 to RMB3.06 and RMB2.43 to RMB3.10 as at 31 December 2022 and 30 June 2023, respectively. Estimated average prices of raw milk per kg ranged from RMB4.49 to RMB5.21 and RMB4.34 to RMB5.03 as at 31 December 2022 and 30 June 2023, respectively.

The estimated local market selling price of 14 months old heifers was RMB21,800 per head and RMB21,800 per head as at 31 December 2022 and 30 June 2023, respectively.

The estimated culling price of milkable cows was RMB16,000 per head and RMB16,000 per head as at 31 December 2022 and 30 June 2023, respectively.

During the six months ended 30 June 2023, the increase in feed cost per kilogram of raw milk and coupled with a lower average selling price of raw milk, contributed to the higher amount of fair value losses recorded for the period.

Other Income and Gains

During the Reporting Period, other income amounted to RMB25.1 million (1H2023: RMB49.0 million) which mainly consisted of government grants, insurance claims, technical service fees and gain on modification of leases. The lower amount recorded in the Reporting Period was mainly due to the decreases in gain from modification of lease term by RMB9.7 million and the government grants by RMB13.7 million.

Other Expenses

During the Reporting Period, other expenses were RMB8.2 million (1H2023: RMB13.2 million), representing a decrease of 37.6% period-on-period. This was mainly due to the decrease in foreign exchange losses recognized in the Reporting Period by RMB3.7 million and the absence of the impairment of trade receivables of RMB2.4 million incurred in 1H2023.

Administrative Expenses

During the Reporting Period, administrative expenses amounted to RMB112.9 million (1H2023: RMB110.0 million), representing a period-on-period increase of 2.7%.

Finance Costs

During the Reporting Period, the Group recorded a higher finance cost which amounted to RMB143.9 million (1H2023: RMB125.8 million), representing a period-on-period increase of 14.4%. The increase in overall finance cost was mainly due to higher amount of average bank borrowings for the Reporting Period as a result of additional drawdown in working capital loans.

Loss before Tax, Loss for the Period and Loss Attributable to Owners of the Company

Loss before tax was RMB628.3 million in the Reporting Period, while loss before tax for the same period of 2023 was RMB303.6 million, representing an increase of 107.0% period-on-period. Loss attributable to owners of the Company amounted to RMB636.0 million during the Reporting Period (1H2023: RMB310.5 million), representing an increase of 104.8% period-on-period. This was mainly due to:

- a) a decrease in gross profit of the Group's business to RMB219.0 million (1H2023: RMB312.5 million), representing a decrease of 29.9% or RMB93.4 million. The drop in gross profit is mainly due to lower average selling price of raw milk and beef cattle businesses. Average selling price of raw milk decreased by 15.8% period-on-period to RMB3,629/ton during the Reporting Period (1H2023: RMB4,311/ton). Average selling price of beef cattle decreased by 16.8% period-on-period to RMB26,643/ton during the Reporting Period (1H2023: RMB32,012/ton); and
- b) higher losses arising from changes in fair value less costs to sell of other biological assets. The Group recorded a loss of RMB605.6 million (1H2023: RMB414.6 million), representing an increase of RMB191.0 million. The Group measures its biological assets to determine the market prices based on certain key assumptions such as milk price and feed cost. The continuing decrease in average milk selling price throughout the period resulting in lower valuation of the Group's biological asset.

During the Reporting Period, basic and diluted losses per Share of the Company (the "Share") was RMB0.91 (1H2023: RMB0.44).

Cash EBITDA (Non-IFRS Financial Measure)

We define Cash EBITDA as loss for the period excluding (i) finance costs, (ii) interest income, (iii) income tax expense, (iv) depreciation and amortisation, (v) losses arising from changes in fair value less costs to sell of other biological assets, (vi) foreign exchange difference, (vii) impairment losses on financial assets, and (viii) share-based payment expenses.

During the Reporting Period, Cash EBITDA has decreased to RMB231.5 million (1H2023: RMB337.1 million) which represents a drop of 31.3%. The drop in Cash EBITDA during the Reporting Period was mainly attributable to decrease in overall gross profit by 29.9% compared to 1H2023.

Liquidity and Capital Resources

During the Reporting Period, the Group funded its cash requirements principally through a combination of cash generated from operating activities and bank borrowings.

The following table sets forth our cash flows for the reporting periods indicated:

	Six months ended 30 June	
	2024	2023
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Net cash flows from operating activities	709,860	221,160
Net cash flows used in investing activities	(378,163)	(668,775)
Net cash flows (used in)/from financing activities	(500,875)	358,504
	<hr/>	<hr/>
Net decrease in cash and cash equivalents	(169,178)	(89,111)
Effects of foreign exchange rate changes, net	43	3,234
Cash and cash equivalents at the beginning of the period	273,999	397,946
	<hr/>	<hr/>
Cash and cash equivalents at the end of the period	104,864	312,069
	<hr/> <hr/>	<hr/> <hr/>

Net Cash Flows from Operating Activities

During the Reporting Period, net cash flows from operating activities was RMB709.9 million. For the six months ended 30 June 2023, net cash flows from operating activities was RMB221.2 million.

Net Cash Flows Used in Investing Activities

During the Reporting Period, net cash flows used in investing activities was RMB378.2 million, which was mainly attributable to (i) payments for biological assets of RMB671.0 million and (ii) payments for purchases of property, plant and equipment of RMB65.6 million, partially offset by the proceeds from the disposal of biological assets of RMB356.7 million.

For the six months ended 30 June 2023, net cash flows used in investing activities was RMB668.8 million, which was mainly attributable to (i) payments for biological assets of RMB603.9 million and (ii) payments for purchases of property, plant and equipment of RMB329.3 million, partially offset by the proceeds from the disposal of biological assets of RMB260.7 million.

Net Cash Flows (Used in)/from Financing Activities

During the Reporting Period, net cash flows used in financing activities was RMB500.9 million which was mainly attributable to (i) repayment of interest-bearing bank borrowings of RMB1,658.9 million, (ii) principal portion of lease payments of RMB31.9 million, and (iii) interest payment of RMB106.4 million, partially offset by new interest-bearing bank borrowings of RMB1,296.5 million.

For the six months ended 30 June 2023, net cash flows generated from financing activities was RMB358.5 million which was mainly attributable to new interest-bearing bank borrowings of RMB997.8 million and the gross proceeds received from the initial public offering of the Company's equity amounting to RMB3.4 million, partially offset by (i) repayment of interest-bearing bank borrowings of RMB504.7 million, (ii) principal portion of lease payments of RMB53.1 million, and (iii) interest payment of RMB81.7 million.

Interest-Bearing Bank Borrowings

	30 June 2024			31 December 2023		
	Effective interest rate (%)	Maturity	<i>RMB'000</i> (Unaudited)	Effective interest rate (%)	Maturity	<i>RMB'000</i> (Audited)
Current						
Bank loans – secured	4.25-4.80	2025	1,382,024	4.00-4.80	2024	1,560,212
Current portion of long-term bank loans – secured	3.40-9.61	2025	<u>455,817</u>	3.40-8.86	2024	<u>456,201</u>
			<u>1,837,841</u>			<u>2,016,413</u>
Non-current						
Bank loans – secured	3.95-9.61	2025-2028	<u>1,209,419</u>	3.40-8.86	2025-2028	<u>1,383,910</u>
			<u>3,047,260</u>			<u>3,400,323</u>

30 June	31 December
2024	2023
<i>RMB'000</i>	<i>RMB'000</i>
(Unaudited)	(Audited)

Analysed into:

Bank loans:

Within one year or on demand

In the second year

In the third to fifth years, inclusive

1,837,841 2,016,413

415,583 523,680

793,836 860,230

3,047,260 **3,400,323**

Contingent Liabilities and Pledge of Assets

As at 30 June 2024, some of the Group's bank and other borrowings had been secured by the pledge of the Group's assets.

The Group's bank loans are secured by:

- (i) As at 30 June 2024, there was no pledged deposit pledged to banks to secure bank borrowings granted to the Group (31 December 2023: RMB4,000);
- (ii) As at 30 June 2024, trade receivables of RMB260,152,000 were pledged to banks to secure certain bank borrowings granted to the Group (31 December 2023: RMB310,033,000);
- (iii) As at 30 June 2024, inventories of RMB774,125,000 were pledged to banks to secure certain bank borrowings granted to the Group (31 December 2023: RMB1,045,701,000);
- (iv) As at 30 June 2024, property, plant and equipment of RMB523,957,000 were pledged to banks to secure certain bank borrowings granted to the Group (31 December 2023: RMB659,456,000);
- (v) As at 30 June 2024, biological assets of RMB3,819,313,000 were pledged to banks to secure certain bank borrowings granted to the Group (31 December 2023: RMB3,684,156,000);
- (vi) As at 30 June 2024, right-of-use assets of RMB12,996,000 were pledged to banks to secure certain bank borrowings granted to the Group (31 December 2023: RMB13,134,000);
- (vii) As at 30 June 2024, shares of a subsidiary of RMB562,000,000 were pledged to banks to secure certain bank borrowings granted to the Group (31 December 2023: RMB562,000,000);
- (viii) As at 30 June 2024, investments in certain subsidiaries of RMB1,517,996,000 were pledged to banks to secure certain bank borrowings granted to the Group (31 December 2023: RMB1,517,996,000); and
- (ix) As at 30 June 2024, certain of the Group's bank loans amounting to RMB3,022,115,000 were guaranteed by the Company and certain subsidiaries of the Group (31 December 2023: RMB3,236,561,000).

Saved as disclosed in this announcement, the Group did not have any significant contingent liabilities as at 30 June 2024 and 31 December 2023.

Material Litigation

In April 2023, Shanghai AustAsia Food Co., Ltd. (上海澳雅食品有限公司, hereafter referred to as “**Shanghai AustAsia**”) applied for a preservation order against Hebei Yuanfuda Trading Group Co., Ltd. (河北媛福達商貿集團有限公司, hereafter referred to as “**Hebei Yuanfuda**”) for failure to pay RMB7,223,812.5 for milk products supplied to Hebi Yuanfuda under its Procurement Contract with Shanghai AustAsia. The People’s Court of Lianchi District, Baoding City ruled by the Second Instance Civil Judgment (Ji 0606, Min Chu No. 5524 [2023]) to defer Shanghai AustAsia’s application until after criminal charges against Hebi Yuanfuda have been resolved. On December 8, 2023, Shanghai AustAsia appealed against this decision and was ruled against by the Intermediate People’s Court of Baoding City (保定市中級人民法院). Shanghai AustAsia will continue to seek recovery from Hebei Yuanfuda once the criminal proceedings against Hebei Yuanfuda have been completed.

Save as disclosed above, the Company was not involved in other material litigation or arbitration during the Reporting Period. The Directors are not aware of other material litigation or claims that are pending or threatened against the Group for the Reporting Period.

Foreign Currency Risk

The Group’s exposure to foreign currency risk principally mainly relates to the Group’s subsidiaries in Mainland China and Singapore where some of the transactions are denominated in USD and Singapore Dollars (“**SGD**”). In addition, the group has a USD10.0 million working capital loan and USD24.0 million term loan outstanding as at 30 June 2024.

Though the fluctuations in the exchange rates could affect the Group’s results of operations, the exposure to foreign currency was immaterial to the Group’s size of operation, in the opinion of management, the Group does not face any significant foreign currency risk.

The Group currently does not have a foreign exchange hedging policy. The management of the Group monitors foreign exchange exposure closely and will consider hedging any significant foreign exchange exposure should the needs arise.

Employees

Our success depends on our ability to attract, retain and motivate talented employees. To this end, as part of our human resource strategy, we are committed to building the most competitive talent team in our industry. We primarily recruit our employees through on-campus job fairs, recruitment agencies and online channels. We provide regular training and guidance to our employees to continuously upgrade their skills in line with the industry trends and enhance their performance. Therefore, we can attract and retain talented employees and maintain a stable core management and technical team.

The total employee remuneration expenses (including Directors and chief executive’s remuneration, pension scheme contributions and share-based payments expenses) for the Reporting Period were approximately RMB196.7 million (1H2023: RMB188.0 million), representing an increase of 4.6% period-on-period, mainly due to the commencement of production of Pure Source Farm 3 and feed mill in early 2023.

STRATEGIES AND PROSPECTS

Both the Chinese economy and the dairy industry in China continue to face great difficulties. However, we are confident that the long-term prospects of both consumer markets and dairy products are promising, and we are close to the end of this major economic downturn.

Our vision is to become one of the TOP 3 dairy farm operators in the world in terms of OPERATIONAL EFFICIENCY and ECO-SUSTAINABILITY. We focus on creating long-term value for our stakeholders in a responsible and sustainable way. To achieve our vision, we intend to pursue a comprehensive strategy focusing on the following:

Continue to improve our operating efficiency and diversify our customer base

We expect that there will be significant small to mid-size and less efficient dairy farms made redundant as a result of this round of industrial consolidation, while large-scale, highly efficient farm operators like us will come through with better competitive positions. We anticipate that by mid-2025 the raw milk market will restore its supply and demand equilibrium. To prepare for long-term raw milk demand growth, Pure Source Farm 3, a newly-built large scale dairy farm has commenced operation in 2023, adding A2 special raw milk to our existing portfolio. We also have a farm site reserved for future development of Pure Source Farm 4. As we announced, we will monitor the raw milk market closely to decide when to resume the Pure Source Farm 4 development. On the other hand, we will also extend our reach to potential new customers who are near our new farms, and further diversify our customer base and increase the number of our raw milk customers.

Upgrade our beef cattle business to premium markets

While China has become the second largest nation in beef consumption, the beef consumption in China on a per capital basis was significantly lower compared to all developed countries and some of the developing countries. Therefore, there remains great potential for growth in demand for beef in China as consumer taste continues to change and consumption catches up with other developed and developing countries.

We expect that the demand for high quality beef, especially premium products, such as Wagyu beef, will grow significantly. We have started our in-house Wagyu heifer selection program, and commenced Wagyu IVF embryo production and transplantation in the 2nd half of 2023. Going forward, we plan to focus on selling premium products such as Wagyu. We will further diversify our customer base and start our own beef brands in order to improve our reputation as a quality and premium beef cattle supplier and to make this business more resilient.

Enhance in-house integration through genetic breeding technology and feed mill operation to further improve our operational efficiency

Animal breeds and genetics are a key foundation for dairy farming and beef farming operations. Advancements in genetic technology can increase productivity, lower disease and mortality rates, as well as lengthen the lifespans of dairy cows and beef cattle. We will maintain core herd centres and expand the genetic improvement program in our farms with ET technology, which can enhance milk and beef cattle yields. We will continue to implement genomic testing and in vitro embryo production technology to rapidly build a core herd of cattle with desired genes and genetic traits, thereby boosting our production capacity and accelerating the genetic improvement of our existing dairy cows and beef cattle. With the support of these new technologies, we expect that our farms will achieve higher operational efficiency, larger production capacity and enhanced product quality.

Our in-house pre-mix feed mill will continue improving feed quality and help us control feed costs.

Build a sustainable business

Our commitment to sustainable development has been embedded in the Group's vision which is to become one of the top three dairy farm operators in the world in terms of operational efficiency and eco-sustainability. We have established governance structure led by the ESG Committee to oversee the implementation of our ESG strategy. We have also set up a systematic approach to collect, measure, monitor and analyse ESG-related information on a regular basis, and are making tremendous efforts to deepen the involvement of senior and middle management so as to embed ESG into the daily operational activities, ways of thinking and long-term planning. More details can be found in our ESG Report published on 29 April 2024.

Actions for the 2nd half of 2024

We expect the operating environments to remain difficult and the consumer confidence remain low for the rest of the year. On one hand, we will make relentless efforts to develop new customers and expand our customer base. On the other hand, we continue taking effective measures to lower our feed costs like what we have been doing since 2023. In addition, to enhance our advanced position in genetic and breeding, we will continue to strengthen the operation of IVF laboratory and Wagyu heifer selection, as well as Wagyu IVF productions and transplantations.

For 2024, we target to reach a milk yield of 14 tons, which will continue to keep us in the leading position in China.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

The trustee of the AAG Performance Share Plan has pursuant to the terms of the rules and terms of the Trusts and Share Plan, purchased on the Stock Exchange a total of 546,000 shares at a total consideration of HKD710,950 (RMB648,877 equivalent) during the Reporting Period and up to the date of this announcement.

Saved as disclosed, neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's listed securities (including sale of treasury shares (as defined under Listing Rules)) during the Reporting Period and up to the date of this announcement.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company is committed to maintaining good corporate governance so as to deliver long-term and sustained value for the Shareholders.

The Company has adopted the principles and code provisions of the Corporate Governance Code (the “**Corporate Governance Code**”) as set out in Part 2 of the Appendix C1 to the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”) as the basis of the Company’s corporate governance practices, and the Corporate Governance Code has been applicable to the Company with effect from the Listing Date.

The Board recognises certain internal control weaknesses. As announced on 17 April 2024, the Board will (i) engage an external and independent internal controls consultant to conduct a review of the Group’s internal control procedures, (ii) address any deficiencies identified in that internal controls review and implement appropriate remediation steps, taking into consideration the recommendations of the internal controls consultant, and (iii) implement additional procedures to strengthen the Group’s internal controls to identify, monitor transactions and arrangements which may constitute connected transactions and ensure that such arrangements and transactions are identified and the applicable Listing Rules are complied with in a timely manner in the future, including promptly making the necessary disclosure and, if needed, obtaining independent shareholders’ approval. In addition, the Company will:

- (a) engage a compliance adviser for an additional year;
- (b) procure appropriate external service providers to conduct refresher training on the Listing Rules and compliance for Directors and the heads and deputy heads of the Group’s key business and compliance functions (human resources, finance, legal and compliance, internal controls and administration and procurement); and
- (c) convene regular meetings amongst senior management and the heads of the Group’s key business and compliance functions to discuss and monitor the sufficiency.

Update to the date of this announcement:

- (a) the Company has engaged the compliance adviser up till 30 April 2025;
- (b) refresher trainings on the connected transactions were provided by our Hong Kong legal adviser in May 2024 for some of our Directors and the heads and deputy heads of the Group’s key business and compliance functions (human resources, finance, legal and compliance, internal controls and administration and procurement). The Company is arranging more Listing Rules related trainings with external service providers for Directors and heads of key business and compliance functions and such trainings will be conducted in due course;
- (c) a review of the Group’s internal controls in relation to the compliance with Listing Rules has been conducted by an external and independent risk advisory service provider. The review findings, together with remedy actions by the management, have been reported to the audit committee of the Company (the “**Audit Committee**”) and the Board in August 2024. A follow-up review is currently being conducted by the service provider to evaluate whether remedy actions as agreed by the management have been implemented; and
- (d) the Company has convened bi-weekly meeting since April 2024 amongst senior management and the heads of the Group’s key business and compliance functions to discuss and monitor the compliance with Listing Rules.

The Company will continue to regularly review and monitor its corporate governance practices to ensure compliance with the Corporate Governance Code, and maintain a high standard of corporate governance practices of the Company. To the best knowledge of the Directors, the Company has complied with the applicable code provisions set out in the Corporate Governance Code during the Reporting Period.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in the Appendix C3 to the Listing Rules as its code of conduct regarding Directors’ securities transactions, and the Model Code has been applicable to the Company with effect from the Listing Date.

The provisions under the Listing Rules in relation to compliance with the Model Code by the Directors regarding securities transactions have been applicable to the Company since the Listing Date. All Directors have confirmed, following specific enquiry made by the Company, that they have complied with the guidelines contained in the Model Code during the Reporting Period.

No incident of non-compliance of the Model Code was noted by the Company during the Reporting Period and up to the date of this announcement.

INTERIM DIVIDEND

The Board has resolved not to recommend the payment of an interim dividend for the six months ended 30 June 2024 (1H2023: nil).

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference in compliance with Rule 3.21 of the Listing Rules and the Corporate Governance Code. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal controls system of our Group, review and approve connected transactions (if any) and provide advices and comments to the Board. The Audit Committee consists of one non-executive Director, namely Mr. Tamotsu MATSUI, and two independent non-executive Directors, namely Messrs. SUN Patrick and CHANG Pan, Peter. Mr. SUN Patrick (being our independent non-executive Director with the appropriate professional qualifications) is the chairman of the Audit Committee.

The Audit Committee had, together with the management of the Company, reviewed the unaudited consolidated financial statements of the Group for the six months ended 30 June 2024 and the accounting principles and policies adopted by the Group.

PUBLICATION OF THE INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This announcement is published on the website of the Stock Exchange at www.hkexnews.hk as well as the website of the Company at www.austasiadairy.com. The Company's interim report for the six months ended 30 June 2024 will be published on the aforementioned websites and will be dispatched (if requested) to the Shareholders in due course.

APPRECIATION

The Company would like to thank our shareholders, customers, and business partners for their support. We also take this opportunity to express our gratitude to the management and our employees for the contributions made towards the Group's continued progress.

By order of the Board
AustAsia Group Ltd.
Edgar Dowse COLLINS
CEO and Executive Director

Hong Kong, 28 August 2024

As at the date of this announcement, the Board comprises Mr. TAN Yong Nang as Executive Chairman, Mr. Edgar Dowse COLLINS as CEO and Executive Director and Mr. YANG Ku as COO and Executive Director, Ms. GAO Lina, Mr. Tamotsu MATSUI and Ms. Gabriella SANTOSA as Non-executive Directors and Messrs. SUN Patrick, CHANG Pan, Peter and LI Shengli as Independent Non-executive Directors.