

BUSINESS

OVERVIEW

We are one of the top five dairy farm operators in China, ranking third, fourth and fifth among all dairy farm operators in China in terms of sales volume, sales value and production volume of raw milk in 2021, with a market share of 1.6%, 1.8% and 1.7%, respectively, according to Frost & Sullivan. We provide premium raw milk to a well-diversified customer base of downstream dairy product manufacturers. We have a diverse customer base, ranging from leading national and regional dairy product manufacturers (including Mengniu (蒙牛), Bright Dairy (光明), Meiji (明治), Junlebao (君樂寶), New Hope Dairy (新希望乳業), Jiabao (佳寶) and Classykiss (卡士)), to emerging dairy brands (such as Chi Forest (元氣森林) and Honest Dairy (簡愛)), and we are not reliant on our Controlling Shareholders as our downstream customers. We are valued by our customers for our stable supply of high-quality and traceable raw milk in a large scale, which has enabled our customers to promote their various high-end milk product offerings catering to end customers. In 2019, 2020, 2021 and the six months ended 30 June 2021 and 2022, we produced approximately 565,400 tons, 582,800 tons, 638,800 tons, 298,300 tons and 359,200 tons of raw milk.

We are the first dairy farm operator in China to design, build and operate large-scale and standardised dairy farms with over 10,000 heads of dairy cows, according to Frost & Sullivan. Leveraging the know-how and expertise gained from our parent Japfa Group’s experience in Indonesia since 1997, we commenced our own dairy farming operations in China in 2009. As of the Latest Practicable Date, we owned and operated ten dairy farms in China, with an aggregate gross land area of approximately 14,657 mu. As of 30 June 2022, we had a total herd size of 111,424 heads of dairy cows, 57,383 of which were milkable cows.

We have achieved and consistently maintain high operational efficiency and product quality as evidenced by the average milk yield we achieved. According to Frost & Sullivan, we have been ranked No. 1 in China in terms of average milk yield per milkable cow, the key indicator of the productivity and efficiency of dairy farms, for seven consecutive years from 2015 to 2021. In 2021, our annualised average milk yield per milkable cow reached 12.7 tons/year, far exceeding the industry average of 8.7 tons/year and the average of the top five dairy farm operators in terms of annualised average milk yield per milkable cow in China of 11.5 tons/year. In terms of individual dairy farm ranking in 2019, 2020 and 2021, we had six, seven and five dairy farms, respectively, ranked among the top ten large-scale dairy farms with over 10,000 heads of dairy cows in China in terms of annualised average milk yield per milkable cow, according to Frost & Sullivan. Our raw milk quality has continuously surpassed market standards based on various key quality indicators such as fat content, protein content, aerobic plate count and somatic cell count.

We have established an integrated and synergistic business model. Driven by the increasing demand for beef in China, we have developed our beef cattle business in China since 2018. We leverage the established standard operating procedures and experience from our dairy farming operations to build our beef cattle farming operations. We have further improved the productivity of our beef cattle and achieved cost efficiencies through economies of scale and optimisation of resources such as shared land and our team of technical experts. As of 30 June 2022, we owned and operated two large-scale beef cattle feedlots in China with 28,152 heads of beef cattle, 26,566 of which were Holstein beef cattle. According to Frost & Sullivan, we were the eleventh largest beef cattle farming company in China in terms of the number of beef cattle in 2021.

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We are committed to building a sustainable business and minimising our operational impact on the environment. We have adopted a series of comprehensive and effective measures to identify, assess, manage and reduce the risk relating to ESG issues. Our farms are equipped with waste recycling and treatment facilities as well as technology to reduce greenhouse gas (“GHG”) and air emissions. We focus on reducing the average GHG emission per ton of raw milk produced by improving our operational efficiency and milk yield. We also place significant importance on animal welfare, as we believe that happy cows and cattle produce more milk and meat of a higher quality.

We have experienced rapid growth over the Track Record Period. The increase in China’s milk consumption and the emergence of new dairy brands in recent years has driven demand for premium dairy products and quality raw milk supply. In addition, the increased demand for beef in China has driven demand for our beef cattle. Our revenue from continuing operations increased from US\$351.5 million in 2019 to US\$521.9 million in 2021, representing a CAGR of 21.9%, and increased by 15.4% from US\$241.2 million in the six months ended 30 June 2021 to US\$278.3 million in the six months ended 30 June 2022. Our EBITDA from continuing operations, a non-IFRS measure, was US\$104.4 million, US\$130.4 million, US\$149.9 million, US\$99.2 million and US\$57.8 million in 2019, 2020, 2021 and the six months ended 30 June 2021 and 2022. Our net profit from continuing operations was US\$74.6 million, US\$99.1 million, US\$104.6 million, US\$80.0 million and US\$29.8 million in 2019, 2020, 2021 and the six months ended 30 June 2021 and 2022. Our adjusted net profit, a non-IFRS measure, was US\$75.5 million, US\$104.0 million, US\$120.6 million, US\$85.9 million and US\$41.3 million in 2019, 2020, 2021 and the six months ended 30 June 2021 and 2022. See “Financial Information – Non-IFRS Financial Measures”.

STRENGTHS

We believe that we have the following competitive strengths which enable us to take advantage of current and future growth opportunities.

Pioneer in the high-growth dairy sector driven by increasing demand and premiumisation

Leveraging the know-how and expertise gained from the Japfa Group’s experience in Indonesia since 1997, we commenced our dairy farming operations in China in 2009. According to Frost & Sullivan, we were the first dairy farm operators in China to build and operate large-scale dairy farms with a standardised farm design. As of the Latest Practicable Date, we owned and operated ten dairy farms in China, with an aggregate gross land area of approximately 14,657 mu. As of 30 June 2022, we had 111,424 heads of dairy cows, 57,383 of which were milkable cows. According to Frost & Sullivan, we are the fifth largest dairy farm operator in China, with a market share of 1.7% in terms of raw milk production in 2021. In 2019, 2020, 2021 and the six months ended 30 June 2021 and 2022, we produced approximately 565,400 tons, 582,800 tons, 638,800 tons, 298,300 tons and 359,200 tons of raw milk.

Driven by the rapid development of the economy and the increase of per capita disposable income, China’s dairy sector has experienced steady growth in recent years. According to Frost & Sullivan, the total retail sales value of dairy products increased from RMB363.0 billion in 2016 to RMB557.4 billion in 2021, representing a CAGR of 9.0%, and is expected to further grow at a CAGR of 9.5% to RMB875.5 billion in 2026. With increasing consumer preference for high-end and diversified dairy products, the retail sales value of high-end liquid milk has grown from RMB87.8 billion in 2016 to RMB184.9 billion in 2021, and is expected to further grow at a CAGR of 16.2% to RMB391.3 billion in 2026, which represents a significantly higher growth rate compared to regular liquid milk.

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Rapid growth and structural changes in the downstream dairy landscape have increased the demand for high-end raw milk in the upstream market. Leading national and regional dairy manufacturers are focusing more on new product development to meet consumers’ growing demand for diversified high-end milk products. Also, emerging dairy brands have been gaining more market share due to their digital marketing efforts among younger generation consumers and by focusing on various high-end product offerings. These emerging brands have been growing at a CAGR of more than 50% in revenue of dairy products during the past three years. It is expected that the increase in the overall demand for mid-to-high-end dairy products will sustain a momentum of double-digit growth for many of these emerging dairy brands over the next five years, which in turn will drive demand growth for the upstream dairy farm operators who cooperate with these emerging dairy brands.

We focus on delivering premium raw milk to our well-diversified portfolio of customers. Without over-reliance on a single dominant customer, we have stronger pricing power as compared to other top market players, which better positions us to benefit from the growth of the dairy market and consumption upgrade in China. From 2019 to 2021, our average selling price was higher than the average raw milk price among comparable listed industry peers, achieving a high growth at a CAGR of 8.4%, according to Frost & Sullivan. We have established long term relationships with both leading national and regional dairy product manufacturers (including Mengniu (蒙牛), Bright Dairy (光明), Meiji (明治), Junlebao (君樂寶), New Hope Dairy (新希望乳業), Jiabao (佳寶) and Classykiss (卡士)) and emerging dairy brands (such as Chi Forest (元氣森林) and Honest Dairy (簡愛)). Our stable supply of high-quality and traceable raw milk has enabled these dairy brands to promote their various high-end milk product offerings catering to the end customers, which in return has boosted our revenue.

Deep expertise in large-scale farm operations and relentless pursuit of operational excellence

We are experts in operating large-scale dairy farms in China. The average number of dairy cows in our dairy farms was 9,762 as of 31 December 2021, the second highest among the top five dairy farm operators by herd size in China, according to Frost & Sullivan. We are able to benefit from economies of scale by spreading fixed costs over a larger herd size, being greater suppliers of milk, increasing human capital efficiency from the subdivision and specialisation of labour and management, and purchasing raw materials and services in volume at discounted rates.

We have set up standard operating procedures in each stage of the production process, including land sourcing, farm design and construction, animal welfare and farm management, which have contributed to our improved operational performance.

- ***High efficiency and productivity.*** By leveraging our modern and scientific practices and large-scale dairy farming expertise, we have continuously achieved higher efficiency compared to our peers. We have been ranked No. 1 in China in terms of average milk yield per milkable cow for seven consecutive years from 2015 to 2021, and in 2021 five of our dairy farms were ranked among the top ten large-scale dairy farms with over 10,000 heads of dairy cows in China in terms of annualised average milk yield per milkable cow. In 2021, our annualised average milk yield per milkable cow reached 12.7 tons/year, far exceeding the industry average of 8.7 tons/year and the average for the top five dairy farm operators of 11.5 tons/year.

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- **Healthy cows and cattle.** We create a comfortable living environment for our dairy cows and beef cattle. Dongying Shenzhou AustAsia Dairy Farm, one of our dairy farms in Dongying, Shandong, is the first and only dairy farm in China that has been recognised by the Ministry of Agriculture and Rural Affairs of the People’s Republic of China (中華人民共和國農業農村部) as having both zero bovine tuberculosis and zero brucellosis, establishing a benchmark for the industry. By adopting advanced breeding technologies and disease prevention practices, we achieved a low death rate for our milkable cows and mastitis morbidity of 5.0% and 5.3% in 2021, compared to the industry average of 6.2% and 18.2%.
- **Consistent supply of high quality raw milk.** We believe that happy cows produce better milk. With our advanced farm management and skilled employees, we are able to consistently supply high quality raw milk to customers. For example, the protein content and fat content of our raw milk were 3.3% and 3.8% in 2021, respectively, surpassing both PRC national, Japanese and U.S. standards. The aerobic plate count and somatic cell count of our milk are 5,081 CFU/ml and 141,239 CFU/ml in 2021, well below the maximum counts allowed under the PRC, U.S. and European standards.

Proven and synergistic business model with high growth prospects

We have established an integrated business model comprising of three business segments: raw milk business, beef cattle business and ancillary business. Leveraging our established standard operating procedures and expertise in farm management, we have extended the success of our raw milk business to our beef cattle business. We have achieved synergy between our raw milk business and beef cattle business. All of our beef cattle are from our dairy farms. Our raw milk business provides a stable and self-sustaining source of cattle with excellent genetic traits, health conditions and easy traceability, which further improved the productivity of our beef cattle. We have further achieved cost efficiencies through economies of scale and optimisation of resources such as shared land and our team of technical experts. As of the Latest Practicable Date, we owned and operated two large-scale beef cattle feedlots in China. We had a total herd size of 25,414 heads of beef cattle as of 31 December 2021. In 2021, we were the eleventh largest beef cattle farming company in China in terms of the number of beef cattle. Our beef cattle business revenue was US\$50.5 million and US\$25.0 million in 2021 and six months ended 30 June 2022, accounting for 9.7% and 9.0% of our total revenue, further diversifying our revenue sources.

Our business spans the key stages of the dairy farming value chain, including farm design and management, forage cultivation, in-house feed production, dairy cow breeding and raw milk production. Our success is attributed to the strengths of our integrated business model, including:

- breeding high quality dairy cows with excellent health condition;
- focusing on genetic improvement and biosecurity, with successful commercial application of genetic breeding technology;
- selection of strategic farm locations within optimal environmental parameters;
- extensive experience and track record in large-scale dairy farm operations;
- modern and scientific infrastructure and standardised farm management systems which are designed to maximise animal welfare, operational efficiency and milk quality;
- robust understanding and development of local forage supply with high standards on forage quality; and
- scientific development of feed formulation for optimal nutrition for cattle health and milk yield.

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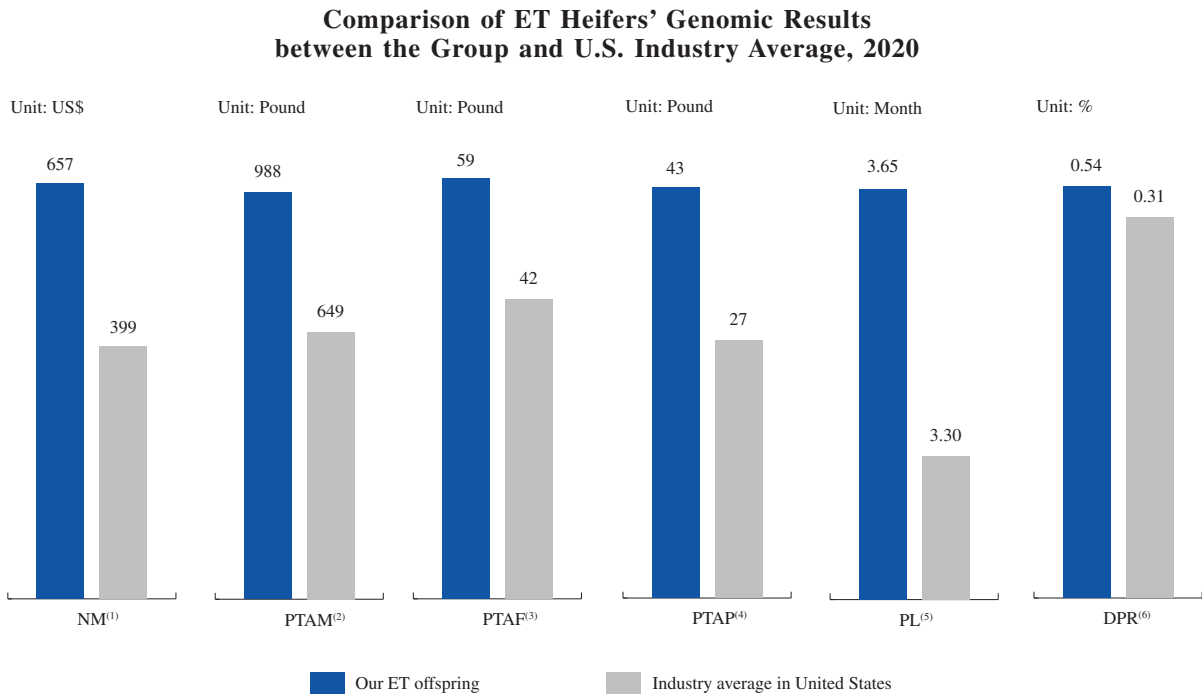
We believe that the replicability of our established business model will enable us to expand rapidly and to repeat our success as we continue to strategically build more large-scale dairy farms and beef cattle feedlots in selected regions in China.

Advanced breeding technology adopted to improve genetic traits and productivity

We started a genetic improvement programme since 2018. We were one of the pioneers in the commercial use of genetic breeding technology in China’s dairy industry. We were among the first dairy farm operators in China to successfully implement in vitro fertilisation (“IVF”) and embryo transfer (“ET”) technology in our dairy farms, according to Frost & Sullivan. As compared to the common industry practice of relying on imported frozen bovine semen, the adoption of IVF technology can significantly shorten generation interval, effectively increase pregnancy rates, optimise genetic traits and reproductivity of dairy cows.

On each dairy farm, we have a team of around 15 specialised technicians who are dedicated to breeding cows. In addition, our headquarters has a team of technical experts focused on implementing ET technology and providing guidance on breeding. As of the Latest Practicable Date, we have adopted IVF and ET technology in eight dairy farms in Shandong and Inner Mongolia. We have also transferred more than 12,950 IVF embryos and produced approximately 2,200 Holstein offspring⁽¹⁾.

The breakthroughs in genetic technology enable us to increase productivity, lower disease and mortality rates, as well as lengthen the lifespans of the dairy cows and beef cattle, according to Frost & Sullivan. Significant improvements in genetic traits and productivity have been observed in our dairy cows. The key breeding indexes and indicators of our ET offspring surpassed the industry average of herds in the United States in 2020. According to Frost & Sullivan, the industry average data of herds in the United States is generally regarded as the highest benchmark. The following graph illustrates the main breeding indexes and indicators of our ET offspring as compared to the industry average in the United States in 2020:



Source: The Council of Dairy Cattle Breeding (CDCB), Frost & Sullivan

Note:

(1) Not all the transferred IVF embryos can survive. The survival of IVF embryos depends on the health status of the recipient cows.

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Notes:

- (1) Net Merit (or “NM”) is a comprehensive breeding index, which reflects the additional net profit that may be generated by the offspring of animals in its lifetime. For instance, NM\$657 indicates the cow can generate US\$657 additional profit for the farm in its lifetime compared with the average level.
- (2) Predicted Transmitting Ability for Milk Yield (“PTAM”) represents the additional milk yield of the offspring for one parity compared with the average level of the breed. For instance, PTAM 988 means additional 988 pounds (approximately 448 kg) of the yield of the cow for a parity compared with the average level of the breed. The higher the PTAM, the higher the milk yield of the cow.
- (3) Predicted Transmitting Ability for Milk Fat (“PTAF”) represents the additional milk fat volume of the offspring for one parity compared with the average level of the breed. The higher the PTAF, the more the dry nutrient substance produced by the cow.
- (4) Predicted Transmitting Ability for Protein (“PTAP”) represents the additional milk protein volume for one parity compared with the average level of the breed.
- (5) Production Life (“PL”) represents the predicted transmitting ability of a cow in the herd birth month. In short, when PL increases by 1, the herd life of the cow extends 1 month. It suggests the cow gets sick less frequently and is healthier.
- (6) Daughter Pregnant Rate (“DPR”) represents the predicated transmission for the pregnant rate of dairy cows. When DPR increases by 1, it indicates the pregnant rate for 21 days of the cow may increase by 1% (i.e. to indicate that the fertility of the cow is better).

Strong and stable financial performance

Our revenue from continuing operations increased from US\$351.5 million in 2019 to US\$521.9 million in 2021, representing a CAGR of 21.9%, and increased by 15.4% from US\$241.2 million in the six months ended 30 June 2021 to US\$278.3 million in the six months ended 30 June 2022. Our net profit from continuing operations increased from US\$74.6 million in 2019 to US\$104.6 million in 2021, representing a CAGR of 18.4%. Our EBITDA from continuing operations, a non-IFRS measure, increased from US\$104.4 million in 2019 to US\$149.9 million in 2021, representing a CAGR of 19.8%. See “*Financial Information – Non-IFRS Financial Measures*”. We also demonstrated stable financial performance during the downturn in raw milk prices in 2017 and 2018, in which years all of our operating dairy farms (except one) reported net profits.

We believe that our ability to deliver profitable growth on a sustainable basis is supported by the following factors:

- ***Diversified revenue mix.*** By leveraging our integrated business model, we have been able to develop our beef cattle business as another source of revenue in addition to our raw milk business. Revenue from the beef cattle business increased from US\$22.2 million in 2019 to US\$50.5 million in 2021, representing a CAGR of 50.7%. In addition, we also sell our in-house branded dairy products under our own “*澳亞牧場 AustAsia*” brand, as part of our ancillary business. This diverse revenue mix allows us to respond on a timely basis to changes in the supply-demand dynamics and enhances the resilience of our operations.
- ***Well-diversified customer base with higher average selling price.*** We serve both leading national and regional dairy product manufacturers (including Mengniu (蒙牛), Bright Dairy (光明), Meiji (明治), Junlebao (君樂寶), New Hope Dairy (新希望乳業), Jiabao (佳寶) and Classykiss (卡士)), as well as rapidly-growing emerging dairy brands (such as Chi Forest (元氣森林) and Honest Dairy (簡愛)). In 2021, our largest customer and top five customers in that year accounted for 27.4% and 65.7% of our total revenue from continuing operations, respectively, which are lower than the average of the other top five peers of 76.5% and 85.7%,

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according to Frost & Sullivan. This enables us to not only command stronger bargaining power but also generate a higher average selling price. According to Frost & Sullivan, our average selling price was higher than the average raw milk price of comparable listed industry peers, achieving a high growth at a CAGR of 8.4%. In 2019, 2020 and 2021, the average selling price of our raw milk product was RMB4,076/ton, RMB4,371/ton and RMB4,789/ton, which was 11.6%, 15.2% and 11.5% higher than industry average, according to Frost & Sullivan. In the six months ended 30 June 2021 and 2022, the average selling price of our raw milk product was RMB4,723/ton and RMB4,664/ton.

- **Higher profitability.** Given our in-depth farm management experience, we have achieved and consistently maintain industry-leading operational efficiency and enjoyed higher profitability during the Track Record Period. Our gross profit margin was 34.6%, 37.1%, 33.7% and 24.5%, our net profit margin was 21.2%, 24.5%, 20.0% and 10.7%, while EBITDA margin, a non-IFRS measure, was 29.7%, 32.2%, 28.7% and 20.8% and adjusted net profit margin, a non-IFRS measure, was 21.5%, 25.7%, 23.1% and 14.8% in 2019, 2020, 2021 and the six months ended 30 June 2022.

Experienced management team with proven track record bolstered by strong shareholder support

Led by an experienced management team, we have successfully entered the dairy farming sector in China. Our CEO, Mr. Edgar Collins, has over 18 years of experience as an entrepreneur building vertically-integrated beef cattle and raw milk businesses and is one of the pioneers in the dairy farming sector. Our COO, Mr. Yang Ku, has been in the dairy farm industry for more than 30 years and has extensive work experience and track record in managing large-scale commercial dairy farms in China. The majority of our senior management team have over 16 years of experience in the dairy industry and have been working together as a team in our Company for more than 12 years. With deep insight into China’s dairy industry, our management team is able to identify customer needs and quickly formulate business strategies to address customer needs and capture market opportunities, thereby promoting the development of China’s dairy industry.

We continue to enjoy the shared resources and support of Japfa through a technical services agreement with its wholly-owned subsidiary ATS and through a supply agreement with its wholly-owned subsidiary Annona. Pursuant to a services agreement with ATS, ATS has been providing, and will continue to provide, us with certain financial solutions, debt financing solutions, debt risk solutions, legal solutions, human resource solutions, strategic solutions and digitalisation solutions on a cost-sharing basis. Annona is a global trading company which enjoys concessionary tax rates under the Global Trader Programme which is administered by International Enterprise Singapore, an agency under the Ministry of Trade and Industry of Singapore. Through such cooperation with ATS and Annona, we are able to access various types of expertise without having to bear the full cost of hiring such experts, and are able to procure raw materials on competitive terms as Annona can aggregate the Japfa Group’s collective demand and negotiate in bulk. Such continued cooperation with the Japfa Group strengthens our competitive advantage in the dairy farming and beef cattle businesses. Our strategic investors, such as Meiji, Chi Forest, New Hope Dairy and Honest Dairy, are also our customers, serving as stable revenue sources supporting our long-term raw milk demand.

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STRATEGIES

We focus on creating long-term value for our stakeholders in a responsible and sustainable way. To achieve our mission, we intend to pursue a comprehensive strategy focused on the following:

Further expand our dairy farms and diversify our customer base

Driven by government policies, consumers’ increasing health and nutrition awareness in China, the demand for dairy products has been rapidly increasing, stimulating growth for dairy and raw milk suppliers. In addition to ongoing expansion of our existing farms, we plan to add significant new capacity in the near term. We have commenced the construction of Pure Source Farm 3 in April 2022 and we intend to commence the construction of Pure Source Farm 4 in April 2023. These farms are located in Shandong and will have capacity for 29,500 dairy cows in the aggregate. We are also in discussions with a third-party downstream milk producer and the local government to establish new farm facilities in Inner Mongolia. By building and developing new dairy farms, we will also extend our reach to potential new customers around the new farm locations, and further diversify our customer base. With the expansion of our scale and reach, we aim to strengthen our position as a global leader in the dairy industry in China.

Continue to develop our beef cattle business

With consumers’ increasing preference for beef and the emergence of beef orientated restaurants due to changes in nutritional awareness and consumption trends, China’s demand for beef is growing steadily, with a shortage of sizeable and reliable high quality beef suppliers to fulfil the market’s needs. We plan to further increase the beef cattle population of our existing beef cattle feedlots to full capacity and construct new beef cattle feedlots in Shandong when opportunities arise as part of the future expansion of our beef cattle business. We have formed partnerships with food service companies in China such as Zuo Ting You Yuan (左庭右院) and premium beef processors. We plan to further expand and diversify our customer base in order to improve our reputation as a quality beef cattle supplier and to grow a resilient beef cattle business.

Our raw milk and beef cattle businesses work synergistically with each other. The experience, management systems and technologies developed from managing large-scale dairy farms and cow breeding can be transferred and applied to our beef cattle feedlots to enhance business growth. We also enjoy cost efficiencies through economies of scale and optimisation of resources such as land and our team of technical experts.

Upstream integration through genetic breeding technology to further improve our operational efficiency

Animal breeds and genetics are a key foundation for dairy farming and beef farming operations. Breakthroughs in genetic technology can increase productivity, lower disease and mortality rates, as well as lengthen the lifespans of dairy cows and beef cattle. We plan to build core herd centres and expand the genetic improvement programme in our farms with ET technology, which can enhance milk and beef cattle yields. We plan to use 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.

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Build a sustainable business with minimal environmental impact

We are committed to building a sustainable business and operating model that minimises our impact on the environment. We have set medium to long term sustainability targets. We will continue to improve our operational efficiency such as average milk yield to reduce the GHG emission per ton of raw milk produced. Our continued emphasis on animal welfare will also enable us to raise healthier cows and cattle, which in turn increases productivity and efficient use of resources such as feed and water. We will continue to explore new technologies and build additional facilities that increase resource usage efficiency and waste management. We will also explore the use of green energy such as photovoltaic power generation to generate electricity for our production activities.

OUR BUSINESS MODEL AND PRODUCTS

We have two main business segments, namely our raw milk business and beef cattle business. We also engage in an ancillary business, namely the sales of milk products under our own brand “澳亞牧場 AustAsia”. Our integrated farming model includes (i) dairy cow breeding and farming, raw milk production, and sales of raw milk, and (ii) beef cattle breeding and farming, and sales of beef cattle.

Our business segments are described below:

Raw Milk Business

We breed and raise dairy cows on our large-scale dairy farms, and sell raw milk to downstream dairy product manufacturers in China for further processing into premium dairy products. Our well-diversified customer base includes (i) leading national and regional dairy product manufacturers, which contributed approximately 83% and 81% of our total revenue from raw milk business in 2021 and the six months ended 30 June 2022; and (ii) emerging dairy brands, which contributed approximately 15% and 16% of our total revenue from raw milk business in 2021 and the six months ended 30 June 2022.

Beef Cattle Business

We started our beef cattle farming operations in 2018, pursuing the rapidly increasing demand for beef products in China. We raise beef cattle on our large-scale beef cattle feedlots, and sell beef cattle to food service companies in China such as Zuo Ting You Yuan (左庭右院) and premium beef processors for further processing into beef products. Our beef cattle business operates synergistically with our raw milk business. By using steers from our dairy herd for beef cattle stock, we are able to utilise the resources of our raw milk business to develop our beef cattle business.

Ancillary Business

In addition to our two main business segments, we also sell our milk products under our own brand “澳亞牧場 AustAsia” to large-scale cafes, milk tea stores, bakeries and refreshment chains in China.

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The following table sets forth the components of our revenue by business segments for the periods indicated:

	For the year ended 31 December						For the six months ended 30 June			
	2019		2020		2021		2021		2022	
	<i>(US\$ million, except for percentages)</i>									
	<i>(unaudited)</i>									
Raw milk business	315.6	89.8%	349.8	86.4%	438.0	83.9%	203.0	84.2%	242.3	87.1%
Beef cattle business	22.2	6.3%	43.0	10.6%	50.5	9.7%	24.6	10.2%	25.0	9.0%
Ancillary business	13.7	3.9%	12.0	3.0%	33.4	6.4%	13.6	5.6%	11.0	3.9%
Total	351.5	100.0%	404.8	100.0%	521.9	100.0%	241.2	100.0%	278.3	100.0%

RAW MILK BUSINESS

Overview of Raw Milk Business

As of the Latest Practicable Date, we owned and operated ten dairy farms in China. As of 30 June 2022, we had a total herd size of 111,424 heads of dairy cows, 57,383 of which were milkable cows.

Leveraging our expertise in genetic improvement of cattle as detailed in “– Raw Milk Business – Our Dairy Cows – Breeding” and farm management as detailed in “– Raw Milk Business – Farm Management”, we produce premium raw milk with high efficiency. According to Frost & Sullivan, we have been ranked No. 1 in China in terms of annualised average milk yield per milkable cow, which is the key indicator of the productivity and efficiency of dairy farms, for seven consecutive years from 2015 to 2021. In 2021, our annualised average milk yield per milkable cow reached 12.7 tons/year, exceeding the industry average of 8.7 tons/year and the average for the top five dairy farm operators of 11.5 tons/year. In terms of individual dairy farm ranking in 2019, 2020 and 2021, we have six, seven and five dairy farms, respectively, ranked among the top ten large-scale dairy farms with over 10,000 heads of dairy cows in China in terms of annualised average milk yield per milkable cow, according to Frost & Sullivan.

The raw milk business represents the majority of our revenue during the Track Record Period. In 2019, 2020, 2021 and the six months ended 30 June 2021 and 2022, our revenue from sales of raw milk were US\$315.6 million, US\$349.8 million, US\$438.0 million, US\$203.0 million and US\$242.3 million, accounting for 89.8%, 86.4%, 83.9%, 84.2% and 87.1% of our total revenue. For the same periods, our raw milk sales volume reached approximately 553,800 tons, 551,800 tons, 589,800 tons, 278,000 tons and 338,000 tons. In 2019, 2020 and 2021, our average selling price was RMB4,076/ton, RMB4,371/ton and RMB4,789/ton. According to Frost & Sullivan, the national average selling price of raw milk in China in the same periods were approximately RMB3,653/ton, RMB3,793/ton and RMB4,293/ton. The average selling price of our raw milk over the same periods represented a premium of approximately 11.6%, 15.2% and 11.5% above the national average selling price. Our average selling price in the six months ended 30 June 2021 and 2022 were RMB4,723/ton and RMB4,664/ton.

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Our Dairy Farms

During the Track Record Period, we expanded our business by building and acquiring new dairy farms. The number of our dairy farms in operation increased from eight in 2019 to ten in the six months ended 30 June 2022. As of the Latest Practicable Date, we owned and operated ten large-scale dairy farms across China in Shandong and Inner Mongolia, with an aggregate gross land area of approximately 14,657 mu.

We carefully select the location of our dairy farms based on factors including climate, optimal environmental parameters and proximity to customers. Three of our dairy farms are strategically located within the “Golden Raw Milk Belt” in Inner Mongolia, which is situated in an ideal latitude zone for dairy farming. The mild climate and rich natural resources within the Golden Raw Milk Belt, such as wide grasslands, ample feed and abundance of fresh water, generate high milk yield and quality. Seven of our dairy farms are in Shandong and are strategically located in close proximity to both major dairy products processing plants and major dairy consumption markets. We also take into account ancillary land for feed plantations to provide a stable supply of high quality feed and achieve effective integration and synergies across feed plantations and dairy farming.

The following table sets forth the locations of our dairy farms in operation as of 30 June 2022:

Region	Geographic Location	Name of Dairy Farm	Self-built/ Acquired
Shandong	Dongying City	Dongying AustAsia Dairy Farm (“Farm 1”)	Self-built
		Dongying Xianhe AustAsia Dairy Farm (“Farm 3”)	Self-built
		Dongying Shenzhou AustAsia Dairy Farm (“Farm 4”)	Self-built
		Dongying Shenzhou AustAsia Dairy Farm Xinqu Branch (“Farm 5”)	Self-built
	Tai’an City	Tai’an AustAsia Dairy Farm (“Farm 2”)	Self-built
	Dezhou City	Pure Source Farm 1 (“Farm 9”) Pure Source Farm 2 (“Farm 10”)	Acquired Acquired
Inner Mongolia	Chifeng City	Chifeng AustAsia Dairy Farm (“Farm 6”)	Self-built
		Chifeng AustAsia Dairy Farm Zhagasitai Branch (“Farm 7”)	Self-built
		Chifeng AustAsia Dairy Farm Tongxi Branch (“Farm 8”)	Self-built

BUSINESS

The following table sets forth certain operating data for our dairy farms in operation for the periods indicated or as of the dates indicated:

Region	Size	Designated capacity			Number of milkable cows			Number of calves and heifers ⁽¹⁾			Utilisation rate ⁽²⁾			Annualised average milk yield per milkable cow				
		As of 31 December		As of 30 June	As of 31 December		As of 30 June	As of 31 December		As of 30 June	As of 31 December		As of 30 June	For the year ended 31 December		For the six months ended 30 June		
		2019	2020	2021	2022	2019	2020	2021	2022	2019	2020	2021	2022	2019	2020	2021	2022	
		<i>(number of dairy cows)</i>			<i>(head)</i>			<i>(head)</i>						<i>(tons/year)</i>				
		2022	2019	2020	2021	2022	2019	2020	2021	2022	2019	2020	2021	2022	2019	2020	2021	2022
Shandong	9,715	56,000	56,000	72,000	36,511	38,714	23,725	24,678	29,330	29,703	99.8%	102.6%	91.4%	12.3	12.5	12.6	13.0	
Farm 1	760	8,000	8,000	8,000	6,314	6,309	6,244	1,840	2,133	1,715	102.7%	101.9%	104.7%	11.9	12.3	13.0	12.9	
Farm 2	1,331	11,000	11,000	11,000	6,481	6,548	6,418	3,823	4,066	4,087	95.3%	94.3%	95.3%	11.7	12.0	12.4	13.4	
Farm 3	1,653	12,000	12,000	12,000	6,347	6,504	6,514	6,035	5,830	6,355	101.3%	107.2%	102.9%	12.2	12.4	12.7	12.8	
Farm 4	1,512	13,000	13,000	13,000	6,620	6,760	6,573	6,852	6,108	5,687	99.3%	100.7%	97.5%	12.7	12.9	12.8	13.2	
Farm 5	2,304	12,000	12,000	12,000	6,411	6,653	6,551	6,778	5,470	5,547	101.1%	108.0%	100.2%	12.9	13.1	12.9	12.8	
Farm 9 ⁽³⁾	876	-	-	8,000	-	1,423	2,859	-	2,839	3,117	0.0%	0.0%	53.3%	N/A	N/A	9.0	14.1	
Farm 10 ⁽³⁾	1,279	-	-	8,000	-	2,788	3,128	-	2,884	3,195	0.0%	0.0%	70.9%	N/A	N/A	10.5	11.7	
Inner Mongolia	4,942	24,000	36,000	36,000	13,113	13,926	17,224	18,669	14,555	16,107	103.2%	78.7%	88.3%	13.5	13.3	13.0	13.8	
Farm 6	1,520	12,000	12,000	12,000	6,435	6,311	6,061	6,876	4,561	5,280	105.9%	106.4%	88.5%	13.7	13.7	12.9	13.4	
Farm 7	1,622	12,000	12,000	12,000	6,678	6,339	6,427	6,575	5,367	4,691	100.4%	104.1%	94.6%	13.2	13.1	13.3	14.0	
Farm 8 ⁽⁴⁾	1,800	-	12,000	12,000	-	1,276	4,736	5,218	-	6,136	0.0%	25.4%	81.7%	N/A	8.6	12.3	14.2	
Total	14,657	80,000	92,000	108,000	45,286	46,680	53,735	57,383	35,570	43,885	100.8%	93.2%	90.4%	12.6	12.8	12.7	13.3	

Notes:

- (1) Excluding calves and heifers that were temporarily raised on our beef cattle feedlots when our dairy farms were full, which totalled 5,384, 6,032, 8,554 and 8,231 as of 31 December 2019, 2020, 2021 and 30 June 2022.
- (2) Utilisation rate is calculated by dividing the aggregate number of dairy cows by the aggregate designed capacity. As we commenced our operations of Farm 8 in 2020, the average utilisation rate in Inner Mongolia was lower than that of our dairy farms in Shandong in 2020. The utilisation rate of our dairy farms in Inner Mongolia increased as the production of Farm 8 ramped up.
- (3) Farm 9 (Pure Source Farm 1) and Farm 10 (Pure Source Farm 2) are two dairy farms we acquired in June 2021. As both two dairy farms are still at ramp up stage, their utilisation rates and milk yield in 2021 were relatively lower than our other dairy farms.
- (4) As Farm 8 was still at ramp up stage in 2020, its utilisation rate and milk yield in 2020 were relatively lower than our other dairy farms.

BUSINESS

We intend to continue increasing the production capacity of our existing dairy farms and build new dairy farms. We are developing one plot and plan to develop another plot of vacant Pure Source land into new dairy farms to accommodate an additional 29,500 heads of cattle (including 12,700 milking cows) in 2023. The land plots for Farm 11 and Farm 12 were acquired together with Farm 9 and Farm 10 in June 2021. The following table sets forth certain details of our proposal for the construction of the Pure Source farms:

<u>Farm</u>	<u>Location</u>	<u>Commencement of construction</u>	<u>Expected commencement of commercial production</u>	<u>Planned holding capacity</u>	<u>Planned full milking capacity⁽¹⁾</u>	<u>Rotary milking parlour</u>	<u>Expected size</u>	<u>Estimated total investment costs</u>
				<i>(number of dairy cows/head)</i>	<i>(number of milking cows/head)</i>	<i>(milking stalls)</i>	<i>(mu)</i>	<i>(RMB million)</i>
Pure Source Farm 3 (“Farm 11”)	Shandong	April 2022	January 2023	17,000	7,000	100 x 2	2,400	904.7
Pure Source Farm 4 (“Farm 12”)	Shandong	April 2023	December 2023	12,500	5,700	80 x 2	1,400	669.7

Note:

- (1) Full milking capacity is estimated based on the number of milking stalls, rotation speed and our milking routine. Based on our typical rotation speed, the maximum number of milking cows we can accommodate per hour is within the range of 550 to 600. And our milking routine is six hours per shift (4x per day).

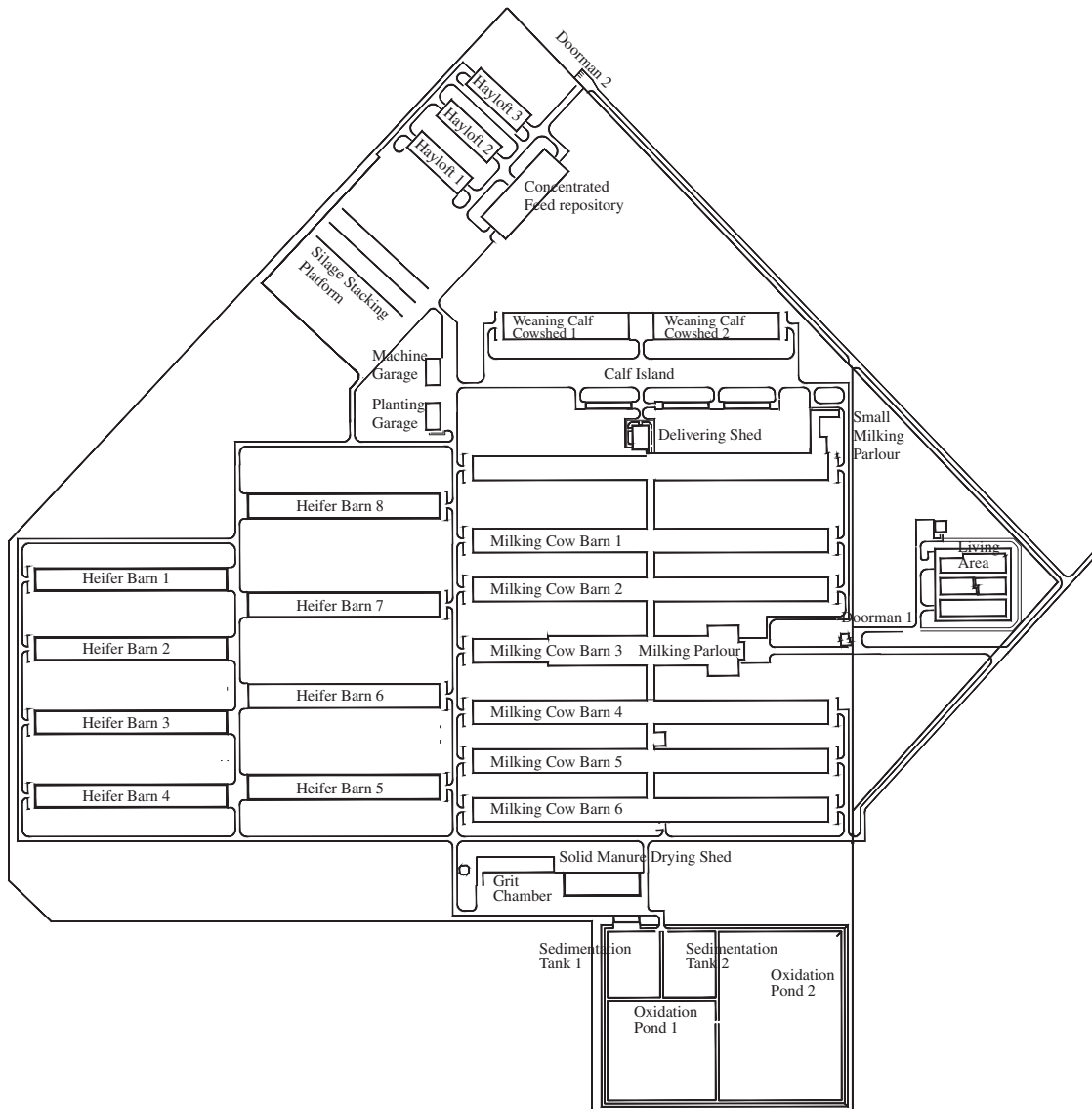
In addition, we are currently in discussions with a third-party downstream milk producer which has a national brand in the infant milk formula market and the local government to establish new farm facilities in Inner Mongolia. In May 2022, we entered into a framework agreement pursuant to which we agree to build two dairy farms from 2023 to 2025. We expect that the capital investment for the dairy farms will involve building farm facilities, including the purchase of the necessary equipment, and funding the initial cattle acquisition for the farm. As of the Latest Practicable Date, no land or property has been identified by the parties. The parties will negotiate and enter into definitive agreements in relation to the details of such strategic cooperation.

Dairy farm design and facilities

Our dairy farms are designed with a scientific layout to maximise milk yield and productivity, and ensure dairy cow welfare. Our dairy farm facilities include a milking parlour with milking machines and raw milk loading area, cattle barns, feed and non-feed warehouses, and manure treatment facilities with biogas function on certain farms.

BUSINESS

Set forth below is a sample layout of our standard dairy farm design:



BUSINESS

Our Dairy Cows

The average number of dairy cows in our dairy farms was 9,762 as of 31 December 2021, the second highest among the top five dairy farm operators by herd size in China, according to Frost & Sullivan. As of 30 June 2022, our dairy cow population was 111,424 heads. We had 57,383 milkable cows and 54,041 calves and heifers, accounting for 51.5% and 48.5% of our dairy cows as of 30 June 2022. All of our dairy cows are Holsteins. Holsteins are generally larger in size and have a higher milk yield per milkable cow compared to other dairy cows. During the Track Record Period, we did not procure any dairy cows from third party suppliers.

The following table presents a breakdown of our dairy cows as of the dates indicated:

	As of 31 December			As of 30 June
	2019 ⁽²⁾	2020	2021	2022
	<i>(head)</i>			
Milkable cows	45,286	46,680	53,735	57,383
Calves and heifers ⁽¹⁾	40,754	45,099	52,439	54,041
Total	<u>86,040</u>	<u>91,779</u>	<u>106,174</u>	<u>111,424</u>

Notes:

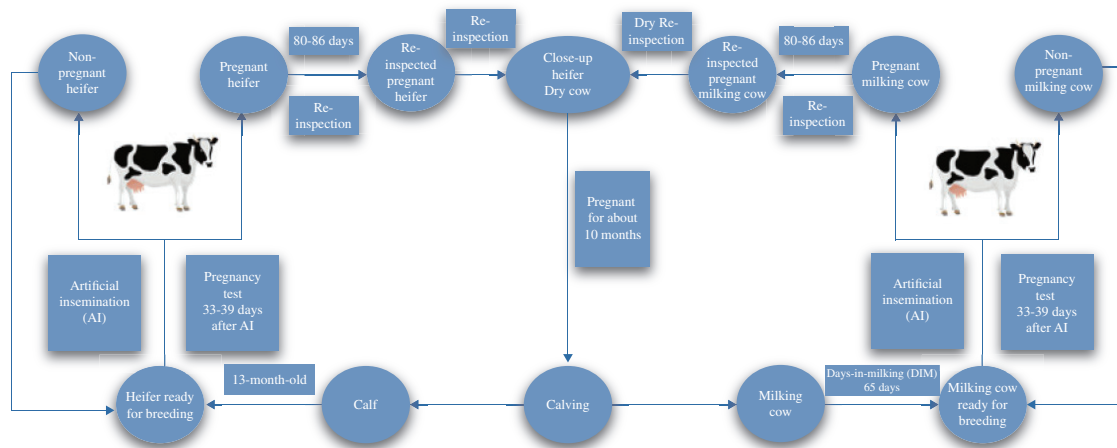
- (1) Includes calves and heifers that were temporarily raised on our beef cattle feedlots when our dairy farms were full.
- (2) Excludes dairy cows in the discontinued operation. See “Financial Information – Description of Major Components of Our Results of Operations – Discontinued operation” and Note 12 to the Accountants’ Report included in Appendix I to this prospectus for further details.

Milk production process

We have an optimal herd structure that is ideal for high milk yields and sustainable herd expansion. Our dairy cows consist of milkable cows, calves and heifers. A typical life cycle for a dairy cow after birth is as follows: (i) a female calf becomes a heifer after six months from its birth; (ii) a heifer becomes a milkable cow after about 23 months from its birth; and (iii) a milkable cow has an average of three lactation cycles in its lifetime, each of which can last for 305 days. The average lifespan of dairy cows is 5 years. As of the Latest Practicable Date, the average remaining useful life of our Group’s milkable cows is approximately 4.2 years. For the benefit of its welfare, milk quality and milk yield, each milkable cow that is pregnant undergoes a dry period of approximately two months immediately prior to delivery.

BUSINESS

The following diagram shows the growing and producing processes of dairy cows.



Breeding

We implement a genetic improvement programme to enhance the breed of our dairy cows. As compared to the common industry practice of relying on imported bovine semen, we use IVF and ET breeding technology to breed better dairy cows. A high genomic female core herd is the fundamental element for genetic improvement of a dairy cattle breed. With the high genomic female core herd, we can improve the herd genetic traits from both parental sides. The common industry practice used by other large-scale farms only improves the paternal side with semen. As of 30 June 2022, we have a core herd of over 2,200 heads of dairy cows. With the core herd, we also plan to produce embryos for other farms or bull stations to improve their herd genetic value and create high-end bulls. To our knowledge, there are no ethical issues with our use of IVF and ET technologies on animals, or potential negative health effects for humans due to the application of genetic breeding technology to the cows.

On each dairy farm, we have a team of around 15 specialised technicians who are dedicated to breeding cows. In addition, our headquarters has a team of experts focused on implementing ET technology and providing guidance on breeding. In addition, we cooperate with domestic research institutions and international companies from related areas. For example, we entered into a long-term cooperation agreement with Dairy Cow Research Centre of Shandong Academy of Agricultural Sciences (山東省農科院奶牛研究中心) together with a supplier of embryos. Pursuant to this agreement, the research centre provides guidance on breeding dairy cows (including genetic testing) and helps us build up the female core herd. The research centre will have a priority claim on the intellectual property, while we have the ownership of the dairy cows from breeding. The parties can agree to terminate the agreement without any liability. If the agreement is terminated due to our breach, we are obligated to compensate the embryo supplier a certain amount based on the value of embryos we have used on our farms.

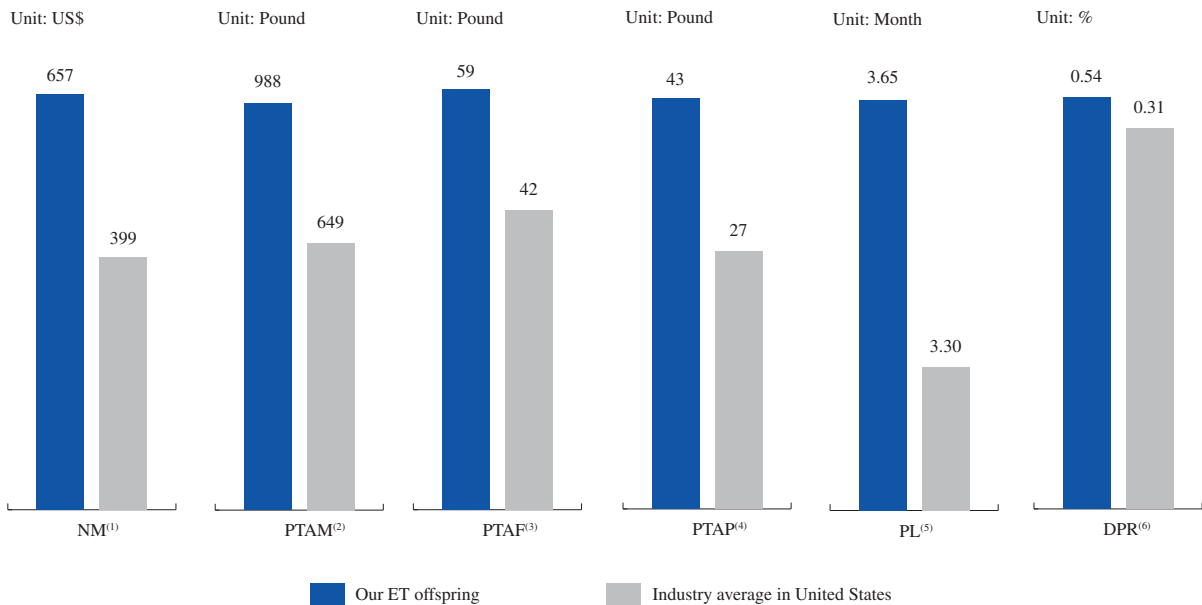
BUSINESS

As of the Latest Practicable Date, we have implemented IVF and ET breeding technology in eight dairy farms in Shandong and Inner Mongolia, representing 80% of our dairy farms. During the Track Record Period, we used the bovine semen imported mainly from the United States, which are generally regarded as of the highest quality in the industry. We have also transferred over than 12,950 IVF embryos and produced approximately 2,200 Holstein offspring⁽¹⁾.

The breakthroughs in genetic technology enable us to increase productivity and efficiency, lower disease and mortality rates, as well as lengthen the lifespans of the dairy cows and beef cattle. The IVF technology can significantly shorten generation interval, effectively increase pregnancy rates, optimise genetic traits and productivity of our dairy cows. In particular, higher pregnancy rate leads to more lactation periods, an important factor in increasing milk yield. For the past five years, significant improvements in genetic traits and productivity have been observed in our dairy cows. The key breeding indexes and indicators of our ET offspring surpassed the industry average of herds in the United States in 2020. According to Frost & Sullivan, the industry average data of herds in the United States is generally regarded as the highest benchmark.

The following graph illustrates the main breeding indexes and indicators of our ET offspring as compared to the industry average in the United States in 2020:

**Comparison of ET Heifers’ Genomic Results
between the Group and U.S. Industry Average, 2020**



Source: The Council of Dairy Cattle Breeding (CDCB), Frost & Sullivan

(1) Not all the transferred IVF embryos can survive. The survival of IVF embryos depends on the health status of the recipient cows.

BUSINESS

Notes:

- (1) Net Merit (or “NM”) is a comprehensive breeding index, which reflects the additional net profit that may be generated by the offspring of animals in its lifetime. For instance, NMS657 indicates the cow can generate US\$657 additional profit for the farm in its lifetime compared with the average level.
- (2) Predicted Transmitting Ability for Milk Yield (“PTAM”) represents the additional milk yield of the offspring for one parity compared with the average level of the breed. For instance, PTAM 988 means additional 988 pounds (approximately 448 kg) of the yield of the cow for a parity compared with the average level of the breed. The higher the PTAM, the higher the milk yield of the cow.
- (3) Predicted Transmitting Ability for Milk Fat (“PTAF”) represents the additional milk fat volume of the offspring for one parity compared with the average level of the breed. The higher the PTAF, the more the dry nutrient substance produced by the cow.
- (4) Predicted Transmitting Ability for Protein (“PTAP”) represents the additional milk protein volume for one parity compared with the average level of the breed.
- (5) Production Life (“PL”) represents the predicted transmitting ability of a cow in the herd birth month. In short, when PL increases by 1, the herd life of the cow extends 1 month. It suggests the cow gets sick less frequently and is healthier.
- (6) Daughter Pregnant Rate (“DPR”) represents the predicated transmission for the pregnant rate of dairy cows. When DPR increases by 1, it indicates the pregnant rate for 21 days of the cow may increase by 1% (i.e. to indicate that the fertility of the cow is better).

Culling

We have adopted a culling programme for our dairy cows to maintain the quality and yield of our raw milk. Culling refers to the removal of cows from a herd through sale and other means when they do not or no longer meet our criteria for milk yield or fertility. Through this process, some milking cows with low milk production will be culled each year. In addition, some milking cows will also be culled due to illness, or other abnormalities.

Our Raw Milk

Our main product in the raw milk business is premium raw milk. Premium raw milk refers to raw milk that exceeds the industry standards of the PRC, US, Japan, and European Union. In 2019, 2020, 2021 and the six months ended 30 June 2021 and 2022, we sold 533,800 tons, 551,800 tons, 589,800 tons, 278,000 tons and 338,000 tons of premium raw milk, with an average selling price of RMB4,076 per ton, RMB4,371 per ton, RMB4,789 per ton and RMB4,664 per ton.

The following table sets forth the production volume and sales volume of our raw milk for the periods indicated:

	For the year ended 31 December			For the six months ended 30 June	
	2019	2020	2021	2021	2022
Production volume (thousand tons) ⁽¹⁾	565.4	582.8	638.8	298.3	359.2
Sales volume (thousand tons)	533.8	551.8	589.8	278.0	338.0
Average selling price (RMB/ton)	4,076	4,371	4,789	4,723	4,664

Note:

- (1) The difference between production volume and sales volume mainly represents the volume sold internally to our ancillary business segment.

BUSINESS

We assess the quality of our raw milk primarily with four indicators commonly recognised in the industry, namely the protein content, fat content, aerobic plate count and somatic cell count. In 2021, our raw milk has an aerobic plate count and somatic cell count of 5,081 CFU/ml and 141,239 CFU/ml, which is significantly better than the EU standards, one of the highest industry standards for raw milk safety in the world. In addition, our raw milk has high nutritional value, with average protein content and fat content of 3.3% and 3.8%, exceeding the standards set by the PRC National High-quality Milk Project, the United States and Japan.

The table below sets forth comparisons between the average quality indicators of our raw milk and various industry standards for 2021:

	Protein Content	Fat Content	Aerobic Plate Count	Somatic Cell Count
	(%)	(%)	(CFU/ml)	(CFU/ml)
Our products	3.3%	3.8%	5,081	141,239
PRC national high-quality milk project	≥3.1%	≥3.3%	<100,000	<300,000
Average of selected large-scale dairy farms	3.9%	3.9%	42,700	210,600
PRC national standards	≥2.8%	≥3.1%	<2,000,000	N/A
U.S. standards	≥3.2%	≥3.5%	<100,000	<750,000
European standards	N/A	N/A	<100,000	<400,000
Japan standards	≥3.2%	≥3.8%	N/A	N/A

Farm Management

We have adopted and implemented industry best practices in farm management. We have installed real-time farm management systems in our dairy farms, including herd management system, feeding system and production information management system to oversee and control operation in real time, improve management efficiencies and achieve our mission of “happy cows”. These “happy cows” ultimately lead to higher milk yield during any given lactation period. As such, our farm management system and commitment to animal welfare are key to improving our milk yield. These systems are described below:

Real-time herd management system: We use a real-time herd management system to facilitate our monitoring of each dairy cow, including its herd reproductive status, growth information, health indicators, genetic information, breeding information, immunisation information, and medical records. The information of each dairy cow is stored individually and updated in real time every day. Each dairy farm uses this system to generate daily work reminder reports to improve the farm management and operational efficiency. This system can also automatically generate a backup data package, which can be easily sent to the respective technical supporting teams for their guidance and advice.

Feeding system: Our dairy farms use a feeding monitoring and management system to achieve precision feeding. This system can store detailed information on customised recipes for dairy cows at different stages. This system applies modern information technology to monitor the whole process of feeding, remind operators of the type, sequence and weight of feeding in real time, avoid human errors in the process, and control the feeding to the exact range. The data stored on this system can also be used for statistical analysis and to help the operators to improve their operation. By tracing the entire feeding process, we can maximise the accuracy of the execution of feed formula and provide balanced nutrition for our beef cattle.

BUSINESS

Production information management system: Our production information management system generally keeps detailed and accurate records of each dairy cow’s milk yield and health conditions. These data provide us with insights of the overall milk yields at our dairy farms and the productivity of each dairy cow in real time. This system also enables the farm manager to keep track whether the milking operation process meet the standard requirements through the various indicators reflected in the system.

BEEF CATTLE BUSINESS

Overview of Beef Cattle Business

We commenced beef cattle farming operations in Shandong in 2018. Our beef cattle business operates synergistically with our raw milk business. By using the dairy herd as the breeder for beef cattle stock, we optimise the resources of our dairy farms and maximise the value creation from the dairy cow breeding and farming value chain. Furthermore, we may leverage our expertise in genetic breeding of dairy cattle to improve the productivity of our beef cattle.

As of the Latest Practicable Date, we owned and operated two large-scale beef cattle feedlots. We had a total herd size of 28,152 heads of beef cattle as of 30 June 2022.

In 2019, 2020, 2021 and the six months ended 30 June 2021 and 2022, our revenue from sales of beef cattle were US\$22.2 million, US\$43.0 million, US\$50.5 million, US\$24.6 million and US\$25.0 million, accounting for 6.3%, 10.6%, 9.7%, 10.2% and 9.0% of our total revenue from continuing operations. For the same periods, our beef cattle sales volume reached 10,582 heads, 16,125 heads, 14,927 heads, 6,970 heads and 7,541 heads, with average selling price of RMB29,716/ton, RMB32,515/ton, RMB35,065/ton, RMB36,578/ton and RMB33,017/ton.

Our Beef Cattle Feedlots

As of the Latest Practicable Date, we owned and operated two large-scale beef cattle feedlots in Shandong and Inner Mongolia. We selected the locations based on factors including proximity to our dairy farms, climate, optimal environmental parameters and proximity to customers. Each of our beef cattle feedlots is located near our dairy farms, which allows for the dairy herd from our dairy farms to be transported with ease to the beef cattle feedlots. The dairy herd are used as the breeder for beef cattle stock.

The following table sets forth certain details of our major beef cattle feedlots in operation as of 30 June 2022:

<u>Region</u>	<u>Number of beef cattle feedlots</u>	<u>Size</u> <i>(mu)</i>	<u>Designed capacity</u> <i>(number of beef cattle)</i>	<u>Number of beef cattle</u> <i>(head)</i>	<u>Utilisation rate⁽¹⁾</u>
Shandong	1	3,142	20,000	18,358	91.8%
Inner Mongolia	1	979	15,000	9,794	65.3%
Total	<u>2</u>	<u>4,121</u>	<u>35,000</u>	<u>28,152</u>	<u>80.4%</u>

Note:

- (1) Utilisation rate is calculated by dividing the aggregate number of beef cattle by the aggregate designed capacity. As we commenced our operations in Inner Mongolia later than Shandong, the average utilisation rate in Inner Mongolia is lower than that of our beef cattle feedlot in Shandong. We expect that the utilisation rate of our beef cattle feedlot in Inner Mongolia will increase as the production ramps up.

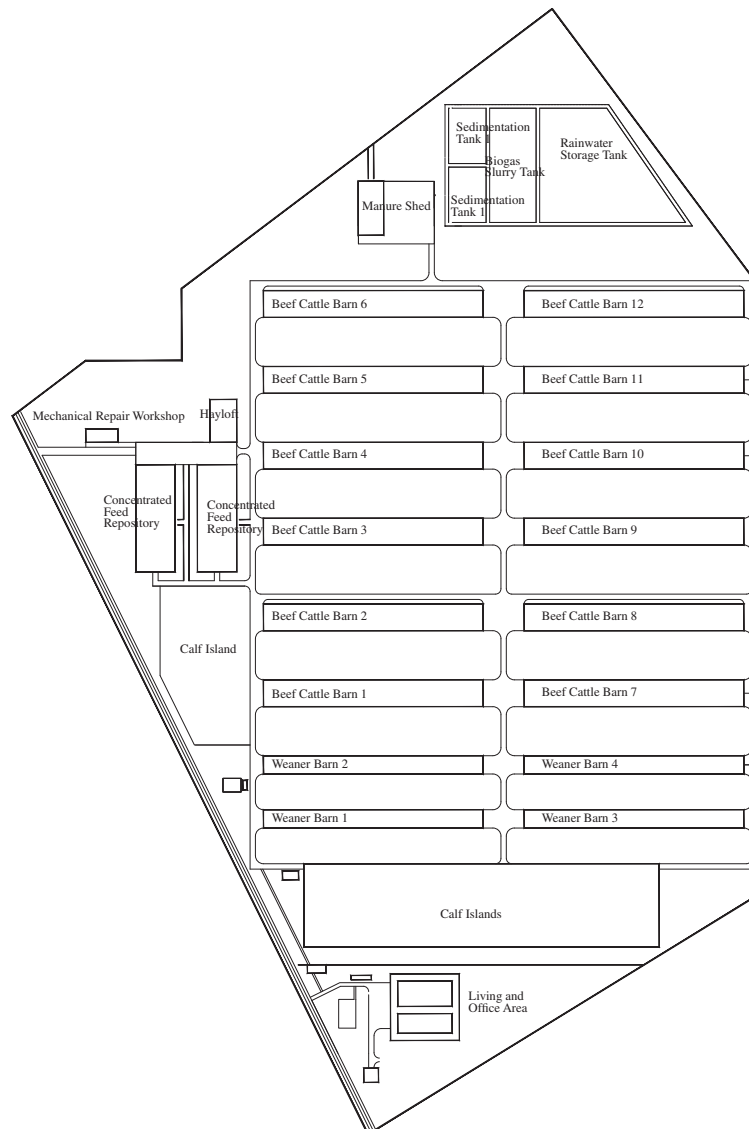
BUSINESS

We plan to further increase the beef cattle population of our existing beef cattle feedlots to full capacity and construct new beef cattle feedlots in Shandong when opportunities arise as part of the future expansion of our beef cattle business.

Beef cattle feedlot design and facilities

Our beef cattle feedlots are designed to maximise yield, as well as ensure beef cattle welfare. Our beef cattle feedlot facilities include cattle barns, feed and non-feed warehouses, and manure treatment facilities with biogas function on certain farms.

Below is a sample layout of our standard beef cattle feedlot design:



BUSINESS

Our Beef Cattle

As of 30 June 2022, our beef cattle population was 28,152 heads, approximately 34.3% of which are finishers. During the Track Record Period, we did not procure any beef cattle from third party suppliers. All of our beef cattle come from our dairy farms. After our dairy cows give birth to a bull calf, the bull calf will be moved to our beef cattle feedlot. A bull calf will be neutered and become known as a steer before breeding and fattening.

The following table presents a breakdown of our beef cattle as of the dates indicated:

	As of 31 December			As of 30 June
	2019	2020	2021	2022
Bull calf	2,140	2,060	3,158	4,371
Weaner	4,482	4,862	5,895	4,763
Feeder	6,643	7,090	8,983	9,368
Finisher	3,821	5,374	7,378	9,650
Total	<u>17,086</u>	<u>19,386</u>	<u>25,414</u>	<u>28,152</u>

We have six different breeds of beef cattle – Holstein, Angus, Wagyu, Charolais, Limousin and Simmental. Most of our beef cattle are Holsteins. The following table presents a breakdown of our beef cattle by breed as of 30 June 2022:

Breed	As of 30 June 2022
Holstein	26,566
Angus and others ⁽¹⁾	<u>1,586</u>
Total	<u>28,152</u>

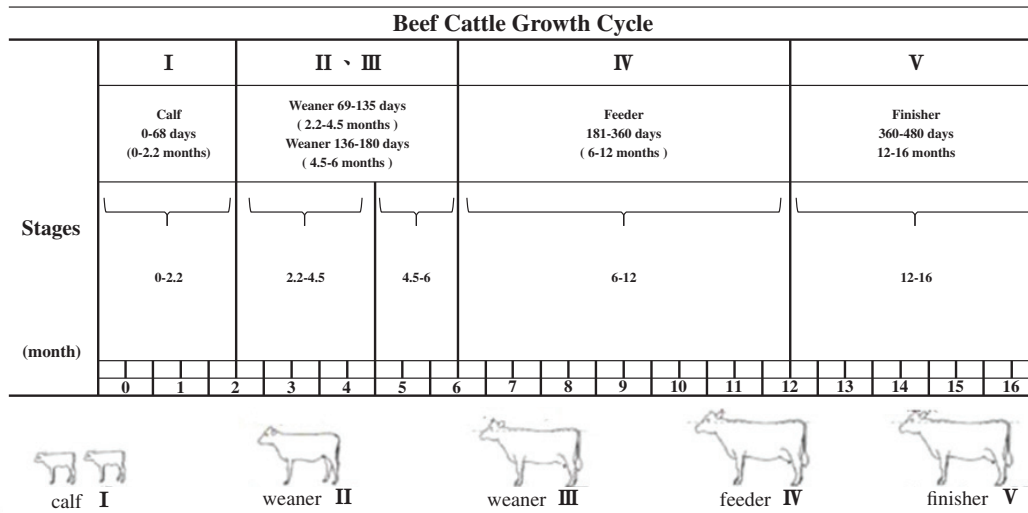
Note:

- (1) Others include Wagyu, Charolais, Limousin and Simmental. The other breeds of beef cattle are bred from Holstein cows and bovine semen of other breeds.

We have an optimal herd structure that is ideal for high beef yield and sustainable herd expansion. Our beef cattle mainly consist of finishers and others. Different breeds of cattle have different life cycles, and a typical life cycle of the Holstein cattle after birth is as follows: (i) a bull calf becomes a weaner after two months; (ii) a weaner becomes a feeder after four months; (iii) a feeder becomes a finisher after six months; (iv) a finisher is sent to food processing companies for further processing into beef products at sixteen months.

BUSINESS

The following diagram shows the growing and producing processes of our beef cattle:



Feedlot Management

We adopt the industry best practices in beef cattle feedlot management. We have installed management systems in our beef cattle feedlots, including herd management system and feeding system to improve management efficiencies. These systems are described below:

Real-time herd management system: We use a real-time herd management system to facilitate our monitoring of each beef cattle, including its herd reproductive status, growth information, health indicators, genetic information, breeding information, immunisation information, and medical records. The information of each beef cattle is stored individually and updated in real time every day. Each feedlot uses this system to generate daily work reminder reports to improve the management and operational efficiency.

Feeding system: Our feedlots use a feeding monitoring and management system to achieve precision feeding. This system can store detailed information on customised recipes for beef cattle at different stages. This system applies modern information technology to monitor the whole process of feeding, remind operators of the type, sequence and weight of feeding in real time, avoid human errors in the process, and control the feeding to the exact range. The data stored on this system can also be used for statistical analysis and to help the operators to improve their operation. By tracing the entire feeding process, we can maximise the accuracy of the execution of feed formula and provide balanced nutrition for our beef cattle.

ANCILLARY BUSINESS

Our ancillary business is mainly focused on business-to-business (“**B2B**”) sales of milk products carrying our in-house brand “澳亞牧場 AustAsia” as this allows us to widen our clientele and expand our sources of revenue beyond the raw milk and beef cattle business segments. We use the premium raw milk from the raw milk business segment and outsource the processing and packaging to third-party dairy product manufacturers. Customers of our branded milk products include large-scale cafes, milk tea stores, bakeries and refreshment chain stores in China.

BUSINESS

Our milk products mainly include ESL milk and UHT milk.

The table below sets out certain basic information about our main milk products as of the Latest Practicable Date:

Product	Selling price <i>(in RMB per 100 ml)</i>	Major nutritive value and ingredients	Shelf life	Picture
ESL milk	0.9	<ul style="list-style-type: none"> • Protein: 3.6% • Fat: 3.7% 	21 days	
UHT milk	0.8-1.2	<ul style="list-style-type: none"> • Protein: 3.2% • Fat: 3.6% 	6 months	

FEED

The main feeds we require for our operations are silage (made mainly from corn and alfalfa), forage grass (primarily alfalfa and oat hay), corn and soybean-based products. We grow a small amount of forage on our farms (primarily corn and alfalfa) for our internal use. A substantial amount of our feeds is sourced from third-party suppliers both in China and overseas. We have adopted various measures to mitigate the impact of fluctuations in feed prices, including flexibility to adjust feed formula while adhering to nutritional standards, diversifying our feed ingredients so that the price fluctuation of one ingredient would not exert material impact on our feeding costs, and maintaining diversified supply channels. In particular, in view of the rise in feed ingredients price in recent years, we aim to actively manage our feeding costs and inventory. We have been sourcing feed from a number of suppliers who offer diverse and high-quality forage grass in China and overseas.

We are currently constructing a feed mill factory which is expected to commence operations in the fourth quarter of 2022. We anticipate this would improve quality control of the feed and reduce costs. The capacity of the feed mill is expected to be 130 thousand tons, and we anticipate this would meet approximately 8% of the feed requirement at our dairy farms and beef cattle feedlots at completion.

BUSINESS

We use a scientifically formulated feed for optimal nutrition to maximise milk yield of our dairy cows, increase weight gain of our beef cattle and promote cow health. We feed our dairy cows and beef cattle with a well-balanced mixture of feed, forage grass and additives. As the climate and environmental factors differ based on the location of the dairy farm and beef cattle feedlot, we adjust the ratio and formula of the feed to tailor to the needs of our dairy cows and beef cattle. We understand and develop local forage supply with high standards on forage quality.

QUALITY CONTROL

Quality Control Certifications

We are certificated by the Standard Quality Food (“SQF”) Programme, which is a rigorous and credible food safety and quality programme that is recognised by retailers, brand owners, and food service providers world-wide. Recognised by the Global Food Safety Initiative, the SQF family of food safety and quality codes are designed to meet industry, customer, and regulatory requirements for all sectors of the food supply chain – from the farm all the way to the retail stores. An SQF certificate has an initial term of one year and 75 days and annual renewal can be applied subject to ongoing compliance with the standards and requirements set forth in the SQF certification. The SQF certification requires, among others, stringent requirements over the construction and control of product handling and storage areas, personnel processing practices, quality control and separation of responsibilities during the process flow and storage and transport. As of the Latest Practicable Date, we received two SQF certificates (Quality Code and Food Safety Code), which have been renewed for the year of 2022.

Production Quality Control

We implement a rigorous internal quality control system to ensure high standards of our raw milk and beef cattle. We have established a set of standard operating procedures for each business operation throughout the process of production of raw milk and beef cattle, including breeding and reproduction, feeding, milking, identification and treatment of disease, veterinary assistance, quality control and inventory management. Our internal control policies also cover routine business operation of all business lines and functional departments such as procurement, capital allocation, insurance, dairy farm employees and regulate our business procedures with strict quality control and safety management measures.

We carry out rigorous testing and inspection before raw milk leaves our farms to ensure the quality and safety of our raw milk is in compliance with our internal quality control standards. These tests are designed to ensure the taste and content of nutrients such as fat and protein of the raw milk are of high standards and the raw milk does not contain any forbidden substances such as antibiotics and alcohol. We issue a report detailing the test results and quality indicators before raw milk leaves the dairy farm. We also implement the same cleaning standards we apply to our milking facilities and perform inspections on our milk tanks to ensure the highest hygiene level of the milk tanks.

BUSINESS

Procurement Quality Control

Selection and management of suppliers is an important part of our quality control over the supply chain. We have a detailed protocol for the procurement team which sets out the standard policies to follow in selecting our suppliers and the responsibilities of each person-in-charge throughout the entire procedure to ensure effective implementation of our procurement policy. Before procuring raw material, the procurement team must screen the supplier applications based on product quality, price, market reputation, reliability, quality control systems etc. We also sample their products or conduct on-site inspections to ensure their products meet our quality standards. The procurement team must seek multiple quotes before awarding the contract, and all procurement agreements should be written. We maintain a list of qualified suppliers, who have a proven record of reliable and stable supply, and we only partner with such qualified suppliers. We periodically review and evaluate the performance of our suppliers and we will suspend purchase from those who fail our evaluations until they meet our requirements.

Our Quality Control Team

We maintain a dedicated quality control department in each of our business lines, which is responsible for managing and supervising the implementation of our quality control system. As of the Latest Practicable Date, we had over 50 quality control specialists. Our quality control specialists closely monitor our production process by conducting regular sample tests on our raw milk and raw materials. In addition, they also test the equipment and facilities to ensure that they can function properly. As of the Latest Practicable Date, we had not received any material complaints about the quality of our products nor have we been subject to any product dispute or recall that could have a material adverse effect on our financial condition or results of operations. During the Track Record Period and up to the Latest Practicable Date, we have not experienced any issues relating to contamination, hygiene, food safety or other quality control issues in respect of its products.

OUR CUSTOMERS

We have a well-diversified customer base. Our customers in the raw milk business include leading national and regional dairy product manufacturers (including Mengniu (蒙牛), Bright Dairy (光明), Meiji (明治), Junlebao (君樂寶), New Hope Dairy (新希望乳業), Jiabao (佳寶) and Classykiss (卡士)), and emerging dairy brands (such as Chi Forest (元氣森林) and Honest Dairy (簡愛)). Our customers in the beef cattle business include food service companies such as Zuo Ting You Yuan (左庭右院) and premium beef processors. Our customers in ancillary business include large-scale cafes, milk tea stores, bakeries and refreshment chain stores. Some of our raw milk business customers are also our Pre-IPO Investors. See “*History and Corporate Structure*” for further details.

The following table sets forth certain information about our customers:

Business segments	Product type	Major customers	Use of products
Raw milk business	Premium raw milk	<ul style="list-style-type: none"> • Leading national and regional dairy product manufacturers • Emerging dairy brands 	Processing of downstream dairy products
Beef cattle business ⁽¹⁾	Beef cattle	<ul style="list-style-type: none"> • Food service companies • Premium beef processors • Slaughterhouses 	Processing of downstream beef products
Ancillary	Milk products	<ul style="list-style-type: none"> • Large-scale cafes, milk tea stores, bakeries, and refreshment chain stores 	Retail

BUSINESS

Note:

- (1) In 2019, 2020, 2021 and the six months ended 30 June 2022, we have 41, 34, 16 and 18 customers for beef cattle business.

Our sales to our top five customers in each of 2019, 2020, 2021 and the six months ended 30 June 2022 accounted for 81.0%, 72.6%, 65.7% and 65.3% of the Group’s total revenue from continuing operations. Our sales to our largest customer in each of 2019, 2020, 2021 and the six months ended 30 June 2022 accounted for 54.9%, 23.8%, 27.4% and 23.6% of our total revenue from continuing operations in those periods. During the Track Record Period, except as disclosed in the table below, none of the Directors, their respective associates or shareholders who own 5% or more of the Company’s issued share capital had any interest in the top five customers. To our knowledge, other than a deposit from Customer B for the purchase of raw milk from the Group which will be automatically due in 2024, none of our top five customers for each year during the Track Record Period and their ultimate beneficial owners has any other past or present relationships (business, employment, family, trust, financing or otherwise) with the Group, its directors, shareholders, senior management or any of their respective associates.

The table below set forth a breakdown of the top five customers of our Group in each of 2019, 2020, 2021 and the six months ended 30 June 2022:

Rank	Customers	Categories of products/ services purchased	Principal business	Year of commencement of the business relationship	Amount of revenue <i>(US\$'000)</i>	As a percentage of our total revenue from continuing operations
For the year ended 31 December 2019						
1	Customer A	Raw milk	Production and sales of dairy products	2009	193,012	54.9%
2	Customer B	Raw milk	Production and sales of dairy products	2012	35,458	10.1%
3	Customer C	Raw milk	Production and sales of dairy products	2013	25,609	7.3%
4	Customer D	Raw milk	Production and sales of dairy products	2015	18,638	5.3%
5	Customer E	Raw milk	Production and sales of dairy products	2015	12,063	3.4%
Total					<u>284,780</u>	<u>81.0%</u>
For the year ended 31 December 2020						
1	Customer B	Raw milk	Production and sales of dairy products	2012	96,450	23.8%
2	Customer A	Raw milk	Production and sales of dairy products	2009	95,599	23.6%
3	Customer C	Raw milk	Production and sales of dairy products	2013	51,136	12.6%
4	Customer D	Raw milk	Production and sales of dairy products	2015	33,107	8.2%
5	Customer F	Beef cattle	Processing and sales of raw and fresh meat and meat products	2020	17,984	4.4%
Total					<u>294,276</u>	<u>72.6%</u>

BUSINESS

Rank	Customers	Categories of products/ services purchased	Principal business	Year of commencement of the business relationship	Amount of revenue (US\$'000)	As a percentage of our total revenue from continuing operations
For the year ended 31 December 2021						
1	Customer C	Raw milk	Production and sales of dairy products	2013	142,762	27.4%
2	Customer B	Raw milk	Production and sales of dairy products	2012	110,919	21.3%
3	Customer G	Raw milk	Wholesale and retail of dairy products	2020	39,557	7.6%
4	Customer H	Raw milk	Production and sales of dairy products	2020	24,565	4.7%
5	Customer I	Branded milk products	Catering services	2018	24,466	4.7%
Total					<u>342,269</u>	<u>65.7%</u>
For the six months ended 30 June 2022						
1	Customer C	Raw milk	Production and sales of dairy products	2013	65,700	23.6%
2	Customer B	Raw milk	Production and sales of dairy products	2012	49,725	17.9%
3	Customer G	Raw milk	Production and sales of dairy products	2020	32,410	11.6%
4	Customer J	Raw milk	Production and sales of dairy products	2015	17,538	6.3%
5	Customer H	Raw milk	Production and sales of dairy products	2020	16,283	5.9%
Total					<u>181,656</u>	<u>65.3%</u>

Notes:

- (1) Customer A is an A-share listed company, headquartered in Inner Mongolia with an international operation, which is one of the leading national dairy product manufacturers in China, offering a comprehensive range of dairy products. In 2019, 2020, 2021 and the six months ended 30 June 2022, Customer A was the controlling shareholder of Supplier A, one of our top five suppliers in 2019. The Group's sales and purchase transactions with Customer A and Supplier A were independent transactions which were not inter-connected or inter-conditional. Customer A ceased to be one of the Group's five largest customers in 2021 as we could not agree on commercially viable terms to renew the raw milk sales agreement when it expired. We have discontinued to conduct business with Customer A and Supplier A since 2021.
- (2) Customer B is a Hong Kong-listed company, headquartered in Inner Mongolia, which is one of the leading national dairy product manufacturers in China, offering diversified dairy products. Customer B is also one of our suppliers. In 2020, 2021 and the six months ended 30 June 2022, our purchase amount attributable to Customer B was approximately US\$0.7 million, US\$0.5 million and US\$28 thousand, which accounted for 0.2%, 0.1% and 0.0% of our trade purchases from continuing operations. Customer B purchased raw milk from us, while it also supplied feed to us. Our sale and purchase with Customer B were independent transactions which were not inter-connected or inter-conditional.
- (3) Customer C is an A-share listed company, headquartered in Shanghai, which is one of the major regional dairy companies in China, offering diversified dairy products. Customer C is also one of our top five suppliers in 2021. In 2019, 2020, 2021 and the six months ended 30 June 2022, our purchase amount attributable to Customer C was approximately US\$1.3 million, US\$3.1 million, US\$11.3 million and US\$3.3 million, which accounted for 0.5%, 1.0%, 2.5% and 1.6% of our trade purchases from continuing operations. Customer C purchased raw milk from us, while it also supplied feed to us. Our sale and purchase with Customer C were independent transactions which were not inter-connected or inter-conditional.
- (4) Customer D is a private dairy product company, headquartered in Hebei Province, which is one of the leading national dairy product manufacturers in China.

BUSINESS

- (5) Customer E is a private dairy product company, headquartered in Shandong Province, which is one of the major regional dairy companies in China. Customer E is also one of our suppliers. In 2019, 2020, 2021 and the six months ended 30 June 2022, our purchase amount attributable to Customer E was approximately US\$2.7 million, US\$2.0 million, US\$7.2 million and US\$0.9 million, which accounted for 1.0%, 0.6%, 1.6% and 0.4% of our trade purchases from continuing operations. Customer E purchased raw milk from us, while it also provided services processing our raw milk into milk products (including packaging). Our sale and purchase with Customer E were independent transactions which were not inter-connected or inter-conditional.
- (6) Customer F is a group of private companies under the same control, which are premium beef processors in China.
- (7) Customer G is one of our Pre-IPO Investors and a premium Chinese fresh dairy producer based in Guangzhou. See “*History and Corporate Structure – Pre-IPO Investment*” for further details.
- (8) Customer H is a private dairy product company specialised in premium dairy products, headquartered in Shenzhen, which owns one of the main emerging dairy brands in China.
- (9) Customer I is a publicly traded company, headquartered in Xiamen, which is one of the largest national coffee networks in China.
- (10) Customer J is one of our Pre-IPO Investors and a leading large-scale comprehensive dairy supplier in China. See “*History and Corporate Structure – Pre-IPO Investment*” for further details.
- (11) Each of Customer F, Customer G and Customer H became one of our five largest customers shortly after they commenced business relationships with us in 2020, primarily due to (i) the strong momentum of their business growth, as evidenced by the emerging dairy brands of Customer G and Customer H; and (ii) our ability to supply them with a stable amount of premium raw milk and beef cattle, as part of our raw milk supply became available after our cessation of relationship with Customer A.
- (12) For each of the overlapping supplier-customers, the key terms for our sales of products from such overlapping supplier-customers are generally similar to those of our other customers. In addition, the average selling price of raw milk we sold to such overlapping supplier-customers is largely comparable to the average selling price of raw milk we sold to other independent customers for similar quantity during the Track Record Period. As such the Group confirms that our sales to overlapping supplier-customers were negotiated on an arm’s length basis and under normal commercial terms.

We generally enter into long-term agreements with our key customers for our raw milk business. Below is a summary of the key terms of a typical raw milk sales contract:

- *Term.* The agreement has a term of 5 years, with variations to the agreement to be agreed by both parties during the term.
- *Minimum quantity requirement.* We are committed to a minimum supply of raw milk per day.
- *Quality.* The raw milk sold needs to be in compliance with the national food safety standard as well as the standard set by our customers.
- *Pricing.* Most customers adopt an annual price. If we and certain customers cannot agree on the price for a subsequent year, we will set the price for each month according to the market, subject to an agreed minimum price.
- *Payment terms.* Payment is made during the 5th to the 25th of the month following delivery.
- *Inspection and return policy.* After inspection, our customers may reject the raw milk if it believes it to be sub-standard. If we disagree with the inspection results of our customers, both parties will jointly take samples, seal them and send them to a third-party testing agency certified by China Metrology Accreditation (“CMA”) or China National Accreditation Service (“CNAS”).
- *Renewal.* Either party can renew the contract by notifying the other party 30 or 60 days before the expiration date.

BUSINESS

- *Termination.* Both parties can agree to change or terminate the contract. A contract may also be terminated by a party where the other party breaches the contract or is under circumstances such as bankruptcy, dissolution or acquisition. If a party unilaterally terminates the contract or commits a fundamental breach, it shall be liable for the higher of (i) 50% of the actual transaction amount of the two parties in the year prior to the termination or cancellation of the contract or (ii) RMB2,000 per ton of raw milk not paid for/delivered beginning in the month when the contract was breached to the end of the contract period by the breaching party under the contract.

During the Track Record Period, our sales were primarily settled by our customers via bank transfer.

Pricing

The selling prices of our raw milk are generally determined based on quality indicators (such as the protein content) as well as prevailing market prices. During the Track Record Period, our raw milk was sold at a premium to the market average selling prices primarily due to the consistently higher quality of our raw milk. Our raw milk quality has continuously surpassed market standards as measured by the key quality indicators. We typically negotiate and set the selling prices of our raw milk annually. As a result, we are generally not able to pass on short-term increases in our costs to our raw milk customers. See “*Risk Factors – Fluctuations in market prices of raw materials, as well as any disruptions in the supply of raw materials, could have a material adverse effect on our financial condition and results of operations*”.

The selling prices of our beef cattle are results from our negotiations with customers taking into account quality and current market prices. We typically negotiate and set the selling prices of our beef cattle monthly.

The selling prices of our branded milk products are results from our negotiations with customers taking into account quality, current market prices and the volume of purchases. We typically set the selling prices of our branded milk products internally, which is used as the basis for providing price quotes to our customers. The final selling prices vary by customer depending on the outcome of the bidding and negotiations.

Product Return and Recall Policy

We generally do not allow product returns or exchanges in the sales of our products except for quality defects or spoilage. During the Track Record Period and up to the Latest Practicable Date, we did not experience product returns or exchanges from our customers that had a material impact on our operations, or any product recall or product liability claim due to product quality defects.

OUR SUPPLIERS

Our suppliers are categorised into (i) suppliers of feed and feed additives and (ii) other suppliers (such as supplies of farming equipment, veterinary medicines, vaccines, frozen semen and packaging service). Feed and feed additives account for a large portion of our procurement. We provide the feed and feed additives suppliers with detailed formulations for optimal nutrition for cattle health and milk yield, and purchase these from eligible suppliers to feed our dairy cows and beef cattle.

BUSINESS

We carefully select and manage our suppliers to ensure reliable and high-quality supplies. We evaluate feed and feed additives suppliers based on their market reputation and ranking, industry experience, delivery lead time, quality control system, and source control measures. We conduct thorough sample test or on-site inspection on feed and feed additives suppliers to ensure that they and their feed products meet our quality standards. We also conduct periodic reviews and evaluations on the overall performance of our feed suppliers.

The procurement is primarily conducted through our centralised procurement department, which is responsible for purchasing supplies, selecting eligible suppliers and coordinating with our quality control department to ensure that the supplies meet our standards. Most of our suppliers are based in China, with only a few suppliers from overseas. During the Track Record Period, our purchases were primarily settled by bank transfer.

Our top five suppliers in each of 2019, 2020, 2021 and the six months ended 30 June 2022 accounted for 25.4%, 19.8%, 20.4% and 29.1% of the Group’s total trade purchase from continuing operations. Our largest supplier in each of 2019, 2020, 2021 and the six months ended 30 June 2022 accounted for 6.5%, 7.2%, 6.7% and 11.3% of our total trade purchase from continuing operations in those periods. During the Track Record Period, other than Annona (an associate of the Controlling Shareholders), none of the Directors, their respective associates or shareholders who own 5% or more of the Company’s issued share capital had any interest in the top five suppliers.

The following table sets forth a breakdown of the top five suppliers of our Group during the Track Record Period:

Rank	Suppliers	Categories of products/ services purchased	Principal business	Year of commencement of the business relationship	Credit terms (after invoice date)	Amount of purchase (US\$'000)	As a percentage of our total trade purchase from continuing operations
							%
For the year ended 31 December 2019							
1	Supplier A	Feed	Manufacturing and sales of feed	2016	30-45 days	17,599	6.5%
2	Supplier B	Feed and logistics	Manufacturing and sales of feed	2013	30-45 days	16,321	6.0%
3	Annona	Feed	Manufacturing and sales of feed	2018	110 days	15,046	5.6%
4	Supplier C	Feed	Manufacturing and sales of feed	2018	30-45 days	10,573	3.9%
5	Supplier D	Feed	Manufacturing and sales of feed	2013	30-45 days	9,103	3.4%
Total						<u>68,642</u>	<u>25.4%</u>

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Rank	Suppliers	Categories of products/ services purchased	Principal business	Year of commencement of the business relationship	Credit terms (after invoice date)	Amount of purchase <i>(US\$'000)</i>	As a percentage of our total trade purchase from continuing operations %
For the year ended 31 December 2020							
1	Supplier B	Feed and logistics	Manufacturing and sales of feed	2013	35-50 days	22,829	7.2%
2	Annona	Feed	Manufacturing and sales of feed	2018	110 days	18,380	5.8%
3	Supplier D	Feed	Retail food, chemical products, packaged feed and feed additive	2013	35-50 days	7,503	2.4%
4	Supplier E	Feed	Manufacturing and sales of feed	2016	35-50 days	7,224	2.3%
5	Supplier F	Packaging	Packaging and decoration printing	2016	Payment is required before delivery	6,750	2.1%
Total						<u>62,686</u>	<u>19.8%</u>
For the year ended 31 December 2021							
1	Supplier B	Feed and logistics	Manufacturing and sales of feed	2013	10-15 days	30,391	6.7%
2	Annona	Feed	Manufacturing and sales of feed	2018	110 days	19,750	4.4%
3	Supplier G	Feed	Kitchen food, feed ingredients and greases; purchase of agriculture products	2020	Payment is required before delivery	17,752	3.9%
4	Supplier H	Feed	Manufacturing and sales of feed	2014	35-50 days	12,844	2.9%
5	Customer C	Feed	Manufacturing and sales of feed	2019	10-15 days	11,264	2.5%
Total						<u>92,001</u>	<u>20.4%</u>

BUSINESS

Rank	Suppliers	Categories of products/ services purchased	Principal business	Year of commencement of the business relationship	Credit terms (after invoice date)	Amount of purchase (US\$'000)	As a percentage of our total trade purchase from continuing operations
							%
For the six months ended 30 June 2022							
1	Supplier B	Feed and logistics	Manufacturing and sales of feed	2013	10-15 days	23,969	11.3%
2	Annona	Feed	Manufacturing and sales of feed	2018	110 days	11,854	5.6%
3	Supplier G	Feed	Kitchen food, feed ingredients and greases; purchase of agriculture products	2020	Payment is required before delivery	9,689	4.6%
4	Supplier I	Feed	Feed production; veterinary drug operation; import and export of aquaculture breeding; animal breeding	2021	Payment is required before delivery	8,172	3.9%
5	Supplier H	Feed	Manufacturing and sales of feed	2014	35-50 days	7,888	3.7%
Total						<u>61,572</u>	<u>29.1%</u>

Notes:

- (1) In 2019, 2020 and 2021, Customer A was the controlling shareholder of Supplier A.
- (2) Annona is a wholly-owned subsidiary of Japfa, and our connected person, as of the Latest Practicable Date. See “*Connected Transactions – C. Non-Exempt Continuing Connected Transactions – 2. Supply Agreement*” for further details.
- (3) Supplier E is also one of our customers. In 2020, 2021 and the six months ended 30 June 2022, our sales amount attributable to Supplier E was approximately US\$1,140, US\$3,560 and US\$590 which accounted for less than 0.1% of our revenue from continuing operations. Supplier E supplied feed to us, while it also purchased raw milk from us. Our sale and purchase with Supplier E were independent transactions which were not inter-connected or inter-conditional.
- (4) Customer C is also one of our top five customers in each of 2019, 2020, 2021 and the six months ended 30 June 2022. See “– *Our Customers*” for further details.
- (5) For each of the overlapping supplier-customers, the key terms for our purchase contracts with such overlapping supplier-customers are generally similar to those of our other suppliers. In addition, the average purchase price of feed we paid to such overlapping supplier-customers is largely comparable to the average purchase price of feed we paid to other independent suppliers of similar quantity during the Track Record Period. As such the Group confirms that our purchases from overlapping supplier-customers were negotiated on an arm’s length basis and under normal commercial terms.

BUSINESS

We generally enter into short-term contracts with our suppliers. We maintain good relationships with our suppliers and did not experience any material disputes with our suppliers or supply shortages during the Track Record Period. For our forage supplies, we generally enter into short-term purchase agreements with trading companies to purchase high-quality imported alfalfa, and purchase agreements with domestic suppliers to buy other forages. We also enter into short-term purchase agreements with local suppliers, under which the local suppliers grow the corn silage according to our specifications. We determine the harvest time to ensure the quality of the corn silage. We maintain the right to refuse the delivery of forages if the feed fails to meet our standards.

Inventory

Our inventory mainly comprises of feed, low-value consumables and finished goods. We seek to strike a balance between the flexibility of our operations at an appropriate inventory level and the unnecessary waste of excess inventory. We maintain strict inventory control and appropriate inventory and regularly review inventory to determine whether the inventory is slow-moving, obsolete, or whether its market value has declined. Our procurement team will also coordinate with our production department to optimise our inventory level. We also adopt an electronic record system to facilitate us in keeping track of the materials stored in the warehouses.

OVERLAPPING OF CUSTOMERS AND SUPPLIERS

During the Track Record Period, (i) several of our top five customers (being Customer A/Supplier A, Customer B, Customer C and Customer E) were also our suppliers providing us feed and milk products processing services; and (ii) several of our top five suppliers (being Customer C and Supplier E) were also our customers procuring raw milk from us. Our purchase amount attributable to these customers amounted to US\$21.6 million, US\$12.4 million, US\$25.6 million and US\$8.2 million, which accounted for 8.0%, 3.9%, 5.7% and 3.8% of our trade purchases from continuing operations in 2019, 2020, 2021 and the six months ended 30 June 2022. Our sales amount attributable to these suppliers amounted to US\$25.6 million, US\$51.1 million, US\$142.8 million and US\$65.7 million, which accounted for 7.3%, 12.6%, 27.4% and 23.6% of our revenue from continuing operations in 2019, 2020, 2021 and the six months ended 30 June 2022. See “– Our Customers” and “– Our Suppliers” for further details.

According to Frost & Sullivan, it is common in the raw milk industry for dairy product manufacturers and/or their affiliates to also be engaged in the feed business and/or provision of milk products processing service.

Negotiations of the terms of our sales to and purchases from these overlapping supplier-customers were conducted on an individual basis and the sales and purchases were neither inter-connected nor inter-conditional with each other. For each of the overlapping supplier-customers, the key terms of our sales of products from such customers and our purchase contracts with such suppliers are generally similar to those of our other customers/suppliers. In addition, (i) the average selling price of raw milk at which we sold to such overlapping supplier-customers is largely comparable to the average selling price of raw milk at which we sold to other independent customers for a similar quantity during the Track Record Period; and (ii) the average purchase price of feed we paid to such overlapping supplier-customers is largely comparable to the average purchase price of feed we paid to other independent suppliers for a similar quantity during the Track Record Period. As such, we are of the view that our sales to and purchases from overlapping supplier-customers were negotiated on an arm’s length basis and under normal commercial terms.

BUSINESS

SALES AND MARKETING

As our raw milk business and beef cattle business mainly operate on a B2B model, we focus on maintaining regular contact with customers to understand our customers’ needs and market changes. We continuously seek to develop our brand and product portfolio to meet evolving customer preferences and target key growth markets. We have also built up a well-recognised brand “澳亞牧場 AustAsia” for milk products.

Our sales and marketing team are dedicated to maintaining relationships with our existing customers as well as reaching out to potential customers. We also have an e-commerce sales team in China which manages our direct sales of milk products to consumers on e-commerce platforms.

Distribution

We sell part of our branded milk products to end-customers through third-party distributors, which we believe is in line with the industry norm. We select our distributors mainly based on their sales experience and distribution channels in the relevant markets. For 2019, 2020, 2021 and the six months ended 30 June 2022, approximately 1.7%, 0.6%, 1.2% and 1.0% of our total revenue were by sales to distributors. Our relationship with most distributors is as seller and buyer. We retain no ownership control over the milk products sold to such distributors. Our distributors place orders with us on a transactional basis and the revenue from the sales of our milk products is recognised when the products are sold to the distributors. We typically enter into distribution agreements with distributors, the main terms of which are summarised below:

- *Term:* Typically one year
- *Designated distribution regions and/or channels:* Distributors are not allowed to distribute our products outside of their designated regions and/or sales channels.
- *Return policy:* Certain distributors have the right to return unsold milk products subject to certain conditions under the distribution agreements.
- *Pricing policy:* We set the recommended retail prices based on market conditions.
- *Termination:* If the distributor breaches certain material terms, we may terminate the distribution agreement.

To minimise the risk of cannibalisation, we generally take the following measures in relation to our distributors: (i) when selecting our distributors, we take into consideration their respective geographic coverage to avoid potential competition among the distributors within a region; (ii) our distribution agreements specify the designated distribution regions; and (iii) we regularly communicate with our distributors to monitor various aspects of their sales activities and keep track of any potential cannibalisation or competition among our distributors.

BUSINESS

LOGISTICS

In our raw milk business, the customers typically arrange to collect the raw milk from our dairy farms in milk trucks. We sometimes arrange outbound logistics services to be paid for by the customers.

In our beef cattle business, the food processing companies will arrange to collect the live beef cattle from our beef cattle feedlots. We do not arrange outbound logistics of live beef cattle.

In our ancillary business, we contract with third-party logistics providers to transport and deliver our in-house branded milk products to our customers. During the Track Record Period, we did not experience any material disruption or delay in the delivery of our products. This outsourcing arrangement allows us to focus on our business of producing branded milk products, and reduces our capital requirements and risk of liability for transportation issues, delivery delays or losses.

SEASONALITY

Our raw milk quality and milk yield are influenced by seasonal factors as dairy cows generally produce more milk in a lower temperature environment. As such, prolonged summertime temperature may lead to lower than expected raw milk production. In addition, we generally record higher sales of raw milk, beef cattle and branded milk products during the second half of the year as there are more public holidays and the customers tend to purchase and stock more products for their own consumption or as gifts. Seasonality in our raw materials may also cause fluctuations in our financial results. For example, we typically purchase silage during the harvest season between September and November each year, which are subsequently utilised throughout the entire year.

TRANSFER PRICING ARRANGEMENT

Intra-Group Transactions

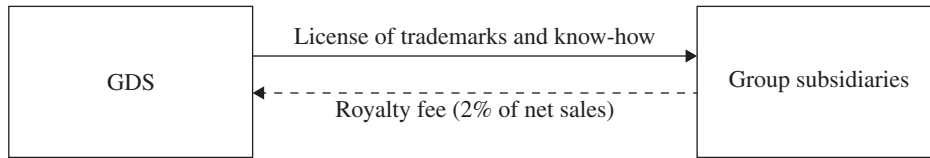
During the Track Record Period, we engaged in a number of intra-group transactions across different jurisdictions that may have transfer pricing implications, which include the following types of transactions:

- licensing of trademarks and know-how relating to planning blueprint for farms by GDS to our subsidiaries in the PRC, Indonesia, Hong Kong and Malaysia (before the disposal of GDS in April 2020);
- licensing of trademarks by the Company to our subsidiaries in the PRC; and
- licensing of know-how relating to planning blueprint for farms by the Company to our subsidiaries in PRC.

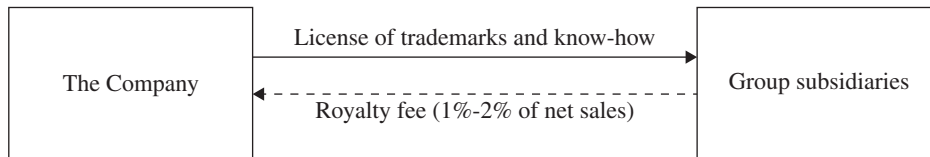
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A flow chart detailing the transfer pricing arrangement is set out below:

Before the disposal of GDS



After the disposal of GDS



The following table sets forth the corresponding amounts of our intra-group transactions across the different jurisdictions during the Track Record Period:

	<u>For the year ended 31 December</u>			<u>For the six months ended 30 June</u>	
	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2021</u>	<u>2022</u>
	<i>(US\$'000)</i>				
Royalty charge					
GDS	10,874	2,679	–	–	–
The Company	–	6,817	11,595	5,331	6,188
Total	<u>10,874</u>	<u>9,476</u>	<u>11,595</u>	<u>5,331</u>	<u>6,188</u>

Transfer Pricing Assessment

The Organisation for Economic Co-operation and Development (the “OECD”), an international organisation of international cooperation, promulgated the transfer pricing guidelines for multinational enterprises and tax administrations (the “OECD Transfer Pricing Guidelines”). According to the OECD Transfer Pricing Guidelines, our intra-group transactions should be at arm’s length basis to avoid distorted taxable income in different jurisdictions. The arm’s length principle is respected by all tax jurisdictions of our subsidiaries, including Singapore and the PRC.

In order to ensure compliance with the relevant transfer pricing regulations, we have engaged an independent transfer pricing consultant, an international professional accounting firm in Singapore, to conduct benchmarking studies against the identified related-party transactions to be tested (the “covered transactions”) in accordance with Singapore’s transfer pricing regulations (“Singapore TP Legislation”) and the OECD Transfer Pricing Guidelines, which primarily identified the arm’s length pricing and/or profit range for related-party transactions.

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Based on the functional analysis performed, the Comparable Uncontrolled Price Method was considered to be the most appropriate method and a royalty rate, expressed as a percentage of net sales, was selected as the appropriate measure for computing the royalty to be charged for testing the intercompany transaction.

Based on the benchmarking analysis, the inter-quartile range of royalty rates lies between 0.85% and 3.50%, with a median of 2.0%. Based on the above-mentioned analysis, we believe that the prices and profit levels of covered transactions were in line with the arm’s length principle or at fair value from the perspectives of Singapore TP Legislation and OECD Transfer Pricing Guidelines.

Our transfer pricing arrangements have not been challenged or investigated by any relevant tax authority during the Track Record Period and up to the Latest Practicable Date.

Measures to Ensure On-Going Compliance

We have adopted various measures to ensure our compliance with the applicable transfer pricing laws and regulations, including: (i) implementing internal control policy on tax-related matters; (ii) monitoring updates on transfer pricing laws and regulations, and assessment of related risks on our Group; (iii) regular review of the transfer pricing arrangements, and where necessary, appointing a tax adviser to review such transfer pricing arrangements to ensure compliance with the arm’s length principle.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

We are committed to building a sustainable business and minimising our operational impact on the environment. We plan to set metrics and targets for ESG issues and to review our key ESG performance on a regular basis. Our Directors will actively participate in designing our ESG strategies and targets, and will evaluate, determine and address our ESG-related risks. We may from time to time engage independent professional third parties to help us make necessary improvements.

Governance

We are committed to complying with ESG reporting requirements upon Listing. We expect to establish an ESG policy (the “**ESG Policy**”) in accordance with the standards of Appendix 27 to the Listing Rules to cover, among others, (i) the appropriate risk governance on ESG matters, (ii) ESG governance structure and ESG strategy formation procedures, (iii) ESG risk management and monitoring, and (iv) the identification of key performance indicators (“**KPIs**”), the relevant metrics and mitigating measures.

Our ESG policy will set out the respective responsibility and authority of different parties. Our Board expects to establish a special committee on ESG (the “**ESG Committee**”) responsible for the following:

- review and approve vision, mission, strategies, management structure and policy, risk profile and key performance indicators;
- assess the achievement of strategies and KPIs on a yearly basis and give advice for the development;
- review and approve the annual ESG Report;

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- report to the Board of Directors at least once a year, including the current status, key ESG risks identified, achievement of strategies and KPIs, comparison with industry peers, trend of ESG development, challenges faced ahead, latest disclosure requirements; and
- appoint external ESG consultants.

We also expect to establish the ESG Management Committee to manage, drive and oversee various ESG work according to the principles and guidance set by the ESG Committee.

Potential Financial Impact of ESG-Related Risks

Our business operations are subject to ESG risks, including the following:

- We are subject to environmental protection laws and regulations promulgated by the PRC government. For example, we are required by the relevant government authorities to carry out an environmental impact assessment before constructing new dairy farms, feedlots and feed mills to minimise the impact of our business operation on the environment. For details, see “*Appendix III – Regulatory Overview and Taxation.*” If we breach any environmental-related laws and regulations, or faces any accusation of negligence in environmental protection, in addition to the potential fines and penalties, such incidents may also adversely affect our reputation and creditability. See “*Risk factors – Our environmental related costs may increase, and the expansion of our production capacity may be constrained if China’s environmental protection laws become more onerous, and any non-compliance with relevant environmental protection laws could lead to the imposition of fines and penalties.*”
- We are subject to the risks of extreme weather conditions. Our farms are located in the northern part of China, with one beef cattle feedlot and three dairy farms in Inner Mongolia, and one beef cattle feedlot and seven dairy farms in Shandong. These areas are subject to the risk of severe weather conditions (e.g. ice and snow) that could potentially lower the milk yield and growth of our beef cattle. We may experience indirect impacts from supply chain disruption if we and/or our suppliers, especially our feed and forage grass suppliers, suffered from extreme weather conditions such as snowing, icing and flooding. See “*Risk Factors – Our business operations are subject to environmental, social and governance risks.*”

Environment and Climate

Our dairy farming and beef cattle businesses impact the environment primarily through the carbon and greenhouse gas (“GHG”) emissions (including methane emission from dairy cows and beef cattle as well as other GHG emission from other aspects of our operations), air emissions, hazardous and non-hazardous waste emission, water usage and combined energy consumption. We do not employ free range cattle farming, whereby cattle roam and graze on rangeland freely. Our dairy cows and beef cattle are housed in our large-scaled standardised farms, and are fed in accordance with our feeding system as detailed in “*– Raw Milk Business – Farm Management – Feeding System.*” As such, we do not believe our business activities have any material impact on rangeland conservation. As of the Latest Practicable Date, none of our dairy farms or beef cattle feedlots is located near population centres. We expect to establish the overall carbon-neutrality strategies as follows:

- Stage I: Initiate low-carbon transformation and become one of the pioneers in developing unified GHG assessment methodology for dairy farms in China
- Stage II: Reduce carbon footprint by 50% and promote low-carbon products

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- Stage III: Reduce carbon footprint by 80% and promote carbon-neutral products
- Stage IV: Achieve carbon-neutrality for all farms and factories

We have started to track certain KPIs since 2021, which mainly include air emissions, GHG emissions (including methane emission from dairy cows and beef cattle as well as other GHG emission from other aspects of our operations), hazardous and non-hazardous waste produced, water usage and combined energy consumption in relation to our principal business. According to Frost & Sullivan, our ESG metrics are comparable with those of our industry peers based on a comparison of data publicly disclosed by our industry peers. Our Directors are of the view that, based on the confirmation by Frost & Sullivan, there are no international standards, certifications or accreditations on the calculation and reporting of ESG metrics that are designed to companies engaged in cattle farming, primarily because the natural environment and cattle farming systems vary widely across the globe. We have not set objectives for the reduction of air emissions and GHG emissions by volume because (i) the volume of air emissions and GHG emissions will increase as the Group expands its operations; and (ii) intensity objectives allow the Group to set emissions reduction targets while accounting for economic growth.

Air emissions

Metrics and targets

Air emissions (ton)	2021
SOx emission	248.32
NOx emission	239.41
PM emission	21.25

Measures towards the targets

We have detailed steps to reduce our air emissions. For example, we plan to use stationery feed mixers run by electricity which does not generate air emission, instead of mobile mixers which are run by diesel oil, and we have installed air source heat pumps in certain dairy farms for the generation of heat during winter to reduce the usage of non-renewable energy.

GHG emissions

Metrics and targets

GHG emissions (tCO2e)	2021	2025 Target
GHG emission by volume	485,711.16	–
Including: Scope I	385,600.13	–
Including:		
Cattle related ⁽¹⁾	338,215.25	–
Operations related ⁽²⁾	47,657.14	–
GHG reduction ⁽³⁾	(272.26)	–
Scope II	100,111.03	–
GHG emissions by intensity:		
Per ton of raw milk produced ⁽⁴⁾	0.71	0.60
Per ton of beef cattle weight gained ⁽⁵⁾	3.36	3.36 or lower

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Notes:

- (1) Primarily methane emission from dairy cows and beef cattle. The calculation methodology for methane emissions from cattle will be revised and improved based on the suggestions from our external advisers from time to time, as well as any applicable national or international standards that will be published and implemented in the future. In light of the lack of applicable national or international standards on the calculation of methane emissions in connection with cattle farming, we referred to “2019 Refinement to the 2006 IPCC Guidelines for National Greenhouse Gas Inventories – Volume 4: Agriculture, Forestry and Other Land Use, Chapters 10 and 11” as a guidance in calculating and reporting the historical methane emissions related to cattle farming.
- (2) Other GHG emissions from aspects of our operations other than cattle farming, which are primarily the consumption of diesel oil, coal, biogas and refrigerants.
- (3) From tree planting.
- (4) Primarily methane from dairy cows.
- (5) Primarily methane from beef cattle.

Measures towards the targets

We strive and have engaged external advisers to devise plans to reduce the level of GHGs (including methane emission from dairy cows and beef cattle as well as other GHG emission from other aspects of our operations) through the following measures:

- to improve work efficiency and increase average daily milking so as to reduce the GHG emission (primarily methane emission) per ton of raw milk produced;
- to explore new technology and build facilities that consume less energy and reduce GHG emissions;
- to explore the use of green energy like photovoltaic power generation;
- to collect and process the cattle manure (which is a significant source of methane emission) through our biogas facility (anaerobic digester) and explore the use of biogas to generate electricity for our production, to reduce the usage of grid electricity which generates higher GHG emission); and
- to explore the use of methane-reducing feed additives in order to reduce the GHG emission (primarily methane emission) from cattle.

Resource consumption

Metrics and targets

Resource consumption	2021	2025 Target
Combined energy consumption by intensity (standard coal ton):		
Per ton of raw milk produced	0.044	0.042
Per ton of beef cattle weight gained	0.191	0.191 or lower
Water consumption by intensity (m³):		
Per ton of raw milk produced	9.58	9.17
Per ton of beef cattle weight gained	40.60	40.6 or lower

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Measures towards the targets

We have a detailed plan for managing combined energy consumption and water consumption, including the following measures:

- to upgrade our equipment and facilities to improve the efficiency in water consumption. For example, we have installed precision spraying techniques which operate when cows reach the milk parlour so as to avoid unnecessary use of water; and
- to replace high energy-consuming equipment to reduce energy consumption. For example, we use LED lights and light sensor control, air source heat pumps that collect heat energy in the air and solar water heaters for heat water supply; adopt electric scrapers to reduce the use of diesel vehicles for manure treatment.

Waste management and Eco-farming

Metrics and targets

Waste produced (ton)	2021	2025 Target
Hazardous waste produced by intensity:		
Per tons'000 of raw milk produced	0.10	0.10 or lower
Per tons'000 of beef cattle weight gained	0.68	0.68 or lower
Non-hazardous waste produced by intensity:		
Per tons'000 of raw milk produced	3.23	3.23 or lower
Per tons'000 of beef cattle weight gained	24.77	24.77 or lower

Measures towards the targets

We implement various systems in our dairy farms and beef cattle feedlots for effective waste management, which is crucial to environmental protection. We have installed cow waste recycling and treatment facilities at our dairy farms and beef cattle feedlots to process cow manure. We also regularly clean cow waste in barns. We have biogas facilities for our Shandong farms, which come with anaerobic digesting technology to generate biogas, which is used to generate heat for the operation: solid manure is used for bedding in our farms, and liquid manure is returned to our cropping land as fertiliser.

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Herd Health and Animal Welfare

Our philosophy is to raise “happy cows”. As such, we focus heavily on herd health and welfare in the course of our business expansion and the improvement of production capacity. In 2019, 2020 and 2021, we had a low incidence of illness and disease among our dairy cows and beef cattle. During the Track Record Period and up to the Latest Practicable Date, none of our dairy farms or beef cattle feedlots has experienced any major outbreaks of illness or disease, such as bovine spongiform encephalopathy (commonly known as “mad cow disease”), brucellosis, foot-and-mouth disease, bovine tuberculosis, mastitis or any other animal diseases. We believe that our commitment to animal welfare and raising “happy cows” leads to higher milk yield without compromising the health and lifespan of dairy cows or sacrificing long-term productivity. We have implemented a comprehensive set of internal management procedures to help maintain the overall health of our herds including:

Maintenance of comfortable environment. Our dairy farms and beef cattle feedlots are based on a standardised and scientific design, which take into account the comfort of our cows and cattle. We make sure proper ventilation, cow cooling, stalls, flooring, and lighting. For example, we (i) provide soft and dry bedding for our cattle and cows; (ii) strictly control the cow density in each cowshed to ensure sufficient resting time and space; (iii) provide spacious sports fields for our cattle and cows to move around; (iv) install windproof shutters at our cowsheds for wind protection; (v) install rolling shutters and electric water heating tanks at our cowsheds and milking parlours to keep our cows warm; (vi) maximise the use of natural ventilation through the design of our cowsheds and provide water sprays and fans for cooling; (vii) place newborn calves in places over 15°C and provide newborn calves of less than 20 days with thermal vests when it is below 5°C; and (viii) install cow waste recycling and treatment facilities at our dairy farms and beef cattle feedlots to process cow manure and we regularly clean cow waste in barns.

Optimised feeding. We formulate diets that meet the nutritional needs of our dairy cows and cattle at different stages of their growth, and prohibit the illegal use of additives.

Disinfection of equipment and facilities. We have established stringent procedures for disinfecting facilities and equipment. We disinfect our milking parlour, machines and equipment on a regular basis. Employees are required to wear masks, hats and gloves when handling dairy cows, beef cattle and/or milk.

Quarantine and treatment of sick and dead cows and cattle. We have established stringent procedures for the disposal of sick and dead cows and cattle. We promptly quarantine any sick dairy cows in separate barns and our veterinary specialists inspect them on a regular basis. Dairy cows that have been cured of any disease are milked in a separate milking hall until their milk passes all of our tests and examinations.

Disease control measures. Diseases like mastitis are the major threats to herds and dairy farms. We do not have brucellosis and tuberculosis in our dairy farms. Foot-and-mouth disease never occurred in our farms. We also have been implementing disease eradication programmes such as brucellosis and bovine tuberculosis on our herd.

Disease control training for new staff. We require our relevant staff to complete mandatory disease control training. Continuing disease control trainings are given to all employees at our dairy farms and beef cattle feedlots.

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According to Frost & Sullivan, our measures and practices in relation to herd health and animal welfare are in line with those of leading industry peers.

Occupational Health and Safety

We place great importance on occupational health and safety management. We are subject to various laws and regulations in respect of health and occupational safety. We have established a series of safety guidelines, rules and procedures for our operations, including fire safety, operation safety, warehouse safety, work-related injuries and emergency and evacuation procedures to promote occupational health and safety and to ensure compliance with applicable laws and regulations. As of the Latest Practicable Date, we have 15 full-time safety personnel. See “– *Legal Proceedings and Compliance – Enhanced internal control and remedial measures*” for details.

During the Track Record Period, 284 work-related injuries and three fatalities occurred at our facilities. In addition, one of our employees suffered a fatal injury in a traffic accident outside of our facilities while on duty. The vast majority of the work-related injuries which have occurred are light or minor injuries, such as injuries resulting from our employees being hit by cattle, vehicles or equipment, slipping or falling. There was a slight increase in the number of work-related injuries during the Track Record Period as a result of an increase in the scale of our operations and the corresponding increase in the number of our employees by 37.8% during the Track Record Period. However, we have improved our work safety record as we have enhanced and strengthened our work safety measures and policies. According to Frost & Sullivan, the number of our work-related injuries is in line with the industry norm based on a comparison of data from public disclosure of and private interviews with a number of our industry peers. The following table sets forth further details of our work-related injuries at our facilities during the Track Record Period:

	For the year ended 31 December			For the six months ended 30 June	
	2019	2020	2021	2021	2022
By severity					
– Serious ⁽¹⁾	3	0	3	1	0
– Light ⁽²⁾	51	55	57	27	20
– Minor ⁽³⁾	28	28	28	14	11
By nature					
– Hit by cattle	33	33	48	19	12
– Hit by vehicles or equipment	14	8	3	1	1
– Sprains, scratches, slips or falls	17	30	24	14	12
– Others	18	12	13	8	6
By facility					
– Dairy farms	74	74	86	41	29
– Beef cattle feedlots	8	9	2	1	2
Total (person)	82	83	88	42	31

Notes:

- (1) Serious injuries refer to injuries that cause at least 105 lost days, as defined in the PRC national standard for classification of casualty accidents of enterprise staff and workers. Lost days refer to the total number of work days of an employee that are lost as a result of the work-related injuries.
- (2) Light injuries refer to injuries that cause less than 105 lost days, as defined in the PRC national standard for classification of casualty accidents of enterprise staff and workers.
- (3) Minor injuries refer to injuries that do not cause any lost days.

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During the Track Record Period, and up to the Latest Practicable Date, we did not experience any accidents in the course of our operations that resulted in material claims for personal or property damages that are not covered by our insurance. During the Track Record Period, we had paid a total of approximately US\$0.4 million of compensation to families of employees who suffered fatal injuries, all of which were subsequently reimbursed by our insurance companies. We maintain sufficient insurance coverage for any potential liabilities arising from work-related accidents and injuries, including mandatory social security insurance under PRC laws for the employees in China and employers liability insurance. Other than the incidents disclosed below in “– *Legal Proceedings and Compliance – Non-compliance – Safety Incidents*”, we have not been subject to any administrative penalties in relation to safety production during the Track Record Period and up to the Latest Practicable Date.

COMPETITION

The dairy industry in China has been undergoing rapid growth in recent years and has significant growth potential. Raw milk demand for dairy consumption in China has continued to outstrip raw milk domestic supply over the years. The dairy industry in China is highly concentrated, with the top five players together accounting for 76.3% market share in terms of retail sales value of dairy products in 2021. With the high market concentration rate, leading dairy groups play a dominant role in the pricing of raw milk. During the past three years, emerging dairy brands have grown at a CAGR of more than 50%. In addition, regional dairy companies have achieved steady development due to their localised and diversified product offerings. As a result, the competitive landscape of the dairy industry in China has become more dynamic. The raw milk supply market in China is highly fragmented. The top five players in China accounted for aggregate market share of 14.1%, 15.5% and 15.0% in terms of the sales volume, sales value and production volume of raw milk in 2021, respectively. For the same period, we were ranked third, fourth and fifth among all dairy farm operators in China, with a market share of 1.6%, 1.8% and 1.7% in terms of sales volume, sales value and production volume of raw milk in 2021, respectively. Our key competitors in the raw milk business include China Youran Dairy Group Limited, China Modern Dairy Holdings Limited and China Shengmu Organic Milk Limited, according to Frost & Sullivan. For further details on the dairy and raw milk supply industries in China, see “*Industry Overview – The Dairy Industry in China*” and “*Industry Overview – The Raw Milk Supply Industry in China*”.

In addition, the beef cattle industry has maintained significant growth. With the rapid development of the economy and the increase of per capita disposable income, Chinese consumers’ willingness to pay for healthy protein is increasingly expanding the retail sales value of beef products, according to Frost & Sullivan. As a result, meat consumption in China is expected to rise. Our key competitors in the beef cattle industry include several private beef cattle farming companies, according to Frost & Sullivan. These private beef cattle farming companies are principally engaged in beef cattle operations, including, among other things, fattening and slaughtering of beef cattle and producing various beef products. For further details on the beef cattle industry in China, see “*Industry Overview – The Beef Cattle Industry in China*”.

We primarily compete on the basis of (i) our value proposition to our customers by providing a high-quality, reliable and consistent supply of raw milk and beef cattle; (ii) our production and distribution capabilities; (iii) our ability to meet customers’ order requirements and delivery schedules within exacting timelines; (iv) the stability of our relationships with our customers; and (v) price. We believe our diversified customer base, efficient farm management, premium quality of our raw milk and beef cattle, and strong genetic breeding technologies allow us to effectively compete with other dairy farm operators and beef cattle farming companies in China.

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INTELLECTUAL PROPERTY

Our trademarks, trade secrets and other intellectual property rights are essential to our business operations. We rely primarily on a combination of trademarks, trade secret and contractual rights, to protect our intellectual property rights. As of the Latest Practicable Date, we had obtained 36 registered trademarks in the PRC, 4 registered trademarks in Hong Kong, 8 registered trademarks in Macau, 16 registered trademarks overseas and 2 domain name in the PRC. For detailed information about our material intellectual property, see “*Appendix V – Statutory and General Information*”.

With respect to proprietary know-how which is not patentable and processes for which patents are difficult to enforce, we rely on trade secret protection to safeguard our interests. Please see “*Risk Factors – Our efforts in obtaining and protecting our intellectual property may be costly and unsuccessful and we may not be able to protect our intellectual property rights*” for risks relating to our intellectual property. As of the Latest Practicable Date, we had not been subject to any material disputes or claims for infringement upon third parties’ intellectual property rights in the PRC.

PROPERTY

We occupy certain properties in China in connection with our business operations. They mainly include premises for our dairy farms, beef cattle feedlots and our feed mill which is currently under construction.

Owned Properties

As of the Latest Practicable Date, we had obtained the state-owned land use right for three parcels of land. Among which, two parcels of land, each with a site area of 9,413.37 square metres and 9,343.89 square metres respectively, are used for the construction of employee dormitories and canteens. As of the Latest Practicable Date, we had not obtained property ownership certificates for the buildings built on these one parcel of land, which are mainly employee dormitories and canteens with a total gross floor area of approximately 4,610.75 square metres. Given that (i) none of these buildings is material to our operations and production, (ii) we are in the process of applying for the property ownership certificates for such buildings and (iii) as advised by our PRC legal adviser, it is unlikely that the Group will be subject to administrative penalties from the relevant competent authority for not obtaining the property ownership certificates for our owned buildings, the Directors and our PRC legal adviser are of the view that the above title defects would not materially and adversely affect our business. The third parcel of land with a site area of 66,645.5 square metres is for our feed mill factory which is under construction. The total site area of the state-owned land use right is 85,402.76 square metres.

As of 30 June 2022, we had no single property with a carrying amount of 15% or more of our total assets. Therefore, we are not required to include a property valuation report in this prospectus.

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Leased Properties

Leased Land

As of the Latest Practicable Date, we contractually leased three parcels of state-owned land with a total area of approximately 6,307 mu and 11 parcels of collectively-owned land with a total area of approximately 16,244 mu, which are mainly used as our dairy farms, beef cattle feedlots and two additional sites for future construction of Pure Source Farm 3 and Pure Source Farm 4. We have also leased land with a total area of approximately 151,482 mu (excluding certain leased land used for plantation fields of Pure Source Farm 3 and Pure Source Farm 4, the lease area of which is yet to be finalised), which are mainly used as forage grass plantation fields.

As of the Latest Practicable Date, we had not obtained from the lessors or the contractees certain supporting documents evidencing the completion of contracting or leasing procedures for several parcels of collectively-owned land leased or contracted by us. These documents mainly include consent from not less than two-thirds of the members of villagers assembly or of the representatives of the villagers or the authorisation or consent documents from the villagers or farmer-households concerned. Due to the complicated pre-circulation procedures for these leased land, which involved a large number of supporting documents evidencing the completion of contracting or leasing procedures for these leased land, the lessors or contractees were unable to keep all these rural archives in a systematic and standardised manner and were unable to provide all these supporting documents to us. Such leased land are used for dairy farms and forage grass plantation and generated revenue of US\$7.8 million, US\$8.7 million, US\$16.4 million and US\$16.9 million for 2019, 2020, 2021 and the six months ended 30 June 2022, which contributed approximately 2.2%, 2.2%, 3.1% and 6.0% of our total revenue for the same periods. Excluding the leased land of Pure Source Dairy, such leased land with procedural defects has a total area of approximately 32,884 mu as of the Latest Practicable Date. We are not able to calculate the exact total area of leased land of Pure Source Dairy with procedural defects because some of the villagers authorisation documents for leased land of Pure Source Dairy do not specify the area. As of the Latest Practicable Date, we have received written confirmations from the relevant villagers' committees and governments at the town level for all the leased land of Pure Source Dairy with procedural defects, except for certain leased land used for plantation fields of Pure Source Farm 3 and Pure Source Farm 4, which the lessors are in the process of confirming the final lease area and collecting documents evidencing the completion of leasing procedures.

According to the relevant PRC laws and regulations, including the Rural Land Contracting Law of the PRC (中華人民共和國農村土地承包法), which came into effect on 1 March 2003 and was further amended on 29 December 2018, the Measures for the Administration of the Circulation of the Rural Land Contractual Management Right (農村土地承包經營權流轉管理辦法), which came into effect on 1 March 2005 and was replaced by the Measures for the Administration of the Circulation of the Rural Land Operation Right (農村土地經營權流轉管理辦法) on 1 March 2021, large-scale farming operators of livestock, such as us, are allowed to contract agricultural land from rural collective economic organisations or lease agricultural land from villagers who have the rural land contractual management rights. For us to contract land, consent from not less than two-thirds of the members of the villagers assembly or of the representatives of villagers and approval of the competent government at the township level must be obtained. For us to lease the lands that have already been contracted to relevant villagers, authorisation or consent documents from such villagers must also be obtained. If the lessors or the contractees did not fulfil such procedures and fail to rectify them, our use of the lands may be challenged and we may be required to identify alternative land and incur additional costs in doing so. The relevant

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PRC laws and regulations do not stipulate any administrative penalty on the lack of consent or authorisation documents from villagers for land contracting or land circulation. Therefore, as advised by our PRC legal adviser, it is unlikely that the Group will be subject to administrative monetary penalties from local government authorities.

As of the Latest Practicable Date, other than approximately 23,458 mu land used for forage grass plantation (representing approximately 13.5% of the Group’s leased land), we received written confirmation from December 2020 to October 2022 from villagers’ committees and governments at the town level concerned that the contracting or leasing procedures are fully and legally completed for all of the leased land with procedural defects, or the lessors are in the process of confirming the final lease area and collecting documents evidencing the completion of leasing procedures for certain leased land used for plantation fields of Pure Source Farm 3 and Pure Source Farm 4. Our PRC legal adviser confirmed that the relevant villager committees and town level governments, as the lessors or the contractees of the land lease agreements and as the responsible party or authority for rural land contracting and circulation, are entitled to issue the written confirmations concerned that the contracting or leasing procedures are fully and legally completed for some of the defective land, and that the likelihood of such written confirmations being challenged by higher-level regulatory government authorities is remote. The defects with such leased land have not affected the rent we have paid. Given that (i) as of the Latest Practicable Date, we have not received any complaints or claims affecting the lease and use of the above-mentioned lands, (ii) we have received written confirmation from villagers committees and governments at the town level concerned that the contracting or leasing procedures are fully and legally completed for the majority of the defective land, (iii) the leases for approximately 23,458 mu land used for forage grass plantation are not long term and are used for cropping purpose only, which are easy to be substituted, and (iv) in case we need to relocate, such relocation will not materially affect our production, our Directors and our PRC legal adviser are of the view that such defects are unlikely to have a material and adverse effect on the Group’s operations.

EMPLOYEES

As of 30 June 2022, we had a total of 2,434 employees. The following table sets forth the number of our employees by function as of 30 June 2022:

Function	Number of employees
Management personnel	214
Administrative personnel	197
Technicians	113
Salespersons	4
Skilled workers	1,501
Housekeepers	<u>405</u>
Total	<u><u>2,434</u></u>

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We primarily recruit our employees through on-campus job fairs, recruitment agencies and online channels. We provide regular training and reviews to our employees to continuously upgrade their skills in line with the industry trends and enhance their performance.

As required by PRC laws and regulations, we participate in housing provident fund and various employee social insurance plans that are organised by applicable local municipal and provincial governments, including housing, pension, medical, work-related injury and unemployment benefit plans. We are required under PRC laws and regulations to contribute to employee social security plans at specified percentages of the salaries, bonuses and certain allowances of our employees. We made full contributions to our employees’ social insurance funds in accordance with PRC laws and regulations during the Track Record Period and up to the Latest Practicable Date. We have obtained written confirmations from local social insurance administrative departments, being the Human Resource and Social Security Bureau and/or the Healthcare Security Bureau at the county level and above which are the competent local government authorities as confirmed by the Company’s PRC legal adviser in January 2022 and February 2022 confirming that there were no shortfall of the contribution of the social insurance funds nor complaints regarding labour issues or violations of the relevant PRC laws and regulations in relation to social insurance funds.

During the Track Record Period, we did not make full housing provident funds contributions for our employees of certain PRC subsidiaries with a shortfall amount of RMB0.4 million as of 30 June 2022 as certain employees (i) were reluctant to contribute their portion of the housing provident funds; (ii) have housing provident funds made by local third parties or (iii) were still under probation.

According to the Regulation on the Administration of Housing Provident Funds (住房公積金管理條例), which took effect in April 1999, and was further amended in March 2019, if we fail to make adequate contribution to the employees’ housing provident funds, the competent housing provident fund management centre may require us to pay the outstanding amounts within a prescribed time. If the required payment is not made within such prescribed time, an application may be made to the PRC courts for compulsory enforcement.

As of the Latest Practicable Date, we were in the process of implementing measures to rectify the non-compliance with housing provident fund requirements, which are expected to be completed by the end of 2022, including communicating with the employees with a view to seeking their understanding and cooperation in complying with the applicable payment base, which also requires additional contributions from our employees. See “– *Legal Proceedings and Compliance – Enhanced internal control and remedial measures*” for details.

Most of our employees are part of labour unions. During the Track Record Period and up to the Latest Practicable Date, we did not experience any strikes or significant labour and management disputes that had a material adverse effect on our business.

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LEGAL PROCEEDINGS AND COMPLIANCE

We are subject to legal proceedings, investigations and claims incidental to the conduct of our business from time to time. No member of our Group had been involved in any actual or pending legal, arbitration or administrative proceedings (including any bankruptcy or receivership proceedings) that we believe would have a material adverse effect on our business, results of operations, financial condition or reputation and compliance, as a whole, during the Track Record Period and up to the Latest Practicable Date.

Non-Compliance

Environmental protection inspection

We were not able to complete the environmental protection inspection as scheduled, primarily due to the delay in inspection caused by various preventive measures against the spread of COVID-19 in the region. Environmental protection inspection is legally required before the commencement of any production activities. In planning for the inspection, we were advised by the qualified third party inspector that a trial production for a reasonable period of time is necessary for them to collect the necessary data, particularly the waste discharge from the dairy farm and beef cattle feedlot, to issue the inspection report, which in turn is an essential component for the environmental protection inspection. Without fully appreciating that there was no clear statutory provision allowing for such trial production, we commenced trial production at the dairy farm and beef cattle feedlot of Chifeng AustAsia Tongxi Branch as we gradually completed the construction work.

We completed the entire construction of the dairy farm and beef cattle feedlot of Chifeng AustAsia Tongxi Branch in November 2021. The environmental inspection procedures were originally scheduled to be completed by January 2022, which took into consideration the time needed for an environmental inspection report to be issued by a qualified third party environmental inspector based on data collected throughout a reasonable period of trial production. However, due to the resurgence of the COVID-19 pandemic and the relevant preventive measures, the original timetable for completing the environmental inspection procedures was delayed. While we had taken into consideration the impact of the COVID-19 pandemic and potential delays, and devised a contingency plan, including active communication with the qualified third party inspector and the local government on scheduling and staffing, the evolving pandemic situation and relevant preventive measures made it difficult for us to complete our plan based on the original schedule. After verbal consultation in November 2020 with the officers at Aruhorqinqi Branch of the Chifeng Bureau of Environmental and Ecology (the competent local government authority as confirmed by our PRC legal adviser) where we informed them of the difficulties in completing the inspection before January 2022, such officers of the competent local government authority had no objections to us continuing to carry on our production activities at the dairy farm and beef cattle feedlot. We completed the environmental inspection procedure for our dairy farm and phase one of beef cattle feedlot of Chifeng AustAsia Tongxi Branch in June 2022 and expect to complete the environmental inspection procedure for phase two of our beef cattle feedlot by the end of 2022.

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As advised by our PRC legal adviser, in accordance with the *Administrative Regulations on Environmental Protection in Construction Projects* (建設項目環境保護管理條例) where the environmental protection facilities have not undergone inspection before commencement of production, the competent environmental authorities may order the relevant entity to make correction within a stipulated period and impose a fine ranging from RMB0.2 million to RMB1 million; where correction is not made within the stipulated period, a fine ranging from RMB1 million to RMB2 million shall be imposed; where the construction project causes significant environmental pollution or ecological damage, the production or use shall be suspended, or the project shall be closed down upon approval by the relevant government authorities.

Our Directors confirm that during the Track Record Period and as of the Latest Practicable Date, we had not received any rectification notice from or been imposed any administrative penalties by the competent government authorities in connection with such matter. In addition, during the Track Record Period and up to the Latest Practicable Date, there were no other farms that commenced production prior to completing the environmental protection inspection procedure.

Safety Incidents

DXAA and DYAB Incidents

On 29 July 2020, one employee of Dongying Xianhe AustAsia violated the refuelling safety procedures by leaving the vehicle at the refuelling area without putting the wheel stop. While the employee was trying to restart the vehicle, the handbrake failed and the vehicle rolled backwards and another employee, who was not supposed to be standing at the gas station platform according to the refuelling safety procedures, was hit by the vehicle and suffered fatal injuries and subsequently died (“**DXAA incident**”). On 20 August 2021, two employees of Dongying AustAsia Beef violated the operating procedures by failing to close the biogas drainage valves before entering the biogas drainage well for operation. Subsequently the two employees inhaled a fatal amount of biogas accumulated in the well (“**DYAB incident**”).

For each incident, based on the Group’s internal investigation, it was found that the direct cause was the employees’ violation of rules of operation and, in the case of the DXAA incident, the failure of vehicle handbrake, while the indirect cause was primarily the relevant PRC subsidiary’s negligence in implementing relevant safety management system, insufficient effective safety supervision and risk screening and insufficient safety training. Under the relevant PRC laws and regulations, the government authority is required to complete its investigation before issuing the final administrative decision. The Group’s finding for the DYAB incident is supported by the report of an investigation committee published by the government authority. The local government has not published the investigation report for the DXAA incident as of the Latest Practicable Date. Given that DXAA has subsequently received the administrative decision from the government authority in June 2021, the investigation of the DXAA Incident by the competent authority would have been completed by then. The two incidents were each categorised as a general accident (一般事故) based on the degree of the personal injury or death under the Work Safety Law of the PRC (中華人民共和國安全生產法), and the Regulations on the Reporting, Investigation and Handling of Work Safety Accidents (生產安全事故報告和調查處理條例), and each of Dongying Xianhe AustAsia and Dongying AustAsia Beef, as the responsible business entity, received an administrative fine of RMB490,000 from Dongying Hekou District Emergency Management Bureau. See “*Regulatory Overview and Taxation*” for more details on the categorisation of the work safety incidents. None of the Directors was fined or reprimanded as a result of the two incidents by Dongying Hekou District Emergency Management Bureau.

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Under the relevant PRC regulations, a general accident (一般事故) should be investigated by the government at the county level of the place of the accident. The local government may directly, or entrust the relevant authorities to, set up an investigation committee. During the investigation of the DYAB incident, the local people's government of Dongying Hekou District set up an investigation committee, which consisted of members from the local agriculture and rural area bureau, public security bureau, animal husbandry development service centre, emergency management bureau, and representatives from labour union. The investigation committee also engaged three experts to assist in the investigation, and concluded that the direct cause for the DYAB incident was the employees' violation of rules of operation while the indirect cause was primarily the relevant PRC subsidiary's negligence in implementing relevant safety management system, insufficient effective safety supervision and risk screening, failure to revise the emergency rescue plan for safety accidents and insufficient safety training. In addition to the above background facts, findings of the direct and indirect causes, and nature of the incident, the investigation committee included in its report certain recommendations on administrative penalties to be imposed and rectification measures to be implemented. The investigation committee for the DYAB incident recommended the following recommendations in terms of liability and administrative fines:

- (a) the legal representative of Dongying AustAsia Beef, being Edgar Collins (a Director), be found liable for the incident and be imposed an administrative fine;
- (b) certain management of Dongying AustAsia Beef, including the farm manager, the deputy head of the Safety and Health Department, the head of the Biogas Equipment Department, the Deputy Manager and the head of the Manure Biogas Department, each found liable for the incident and be imposed an administrative fine; and
- (c) Dongying AustAsia Beef be imposed an administrative fine.

As advised by our PRC legal adviser, such recommendations by the investigation committee were not conclusive or legally binding on Dongying AustAsia Beef. Dongying Hekou District Emergency Management Bureau, the competent local authority as confirmed by our PRC legal adviser, adopted the recommendations (b)-(c) set out in the investigation report but did not adopt the recommendation that the legal representative of Dongying AustAsia Beef, being Mr. Edgar Collins (a Director), be found liable for the incident and be imposed an administrative fine, when issuing the final administrative decisions.

As of the Latest Practicable Date, both Dongying Xianhe Austasia and Dongying AustAsia Beef had paid the administrative fine in full and made separate payments to the families of the deceased employees.

On 19 March 2022, Dongying Hekou District Emergency Management Bureau, the competent local authority as confirmed by our PRC legal adviser, issued written confirmations confirming that both Dongying Xianhe AustAsia and Dongying AustAsia Beef (i) did not experience any relatively major safety accidents (較重大事故) or safety accidents which are more serious (including major safety accidents (重大事故) and particularly major safety accidents (特別重大事故)), each as defined under the Work Safety Law of the PRC (中華人民共和國安全生產法), since 1 January 2019, and (ii) had not been subject to any administrative penalties for any relatively major safety accidents (較重大事故) or safety accidents which are more serious (including major safety accidents (重大事故) and particularly major safety accidents (特別重大事故)), each as defined under the Work Safety Law of the PRC (中華人民共和國安全生產法), since 1 January 2019. Our PRC legal adviser is of the view that, in view of the principle against double jeopardy, it is unlikely Dongying Xianhe AustAsia and Dongying AustAsia Beef will be further penalised due to such incidents in the future, and that the likelihood of such confirmations being challenged by higher-level government authorities is remote.

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Tai’an Incident

On 30 December 2017, an employee of Tai’an AustAsia did not follow the proper operation procedure by trying to fix the vehicle accelerator without pulling the handbrake or shutting down the engine. As a result, the employee was hit by the vehicle and suffered fatal injuries (“**Tai’an incident**”). Due to the nature of such incident, the dairy farm manager of Tai’an AustAsia considered this incident to be a car accident instead of a workplace safety accident and reported this incident as a car accident to the Company’s directors and management. As a result of the misinterpretation of the nature of the Tai’an incident (being classified as a car accident) and relevant reporting requirements under PRC work safety laws and regulations (which only requires a work place safety accident to be reported), the dairy farm manager of Tai’an AustAsia did not report the Tai’an incident to the local emergency management authority.

During the Track Record Period, Tai’an AustAsia did not receive any administrative order or penalty in relation to the Tai’an incident. On 16 May 2022, Feicheng Emergency Management Bureau, the competent local authority as confirmed by our PRC legal adviser, issued a written confirmation confirming that Tai’an AustAsia did not experience any relatively major safety accidents (較重大事故) or safety accidents which are more serious (including major safety accidents (重大事故) and particularly major safety accidents (特別重大事故)), and Tai’an AustAsia had not had any material violation of laws and regulations relating to work safety, and Tai’an AustAsia had not received any material administrative penalty from the Feicheng Emergency Management Bureau since 2018.

In early 2022, in conjunction with a review of historical safety incidents as part of a regional inspection that occur on a normal and regular basis and also covered other enterprises outside the Group, Feicheng Emergency Management Bureau found that the dairy farm manager of Tai’an AustAsia failed to promptly report the Tai’an incident pursuant to the Work Safety Law of the PRC (中華人民共和國安全生產法) and the Regulations on the Reporting, Investigation and Handling of Work Safety Accidents (生產安全事故報告和調查處理條例). On 29 April 2022, Tai’an AustAsia received an administrative fine of RMB1.5 million from Feicheng Emergency Management Bureau, and subsequently paid the fine in full on 11 May 2022. The Regulations on the Reporting, Investigation and Handling of Work Safety Accidents (生產安全事故報告和調查處理條例) provide that an entity will be subject to an administrative fine in the range of RMB1 million to RMB5 million for a failure to report a work safety accident, while the then effective Work Safety Law of the PRC (中華人民共和國安全生產法), which was in force when the Tai’an incident occurred, provides that the range of administrative fine that could be imposed on an entity where a general safety incident occurs was RMB200,000 to RMB500,000. The administrative fine of RMB1.5 million imposed on Tai’an AustAsia was based on a combination of the aforementioned regulations. Our PRC legal adviser is of the view that the Tai’an incident should be categorised as a general accident (一般事故) based on the degree of the personal injury or death pursuant to the Work Safety Law of the PRC (中華人民共和國安全生產法) and the Regulations on the Reporting, Investigation and Handling of Work Safety Accidents (生產安全事故報告和調查處理條例), and it is unlikely that Tai’an AustAsia will be subject to further penalty due to such incident in the future.

After such incidents, we have taken further steps to (i) enhance safety awareness among the employees by conducting regular trainings on related laws and regulations, reporting requirements and procedures, and internal guidelines and procedures on safety of operation, (ii) hold monthly internal meetings to monitor and discuss safety issues, (iii) assign one designated on-site supervision and inspection personnel for each farm and beef cattle feedlot, (iv) enhance risk classification control and investigation of potential risk and (v) revise the emergency rescue plan for safety accidents. See “– Non-compliance – Enhanced Internal Control and Remedial Measures” for details. After considering the enhanced internal controls and remedial measures implemented by the Group, the Directors are of the view that the Group has adequate procedures in place to oversee and ensure the proper reporting of workplace accidents in accordance with the relevant PRC laws and regulations.

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Despatched workers

During the Track Record Period and up to the Latest Practicable Date, we have employed workers through third-party despatched labour agencies in China. Most of the despatched workers provide support services such as cleaning and feeding. The labour despatch arrangement enables us meet our operation needs by maintaining a sufficient and flexible level of labour force for those support and substitutable positions while saving us the time and resources involved in the recruitment process. According to the Interim Provisions on Labour Despatch (勞務派遣暫行規定), which took effect in March 2014, and the PRC Labour Contract Law (中華人民共和國勞動合同法), which was promulgated in June 2007, and further amended in December 2012 with effect from July 2013, the number of despatched workers an employer uses may not exceed 10% of its total labour force. As of 31 December 2019, 2020 and 2021, four, three, and two of our PRC subsidiaries had not complied with the requirement on the maximum number of despatched workers, each slightly exceeding 10% of its total labour force. As of 31 December 2019, 2020 and 2021 and 30 June 2022, the number of the Group's despatched workers exceeding the maximum number allowed under the PRC law was 15, 31, 7 and 0, respectively.

As advised by our PRC legal adviser, a company which is not compliant with the labour despatch requirement may not employ new despatched workers, and may be ordered by the relevant authorities to rectify such non-compliance within a prescribed period. If rectification is not completed within the prescribed period, the company may be subject to a fine ranging from RMB5,000 to RMB10,000 for each despatched worker in excess of the maximum limit. As of 30 June 2022, the two PRC subsidiaries had reduced the number of despatched workers and are in compliance with the labour despatch requirement.

We have also received written confirmations from the relevant human resources and social security administration in January 2022 and February 2022 that there were no complaints regarding labour issues or administrative penalties imposed against these PRC subsidiaries in connection with the use of despatched workers since 1 January 2019. Our PRC legal adviser confirmed that the relevant local labour administrative departments are competent authorities to issue the above written confirmations, and that the likelihood of such confirmations being challenged by higher-level government authorities is remote.

On the basis that (i) a fine may be imposed on a company which does not comply with the labour despatch requirement if it fails to rectify such non-compliance within a prescribed period, (ii) the Group's historical non-compliances have been rectified, and (iii) the Group has received written confirmations from the relevant competent authorities that there were no administrative penalties imposed against the relevant PRC subsidiaries in connection with the use of despatched workers since 1 January 2019, the Company's PRC legal adviser has confirmed that the likelihood the Group will be imposed a penalty for its historical non-compliance in connection with the use of despatched workers is remote.

Enhanced internal control and remedial measures

In response to the non-compliance incidents and the past workplace accidents, we implemented the following enhanced internal control and remedial measures to ensure strict compliance with the relevant laws and regulations and prevent the recurrence of material non-compliance and safety incidents:

Environmental protection inspection

- We have adopted policies and procedures regarding the management of new projects, including compliance with the requirements of applicable environmental laws and regulations, obtaining the necessary licences, certificates, approvals and permits before commencing construction and operations since April 2022;

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- In addition to obtaining legal advice during the ordinary course of our business on an as-needed basis, since April 2022, we have adopted a policy to engage our PRC legal adviser to review all the necessary licences and approvals before each project can commence; and
- We will consult our PRC legal adviser on a regular basis for advice on the relevant PRC laws and regulations to keep us up to date of relevant regulatory developments.

Safety incidents

- We have implemented enhanced work health and safety related policies and procedures in relation to workplace safety since December 2017, which are amended and supplemented from time to time. Such policies and procedures cover various aspects of workplace safety, including safety training, management of safety incidents, government filings and reporting, management of hazardous chemicals, personnel protections, occupational health, and high risk operations, emergency plan drill, roles and responsibility of safety personnel, management of safety signs, inspection and maintenance of safety facilities, use of forklifts, and safety management during silage harvest;
- We have enhanced the risk identification and classification control, which includes identifying and addressing unsafe actions in the workplace since July 2018;
- We have enhanced the reporting and investigation requirements and procedures of work-related injuries since January 2018, which require each occurrence, including the type and classification of each incident to be reported to our internal health and safety department for consolidation and monitoring;
- We have provided and will provide regular training to our employees on our internal guidelines and procedures on safety of operations to enhance safety awareness among the employees, and will keep our employees informed of the relevant laws and regulations. We have amended our relevant policies since September 2021 to strengthen our safety training programmes, which require, among others things, (i) the attendance of the chairman of the board of directors, the general manager and safety management personnel of each subsidiary in the training programmes and (ii) the passing of exams by new employees and issuance of qualification certificates to new employees upon the completion of the training;
- We have set up a health and safety committee for each farm since December 2017, which consists of farm manager, assistant farm manager, supervisors and employee representatives from each department, and one on-site supervision and inspection personnel at each farm is assigned to monitor and check the safety of our day-to-day operations and facilities. Internal meetings are held every month to discuss any safety issues since December 2017, and we have enhanced the effectiveness of the monthly safety meeting by reiterating more detailed requirements during such meetings since November 2021; and
- We have also established requirement for our employees to sign work safety undertakings since November 2021, which set forth their duties and responsibilities relating to work safety.

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Despatched workers

- We have adopted internal policies since March 2022 to require our human resources department to monitor the ratio of despatched workers on a monthly basis and ensure that the ratio is within the 10% cap;
- We have also set up policies and procedures since March 2022 to verify the background of despatched labour agencies, terms and conditions that should be included in the agreement, positions and recruitment requirement for despatched workers, and detailed management procedures; and
- We will consult our PRC legal adviser to check the ratio before the engagement of despatched workers, to ensure that the overall number of despatched workers will not exceed the maximum number allowed under the relevant regulations from time to time.

Social insurance and housing provident funds contributions

- We have enhanced our human resources management policies since June 2022, covering determination and calculation of the base salary for contribution, contribution rate, types of employees that should be included for contribution, which also explicitly require social insurance and housing provident fund contributions to be made in full in accordance with applicable local requirements;
- We are in the process of communicating with our employees with a view to seeking their understanding and cooperation in complying with the applicable payment base for housing provident funds, which also requires additional contributions from our employees;
- Our human resources department reviews and monitors the reporting and contributions of social insurance and housing provident fund; and
- We will consult our PRC legal adviser on a regular basis for advice on relevant PRC laws and regulations to keep us up to date of relevant regulatory developments.

In preparation for the Listing, we engaged our internal control consultant to perform an internal control assessment, the scope of which covers control environment, risk assessment, control activities, information and communication, monitoring, risk management, production and workplace safety, environmental protection and occupational health management, sales, accounts receivable and collection, procurement, accounts payable and payment, human resources and payroll, research, development and intangible assets, fixed assets, inventory management, cash and treasury management, insurance, investment management, financial reporting and disclosure control, related party transaction, tax, and IT general controls. During the internal control assessment undertaken for the Listing purpose, the internal control consultant reviewed the above internal control policies, procedures and measures in relation to the above scope and did not identify any material deficiencies during the assessment. The internal control consultant also performed a follow-up review to review the status of actions taken by us to address the findings of the internal control assessment. Those rectifications to enhanced internal control measures were completed in March 2022, and the internal control consultant did not have any further recommendations in the follow-up review. For further details regarding the internal control assessment, see “– Risk Management and Internal Controls.” Having considered (i) the nature and reasons for the

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non-compliance and safety incidents above, including the fact that the number of safety incidents increased at a slower pace than the scale of our operation, (ii) the enhanced internal control measures and remedial actions implemented by us, and (iii) the findings of the internal control consultant which did not identify any material deficiencies, the Directors are of the view that our enhanced internal control measures are adequate and effective to prevent the recurrence of material non-compliance and safety incidents going forward.

The Joint Sponsors have conducted relevant due diligence work, including but not limited to, (i) discussing with the senior management of the Company to understand (a) the reasons for, the background and the circumstances of the non-compliance and safety incidents, (b) the Company's rectification measures for the non-compliance and safety incidents, (c) that the Company has further strengthened its internal control management in relation to, among others, risk management systems and labour management systems with reference to the findings and recommendations from the internal control consultant engaged by the Company; and (d) the fact that the number of safety incidents increased at a slower pace than the scale of the Group's operations; (ii) discussing with the internal control consultant of the Company on the enhanced internal control measures implemented by the Company; (iii) obtaining and reviewing the internal control policies of the Company; and (iv) discussing with the Company's PRC legal adviser who confirmed that the Company has obtained all necessary material permits and licences that were material to its operations. Based on the above, nothing has come to the attention of the Joint Sponsors that would reasonably cause them to disagree with the Directors' view on the adequacy of the Company's enhanced internal control measures.

Suitability

As of the Latest Practicable Date, save as disclosed above, our Directors confirm that we had not been subject to any fine, request for suspension of production or confiscation of any income or products from competent authorities with respect to the non-compliance incidents and work safety accidents disclosed above, and the non-compliance incidents and work safety accidents have not had any material impact on the business operations and financial position of the Group after taking into consideration the Group's business and scale of operations. None of our Directors was found to be personally liable for those accidents in any administrative decisions or fined or reprimanded as a result of the non-compliance incidents or work safety accidents by the relevant government authorities.

After considering the above enhanced internal control and remedial measures implemented by the Company, the Directors are of the view that the incidents described above do not have any material impact on the suitability of the Directors under Rules 3.08 and 3.09 of the Listing Rules on the basis that (i) the incidents described above were not due to any fraudulent or dishonest conduct on the part of any Director, (ii) none of the Directors acted for an improper purpose, (iii) with respect to the DYAB incident disclosed in "*Legal Proceedings and Compliance – Non-Compliance – Safety Incidents*" above, our PRC legal adviser advised that (a) the recommendations of the investigation committee are non-binding on the Company, the Directors and the Dongying Hekou District Emergency Management Bureau and (b) the Dongying Hekou District Emergency Management Bureau, being the competent authority to issue the administrative decision, has not imposed any finding of liability or fine on any Director with respect to the DYAB incident, (iv) the advice given by our PRC legal adviser that none of the non-compliance incidents and work safety accidents had any material impact on the business operations and financial position of the Company after taking into consideration the Group's business and scale of operations, (v) since the implementation of the enhanced internal control measures and up to the Latest Practicable Date, there has been no material non-compliance of applicable laws and regulations by the Group or the

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occurrence of any serious safety incident in relation to the Group’s operations, except for the incidents disclosed in “– *Legal Proceedings and Compliance – Non-Compliance – Safety Incidents*” above and (vi) the Directors have received relevant training and are aware of the requirements and obligations which are applicable to directors of a listed issuer pursuant to the Listing Rules.

Based on the above, nothing has come to the attention of the Joint Sponsors that would reasonably cause them to disagree with the Directors’ view on the suitability of the Directors to act as directors of a listed issuer under Rules 3.08 and 3.09 of the Listing Rules.

LICENCES, REGULATORY APPROVALS AND CERTIFICATES

Save for the non-compliance incidents disclosed above, as advised by our PRC legal adviser, our Group has been in compliance with all relevant PRC laws and regulations in all material respects and has obtained all necessary material licences, approvals and permits from the relevant regulatory authorities in respect of our operations in the PRC during the Track Record Period and up to the Latest Practicable Date, including Raw Milk Purchase Permits (生鮮乳收購許可證), Animal Epidemic Prevention Certificate (動物防疫條件合格證), Licence for the Production and Business Operation of Breeding Stock and Poultry (種畜禽生產經營許可證) and Water Intake Licence (取水許可證).

RISK MANAGEMENT AND INTERNAL CONTROLS

We are exposed to various risks during our business operations. For more details, see “*Risk Factors*”. We have established risk management systems consisting of appropriate policies and procedures, and we continue to improve these systems. We have adopted, among other things, the following risk management measures:

- (i) Our Board is responsible for monitoring our internal control system, reviewing its effectiveness, and maintaining the Company’s risk at an appropriate and effective level. A review of the Group’s risk management and internal control system has been conducted and will be conducted at least annually, which will include a review of all material controls, including financial, operational and compliance controls;
- (ii) Our audit department is responsible for the evaluation of the risks faced by the Company on an annual basis, and prepares a risk assessment report based on the evaluation results and submits it to the audit committee and the Board for approval;
- (iii) We require all departments to proactively identify the risks they face and various internal and external factors that affect the occurrence of the risks; and
- (iv) We will engage external professional advisors, where necessary, and work with our internal audit and legal team to conduct regular review to ensure the effectiveness of all registrations, licences, permits, filings and approvals.

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During the review by our independent internal control consultant, certain deficiencies were identified and we have adopted the appropriate internal control measures to improve such deficiencies. Set forth below are details of certain deficiencies identified and the corresponding remedial measures which we have implemented:

- *Investment and financing management.* The internal control consultant had identified that we did not have in place formal policies and record-keeping procedures with respect to making investing and financing decisions (such as feasibility studies and approval records). To rectify such deficiencies, we had put in place the relevant policies relating to corporate governance, which set out the requirement for investment and financing management.
- *Contract management.* We did not have formal written policies and procedures which provide clear guidance on the internal review and approval of contracts before the contracts were signed. To rectify such deficiencies, we have adopted the relevant contract management policies and procedures.
- *Despatched workers management.* We did not have formal written policies and procedures which provided clear guidance on the selection, management and compliance of despatched workers. We have adopted the relevant policies to ensure our use and management of despatched workers are in compliance with the relevant PRC law.

We had adopted substantially all of the recommendations made by the independent internal control consultant and have improved our internal control system to comply with the Listing Rules.

Except as described in the above, our Directors are not aware of any material internal control weaknesses or incidents during the Track Record Period and up to the Latest Practicable Date.

INSURANCE

We believe that our insurance coverage in place as of the Latest Practicable Date is adequate and is in line with customary industry practice. We have insurance for our cattle over 3 months against losses caused by deaths due to diseases, accidents, and natural disasters. Upon the occurrence of an insurable event, the maximum compensation under the insurance would generally cover some of our costs to purchase a replacement heifer. We also maintain insurance coverage for our main production facilities and equipment. Additionally, we carry product liability insurance for our branded milk products. We also maintain sufficient insurance for potential liabilities arising from work-related accidents and injuries, and mandatory social security insurance for our employees in China pursuant to PRC laws and make contributions to mandatory social security funds for our employees. During the Track Record Period and up to the Latest Practicable Date, we had not made any significant claims under these insurance, nor experienced any material difficulties in renewing our insurance.

BUSINESS

AWARDS AND RECOGNITION

During the Track Record Period, we have received awards and recognitions for the quality of our products and popularity of our brand. Our major awards and recognitions are set forth below:

<u>Award/Recognition</u>	<u>Award Year</u>	<u>Awarding Institution/Authority</u>
National Dairy Cows Core Breeding Farm (國家奶牛核心育種場)	2018	Ministry of Agriculture and Rural Affairs of the People’s Republic of China (中華人民共和國農業農村部)
Brucellosis-Free and Bovine Tuberculosis-Free Dairy Cow Community (奶牛免疫無布魯氏菌病小區以及奶牛無牛結核病小區)	2022	Ministry of Agriculture and Rural Affairs of the People’s Republic of China (中華人民共和國農業農村部)
Shandong Provincial Ranch of Breeding Livestock, Poultry and Bovine Tuberculosis Purification (山東省級種畜禽牛結核病淨化創建場)	2020	Shandong Animal Husbandry and Veterinary Bureau (山東省畜牧獸醫局)
Shandong Ranch of Bovine Tuberculosis Purification of (山東省牛結核病淨化場)	2020	Shandong Animal Husbandry and Veterinary Bureau (山東省畜牧獸醫局)

RESPONSE TO COVID-19

The COVID-19 pandemic resulted in widespread and prolonged lockdowns throughout China since 2020, causing increases in the transport cost of our supplies. However, the COVID-19 pandemic did not have an adverse material effect on our supply chains. We also implemented a number of measures focused on the health and safety of our workforce. In line with the guidelines and protocols recommended by provincial and local governments, we have implemented provision of daily masks and mandatory temperature check our employees at the dairy farms and beef cattle feedlots.