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AUSTASIA

AustAsia Group Ltd.

澳亞集團有限公司*

(Incorporated in the Republic of Singapore with limited liability)

(Stock Code: 2425)

**ANNOUNCEMENT OF INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2023
AND CHANGE OF PRESENTATION CURRENCY**

The board (the “**Board**”) of directors (the “**Directors**”) of AustAsia Group Ltd. (the “**Company**”, and together with its subsidiaries, the “**Group**”) presents the consolidated results of the Group for the six months ended 30 June 2023 (the “**Reporting Period**”), together with comparative figures for the six months ended 30 June 2022.

HIGHLIGHTS:

FOR THE SIX MONTHS ENDED 30 JUNE

FINANCIAL DATA	2023	2022	Change
	RMB'000 (Unaudited)	RMB'000 (Restated) (Audited)	
Revenue	1,845,610	1,810,503	+1.9%
Gross profit	312,468	443,109	-29.5%
(Losses)/gains arising from changes in fair value less costs to sell of other biological assets	(414,615)	12,825	-3,332.9%
(Loss)/profit before tax	(303,579)	201,038	-251.0%
(Loss)/profit for the period	(310,479)	194,148	-259.9%
(Loss)/profit attributable to owners of the Company	(310,479)	194,148	-259.9%
Basic earnings per share (RMB)	(0.44)	0.31	-241.9%
KEY PERFORMANCE INDICATORS	2023	2022	Change
Annualised average milk yield per milkable cow (tons)	13.4	13.0	+3.1%
Herd size of dairy cows (heads)	124,269	111,424	+11.5%
Raw milk sales volume (tons)	374,034	337,989	+10.7%

* For identification purpose only

For the Reporting Period, the Group recorded a revenue of approximately RMB1,845.6 million, representing a moderate growth of 1.9% compared to the same period of 2022. This is mainly attributable to:

- (i) a 10.7% growth in the raw milk sales volume;
- (ii) a 7.6% decrease in the raw milk selling price; and
- (iii) a 2.4% decrease in the beef cattle sales volume and a 3.0% decrease in the beef cattle selling price.

The gross profit decreased by 29.5%, from approximately RMB443.1 million to RMB312.5 million. This is mainly caused by:

- (i) the increases in feed material prices. For the Reporting Period, the feed cost for per kg of raw milk increased by approximately 7.1%, from RMB2.38 to RMB2.55; and
- (ii) the increase in cost of sales due to the increase in our dairy cow herd size of 11.5%, which resulted in a corresponding increase in the volume of feed materials used during the Reporting Period.

The Group recorded a net loss of approximately RMB310.5 million, this is mainly attributable to the losses arising from changes in the fair value less costs to sell of other biological assets of RMB414.6 million. The significant losses are mainly due to higher feed cost and lower raw milk price used in the assumption to derive the fair value of biological assets.

During the Reporting Period, the Group's key operational efficiency indicator – annualised average milk yield per milkable cow, continued to improve and reached a new height of 13.4 ton, representing a 3.1% increase.

CHANGE OF PRESENTATION CURRENCY

The Board has decided to change its presentation currency from United States Dollars (“USD”) to RMB, considering that (i) the Company’s primary subsidiaries were incorporated in the People’s Republic of China (“PRC”) and their transactions are denominated and settled in RMB; and (ii) to reduce the impact of any fluctuations in the exchange rate of USD against RMB on the Group’s consolidated financial statements. The change in presentation currency of the Group has been applied retrospectively in accordance with IAS 8 *Accounting Policies, Change in Accounting Estimates and Errors*. The unaudited interim results for the six months ended 30 June 2023 will be the first set of consolidated financial statements with RMB as its presentation currency and the comparative figures as at 1 January 2022 and 31 December 2022 have been retranslated to RMB and restated accordingly. The change of presentation currency and the restatement of the comparative figures from USD to RMB are not expected to have material impact on the consolidated financial statements of the Group.

CHANGE IN USE OF PROCEEDS FROM THE LISTING

As disclosed in the “Future Plans and Use of Proceeds” section in the Prospectus, the Company intended to use all of the net proceeds of the global offering of the Company’s shares conducted in 2022 to build farm facilities and to purchase equipment for Pure Source Farm 4, where construction was at the time expected to commence in April 2023.

As further disclosed in the “ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2022 AND CHANGE IN USE OF PROCEEDS” published on 1 March 2023, the Directors have proposed to change the use of the net proceeds to pay for contractors and equipment vendors of Pure Source Farm 3, which were originally expected to be satisfied with internally generated cash flows and bank loans. Please refer to “USE OF PROCEEDS FROM THE LISTING” in this announcement for further details.

FINANCIAL INFORMATION

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2023

	<i>Notes</i>	2023 RMB'000 (Unaudited)	2022 RMB'000 (Audited) (Restated)
REVENUE	4	1,845,610	1,810,503
Cost of sales		(1,841,147)	(1,803,147)
Gains arising on initial recognition of raw milk at fair value less costs to sell at the point of harvest		291,122	429,117
Gains arising from changes in fair value less cost to sell of beef cattle		16,883	6,636
Gross profit		312,468	443,109
Other income and gains	5	48,974	26,401
(Losses)/gains arising from changes in fair value less costs to sell of other biological assets		(414,615)	12,825
Selling and distribution expenses		(1,425)	(1,027)
Administrative expenses		(109,972)	(164,489)
Other expenses	5	(13,167)	(22,013)
Finance costs	6	(125,842)	(93,768)
(LOSS)/PROFIT BEFORE TAX	7	(303,579)	201,038
Income tax expense	8	(6,900)	(6,890)
(LOSS)/PROFIT FOR THE PERIOD		<u>(310,479)</u>	<u>194,148</u>
Attributable to:			
Owners of the parent		<u>(310,479)</u>	<u>194,148</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	10		
Basic			
– For (loss)/profit for the period		<u>RMB(0.44)</u>	<u>RMB0.31</u>
Diluted			
– For (loss)/profit for the period		<u>RMB(0.44)</u>	<u>RMB0.31</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2023

	2023 <i>RMB'000</i> (Unaudited)	2022 <i>RMB'000</i> (Audited) (Restated)
(LOSS)/PROFIT FOR THE PERIOD	<u><u>(310,479)</u></u>	<u><u>194,148</u></u>
OTHER COMPREHENSIVE LOSS		
Other comprehensive loss that may be reclassified to profit or loss in subsequent periods		
Exchange differences		
Exchange differences on translation of foreign operations	<u><u>(4,002)</u></u>	<u><u>(12,429)</u></u>
Net other comprehensive loss that may be reclassified to profit or loss in subsequent periods	<u><u>(4,002)</u></u>	<u><u>(12,429)</u></u>
OTHER COMPREHENSIVE LOSS FOR THE PERIOD, NET OF TAX	<u><u>(4,002)</u></u>	<u><u>(12,429)</u></u>
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD	<u><u>(314,481)</u></u>	<u><u>181,719</u></u>
Attributable to:		
Owners of the parent	<u><u>(314,481)</u></u>	<u><u>181,719</u></u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As At 30 June 2023

	<i>Notes</i>	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited) (Restated)	1 January 2022 RMB'000 (Audited) (Restated)
NON-CURRENT ASSETS				
Property, plant and equipment		3,322,113	3,175,200	2,654,574
Right-of-use assets		1,563,675	1,356,311	1,027,768
Intangible assets		6,043	3,301	4,970
Biological assets		3,416,274	3,450,288	3,045,650
Equity investment designated at fair value through other comprehensive income		8,830	8,511	5,203
Other long-term assets		64,069	66,576	51,461
Long-term receivable		89,428	84,992	75,584
		<hr/> 8,470,432	<hr/> 8,145,179	<hr/> 6,865,210
TOTAL non-current assets				
CURRENT ASSETS				
Inventories		836,633	1,304,146	1,024,350
Biological assets		547,556	380,267	313,794
Trade receivables	<i>11</i>	308,005	350,961	297,110
Prepayments, other receivables and other assets		237,267	155,901	119,395
Cash and cash equivalents		312,069	397,946	141,190
Pledged deposits		5,960	5,986	7,032
		<hr/> 2,247,490	<hr/> 2,595,207	<hr/> 1,902,871
TOTAL current assets				
CURRENT LIABILITIES				
Trade payables	<i>12</i>	792,546	1,058,287	507,760
Other payables and accruals		390,681	477,394	244,871
Share appreciation liability		–	–	29,247
Loans from a shareholder		–	–	40,167
Interest-bearing bank borrowings		1,093,399	868,093	417,966
Lease liabilities		141,866	75,707	34,757
Deferred income		7,636	4,800	10,178
Tax payable		5,770	4,062	6,870
		<hr/> 2,431,898	<hr/> 2,488,343	<hr/> 1,291,816
TOTAL current liabilities				
NET CURRENT (LIABILITIES)/ASSETS		<hr/> (184,408)	<hr/> 106,864	<hr/> 611,055
TOTAL ASSETS LESS CURRENT LIABILITIES				
		<hr/> 8,286,024	<hr/> 8,252,043	<hr/> 7,476,265

<i>Notes</i>	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited) (Restated)	1 January 2022 RMB'000 (Audited) (Restated)
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	1,575,090	1,304,344	1,290,581
Deferred tax liabilities	4,335	4,179	3,825
Deferred income	26,904	19,231	21,825
Lease liabilities	1,414,633	1,254,817	928,974
Other payables and accruals	–	95,671	95,868
Loans from a former shareholder	–	–	122,669
	<u>3,020,962</u>	<u>2,678,242</u>	<u>2,463,742</u>
Total non-current liabilities			
	3,020,962	2,678,242	2,463,742
Net assets	5,265,062	5,573,801	5,012,523
EQUITY			
Equity attributable to owners of the parent			
Share capital	2,435,712	2,432,340	1,892,652
Treasury shares	(3,173)	–	–
Reserves	2,832,523	3,141,461	3,119,871
	<u>5,265,062</u>	<u>5,573,801</u>	<u>5,012,523</u>
Total equity			
	5,265,062	5,573,801	5,012,523

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

1. BASIS OF PREPARATION

The interim condensed consolidated financial information for the six months ended 30 June 2023 has been prepared in accordance with International Accounting Standard (“IAS”) 34 *Interim Financial Reporting*. The interim condensed consolidated financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual consolidated financial statements for the year ended 31 December 2022, which have been prepared in accordance with International Financial Reporting Standards (“IFRSs”).

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

As at 30 June 2023, the Group had net current liabilities of approximately RMB184,408,000. As at 30 June 2023, the Group had available unutilized banking facilities of RMB1,334,736,000, which will be expired after 30 June 2024. The Directors believe that the Group has sufficient cash flows in the foreseeable future from the operations. Therefore, the financial statements have been prepared on a going concern basis.

Change of presentation currency

For the six months ended 30 June 2023, the Group changed its presentation currency from United States Dollars (“USD”) to RMB, considering that (i) the Company’s primary subsidiaries were incorporated in the People’s Republic of China (“PRC”) and their transactions are denominated and settled in RMB; and (ii) to reduce the impact of any fluctuations in the exchange rate of USD against RMB on the Group’s consolidated financial statements. The change in presentation currency of the Group has been applied retrospectively in accordance with IAS 8 *Accounting Policies, Change in Accounting Estimates and Errors*, and the comparative figures as at 1 January 2022 and 31 December 2022 and for the six months ended 30 June 2022 have been retranslated to RMB and restated accordingly.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2022, except for the adoption of the following new and revised International Financial Reporting Standards (“IFRSs”) for the first time for the current period’s financial information.

IFRS 17	<i>Insurance Contracts</i>
Amendments to IFRS 17	<i>Insurance Contracts</i>
Amendment to IFRS 17	<i>Initial Application of IFRS 17 and IFRS 9 – Comparative Information</i>
Amendments to IAS 1 and IFRS Practice Statement 2	<i>Disclosure of Accounting Policies</i>
Amendments to IAS 8	<i>Definition of Accounting Estimates</i>
Amendments to IAS 12	<i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction</i>
Amendments to IAS 12	<i>International Tax Reform – Pillar Two Model Rules</i>

The nature and impact of the new and revised IFRSs that are applicable to the Group are described below:

- (a) Amendments to IAS 1 require entities to disclose their material accounting policy information rather than their significant accounting policies. Accounting policy information is material if, when considered together with other information included in an entity’s financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. Amendments to IFRS Practice Statement 2 provide non-mandatory guidance on how to apply the concept of materiality to accounting policy disclosures. The Group has applied the amendments since 1 January 2023. The amendments did not have any impact on the Group’s interim condensed consolidated financial information.

- (b) Amendments to IAS 8 clarify the distinction between changes in accounting estimates and changes in accounting policies. Accounting estimates are defined as monetary amounts in financial statements that are subject to measurement uncertainty. The amendments also clarify how entities use measurement techniques and inputs to develop accounting estimates. The Group has applied the amendments to changes in accounting policies and changes in accounting estimates that occur on or after 1 January 2023. Since the Group's policy of determining accounting estimates aligns with the amendments, the amendments did not have any impact on the financial position or performance of the Group.
- (c) Amendments to IAS 12 Deferred Tax related to Assets and Liabilities arising from a Single Transaction narrow the scope of the initial recognition exception in IAS 12 so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences, such as leases and decommissioning obligations. Therefore, entities are required to recognise a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability for temporary differences arising from these transactions. The Group has applied the amendments on temporary differences related to leases as at 1 January 2023. The amendments did not have any impact on the Group's interim condensed consolidated financial information.
- (d) Amendments to IAS 12 International Tax Reform – Pillar Two Model Rules introduce a mandatory temporary exception from the recognition and disclosure of deferred taxes arising from the implementation of the Pillar Two model rules published by the Organisation for Economic Co-operation and Development. The amendments also introduce disclosure requirements for the affected entities to help users of the financial statements better understand the entities' exposure to Pillar Two income taxes, including the disclosure of current tax related to Pillar Two income taxes separately in the periods when Pillar Two legislation is effective and the disclosure of known or reasonably estimable information of their exposure to Pillar Two income taxes in periods in which the legislation is enacted or substantively enacted but not yet in effect. Entities are required to disclose the information relating to their exposure to Pillar Two income taxes in annual periods beginning on or after 1 January 2023, but are not required to disclose such information for any interim periods ending on or before 31 December 2023. The Group has applied the amendments retrospectively. Since the Group did not fall within the scope of the Pillar Two model rules, the amendments did not have any impact to the Group.

3. OPERATING SEGMENT INFORMATION

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

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

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

For the six months ended 30 June 2023

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

For the six months ended 30 June 2022

	Raw milk <i>RMB'000</i> (Audited) (Restated)	Beef cattle <i>RMB'000</i> (Audited) (Restated)	Ancillary <i>RMB'000</i> (Audited) (Restated)	Total <i>RMB'000</i> (Audited) (Restated)
Segment revenue (Note 4)				
Sales to external customers	1,576,367	162,889	71,247	1,810,503
Intersegment sales	37,663	–	–	37,663
	<u>1,614,030</u>	<u>162,889</u>	<u>71,247</u>	<u>1,848,166</u>
Elimination of intersegment sales				<u>(37,663)</u>
Revenue				<u><u>1,810,503</u></u>
Segment results	416,350	4,277	6,328	426,955
Finance costs (other than interest on lease liabilities)				(65,816)
Unallocated corporate and administrative expenses				(164,489)
Unallocated other income and expenses				<u>4,388</u>
Profit before tax				<u><u>201,038</u></u>

The chief operating decision maker makes decisions according to operating results of each segment. No analysis of segment assets and segment liabilities is presented as the chief operating decision maker does not regularly review such information for the purposes of resource allocation and performance assessment. Therefore, only segment revenue and segment results are presented.

Geographical information

(a) Revenue from external customers

	Six months ended 30 June	
	2023 <i>RMB'000</i> (Unaudited)	2022 <i>RMB'000</i> (Audited) (Restated)
Mainland China	1,845,610	1,810,503

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

(b) Non-current assets

	30 June 2023 <i>RMB'000</i> (Unaudited)	31 December 2022 <i>RMB'000</i> (Audited) (Restated)
	Mainland China	8,372,174

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

4. REVENUE

An analysis of revenue is as follows:

	Six months ended 30 June	
	2023 <i>RMB'000</i> (Unaudited)	2022 <i>RMB'000</i> (Audited) (Restated)
Revenue from contracts with customers		
Sales of raw milk	1,612,331	1,576,367
Sales of beef cattle	154,192	162,889
Sales of ancillary	79,087	71,247
	1,845,610	1,810,503
Timing of revenue recognition		
At a point in time	1,845,610	1,810,503

Performance obligations

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

Transaction price allocated to the remaining performance obligation

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

5. OTHER INCOME AND GAINS AND OTHER EXPENSES

	Six months ended 30 June	
	2023 <i>RMB'000</i> (Unaudited)	2022 <i>RMB'000</i> (Audited) (Restated)
Other income and gains		
Government grants	21,130	13,000
Insurance claims	5,430	4,954
Technical service fee	7,280	4,119
Gains on modification of leases	10,520	–
Interest income	1,547	1,620
Others	3,067	2,708
Total	<u>48,974</u>	<u>26,401</u>
Other expenses		
Foreign exchange losses, net	6,079	13,936
Loss on disposal of property, plant and equipment	4,432	3,675
Impairment of trade receivables	2,386	–
Others	270	4,402
Total	<u>13,167</u>	<u>22,013</u>

6. FINANCE COSTS

An analysis of finance costs is as follows:

	Six months ended 30 June	
	2023 <i>RMB'000</i> (Unaudited)	2022 <i>RMB'000</i> (Audited) (Restated)
Interest on bank loans	86,464	59,743
Interest on shareholder's loans	–	4,001
Interest on lease liabilities	39,518	27,952
Interest on contract liabilities	2,189	2,072
	<hr/>	<hr/>
	128,171	93,768
	<hr/>	<hr/>
Less: Interest expense capitalised	(2,329)	–
Total	<u>125,842</u>	<u>93,768</u>

7. (LOSS)/PROFIT BEFORE TAX

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

	<i>Notes</i>	Six months ended 30 June	
		2023 RMB'000 (Unaudited)	2022 RMB'000 (Audited) (Restated)
Costs of sales of raw milk		1,612,331	1,576,367
Costs of sales of beef cattle		154,192	162,889
Costs of sales of ancillary		74,624	63,891
		<hr/>	<hr/>
Cost of sales		1,841,147	1,803,147
Depreciation of property, plant and equipment		134,342	123,065
Less: Capitalised in biological assets		58,994	54,830
		<hr/>	<hr/>
Depreciation charged to profit or loss		75,348	68,235
Depreciation of right-of-use assets		52,296	41,718
Less: Capitalised in biological assets		40,645	28,255
		<hr/>	<hr/>
Depreciation charged to profit or loss		11,651	13,463
Amortisation of intangible assets		769	1,207
Lease payments not included in the measurement of lease liabilities		12,385	12,577
Auditors' remuneration		200	5,100
Losses/(gains) arising from changes in fair value less costs to sell of other biological assets		414,615	(12,825)
Employee benefit expenses (including directors and chief executive's remuneration):			
Wages and salaries		152,265	114,283
Pension scheme contributions		30,208	26,158
Share-based payment expenses		5,543	44,654
		<hr/>	<hr/>
		188,016	185,095
Foreign exchange differences, net	5	6,079	13,936
		<hr/> <hr/>	<hr/> <hr/>

8. INCOME TAX EXPENSE

	Six months ended 30 June	
	2023 <i>RMB'000</i> (Unaudited)	2022 <i>RMB'000</i> (Audited) (Restated)
Current income tax		
Charge for the period	582	800
Overprovision in prior years	8	14
Foreign withholding tax	<u>6,310</u>	<u>6,076</u>
Total tax charge for the period	<u><u>6,900</u></u>	<u><u>6,890</u></u>

9. DIVIDENDS

No dividends have been paid or declared by the Company during the six months ended 30 June 2022 and 2023.

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

The calculation of the basic earnings per share amounts is based on the profit for the period attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 621,807,139 and 700,412,612 in issue during the six months ended 30 June 2022 and 2023, respectively, as adjusted to reflect the rights issue during the period.

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

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

	Six months ended 30 June	
	2023 <i>RMB'000</i> (Unaudited)	2022 <i>RMB'000</i> (Audited) (Restated)
<u>Earnings</u>		
(Loss)/profit attributable to ordinary equity holders of the parent used in the basic and diluted earnings per share calculation	<u>(310,479)</u>	<u>194,148</u>
<u>Shares</u>		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	700,412,612	621,807,139
Effect of dilution – weighted average number of ordinary shares:		
Share options	<u>–</u>	<u>448,466</u>
	<u><u>700,412,612</u></u>	<u><u>622,255,605</u></u>

11. TRADE RECEIVABLES

	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited) (Restated)
Trade receivables	310,391	350,961
Impairment	<u>(2,386)</u>	<u>–</u>
	<u>308,005</u>	<u>350,961</u>

An ageing analysis of the trade receivables as at 31 December 2022 and 30 June 2023, based on the invoice date and net of loss allowance, is as follows:

	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited) (Restated)
Within 1 month	295,155	336,446
1 to 2 months	5,317	10,121
2 to 3 months	3,205	1,292
Over 3 months	<u>4,328</u>	<u>3,102</u>
	<u>308,005</u>	<u>350,961</u>

As at 30 June 2023, included in the Group's trade receivables are amounts due from a related party of RMB15,165,000 (31 December 2022: RMB12,769,000), which are repayable on credit terms similar to those offered to the major customers of the Group.

As at 30 June 2023, trade receivables of RMB264,621,000 were pledged to banks to secure certain bank borrowings granted to the Group (31 December 2022: RMB338,780,000).

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

	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited) (Restated)
At beginning of period/year	–	–
Provision for the period/year	<u>2,386</u>	<u>–</u>
At end of period/year	<u>2,386</u>	<u>–</u>

12. TRADE PAYABLES

	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited) (Restated)
Trade payables	792,546	1,058,287

An ageing analysis of the trade payables as at 31 December 2022 and 30 June 2023, based on the invoice date, is as follows:

	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited) (Restated)
Within 2 months	462,889	884,365
2 to 6 months	240,193	126,345
6 to 12 months	69,565	36,038
Over 1 year	19,899	11,539
	792,546	1,058,287

As at 30 June 2023, the trade payables of RMB31,833,000 are due to a related party which are repayable within 110 days (31 December 2022: RMB118,119,000).

13. EVENTS AFTER THE REPORTING PERIOD

There are no material subsequent events undertaken by the Company or by the Group after 30 June 2023 and up to the date of this announcement.

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

In the first half of 2023, the three-year COVID-19 pandemic is ended in China, and various economic activities began to return to normal. According to the information released by the National Statistical Bureau, China's gross domestic product (GDP) grew by 5.5% year-on-year. Dairy industry, as an important part of modern agriculture and food industry, has also achieved further development. In the first half of 2023, domestic milk production increased by 7.5% over the same period of last year, and the growth rate ranked first among major animal husbandry products. In terms of quality, starting from 2022, China's raw fresh milk, dairy products and infant formula milk powder reach 100%, 99.88% and 99.98% pass rates in random inspections, respectively. The milk fat content of milk protein had reached the level of developed countries. The Chinese government has always listed the development of the dairy industry, the improvement of the milk self-sufficiency rate, and the improvement of the modernization of the dairy farming industry as one of the key tasks. According to the Action Plan to Improve Competitiveness of Dairy Industry in the Period of 14th Five-Year (《(十四五)奶業競爭力提升方案》) issued by the Ministry of Agriculture and Rural Affairs (農業農村部) in 2022, by 2025, the domestic raw milk production volume will reach 41 million tons.

In the first half of 2023, while the supply of raw milk continued to grow and the quality of dairy products continued to improve, the domestic raw milk industry faced severe challenges not seen in many years:

- (a) Due to weakening expectations for economic development prospects and macroeconomic recovery, consumer confidence is weak and overall consumption levels have declined. At the same time, due to the end of the epidemic, consumers pay less attention to health consumer goods (including dairy products), and the demand dividend brought about by the COVID-19 pandemic no longer exists;
- (b) The increase in milk prices in the first half of 2021 and 2022 had driven the concentrated look-ahead construction of large-scale farms. According to incomplete statistics from Holstein Magazine, there were 166 new or expanded farm projects nationwide in 2021, with a total herd size of 980,000 heads of dairy cows. In 2022, there were approximately 148 new or under-construction projects, involving over 1 million heads of dairy cows. At the end of 2021, there were approximately 6 million dairy cows of various types in China's farms, and it is expected that the herd size of dairy cows in China's farms will reach approximately 7.5 million heads by 2025, with the compound annual growth rate (CAGR) of approximately 7.4%, resulting in the growth rate in the supply of raw milk being higher than that in the demand for raw milk; and
- (c) Raw material prices for feed remained high. The impact of geopolitical conflicts, rising prices of bulk raw materials and energy, and fluctuations in agricultural production caused by climatic anomalies, coupled with the irrational planting structure of domestic ruminant feedstuffs, had resulted in the increasing feed costs.

As affected by weak demand, rapid increase in supply and huge cost pressure, it was seen a substantial oversupply in the domestic raw milk market in the first half of this year. Raw milk supply enterprises and farms operators generally experienced a decline in gross profit, a significant decrease in efficiency or losses, and the entire industry has been in a cyclical downward phase.

In 2022, China’s total beef consumption reached around 10 million tons and has been growing at a relatively fast rate. Compared with the sharp fluctuations in pork and poultry prices, beef prices had remained stable and upward over the past two years. In the first half of 2023, domestic beef cattle market sentiment also entered a downward path with the onset of the traditional off-season for beef consumption. The national wholesale price of beef declined substantially in the second quarter due to the continued low price of pork and the impact of other types of cull cattle.

In recent years, China has vigorously promoted energy conservation and emission reduction in the dairy and beef cattle breeding industry. The dairy industry is required to take the direction of “reducing pollution and carbon, forming cycle of planting and breeding” well to achieve high-quality development of the dairy industry and the harmonious coexistence of man and nature, and to create a sustainable development of the whole industrial chain of the “green ecological” model. Many leading dairy enterprises have continuously invested resources in research and development and innovation in the processes of dairy farming, such as reducing pollution and carbon, standard setting, equipment research and development, model demonstration, etc., so that “sustainable development” has become a highlight and focus in the dairy industry.

BUSINESS OVERVIEW

The Group is mainly engaged in dairy farming business of producing and selling of high-quality raw milk to dairy products manufacturers and processors, and beef cattle farming and fattening business. In 2022, according to Frost & Sullivan, we were the 3rd largest raw milk producer in China with a total raw milk production volume of approximately 760,000 tons.

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

We have two main business segments, namely raw milk business and beef cattle business. We also engage in an ancillary business, namely the sales of milk products under our own brand “澳亞牧場 AustAsia”. In March 2023 our self-owned feed mill commenced production, the feed processed are mainly used internally, with a small portion to be sold to customers outside of the Group.

OPERATIONAL REVIEW

Raw Milk Business

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

During the Reporting Period, 87.4% of our revenue was derived from the raw milk business. We have achieved improvements in some of the important operating indicators:

- (a) revenue generated from sales of raw milk was approximately RMB1,612.3 million, representing an increase of 2.3% compared to the same period of 2022;

- (b) the annualised milk yield per milkable cow (“AMY”) reached 13.4 tons (2022: 13.0 tons), representing a YoY growth of 3.1 %;
- (c) the total raw milk production volume for the Reporting Period was approximately 408,100 tons (2022: 359,200 tons), representing a YoY growth of 13.6%; and
- (d) the total raw milk sales volume was approximately 374,000 tons (2022: 338,000 tons), representing a YoY growth of 10.7%.

However, compared to the same period of last year, the average selling price (“ASP”) of raw milk decreased by 7.6%, from RMB4,664/ton to RMB4,311/ton. The drop in ASP mainly attributable to the weaker-than-expected demand for milk and dairy products, as well as the temporary over-supply of raw milk caused by significant increase in new dairy farm and additional dairy cow investments.

At the same time, we experienced continued cost pressure. Compared to the same period of 2022, the feed cost per kg of raw milk increased from RMB2.38 to RMB2.55, representing a 7.1% increase, resulting in further gross profit margin decrease.

To mitigate the cost pressure and reduce the impact of feed cost increase on gross margin, we have adopted systematical and timely review into the whole feeding and milking process, we took measures to adjust the feed formula to strike the optimal balance between milk yield and feed costs. In doing so, our operating teams and nutrients make best effort to switch to compatible additives with similar output enhancement effects and to improve the absorbance level and conversion rate of dairy cows. We also leveraged on our centralized procurement activities. As a result, we have seen notable improvements in both the feed cost per kg of raw milk and the gross margin in the 2nd quarter of the Period.

Dairy Farms

As at 30 June 2023, we owned and operated 11 large-scale modernized dairy farm in Shandong and Inner Mongolia of the PRC. The number of our dairy cow reached 124,269 heads (as at 30 June 2022: 111,424 heads), including 63,943 heads of milkable cows (as at 30 June 2022: 57,383 heads). The aggregate gross land area of our dairy farms was approximately 16,992 Chinese mu. Our newest dairy farm in Shandong – Pure Source Farm 3, commenced trial production in January 2023. Our dairy farms are located strategically, 3 of them are within the “Golden Raw Milk Belt” in Inner Mongolia, where the mild climate, wide grassland, ample natural feed and abundant fresh water provide an ideal farming environment for dairy farms to generate high milk yield with good quality. The remaining 8 dairy farms are located in Shandong with close proximities to both major dairy product processing plants and major dairy consumption markets such as the Beijing-Tianjin region and the down-stream Yangzi River Delta region, including Shanghai.

Milk Yield

During the Reporting Period, the Group recorded AMY of 13.4 tons (2022: 13.0 tons), representing a YoY increase of 3.1%. Our milk yield remains to be the highest in the industry. The continued improvements in milk yield was attributable to in-depth understanding of every details of herd management, accumulated upgrades in our genetic breeding technologies over the years, and increase in dairy cow numbers reaching peak lactation phases.

Beef Cattle Business

Our Beef Cattle farms operate synergistically with our raw milk business. We use our own dairy herd as breeder for beef cattle calves. By doing so, we optimize the value of our dairy farms' existing resources and maximize the whole breeding value chain. In addition, we capitalize on our expertise in genetic breeding of dairy cattle to improve the quality and productivities of our beef cattle. As at 30 June 2023, we owned and operated 2 large-scale beef cattle feedlots in Shandong and Inner Mongolia, respectively. The total herd size was approximately 35,300 heads.

For the Reporting Period, revenue of beef cattle business was RMB154.2 million, representing a 5.3 % of decrease compared to the same period of 2022 RMB162.9 million, and accounted for 8.4 % of our total revenue. The total volume of beef cattle sold was 4,817 tons (2022: 4,933 tons), representing a decrease of 2.4 %. The average selling price per ton decreased moderately by 3.0%, from approximately RMB33,017/ton to 32,012/ton. Similar to raw milk business, the feed cost of beef cattle also increased, putting pressure on the gross profit margin of this business segment.

Ancillary business

For the Reporting Period, revenue from the ancillary business was RMB79.1 million (2022: 71.2 million), representing a 11.0% increase.

Breeding

We have implemented a genetic improvement program to enhance the breed of our dairy cows. As compared to the common industry practice of relying on imported bovine semen, we use in vitro fertilisation (“IVF”) and embryo transfer (“ET”) breeding technology to breed better dairy cows. To achieve genetic improvement of dairy cattle breeds, a high genomic female core herd is fundamental. With the high genomic female core herd that our farms were able to provide, we can improve the herd genetic traits from both parental sides, compared to the common industry practices used by most of other large-scale farms operators which only improve the paternal side with semen. As at 30 June 2023, we had a core herd of over 3,390 heads of dairy cows. With this core herd, in addition to in-house breeding, we plan to commercialize the operation of embryos transfer for outside farms within the year. For the Period, we have successfully transferred about 16,030 IVF embryos.

Milk Quality

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

Customers

Unlike many of our competitors in the dairy farming and raw milk production industry, we are independent to our controlling shareholders and our customer development processes are fully autonomous. We have a well-diversified spectrum of customers. We serve both leading

national and regional dairy product manufacturers such as Mengniu, Bright Dairy and Meiji, and fast-growing emerging dairy brands like Chi Forest (formerly known as “**Genki Forest**”), Honest Dairy and ClassyKiss. For the Period, sales to the 5 largest raw milk customers accounted for 68.7% of our raw milk sales revenue. We have also increased our raw milk customers to 25 from 19 of the same period of last year.

FINANCIAL REVIEW

Revenue

The following table sets forth the details of the Group’s consolidated revenue during the Reporting Period indicated:

	Six months ended 30 June	
	2023 <i>RMB’000</i> (Unaudited)	2022 <i>RMB’000</i> (Audited) (Restated)
Types of goods		
Raw milk	1,612,331	1,576,367
Beef cattle	154,192	162,889
Ancillary	79,087	71,247
	<u>1,845,610</u>	<u>1,810,503</u>

During the Reporting Period, the Group’s revenue increased by 1.9% YoY to RMB1,845.6 million (2022: RMB1,810.5 million). The total raw milk sales volume increased by 10.7%. However, the raw milk selling price dropped by 7.6% and beef cattle selling price dropped by 3.0%.

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

	Six months ended 30 June					
	2023 (Unaudited)			2022 (Audited)		
	Sales Revenue <i>RMB’000</i>	Sales Volume <i>tons</i>	ASP <i>RMB/ton</i>	Sales Revenue <i>RMB’000</i>	Sales Volume <i>tons</i>	ASP <i>RMB/ton</i>
Raw milk	<u>1,612,331</u>	<u>374,034</u>	<u>4,311</u>	<u>1,576,367</u>	<u>337,989</u>	<u>4,664</u>

The Group’s total revenue of the sales of raw milk increased by 2.3% YoY to RMB1,612.3 million during the Reporting Period (2022: RMB1,576.4 million). The increase was mainly due to the increase in sales volume of raw milk. The increase was partially offset by a decrease in overall average selling price during the Reporting Period.

Average selling price of raw milk decreased by 7.6% YoY to RMB4,311/ton during the Reporting Period (2022: RMB4,664/ton).

Total sales volume of raw milk increased by 10.7% YoY to approximately 374 thousand tons during the Reporting Period (2022: 338 thousand tons), mainly due to the rise in average yield per milkable cow and the contribution of sales volume of raw milk from newly built Pursource Farm3.

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

	Six months ended 30 June					
	2023			2022		
	(Unaudited)			(Audited)		
Sales Revenue	Sales Volume	ASP	Sales Revenue	Sales Volume	ASP	
<i>RMB'000</i>	<i>tons</i>	<i>RMB/ton</i>	<i>RMB'000</i>	<i>tons</i>	<i>RMB/ton</i>	
Beef cattle	<u>154,192</u>	<u>4,817</u>	<u>32,012</u>	<u>162,889</u>	<u>4,933</u>	<u>33,017</u>

The Group's total revenue from sales of beef cattle decreased by 5.3% YoY to RMB154.2 million during the Reporting Period (2022: RMB162.9 million). The decrease was mainly due to the decrease in sales volume and average selling price of beef cattle.

Average selling price of beef cattle dropped by 3.0% YoY to RMB32,012/ton during the Reporting Period (2022: RMB33,017/ton).

Total sales volume of beef cattle decreased by 2.4% YoY to approximately 4,817 tons during the Reporting Period (2022: 4,933 tons), mainly due to less cattle sold during the Reporting Period.

Cost of Sales

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

	Six months ended 30 June	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
		(Restated)
Costs of sales of raw milk	1,612,331	1,576,367
Costs of sales of beef cattle	154,192	162,889
Costs of sales of ancillary	74,624	63,891
Cost of sales	<u>1,841,147</u>	<u>1,803,147</u>

Raw Milk Business

The following table sets forth the breakdown of the cost of sales of the raw milk business for the Reporting Period indicated:

	Six months ended 30 June			
	2023		2022	
	(Unaudited)		(Audited)	
			(Restated)	
	RMB'000	%	RMB'000	%
Direct Materials	1,008,283	76.3%	850,548	74.1%
Labor Costs	72,425	5.5%	66,397	5.8%
Utilities	118,051	8.9%	120,948	10.6%
Depreciation of property, plant and equipment	68,920	5.2%	53,842	4.7%
Transportation fees	53,530	4.1%	55,515	4.8%
Total	<u>1,321,209</u>	<u>100.0%</u>	<u>1,147,250</u>	<u>100.0%</u>

During the Reporting Period, direct materials (mainly from silage, forage grass, corn and soy-bean products) costs of raw milk business amounted to RMB1,008.3 million (2022: RMB850.5 million), representing a YoY growth of 18.5%, mainly due to the increase in feed prices and the increase in the number of milkable cows.

The feed cost per kg of raw milk increased by 7.1%. The Group implemented various measures to enhance and streamline the procurement process so as to reduce purchasing costs. The Group has partially mitigated the impact of feed price increases on cost of sales through improving the formula by adjusting the feed mix, enhancing the health of cows, raising milk yield and reducing expenditure. Since the Group has adopted measures to lower the feed costs in March 2023, the feed cost per kg of raw milk have started to decrease.

Beef Cattle Business

The following table sets forth the breakdown of the cost of sales of the beef cattle business for the Reporting Period indicated:

	Six months ended 30 June			
	2023 (Unaudited)		2022 (Audited) (Restated)	
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
Direct Materials	113,946	79.6%	122,361	79.2%
Labor Costs and Overhead costs	20,473	14.3%	24,089	15.6%
Depreciation of property, plant and equipment	8,677	6.1%	8,106	5.2%
Total	<u>143,096</u>	<u>100.0%</u>	<u>154,556</u>	<u>100.0%</u>

During the Reporting Period, direct materials (mainly silage, forage grass, corn and soy-bean products) costs of the beef cattle business amounted to RMB113.9 million (2022: RMB122.4 million), representing a YoY drop of 6.9%, mainly due to the decrease of beef sales volume.

Gross Profit

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

	Six months ended 30 June			
	2023 (Unaudited)		2022 (Audited) (Restated)	
	Gross profit <i>RMB'000</i>	Gross profit <i>margin</i>	Gross profit <i>RMB'000</i>	Gross profit <i>margin</i>
Raw milk	291,122	18.1%	429,117	27.2%
Beef cattle	16,883	10.9%	6,636	4.1%
Ancillary	4,463	5.6%	7,356	10.3%
Total	<u>312,468</u>	<u>16.9%</u>	<u>443,109</u>	<u>24.5%</u>

In general, when milk prices decrease, the Group's profitability will decrease correspondingly under normal operational condition.

During the Reporting Period, gross profit of the Group's raw milk business amounted to RMB291.1 million (2022: RMB429.1 million), representing a decrease of 32.2% YoY, which was mainly due to the decrease in sales price of raw milk and higher feed cost incurred. Gross profit margin of the Group's raw milk business decreases to 18.1% (2022: 27.2%) which was mainly due to lower average selling price of raw milk and increase in feed prices in 2023.

During the Reporting Period, gross profit of the Group's beef cattle business amounted to RMB16.9 million (2022: RMB6.6 million), representing an increase of 154.4% YoY. As at 30 June 2023, the beef cattle of the Group were revalued at RMB477.5 million (as at 31 December 2022: RMB380.3 million) by an independent qualified professional valuer, Jones Lang LaSalle Corporate Appraisal and Advisory Limited, representing an increase of 25.6%, mainly due to the increase in cattle heads.

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

As at 30 June 2023, the biological assets of the Group were valued at RMB3,416.3 million (as at 31 December 2022: RMB3,450.3 million) by an independent qualified professional valuer, Jones Lang LaSalle Corporate Appraisal and Advisory Limited, representing a decrease of 1.0% YoY in the cattle value in spite of an increase in cattle head size.

Losses arising from changes in the fair value less costs to sell of other biological assets were RMB414.6 million (2022: gains of RMB12.8 million). The significant losses are mainly due to higher feed cost and lower raw milk price used in the assumption to derive the fair value of biological assets.

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

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

The estimated feed costs per kg of raw milk used in the valuation process ranged from RMB2.20 to RMB2.70 and RMB2.22 to RMB2.94 as at 31 December 2021 and 30 June 2022, respectively. The estimated average prices of raw milk per kg ranged from RMB4.54 to RMB5.26 and RMB4.56 to RMB5.29 as at 31 December 2021 and 30 June 2022, respectively.

During the six months ended 30 June 2022, the slightly increase in feed cost and the slightly increase in average selling price help to get a gain arising from changes in fair value less costs to sell of other biological assets.

Gains Arising on Initial Recognition of Raw Milk at Fair Value Less Costs to Sell at the Point of Harvest

During the Reporting Period, the gains arising on initial recognition of raw milk at fair value less costs to sell at the point of harvest amounted to RMB291.1 million (2022: RMB429.1 million), representing a decrease of 32.2% YoY, mainly due to the decrease in average selling price and higher feed cost recorded during the financial period.

International Financial Reporting Standards (“IFRS”) required that raw milk harvested was initially measured at fair value less costs to sell, and the difference between the fair value less costs to sell and the actual costs incurred was charged to profit or loss.

Other Income and Gains

During the Reporting Period, other income amounted to RMB49.0 million (2022: RMB26.4 million) which mainly consisted of government grants, insurance claims, technical service fees and gain on modification of leases. The higher amount recorded in 2023 was mainly due to the gain from modification of lease term amounting to RMB10.5 million. The government grants increased by RMB8.0 million and the technical service fee increased by RMB3.2 million.

Other Expenses

During the Reporting Period, other expenses amounted to RMB13.2 million (2022: RMB22.0 million), representing a decrease of 40.2% YoY mainly due to the foreign exchange losses recognized in the Reporting Period decreased by RMB7.9 million.

Administrative Expenses

During the Reporting Period, the Group recorded lower administrative expenses of RMB110.0 million, representing a YoY decrease of 33.1%. The decrease in administrative expenses was mainly due to the absent of one-off expenses in relation to listing expenses as well as lower share-based payment expenses incurred during the Reporting Period.

Finance Costs

During the Reporting Period, the Group recorded a higher finance cost which amounted to RMB125.8 million, representing a YoY increase of 34.2%. The increase in overall finance cost was mainly due to (i) higher average bank borrowings for the Reporting Period as a result of additional drawdown in working capital loan and (ii) higher interest expenses pertaining to lease liabilities mainly as a result of the Group's additional leases of land in connection with Pure Source Farm 3 in the second half of 2022.

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

Loss before tax was RMB303.6 million in the Reporting Period, representing a decrease by 251.0% YoY, while loss for the period was RMB310.5 million, representing a decrease by 259.9% YoY. Loss attributable to owners of the Company amounted to RMB310.5 million during the Reporting Period (2022: profit attribute to owners of the Company amounted to RMB194.1 million), representing a drop by 259.9% YoY. This was mainly due to:

- a) A decrease in gross profit of the Group's business to RMB312.5 million (2022: RMB443.1 million), representing a decrease of 29.5% or RMB130.6 million. The drop in gross profit is mainly due to lower average selling price of raw milk and higher feed costs incurred for the Group's raw milk and beef cattle businesses. Average selling price of raw milk decreased by 7.6% YoY to RMB4,311/ton during the Reporting Period (2022: RMB4,664/ton).

During the Reporting Period, the feed cost per kilogram of raw milk increased to RMB2.55 (2022: RMB2.38), representing a significant increase of 7.1%, which contributed to the decrease in gross profit compared to 2022; and

- b) Higher losses arising from changes in fair value less costs to sell of other biological assets. The Group recorded a loss of RMB414.6 million (2022: gains of RMB12.8 million), representing an increase of RMB427.4 million. The Group measures its biological assets to determine the market prices based on certain key assumptions such as milk price and feed cost. Owing to the continuing decrease in average milk selling price and increase of feed costs per kg of raw milk throughout the period, resulting in lower valuation of the Group's biological asset.

During the Reporting Period, basic and diluted losses per Share of the Company (the "Share") was RMB0.44 (2022: RMB0.31 earnings per share).

Non-IFRS Financial Measures

To supplement our consolidated financial statements which are presented in accordance with IFRSs, we also use non-IFRS measures as additional financial measures, which are not required by, or presented in accordance with, IFRSs. We believe that such non-IFRS measures facilitate comparisons of operating performance from period to period and company to company by eliminating potential impacts of certain items described below. We believe that these measures provide useful information to investors and others in understanding and evaluating our consolidated results of operations in the same manner as they help our management. However, our presentation of these non-IFRS measures may not be comparable to similarly titled measures presented by other companies. The use of these non-IFRS measures has limitations as an analytical tool and should not be considered in isolation from, or as substitute for analysis of, our results of operations or financial condition as reported under IFRSs.

We add back share-based payment expenses and listing expenses to derive adjusted net profit from the period. We define EBITDA as profit for the period plus (i) depreciation of property, plant and equipment, (ii) depreciation of right-of-use assets, (iii) amortisation of intangible assets, (iv) interest expenses minus interest income and (v) income tax expenses. We add back share-based payment and listing expenses charged in profit or loss to EBITDA to derive adjusted EBITDA. Share-based payment expenses represent employee benefit expenses incurred in connection which are primarily non-cash in nature.

The following table sets out a reconciliation from profit for the period to non-IFRS measures for the financial periods indicated:

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Audited)
		(Restated)
(Loss)/Profit for the period	(310,479)	194,148
Add:		
Share based payment expenses	5,543	44,654
Listing expenses charged in profit or loss	–	29,567
	<hr/>	<hr/>
Adjusted net (loss)/profit (non-IFRS measure)	(304,936)	268,369
	<hr/>	<hr/>
(Loss)/Profit for the period	(310,479)	194,148
Add:		
Depreciation of property, plant and equipment	75,348	68,235
Depreciation of right of use assets	11,651	13,463
Amortisation of intangible assets	769	1,207
Interest expenses	125,842	93,768
Income tax expenses	6,900	6,890
Less:		
Interest income	(1,547)	(1,620)
	<hr/>	<hr/>
EBITDA (non-IFRS measure)	(91,516)	376,091
Add:		
Share based payment expenses	5,543	44,654
Listing expenses charged in profit or loss	–	29,567
	<hr/>	<hr/>
Adjusted EBITDA (non-IFRS measure)	(85,973)	450,312
	<hr/> <hr/>	<hr/> <hr/>

EBITDA (non-IFRS measure)

During the Reporting Period, EBITDA has decreased to losses of RMB91.5 million (2022: gains of RMB376.1 million) which represents a drop of 124.3%. The drop in EBITDA during the Reporting Period is mainly attributable to (i) decrease in overall gross profit by 29.5% during the Reporting Period, (ii) higher losses from changes in fair value in other biological assets during the reporting period amounting to RMB414.6 million (2022: gains of RMB12.8 million).

Adjusted EBITDA (Non-IFRS Measure)

During the Reporting Period, adjusted EBITDA has decreased to losses of RMB86.0 million (2022: gains of RMB450.3 million) which represents a drop of 119.1%. The drop in EBITDA during the Reporting Period is mainly attributable to (i) decrease in overall gross profit by 29.5% during the Reporting Period, (ii) higher losses from changes in fair value in other biological assets during the reporting period amounting to RMB414.6 million (2022: gains of RMB12.8 million).

Adjusted Net Profit (Non-IFRS Measure)

During the Reporting Period, adjusted net profit decreased to losses of RMB304.9 million (2022: gain of RMB268.4 million) which represents a drop of 213.6%. The drop is largely attributable to (i) decrease in overall gross profit by 29.5% during the Reporting Period, (ii) higher losses from changes in fair value in other biological assets during the reporting period amounting to RMB414.6 million (2022: gain of RMB12.8 million) and (iii) higher financing costs amounting to RMB125.8 million (2022: RMB93.8 million).

Liquidity and Capital Resources

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

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

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Audited)
		(Restated)
Net cash flows from operating activities	221,160	648,227
Net cash flows used in investing activities	(668,775)	(481,261)
Net cash flows from financing activities	358,504	7,918
Net (decrease)/increase in cash and cash equivalents	(89,111)	174,884
Effects of foreign exchange rate changes, net	3,234	404
Cash and cash equivalents at the beginning of the period	397,946	141,190
Cash and cash equivalents at the end of the period	312,069	316,478

Net Cash Flows from Operating Activities

During the Reporting Period, net cash flows from operating activities was RMB221.2 million. For the six months ended 30 June 2022, net cash flows from operating activities was RMB648.2 million.

Net Cash Flows Used in Investing Activities

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

For the six months ended 30 June 2022, net cash flows used in investing activities was RMB481.3 million, which was mainly attributable to (i) payments for biological assets of RMB576.3 million and (ii) payments for purchases of property, plant and equipment of RMB191.1 million, partially offset by the proceeds from the disposal of biological assets of RMB282.8 million.

Interest-Bearing Bank Borrowings

	30 June 2023			31 December 2022		
	Effective interest rate (%)	Maturity	<i>RMB'000</i> (Unaudited)	Effective interest rate (%)	Maturity	<i>RMB'000</i> (Audited) (Restated)
Current						
Bank loans – secured	3.8-5.2	2024	599,907	3.8-5.08	2023	467,346
Current portion of long-term bank loans – secured	3.40-8.94	2024	<u>493,492</u>	4.21-7.29	2023	<u>400,747</u>
			<u>1,093,399</u>			<u>868,093</u>
Non-current						
Bank loans – secured	3.40-8.94	2024-2028	<u>1,575,090</u>	4.21-7.29	2024-2028	<u>1,304,344</u>
			<u>2,668,489</u>			<u>2,172,437</u>
				30 June 2023	31 December 2022	
				<i>RMB'000</i> (Unaudited)	<i>RMB'000</i> (Audited) (Restated)	
Analysed into:						
Bank loans:						
Within one year or on demand				1,093,399	868,093	
In the second year				568,524	333,818	
In the third to fifth years, inclusive				1,006,566	898,253	
Above five years				<u>–</u>	<u>72,273</u>	
				<u>2,668,489</u>	<u>2,172,437</u>	

Net Cash Flows Generated from Financing Activities

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

For the six months ended 30 June 2022, net cash flows generated from financing activities was RMB7.9 million which was mainly attributable to new interest-bearing bank borrowings of RMB363.5 million, partially offset by (i) repayment of interest-bearing bank borrowings of RMB242.4 million, (ii) principal portion of lease payments of RMB42.5 million, and (iii) interest paid of RMB68.9 million.

Contingent Liabilities and Pledge of Assets

As at 30 June 2023, certain of the Group's bank and other borrowings had been secured by the pledge of the Group's assets.

The Group's bank loans are secured by:

- (i) As at 30 June 2023, pledged deposits of RMB5,960,000 were pledged to banks to secure certain bank borrowings granted to the Group (31 December 2022: RMB5,949,000);
- (ii) As at 30 June 2023, trade receivables of RMB264,621,000 were pledged to banks to secure certain bank borrowings granted to the Group (31 December 2022: RMB338,780,000);
- (iii) As at 30 June 2023, inventories of RMB625,096,000 were pledged to banks to secure certain bank borrowings granted to the Group (31 December 2022: RMB568,134,000);
- (iv) As at 30 June 2023, property, plant and equipment of RMB387,220,000 were pledged to banks to secure certain bank borrowings granted to the Group (31 December 2022: RMB346,383,000);
- (v) As at 30 June 2023, biological assets of RMB3,531,809,000 were pledged to banks to secure certain bank borrowings granted to the Group (31 December 2022: RMB3,322,513,000);
- (vi) As at 30 June 2023, right-of-use assets of RMB13,272,000 were pledged to banks to secure certain bank borrowings granted to the Group (31 December 2022: RMB13,410,000);
- (vii) As at 30 June 2023, shares of a subsidiary of RMB172,833,000 were pledged to banks to secure certain bank borrowings granted to the Group (31 December 2022: RMB172,833,000);
- (viii) As at 30 June 2023, investments in certain subsidiaries of RMB2,562,141,000 were pledged to banks to secure certain bank borrowings granted to the Group (31 December 2022: RMB2,439,259,000); and
- (ix) As at 30 June 2023, certain of the Group's bank loans amounting to RMB1,374,748,000 were guaranteed by the Company and certain subsidiaries of the Group (31 December 2022: RMB971,968,000).

Saved as disclosed in this announcement, the Group did not have any significant contingent liabilities as at 30 June 2023 and 31 December 2022.

Material Litigation

The Company was not involved in any material litigation or arbitration during the Reporting Period. The Directors are also not aware of any material litigation or claims that were pending or threatened against the Group for the Reporting Period.

Foreign Currency Risk

The Group's exposure to foreign currency risk principally mainly relates to the Group's subsidiaries in Mainland China and Singapore where some of the transactions are denominated in USD and Singapore Dollars ("SGD"). In addition, the group has a USD40 million term loan outstanding as at 30 June 2023.

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

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

Employees

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

The total employee remuneration expenses (including directors and chief executive's remuneration, pension scheme contributions and share-based payments expenses) for the Reporting Period were approximately RMB188.0 million (2022: RMB185.1 million), representing an increase of 1.6% YoY.

STRATEGIES AND PROSPECTS

Though the economy and dairy industry in China are facing great challenges, we are confident that the long-term prospects of both consumer markets and dairy products are promising and the current difficulties are only short term.

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

Further expand our dairy farms and diversify our customer base

We expect that there will be significant small to mid-size and less efficient dairy farms to be made redundant as a result of this round of industrial down turn, while large-scale, highly efficient farm operators like us will come through with better competitive positions. The raw milk market will also restore its supply and demand equilibrium by the 2nd half of 2024. To prepare for long-term raw milk demand growth, Pure Source 3, a newly-built large scale dairy farm has commenced trial operation in January 2023, adding A2 special raw milk to our existing portfolio. We will also extend our reach to potential new customers close to the new farm locations, and further diversify our customer base.

Continue to develop our beef cattle business

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

We expect that the demand for high quality beef products, such as Wagyu beef, will grow significantly. We plan to start our in-house Wagyu heifer selection program, and commence Wagyu IVF embryo production and transplantation in the 2nd half of 2023. We will further expand and diversify our customer base in order to improve our reputation as a quality beef cattle supplier and to develop 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.

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

Animal breeds and genetics are a key foundation for dairy farming and beef farming operations. Advancements in genetic technology can increase productivity, lower disease and mortality rates, as well as lengthen the lifespans of dairy cows and beef cattle. We 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. We also expect to become industrial leader in commercialization of special and rare cattle breed, such as Wagyu.

Our in-house pre-mix feed mill has started production in March 2023, which will further improve feed quality and help us control feed costs.

Build a sustainable business with minimal environmental impact

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. We are also exploring new technologies to reduce our GHG emissions. More details can be found in our ESG Report published on 25 April 2023.

Actions for the 2nd half of 2023

We expect the operating environments to remain difficult and the consumer confidence remain low for the rest of the year. We have decided to take actions to navigate through this challenging period.

On one hand, we make relentless efforts on developing new customers and expand our customer bases. On the other hand, we continue to take effective measures to lower our feed costs as we have done since March. In addition, to enhance our advanced position in genetic and breeding, we will commence the operation of IVF laboratory, start Wagyu heifer selection, as well as Wagyu IVF productions and transplantations in the 2nd half of the year.

For the whole year, we target to reach a milk yield of 13.5 tons, we believe we will continue to be the highest milk yield dairy farm operator in China.

USE OF PROCEEDS FROM THE LISTING

The Company's Shares were successfully listed on Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 30 December 2022 (the "**Listing Date**") with 30,640,000 Shares issued and net proceeds of approximately HKD101.4 million raised from the global offering of the Shares on the Stock Exchange (the "**Global Offering**").

On 20 January 2023, the over-allotment option as described in the prospectus was partially exercised by the Overall Coordinators (on behalf of the International Underwriters) with 606,000 additional Shares issued and additional net proceeds of approximately HKD3.88 million received by the Company. As of the date of this announcement, the total net proceeds of the Global Offering of a total of 31,246,000 Shares of approximately HKD105.28 million (the "**Net Proceeds**").

The use of proceeds has been revised and described in the announcement dated 1 March 2023. The table below sets forth a detailed breakdown and description of the use of Net Proceeds as at 30 June 2023:

Use of Proceeds	Percentage of Total Net Proceeds	Approximate Amount	Actual Usage up to 30 June 2023	Unutilised Net Proceeds as at 30 June 2023
(i) two milking equipment	9.50%	HK\$10.02 million	HK\$10.02 million	–
(ii) 37 vehicle equipment for cow raising and feeding	10.90%	HK\$11.50 million	HK\$11.50 million	–
(iii) cooling equipment and other breeding ancillary	76.00%	HK\$80.04 million	HK\$79.21 million	HK\$0.83 million
(iv) cow manure treatment facilities	3.60%	HK\$3.72 million	HK\$3.72 million	–
Total	100.00%	HK\$105.28 million	HK\$104.45 million	HK\$0.83 million

Up to the date of this announcement, the unutilised amount of HK\$0.83 million has been fully utilised in August 2023 to pay for the cooling equipment and other breeding ancillary.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

The trustee of the AAG Performance Share Plan has pursuant to the terms of the rules and terms of the Trusts and Share Plan, purchased on the Stock Exchange a total of 1,145,000 shares at a total consideration of HKD3,437,119 (RMB3,172,542 equivalent) during the Reporting Period.

Saved as disclosed, neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's securities listed on the Stock Exchange during the Reporting Period.

INTERIM DIVIDEND

The Board has resolved not to recommend the payment of an interim dividend for the six months ended 30 June 2023.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

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

The Company has adopted the principles and code provisions of the Corporate Governance Code (the “**Corporate Governance Code**”) as set out in Part 2 of the Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”) as the basis of the Company’s corporate governance practices, and the Corporate Governance Code has been applicable to the Company with effect from the Listing Date.

To the best knowledge of the Directors, the Company has complied with all the applicable code provisions set out in the Corporate Governance Code during the Reporting Period.

The Company will continue to regularly review and monitor its corporate governance practices to ensure compliance with the Corporate Governance Code, and maintain a high standard of corporate governance practices of the Company.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in the Appendix 10 to the Listing Rules as its code of conduct regarding Directors’ securities transactions, and the Model Code has been applicable to the Company with effect from the Listing Date.

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

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

AUDIT COMMITTEE

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

The Audit Committee had, together with the management of the Company, reviewed the unaudited consolidated financial statements of the Group for the six months ended 30 June 2023 and the accounting principles and policies adopted by the Group.

PUBLICATION OF THE INTERIM RESULTS AND INTERIM REPORT

This announcement is published on the website of the Stock Exchange at www.hkexnews.hk as well as the website of the Company at www.austasiadairy.com. The Company's interim report for the six months ended 30 June 2023 will be dispatched to the Shareholders and published on the aforementioned websites in due course.

APPRECIATION

The Company would like to take this opportunity to thank the management and all our employees for the contribution they have made towards the Group's continued progress and to our shareholders, valuable customers, and business partners for their support.

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

Hong Kong, 23 August 2023

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