

4 May 2018

The Hon Scott Morrison MP
 Treasurer
 C/- Foreign Investment Review Board
 The Treasury
 Langton Crescent
 PARKES ACT 2600

Correspondence Received - Office of the Treasurer

Office Circulation
 Treasurer
 Chief of Staff
 Deputy Chief of Staff

Contact Adviser -
 Other Adviser -
 D.L.O.s -

09 MAY 2018

Departmental Action
 Acknowledge
 Substantive Response
 Appropriate Action
 Information
 Constituent Response
 Signed

Briefing
 Speech
 Refer to
 No Further Action
 URGENT

Partner: Adam Levine

Contact: Natasha Augustin

Our ref: augustn.levinea.7601028.00002

Dear Treasurer

Update - Moon Lake Pty Ltd (Company)

We act for Mr Lu Xianfeng (**Mr Lu**) and Ningbo Xianfeng New Material Co., Ltd's (**A Plus**) and are instructed to provide this letter on their behalf in response to your letter dated 26 April 2018. Set out below are updates on the matters requested in your letter.

1. Moon Lake's Board and Management

We are instructed that the resignation on 24 April 2018 of Dr David Crean, Mr Keith Sutton, Mr Robert Poole, Mr Bruce Donnison and Mr Simon Lyons as directors of the Company (**Former Directors**) arose as a result of a clear misalignment in the intended strategic direction for the Company between the Former Directors and Mr Lu, as the Company's ultimate shareholder.

As mentioned in A Plus' recent application to the Foreign Investment Review Board (FI2017/01374), the rationale for the proposed restructure of the Company is to enable the Company to access a larger balance sheet to achieve continued growth and value and to assist with its goal of creating value beyond the farm gate as a vertically integrated dairy company, as well as funding further capital expenditure on its existing operations.

The Former Directors' strategic intentions for the Company appeared to stop at the farm gate and focused predominately on capital expenditure for existing operations (such as irrigation). This was even though the Company is part of a corporate group and that its constitution provides that the directors may act in good faith in the best interests of any holding company of the Company. The likely reason for this limited strategic focus is that it aligns with the competency of the Former Directors and the Company's former CEO, Mr Evan Rolley, with most of these individuals having experience in dairy farming and farm management rather than vertically integrated dairy production facilities. The full extent of this divergence of direction only became apparent at the Company's board meeting on 24 April 2018 which resulted in the resignation of the Former Directors and, consequently, the resignation of the

Company's CEO. However, there were previous incidences which contributed to the tension that existed at this board meeting, an example of which is referred to in section 2(c).

To best serve the interests of the Company's ultimate shareholder, the remaining directors have commenced the process of short listing potential Australian non-executive director candidates with areas of competence that more closely align with the Company's future direction beyond the farm gate towards a vertically integrated dairy processing company (see section 4 for further information).

2. Investment Commitments

We are instructed that Mr Lu remains fully committed to, and reaffirms, the undertakings mentioned in FI2017/01374.

In addition to the undertakings mentioned in FI2017/01374 and by way of update we are instructed as follows.

- (a) **Employees.** Moon Lake has increased its number of employees to approximately 140 due to the Milk Plains and Riverdowns farms now being managed by the Company instead of by share farmers. This has increased the Company's employee headcount by 10. In addition, the Company has commenced a vealers project which has increased the Company's employee headcount by a further 4 employees (2 full time equivalent employees).
- (b) **Capital investment on existing operations.** Moon Lake currently spends more per year than the Van Diemen's Land Company (VDL) spent in its 5 years of holding the assets, despite the tough trading conditions associated with the industry landscape and the dry weather experienced (see table below).

Year	VDL	Year	Moon Lake
2011	\$1,846,627	2016	\$6,300,000
2012	\$1,598,105	2017	\$6,600,000
2013	\$1,316,211		
2014	\$640,224		
2015	\$452,519		
Total	\$5,853,686	Total	\$12,900,000

In addition to the above, Moon Lake has already spent \$1.68 million as at March 2018 and is committed to spend a total of \$2.4 million on the Company's existing operations by the end of July 2018.

In relation to the concerns of the Former Directors around irrigation, as noted in certain media articles, Mr Lu disagrees with the priority afforded to this

matter. Relevantly, the Company notes that its farms have operated for over 20 years without the suggested irrigation infrastructure and that the majority of the farms have already been deliberately set up as Autumn farms in Woolnorth to accommodate this. For these reasons, whilst the water infrastructure solution would be important to protect the Company against adverse consequences in the event of dry spells where there is less than average rainfall to the cost of production and production volume and growth the Company is of the firm view that irrigation is not an issue which would threaten the viability of the existing operations of the farms. However we are instructed that the Company is monitoring the potential impact of climate change on these dry spells to evaluate whether the priority of this suggestion needs to be revised.

(c) Investment beyond the farm gate,

As noted, Moon Lake has been actively looking for a site for its potential dairy processing plant. To date, the following Tasmanian sites were short listed and assessed for suitability:

- Ledgerwood August 2017;
- Edith Creek – August 2017;
- Heybridge – September 2017;
- Bell Bay – September 2017; and
- Wesley Vale – March 2018.

Each of the sites noted above (except Edith Creek) were, on the completion of due diligence by the Company deemed unsuitable for a dairy processing plant for various reasons. By way of example, due diligence revealed that Wesley Vale had asbestos issues and that restrictive covenants on Bell Bay prevented the use of the land for food processing(though, an offer was submitted and subsequently withdrawn due to the adverse results revealed by the due diligence).

On or about 15 August 2017, Mr Lu inspected and expressed a particular interest in the Edith Creek site. Mr Lu saw the potential for the site to be adapted to the Company's purposes as it was formerly used by Murray Goulbourn as a milk processing plant. Mr Lu communicated this to the Company's former CEO and was assured by the Company's former CEO that he would, in consultation with, and subject to the receipt of Board approval assist the Company to secure this site. The Company submits that the purchase of the Edith Creek site could have:

- saved approximately 120 jobs lost with Dutch Mill's purchase of Edith Creek; and
- helped the Company with its investment and export plans and ambitions.

Accordingly, Mr Lu was surprised to hear that Dutch Mill had completed the purchase of this site on 29 November 2017. Upon querying this matter, Mr Lu was informed that the CEO and the Moon Lake Board had assessed and not communicated their assessment of the site with Mr Lu or made an offer for the site which resulted in a missed opportunity for the Company.

This incident gave rise to initial tensions between the Former Directors, the CEO and Mr Lu and caused Mr Lu to initially question the Former Directors commitment to the Company's beyond the farm gate strategy.

In 2017, the Company requested the assistance of the Tasmanian Government to identify an appropriate site. The Company continues to liaise with the Coordinator General of the Tasmanian Government in relation to this matter and hopes to acquire a suitable site in the near future.

(d) Environmental, cultural and heritage undertakings

With respect to the environment, cultural and heritage undertakings and the devil proof fence project Mr Lu remains fully committed to and reaffirms the undertakings made in application FI2017/01374 in relation to these matters.

3. Moon Lake's future Board and Management

As mentioned in section 1, the Company's remaining directors have short listed and approached potential Australian non-executive director candidates with areas of competence that more closely align with the Company's future direction beyond the farm gate. It is proposed that 3 non-executive directors will be appointed. We are instructed that the candidates are from Australia and have deep Australian dairy industry across the entire value chain including dairy processing experience. As these candidates have not yet provided the Company with their formal consent to act and are subject to notice provisions under their existing appointments, we are not in a position at this stage to disclose the names of these persons.

The proposed management structure of the group (comprising the Company and Van Milk Pty Ltd) going forward will include a dedicated group CEO with experience managing a vertically integrated dairy processing group and 2-3 general managers one for each of Moon Lake and Van Milk and another for processing dairy products each of whom will report directly to the group's CEO. The remaining directors are also in the process of shortlisting candidates with appropriate experience for these positions

We will separately inform the Treasurer as soon as the Board and management appointments are finalised.

4. Status of proposed restructure

We are instructed that A Plus has submitted its application for the foreign currency registration procedure with the Chinese State Administration of Foreign Exchange for the issue price of shares in Hong Kong Siming Investment Co Ltd. This is the only outstanding condition precedent to completion of the proposed restructure.

5. Other

As requested in the email from [REDACTED] dated 27 April 2018 we have also attached the media releases that we have access to which are referred to in the media articles. We note that there are some statements made in media articles that are attributed to Dr Crean and which are not covered by the attached media releases we do not have access to such releases and consider that it is likely that these statements may have been the subject of interviews directly with Dr Crean.

We are also instructed that the Company and Mr Lu are happy to provide the Treasurer with an update on an annual basis every April, as requested.

6. Confidential Information

Please note that this letter is confidential and commercially sensitive. This letter (except to the extent already available to the public) must be kept confidential and must not be disclosed to any person without our prior written consent, except as required by law. It is submitted that this letter and all materials submitted with it are exempt from disclosure under the *Freedom of Information Act 1982* (Cth).

Notwithstanding the above, Mr Lu consents to this letter, and any information provided in connection with it, being shared with Commonwealth and State Government departments for consultation purposes. If the Treasurer intends to disclose the matters contained in this letter to the public Mr Lu and the Company ask that they are first consulted in relation to the form and content of such disclosure.

If you have any queries or require further information or documentation, please do not hesitate to contact me on [REDACTED] or Natasha Augustin on [REDACTED]

Yours sincerely


Adam Levine
Partner



MOON LAKE

24 April, 2018

Media Release

Corporate Restructure

The Foreign Investment Review Board has approved the corporate restructure of Moon Lake, the owner of VDL Farms in Tasmania, to Chinese Ningbo Xianfeng New Material Co Ltd (APlus), which is listed on the Shenzhen Stock Exchange.

Moon Lake Chairman Mr Xianfeng Lu said today that as part of the overall restructure, the board of APlus have given careful consideration to the appropriate governance structure for the group.

“As part of the restructure an Australian holding company will be set up to coordinate the Australian operations and to ensure alignment with overall strategic goals. Moon Lake and its sister company Van Dairy will be moved under control of the new holding company,” Mr Lu said.

The strategic goal for the group is to become a fully vertically integrated dairy business with quality dairy products sold both internationally and domestically.

“We are of the view that the corporate governance structure of the Australian operations needed to change in order to best achieve these strategic goals in an effective and efficient manner,” Mr Lu said

Mr Lu said he much appreciated the significant contribution made by the current Moon Lake board and CEO of VDL Farms who had provided stability during and post purchase of the farms.

“However, given the restructure and proposed new governance structure, the non-executive directors and the CEO of VDL Farms have agreed to part ways.

The board of the new holding company will appoint a new CEO for the group and a general manager for VDL Farms in due course.

It will be business as usual on VDL Farms’ 24 dairy properties in Tasmania’s North-West, and there will be no loss of jobs.

Mr Lu said the restructure would provide greater access to capital for investment beyond the farm gates, mainly in the production of new value-added dairy products in Australia, and the company looked forward to continuing to work with the State Government to identify opportunities.

Earlier this month Moon Lake announced that Van Dairy would commence export of organic UHT milk and yoghurt to China by mid-year.

Moon Lake Investments Pty Ltd was set up to acquire the assets of the Van Diemen's Land Company in Tasmania. The sole owner of Moon Lake Investments was Mr Lu through his private company Hong Kong Siming Investment. Van Dairy is a sister company of Moon Lake and was set up in April 2016 to export dairy products to China.

Mr Lu is the founder and largest shareholder of Ningbo Xianfeng New Material Co. Ltd (APLUS). APLUS manufactures a range of sun-shading materials and products which are sold in 68 countries worldwide.

Released By: Mike Lester

24 April, 2018

Resignation of Moon Lake Pty Ltd Directors

Today all non-executive directors of Moon Lake Pty Ltd have resigned and the Chief Executive Officer of VDL Farms has also decided not to extend his contract beyond 30 June 2018.

The non-executive directors are concerned that proper governance arrangements are not being considered in a proposed restructure of the company's business interests in Tasmania by sole owner and Moon Lake Chairman Mr Xianfeng Lu.

The non-executive directors of the board had particular issues with the restructure arrangements relating to the running of the 24 VDL farms in North-West Tasmania.

The board, being responsible for overseeing the commercial and prudential operations of the VDL farms, could not convince the owner to adopt their recommendations on future management of the business.

Dr David Crean

Deputy Chair, Moon Lake Pty, on behalf of all non-executive directors – Keith Sutton, Rob Poole, Bruce Donnison, Simon Lyons – and VDL Farms' CEO Evan Rolley.

3 July 2019

Partner: Adam Levine

The Hon Josh Frydenberg MP
Treasurer
C/- Foreign Investment Review Board
The Treasury
Langton Crescent
PARKES ACT 2600

Contact: Natasha Augustin

Our ref: augustn.levinea.7601028.00002

Copy to:

Dear Treasurer

Update - Van Dairy Group Pty Ltd (Company)

We act for Mr Lu Xianfeng (**Mr Lu**) and Van Dairy Group Pty Ltd ACN 609 049 265 (formerly Moon Lake Pty Ltd) (**Van Dairy**) and are instructed to provide this letter on their behalf in response to your letter dated 28 June 2019. We acknowledge the late response which was due to changes in key management personnel since the date of Van Dairy's last response and their focus on the operational challenges of the business. Van Dairy has updated its internal processes to ensure that this review date is not missed in the future.

1. Commitment Update

Set out below are updates on the commitments made in connection with Van Dairy's 2016 acquisition of the assets of the Tasmanian Land Company.

(a) Board and Management

We understand that the Company's directors have shortlisted and interviewed a number of potential Australian non-executive director candidates with areas of competence in the dairy industry. However, as Van Dairy is still in the process of finalising its strategic plan post farm gate and, the skillset required for its board, discussions with candidates have not yet been able to progress further.

We are instructed that this remains a short term priority for the current board and that the board is continuing to actively identify and engage with suitable candidates.

(b) Statutory Vegetation Management

We are instructed that Van Dairy continues to honour the terms of its statutory vegetation management agreement with the Tasmanian Government.

(c) "Devil Proof Fence" project

In consultation with the Circular Head Council we understand that Van Dairy completed installation of the Devil Proof Fence across sections of Woolnorth Road in 2018. Van Dairy continues to support the "Devil Proof Fence" project by providing access and accommodation to persons who conduct conservation work tagging Tasmanian Devils under this project.

(d) Indigenous Community

We are instructed that Van Dairy continues to honour the terms of the Memorandum of Understanding with the local Aboriginal community which requires Van Dairy to improve the access to, and protection of, Aboriginal cultural heritage across Woolnorth.

(e) Local Equity Participation

We understand that Mr Lu is still open to the possibility of selling down part of his equity interest in Van Dairy to local investors. Mr Lu has met and continues to meet with investment groups seeking to purchase an interest in Van Dairy. As at the date of this letter, we understand that these discussions have not progressed as the parties have not been able to agree on the commercial terms of any proposed transaction.

(f) Milk Supply

We are instructed that Van Dairy continues to supply milk to Fonterra on largely the same terms as VDL. Van Dairy and Fonterra did however negotiate certain amendments to the terms of supply to allow Van Dairy to process up to 20% of the milk it produces under its own "Van" milk brand. However, this should not materially impact the supply of milk and milk products in Australia especially since a significant proportion of Australia's milk is already exported. The term of Van Dairy's current contract ends and is up for renewal on 30 June 2021.

(g) Capital expenditure

We understand that the capital expenditure priority for Van Dairy has been the replacement and maintenance of its existing assets with the rate of deterioration of the company's buildings and equipment greater than previously estimated at the time of the Van Dairy's initial acquisition in 2016.

Set out below is a breakdown of the capital expenditure incurred in 2018.

2018	
\$3,271,653.00	Total
\$1,969,474.41	Dairy Buildings
\$794,003.20	Infrastructure (feed pads and laneways etc.)
\$ 34,402.00	Motor Vehicles
\$365,052.00	Plant & Equipment
\$ 8,721.39	Other

We understand that Mr Lu has personally made available an additional US\$10 million to Van Dairy which was used until early 2018 as working capital support to manage the net operating losses incurred while the milk price was at challenging levels. This support is treated as additional equity in Van Dairy.

The historical net operating losses and challenging milk prices also played a factor in confining capital expenditure to the replacement and maintenance of existing assets. However, with Fonterra announcing a milk price of \$6.60/kg in June 2019 Van Dairy remains positive that this year it will be able to generate returns to partially fund its expansion plans.

Van Dairy has however, separately revised its plans to expand and create new dairy farms with the Board determining that the cost of clearing natural native vegetation was not worth any benefit that might be derived by the creation of additional dairy farms. Accordingly, Van Dairy has decided not to pursue any clearing of native vegetation which has resulted in a downward revision of its long term plan to invest in new dairy farms from 9 to 6.

Van Dairy is still committed to pursuing the organic certification of three of its farms with Chinese certificate received in 2018 and Australian organic certificate expected in March 2020. We understand that Van Dairy is currently exploring options to cultivate an A2 organic herd from its three existing organic farms.

Van Dairy has also continued to explore its plans for a processing facility. The key challenge for Van Dairy in this regard has been the identification of an appropriate existing facility which is available for purchase within close proximity to its farms. We have been advised that the Company is now in the feasibility stages of determining whether to develop an on farm greenfield organic micro processing facility for \$2 million and an on farm greenfield conventional processing facility for \$10 to \$15 million. The timing of this plan

will depend on a number of factors including the milk price, state of current equipment and infrastructure and weather conditions.

Van Dairy is also seeking to mitigate its risk exposure in the dairy industry by diversifying its portfolio into the growth and cultivation of poppies. We understand that Van Dairy has entered into a contract with Tasmania Alkaloids to grow poppies in October and November of this year on part (113 hectares) of its land. This will not adversely affect the supply of milk and milk products in Australia as the land (the farm called the "parks") was previously used as a share farm and Van Dairy does not have the cows needed to replace the cows from the share farmer who has since left.

(h) Training

Van Dairy continues to provide opportunities to up-skill and invest in its employees offering Certificate 3 and Certificate 4 diplomas in agribusiness from AgriTas to its staff. Currently three of Van Dairy's farm managers are undertaking certificates in agribusiness with AgriTas.

Van Dairy is also a supporter of training opportunities in the community generally, openly advertising for an apprentice mechanic.

As Van Dairy's processing facility is still in the feasibility stages Van Dairy has been unable to provide site visit opportunities for food technology, processing and engineering or more extensive internship opportunities at AgriTas at this stage. Once Van Dairy's processing facility is constructed Van Dairy has advised that it will revisit this commitment.

2. Media Reports

In relation to the matters noted in the article published by ABC news on 27 June 2019 referencing Van Dairy and Mr Lu, we are instructed that:

- » Biosecurity Tasmania inspected Van Dairy's Farms with two animal welfare offices and an agency vet in April 2019 and did not identify any animal welfare concerns;
- » the surrounding laneways have been inspected and do not require immediate repair. Additionally, we understand that it is not feasible from a health and safety perspective to conduct repair works in winter. Van Dairy will review this need towards the end of the year when it will be more appropriate for works to commence, if required;
- » Deloitte (on Van Dairy's financier, Rabobank Australia Limited's instruction) have conducted an independent review of the business and concluded that the business is sound; and
- » the letter referenced in the article was an internal letter addressed to Mr Lu in which a select group of employees expressed their opinion on where capital should be expended which was subsequently leaked to the media. We understand that one of the circumstances which contributed to this response has been actioned through the recent purchase of 30 all terrain quadricycle vehicles for \$300,000 to allow farmers to quickly navigate through farms; and

that the concerns are not motivated by the present state of the farms but future conditions if capital expenditure is not made. We refer to the attached article published in The Mercury on 29 June 2019 containing statements from current farm managers which supports above view.

3. Confidential Information

Please note that this letter is confidential and commercially sensitive. This letter (except to the extent already available to the public) must be kept confidential and must not be disclosed to any person without our prior written consent, except as required by law. It is submitted that this letter and all materials submitted with it are exempt from disclosure under the *Freedom of Information Act 1982* (Cth).

Notwithstanding the above, Mr Lu consents to this letter, and any information provided in connection with it, being shared with Commonwealth and State Government departments for consultation purposes. If the Treasurer intends to disclose the matters contained in this letter to the public Mr Lu and the Company ask that they are first consulted in relation to the form and content of such disclosure.

If you have any queries or require further information or documentation, please do not hesitate to contact me on _____ or Natasha Augustin on _____

Yours sincerely

Adam Levine
Partner

Animal welfare worries denied

Mercury, The (Hobart, Australia) June 29, 2019 Word Count: 346

FARMERS at Tasmania's biggest **dairy** operation say controversy over animal welfare and the operation's management have been blown out of proportion.

Dairy farmer Chris Brown has been farming at the **Van** Diemen's Land Company for 12 years and is the only remaining share farmer there since the operation was purchased by Chinese businessman Xianfeng Lu in 2016.

Mr Brown said he remains confident in Mr Lu's management of the operation, despite a recent letter sent to the owner by a number of staff outlining their concerns.

"The letter and this whole thing has ... been blown completely out of proportion," he said. Mr Brown said the aim of the letter was to bring potential issues to Mr Lu's attention and to ensure that staff would not be held responsible, if he chose not to **invest** in appropriate maintenance.

However, Mr Brown said it was not in response to any current issues with animal welfare or occupational health and safety. "Mr Lu is the owner, it's not being run as a corporate anymore and he's a shrewd businessman," Mr Brown said.

"He's come in and made some changes ... unfortunately some people haven't liked that." Mr Brown, who milks 950 cows on the farm he runs, said he has no concerns about welfare or ongoing maintenance of laneways, which were two key points raised in the letter.

Another farmer from the property, who does not want to be identified, said cultural issues within the farm's senior management were to blame for the current controversy.

The farmer said he has absolutely no concerns about animal welfare. A spokesman from Biosecurity Tasmania said that the VDL properties were inspected by two animal welfare officers and an agency veterinarian in April this year and no animal welfare issues were identified, but given the issues raised it would monitor the situation.

The VDL operation includes 24 farms and runs about 18,000 milking cows. Last year five members of the **MoonLakeInvestments** board and chief executive officer Evan Rolley resigned due to disagreements about the operation's management. Mr Lu has been contact for comment.

22 January 2020

Partner: Adam Levine

C/- Foreign Investment Review Board
The Treasury
Langton Crescent
PARKES ACT 2600

Contact: Natasha Augustin

Copy to:

Our ref: augustn.levinea.7601028.00002

Dear

Update - Van Dairy Group Pty Ltd (Company)

As you know, we act for Mr Lu Xianfeng (**Mr Lu**) and Van Dairy Group Pty Ltd ACN 609 049 265 (formerly Moon Lake Pty Ltd) (**Van Dairy**) and are instructed to provide this letter on their behalf in response to your emails dated 3 October 2019 and 7 January 2020. We apologise on behalf of Mr Lu and Van Dairy for the lateness of this response.

1. Board and Management

On 6 December 2019, Van Dairy appointed Mr Chris Brown as its new CEO and local resident Director. We understand that Mr Brown has extensive experience in the agricultural industry specifically, pasture management, plant operation, and dairy safety and sanitation. Mr Brown has managed share farms within the circular head region of Tasmania for over 3 decades.

Van Dairy has also appointed Ms Linling (Bunny) Ye, who is ordinarily resident in Tasmania as its company secretary.

The Company has also recently lodged the relevant documentation with the Australian Securities and Investments Commission to change its type to an Australian public company limited by shares and its name to Van Dairy Limited.

2. Employee head count

We are instructed that Van Dairy employs 130 full time employees and 28 casual staff. Of this number, 32 people held working visas and 4 people were working holiday makers.

3. Confidential Information

Please note that this letter is confidential and commercially sensitive. This letter (except to the extent already available to the public) must be kept confidential and must not be disclosed to any person without our prior written consent, except as required by law. It is submitted that this letter and all materials submitted with it are exempt from disclosure under the *Freedom of Information Act 1982* (Cth).

Notwithstanding the above, Mr Lu and Van Dairy consents to this letter, and any information provided in connection with it, being shared with Commonwealth and State Government departments for consultation purposes. If the Treasurer intends to disclose the matters contained in this letter to the public Mr Lu and the Company ask that they are first consulted in relation to the form and content of such disclosure.

If you have any queries or require further information or documentation, please do not hesitate to contact me on _____ or Natasha Augustin on _____

Yours sincerely

Adam Levine
Partner

6 May 2020

Partner: Adam Levine

The Hon Josh Frydenberg MP
Treasurer
C/- Foreign Investment Review Board
The Treasury
Langton Crescent
PARKES ACT 2600

Contact: Natasha Augustin

Our ref: augustn.levinea.7601028.00002

Copy to:

Dear Treasurer

Update - Van Dairy Group Pty Ltd (Company)

We act for Mr Lu Xianfeng (**Mr Lu**) and Van Dairy Limited ACN 609 049 265 (formerly named Moon Lake Pty Ltd and Van Dairy Group Pty Ltd) (**Van Dairy or the Company**) and are instructed to provide this letter on their behalf in response to the letter from the Hon Scott Morrison dated 26 April 2018 which requested an annual update from the Company every April.

1. Commitment Update

Set out below are updates on the commitments made in connection with Van Dairy's 2016 acquisition of the assets of the Tasmanian Land Company.

(a) Board and Management

There have been no further changes to the Company's Board since the Company's last update on this matter by a letter dated 22 January 2020. The Company's Board remains comprised of Mr Xianfeng Lu, Mr MingMing Zhang and Mr Chris Brown with Ms Linling (Bunny) Ye and Mr Xianfeng Lu as Company Secretary.

The Company became a public company limited by shares and changed its name to Van Dairy Limited on 21 February 2020.

We understand that the Company has no short term plans to add to the Board at this stage however, the Company will consider the appointment of additional candidates who have relevant experience if approached.

(b) Statutory Vegetation Management

We are instructed that Van Dairy continues to honour the terms of its statutory vegetation management agreement with the Tasmanian Government.

(c) "Devil Proof Fence" project

In consultation with the Circular Head Council we understand that Van Dairy completed installation of the Devil Proof Fence across sections of Woolnorth Road in 2018. Van Dairy continues to support the "Devil Proof Fence" project by providing access and accommodation to persons who conduct conservation work tagging Tasmanian Devils under this project.

(d) Indigenous Community

We are instructed that Van Dairy continues to honour the terms of the Memorandum of Understanding with the local Aboriginal community which requires Van Dairy to improve the access to, and protection of, Aboriginal cultural heritage across Woolnorth.

(e) Local Equity Participation

We understand that Mr Lu is still open to the possibility of selling down part of his equity interest in Van Dairy to local investors. Mr Lu continues to meet with investment groups seeking to purchase an interest in Van Dairy. As at the date of this letter, we understand that these discussions have not progressed as the parties have not been able to agree on the commercial terms of any proposed transaction.

(f) Milk Supply

We are instructed that Van Dairy continues to supply milk to Fonterra on largely the same terms as VDL. There have been no further amendments to the terms of supply since the Company's last update on this matter by a letter dated 3 July 2019. The term of Van Dairy's current contract ends and is up for renewal on 30 June 2021.

The Company is also proposing to enter into a separate contract with Fonterra for the supply of organic milk.

(g) Capital expenditure

We understand that the capital expenditure priority for Van Dairy continues to be the replacement and maintenance of its existing assets with the rate of deterioration of the company's buildings and equipment greater than previously estimated at the time of the Van Dairy's initial acquisition in 2016.

Set out below is a breakdown of the capital expenditure incurred by the Company since 3 July 2019.

Description of Expenditure	Amount
Dairy Buildings & Land	\$653,852.49
Infrastructure (feed pads and laneways etc.)	\$983,336.90
Motor Vehicles & Trailers	\$166,505.40

Plant & Equipment	\$2,525,392.93
Office Equipment	\$11,246.71
Total	\$4,340,334.43

The capital expenditure was funded from the returns from the Company and under equipment finance arrangements between the Company and Rabobank.

The Company has no plans at this stage to invest in new dairy farms with the focus being on maintaining the Company's existing farms.

The Company has lodged the relevant applications to construct a dam for 2 of its farms to assist with the water supply for these farms.

On 27 February 2020 three of the Company's farms received Australian Organic Certification with 40% of the cows on these farms also confirmed to be A2 organic cows after A2 DNA testing.

In January 2020 Van Dairy also purchased a developed commercial property in Burnie, Tasmania for the packing of its dairy products. The Company continues to explore its plans for a processing facility. The key challenges for Van Dairy in this regard has been the identification of an appropriate existing facility which is available for purchase within close proximity to its farms as well as the availability of funding on terms acceptable to the Company in light of the uncertainty present as a result of the Covid-19 pandemic. The Company understands that any purchase or long term lease arrangement will also require the Company to seek a 'no objection' notification from the Treasurer as a result of the recent foreign investment changes. The timing of this plan will depend on a number of factors including the milk price, state of current equipment and infrastructure, weather conditions and availability of funding and receipt of the Treasurer's no objection confirmation.

The Company received a poppy license in 2019 and in October 2019 worked with Palla Pharma Limited (formerly TPI enterprise) to plant poppies on 60 hectares of its land. These poppies were harvested on March 2020 generating total income of \$186,077.65.

(h) Training

Van Dairy continues to provide opportunities to up-skill and invest in its employees offering Certificate 3 and Certificate 4 diplomas in agribusiness from AgriTas to its staff.

Van Dairy is also a supporter of training opportunities in the community. As Van Dairy's processing facility is still in the feasibility stages Van Dairy has been unable to provide site visit opportunities for food technology, processing and engineering or more extensive internship opportunities at AgriTas at this stage. Once Van Dairy's processing facility is constructed Van Dairy has advised that it will revisit this commitment.

(i) Employee head count

Like most companies and businesses, Van Dairy has been impacted by the Covid-19 pandemic. The Company is fully supportive of the measures undertaken by the government to prevent the spread of Covid-19 through social isolation and distancing and prioritises the health and well-being of its staff. Fortunately the Company has not had to stand down any of its staff as a result of Covid-19. As at the date of this letter, the Company has 145 full time employees and 34 casual staff. Of this number 39 hold working visas and 16 are working holiday makers.

2. Confidential Information

Please note that this letter is confidential and commercially sensitive. This letter (except to the extent already available to the public) must be kept confidential and must not be disclosed to any person without our prior written consent, except as required by law. It is submitted that this letter and all materials submitted with it are exempt from disclosure under the *Freedom of Information Act 1982* (Cth).

Notwithstanding the above, Mr Lu consents to this letter, and any information provided in connection with it, being shared with Commonwealth and State Government departments for consultation purposes. If the Treasurer intends to disclose the matters contained in this letter to the public Mr Lu and the Company ask that they are first consulted in relation to the form and content of such disclosure.

If you have any queries or require further information or documentation, please do not hesitate to contact me on _____ or Natasha Augustin on _____

Yours sincerely

Adam Levine
Partner