

December 2018 Quarterly Report

Highlights

- Continued strong financial growth for the December 2018 quarter:
 - > Sales: \$11.83m (September 2018 quarter: \$10.05m) **up 18%**
 - > Gross profit: \$2.51m (September 2018 quarter: \$1.76m) **up 43%**
 - > Gross margin: 21.25% (September 2018 quarter: 17.5%) **up 21%**
- All retail stores profitable post store operating costs; with same store growth of **17% and 75%** in sales and gross profitability (December 2018 quarter compared to December 2017 quarter)
- Exceptional growth in owned brand sales **up 55%** to \$850,000 (September 2018 quarter: \$550,000); **424%** increase in owned brand sales to \$1.40m (first half FY18 compared to first half FY17)
- Net cash operating outflow decreased by **72% to \$0.30m** (excluding forward purchased inventory) (September 2018 quarter: \$1.19m)
- Strong balance sheet with \$8.04m cash at bank and inventory of \$3.75m

Key initiatives update:

- Promotion of AuMake owned product on Chinese State Owned JiaJia 24 hour TV shopping channel
 - > Successful initial trial over four screenings with **3,000 units sold** resulting in sales of \$88,000
- Exclusive strategic partnership with NYSE listed JD.com via JD Worldwide (JD.com cross border ecommerce platform)
 - > AuMake and JD Worldwide teams based in Beijing working towards initial sales from the partnership in **Q4 FY19**
- Continued prioritisation and assessment of suitable timing for the development of AuMake owned brand milk powder formula products given attractive investment opportunities in other parts of the AuMake business
- Profitable growth planned** via increased investment in the AuMake retail store footprint and expansion of market share, owned brand product marketing and penetration of direct distribution channels to China



(Sydney, Australia) AuMake International Limited (**AuMake** or the **Company**) is pleased to provide the following report and associated Appendix 4C in relation to the December 2018 quarter

Quarterly financial review

Overall performance

The AuMake business has continued to perform strongly over the December quarter, with sales and gross profitability **increasing 18% and 43%** relative to the September 2018 quarter. Online sales and membership growth also continue to grow strongly.

This continued momentum in financial performance is a result of the strategic initiatives implemented over the past 12-18 months designed to broaden awareness of the AuMake brand and proposition. As a result, during the quarter AuMake increased customer visitation to its stores and focused on the sale of owned brand and less known products with higher gross margins (relative to lower margin well-known mainstream brands) leading to higher overall gross margin of **21.25%**.

From discussion with tour guides and associated stakeholders in the Chinese tourism industry, the Company understands that Chinese tourist visitation to Australia over the Chinese New Year period is relatively high and AuMake will update the market in the March quarterly report.

Net cash operating outflow and profitability

Strong profit performance in combination with improved operational efficiencies have resulted in the Company significantly decreasing its net cash operating outflow by **72% to \$0.30m** for the December quarter (September 2018 quarter: \$1.19m).

All retail stores are profitable post store operating costs, with **same store sales growth of 17% and 75% in sales and gross profitability** for the December 2018 quarter when compared to the December 2017 quarter.

Given the rapid growth phase of the AuMake business, profits **are being reinvested** into the AuMake business, rather than being retained, to grow market share and direct distribution channels to China.

With stable fixed operating costs and further efficiency gains anticipated as the business matures, the Company is well placed to continue to implement its strategic initiatives and deliver sustainable profit growth.

Owned brand product sales

Owned brand product sales **increased by 55%** over the December quarter to \$850,000 (September 2018 quarter: \$550,000), with Health Essence supplements and Jumbuck wool products the stand out performers.

Owned brand sales increased by **424% to \$1.40m** when comparing the first half of FY18 to the first half of FY17.

Balance sheet

At the end of the quarter the Company had \$8.05m in cash and \$3.75m in inventory and is sufficiently capitalised to continue to invest in growing the business.



Quarterly activities review

The Company is pleased to provide the following update on key initiatives announced in calendar 2018:

- **Promotion of AuMake owned product on Chinese State Owned JiaJia 24 hour TV shopping channel**

With an audience of 350 million people throughout China, significant progress was made during the December quarter to streamline the product selection and due diligence process to increase the rate and number of AuMake owned brand products being televised on the JiaJia channel.

The very successful initial trial of four AuMake SKUs over four screenings resulted in 3,000 units being sold with sales of \$88,000.

- **Exclusive strategic partnership with JD Worldwide**

Through the partnership with JD Worldwide, AuMake will have exposure to 300 million active users on the JD Worldwide platform. The Company is working closely with JD Worldwide in Beijing (China) and has plans for **initial sales in Q4FY19**.

As previously announced AuMake and JD Worldwide have a mutually agreed sales target of \$2m per month with sustainable gross margins of between 25-30% to be achieved within 12 months.

AuMake and JD Worldwide also have plans to jointly develop products to be exclusively sold on JD Worldwide and in AuMake's retail stores.

The Company continues to assess approaches made by influential parties within Australia and China for various opportunities aligned to AuMake's unique selling proposition and will advise the market as appropriate.

- **Development of AuMake owned brand milk powder formula products**

With the strong financial growth experienced by the Company alongside the unique investment opportunities currently available, the Company will continue to prioritise and assess the appropriate timing for the development of AuMake owned brand milk powder formula products.

Chinese regulation commentary

From time to time there may be uncertainty with consumers and/or the industry stemming from proposed or anticipated regulatory changes in China – this is expected to be ongoing and will evolve over time. AuMake, through its flexible business model and multiple distribution channels, is well positioned to adapt to any future regulatory changes.

In addition, the Company wishes to reiterate that total demand for Australian and New Zealand products from China continues to be significant. Opportunity also exists to reach the next wave of Chinese middle-class growth from lower tier cities, where current market penetration and brand recognition of Australian and New Zealand products is extremely low.



Summary

Executive Chairman, Keong Chan, states:

“The December quarter represents yet another period of record growth and profitability for AuMake. Net operating cash outflow has reduced to close to breakeven levels which demonstrates the sustainability of the AuMake business model.

Importantly, shareholders should note that at a retail store level, AuMake is profitable after accounting for store operating costs. Given we are still in a rapid growth phase, profits are being reinvested in the business, rather than being retained, for long term sustainable growth across all metrics. In particular, the Company is seeing encouraging signs that this investment in building brand equity, market share and direct distribution channels to China is paying off.

As AuMake’s business model matures and brand awareness continues to grow, incremental revenue is also expected to increase from non-retail store sources of income such as JiaJia TV, JD Worldwide and supplier marketing rebates, with these types of revenue streams being highly scalable.

In the near term and with well placed confidence, AuMake is focused on expanding its retail store footprint and is assessing additional locations in Sydney, new markets interstate, as well as New Zealand. Combined with the traction in our direct to China channels, this represents an extremely exciting phase in AuMake’s growth, and we look forward to updating our shareholders in due course.”

–Ends–

Appendix 4C

Quarterly report for entities subject to Listing Rule 4.7B

Introduced 31/03/00 Amended 30/09/01, 24/10/05, 17/12/10, 01/09/16

Name of entity

AuMake International Limited

ABN

150 110 017

Quarter ended ("current quarter")

December 2018

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	11,833	21,969
1.2 Payments for		
(a) research and development	-	-
(b) cost of goods sold	(9,319)	(17,675)
(c) forward purchased inventory	-	(582)
(d) advertising and marketing	(464)	(810)
(e) leased assets	(361)	(1,125)
(f) staff costs	(1,619)	(3,100)
(g) administration and corporate costs	(411)	(805)
(h) Bank guarantee for leased property (refundable at end of lease)	(40)	(155)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	62	176
1.5 Interest and other costs of finance paid	(4)	(4)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other	18	37
Net cash from / (used in) operating activities	(305)	(2,074)
Forward purchased inventory	-	582
Net cash from / (used in) operating activities (excluding forward purchased inventory)	(305)	(1,492)

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Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6 months) \$A'000
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	(143)	(587)
(b) businesses (see item 10)	-	-
(c) investments	-	-
(d) intellectual property	-	-
(e) other non-current assets	-	-
2.2 Proceeds from disposal of:		
(a) property, plant and equipment	-	-
(b) businesses (see item 10)	-	-
(c) investments	-	-
(d) intellectual property	-	-
(e) other non-current assets	-	-
2.3 Cash flows from loans to other entities	-	-
2.4 Dividends received (see note 3)	-	-
2.5 Other (provide details if material)	(28)	(28)
2.6 Net cash from / (used in) investing activities	(171)	(615)

3. Cash flows from financing activities		
3.1 Proceeds from issues of shares	-	-
3.2 Proceeds from issue of convertible notes	-	-
3.3 Proceeds from exercise of share options	-	-
3.4 Transaction costs related to issues of shares, convertible notes or options	-	-
3.5 Proceeds from borrowings	-	-
3.6 Repayment of borrowings	(18)	(29)
3.7 Transaction costs related to loans and borrowings	-	-
3.8 Dividends paid	-	-
3.9 Other (proceeds from shares issue pending on allotment)	-	-
3.10 Net cash from / (used in) financing activities	(18)	(29)

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6 months) \$A'000
4. Net increase / (decrease) in cash and cash equivalents for the period		
4.1 Cash and cash equivalents at beginning of quarter/year to date	8,344	10,737
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(305)	(2,074)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	(171)	(615)
4.4 Net cash from / (used in) financing activities (item 3.10 above)	(18)	(29)
4.5 Effect of movement in exchange rates on cash held	192	23
4.6 Cash and cash equivalents at end of quarter	8,042	8,042

5. Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1 Bank balances	5,042	5,344
5.2 Call deposits	3,000	3,000
5.3 Bank overdrafts	-	-
5.4 Other (provide details)	-	-
5.5 Cash and cash equivalents at end of quarter (should equal item 4.6 above)	8,042	8,344

6. Payments to directors of the entity and their associates	Current quarter \$A'000
6.1 Aggregate amount of payments to these parties included in item 1.2	218
6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3	-
6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2	

N/A

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7. Payments to related entities of the entity and their associates	Current quarter \$A'000
7.1 Aggregate amount of payments to these parties included in item 1.2	-
7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3	-
7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2	

N/A

8. Financing facilities available <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
8.1 Loan facilities	-	-
8.2 Credit standby arrangements	-	-
8.3 Other (please specify)	-	-
8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.		

N/A

9. Estimated cash outflows for next quarter*	\$A'000
9.1 Research and development	(50)
9.2 Cost of goods sold (including investment in additional inventory for new stores and own products)	(10,000)
9.3 Advertising and marketing	(400)
9.4 Leased assets	(520)
9.5 Staff costs	(1,500)
9.6 Administration and corporate costs	(500)
9.7 Other (provide details if material)	-
9.8 Total estimated cash outflows	(12,970)

* Table does not include estimated cash inflows in relation to receipts from customers

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10. Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above)	Acquisitions
10.1 Name of entity	N/A
10.2 Place of incorporation or registration	N/A
10.3 Consideration for acquisition or disposal	N/A
10.4 Total net assets / (liabilities)	N/A
10.5 Nature of business	N/A

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Sign here: Date:
(Director/Company secretary)

Print name:

Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.

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About AuMake

AuMake International Limited is an ASX listed retail company connecting Australian suppliers directly with daigou and Chinese tourists.

AuMake engages with the growing and influential daigou and Chinese tourist markets, by offering a one-stop-shop retail network. This includes a range of Australian products across four main categories including:

- healthcare (supplements and food)
- skin, body care and cosmetics
- dairy products and baby food (including infant formula)
- wool and leather products.

Customers of AuMake value the full service offering which includes knowledgeable bilingual staff, multiple payment options (including WeChat, Alipay and UnionPay) and an in-store logistics service for the delivery of products to anywhere in the world including China.

aumake.com.au

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AuMake
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