

ACQUISITION OF JUMBUCK AUSTRALIA OPENING OF AUBURN FACILITY TOURIST STRATEGY & BUSINESS UPDATE

8 November 2017

Highlights

- **Acquisition of Jumbuck Australia Pty Ltd**
 - AuMake has acquired Australian wool product manufacturer Jumbuck Australia Pty Ltd (Jumbuck) including all associated plant and equipment
 - Introduction of wool products as a **new core product category** to form the fourth 'pillar' in addition to existing core product categories of healthcare, skincare and infant formula
 - The acquisition of Jumbuck provides investors with direct exposure to the significant daigou and Chinese tourist demand for Australian wool products
 - Jumbuck will commence to produce wool products utilizing only Australian wool, exclusively under the 100% AuMake owned 'UGG AUS' trademark in time for China's winter season
 - The UGG AUS brand will be promoted as a premium brand and the only brand that covers the entire range of wool products popular with daigou and Chinese tourists including but not limited to boots, scarves, coats and quilts
 - Jumbuck achieved (unaudited) sales of \$285,895 and \$754,624 for FY16 and FY17 respectively at an average gross margin of 32% with 260% increase on YoY sales.
 - For FY17 AuMake sold \$411,371 of wool products at an average gross margin of 26% with minimal marketing support
 - Significant synergies as a result of the acquisition of Jumbuck
- **Relocation of Head Office to Auburn Sydney NSW**
 - Relocation of head office to Auburn facility which includes increased warehousing capacity and showroom
- **Implementation of Chinese Delegation/Tour Group Strategy**
 - Utilisation of new Auburn facility
 - Unique conduit for Australian suppliers to engage directly with this segment of the Chinese tourist market which opens up further opportunities for AuMake

Jumbuck Acquisition

(Sydney, Australia) - AuMake International Limited ("AuMake" or the "Company") is pleased to announce the acquisition of Australian manufacturer Jumbuck Australia Pty Ltd (**Jumbuck**) including all associated plant and machinery. Jumbuck is well known within the daigou and Chinese tourist industries as a manufacturer of high quality Australian wool products including but not limited to boots, scarves, coats and quilts.

The acquisition of Jumbuck provides investors with direct exposure to a new product category that is popular with daigou and Chinese tourists. Wool products will form the fourth 'pillar' of core product categories for AuMake in addition to the existing product categories of healthcare, skincare and infant formula products.

Jumbuck will produce wool products for AuMake under the Company's 100% owned trademark 'UGG AUS', which will be promoted as a premium brand and the only brand that covers all product categories including but not limited to boots, scarves, quilts and coats. In addition, UGG AUS will be promoted as a brand that is specifically tailored towards the tastes of daigou and Chinese tourists at various price points. Please see further below for graphical illustrations of a sample of UGG AUS products.

As a third party manufacturer, Jumbuck achieved (unaudited) sales of \$285,895 and \$754,624 for FY16 and FY17 respectively at an average gross margin of 32%. The 260% increase on YoY sales demonstrates Jumbuck's growing reputation within the daigou and Chinese tourist industries, as well as the growing appetite of Chinese consumers for Australian wool products.

For FY17, AuMake sold \$411,371 of wool products at a gross margin of 26% from servicing customer driven enquiries with minimal focus or marketing support. With the implementation of a coordinated marketing strategy for the promotion of UGG AUS brands across all AuMake retail stores, the Company expects the wool product category to be an area of strong organic growth. A priority marketing strategy for AuMake is to complement and progressively substitute existing wool products with UGG AUS branded wool products.

The acquisition of Jumbuck provides AuMake with the following strategic advantages:

- **Vertical ownership of supply chain** – increased efficiencies stemming from control of supply chain from procurement of raw materials and manufacturing to sales and distribution of end products.
- **Increased gross margins** – Gross margins for wool products sold via AuMake stores are anticipated to increase from 26% to a range of 45-60% depending on particular product type due to:
 - The availability of capital allowing the purchase of greater quantities of raw material at lower prices
 - Removal of manufacturing margins that would normally be incurred
 - Gradual substitution and replacement of existing wool product brands with UGG AUS brands across all existing and future AuMake retail stores
- **Flexibility** – Control of manufacturing processes allows the Company to produce unique designs and styles at various price points to suit and influence fast moving Chinese consumer tastes.
- **Coordinated marketing campaign** - AuMake sales staff will promote the UGG AUS brand as a premium brand that covers the entire range of wool products exclusively available in AuMake stores. In-store marketing will be complemented by WeChat promotions that engage with the current 9000 registered users in AuMake WeChat groups. The high majority of these registered users are daigou or tour guides, who in turn have an average of 500-1000 WeChat contacts who they promote and sell Australian products to.

Transaction Terms

The Company has acquired Jumbuck Australia Pty Ltd (ACN 161 916 936) on the following terms:

- **Tranche 1** – 100% owned subsidiary ITM Corporation Limited (ACN 605 374 570) has acquired 49% of Jumbuck Australia Pty Ltd immediately and will issue A\$100,000 of AuMake fully paid ordinary shares (subject to a 12 month voluntary escrow).

These fully paid ordinary shares will be issued under the Company's existing Listing Rule 7.1 share placement capacity. AuMake will have majority board representation of Jumbuck and has also executed a separate shareholders agreement that will provide AuMake with full control over Jumbuck's activities. At the time of acquisition, book value of plant and equipment is approximately \$200,000.

- **Tranche 2** – On and after 1 October 2020, the Company has the option to acquire the remaining 51% of Jumbuck Australia Pty Ltd for A\$400,000 of AuMake fully paid ordinary shares which will be subject to a 12 month voluntary escrow. The issue price of these fully paid ordinary shares will be based on a 5 day vwap at the time of settlement of tranche 2.

For example, if on 1 October 2020 the Company exercises its option to acquire the remaining 51% of Jumbuck Australia Pty Ltd, the Company will issue A\$400,000 of AuMake fully paid ordinary at an issue price of weighted volumes and prices from the preceding five trading days i.e. 24 September 2020 (subject to 12 month voluntary escrow).

The vendor of Jumbuck will remain with AuMake as staff on a standard employment contract and will be responsible for all duties relating to the manufacture and production of UGG AUS branded wool products. Jumbuck will not manufacture products for third parties unless agreed to by AuMake if spare capacity exists.

This transaction provides flexibility for the Company to own 100% of Jumbuck Australia Pty Ltd, should the acquisition meet internal sales and gross margin targets.

Auburn Facility

The Company has recently relocated head office and core warehouse operations to a new facility in Auburn Sydney NSW. The Auburn facility provides increased office space to accommodate head office staff focused on supply chain/marketing functions and 1,200 sqm of warehouse space to support inventory and retail store growth.

Jumbuck will be based and operate out of the Company's Auburn facility providing Chinese tour groups direct exposure to the production of UGG AUS branded wool products. It is anticipated that the Auburn facility will be a significant driver of UGG AUS sales.

The Auburn facility also includes a showroom, which when used in conjunction with the warehouse provides an attractive proposition for Chinese delegations/tour groups.

Chinese Delegation/Tour Group Strategy

The showroom and warehouse combination allows Chinese delegations/tour groups to see products in 'wholesale' form, purchase in bulk and allow ease of movement from their chosen mode of transport. The majority of Chinese delegations/tour groups that visit Sydney will also travel to the Blue Mountains which is on-route and in close proximity to the Company's Auburn facility.

Chinese delegations/tour groups are a highly valuable segment of the Chinese tourist market. They feature the following attributes:

- They are heavily influenced by the recommendations of Chinese tour guides who accompany them during their visit to Australia. The role of the Chinese tour guide, in consultation with the delegation/tour group, is to develop an itinerary of places they wish to see during their stay which will also include places to visit to purchase genuine Australian products.
- Chinese delegations/tour groups are very open to purchasing new products. They are highly motivated by being able to show friends and family new, exciting and high quality products purchased during their holiday in Australia.
- Quality and uniqueness often displaces price as a motivating factor when choosing products to purchase.
- They are highly impressionable in relation to which products to purchase during their visit to Australia by direct physical contact with products and face-to-face engagement.
- They generally purchase in bulk quantities and higher levels of spending given that most Chinese tourists will only visit Australia once or twice in their lifetime.



To demonstrate the impact of Chinese tour delegation/group visitation, the Company's existing Haymarket (Pitt St) retail store for FY17 achieved sales of approximately \$2.6 million at a gross margin of 20%. The sales performance of this store is a direct result of the higher proportion of total customers being from the Chinese delegations/tour groups segment as they purchase often in bulk and the gross margin performance demonstrates their propensity to also purchase high margin/new brands.

AuMake has a strategic alliance in place with the Sydney Chinese Tour Guide Association that has a membership of 500 tour guides in the Sydney area. AuMake provides tour guides and their customers with special discounts, a competitive pricing model, new products/brands, convenient payment and courier services.

AuMake is in advanced stages of developing an online booking system that can be used by tour guides to book in appointments with any AuMake stores including the Auburn warehouse, track customer discounts/purchases and continue to benefit from customers who continue to purchase when they return to China.

AuMake provides a unique conduit for Australian suppliers to engage directly with Chinese delegations/tour groups. This opens a number of opportunities for AuMake in terms of brand promotion and further corporate transactions.

Corporate Update

With the recent acquisitions of Health Essence and Jumbuck, the relocation of head office/warehouse to Auburn and the implementation of the Company's Chinese delegation/tour group strategy, the Company continues to grow its capability to bring new brands and products to the daigou and Chinese tourist markets.

The Company has and is continuing to receive a number of expressions of interest from existing brands and manufacturers across the four main product categories of infant formula, healthcare, skincare and wool. These expressions of interest include discussions on marketing and distribution synergies as well as potential corporate transactions including acquisitions.

The Company will continue to keep the market updated if any of these discussions result in a material transaction.

-ENDS-

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About AuMake

AuMake International Limited is an Australian-owned 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); and 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.

GRAPHICAL ILLUSTRATION OF SELECTED 'UGG AUS' PRODUCTS

- AUSTRALIAN OWNED MANUFACTURER

- WOOL PRODUCTS MADE OF PREMIUM AUSTRALIAN WOOL

Scarf and Shawl



UGG Boots



Coat



Alpaca Skin



Quilt

