

# STRATEGIC ALLIANCE WITH AUSTRALIAN MADE CAMPAIGN LIMITED, CHINA DAIGOU GROWTH STRATEGY, FINANCIAL PERFORMANCE & CORPORATE UPDATE

20 November 2017

## Highlights

- **Strategic Alliance with Australian Made Campaign Limited**
  - Establishment of a strategic alliance with Australian Made Campaign Limited to promote a wide range of genuine Australian products/suppliers to AuMake customers
  - Australian Made Campaign Limited administers the Australian Made logo used by a number of genuine Australian suppliers
  - The strategic alliance recognises the market leading position of both AuMake and Australian Made Campaign Limited in their respective fields of daigou/Chinese tourists and genuine Australian suppliers
  - AuMake will have access to a database of over 2,700 Australian suppliers to source new and genuine Australian products
  - A commitment by Australian Made Campaign Limited to actively promote AuMake as a destination for Australian suppliers who want to engage with daigou and Chinese tourists.
  - The strategic alliance provides an additional avenue of sales for AuMake
  
- **China Based Daigou Growth Strategy**
  - Opportunity to significantly expand the Company's daigou distribution network into China via staff/loyal customers who relocate back to China
  - Ability to leverage staff/loyal customer personal relationships to recruit further daigou based in China
  - Investment in China based support team to grow China based daigou
  - Approximately 10% of current sales comprise of payments received from China via WeChat Pay and AliPay
  
- **Financial Performance Update**
  - Improvement in sales and gross margins
  - YoY (October 2016 vs October 2017) – Sales 109.5% increase, Gross Margin 133.8% increase, Gross Profit Margin (%) 12.1% increase
  - Gross Margin improvement trend from July 2017
  
- **Corporate Update**
  - Finalisation of Jumbuck acquisition
  - Opening of flagship George Street store 27 November 2017
  - Assessment of further AuMake store locations in Sydney, Brisbane, Gold Coast and Melbourne
  - Continuing commercial and corporate discussions

### **Strategic Alliance with Australian Made Campaign Limited**

(Sydney, Australia) - AuMake International Limited (“**AuMake**” or the “Company”) is pleased to announce the establishment of a strategic alliance with Australian Made Campaign Limited (“**AMCL**”) ([www.australianmade.com.au](http://www.australianmade.com.au)).

AMCL is a not-for-profit public company established in 1999 by the Australian Chamber of Commerce & Industry (ACCI) and the network of state and territory chambers of commerce, with the cooperation of the Federal Government.

The Australian Made logo is administered by AMCL and is registered in Australian and China. It is used by more than 2,700 AMCL licensees on more than 20,000 products sold around the world.

AuMake will be a Retail Supporter of AMCL.

The strategic alliance establishes a relationship whereby AuMake and AMCL can proactively promote the benefits of each organisation to their respective client bases. AuMake and AMCL have committed to undertake the following actions to promote this strategic alliance:

- The use of the Australian Made ‘Retail Supporter’ logo (Figure 1) in all AuMake retail stores to demonstrate AuMake’s commitment to Australian industry which benefits both Australian suppliers and AuMake customers.



Figure 1: AMCL ‘Retail Supporter’ logo

- Promotion by AuMake (via WeChat and other marketing platforms) of the strategic alliance and Retail Supporter status with AMCL within the daigou and Chinese tourist markets, to demonstrate the Company’s commitment to promoting genuine Australian products.
- A commitment by AMCL to promote the strategic alliance with AuMake to its licensees and to encourage them (where relevant) to consider the opportunity to engage with AuMake on the basis that they are an AMCL licensee. AMCL will also host a number of webinars/information sessions and provide updates on opportunities with AuMake as they arise.

For AuMake, this strategic alliance with AMCL provides the following benefits:

- **Daigou and Chinese Tourists** – Official acknowledgement of AuMake’s close relationship with AMCL, the Australian Made logo and the concept of Australia within the daigou and Chinese tourist markets, which will significantly assist in driving daigou and particularly Chinese tourists to AuMake retail stores in addition to growth of the AuMake brand.
- **Increase in Product Range** – Assistance provided by AMCL will allow greater levels of engagement with over 2,700 AMCL licensees, significantly increases the variety of genuine Australian products that can be made available to daigou and Chinese tourists. This will support sales growth as AuMake customers are constantly seeking new, unique and genuine Australian products.

- **Higher Margin Products** –Australian products introduced via the AMCL strategic alliance will likely be new and relatively unknown within the daigou and Chinese tourist industries, potentially attracting higher gross margins and the potential of further acquisitions.

AMCL Chief Executive Ian Harrison said:

“AMCL is delighted to enter into this agreement with AuMake. The demand for genuine Aussie products and produce in China is growing continuously and cross-border sales, particularly those driven by the Australian-based daigou, is a major contributor to that. The Australian Made logo will definitely help AuMake lift its sales of genuine Aussie products and provide another channel to the Chinese market for Aussie manufacturers and growers.”

Joshua Zhou, Managing Director of AuMake says:

“The establishment of this strategic alliance with AMCL, reinforces to our customers that we work closely with Australian suppliers in order to provide them with new and the very best of genuine Australian products. This alliance is significant for our customers and will be well received by the daigou and Chinese tour guide communities.”

Keong Chan, Executive Chairman of AuMake states:

“The strategic alliance with AMCL provides a large and diverse source of genuine Australian products that will greatly assist sales and gross margin growth across our business.”

### **China Based Daigou Growth Strategy**

In addition to the Company’s intention to grow its retail store network within Australia, the Company has identified an opportunity to expand its reach into China, providing an opportunity to significantly expand its daigou distribution network to span both Australia and China.

After detailed analysis of internal data and discussions with senior store managers, the Company has identified that within the demographic of AuMake customers who use WeChat Pay or AliPay to purchase products, an existing and growing trend is the receipt of payments from daigou based in China.

The Company estimates that approximately 10% of current sales comprise of payments received from China via WeChat Pay and AliPay. The Company’s China based daigou are AuMake former staff and loyal customers who have permanently or temporarily migrated back to China. During their time in Australia, these staff and loyal customers have developed a strong connection with the AuMake brand. On return to China, they are continuing to actively promote the AuMake brand/products and recruit more daigou based in China via their personal relationships.

The Company recognises the importance of maintaining and growing the relationships with staff or customers who choose to return to China. The concept of China based daigou is particularly applicable to the following groups in order of magnitude:

- Chinese students who finish their studies and return to China;
- Chinese tourists who scan their QR codes to pay for products using WeChat Pay or AliPay in an AuMake store and subsequently return to China; and
- Former staff who have relocated back to China are now based in cities such as Huangzhou, Shanghai and Jinan/Qingdao who continue to purchase products from AuMake and operate as China based daigou.

The Company views the support of China based daigou as an important area of low cost/risk strategic growth for the promotion of the AuMake brand and Australian products in China. As such, the Company has approved an investment into the development of a support team based in Xiamen, China.

The purpose of this team is to support the Company's existing WeChat system for daigou/customers based in Australia but to also support daigou/customers when they choose to return to China.

AuMake will implement processes whereby support will only be provided to daigou or customers who have a proven and direct relationship with AuMake. In this way, AuMake China based daigou will be able to recruit more daigou via their personal networks within their chosen locations in China.

Advantages of the implementation of this strategy in China are:

- Significant expansion opportunities for AuMake's daigou distribution network to span both Australia and China;
- The ability to establish a highly competent support team with a deep understanding of WeChat architecture to provide sales and after sales support, cost effectively due to lower labour rates in China;
- A low cost but highly effective marketing route into China for the promotion of the AuMake brand and products therefore avoiding the high marketing costs normally associated with the promotion of brands or products in China;
- The capacity for AuMake to recruit more daigou, particularly those who have not had the opportunity to travel to Australia, in order to effectively promote the AuMake brand and products by working with daigou that have a proven and direct relationship with AuMake; and
- An increased likelihood of the adoption of new brands as is prevalent in the daigou channel.

The Company will review the performance of the Xiamen support team against internal targets and if met, will explore opportunities to invest further to establish more support teams throughout China.

### **Financial Performance Update**

The Company wishes to provide shareholders with an update on trading performance since listing.

The Company notes an improvement in store sales and gross margins (all figures refer to the Company's existing five stores):

- **YoY comparison (October 2016; October 2017)**
  - Sales - 109.5% increase (\$752,249; \$1,576,076)
  - Gross Margin – 133.8% increase (\$87,355; \$204,270)
  - Gross Profit Margin (%) – 12.1% increase (11.6%; 13%)
- **July 2017, August 2017, September 2017, October 2017**
  - Gross Profit - \$122,068, \$174,617, \$188,288 and \$204,270

Please note figures provided for FY2017/18 are subject to audit.

The Company notes further gross margin improvement during the month of November 2017.

The improvement in the Company's financial performance, particularly in relation to overall gross margin, is consistent with:

- the availability of additional capital from ASX listing to purchase greater volumes at lower prices;
- a renewed focus on the promotion of high margin products;
- closer/direct relationships with key suppliers to better forecast stock requirements;

- increased market awareness from marketing activities undertaken within the daigou/Chinese tour guide communities; and
- significant efficiency improvements in the Company's supply chain.

Whilst the improvement in the Company's financial performance is pleasing, the Company acknowledges the future challenges it faces during this early part of its growth phase. The Company looks forward to continued improvement in its financial performance as it further delivers on the execution of its growth strategies.

The Company will provide further detailed financial information in the next quarterly and half year reporting period to be released in January 2018 and February 2018 respectively.

### **Corporate Update**

The Company has finalised the acquisition of Jumbuck Australia Pty Ltd via the issue of escrowed shares and the transfer of the UGG AUS trademark.

The Company's flagship George Street store in Sydney CBD is scheduled to open on Monday 27 November 2017.

With the establishment of the strategic alliance with AMCL and the investment into the Company's China based daigou growth strategy, the Company has significantly increased opportunities to expand its supplier and daigou distribution networks.

The Company is also in the process of evaluating further sites in Sydney, Brisbane, Gold Coast, Melbourne and continuing to advance discussions on a number of commercial/corporate opportunities.

The Company will update the market where appropriate in due course.

**-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.