

China sales and business update

Highlights

– JiaJia TV (China)

- > Highly successful initial screening of AuMake owned brand *AU8 propolis mouth spray* product on 20 November 2018 with **700 units sold in a 30 minute segment**
- > This result has met the **upper range** of JiaJia's internal hurdle rates. Planning is now underway for **multiple** reruns of the mouth spray and scheduling of other AuMake owned brand product.

– CIQ product approval

- > China Inspection and Quarantine Certification (CIQ) approval received for *AU8 propolis mouth spray* as an important step towards on-shelf sales in China – **first export to Xiamen China anticipated in March 2019 quarter.**

– Owned brand dairy products

- > Strong initial domestic sales of AuMake owned brand *Valerian Milk* product **outperforming** anticipated average sales of new milk formula products coming to market
- > AuMake currently assessing attractive commercial terms proposed by other milk formula manufacturers for the development of new owned brand products
- > Update on owned brand milk formula products in March 2019 quarter

– E-commerce legislation

- > Announcement of measures by Chinese government on 21 November 2018 to further stimulate cross border e-commerce industry which is anticipated to **increase daigou activity from 1 January 2019**
- > Daigou and Chinese tourist buying behaviour remains strong

– Daigou channel commentary

- > Australian / New Zealand brand and product penetration continues to be poor in China's second, third and fourth tier cities
- > Significant price differential between China on-shelf supermarket and daigou channel highlights the importance of daigou in reaching customers based within inland China

– General trading conditions and Chinese tour groups

- > Increasing Chinese tour group traffic through AuMake stores
- > Momentum from September quarter has continued, with material improvement across all financial and operational metrics



AU8 mouth spray screened on JiaJia TV (China) on 20 November.



(Sydney, Australia) – AuMake International Limited (AuMake or the Company) is pleased to provide the following business update.

JiaJia TV Sales (China)

On 20 November 2018 AuMake's first owned brand product went to air on China's JiaJia TV 24-hour shopping channel with **over 700 units of the AU8 Propolis Mouth Spray sold in a 30 minute segment.**

Given this strong result, JiaJia has advised AuMake that the initial screening result has met the **upper range** of internal hurdle rates and discussions are underway for a **multiple** rerun schedule for the mouth spray and the introduction of other AuMake owned brand products.

The Company will provide a summary and further detail in relation to JiaJia TV sales in the December quarterly report.

JiaJia Shopping Co., Ltd (**JiaJia**) operates a 24-hour TV shopping channel and e-commerce platform with an estimated audience of 385 million across China.

Commencing product promotion and sales via JiaJia is an important milestone for AuMake as it signifies the satisfactory completion of a detailed due diligence process performed by a Chinese State Owned Enterprise. Due diligence involved the thorough assessment of manufacturer credibility, authenticity of ingredients and accuracy of marketing material used. The high degree of technical and cultural competency required to meet these strict requirements provides AuMake with unique access to Chinese customers via channels that would otherwise be unavailable to mainstream Australian distributors / brands.

As a result of this process, the introduction of additional products via JiaJia will be significantly streamlined.

CIQ product approval

AU8 propolis mouth spray has received China Inspection and Quarantine Certification approval which is an important step towards on-shelf sales in China. **The first shipment is anticipated to be exported to Xiamen China in March 2019 quarter.**

Owened brand dairy products

AuMake owned brand *Valerian Milk* product, which combines valerian root and other natural supplements with milk powder to aid sleep, has been sold domestically since the product launched on 3 October 2018, with sales continuing to grow and **outperforming** anticipated average sales of other new milk products coming to market. This sales momentum in Australia is expected to benefit sales of the product when it launches on China's JiaJia TV.

Following the Company's August announcement relating to the execution of a supply agreement with Pure Nutrition Limited, AuMake wishes to advise that it has been approached by other milk formula manufacturers who have proposed highly attractive commercial terms in relation to pricing and delivery times for the development of owned brand milk formula products.

Should agreement be reached on these proposed terms, AuMake anticipates significant improvement in relation to gross margin and delivery time performance. The Company notes the AuMake business is performing well and the addition of owned brand formula will enhance overall performance.

The Company appreciates the sensitivity that the market is placing on milk powder products and as such is treating the development of owned brand milk products with the utmost care and diligence to ensure that the best possible commercial outcome is achieved for AuMake and its shareholders. The increasing sales and popularity of *Valerian Milk* reinforces management confidence that AuMake is able to identify, introduce and promote new products / brands within the competitive milk formula space.

The Company continues to liaise with previously announced supply partner Pure Nutrition Limited as it works through this due diligence process and will update the market on progress in March 2019 quarter.



E-commerce legislation

On 21 November 2018, China's State Council's executive meeting provided further information in relation to the proposed 1 January 2019 regulations and the cross border e-commerce channel (CBEC). Premier Li Keqiang who chaired the meeting stated "We need to take a holistic approach, exercise prudent yet accommodating regulation to fully unleash the growth potential of cross-border e-commerce."¹

Four key points were raised which relate to the AuMake business:

1. The current policies on cross-border e-commerce retail imports will continue. **No requirements in licensing, registration or record-filing for first-time imports will apply to retail imports through cross-border e-commerce platforms.** Instead, these goods will receive more relaxed regulation as imports for personal use.
2. Goods included in the cross-border e-commerce retail imports list have so far enjoyed zero tariffs within a set quota and had their import VAT and consumer tax collected at 70% of the statutory taxable amount. Such preferential policies will be extended to another 63 tax categories of high-demand goods.
3. **The quota of goods eligible for the preferential policies will be raised from 2,000 yuan to 5,000 yuan per transaction, and from 20,000 yuan to 26,000 yuan per head per year.** This quota will be further adjusted as needed in light of increases in personal incomes.
4. Cross-border e-commerce businesses, online platforms and payment and logistics service providers must fully discharge their responsibilities required by law.

AuMake welcomes the latest development to further stimulate the CBEC with the continuation of current licensing requirements, extension of tariff/VAT/consumer tax concessions and value per transaction/head limit also being increased.

These measures are anticipated to **increase the total size of the CBEC** and it is anticipated that legitimate cross border e-commerce participants, including AuMake and professional daigou, will **increase their market share** as illegitimate operators are phased out with increased regulation.

Daigou activity remains strong and AuMake anticipates **increasing daigou activity** particularly with the expanded value of per transaction/head spending quotas from 1 January 2019.

Daigou channel commentary

AuMake constantly monitors the availability and pricing of Australian and New Zealand products on-shelf in Chinese supermarkets and baby focused stores through its network of China based daigou, customers in market and returning Chinese tourists. AuMake has observed that Australian and New Zealand products continue to be **difficult to find on-shelf particularly in second, third and fourth tier cities, with large price differentials** still existing when comparing on-shelf supermarket prices to prices via the daigou channel.

With such poor existing penetration for Australian and New Zealand products on-shelf in China, significant opportunities exist for AuMake to incubate and distribute products via daigou and Chinese tourists as AuMake's brand awareness continues to grow in Australia and China.

As an example, a well-known Australian brand of infant milk formula in the city of Xian China was approximately 40% more expensive than the same product available via the daigou channel with the inclusion of all relevant taxes and levies.

Chinese tour groups and general trading conditions

As stated in the Company's investor presentation in October 2019, AuMake has continued to grow its network of existing relationships with Chinese travel agencies and tour guides. As a result, **increased numbers of Chinese tour groups are visiting AuMake stores.**

The Company will continue to monitor this positive trend and is currently developing a strategy focused on Chinese tour groups which is particularly relevant in relation to AuMake's interstate expansion plans. The Company will update the market in due course.

AuMake is pleased to confirm that the **momentum experienced during the September quarter has continued** with material improvement being observed across all financial and operational metrics. The Company looks forward to updating the market with further detail in the December quarterly report.

-Ends-

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.

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