

March 2018 Quarterly Report

Highlights

Quarterly Financial Review

- Continued improvement in gross profit performance for the March 2018 quarter:
 - > Gross profit: \$824,000 (December 2017 quarter: \$736,000) up **12%**
 - > Gross margin: 16.05% (December 2017 quarter: 14.15%) up **13%**
 - > Sales: \$5.13 million (December 2017 quarter: \$5.20 million) **despite** seasonal low for daigou market during Chinese New Year festival period in February 2018
 - Record sales month in March – \$2.37 million
 - > Continued momentum from March 2018 into April 2018 indicating a step-change in profitability and further financial improvement anticipated for the June 2018 quarter
- Owned Brand Sales:
 - > Sales: \$273,000 (December 2017 quarter: \$160,000) up **70.6%**
 - > Gross profit: \$151,000 (December 2017 quarter: \$88,000) up **71.5%**
 - > Gross margin: 55% (December 2017 quarter: 53%) up **3.8%**
- Significant same store growth
- Significant progress towards normalised 'Cost of Doing Business' breakeven for the AuMake business
- Strong financial position – **\$17.7** million current assets (cash at bank \$13.2 million and \$3.1 million in inventory) with current liabilities of \$1.5 million

Quarterly Activities Review

- Full implementation of six-pillar growth strategy
- Strategic partnerships with Itrip and Chemsave

Growth and Outlook

- Key future growth drivers in place including launch of Xiamen (China) Daigou Hub
- Strong growth outlook with further developments scheduled for June 2018 quarter





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

Quarterly Financial Review

Continued Improvement in Gross Profit and Margin Performance

Gross profit performance has continued to improve in the March 2018 quarter, representing the seventh consecutive period of growth:

- **Gross Profit:** \$824,000
- **Gross Margin:** 16.05%

The Company notes material improvement in gross margin from 14.15% in the December 2017 quarter to 16.05% in the March 2018 quarter.

Chinese New Year

During the Chinese New Year (“CNY”) festival period (16 February 2018 – 2 March 2018), the majority of daigou return home to mainland China and Chinese logistics companies shut down limiting the flow of products to and within China. Despite this industry-wide seasonal low for the daigou market lasting a period of two weeks in February, the Company achieved sales in the March 2018 quarter of \$5.13 million (December 2017 quarter: \$5.20 million) and increased profitability relative to the December 2017 quarter, indicating significant improvement across the AuMake business.

During the CNY period, the Company also experienced an increase in Chinese tourist visitation to Sydney’s George St and Pitt St store locations. As mentioned in previous announcements, Chinese tourists have elevated appetites for new products and brands which carry higher gross margins, resulting in a **gross margin of 20%** across AuMake stores for the month of February 2018.

Post Chinese New Year

Following the Chinese New Year festival period, AuMake experienced a record month of sales of **\$2.37 million** – well clear of the previous record high month of \$1.85 million in December 2017.

The Company is pleased to advise that this sales momentum has continued into April 2018 (with preliminary data indicating sales well in excess of \$2 million).

The significant improvement in financial performance observed for both March and April 2018 has provided management with a strong indication that a step-change in the Company’s financial performance has occurred. This is in line with the full implementation of the Company’s six pillar strategy during the March 2018 quarter which has resulted in increased sales of higher margin products and increased store visitation across the AuMake network.

The Company anticipates further financial improvement during the June 2018 quarter and for the remainder of the 2018 calendar year.



AuMake Owned Brand Financial Performance

For the March 2018 quarter, the Company's owned brands achieved sales of \$273,000 and gross profit of \$151,000 (gross margin 55%). This represents an improvement of **70.6%** and **71.5%** for sales and gross profit respectively relative to the December 2017 quarter.

The Company also notes the weighted average contribution for gross profit from owned brand products reached **20%** for the March 2018 quarter (14% in the December 2017 quarter) which is anticipated to grow further in the coming months. This indicates a positive trend towards a change in product mix to profitable higher margin owned brand and less known products, and away from lower margin typically high-volume products.

Owned brand product on a sales basis for the March 2018 quarter consisted of:

- Health Essence – 60%
- Jumbuck/UGG – 35%
- Medigum – 5%

The financial performance of AuMake owned brands since the Company's ASX listing in early October 2017, provides strong evidence that the business can derive significant value from the strategic introduction and promotion of new brands and products to the daigou and Chinese tourist markets.

The Company will look to add cosmetics/skincare products to its owned brand product portfolio during the June 2018 quarter.

In addition, new Australian brands and products not owned by AuMake have also been added and promoted within the AuMake distribution network and form an important source of additional revenue currently contributes over 50% of weighted average gross profit.

Significant Same Store Growth

The Company notes material improvement in same store sales for the original five stores in Sydney (Parramatta, Hurstville, Pitt St CBD and two in Eastwood).

- **Monthly performance of same stores since ASX listing (October 2017 vs March 2018)**
 - sales and gross profit growth of 13.2% and 23% respectively comparing the months of October 2017 (\$1.37 million with gross margin of 13%) and March 2018 (\$1.55 million at an average gross margin of 15%);
- **Comparison of March 2017 quarter to March 2018 quarter** – Sales and gross profit increased by 31% and 45% respectively comparing the March 2018 quarter to the corresponding March 2017 quarter.

Same store financial growth provides an indication of AuMake's ability to extract value from existing assets which, combined with the addition of new stores, can provide significant financial synergies.



New stores

The flagship George St store in Sydney's CBD has been performing extremely well with consecutive increases in sales and gross margin since opening in November 2017. A gross margin of **22%** was achieved in the month of March 2018 with the purchase of new brands by the store's primary customers, Chinese free independent tourists, being a major contributing factor.

All stores, with the exception of the newly opened Haymarket Daigou Hub and Auburn warehouse showroom, are profitable post labour and occupancy costs.

The Haymarket Daigou Hub and Auburn warehouse showroom, which both opened in March 2018, are demonstrating growth and are expected to reach positive operating cash flow in the coming months.

Store sales improvement has been supported by a focus on having the right store management in place, improved supplier pricing/terms, more effective and targeted marketing campaigns, overall supply chain management improvement (with less obsolete inventory) and a growing awareness of the 'AuMake' brand within the daigou and Chinese tourist markets.

This improvement in financial performance is considered by the Company to be proprietary in the daigou and Chinese tourist markets and it is anticipated that store sales growth will improve further in the coming months.

Operational Expenditure Breakdown

Operational expenditure for the March 2018 quarter was a total of \$2.3 million consisting of:

- **Normalised 'Cost of Doing Business' ("CODB")** – \$1.6 million
 - > Normalised CODB relates to essential employee/corporate costs, occupancy expenses and critical marketing expenses.
- **Strategy Implementation costs** – \$0.7 million
 - > Strategy implementation costs relate to discretionary expenditure that has been incurred to execute high growth strategies including research and development of owned brand products, marketing strategies, building the operational team in China and further online initiatives.

A major component of normalised CODB and strategy implementation costs relate to staffing levels in areas of procurement, marketing & sales and China operations. The Company has now reached appropriate staffing levels to support the growth of the AuMake business which will result in stability for both normalised CODB and strategy implementation costs over the next 12 months.

Against a stable CODB and given the financial performance for the month of March 2018 and the continued momentum into the June 2018 quarter, the Company anticipates significant progress to be made towards the achievement of normalised CODB breakeven.

Achievement of normalised CODB breakeven indicates that gross profit is covering the essential costs of running the AuMake business, and any profit above normalised CODB breakeven can be used to fund growth strategies.

Furthermore, a stable normalised CODB will allow a greater proportion of future gross profit to flow to the financial bottom line as the AuMake business grows.



Capital Investment and Inventory

During the March 2018 quarter, the Company invested \$909,000 in store renovation and fit-out costs for the opening of the Daigou Hub (Haymarket) and warehouse showroom (Auburn).

The Company also purchased \$5.6 million of inventory during the March 2018 quarter which includes additional inventory (primarily high margin owned brand products) to support sales growth in the June 2018 quarter.

Strong Financial Position

At the end of the March 2018 quarter, the Company's financial position included \$17.7 million of current assets (cash at bank was \$13.2 million with \$3.1 million in inventory) with current liabilities of \$1.5 million. AuMake is sufficiently capitalised to execute its growth strategies over the next 12-18 months. The inventory component of the business is expected to grow proportionately as new stores are opened.

Review of Quarterly Activities

Implementation of Six Pillar Growth Strategy

During the quarter, the Company fully implemented its six-pillar growth strategy currently consisting of:

- Daigou Hubs (Haymarket, Sydney and Xiamen, China)
- Flagship stores (George Street, Sydney)
- Warehouse showrooms (Auburn, Sydney)
- Retail store network (Sydney – Parramatta, Hurstville, Pitt St CBD and Eastwood (2))
- Online strategy
- Owned brand products (Health Essence, Jumbuck and Medigum Honey)

Each pillar forms a unique revenue stream and is anticipated to provide sustainable competitive advantages for the AuMake business in the daigou and Chinese tourist markets.

It is anticipated that material revenue contribution will be received during the June quarter 2018 from the Daigou Hub (Haymarket), warehouse showroom (Auburn) and Xiamen (China) Daigou Hub (including sales of AuMake owned brand products).

The Company has also been making significant investment in its online strategy and leading technologies to provide innovative services to our customers. This includes improvements in user functionality for online customer orders, penetration of WeChat marketing campaigns and formalisation of an arrangement with a leading Chinese E-commerce platform which will be announced in the June 2018 quarter.



Establishment of Key Strategic Partnerships

During the March 2018 quarter, the Company entered into the following key strategic partnerships:

- **Ittrip.com** – provides the ability for AuMake to market directly to Ittrip's 600,000 membership base targeting lucrative Free Independent Travellers and indirectly through China's largest online travel agencies including Ctrip.com.
- **Chemsave** – allows AuMake to distribute owned branded products through up to 150 pharmacies on the east coast of Australia. This partnership with a trusted Australian pharmacy provides credibility for AuMake's owned branded products in the eyes of Chinese consumers. Cross-brand marketing initiatives will be undertaken with Chemsave, in addition to activities to realise sustained supply chain synergies.

The Chemsave strategic partnership and the distribution network it affords, will result in the Company moving away from investing in and opening smaller retail daigou stores. Instead the Company will focus on investment in larger, higher traffic and more profitable stores such as Daigou Hubs, warehouse showrooms and tourist flagship stores to provide initial inertia for the uptake of new products and brands by the daigou and Chinese tourist markets. Once sufficient traction has been achieved the Company will distribute these new products and brands more broadly through its own retail store network, online networks and Chemsave.

This revised distribution strategy is anticipated to have a material effect on overall gross margins and a reduction in costs relating to store rollout.

Future Growth Drivers

- The Burwood Daigou Hub is due to open in June 2018. Given recent store opening experience, the Company anticipates profit consistency within a three (3) month period.
- In addition to assessing interstate locations, the Company will also be assessing two further store locations in Campsie and Kingsford NSW in H1 FY19.
- The addition of new owned brand skincare products to the AuMake portfolio in the 2018 June quarter will further improve gross margin.
- A fully functional Daigou Hub in Xiamen is expected to recruit a material number of China based daigou in H1 FY19, which is anticipated to generate revenue with high gross margins.
- Continued investment across online initiatives such as WeChat trading platforms, Pack & Send mobile logistics applications and live streaming programs, will add further value to the customer shopping experience.

For the June 2018 quarter, the Company has budgeted:

- \$1.67 million for normalised CODB
- \$0.87 million on strategy implementation costs including (research and development of owned brands, marketing and advertising, and development of online platforms)
- \$6.5 million in inventory
- \$0.35 million on capital investment associated with the renovation and fit-out of the Burwood Daigou Hub.



Corporate

AuMake raised capital of \$14 million in January 2018, which has fully funded the Company to execute its growth strategy.

The Company also made two minor acquisitions during the March 2018 quarter to streamline its warehouse logistics function and register the Company's Daigou Hub in Xiamen China as a wholly owned subsidiary.

With the addition of further senior management and key internal systems in place, Mr Gang Xu, as one of the founders of AuMake, has transitioned from an executive to a non-executive director role.

Summary

The implementation of a number of strategies to improve the AuMake business has resulted in a material step-change in profitability for the March 2018 quarter including a record \$2.37 million in sales for the month of March.

Sales and operational momentum has continued into the month of April with further financial improvement anticipated for the June 2018 quarter and the balance of calendar year 2018.

The Company also continues to observe improvement in brand equity across its owned brands as they become increasingly well known within the daigou and Chinese tourist markets. Further growth in AuMake's portfolio of owned brands is anticipated with the implementation of the strategic partnership with Chemsave during the June 2018 quarter.

AuMake is strongly encouraged by the March 2018 quarter performance and looks forward to updating the market on the Company's June 2018 quarterly report, in addition to announcing further strategic initiatives in the coming months.



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")

March 2018

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (9 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	5,133	14,079
1.2 Payments for		
(a) research and development	(37)	(37)
(b) Cost of goods sold (including investment in additional inventory for new stores and own products)	(5,618)	(14,480)
(c) advertising and marketing	(240)	(457)
(d) leased assets	(369)	(723)
(e) staff costs	(962)	(1,768)
(f) administration and corporate costs	(936)	(1,610)
(g) Bank guarantee for leased property (refundable at end of lease)	(72)	(490)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	18	35
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	(16)
1.7 Government grants and tax incentives	-	-
1.8 Other (related to one off listing expenses)	30	(275)
1.9 Net cash from / (used in) operating activities	(3,053)	(5,742)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (9 months) \$A'000
2.	Cash flows from investing activities		
2.1	Payments to acquire:		
	(a) property, plant and equipment	(909)	(1,424)
	(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)	-	17
	(c) investments	-	-
	(d) intellectual property	-	-
	(e) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	(274)
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	-	-
2.6	Net cash from / (used in) investing activities	(909)	(1,681)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of shares	12,000	20,000
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	(220)	(483)
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	(33)	(46)
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	11,747	19,471

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (9 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	5,392	1,129
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(3,053)	(5,742)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(909)	(1,681)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	11,747	19,471
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of quarter	13,177	13,177

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	3,103	3,103
5.2	Call deposits	10,074	10,074
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)	13,177	13,177

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	196
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		

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	(100)
9.2 Cost of goods sold (including investment in additional inventory for new stores and own products)	(6,500)
9.3 Advertising and marketing	(500)
9.4 Leased assets	(380)
9.5 Staff costs	(1,100)
9.6 Administration and corporate costs	(500)
9.7 Other (provide details if material)	-
9.8 Total estimated cash outflows	(9,080)

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

10. Acquisitions and disposals of business entities during the quarter (items 2.1(b) and 2.2(b) above)	Acquisitions	Acquisitions
10.1 Name of entity	168 Express Pty Ltd	Da Xue Li (Xiamen) Health Technology Pty Ltd
10.2 Place of incorporation or registration	Australia	China
10.3 Consideration for acquisition or disposal	Nil	Nil
10.4 Total net assets / (liabilities)	(4,215)	(35,351)
10.5 Nature of business	Private company	Private company

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:30 April 2018.....
(Director/Company secretary)

Print name:Peter Zhao.....

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.

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

INVESTORS

Keong Chan, Executive Chairman
keong.chan@aumake.com.au

MEDIA

Lynn Semjaniv, Sauce Communications
lynn@saucecommunications.com.au
or 0481 004 797



Twitter: [@AuMakeAus](https://twitter.com/AuMakeAus)
Instagram: [@aumake](https://www.instagram.com/aumake)
LinkedIn: www.linkedin.com/company/aumake

