

September 2018 Quarterly Report

Highlights

- **Exceptional financial growth** for the September 2018 quarter:
 - > Sales: \$10.05m (June 2018 quarter: \$7.04m) up 43%
 - > Gross profit: \$1.76m (June 2018 quarter: \$1.08m) up 63%
 - > Gross margin: 17.5% (June 2018 quarter: 15.4%)
- **Significant increase in owned brand sales growth** of 47% to \$550,000 (June quarter 2018: \$374,000)
- **Strong improvement in same store¹ performance over the June quarter** with growth of 11% (sales) and 18% (gross profit)
- **Online contributed 30% of overall sales** and membership grew by 13,000 to 93,000 members
- **Actual net operating outflow for the quarter decreased** to \$1.19m (excluding forward purchased inventory)
- **New strategic partnerships** with a number of influential parties entered into during the quarter
- **Further material financial improvement anticipated for the December quarter**
- **Total operational cost breakeven now anticipated to occur earlier in FY19 as a result of financial performance exceeding expectations**
- **1 January 2019 China e-commerce regulations anticipated to further strengthen** the AuMake business

1. Same stores include Parramatta, Hurstville, Pitt St, CBD, Eastwood, Townhall flagship store, Haymarket Daigou Hub and Auburn warehouse showroom.





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

Quarterly Financial Review

The September 2018 quarter represented exceptional financial growth with the company recording:

- Sales: \$10.05 (June 2018 quarter: \$7.04m) up 43%
- Gross profit: \$1.76m (June 2018 quarter: \$1.08m) up 63%
- Gross margin: 17.5% (June 2018 quarter: 15.4%)

Overall performance – This quarter of strong sales and gross profit growth demonstrates the continued maturation and growing popularity of the AuMake brand within the daigou and Chinese tourist markets. AuMake store traffic continued to increase during the quarter, driven by a number of marketing initiatives, with overall sales further strengthened by the Kiwi Buy store network.

Gross margin improved significantly to 17.5% as a result of:

- Increased sales of owned brand products;
- Sales of less well-known brands and products contributing over 50% of gross profit; and
- Further and continuing improvement in volume purchasing capability as the business grows.

Since acquisition, the average gross margin across the Kiwi Buy store network has also increased from 10% to 20%, providing a clear indication of AuMake's ability to identify, acquire and grow businesses within our target markets.

Owned brand product sales had significant growth of 47% to \$550,000 (June quarter 2018: \$374,000). This material increase reflects the value of owning distribution channels within the daigou and Chinese tourist markets, to generate demand for owned brand/less well-known products.

Same store sales continued strongly with 11% (sales) and 18% (gross profit) growth over the June 2018 quarter.

Online contributed 30% of overall sales during the quarter and 13,000 members were added to the database taking total membership to 93,000.

Decrease in actual net operating outflow to \$1.19 (excluding forward inventory purchased of \$582,000) which is a significant decrease on the June quarter.

During the quarter \$445,000 was invested in store refurbishments.

As a result of the strong quarterly financial performance, continued momentum and with further streamlining of the AuMake business, **total operational cost breakeven is anticipated to occur earlier than previously expected in the 2019 financial year.**





Quarterly Activities Review

Addition of dairy category to owned brand product portfolio

AuMake is developing a range of owned brand milk powder formula products specifically tailored to the Chinese market, with the exception of infant formula in the initial phase. The A1 product range is scheduled for launch pre-Christmas, with the A2 range due in April / May 2019.



Exclusive sales agreement with Anhui Tiantong Renhe Culture Communication Co Ltd

Tiantong's network of media channels in China will exclusively promote and distribute AuMake's product, with initial promotion via the JiaJia 24-hour TV shopping channel (with viewership of 385 million people and forecast sales for 2018 of 1.5 billion RMB). The JiaJia channel focuses on China's ageing population, in line with AuMake's current marketing strategy.



Ownership of Herbsmart Pharmaceuticals Pty Ltd

AuMake has ownership of an initial 50% interest and option to acquire a further 40% in Herbsmart Pharmaceuticals Pty Ltd, including all brands and associated trademarks. Herbsmart is the first owned brand to be added to the Company's dairy product category, with plans to develop innovative products which combine the health benefits of natural supplements and milk to meet the needs of China's ageing population. Herbsmart's existing Valerian Milk product will be the first AuMake promoted on China's JiaJia TV shopping channel under the Company's exclusive arrangement.



DHL eCommerce partnership

DHL eCommerce, a division of the world's leading logistics company Deutsche Post DHL Group, has partnered with AuMake to provide its Australian retail store customers with DHL eCommerce Parcel International Direct shipping solutions. This partnership with DHL further strengthens AuMake's logistics capability in the Chinese market. The opportunity to partner with DHL is recognition of AuMake's growing presence in the Australian daigou and Chinese tourist markets.





Ctrip partnership

AuMake's strategic partnership with Ctrip provides the 250 million customers of China's number one travel agency, with exclusive access to deals and packages in all AuMake stores. Upon entering a store, Ctrip customers are able to scan their unique Ctrip QR code to access exclusive deals, which drives store traffic and growth in AuMake's online membership database.

The Company will work on further marketing and cross-promotion opportunities with Ctrip to further strengthen AuMake's brand presence in the lucrative Chinese tourist market.



UnionPay partnership

UnionPay is the largest card payment organisation in the world (debit and credit cards combined) and during the quarter the Company launched cross promotion activities to drive awareness of the AuMake brand with existing UnionPay members (40 billion bankcards) and promote UnionPay to AuMake's 93,000 member database.

Signboards and promotions were displayed across Sydney both in CBD and suburban areas. Cardholders were able to access exclusive deals and promotions from using their UnionPay cards in AuMake stores.

Given the success of the combined UnionPay and AuMake promotions so far, it is anticipated that UnionPay will enter into further and more extensive collaborations with the Company in the coming months.



Supplier marketing services

Given its distribution network and customer base, AuMake provides a range of marketing services to suppliers, to further assist in the development and promotion of new brands and products to daigou and Chinese tourists.

This includes daigou training sessions in its Haymarket Daigou Hub to increase brand product awareness and knowledge. During the quarter AuMake conducted twelve (12) daigou training sessions (an average of one (1) a week) to over 600 daigou.

The Company expects income derived from supplier marketing services to continue to grow and provide an additional and material income source for the AuMake business.



Recognition of AuMake in China

At the 5th China Brand Innovation and Development Summit held in Beijing, China, AuMake received the '2018 China Influential Company Award' based on positive evaluation and feedback from the public of AuMake's growing influence in the healthcare industry between China and Australia.





New China eCommerce law 1 January 2019

Whilst implementation guidelines for the new China eCommerce law (scheduled to come into effect 1 January 2019) are yet to be released by the Chinese government, AuMake's analysis of existing relevant legislation and commentary indicates that the new eCommerce law will likely be favourable towards Australian based daigou and in turn, the AuMake business. AuMake has not observed any changes in daigou buying behaviour.

In addition, the Chinese tourist driven segment which comprises 50% of the AuMake business, is anticipated to be unaffected by the introduction of upcoming legislation and continues to perform strongly.

Since the publication of the new legislation, a number of suppliers have become aware that they may experience significant changes to their existing sales channels to the Chinese market. To this end, AuMake has been approached by several suppliers, including those with well-known brands, to gain or further enhance their access to AuMake's distribution network to solidify their sales channels to the Chinese market.

AuMake will provide an update and additional detail on the impact of the new legislation on the Company, as further information becomes available.

Growth and outlook

Keong Chan, Executive Chairman states:

"The September 2018 quarter has delivered yet another period of record growth across the AuMake business with further material improvement anticipated across all financial metrics in the December quarter. We now expect to reach total operational breakeven earlier in the 2019 financial year than previously advised given our current financial trend.

December quarter activities will include further marketing activities to strengthen our Australian distribution network, initial sales from our strategic partnership with China's TV sales platform JiaJia, a further addition to our owned brand dairy product portfolio and realisation of further strategic partnerships which will provide additional growth opportunities.

The Company continues to assess acquisition opportunities and we will advise the market at the appropriate time.

The continued maturation of the AuMake business is starting to have a significant impact on the movements of daigou and Chinese tourist markets domestically, and positions the Company to be one of the most exciting and progressive companies in Australia's Chinese market."

-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 (formerly Augend Ltd)

ABN

150 110 017

Quarter ended ("current quarter")

September 2018

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (3 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	10,136	10,136
1.2 Payments for		
(a) research and development	-	-
(b) cost of goods sold	(8,356)	(8,356)
(c) forward purchased inventory	(582)	(582)
(d) advertising and marketing	(346)	(346)
(e) leased assets	(764)	(764)
(f) staff costs	(1,481)	(1,481)
(g) administration and corporate costs	(394)	(394)
(h) Bank guarantee for leased property (refundable at end of lease)	(115)	(115)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	114	114
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other (related to one off listing expenses)	19	19
Net cash from / (used in) operating activities	(1,769)	(1,769)
Forward purchased inventory	582	582
Net cash from / (used in) operating activities (excluding forward purchased inventory)	(1,187)	(1,187)

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (3 months) \$A'000
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	(444)	(444)
(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)	-	-
2.6 Net cash from / (used in) investing activities	(444)	(444)

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	(11)	(11)
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)	(11)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 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	10,737	10,737
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,769)	(1,769)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(444)	(444)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(11)	(11)
4.5	Effect of movement in exchange rates on cash held	(169)	(169)
4.6	Cash and cash equivalents at end of quarter	8,344	8,344

5. Reconciliation of cash and cash equivalents	Current quarter \$A'000	Previous quarter \$A'000
at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts		
5.1 Bank balances	5,344	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)	8,344	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	147
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	(50)
9.2 Cost of goods sold (including investment in additional inventory for new stores and own products)	(12,000)
9.3 Advertising and marketing	(300)
9.4 Leased assets	(700)
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	(15,050)

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

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.

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
International Limited