



**Keytone
Dairy**

Quarterly Report

For the period ending
31 December 2018



ASX Release

Keytone Dairy Corporation Limited
ABN 49 621 970 652

www.keytonedairy.com

KEYTONE DAIRY QUARTERLY REPORT

Keytone Dairy Corporation Ltd (ASX:KTD) (“Keytone Dairy” or the “Company”) is pleased to provide the following update on its activities and lodge the Appendix 4C Cash Flow Statement for the quarter ending 31 December 2018.

Releasing the update to the market, James Gong, Keytone Dairy’s Chief Executive Officer, commented: “I am once again pleased with the progress that has been made over the last quarter as the Company consolidates the success of listing on the ASX in July 2018. We continue to execute upon our four-pillar growth strategy of increasing capacity, expanding product range, increasing distribution and growing the number of markets we export to.”

“Our second manufacturing plant currently under construction continues to progress on schedule and will be a best in class facility once completed. I am excited about the possibilities this offers Keytone Dairy and the premium product range we will soon be able to offer to both existing and new customers across our core markets as well as in new geographic markets into the next financial year.”

Financial Highlights

Keytone Dairy’s third quarter in the FY2019 has seen increased sales revenues from core powder products (both proprietary brands and contract manufactured for third parties), compared to the prior corresponding periods, whilst year-on-year performance is significantly up. The highlights include:

- Sales revenue was up 18% for the quarter compared with the corresponding quarter last financial year.
- Total sales revenue for the nine months ended 31 December 2018 increased by 80% to \$1.9 million compared with the corresponding period last financial year.
- Sales of Keytone Dairy proprietary branded powder products (as opposed to products contract-packed for third parties) for the quarter were up 116% compared with the previous quarter.
- Sales of private label brands (products contract-packed by Keytone Dairy for third party customers) across the entire product range were up 40% compared with the previous quarter.
- Total cash receipts for the nine months ending 31 December 2018 increased by 72% compared with the corresponding period last financial year.
- As at 31 December 2018, Keytone Dairy had a combined cash balance of \$10,353,892, as outlined in the accompanying Appendix 4C
- Cash outflows for the quarter included \$1,059,000 of plant and equipment for the second manufacturing facility currently under construction.

Execution of Growth Plan

During the course of the quarter, Keytone Dairy continued to execute on its four-pillar strategic growth plan:

1. Capacity Expansion

Second manufacturing facility

Through the transitional financial year 2019, Keytone Dairy continues to operate its purpose-built manufacturing facility with a normal manufacturing capacity of 1,500 tonnes per annum. As previously reported to the market, the Company is undertaking the construction of a second manufacturing facility, and construction of this facility commenced in April 2018. The second manufacturing facility

will take Keytone Dairy’s total normal powdered product manufacturing capacity to 5,000 tonnes per annum and will provide the Company with an opportunity to grow sales by significantly expanding the range of its premium powdered dairy products, and conducting a wider variety of manufacturing runs and thus servicing a wider variety of customers.

Construction of Keytone Dairy’s second manufacturing facility in Christchurch, New Zealand continues to progress on schedule. The outer shell of the facility, roof, canopy and office are now installed and complete, whilst the internal installation of the plant and equipment has commenced. The sterilised packing room arrived on site in December 2018 and the installation is expected to be finalised in the coming weeks, with the two-tonne blender, automated canning line and sachet line due to be shipped to site for installation in the first quarter of the calendar 2019 year.



Keytone Dairy’s second purpose-built manufacturing facility through various stages of construction

This second manufacturing facility remains on schedule for delivery during the first half of calendar year 2019. Once the facility is completed, Keytone Dairy will be able to manufacture significantly higher volumes of finished product more efficiently and re-align the sales mix towards higher value proprietary products, with a view to substantially growing sales.

Further expansion of manufacturing capacity

Subsequent to the quarter end and as announced on 25 January 2019, Keytone Dairy exercised its option to acquire the land known as “Lot 5” in the Izone Southern Business Hub in Christchurch, New Zealand. Consequently, in addition to operating its existing manufacturing facility, the Company now owns three blocks of industrial land in Izone, being Lots 8, 9 and 5. As discussed above, the Company is well-advanced with the construction of the second manufacturing facility on Lot 8.

The option over Lot 5 has been exercised to enable the Company to:

- utilise additional land for further capacity roll out, as the Company develops its product range;
- facilitate the future potential of a larger integrated and purpose-built manufacturing facility across three owned blocks of land (each adjacent to the other) with multiple road access points, allowing for seamless drive-through distribution logistics (in addition to the Company’s existing facility); and

- achieve economies of scale.

Keytone Dairy has laid the foundation of capacity expansion for the business over the medium term. Keytone Dairy will have the ability to operate manufacturing facilities across the four blocks of land in its portfolio, including its existing premises, providing both scale and diversification to the expanded product range.



Example of Keytone Dairy proprietary products for sale on supermarket shelves

The Company is building the capacity to meet the needs of its existing client base and indicative demand out of its core markets, including China, demand which it is unable to service at the present time due to the manufacturing capacity constraints.

While China is the world's largest importer of dairy products and has the world's third largest dairy market, its per capita consumption of dairy products in 2017 was 34.1 kg per annum¹ - less than one third of the global average. Chinese demand for dairy is expected to grow for a number of reasons, including rising living standards, higher urbanisation, the rolling-out of the National School Milk Scheme, promotion of China's domestic dairy industry, and population increases due to the ending of the one-child policy, as reported by the Chinese government.² Chinese per capita dairy consumption is expected to increase to approximately 37.1 kg per annum in 2020, a 9% increase from 2017.³ It is these macroeconomic statistics alongside the demand from the existing client base that provide the Company the confidence to construct additional capacity to service both core markets and new geographies.

Outsourcing of KeyDairy® Goat Milk Powder canning

Through the transitional 2019 financial year, whilst the Company is constructing the second manufacturing facility and is limited by the capacity constraints of the existing premises, it has sought to further grow sales by outsourcing the manufacturing of some of its proprietary products to reputable third parties. The Company has recently commenced the manufacturing of KeyDairy® Goat Milk Powder in jars (using the Company's existing production line). In addition to the jars, the Company has demand for KeyDairy® Goat Milk Powder to be manufactured in 400g cans. The Company's existing facility does not accommodate a canning process for this product. Consequently, through the quarter ended 31 December 2018, the Company has been working on an outsourced manufacturing arrangement for this product. The Company has now substantially completed this outsourced manufacturing arrangement, and the manufacture of this product by the third party provider is expected

¹ <https://www.fas.usda.gov/data/china-dairy-and-products-annual-1>

² AOC China Agricultural Outlook Report 2016 to 2025 page 127

³ AOC China Agricultural Outlook Report 2016 to 2025 page 131 and USDA Foreign Agricultural Service Report – 'China – Peoples Republic of Dairy and Products Annual Imports to Decrease for first time in years' dated 1 November 2017 page 3

to begin in the coming months. The outsourcing arrangement allows for the establishment of increased sales volumes and brand recognition through existing distribution channels in China and once Keytone Dairy's own canning line is operational at the second manufacturing facility described above, the production is expected to be bought in-house whereby the Company will benefit from an improved margin.

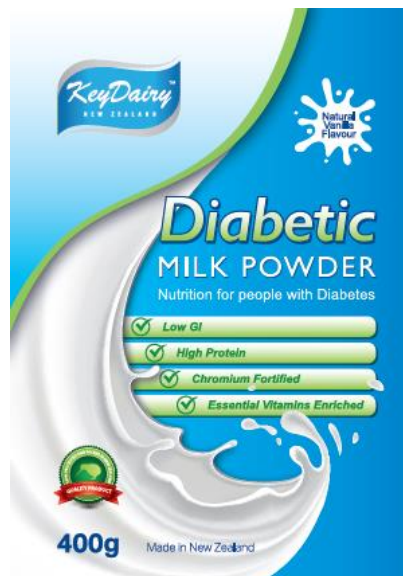
2. Product Expansion

Launch of KeyDairy® Junior Formula and KeyDairy® Diabetic Powder

Historically, the Company offered whole and skim milk powder products and a limited range of other powdered dairy products under its proprietary brands, as well as contract manufacturing products for supermarkets and brands under their private-label brands, both domestically and internationally. With the additional funding raised from the IPO, Keytone Dairy has expanded its product range and launched its proprietary Goat Milk Powder and its KeyDairy® Anhydrous Milk Fat in 18kg tins for the food service channel.

Through the quarter ended 31 December 2018, Keytone Dairy actively worked on further product launches. As recently announced to the market, the Company has launched two additional premium powder products, KeyDairy® Junior Formula and KeyDairy® Diabetic Powder.

KeyDairy® Diabetic Powder is a premium dairy powder formulated for consumers who have been medically diagnosed with diabetes. Diabetes is recognized as the world's fastest growing chronic condition. The number of people globally with type 2 diabetes is growing in each country and the International Diabetes Federation ("IDF") estimates in 2017 over 425 million globally were living with and managing diabetes on a day-to-day basis. US\$727 billion was spent on health care related to diabetes accounting for 12% of total health care spend in 2017. The Western Pacific region (as defined by the IDF), incorporating China, Japan, Indonesia, Australia and New Zealand, accounts for 33% of all adults living with diabetes globally. In 2017, China alone had more than 114 million people with diabetes and spent US\$110 billion on diabetes-related healthcare.

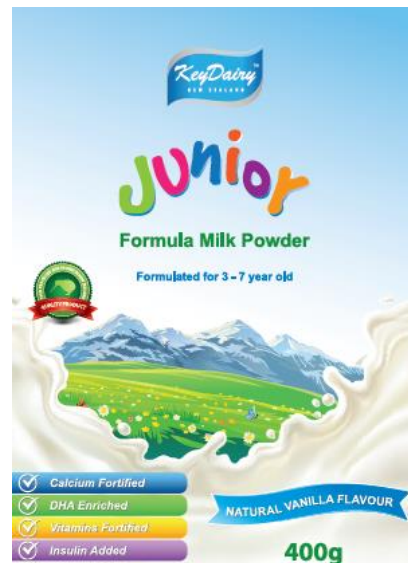


Keytone Dairy's proprietary Diabetic Milk Powder

The KeyDairy® Diabetic Powder has been specifically designed to assist diabetics with the day-to-day management of blood sugar and insulin levels as a supplement to prescribed medications. Additionally, the KeyDairy® Diabetic Powder provides a good source of essential daily vitamins and minerals to further support the specific daily needs of this consumer group.

KeyDairy® Junior Formula is a premium dairy product for children aged three to seven years. The formula, as a supplement to a healthy diet, has been developed to meet the specific needs of this active

and fast-growing age group including, immune system development, brain development, resistance to disease, increasing metabolism, red blood cell production, and improving bone density. KeyDairy® Junior Formula provides an essential daily dose of Vitamin A, B, C and D, in addition to calcium, iron and protein amongst other vitamins and minerals required for healthy child development.



Keytone Dairy's proprietary Junior Formula

In a number of countries, recommended daily vitamin intake (including that of vitamin A, vitamin B₂ and vitamin D) can be difficult to obtain from the available foods and given the prevailing environment. KeyDairy® Junior Formula has been formulated to include a significant portion of the recommended daily doses of these essential vitamins appropriate for this age bracket.

Both products are designed for domestic and the export markets. Keytone Dairy holds a Certification and Accreditation Administration (CNCA) of the People's Republic of China manufacturer registration, which specifically covers these products, thereby enabling exports of these products to China, where the Company has well-established routes to market. The products are also Halal-certified, enabling exports to, among other geographies, the Middle East and the South-East Asian market.

Organic certification

The Company continues to work on gaining organic certification from the New Zealand Ministry of Primary Industries. During the quarter, the plant was audited by organic officers and Keytone Dairy believes that it has now complied with all the necessary requirements to obtain organic registration. The Company is actively pursuing the completion of the administrative process with the Ministry of Primary Industries and will update the market in due course. If the organic certification is granted, it will enable the Company to further expand its proprietary range of products into organic derivatives as well as contract manufacture organic powders for third party private label brands.

Other

The Company is continuing to develop further proprietary powdered dairy products, including organic derivatives with the organic license expected. These include customised products for specific distributors, retailers and geographic markets, and are expected to be released over the course of calendar year 2019 and as the new facility comes online.



Example of private label brands (Woolworths-branded milk powder) which Keytone Dairy manufactures for third parties in its existing Christchurch facility

Whilst new product development for Keytone Dairy's proprietary brands remains a strategic priority, the Company continues to work and partner with global supermarket chains and brands for the manufacture and supply of their private label brands. These relationships validate the Keytone Dairy credentials and high standards of quality. The Company looks forward to updating the markets on additional contract manufacturing relationships in due course.

3. Expansion of Distribution Channels

Keytone Dairy continues to expand its distribution channels in China, a key market, whilst also adding further reach in its home market of New Zealand and Australia and further validating the Keytone Dairy brand and credentials globally.

The Company has now secured distribution access through the three largest Chinese online platforms, JD.com, Tmall and Pinduoduo, among others, and added several traditional retail channels to its distribution since listing, setting it up for larger product volumes through these channels once the new manufacturing facility is completed and additional manufacturing capacity is available to fulfill demand.

The Keytone Dairy team is continuing to actively work on further expanding the distribution footprint. The Company is continuing the process of recruiting senior and experienced sales staff to drive distribution channel expansion as well as sales volumes.

4. Geographic Expansion

Keytone Dairy continues to explore opportunities in new geographies with the expanded product range. The Company is actively seeking new partnerships and distribution agreements to leverage its clean, green, pristine New Zealand credentials in addition to its Halal certification and expected organic certification. There are a number of ongoing discussions in new markets and the Company looks forward to updating the market on the new geographic markets that it is working on penetrating.

Most recently, Keytone Dairy successfully received AA status and accreditation from the British Retail Consortium (“BRC”) for food safety, providing further validation for the quality of the Company’s products and manufacturing process. The British Retail Consortium (BRC) first introduced its Global Standard for Food Safety, a GFSI benchmarked standard, in 1998. Today the BRC Global Standard for Food Safety has almost 16,000 certified sites in over 100 countries world-wide.



The BRC accreditation is a well-recognised global standard and will assist the Company when marketing to new clients and distributing into new geographies and markets.

Other

Performance Shares

As at 31 December 2018, 49,500,000 Performance Shares are on issue.

No performance share vesting or conversion milestones were met during the period, and no performance shares were redeemed during the period.

	Performance Shares on issue at start of period (A)	Performance Shares converted to KTD shares during the period (B)	Performance Shares expired during the period (C)	Performance Shares on issue at the end of the period (A) – (B) – (C)
Class A ⁴	16,500,000	0	0	16,500,000
Class B ⁵	16,500,000	0	0	16,500,000
Class C ⁶	16,500,000	0	0	16,500,000
Total	49,500,000	0	0	49,500,000

* * * * *

⁴ each Class A Performance Share will convert into one share upon Keytone Enterprises (NZ) Company Limited achieving, \$3,000,000 of earnings before interest, taxes, depreciation and amortisation (EBITDA) in any financial year occurring on or before the third anniversary of the last day of the financial year in which the Company is admitted to the Official List

⁵ each Class B Performance Share will convert into one Share upon Keytone Enterprises (NZ) Company Limited achieving, \$6,000,000 of EBITDA in any financial year occurring on or before the third anniversary of the last day of the financial year in which the Company is admitted to the Official List

⁶ each Class C Performance Share will convert into one share upon (I) the shares achieving a 30-day volume weighted average price per share exceeding \$0.30, and (II) Keytone Enterprises (NZ) Company Limited achieving, in relation to Keytone, \$6,000,000 of revenue in any financial year occurring on or before the third anniversary of the last day of the financial year in which the Company is admitted to the Official List



Further Information

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About Keytone Dairy Corporation Limited

Based in Sydney, Australia and Christchurch, New Zealand, Keytone Dairy is an established manufacturer and exporter of formulated dairy products. In addition to Keytone Dairy's own brands, the company is a trusted production partner, contract packing for well-known brands in New Zealand and internationally. Keytone's purpose built dairy production facility offers a wide range of dairy and nutrition packing solutions, meeting the diverse needs of consumers from different markets and cultures.

Keytone Dairy's facility is certified with the New Zealand Ministry of Primary Industries, and Keytone holds a Certification and Accreditation Administration (CNCA) of the People's Republic of China manufacturer registration, thereby enabling export of Keytone's products to China. In addition, the facility holds a Halal certification from the Federation of Islamic Associations of New Zealand (an accredited body recognised by Islamic countries worldwide). Please visit www.keytonedairy.com

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

KEYTONE DAIRY CORPORATION LIMITED

ABN

49 621 970 652

Quarter ended ("current quarter")

31 DECEMBER 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	572	1,779
1.2 Payments for		
(a) research and development		
(b) product manufacturing and operating costs	(315)	(1,470)
(c) advertising and marketing	(49)	(160)
(d) leased assets		
(e) staff costs	(374)	(839)
(f) administration and corporate costs	(417)	(1,344)
1.3 Dividends received (see note 3)		
1.4 Interest received	46	106
1.5 Interest and other costs of finance paid		
1.6 Income taxes paid		
1.7 Government grants and tax incentives		
1.8 Other (Listing process costs)		
1.9 Net cash from / (used in) operating activities	(537)	(1,928)
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	(1,059)	(2,194)
(b) businesses (see item 10)		
(c) investments		

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (9 months) \$A'000
(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 (cash acquired from acquisition of subsidiary)		17
2.6 Net cash from / (used in) investing activities	(1,059)	(2,177)

3. Cash flows from financing activities		
3.1 Proceeds from issues of shares		15,000
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		(1,220)
3.5 Proceeds from borrowings		
3.6 Repayment of borrowings		(439)
3.7 Transaction costs related to loans and borrowings		
3.8 Dividends paid		
3.9 Other (provide details if material)		
3.10 Net cash from / (used in) financing activities	-	13,341

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	11,940	1,114
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(537)	(1,928)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	(1,059)	(2,177)
4.4 Net cash from / (used in) financing activities (item 3.10 above)	-	13,341

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (9 months) \$A'000
4.5	Effect of movement in exchange rates on cash held	10	4
4.6	Cash and cash equivalents at end of quarter	10,354	10,354

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	10,354	11,940
5.2	Call deposits		
5.3	Bank overdrafts		
5.4	Other		
	- business debit cards		
	- bank balances (held in trust)		
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	10,354	11,940

6. Payments to directors of the entity and their associates

- 6.1 Aggregate amount of payments to these parties included in item 1.2
- 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

Current quarter \$A'000
141
-

Director fees and salary for executive director and related parties.

7. Payments to related entities of the entity and their associates

- 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

Current quarter \$A'000
-
-

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.		

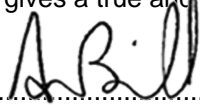
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9. Estimated cash outflows for next quarter	\$A'000
9.1 Research and development	-
9.2 Product manufacturing and operating costs	(410)
9.3 Advertising and marketing	(32)
9.4 Leased assets	-
9.5 Staff costs	(435)
9.6 Administration and corporate costs	(291)
9.7 Other (provide details if material)	-
9.8 Total estimated cash outflows	(1,168)

10. Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above)	Acquisitions	Disposals
10.1 Name of entity	N/A	N/A
10.2 Place of incorporation or registration	-	-
10.3 Consideration for acquisition or disposal	-	-
10.4 Total net assets	-	-
10.5 Nature of business	N/A	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: 31 January 2019
(Company secretary)

Print name: ...**ANDREW BURSILL**.....

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.