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AUSNUTRIA DAIRY CORPORATION LTD

澳優乳業股份有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1717)

UNAUDITED RESULTS FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2018

FINANCIAL HIGHLIGHTS

	Nine months ended 30 September		Change %
	2018 RMB'M (Unaudited)	2017 RMB'M (Unaudited)	
Revenue	3,782.3	2,729.8	38.6
Gross profit	1,793.9	1,127.7	59.1
Gross profit margin (%)	47.4	41.3	6.1pps
Profit attributable to equity owners of the Company	455.7	220.7	106.5
Adjusted EBITDA*	599.2	371.6	61.2
Adjusted profit attributable to equity owners of the Company*	395.3	220.7	79.1

For the nine months ended 30 September 2018 (the “3Q 2018”), Ausnutria Dairy Corporation Ltd (the “Company”) and its subsidiaries (collectively, the “Group”) recorded the followings:

- Revenue amounted to RMB3,782.3 million, representing an increase of RMB1,052.5 million or 38.6% from RMB2,729.8 million for the nine months ended 30 September 2017 (the “3Q 2017”). Among which revenue derived from the own-branded dairy business increased by 58.2% to RMB3,041.9 million.
- Gross profit amounted to RMB1,793.9 million, representing an increase of RMB666.2 million or 59.1% from RMB1,127.7 million for the 3Q 2017.
- Adjusted EBITDA* amounted to RMB599.2 million, representing an increase of RMB227.6 million or 61.2% from RMB371.6 million for the 3Q 2017.
- Adjusted profit attributable to equity owners of the Company* for the 3Q 2018 amounted to RMB395.3 million, representing an increase of RMB174.6 million or 79.1% from RMB220.7 million for the 3Q 2017.

* Adjusted for a one-off gain arising from the re-measurement of an asset and gain on the fair value change of a derivative financial instrument in the 3Q 2018

The board (the “**Board**”) of directors (the “**Directors**”) of the Company is pleased to announce the unaudited consolidated results of the Group for the nine months ended 30 September 2018.

This announcement is issued by the Company pursuant to the Inside Information Provisions under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) and Rule 13.09 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the nine months ended 30 September 2018

	Nine months ended 30 September	
	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
REVENUE	3,782,251	2,729,814
Cost of sales	<u>(1,988,349)</u>	<u>(1,602,075)</u>
Gross profit	1,793,902	1,127,739
Other income and gains	119,711	41,013
Selling and distribution expenses	(1,029,817)	(618,592)
Administrative expenses	(287,391)	(212,582)
Other expenses	(34,519)	(15,091)
Finance costs	(27,576)	(17,648)
Share of profits of associates	5,687	8,674
Share of profit of a joint venture	<u>1,110</u>	<u>268</u>
Profit before tax	541,107	313,781
Income tax expense	<u>(76,514)</u>	<u>(75,421)</u>
PROFIT FOR THE PERIOD	<u>464,593</u>	<u>238,360</u>
Attributable to:		
Owners of the parent	455,651	220,700
Non-controlling interests	<u>8,942</u>	<u>17,660</u>
	<u>464,593</u>	<u>238,360</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Revenue and gross profit margin

For the 3Q 2018, the Group recorded revenue of RMB3,782.3 million, representing an increase of RMB1,052.5 million, or 38.6%, from RMB2,729.8 million when compared with the 3Q 2017. In order to meet the growing demand for the Group's own-branded formula milk powder products and to minimise the air freight costs incurred for the timely delivery of the products to the market, the Group has been re-allocating more of its production capacity and resources from its private label business to its own-branded formula milk powder business for the period under review. Benefited from such re-allocation, the Group's revenue derived from its own-branded formula milk powder products reached RMB3,041.9 million, representing an increase of RMB1,119.4 million or 58.2%, when compared with the 3Q 2017. Such increase was partially offset by the decrease in revenue of RMB97.4 million derived by the private label and others business resulting from the re-allocation. In the upcoming fourth quarter of 2018, the Group will continue to re-allocate more of its production capacity and resources to serve its own-branded formula milk powder products to cater for the anticipated strong market needs.

As a result of the continuous proportionate growth in revenue contributed by the Group's higher profit margin own-branded formula milk powder product business, the Group's gross profit margin increased to 47.4%, representing an increase of 6.1 percentage points, when compared with the 3Q 2017.

An analysis of revenue is as follows:

	Nine months ended 30 September		Change %
	2018 <i>RMB'M</i> (Unaudited)	2017 <i>RMB'M</i> (Unaudited)	
Own-branded formula milk powder products:			
Goat milk (in the People's Republic of China)	1,251.1	768.1	62.9
Goat milk (elsewhere)	170.9	141.5	20.8
	<u>1,422.0</u>	<u>909.6</u>	56.3
Cow milk (in the People's Republic of China)	1,619.9	1,012.9	59.9
	<u>3,041.9</u>	<u>1,922.5</u>	58.2
Nutrition products	96.7	66.2	46.1
Private label and others	643.7	741.1	(13.1)
	<u>3,782.3</u>	<u>2,729.8</u>	38.6

Other income and gains

The Group recorded certain other income in the 3Q 2018 amounting to RMB60.4 million, which includes (i) gain on fair value changes of derivative financial instruments arising from the contingent consideration as a result of the Group's acquisition of the remaining 15% equity interest in a subsidiary in May 2018; and (ii) a one-off gain arising from the remeasurement of the previously held interest in a joint venture as a result of the acquisition of its remaining 50% equity interest in the joint venture in June 2018.

Profit attributable to equity owners of the Company

The Group's profit attributable to equity owners of the Company for the 3Q 2018 amounted to RMB455.7 million, representing an increase of RMB235.0 million or 106.5%, when compared with the 3Q 2017 of RMB220.7 million. Excluding the other income as described above, the Group recorded an adjusted profit attributable to equity owners of the Company of RMB395.3 million, representing an increase of RMB174.6 million or 79.1%, when compared with the 3Q 2017.

The Board believes that the continuous improvement in the Group's financial performance was mainly attributable to the continuous increase in the sales of the Group's own-branded cow milk formula products (in particular under the brands *Hyproca*, *Allnutria*, *Puredo* and *Neolac (organic)*) and goat milk formula products. Such increase was mainly contributed by (i) the growing market recognition of the quality of the Group's own-branded formula milk products as a result of the persistent effort of the Group in building distribution channels and delivering quality consumer service; (ii) the rising worldwide awareness for the Group's own-branded goat milk formula products *Kabrita* for its quality and high nutrition value; (iii) the increase in production capacity following the commencement of production of two new factories in the Netherlands and the acquisition of a factory in Australia; and (iv) the progressive enhancement of the Group's management and operation efficiency.

By order of the Board
Ausnutria Dairy Corporation Ltd
Yan Weibin
Chairman

The People's Republic of China, 13 November 2018

As at the date of this announcement, the Board comprises three executive Directors, namely Mr. Yan Weibin (Chairman), Mr. Bartle van der Meer (Chief Executive Officer) and Ms. Ng Siu Hung; two non-executive Directors, namely Mr. Tsai Chang-Hai and Mr. Zeng Xiaojun; and three independent non-executive Directors, namely Ms. Ho Mei-Yueh, Mr. Jason Wan and Mr. Lau Chun Fai Douglas.