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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 2019

FINANCIAL HIGHLIGHTS

	Nine months ended 30 September		Change %
	2019 RMB'M (Unaudited)	2018 RMB'M (Unaudited)	
Revenue	4,687.5	3,782.3	23.9
Gross profit	2,439.1	1,793.9	36.0
Gross profit margin (%)	52.0	47.4	4.6 pps
EBITDA			
– Reported	926.6	659.6	40.5
– Adjusted*	964.2	599.2	60.9
Profit attributable to equity holders of the Company			
– Reported	624.9	455.7	37.1
– Adjusted*	662.5	395.3	67.6

For the nine months ended 30 September 2019 (the “9M 2019”), Ausnutria Dairy Corporation Ltd (the “Company”) and its subsidiaries (collectively, the “Group”) recorded the followings:

- Revenue amounted to RMB4,687.5 million, representing an increase of RMB905.2 million or 23.9% from RMB3,782.3 million for the nine months ended 30 September 2018 (the “9M 2018”). Among which revenue derived from the own-branded formula milk powder business increased by 35.1% to RMB4,110.6 million, representing 87.7% (9M 2018: 80.4%) of the total revenue.
- Gross profit amounted to RMB2,439.1 million, representing an increase of RMB645.2 million or 36.0% from RMB1,793.9 million for the 9M 2018.
- Adjusted EBITDA* amounted to RMB964.2 million, representing an increase of RMB365.0 million or 60.9% from RMB599.2 million for the 9M 2018.
- Adjusted profit attributable to equity holders of the Company* amounted to RMB662.5 million, representing an increase of RMB267.2 million or 67.6% from RMB395.3 million for the 9M 2018.

* Adjusted for the loss on the fair value change of derivative financial instruments in 9M 2019 of RMB37.6 million (9M 2018: gain of RMB29.5 million). In the 9M 2018, also adjusted for a one-off gain arising from the re-measurement of an asset of RMB30.9 million.

The board (the “**Board**”) of directors (the “**Directors**”) of the Company is pleased to announce the unaudited consolidated results of the Group for the 9M 2019.

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 2019

	Nine months ended 30 September	
	2019 <i>RMB'000</i> (Unaudited)	2018 <i>RMB'000</i> (Unaudited)
REVENUE	4,687,497	3,782,251
Cost of sales	<u>(2,248,443)</u>	<u>(1,988,349)</u>
Gross profit	2,439,054	1,793,902
Other income and gains	42,087	119,711
Selling and distribution expenses	(1,255,548)	(1,029,817)
Administrative expenses	(371,541)	(287,391)
Other expenses	(55,678)	(34,519)
Finance costs	(20,970)	(27,576)
Share of profits and losses of:		
Associates	5,874	5,687
A joint venture	<u>–</u>	<u>1,110</u>
Profit before tax	783,278	541,107
Income tax expense	<u>(164,865)</u>	<u>(76,514)</u>
PROFIT FOR THE PERIOD	<u>618,413</u>	<u>464,593</u>
Attributable to:		
Owners of the parent	624,908	455,651
Non-controlling interests	<u>(6,495)</u>	<u>8,942</u>
	<u>618,413</u>	<u>464,593</u>

MANAGEMENT DISCUSSION AND ANALYSIS

For the 9M 2019, the Group recorded revenue of RMB4,687.5 million, representing an increase of RMB905.2 million or 23.9%, from RMB3,782.3 million when compared with the corresponding period in 2018. Among which, the performance of the Group's core business segment, i.e. owned-branded cow (in particular for those high premium products such as *Hyproca Hollary*, *Allnutria* and *Neolac*) and goat (*Kabrita*) formula milk powder business, continues to grow healthily and positively with revenue increased by 30.6% and 40.3% to RMB2,114.9 million and RMB1,995.7 million, respectively. Such increase in revenue is partly offset by the decrease in revenue on the original equipment manufacturing for other worldwide customers (the "Private Label") and sales of dairy ingredients businesses, as a result of the Company's strategy to prioritise more of its resources to better serve its own-branded formula milk powder business.

An analysis of revenue is as follows:

	Nine months ended		Change %
	30 September		
	2019	2018	
	<i>RMB'M</i>	<i>RMB'M</i>	
	(Unaudited)	(Unaudited)	
Own-branded formula milk powder products:			
Goat milk (in the People's Republic of China (the "PRC"))	1,826.6	1,251.1	46.0
Goat milk (elsewhere)	169.1	170.9	(1.1)
	<u>1,995.7</u>	<u>1,422.0</u>	40.3
Cow milk (in the PRC)	2,114.9	1,619.9	30.6
	4,110.6	3,041.9	35.1
Nutrition products	81.7	96.7	(15.5)
Private Label and others	495.2	643.7	(23.1)
Total	<u><u>4,687.5</u></u>	<u><u>3,782.3</u></u>	23.9

During the 9M 2019, the Group recorded an other expense amounting to RMB37.6 million (9M 2018: gain of RMB29.5 million) which represented a loss on fair value change of derivative financial instruments. The derivative financial instruments in concern represents a contingent consideration liability to be settled by the Group in its recent acquisition (the "Contingent Consideration") (details of the aforementioned acquisition are set out in the announcement and circular of the Company dated 14 February 2018 and 12 April 2018 respectively). Given the Contingent Consideration will be settled by the Group through the issuance of new shares of the Company (the "Shares") (with a cap of 29,879,877 Shares), valuation of the Contingent Consideration and thus fair value of the Group's derivative financial instruments hinges on the market price of the Shares. As at 30 September 2019, market price of the Shares increased by HK\$1.44 or 16.4%, when compared with 31 December 2018. As a result, valuation of the Contingent Consideration and thus the fair value of the Group's derivative financial instrument increased and an accounting loss is recognised accordingly. The Directors wish to emphasise that the aforementioned accounting loss has no adverse implications to the Group's cash flow and operation position.

The Group's profit attributable to equity holders of the Company for the 9M 2019 amounted to RMB624.9 million, representing an increase of RMB169.2 million or 37.1%, when compared with the corresponding period of RMB455.7 million in 2018. Excluding the accounting loss mentioned above, the Group recorded profit attributable to equity holders of the Company of RMB662.5 million, representing an increase of 67.6% when compared with the corresponding figure for the 9M 2018.

The Board believes that the improvement in the Group's financial performance was mainly attributable to (i) the implementation of the Group's effective strategic plans, in particular, continuous improvement of the upstream operational efficiency, streamlining of the global supply chain and enhancement in the product mix; and (ii) the improvement in business structure as a result of the rising proportion of the sales of the Group's own-branded goat and cow milk formula products.

The Group will continue to further drive sales momentum through brand building, customer education and new product development. Alongside with the continuous growth in the premium segment, in particular on those niche segments such as goat and organic, of the infant formula market in the PRC, it is expected that the Group's revenue will maintain a positive growth.

The Board wishes to remind shareholders of the Company and potential investors that the quarterly consolidated financial results in this announcement have not been audited by the Company's auditors.

BUSINESS UPDATES

The Group, with the mission of "Nourishing Life & Growth", has always been developing new products to meet different demands and needs in the society. In early November, the Group has launched a few new products at the China International Import Expo, including but not limited to, (i) *Kabrita* Yingjia (營嘉), a goat milk powder series for the whole family; and (ii) *Allnutria* ExtraPure, an organic cow milk powder for pregnant and lactating mother. The Board believes that this will further broaden the customers' base of the Group and will be a long-term benefit for the Group and its shareholders as a whole.

Shareholders of the Company and potential investors are advised to exercise caution when dealing in the Shares.

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

The PRC, 13 November 2019

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; three non-executive Directors, namely Mr. Shi Liang (Vice-Chairman), Mr. Qiao Baijun and Mr. Tsai Chang-Hai; and three independent non-executive Directors, namely Mr. Jason Wan, Mr. Lau Chun Fai Douglas and Mr. Aidan Maurice Coleman.