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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 2020

### FINANCIAL HIGHLIGHTS

	Nine months ended 30 September		Change %
	2020 RMB'M (Unaudited)	2019 RMB'M (Unaudited)	
Revenue	5,757.6	4,687.5	22.8
Gross profit	2,905.6	2,439.1	19.1
Gross profit margin (%)	50.5	52.0	-1.5 pps
EBITDA			
– Reported	1,057.3	926.6	14.1
– Adjusted*	1,149.2	964.2	19.2
Profit attributable to equity holders of the Company			
– Reported	712.2	624.9	14.0
– Adjusted*	792.0	662.5	19.5

The financial performance of Ausnutria Dairy Corporation Ltd (the “Company”) and its subsidiaries (collectively, the “Group”) for the nine months ended 30 September 2020 (the “9M 2020”), together with the comparative figures for the nine months ended 30 September 2019 (the “9M 2019”), are as follows:

- Revenue amounted to RMB5,757.6 million (9M 2019: RMB4,687.5 million), representing a year-on-year (“YoY”) increase of RMB1,070.1 million or 22.8%. Among which revenue derived from the own-branded formula milk powder business increased by 21.4% to RMB4,990.0 million, representing 86.7% (9M 2019: 87.7%) of the total revenue.
- Gross profit amounted to RMB2,905.6 million (9M 2019: RMB2,439.1 million), representing a YoY increase of RMB466.5 million or 19.1%.
- Adjusted EBITDA\* amounted to RMB1,149.2 million (9M 2019: RMB964.2 million), representing a YoY increase of RMB185.0 million or 19.2%.
- Adjusted profit attributable to equity holders of the Company\* amounted to RMB792.0 million (9M 2019: RMB662.5 million), representing a YoY increase of RMB129.5 million or 19.5%.

\* Adjusted for the loss on the fair value change of a derivative financial instrument for the 9M 2020 of RMB43.6 million (9M 2019: RMB37.6 million) and a one-off after tax BUs integration expenses of RMB36.2 million (9M 2019: Nil).

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 2020.

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 2020

	<b>Nine months ended</b>	
	<b>30 September</b>	
	<b>2020</b>	2019
	<b>RMB'000</b>	RMB'000
	<b>(Unaudited)</b>	(Unaudited)
<b>REVENUE</b>	<b>5,757,628</b>	4,687,497
Cost of sales	<u>(2,852,028)</u>	<u>(2,248,443)</u>
Gross profit	<b>2,905,600</b>	2,439,054
Other income and gains	<b>66,168</b>	42,087
Selling and distribution expenses	<b>(1,494,720)</b>	(1,255,548)
Administrative expenses	<b>(497,656)</b>	(371,541)
Other expenses	<b>(93,889)</b>	(55,678)
Finance costs	<b>(22,490)</b>	(20,970)
Share of profits of associates	<u><b>20,230</b></u>	<u>5,874</u>
<b>Profit before tax</b>	<b>883,243</b>	783,278
Income tax expense	<u><b>(167,773)</b></u>	<u>(164,865)</u>
<b>PROFIT FOR THE PERIOD</b>	<u><b>715,470</b></u>	<u>618,413</u>
<b>Attributable to:</b>		
Owners of the parent	<b>712,209</b>	624,908
Non-controlling interests	<u><b>3,261</b></u>	<u>(6,495)</u>
	<u><b>715,470</b></u>	<u>618,413</u>

## MANAGEMENT DISCUSSION AND ANALYSIS

Year 2020 is a year of challenges to many of us. Unexpected events, including the outbreak of the COVID-19 pandemic, have been casting uncertainty over the economy, market sentiment and consumption behaviour around the globe. These unexpected events have caused some short-term interruptions on the business development of the Group, particularly on the launching of marketing activities, and the development of the Group's own-branded goat milk formula (namely, Kabrita) and the private label businesses due to the lockdowns and travel restrictions. Nevertheless, the Group successfully contained the negative impact of these challenges to the Group's operations at a manageable level. For the 9M 2020, the Group recorded a revenue of RMB5,757.6 million (9M 2019: RMB4,687.5 million), representing a YoY increase of RMB1,070.1 million or 22.8%. Among which, the performance of the own-branded formula milk powder business, being one of the Group's core operations, continued to be the key driver during the 9M 2020, with a recorded revenue of RMB4,990.0 million (9M 2019: RMB4,110.6 million), representing a YoY increase of RMB879.4 million or 21.4%, and accounted for 86.7% (9M 2019: 87.7%) of the total revenue of the Group.

An analysis of the Group's revenue is as follows:

	Nine months ended 30 September		Change %	Three months ended 30 September		Change %
	2020 RMB'M (Unaudited)	2019 RMB'M (Unaudited)		2020 RMB'M (Unaudited)	2019 RMB'M (Unaudited)	
Own-branded formula milk powder products:						
Cow milk (in the People's Republic of China (the "PRC"))	<u>2,639.7</u>	<u>2,114.9</u>	24.8	<u>884.4</u>	<u>704.5</u>	25.5
Goat milk (in the PRC)	<u>2,174.7</u>	<u>1,826.6</u>	19.1	<u>639.5</u>	<u>628.6</u>	1.7
Goat milk (elsewhere)	<u>175.6</u>	<u>169.1</u>	3.8	<u>55.2</u>	<u>48.0</u>	15.0
	<u>2,350.3</u>	<u>1,995.7</u>	17.8	<u>694.7</u>	<u>676.6</u>	2.7
	<u>4,990.0</u>	<u>4,110.6</u>	21.4	<u>1,579.1</u>	<u>1,381.1</u>	14.3
Private Label and others:						
Private Label	<u>151.9</u>	<u>170.8</u>	(11.1)	<u>61.0</u>	<u>53.4</u>	14.2
Others	<u>510.0</u>	<u>324.4</u>	57.2	<u>218.5</u>	<u>76.6</u>	185.2
	<u>661.9</u>	<u>495.2</u>	33.7	<u>279.5</u>	<u>130.0</u>	115.0
Dairy and related products	<u>5,651.9</u>	<u>4,605.8</u>	22.7	<u>1,858.6</u>	<u>1,511.1</u>	23.0
Nutrition products	<u>105.7</u>	<u>81.7</u>	29.4	<u>39.7</u>	<u>28.8</u>	37.8
Total	<u><u>5,757.6</u></u>	<u><u>4,687.5</u></u>	22.8	<u><u>1,898.3</u></u>	<u><u>1,539.9</u></u>	23.3

The growth rate in revenue of the Group's own-branded cow milk formula and other businesses improved for the three months ended 30 September 2020 (the "3Q 2020") when compared with the preceding quarter. For the 3Q 2020, the Group's revenue in its own-branded cow milk formulas continued to grow substantially. In particular, the Hyproca 1897 business unit ("BU"), which comprises the brands of Hyproca Hollarly, Hyproca Hypure and Neolac, continued to be the fastest-growing BU of the Group and recorded revenue of RMB1,827.4 million and RMB611.1 million for the 9M 2020 and 3Q 2020, representing a YoY increase of 67.1% and 65.3%, respectively. Such increase was a result of the continuous effective marketing strategies launched by the Group, plus the Group continues to benefit from the ongoing product premiumisation and market segmentation trends in the PRC.

In mid-2020, the Group undertook a BUs integration exercise by merging and restructuring some of its BUs for better resources allocation and management. During the 9M 2020, the Group recognised a one-off expenses (net of tax) of RMB36.2 million for such exercise, which included the restructuring of the sales team and clearance sales of the slow-moving products of the relevant BUs. Following the smooth integration and restructuring of BUs, the Group expects its multi-branding strategy will be better optimised and the Group's future financial performance will be benefited as a result. For the 3Q 2020, sales of Allnutria and Puredo gradually improved and achieved double-digit growth when compared with the preceding quarter. The Company considers that such improvement is a result of the aforementioned BUs integration exercise.

Yet, the overall growth in the Group's revenue was dampened by the slower-than-average growth of Kabrita in the PRC in the 3Q 2020. During the 3Q 2020, the Group continued its distribution channel reorganisation as previously disclosed in the Company's interim report for the six months ended 30 June 2020. In addition, the Group increased its marketing effort on the promotion and distribution of Kabrita, particularly in the offline channel, which was temporarily interrupted during the lockdown in the first half of 2020; and strengthened its control over inventory and sales by enhancing the traceability in the distribution level. As at the date of this announcement, the distribution channel reorganisation has been progressing as scheduled with inventory level reducing to a healthier level and sales at retail level gradually recovering. The Group believes that the aforementioned events only have a short-term negative impact to the Group's financial performance, and Kabrita will remain one of the market leaders in the goat milk industry, bringing goat milk powder to the mainstream infant formula category.

Apart from the above, the Group has increased its in-take of fresh goat milk since the second quarter of 2020 in order to increase the supply of certain key ingredients for the production of goat formula milk powder products for strategic reason. The fresh goat milk, after processing and the extraction of relevant ingredients, was sold to the market in the form of goat milk powder and cream at spot price. Due to the decrease in dairy-related commodity prices in the 3Q 2020 as a result of the COVID-19 pandemic, operating losses derived from the trading of these products amounted to approximately RMB39.0 million, which negatively affected the gross profit margin by 2.1 percentage points for the 3Q 2020.

As a result of the slowing down of the own-branded goat milk formula business, the one-off expenses derived from the BUs integration exercise and the trading loss derived as mentioned above, the gross profit margin and hence the net profit margin of the Group decreased for the 9M 2020. Excluding the factors as mentioned above, the Group's gross profit and net profit margins remained fairly stable when compared with the first half of 2020. With the Group's continuous effort in streamlining its internal structure and enhancing the upstream operational efficiency, we believe that the overall profit margin of the Group will improve progressively.

During the 9M 2020, the Group recorded an accounting loss of RMB43.6 million (9M 2019: RMB37.6 million) in respect of the fair value change of a derivative financial instrument, which represents a contingent consideration liability for the settlement by the Group (the “**Contingent Consideration**”) in its acquisition of the remaining 15% equity interest in Hyproca Nutrition (Hongkong) Company Limited and its subsidiaries (the “**Acquisition**”) in 2018. Further details regarding the Acquisition and the valuation of the Contingent Consideration are set out in the Company’s annual report for the year ended 31 December 2019. On 27 August 2020, the Contingent Consideration was settled and a loss of RMB43.6 million (9M 2019: RMB37.6 million) was recognised for the 9M 2020.

The Group’s profit attributable to equity holders of the Company for the 9M 2020 amounted to RMB712.2 million (9M 2019: RMB624.9 million), representing a YoY increase of RMB87.3 million or 14.0%. Excluding the accounting loss and the one-off BUs integration expenses mentioned above, the Group recorded an adjusted profit attributable to equity holders of the Company of RMB792.0 million (9M 2019: RMB662.5 million), representing a YoY increase of RMB129.5 million or 19.5%.

**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, 11 November 2020

*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. Lau Chun Fai Douglas, Mr. Jason Wan, and Mr. Aidan Maurice Coleman.*