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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 THREE MONTHS ENDED 31 MARCH 2021

FINANCIAL HIGHLIGHTS

	Three months ended 31 March		Change %
	2021 RMB 'M (Unaudited)	2020 RMB 'M (Unaudited)	
Revenue	2,183.3	1,933.2	12.9
Gross profit	1,115.8	1,041.3	7.2
Gross profit margin (%)	51.1	53.9	(2.8) pps
EBITDA			
– Reported	450.6	397.7	13.3
– Adjusted*	450.6	426.7	5.6
Profit attributable to equity holders of the Company			
– Reported	331.4	269.6	22.9
– Adjusted*	331.4	298.6	11.0

The financial performance of Ausnutria Dairy Corporation Ltd (the “**Company**”) and its subsidiaries (collectively, the “**Group**”) for the three months ended 31 March 2021 (the “**1Q2021**”), together with the comparative figures for the three months ended 31 March 2020 (the “**1Q2020**”), are as follows:

- Revenue increased by RMB250.1 million or 12.9%, among which revenue derived from own-branded formula milk powder business increased by 12.6% to RMB1,925.1 million.
- Gross profit increased by RMB74.5 million or 7.2%.
- Adjusted EBITDA* increased by RMB23.9 million or 5.6%.
- Adjusted profit attributable to equity holders of the Company* increased by RMB32.8 million or 11.0%.

* For the 1Q2020, adjusted for the loss on the fair value change of a derivative financial instrument of RMB29.0 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 1Q2021.

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 three months ended 31 March 2021

	Three months ended	
	31 March	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
REVENUE	2,183,328	1,933,182
Cost of sales	<u>(1,067,527)</u>	<u>(891,885)</u>
Gross profit	1,115,801	1,041,297
Other income and gains	33,887	26,359
Selling and distribution expenses	(557,112)	(495,476)
Administrative expenses	(174,011)	(155,492)
Other expenses	(21,974)	(64,543)
Finance costs	(6,024)	(6,948)
Share of profits/(losses) of associates	<u>(1,570)</u>	<u>4,195</u>
Profit before tax	388,997	349,392
Income tax expense	<u>(67,503)</u>	<u>(78,759)</u>
PROFIT FOR THE PERIOD	<u>321,494</u>	<u>270,633</u>
Attributable to:		
Owners of the parent	331,434	269,565
Non-controlling interests	<u>(9,940)</u>	<u>1,068</u>
	<u>321,494</u>	<u>270,633</u>

MANAGEMENT DISCUSSION AND ANALYSIS

2021 is still a year full of uncertainties. The ongoing global spread of COVID-19 and the intense competition of formula milk powder business in the People's Republic of China (the "PRC") caused by the decreasing birth rate continued to create challenges to the market. Nevertheless, the Group successfully contained the negative impact of these challenges at a manageable level. For the 1Q2021, the Group recorded a revenue of RMB2,183.3 million (1Q2020: RMB1,933.2 million), representing a year-on-year ("YoY") increase of RMB250.1 million or 12.9%. Among which, the performance of the own-branded cow milk formula business continued to be encouraging with a recorded revenue of RMB1,053.4 million (1Q2020: RMB771.9 million), representing a YoY increase of RMB281.5 million or 36.5%. In particular, Hyproca 1897 business unit ("BU") continued to be the fastest-growing BU of the Group and recorded revenue of RMB718.4 million for the 1Q2021, representing a YoY increase of 58.7%. The Group's own-branded goat milk formula business in the PRC also shows a recovery for the 1Q2021 with revenue of RMB834.7 million (1Q2020: RMB887.2 million), representing a quarter on quarter ("QoQ") increase of 29.7% when compared with the preceding quarter under review (the "4Q2020"). The Company attributed the recovery and continuous growth of its own-branded formula milk powder business to the Group's rapid and proactive response of adjusting its strategies to accommodate for the market change and its unremitting efforts to develop mama and baby store channels by frequent and quality consumer engagement activities.

Since the second quarter of 2020, the Group strategically increased its intake of fresh goat milk in order to secure the stable supply of certain key ingredients for the production of goat milk formula powder products. Due to the lockdowns and the decrease in dairy-related commodity prices, the Group recorded operating losses from trading of these products amounted to RMB63.2 million (mainly derived in the second half of 2020) for the year ended 31 December 2020. For the 1Q2021, operating losses derived from trading of these products has gradually been narrowed down to approximately RMB18.7 million (1Q2020: RMB5.4 million). As a result of the aforementioned improvements, the overall gross profit margin of the Group improved by 2.8 percentage points from 48.3% for the 4Q2020 to 51.1% (1Q2020: 53.9%) for the 1Q2021.

Apart from the above, for the 1Q2020, the Group recorded an accounting loss of RMB29.0 million (equivalent to approximately HK\$32.3 million) in respect of the fair value change of a derivative financial instrument, which represents a contingent consideration liability to be settled by the Group (the "Contingent Consideration") in its acquisition of the remaining 15% equity interest in Hyproca Nutrition (Hongkong) Company Limited and its subsidiaries in 2018. Following the early settlement of the Contingent Consideration in August 2020, the significant accounting impact in respect of the fair value change of the derivative financial instrument arising from the Contingent Consideration ceased and no relevant accounting loss was recorded for the 1Q2021. For the 1Q2021, the Group's profit attributable to equity holders of the Company amounted to RMB331.4 million (1Q2020 reported: RMB269.6 million; adjusted: RMB298.6 million), representing a YoY increase of RMB61.8 million or 22.9% (reported) and RMB32.8 million or 11.0% (adjusted).

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

	Notes	Three months ended 31 March		Change %
		2021 RMB'M (Unaudited)	2020 RMB'M (Unaudited)	
Own-branded formula milk powder products:				
Cow milk (in the PRC)	(i)	<u>1,053.4</u>	<u>771.9</u>	36.5
Goat milk (in the PRC)	(ii)	<u>834.7</u>	887.2	(5.9)
Goat milk (other than in the PRC)	(iii)	<u>37.0</u>	<u>50.8</u>	(27.2)
		<u>871.7</u>	<u>938.0</u>	(7.1)
		<u>1,925.1</u>	<u>1,709.9</u>	12.6
Private Label and others:				
Private Label	(iii)	<u>42.9</u>	56.7	(24.3)
Others		<u>188.5</u>	<u>136.4</u>	38.2
Private Label and others total		<u>231.4</u>	<u>193.1</u>	19.8
Dairy and related products		<u>2,156.5</u>	1,903.0	13.3
Nutrition products		<u>26.8</u>	<u>30.2</u>	(11.3)
Total		<u><u>2,183.3</u></u>	<u><u>1,933.2</u></u>	12.9

Notes:

- (i) For the 1Q2021, the Group's revenue in its own-branded cow milk formulas continued to grow substantially. In particular, Hyproca 1897 BU, which comprises the brands of Hyproca Hollary, Hyproca Hypure and Neolac, continued to be the fastest-growing BU of the Group and recorded revenue of RMB718.4 million for the 1Q2021, representing a YoY increase of 58.7%. Such increase was a result of the continuous effective marketing strategies launched by the Group, which is supported by the continuous enhancement of its supply chain, and the Group continues to benefit from the ongoing product premiumisation and market segmentation trends in the PRC. Further, following the BU integration exercise that was conducted in mid-2020, sales of Allnutria BU have also been picking up gradually.
- (ii) Affected by COVID-19, sales of Kabrita in the PRC were temporary interrupted in 2020. In the 1Q2020, the demand of Kabrita was particularly strong due to the effect of pantry loading during the lockdown periods. Such growth has slowed down subsequently due to limitations in the implementation of marketing activities and followed by some disruptions in the distribution channels in the PRC. In view of the aforementioned challenges, Kabrita BU swiftly adjusted its strategies and restructured its channels in mid-2020. Such channel reform yielded concrete results with pricing gradually stabilised in the market, inventory level returned to normal and sales improved at the retail level. Sales of Kabrita for the 1Q2021 amounted to RMB834.7 million (1Q2020: RMB887.2 million), representing a QoQ increase of 29.7% when compared with the 4Q2020 and a YoY decrease of RMB52.5 million or 5.9%.
- (iii) For the 1Q2021, due to the ongoing COVID-19 in many parts of the world which causes continuous lockdowns and social distancing restrictions, sales of Kabrita (other than in the PRC) and private label businesses both dropped with a recorded revenue of RMB37.0 million and RMB42.9 million, respectively, representing a YoY decrease of 27.2% and 24.3%, respectively.

BUSINESS UPDATE

The Group's vision is "To become the most trustworthy milk formula, nutrition and health-care enterprise in the world". The own-branded formula milk powder business is the Company's most important business. The Company will continue to adhere to its firm strategies to step up its research and development and enhance the capacity for supply and sales service of its infant formula milk powder business. Such works have commenced in an orderly manner in 2021. The COVID-19 pandemic has increased the health awareness of the general public and hence driven the demand for health-related nutrition products across the globe. The Group has been very responsive to these market developments, including its continuing investments in the research and development in this area. The Group's dedication has yielded encouraging results. On 25 April 2021, the State Administration for Market Regulation in the PRC approved the Group's registration for its lactose-free infant formula for special medical purposes (which will help lactose intolerant infants). On the same day, the National Health Commission of the PRC approved the application made by Bioflag International Corporation (one of the Group's associates) on the use of lactobacillus rhamnosus MP108 (a strain in new food raw materials that can help prevent different inflammations in children) in the PRC. This is the first strain developed by a Chinese company that has been approved to be used in infant and children food in the PRC, a breakthrough in the Chinese market in this aspect.

For the Group's nutrition business, most of Nutrition Care's nutrition products were produced in Australia and constrained by the supply capacity in the past. To overcome the constraints on supply capacity and better support the Group's market development in the PRC, the Group decided to produce some of Nutrition Care's nutrition products in the PRC. The relevant technical validations have been conducted and the Company will start to produce some of its nutritional products in the PRC in the second quarter of this year.

The Group will continue to prudently foster the development and growth of its businesses by staying science-oriented, keeping abreast of the latest trends and expanding its portfolio from infant to kid and adult nutrition products in the future to further contribute to the growth and health of the consumers.

The Board wishes to remind shareholders of the Company and potential investors that the above result has not been reviewed or audited by the independent auditors of the Group. Differences may arise between such data and the data disclosed in audited report due to review and audit adjustments.

Shareholders of the Company and potential investors are advised not to unduly rely on such data and to exercise caution when dealing in the shares of the Company.

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

The PRC, 11 May 2021

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.