

ASX ANNOUNCEMENT

28 January 2021

December 2020 Quarterly Report

Highlights

- Sales rebounded, up 111% in the December 2020 quarter compared to the September 2020 quarter
- JAT continues to have positive operating cashflow
- JAT's China- based business strategy is being implemented
- JAT's new product development strategy is being implemented
- Research programme with University of Sydney progressing and new products are expected in the current quarter.

Health and wellness consumer goods developer and manufacturer Jatcorp Limited (ASX: JAT) is pleased to provide its quarterly report for the period ended 31 December 2020.

COVID Recovery

JAT is delighted to be able to report that there has been a significant improvement in its financial results for the December 2020 quarter, compared to the September 2020 quarter.

The results for the September 2020 quarter were affected by COVID-19 lockdowns in Australia and internationally, which resulted in the closure of daigou stores and trade between China and Australia being slowed. As a result of a number of strategies adopted by JAT, revenue for the December 2020 quarter increased to \$9.1 million (unaudited) which was more than double the revenue in the September 2020 quarter of \$4.3 million (unaudited).

JAT Strategy

Throughout the quarter, JAT continued with its strategy of:

1. establishing its China-located business;
2. developing its own proprietary products;
3. expanding its ANMA manufacturing facility;
4. reducing risk by manufacturing products outside Australia; and
5. expanding sales destinations so as not to be wholly reliant on the China market.

China-located business

During the December 2020 quarter, JAT continued to implement its strategy of increasing the level of its operations based in China as well as arranging for the manufacture of its products in New Zealand, Japan, Korea and China.

The following is a summary of the status of JAT's China business development achieved during the quarter:

1. **Establishment of wholly owned subsidiary:** JAT established a wholly owned subsidiary in China, Hangzhou JAT Food Group Co., Ltd (**Hangzhou JAT**). Hangzhou JAT will conduct JAT's business operations in China to the maximum extent possible, such as the plant-based meat production and sales.
2. **Funding of wholly owned subsidiary:** JAT intends to fund the operations of Hangzhou JAT by seeking equity investments from Chinese-based corporate investors who wish to obtain exposure to JAT's developing China business.
3. **Plant-based meats business:** JAT's joint venture company, JAT Oppenheimer Pty Ltd, has developed plant-based meat alternative products (**PBM**). In December 2020, JAT took a major step in its "get-to-market" strategy by entering into an agreement with the Shanghai Godly Group, one of China's largest state-owned vegetarian restaurant chains. The agreement represents a change in strategy in that JAT's PBM will be produced by the Shanghai Godly Group in China instead of being produced in Australia and being shipped to China. By producing the PBM in China, JAT will increase profit margins, reduce costs, avoid delays, mitigate political uncertainties and meet China's strict food hygiene code. Samples of JAT's PBM have been delivered to Shanghai Godley and JAT expects to be able to announce the commencement of production and distribution in February 2021.
4. **Hangzhou Xiacheng:** Hangzhou JAT has entered a strategic cooperation agreement with a Chinese state-owned company, Hangzhou Xiacheng State-owned Asset Investment Holding Co.,Ltd (**Hangzhou Xiacheng**). Hangzhou Xiacheng is owned by the People's Government of Xiacheng District. It is mainly engaged in industrial investment, equity investment and government industrial fund management. Hangzhou Xiacheng will provide services and support to Hangzhou JAT in the development of the plant-based meat and new nutritional foods and optimise the business environment and promote the upgrading and expansion of the industrial chain to create a favourable environment for Hangzhou JAT's business. The agreement also provides that Hangzhou is to consider an equity investment in a joint venture company with Hangzhou JAT. The amount and terms of the equity investment are subject to negotiation.
5. **Beijing Lulukuan Trading Co., Ltd:** JAT has entered into a Sales Agency Agreement with Beijing Lulukuan Trading Co., Ltd (**Beijing Lulukuan**), a Beijing-based trading company. Beijing Lulukuan has arranged for the supply of JAT's products, including Lone Milk and, Moroka into Wumart and Jingkelong Supermarket Chain. Wumart Group is one of the biggest retailers in China and the largest supermarket chain in the Beijing-Tianjin-Hebei area. With more than 1,000 Wumart stores in North, East and North West China, Wumart is opening further stores in the north-eastern and southern regions of Beijing. Beijing Jingkelong Supermarket Chain is a Chinese supermarket chain headquartered in Chaoyang District, Beijing. It operates hundreds of retail outlets, including hypermarkets, supermarkets, convenience stores and shopping centres in Beijing and in Langfang, Hebei.
6. **Shanghai retail store:** The fit-out of JAT's first retail store in China, to be opened in Shanghai, has begun and it is expected the store will be open for trading in late February or early March 2021. The 50sqm store will be branded **JAT Maternity &**

Infant Boutique and located next to the Sinopharm pharmacy, which is expected to drive significant consumer traffic to the JAT store. A primary purpose of opening the store is to establish JAT's image in the Chinese market, promote JAT's products and expand the influence of the Company's products in China. If the Shanghai store is successful, JAT intends to open further stores in Shanghai and other cities in China.

7. **Online China sales platform:** The establishment of the Shanghai store will assist in driving consumers to JAT's online China sales platform to be established and operated by JAT's Chinese subsidiary, Hangzhou JAT - see ASX announcement 23 December 2020).
8. **Suning Group:** JAT has entered into a distribution agreement with the Suning Group. Under the agreement, Suning will distribute Australian products including JAT's in-house brands in mainland China on a non-exclusive basis. Suning has recently approved JAT's in-house brand products to be sold to Chinese consumers through its sales networks in China. It is expected that Suning will start selling most of JAT's in-house brands, including those on its online platforms, from February 2021.

Milk powder

Sunnya's sales amounted to \$5.5 million in the December quarter 2020, a strong increase from the September quarter 2020 of \$1.7 million.

Manufacture of Sunnya's Middle-Aged Goat Milk Powder with Probiotics has commenced in New Zealand.

During the quarter, Sunnya paid a dividend of \$2,041,000. As 51% shareholder of Sunnya, JAT received \$1,041,000 of that dividend.

ANMA expansion

Victoria's stage 4 lockdown, from July to September 2020, had a dramatic impact on ANMA's production capacity. ANMA was forced to reduce the shifts and labour on-site to comply with the Victorian Government's restrictions, therefore production was reduced in the September quarter. From October 2020, ANMA returned to two shifts per day resulting in an increase in sales through to December.

The work on the expansion of the ANMA facility in Melbourne has commenced and is expected to be completed at the end of February 2021. The expansion will double ANMA's manufacturing capacity and importantly, will allow ANMA to produce a probiotics range of products.

JAT and the University of Sydney's antiviral food supplement research

JAT has provided additional products to the University of Sydney to develop a food supplement with potential antiviral properties. An optimum product formula is expected to be determined by the University in February 2021, with production to commence shortly thereafter.

Nightingale PS Pty Ltd (“Nightingale”)

JAT entered into a 10-year, non-exclusive, sales agreement with Nightingale, focused on placing goods with the major supermarket and pharmacy chains in Australia and the UK. Nightingale will use its networks to sell the current JAT products, and all future products developed by JAT, to its customers in Australia. The next step is intended to be the expansion of the JAT sales network to Nightingale’s clients in the UK and to other markets outside of China.

New Products

JAT successfully developed the first A2 Ejiao Protein Powder. Ejiao related products are sold extensively in China and South East Asian countries and is believed by consumers to improve blood circulation with the result that it is beneficial to people with anaemia, low blood cell count or reproductive problems. The A2 Ejiao Protein Powder it is a special formula developed by JAT which organically combines the traditional Ejiao raw materials with modern A2 protein, which not only retains the traditional functions of Ejiao, but also adds A2 protein that promotes human health. A2 Ejiao Protein Powder is being manufactured at JAT’s ANMA manufacturing plant in Melbourne. This has been possible due to the expansion of the facilities and the installation of new equipment. The A2 Ejiao Protein Powder will be ready for the market in February 2021.

New Website

JAT’s new website has gone live, see <https://www.jatcorp.com/>

South Korea expansion

ANMA is now approved by the South Korean regulatory authority, KFDA, for exporting its dairy based nutritional products into the Korean market. The first sample order of Jinvigorate Diabetics Formula has been placed by a Korean distributor to be presented to Korean pharmacies.

JAT Managing Director Wilton Yao said:

“Despite COVID-19 continuing to impact the local community, with international travelers especially Chinese tourists and students, still largely prevented from entering Australia, JAT saw sales revenue rebound during the last quarter. The sales revenue was up by 111% from the previous quarter. The Company achieved positive EBITDA for the quarter and the Board believes that the sales trending up will continue in the next quarters. Our China based operation will commence during this quarter, with the opening of JAT’s first Shanghai retail store and more in-house products to be released into the market.

“JAT has continued to develop business relations with large Chinese state-owned companies, as well as large private enterprises. Those connections will not only help increase JAT’s sales revenue in China, but also potential investment opportunities for the Company.

“JAT will continue to develop new products according to market needs, especially in relation to the impact of the new coronavirus on people's daily life. Going forward, the focus of our research and development will be on the development and production of products with nutritional and antiviral functions.

“Once the upgrade of the production facility is completed, ANMA will be able to produce a broader range of products. The probiotics range especially, is expected to be a key growth product of ANMA's. Due to the health function of probiotics, probiotic products have become a very widely used health food in people's daily life. The new production line for probiotics products will not only increase the sales revenue for ANMA, it will also provide great opportunities for JAT to produce additional in-house products within its new “health concept range” and increase the company's market share and influence.”

Expenditure on business activities

A summary of the expenditure incurred on JAT's business activities described above for the quarter follows:

Expenditure Category	Amount \$
Research and development	217,153
Expenditure on inventory and manufacturing	6,795,895
Advertising and marketing costs	171,000
Leasing	50,232
Employees	576,018
Payments to Directors	102,000

Corporate

Conversion of Convertible Notes

During the quarter, JAT received conversion notices from Obsidian Global GP, LLC in respect of a total of 700,000 Convertible Notes with a face value of US\$1.20 per Convertible Note. Upon conversion of the 700,000 Convertible Notes, 57,472,264 ordinary shares in the Company were issued to Obsidian Global GP, LLC at deemed issue prices between AU\$0.0199-\$0.02087.

The remaining number of Convertible Notes following Conversion is 1,721,600.

Following the Company's capital raising in January 2021 notes are convertible at the lower of 1.9 cents and a 5% discount to VWAP.

Payments to related parties of the entity and their associates

The amount included in section 6.1 of the Appendix 4C is the payment of salaries and fees to directors.

This announcement has been authorised for release to the ASX by Managing Director, Wilton Yao.

For more information:

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<https://www.jatcorp.com/>

About Jatcorp Limited

Jatcorp Ltd (ASX: JAT) is a China-Australia trade specialist. The Company develops and markets a portfolio of in-house branded FMCGs, focusing on growth opportunities in dairy products.

JAT has positioned itself as a major player in the flourishing Australian consumer goods export industry, offering Chinese retail presence, online sales to Chinese consumers through offshore platforms, and high-volume wholesaling to daigou groups and other distribution channels.

JAT's extensive network of Chinese business affiliations is a substantial source of opportunities, both for the company and for its Australian business partners.

Appendix 4C

Quarterly cash flow report for entities subject to Listing Rule 4.7B

Name of entity

Jatcorp Limited

ABN

31 122 826 242

Quarter ended ("current quarter")

31 December 2020

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	8,975	16,711
1.2 Payments for		
(a) research and development	(217)	(217)
(b) product manufacturing and operating costs	(6,795)	(11,660)
(c) advertising and marketing	(171)	(538)
(d) leased assets	(50)	(158)
(e) staff costs	(576)	(1,225)
(f) administration and corporate costs	(539)	(1,048)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	1	2
1.5 Interest and other costs of finance paid	(476)	(957)
1.6 Income taxes paid	(194)	(372)
1.7 Government grants and tax incentives	162	423
1.8 Other (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	120	961
2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	(701)	(701)
(c) property, plant and equipment	(852)	(1,258)
(d) investments	-	(1)
(e) intellectual property	-	-
(f) other non-current assets	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
2.2	Proceeds from disposal of:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	-	-
	(d) investments	-	-
	(e) intellectual property	-	-
	(f) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received from 51% owned subsidiary – Sunnya (see note 3)	1,041	1,041
2.5	Other (provide details if material)	-	-
2.6	Net cash from / (used in) investing activities	(512)	(919)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	-
3.2	Proceeds from issue of convertible debt securities	-	168
3.3	Proceeds from exercise of options	-	-
3.4	Transaction costs related to issues of equity securities or convertible debt securities	-	-
3.5	Proceeds from borrowings	810	840
3.6	Repayment of borrowings	(8)	(3,286)
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid by 51% owned subsidiary - Sunnya	(2,041)	(2,041)
3.9	Other (provide details if material)	-	-
3.10	Net cash from / (used in) financing activities	(1,239)	(4,319)

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	8,773	11,419
4.2	Net cash from / (used in) operating activities (item 1.9 above)	120	961
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(512)	(919)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(1,239)	(4,319)
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of period	7,142	7,142

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	7,142	8,773
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	7,142	8,773

6.	Payments to related parties of the entity and their associates	Current quarter \$A'000
6.1	Aggregate amount of payments to related parties and their associates included in item 1	204
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-
<i>Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments.</i>		

7. Financing facilities <i>Note: the term "facility" includes all forms of financing arrangements available to the entity. Add notes as necessary for an understanding of the sources of finance available to the entity.</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
7.1 Loan facilities	10,770	10,770
7.2 Credit standby arrangements	-	-
7.3 Other (please specify)	2,682	2,682
7.4 Total financing facilities	13,452	13,452
7.5 Unused financing facilities available at quarter end	Nil	
7.6 Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.	<p>1. Lender: Topwei Two Pty Ltd. Amount: \$5 million. Term: Repayable before 3 September 2021. Interest rate: 20% per annum. Repayable at any time provided 60 days' notice to the lender is made. Security: unsecured.</p> <p>2. Lender: Topwei Two Pty Ltd. Amount: \$5 million. Term: Repayable at any time before 8 January 2021. The loan has not been repaid and is being rolled over on a monthly basis. Interest rate: 13% per annum. The lender may, subject to shareholders' approval, request that repayment of the loan take place by converting the loan to shares at 85% of 10 business day VWAP prior to the date of repayment. Security: second ranking PPSR security interest over JAT's shares in ANMA.</p> <p>3. \$770k short term interest free unsecured loan was borrowed from Topwei Two Pty Ltd in December 2020 to fund the purchase of commodities for a trading transaction with Beijing Grain. The loan is expected to be repaid in February 2021 on receipt of proceeds of sale on presentation of Beijing Grain letter of credit.</p> <p>4. Convertible Securities agreement with Obsidian Global GP LLC. Amount: \$4 million. Maturity date: 18 months after the purchase date. Redemption amount: 105% of the amount outstanding. Face value US\$1.20 per convertible security. At 31 December 2020, the outstanding convertible notes have a combined face value of USD 2,065,920.</p>	

8. Estimated cash available for future operating activities	\$A'000
8.1 Net cash from / (used in) operating activities (item 1.9)	120
8.2 Cash and cash equivalents at quarter end (item 4.6)	7,142
8.3 Unused finance facilities available at quarter end (item 7.5)	-
8.4 Total available funding (item 8.2 + item 8.3)	7,142
8.5 Estimated quarters of funding available (item 8.4 divided by item 8.1)	NA
<i>Note: if the entity has reported positive net operating cash flows in item 1.9, answer item 8.5 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.5.</i>	

8.6 If item 8.5 is less than 2 quarters, please provide answers to the following questions:

8.6.1 Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?

Answer:

8.6.2 Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?

Answer:

8.6.3 Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Answer:

Note: where item 8.5 is less than 2 quarters, all of questions 8.6.1, 8.6.2 and 8.6.3 above must be answered.

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.

Date:28/01/2021.....

Authorised by:Wilton Yao.....
(Name of body or officer authorising release – see note 4)

Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow 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 cash flow 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.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.