



Interim Report

28 February 2023

**Bubs Australia Limited and
Controlled Entities**

ACN 060 094 742



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Bubs Australia Limited and Controlled Entities
Corporate Directory
31 December 2022

Current Directors

Dennis Lin

Kristy-Lee Newland Carr

Katrina Rathie

Steve Lin

Executive Chairman

Executive Director

Non-executive Director

Non-executive Director

Company Secretary

Jay Stephenson

Registered Office and Domicile

Bubs Australia Limited is a company limited by shares, incorporated and domiciled in Australia.

Its registered office is:

23-29 Nina Link Dandenong South

Melbourne VIC 3175

Share Registry

Computershare Investor Services Pty Limited

Level 2

Reserve Bank Building

45 St George's Terrace

Perth WA 6000

Auditors

KPMG

Tower Two, Collins Square

727 Collins Street

Melbourne VIC 3008

Australian Stock Exchange

ASX Code: BUB

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Bubs Australia Limited and Controlled Entities

Directors' report

31 December 2022

Directors

The names of the directors of Bubs Australia Limited and the entities it controlled ('the Group' or 'Bubs') in office during the half-year and until the date of this report are set out below. Directors were in office for this entire period unless otherwise stated.

Dennis Lin, Executive Chairman, appointed on 22 October 2019

Kristy-Lee Newland Carr, Managing Director, appointed on 22 December 2016

Katrina Rathie, Non-Executive Director, appointed on 21 July 2021

Steve Lin, Non-Executive Director, appointed on 18 April 2019

Operating and financial review

Financial performance and operating expenses management

Revenue

The Group achieved gross revenue¹ of \$37.9 million (1% down on 1HFY22) and revenue \$31.5 million (6% down on 1HFY22). Revenue of Bubs Infant Formula increased 44% compared to 1HFY22 which is the same as the increase in Bubs' portfolio.

Domestic

In the domestic market, Bubs continues to be the fastest growing infant formula manufacturer within the top six major manufacturers². Bubs Infant Formula portfolio has grown at 32 percent in scan sales value, outpacing the infant formula category growth rate². Bubs continues to consolidate its leadership of the goat formula segment, now representing over half of the total goat formula market in Australia². At the same time, Bubs Organic Grass-fed Formula continues to build momentum against the segment leader, delivering 42 percent growth in value scan sales on a moving annual total basis versus prior year².

China

The Group's performance in China was down 48% compared to 1HFY22 which was affected by the recent lockdowns and supply disruptions in major cities in China due to increased COVID outbreaks. The transition to the new Manufacturing to Consumer ('M2C') led operating model in China has also contributed to the softer than anticipated performance in 1HFY23. We expect to see more favourable market conditions in China in the 2HFY23.

United States

The Group is on track to meet all regulatory milestones for permanent access to the U.S. market and is working closely with the FDA and other stakeholders to help diversify America's infant formula supply chain and secure ongoing availability in the American market.

¹ Gross revenue is a non-IFRS measure. Non-IFRS measures have not been subject to audit or review. Gross revenue represents the revenue recognised without rebates and marketing contribution. Gross revenue \$37.9 million = revenue \$31.5m + rebates and marketing contribution \$6.4 million.

² IRI Scan Data, Total Infant Formula Category Retail Scan Sales (\$000's) in Coles, Woolworths and Chemist Warehouse combined to MAT 15/01/23.

Bubs Australia Limited and Controlled Entities

Directors' report

31 December 2022

Since June 2022, Bubs has rapidly scaled its retail footprint, which now stands at over 6,500 stores across 42 states, including the four largest retailers of infant formula: Walmart, Target, Kroger and Albertsons-Safeway, as well as health food chains like Whole Foods, baby chains, drug stores, and e-Commerce marketplaces like Amazon.

The strong presence in the US market has contributed to 31% of Group revenue.

Gross margin

Group gross margin decreased to 8% which was primarily driven by the \$8.4 million inventory provision balance. The slower than expected consumer offtake in key markets have contributed to the softer than anticipated revenue in 1HFY23 which has resulted in the inventory provision balance. Group product margin³ has increased to 35% compared to 27% in FY22 which was due to increased contribution from the US market, consistent trade spend investment and optimising product mix. Bubs Infant Formula product margin³ was 39% at 1HFY23 compared to 34% in FY22 with Goat Infant Formula product margin³ being 44% at 1HFY23 compared to 39% in FY22.

Operating expenses

Operating expenses⁴ to revenue ratio increased to 72% from 36% in 1HFY22. The increase is primarily due to the increased costs of business and the softer than expected performance in 1HFY23.

Employee costs⁵ increased 54% to support our organisational capability to sustain growth, including recruitment in the US market.

Administrative and other costs⁶ increased by 171% which is primarily due to the associated costs with establishing our presence in the US market and the increases to the doubtful debt provision (\$2.1 million).

The brand marketing investment increased by 67% compared to 1HFY22. The increase is attributable to the upfront investment in brand awareness and the costs associated with new customer acquisition in the US market which has resulted in commensurable revenue.

It is important to note that the overall statutory loss of \$44.4 million includes a total of \$20.0 million non-cash impairment relating to the Deloraine Dairy cash generating unit driven by the timing of State Administration for Market Regulation ('SAMR') resubmission for the three slots for which nomination rights are held by the facility. This does not detract from the strategic value of the Deloraine Dairy acquisition which delivered a vertical integrated supply chain security to the Group, essential to a sustainable future. In addition, the Group will continue to pursue the pathway to

³ Product margin is a non-IFRS measure. Non-IFRS measures have not been subject to audit or review. Product margin is calculated as (revenue – production costs) / revenue. Gross margin is calculated as (revenue – cost of sales) / revenue. Cost of sales includes production costs and inventory provision.

⁴ Operating expenses exclude share-based payments and depreciation and amortisation. This is a non-IFRS measure. Non-IFRS measures have not been subject to audit or review.

⁵ Employee costs exclude share-based payments. This is a non-IFRS measure. Non-IFRS measures have not been subject to audit or review.

⁶ Administrative and other costs do not include depreciation and amortisation. This is a non-IFRS measure. Non-IFRS measures have not been subject to audit or review.

Bubs Australia Limited and Controlled Entities

Directors' report

31 December 2022

obtain SAMR new GB registration for Bubs® Chinese label Infant Formula products. Post balance date, the Group finalised a joint venture agreement with Zhitong (Hangzhou) Health Technology Co., Ltd to establish a Chinese entity to be controlled by Bubs to distribute Bubs® Chinese label Goat Infant Formula products, subject to the SAMR approving the brand slot licence under Heilongjiang Anjia Dairy Co., Ltd for exclusive use under the Bubs® brand.

The Group has received confirmation that SAMR has formally accepted lodgement of Heilongjiang's application. Subject to SAMR approval being granted in 2023, the renewed licence will enable Bubs® Goat Infant Formula China-label products to be sold into the General Trade throughout China.

Underlying EBITDA⁷ loss was \$22.0 million (1HFY22: \$1.2 million profit) and the reconciliation to the statutory loss before tax is set out in the table below.

	1HFY23	1HFY22
	\$	\$
Loss before tax	(43,489,571)	(572,592)
Interest income	122,653	65,256
Finance cost	(189,101)	(482,240)
EBIT Profit / (Loss)	(43,423,123)	(155,608)
Depreciation and amortisation	(1,429,463)	(1,309,759)
EBITDA Profit / (Loss)	(41,993,660)	1,154,151
Impairment	(19,995,133)	-
Underlying EBITDA Profit / (Loss)	(21,998,527)	1,154,151

Subsequent events

On 1 January 2023 the Group and Zhitong (Hangzhou) Health Technology Co., Ltd entered into a Joint Venture Agreement and to establish a Chinese entity to distribute the Chinese label Goat Infant Formula products once the State Administration for Market Regulation (SAMR) approves Goat Infant Formula brand slot licence under Heilongjiang Anjia Dairy Co., Ltd for exclusive use under the Bubs brand. Under *AASB 10 Consolidated Financial Statements*, Bubs has control over the Chinese entity. The entity will be consolidated into the Group's financial statements.

Other than the event stated above, no matters or circumstances have arisen since 31 December 2022 that has significantly affected, or could significantly affect the reported results from operations or financial position for the period then ended.

Rounding

The financial report is presented in Australian dollars and all values in this report and the interim finance report are to the nearest dollar.

⁷ EBITDA is a non-IFRS measure. Non-IFRS measures have not been subject to audit or review.

Bubs Australia Limited and Controlled Entities
Directors' report
31 December 2022

Auditor's independence declaration

A copy of the auditor's independence declaration as required under Section 307C of the Corporations Act 2001 is set out on page 8 and forms part of this report.

This report is made in accordance with a resolution of the directors, pursuant to section 306(3)(a) of the Corporations Act 2001.

On behalf of the directors



Dennis Lin
Executive Chairman

Melbourne

28 February 2023

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Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of Bubs Australia Limited

I declare that, to the best of my knowledge and belief, in relation to the review of Bubs Australia Limited for the half-year ended 31 December 2022 there have been:

- i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the review; and
- ii. no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

KPMG

J Carey

Partner

Melbourne

28 February 2023

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Bubs Australia Limited and Controlled Entities
Interim Consolidated Statement of Profit or Loss and Other Comprehensive
Income
For the six months ended 31 December 2022

	Note	31/12/2022 \$	31/12/2021 \$
Revenue	3	31,483,624	33,627,180
Cost of sales	5	(28,936,609)	(20,900,653)
Gross profit		2,547,015	12,726,527
Other Income		65,098	329,877
Share of net profits/(losses) of associate accounted for using the equity method		(914)	87,679
Distribution and selling costs		(1,881,191)	(1,338,081)
Marketing and promotion costs		(6,655,375)	(3,978,843)
Administrative and other costs	5	(17,054,814)	(7,952,467)
Impairment	9	(19,995,133)	-
Other expenses	5	(447,809)	(30,300)
Interest income		122,653	65,256
Finance cost	5	(189,101)	(482,240)
Loss before tax		(43,489,571)	(572,592)
Income tax expense		(908,893)	(29,333)
Loss for the period after tax		(44,398,464)	(601,925)
Other comprehensive income			
Other comprehensive income that may be reclassified to profit or loss in subsequent periods (net of tax)			
Exchange difference on translation of foreign operations		73,004	(100,304)
Other comprehensive income, net of tax		73,004	(100,304)
Total comprehensive loss for the period		(44,325,460)	(702,229)
Loss per share			
Basic (loss) per share (dollars)	6	(0.06)	(0.00)
Diluted (loss) per share (dollars)	6	(0.06)	(0.00)

The accompanying notes form part of these interim consolidated financial statements.

Bubs Australia Limited and Controlled Entities
Interim Consolidated Statement of Financial Position

	Note	31/12/2022 \$	30/06/2022 \$
Assets			
Current Assets			
Cash and cash equivalents		51,415,682	16,311,005
Trade and other receivables	7	6,779,638	24,850,924
Inventories	8	43,380,500	28,460,168
Other assets		4,999,994	9,830,295
Total Current Assets		106,575,814	79,452,392
Non-Current Assets			
Property, plant and equipment		4,311,666	4,366,855
Right of use assets		2,187,753	2,400,731
Intangible assets	9	17,928,255	39,044,397
Investment in associates		132,907	136,770
Other assets		544,497	539,845
Total Non-Current Assets		25,105,078	46,488,598
Total Assets		131,680,892	125,940,990
Liabilities			
Current Liabilities			
Trade and other payables		18,169,499	27,490,328
Contract liabilities		22,566	46,750
Lease liabilities		650,946	615,875
Borrowings		2,000,000	2,000,000
Provisions		1,204,991	1,039,784
Deferred consideration payable		-	4,000,000
Total Current Liabilities		22,048,002	35,192,737
Non-Current Liabilities			
Lease liabilities		2,038,877	2,302,975
Provisions		259,834	235,727
Total Non-Current Liabilities		2,298,711	2,538,702
Total Liabilities		24,346,713	37,731,439
Net Assets		107,334,179	88,209,551

The accompanying notes form part of these interim consolidated financial statements.

Bubs Australia Limited and Controlled Entities
Interim Consolidated Statement of Financial Position

	Note	31/12/2022 \$	30/06/2022 \$
Equity			
Issued capital	10	336,322,746	274,851,116
Equity reserve		4,246,021	4,246,021
Share based payments reserve	11	13,311,084	11,332,626
Foreign currency translation reserve		27,795	(45,209)
Accumulated losses		(246,573,467)	(202,175,003)
Total Equity		107,334,179	88,209,551

The accompanying notes form part of these interim consolidated financial statements.

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Bubs Australia Limited and Controlled Entities
Interim Consolidated Statement of Changes in Equity

For the six month ended 31 December 2022	Issued Capital	Share Based Payments Reserve	Equity Reserve	Foreign Currency Translation Reserve	Accumulated Losses	Total equity
	\$	\$	\$	\$	\$	\$
Balance at 1 July 2022	274,851,116	11,332,626	4,246,021	(45,209)	(202,175,003)	88,209,551
Comprehensive income						
Loss for the period	-	-	-	-	(44,398,464)	(44,398,464)
Other comprehensive income	-	-	-	73,004	-	73,004
Total comprehensive loss	-	-	-	73,004	(44,398,464)	(44,325,460)
Transactions with owners in their capacity as owners:						
Issue of shares	63,497,669	-	-	-	-	63,497,669
Capital raising costs, net of tax	(2,026,039)	-	-	-	-	(2,026,039)
Share based payment expense	-	1,978,458	-	-	-	1,978,458
Balance at 31 December 2022	336,322,746	13,311,084	4,246,021	27,795	(246,573,467)	107,334,179

The accompanying notes form part of these interim consolidated financial statements.

Bubs Australia Limited and Controlled Entities
Interim Consolidated Statement of Changes in Equity

For the six month ended 31 December 2021	Issued Capital	Share Based Payments Reserve	Foreign Currency Translation Reserve	Accumulated Losses	Total equity
	\$	\$	\$	\$	\$
Balance at 1 July 2021	274,851,116	2,988,548	(22,414)	(190,797,459)	87,019,791
Comprehensive income					
Loss for the period	-	-	-	(601,925)	(601,925)
Other comprehensive loss	-	-	(100,304)	-	(100,304)
Total comprehensive loss	-	-	(100,304)	(601,925)	(702,229)
Transactions with owners in their capacity as owners:					
Issue of shares	-	-	-	-	-
Capital raising costs, net of tax	-	-	-	-	-
Share based payment expense	-	-	-	-	-
Balance at 31 December 2021	274,851,116	2,988,548	(122,718)	(191,399,384)	86,317,562

The accompanying notes form part of these interim consolidated financial statements.

Bubs Australia Limited and Controlled Entities
Interim Consolidated Statement of Cash Flows
For the six months ended 31 December 2022

	31/12/2022	31/12/2021
	\$	\$
Cash flows from operating activities		
Receipts from customers	45,459,831	38,955,791
Payments to suppliers and employees	(66,276,108)	(35,690,072)
Interest received	97,321	72,019
Interest paid	(148,340)	(179,632)
Net cash provided by/(used in) operating activities	<u>(20,867,296)</u>	<u>3,158,106</u>
Cash flows from investing activities		
Purchases of property, plant and equipment	(277,416)	(131,005)
Proceeds from disposal of property, plant and equipment	24,567	-
Purchases of intangible assets	(1,950)	-
Payments to Deloraine vendors relating to Deloraine acquisition	(4,000,000)	-
Net cash used in investing activities	<u>(4,254,799)</u>	<u>(131,005)</u>
Cash flows from financing activities		
Proceeds from share issue	63,020,588	-
Capital raising costs	(2,894,342)	-
Proceeds from exercising options	477,081	-
Repayment of lease liabilities	(376,555)	(280,106)
Net cash from / (used in) financing activities	<u>60,226,772</u>	<u>(280,106)</u>
Net increase in cash and cash equivalents	35,104,677	2,746,995
Cash and cash equivalents at the beginning of the financial year	<u>16,311,005</u>	<u>27,883,202</u>
Total cash and cash equivalents at the end of the period	<u>51,415,682</u>	<u>30,630,197</u>

The accompanying notes form part of these interim consolidated financial statements.

Bubs Australia Limited and Controlled Entities

Notes to the Interim Consolidated Financial Statements

For the six months ended 31 December 2022

1. Corporate information

The interim consolidated financial statements of Bubs Australia Limited and the entities it controlled ('the Group') for the six month ended 31 December 2022 were authorised for issue in accordance with a resolution of the Directors on 28 February 2023. The interim consolidated financial statements are presented in Australian dollars, which is Bubs Australia Limited's functional and presentational currency.

The Group is a for-profit entity that is a listed public company limited by shares, incorporated and domiciled in Australia. A description of the nature of the Group's operations and its principal activities is included in the Directors' report, which is not part of the financial report. The consolidated annual financial statements of the Group as at and for the year ended 30 June 2022 are available upon request from the Company's registered office at 23 Nina Link, Dandenong South, VIC 3175 or at www.bubsaustralia.com.

2. Basis of preparation and changes to the Group's accounting policies

2.1 Basis of preparation

The interim consolidated financial statements for the six months ended 31 December 2022 are general purpose financial statements and have been prepared in accordance with Australian Accounting Standard *AASB 134: Interim Financial Reporting* and the *Corporations Act 2001*.

The interim consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual consolidated financial statements as at 30 June 2022 and any public announcements made by the Group during the interim reporting period in accordance with the continuous disclosure requirements arising under the Australian Securities Exchange listing rules and the *Corporations Act 2001*.

Going concern basis

In July 2022, the Group completed a \$63.0 million equity raise to support growth opportunities. These additional funds support the Group's liquidity position at 31 December 2022. The Group maintained a balance sheet position with \$51.4 million cash and cash equivalents at 31 December 2022 (30 June 2022: \$16.3 million) and \$2.0 million (30 June 2022: \$2.0 million) external debt at balance date.

The Group recorded a loss after tax of \$44.4 million for the period. A non-cash impairment of \$20.0 million relating to Deloraine Dairy CGU was recognised. The Group's current assets of \$106.6 million exceeded current liabilities of \$22.0 million. The Group's recorded a net cash used in operating activities of \$20.9 million for the 6 months ended 31 December 2022 and the Group had unutilised facilities of \$8.0 million as of the reporting date.

Based on the current forecasts, which assume continued growth in sales and improving gross profit, the Directors are confident that the Group will be able to meet operational and expenditure commitments for at least the next twelve months from the reporting date and includes paying its

Bubs Australia Limited and Controlled Entities
Notes to the Interim Consolidated Financial Statements
For the six months ended 31 December 2022

debts as and when they fall due. On this basis, the directors consider it is appropriate for the going concern basis to be adopted in preparing the financial statements.

Use of judgements and estimates

In preparing these interim financial statements, management has made judgements and estimates that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

The significant judgements made by management in applying the Group's accounting policies and the key source of estimation uncertainty were the same as those described in the last annual financial statements, with exception to judgements made around allowance for credit losses outline in note 7, inventory as outlined in note 8 and impairment as outlined in note 9.

2.2 New, revised or amending Accounting Standards and Interpretations adopted

Several amendments and interpretations applied for the first time in the 2023 financial period. These new amendments and interpretations do not have a material impact on the consolidated financial statements of the Group.

Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

3. Revenue from contracts with customers

Set out below is the disaggregation of the Group's revenue from contracts with customers:

	31/12/2022	31/12/2021
Type of goods and services	\$	\$
Sale of Infant Formula	26,467,408	18,417,112
Sale of Nutritional Products	1,409,302	950,626
Sale of Adult Goat Dairy Products	2,424,217	8,750,163
Sale of Raw Materials	102,065	5,300,471
Canning services	1,080,632	208,808
Total revenue from contracts with customers	31,483,624	33,627,180

4. Segment information

The Group has a single operating segment being the sale of nutritional food, adult powder and providing canning services of nutritional dairy products. Accordingly, the financial information presented in the interim consolidated statement of profit or loss and other comprehensive income and interim consolidated statement of financial position aligns with the level of information that is presented to the chief operating decision makers.

Bubs Australia Limited and Controlled Entities
Notes to the Interim Consolidated Financial Statements
For the six months ended 31 December 2022

Geographic information

	31/12/2022	31/12/2021
	\$	\$
Australia	8,545,869	6,264,560
China	10,133,513	19,488,260
USA	9,834,260	49,289
Other International	2,969,982	7,825,071
Total	31,483,624	33,627,180

The Group had one external customer who generated greater than 10 percent of the Group's revenue at 31 December 2022 amounting to \$6,096,218 (2021: 2 customers amounting to \$17,878,463).

5. Expenses

	31/12/2022	31/12/2021
	\$	\$
Cost of sales		
Production costs	20,522,656	25,435,512
Inventory provision	8,413,953	(4,534,859)
Total	28,936,609	20,900,653

Included in administrative and other expenses are the following:

Listing and registry fees	218,522	173,425
Accountancy and legal fees	1,089,914	608,799
Insurance	494,087	317,802
Travel costs	700,695	113,497
Consultancy fee	1,785,130	479,903
Occupancy costs	327,176	102,739
Credit losses / (reversal)	2,076,900	(452,345)
Depreciation and amortisation	1,429,463	1,309,759

Employee costs

Wages and salaries	5,278,974	3,406,865
Superannuation	506,090	339,995
Share based payments	1,978,458	-
Total	7,763,522	3,746,860

Bubs Australia Limited and Controlled Entities
Notes to the Interim Consolidated Financial Statements
For the six months ended 31 December 2022

	31/12/2022	31/12/2021
	\$	\$
Other expenses		
Corporate transaction accounting and legal expense	447,809	30,300
Total	447,809	30,300
Finance costs		
Interest expense	121,259	121,732
Interest expense on lease liabilities	67,842	55,416
Unwinding of deferred consideration payable	-	305,092
Total	189,101	482,240

6. Loss per share (LPS)

	31/12/2022	31/12/2021
	\$	\$
Loss attributable to the Group used in calculating basic and diluted EPS	(44,398,464)	(601,925)
Weighted average number of ordinary shares for basic EPS	727,124,329	612,775,580
Basic LPS (dollars)	(0.06)	(0.00)
Diluted LPS (dollars)	(0.06)	(0.00)

7. Trade and other receivables

	31/12/2022	30/06/2022
	\$	\$
Trade debtors	8,550,115	23,980,727
Allowance for credit losses	(2,085,293)	(21,752)
Other receivables	262,897	840,030
Receivable from associates	51,919	51,919
	6,779,638	24,850,924

Key estimate and judgement

For trade receivables, the Group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group considers a financial asset in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

Bubs Australia Limited and Controlled Entities
Notes to the Interim Consolidated Financial Statements
For the six months ended 31 December 2022

8. Inventories

	31/12/2022	30/06/2022
	\$	\$
Raw materials	29,804,125	17,809,568
Finished goods	13,576,375	10,650,600
	<hr/> 43,380,500	<hr/> 28,460,168

At 31 December 2022, \$8,329,262 was recognised as inventory provision (\$1,078,589 at 30 June 2022).

Key estimate and judgement

Estimation of net realisable value includes assessment of expected future turnover of inventory held for sale and the expected future selling price of such inventory. Management assessed the recoverability of inventories based on the estimated ongoing impact from COVID on distribution channels and estimated end consumer demand in 2H FY23. Changes in trading and economic conditions, and changes in country specific regulations, may impact these estimations in future periods.

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Bubs Australia Limited and Controlled Entities
Notes to the Interim Consolidated Financial Statements
For the six months ended 31 December 2022

9. Goodwill and intangible assets

	Goodwill	Brand name	Licence	Priority right	Customer contract/list	Recipes	Patents, trademarks and software	Total
	\$	\$	\$	\$	\$	\$	\$	\$
Cost								
As at 30 June 2022	90,614,673	4,691,634	38,489,095	1,800,000	6,759,764	47,740	107,110	142,510,016
Additions	-	-	-	-	-	-	1,950	1,950
Disposals	-	-	-	-	-	-	-	-
As at 31 Dec 2022	90,614,673	4,691,634	38,489,095	1,800,000	6,759,764	47,740	109,060	142,511,966
Accumulated amortisation and impairment								
As at 30 June 2022	(90,040,602)	-	(8,535,360)	(1,800,000)	(2,980,347)	(47,740)	(61,570)	(103,465,619)
Amortisation	-	-	(803,900)	-	(311,572)	-	(7,488)	(1,122,959)
Impairment	-	-	(19,995,133)	-	-	-	-	(19,995,133)
Disposals	-	-	-	-	-	-	-	-
As at 31 Dec 2022	(90,040,602)	-	(29,334,393)	(1,800,000)	(3,291,919)	(47,740)	(69,058)	(124,583,711)

Bubs Australia Limited and Controlled Entities
Notes to the Interim Consolidated Financial Statements
For the six months ended 31 December 2022

Net book value								
As at 30 June 2022	574,071	4,691,634	29,953,735	-	3,779,417	-	45,540	39,044,397
As at 31 Dec 2022	574,071	4,691,634	9,154,702	-	3,467,845	-	40,002	17,928,256

Brand name, customer contract/list, licence and goodwill are allocated to the following cash generating units (CGUs) for the purposes of impairment testing: Infant Food Co \$1,165,712 (30 June 2022: \$1,165,712); Nulac Foods \$4,847,886 (30 June 2022: \$6,302,161) and Deloraine Dairy \$11,874,654 (30 June 2022: \$31,869,787).

In accordance with the accounting standard *AASB 136 Impairment of Assets*, the Group has conducted a review of indicators of impairment during the half year for each of the cash generating units (CGUs) to which goodwill and intangible assets have been allocated.

During the half year, The Infant Food Co CGU, Nulac Foods CGU and Deloraine Dairy CGU performance for the half year was behind the budget. As a result, the Group identified the impairment indicator for these CGUs. The goodwill and intangible assets allocated to these CGUs were tested for impairment at the half year end date.

For each CGU tested, the recoverable amount has been calculated based on the value in use, using a discounted cash flow (DCF) approach. The DCF uses post-tax cash flow projections that are based on the most recent budget/forecast and growth through the forecast period . Discount rate has been updated to reflect the current market conditions. The terminal growth rate have not changed since 30 June 2022.

Bubs Australia Limited and Controlled Entities
Notes to the Interim Consolidated Financial Statements
For the six months ended 31 December 2022

Key assumptions

	31 Dec 2022		30 June 2022	
	Infant Food Co	Nulac Foods	Infant Food Co	Nulac Foods
Compound annual growth rate in revenue	16.44%	16.84%	10.67%	9.58%
Discount rate (post tax)	11.46%	11.96%	12.77%	11.77%
Discount rate (pre-tax)	16.37%	17.10%	18.24%	16.81%
Terminal growth	2.50%	2.50%	2.50%	2.50%

CGU	Headroom \$million	
	31/12/2022	30/06/2022
Infant Food Co	15.0	20.2
Nulac Foods	2.3	9.8

The impairment assessment concluded that the recoverable amount exceeds the carrying amount for The Infant Food Co CGU and Nulac Foods CGU and there is headroom for these CGUs at 31 December 2022. As a result, no impairments of goodwill and intangible assets have been recognised for these CGUs in the half year to 31 December 2022.

Having regard to the current business performance, holding all other assumptions constant, a reasonably possible change in the key inputs below or higher could cause the carrying amount to exceed the recoverable amount.

	Infant Food Co	Nulac Foods
Discount rate increase	1.70%	1.57%
Compound annual growth in revenue (annual decrease into perpetuity)	(3.04%)	(5.98%)

Impairment to Deloraine Dairy CGU

One of the key drivers of the value for the Deloraine Dairy CGU is the approval of the State Administration for Market Regulation ('SAMR') accreditation, which allows Chinese labelled products to be produced from the Deloraine site. Given the timing of SAMR resubmission for the three slots for which nomination rights are held by the facility, the value in use model has excluded all associated impacts on the forecast cash flows.

The carrying amount of the CGU was determined to be higher than its recoverable amount of \$14.89m and an impairment loss of \$20.00m (six months ended 31 December 2021: nil) was recognised. The impairment loss has been allocated to the licence of the Deloraine site, reducing the licence to \$9.95m; and has been included in the consolidated statement of profit or loss and OCI.

The recoverable amount of the CGU was based on its value in use. Value in use was determined by discounting the future cash flows to be generated from the continuing use of the CGU. Value in use as at 31 December 2022 was determined similarly to the 30 June 2022 impairment test, and was based on the following key assumptions:

Bubs Australia Limited and Controlled Entities
Notes to the Interim Consolidated Financial Statements
For the six months ended 31 December 2022

	31 Dec 2022	30 June 2022
Compound annual growth rate in revenue	3.05%	25.52%
Discount rate (post tax)	11.96%	11.78%
Discount rate (pre-tax)	17.10%	16.86%
Terminal growth	2.50%	2.50%

Following the impairment loss recognised in the Group's Deloraine Dairy CGU, the recoverable amount equals to the carrying amount. Therefore, any adverse change in a key assumption may result in further impairment. If there was an increase of 1% to the discount rate, it would result in a further impairment of \$1.82 million, a decrease of 1% to the compound annual growth rate in revenue, it would result in a further impairment of \$1.26 million and if there was a decrease of 1% to the terminal growth rate, it would result in a further impairment of \$1.01 million.

Key estimate and judgement

The cash flow projections included in the value in use models for the above CGUs have been adjusted for the slower-than-expected consumer offtake in the key markets and the transition to the new M2C operating model in China and assumes that the revenue generated from these CGUs will be improved in 2H FY23. If each CGU is not able to achieve the revenue growth target in the updated value in use model over the forecast periods, then it will result in reduced headroom or impairment to these CGUs.

10. Share capital

	31/12/2022		30/06/2022	
	Shares	\$	Shares	\$
Movement in share capital				
Balance at the beginning of the year	612,775,580	274,851,116	612,775,580	274,851,116
Exercise of options	4,770,810	477,081	-	-
Placement of shares	121,193,439	63,020,588	-	-
Share issue transactions costs (net of tax)	-	(2,026,039)	-	-
Share issue to employees	3,075,959	-	-	-
Share issue to Willis Trading Limited	9,541,620	-	-	-
Balance at the end of the period	751,357,408	336,322,746	612,775,580	274,851,116

Fully paid ordinary shares carry one vote per share and carry right to dividends. Fully paid ordinary shares have no par value.

Bubs Australia Limited and Controlled Entities
Notes to the Interim Consolidated Financial Statements
For the six months ended 31 December 2022

11. Share based payments reserve

The equity settled payments reserve is used to record the value of share-based payments. The movement in the share based payments reserve is as follows:

	31/12/2022	30/06/2022
	\$	\$
Balance at the beginning of the year	11,332,626	2,988,548
Share based payment expense	1,978,458	8,344,078
Balance at the end of the period	<u>13,311,084</u>	<u>11,332,626</u>

12. Subsequent events

On 1 January 2023 the Group and Zhitong (Hangzhou) Health Technology Co., Ltd entered into a Joint Venture Agreement and to establish a Chinese entity to distribute the Chinese label Goat Infant Formula products once the State Administration for Market Regulation (SAMR) approves Goat Infant Formula brand slot licence under Heilongjiang Anjia Dairy Co., Ltd for exclusive use under the Bubs brand. Under *AASB 10 Consolidated Financial Statements*, Bubs has control over the Chinese entity. The entity will be consolidated into the Group's financial statements.

Other than the event noted above, no matters or circumstances have arisen since 31 December 2022 that has significantly affected, or could significantly affect the reported results from operations or financial position for the period then ended.

13. Legal matters

From time to time entities within the Group are party to various legal actions as well as enquiries from regulators and government bodies that have arisen in the normal course of business.

The outcome of currently pending and potential future legal actions, regulatory, administrative and government enquiries of a legal nature cannot be predicted with certainty. Such matters can raise complex legal issues, and are subject to many uncertainties including but not limited to, the facts and circumstances of each matter.

The Group has given consideration to such matters which are or may be subject to claims, penalties and litigation as of the reporting date and are of the opinion that any liabilities arising from such action would not have a material effect on the Group's financial performance or position in future years.

Bubs Australia Limited and Controlled Entities
Director's Declaration
31 December 2022

In the opinion of the Directors of Bubs Australia Limited (the 'Company'):

- a) The financial statements and notes that are set out on page 9 to 24 are in accordance with the *Corporations Act 2001*, including:
 - i. Giving a true and fair view of the financial position as at 31 December 2022 and its performance for the half year ended on that date; and
 - ii. Complying with Accounting Standard *AASB 134: Interim Financial reporting* and the *Corporations Regulations 2001*.
- b) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors:



Dennis Lin
Executive Chairman

28 February 2023

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Independent Auditor's Review Report

To the shareholders of Bubs Australia Limited

Report on the Interim Financial Report

Conclusion

We have reviewed the accompanying **Interim Financial Report** of Bubs Australia Limited.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the Interim Financial Report of Bubs Australia Limited does not comply with the *Corporations Act 2001*, including:

- giving a true and fair view of the **Group's** financial position as at 31 December 2022 and of its performance for the **Interim Period** ended on that date; and
- complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

The **Interim Financial Report** comprises:

- Interim Consolidated Statement of Financial Position as at 31 December 2022;
- Interim Consolidated Statement of Profit or Loss and Other Comprehensive Income, Interim Consolidated Statement of Changes in Equity and Interim Consolidated Statement of Cash Flows for the Interim Period ended on that date;
- Notes 1 to 13 comprising a summary of significant accounting policies and other explanatory information; and
- The Directors' Declaration.

The **Group** comprises Bubs Australia Limited (the Company) and the entities it controlled at the Interim Period's end or from time to time during the Interim Period.

The **Interim Period** is the 6 months ended on 31 December 2022.

Basis for Conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report.

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with these requirements.



We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the Directors of Bubs Australia Limited, would be in the same terms if given to the Directors as at the time of this Auditor's Review Report.

Responsibilities of the Directors for the Interim Financial Report

The Directors of the Company are responsible for:

- the preparation of the Interim Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*; and
- such internal control as the Directors determine is necessary to enable the preparation of the Interim Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Review of the Interim Financial Report

Our responsibility is to express a conclusion on the Interim Financial Report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the Interim Financial Report does not comply with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2022 and its performance for the Interim Period ended on that date, and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

A review of an Interim Period Financial Report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with *Australian Auditing Standards* and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

KPMG

KPMG

J. Carey

Partner

Melbourne

28 February 2023

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Appendix 4D Half year report

Name of entity

Bubs Australia Limited

ABN

Half yearly
(tick)

Preliminary
final
(tick)

63 060 094 742

✓

The information disclosed in the Appendix 4D should be read in conjunction with the most recent annual financial report

1. Details of reporting period

Current reporting period	31 December 2022
Previous corresponding period	31 December 2021

2. Results for announcement to the market

					31 December 2021		31 December 2022
2.1	Total Revenue	Down	6%	from	\$33,627,180	to	\$31,483,624
2.2	Loss after income tax benefit	Up	7276%	from	(\$601,925)	to	(\$44,398,464)
2.3	Loss after income tax benefit attributable to the members of Bubs Australia Limited	Up	7276%	from	(\$601,925)	to	(\$44,398,464)

2.4	Dividends (distributions)	Amount per security	Franked amount per security
Current period:			
	Interim dividend for the half year ended 31 December 2022	-	-
	Final dividend for the year ended 30 June 2022	-	-
Previous corresponding period:			
	Interim dividend for the half year ended 31 December 2021	-	-
	Final dividend for the year ended 30 June 2021	-	-
2.5	Record date for determining entitlements to the dividend:	Refer section 5.0	

2.6 Brief explanation of any of the figures reported above and commentary on the results for the period:
Refer to the directors' report – Operating and financial review on page 4 of the Interim Report for the half year ended 31 December 2022.

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3. Net tangible assets per security

	30 June 2022 Cents	31 Dec 2022 cents
Net tangible asset backing per ordinary security	8.02	11.90

4. Control gained or lost over entities during the period.

No control gained or lost during the period

5. Details of dividends / distributions

Current period

No interim dividend was declared for the half year ended 31 December 2022.

For the year ended 30 June 2022, no final dividend was declared.

Previous corresponding period

No interim dividend was declared for the half year ended 31 December 2021.

For the year ended 30 June 2021, no final dividend was declared.

6. Details of dividend / distribution reinvestment plan

Current period

No interim dividend was declared for the half year ended 31 December 2022.

For the year ended 30 June 2022, no final dividend was declared.

Previous corresponding period

No interim dividend was declared for the half year ended 31 December 2021.

For the year ended 30 June 2021, no final dividend was declared.

7. Details of associates and joint venture entities

As at 31 December 2022, the Company has the following associate entity:

- 51% of the issued shares in Bubs Supreme Partner Pty Ltd
- 20% of the issued shares in Capela Dairy Nutrition Co. Pty Ltd

Bubs Australia Limited and Controlled Entities

Directors' declaration

31 December 2022

8. Accounting standards used by foreign entities

International Financial Reporting Standards.

9. Qualification of audit / review

- | | |
|---|---|
| <input type="checkbox"/> The accounts have been audited. | <input checked="" type="checkbox"/> The accounts have been subject to review. |
| <input type="checkbox"/> The accounts are in the process of being audited or subject to review. | <input type="checkbox"/> The accounts have not yet been audited or reviewed. |

10. Attachments

Details of attachments (if any):

The interim report of Bubs Australia Limited for the half year ended 31 December 2022 is attached.

11. Signed



Dennis Lin
Executive Chairman

28 February 2023

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