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## SAMR NEW GB REGISTRATION PATHWAY FOR BUBS® CHINA LABEL INFANT FORMULA LAUNCH INTO CHINA'S GENERAL TRADE EXPECTED IN 2H FY23



- **Bubs Australia enters into binding agreements with Heilongjiang Ubeite Dairy Group Co., Ltd (HUG) and related entities to secure an existing SAMR approved Goat infant formula brand slot and manufacture a new ultra-premium range of Bubs® China label formula products in China.**
- **The application to renew the existing registration under Bubs® brand with SAMR is now in progress and, if approved, product launch is likely to commence in 2H of FY23.**
- **The new ultra-premium Bubs® China label Goat infant formula product range has been developed exclusively for Chinese infants, supported by the Bubs values of trusted clean label nutrition, based on easy-digest A2 goat milk protein, and includes premium ingredients; sn2 palmitate (OPO), lactoferrin, prebiotics and nucleotides.**
- **Bubs® China Goat infant formula products have been formulated in accordance with China's new GB standards and once approved by SAMR, will give Bubs access to the remaining 80%<sup>2</sup> of China's A\$40bn infant formula market<sup>1</sup> for the first time, while differentiating from Bubs® English label products.**
- **In addition to the Goat SAMR approved brand slot, HUG has granted Bubs a first right of refusal to secure a SAMR registered ultra-premium A2 protein cow milk slot for Bubs Supreme® A2 protein brand. This is subject to Bubs meeting certain minimum volume commitments and targets for Goat formula in Year 1.**

**Wednesday, 28 September 2022:** Infant nutrition and dairy specialist Bubs Australia (ASX: **BUB**) today announced it has entered into a binding master term sheet and trademark licence agreement with related parties of Heilongjiang Ubeite Dairy Group Co., Ltd (**HUG**) regarding the manufacture and distribution of Bubs® China label Goat infant formula products. HUG has today commenced submission with the State Administration for Market Regulation (**SAMR**) to renew HUG's existing registration in line with China's new GB standards for exclusive use under the Bubs® brand.

China's new GB standards (GB is acronym for Guojiabiao zhun 国家标准, or National Standards) were issued on 18 March 2021 and will be effective from 22 February 2023 and apply to all China label infant formula products that are not marketed via cross border eCommerce (CBEC).

Bubs Founder and CEO, Kristy Carr said: "We are pleased to announce this important milestone for the Company to renew an existing registered SAMR brand slot for Bubs® China label Goat infant formula products in partnership with a reputable Chinese infant formula manufacturer.



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“Over the past six years, Bubs has built strong brand trust and loyalty with Chinese families through marketing and selling Bubs® English label infant formula products in the cross-border eCommerce (CBEC) channel, which accounts for around 20% of total infant formula sales<sup>2</sup> in China. In FY22, Bubs® English label infant formula sales to China grew 179%, delivering over \$42 million in gross revenue. Subject to SAMR approval, this new registration would enable Bubs® China label infant formula products to be marketed and sold in the remaining 80% of China’s General Trade<sup>2</sup>, including Mother and Baby brick and mortar stores, as well as the general trade eCommerce channel, such as Tmall Supermarket.

### **High standards assured**

“Heilongjiang Ubeite Dairy Group Co., Ltd was selected as our partner in China, as it has a longstanding reputation in dairy ingredient procurement of high-quality goat milk and A2 protein cow milk from farms located in the famous alpine dairy region of north-eastern China, also known as the ‘Great Northern Wilderness.’ Their wholly owned infant nutrition spray drying production facility and canning line is located less than 90 minutes from their dairy farms, allowing for a one step process in conversion of fresh milk into a formulated dried powder”, said Mrs Carr.

“Bubs® new China label Goat infant formula has been developed to meet the new China GB standards and adheres to the same high quality and safety standards as Bubs® Australian-made clean label products, made without corn syrup or maltodextrin and free from GMO’s and artificial flavours or preservatives. Bubs® China label ultra-premium formulation is based on easy-digest A2 goat milk protein and contains advanced supplements, such as sn2 palmitate (OPO), prebiotics, lactoferrin, and nucleotides. This new range supports the most significant demand and market trend in China, whereby both the ultra-premium segment and the goat milk segment are experiencing rapid growth despite the total category volume decreasing due to a reduction in birth rates.

“We are pleased to partner with Heilongjiang Ubeite Dairy Group Co., Ltd, who shares our core values of vertical integration expertise and clean infant nutrition. Together, we look forward to creating a safe and premium quality product that is manufactured entirely within China, for the world’s largest infant formula market.

“Within this financial year, we hope to have the ability to offer both Bubs® English label and Bubs® China label to parents and caregivers in China. Each is uniquely formulated, and we strongly believe the combination will further enhance brand awareness and cater to different needs and preferences in the world’s largest market.

“We fully respect the regulatory process and governance of SAMR, and look forward to working with our partner in progressing the application.”

### **Pathway for entry into ultra-premium A2 protein cow milk infant formula segment**

“In addition to the Goat OPO slot, Bubs has contractually secured first right of refusal to a SAMR registered ultra-premium A2 protein cow milk slot with OPO, prebiotics, lactoferrin and nucleotides with the same manufacturer, subject to Bubs meeting both minimum volume commitments for Goat formula in the first year, as well as a higher year one business objective target. Following the successful launch of Bubs Supreme™ A2 protein English



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label range in China earlier this year, we are committed to gaining regulatory approval for an equivalent China label product, made in China, for General Trade," Mrs Carr said.

The binding master term sheet provides for HUG and related entities to enter into separate agreements to support strategic relationships in China for the purpose of manufacturing, distribution and marketing of new China Infant Formula Products, subject to SAMR registration being obtained.

Bubs will enter into a joint venture agreement with Zhitong (Hangzhou) Health Technology Co., Ltd (**Zhi Tong**) to distribute China label Bubs® goat infant formula products in China. Based on the registered capital, Bubs is to have a 75% interest in the newly established joint venture company and Zhi Tong is to have a 25% interest. Bubs will have decision-making power and will also oversee financial management of the joint venture company.

The joint venture company will enter into a manufacturing agreement with a related entity of HUG, Zhikang (Hangzhou) Health Technology Co., Ltd, being the exclusive and appointed sales and distribution entity of HUG. Key terms of the binding term sheet and the trade mark licence agreement are set out in the Appendix to this announcement.

Bubs Executive Chairman, Dennis Lin, said: "We have been closely observing China's evolving infant formula market dynamics and the recent acquisitions of China's infant formula manufacturing facilities by multiple multinational corporations operating in our sector. It is clear to us that China's supply chain is coming of age, and this is being reflected in a segment of Chinese consumers gravitating towards a 'China pride' sentiment when choosing Chinese made products.

"We are therefore delighted to update the market with our latest regulatory roadmap towards achieving official SAMR approval for Bubs® China label products to be marketed and sold in China's General Trade. We anticipate unrestricted access into the largest infant formula market in the world would result in a material shift in our China revenue momentum, commencing in the second half of FY23 and beyond. The recent capital raise ensures that we have existing balance sheet strength to capitalise on these strategically important initiatives.

"This together with our recent success in accelerating market access into the USA, as one of only eight infant formula manufacturer companies globally to receive FDA regulatory approval to import all six of Bubs® infant formula products under the enforcement discretion really does put Bubs on the global map," Mr Lin said.

This release is approved by the Board of Directors.

## FOOTNOTES

<sup>1</sup> Euromonitor & Market Expert interviews

<sup>2</sup> EBH Mom & Baby Times, 2021-03-03. CBEC Market Report.

END



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#### **ABOUT BUBS AUSTRALIA LIMITED (ASX: BUB)**

Founded in 2006 in Australia, Bubs' purpose is to grow happy, healthy families through clean nutrition. Bubs® A2 Beta-Casein Protein, Bubs Organic® Grass-fed, and Bubs® Easy-Digest Goat Milk Infant Formula, along with Bubs Organic® baby food range, cater for all feeding occasions and stages of a child's development during their first 1,000 days of life.

Bubs® products are widely sold in major supermarkets and pharmacies throughout Australia, as well as exported to ten markets across China, Southeast Asia, the Middle East and USA.

**Consumer Website:** [bubsaustralia.com](http://bubsaustralia.com)

**Investor Centre:** [investor.bubsaustralia.com](http://investor.bubsaustralia.com)



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## APPENDIX

### SUMMARY OF BINDING TERM SHEET AND TRADE MARK LICENCE AGREEMENT

#### Joint venture agreement

A new Chinese company will be incorporated for the purposes of operating a marketing and distribution joint venture (**Joint Venture**), owned 75% by Bubs Australia and 25% by **Zhitong (Hangzhou) Health Technology Co., Ltd (Zhi Tong)** based on the registered capital.

The ownership interests also reflect the decision-making powers at the Joint Venture Company. Zhi Tong will have the right to receive a minimum 20% share of the dividends over the course of the Joint Venture term.

The new Joint Venture company will continue in operation until terminated in customary circumstances, including as a result of material breach and insolvency. Bubs has a right to terminate for convenience on six months' notice. On termination, the joint venture company is to become wholly owned by Bubs.

The joint venture will not proceed if SAMR approval for Bubs® Goat Milk China label formula product is not obtained.

#### Manufacturing and distribution agreement

The binding term sheet provides that, subject to obtaining SAMR approval, Bubs will be granted exclusive use of the **SAMR** approved goat infant formula brand slot.

A manufacturing and distribution agreement will be entered into between the new Joint Venture company and , **Zhikang (Hangzhou) Health Technology Co., Ltd (Zhi Kang)**. If the Joint Venture does not meet certain annual minimum sales volumes over the first five-year period, it will be required to compensate **Zhi Kang** for 20% of the cost of goods representing the shortfall amount. If certain sales targets are met, the joint venture is to have the benefit of more favourable pricing from **Zhi Kang**.

Bubs will pay and maintain a deposit of RMB 5 million to **Zhi Kang**, which will be returned to Bubs at the end of the first five years of the joint venture. The agreement will continue in operation for an initial five year term unless terminated in customary circumstances, including as a result of material breach and insolvency.

Bubs will also have the right to be offered a **SAMR** approved brand slot for A2 cow milk infant formula should it become available, subject to meeting certain minimum volume commitments for Goat formula in the first year, as well as a higher year one business objective target.



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### **Trade mark licence agreement**

In accordance with the SAMR registration process, Bubs is required to transfer ownership of five of Bubs' Chinese registered trade marks to the entity that directly owns HUG the manufacturing facility subsidiary, **Heilongjiang Anjia Dairy Co., Ltd (HAC)**, for the purpose of securing SAMR approval for Bubs' goat infant formula.

Bubs has entered into a trademark licence agreement with HAC under which HAC exclusively licences all rights in those trade marks back to Bubs, and there are key clauses that restrict HAC from any other activity. Bubs intends to sublicense certain rights to the new Joint Venture company on a non-exclusive basis for the purposes of the distribution arrangements referred to above.

Bubs has the right to require that the trade marks be transferred back to Bubs on termination of the trade mark licence agreement. The trade mark licence agreement will continue in operation for an initial five year term unless terminated in customary circumstances, including as a result of material breach and insolvency.