



Bubs Australia Limited (ASX: BUB)
ACN 060 094 742
2-4/6 Tilley Lane, Frenchs Forest
NSW 2086 Australia
1800 2827 2878 (1800 BUBS AUST)
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28 February 2019

2019 HALF YEAR FINANCIAL RESULTS

Bubs Australia (**ASX: BUB**), producer of premium infant nutrition products and Australia's largest producer of goat dairy products, including Bubs® Goat Milk Infant Formula, submits its Appendix 4D Half Year Report and auditor reviewed interim report for the period ended 31 December 2018.

FINANCIAL HIGHLIGHTS 1H19: STRONG DOMESTIC GROWTH AND INCREASED BUBS® SALES TO CHINA

- 1H19 gross revenue of \$21.03m exceeded total FY18 full-year revenue.
- 1H19 gross revenue increased 465% (5.65x) on prior corresponding period and 43% on previous half.
- Gross sales of Bubs® products increased 155% (2.55x) on prior comparable period, were up 109% on previous half, totaling \$9.0 million or 43% of group 1H revenue.
- Increase is driven by strong domestic presence and activation of the daigou distribution channel:
 - Infant Formula sales increased 180% (2.8x) on prior comparable period, were up 144% on previous half, totaling \$7.3 million or 34% of group 1H revenue.
 - Organic Baby Food sales increased 86% on prior comparable period, were up 30% on previous half, and equated to 8% of group 1H revenue.
- CapriLac® goat milk powder (acquired end Q2, FY18) grew 26% on previous half and equated to 40% of group 1H revenue.
- Sales to China grew 901% (10.01x) compared to same period last year and 121% (2.21x) on previous half, driven by Cross-border eCommerce sales and food products ranged in Mother and Baby stores.
- Domestic sales grew 412% (5.12x) versus prior comparable period and 30% on previous half, driven by strong domestic presence and activation of the daigou channel.
- Agreement to source additional substantial goat milk pool from New Zealand for CapriLac®, enabling Bubs® goat milk infant formula to be manufactured with 100 percent Australian goat's milk.
- Continued investment in channel development and vertical integration of supply chain back to farm.

Releasing the Half Year Financial Results, Bubs Australia Founder and CEO, Kristy Carr said:

"Our first half results are characterized by a very strong revenue trajectory, with half-year revenue up nearly six-fold on the prior comparable period and exceeding the full-year FY18. Domestic business has grown five-fold compared with the same period last year.

"We have had noticeable success with our focus on China's Cross-border eCommerce channel, and in Mother and Baby stores, to the extent sales into China grew ten-fold over the same period last year. These revenue increases validate our focus on investing in our China route-to-market strategy and associated channel capacity.



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“Meanwhile the agreement with Central Dairy Goats to supply goat milk to CapriLac® means we are now able to offer Bubs® goat infant milk formula 100 percent sourced from Australian goat’s milk, further strengthening our all-important provenance story including traceability back to farm gate.

“We now have exclusive access to around 20 million litres of goat milk from our Australian and New Zealand farms, including the largest milking goat herd in Australia, and some 1.5 times more than that of just six months ago.

“Importantly, we have achieved a well-balanced portfolio, with product revenue split 43 percent Bubs products and 40 percent of the half year revenue in CapriLac milk powder, with fresh dairy products accounting for the remaining 17 percent,” said Mrs. Carr.

STRONG DOMESTIC PERFORMANCE

The Company maintains that a strong brand presence at home is paramount for consumer uptake in China. Throughout the period, the Company focused on expanding key retail touchpoints and consumer offtake, as well as engaging the daigou channel to generate a ten-fold increase on sales.

Bubs® and CapriLac® products are variously ranged across their total portfolio in Coles, Woolworths, Aldi, Big W, Costco, IGA, Chemist Warehouse, and other pharmacy chains.

CHINA DEMAND GREW 10-FOLD COMPARED TO 1H18

Online + Corporate Daigou Channel

The sales and marketing effort into China continues to be underpinned by key online partnerships with JD.com, Alibaba, VIP and Kaola via the Cross-border eCommerce channel, and shipments to HiPac, servicing the O2O (online-to-offline), Mother and Baby store channel, together with C2C (consumer-to-consumer) content marketing.

The strategic focus on developing the corporate daigou channel has catalysed group domestic sales which are now five-fold up on the same period last year to \$16 million.

SAMR registration

In June 2018, Bubs Australia announced a binding long-term agreement with Australia Deloraine Dairy, which is licensed to produce infant formula for export to China.

Bubs® infant formula range has been nominated as one of Deloraine’s three brand slots providing a pathway towards achieving State Administration for Market Regulation (SAMR) registration. The company has filed its application and is awaiting SAMR approval.



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INVESTMENT IN PRODUCTION CAPABILITY

The company has continued to make significant investment in building scale through channel development following the integration of the NuLac Foods business.

Although sales momentum continues strongly, these investment activities led to a normalised EBITDA¹ \$3.5 million operating loss, including the high costs associated with developing products suitable for direct importation into China, provisions to meet China's regulatory requirements, and establishing an office and cross functional team in Shanghai.

The overall statutory net loss of \$8.8 million, incorporates expenses incurred outside of the normal operations of the company, including \$4.5 million expense relating to the fair value movement of contingent consideration of \$13.4 million payable to the Nulac Foods vendors for future satisfaction of certain performance targets, \$288K share based payments relating to options issued in FY18, and \$241K inventories written off relating to discontinued products.

MANUFACTURING CAPABILITY AND SUPPLY CHAIN SECURITY

The acquisition of NuLac Foods transformed the Company into a clear leader in the Australian goat dairy landscape, with exclusive access to around 65 percent of Australia's total goat milk production.

Subsequently an agreement in December 2018 with Central Dairy Goats, effectively increased the group's exclusive supply and contracted milk pool from New Zealand, which will be used for CapriLac® products.

"Bubs now has an unrivalled position with the ability to produce Bubs goat milk infant formula using 100 percent Australian goat's milk," said Mrs Carr

Importantly, there has been a number of related strategic developments since 31 December 2018:

- As previously announced, Bubs Australia has entered a strategic manufacturing partnership with Tatura Milk Industries (Tatura), a wholly owned subsidiary of Bega Cheese Limited (ASX: BGA), under which Tatura will convert fresh goat milk directly from farm gate into Infant Formula nutritional base in one step processing, without the need for intermediate spray drying to whole milk powder.
- This will reduce unit production costs and shorten the cash cycle. Bubs® Formula will qualify as 70% Australian ingredients under Country of Origin labelling with a goal of increasing this to 90% within 12 months; an unrivalled position.
- As the raw goat milk will now go directly to Tatura, there is no longer a need to convert the bulk of the milk to powder for subsequent wet blending. Therefore Bubs Australia's 49.9% interest in the Uphamgo dairy manufacturing joint venture, 49.9% interest in the Cambria Management Company Pty

¹ Non IFRS measure



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Ltd and Cambria Unit Trust and 49.9% interest in New Zealand Nutritional Goat Company Limited will be sold back to the NuLac vendors for \$3,493,000.

- Bubs will continue to have a priority manufacturing arrangement with Uphamgo but no ongoing operating costs. The Uphamgo transaction does not affect the exclusive milk supply from the NuLac vendors' goat herds, nor the ownership of the CapriLac®, Coach House Dairy®, and other brands acquired in December 2017.

Commenting on these developments, Mrs Carr said: "The company continues to explore opportunities to develop its supply chain and refine its manufacturing capability, specifically in relation to infant formula and key dairy ingredients. We expect further gross margin improvement in 2H19 arising from the one step production process to be deployed at the Tatura facility, in addition to the elimination in overheads previously required to operate the Uphamgo facility."

HALF YEAR FINANCIAL REPORT

The Bubs Australia Appendix 4D Half Year Report for the period ended 31 December 2018 is attached.

Notably, the company reported 1H gross sales revenue up 462% (5.62x) on same period last year.

From this, the company achieved a gross margin² of 19% for 1H19 compared to 12% for the immediate preceding half year, driven by increased volume and proportion of infant milk formula arising from the company's channel mix skewed with the growth of Cross-border eCommerce and activation of the corporate daigou distribution channel. Bubs® products gross margin² increased to 32% for 1H19 compared to 20% in FY18. Further improvements are expected in 2H FY19.

Distribution costs as a proportion of revenue fell significantly to 3% (from 7% 1H18) arising from increased efficiencies, while marketing expense was in line with industry norms at 7% of net revenue (compared to 12% in 1H18) reflecting stronger sales intensity for a given amount of marketing spend.

The company continued to invest in people talent as management built capability in core markets with employee costs³ representing 11% of net revenue, compared to 26% of net revenue for the same period last year, as scale benefits arise. Employee costs included approximately \$500k for head office staff at Uphamgo.

While administration costs rose 49% as the business grew, they represented only 14% of revenue compared to 57% of revenue for the same period last year.

² Gross margin does not include inventories write downs

³ Employee costs do not include share based payments and fair value movements of contingent consideration



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Cash Position

Bubs Australia continues to maintain a strong balance sheet with \$26.71 million in cash reserves, of which \$7.0 million is classified as financial assets, and \$12.47 million in inventory, as at 31 December 2018.

The company has utilised its growing sales and cash flows to invest in milk supplies and productions to drive sustainable growth and further optimize long-term returns. Planned infant formula and bulk milk powder build is required to meet the increased sales demand and is in line with the group's routine inventory holding requirements.

The company is focused on maximising business growth whilst delivering on normalised EBITDA.

All Company information and financial reports are available on Bubs Australia Investor Resource Centre:
www.investor.bubsaustralia.com

END

Media and Investor Inquiries

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About Bubs Australia Limited

Founded in 2006 in Sydney, Bubs Australia (ASX: BUB) is engaged in the business of *inspiring new generations of happy, healthy bubs* through its range of Australian made premium infant nutrition products. Bubs[®] speciality infant formula and organic baby food caters for a child's first 1,000 days of life.

Bubs Australia is the leading producer of goat dairy products in Australia, including CapriLac[®] milk powder and fresh dairy products, with exclusive milk supply from the largest milking goat herd in the country.

Products are widely sold in major supermarkets and pharmacies throughout Australia, as well as exported to China, South East Asia, and the Middle East.

Consumer Website: bubsaustralia.com

Investor Centre: investor.bubsaustralia.com

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 2018
Previous corresponding period	31 December 2017

2. Results for announcement to the market

					31 December 2017		31 December 2018
2.1	Total Revenue	up	502%	from	\$3,250,960	to	\$19,567,560
2.2	Loss after income tax benefit	up	127%	from	(\$3,894,332)	to	(\$8,826,965)
2.3	Loss after income tax benefit attributable to the members of Bubs Australia Limited	up	127%	from	(\$3,894,332)	to	(\$8,826,965)

2.4	Dividends (distributions)	Amount per security	Franked amount per security
Current period:			
Interim dividend for the half year ended 31 December 2018		-	-
Final dividend for the year ended 30 June 2018		-	-
Previous corresponding period:			
Interim dividend for the half year ended 31 December 2017		-	-
Final dividend for the year ended 30 June 2017		-	-
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 2018.

3. Net tangible assets per security

	30 June 2018 Cents	31 Dec 2018 cents
Net tangible asset backing per ordinary security	9.06	7.44

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 2018.

For the year ended 30 June 2018, no final dividend was declared.

Previous corresponding period

No interim dividend was declared for the half year ended 31 December 2017.

For the year ended 30 June 2017, no final dividend was declared.

6. Details of dividend / distribution reinvestment plan

Not applicable.

7. Details of associates and joint venture entities

As at 31 December 2018, the Company has the following joint venture entities:

- 49.9% of the issued shares in UphamGo Australia Pty Ltd;
- 49.9% of the issued shares in New Zealand Nutritional Goat Company Limited;
- 49.9% of the issued shares in Cambria Management Company Pty Ltd; and
- 49.9% of the issued units in Cambria Unit Trust.

8. Accounting standards used by foreign entities

Not applicable.

9. Qualification of audit / review

☐ The accounts have been audited.

☒ The accounts have been subject to review.

Bubs Australia Limited and Controlled Entities

Directors' declaration

31 December 2018

☐ The accounts are in the process of being audited or subject to review.

☐ 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 2018 is attached.

11.Signed



Dennis Lin
Chairman

28 February 2019

Bubs Australia Limited and Controlled Entities
ACN 060 094 742

Interim Report – 31 December 2018

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Bubs Australia Limited and Controlled Entities
Corporate Directory
31 December 2018

Current Directors

Dennis Lin

Kristy-Lee Newland Carr

Matthew Reynolds

Johannes Gommans

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:

2-4/6 Tilley Lane, Frenchs Forest

NSW 2086 Australia

Share Registry

Computershare Investor Services Pty Limited

Level 2

Reserve Bank Building

45 St George's Terrace

Perth WA 6000

Auditors

Ernst & Young

8 Exhibition Street

Melbourne VIC 3000

Australian Stock Exchange

ASX Code: BUB

Bubs Australia Limited and Controlled Entities

Directors report

31 December 2018

Directors

The names of directors of Bubs Australia Limited and the entities it controlled ('the Group') 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
Kristy-Lee Newland Carr
Matthew Reynolds
Johannes Gommans

Operating and financial review

Financial performance

The Group achieved net revenue (including other income) of \$19,567,560 (2017: \$3,250,960) and a loss after income tax \$8,826,965 (2017: \$3,894,332). The overall position includes certain transactions that are outside of the normal operations of the Group. These items are \$4,461,853 (2017: \$299,186) expense relating to the fair value movement of contingent consideration of \$13.4 million payable to the Nulac Foods Vendors for future satisfaction of certain performance targets, recorded in employee costs given one of the KPIs relates to continued employment of Nulac Foods Vendors, \$288,288 share based payments (2017: \$74,459) relating to options issued in FY2018 and \$240,681 (2017: nil) inventories written off relating to discontinued products.

The operating loss reflects the fact the business is still in a strong growth phase including the high costs of new product development, expenses related to expanding the domestic and China sales channels and investing in systems and processes to improve the efficiency of the operations. The comparative period only includes NuLac Foods Pty Ltd results from acquisition date of 21 December 2017.

Revenue and profitability

At an operating level, net sales increased 508% compared to the six months ended 31 December 2017. Domestic net sales increased 466% and China sales increased 858% respectively compared to the six months ended 31 December 2017. The increase is driven by strong domestic presence, China cross-border eCommerce sales, and activation of the Corporate Daigou distribution channel.

Domestic sales account for 76% of net revenue, with 23% of revenue generated from China cross border e-commerce sales, and the remaining 1% from other emerging international markets.

Gross margin¹ has increased to 19% for the six month period ended 31 December 2018 compared to 12% in 2H FY18 due to the change in product and channel mix, engaging new suppliers and improvements in allocating the milk pool from Australia and New Zealand.

¹ Gross margin does not include the inventories written down.

Bubs Australia Limited and Controlled Entities

Directors report

31 December 2018

Financial position

The Group currently hold \$26,714,931 in cash and cash equivalents and term deposits at 31 December 2018 (30 June 2018: \$38,642,902) and \$12,470,685 inventories (30 June 2018: \$6,018,518) which is in line with the Group's inventory holding requirements. The decrease in cash position is driven by the upfront investments in milk supplies and production to support the increased sales demand.

External debt at 31 December 2018 is \$2,000,000 (30 June 2018: \$2,000,000) which arose from the acquisition of Nulac Foods Pty Ltd. The directors are confident of the Group's ability to continue as a going concern and meet its debts and future commitments as and when they fall due and payable.

Subsequent events

On 27 February 2018, the Group signed a manufacturing agreement with Tatura Milk Industries, a wholly owned subsidiary of Bega Cheese Limited. This agreement enables a one step production process from farm gate fresh goat milk into Infant Formula nutritional base. As the raw goat milk will now go directly to Tatura, there is no longer a need to convert the bulk of the milk to powder for subsequent wet blending. As a result, the Group has entered into a sale and purchase agreement to sell back its 49.9% interest in UphamGo Australia Pty Ltd, Cambria Management Company Pty Ltd, Cambria Unit Trust and New Zealand Nutritional Goat Company Limited to the former owners of NuLac Foods for a purchase price of \$3,493,000.

Bubs will continue to have a priority manufacturing arrangement with UphamGo. The UphamGo transaction does not affect the exclusive milk supply from the NuLac former owners' goat herds, nor the ownership of the CapriLac®, Coach House Dairy®, and other brands acquired in December 2017.

Other than the matters stated above, no matter or circumstance has arisen since 31 December 2018 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 unless otherwise stated under the option available to the Group under ASIC Corporations Instrument 2016/191.

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 9 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.

Bubs Australia Limited and Controlled Entities
Directors report
31 December 2018

On behalf of the directors

A handwritten signature in black ink, appearing to be 'Dennis Lin', written on a light-colored background.

Dennis Lin
Chairman

Sydney

Dated: 28 February 2019

Independent Auditor's Review Report to the Members of Bubs Australia Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the accompanying half-year financial report of Bubs Australia Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 31 December 2018, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half-year financial report of the Group is not in accordance with the Corporations Act 2001, including:

- a) giving a true and fair view of the consolidated financial position of the Group as at 31 December 2018 and of its consolidated financial performance for the half-year ended on that date; and
- b) complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal controls as the directors determine are necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the half-year financial report is not in accordance with the Corporations Act 2001 including: giving a true and fair view of the Group's consolidated financial position as at 31 December 2018 and its consolidated financial performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year 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.

Independence

In conducting our review, we have complied with the independence requirements of the Corporations Act 2001.



Ernst & Young



Jacob Gossan
Partner
Melbourne
28 February 2019

Auditor's Independence Declaration to the Directors of Bubs Australia Limited

As lead auditor for the review of Bubs Australia Limited for the half-year ended 31 December 2018, I declare to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Bubs Australia Limited and the entities it controlled during the financial period.



Ernst & Young



Jacob Gossan
Partner
28 February 2019

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

	Note	2018 \$	2017 \$
Revenue	3	19,539,287	3,212,750
Cost of sales	5	(16,426,409)	(2,562,297)
Other Income		28,273	38,210
Share of net profits of joint ventures accounted for using the equity method		90,512	15,828
Distribution and selling costs		(679,345)	(214,374)
Employee costs	5	(6,894,217)	(1,224,145)
Marketing and promotion costs		(1,305,535)	(397,763)
Occupancy costs		(306,243)	(54,373)
Administrative and other costs	5	(2,767,829)	(1,853,294)
Other expense	5	(6,068)	(893,998)
Interest income		266,163	12,076
Finance costs	5	(365,554)	-
Loss before tax		(8,826,965)	(3,921,380)
Income tax benefit		-	27,048
Loss for the period		(8,826,965)	(3,894,332)
Total comprehensive loss for the period		(8,826,965)	(3,894,332)
Loss per share			
Basic (loss) per share (dollars)	6	(0.02)	(0.01)
Diluted (loss) per share (dollars)	6	(0.02)	(0.01)

The accompanying notes form part of these financial statements.

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

	Note	31-Dec-18 \$	30-Jun-18 \$
Assets			
Current Assets			
Cash and cash equivalents		19,714,931	38,642,902
Trade and other receivables	7	8,742,941	4,012,822
Financial assets	8	7,000,000	-
Other assets		4,460,850	4,887,537
Inventories	9	12,470,685	6,018,518
Total Current Assets		52,389,407	53,561,779
Non-Current Assets			
Plant and equipment		55,146	47,305
Intangible assets		32,800,647	32,991,646
Investment in joint venture		2,458,863	2,368,351
Total Non-Current Assets		35,314,656	35,407,302
Total Assets		87,704,063	88,969,081
Liabilities			
Current Liabilities			
Trade and other payables		6,135,040	5,304,475
Borrowings		2,000,000	2,000,000
Provisions		185,244	151,694
Contingent payables	10	6,700,000	3,350,000
Consideration payable		1,488,327	1,488,327
Total Current Liabilities		16,508,611	12,294,496
Non-Current Liabilities			
Provisions		486	5,654
Contingent payables	10	5,559,268	4,152,367
Total Non-Current Liabilities		5,559,754	4,158,021
Total Liabilities		22,068,365	16,452,517
Net Assets		65,635,698	72,516,564
Equity			
Issued capital	11	143,847,075	142,189,264
Options reserve	12	3,394,753	3,106,465
Accumulated losses		(81,606,130)	(72,779,165)
Total Equity		65,635,698	72,516,564

The accompanying notes form part of these financial statements.

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

For the six month ended 31 December 2018	Issued Capital \$	Option Reserve \$	Retained Earnings \$	Total equity \$
Balance at 1 July 2018	142,189,264	3,106,465	(72,779,165)	72,516,564
Comprehensive income				
Loss for the period	-	-	(8,826,965)	(8,826,965)
Other comprehensive income	-	-	-	-
Total comprehensive income	-	-	(8,826,965)	(8,826,965)
Transactions with owners in their capacity as owners:				
Issue of shares	1,300,000	-	-	1,300,000
Exercise of options	357,811	-	-	357,811
Share based payment expense	-	288,288	-	288,288
Balance at 31 December 2018	143,847,075	3,394,753	(81,606,130)	65,635,698

The accompanying notes form part of these financial statements.

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

For the six month ended 31 December 2017	Issued Capital \$	Option Reserve \$	Retained Earnings \$	Total equity \$
Balance at 1 July 2017	15,082,928	561,769	(8,120,223)	7,524,474
Comprehensive income				
Loss for the period	-	-	(3,894,332)	(3,894,332)
Other comprehensive income	-	-	-	-
Total comprehensive income	-	-	(3,894,332)	(3,894,332)
Transactions with owners in their capacity as owners:				
Shares issued at acquisition	54,529,906	-	-	54,529,906
Issue of shares	35,959,420	-	-	35,959,420
Capital raising costs	(1,353,679)	-	-	(1,353,679)
Share based payment expense	-	74,459	-	74,459
Balance at 31 December 2017	104,218,575	636,228	(12,014,555)	92,840,248

The accompanying notes form part of these financial statements.

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

	2018	2017
	\$	\$
Cash flows from operating activities		
Receipts from customers	16,499,936	2,166,266
Payments to suppliers and employees	(30,131,211)	(7,777,203)
Interest received	195,892	10,290
Interest paid	(70,506)	-
Net cash used in operating activities	(13,505,889)	(5,600,647)
Cash flows from investing activities		
Purchases of property, plant and equipment	(30,693)	(18,994)
Proceeds from disposal of property, plant and equipment	800	-
Payments for subsidiaries net of cash required	-	(22,074,280)
Payments for interests in joint ventures	-	(2,295,321)
Acquisition of term deposits	(7,000,000)	
Loan to third party	(50,000)	-
Loan to a related party	-	(600,000)
Net cash (used in) / from investing activities	(7,079,893)	(25,018,596)
Cash flows from financing activities		
Proceeds from share issue	1,300,000	35,959,420
Exercise of options	357,811	-
Capital raising costs	-	(1,353,679)
Net cash from / (used in) financing activities	1,657,811	34,005,741
Net (decrease) / increase in cash and cash equivalents	(18,927,971)	3,386,499
Cash and cash equivalents at the beginning of the financial year	38,642,902	5,306,746
Total cash and cash equivalents at the end of the period	19,714,931	8,693,245

The accompanying notes form part of these financial statements.

Bubs Australia Limited and Controlled Entities

Notes to the Interim Consolidated Financial Statements

For the six months ended 31 December 2018

1. Corporate information

The interim consolidated financial statements of Bubs Australia Limited and the entities it controlled (collectively, the Group) for the six month ended 31 December 2018 was authorised for issue in accordance with a resolution of the directors on 28 February 2019. The interim consolidated financial statements are presented in Australian dollars, which is Bubs Australia Limited's function 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.

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 2018 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 2018 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*.

2.2 New standards, interpretations and amendments adopted by the Group

The accounting policies adopted in the preparation of the interim consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 30 June 2018, except for the new standards which the Group adopted from 1 July 2018. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The Group applies, *AASB 15 Revenue from Contracts with Customers* and *AASB 9 Financial Instruments* for the first time. As required by *AASB 134 Interim Financial Reporting*, the nature and effect of these changes are disclosed below.

Several other amendments and interpretations apply for the first time in the 2019 financial period, but do not have a material impact on the interim consolidated financial statements of the Group.

AASB 15 Revenue from Contracts with Customers

AASB 15 supersedes AASB 118 *Revenue* and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under AASB 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

Bubs Australia Limited and Controlled Entities

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For the six months ended 31 December 2018

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Group elected to apply the modified retrospective method of adoption for AASB 15.

The Group's accounting policy for Revenue from Contracts with Customers and impact on adoption is as follows:

The Group has identified the following revenue streams by product type:

- Infant Formula
- Baby Organic Food
- Caprilac Powder
- Fresh Dairy Products

For all revenue streams, the Group's contracts with customers for the sale of products include one performance obligation. The Group has concluded that revenue from sale of products should be recognised at the point in time when the products are transferred to the customer, generally on delivery of the products or when the goods are picked up at the Group's warehouse. The Group recognises revenue from the sale of goods measured at the fair value of the consideration received or receivable, net of returns and volume rebates. There were no changes to the Group's revenue recognition or measurement identified upon adoption of AASB 15. In addition, there would have been no material impact to the Group's revenue in the current period should the recognition and measurement principles of AASB 118 have been applied.

Rebates

Rebate with customers are recognised as a reduction of revenue. Under AASB 15, retrospective volume rebates give rise to variable consideration. To estimate the variable consideration to which it is entitled, the Group applies the 'most likely amount method' for contracts with a single volume threshold.

Bonuses

Any bonus award payable to a customer is recognised as a reduction of revenue. The Group applies the 'most likely amount method' to estimate the bonus amount to be awarded to the customer and a bonus liability is recognised on the statement of financial position.

There was no material impact on adoption of AASB 15.

Presentation and disclosure requirements

As required for the interim financial statements, the Group disaggregated revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. Refer to Note 3 for the disclosure on disaggregated revenue.

Bubs Australia Limited and Controlled Entities

Notes to the Interim Consolidated Financial Statements

For the six months ended 31 December 2018

AASB 9 Financial Instruments

AASB 9 *Financial Instruments* replaces AASB 139 *Financial Instruments: Recognition and Measurement* for annual periods beginning 1 July 2018 for the Group, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Group has applied AASB 9 retrospectively, with the initial application date of 1 July 2018.

The effect of adopting AASB 9 is, as follows:

(a) Classification and measurement

Under AASB 9, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

Under AASB 9, financial instruments are subsequently measured at fair value through profit or loss (FVPL), amortised cost, or fair value through other comprehensive income (FVOCI). The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding (the 'SPPI criterion').

The new classification and measurement of the Group's financial assets is, as follows:

Measured at amortised cost for financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the SPPI criterion. This category includes the Group's Trade and other receivables and financial assets.

The assessment of the Group's business models was made as of the date of initial application, 1 July 2018, and then applied retrospectively to those financial assets that were not derecognised before 1 July 2018. The assessment of whether contractual cash flows on financial assets are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the financial assets.

There is no impact on the accounting for the Group's financial liabilities under AASB 9. Trade & other payables and borrowings continue to be subsequently measured at amortised cost. AASB 9 requires contingent consideration liabilities to be treated as financial instruments measured at fair value, with the changes in fair value recognised in the consolidated statement of profit or loss. This is consistent with how the contingent payable was accounted for prior to adoption of AASB 9.

(b) Impairment

The adoption of AASB 9 has changed the Group's accounting for impairment losses for financial assets by replacing AASB 139's incurred loss approach with a forward-looking expected credit loss (ECL) approach.

AASB 9 requires the Group to record an allowance for ECLs for all loans and other debt financial assets not held at FVPL.

Bubs Australia Limited and Controlled Entities

Notes to the Interim Consolidated Financial Statements

For the six months ended 31 December 2018

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

For Trade and other 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.

For loans, the ECL is based on the 12 month ECL. The 12 month ECL is the portion of lifetime ECL's that results from default events on a financial instrument that are possible within 12 months after the reporting date.

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.

The adoption of the ECL requirements of AASB 9 did not result in any material changes to the Group's impairment allowances.

3. Revenue from contracts with customers

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

	2018	2017
Type of goods	\$	\$
Sale of Infant Formula	6,773,995	2,430,743
Sale of Baby Organic Food	1,393,350	644,662
Sale of Caprilac Powder	8,134,831	27,185
Sale of Fresh Dairy Products	3,237,111	110,160
Total revenue from contracts with customers	19,539,287	3,212,750

AASB 15 was adopted using the modified retrospective transition approach, accordingly comparative information was not restated. Comparative information was prepared under the previous requirement of AASB 118 *Revenue* and is provided as comparison on the basis that the adoption of AASB 15 did not have a material impact. The disaggregated revenue information provided in the segment note in note 4, also presents disaggregation of revenue from contracts with customers.

4. Segment information

The Group had identified a single operating segment being the sale of nutritional food, fresh products and powder. 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 was the same as that presented to the chief operating decision maker.

Geographic information

	2018	2017
	\$	\$
Net revenue (by region)		

Bubs Australia Limited and Controlled Entities
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For the six months ended 31 December 2018

Australia	14,817,497	2,617,750
China	4,550,706	475,000
Other International	171,084	120,000
Total	19,539,287	3,212,750

The revenue information above is based on the locations of the customers.

The Group had four external customers who generated greater than 10 percent of the Group's revenue. For the period ended 31 December 2018, the revenue for these customers was \$13,799,148 (2017: \$2,090,515).

5. Expenses

	2018	2017
	\$	\$
Cost of sales		
Production costs	15,787,805	2,562,297
Inventories written off	638,604	-
Total	16,426,409	2,562,297

Included in administrative and other expenses are the following:

Listing and registry fees	138,662	239,695
Accountancy and taxation fees	324,901	358,585
Insurance	235,745	120,532
Travel costs	235,330	164,683
Consultancy fee	365,073	273,252
Bad and doubtful debts	39,838	1,127
Depreciation and amortisation	212,565	74,394
Total	1,552,114	1,232,268

Employee costs

Wages and salaries	2,008,082	799,868
Superannuation	135,994	50,632
Shared based payments	288,288	74,459

Bubs Australia Limited and Controlled Entities
Notes to the Interim Consolidated Financial Statements
For the six months ended 31 December 2018

Contingent consideration payable	4,461,853	299,186
Total	6,894,217	1,224,145

Other expenses

Corporate transaction accounting expense	6,068	893,998
Total	6,068	893,998

Finance costs

Interest expense	70,506	-
Unwinding of consideration payable	295,048	-
Total	365,554	-

6. Loss per share (LPS)

	2018	2017
Loss attributable to the Group used in calculating basic and diluted EPS	(8,826,965)	(3,894,332)
Weighted average number of ordinary shares for basic EPS	441,409,837	267,242,808
Basic LPS (dollars)	(0.02)	(0.01)
Diluted LPS (dollars)*	(0.02)	(0.01)

* The Group has granted 14,188,160 options to employees that could potentially dilute basic earnings per share in the future, but were not included in the calculation above because they are anti-dilutive for the period(s) presented.

Subsequent to 31 December 2018, 3,332,697 options were exercised. There is no effect on the Basic LPS calculation.

7. Trade and other receivables

	31/12/2018	30/06/2018
	\$	\$
Trade debtors	7,551,870	2,855,303
Allowance for doubtful debt	(3,755)	(1,266)
Loan to Uphamgo Australia Pty Ltd	600,000	600,000
Other receivables	594,826	558,785
	8,742,941	4,012,822

Bubs Australia Limited and Controlled Entities
Notes to the Interim Consolidated Financial Statements
For the six months ended 31 December 2018

8. Financial assets

	31/12/2018	30/06/2018
	\$	\$
Term deposits	7,000,000	-
	<u>7,000,000</u>	<u>-</u>

As part of the Group's cash management strategy, cash of \$7,000,000 was entered into term deposits with a maturity date of 90 days or greater.

9. Inventories

	31/12/2018	30/06/2018
	\$	\$
Raw materials	33,278	499,388
Finished goods at cost	12,437,407	5,519,130
	<u>12,470,685</u>	<u>6,018,518</u>

10. Fair value measurement

The following table shows the carrying amounts and fair values of financial assets and financial liabilities including their levels in the fair value hierarchy

	Carrying value	Fair value		
		Level 1	Level 2	Level 3
Contingent payable	12,259,268	-	-	12,259,268

The fair value measurement for the contingent payable has been categorised as a Level 3 fair value based on the inputs to the valuation techniques used.

Level 3 fair values

The following table shows a reconciliation from the opening balances to the closing balances for Level 3 fair values.

	Contingent payable
Balance at 30 June 2018	7,502,367
Amount recognised in employee costs in the current period	4,461,853
Unwinding of the contingent payables recognised in Finance costs in the current period	295,048
<u>Balance at 31 December 2018</u>	<u>12,259,268</u>

Bubs Australia Limited and Controlled Entities
Notes to the Interim Consolidated Financial Statements
For the six months ended 31 December 2018

Valuation techniques and significant unobservable inputs

The following tables show the valuation techniques used in measuring Level 3 fair values for financial liabilities measured at fair value in the statement of financial position, as well as the significant unobservable inputs used.

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Contingent payable	<p>A total amount of up to \$13.4 million is payable by the Group in relation to UphamGo Australia Pty Ltd upon the satisfaction of certain performance targets.</p> <p>The Group assessed the Year 1 individual KPI and the contingent payable amount is assessed to be \$6.7 million.</p> <p>The valuation for Year 2 contingent payable is probability weighted based on the Group's assessment of Year 2 individual KPI. The amount has been present valued using a risk adjusted discount rate.</p>	<p>The probability attached to the Year 1 KPIs is 100% in respect of the base and high achievement payment (total of \$6.7 million).</p> <p>The probability attached to the Year 2 KPIs is 100% in respect of the base and high achievement payment (total of \$6.7 million). The risk adjusted discount rate is 17.79%.</p>	<p>The estimated fair value would increase (decrease) if:</p> <ul style="list-style-type: none"> • the probability attached to each KPI is higher (lower); or • the risk-adjusted discount rate is lower (higher).

Bubs Australia Limited and Controlled Entities
Notes to the Interim Consolidated Financial Statements
For the six months ended 31 December 2018

11. Share capital

	31-Dec-18		30-Jun-18	
	Shares	\$	Shares	\$
Movement in share capital				
Balance at beginning of the year	436,194,415	142,189,264	238,820,888	15,082,928
Issue of shares as part of acquisition / reverse acquisition	-	-	76,802,684	54,529,906
Exercise of options*	3,578,108	357,811	5,000	500
Placement of shares	-	-	8,331,933	4,999,160
Share purchase plan	1,733,334	1,300,000	112,233,910	69,785,259
Share issue transactions costs	-	-	-	(2,208,489)
Balance at end of year	441,505,857	143,847,075	436,194,415	142,189,264

Fully paid ordinary shares carry one vote per share and carry right to dividends.

*3,578,108 options which were granted prior to 30 June 2017 were exercised during the period.

12. Share based payments

The options reserve is used to recognise the grant date fair value of options issued to employees but not exercised. The movement in the options reserve is as follows:

	31/12/2018	30/06/2018
	\$	\$
Balance at the beginning of the year	3,106,465	561,769
Share based payment	288,288	2,544,696
Balance at the end of the year	3,394,753	3,106,465

Bubs Australia Limited and Controlled Entities
Notes to the Interim Consolidated Financial Statements
For the six months ended 31 December 2018

13. Subsequent events

On 27 February 2018, the Group signed a manufacturing agreement with Tatura Milk Industries, a wholly owned subsidiary of Bega Cheese Limited. This agreement enables a one step production process from farm gate fresh goat milk into Infant Formula nutritional base. As the raw goat milk will now go directly to Tatura, there is no longer a need to convert the bulk of the milk to powder for subsequent wet blending. As a result, the Group has entered into a sale and purchase agreement to sell back its 49.9% interest in UphamGo Australia Pty Ltd, Cambria Management Company Pty Ltd, Cambria Unit Trust and New Zealand Nutritional Goat Company Limited to the former owners of NuLac Foods for a purchase price of \$3,493,000.

Bubs will continue to have a priority manufacturing arrangement with UphamGo. The UphamGo transaction does not affect the exclusive milk supply from the NuLac former owners' goat herds, nor the ownership of the CapriLac®, Coach House Dairy®, and other brands acquired in December 2017.

Other than the matters stated above, no matter or circumstance has arisen since 31 December 2018 that has significantly affected, or could significantly affect the reported results from operations or financial position for the period then ended.

Bubs Australia Limited and Controlled Entities
Director's Declaration
31 December 2018

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

- a) The financial statements and notes that are set out on page xx to xx are in accordance with the *Corporations Act 2001*, including:
 - i. Giving a true and fair view of the financial position as at 31 December 2018 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
Chairman

28 February 2019

Independent Auditor's Review Report to the Members of Bubs Australia Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the accompanying half-year financial report of Bubs Australia Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 31 December 2018, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half-year financial report of the Group is not in accordance with the Corporations Act 2001, including:

- a) giving a true and fair view of the consolidated financial position of the Group as at 31 December 2018 and of its consolidated financial performance for the half-year ended on that date; and
- b) complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal controls as the directors determine are necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the half-year financial report is not in accordance with the Corporations Act 2001 including: giving a true and fair view of the Group's consolidated financial position as at 31 December 2018 and its consolidated financial performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year 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.