



**RECORD REVENUE
AND PROFIT**

FY22 Annual Results

30 June 2022

Bubs Australia Limited and Controlled Entities

ACN 060 094 742

2022

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GENERAL INFORMATION

The financial statements cover Bubs Australia Limited for the year ended 30 June 2022. The financial statements are presented in Australian dollars, which is the Bubs Australia Limited functional and presentational currency.

Bubs Australia Limited registered office is:
23 Nina Link, Dandenong South
VIC 3175 Australia

Bubs Australia Limited principal place of business is:
2-4/6 Tilley Lane, Frenchs Forest
NSW 2086 Australia



01

FY22

REVIEW

Year at a Glance

Financial Highlights

From our Chair

From our CEO

CEO Year in Review

YEAR AT A GLANCE: BUBS WINNING FORMULA

Bubs brand-led vertically integrated model is uniquely positioned to deliver margin accretive global growth.



Trust in Bubs® brand as clean nutrition expert

Bubs® is trusted by millions of families around the world to nourish their baby through the first 1000 days of life with clean quality nutrition.

Focused on high margin infant formula portfolio

Focus on high margin growth contribution with optimal product mix. Bubs® brand extends to all three fastest growing premium formula category segments.

Diversification in highest potential global markets

Driving high growth and global brand reach in highest potential infant formula markets; China and USA, to build on strong home market position.

Scale increases operational capacity and efficiency

Vertical integration and increased scale enable flexibility to manage operational capacity, increased efficiencies, and mitigate disruption and inflation impact on supply chain.

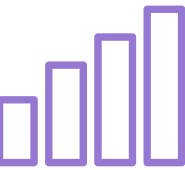
People and culture promote innovation and agility

Innovation and agility are inherent in Bubs DNA, resulting in first mover advantage and a strong track record in operational execution excellence to achieve our global growth ambition.

STRATEGIC OVERVIEW

Bubs milestone achievements deliver record revenue with a shift to earnings growth profile.

FINANCIAL ACHIEVEMENTS



Record Revenue
Return to high growth trajectory more than double prior year



Positive Underlying EBITDA¹
Delivery of first profit, excluding non-cash compensation expense



Gross Margin Improvement
Significant groupwide gains and optimised product and channel mix

STRATEGIC MILESTONES



Major Innovation Launch
Bubs Supreme[®] A2 Protein

Bubs now plays in all 3 of the fastest growing premium category segments



High Growth in Domestic Retail
Scan Sales and Market Share

Record sales and market share gains
No.1 Goat Formula brand in Australia²



China Daigou Channel
Strategic Partnership

China revenue at a record high
with new in-market model



USA Ranging in >6,000
stores across 42 States

>800,000 tins of Bubs Infant
Formula have landed in the USA

¹ Excludes non-cash equity compensation expense in the form of share-based payments and equity linked transactions with strategic trading partner.
² IRI Scan Data, Dollars (\$000's) Growth YA, Coles, Woolworths and Chemist Warehouse combined to MAT 03/07/2022.

FINANCIAL HIGHLIGHTS

High growth global strategy delivers scale with record earnings, gross margin and revenue.

\$104.2m

+123% pcp

Record Gross Revenue¹

32%

Significantly improved
Group Gross Margin

\$4.8m

Underlying EBITDA profit ³

+177%

Infant Formula Revenue
growth pcp

+166%

China Revenue
growth pcp

+39%

Domestic scan sales growth YOY
Record market share²

\$63m

Post balance sheet date
successful completion of
capital raise

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.

² IRI Scan Data, Dollars (\$000's) Growth YA, Coles, Woolworths and Chemist Warehouse combined to MAT 03/07/2022.

³ Underlying EBITDA profit \$4.8m is calculated as: EBITDA loss of \$7.8m, excluding share-based payments (\$8.3m) and equity linked transactions (\$4.2m) with strategic trading partner.

FROM OUR CHAIR



DENNIS LIN

Executive Chairman

First mover challenger to win globally.

“ The USA is a fantastic example of the Bubs spirit and the speed in which we are able to operate. „

Dear Shareholders,

Since listing on the Australian Securities Exchange in 2017, we set out to build a vertically integrated infant nutrition brand, with a comprehensive range that would be the lead challenger in key markets around the world. Proudly Australian and managed with founder mentality, we approach each market with innovative concepts and agility, whilst ensuring that we take calculated risks as we allocate scarce resources for a business of our size in attaining scale.

Given the market concentration in infant nutrition around the world, as well as regulatory barriers, Bubs has ensured that the team do not sit idle, that we are always ready for any window of opportunity when it surfaces. As the new-age clean nutrition experts, and a brand that communicates with parents, our strategy is for our business of branded staples to continue to increase our footprint of active consumers without needing to compromise on our growth rate and ambitions.

Throughout the last two years, as the world became increasingly volatile and unpredictable, the team remained focused on these fundamental beliefs and continued to build core strengths of the business. Precise and unwavering strategic focus has ensured the business deliver a strong rebound to well diversified, global growth significantly ahead of our

peers in the segment. This growth has been achieved from both our established domestic and China markets, as well as our accelerated entry into the USA which combined have contributed to both scale and profitability for our business.

As we emerge from the depths of the COVID-19 pandemic, Bubs has delivered on our high growth agenda with each of our three key markets: Australia, China and USA, generating record revenues and strong underlying momentum across all three of the fastest growing premium segments for infant formula: goat, organic cow's milk and A2 beta-casein protein.

This has been achieved notwithstanding a challenging macro-economic landscape, as we learn to live with COVID-19, cope with rising global inflation, and manage through other ongoing macro volatilities and supply chain disruptions. The team found ways to further grow in Australia and re-engineer pathways to consumers in China. The USA is a example of the Bubs spirit and speed in which we are able to operate. To be the first mover for that market's first opening in over 50 years, and to have done so while helping American families in need that goes to the core of our mission, is something all shareholders should be proud of.

Agility, innovation, and strategic partnerships have been key to delivering record gross revenues¹ of \$104.2 million – more than double the previous financial year, and growing significantly faster than our industry peers. With this record revenue has come scale, production efficiencies, significant gross margin improvement and profitability, delivering improved gross margin 32% and our first full year of underlying EBITDA profit of \$4.8 million (calculated as: EBITDA loss of \$7.8m, excluding share-based payments (\$8.3m) and equity linked transactions (\$4.2m) with strategic trading partner).

Funding expansion to meet accelerating demand

Through FY22 the Company experienced significant growth across all key products and markets. While top-line growth contributed positively to profitability, it also necessitated and required working capital to support this accelerated expansion, including building inventory to mitigate the current logistics environment, expanding the Company's presence in the USA, and consequently, enable the Company to triple the capacity of its processing and canning facility.

As a result, in early July the Company launched, and has now completed, a fully underwritten equity raise of approximately \$63 million at \$0.52 per share by way of an institutional placement, which was oversubscribed, and an accelerated non-renounceable rights issue.

The Placement and Institutional Entitlement Offer were completed on 5 July raising \$40.1 million. The Retail Entitlement Offer to raise \$22.9 million closed on Tuesday 26 July.

I would like to thank the institutional investors for their interest and commitment in our business and welcome them to the register.

In the new year, having grown the business to scale, the Group grows up to its next phase of becoming even more earnings focused as we continue our growth rate in becoming a global challenger through brand-led innovative strategies and the best clean nutrition money can buy. We look forward to the journey ahead, and I would like to take the opportunity to thank the board, management, shareholders and our partners for their support to date and beyond.

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.

² Gross margin is calculated as (Revenue – Cost of sales) / Revenue

FROM OUR CEO



Achieving critical scale and high margin growth.

Dear Shareholders,

I am pleased to report that Bubs finished the year with the business achieving accelerated growth towards critical mass across Australia, China, and rapid expansion in the United States. This business portfolio diversification and increased scale has flowed through to our operating margins delivering efficiencies and profitability (excluding non-cash equity compensation expense) for the full year.

This return to our high-growth agenda, together with our focus on delivering profitable growth is a strong testament to our commitment to the rebuild strategy we commenced and completed in the first half of this financial year. This year's annual results are reinforcement of our strong foundations and mindset attuned to growth through leveraging opportunities with innovation and market agility, as a leading and safe source of clean label, infant nutrition.

Indeed, this continuing recognition as a clean premium source of infant nutrition underpins our market appeal in Australia, and overseas, especially in China and the USA. In the last year the complete Bubs formula range has received the independently tested product safety and clean label awards, under the Clean Label Purity Award reinforcing the perception of quality for the Bubs formula portfolio across international markets.

Importantly, infant formula continues as our hero category accounting for 60 percent of revenue and

now spreads across three premium milk sources and differentiated product offering. We enjoyed solid growth across our established ranges, Bubs® Goat Formula and Bubs Organic® Grass Fed Formula, as well as our latest innovation and most advanced formulation, Bubs Supreme® A2 beta-casein Protein Formula.

The recent accelerated expansion in the United States has been driven by the initial groundwork undertaken in market with Bubs® Toddler Formula range, our proactive engagement with the U.S. Government, and our agile response in providing safe secure infant formula products to American families during the formula shortage crisis.

To date, Bubs® is one of only eight manufacturers, including four multinationals, to be permitted to import infant formula into the USA.

Importantly, we are confident of the long-term growth prospects for the USA now that the Food and Drugs Administration (FDA) has confirmed their commitment to developing a framework for suppliers like Bubs, who have been granted the enforcement discretion, to continue to import and sell infant formula beyond November this year. We continue to work closely with the FDA to adhere to this regulatory process.

Meanwhile, our continued growth in cross border e-Commerce (CBEC) success has been overlaid with the remarkable success of the reinvented Corporate Daigou channel under which our long-term trading partner

“Within the next three years, we expect USA and China to be our two equal largest markets and margin contributors.”



KRISTY CARR
Chief Executive Officer

AZ Global, is now despatching the majority of product from within China, directly attracting the China consumer, via their recruiter representatives in a direct-to-consumer consolidated e-Commerce model. Bubs Supreme® new product launch, has strategically benefited, being a major contributor to the uplift in China derived revenues.

Importantly this focus on both cross border e-Commerce platforms, as well as the mother and baby store, (offline to online O2O) channel provides efficiencies across our supply chain with the same English label products able to be sold across Australia, China and the USA.

At home, Bubs Australia continues to be the fastest growing infant formula manufacturer² across Woolworths, Coles, and Chemist Warehouse, with scan sales growth and market share gains², outperforming its peers. Bubs® is the clear lead challenger brand and proudly the Number One Goat infant formula brand² in all three major retailers.

Reflecting on what has been a pivotal accelerated growth year for our business, I would like to extend a sincere and special thank you to our Supply and Operations team who took up the challenge to vastly increase production required by significant growth and the urgent need to assist American families in crisis, as well as to our entire Bubs Family who went above and beyond to ensure we captured the opportunity and benefited from our first mover advantage.

As we move into FY23, I am looking forward to working with our Executive Leadership Team and Board of Directors as we enter what promises to be the most exciting phase of our development to date. With a strongly diversified export market and infant nutrition product portfolio we are continuing our high growth ambition and ability to evolve toward being a major global infant nutrition business.

¹ Global A2 Market Research Report – Global Forecast to 2026, Research & Markets

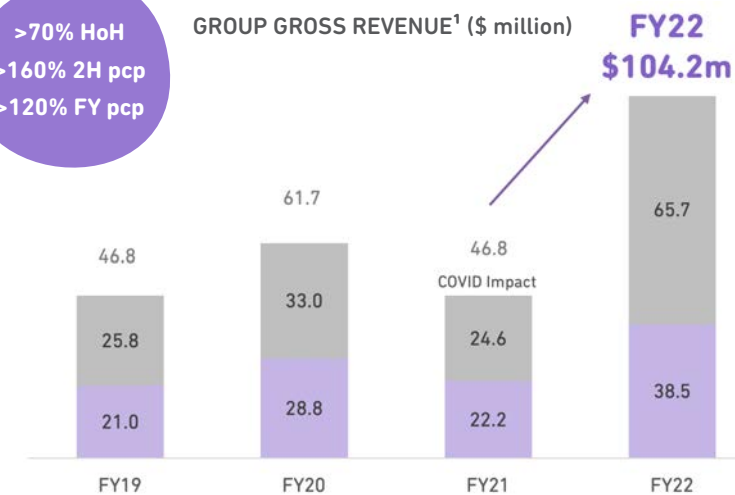
² IRI Scan value (Dollar \$'000) sales, market share and growth. Share of total Goat Segment, Coles, Woolworths and Chemist Warehouse combined rolling quarter to 03.07.22.

³ Tik Tok (Douyin) Platform Official Data

CEO YEAR IN REVIEW

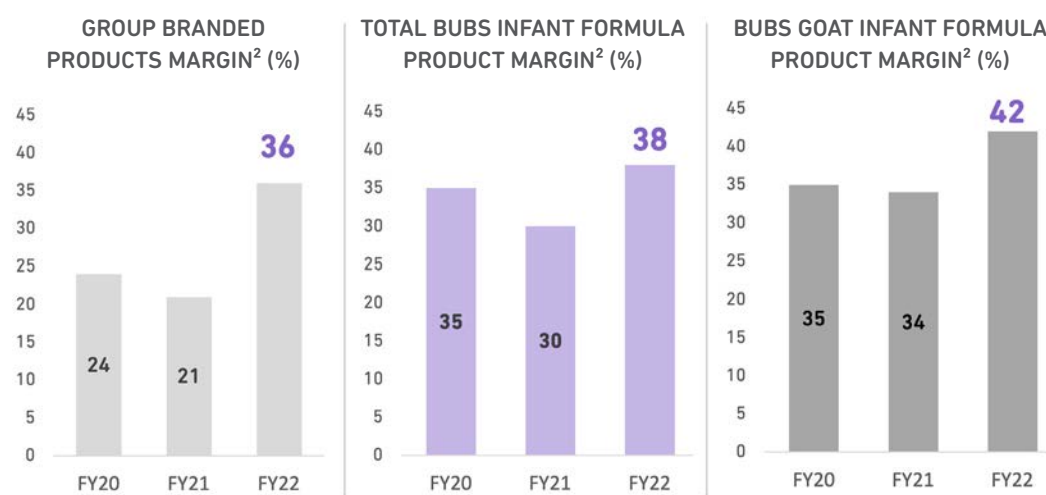
Record Revenue

Our high growth strategy delivered scale with record earnings, gross margin and revenue. Gross revenue¹ of \$104.2m was up 127% on prior year, driven by strong growth in China and USA.



Gross Margin Improvement

Group gross margin profit of \$28.9 million increased to 32% due to optimised product and channel mix, efficient trade spend management, improved supply chain efficiency and inventory management.



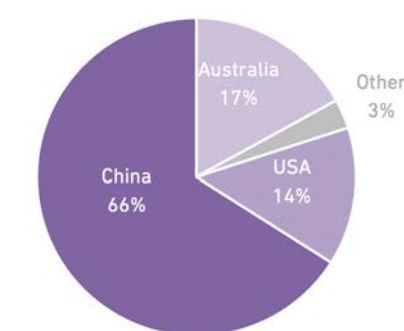
Diversification

In FY22 we intentionally diversified our business model. The business is clearly no longer reliant on Goat Infant Formula sales into China for margin growth. All key product segments in our most profitable infant formula portfolio and all three key markets are now in high growth, with further product and channel mix optimisation forecasted in FY23.



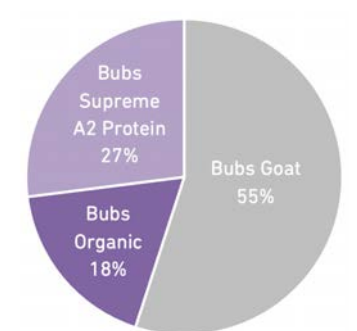
3 Key Markets

BUBS INFANT FORMULA CHANNEL MIX
FY22 REVENUE⁴ CONTRIBUTION



3 Key Product Segments

BUBS INFANT FORMULA PRODUCT MIX
FY22 REVENUE⁴ CONTRIBUTION



Demonstrating agility and innovation with the launch of Bubs Supreme® A2 protein formula

Our Bubs Supreme® A2 beta-casein protein innovation has been a real success story, especially in China, attracting new customers and reinforcing our positioning as an infant formula and dairy specialist. The A2 beta-casein protein milk market is estimated to be worth US\$1.23 billion.³ Our entry into this product category has supported our diversified portfolio strategy of entering new high growth markets, such as the USA, alongside leveraging our lead channel partnership in China, and growing domestic market share.



Bubs Supreme® A2 beta-casein protein sales contributed 26 percent of FY22 infant formula revenue from a standing start in March this year, launching in 590 Coles stores in an integrated domestic and China based, corporate Daigou channel through the AZG channel.



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.

² Product margin is calculated as (Revenue – Production Costs) / Revenue. Revenue excludes Corporate Daigou equity linked transaction.

³ Global A2 Market Research Report – Global Forecast to 2026, Research & Markets.

⁴ Excludes Corporate Daigou Equity Linked transaction.

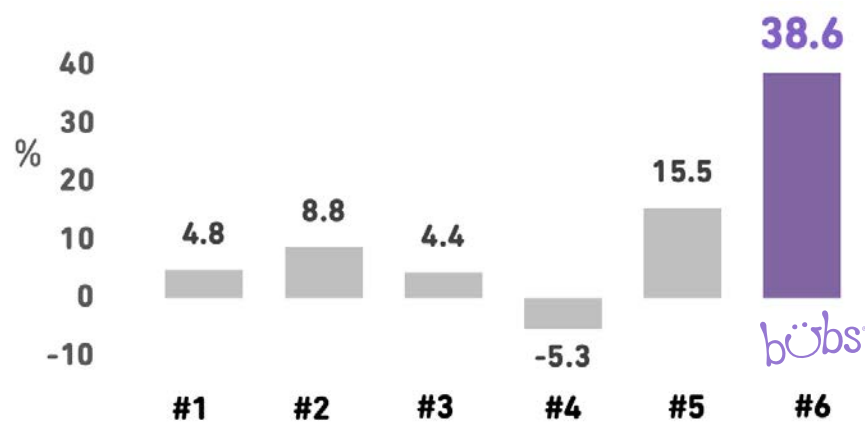
Strong market share gains in home market



Bubs® comprehensive infant formula portfolio has strong appeal with Australian families, providing clean quality infant nutrition for different dietary needs across the three highest value segments of the category.

Bubs® is the clear challenger brand, outperforming the category with high scan sales growth and strong market share gains.

TOP 6 FORMULA MANUFACTURERS SALES GROWTH¹



Bubs® is now the Number One goat infant formula brand in Australia, while Bubs Organic® continues to show solid growth momentum. Bubs Supreme® A2 protein range was successfully launched into Coles during the third quarter, providing a third product segment within which the Bubs® brand can compete.

BUBS VALUE SALES (\$) & MARKET SHARE² (%)



4.7%
Market share¹



No. 1 GOAT FORMULA¹

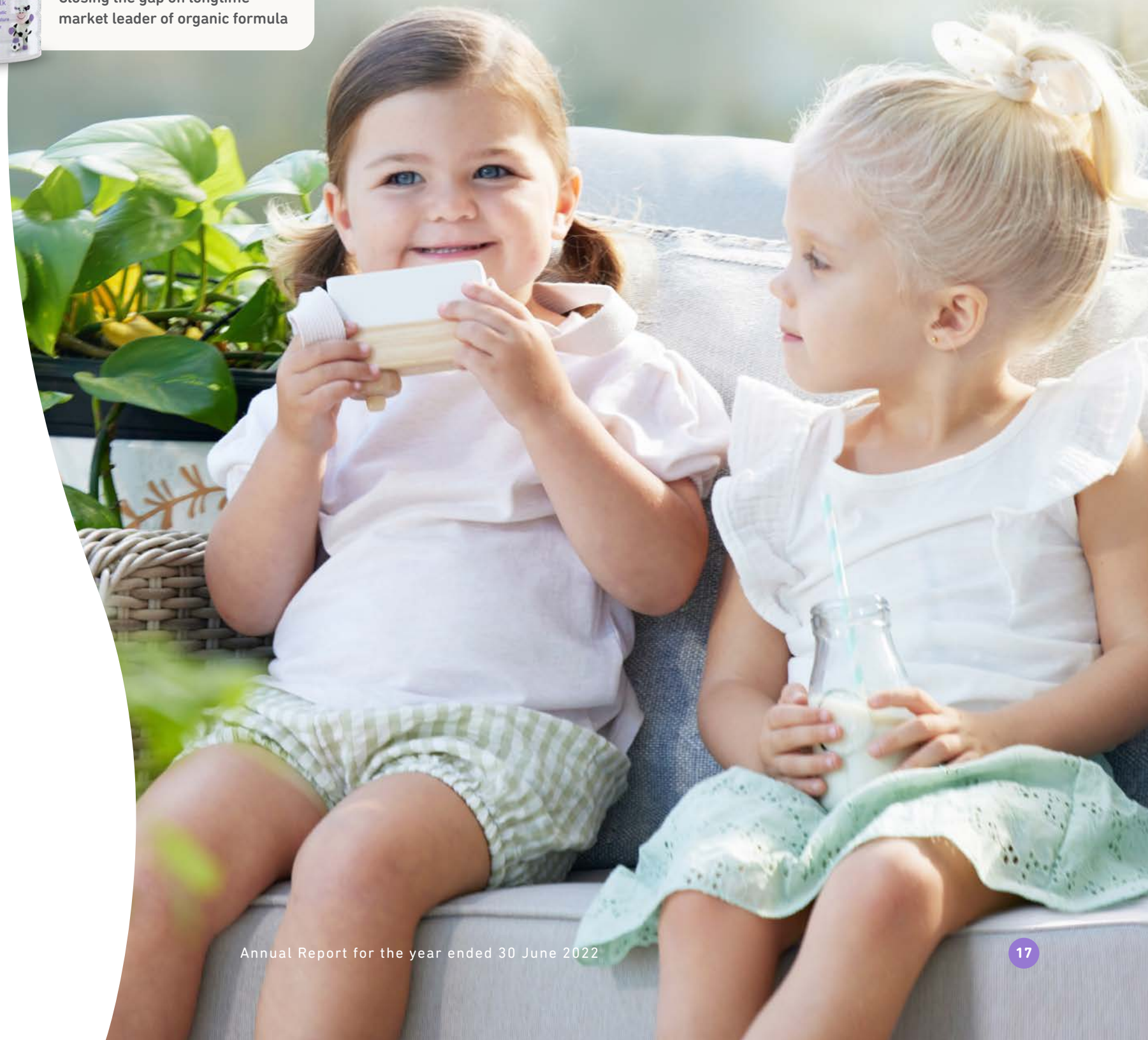
Market leader across Coles, Woolworths & Chemist Warehouse



No. 2 ORGANIC

Closing the gap on longtime market leader of organic formula

Bubs Australia is the fastest growing infant formula manufacturer in Australia¹



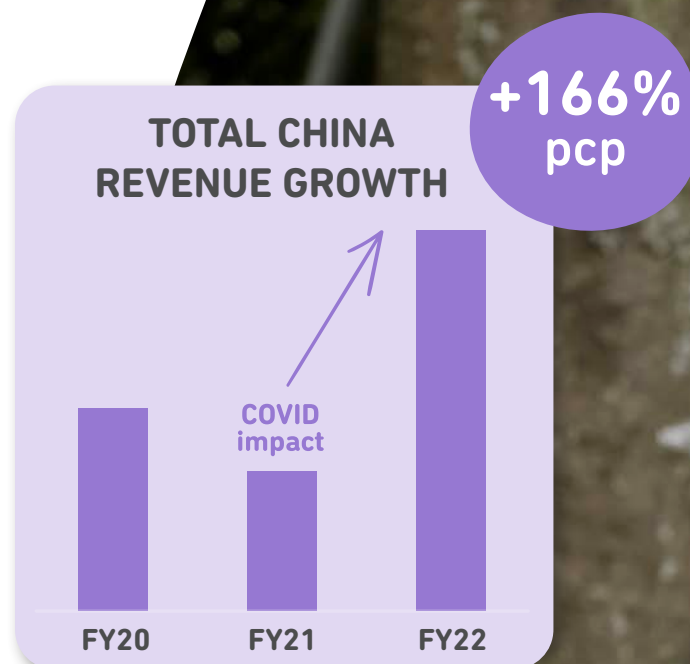


Bubs centralised direct-to-consumer china model

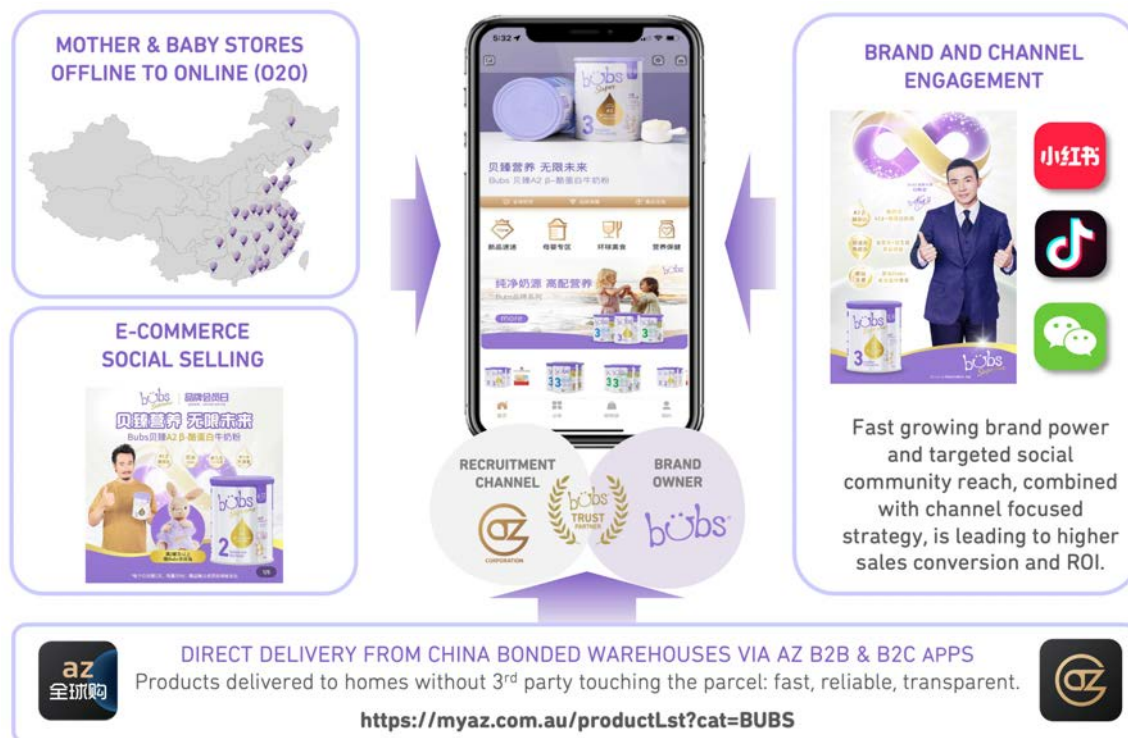
The strategic review of our Daigou business triggered by the COVID-19 pandemic and border closures, and the subsequent signing of an equity alliance with Alpha Group our largest corporate Daigou partner, has been rewarded with rapid growth in channel gross revenue² which now stand at a record high growing thirteen-fold in the fourth quarter of FY22 compared to the same period prior year, and five-fold increase in gross revenue² over FY21 in total. We are also pleased with the commencement of the in market roll out of Bubs Supreme® A2 beta-casein protein range in Mother and Baby stores via Offline to Online (O2O).

During the year, we took the step of closely integrating our Daigou, CBEC and O2O marketing to drive branded content synergies. Our integrated consumer campaign was designed to work on several levels, including e-Commerce conversion and in-store O2O purchasing to complement the Corporate Daigou channel activity.

Among successful marketing initiatives was the appointment of key influencer Will Liu as Bubs® Brand Ambassador. Will Liu has 73 million followers¹ and generated 390 million Bubs® campaign views¹ and 64,437 Bubs® video uploads¹.



Our China model continues to evolve in improving channel visibility and proximity to consumers.



¹ Tik Tok (Douyin) Platform Official Data.

² 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.

USA infant formula shortage brings Bubs business agility to the fore

Our inaugural USA launch of FDA label compliant Aussie Bubs® Goat and Organic Grass Fed Toddler Formula in September 2021 was a long-term strategy, underlying our ability to bring our infant formula to the market.

In May 2022, this significant groundwork in the US market led to Bubs being one of the first infant formula manufacturers to apply for and receive FDA's approval (referred to as 'Enforcement Discretion') to help relieve the USA infant formula crisis. Within less than six weeks from submitting an application (and only 24 days from receiving the Enforcement Discretion) the first air cargo shipments began appearing on major U.S. retailer shelves.

To date, over 800,000 tins are in the USA, in over 6,000 stores across 42 States, including the top four major retailers - Walmart, Kroger, Albertsons Safeway and Target. More recently we secured ranging in 500 Wholefoods Market stores. In addition, Bubs has been accepted for ranging with the three largest national wholesale distributors in the USA, with additional shipments and retailers planned in the near term.

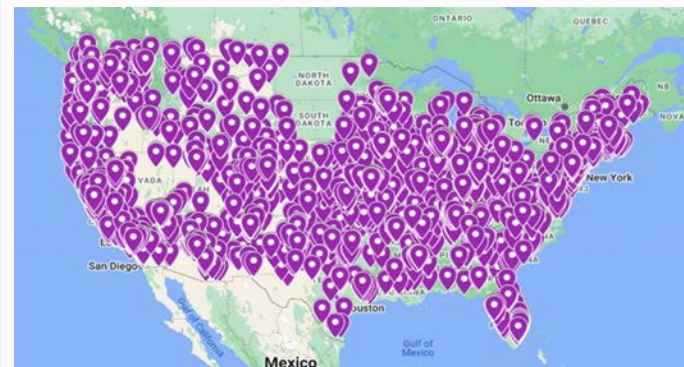
Bubs has been approved for the Women Infants and Children (WIC) program in 27 States. A high percentage of all infant formula sold in the US is made to consumers receiving relief payments from WIC. In California alone, some 50 percent of all infants¹ rely on the WIC nutrition program, the vast majority of whom use formula to meet some or all of their nutrition needs.

>6,000
stores in
42 States

Thank you, thank you, thank you!!!
I can't explain how happy I am to have found a formula that not only works fantastically and is easier to find during the US formula crisis, but one I trust too. Again, thank you!!!"
Madison, from Texas, USA



Where to find Bubs Infant Formula



aussiebubs.com/pages/store-locator

OUTLOOK

With the business achieving scale with all key products and markets in high growth, FY23 focus is on margin accretion and earnings growth whilst maintaining a high growth rate.

GROUP STRATEGIC FOCUS

Focus on further margin improvement opportunities from farm to consumer with priority projects to drive high growth of Bubs® Infant Formula portfolio in key markets.



AUSTRALIA

Continue to focus on the potential to grow market share at above category rates.

CHINA

Leverage Bubs emerging status amongst Chinese and foreign brands and penetrate consumer markets through innovative and visible value chain from brand to consumer with appropriate incentives.

This will be the first time an Australian/New Zealand brand can obtain genuine visibility that allows for continual consumer centric focus.

USA

Prolong first mover advantage by continuing to be agile and staying ahead of the curve:

- Obtain permanent FDA regulatory approval
- Engage consumers with current best in market bricks-and-mortar penetration of any foreign brand
- Continue to ensure the first mover advantage delivers sustainable gross margin of 35% or better



KRISTY CARR
Chief Executive Officer



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02

DIRECTORS REPORT

Board of Directors

Executive Leadership Team

Directors Report

Remuneration Report

Independent Auditors Report

Lead Auditor's Independence Declaration

BOARD OF DIRECTORS

The directors present their report together with the consolidated financial statements of Bubs Australia Limited as a consolidated entity consisting of Bubs Australia Limited (the “Company”) and the entities it controlled (“the Group”) for the financial year ended 30 June 2022 and the auditor’s report thereon.

The names of the directors in office at any time during and since the end of the financial year are:



DENNIS LIN
Executive Chairman

GradDipAppFin, CA, Solicitor of the Supreme Court of Queensland – Executive Chairman (appointed 22 October 2019)

Mr Lin focuses on high growth branded businesses that are looking to expand globally, and has been part of Bubs Australia board since its listing in January 2017. He works closely with the team in creating, setting and executing strategic priorities for the business, especially in relation to international markets, vertical integration, and mergers and acquisitions. He speaks fluent Chinese Mandarin and Japanese.

Mr Lin was appointed as a non-executive director of Health and Plant Protein Group Limited on 3 November 2017, executive director from 1 July 2020 and executive chair on 4 August 2021, before retiring on 30 June 2022. He was also appointed non-executive director of Synertec Corporation Limited on 20 August 2019 and non-executive chair from 1 April 2021. Mr Lin was appointed as a non-executive director of eCargo Holdings Limited on 9 April 2019 and resigned on 30 October 2019.



KRISTY CARR
Managing Director

BBus (Bachelor Degree of Business) – Managing Director (appointed 22 December 2016)

Mrs Carr is the Chief Executive Officer of Bubs Australia Limited and holds a Bachelor of Business Degree (Queensland University of Technology). She has a proven track record of leading and building successful brands and businesses spanning Australia and Asia Pacific over the past 25 years. Kristy’s passion is in creating and developing new business opportunities that not only make a difference in the world we live in today, but also closely identify with emerging global consumer trends. Kristy has lived and worked in Hong Kong for over a decade and travelled extensively throughout Asia for both business and leisure. It is with this experience that she founded Bubs when on maternity leave with her first of three daughters in 2005.

Mrs Carr has not held any other directorships in publicly listed companies in the past three years.



MS KATRINA RATHIE
Non-Executive Director

B Com (Accounting & Financial Management)/LLB UNSW Sydney, FAICD - Non-Executive Director (appointed 21 July 2021)

Ms Rathie is an experienced Non-Executive Director who is Chair of our Nominations and Remuneration Committee.

Ms Rathie had a distinguished career in the law and was formerly Partner in Charge, Sydney of King & Wood Mallesons, a top tier global elite law firm where she led the Sydney office. With over 35 years working as a trusted advisor to ASX and Fortune 500 companies particularly in the FMCG, brands, consumer and retail sectors, Ms Rathie brings deep sectorial, governance, regulatory and international experience to the Bubs board which she joined in July 2021. She is admitted to practice law in Australia and New York, and has deep cross-border experience in the USA and Asia, including China.

Ms Rathie was named overall winner of the Board & Management category in the AFR 100 Women of Influence Awards 2019. She serves on the Boards of Special Broadcasting Service (SBS), NSW Rugby Union/ Waratah’s Rugby and Starlight Children’s Foundation. She is a member of Chief Executive Women and a Fellow of the Australian Institute of Company Directors.

Ms Rathie has not held any other directorships in publicly listed companies in the past three years.



STEVE LIN
Non-Executive Director

Non-Executive Director: (appointed 18 April 2019)

Mr Lin has over 25 years of investment, operations and management experience in Asia. He started his career in investment banking at Morgan Stanley in New York. He then joined Goldman Sachs’ Merchant Banking Division in Hong Kong and Tokyo and invested in private equity, real estate and special situations opportunities. Mr Lin became the President and CEO – Asia of GMAC Commercial Holding Corp., managing a multi-billion dollar portfolio of real estate investments and loans. Thereafter, he co-founded a non-profit organisation, Hands On Tokyo, joined Laureate Education as President and CEO – North Asia and served on the board of two universities in China. Mr Lin has a B.A. in Economics from Harvard College.

Mr Lin has not held any other directorships in publicly listed companies in Australia in the past three years.



MR MATTHEW REYNOLDS

B.Sc (Hons), LLB (Hons), MQLS – Non-Executive Director (appointed 22 December 2016 and retired on 21 July 2021)

Mr Reynolds is a Partner at Thomson Geer Lawyers who specialises in capital markets (retail and wholesale), debt capital markets (wholesale) and mergers and acquisitions (public and private) including private equity. He holds a Bachelor of Political Science & Economics (Hons) and a Bachelor of Laws (Hons) and is a member of the Queensland Law Society.

Mr Reynolds was a director in publicly listed G8 Education Limited (ASX: GEM) retiring from the board on the 31st of August 2017.



MR JAY STEPHENSON
Company Secretary

MBA, FCPA, FGIA, MAICD, CPA (Canada), CMA (Canada) – Company Secretary (appointed 1 September 2015)

Mr Stephenson has been involved in business development for over 30 years including approximately 26 years as Director, Chief Financial Officer and Company Secretary for various listed and unlisted entities in resources, IT, manufacturing, food, nutraceuticals wine, hotels and property. Mr Stephenson has been involved in business acquisitions, mergers, initial public offerings, capital raisings, business restructuring as well managing all areas of finance for companies.

RECORD OF ATTENDANCE AT THE BOARD MEETINGS

Director attendance at Board and Committee meetings during the year is set out below.

	Board Meeting		Remuneration Committee	
	Held	Attended	Held	Attended
D Lin (Executive Chairman)	13	13	-	-
K Newland Carr (Executive Director)	13	13	-	-
M Reynolds (Non-executive Director retired on 21 July 2021)	1	1	-	-
K Rathie (Non-executive Director appointed on 21 July 2021; Chair of Remuneration Committee appointed on 1 February 2022)	13	13	3	3
S Lin (Non-executive Director)	13	13	3	3



WE ARE
BUBS
FAMILY

EXECUTIVE LEADERSHIP TEAM



DENNIS LIN
Executive Chairman



KRISTY CARR
Founder CEO



IRIS REN
Chief Financial Officer



RICHARD PAINE
Chief Operating Officer



VIVIAN ZURLO
Chief Marketing
& Innovation Officer



DIRECTORS REPORT

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There was no significant change in the state of affairs of the Group during the financial year.

REVIEW OF OPERATIONS AND FINANCIAL RESULTS

REVENUE

The Group achieved gross revenue¹ of \$104.2 million (123% up on FY21) and revenue \$89.3 million (127% up on FY21). The rebates recorded against gross revenue¹ is \$14.9 million and includes \$4.2 million Corporate Daigou’s rebate settled by shares (‘Equity Linked Transaction’). Bubs® Infant Formula revenue increased 177% compared to FY21, contributing 60% of total group revenue in FY22 compared to 49% in FY21.

In domestic market, Bubs® Infant Formula grew in market share in FY22 with scan sales growth of 39%² across Australia’s leading retailers, Coles, Woolworths and Chemist Warehouse. As a result Bubs has consolidated its strong market position as the fastest growing infant formula manufacturer, achieving 4.7%² market share of the total infant formula category.

Corporate Daigou channel has returned to high growth momentum. Equity linked strategic partnership, and the successful launch of Bubs Supreme Infant Formula through eCommerce and Mother and Baby Stores via Offline to Online (O2O) has delivered a five fold year on year increase in gross revenue¹. Our parallel focus on driving brand penetration on China’s top-tier platforms has also delivered strong growth in the Cross-border e-Commerce (CBEC) Channel. These two channels have contributed 56% of revenue to the Group and an increase of 172% in revenue compared to FY21.

The Group’s global expansion strategy continues to advance in international markets outside of China with rapid expansion opportunities developing in the US market. The Group has launched Bubs® Infant Formula range aged greater than 12 months in the USA in September 2021. With the recent US Infant Formula crisis and category interruption, on 27 May 2022, the Group received the enforcement discretion from the Food and Drug Administration (FDA) for the importation of all 6 Infant Formula products aged from 0 to 12 months into the USA. With the Operation Fly Formula initiative administered by US government, Bubs® Infant Formula products were air freighted to the US in June 2022 and revenue was recognised in June 2022. Revenue from the US market contributed 9% of total group revenue in FY22. This enabled the Group to fast track route to market strategy. By August 2022, Bubs products are available over 6,000 stores, across 34 States including the four largest retailers of infant formula in the USA - Walmart, Kroger, Albertsons/Safeway and Target.

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.

² IRI Scan value scan sales, Dollars (\$000’s) share of total Baby Formula, Coles, Woolworths and Chemist Warehouse combined rolling Quarter to 03.07.2022.

³ Excludes share based payment, depreciation and amortisation.

⁴ EBITDA is a non-IFRS measure. Non-IFRS measures have not been subject to audit or review.

In addition, a B2B revenue stream focused on industrial dairy ingredient sales, contract manufacture and end to end product development for global customers also contributed to the significant revenue growth in FY22.

GROSS MARGIN

Group gross margin increased to 32%. This was primarily driven by optimising product mix and channel mix, efficient trade spend management, improved supply chain efficiency and inventory management.

OPERATING EXPENSES

Operating expenses³ to revenue ratio decreased from 57% to 32%.

STATUTORY RESULTS

EBITDA⁴ loss was \$7.8 million (FY21: \$73.1 million) and the reconciliation to the statutory loss before tax is set out in the table below.

	FY22	FY21
	\$	\$
Loss before tax	(11,301,122)	(77,878,500)
Interest income	58,378	144,774
Finance cost	(914,374)	(1,507,582)
EBIT Loss	(10,445,126)	(76,515,692)
Depreciation and amortisation	(2,693,197)	(3,405,018)
EBITDA Loss	(7,751,929)	(73,110,674)

BALANCE SHEET

The Group continues to maintain a strong balance sheet position with \$16.3 million cash and cash equivalents at 30 June 2022 (30 June 2021: \$27.9 million) and \$2 million external debt at balance date.

The Group’s inventory position has returned to the targeted position to support the growth of the business.

GOING CONCERN

As at 30 June 2022, the Group had \$16.3 million (FY21: \$27.9 million) in cash. The Group’s balance sheet reflects a net current asset position of \$44.3 million (FY21: \$41.5 million) and net asset position of \$88.2 million (FY21: \$87.0 million). Subsequent to 30 June 2022, the Group has completed a \$63.0 million equity raise to support growth opportunities. The liquidity of the Group remains strong. On this basis, the directors consider it is appropriate for the going concern basis to be adopted in preparing the financial statements.

PRINCIPAL ACTIVITIES

The Group offers a great range of organic baby food, goat milk infant formula products, adult goat milk powder products and fresh dairy products. The Group also provides canning services of nutritional dairy products.

ENVIRONMENTAL REGULATIONS

The Group is not aware of any matter which requires disclosure with respect to any significant environmental regulation in respect of its operating activities.

CORPORATE GOVERNANCE

The Group’s corporate governance statement sets out the key features of the Group’s governance framework and practices. The Group has adopted corporate governance policies and practices which are designed to support and promote the responsible management and conduct of the Group. The Group’s corporate governance statement can be found at <https://investor.bubsaustralia.com/wp-content/uploads/2022/08/Corporate-Governance-Statement.pdf>

EVENTS SUBSEQUENT TO THE END OF THE REPORTING PERIOD

Subsequent to 30 June 2022, the Group has completed a fully underwritten equity raise of approximately \$63.0 million at \$0.52 per share by way of an institutional placement and an accelerated non-renounceable rights issue.

The deferred consideration payable balance of \$4.0m in relation to the acquisition of Deloraine Dairy in FY19 was paid in July 2022.

Other than the events noted above, no item, transaction or event of a material or unusual nature has arisen in the interval between the end of the financial year and the date of this report, in the opinion of the directors of the Group, that would significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

DIVIDENDS

No dividends have been paid or declared since the start of the financial year (2021: Nil).

Indemnification and insurance of Directors and Officers and auditors

The Group has paid insurance premiums in respect of Directors’ and Officers’ liability insurance for current and past directors and officers. Insurance does not indemnify the Directors and Officers where there is conduct involving lack of good faith.

During the financial year, the Group paid a premium in respect of a contract insuring the Directors’ and Officers’ against a liability incurred as such a Director or executive officer to the extent permitted by the *Corporations Act 2001*. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium. To the extent permitted by law, Bubs has agreed to indemnify its auditors, Deloitte, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit.

The Group has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the Group against a liability incurred as such an officer or auditor.

PROCEEDINGS ON BEHALF OF THE GROUP

No person has applied for leave of court to bring proceedings on behalf of the Group or intervene in any proceedings to which the Group is a party for the purpose of taking responsibility on behalf of the Group for all or part of those proceedings.

The Group was not a party to any such proceedings during the year.

ROUNDING

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

GENDER DIVERSITY

The Group has a strong commitment to diversity and recognises the value of attracting and retaining employees with different backgrounds, gender, culture, knowledge, experience and abilities. Diversity contributes to the Group’s business success and benefits individuals, clients, teams, shareholders and stakeholders. The Group’s business policies, practices and behaviours promote diversity and equal opportunity and creates an environment where individual differences are valued and all employees have the opportunity to realise their potential and contribute to the Group’s success.

	As at 30 June 2022				As at 30 June 2021			
	Male	Percentage Male (%)	Female	Percentage Female (%)	Male	Percentage Male (%)	Female	Percentage Female (%)
Board	2	50%	2	50%	3	75%	1	25%
Senior management	1	50%	1	50%	1	50%	1	50%
Employees	32	54%	27	46%	21	60%	14	40%
Total	35	54%	30	46%	25	61%	16	39%

UNISSUED SHARES

At the date of this report, unissued shares of the Group under option are:

Expiry Date	Exercise Price	Number of Shares
29 November 2022	0.10	4,770,810
23 November 2023	0.10	4,770,810
10 June 2024	0.65	1,200,000

At the date of this report, unissued shares of the Group under share rights are 6,185,735 including 1,698,205 share rights to Chairman and CEO subject to shareholders approval at the upcoming AGM.

All unissued shares are ordinary shares of the Group.

NON-AUDIT SERVICES

In FY22, the Group engaged Deloitte to provide custom duty advisory services for importing infant formula in the US.

Other than the service noted mentioned, no non-audit services were provided by Deloitte during the year ended 30 June 2022.

Details of amounts paid or payable to the auditor during the year are outlined in Note G3 to the financial statements.

A copy of the auditor's independence declaration as required under Section 307C of the *Corporations Act 2001* is attached to this financial report.

REMUNERATION REPORT (AUDITED)

KEY MANAGEMENT PERSONNEL

The term key management personnel (KMP) refers to those persons having the authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly and includes any director of the Group. The disclosures in this report have been audited.

The KMP of the Group for the year ended 30 June 2022 were:

- Dennis Lin (Executive Chairman)
- Matthew Reynolds (Non-executive Director, retired on 21 July 2021)
- Katrina Rathie (Non-executive Director, appointed on 21 July 2021; Chair of Remuneration Committee, appointed on 1 February 2022)
- Steve Lin (Non-executive Director)
- Kristy-Lee Newland Carr (Chief Executive Officer and Managing Director)
- Iris Ren (Chief Financial Officer)
- Fabrizio Jorge (Chief Operating Officer, resigned on 17 March 2022)
- Richard Paine (Chief Operating Officer, appointed on 11 January 2022)

REMUNERATION STRUCTURE

The Remuneration Committee (the Committee) was established on 1 February 2022 and advises the Board on the policies and practices employed in the remuneration of the Group’s Directors and other KMP. The Committee is also responsible for reviewing all components of the Group’s remuneration practices pertinent to its employees. The committee makes recommendations to the Board but all decision-making authority in relation to remuneration remains with the Board. In consultation with external remuneration consultants, the Board’s policy for remunerating executives is to provide market-based remuneration packages comprising a blend of fixed and variable at-risk incentive-based remuneration with clear links between Group and individual employee performance and reward. The Board seeks to set aggregate compensation at a level that provides the Group with the ability to attract and retain Directors and other KMP of the highest calibre, whilst incurring a cost that is acceptable to shareholders. The amount of aggregate compensation sought to be approved by shareholders and the manner in which it is apportioned amongst the Directors and other KMP is reviewed annually. The overall level of other KMP compensation takes into consideration the performance of the Group over multiple years.

The following table provides the summary of Group’s earnings and movement in shareholder wealth for the five years to 30 June 2022:

	2022 \$	2021 \$	2020 \$	2019 \$	2018 &
Revenue	89,297,324	39,312,738	54,644,952	43,914,853	16,906,256
EBIT Loss	(10,445,126)	(76,515,692)	(15,037,949)	(35,144,011)	(66,025,718)
Share price at year end	0.595	0.435	0.925	1.13	0.78
Basic loss per share	0.02	0.12	0.01	0.08	0.20
Total dividend (cents per share)	-	-	-	-	-



FIXED REMUNERATION

Employee’s fixed remuneration is based on a matrix of an individual’s skillset and experience, their individual performance and their current level of remuneration relative to the market. Fixed remuneration is reviewed on an annual basis, and where appropriate, is adjusted based on consideration of individual performance and market remuneration movement. The overall level of KMP reward takes into account the performance of the Group over a number of years. This ensures that the Group attracts, motivates, and retains top talent executives so they can deliver on the Group’s business strategy and contribute to the Group’s ongoing financial performance.

Total fixed remuneration (TFR) comprises of base salary, superannuation in accordance with the statutory rates and allowances. The Board reviews and approves all changes to fixed remuneration.



VARIABLE REMUNERATION

SHORT TERM INCENTIVE (STI)

The STI focuses on performance goals which align with the Group’s direction, driving outcomes, and rewarding high performance over the financial year. STI values are generally calculated as a percentage of fixed remuneration. STI values and performance targets are approved by the Board.

Financial performance is measured against the Group’s budget, and achievement of personal objectives is tracked and discussed through the performance period as part of the Group’s management process.

STI payments are determined and paid annually following the finalisation of audited Group results and are contingent on the achievement of Group financial targets and specific agreed personal objectives.

STI includes:

CASH BONUS

The framework of the approach to the FY22 STI cash bonus awards are set based on achievement against a number of financial KPIs which include gross revenue, revenue, gross margin and Normalised EBITDA¹.

SHARE RIGHTS PLAN

Each share right grant represents a right to receive one fully paid share in the Group once the share right vests.

FY22 GRANT OF SHARE RIGHTS

The vesting condition of FY22 share rights award is subject to KMP’s service conditions, namely, that the KMP’s employment not be terminated, before

- For 50% of the share rights award – the date of release of the Company’s FY22 audited financial results to ASX;
- For the other 50% of the share rights award – the date of release of the Company’s FY23 audited financial results to ASX.

No financial performance hurdles are applied to the share rights granted in FY22.

Subject to achieving the service condition, each KMP will receive the total number of Share Rights representing an amount equal to 100% of their current annual base salary.

The following table provides details of the maximum STI that each KMP (excluding Non-executive Directors) is entitled to receive in FY22:

KMP	STI Cash bonus \$	STI Share rights \$	STI % of TFR	Performance measurement
Dennis Lin*	-	\$250,000	100%	-
Kristy Carr*	\$150,000	\$450,000	133%	100% cash bonus is measured against Group financial performance
Iris Ren	-	\$275,000	100%	-
Fabrizio Jorge ²	-	-	-	-
Richard Paine ²	-	\$275,000	100%	-

* The STI share rights are subject to shareholders’ approval at the upcoming AGM.

¹ The Normalised EBITDA is the group’s EBITDA excluding the share based payment expense (\$8.3 million) and the cost for equity linked transaction (\$4.2 million) for FY22. This was approved by the Board in FY22.
² Fabrizio Jorge resigned as Chief Operating Officer on 17 March 2022. Richard Paine was appointed as Chief Operating Officer on 11 January 2022.

LONG TERM INCENTIVES (LTI)

The LTI programs provide the potential for KMPs to receive payment over and above fixed remuneration and short-term incentive. These programs are discretionary, appropriate to the results delivered by the Group, and based on the principle of reward for performance.

The purpose of a LTI is to focus the executives’ efforts on the achievement of sustainable long-term shareholder value creation and the long-term financial success of the Group.

The provision of a LTI plan awards via options for ordinary shares encourages long-term share exposure for the executives and, therefore, drives behaviours which align with the interests of our shareholders.

The Board believes a three-year performance period provides a reasonable period to align reward with shareholder return and also acts as a vehicle to help retain the KMP, align the business planning cycle, and provide sufficient time for the longer-term performance to be achieved.

Each option granted represents a right to receive one fully paid share in the Group once the option vests and is exercised.

EXECUTIVE CHAIRMAN'S FY20 GRANT OF OPTIONS

The FY20 LTI plan awards were divided in 2 tranches and vest subject to the gross revenue and the Normalised EBITDA¹ performance hurdle calculation in any of a three-year performance period and continuing employment:

- Tranche 1 (2,385,405 options) will vest 3 months after issue and on the achievement of \$50,000,000 in gross revenue and \$2,000,000 in Normalised EBITDA as at the Company’s full year results; and
- Tranche 2 (2,385,405 options) will vest 3 months after issue and on the achievement of \$60,000,000 in gross revenue and \$4,000,000 in Normalised EBITDA as at the Company’s full year results.

The above options vested in FY22. The expiry date of these options is 29 November 2022.

CEO'S FY21 GRANT OF OPTIONS

The FY21 LTI plan awards were divided in 2 tranches and vest subject to the gross revenue and normalised EBITDA¹ performance hurdle calculation in any of a three-year performance period and continuing employment:

- Tranche 1 (2,385,405 options) will vest 3 months after issue and on the achievement of \$50,000,000 in gross revenue and \$2,000,000 in normalised EBITDA as at the Company’s full year results; and
- Tranche 2 (2,385,405 options) will vest 3 months after issue and on the achievement of \$60,000,000 in gross revenue and \$4,000,000 in normalised EBITDA as at the Company’s full year results.

The above options vested in FY22. The expiry date of these options is 23 November 2023.

→ KMP'S FY21 GRANT OF OPTIONS

The FY21 LTI plan awards were divided in 2 tranches and vest subject to the gross revenue and normalised EBITDA¹ performance hurdle calculation in any of a three-year performance period and continuing employment:

- Tranche 1 (200,000 options) will vest 3 months after issue and on the achievement of \$50,000,000 in gross revenue and \$2,000,000 in normalised EBITDA as at the Company's full year results; and
- Tranche 2 (200,000 options) will vest 3 months after issue and on the achievement of \$60,000,000 in gross revenue and \$4,000,000 in normalised EBITDA as at the Company's full year results.

The above options vested in FY22. The expiry date of these options is 10 June 2024.

EXECUTIVE CONTRACTS

The remuneration and other terms of employment for KMP executives are covered in formal employment contracts. The Group may terminate an executive immediately for cause, in which case the executive is not entitled to any payment other than the value of total fixed remuneration (and accrued entitlements) up to the termination date.

KMP executive	Notice period by the Group	Notice period by Executive	Payment in lieu of notice
Dennis Lin (Executive Chairman)	3 months	3 months	Yes
Kristy Carr (Chief Executive Officer and Managing Director)	3 months	3 months	Yes
Iris Ren (Chief Financial Officer)	3 months	3 months	Yes
Fabrizio Jorge (Chief Operating Officer, resigned on 17 March 2022)	3 months	3 months	Yes
Richard Paine (Chief Operating Officer, appointed on 11 January 2022)	3 months	3 months	Yes

NON-EXECUTIVE DIRECTORS' REMUNERATION

The Group's remuneration policy for non-executive directors aims to ensure that the Group can attract and retain suitably qualified and experienced directors having regard to:

- the level of fees paid to non-executive directors of other comparable Australian listed companies;
- the growing size and complexity of the Group's operations;
- the responsibilities and work requirements of Board members; and
- the skills and diversity of Board members.

Under the ASX Listing Rules, the total amount paid to all non-executive directors in any financial year must not exceed the amount fixed in a general meeting of the Group. This amount is currently \$300,000 as determined by Shareholders at the AGM held on 18 November 2009. The Board's present policy for non-executive directors and Chair of Remuneration Committee is set out below. The annual remuneration rate is effective from 1 May 2022 and exclusive of superannuation.

Position	Annual remuneration
Non-executive director	\$75,000
Chair of Remuneration Committee	\$20,000



COMPANY SECRETARY

Jay Stephenson is contracted on a monthly basis as Company Secretary at a rate of \$30,000 per annum.

OTHER RELATED PARTY TRANSACTIONS WITH KMP

No director or any other related party has entered into any other material contracts with the Group since the end of the previous financial year. All of the above transactions were considered to be on an arms' length basis.

¹ The Normalised EBITDA is the group's EBITDA excluding the share based payment expense (\$8.3 million) and the cost for equity linked transaction (\$4.2 million) for FY22. This was approved by the Board in FY22.

DETAILS OF THE NATURE AND AMOUNT OF EACH ELEMENT OF THE REMUNERATION

Table A(1): Remuneration for KMP

		Short Term				Post-Employment	Other Long Term			Total \$	Performance related %
		Salary & fees \$	Annual leave \$	Cash bonus \$	Non-monetary \$ ⁽¹⁾	Super- annuation \$	Long service leave \$	Share based payments – options \$	Share based payments – share rights \$		
Dennis Lin	2022	242,308	19,231	-	-	24,231	2,974	4,693,525	52,926	5,035,195	93%
	2021	243,269	19,231	-	-	23,111	1,973	(1,207,997)	-	(920,413)	131%
Kristy Carr	2022	434,423	34,615	150,000	6,000	43,442	9,284	2,925,461	95,266	3,698,491	83%
	2021	427,500	34,615	75,000	6,000	40,613	49,330	-	-	633,058	12%
Iris Ren	2022	255,385	20,513	-	-	25,539	6,181	61,640	58,218	427,476	14%
	2021	238,942	19,231	15,000	-	22,700	4,504	-	-	300,377	5%
Richard Paine ^{2 4}	2022	124,932	9,610	-	-	12,493	2,081	61,640	58,218	268,974	23%
	2021	201,343	16,228	12,658	-	19,128	2,004	-	-	251,360	6%
Vivian Zurlo ²	2022	-	-	-	-	-	-	-	-	-	0%
	2021	189,263	15,254	-	-	17,980	1,752	-	-	224,249	0%
Fabrizio Jorge ^{2 3}	2022	296,126	22,002	-	-	29,613	-	-	-	347,741	0%
	2021	64,658	4,974	-	-	6,143	31	-	-	75,806	0%
David Orton ²	2022	-	-	-	-	-	-	-	-	-	0%
	2021	167,905	15,579	-	-	15,951	2,913	-	-	202,348	0%
Total	2022	1,353,174	105,971	150,000	6,000	135,317	20,520	7,742,266	264,628	9,777,876	
	2021	1,532,880	125,112	102,658	6,000	145,624	62,507	(1,207,997)	-	766,783	

¹ Non-monetary benefits include motor vehicle and travel allowances.
² Due to the changes in corporate structure in FY21, Richard Paine, David Orton and Vivian Zurlo ceased being a KMP on 3 May 2021. Fabrizio Jorge became a KMP on 3 May 2021.
³ Fabrizio Jorge resigned as Chief Operating Officer on 17 March 2022.
⁴ Richard Paine was appointed as Chief Operating Officer on 11 January 2022. The remuneration represents the remuneration paid to the relevant KMP for the period that he/she is KMP.

Table A(2): Remuneration for Non-executive Directors

		Short Term		Post-Employment	Other Long Term		Total \$	Performance related %
		Director fee \$	Non-monetary \$	Super-annuation \$	Long service leave \$	Share based payments – options \$		
Katrina Rathie ²	2022	57,500	-	5,750	-	-	63,250	-
	2021	-	-	-	-	-	-	-
Matthew Reynolds ²	2022	2,301	-	230	-	-	2,531	-
	2021	40,000	-	3,800	-	-	43,800	-
Steve Lin ¹	2022	-	-	-	-	-	-	-
	2021	-	-	-	-	-	-	-
Total	2022	59,801	-	5,980	-	-	65,781	-
	2021	40,000	-	3,800	-	-	43,800	-

¹ Steve Lin's services were remunerated by C2 Capital Partners in FY21 and FY22.

² Matthew Reynolds retired as a Non-executive Director on 21 July 2021. Katrina Rathie was appointed as a Non-executive Director on 21 July 2021.

FULLY PAID ORDINARY SHARES OF BUBS AUSTRALIA LIMITED

Table B: Movement in the shares of Bubs held, directly, indirectly or beneficially, by each KMP, including their related parties.

		At the beginning of the year	Purchase of shares	Other change	Shares disposed	At the end of the year
Kristy Carr ¹	2022	13,620,600	-	-	-	13,620,600
	2021	13,620,600	-	-	-	13,620,600
Steve Lin ²	2022	-	-	-	-	-
	2021	-	-	-	-	-
Dennis Lin	2022	-	-	-	-	-
	2021	-	-	-	-	-
Katrina Rathie ⁶	2022	-	-	1,000,000	-	1,000,000
	2021	-	-	-	-	-
Matthew Reynolds ⁵	2022	-	-	-	-	-
	2021	-	-	-	-	-
Iris Ren	2022	-	-	-	-	-
	2021	-	-	-	-	-
Richard Paine ^{3 4}	2022	1,500	-	-	-	1,500
	2021	1,500	-	-	-	1,500
Vivian Zurlo ³	2022	-	-	-	-	-
	2021	-	-	-	-	-
Fabrizio Jorge ^{3 4}	2022	-	-	-	-	-
	2021	-	-	-	-	-
David Orton ³	2022	-	-	-	-	-
	2021	-	-	-	-	-

¹ Shares are held under Carr Family Pty Limited.

² At 30 June 2021 and 30 June 2022, 76,288,510 shares were held by C2 Capital Partners, of which Steve Lin is the Managing Director.

³ Due to the changes in corporate structure in FY21, Richard Paine, David Orton and Vivian Zurlo ceased being a KMP on 3 May 2021. Fabrizio Jorge became a KMP on 3 May 2021.

⁴ Fabrizio Jorge resigned as Chief Operating Officer on 17 March 2022. Richard Paine was appointed as Chief Operating Officer on 11 January 2022.

⁵ Matthew Reynolds retired as a Non-executive Director on 21 July 2021.

⁶ Katrina Rathie was appointed as a Non-executive Director on 21 July 2021. Shares are held by Rathie Superannuation Pty Limited and were acquired prior to her appointment as a Non-executive Director.

SHARE BASED PAYMENTS

Table C: Share-based payments granted as remuneration to KMP

STI SHARE RIGHTS

		Number of share rights held at the beginning of the year	Grant date	Number of share rights granted	Fair Value of share rights granted	Vesting date	Number vested	Number expired	Number forfeited	Number cancelled	Number of share rights held at the end of the year
Dennis Lin*	2022	-	09/06/2022	303,251	\$0.595	31/08/2022	-	-	-	-	303,251
	2022	-	09/06/2022	303,251	\$0.595	31/08/2023					303,251
	2021	-	-	-	-	-	-	-	-	-	-
Kristy Carr*	2022	-	09/06/2022	545,852	\$0.595	31/08/2022	-	-	-	-	545,852
	2022	-	09/06/2022	545,852	\$0.595	31/08/2023	-	-	-	-	545,852
	2021	-	-	-	-	-	-	-	-	-	-
Iris Ren	2022	-	09/06/2022	333,576	\$0.595	31/08/2022	-	-	-	-	333,576
	2022	-	09/06/2022	333,576	\$0.595	31/08/2023	-	-	-	-	333,576
	2021	-	-	-	-	-	-	-	-	-	-
Richard Paine ¹	2022	-	09/06/2022	333,576	\$0.595	31/08/2022	-	-	-	-	333,576
	2022	-	09/06/2022	333,576	\$0.595	31/08/2023	-	-	-	-	333,576
	2021	-	-	-	-	-	-	-	-	-	-

* The STI share rights are subject to shareholders’ approval at the upcoming AGM.

LTI OPTIONS

LTI options granted to KMP

	Grant date	Number of options granted	Fair Value of options granted	Exercise price per option	Expiry date
Dennis Lin	29/11/2019	4,770,810	\$0.9838	\$0.10	29/11/2022
Kristy Carr	23/11/2020	4,770,810	\$0.6132	\$0.10	23/11/2023
Iris Ren	14/04/2021	400,000	\$0.1541	\$0.65	10/06/2024
Richard Paine ^{1 2}	14/04/2021	400,000	\$0.1541	\$0.65	10/06/2024
Fabrizio Jorge ^{1 2}	27/04/2021	400,000	\$0.1088	\$0.65	10/06/2024
David Orton ¹	14/04/2021	400,000	\$0.1541	\$0.65	10/06/2024
Vivian Zurlo ¹	14/04/2021	400,000	\$0.1541	\$0.65	10/06/2024

Movement in the LTI options granted to KMP during the year

		Number of options held at the beginning of the year	Number of options granted	Number exercised	Number expired	Number forfeited	Number cancelled	Number of options held at the end of the year	Number vested and exercisable at the end of the year
Dennis Lin	2022	4,770,810	-	-	-	-	-	4,770,810	4,770,810
	2021	4,770,810	-	-	-	-	-	4,770,810	-
Kristy Carr	2022	4,770,810	-	-	-	-	-	4,770,810	4,770,810
	2021	4,770,810	4,770,810	-	(4,770,810)		-	4,770,810	-
Iris Ren	2022	400,000	-	-	-	-	-	400,000	400,000
	2021	-	400,000	-	-	-	-	400,000	-
Richard Paine ^{1 2}	2022	400,000	-	-	-	-	-	400,000	400,000
	2021	-	400,000	-	-	-	-	400,000	-
Fabrizio Jorge ^{1 2}	2022	400,000	-	-	-	-	(400,000)	-	--
	2021	-	400,000	-	-	-	-	400,000	-
David Orton ¹	2022	-	-	-	-	-	-	-	-
	2021	-	400,000	-	-	-	-	400,000	-
Vivian Zurlo ¹	2022	-	-	-	-	-	-	-	-
	2021	-	400,000	-	-	-	-	400,000	-

¹ Due to the changes in corporate structure during the year, Richard Paine, David Orton and Vivian Zurlo ceased being a KMP on 3 May 2021. Fabrizio Jorge became a KMP on 3 May 2021.

² Fabrizio Jorge resigned as Chief Operating Officer on 17 March 2022. Richard Paine was appointed as Chief Operating Officer on 11 January 2022.

END OF REMUNERATION REPORT (AUDITED)

This directors' report is signed in accordance with a resolution of the board of directors:


Dated: 30 August 2022



DENNIS LIN
EXECUTIVE CHAIRMAN
MELBOURNE



Deloitte Touche Tohmatsu
ABN 74 490 121 060
477 Collins Street
Melbourne, VIC, 3000
Australia

Phone: +61 3 9671 7000
www.deloitte.com.au

Independent Auditor’s Report to the
Members of Bubs Australia Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Bubs Australia Limited (the “Company”) and its subsidiaries (the “Group”) which comprises the consolidated statement of financial position as at 30 June 2022, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors’ declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- Giving a true and fair view of the Group’s financial position as at 30 June 2022 and of their financial performance for the year then ended; and
- Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit 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 & 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 financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor’s report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Liability limited by a scheme approved under Professional Standards Legislation.

Member of Deloitte Asia Pacific Limited and the Deloitte organisation.



Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
Valuation of Inventory <i>Refer to note C2 Inventories</i> In prior year the Group identified the risk that the inventories carried by the Group exceeded the demand and the carrying value was higher than its net realisable value, as a result an inventory obsolescence provision of \$9.6 million was recognised in prior year. During the year ended 30 June 2022 the Group recorded a net reversal of the inventory obsolescence provision of \$5.9 million due to the improved inventory turnover, especially in the second half of the financial year. We identified the valuation of inventory as a key audit matter due to the significance of the balance in the Group’s consolidated financial position and the complexity in estimation of its net realisable value which requires significant judgement in forecasting sales demand and the valuation of inventories.	Our audit procedures included, but were not limited to: • Understanding management’s processes and relevant key controls over the inventory obsolescence provision. • Attended stocktakes at a selection of locations to validate the existence and expiry dates of inventory on a sample basis. • Assessed the application of inventory costing methodologies and tested the recorded cost of a sample of inventory items to supplier invoices and/or other relevant documentation. • Assessing, challenging and testing management’s assumptions and judgements included in the inventory provision and net realisable value calculation. Our procedures included validating model inputs, for example expiry dates, forecasted sales volume and enquiries with management. • Testing the inventory obsolescence provision by analysing the historical sales data against the sales forecast and its remaining shelf life. • Evaluating the appropriateness of the disclosures included in Note C2 to the financial statements.
Carrying value of goodwill and other intangible assets <i>Refer to note C5 Intangible Assets</i> As at 30 June 2022, the Group had goodwill of \$0.6 million, other intangible assets of \$38.4 million and property, plant and equipment of \$4.4 million contained within its Cash Generating Units (“CGU”). Goodwill and indefinite life intangible assets are required to be tested for impairment annually and whenever an impairment indicator exists. As a	Our audit procedures included, amongst others: • Understanding management’s processes and relevant controls related to the preparation of the value-in-use models for all CGUs. • Evaluated the management prepared cashflow forecasts that have been approved by the Board, including key assumptions used in developing the forecast. • Assessing the historical budgeting accuracy of the Group and, where appropriate, challenging forecast cash flows with reference to historical performance.



result, management completed impairment testing for all three CGUs at 30 June 2022. Although no impairments were identified in the current year, management's assessment indicated that the recoverable amounts of all CGUs remain highly sensitive to the assumptions in the budget, which incorporates significant judgement related to the estimation of future cash flows, short term and long term growth rates underpinned by the success of Chinese label infant formulas product launch after receiving the accreditation from Chinese Government authority, the improved product gross margin, and an appropriate discount rate. Key judgements and estimates used in determining the recoverable amount are disclosed in note C5 of the financial report. We identified the impairment of goodwill, other intangibles and other non-current assets as a key audit matter due to the significance of these balances in the Group's consolidated financial position and the estimation of recoverable amount of each CGU involves complex and subjective management estimates based on management's judgement of key variable and market conditions.	• In conjunction with our valuation specialists, assessing the value-in-use methodology and mathematical accuracy of the impairment model and comparing the discount rate and long-term growth rate to external benchmark data. • Assessing management’s sensitivity analysis and performing independent sensitivity analysis on the value-in-use models to challenge key assumptions. • Evaluating the appropriateness of the disclosures included in Note C5 to the financial statements.
Revenue recognition and accounting for rebates <i>Refer to note B2 Revenue</i> The group recognised a net revenue of \$89.3m after deducting the rebate of \$14.9m. Revenue recognition relating to recording revenue in the correct financial year was considered a key audit matter given the quantum of revenue recognised in the final quarter of the financial year. In addition, revenue is recorded net of rebates, marketing contributions and the Corporate Daigou share subscription arrangement owed to the customers based on their individual contractual terms. This was considered a key audit matter given the value of these arrangements provided to customers together with the judgements of estimating the variable consideration as at 30 June 2022.	Our audit procedures included: • Understanding management’s processes and relevant key controls over the revenue recognition and rebate accounting process. • Utilisation of data analytics to develop an independent expectation of revenue based on historical revenue and cost of sales trend over the financial year; • On a sample basis, traced revenue recognised to underlying sales invoices, purchase orders and delivery documents to evaluate whether revenue was measured accurately and recognised appropriately in line with Group’s revenue recognition policy; • Tested timeliness of revenue recognition at year-end by inspecting proof of delivery documents for a sample of sales transactions 14 days before and after 30 June 2022; • Recalculated rebates based on the agreed contractual terms with key customers and traced to profit and loss and accruals;



	• Compared a sample of promotional rebates to amounts claimed to assess accuracy of amounts recorded; • Tested a sample of manual journals that were debited or credited in the sales ledger; and • Reviewing a sample of customer claim invoices and credit notes issued subsequent to year end in order to assess the accuracy of the customer rebates accrual compared to actual rebates issued; • Assessed the appropriateness of the accounting treatment for the Corporate Daigou share subscription agreement in accordance with the relevant accounting standards.
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Other Information

The directors are responsible for the other information. The other information comprises the information included in the Group’s annual report for the year ended 30 June 2022, but does not include the financial report and our auditor’s report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

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

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor’s Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from



- fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group’s internal control.
 - Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
 - Conclude on the appropriateness of the directors’ use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Group to cease to continue as a going concern.
 - Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
 - Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group’s audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 34 to 45 of the Directors’ Report for the year ended 30 June 2022.

In our opinion, the Remuneration Report of Bubs Australia Limited, for the year ended 30 June 2022, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Deloitte Touche Tohmatsu,

DELOITTE TOUCHE TOHMATSU

Sun

Lian (Andrew) Sun
Partner
Chartered Accountants
Melbourne, 30 August 2022

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Deloitte Touche Tohmatsu
ABN 74 490 121 060
477 Collins Street
Melbourne, VIC, 3000
Australia

Phone: +61 3 9671 7000
www.deloitte.com.au

30 August 2022

The Board of Directors
Bubs Australia Limited
23-29 Nina Link
Dandenong South VIC 3175

Dear Board Members

Auditor’s Independence Declaration to Bubs Australia Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the Directors of Bubs Australia Limited.

As lead audit partner for the audit of the financial report of Bubs Australia Limited for the year ended 30 June 2022, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- The auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- Any applicable code of professional conduct in relation to the audit.

Yours faithfully

DELOITTE TOUCHE TOHMATSU

Andrew Lian Sun
Partner
Chartered Accountants

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03

FINANCIAL STATEMENTS

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Consolidated Statement of Financial Position

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

Notes to Financial Statements

Director's Declaration

Other Information

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	2022 \$	2021 \$
Revenue	B2	89,297,324	39,312,738
Cost of sales	B3	(60,392,016)	(46,587,926)
Gross profit / (loss)		28,905,308	(7,275,188)
Other Income		430,096	523,764
Share of net profits of associate accounted for using the equity method		87,193	(687,323)
Distribution and selling costs		(3,447,329)	(1,992,844)
Marketing and promotion costs		(10,094,361)	(7,175,341)
Administrative and other costs	B3	(26,066,741)	(15,182,292)
Impairment	C4 C5 C8	-	(44,640,260)
Other expenses	B3	(259,292)	(86,208)
Interest income		58,378	144,774
Finance cost	B3	(914,374)	(1,507,582)
Loss before tax		(11,301,122)	(77,878,500)
Income tax benefit / (expense)	B5	(76,422)	3,140,580
Loss for the year after tax		(11,377,544)	(74,737,920)
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		(22,795)	(10,204)
Other comprehensive income, net of tax		(22,795)	(10,204)
Total comprehensive loss for the year		(11,400,339)	(74,748,124)
Loss per share			
Basic (loss) per share (dollars)	B4	(0.02)	(0.12)
Diluted (loss) per share (dollars)	B4	(0.02)	(0.12)

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	30/06/2022 \$	30/06/2021 \$
Assets			
Current Assets			
Cash and cash equivalents	D3	16,311,005	27,883,202
Trade and other receivables	C1	24,850,924	8,643,277
Other assets	C3	9,830,295	686,435
GST receivable	C11	-	417,036
Inventories	C2	28,460,168	20,546,605
Total Current Assets		79,452,392	58,176,555
Non-Current Assets			
Other assets	C3	539,845	391,545
GST receivable	C11	-	267,691
Plant and equipment	C4	4,366,855	4,146,761
Right of use assets	C8	2,400,731	1,622,575
Intangible assets	C5	39,044,397	41,267,323
Investment in associates	E	136,770	45,883
Total Non-Current Assets		46,488,598	47,741,778
Total Assets		125,940,990	105,918,333
Liabilities			
Current Liabilities			
Trade and other payables	C6	27,490,328	8,010,503
Contract liabilities	C7	46,750	28,297
Lease liabilities	C8	615,875	426,667
Borrowings	C9	2,000,000	2,000,000
Provisions	C10	1,039,784	1,326,911
Share based payment liability	C11	-	417,036
Deferred consideration payables	C12	4,000,000	4,510,181
Total Current Liabilities		35,192,737	16,719,595
Non-Current Liabilities			
Lease liabilities	C8	2,302,975	1,738,076
Provisions	C10	235,727	173,180
Share based payment liability	C11	-	267,691
Total Non-Current Liabilities		2,538,702	2,178,947
Total Liabilities		37,731,439	18,898,542
Net Assets		88,209,551	87,019,791
Equity			
Issued capital	D5	274,851,116	274,851,116
Equity Reserve	D7	4,246,021	-
Share based payments reserve	D6	11,332,626	2,988,548
Foreign currency translation reserve		(45,209)	(22,414)
Accumulated losses		(202,175,003)	(190,797,459)
Total Equity		88,209,551	87,019,791

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

2022		Issued Capital \$	Share Based Payments Reserve \$	Equity Reserve \$	Foreign Currency Translation Reserve \$	Accumulated Loss \$	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 year		-	-		-	(11,377,544)	(11,377,544)
Other comprehensive loss		-	-		(22,795)	-	(22,795)
Total comprehensive loss		-	-		(22,795)	(11,377,544)	(11,400,339)
Other equity transactions							
Issue of shares	D5	-	-		-	-	-
Capital raising costs, net of tax	D5	-	-		-	-	-
Share based payment expense / (benefit)	D6	-	8,344,078	-	-	-	8,344,078
Equity linked transaction	D7	-	-	4,246,021	-	-	4,260,021
Balance at 30 June 2022		274,851,116	11,332,626	4,246,021	(45,209)	(202,175,003)	88,209,551

The accompanying notes form part of these financial statements.

2021		Issued Capital \$	Share Based Payments Reserve \$	Equity Reserve \$	Foreign Currency Translation Reserve \$	Accumulated Loss \$	Total equity \$
Balance at 1 July 2020		236,965,360	11,005,047	-	(12,210)	(116,059,539)	131,898,658
Comprehensive income							
Loss for the year		-	-	-	-	(74,737,920)	(74,737,920)
Other comprehensive loss		-	-	-	(10,204)	-	(10,204)
Total comprehensive loss		-	-	-	(10,204)	(74,737,920)	(74,748,124)
Other equity transactions							
Issue of shares	D5	38,907,402	-	-	-	-	38,907,402
Capital raising costs, net of tax	D5	(1,021,646)	-	-	-	-	(1,021,646)
Share based payment expense / (benefit)	D6	-	(1,207,998)	-	-	-	(1,207,998)
Share based payment expense / (benefit) – Corporate transaction	D6	-	(6,808,501)	-	-	-	(6,808,501)
Balance at 30 June 2021		274,851,116	2,988,548	-	(22,414)	(190,797,459)	87,019,791

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	2022 \$	2021 \$
Cash flows from operating activities			
Receipts from customers		90,549,015	43,560,575
Payments to suppliers and employees		(99,712,546)	(66,098,975)
Interest received		66,914	155,720
Interest paid		(277,220)	(247,578)
Net cash used in operating activities	D4	(9,373,837)	(22,630,258)
Cash flows from investing activities			
Purchases of property, plant and equipment		(554,093)	(602,145)
Proceeds from disposal of property, plant and equipment		1,797	7,653
Net payments to Deloraine vendors relating to Deloraine acquisition		(1,000,000)	(5,000,000)
Purchases of intangible assets		(2,850)	(7,800)
Net cash used in investing activities		(1,555,146)	(5,602,292)
Cash flows from financing activities			
Proceeds from share issue		-	32,098,901
Capital raising costs		-	(1,459,495)
Repayment of lease liabilities		(643,214)	(549,229)
Net cash (used in) / from		(643,214)	30,090,177
Net (decrease) / increase in cash and cash equivalents		(11,572,197)	1,857,627
Cash and cash equivalents at the beginning of the financial year		27,883,202	26,025,575
Total cash and cash equivalents at the end of the year		16,311,005	27,883,202

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

A. BASIS OF PREPARATION



CORPORATE INFORMATION

The financial statements cover Bubs Australia Limited as a consolidated entity consisting of Bubs Australia Limited and the entities it controlled (“the Group”) for the year ended 30 June 2022. The financial report is 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 annual report was authorised for issue, in accordance with a resolution of directors, on 30 August 2022.



BASIS OF PREPARATION

The financial report is a general purpose financial report, which has been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (‘AASB’) and the *Corporations Act 2001*. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board (‘IASB’).

The financial statements, apart from the cash flow information and deferred consideration payable, have been prepared on an accruals basis and are based on historical costs.



SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the financial statements requires management to make judgements, estimates and assumptions. The most significant use of judgements and estimates has been applied to the following areas. Refer to the respective notes for additional details.

	Reference
Recognition of rebate	Note B2
Recoverability of trade and other receivables	Note C1
Valuation of inventory	Note C2
Recoverability of goodwill and other intangibles	Note C5
Recognition and recoverability of deferred tax assets	Note B5
Share based payments	Note G2

B. GROUP PERFORMANCE

This section explains the results and performance of the Group for the year, including segment information, earnings per share and taxation.

B.1 OPERATING SEGMENTS

Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker (the Board) in order to allocate resources to the segment and assess its performance.

In FY21 and FY22, the Group had identified 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 consolidated statement of profit or loss and other comprehensive income and the consolidated statement of financial position was the same as that presented to the chief operating decision maker.

Geographic information

	2022 \$	2021 \$
Australia	14,467,623	12,317,472
China	49,404,629	18,584,537
Other International	25,425,072	8,410,729
Total	89,297,324	39,312,738

The revenue information above is based on the locations of the customers. Daigou has been reclassified from the Australia segment to the China segment as the products sold in Daigou channel are to end consumers within the Chinese economic environment.

The Group had 3 external customer who generated greater than 10 percent of the Group's revenue at 30 June 2022 amounting to \$50,549,774 (2021: 1 customer amounting to \$6,163,200).

B.2 REVENUE

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

Type of goods and services	2022 \$	2021 \$
Sale of Infant Formula	53,527,894	19,290,709
Sale of Nutritional Products	1,895,371	1,459,480
Sale of Adult Goat Dairy Products	19,429,374	14,265,575
Sale of Raw Materials	13,495,699	3,344,601
Canning services	948,986	952,373
Total revenue from contracts with customers	89,297,324	39,312,738

RECOGNITION AND MEASUREMENT

Under *AASB 15 Revenue from Contracts with Customer*, 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. 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 and comparatives were not restated.

SALE OF PRODUCTS

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

- 
- Infant Formula
 - Nutritional Products
 - Adult Goat Dairy Products
 - Raw materials

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, volume rebates and marketing contribution.

Rebates and marketing contribution

Rebates and marketing contribution with customers are recognised as a reduction of revenue. Under *AASB 15 Revenue from Contracts with Customer*, marketing contributions 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 marketing contribution. The selected method that best predicts the amount of variable consideration is primarily driven by the marketing contribution agreed with the customers. The Group then applies the requirements on constraining estimates of variable consideration and recognises a refund liability for the expected future rebates.

Corporate Daigou strategic partnership

On 3 March 2022, the Group entered into a share subscription agreement with Willis Trading Limited, a wholly owned subsidiary of Alpha Professional Holdings Limited (‘Alpha Group’), a company listed on the Hong Kong Stock Exchange.

The Group has conditionally agreed to issue up to 9,541,620 ordinary shares to Willis Trading Limited as rebates for the Alpha Group meeting product purchase milestones of at least \$50 million in FY22.

The Group has conditionally agreed to issue between 9,541,620 ordinary shares and 20,541,620 ordinary shares to Willis Trading Limited as rebates for the Alpha Group meeting certain product purchase milestones of at least \$80 million to \$120 million in FY23.

In June 2022, in light of the unexpected opportunity for the Group to provide an urgent supply of infant formula to the US market, Willis Trading has agreed to reduce its safety stock and purchase orders so that inventory can be redirected to the US market for American families in need. As a result, an amendment deed was signed by both parties to amend FY22 product purchase milestones to be no less than \$44 million in July 2022.

Alpha Group has met the amended product purchase milestones for FY22. The Group has recognised the fair value of 9,541,260 shares on the grant date as rebates netting off revenue recognised in FY22, being \$4,246,021.

Provision of canning services

The Group provides the canning services for nutritional dairy products. The Group recognises revenue from the canning services measured at the fair value of the consideration received or receivable. The revenue represents the Group’s right to an amount of consideration that is unconditional. Where the Group controls the promised goods before transferring them to the customers, the Group is a principal and recognises the full amount of goods and canning services as revenue when the production is complete. Where the Group does not control the promised goods and solely provides canning services to the customers, the Group is an agent and recognises the revenue for the canning services when the production is complete.

Where contracts with customers have minimum volume commitments over the term of the agreement and the customer is not able to fulfil minimum volume commitment, the Group is entitled to charge a penalty fee of the shortfall volume. This gives rise to variable consideration. To estimate the variable consideration to which it is entitled, the Group applies the ‘expected value method’.

KEY ESTIMATE AND JUDGEMENT

The Group estimates variable consideration to be included in the transaction price for the sale of products with rebates and market contribution.

The Group estimates variable consideration to be included in the transaction price of the canning service with minimum volume commitments. The Group estimates the expected volume based on customer forecasts and accumulated purchases to date.

B.3

EXPENSES

	2022 \$	2021 \$
Cost of sales		
Production costs	65,402,785	33,976,039
Net inventories provision / (reversal)	(5,010,769)	12,611,887
Total	60,392,016	46,587,926

Included in administrative and other expenses are the following:

Listing and registry fees	318,661	437,320
Accountancy and legal fees	1,379,960	1,295,996
Insurance	654,768	666,094
Travel costs	518,150	219,193
Consultancy fee	2,392,867	548,344
Occupancy costs	304,622	144,187
Credit losses / (Reversal)	(715,099)	718,782
Depreciation and amortisation	2,693,197	3,405,018

Employee costs

Wages and salaries	7,697,645	5,762,627
Superannuation	728,284	492,955
Share based payments	8,344,078	(1,207,998)
Total	16,770,007	5,047,584

Other expenses

Corporate transaction accounting and legal expense	259,292	86,208
Total	259,292	86,208

Finance costs

Interest expense	296,970	255,168
Interest expense on lease liabilities	127,585	125,987
Unwinding of deferred consideration payable	489,819	1,126,427
Total	914,374	1,507,582

B.4

LOSS PER SHARE (LPS)

	2022	2021
Loss attributable to the Group used in calculating basic and diluted EPS	(11,377,544)	(74,737,920)
Weighted average number of ordinary shares for basic EPS	612,775,580	603,627,471
Basic LPS (dollars)	(0.02)	(0.12)
Diluted LPS (dollars)*	(0.02)	(0.12)

* The Group has granted 10,741,620 options and 6,185,735 share rights to employees (including 1,698,205 share rights to Chairman and CEO subject to shareholders approval at the upcoming AGM) 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.

RECOGNITION AND MEASUREMENT

Basic EPS is calculated as net loss attributable to the group divided by the weighted average number of ordinary shares outstanding during the financial year.

Diluted EPS adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

B.5

INCOME TAXES

	2022 \$	2021 \$
Consolidated profit or loss		
Income tax benefit / (expense)		
Current tax	(76,422)	-
Adjusts in respect of prior years	-	(27,207)
Deferred tax	-	3,167,787
Income tax benefit / (expense) reported in the statement of profit or loss	(76,422)	3,140,580
Numerical reconciliation of income tax benefit and tax at the statutory rate		
Accounting loss before income tax benefit	11,301,122	77,878,500
Income tax benefit calculated at 30% (2021: 30%)	3,390,337	23,363,550
Effect of different tax rates of subsidiary operating in other jurisdiction ¹	118,121	(73,560)
Tax effect of amounts not taxable in calculating income tax benefit		
Share based payments	(3,777,030)	362,399
Non-deductible costs	(94,256)	(338,007)
Impairment	-	(13,392,078)
Deferred consideration payable fair value movement	(146,946)	(337,928)
Income tax losses not recognised	(1,416,081)	(5,415,204)
Temporary difference not recognised	1,849,434	(1,081,414)
Other	-	79,752
Adjustments in respect of prior years	-	(27,207)
Income tax benefits / (expense)	(76,422)	3,140,303

¹ New Zealand statutory tax rate is 28%. China statutory tax rate is 2.5% as the taxable income is less than RMB 1 million. USA statutory tax rate is 21%.

Deferred tax assets/(liabilities) arise from the following

2022	Opening Balance	Recognised in Profit or Loss	Recognised in equity	Closing Balance
Trade and other receivables	499,051	(78,237)	-	420,814
Inventories	2,178,991	(1,887,564)	-	291,427
Intangible assets	(12,207,973)	667,404	-	(11,540,569)
Plant and equipment	(311,705)	110,016	-	(201,689)
Right of use assets	(486,772)	147,474	-	(339,298)
Lease Liabilities	649,423	(154,689)	-	494,734
Trade and other payables	72,070	42,317	-	114,387
Provisions	213,043	93,830	-	306,873
Carried forward tax losses	8,604,343	1,416,081	-	10,020,424
Capital raising costs	789,529	(356,632)	-	432,897
	-	-	-	-

2021	Opening Balance	Recognised in Profit or Loss	Recognised in equity	Closing Balance
Trade and other receivables	104,828	394,223	-	499,051
Inventories	294,980	1,884,011	-	2,178,991
Intangible assets	(14,112,908)	1,904,935	-	(12,207,973)
Plant and equipment	(421,721)	110,016	-	(311,705)
Right of use assets	(624,300)	137,528	-	(486,772)
Lease Liabilities	776,681	(127,258)	-	649,423
Trade and other payables	69,433	2,637	-	72,070
Provisions	154,348	58,695	-	213,043
Carried forward tax losses	9,381,711	(777,368)	-	8,604,343
Capital raising costs	771,313	(419,632)	437,848	789,529
	(3,605,635)	3,167,787	437,848	-

RECOGNITION AND MEASUREMENT

The income tax expense or benefit for the year is the tax payable on that year's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior years, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- When the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

Bubs Australia Limited and its 100% owned Australian resident subsidiaries formed a tax consolidated group ('TCG') and Bubs Australia Limited is the head entity of the tax consolidated group.

KEY ESTIMATE AND JUDGEMENT



RECOVERY OF DEFERRED TAX ASSETS

Judgement is required to be made by the group in assessing whether deferred tax assets and certain deferred tax liabilities are recognised on the consolidated statement of financial position. As detailed above, in the year ended 30 June 2022, Bubs has recognised deferred tax assets up to the carrying amount of deferred tax liabilities. Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be used. Probable is considered more likely than not.

Judgement is required when deferred tax assets are reviewed at each reporting date. Deferred tax assets may be reduced to the extent that it is no longer probable that future taxable profits will be available.

Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These depend on estimates of future sales, operating costs, capital expenditure, dividends and other capital management transactions. Judgements are also required about the application of income tax legislation.

Changes in expectations for the future performance of the business may impact the amount of deferred tax assets recoverable and recognised on the statement of financial position and the amount of other tax losses and temporary differences not yet recognised. At 30 June 2022, the Group had \$8,347,931 (2021: \$6,774,353) of unrecognised tax losses.

C. OPERATING ASSETS AND LIABILITIES

This section provides details of the Group’s operating assets, and liabilities incurred as a result of trading activities, used to generate the Group’s performance.

C.1
TRADE AND OTHER RECEIVABLES

	30/06/2022	30/06/2021
	\$	\$
Trade debtors	23,980,727	8,410,194
Allowance for credit losses	(21,752)	(717,691)
Other receivables	840,030	296,213
Receivable from associates	51,919	654,561
	24,850,924	8,643,277

The following table details the risk profile of trade receivables based on the Group’s provision matrix.

TRADE RECEIVABLES - DAYS PAST DUE

30/06/2022	Not past due	<30 days	31-60 days	61-90 days	91-120 days	>120 days	Total
Estimated total gross carrying amount at default	6,586	1,334	1,504	390	274	11,664	21,752
Lifetime ECL							21,752

TRADE RECEIVABLES - DAYS PAST DUE

30/06/2021	Not past due	<30 days	31-60 days	61-90 days	91-120 days	>120 days	Total
Estimated total gross carrying amount at default	15,709	4,865	755	-	-	696,362	717,691
Lifetime ECL							717,691

The Group’s exposure to credit risks related to trade and other receivables are disclosed in Note D2 Financial risk management.

RECOGNITION AND MEASUREMENT

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. Trade receivables are measured at the transaction price determined under *AASB15 Revenue from Contracts with Customers*. Further details are disclosed in Note B2 Revenue.

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 Group’s trade and other receivables and financial assets are measured at amortised cost 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.

The Group adopted a forward-looking expected credit loss (ECL) approach for impairment losses for ECLs for financial assets not held at FVPL.

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.

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.

C.2
INVENTORIES

	30/06/2022	30/06/2021
	\$	\$
Raw materials	17,809,568	14,278,685
Finished goods	10,650,600	6,267,920
	28,460,168	20,546,605

The amount of inventory that was written off during the year was \$882,084 (2021: \$2,173,988). An inventory obsolescence provision reversal of \$5,892,852 (2021: Inventory provision \$9,587,899) was recognised during the year. No take or pay penalty (2021: \$850,000) was recognised during the year. The cost of inventories and cost of production recognised as an expense during the year was \$65,450,857 (2021: \$32,164,537).

RECOGNITION AND MEASUREMENT

Inventories are valued at the lower of cost and net realisable value. Cost is calculated using weighted average methods. Net realisable value represents the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

KEY ESTIMATES AND JUDGEMENTS



RECOVERY OF INVENTORY

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-19 on distribution channels and estimated end consumer demand in FY23. Changes in trading and economic conditions, and changes in country specific regulations, may impact these estimations in future periods.

C.3
OTHER ASSETS

Current	30/06/2022	30/06/2021
	\$	\$
Prepayments and other assets	562,292	256,972
Deposits paid	402,342	385,773
Prepayment for purchase of raw materials	8,865,661	43,690
	9,830,295	686,435
Non-current		
Security bond	539,845	391,545
	539,845	391,545

RECOGNITION AND MEASUREMENT

PREPAYMENT FOR PURCHASE OF RAW MATERIALS

Prepayment for purchase of raw materials represent payments for purchases of raw materials prior to ownership passing to the Group.

DEPOSITS PAID

Deposits paid represent payments to suppliers in relation to goods not received or services not rendered. These deposits are refundable to the Group.

SECURITY BOND

Security bond represents payments to the landlord securing the obligations of the Group under the lease contract of the Deloraine Dairy site.

C.4

PLANT AND EQUIPMENT

RECOGNITION AND MEASUREMENT

	Building and improvements \$	Production equipment \$	Motor vehicle \$	Office equipment \$	Total \$
As at 1 July 2020	1,388,870	2,922,477	25,000	158,317	4,494,664
Additions	118,767	646,123	-	46,442	811,332
Disposals	(4,830)	-	-	(13,464)	(18,294)
As at 30 June 2021	1,502,807	3,568,600	25,000	191,295	5,287,702
Additions	134,639	277,771	-	162,686	575,096
Disposals	(1,710)	-	-	(33,098)	(34,808)
As at 30 June 2022	1,635,736	3,846,371	25,000	320,883	5,827,990
Accumulated Depreciation and Impairment					
As at 1 July 2020	(97,490)	(265,298)	(2,499)	(61,608)	(426,895)
Depreciation	(83,758)	(209,260)	(2,083)	(35,704)	(330,805)
Impairment	(116,587)	(269,167)	(1,801)	(4,829)	(392,384)
Disposals	413	-	-	8,730	9,143
As at 30 June 2021	(297,422)	(743,725)	(6,383)	(93,411)	(1,140,941)
Depreciation	(82,559)	(211,635)	(1,900)	(53,189)	(349,283)
Impairment	-	-	-	-	-
Disposals	250	-	-	28,839	29,089
As at 30 June 2022	(379,731)	(955,360)	(8,283)	(117,761)	(1,461,135)
Net book value					
As at 30 June 2021	1,205,385	2,824,875	18,617	97,884	4,146,761
As at 30 June 2022	1,256,005	2,891,011	16,717	203,122	4,366,855

Plant and equipment are stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on a straight-line basis to write off the net cost of each item of plant and equipment over their expected useful lives as follows:

Building and improvements	15-20 years
Production equipment	12-19 years
Motor Vehicle	10 years
Office equipment	2-13 years

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

An item of plant and equipment is derecognised upon disposal or when there is no future economic benefit to the Group. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss.

C.5

INTANGIBLE ASSETS

	Goodwill \$	Brand name \$	Licence \$	Priority right \$	Customer contract/ list \$	Recipes \$	Patents, trademarks and software \$	Total \$
As at 30 June 2020	90,614,673	4,691,634	38,489,095	1,800,000	6,759,764	47,740	163,182	142,566,088
Additions	-	-	-	-	-	-	7,800	7,800
Disposals	-	-	-	-	-	-	(66,722)	(66,722)
As at 30 June 2021	90,614,673	4,691,634	38,489,095	1,800,000	6,759,764	47,740	104,260	142,507,166
Additions	-	-	-	-	-	-	2,850	2,850
Disposals	-	-	-	-	-	-	-	-
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
Accumulated amortisation and impairment								
As at 1 July 2020	(49,138,940)	-	(2,099,405)	(1,200,000)	(1,496,051)	(47,740)	(79,265)	(54,061,401)
Amortisation	-	-	(1,749,504)	(600,000)	(648,199)	-	(23,853)	(3,021,556)
Impairment	(40,901,662)	-	(3,093,031)	-	(215,488)	-	(1,083)	(44,211,264)
Disposals	-	-	-	-	-	-	54,379	54,379
As at 30 June 2021	(90,040,602)	-	(6,941,940)	(1,800,000)	(2,359,738)	(47,740)	(49,822)	(101,239,842)
Amortisation	-	-	(1,593,420)	-	(620,609)	-	(11,748)	(2,225,777)
Impairment	-	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	-	-	-
As at 30 June 2022	(90,040,602)	-	(8,535,360)	(1,800,000)	(2,980,347)	(47,740)	(61,570)	(103,465,619)
Net book value								
As at 30 June 2021	574,071	4,691,634	31,547,155	-	4,400,026	-	54,437	41,267,323
As at 30 June 2022	574,071	4,691,634	29,953,735	-	3,779,417	-	45,540	39,044,397

Brand name, customer contract/list, licence, priority right and goodwill are allocated to the following cash generating units (CGUs) for the purposes of impairment testing: Infant Food

Co \$1,165,712 (2021: \$1,165,712); Nulac Foods \$5,963,359 (2021: \$6,302,161) and Deloraine Dairy \$31,869,787 (2021: \$33,745,013).

RECOGNITION AND MEASUREMENT

Intangible assets acquired separately are capitalised at cost and from a business combination are capitalised at fair value as at the date of acquisition. Following initial recognition, the cost model is applied to the class of intangible assets.

GOODWILL

Goodwill is recognised on business acquisitions, representing the excess of the fair value of the consideration transferred over the Group’s interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the business recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. For the purposes of impairment testing, goodwill acquired in a business combination is, from the date of acquisition, allocated to the Group’s cash-generating units that are expected to benefit from the synergies of the combination.

BRAND NAMES

Brand names in Infant Food Co and Nulac Foods CGUs are considered to have an indefinite life and are not amortised. As at 30 June 2022, these assets were tested for impairment.

LICENCE

The licence represents the CNCA (Certification and Accreditation Administration of the People’s Republic of China) licence that Deloraine Dairy currently holds. The licence is amortised on a straight-line basis over the period of the expected benefit, being the finite life of 22 years.

CUSTOMER CONTRACT/LIST

Customer contract/lists acquired in a business combination are amortised on a straight-line basis over the period of their expected benefit, being the finite life of 10 years.

IMPAIRMENT TESTING FOR CASH-GENERATING UNITS (CGUS) INCLUDING GOODWILL

GOODWILL AND BRAND NAMES ALLOCATION

For the purposes of impairment testing, goodwill and other intangible assets are allocated to the Group’s CGUs which represent the lowest level within the Group at which goodwill and brand names are monitored by internal management and are no higher than an operating segment as follows:

	2022 \$	2021 \$
Infant Food Co	1,165,712	1,165,712
Nulac Foods	4,100,000	4,100,000
Deloraine Dairy	-	-
	5,265,712	5,265,712

RECOGNITION AND MEASUREMENT

Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. An asset’s recoverable amount is the higher of an asset’s or CGU’s fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group’s CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. A long-term growth rate is calculated and applied to project future cash flows after the fifth year.

KEY ESTIMATES AND JUDGEMENTS



GOODWILL AND INTANGIBLES

Judgements are made with respect to identifying and valuing intangible assets on acquisitions of new businesses. The Group assesses whether goodwill and intangibles with indefinite useful lives are impaired at least annually and whenever an indicator of impairment exists. These calculations

involve judgements to estimate the recoverable amount of the cash-generating units to which the goodwill and intangibles with indefinite useful lives are allocated.



ANNUAL IMPAIRMENT TESTING AT 30 JUNE 2022

The recoverable amount of the CGUs to which goodwill and indefinite life brand names were allocated has been determined on a value in use basis using a discounted cash flow approach, and projections based on financial budgets and five-year forward plans prepared by the management.

Management has reviewed the assumptions applied to the value in use models for goodwill impairment testing and made additional adjustments to the five-year forward plans used in the Group's impairment testing in order to reflect the estimated impact from the current economic environment based on information available as at 30 June 2022. These assumptions include but not limited to sales forecasts of products to key markets,

including the fulfilment of the recent demand in the USA in FY23 and a further growth strategy in the international market, the launch of Chinese label products from FY26 onwards after the expected registration and the reduction on costs of production and improved gross margin. The value in use models are considered to reflect a base case of cashflows and appropriate discount rate.

As a result of this testing, the recoverable amount of each CGU exceeded its carrying amount and no impairment loss has been recognised on intangible assets that are subject to annual impairment testing. (2021: a total impairment of \$44,640,260 has been recognised in Plant and Equipment (note C4), Intangible assets (note C5) and Right of Use assets (note C8)).

CGU	Headroom \$million
Infant Food Co	20.2
Nulac Foods	9.8
Deloraine Dairy	21.2

SENSITIVITY TO CHANGE IN KEY ASSUMPTIONS

The calculation of value in use for the above CGUs is most sensitive to the following assumptions:

- Revenue growth
- Gross margins
- Discount rates

Revenue growth – Revenue projections have been constructed with reference to the FY22 results and five-year forward-looking plans with the earlier years being estimated through specific volume assumptions based on known opportunities, while years thereafter are adjusted for performance trends across the particular regions. Management assesses the reasonableness of the growth assumptions by reviewing the achieved growth of comparable entities in the nutritional products industry. The 5 year revenue growth forecast is based on the assumption that the registration of Chinese label infant formula products will be obtained in FY26. Shall the registration be unsuccessful and the shortfall of revenue cannot be substantiated by other opportunities, the intangibles and other assets will be impaired.

Gross margins – Gross Margin is based on the historical margins achieved and adjusted where appropriate to account for expected future trading conditions. The forecast

gross margin is relying on achievement of optimisation of milk, other ingredient costs and manufacturing costs. Consideration has been given to the growth profile of each CGU when forecasting future margin returns.

Discount rates – Discount rates represent the risks specific to each CGU, taking into consideration the time value of money and individual risks of the underlying cash flows expected from the CGU being assessed. CGU specific risk is incorporated by applying individual beta factors. The discount rate calculation is based on the specific circumstances of each CGU and its operating segments and is derived from its weighted average cost of capital (WACC). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the CGU's investors. The cost of debt is derived from the interest rate of the CGU's working capital facility.

The terminal value (being the total value of expected cash flows beyond the forecast period) is discounted to present values using the discount rate specific to each CGU.

Management has identified a reasonably possible change in three key assumptions reduce the headroom of each CGU as showing in the following table.

Reduction on recoverable amount				
	% change	Infant Food Co	Nulac Foods	Deloraine Dairy
Budgeted gross revenue growth rate	(5%)	(15,246,505)	(7,660,531)	(15,677,674)
Budgeted gross margin	(1%)	(17,942,786)	(2,223,422)	(2,485,298)
Discount rate	1.5%	(10,979,138)	(3,663,900)	(9,004,152)

KEY ASSUMPTIONS

CGUs	2022			2021		
	Infant Food Co	Nulac Foods	Deloraine Dairy	Infant Food Co	Nulac Foods	Deloraine Dairy
Discount rate (post tax)	12.77%	11.77%	11.78%	12.93%	11.90%	12.50%
Discount rate (pre tax)	18.24%	16.81%	16.86%	18.50%	17.00%	17.86%
Terminal growth	2.50%	2.50%	2.50%	2.00%	2.00%	2.00%

C.6

TRADE AND OTHER PAYABLES

	30/06/2022	30/06/2021
	\$	\$
Trade payables	15,866,769	5,383,123
Other payables	3,898,429	1,927,930
Customer deposits	7,709,503	684,545
Payable to associates	15,627	14,905
	27,490,328	8,010,503

RECOGNITION AND MEASUREMENT

TRADE AND OTHER PAYABLES

Trade and other payables are initially recognised at fair value, and subsequently carried at amortised cost due to their short-term nature, and they are not discounted. They represent liabilities recognised when the Group becomes obligated to make future payments resulting from the purchase of goods and services. The amounts are unsecured.

The carrying value of trade and other payables approximates their fair value.

CUSTOMER DEPOSIT

Customer deposits are cash considerations received from customers, for which the Group has not yet provided goods or services in exchange.

C.7

CONTRACT LIABILITIES

	2022	2021
	\$	\$
Contract liabilities	46,750	28,297
	46,750	28,297

RECOGNITION AND MEASUREMENT

Contract liabilities are obligations to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, contract liabilities are recognised when the payment is made or the payment is due (whichever is earlier). Income received in advance are recognised as revenue when the Group satisfies the performance obligations under the contract.

C.8

LEASES

RIGHT OF USE ASSETS

	Buildings \$	Equipment \$	Total \$
Cost			
At 1 July 2020	2,444,996	76,042	2,521,038
Additions	-	-	-
At 30 June 2021	2,444,996	76,042	2,521,038
Additions	1,269,737	-	1,269,737
At 30 June 2022	3,714,733	76,042	3,790,775
Depreciation and impairment			
At 1 July 2020	(421,805)	(18,233)	(440,038)
Depreciation	(403,721)	(18,092)	(421,813)
Impairment	(36,612)	-	(36,612)
At 30 June 2021	(862,138)	(36,325)	(898,463)
Depreciation	(473,562)	(18,019)	(491,581)
Impairment	-	-	-
At 30 June 2022	(1,335,700)	(54,344)	(1,390,044)
Carrying amount			
At 30 June 2021	1,582,858	39,717	1,622,575
At 30 June 2022	2,379,033	21,698	2,400,731

The Group leases several assets including buildings and IT equipment. The lease terms range from 1.2 – 10 years (2021: 1.2 - 10 years).

Extension options are included in a number of leases across the group. These are used to maximise operational flexibility in terms of managing the assets used in the group's operations. The majority of extension options held are exercisable only by the group and not by the respective lessor.

AMOUNTS RECOGNISED IN PROFIT AND LOSS

	30/06/2022 \$	30/06/2021 \$
Depreciation expense on right-of-use assets	491,581	421,813
Interest expense on lease liabilities	127,585	125,987
Impairment	-	36,612
Expense relating to short-term leases	114,723	104,393

The total cash outflow for leases amount to \$643,214 (2021: \$549,229).

LEASE LIABILITIES

	30/06/2022 \$	30/06/2021 \$
Current	615,875	426,667
Non-current	2,302,975	1,738,076
	2,918,850	2,164,743
Maturity analysis		
Year 1	740,511	531,663
Year 2	752,891	499,199
Year 3	772,529	502,266
Year 4	663,587	512,266
Year 5	280,565	393,347
Onwards	-	-
	3,210,083	2,438,741
Less interest	291,233	273,998
Total	2,918,850	2,164,743

The Group does not face a significant liquidity risk with regard to its lease liabilities. All lease obligations are denominated in Australian dollars.

RECOGNITION AND MEASUREMENT

Applying AASB 16, for all leases, the Group:

- Recognises right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of the future lease payments, with the right-of-use asset adjusted by the amount of any prepaid or accrued lease payments.
- Recognises depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of profit or loss.
- Separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within financing activities) in the consolidated statement of cash flows.
- Lease incentives (e.g. rent free period) are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under AASB 117 they resulted in the recognition of a lease incentive, amortised as a reduction of rental expenses on a straight line basis.

Under AASB 16, right-of-use assets are tested for impairment in accordance with *AASB 136 Impairment of Assets*.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (which includes tablets and personal computers, small items of office furniture and telephones), the Group has opted to recognise a lease expense on a straight-line basis as permitted by AASB 16. This expense is presented within ‘Administrative and other costs’ in profit or loss.

The Group has used the following practical expedients when applying the cumulative catch-up approach to leases previously classified as operating leases applying AASB 16:

- The Group has applied a single discount rate to a portfolio of leases with reasonably similar characteristics.
- The Group has elected not to recognise right-of-use assets and lease liabilities to leases for which the lease term ends within 12 months of the date of initial application.

C.9
BORROWINGS

	2022 \$	2021 \$
Current	2,000,000	2,000,000
	2,000,000	2,000,000

The Group has a working capital facility with National Australia Bank. Total limit of the facility is \$10 million (2021: \$10 million) with \$2 million drawn at 30 June 2022 (2021: \$2 million).

RECOGNITION AND MEASUREMENT

Borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

The carrying value of borrowings approximates their fair value due to relatively short term maturity.

C.10

PROVISIONS

	30/06/2022 \$	30/06/2021 \$
Current		
Annual leave and long service leave	804,169	536,963
Other provision	235,615	789,948
	1,039,784	1,326,911
Non - Current		
Long service leave	116,630	82,105
Make good provision	119,097	91,075
	235,727	173,180

RECOGNITION AND MEASUREMENT

ANNUAL LEAVE AND LONG SERVICE LEAVE

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of employee benefits expected to be settled within 12 months are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Provisions made in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to the reporting date.

OTHER PROVISION

An employee costs provision relating to the expected termination settlement with the previous CEO.

A provision was raised in FY21 for associated costs to settle a claim in relation to the price difference on milk supplied by Central Dairy Goats Limited ('CDG') from 1 October 2020 to 30 June 2021. The Group has resolved the dispute without admission of liability in November 2021 and the provision was reversed.

C.11

SHARE BASED PAYMENT LIABILITY

	2022 \$	2021 \$
Current	-	417,036
Non-Current	-	267,691

As part of the Chemist Warehouse transaction the Group engaged in FY19, the Group is required to pay cash for the GST component relating to the shares to be issued to Chemist Warehouse. This has been presented as a share based payment liability. This amount is expected to be fully recoverable and a corresponding GST receivable has been recorded. The liability is reversed as the performance target has not been met and the shares are not issued for the tranche 4 and 5. Further details are disclosed in Note D6 Share Based Payments Reserve.

C.12

DEFERRED CONSIDERATION

As part of the acquisition of Deloraine Dairy in FY19, a deferred consideration of \$15 million is payable in cash over the three year period. The fair value of the deferred consideration is estimated by calculating the present value of future expected cashflow.

A reconciliation of fair value measurement of the deferred consideration payable is provided below:

	Deferred consideration payable
Balance at 30 June 2021	\$4,510,181
Unwinding of the deferred consideration payable recognised in profit or loss in the current period	\$489,819
Deferred consideration paid in the current period	(\$1,000,000)
Balance at 30 June 2022	\$4,000,000

The payable balance of \$4,000,000 as at 30 June 2022 was paid in July 2022.

D. CAPITAL AND FINANCIAL RISK MANAGEMENT

This section outlines how the Group manages its capital structure and its exposure to financial risk, and provides details of its balance sheet liquidity and access to financing facilities.

D.1 CAPITAL MANAGEMENT

The Group’s objectives when managing capital is to safeguard its ability to continue as a going concern so that in due course it can provide returns for stakeholders and maintain an optimum capital structure.

In order to maintain or adjust the capital structure, the Group manages the level of debt such that it remains prudent and facilitates the execution of the operational plan and provides flexibility for growth.

D.2 FINANCIAL RISK MANAGEMENT

Exposure to credit risk, foreign currency risk and liquidity risk arises in the normal course of the Group’s business.

The Group’s financial risk management processes and procedures seek to minimise the potential adverse impacts that may arise from the unpredictability of financial markets.

Policies and procedures are reviewed periodically to reflect both changes in market conditions and changes in the nature and volume of Group activities.

As at 30 June 2022 there were no derivative financial instruments in place. Specific risk management objectives and policies are set out below.

The Group uses various methods to measure different types of risk exposures. These methods include ageing analysis for credit risk, and sensitivity analysis in the case of foreign exchange risks and equity price risk.

CREDIT RISK MANAGEMENT

Credit risk is the risk of financial loss to the Group if a customer or the counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group’s receivables from customers.

	2022 \$	2021 \$
Maximum exposures to credit risk at balance date:		
Cash and cash equivalent (counterparty risk)	16,311,005	27,883,202
Trade receivables (customer credit risk)	24,010,894	8,347,064
Other receivables	840,030	296,213
GST receivable	-	684,727
Prepayment for purchase of raw materials	8,865,661	43,690
Deposits paid	402,342	385,773
	50,429,932	37,596,979



COUNTERPARTY RISK

At balance date, the Group’s bank accounts were held with National Australia Bank Limited, Australia and New Zealand Bank Limited,

Commonwealth Bank of Australia and Bank of the West. The Group does not have any other concentrations of counterparty credit risk.



CUSTOMER CREDIT RISK

The Group’s exposure to customer credit risk is influenced mainly by the individual characteristics of each customer. The majority of sales are to major retailers with established creditworthiness and minimum levels of default.

There is significant concentration of credit risk within the Group. In FY22, 28% of sales were to one customer (2021: 16% sales to one customer). There is no history of default for this customer.

New customers are analysed individually for creditworthiness, taking into account credit ratings where available, financial position, previous trading experience and other factors.

For trade receivables and contract assets, the Group has applied the standard’s simplified approach and has calculated ECLs based on lifetime expected credit losses.

In monitoring customer credit risk, customers are assessed individually by their debtor ageing profile. Monitoring of receivable balances on an ongoing basis minimises the exposure to bad debts.

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.



OTHER CREDIT RISK

The Group is exposed to related party credit risk and other credit risk. In monitoring related party credit risk and other credit risk, the related parties and

counterparties are analysed individually for creditworthiness taking into account credit ratings where available, financial position and other factors.

Ageing of trade receivables at the reporting date:

	2022 \$	2021 \$
Neither past due nor default	21,998,554	6,036,129
Past due but not impaired		
Past due up to 30 days	1,991,508	1,782,376
Past due 31 to 60 days	8,866	528,560
Past due 61 to 90 days	1,099	-
Past due more than 90 days	10,867	-
	24,010,894	8,347,065

Movement in allowance for doubtful debts

	2022 \$	2021 \$
Allowance of doubtful debts		
Balance at beginning of the year	717,691	10,525
Amount charged to the statement of comprehensive income / (reversed)	(715,099)	730,009
Provision provided / (utilised)	19,160	(22,843)
Balance at the end of year	21,752	717,691



MARKET RISK

Market risk is the risk that changes in market prices will affect the Group's income or the value of its holdings in financial instruments. The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates to the AUD dollar.

Market risk exposures are monitored by management on an ongoing basis and there has been no change during the year to the Group's exposure to market risks or the manner in which it manages and measures risk.

FOREIGN CURRENCY RISK MANAGEMENT

The Group enters into the transactions in Australia, New Zealand, China, USA and Europe and is exposed to currency risk arising from movements in the currencies of those countries against the AUD dollar.

Expressed in AUD dollars, the table below indicates material exposure and sensitivity to movements in exchange rates on the profit or loss of the Group based on

closing exchange rates as at 30 June, applied to the Group's financial assets/(liabilities) at 30 June.

Exchange rates and assets and liabilities held in foreign currencies will fluctuate over the course of normal operations. The analysis is performed consistently from year to year.

2022	Net exposure on reporting date (Payable)/Receivable	Impact on pre-tax profit / (loss)	
Movement on exchange rate	\$	+10% \$	-10% \$
NZ Dollar	(914,780)	83,162	(101,642)
USD Dollar	8,003,371	(727,579)	889,263
RMB Dollar	(197,846)	17,986	(21,983)
Euro Dollar	(38,310)	3,483	(4,257)
Net exposure	6,852,435	(622,948)	761,381

2021

	Net exposure on reporting date (Payable)/Receivable	Impact on pre-tax profit / (loss)	
Movement on exchange rate	\$	+10% \$	-10% \$
NZ Dollar	(93,641)	8,513	(10,405)
USD Dollar	258,680	(23,516)	28,742
RMB Dollar	(39,417)	3,583	(4,380)
Euro Dollar	(13,960)	1,269	(1,551)
Net exposure	111,662	(10,151)	12,406

INTEREST RISK MANAGEMENT

The Group's main interest rate risk arises from borrowings, which expose the Group to cash flow interest rate risk. The risk is considered immaterial.

LIQUIDITY RISK MANAGEMENT

Liquidity risk is the risk that the Group will be unable to meet its obligations as they fall due. This risk is managed by establishing a target minimum liquidity level, ensuring that ongoing commitments are managed with respect to forecast available cash inflows.

The Group has one working capital facility with \$2,000,000 (2021: \$2,000,000) drawn at 30 June 2022. Total limit of facility is \$10,000,000.

The Group holds significant cash reserves which enable it to meet its obligations as they fall due, and to support operations in the event of unanticipated external events.

Contractual undiscounted maturities of financial liabilities:

2022

	Contractual cashflows						
	Carrying amount	Total	2 months or less	2-12 months	1-2 years	3-5 years	More than 5 years
Non-derivative financial liabilities							
Lease liability	2,918,850	3,210,081	123,417	617,092	752,891	1,716,681	-
Deferred consideration payable	4,000,000	4,000,000	4,000,000	-	-	-	-
Trade and other payables	27,474,701	27,474,701	27,474,701	-	-	-	-
Borrowings	2,000,000	2,000,000	2,000,000	-	-	-	-
Payable to associates	15,627	15,627	-	15,627	-	-	-
	36,409,178	36,700,409	33,598,118	632,719	752,891	1,716,681	-

2021

	Contractual cashflows						
	Carrying amount	Total	2 months or less	2-12 months	1-2 years	2-5 years	More than 5 years
Non-derivative financial liabilities							
Lease liability	2,164,743	2,438,741	88,610	443,053	499,199	1,407,879	-
Deferred consideration payable	4,510,181	5,000,000	-	5,000,000	-	-	-
Trade and other payables	7,995,598	7,995,598	7,995,598	-	-	-	-
Borrowings	2,000,000	2,000,000	2,000,000	-	-	-	-
Payable to associates	14,905	14,905	14,905	-	-	-	-
	16,685,427	17,449,244	10,099,113	5,443,053	499,199	1,407,879	-

D.3**CASH AND CASH EQUIVALENTS**

	2022 \$	2021 \$
Cash at bank and on hand	16,311,005	27,883,202
	16,311,005	27,883,202

Interest is earned at floating rates based on daily bank deposit rates.

RECOGNITION AND MEASUREMENT

Cash and cash equivalents in the statement of financial position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash, and which are subject to an insignificant risk of changes in value.

The carrying value of cash and cash equivalents approximates their fair value.

D.4**CASH FLOW INFORMATION**

Reconciliation of after tax profit with net cash flows from operating activities

	2022 \$	2021 \$
(Loss) after income tax expense for the year	(11,377,544)	(74,737,920)
Income tax benefit / (expense)	76,422	(3,140,580)
Share-based payments	8,344,078	(1,207,998)
Equity Linked transaction	4,246,021	-
Unwinding of deferred consideration payable	489,819	1,126,427
Impairment	-	44,640,260
Depreciation and amortisation	3,066,910	3,774,182
Equity accounting profit	(87,193)	697,659
Net foreign exchange loss	(26,489)	(10,204)
Loss on disposal of intangible assets	-	12,344
Loss on disposal of plant and equipment	3,650	1,498
Decrease / (increase) in trade and other receivables	(8,821,086)	(2,122,970)
Decrease / (increase) in inventories	(7,913,563)	10,055,551
Decrease / (increase) in other assets	(9,292,160)	576,126
Increase / (decrease) in trade and other payables	12,141,878	(3,044,614)
Increase/ (decrease) in provisions	(224,580)	749,981
Net cash outflow from operating activities	(9,373,837)	(22,630,258)

D.5

SHARE CAPITAL

	30/06/2022		30/06/2021	
	Shares	\$	Shares	\$
Movement in share capital				
Balance at the beginning of the year	612,775,580	274,851,116	560,295,334	236,965,360
Share based payment expense – Corporate transaction	-	-	12,356,627	6,808,501
Placement of shares	-	-	35,371,844	28,297,475
Share purchase plan	-	-	4,751,775	3,801,426
Share issue transactions costs (net of tax)	-	-	-	(1,021,646)
Balance at the end of the period	612,775,580	274,851,116	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.

D.6

SHARE BASED PAYMENTS RESERVE

	30/06/2022	30/06/2021
	\$	\$
Balance at the beginning of the year	2,988,548	11,005,047
Share based payment	8,344,078	(1,207,998)
Share based payment – Corporate transaction	-	(6,808,501)
Balance at the end of the year	11,332,626	2,988,548

SHARE BASED PAYMENTS RESERVE

The equity settled payments reserve is used to record the value of share-based payments. Further details are disclosed in Note G2 Share based payments.

Share based payment – Corporate transaction represents the value of shares that the Group has issued to Chemist Warehouse Retail Group during the period. The value of the shares was transferred to the issued capital with a reduction in the share based payments reserve.

An initial tranche of 2,974,272 fully paid ordinary shares was issued to Chemist Warehouse Retail Group on 2 September 2019 upon Chemist Warehouse stocking the products in accordance with the Heads of Agreement. The second tranche of 9,382,355 fully paid ordinary shares was issued on 23 December 2019 upon the approval at Bubs' 2019 AGM.

The third tranche of 12,356,627 fully paid ordinary shares were issued on 24 July 2020 upon satisfying its sales performance condition of meeting minimum sales target for the year ended 30 June 2020.

Due to the economic interruptions caused by COVID-19, Chemist Warehouse was not able to meet its sales performance targets for the year ended 30 June 2021. As a result, the fourth tranche of 12,356,627 ordinary shares were not issued.

Due to the ongoing impact caused by COVID-19, Chemist Warehouse was not able to meet its sales performance targets for the year ended 30 June 2022. As a result, the last tranche of 12,356,627 ordinary shares will not be issued.

D.7

EQUITY RESERVE

	30/06/2022	30/06/2021
	\$	\$
Balance at the beginning of the year	-	-
Equity linked transaction	4,246,021	-
Balance at the end of the period	4,246,021	-

EQUITY RESERVE

The equity reserve is used to record the value of equity linked transaction with Corporate Daigou partner Willis Trading Limited. Further details are disclosed in Note B2 revenue.

The value of the shares will be transferred to the issued capital with a reduction in the equity reserve.

D.8

CONTINGENT LIABILITIES

In 2019, the group had a dispute with the previous CEO Mr Nicholas Simms with regards to his compensation payment. This matter has not been further progressed since 2019 and the financial impact is unable to be reliably measured.

In November 2021, the Group resolved the dispute with Central Dairy Goats Limited ('CDG') without admission of liability. As a result, the milk supply agreement with CDG was terminated.

No other contingent liabilities noted as at 30 June 2022.

E. ASSOCIATES

On 6 May 2019, the Group and Beingmate Baby & Child Food Co., Ltd ('Beingmate') established a joint venture company Bubs Brand Management Shanghai Co. Ltd ('Bubs Brand Management'). The Group contributed 49% of registered capital RMB 4,900,000 in FY20. In April 2021, the Group and the Beingmate reached an agreement to wind up Bubs Brand Management. As at 30 June 2022, the liquidation process of Bubs Brand Management was yet to be finalised.

Summarised financial information of the associate is set out below:

	30/6/2022	30/6/2021
Current assets	297,617	1,313,080
Non-current assets	-	-
Current liabilities	(18,598)	(1,216,902)
Non-current liabilities	-	(2,539)
Net assets	279,019	93,639
Loss for the year		
Revenue	74,454	3,470,506
Profit / (Loss) before tax	160,842	(1,402,659)
Income tax benefit	17,103	-
Loss for the year	177,945	(1,402,659)
Other comprehensive income	-	-
Total comprehensive loss for the year	177,945	(1,402,659)
Reconciliation of the above summarised financial information to the carrying amount of the investment in Associate recognised in the consolidated financial statements:		
Net assets of associate	279,019	93,639
Proportion of the Groups ownership interest in the associate (49%)	136,770	45,883
Carrying amount of the investment in the associate	136,770	45,883

On 19 June 2020, Capela Dairy Nutrition Co. Pty Ltd ('Capela Dairy') was established and was a wholly owned subsidiary of the Group. On 1 March 2021, 80% interest in Capela Dairy was transferred to Grand Products Investment Pty Ltd ('Grand Products') at a price of \$80. No trading activities incurred up to 1 March 2021. The Group is not required to contribute any working capital.

The Group has determined that it does not have joint control of Capela Dairy and is therefore outside the scope of AASB 11 *Joint Arrangements*. As such, The Group's investment in Capela Dairy will be accounted for as an associate under AASB 128 *Investments in Associates and Joint Ventures*.

Summarised financial information of the associate is set out below:

	30/6/2022	30/6/2021
Current assets	4,122	2,941
Non-current assets	-	-
Current liabilities	(51,300)	(44,795)
Non-current liabilities	-	-
Net assets	(47,178)	(41,854)
Loss for the year		
Revenue	-	-
Loss before tax	(5,323)	(41,954)
Income tax expense	-	-
Loss for the year	(5,323)	(41,954)
Other comprehensive income	-	-
Total comprehensive loss for the year	(5,323)	(41,954)
Reconciliation of the above summarised financial information to the carrying amount of the investment in Associate recognised in the consolidated financial statements:		
Net assets of associate	(47,178)	(41,854)
Proportion of the Groups ownership interest in the associate (20%)	(9,436)	(8,371)
Carrying amount of the investment in the associate	-	-

RECOGNITION AND MEASUREMENT

The Group has determined that it does not have joint control of Bubs Brand Management and is therefore outside the scope of AASB 11 *Joint Arrangements*. As such, The Group's investment in Bubs Brand Management will be accounted for as an associate under AASB 128 *Investments in Associates and Joint Ventures*.

The financial results of the associate are used by the Group to apply the equity method. Where associates apply different accounting policies to the Group, adjustment are made upon application of the equity method.

Investments in associates are carried in the consolidated Statement of Financial Position at cost plus post-acquisition changes in the Group's share of net assets of the associates, less impairment in value. The consolidated Statement of Profit or Loss reflects the Group's share of the results of operations of the associate.

Where there has been a change in the associates OCI or equity, the Group recognises its share of any changes and discloses this, when applicable in the consolidated Statement of Other Comprehensive Income.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any unsecured long term receivables and loans, the Group does not recognise further losses unless it has

F. GROUP STRUCTURE

F.1 PARENT ENTITY

Bubs Australia Limited is the ultimate parent of the Group.

F.2 SUBSIDIARIES

	Country of incorporation	Principal Activity	Class or Shares	% Owned 2022	% Owned 2021
The Infant Food Holding Co. Pty Limited	Australia	Non-trading	Ordinary	100%	100%
The Infant Food Co. Pty Limited	Australia	Trading Company	Ordinary	100%	100%
Bubs IP Pty Ltd (formerly Bubs Australia Pty Limited)	Australia	Holder of IP and trademarks	Ordinary	100%	100%
Nulac Foods Pty Ltd	Australia	Trading Company	Ordinary	100%	100%
Bubs New Zealand Pty Limited	New Zealand	Trading Company	Ordinary	100%	100%
Australia Deloraine Dairy Pty Ltd	Australia	Trading Company	Ordinary	100%	100%
Aussie Bubs Inc	USA	Trading Company	Ordinary	100%	100%

F.3

PARENT ENTITY INFORMATION

Set out below is the supplementary information of the legal parent entity.

	2022 \$	2021 \$
Result of parent entity		
Profit / (Loss) for the year	13,219,819	(78,759,315)
Other comprehensive income	-	-
Total comprehensive loss for the year	13,219,819	(78,759,315)

Financial position of parent entity at year end

Current assets	233,086	827,357
Total assets	92,284,210	70,334,751
Current liabilities	4,335,430	5,340,186
Total liabilities	4,335,430	5,340,186
Net assets	87,948,780	64,994,565
Issued share capital	302,849,909	302,849,909
Reserves	12,698,156	2,963,760
Accumulated losses	(227,599,285)	(240,819,104)
Total Equity	87,948,780	64,994,565

G. OTHER DISCLOSURES

G.1 RELATED PARTY TRANSACTIONS

KEY MANAGEMENT PERSONNEL

Key management personnel are defined as those persons having significant authority and responsibility for planning, directing and controlling the activities of the Group.

Key management personnel compensation:

Key management personnel disclosures	2022 \$	2021 \$
Short-term employee benefits	1,729,113	1,846,650
Post-employment benefits	141,297	149,424
Long-term benefits	20,520	62,507
Share-based payments*	8,006,894	(1,207,997)
Key management personnel disclosures	9,897,824	850,583

*Due to the impact of COVID-19, the probability of satisfying those conditions has been significantly reduced which has resulted in a negative balance in FY21.

TRANSACTIONS WITH RELATED PARTIES

The following table provides details of transactions that were entered into for the relevant financial year.

	Sales to related parties		Purchases from related parties		Amounts owed to related parties		Amounts owed by related parties	
	2022 \$	2021 \$	2022 \$	2021 \$	2022 \$	2021 \$	2022 \$	2021 \$
Joint venture in which the parent is a venturer:								
Capela Dairy Nutrition Co Pty Ltd	53,544	41,681	-	-	-	-	-	41,681
Bubs Brand Management Shanghai Co. Ltd	50,908	3,111,752	-	14,905	15,627	14,905	50,908	-
Total	104,452	3,153,433	-	14,905	15,627	14,905	50,908	41,681

All of the above transactions were considered to be on an arms' length basis.

G.2 SHARE BASED PAYMENTS

OPTIONS

Share based payments expense in relation to options exercisable is as follows:

	2022 \$	2021 \$
Options issued to the current CEO	2,925,461	-
Options issued to the Executive Chairman	4,693,525	(1,207,997)
Options issued to the KMP	123,280	-
Options issued to the employee	61,640	-
	7,803,906	(1,207,997)

The movements in the options are as follows:

Balance at 1 July 2020	9,541,620
Options expired during the year (Exercisable at \$0.10)	(4,770,810)
Options granted to the current CEO during the year (Exercisable at \$0.10)	4,770,810
Options granted to the KMP during the year (Exercisable at \$0.65)	2,000,000
Balance at 30 June 2021	11,541,620
Options granted to the employee during the year (Exercisable at \$0.65)	400,000
Options cancelled during the year (Exercisable at \$0.65)	(800,000)
Options forfeited during the year (Exercisable at \$0.65)	(400,000)
Balance at 30 June 2022	10,741,620

Options on issue at 30 June 2022 are as follows:

Options issued to the Executive Chairman in FY20:

Tranche 1

- 2,385,405: vest 3 months after issue and on the achievement of \$50m in gross revenue and \$2m in normalised EBITDA as at the Company's full year results and expire on termination of employment.

Tranche 2

- 2,385,405: vest 3 months after issue and on the achievement of \$60m in gross revenue and \$4m in normalised EBITDA as at the Company's full year results and expire on termination of employment.

The above options vested in FY22. These options expire on 29 November 2022.

Options issued to the CEO in FY21:

Tranche 1

- 2,385,405: vest 3 months after issue and on the achievement of \$50m in gross revenue and \$2m in normalised EBITDA as at the Company's full year results and expire on termination of employment.

Tranche 2

- 2,385,405: vest 3 months after issue and on the achievement of \$60m in gross revenue and \$4m in normalised EBITDA as at the Company's full year results and expire on termination of employment.

The above options vested in FY22. These options expire on 23 November 2023.

Options issued to the individual KMP in FY21:

Tranche 1

- 200,000: vest 3 months after issue and on the achievement of \$50m in gross revenue \$2m in normalised EBITDA as at the Company's full year results and expire on termination of employment.

Tranche 2

- 200,000: vest 3 months after issue and on the achievement of \$60m in gross revenue and \$4m in normalised EBITDA as at the Company's full year results and expire on termination of employment.

The above options vested in FY22. These options expire on 10 June 2024.

The fair value of the options granted was measured during the year using the Black-Scholes pricing model, taking into account the terms and conditions upon which the options were granted.

The details of the fair value of the options offered to the individual employee in FY22 is as follows:

	Employee options
Exercise price (\$)	0.65
Share price at date of issue (\$)	0.51
Grant date	27-Oct-21
Expected volatility (%)	60%
Expiry date	02-Nov-24
Expected dividends	Nil
Risk free interest rate	0.84%
Value per option (\$)	\$0.1694
Number of options	400,000
Total value of options	\$67,761

SHARE RIGHTS

Share based payments expense in relation to the share rights granted in FY22 is as follows:

	2022 \$	2021 \$
Share rights issued to the current CEO*	95,266	-
Share rights issued to the Executive Chairman*	52,926	-
Share rights issued to the KMP	116,436	-
Share rights issued to the employees	275,544	-
	540,172	-

*Share rights are subject to shareholders’ approval at the upcoming AGM.

The vesting condition of FY22 share rights is subject to KMP’s service conditions, namely, that the KMP’s employment not to terminated, before

- For 50% of the share rights – the date of release of the Company’s FY22 audited financial results to ASX;
- For the other 50% of the share rights – the date of release of the Company’s FY23 audited financial results to ASX.

No financial performance hurdles are applied to the share rights granted in FY22.

The details of the fair value of the share rights granted to the KMPs and employees in FY22 is as follows:

	Share rights
Share price at grant date (\$)	0.595
Number of share rights*	6,185,735
Total value of share rights	\$3,680,512

* Includes 1,698,205 share rights to Chairman and CEO subject to shareholders approval at the upcoming AGM.

RECOGNITION AND MEASUREMENT

The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using the Black-Scholes pricing model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted over the period to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met but is not adjusted when market performance conditions are not met.

Expected volatility has been based on an evaluation of the historical volatility of the Group’s share price, particularly over the historical period commensurate with the expected term. The expected term of the instruments has been based on historical experience and general option holder behaviour.

The fair value of share rights granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at share price on the grant date. The amount recognised as an expense is adjusted over the period to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met but is not adjusted when market performance conditions are not met.

KEY ESTIMATE AND JUDGEMENT

Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which depends on the terms and conditions of the grant. This estimate also requires determination of the

most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them.

G.3 AUDITORS REMUNERATION

During the financial year the following fees were paid or payable for services provided by the auditor of the Group:

	2022 \$	2021 \$
<i>Audit services</i>		
Audit or review of the financial statements – Deloitte	326,200	296,760
<i>Non audit services</i>		
Custom duty advisory services	33,625	-
	359,825	296,760

G.4 SUBSEQUENT EVENTS

Subsequent to 30 June 2022, the Group has completed a fully underwritten equity raise of approximately \$63.0 million at \$0.52 per share by way of an institutional placement and an accelerated non-renounceable rights issue.

The deferred consideration payable balance of \$4.0m in relation to the acquisition of Deloraine Dairy in FY19 was paid in July 2022.

Other than the matter stated above, no other matter or circumstance has arisen since 30 June 2022 that has significantly affected or could significantly affect the reported results from operations or financial position for the year then ended.

G.5 ACCOUNTING POLICIES AND NEW ACCOUNTING STANDARDS

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Bubs Australia Limited ('company' or 'parent entity') as at 30 June 2022 and the results of all subsidiaries for the year then ended. Bubs Australia Limited and its subsidiaries together are referred to in these financial statements as the 'Group'.

Subsidiaries are all those entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the Group are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Where the Group loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The Group recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

GOING CONCERN

As at 30 June 2022, the Group had \$16.3 million (FY21: \$27.9 million) in cash. The Group's balance sheet reflects a net current asset position of \$44.3 million (FY21: \$41.5 million) and net asset position of \$88.2 million (FY21: \$87.0 million). Subsequent to 30 June 2022, the Group has

completed a \$63.0 million equity raise to support growth opportunities. The liquidity of the Group remains strong. On this basis, the directors consider it is appropriate for the going concern basis to be adopted in preparing the financial statements.

NEW, REVISED OR AMENDING ACCOUNTING STANDARDS AND INTERPRETATIONS ADOPTED

Several other amendments and interpretations were applied for the first time in the 2022 financial period, but 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.

NEW ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET MANDATORY OR EARLY ADOPTED

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Group for the annual reporting year ended 30 June 2022.

The impact of these new or amended Accounting Standards to the Group's consolidated financial statements are not expected to be significant.

DIRECTOR'S DECLARATION

1. In the opinion of the directors of Bubs Australia Limited (the 'Company'):

a) The consolidated financial statements and notes that are set out on pages 56 to 110 and the Remuneration report on pages 34 to 45 in the Directors' report, are in accordance with the *Corporations Act 2001*, including:

i. Giving a true and fair view of the Group's financial position as at 30 June 2022 and of its performance for the financial year ended on that date; and

ii. Complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

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.

2. The directors have been given the declarations required by Section 295A of the *Corporations Act 2001* from the chief executive officer for the financial year ended 30 June 2022.

3. The directors draw attention to Note A to the consolidated financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the directors:

Dated at Melbourne this 30th day of August



DENNIS LIN

EXECUTIVE CHAIRMAN

04

OTHER INFORMATION



OTHER INFORMATION

The following additional information is required by the Australian Securities Exchange in respect of listed public companies.

1. SHAREHOLDING AS AT 22 AUGUST 2022

A Distribution of shareholders

Range	Total holders	Units	% Units
1 - 10,000	22,305	69,261,789	9.44
10,001 - 20,000	3,100	45,957,832	6.26
20,001 - 30,000	1,244	31,307,903	4.27
30,001 - 40,000	609	21,751,358	2.96
40,001 - 50,000	442	20,556,888	2.80
50,001 Over	1,447	545,133,249	74.27
Rounding			0.00
Total	29,147	733,969,019	100.00

B Unmarketable parcels

	Minimum Parcel Size	Holders	Units
Minimum \$ 500.00 parcel at \$ 0.5850 per unit	855	3,909	2,112,492

C Voting rights

The voting rights attached to each class of equity security are as follows:

Ordinary shares: each ordinary share is entitled to one vote when a poll is called, otherwise each member present at a meeting or by proxy has one vote on a show of hands.

D Top 20 shareholders – Ordinary Shares

Rank	Name	Units	% of Units
1.	CITICORP NOMINEES PTY LIMITED	77,309,875	10.53
2.	C2 CAPITAL GLOBAL EXPORT-TO-CHINA FUND	76,288,510	10.39
3.	JP MORGAN NOMINEES AUSTRALIA PTY LIMITED	31,592,268	4.30
4.	CW RETAIL SERVICES PTY LTD	24,713,254	3.37
5.	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	22,871,386	3.12
6.	UBS NOMINEES PTY LTD	14,018,808	1.91
7.	CARR FAMILY PTY LIMITED <CARR FAMILY A/C>	13,620,600	1.86
8.	BRISPOT NOMINEES PTY LTD <HOUSE HEAD NOMINEE A/C>	11,699,225	1.59
9.	MONEX BOOM SECURITIES (HK) LTD <CLIENTS ACCOUNT>	7,369,023	1.00
10.	BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAILCLIENT DRP>	6,678,093	0.91
11.	BNP PARIBAS NOMINEES PTY LTD ACF CLEARSTREAM	5,054,175	0.69
12.	INFANT FOOD BUSINESS PTY LIMITED <INFANT FOOD BUSINESS A/C>	5,000,000	0.68
13.	STABLE CHARTER LIMITED	4,615,385	0.63
14.	MR BENJAMIN PAUL LANDON	4,500,271	0.61
15.	A Z GLOBAL CORPORATION PTY LTD	4,097,911	0.56
16.	ALLEGRO CAPITAL NOMINEES PTY LTD <ALLEGRO CAPITAL A/C>	4,000,000	0.54
17.	BNP PARIBAS NOMS PTY LTD <DRP>	3,506,857	0.48
18.	WROXBY PTY LIMITED	3,345,149	0.46
19.	MR RUPERT ROBIN SOAR	2,772,039	0.38
20.	MR JUN HUA CHEN	2,739,924	0.37
Totals: Top 20 holders of ORDINARY FULLY PAID SHARES (TOTAL)		325,792,753	44.39
Total Remaining Holders Balance		408,176,266	55.61

2. CORPORATE DIRECTORY

A The name of the Company Secretary is Jay Stephenson

Registered office
23 Nina Link, Dandenong South, VIC 3175 Australia

Principal office
2-4/6 Tilley Lane, Frenchs Forest, NSW, Australia, 2086

Registers of securities
Computer Investor Services Pty Ltd

Stock exchange listing
Quotation has been granted for all the ordinary shares of the Company on all member exchanges of the Australian Securities Exchange Limited

Unquoted securities
Options over unissued shares
The Group has 10,741,620 options on issue.

Share rights over unissued shares
The Group has 6,185,735 share rights including 1,698,205 share rights to Chairman and CEO subject to shareholders approval at the upcoming AGM.

CORPORATE DIRECTORY



DIRECTORS

- Dennis Lin
- Kristy-Lee Newland Carr
- Matthew Reynolds
(Retired on 21 July 2021)
- Steve Lin
- Katrina Rathie
(Appointed on 21 July 2021)



SHARE REGISTRY

Computershare Investor
Services Pty Limited

Level 2
Reserve Bank Buidling
45 St George’s Terrace
Perth WA 6000



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 Nina Link
Dandenong South
VIC 3175 Australia



AUDITORS

Deloitte Touche Tohmatsu
477 Collins Street
Melbourne VIC 3000



AUSTRALIAN
SECURITIES EXCHANGE

ASX Code: BUB

ASX: BUB

Bubs Australia



INVESTOR RESOURCE CENTRE

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