



Bubs Australia Limited  
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## BUBS CHINA UPDATE

**30 June 2023, Melbourne:** Bubs Australia Limited (ASX:BUB) (**BUB** or the **Company**) provides the following market update on the Bubs China business.

### Trading Update

Bubs China Net Revenue for the full year is expected to be at the lower end of the previous forecast range of between \$13.5M - \$13.8M, versus \$53.6M in FY22. Ex-factory sales under Bubs exclusive China distribution arrangements with entities affiliated with AZ Global (Alice Trading Limited (**Alice**) and Willis Trading Limited (**Willis**), both being subsidiaries of the Hong Kong Stock Exchange listed Alpha Professional Holdings Limited (948:HK)) are below expectations and continue to disappoint. As previously reported, there remains a significant amount of inventory held in trade, predominantly Bubs Supreme. This product was developed for AZ Global and Alice for exclusive distribution into China. Bubs Australia understands there is more than 5 years of Bubs Supreme finished goods inventory held in multiple warehouses, based on the current rate of sale.

### AZ Global, Willis Trading Limited, and Alice Trading Limited

Bubs Manufacturer to Consumer (**M2C**) model and re-engineered Daigou channel that relied upon the exclusive distributor partnership with AZ Global, Willis and Alice has failed to deliver against expectations. The promised online-to-offline (**O2O**) sales into China have not materialised, which has created a significant finished goods inventory issue in market, as well as a bulk raw material inventory issue for Bubs Australia and its Deloraine manufacturing facility.

Bubs' exclusive China distributors Willis and Alice, together owe Bubs wholly owned subsidiary, the Infant Food Co. Pty Ltd (**IFC**) \$5.65M for finished goods which were delivered to them in accordance with their sales and purchase agreements. Despite repeated requests for payment, the debt remains outstanding.

In the period September 2022 to March 2023 Alice has taken delivery of volumes of Bubs Supreme products falling well short of its contractual commitments in respect of the same period under its sales and purchase agreement with IFC. As a consequence, Bubs now holds significant amounts of bulk raw material that was purchased to meet its supply obligations under the agreement with Alice.

Bubs Australia continues to pursue the outstanding debt of \$5.65M.

The expected impact of the decline in performance of the China business associated with the circumstances described above will necessitate a review of the carrying value of Bubs' inventory under the relevant Australian Accounting Standard, which is expected to give rise to a non-cash impairment. Our current anticipated non-cash impairment of inventory is in the range of \$20M - \$25M. We will provide further information and update the market as we finalise our audited result for FY23.

### CHINA Joint Venture and SAMR

As previously announced in January this year, Bubs entered into a JV Agreement with Zhitong (Hangzhou) Health Technology Co., Ltd (Zhitong) and, at that time, was working to finalise a Supply & Sales Agreement with Heilongjiang Anjia Dairy Co., Ltd and Zhikang (Hangzhou) Health Technology Co., Ltd (Supply Agreement). The substantive obligations under the JV Agreement and draft Supply Agreement are conditional on the State Administration for Market Regulation (SAMR) approving Heilongjiang's application to renew its



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existing registered SAMR goat infant formula brand slot licence for exclusive use under the Bubs brand. To date, no approval has been given by SAMR.

Earlier this year, the Bubs Australia Board commissioned an independent expert to review the China JV that was proposed and implemented by Bubs' previous executive management team. As a consequence of the findings of the independent report and having not received the SAMR approval, Bubs Australia has now communicated to its JV partners that it no longer wants to proceed with the transactions previously contemplated by Bubs' former executive management team. The Company has requested Anjia immediately withdraw the SAMR application made in relation to Bubs' products.

Bubs Australia will now revisit its own resubmission and registration application under SAMR in respect of three slots for which nomination rights are held by the Australian Deloraine facility, where it can leverage its clean and green credentials and its state-of-art manufacturing asset to produce a range of Bubs Chinese label IMF products.

With the exclusivity arrangements with Willis ending this week Bubs Australia will now embark on a refreshed strategic direction in China under its new China based leadership team headed up by Jackie Lin.

Acting Chief Executive Officer Richard Paine said, "It is clear that the exclusive distribution agreement with AZ Global has not delivered for shareholders. Bubs will take a more strategic approach to its distribution in China going forward. Our brand is well respected in this critical market, and we need to progress with a multi-channel strategy supported by professional and experienced trade partners on the ground who can deliver us real time, valuable market insights. Bubs has a great opportunity to grow our brand presence in China, alongside the US and other international markets. We look forward to providing a broader update on our strategic review shortly."

**END**

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