



Bubs Australia Limited  
ACN 060 094 742  
23-29 Nina Link, Dandenong South  
VIC 3175 Australia

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## Q3 FY21 QUARTERLY ACTIVITIES REPORT AND APPENDIX 4C CASHFLOW STATEMENT

### SIGNS OF RECOVERY LED BY BUBS STRONG PERFORMANCE IN STRATEGIC FOCUS AREAS

**Melbourne, 30 April 2021:** Bubs Australia (ASX: BUB), producer of Bubs® Australian made specialty infant formula and children's nutrition products, and Australia's largest producer of goat dairy products, submits the Quarterly Activities Report and Appendix 4C Cashflow Statement for the third quarter, period ended 31 March 2021.

- **Group quarterly gross revenue \$11.8m, with Bubs® infant nutrition representing 62% of Q3 revenue.**
- **Delivered quarter-on-quarter growth in 3 strategic priority areas of business vs. Q2 FY21:**
  - Bubs® Total Infant Formula; up +4% QoQ
  - China Export Sales; up +28% QoQ (Bubs® Infant Formula CBEC sales; up +47% QoQ)
  - Daigou Channel; up +19% QoQ (Bubs® Infant Formula Daigou sales; up +38% QoQ)
- **Bubs strategic focus to actively drive revenue growth in China channel routes, including accelerating China online sales channels within cross-border e-commerce/O2O and Corporate Daigou is on track;**
  - **Accelerated record growth in China Cross-border e-Commerce (CBECE) Channel, with branded English label products up +42% pcp:**
    - Bubs® infant nutrition gross revenue up +43% on previous corresponding period (pcp)
    - CapriLac® adult goat dairy gross revenue up +38% pcp
  - **Bubs 'Daigou 2.0' strategy with adapted business model towards Daigou facilitated omnichannel selling in progress with Q3 sales now only 15% down pcp, but volatility in the Channel remains.**
  - **Published data shows consumer offtake sales growing rapidly in China CBEC Channel:**
    - Bubs® offtake sales increased +60% pcp across Tmall, JD.com, Kaola and VIP <sup>6</sup>
    - CapriLac® remains No.1 adult goat milk powder brand on Tmall Global with 80% category share <sup>8</sup>
- **Bubs Australia remains the fastest growing infant formula manufacturer across Chemist Warehouse, Coles and Woolworths with retail scan data showing offtake sales up +37% pcp<sup>1</sup>.**
  - Increased store count in Coles with Bubs® Goat and Organic Infant Formula now in 720-760 stores
  - New agreement with Good Price Pharmacy to range 28 Bubs® Infant Formula and Baby Food products
- **Bubs takes steps to maximise margin retention and operating flexibility in China and set up of Bubs wholly owned China subsidiary to replace the Joint Venture agreement with Beingmate, building on existing direct sales partnerships with China customers.**
- **Robust balance sheet: \$36.3 million in cash reserves** sufficient to fund the business operating activities for twelve quarters <sup>^</sup>.
- **Bubs operational action plan progressing well in this quarter against all four key areas;**
  - 1) Goat dairy focus with accelerated growth in goat infant formula and goat adult dairy products
  - 2) Product margin improvement plans with Joint Venture unwinding improving control
  - 3) Daigou 2.0 social e-commerce sales on track with Daigou facilitated sales accelerating
  - 4) Inventory re-balance continuing



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Bubs Founder and Chief Executive Officer, Kristy Carr said: "We are pleased that despite the inability to replicate what was an abnormally high group gross quarterly revenue result in Q3 FY20, driven by the sudden 'pantry stocking' demand surge in the domestic market, there are continued signs of accelerated growth momentum across the three strategic priority areas we identified at the half-year, namely growing infant formula, the highest and best use of our goat milk pool; growing China cross border e-commerce (CBEC) export sales within the growing online sales channels; and continuing the reactivation and recovery in the Daigou Channel under our new Daigou 2.0 model.

"Our China business across both our infant nutrition and dairy portfolios is showing strong growth momentum, with export revenue generated from all branded English label product sales into China increasing 42% compared to prior corresponding period, and up 28% quarter-on-quarter, now contributing 30% of third quarter revenue.

"This quarter marked significant increases in distribution points across leading Australian retailers. Bubs® Goat Infant Formula will expand from 560 to 760 Coles supermarkets, while Bubs® Organic Grass-fed Infant Formula footprint will increase from 480 to 720 stores, with incremental pipefill orders to be delivered during May.

"It was also pleasing to see Woolworths reconfirm national ranging of all eight lines of Bubs® Infant Formula and Junior Nutrition products during the recent annual planogram review.

"During the quarter our footprint also increased with a new supply agreement with Good Price Pharmacy to range 28 Bubs® Infant Formula and Baby Food products within their national network of pharmacies.

"Importantly, our recovery in our adapted business model towards Daigou 2.0 facilitated omnichannel selling, including online-to-offline, open source livestreaming e-commerce and social selling, with delivery ex-Australia or consolidated via cross border warehouses within China is accelerating.

"Our Daigou Channel sales continues to show growth of 19% quarter-on-quarter, with Bubs® Infant Formula the mainspring, growing at 38% quarter-on-quarter. Despite no change to international border closures, the Daigou Channel is now only 15% down compared to prior year (versus 55% decline pcp in Q2 FY21), although there remains high volatility in the Channel.

"In addition, we continue to build on our presence in Malaysia and Vietnam. We are also well progressed with registration in Korea and Redmart in Singapore, with first shipments for both markets expected to be delivered in the fourth quarter of FY21.

"As assuring as the progress in these key areas is, we continue to be mindful that the ongoing effects of the COVID-19 pandemic will continue to impact performance whilst the macro environment remains challenging."

"We maintain a strong balance sheet cash position of \$36.3 million and are well placed to pursue our strategic goals," said Mrs. Carr.

## Q3 FY21 PERFORMANCE OVERVIEW

- Q3 Group Gross Revenue was \$11.8m. Legacy impact of COVID-19 disruption led to 40% decline pcp, noting the comparable period included a sudden demand surge in the domestic 'pantry stocking' peak, distorting our regular sales pattern by bringing forward sales to be heavily upweighted in Q3 FY20.
- As a result, Q3 Domestic sales (inc. Daigou) were down 52% pcp, representing 51% Gross Revenue.
- Sales of branded products exported to China increased +42% pcp, and were up +28% QoQ. Total China direct sales contributed 30% of Q3 Gross Revenue.
- Other International markets contributed 19% of Gross Revenue, declining 4% pcp, and up +1% QoQ.

"Meanwhile we continue to pursue our key operational priorities identified at the end of the first half. As can be seen by our action plan progress we are continuing to drive growth in our most profitable product lines, with our focus on Goat Infant Formula and Adult Goat Dairy, Daigou channel sales revitalisation also continues to regain momentum under Bubs 'Daigou 2.0' model, whilst greater efficiencies across the supply chain and inventory management continues with our focus on high margin, high growth segments, and products that draw new customers to the portfolio," said Mrs. Carr.

## BRAND PRESENCE: CONTINUING GROWTH

A key feature of the quarter has been growing brand presence and take up at the checkout – across both Australia and China. Bubs has continued to outperform the category and increase market share in FY21 since the height of the pandemic.

- **Increasing brand share in Australia**
  - Bubs Australia remains the fastest growing infant formula manufacturer across Woolworths, Coles and Chemist Warehouse with combined brand retail scan sales up +37% pcp.<sup>1</sup>
  - Bubs® remains the No.1 Goat formula brand in Chemist Warehouse during the quarter.<sup>2</sup>
  - Bubs Australia total scan sales in Woolworths were up +436% pcp (Bubs® Goat Infant Formula was up 159% pcp).<sup>3</sup>
  - Bubs® is the clear No.2 Goat formula brand in Coles<sup>4</sup>, whilst Bubs® Organic Grass-fed Infant Formula grew +9% in the quarter.<sup>5</sup>
- **Accelerated growth in China**
  - Bubs® CBEC Q3 offtake sales increased 60% pcp across the top-tier platforms in China.<sup>6</sup>
  - CapriLac® CBEC Q3 offtake sales increased 175% pcp across the top-tier platforms in China.<sup>7</sup>
  - CapriLac® remains the No.1 top selling brand with nearly 80% market share on Tmall Global.<sup>8</sup>

"What we take from this is that our recovery strategies are working, not only across sales to distributors but by what counts most, with end consumers here in Australia and in China," Mrs. Carr said.



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## CASH POSITION

Bubs maintains a robust balance sheet with \$36.3 million in cash reserves as at 31 March 2021. The Group's total cash on hand and unused finance facilities available as at 31 March 2021 is sufficient to fund the business operating activities for twelve quarters based on FY21 Q3 net cash used in operating activities.

## STRATEGIC DEVELOPMENTS

In order to drive the highest margin for our core products in the channels where we see the highest opportunity for growth, Bubs is simplifying its structure to be under the Company's direct control. Bubs has reached agreement with Beingmate to unwind the Joint Venture, 'Bubs Brand Management Shanghai Co. Ltd,' of which Bubs holds 49% interest, resulting in the termination of the existing Trade Mark Licence Deed and Exclusive Distribution Agreement. Bubs has commenced the process of establishing a wholly owned operating subsidiary in China. Associated costs with the restructure are likely to be immaterial.

Bubs integrated e-Commerce channels with fulfilment delivery ex-Australia or via bonded warehouses within China, including Online-to-Offline (O2O) covering General Trade and Mother and Baby stores, livestreaming e-Commerce and social selling channels, will continue to be the basis of Bubs go-forward operating model for China. Importantly, there will be no changes to the Company's strategic partnerships, including existing third party distributors, e-Commerce platforms such as Alibaba, JD.com, Kaola, VIP, and other customers, as their supply agreements will be reinstated under the new entity.

Commenting on this strategic decision, Bubs Chairman, Dennis Lin said: "This move is a direct reflection of the favourable results we have already seen in our direct supply and focus on the cross-border e-Commerce Channel, as well as our Online-to-Offline and General Trade customers. Under the new fully controlled China entity, we will have our own China sales structure and the flexibility to leverage profitable growth opportunities. The Joint Venture agreement with Beingmate will be replaced with a new wholly owned entity, with select employees from the Joint Venture transferring to the new company. In addition we are actively progressing with recruitment of senior executive bench-strength in the China market.

"This restructure will not result in any disruption to existing business and has not impacted our sales forecast. Bubs and Beingmate have mutually agreed to revisit the localised manufacturing proposal at their Beihai facility once this process is finalised," Mr. Lin said.

## OUTLOOK

The Company reiterates guidance given at the first half, namely Bubs expects to achieve modest half-on-half gross revenue growth for the second half of FY21.

## ASX ADDITIONAL INFORMATION

Pursuant to ASX Listing Rule 4.7C.1, and as outlined in the Appendix 4C, the Company advises it spent \$10.6m on product manufacturing and operating costs, \$1.3m on administration and corporate costs, \$1.5m on staff costs, and \$2.6m on advertising and marketing.

Details of the business activities are found within this report. Pursuant to ASX LR4.7C.3, the Company advises that payments to related parties are \$272,813 to key management personnel.



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## ACTION PLAN PROGRESS

Key Priorities	Objective	How	When	Progress
Core Goat Dairy Focus	Drive highest & best use of goat milk dairy source.	<p>Focus on two key hero brands across three core product segments.</p> <p>Drive hero products Bubs® Goat Infant Milk Formula, CapriLac® Adult Powder and CapriLac® Fresh Milk.</p> <p>Increasing Goat product brand penetration in key trading partners, including new online to offline channels.</p>	2H FY21	<ul style="list-style-type: none"><li>• Bubs® Infant Formula CBEC sales; up +47% QoQ.</li><li>• CapriLac® adult goat dairy CBEC gross revenue up +38% pcp.</li><li>• Bubs® offtake sales increased +60% pcp across Tmall, JD.com, Kaola and VIP<sup>6</sup></li><li>• CapriLac® remains No.1 adult goat milk powder brand on Tmall Global with 80% category share<sup>8</sup></li><li>• Bubs Goat remains No.1 in Chemist Warehouse<sup>2</sup> and clear No.2 in Coles<sup>4</sup> and scan sales up 159% pcp in Woolworths.<sup>3</sup></li></ul>
Product Margin Improvement	Deliver profitable growth	<p>Optimise Channel and Product mix.</p> <p>Implement supply chain cost efficiencies.</p> <p>Balance trade spend and brand investment against appropriate channel contribution.</p>	FY22	<ul style="list-style-type: none"><li>• Focus on China e-commerce sales and Daigou 2.0 as more profitable channel.</li><li>• Unwinding of China Joint Venture to retain direct control and greater flexibility within important CBEC channel.</li></ul>
Daigou 2.0 facilitated social e-commerce	Reactivate Daigou Channel 2.0 return to pre-Covid levels.	<p>Optimise channel investment to support facilitated online e-commerce sales, open source livestreaming e-commerce and social selling.</p> <p>Replicate Daigou know-how to existing offline distribution points through O2O in China and Australia.</p> <p>Redirect and increase brand marketing investment to drive China online awareness and new customer acquisition.</p>	CY 2022	<ul style="list-style-type: none"><li>• Reactivation of Daigou 2.0 channel via new adapted omnichannel selling model is demonstrating results; Daigou channel is now only 15% down pcp, a significant improvement compared with 55% down pcp in Q2 FY21.</li><li>• Re-direction of brand investment into China online channels demonstrating results via improved consumer offtake.</li></ul>
Re-balancing Inventory levels	Operational excellence.	<p>Implement transparent inventory management – work with key customer partners to balance demand forecast and milk supply conversion. Manage excess milk supply with industrial powder sales, if the Daigou corporate channel sales recovery is slower than expected.</p>	2H FY21	<ul style="list-style-type: none"><li>• Sale of excess bulk powder inventory with prioritisation to conserve cash.</li><li>• Progressing with realisation of our milk pool reset to ensure supply is managed appropriately to meet adjusted future demand forecast.</li></ul>

This release is approved by the Board of Directors.

END



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#### About Bubs Australia Limited (ASX: BUB)

Founded in 2006 in Sydney, Bubs Australia's vision is to create new generations of happy, healthy bubs through its range of premium Australian infant nutrition and goat dairy products. Bubs® Goat Milk Infant Formula and Bubs Organic® Grass-fed Cow's Milk Infant Formula, along with organic baby food, cereals, toddler snacks, and Vita Bubs® infant and children's vitamin and mineral supplements, cater for all feeding occasions and stages of development from newborn through to childhood.

Bubs Australia is the leading producer of goat dairy products in Australia with exclusive milk supply back to the farm gate. Bubs® is proudly the only infant formula in the world to be based on Australian goat milk.

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

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

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

<sup>^</sup> Based on FY21 Q3 net cash used in operating activities.

<sup>1</sup> IRI Scan Data, Units (000's) Growth % YA, Coles, Woolworths and AU My Chemist Group combined Qtr to 11/04/21.

<sup>2</sup> IRI Scan Data, Units (000's), AU My Chemist Group Qtr to 11/04/21.

<sup>3</sup> IRI Scan Data, Units (000's), Growth % YA, Woolworths Qtr to 11/04/21.

<sup>4</sup> IRI Scan Data, Units (000's), Coles Qtr to 11/04/21.

<sup>5</sup> IRI Scan Data, Units (000's) Growth % PP, Coles Qtr to 11/04/21.

<sup>6</sup> Bubs Goat Milk Formula GMV (Gross Merchandise Value) Q3 FY21 growth pcp from Tmall Global platform data.

<sup>7</sup> Q3 FY21 official results in unit sales data CapriLac® from Tmall Global and JD Global platforms.

<sup>8</sup> Q3 FY21 official results in unit sales data CapriLac® from Tmall Global.

## Appendix 4C

### Quarterly cash flow report for entities subject to Listing Rule 4.7B

**Name of entity**
**BUBS AUSTRALIA LIMITED (ASX:BUB)**
**ABN**
**63 060 094 742**
**Quarter ended ("current quarter")**
**31 March 2021**

<b>Consolidated statement of cash flows</b>	<b>Current quarter \$A'000</b>	<b>Year to date (9 months) \$A'000</b>
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers	12,210	34,906
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(10,605)	(35,523)
(c) advertising and marketing	(2,608)	(9,477)
(d) leased assets	(6)	(23)
(e) staff costs	(1,450)	(5,124)
(f) administration and corporate costs	(1,271)	(4,291)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	38	112
1.5 Interest and other costs of finance paid	(61)	(163)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other (provide details if material)	-	-
<b>1.9 Net cash from / (used in) operating activities</b>	<b>(3,753)</b>	<b>(19,583)</b>

<b>2. Cash flows from investing activities</b>		
2.1 Payments to acquire:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(154)	(619)
(d) investments	-	-
(e) intellectual property	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (9 months) \$A'000
	(f) other non-current assets	-	(18)
2.2	Proceeds from disposal of:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	-	4
	(d) investments	-	-
	(e) intellectual property	-	-
	(f) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	-	-
2.6	<b>Net cash from / (used in) investing activities</b>	<b>(154)</b>	<b>(633)</b>

<b>3.</b>	<b>Cash flows from financing activities</b>		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	32,098
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	-	-
3.4	Transaction costs related to issues of equity securities or convertible debt securities	-	(1,605)
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	-
3.10	<b>Net cash from / (used in) financing activities</b>	<b>-</b>	<b>30,493</b>

<b>4.</b>	<b>Net increase / (decrease) in cash and cash equivalents for the period</b>		
4.1	Cash and cash equivalents at beginning of period	40,210	26,026
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(3,753)	(19,583)



Consolidated statement of cash flows		Current quarter \$A'000	Year to date (9 months) \$A'000
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(154)	(633)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	-	30,493
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	<b>Cash and cash equivalents at end of period</b>	<b>36,303</b>	<b>36,303</b>

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	35,060	38,968
5.2	Call deposits	1,243	1,242
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	<b>Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>36,303</b>	<b>40,210</b>

**6. Payments to related parties of the entity and their associates**

- 6.1 Aggregate amount of payments to related parties and their associates included in item 1
- 6.2 Aggregate amount of payments to related parties and their associates included in item 2

**Current quarter  
\$A'000**

273

-

Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments

Salary payments to Key Management Personnel \$272,813

**7. Financing facilities**

*Note: the term "facility" includes all forms of financing arrangements available to the entity.*

*Add notes as necessary for an understanding of the sources of finance available to the entity.*

7.1 Loan facilities

7.2 Credit standby arrangements

7.3 Other (please specify)

7.4 **Total financing facilities**

Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
-	-
10,000	2,000
-	-
10,000	2,000

7.5 **Unused financing facilities available at quarter end**

8,000,000

7.6 Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.

NAB Trade Refinance facility 5.51% per annum secured with the maturity date 31 May 2021.

**8. Estimated cash available for future operating activities**

**\$A'000**

8.1 Net cash from / (used in) operating activities (Item 1.9)

(3,753)

8.2 Cash and cash equivalents at quarter end (Item 4.6)

36,303

8.3 Unused finance facilities available at quarter end (Item 7.5)

8,000

8.4 Total available funding (Item 8.2 + Item 8.3)

44,303

8.5 **Estimated quarters of funding available (Item 8.4 divided by Item 8.1)**

12

8.6 If Item 8.5 is less than 2 quarters, please provide answers to the following questions:

1. Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?

Answer: N/A

2. Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?

Answer: N/A

3. Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Answer: N/A

## Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Date: 30 April 2021

Authorised by: The Board of Directors  
(Name of body or officer authorising release – see note 4)

## Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.