



Half Year Report

For the six months to 30 September 2018

OVERVIEW

Blis Technologies Limited (**Company**) reports a consolidated net deficit of \$500k before tax for the six months ended 30 September 2018 (**HY19**). This represents an improvement of \$746k from the \$1,246k net deficit recorded for the six months ended 30 September 2017 (**HY18**).

The Company reports an increase in total revenue for HY19 of 47% (\$980k) compared to the same period last year (HY19 \$3,052k and HY18 \$2,072k). All regions and channels recorded growth during HY19 compared with HY18.

Key Highlights for HY19 include:

- All regions and channels experiencing at least double-digit growth over the same period last year
- iNova Pharmaceuticals agreement finalised to distribute BLIS branded finished goods across selected markets in Asia Pacific and Africa (Australia, sub-Saharan Africa and Asia). Australia launch expected by the end of FY19.
- BLIS branded finished products launched on Amazon USA platform
- New launches by our European Distributor:
 - BLIS K12™ based product: Denmark, Belgium, Netherlands, UAE
 - BLIS M18™ based product: Poland
- Regulatory approvals:
 - BLIS M18™ Self affirmed GRAS in USA
 - BLIS K12™ based products approved in Russia and Belgium
- ThroatGuard PRO™ with BLIS K12™ is the highest selling throat lozenge YTD in New Zealand (NZ) pharmacy.
- Approval received for a Growth Grant from Callaghan Innovation, providing 20% rebate on qualifying Research and Development spend.

Key Challenges for HY19 include:

- Long lead times with new customer initiatives
- Navigation of regulatory pathways
- Limited resources for targeting accelerated growth opportunities.

FINANCIAL

The Company reports a consolidated net deficit for HY19 of \$500k (HY18: \$1,246k net deficit) before tax. This includes interest income of \$3k received during HY19 (\$3k for HY18).

Australasian sales grew by 44% to \$697k in HY19, \$213k higher than HY18 (\$484k). The new relationship with Radiant Health as our distributor within the NZ pharmacy channel has been in operation since March 2018 with positive results in sales growth. Based on Pharmacy Retail Sales ThroatGuard Pro™ is the number one throat lozenge in NZ. NZ based web sales have also increased compared with the same period last year. Australia sales have been relatively small while we prepare for a full listed complementary medicine launch in the Australian market with our distribution partner iNova late in this financial year.

Sales in Europe of \$1,304k were up 28% (\$285k) compared to HY18 (\$1,019k). This growth reflects a recovery of sales in Poland following the change of ownership of BLIS K12™ based ENTitis products to Maspex Group, their launch of a BLIS M18™ based product, and continued growth of their toddler targeted product. We have also seen launches of BLIS K12™ based products in Denmark, Belgium and the Netherlands. During this period our distribution partners have been preparing for the launch of a BLIS K12™ powder format targeting younger children in several countries.

Sales in Asia of \$487k show a growth of \$267k compared to HY18 (\$220k), being a 121% increase. The main contributor to this growth has been a return to regular ordering in Japan during HY19. China remains challenging

and we are focusing our attention towards establishing cross border e-commerce (CBEC) opportunities for our Blis branded product range to complement future China domestic opportunities.

North American ingredients sales increased 41% to \$437k during HY19 compared with sales in HY18 (\$310k). This growth confirms a return to normal ordering patterns by our distributor and robust customer demand based on both the stable base of customers and new launches. Amazon USA sales have been building consistently and further campaign activity is planned for the range but particularly the throat health products in line with the USA winter.

Total expenses of \$3,552k in HY19 were 7% up on HY18 (\$3,318k), consisting of an increase of 18% in variable selling costs and an increase in remaining expenses of 5%. The company has continued to invest in marketing activity including the expansion of our e-commerce channel, expanding our regulatory approvals and ensuring a robust pipeline. During HY19, a key initiative has been investment to grow our Blis branded products opportunities in NZ retail, and across e-commerce channels, in particular Amazon USA. This will provide the Company with longer term value and a higher share of profit margins as we get closer to our ultimate customer.

No tax was payable and no dividend will be paid.

Net consolidated cash outflow from operating activities in HY19 was \$166k (HY18: \$545k cash outflow).

Investment in HY19 totalled \$65k (HY18: \$80k) reflecting further investment in finished goods manufacturing and capitalisation of patent costs.

As at 30 September 2018, the Company held a net working capital position of \$1,131k (HY18 \$1,145k) which the directors believe is sufficient to support its current business.

BUSINESS DEVELOPMENT STRATEGY PROGRESS

Blis Technologies Limited was formed to commercialise BLIS™ advanced probiotic bacteria in consumer products targeted at oral health applications such as for ear, nose and throat health, halitosis (bad breath), gum and teeth health and immune support.

We are world leaders in the commercial applications of these commensal probiotic bacteriocin-producing microbes used to enhance oral health.

The board and management are focused on three core areas to ensure long-term sustainable profitable growth: Positioning, Supply Chain and Product Pipeline.

Positioning:

We continue to focus on being a supplier of BLIS™ branded finished goods (including prominent co-branding) to help ensure that the Company is recognised as the source. This is based on our increased understanding of the customer value proposition and supported by credible clinical data. At the same time, branded ingredient sales will be actively managed recognising this important revenue stream. Along with the retail channel activity the Company is committing investment to drive e-commerce sales of our BLIS™ branded finished products – growing the BLIS website, sales on Amazon platform and in the future targeting China cross border e-commerce opportunities. Progress during HY19 included:

- A full range of BLIS™ branded finished products launched on Amazon USA
- All regions and channels showing growth over the same period last year
- iNova agreement finalised to distribute BLIS branded finished good across selected markets in Asia Pacific and Africa. Australia launch for late FY19.
- ThroatGuard PRO™ with BLIS K12™ is the highest selling throat lozenge YTD in NZ pharmacy
- Based on consumer feedback, both Travel Protect™ and the Fresh Breath Kit™ has been updated and improved.
- Launched HoneyBlis™ Ginger

Supply Chain:

Developing internal expertise and processes as a primary means of managing the supply chain is a critical aspect in controlling key facets of the business. Quality control is a focus to ensure delivery of a safe and efficacious product. We see the Company as the core source of knowledge about our BLIS™ products.

In line with this priority, during HY19, we have:

- Fully commissioned a new tablet press to meet capacity and quality requirements
- Implemented packaging improvements focused on improving product quality.
- Established a relationship with GMP Pharmaceuticals to produce Australia products to meet TGA (Therapeutic Goods Administration) requirements.

Product Pipeline:

Utilising our scientific knowledge to develop new product opportunities is the third area of focus. The science and technology base (from research and development through clinical studies to the end-product) is at the core of the business and underpinning our brand.

To accelerate both new strain development and new product development (NPD) during the period we are:

- Continuing NPD to further enhance our portfolio – output has included upgrades to the Travel Protect™ and Fresh Breath Kit™ offerings and the launch of HoneyBlis™ Ginger.
- Undertaking intensive development activity related to the patented BLIS Q24™, the skin probiotic strain in our pipeline.
- New strain library mining to identify priority development candidates.
- Sponsorship of a PhD project looking at formulating food products with BLIS probiotics
- Approval received for a Growth Grant from Callaghan Innovation, providing 20% rebate on qualifying Research and Development spend.

REGULATORY

Similar to the process we have already completed with BLIS K12™ we have completed USA self-affirmed GRAS for BLIS M18™ and have lodged an application with the FDA for full no objection GRAS status.

Following the Australian Therapeutic Goods Administration (TGA) approval of BLIS K12™ as a listed complementary medicine ingredient, an application was lodged for an equivalent use of BLIS M18™ building on this success and knowledge.

In Europe, our distributor's customers in Russia and Belgium have had BLIS K12™ based products approved for launch.

In India, with our partner Raj Nakra Associates (RNA), we have an application lodged with the Food Safety and Standards Authority of India for both BLIS K12™ and BLIS M18™.

OUTLOOK

The first half year has seen good growth in revenue across all regions compared with the same period last year. With the second half year of sales aligning with the northern hemisphere winter and new customer/ market opportunities, including the first supply for an expanded Australia launch we reaffirm our existing market guidance.

Full financial year (FY19) guidance - revenue in excess of \$7.0 m, an EBITDA in excess of \$0.6 m and a small net surplus before tax.



Tony Offen
Chairman



Brian Watson
Chief Executive

16th day of November 2018

BLIS TECHNOLOGIES LIMITED

CONSOLIDATED CONDENSED INTERIM INCOME STATEMENT

For the 6 Months Ended 30 September 2018

	Notes	6 mths 30 Sep 18 (Unaudited) \$'000	6 mths 30 Sep 17 (Unaudited) \$'000	12 mths 31 Mar 18 (Audited) \$'000
REVENUES				
Revenue	6.3	3,049	2,069	5,285
Interest received		3	3	3
		<u>3,052</u>	<u>2,072</u>	<u>5,288</u>
LESS				
Distribution expenses		44	42	87
Marketing expenses		248	330	402
Occupancy expenses		70	98	156
Operating expenses		3,180	2,847	5,677
Finance expenses		10	1	8
		<u>3,552</u>	<u>3,318</u>	<u>6,330</u>
SURPLUS / (DEFICIT) BEFORE TAX		(500)	(1,246)	(1,042)
Income tax expense		-	-	-
		<u>(500)</u>	<u>(1,246)</u>	<u>(1,042)</u>
SURPLUS / (DEFICIT) FOR THE PERIOD		<u>(500)</u>	<u>(1,246)</u>	<u>(1,042)</u>
Surplus/(deficit) for the period is attributed to:				
Equity holders of the parent		(500)	(1,246)	(1,042)
		<u>(500)</u>	<u>(1,246)</u>	<u>(1,042)</u>
Earnings per Share:				
Basic (cents per ordinary share)		(0.05)	(0.11)	(0.09)
Diluted (cents per ordinary share)		(0.05)	(0.11)	(0.09)

BLIS TECHNOLOGIES LIMITED**CONSOLIDATED CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME**

For the 6 Months Ended 30 September 2018

	6 mths 30 Sep 18 (Unaudited) \$'000	6 mths 30 Sep 17 (Unaudited) \$'000	12 mths 31 Mar 18 (Audited) \$'000
Surplus/(deficit) for the period	(500)	(1,246)	(1,042)
Other comprehensive income	-	-	-
Total Comprehensive Income/(Deficit) for the Period	<u>(500)</u>	<u>(1,246)</u>	<u>(1,042)</u>

CONSOLIDATED CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY

EQUITY AT BEGINNING OF THE PERIOD	3,007	4,017	4,017
Total comprehensive income (deficit) for the period	(500)	(1,246)	(1,042)
Share option equity reserve	-	-	32
EQUITY AT END OF PERIOD	<u>2,507</u>	<u>2,771</u>	<u>3,007</u>

BLIS TECHNOLOGIES LIMITED

CONSOLIDATED CONDENSED INTERIM BALANCE SHEET

As at 30 September 2018

	Notes	30 Sep 18 (Unaudited) \$'000	30 Sep 17 (Unaudited) \$'000	31 Mar 18 (Audited) \$'000
CURRENT ASSETS				
Cash and short term deposits		767	451	1,059
Accounts receivable		674	808	694
Prepayments		54	46	89
Inventory		368	281	343
		<u>1,863</u>	<u>1,586</u>	<u>2,185</u>
LESS CURRENT LIABILITIES				
Accounts payable		632	435	581
Income in advance		0	1	-
Current borrowings		52	-	121
Foreign exchange contracts		48	5	10
		<u>732</u>	<u>441</u>	<u>712</u>
WORKING CAPITAL		1,131	1,145	1,473
NON CURRENT ASSETS				
Property, plant and equipment		745	570	785
Finite life intangible assets		706	981	843
Long term bank deposits		75	75	75
		<u>1,526</u>	<u>1,626</u>	<u>1,703</u>
NON CURRENT LIABILITIES				
Non-current borrowings		150	-	169
		<u>150</u>	<u>-</u>	<u>169</u>
NET ASSETS		2,507	2,771	3,007
OWNERS' EQUITY				
Share capital	3	37,338	37,298	37,338
Share option equity reserve		46	54	46
Retained earnings/(deficits)		(34,877)	(34,581)	(34,377)
TOTAL EQUITY		2,507	2,771	3,007



Tony Offen
Chairman



Brian Watson
Chief Executive Officer

These Financial Statements have been authorised for issue 16th November 2018

CONSOLIDATED CONDENSED INTERIM STATEMENT OF CASHFLOWS

For the 6 Months Ended 30 September 2018

	Note	6 mths 30 Sep 18 (Unaudited) \$'000	6 mths 30 Sep 17 (Unaudited) \$'000	12 mths 31 Mar 18 (Audited) \$'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash was provided from (applied to):				
Receipts from customers		3,069	2,410	5,734
Interest received		3	3	3
Payments to suppliers and employees		(3,228)	(2,958)	(5,611)
Finance Costs		(10)	-	(8)
		<u> </u>	<u> </u>	<u> </u>
Net cash inflow/ (outflow) from operating activities	2	(166)	(545)	118
CASH FLOWS FROM INVESTING ACTIVITIES				
Cash was provided from (applied to):				
Capitalised intangible costs		(17)	(54)	(121)
Purchase of property, plant and equipment		(48)	(26)	(355)
		<u> </u>	<u> </u>	<u> </u>
Net cash inflow (outflow) from investing activities		(65)	(80)	(476)
CASH FLOWS FROM FINANCING ACTIVITIES				
Cash was provided from (applied to):				
Drawdown of borrowings		-	-	290
Repayment of share option		-	-	32
Repayment of borrowings		(19)	-	-
		<u> </u>	<u> </u>	<u> </u>
Net cash inflow (outflow) from financing activities		(19)	-	322
		<u> </u>	<u> </u>	<u> </u>
Net increase/ (decrease) in cash held		(250)	(625)	(36)
		<u> </u>	<u> </u>	<u> </u>
Add cash and short term deposits at start of period		1,059	1,065	1,065
Foreign exchange differences		(42)	11	30
		<u> </u>	<u> </u>	<u> </u>
Balance at end of period		<u>767</u>	<u>451</u>	<u>1,059</u>
COMPRISED OF:				
Cash and short term deposits		767	451	1,059
		<u> </u>	<u> </u>	<u> </u>
Total		<u>767</u>	<u>451</u>	<u>1,059</u>

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS

For the 6 Months Ended 30 September 2018

1. SUMMARY OF ACCOUNTING POLICIES

Statement of Compliance

The unaudited condensed interim consolidated financial statements presented are those of Blis Technologies Limited and its non-trading subsidiary Blis Functional Foods Limited (**Group**). The principal activity of Blis Technologies Limited (referred to as **Blis** or the **Company**) is developing healthcare products based on strains of bacteria that produce Bacteriocin-Like Inhibitory Substances (BLIS). The Company is a profit oriented entity, registered in New Zealand under the Companies Act 1993. The Company is a "FMC Reporting Entity" for the purposes of the Financial Markets Conduct Act 2013 and the Financial Reporting Act 2013 and its annual financial statements comply with these Acts.

The unaudited interim financial statements are prepared in accordance with Generally Accepted Accounting Practice (NZ GAAP) and comply with the New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS), as appropriate for interim financial statements (NZ IAS 34). The interim financial statements should be read in conjunction with the Group annual report for the year ended 31 March 2018.

Basis of Preparation

The financial statements have been prepared on the basis of historical cost. Cost is based on the fair values of the consideration given in exchange for assets.

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

The financial statements are presented in thousands of New Zealand dollars.

The condensed interim financial statements do not include all the information required for full financial statements.

The same accounting policies and methods of computation are followed in these interim financial statements as were applied in the preparation of the Company's financial statements for the year ended 31 March 2018 except in relation to the adoption of new or amended standards as set out below.

New or amended standards adopted by the Group

A number of new or amended standards became applicable for the Group for the current reporting period and the Group had to amend its accounting policies as a result of adopting the following standards:

- NZ IFRS 9 Financial Instruments; and
- NZ IFRS 15 Revenue from Contracts with Customers

Adoption of NZ IFRS 15 Revenue from Contracts with Customers from 1 April 2018 has not resulted in material adjustments to the amount recognised in the financial statements. Revenue from the sale of Blis products is recognised at a point in time when control of the goods passes to the customer, as disclosed at Notes 6.2 and 6.3.

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS

Adoption of NZ IFRS 9 Financial Instruments from 1 April 2018 has not resulted in material adjustments to the amount recognised in the financial statements. Cash and short term deposits and accounts receivable are classified as financial assets at amortised cost.”

Going Concern

The financial statements have been prepared based on an assumption of going concern.

The Group has recorded a net deficit of \$500k for HY19 (HY18: deficit \$1,246k).

The Directors believe the going concern assumption is valid, reaching such a conclusion after having regard to the circumstances which they consider reasonably likely to affect the Group during the period of one year from the date these financials statements are approved.

Specifically, the Group held cash reserves of \$767k as at 30 September 2018 which is considered sufficient to meet its working capital requirements. The cash reserves of \$767k excludes \$75k held in a bank account as a bond for the NZX. These funds are held as security and restricted and accordingly have been included in the financial statements as a non-current asset

Based on management budgets and plans, the Group will be able to meet financial obligations for at least 12 months from the date of approval of interim financial statements.

The Directors believe that there is no material uncertainty in respect of the Group’s ability to continue as a going concern for the period assessed above due to the level of its current cash holdings and ability to generate operating cash flows. Nevertheless, in the event it fails to achieve planned profitability, the Group may not be able to continue as a going concern.

If the Group were unable to continue as a going concern, and pay debts as, and when, they become due and payable, adjustments to the carrying value of assets would have to be made to reflect the situation. In such circumstances, assets may need to be realised and liabilities extinguished, other than in the normal course of business and at amounts which could differ significantly from the amounts at which they are currently recorded in the balance sheet. This situation would likely impact, in particular, on the carrying value of plant and equipment and intangible assets

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS

For the 6 Months Ended 30 September 2018

2. RECONCILIATION OF NET SURPLUS/ (DEFICIT) WITH CASHFLOWS FROM OPERATING ACTIVITIES

	6 mths 30 Sep 18 (Unaudited) \$'000	6 mths 30 Sep 17 (Unaudited) \$'000	12 mths 31 Mar 18 (Audited) \$'000
NET SURPLUS/ (DEFICIT) FOR THE PERIOD	(500)	(1,246)	(1,042)
Adjustments for non-cash items:			
Depreciation	88	102	215
Amortisation of capitalised product development costs	74	120	242
Amortisation of patents	57	48	109
Amortisation of software	23	23	45
Foreign exchange loss/(gain)	42	(11)	(30)
Loss/(Gain) on fair value of foreign exchange contracts	-	(2)	-
	<u>(216)</u>	<u>(966)</u>	<u>(461)</u>
Movement in working capital			
Accounts receivable	20	342	456
Prepayments	35	51	8
Accounts payable and income in advance	20	(40)	109
Inventories	(25)	68	6
	<u>50</u>	<u>421</u>	<u>579</u>
NET CASH INFLOW (OUTFLOW) FROM OPERATING ACTIVITIES	<u><u>(166)</u></u>	<u><u>(545)</u></u>	<u><u>118</u></u>

3. SHARE CAPITAL - ORDINARY SHARES

Balance at beginning of period	37,338	37,298	37,298
Shares issued pursuant to CEO share plan	-	-	40
Balance at end of period	<u><u>37,338</u></u>	<u><u>37,298</u></u>	<u><u>37,338</u></u>

NUMBER OF SHARES ON ISSUE ('000'S)

Balance at beginning of period	1,107,654	1,107,654	1,107,654
Balance at end of period	<u><u>1,107,654</u></u>	<u><u>1,107,654</u></u>	<u><u>1,107,654</u></u>

BLIS TECHNOLOGIES LIMITED

NOTES TO AND FORMING PART OF THE INTERIM FINANCIAL STATEMENTS

For the 6 Months Ended 30 September 2018

Net tangible assets	6 mths 30 Sep 18 (Unaudited) \$'000	6 mths 30 Sep 17 (Unaudited) \$'000	12 mths 31 Mar 18 (Audited) \$'000
Total assets	3,389	3,212	3,888
Less intangible assets	(706)	(981)	(843)
Less total liabilities	(882)	(441)	(881)
Net tangible assets	1,801	1,790	2,164
Number of shares outstanding ('000)	1,107,654	1,107,654	1,107,654
Net tangible assets per share (cents)	0.16	0.16	0.20

4. CAPITAL COMMITMENTS, CONTINGENT LIABILITIES

The capital commitments as at 30 September 2018 were \$nil (30 September 2017: \$260,000).

5. INVESTMENT IN SUBSIDIARY

Subsidiary	Percentage Held		Balance Date	Principal Activity
	2018	2017		
Blis Functional Foods Limited	100%	100%	31 March	Non trading

6. SEGMENTAL REPORTING

6.1 Adoption of NZ IFRS 8 Operating Segments

The Group is internally reported as a single operating segment to the chief operating decision-maker.

6.2 Revenue from major products and services

The Group's revenues from its major products and services were as follows:

	6 mths 30 Sep 18 (Unaudited) \$'000	6 mths 30 Sep 17 (Unaudited) \$'000	12 mths 31 Mar 18 (Audited) \$'000
BLIS™ products	2,978	2,047	5,242
Other revenue	74	25	46
Total revenue	3,052	2,072	5,288

Other revenues mainly include interest, grants received and contract manufacturing revenue of non-BLIS® branded products.

NOTES TO AND FORMING PART OF THE INTERIM FINANCIAL STATEMENTS

For the 6 Months Ended 30 September 2018

6.3 Information about geographical areas

The Group operates in four principal geographical areas: Australasia, Asia (incl. China), Europe and North America. The Group's revenue from external customers and information about its assets by geographical location (of the customer) are detailed below:

	Revenue from external customer's			Non-current assets		
	6 mths 30 Sept 2018 (Unaudited) \$'000	6 mths 30 Sept 2017 (Unaudited) \$'000	12 mths 2018 31 Mar 18 (Audited) \$'000	30 Sept 2018 (Unaudited) \$'000	30 Sept 2017 (Unaudited) \$'000	12 mths 2018 31 Mar 18 (Audited) \$'000
Trading Revenue						
Australasia	697	484	873	1,526	1,626	1,703
North America	437	310	834	-	-	-
Asia	487	220	680	-	-	-
Europe	1,304	1,019	2,817	-	-	-
Rest of World	62	36	81	-	-	-
Total Trading Revenue	2,987	2,069	5,285			
Interest received	3	3	3			
Grant Revenue	62	-	-			
Total Revenue	3,052	2,072	5,288	1,526	1,626	1,703

Revenues for the 6 months to 30 September 2018 include \$1,302k, \$462k and \$417k, which arose from sales to the Group's three largest customers.

Revenues for the 6 months to 30 September 2017 include \$1,019k, \$347k and \$310k, which arose from sales to the Group's three largest customers.

Revenues for year ended 31 March 2018 include \$2,797k, \$834k and \$589k, which arose from sales to the Group's three largest customers.

7. SUBSEQUENT EVENTS

There were no subsequent events post 30 September 2018.

8. ADDITIONAL STOCK EXCHANGE INFORMATION

Refer to the half year preliminary announcement.