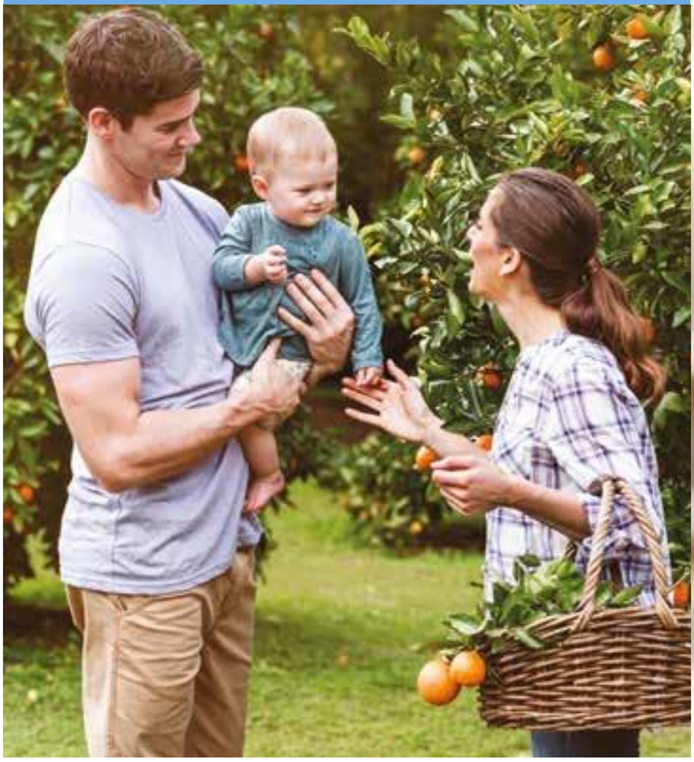
ANNUAL REPORT

For the year ended 30 June 2017

BELLAMY'S

BELLAMY'S AUSTRALIA LIMITED

ABN 37 124 272 108



Corporate Directory

Bellamy's Australia Limited
ABN 37 124 272 108
ASX Code BAL

Directors

John Ho (Chair)
John Murphy (Deputy Chair)
Rodd Peters
Wai-Chan Chan

Principal registered office & Principal administration office

Bellamy's Australia Limited
115 Cimitiere Street
Launceston TAS 7250

Telephone:	(03) 6332 9200
Facsimile:	(03) 6331 1583
Internet:	http://investors.bellamysorganic.com.au

Company secretary

Melinda Harrison

Location of share registry

LINK Market Services
Level 1, 333 Collins Street
Melbourne VIC 3000

External auditor

PricewaterhouseCoopers
2 Riverside Quay
Southbank VIC 3006

Contents

Message from the Chairman

Chairman's letter

25 August 2017

Dear Fellow Shareholder,

On behalf of the Board, I present to you the 2017 Annual Report for the fiscal year ended June 2017.

I was appointed to the Board in April 2017 as Bellamy's faced significant challenges. Together with recently appointed fellow Board members, our first priority was to recruit, retain and stabilise the management team and continue the Board renewal process. As part of this, the Board established a new turnaround long-term equity incentive plan, designed to align the interests of the Board, management and shareholders for the long-term enterprise value creation of Bellamy's.

Working closely with management, significant progress has been made in recent months to stabilise the business and build a strong foundation for future growth. In particular, we have:

- completed an Entitlement Offer, reducing the external debt and financial risk;
- renegotiated key supplier arrangements, increasing our operational flexibility;
- acquired Camperdown Powder, increasing control over strategic assets;
- begun to re-invest in the Bellamy's brand, focussing on the opportunity in China.

In the current turnaround phase, the Board is closely engaging with the CEO and the management team to assess the changing business landscape and commercial initiatives. We are focussed on building in Bellamy's a culture of transparent communication, thoughtful strategic decision-making and balanced risk-taking, while always operating with a long-term mindset.

The opportunity for Bellamy's continues to be immense, and we are excited to re-orient the company to return to long-term, profitable and sustainable growth. On behalf of the Board and management team of Bellamy's, thank you for your ongoing support.

Yours sincerely

John Ho

Chairman

Message from the CEO

25 August 2017

Dear Shareholders,

The last year has been challenging on many fronts for the Bellamy's business. However, together with a new Board and Management team we have set a clear direction and turnaround plan.

This plan has resulted in a number of significant one-off restructuring costs in the FY17 year and impacted results. We believe this investment was critical to resetting the business and rebuilding a foundation for future growth.

From an operating perspective, we are beginning to see momentum. Our sales and normalised EBIT results exceeded the expectations set for the second half and a number of leading indicators are worth highlighting:

- sales gained momentum through 2H17, price realisation increased, and there has been a slow recovery in market pricing across retailers and platforms;
- our operating cost base has been reset with a 23% reduction in overheads versus 1H17 and we are now in a position to reinvest;
- the supply-chain restructure is yielding reductions in future input costs. The amended Fonterra manufacturing agreement is an important cornerstone for the future and our procurement of ingredients has improved;
- inventory has declined since March 2017 and we have greater visibility of trade inventory and are approaching acceptable levels;
- operating cash-flow has been positive since March 2017 (after adjusting for the one off Fonterra payment) and we are currently in a net cash position and are debt free.

Strategically, the Camperdown acquisition and recent reinstatement of our CNCA licence provides a pathway to CFDA registration in China. This registration relates specifically to our '*Chinese labelled*' product and the offline channel in China representing 15.4% of FY17 sales. In addition to its licence, we believe the Camperdown business can become an important future contributor given its existing customer base and future Bellamy's volumes.

Looking forward, the potential for our brand and size of the opportunity remains clear. It is critical the Management team continues to both solidify and de-risk the business and our sales channels to achieve sustained growth. To this end, FY18 will be a year of continued investment in our brand, marketing, product, supply-chain and internal capability.

We thank you for your ongoing support.

Yours sincerely

Andrew Cohen

CEO

Company Overview

Operating and Financial Review

Financial Performance

The Group achieved Revenue of $240.2 million (2016#: $234.1 million) and a loss after tax of $0.8 million (2016 profit: $38.3 million). The normalised profit after tax was $28.2 million.

The major impact on profitability in the period was the recognition of significant items totalling $41.4 million before tax as outlined in Note 6. Excluding the impact of these items, normalised earnings results would have been as follows:

$ millions	2H17			FY17		
	Statutory Profit	**Significant items (1)**	**Normalised result (2)**	**Statutory Profit**	**Significant items (1)**	**Normalised result (2)**
Revenue	121.9	-	121.9	240.2	-	240.2
EBIT	(9.5)	32.8	23.3	0.6	41.4	42.0
Profit / (Loss) before income tax expense	(10.7)	32.8	22.1	(0.7)	41.4	40.7
Profit / (Loss) after income tax expense	(8.1)	23.0	14.9	(0.8)	29.0	28.2

(1) Refer Significant Items below and in Note 6 for details of individually significant items.

(2) Bellamy's has followed the guidance for underlying profit as issued by the ASIC regulator Guide RG230 'Disclosing non-IFRS information'. The profit and loss summary with a prior period comparison in the table above, has been sourced from the accounts but has not been subject to separate review or audit. The Directors believe that the presentation of the unaudited non-IFRS profit and loss summary in the table above is useful for users as FY17 includes significant items that are not expected to be repeated in future years. The table reflects the normalised earnings of the business.

 # restated, refer Note 5.

Revenue and Profitability

Bellamy's grew revenue for six consecutive halves before declining 11.7% in 1H17. However, year-on-year revenue grew 2.6%.

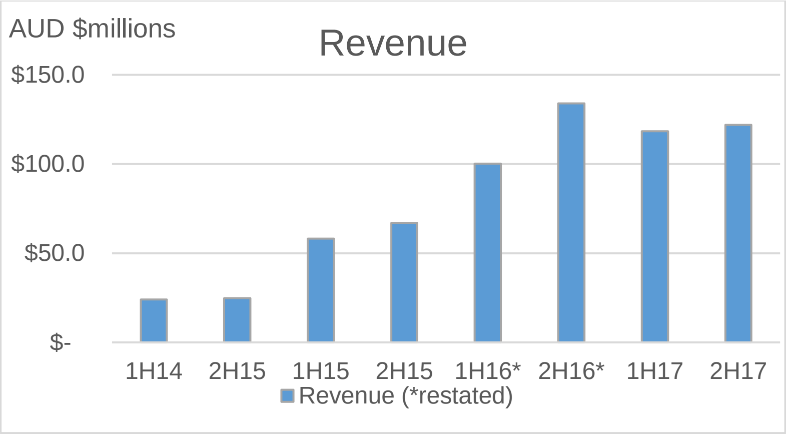
Sales of 'Chinese label' product grew to $36.9 million compared with $13.0 million in 2016. It is important to note that these sales will be impacted by Chinese regulation as of 1 January 2018. Given this it is forecast that $18.3 million will be sold in 1H18 and $nil in 2H18 pending CFDA registration.

For our 'Australian label' product the market has now returned to normal trading after a build-up of inventory by China/Hong Kong resellers in 2H16 and 1H17 led to an oversupply, causing discounting and channel instability. Production rates could not be immediately reduced for lower demand. The combined result was to increase inventory holdings and reduce cash.

Remedial actions have been undertaken in early 2H17, the result has been to stabilise sales and margin, and reduced trade inventory levels of 'Australian label' product.

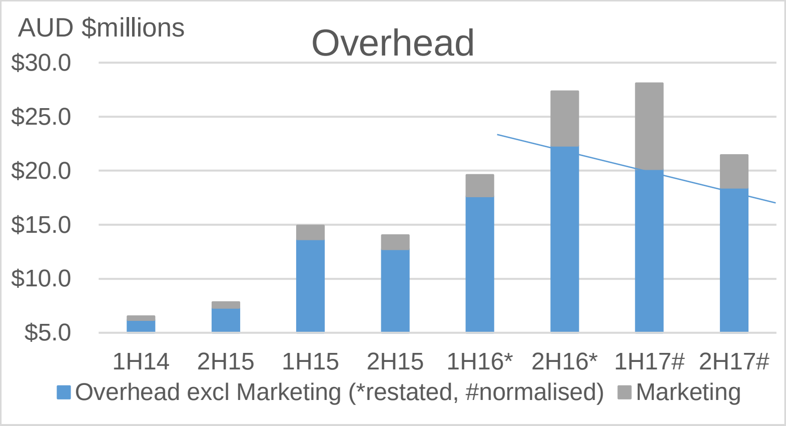
The gross profit margin for the year of 38.1% was down 5.1 percentage points on the 2016# full year result of 43.2% (2H17: 36.7%). The decrease in gross margin was due to increased ingredient and production costs, including a $2.0 million provision for shortfall payments. However, this was partially offset by higher price realisation later in the 2H17 period.

Company Overview



Expenses

Expenses after normalisation adjustments increased by $2.3 million from the prior year. The increase resulted from a combination of factors which need to be viewed in the context of the business growth and turnaround.



The chart above shows overhead costs after normalisation adjustments and restatements. Marketing spend was reduced in 2H17 while the marketing strategy was reassessed. It is expected to return to a more appropriate level in FY18. The line on the chart above shows the cost savings, excluding marketing over 18 months.

Marketing and promotion costs equate to 4.5% of revenue for the year (2016: 3.0%). The marketing spend in 1H17 did not prove effective and was reduced in 2H17. Marketing will be directed to more effective channels as well as joint marketing with customers in future periods.

Employee costs increased along with headcount. The headcount level grew to support a larger business in 1H17 but was reduced to a sustainable level in 2H17. Changes also include investment in capability and ensuring skills are available to support the turnaround strategy.

2H17 overhead costs are $6.8 million less than 1H17 on a normalised basis. Excluding marketing, this is a reduction of $1.8 million compared with 1H17. It is estimated that cost reductions deployed in January 2017, contributed an additional $7 million in cost avoidance when compared to the run rate at the end of 1H17. The costs saved/avoided provide the financial capacity to invest in product, capability and marketing in future periods.

Costs totalling $41.4 million (2016: $nil) are considered ‘one-off’ in nature. They include $6.8 million in inventory provisions and write-offs, $27.5 million payment to Fonterra as part of the broader supply chain reset and $6.7 million in other costs including costs associated with the acquisition of Camperdown Powder, indirect capital raising costs, legal and other professional fees, and restructuring costs.

Company Overview

Balance Sheet

Net debt at 30 June 2017 was $7.8 million. The balance includes the institutional component of the capital raise of $12.7 million less the $27.5 million payment to Fonterra. Excluding these transactions, the Group would have reported a positive cash position of $7.0 million (30 June 2016: $32.2 million).

The reduction in cash can be attributed to a $7.1 million dividend in 1H17 and a $31.1 million increase in inventory over the year.

Inventory at 30 June 2017 is $93.5 million, of which $83.0 million (89%) is finished goods. This currently represents approximately 5-6 months of sales coverage. Whilst finished goods inventory increased $47.9 million from 30 June 2016, and $0.9 million from 31 December 2016, it is important to recognise that finished goods inventory has declined since peaking in March 2017.

On 7 July 2017, the Group received the balance of the capital raise of $44.6 million. From this date, the Group has been debt free. A $40.0 million banking facility remains in place.

Cash Flow

Net cash outflows from operating activities was $45.7 million. There were no shortfall payments made in FY17, however the $27.5 million supply chain restructure payment was made to Fonterra. The remaining $18.2 million reduction in the cash can be largely attributed to an increase in inventory. The Group has been cash flow positive since March 2017 (excluding supply chain reset costs). Bellamy's will focus on positive cash flow generation through balancing production and revenue along with revenue and cost management.

Significant items

Note 6 to the Financial Statements provides information on significant items included in the profit for the year. The table below provides unaudited non-IFRS information on the FY17 significant items that are not expected to be repeated in future years. These values are used to determine the normalised earnings of the business.

1H17 $000	**2H17 $000**	**FY17 $000**	**Comment**
6,838	-	6,838	Inventory provisions and write-offs
718	2,262	2,980	Professional fees
-	1,083	1,083	Indirect costs associated with the capital raise and costs relating to the acquisition of Camperdown Powder
300	1,149	1,449	Restructuring
727	837	1,564	Ineffective foreign exchange hedges
-	27,500	27,500	Payment to Fonterra as part of the supply chain reset
8,583	**32,831**	**41,414**	**Total significant items (before tax) considered one-off**

Board of Directors

Board of Directors

John Ho **Non- Executive Chair** *(appointed 13 April 2017)*	John founded Janchor Partners and serves as its Chief Investment Officer. Janchor Partners is a long-term industrialist investor in companies with superior long-term value creation potential in the Asia Pacific region. He also serves as Deputy Chairman of the Hong Kong Exchange Listing Committee, the regulatory body that provides independent oversight of listing rules and companies in Hong Kong. John has extensive business and investment experience in consumer, technology and health related sectors, especially in Australia and China. He is an Australian citizen and holds a Bachelor of Science in Mathematics and Bachelor of Commerce in Finance (First Class Honours and University Medal) from the University of New South Wales.
John Murphy **Independent Non-Executive Director** *Deputy Chairman* *Chair of Audit & Risk* *(appointed 18 May 2017)*	John has over 35 years' experience in Australia and internationally in the beverage, food and packaging industry. He has held numerous senior leadership roles at large multinational companies, including Managing Director of Coca-Cola Amatil Australia, CEO of Visy Packaging and Recycling for Australasia and Managing Director of Fosters Australia/Carlton & United Breweries. John currently sits on the advisory board of a number of private companies including PFD Food Services and Bladnoch Distillery, and also advises a range of companies internationally. He previously served as Chairman of the Lantern Hotel Group.
Rodd Peters **Non-Executive Director** *(appointed 28 February 2017)*	Rodd has more than 30 years' experience as a commercial transactions lawyer and litigation lawyer. For the first 7 years of his career he was a barrister and he then established his own law firm in partnership in 1993. He is admitted as a solicitor of the Supreme Court of New South Wales and the High Court of Australia. He has acted for several of Australia's wealthiest individuals and families and also for many small to medium sized entrepreneurial companies here and abroad. He is currently a consulting lawyer to Kemp Strang Lawyers in Sydney. Rodd holds a Bachelor of Laws from University of Tasmania and also a Master of Laws (Hons) from Trinity Hall, University of Cambridge. After being voted onto Bellamy's board at the EGM in February 2017, Rodd accepted the role of interim Chairman overseeing the initial transition of Bellamy's turnaround plan and Board renewal and thereafter he has remained as a non-executive Director of Bellamy's.
Wai-Chan Chan **Independent Non-Executive Director** *(appointed 28 February 2017)*	Wai-Chan was appointed as a Non-Executive Director in February 2017. He brings 25 years of consulting and operating experience in the consumer products and retailing sectors, with a focus on Asia, in particular China. He advises clients in the grocery, health and beauty, apparel and food and beverages industries on issues related to strategy, operations, organisation, and digital. He currently works for Oliver Wyman where he is a partner and the Global Leader of the Consumer Goods Practice. He was also previously at the retailer, Dairy Farm where he was the Regional North Asia Director, responsible for some 2,500 stores across multiple formats. He was also a partner at McKinsey & Company in Greater China. Wai-Chan holds a Ph.D. from the University of Cambridge, an MBA from the Harvard Graduate School of Business Administration, and a B.Sc. from Imperial College, London.

Board of Directors

Former Directors

Rob Woolley **Non-Executive Chair (Independent)** *(resigned 28 February 2017)*	Rob was appointed as Chair on the formation of the Group in 2007 and resigned 28 February 2017. Rob holds a Bachelor of Economics and is a Fellow of the Institute of Chartered Accountants.
Laura McBain **Managing Director and CEO** *(resigned January 2017)*	Laura was appointed as General Manager of Bellamy's in 2006, Chief Executive Officer ("CEO") in 2011 and Managing Director and CEO in 2014 and resigned in January 2017. Laura holds a Bachelor of Commerce and in 2013 completed the IMD Leadership Challenge.
Michael Wadley **Independent Non-Executive Director** *(removed 28 February 2017)*	Michael was appointed a Non-Executive Director in 2014 and has been based in Shanghai over 15 years. Michael holds a Bachelor of Laws from Queensland University of Technology, and is admitted to practice in the Supreme Court of Queensland, the High and Federal Courts of Australia, and is registered as a foreign lawyer in China and Hong Kong.
Launa Inman **Independent Non-Executive Director** *(resigned 28 February 2017)*	Launa was appointed as a Non-Executive Director of the Group in February 2015 and resigned 28 February 2017. Launa's qualifications include: MCom, University of South Africa (UNISA), BCom (Hons) (UNISA), BCom (Economics & Accounting) (UNISA).
Charles Sitch **Independent Non-Executive Director** *(removed 28 February 2017)*	Charles was appointed a Non-Executive Director on 10 March 2016 and was removed on 28 February 2017. Charles has a Bachelor of Law/Commerce from the University of Melbourne, an M.B.A. from Columbia Business School, and is a Graduate of the Australian Institute of Company Directors.
Patria Mann **Independent Non-Executive Director** *(resigned 18 May 2017)*	Patria was appointed a Non-Executive Director on 10 March 2016 and resigned 18 May 2017. Patria was formerly a Partner at KPMG and holds a Bachelor of Economics (University of Sydney), is a Chartered Accountant and a Fellow of the Australian Institute of Company Directors.

Executive Team

Andrew Cohen ***Chief Executive Officer***	Andrew was appointed as Chief Executive Officer in April 2017 having been appointed as acting Chief Executive in January 2017 and had previously held the position of Chief Operating Officer and Chief Strategy Officer of the Group from July 2016. Mr Cohen brings extensive experience in grocery, retail and FMCG, including successful and extensive China go-to-market experience in vitamins, infant formula and dairy. Prior to joining Bellamy's, Mr Cohen worked as a Partner with Bain & Company where he held a leadership role in Consumer Products and Retail practice. With over 15 years' retail and FMCG experience in management and consulting roles, Mr Cohen has worked with multiple high-profile companies to capitalise on the greatest opportunities in the sector and delivering strategies to accelerate growth across multiple platforms. Mr Cohen holds a Bachelor of Commerce and Arts, University of Melbourne and has completed an M.B.A., Cambridge University (Dux).
Nigel Underwood ***Chief Financial Officer***	Nigel was appointed as Chief Financial Officer in April 2017, having been appointed acting Chief Financial Officer of the Group in January 2017. Prior to joining Bellamy's Mr Underwood had experience in senior finance roles in a number of leading companies and was most recently Chief Financial Officer of transport operator, Keolis Downer. Mr Underwood holds a Master of Business Administration, is a Fellow of the Chartered Accountants Australia and New Zealand and is a graduate member of the Australian Institute of Company Directors.
Melinda Harrison ***General Counsel & Company Secretary***	Melinda was appointed as General Counsel and Company Secretary in May 2017. Melinda has over 20 years' experience in law, risk and governance in listed and privately held companies both in Australia and internationally. Most recently, Ms Harrison was General Counsel at Carter Holt Harvey, one of Australia's largest wood manufacturing business where she lead the legal function in Australia as well as being chair of the risk committee. Prior to that Ms Harrison held senior legal and governance roles in a US listed group of companies based in Hong Kong, conducting significant work in China and throughout Asia. Ms Harrison started her career in private practice in Corporate Advisory including at King Wood Mallesons. She holds an M.B.A. (honours) from the University of Hull (U.K.), an L.L.B (honours) from Melbourne University, a B.A. (honours) from Melbourne University and recently graduated from the Australian Institute of Company Directors course with an order of merit. She has also completed a certificate of Governance Practice from the Governance Institute of Australia.
Peter Fridell ***Director of Operations***	Peter joined Bellamy's in February 2017. He has fifteen years of strategy, operational improvement and financial management experience. Prior to joining Bellamy's, he gained extensive fast-moving consumer goods experience as Strategy Director and Supply Finance General Manager at Carlton & United Breweries. He has previously worked with A.T. Kearney management consultants and as a mechanical design engineer. Mr Fridell holds an M.B.A. (Dean's list), INSEAD (France), a Bachelor in Mechanical & Manufacturing Engineering (first-class honours), University of Melbourne, and a Bachelor of Commerce, University of Melbourne.
David Jedynak ***Director of Sales & Marketing***	David joined Bellamy's in July 2016 and was key advisor during the restructure of the business. He was appointed as acting Director of Sales and Marketing in January 2017, and confirmed in the role in June 2017.Mr Jedynak has 13 years of experience in strategy, private equity and venture investing, across both developed and emerging markets. He has worked as Principal with Bain & Company where he focused on consumer/retail businesses, managed investment portfolios focused on high-growth small-cap businesses, and built and advised several tech start-ups. Mr Jedynak holds a Bachelor of Engineering (Mechatronics) and Bachelor of Computer Science from the University of Melbourne.

Directors' Report

Your Directors present their report on the consolidated entity consisting of Bellamy's Australia Limited and the entities it controlled ("the Group" or "Bellamy's") at the end of, or during, the year ended 30 June 2017 as follows:

1 Information about the Directors

1.1 Names and particulars

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

Current Directors

John Ho
Non-Executive Chair (appointed 12 April 2017, appointed Chair 18 May 2017)

Rodd Peters
Non-Executive (appointed 28 February 2017, Chair from 28 February to 18 May 2017)

Wai-Chan Chan
Independent Non-Executive Director (appointed 28 February 2017)

John Murphy
Independent Non-Executive Director (appointed 18 May 2017)

Former Directors

Rob Woolley
Independent Non-Executive Chair (resigned 28 February 2017)

Laura McBain
Managing Director and CEO (ceased as CEO 11 January 2017, resigned as Director 24 January 2017)

Michael Wadley
Independent Non-Executive Director (removed 28 February 2017)

Launa Inman
Independent Non-Executive Director (resigned 28 February 2017)

Charles Sitch
Independent Non-Executive Director (removed 28 February 2017)

Patria Mann
Independent Non-Executive Director (resigned 18 May 2017)

More information about the Board of Directors is provided on page 22.

1.2 Directorships of other listed companies

Directorships of other listed companies held by Directors in the 3 years immediately before the end of the financial year are as follows:

Director	Company	Period of Directorship
Current directors		
John Ho	-	-
Rodd Peters	-	-
Wai-Chan Chan	-	-
John Murphy	Lantern Hotel Group	2015-2016

Directors' Report

Director	Company	Period of Directorship
Former directors		
Robert Woolley	Tandou Limited	2011 - 2015
	Tas Foods Limited	2015-Feb 2017
Launa Inman	Commonwealth Bank Limited Super Retail Group Limited Precinct Properties Pty New Zealand	Since 2011 Since 2015 Since 2015
Patria Mann	Ridley Corporation Limited	Since 2008
	Event Hospitality & Entertainment Limited	Since 2013
Charles Sitch	Spark New Zealand Limited Apiam Animal Health Limited	Since 2011 Since 2015

1.3 Director shareholdings

The following table sets out each Director's relevant interest in Bellamy's shares and options as at the date of this report.

Director	Fully paid ordinary shares No.	Share options No.
John Ho	8,481,320	-
Rodd Peters	-	36,257
Wai-Chan Chan	-	36,257
John Murphy	-	193,373

Refer to the Tables C and D of the Remuneration Report for further details.

1.4 Directors' Meetings

The number of Directors' meetings held and the number of meetings attended during the financial year were:

Directors	Board of Directors	
	Attended A	Held B
Current directors		
Rodd Peters[5]	8	9
Wai-Chan Chan[5]	9	9
John Ho[6]	4	4
John Murphy[7]	3	3
Former directors		
Patria Mann[8]	62	63
Robert Woolley[2]	56	57
Laura McBain[1]	33	40
Michael Wadley[3]	56	57
Launa Inman[4]	51	57
Charles Sitch[3]	51	57

A Number of meetings attended during the year
B Number of meetings held during the time the Directors held office during the year.

1 Resigned 24 January 2017
2 Resigned 28 February 2017
3 Removed 28 February 2017
4 Resigned 28 February 2017
5 Appointed 28 February 2017
6 Appointed 13 April 2017
7 Appointed 18 May 2017
8 Resigned 18 May 2017

Attendances at the Audit & Risk Committee and the Remuneration & Nominations Committee meetings during the financial year were as follows:

Directors	Audit and Risk Committee		Remuneration and Nominations Committee	
	Attended A	Held B	Attended A	Held B
Current directors				
Rodd Peters	1	1	0	0
Wai-Chan Chan	1	1	0	0
John Ho	1	1	0	0
John Murphy[3,4]	0	0	0	0
Former directors				
Patria Mann[1]	5	5	1	4
Robert Woolley[5]	4	4	4	4
Michael Wadley[6]	4	4	0	4
Launa Inman[2]	3	4	4	4
Charles Sitch[7]	2	4	4	4

A	Number of meetings attended during the year
B	Number of meetings held during the time the Directors held office during the year.

[1] Resigned as the Chair of the Audit and Risk Committee as of 18 May 2017

[2] Resigned as Chair and Member of the Remuneration and Nominations Committee as of 28 February 2017

[3] Appointed as the Chair of the Remuneration and Nominations Committee as of 27 July 2017

[4] Appointed as the Chair of the Audit and Risk Committee as of 18 May 2017

[5] Resigned as a Member of the Remuneration and Nominations Committee and Audit and Risk Committee as of 28 February 2017

[6] Removed as a Member of the Audit and Risk Committee as of 28 February 2017

[7] Removed as a Member of the Remuneration and Nominations Committee as of 28 February 2017

2 Share options granted to senior management

October 2016 Grant

On 3 October 2016, in accordance with the employee Long Term Incentive Plan (as approved by the shareholders at the annual general meeting on 26 October 2016), the Group issued 614,746 conditional vesting options to the Chief Executive Officer and other senior management as part of their remuneration.

The exercise price for the 2017 grant options is $14.04, however the options can only be exercised if specific performance hurdles are met. These options expire five years after the date of the grant which should be no later than 3 October 2021.

The holders of these options do not have the right, by virtue of the option to participate in any share issue or interest issue of the Group or of any other related body corporate.

June 2017 Grant

On 13 June 2017, in accordance with the employee Long Term Incentive Plan, the Group issued 4,105,887 conditional vesting options to the Chief Executive Officer and other senior management as part of their remuneration.

The exercise price for the grant is $5.643, however the options can be exercised if specific performance hurdles are met. These options expire in four years after the date of the grant which should be no later than 13 June 2021.

The details of grant of options are set out below:

Directors' Report

Directors and senior management	No. of options granted FY17	Total No. of ordinary shares under option
Directors		
John Ho	-	-
John Murphy	193,373	193,373
Wai-Chan Chan	36,257	36,257
Rodd Peters	36,257	36,257
Senior Management		
Andrew Cohen	1,843,345	2,533,295
Nigel Underwood[2]	475,000	475,000
Melinda Harrison[3]	200,000	200,000
David Jedynak[4]	475,000	475,000
Peter Fridell[4]	440,000	440,000
Other executives	717,336	599,986
Former KMP		
Laura McBain[1]	239,154	1,127,173
Shona Ollington[1]	40,021	368,814
Other former executives	16,828	216,817

Further details about share based payments to Directors and key management personnel are included in the Remuneration Report.

1 Ceased being senior management 11 January 2017

2 Appointed senior management 11 January 2017

3 Appointed as senior management 5 May 2017

4 Appointed as senior management 13 June 2017

3 Company Secretaries

Melinda Harrison was appointed Company Secretary of Bellamy's Australia Limited on 5 May 2017 and held the position at the end of the financial year.

Brian Green held the position of Company Secretary of Bellamy's Australia Limited from 2014 and resigned as Company Secretary on 22 June 2017.

Dimitri Kiriacoulacos was appointed Company Secretary on 11 January 2017 and resigned 12 May 2017.

4 Corporate Governance

Bellamy's Australia Limited ACN 124 272 108 (Company) and its associated entities are committed to upholding a high standard of corporate governance. This 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 and that are based on the 3rd edition of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (ASX Recommendations).

The Group was only partially compliant with the ASX Recommendations for the year ended 30 June 2017 as a result of changes to the composition of the Board following the shareholder-requisitioned extraordinary general meeting of 28 February 2017. The Board believes that its current composition is appropriate for overseeing and guiding management's execution of the Group's current turnaround plan and positioning the Group to realise the significant, long-term opportunities that are available in Australia, China and other markets. However, the Board will review and consider the Group's corporate governance practices, including the composition of the Board, on an ongoing basis with a view to making changes as the Group's circumstances evolve. Detailed information regarding the Group's compliance with the ASX Recommendations is set out in this corporate governance statement.

This statement is current at 24 August 2017 and has been approved by the Group's Board. The Group's Board and Committee charters, Code of Conduct and various policies referred to in this corporate governance statement are available on the Corporate Governance section of the Group's website.

Refer also to the Corporate Governance Statement below.

5 Principal activities

The Company is an ASX-listed Tasmanian food brand business. The Company offers a range of organic food and formula products for babies and toddlers. The Company's products are all Australian-made and certified organic.

The Company offers over 30 products that are tailored to the needs of babies and toddlers.

There were no significant changes to the principal activities during the year.

6 Review of operations

A comprehensive review of operations is set out in the in the front section of this Annual Report under Review of Operations.

On the acquisition of Camperdown Powder Pty Ltd (described in Note 29), the Group will have greater ownership and therefore responsibility for production of infant milk formula. There is also greater risk associated with operating a manufacturing environment. In addition, changes to licencing requirements in China (described in Note 22) will affect sales in China of Chinese labelled infant milk formula product from 1 January 2018.

7 Events since the end of the financial year

On 3 July 2017, the Group acquired a 90% interest in A.C.N. 619 661 611 Pty Ltd, a newly formed entity that holds all the issued capital of Camperdown Powder Pty Ltd, which operates a CNCA licenced canning facility.

On 6 July 2017, the CNCA suspended Camperdown Powder's licence to export to China pending enquiries. This suspension was lifted on 9 August 2017.

On 7 July 2017, the capital raise was completed and proceeds from the $60.4 million entitlement received. As a result of the CNCA licence suspension, shares in the company were placed in a trading halt followed by a voluntary suspension until 19 July pending the issue of a supplementary prospectus.

On 17 July 2017, a supplementary prospectus was issued enabling retail shareholders the opportunity to seek a refund for the shares subscribed to under the original prospectus. On 17 August 2017, the supplementary prospectus closed resulting in the refund of 3,339 shares to 19 shareholders. These were acquired by the underwriters to the supplementary prospectus.

Further details are in Note 29.

8 Future developments

The Group's strategy is to continue to focus investment, capacity and capability on bringing the core business of infant formula and baby food in Australia and China to full potential. The Chinese market is particularly important to the Group due to its size and projected growth rate, driven by demographics and changing consumer wealth and preferences.

In the near term, the Group is focused on stabilising the business through improved execution, including reducing overhead and supply chain costs, and achieving the required CFDA registration to continue importing and selling 'Chinese labelled' product within China. The successful closing and integration of the Acquisition will be critical.

In the medium term, the priority will be to strengthen the Bellamy's consumer proposition within the organic baby food and formula category. This will require investment in both the brand and in updating and expanding the product range.

The Group is continually evaluating new markets and laying early foundations for longer-term growth beyond the core business.

Further information about likely developments in the operations of the Group and the expected results of those operations in future financial years has not been included in this report as the disclosure of the information is likely to result in unreasonable prejudice to the Group.

9 Risk

Bellamy's is subject to a number of risks both specific to Bellamy's and of a general nature, which may either individually or in combination adversely affect the future operating and financial performance of Bellamy's, its investment returns and the value of its Shares.

This section does not purport to list every risk, however provides a selection of risks that may impact future financial performance.

9.1 Regulatory Risks

'Chinese labelled' product regulatory and market risk

The Chinese government has instituted a dairy food products regulatory regime that requires, among other things, certain foreign manufacturing facilities to complete a registration process in order to import, distribute and sell 'Chinese labelled' dairy food products to the local offline retail channel. Specifically, it requires registration with the CNCA in compliance with the Administrative Provisions on Registration of overseas Manufacturing Enterprises of Imported Foodstuffs of the nominated canning facility used to blend and pack infant formula products.

The Chinese government maintains significant discretion in the granting and renewal of registration certificates and other qualifications necessary for the import of food products into China. CNCA registration is valid for four years before renewal and the renewal application must be submitted one year prior to the expiration of the four-year term.

A further regulatory requirement has been introduced that any 'Chinese labelled' brand imported, distributed and sold through retail channels in China beyond 1 January 2018 requires CFDA (China Food and Drug Administration) registration. This registration is also held by the canning facility and is valid for five years. Any individual facility can register a maximum of three individual brands and a total of nine stock keeping units (i.e. Step 1, 2 and 3 for a given brand). Each registered brand must also be significantly different in formulation to be recognised.

As previously announced, following the sale by Bega Cheese Ltd of its infant formula finishing plant at Derrimut to Mead Johnson Nutrition in February 2017, Bellamy's 'Chinese labelled' products are no longer able to be registered through that CNCA licenced plant. Notwithstanding the Group's manufacturing contract with Bega remains in place.

As a result, Bellamy's has sought to mitigate this risk by acquiring Camperdown Powder. The Camperdown Powder facility was granted its CNCA licence in July 2015 with an expected renewal date in July 2019. Bellamy's expects that it will allow Bellamy's to now begin the CFDA brand and product registration process for its 'Chinese labelled' products in its own right (rather than relying on the registrations obtained by third party manufacturers).

However, Bellamy's does not anticipate that it will have the required registrations in place by 1 January 2018 given the time required to develop the application, a six-month shelf life testing requirement and the lengthy CFDA processing time guideline. Bellamy's is working with its distributor to seek to ensure that there is an appropriate level of stock in China prior to 1 January 2018 to sustain supply during this delay, however a further delay in obtaining the registration, or the failure to successfully submit a registration will have a material impact on Bellamy's financial position. The sale of Bellamy's 'Chinese labelled' products accounted for 15.4% of total revenue in FY17.

In addition to the above it should also be noted that the future or sudden regulatory changes in China continue to be a business risk.

Even with successful submission of a CDFA application, the Chinese government maintains significant discretion over the retention and renewal of any Chinese certification that the Group or the Group may hold from time to time, with limited avenues for appeal or review.

'Australian labelled' product regulatory risk (MOFCOM import restrictions)

Bellamy's also sells 'Australian labelled' product in China through CBEC, leveraging various platforms including Tmall, JD.com, VIP.com and Kaola. Original interpretation of the CFDA regulation required these platforms to also distribute 'China labelled' or CFDA registered product beyond 1 January 2018. However, recent statements form the China Ministry of Commerce (MOFCOM) on 17 March 2017 indicated a positive signal that 'Australian labelled' "personal" goods can continue to be sold through CBEC platforms beyond January 2018.

However, some industry participants expect further clarification of the definition of "personal" goods and timelines in relation to the 17 March 2017 statement. As such regulations have not yet been formalised and the Group is not able to determine whether its 'Australian labelled' infant milk formula products will comply with the requirements imposed by further clarification or regulation in relation to the CBEC channel.

Although the vast majority of 'Australian labelled' product consumed in China is 'direct mailed' and not distributed through the CBEC channel, if the Group is unable to comply with any future clarification or regulation relating to the CBEC channel this may nonetheless have a material adverse impact on financial performance. This risk of future regulation on the 'direct mail' channel must also be considered but could include the imposition of taxes and/or prohibitions or measures taken to restrain the ability to undertake the ability to undertake direct mail activity.

Import testing

China's State Administration of Quality Supervision, Inspection and Quarantine is responsible for national import and export commodity inspections in China. Within that framework, all food product imported into China is subjected to a sample based quality testing, known as China Inspection and Quarantine (CIQ) tests. Bellamy's tests the quality of its products at several stages of both the manufacturing process and across its distribution channels. Tests are also required to be conducted by independent and government based laboratories, who retain discretion as to whether a product test is successful. Test failures and the need for re-testing are not uncommon in the industry. Should a product in a shipment being made to be imported into China fail the CIQ tests, Chinese law prevents the entire shipment from entering China, even if the affected product forms only part of the shipment. While limited re-testing is available, no reference to previously successful tests of the relevant product can be made.

The Group is not able to insure for such a risk and no compensation is available from the manufacturer of the Group's products even if prior tests have been successful in Australia. If the Group's products or the products from a canning line owned by the Group fail a CIQ test, this could have a material adverse impact on the Group's business, financial performance and operations. This includes products produced by Camperdown Powder for third party customers.

Market concentration risk

A material proportion of the Group's revenue is derived from the import of the Group's 'Chinese labelled' products into China. The Group's 'Chinese labelled' products imported into China is forecast to represent 15.4% of group revenue in FY17. In addition, sales of the Group's 'Australian labelled' products to persons in Australia who on-sell to Chinese consumers via e-commerce and social media platforms cannot reliably be estimated by the Group, but is thought to be very substantial and the Group is highly reliant on this channel.

Accordingly, Bellamy's has a large exposure to changes in consumer demand for its products in China. A failure by Bellamy's to predict or respond to changes in consumer preferences in China or a decrease in demand for the Group's products in China could materially adversely impact on the Group's future financial and operating performance.

Erosion of brand reputation in China

The Group's business and in particular its sales either directly or indirectly to China are highly sensitive to consumers' perceptions of the safety and quality of the Group's products. Any actual or perceived contamination, spoilage or other adulteration, product misbranding, failed product testing or tampering may lead to a material erosion of the Group's brand reputation in China, regardless of its merits. Counterfeiting and imitation of well-known products in China has also occurred in the past. There can be no assurance that this will not occur to Bellamy's in the future. The Group's failure to detect counterfeiting and imitation of its products and trademarks or a failure to mitigate their impact could result in a material adverse impact on the Group's sales in China.

Further, the dairy industry in China has been the subject of product recalls and product contamination in the past, including products supplied from outside China into China. Publication of reports of contaminated or tainted dairy products by other non-Chinese manufacturers that supply the Chinese market could negatively impact the Group's business even if there is no direct connection with Bellamy's products. Regardless of merit, such reports could also lead to additional scrutiny and testing by regulators which could impact the Group's business, financial performance and operations.

Visibility of the Group's distribution channels

Bellamy's transfers ownership of its products to purchasers at the time of sale (usually on receipt into the purchaser's warehouse, except for sales to Bellamy's offline China distributor where ownership transfers upon delivery by the Group of inventory to the port in Melbourne). Many purchasers then on-sell the Group's products to sub-purchasers, who then further on-sell the products to the end-consumer. Bellamy's is not able to obtain information on the level of inventory which remains unsold at each step in the distribution chain. While efforts are made to minimise levels of unsold inventory, a large release of a distributor's inventory to the market at a discount to the price at which Bellamy's charges for its products at the initial point of sale may have a material adverse effect on sales through other channels. In addition, this may cause inventory holdings at other distributors to be 'stranded', at least until the relevant product has been depleted. All of this, in turn, may have a material adverse effect on demand and ultimately sales of Bellamy's products.

9.2 Other risks

Production facility licencing

The Camperdown Powder manufacturing facility must maintain a licence with by the CNCA to enable its products to be exported to China. Should the licence be cancelled, the investment in this subsidiary would need to be assessed and potential some or all of its valued impaired.

Australia made labelling laws

The Australian Government introduced new country of origin labelling laws that commenced on 23 February 2017 to provide additional transparency and certainty in relation to the country of origin of ingredients used in consumer products to be sold in Australia. From 1 July 2018, food to be sold in Australia must be labelled according to the requirements set out in the Country of Origin Food Labelling Information Standard 2016.

As Australia is not a major producer of organic milk, Bellamy's sources the majority of its organic milk powders from Europe. The new labelling requirements mean that Bellamy's will need to provide consumers with further transparency about the source of key ingredients. This may affect consumer demand for the Group's products as consumers look to purchase those products which use Australian ingredients. Changes in consumer demand for the Group's products in Australia could adversely affect the operating and financial performance of the Group.

Change in regulations

There is a risk that laws or regulations may be introduced or amended in Australia, or in foreign jurisdictions in which the Group sells, or sources its ingredients and/or products. Changes to the regulatory environment could have a material effect in a number of ways. For example, the financial and production effects resulting from changing requirements to:

a) product packaging and/or labelling requirements as a requirement of increases to mandatory dietary content disclosures; or
b) the introduction of taxation measures that reference food content; and/or
c) restrictions that prevent or restrict access to markets by amendments to regulations governing the export or importation of products (ie free trade agreements).

While the Group is not aware of any current issues other than the China regulatory change noted above, the Australian made labelling changes highlighted, or any impending regulatory change in relevant markets, there is the potential for any such measures to reduce Bellamy's revenues and/or increase its costs.

Product contamination, recall and food safety

As a producer of food products, Bellamy's is subject to a general risk that any product contamination or product recall issue (however caused) could have a material adverse effect on the Company's brand and thus its financial performance. The Company employs a number of measures to minimise the risk in this area (such as requiring manufacturers to have current food safety accreditation and the Company having in place appropriate insurances).

10 Environmental regulations

The Group's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a State or Territory.

11 Dividends

No dividend will be paid with respect to the year ended 30 June 2017 (2016: 7.8 cents per share).

In respect of the half year ended 31 December 2016, an interim dividend was not declared (2016: 4.10 cents per share).

12 Indemnification and insurance of officers and auditors

During the financial year, the Group paid a premium in respect of a contract insuring the Directors of the Group, the Group Secretary and all executive officers of the Group and of any related body corporate against a liability incurred as such a Director, secretary 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.

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 or of any related body corporate against a liability incurred as such an officer or auditor.

13 Audit

13.1 Independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 52 and forms part of the Directors' report for the year ended 30 June 2017.

13.2 Statutory auditors

For the year ended 30 June 2017 PricewaterhouseCoopers ("PwC") acted as the Group's external auditor. A representative from PwC will be available to the Annual General Meeting to answer shareholder questions about the conduct of the audit and the preparation and content of the FY17 audit report.

13.3 Non-audit services

Details of amounts paid or payable to the auditor for non-audit services provided during the year are outlined in Note 31 to the financial statements.

The Board of Directors has considered the position and, in accordance with written advice provided by resolution of the Audit and Risk Committee, is satisfied that the provision of non-audit services, during the year, by the auditor (or by another person or firm on the auditor's behalf) is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*.

The Directors are of the opinion that the services as disclosed in Note 31 to the financial statements do not compromise the external auditor's independence, based on advice received from the Audit and Risk Committee, for the following reasons:

- all non-audit services have been reviewed and ratified by the Audit and Risk Committee to ensure that they do not impact the impartiality and objectivity of the auditor; and

- none of the non-audit services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*.

14 Rounding of amounts

The Group is a company of the kind referred to in ASIC Corporations (Rounding in Financials/Directors' Reports) Instrument 2016/191, issued by the Australian Securities and Investments Commission, related to the 'rounding off' of amounts in the Directors' Report and the financial report. Amounts in the Directors' Report and financial report have been rounded off to the nearest thousand dollars in accordance with that ASIC Instrument.

Corporate Governance Statement

Bellamy's Australia Limited ACN 124 272 108 (**Company**) and its associated entities are committed to upholding a high standard of corporate governance. This corporate governance statement sets out the key features of the Company's governance framework and practices.

The Company has adopted corporate governance policies and practices which are designed to support and promote the responsible management and conduct of the Company and that are based on the 3rd edition of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (**ASX Recommendations**).

The Company was only partially compliant with the ASX Recommendations for the year ended 30 June 2017 as a result of changes to the composition of the Board following the shareholder-requisitioned extraordinary general meeting of 28 February 2017. The Board believes that its current composition is appropriate for overseeing and guiding management's execution of the Company's current turnaround plan and positioning the Company to realise the significant, long-term opportunities that are available in Australia, China and other markets. However, the Board will review and consider the Company's corporate governance practices, including the composition of the Board, on an ongoing basis with a view to making changes as the Company's circumstances evolve. Detailed information regarding the Company's compliance with the ASX Recommendations is set out in this corporate governance statement.

This statement is current at 24 August 2017 and has been approved by the Company's Board. The Company's Board and Committee charters, Code of Conduct and various policies referred to in this corporate governance statement are available on the Corporate Governance section of the Company's website.

Board of directors

The role of the Board

The Board recognises its overriding responsibility to act honestly, fairly, diligently and in accordance with the law in serving the interests of the Company's shareholders as well as its employees, customers and the community. Under the constitution, the Board is vested with accountability to shareholders for the management of the Group.

The Board has delegated responsibility for the operation and administration of the Company and Group to the CEO and executive management. Responsibilities are delineated by formal authority delegations. Senior executives reporting to the CEO have their roles and responsibilities defined in position descriptions.

The Board's role, responsibilities, powers, duties and functions and the matters specifically reserved to the Board or its Committees are detailed in the Board Charter. A copy of the Board Charter is available from the Company's website.

Board composition

The Board currently consists of four Non-executive Directors, of whom two are independent Non-executive Directors (including the Deputy Chairman).

Details of each Director, including the skills, experience, relevant expertise and period of office, are disclosed on pages 9 and 12.

The Board considers that individually and collectively the Directors bring a level of skill, knowledge and experience that enables the Board to discharge its responsibilities effectively. The following table summarises the key skills and experience of the Directors:

Skill / Experience	Number of Directors
Governance	3
Accounting / Audit	2
Finance / Banking	3
Risk / Compliance	3
Strategy	4
Crisis management	2
International Business focus on China / Asia	3
Food Manufacturing	2
Brand / Marketing	3
FMCG/ Retail	2
Logistics	2
Legal	1
Human Resource Management and Remuneration	3

The Board, with the assistance of the Remuneration and Nominations Committee, periodically reviews the mix of skills, expertise and experience of the Board and considers whether the composition and membership is appropriate to meet the Board's objectives. On the recommendation of the Remuneration and Nominations Committee, the Board has determined that together, the Directors possess a comprehensive mix of skills, expertise and experience to discharge its responsibilities.

Director independence

Currently, half of the Directors on the Board are independent Non-executive Directors.

The Board considers that the Deputy Chairman, John Murphy, and Wai-Chan Chan are each independent. The Chairman, John Ho, and Rodd Peters are not independent as they are nominees of substantial shareholders of the Company, Janchor Partners and Black Prince Private Foundation respectively.

As a result of its current composition, the Board does not comply with Recommendation 2.4, (which recommends that a majority of the Board should be independent Directors) and Recommendation 2.5 (which provides that the Chair should be independent).

As stated above, the Board believes that its current composition is appropriate for the task of overseeing and guiding management on the execution of the Company's current turnaround plan. The Board considers that John Ho and Rodd Peters each bring objective and independent judgement to Board deliberations and add significant value to the Board given their experience and skills. John Ho is an experienced investor with extensive international business expertise, including in relation to the Australian and Chinese markets. Rodd Peters is an experienced lawyer, with many years of practice in commercial law, litigation and compliance.

As noted in the Board Charter, while the Company will aim to have a majority of independent Non-executive Directors, this may not always be practicable given the size of the Board and the circumstances. The Board will continue to consider Board renewal and succession planning on an ongoing basis, and is focused on identifying suitable candidates for further appointments to the Board, in particular having regard for the need to appoint another independent Non-executive Director in the future.

John Murphy was appointed to the Board and elected Deputy Chairman on 18 May 2017. The creation of the Deputy Chairman role reflects the Board's commitment to ensuring that there is active participation from independent Directors in the leadership of the Board (recognising that the Chairman is not an independent Director). John will stand for election as an independent Non-executive Director at the 2017 Annual General Meeting (**AGM**).

	Director	Role	Independence
1	John Ho	Chair, Non-executive Director	Not independent
2	John Murphy	Deputy Chair, Non-executive Director	Independent
3	Wai-Chan Chan	Non-executive Director	Independent
4	Rodd Peters	Non-executive Director	Not independent

Further detail is contained in the Board Charter.

Director selection, nomination and appointment

The Company's process for the selection, nomination and appointment of Directors involves a formal selection process undertaken by the Board, with the assistance of the Remuneration and Nomination Committee.

The Board, on the advice of the Remuneration and Nomination Committee, establishes criteria about the general qualifications and experience, as well as the specific qualifications that a candidate should possess.

An executive search firm is generally engaged to assist selecting directors. Appropriate checks on any potential candidates are conducted before a person is appointed by the Board, or put forward to shareholders as a candidate for election as a Director.

The Company provides formal letters to all new Directors and senior executives setting out the key terms and conditions of their appointment.

Shareholders are provided with all material information in the Company's possession that is relevant to a decision on whether to elect or re-elect a Director in the notice of AGM.

Further detail is contained in the Remuneration and Nomination Committee Charter.

Induction and ongoing professional development

The Remuneration and Nomination Committee is responsible for formulating the induction process in respect of new Directors and the review of the same, alongside the development of any programs, or identification of any opportunities necessary to ensure the directors develop and maintain the skills and knowledge they require to fulfil their roles effectively.

Further detail is contained in the Remuneration and Nomination Committee Charter.

Performance evaluation

Board

The Board Charter requires that each year the Board will conduct an evaluation of its effectiveness and performance that evaluates:

- its own performance, including against the requirements of its Charter;
- the performance of its committees; and
- the performance of individual Directors, against both measurable and qualitative indicators.

Given that all of the Directors were only recently appointed, a performance evaluation of the Board, the Committees and each Director was not conducted in FY17. It is intended that an evaluation will be conducted in FY18.

Senior executives

The Remuneration and Nomination Committee monitors and advises on the periodic performance of senior executives. The CEO initiates performance reviews of the executive whereby the individual is assessed against agreed goals and objectives.

Performance evaluations of senior executives have been undertaken during the current financial year in accordance with that process. The outcomes of the review, and the link to individual remuneration levels, are discussed in the Remuneration Report.

Remuneration

Disclosure regarding the remuneration of the Company's Non-executive Directors, the CEO and CFO are set out in the 2017 Remuneration Report.

The CEO and each senior executive have a written contract with the Company. The Remuneration Report sets out details of each written contract of members of the Company’s key management personnel.

Company Secretary

The Company Secretary is accountable to the Board through the Chair, and all Directors have access to the Company Secretary.

The Company Secretary’s role in respect of matters relating to the proper functioning of the Board includes advising the Board and its Committees on governance matters, monitoring that Board and Committee policies and procedures are followed, coordinating all Board business (including agendas, board papers, minutes, communication with regulatory bodies and ASX, and all statutory and other filings) and providing a point of reference for dealings between the Board and employees.

Further detail is contained in the Board and Committee Charters.

Board Committees

The following Committees assist the Board in carrying out its responsibilities:

- Audit and Risk Committee; and
- Remuneration and Nomination Committee.

An overview of the role and responsibilities, composition, and membership as at 30 June 2017 of each Committee is provided below.

	Audit and Risk Committee[1]	**Remuneration and Nomination Committee**[2]
Roles and responsibilities	The primary purpose of the Audit and Risk Committee is	The primary roles of the Remuneration and

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[1] Prior to the extraordinary meeting on 28 February 2017, the Audit and Risk Committee comprised Patria Mann (Chair), Rob Woolley, and Michael Wadley who were all independent Non-executive Directors.

[2] Prior to the extraordinary meeting on 28 February 2017, the Remuneration and Nomination Committee comprised Launa Inman (Chair), Rob Woolley, and Charles Sitch who were all independent Non-executive Directors.

	Audit and Risk Committee[1]	Remuneration and Nomination Committee[2]
	to monitor and advise the Board on: • financial reporting; • external audit; • risk management; and • internal control structure.	Nomination Committee are to assist the Board: • to attract and retain suitable Directors and senior executives; • to ensure that Directors and executives • are fairly and responsibly remunerated; • to evaluate the performance of Directors and executives; and • to ensure that there are appropriate succession plans.
Members as at 30 June 2017	• John Murphy (Chair) • Rodd Peters • Wai-Chan Chan The Chair of the Audit and Risk Committee is an independent Director who is not the Chair of the Board and the majority of the Committee's members of independent.	• John Murphy (Chair) • John Ho • Wai-Chan Chan The Chair of the Remuneration and Nomination Committee is an independent Director who is not the Chair of the Board and the majority of the Committee's members of independent.
Composition	The Committee must comprise of: • a minimum of 3 members of the Board; • only Non-executive Directors; • a majority of independent Directors; and • an independent Director who is nominated by the Board as Chair, who is not Chair of the Board.	The Committee must comprise of: • a minimum of 3 members of the Board; • only Non-executive Directors; • majority of independent Directors; and • an independent Director who is nominated by the Board as Chair, who is not Chair of the Board.

The Company's Audit and Risk Committee composition complies with the ASX Listing Rules and ASX Recommendations.

The Company's Remuneration and Nomination Committee composition complies with the ASX Listing Rules as it comprises all Non-executive Directors. A majority of the Directors on the Committee are independent Directors and it therefore complies with Recommendation 8.1, that a majority of members should be independent. See Audit and Risk Committee Charter and Remuneration and Nomination Committee Charter for further information.

Details of the number of meetings held by the Board and its Committees during FY17, and attendance by Board members, are disclosed on pages 13 and 14.

Details of each Committee member, including the skills, experience, relevant expertise, independence and period of office, are disclosed on pages 9 and 12.

Risk framework

Risk management and identification

The Company has employed ongoing risk management processes. The Company maintains a risk register that identifies the key risks facing the business, and the status of initiatives implemented to manage them. This risk register is reviewed and updated on a regular basis.

The Audit and Risk Committee have responsibility for monitoring and reporting to the Board on the Company's risk management framework including:

- identifying, assessing, monitoring and managing risk; and
- any material change to the group's risk profile.

The Company undertakes annual reviews of the risk management framework to ensure that it continues to be sound. The Company has undertaken a review of its risk management process in FY17.

The Board ensures that adequate external insurance cover is in place appropriate to the Company's size and risk profile.

The Company also regularly considers its material exposure to economic, environmental and social sustainability risks.

Internal audit

The Company does not have an internal audit function.

Due to the Company's size and business structure, the Company has not had an internal audit function. Under the Audit and Risk Committee Charter, the Audit and Risk Committee is responsible for providing an independent and objective assessment to the Board regarding the adequacy, effectiveness and efficiency of the Company's risk management and internal control processes. The Committee has full and complete access to the Company's executives, external auditor and to external advisers.

External auditor

The external auditor attended the Company's 2016 AGM and was available to answer questions.

The Company requires that its external auditor attend the Company's 2017 AGM and be available to answer questions.

CEO and CFO declaration

A decision by the Board to approve the Company's financial statements for a financial period is subject to receipt from its CEO and CFO of a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.

Such declarations were received by the Board in respect of both the half-year and full- year financial statements for 2017.

Governance policies

Code of Conduct

The Company has a comprehensive Code of Conduct that applies to its Directors, senior executives and employees. The code addresses (amongst other things):

- Compliance with laws and regulations;
- Fair trading and dealing;
- Conflicts of interest;
- Improper use of Bellamy assets or intellectual property;
- Privacy;
- Employment practices;
- Community engagement; and
- Public communications and disclosures.

Securities Trading Policy

The Company's Long-Term Incentive Scheme does not allow participants to enter into transactions (whether through the use of derivatives or otherwise) that limit the economic risk of participating in the scheme.

This is supported by the Company's Securities Trading Policy under which employees are prohibited from entering into transactions using financial products that operate to limit the economic risk associated with holding vested and unvested Company securities. Further, all employees are prohibited from entering into margin loan arrangements to fund the acquisition of any of the Company's securities.

Diversity

The Board is committed to improving its workplace diversity throughout the organisation. To help achieve this, the Board, together with the Remuneration and Nomination Committee, has established measurable objectives for attaining gender diversity. The Company has plans to formally approved a Diversity Policy in FY18 to facilitate a more diverse and representative management and leadership structure.

The measurable objectives, and Bellamy's progress towards achieving them, will be assessed annually by the Board (on recommendation of the Remuneration and Nomination Committee), and will be reported on in the Annual Report each year. The achievement of these outcomes is included in the CEO's objectives and the charter of the Board also reflects these accountabilities.

Throughout the majority of FY17, women represented 50% of the Company's Board. Following changes to the composition of the Board and the review of the Company's management team during FY17, the proportion of women on the Board and in senior executive positions has decreased.

The Board recognises the importance of diversity in the workplace and is focused on achieving a balanced representation of women on the Board and in senior positions over a reasonable transition period. Following changes to the composition of the Board and the review of the Company's management team during FY17, the proportion of women on the Board has decreased. However, the number of women in Senior Executive positions has increased from 3 to 5.

	18 August 2016	24 August 2017	Board Measurable Objective
Board	50%	0%	40%
Senior Executive*	33%	42%	50%
All employees	67%	71%	50%

* defined as KMP and other senior managers

Continuous Disclosure

The Company has adopted a Continuous Disclosure Policy which establishes processes and procedures designed to ensure that directors and management are aware of and fulfil their obligations in relation to the timely disclosure of material price-sensitive information. Under the policy, the Board will be responsible for managing the Company's compliance with its continuous disclosure obligations.

Communicating with shareholders

The Board has established the Shareholder Communications Policy, which is designed to promote effective two-way communication with shareholders.

The Board ensures that shareholders are informed of all material information relating to the Company by communicating via:

- continuous disclosure to the ASX;
- media releases and publication of information on the Company’s website; and
- through its annual and half year reports.

The Company provides shareholders with the option of communicating with the Company and the Company’s share registry (Link Market Services Ltd) electronically. Shareholder’s communication preferences can be updated at any time by the member at the share registry’s website.

At the Company’s AGM the Board encourages the effective participation of shareholders in accordance with the Company’s Shareholder Communications Policy. At the AGM the Chair will provide time for questions and comments from security holders.

Remuneration Report

Message from the Chairman of the Board
The Board of Bellamy's presents the Remuneration Report for the financial year ended 30 June 2017.

This year, there have been significant changes to our Key Management Personnel and Board composition required to achieve a demanding turnaround and growth strategy. The new executive leadership team is:

- Andrew Cohen – Chief Executive Officer
- Nigel Underwood – Chief Financial Officer
- Peter Fridell – Director of Operations
- David Jedynak – Director Sales & Marketing
- Melinda Harrison – General Counsel & Company Secretary

Given the significant challenges that continue to face Bellamy's and the need to drive its demanding turnaround strategy, the Board has re-designed its remuneration program to ensure it:

- attracts, motivates and retains top talent executives and directors;
- aligns reward with the creation of sustainable value for shareholders including through long-term equity based incentives and performance metrics linked to total shareholder value;
- aligns rewards with strategic objectives and the Board's high performance expectations;
- implements a robust and transparent remuneration decision making process and performance review system; and
- targets stretch for critical talent and rewards exceptional performance.

At the 2016 Annual General Meeting (AGM) a sizable minority voted against the Remuneration Report, constituting a first strike. The new Board has taken seriously the AGM vote and the concerns raised by our shareholders and proxy advisors; and we have redesigned the remuneration program and the disclosures set out in this Report.

Our re-designed remuneration program:

- is heavily skewed to long term incentives aligned to long-term and sustainable enterprise value creation;
- includes minimal KMP fixed remuneration increases;
- comprises a re-designed STI plan which:
  - overall reduces at-target and maximum STI amounts, as well as STI participants;
  - focuses on stretch performance for critical talent linked directly to our turnaround objectives;
- contains a turnaround LTI plan which:
  - results in $500 million increase in shareholder value and a doubling of share price if full vesting is achieved over 3.5 years;
  - is an upfront grant covering the next 3 years with no vesting until the end of the performance period in year 2, 3, and 3.5 years promoting a long-term ownership mind-set;
  - is designed to attract, motivate and retain key talent and deliver long term value to shareholders
  - is 100% 'at risk' based only on the metric of total return to shareholders (**TSR**).

Our 2017 Remuneration Report transparently communicates remuneration outcomes for FY17 and clearly explains our re-designed remuneration structures, aligned to our turnaround strategy, that we have put in place in FY17 and beyond.

On behalf of the Board, we recommend the Report to you and we look forward to welcoming you to the 2017 AGM.

John Ho

Chairman of Board
Remuneration report (audited)

Remuneration Report

The Board of Bellamy's is committed to ensuring that our remuneration practices and policies drive a culture of performance and ensures executives are rewarded for the delivery of results and the achievement of Bellamy's short-term financial objectives and long-term business strategy and ultimately delivering value for our shareholders.

This report outlines the remuneration framework and outcomes of Bellamy's, for key management personnel for the year ended 30 June 2017. It also enables our investors to understand:

- The costs and benefits associated with Bellamy's remuneration practices and policies; and
- The link between Bellamy's performance and the remuneration paid to the CEO and KMP executives.

This report has been prepared in accordance with Section 300A of the *Corporations Act 2001 (Cth)*.

The Report has been set out as follows:

1 Key management personnel

2 Remuneration governance

3 Remuneration principle, strategy & outcomes

4 Executive contracts

5 Non-executive directors' remuneration

6 Termination payments to former CEO

7 Remuneration Tables – Directors and KMP executives

Remuneration Report

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 Consolidated entity (**Group**), directly or indirectly and includes any director of the Group (whether executive or otherwise).

The KMP of Bellamy's for the year ended 30 June 2017 were:

Current Non-executive Directors	**Role**	**Appointment Date**
John Ho[1]	Chairman	13 April 2017
John Murphy	Deputy Chairman	18 May 2017
Rodd Peters[2]	Non-executive Director	28 February 2017
Wai-Chan Chan	Non-executive Director	28 February 2017

Current KMP Executives	**Role**	**Appointment Date**
Andrew Cohen[3]	Chief Executive Officer	11 January 2017
	Chief Operations & Strategy Officer	27 June 2016
Nigel Underwood[4]	Chief Financial Officer	11 January 2017
Peter Fridell	Director of Operations	12 June 2017
David Jedynak	Director Sales & Marketing	12 June 2017
Melinda Harrison	General Counsel/Company Secretary	8 May 2017

Former Non-executive Directors	**Role**	**End Date**
Robert Woolley	Chairman	28 February 2017
Michael Wadley	Non-executive Director	28 February 2017
Patria Mann	Non-executive Director	18 May 2017
Launa Inman	Non-executive Director	28 February 2017
Charles Sitch	Non-executive Director	28 February 2017

Former KMP Executives	**Role**	**End Date**
Laura McBain[5]	Chief Executive Officer/Managing Director	11 January 2017
Shona Ollington[6]	Chief Financial Officer	11 January 2017

1. John Ho (**Ho**) joined the Board on 13 April 2017 and became Chairman on 18 May 2017;
2. Rodd Peters (**Peters**) was elected to the Board on 28 February 2017 and was appointed as interim Chairman of the Board on 1 March 2017 until 18 May 2017;
3. Andrew Cohen (**Cohen**) was appointed to the role of Chief Operations & Strategic Officer on 27th June 2016. He was appointed to the role of Acting CEO on 11 January 2017, and subsequently made permanent in that role on 13 April 2017;
4. Nigel Underwood (**Underwood**) was appointed to the role of advisor on 19 December 2016 under a short-term contract of employment. He was appointed to the role of Acting CFO on 11 January 2017 and subsequently made permanent in that role on 13 April 2017;
5. Laura McBain (**McBain**) departed as CEO of Bellamy's on 11 January 2017 and as a director on 24 January 2017 but remained as an employee until 31 March 2017; and
6. Shona Ollington (**Ollington**) was appointed to the role CFO on 11 August 2014 and moved to the role of Finance Director (reporting to the CFO) on 11 January 2017 (ceasing as a KMP on 11 January 2017).

Remuneration Report

Remuneration governance

Role of the Remuneration & Nomination Committee

The role of the Remuneration & Nomination Committee is to assist the Board by ensuring that Bellamy's:

- has appropriate remuneration policies and practices which enable Bellamy's to attract, motivate, and retain non-executive directors and executives to ensure sustainable value for our shareholders;
- fairly and responsibly remunerates non-executive directors and executives having regard to Bellamy's overall strategy and objectives, the performance of Bellamy's, the performance of the executives, and the general market environment; and
- has polices to evaluate composition of the Board, individual directors and executives and ensure succession plans are in place (including for the recruitment or appointment of non-executive directors and executives).

The remuneration committee is responsible for assessing performance against KPIs and determining the STI and LTI to be paid. To assist in this assessment, the committee receives detailed reports on financial performance from management which is based on independently verifiably data.

In the event of serious misconduct or a material misstatement in the company's financial statements the remuneration committee can cancel or defer performance-based remuneration and may also claw back performance-based remuneration paid in previous financial years.

The Remuneration & Nomination Committee has a Charter which outlines the terms of reference under which it operates. It is available online at www. bellamysorganic.com.au.

Engagement of remuneration consultants

The Remuneration & Nomination Committee periodically engages independent remuneration consultants to advise and assess the remuneration of the Chairman, Non-executive Directors, CEO and those executives reporting to the CEO. These advisors are engaged by, and report directly to, the Remuneration & Nomination Committee and are used to:

- provide updates on remuneration trends, regulatory changes, and shareholder and proxy advisor views;
- remuneration trends and market analysis; and
- assist in the review, design, and development of CEO and senior executive reward levels and arrangements (including short-term and long-term incentives).

During FY17, the Remuneration & Nomination Committee engaged Egan Associates Pty Ltd (**Egan**) and Godfrey Remuneration Group (**GRG**). During FY17 GRG provided extensive support in the design of the Turnaround LTI plan, but did not provide any recommendations on the participants, quantum for participants, or the target.

No remuneration recommendations from these independent remuneration consultants was received during the year ended 30 June 2017.

Remuneration principles, strategy & outcomes

Remuneration principles

Bellamy's approach to remuneration is framed by the strategic direction and operational demands of the business, the international context and market complexity in which Bellamy's operates, and the importance of linking executive remuneration to sustainable shareholder returns over the long-term.

The principles that underpin our remuneration approach:

- attracts, motivates and retains top talent executives and directors;
- aligns reward with the creation of sustainable value for shareholders including through long-term equity based incentives and performance metrics linked to total shareholder value;

- aligns rewards with strategic objectives and the Board's high performance expectations;
- drives behaviours that align with the interests of our shareholders;
- implements a robust and transparent remuneration decision making process and performance review system; and
- targets stretch for critical talent and rewards exceptional performance.

Attract, motivate, and retain the best talent for Bellamy's

- Bellamy's operates in a global market which is highly regulated and challenging and, therefore, needs to attract, motivate, and retain executives and directors who have the requisite skills and ability to perform at the highest of levels in order to ensure they deliver on Bellamy's strategic objectives and contribute to ongoing financial performance of Bellamy's and sustainable value for shareholders.

Support the execution of Bellamy's business strategy

- Setting performance measures and targets that support Bellamy's business performance in both the short term and long term; and
- Ensure that the performance measures and targets are clearly defined and understood by the executives and to ensure their relevance to the executive's role and linked to total shareholder value.

Alignment of remuneration with business performance and sustainable shareholder returns

- Ensure a correlation between an executive's reward and long-term shareholder value;
- Differentiate individual rewards commensurate with contribution to overall results and according to responsibility, performance, and potential; and
- Provide executives with an incentive to meet and exceed challenging performance targets set by the Board.

Good governance

- Having a Remuneration & Nomination Committee with a Charter which outlines its terms of reference;
- Having an approval process that sees the Board approving, based on remuneration recommendations of the Remuneration & Nomination Committee, remuneration for the CEO and all executives who report to the CEO.

Review of remuneration strategy & framework

The remuneration strategy & framework and associated programmes are reviewed regularly to ensure that they continue to align with the Bellamy's strategic objectives and focuses executives' effort on the long-term strength of Bellamy's, provides clear and direct alignment with shareholder interests through share ownership, i.e., executives are rewarded when shareholders are rewarded.

In the first half of FY17 the STI and LTI plans were reviewed; which resulted in a reduction in the number of participants as the view of the then Board was that only those employees who could directly impact the financial performance of Bellamy's should participate in an STI plan.

A remuneration benchmarking exercise for the new members in the Bellamy's Executive leadership team was performed. In the second half of FY17 the new Board reviewed the mix of short-term and long-term incentives and the quantum.

In line with the new Board's desire for a focus on long-term and sustainable enterprise value creation; there was a decrease in the quantum of the STI opportunity for KMP executives and an increase in the LTI opportunity for KMP executives.

Remuneration strategy & framework

The remuneration strategy sets the direction for the remuneration framework, and drives the design and application of remuneration practices and policies for executives of Bellamy's (including KMP).

Remuneration Report

Executive remuneration structure

As discussed above the new Board has reviewed the participants, quantum, and measures for both the STI plan and LTI plan it has not changed the components of the remuneration framework - details are set out below.

<table>
<tr><th>Component</th><th>Remuneration Approach & Performance Link</th></tr>
<tr><td>Total Fixed Remuneration (TFR)
- salary
- statutory superannuation</td><td>
<p>Executive TFR levels are market-aligned by comparison to similar roles in ASX-listed companies that have comparable market capitalisation, revenues, and financial metrics relevant to the executive’s role, executive’s knowledge, skills and experience, and individual performance.</p>
<p>This ensures that Bellamy’s attract, motivate, and retain top talent executives to ensure they can deliver on Bellamy’s business strategy and contribute to the Bellamy’s ongoing financial performance.</p>
</td></tr>
<tr><td>Short Term Incentive (STI)
- Annual incentive opportunity delivered in cash</td><td>
<p>The Bellamy’s Short Term Incentive plan rewards the CEO and those executives reporting to him (including the KMP executives) for performance against a pre-determined scorecard of measures linked to Bellamy’s short-term business performance (12 months) and individual performance. Performance measures may vary from year to year depending on the business’s objectives, and are chosen on the basis that they will increase financial performance, market share, and shareholder returns.</p>
<p>Relative weighting of fixed and variable components for target performance are set according to the scope of the executive’s role.</p>
<p>The STI plan is designed to encourage and reward high performance and for this reason it places a proportion of the executives’ remuneration at-risk against targets linked to the Company’s annual performance objectives. This supports the alignment between the interests of the executive, Bellamy’s and our shareholders.</p>
<p>A combination of financial and non-financial KPIs are used to ensure a balance between short term financial measures and more strategic non-financial measures which in the medium to longer term will support the growth of Bellamy’s.</p>
<p>Performance is generally measured against:</p>

Financial – actual results compared to budgeted results for items including EBIT, EBITDA, PBT and NPAT.
Business growth – NPAT, earnings per share, price earnings ratio, new order value, acquisitions and new customers.
Business management – cash generation, capital management, working capital management, inventory turnover, cost/revenue ratios, and staff utilisation.
Strategy – development, approval, implementation, and achievement.
People – leadership, development, retention, and high-performance.

<p>Measures and targets against which performance will be measured are established during the annual strategic review and budgeting process undertaken by Bellamy’s.</p>
<p>Performance for each measure is assessed on a range from Threshold, Target, to Stretch. A stretch target is set by the Board for each measure at a level that ensures maximum STI is payable only where performance has truly and substantially exceeded expectations. Threshold performance is set annually which is generally 90% of target performance but this will depend on the performance measure.</p>
<table>
<tr><th></th><th>Threshold</th><th>Target</th><th>Stretch</th></tr>
<tr><td>% STI measure performance</td><td>90%</td><td>100%</td><td>110%+</td></tr>
<tr><td>% STI at-target payable</td><td>60%</td><td>100%</td><td>101% to 167%</td></tr>
</table>
<p>The Board has discretion to adjust STI outcomes up or down to ensure that individual outcomes are appropriate to ensure that both the “What” and the “How” are recognised.</p>
<p>Relative weighting of fixed and variable components for target performance are set according to the scope of the executive’s role.</p>
</td></tr>
</table>

Remuneration Report

Long-term Incentive (**LTI**)
- An award of options with performance assessed over 3 or more years

The purpose of the LTI is to focus the executives' efforts on the achievement of sustainable long-term shareholder value creation and the long-term financial success of Bellamy's.

The provision of LTI plan awards via options for ordinary shares in Bellamy's encourages long-term share exposure for the executives and, therefore, drives behaviours that 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.

Performance measures may vary from year to year depending on the long-term business objectives, and are chosen on the basis that they will increase financial performance, market share and shareholder returns, influencing both share price and the capacity to pay increased dividends.

Each grant may be divided into two tranches and each tranche is measured independently from the other so one tranche may vest fully or partially whilst another tranche may not.

Remuneration mix

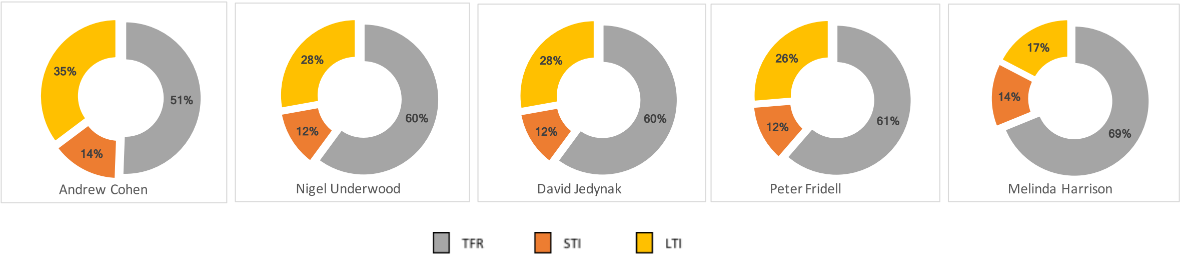
The Board recognises that each executive needs a significant portion of their remuneration to be at-risk and be linked to Bellamy's annual business objectives and actual performance and has ensured that the remuneration mix is aligned with the creation of sustainable value for shareholders.

Due to the importance of the demanding turnaround strategy for Bellamy's, the new Board has created a larger weighting for long-term variable remuneration; with a reduction in the short-term variable component. For the KMP executives the 'at risk' components are as follows:

	TFR	Short Term Incentive (At-Target)[1]	Short Term Incentive (Stretch)[2]	Long Term Incentive (At- Target Opportunity)[3]	Long Term Incentive (Maximum Opportunity)
Current KMP Executives					
Andrew Cohen[4]	$820,000	28%	47%	70%	140%
Nigel Underwood	$350,000	20%	30%	46%	93%
Peter Fridell	$350,000	20%	30%	43%	86%
David Jedynak	$350,000	20%	30%	46%	93%
Melinda Harrison	$270,000	20%	30%	25%	51%

1. The short-term incentive is the total payment at-target as a % of TFR
2. KMP executives' STIs have a stretch component that is designed to encourage above at-target performance as a % of TFR.
3. The long-term incentive refers to the value, of any grant as a % of TFR. The % in this table represents the annual value of options granted to KMP executives under the Turnaround LTI plan.
4. The at-target % and stretch % for Cohen's STI was decreased from 30% and 50% (1H) to 28% and 47% (2H) respectively as a result of his increased entitlement under the Turnaround LTI plan.

The mix of each at-target component as a percentage of the current KMP's, TFR is shown in the graph below with a detailed description of each element discussed in more detail below.



1. Relationship between KMP remuneration outcomes and FY17 company performance

Total fixed remuneration

Current KMP executives

On his appointment to the role of Chief Operations & Strategic Officer Cohen's fixed remuneration was $769,616. As a result of his appointment to the role of Acting CEO his TFR was increased to $820,000 (an increase of 6.5%). This increase was based on his increased responsibilities and accountabilities and the challenges he would face during a period of initial repair and turnaround. After confirmation of Cohen in the role of CEO permanently his TFR remained at $820,000.

Former KMP executives

After a review in 2016 McBain's TFR was increased to $820,000 (inclusive of superannuation), an 37.0% increase, and Ollington's TFR was increased to $313,616 (inclusive of superannuation), a 4.8% increase.

Short term incentive arrangements

Details of KMP executives' STI payments for the year ended 30 June 2017, the proportion to be received for at-target and stretch performance, achieved STI, and the amounts forfeited are shown in the tables below.

Current CEO's FY17 STI

Cohen's performance for FY17 has been assessed based on the following:

- first-half of FY17 (**1H17**) KPIs, whilst performing the role of Chief Operations & Strategy Officer (CO&SO);
- second-half of FY17 (**2H17**) KPIs, whilst performing the role of Chief Executive Officer (CEO); and
- consideration of Cohen's important and significant role in the repairing and the turn-around of Bellamy's in 2H17, including his leadership, direction and prioritisation of activities required in the later part of Q2 and Q3 of FY17.

1H FY17 performance

The measures for 1H17 were set by the then Board in early FY17 and related to Cohen's roles as Chief Operations & Strategy Officer.

The financial measures were the same for the former CEO McBain and her direct reports and were based on the then priorities for FY17.

The non-financial measures were specific to Cohen's role and required him to establish fully defined and adaptable 2020 strategy that clearly articulated the pathway for Bellamy's to become a Global and Iconic Infant Brand and transform the organisation to a high-performing FMCG group that could deliver the aspirations of the strategic plan with high retention and high engagement of employees.

Key Performance Indicators (1H)	Weighting (At-Target %)	Achievement (As a % of FY17 Target)	Paid out
Financial			
EBIT as a % Net Revenue	48%	79.50%	No
Gross Profit Margin as a % Net Revenu	6%	90.80%	Yes
Sales Revenue	6%	60.67%	No
Non-financial			
2020 Strategy	28%	125.00%	Yes
People	12%	125.00%	Yes
Total	**100%**		

For 1H17 only the Gross Profit Margin performance measure was achieved.

Cohen outperformed on all the non-financial measures:

- the strategy was defined and agreed to by the Board by 31 October 2016;

- the strategy was clearly and comprehensively communicated to executives and employees of Bellamy's;
- the implementation of a commercial finance function (to ensure an improved ability to manage gross margin, COGS, and the S&OP process); and
- a step change in marketing and e-commerce capability in Australia and China; and undertook key restructure decisions to materially reduce headcount and improve productivity.

2H FY17 performance

The 2H17 financial performance measures were set after the appointment of the new Board and Cohen to the role of CEO and were based on the need to focus on Bellamy's short-term financial performance and achieve the longer term turnaround (18 months) of Bellamy's.

The non-financial measures focussed on Credibility & Stability, Brand & Penetration, and Strategy & People both domestically and internationally.

Key Performance Indicators (2H)	Weighting (At-Target %)	Achievement (As a % of FY17 Target)	Paid out
Financial			
Normalised EBIT[1]	24%	150.91%	Yes
Gross Profit Margin %	6%	114.06%	Yes
Sales Revenue	30%	116.10%	Yes
Drive Out Cost	8%	125.00%	Yes
Positive Cash Flow	8%	125.00%	Yes
Non-financial			
Credibility & Stability	8%	125.00%	Yes
Brand & Penetration	8%	125.00%	Yes
Strategy & People	8%	125.00%	Yes
Total	**100%**		

1. Normalised EBIT excludes the significant items not expected to be repeated in future years, including inventory write-downs, FX losses, legal, accounting and restructuring costs which was important for Bellamy's in FY17.

The improved financial performance of Bellamy's is reflected in the 2H17 financial measures exceeding the stretch performance measure target and supplemented by a stronger cash position and inventory position (both owned and trade stock).

Cohen outperformed on all the non-financial measures by establishing a Board approved turnaround strategy, creating a new executive leadership team and organisation structure, and leading Bellamy's through a crisis and times of uncertainty.

Accordingly, the amount of STI awarded to Cohen recognises his individual performance and the strongly improved financial performance of Bellamy's in the 2H17. In addition to the payment for achieving the above targets the Board has awarded Cohen an additional discretionary payment of $20,000 to reflect the additional efforts required by him during this period due to the significant internal and external challenges in 2H17 and that Cohen's leadership team was relatively new.

Other KMP executive's STIs for FY17

Underwood commenced in January 2017, and was integral to the strategic reset of Bellamy's, successfully achieving financial stability and reducing the financial risk through working capital management and with the capital raising. This involved a high level of internal and external stakeholder engagement as well as partnering with the CEO, the Board and leadership team, to navigate through a complex series of issues. Underwood was integral to the strategic decisions as well as upgrading governance capability and support systems. This was all achieved in a short period of time and in an environment of considerable volatility and challenge.

In recognition of this achievement Underwood was awarded a $40,000 STI payment.
No other KMP executives were eligible to participate in the FY17 STI plan.

Summary of FY17 STI payments to KMP executives

1H17 STI Payment	STI $ At-Target	STI $ Stretch[1]	STI Achieved[2]	% At-Target STI Achieved	% Stretch STI Achieved	% Stretch STI Forfeited
Current KMP Executives	$	$	$	%	%	%
Andrew Cohen	116,391	193,985	84,902	72.9%	43.8%	56.2%
Nigel Underwood	0	0	0	0%	0%	0%

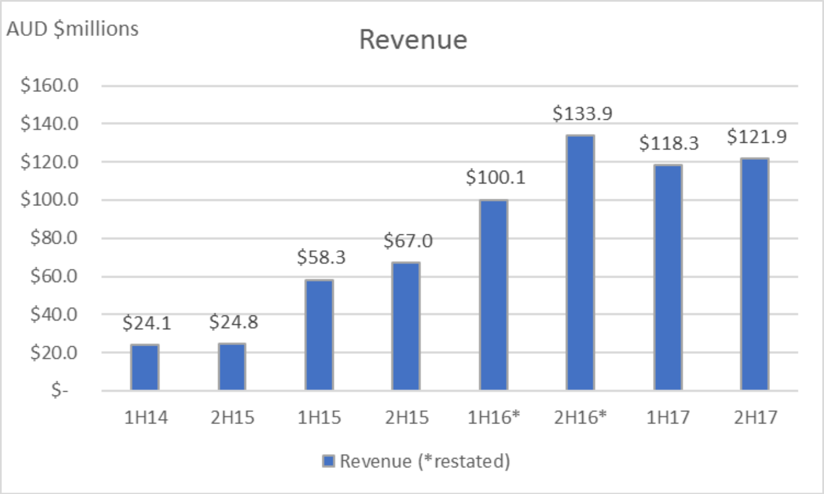
2H17 STI Payment	STI $ At-Target	STI $ Stretch[1]	STI Achieved[2]	% At-Target STI Achieved	% Stretch STI Achieved	% Stretch STI Forfeited
Current KMP Executives	$	$	$	%	%	%
Andrew Cohen	114,263	190,710	190,477	166.7%	100%	0%
Nigel Underwood[3]	35,000	52,500	40,000	114.3%	76.2%	23.8%

FY17 STI Payment	STI $ At-Target	STI $ Stretch[1]	STI Achieved[2]	% At-Target STI Achieved	% Stretch STI Achieved	% Stretch STI Forfeited
Current KMP Executives	$	$	$	%	%	%
Andrew Cohen[4]	230,654	384,695	295,379	128.1%	76.8%	23.2%
Nigel Underwood	35,000	52,500	40,000	114.3%	76.2%	23.8%

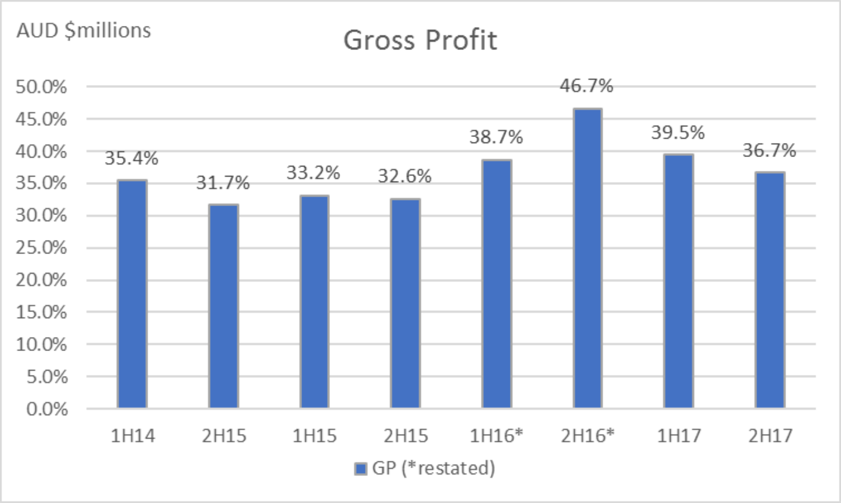
1. KMP executives' STIs have a stretch component that is designed to encourage above at-target performance.
2. STIs amounts indicated to have been achieved in respect of the year ended 30 June 2017 are subject to an annual review and only payable subsequent to 30 June 2017 upon ratification and recommendation by the Remuneration & Nomination Committee and approved by the Board of Directors.
3. Based on his start date of 11 January 2017 the payment to Underwood of $40,000 represents 57.14% of his annual at-target STI amount of $70,000 or 114.3% of his pro rata at-target STI amount of $35,000 for 2H17.
4. The $295,379 amount of "STI Achieved" awarded to Cohen includes the Board discretionary amount of $20,000.

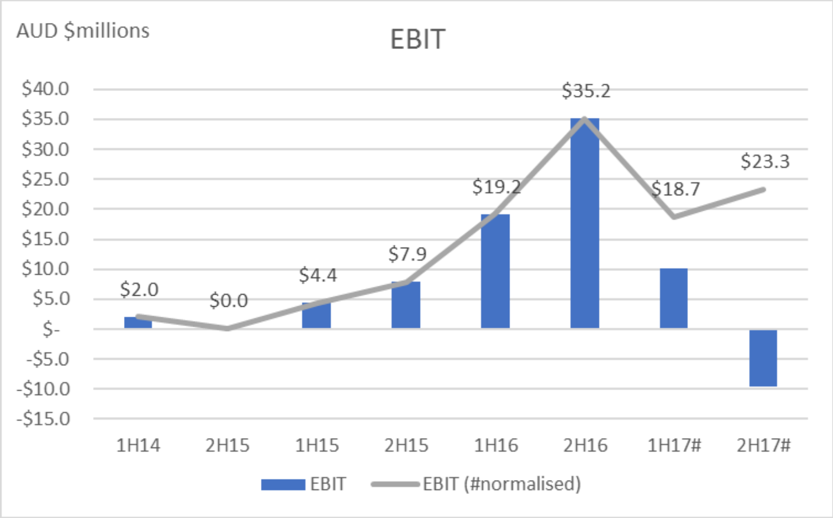
Company financial performance

The following graphs and table provides details of the relationship between KMP executives' at-risk remuneration (based on the 3 key financial measures) and Bellamy's overall financial performance:



Remuneration Report





Measure	2H17	1H17	2017	2016	2015
Net Revenue[1] ($000)	$121,885	$118,300	$240,182	$234,083	$125,302
Net Revenue Growth	3%		3%	87%	204%
EBIT[2]	$23,319	$18,688	$42,007	$54,306	$12,286
EBIT Growth	25%		-23%	342%	497%
Share price at start of year[4]	$5.35	$10.21	$10.21	$4.37	$1.30
Share price at end of year	$6.91	$6.68	$6.91	$10.21	$4.37
Share price growth	29%	-35%	-32%	134%	236%
Interim dividend (cents per share)	$0.000	$0.000	$0.000	$0.041	$0.00
Final dividend/distribution (cents per share)	$0.000	$0.000	$0.000	$0.078	$0.0286
Total dividend/distribution (cents per share)	$0.000	$0.000	$0.000	$0.119	$0.0286
Basic EPS (cents per share)	-$0.083	$0.075	-$0.080	39.8	9.8
Average STI payout as a % at-target for eligible KMP executives[3]			**121.17%**	**150.05%**	**138.89%**

1. The net revenue for 2016 is the restated number. (refer Note 5)
2. For 2017 normalised EBIT been used as it excludes the significant items not expected to be repeated in future years, including inventory write-downs, FX losses, legal, accounting and restructuring costs which was important for Bellamy's in FY17.
3. Only Cohen and Underwood participated in the FY17 STI plan
4. The share price on 11 January 2017 was $5.35 on resumption of trading following a trading halt.
5. Only Cohen and Underwood participated in the FY17 STI plan

Long-term incentive plans

Turnaround long-term incentive plan

The Board recognises the work required to achieve the turnaround of Bellamy's in order to deliver ongoing sustainable earnings growth and provide increased returns in the short term; and most importantly increased wealth for our shareholders over the long-term.

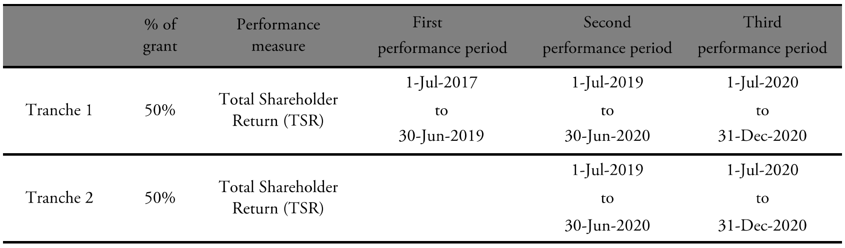
To achieve this turnaround Bellamy's needed to attract, motivate, and retain a strong and capable CEO and executive leadership team; but also directors who have extensive skills and experience to operate in such an environment. This is especially important due to:

- The complexity of the Bellamy's business;
- Bellamy's operating in a global market and a highly regulated market; and
- The need to carefully manage brand risk during this period of turnaround.

For this reason, the Board has implemented a long-term incentive plan specifically to motivate and retain executives during the turnaround. The Turnaround LTI plan has been designed to result in a $500 million increase in shareholder value if full vesting is achieved over the next 3 years.

The Board will be seeking shareholder approval for the Turnaround LTI plan at the 2017 AGM.

The terms and conditions that apply to the **Turnaround LTI plan** grant of options are set out below.

<table>
<tr><td>Participants</td><td>CEO, his direct reports and non-executive directors (excluding Chair of the Board), and other key executives who can substantially contribute to turnaround of Bellamy's.</td></tr>
<tr><td>What are options?</td><td>An option to acquire a fully paid ordinary share in the Company (subject to payment of an exercise price), that will only vest and become exercisable if performance hurdles are satisfied.</td></tr>
<tr><td>Do participants pay for options?</td><td>Options are granted as part of remuneration and therefore there is no payment provided in connection with a grant. However, senior executives are required to pay an exercise price to exercise the options and receive shares.</td></tr>
<tr><td>What is the grant frequency?</td><td>A single grant to cover next 3 years of equity remuneration. For participants who are not Directors the grant was made in June 2017. For participants who are Directors the grant was also made in June 2017, however, will be subject to approval at the 2017 AGM.</td></tr>
<tr><td>What is the performance period?</td><td>The grant was divided into two tranches. The performance period that applies to each tranche is set out below.

<table>
<tr><th></th><th>% of grant</th><th>Performance measure</th><th>First performance period</th><th>Second performance period</th><th>Third performance period</th></tr>
<tr><td>Tranche 1</td><td>50%</td><td>Total Shareholder Return (TSR)</td><td>1-Jul-2017
to
30-Jun-2019</td><td>1-Jul-2019
to
30-Jun-2020</td><td>1-Jul-2020
to
31-Dec-2020</td></tr>
<tr><td>Tranche 2</td><td>50%</td><td>Total Shareholder Return (TSR)</td><td></td><td>1-Jul-2019
to
30-Jun-2020</td><td>1-Jul-2020
to
31-Dec-2020</td></tr>
</table>
Note: The last testing for vesting may occur up to 31 March 2021.</td></tr>
<tr><td>What is the performance hurdle and why was it chosen?</td><td>The TSR Hurdle is based on the Company's share price growth on a compound basis performance over the relevant performance period. A TSR hurdle has been chosen as it is directly linked to the Company's share price growth and therefore the increase in value created for shareholders. Further details on the hurdle is set out below.</td></tr>
</table>

Remuneration Report

<table>
<tr><td>How does the TSR performance hurdle work?</td><td>
<table>
<tr><th>Company's TSR</th><th>% of options that will vest in tranche 2</th></tr>
<tr><td>Less than 50%</td><td>Nil</td></tr>
<tr><td>50%</td><td>50%</td></tr>
<tr><td>Above 50% but less than 100%</td><td>Between 50% and 100%, as determined on a pro-rata, straight line basis</td></tr>
<tr><td>At or above 100%</td><td>100%</td></tr>
</table>
The share prices used to calculate the TSR performance of the Company will be measured as follows:
– the opening share price of $5.643; and
– the closing share price will be the VWAP of the Company's ordinary securities traded on ASX for the 10 trading days following the announcement of the Company's annual results in respect of each performance period in the Total Performance Period (or following the announcement of the half yearly results in respect of the Third Performance Period).</td></tr>
<tr><td>Process for assessing performance conditions</td><td>The Board has determined that the TSR performance hurdle will be assessed based on the growth in the Company’s share price from $5.643 over the relevant performance period.
The Board believes the LTI provides the right measure and appropriately challenging target for participants.</td></tr>
<tr><td>What are the rights attaching to the options?</td><td>No voting rights or entitlements to dividends are attached to the options.</td></tr>
<tr><td>What is the vesting price and how was it determined?</td><td>$5.643, the Board determined the exercise price. This is the theoretical ex rights price (TERP) struck at the time acquisition, supply chain reset, and capital raising was announced.
The allocation price was $2.05 for tranche 1 and $2.04 for tranche 2 and was based on the fair value. The fair value is calculated using a binomial option pricing model, which takes into consideration factors such as the performance hurdles, probability of those hurdles being achieved, share price volatility, expected life of the award, dividend yield and risk free rate.</td></tr>
<tr><td>What happens on cessation of employment?</td><td>If a participant ceases to be employed within the Group due to Termination for Cause (as defined in the Rules), any and all Unvested Options held at the time will lapse with effect from the date of cessation of employment.
If a participant gives notices of resignation from employment with any Group Company, in circumstances where, in the Board's opinion, the Group Company was entitled to terminate the participant’s employment without notice or payment in lieu of notice or for actual or alleged misconduct, any and all Unvested Options the participant holds at that time will lapse on the date of cessation of their employment.
If a participant ceases to be employed within the Group for any reason that does not result in the lapse of all of the Unvested Options, a pro rata portion of any Unvested Options held at that time will lapse on the date of cessation of employment, unless the Board determines otherwise.</td></tr>
<tr><td>What happens on a change of control?</td><td>If a Corporate Control Event (as defined in the Rules) occurs that involves, or has resulted in, a person acquiring Voting Power of more than 50% in the Company, any and all of the Unvested Options issued to the participant under this Offer will be taken to have become Vested Options (and the outstanding Vesting Conditions will be waived) from the date on which the person's Voting Power in the Company increases from below to above 50% (as disclosed in the relevant substantial holding notice given to ASX).</td></tr>
<tr><td>Shareholder approval</td><td>Approval for this plan will be sought from shareholders at the 2017 AGM.</td></tr>
</table>

Legacy long-term incentive plan

The terms and conditions that applied to the FY17 grant of options under the **Legacy LTI plan** are the same as for the FY15 and FY16 grants. The conditions specific for the FY17 grant are set out below.

Participants

CEO, his direct reports, and other key executive.

What is the performance period?

The FY17 grant was divided into two tranches. The performance period that applies to each tranche is set out below.

	% of grant	Performance measure	Relevant performance period
Tranche 1	50%	Earnings per share	1/07/2016 – 30/06/2019
Tranche 2	50%	Share price growth	1/07/2016 – 30/06/2019

How does the EPS performance hurdle work?

The EPS performance hurdle is subject to the measurement of the Company's average annual growth in EPS.

Company's EPS	% of options that will vest in tranche 1
Less than 7%	Nil
12%	20%
Above 7% but less than 12%	Between 20% and 100%, as determined on a pro-rata, straight line basis
At or above 12%	100%

How does the SPG performance hurdle work?

For tranche 2, the percentage of the options that vest and become exercisable, if any, will be determined over the relevant performance period by reference to the following vesting schedule:

Company's SPG	% of options that will vest in tranche 2
Less than 8%	Nil
8%	20%
Above 8% but less than 12%	Between 20% and 100%, as determined on a pro-rata, straight line basis
At or above 12%	100%

The Board has determined that the opening share price to be used for the purpose of the SPG Hurdle is $14.14.

Process for assessing performance conditions

The EPS performance hurdle is assessed based on the Company's audited financial statements. This method of measurement was chosen as the use of financial statements ensures the integrity of the measure and alignment with the true financial performance of the Company.

The Board has determined that the SPG performance hurdle will be assessed based on the growth in the Company's share price from $14.14 over the relevant performance period.

What is the vesting price and how was it determined?

For the FY17 grant the original vesting price was $14.14 based on the volume weighted average share price over a 10-day period, comprised of the 5-day period before the announcement date of the Company's relevant annual financial results and the 5-day period commencing on 19 August 2016. As a result of the June 2017 rights issue, the exercise price of FY17 legacy LTI grant has been recalculated and is now $14.04. The allocation price was $2.74 and was based on the fair value. The fair value is calculated using a binomial option pricing model, which takes into consideration factors such as the performance hurdles, probability of those hurdles being achieved, share price volatility, expected life of the award, dividend yield and risk free rate.

When do the options expire?	23 December 2021.

Current CEO's FY16 grant of options

As disclosed in last year's remuneration report Cohen was provided with 3 grants of options on joining Bellamy's (1 July 2016) as follows:

- A grant of 37,575 as a sign-on offer with a vesting date of 30th June 2017, nil exercise price and a fair value of each option at the grant date of $9.98;
- A grant of 369,125 based on the offer made to other KMP as part of the FY15 Grant with a vesting date of 30 June 2017, an exercise price of $9.88 (adjusted) and a fair value of each option at the grant date of $1.21; and
- A grant of 283,250 based on the offer made to other KMP as part of the FY16 Grant with a vesting date of 30 June 2018, an exercise price of $9.88 (adjusted) and a fair value of each option at the grant date of $1.58.

The Board has approved the vesting of Cohen's 37,575 sign-on offer options and Cohen exercised them in August 2017 with a nil exercise price and a fair value of each option at the grant date of $1.21.

FY15 legacy long-term incentive grant vesting

The vesting of the FY15 legacy LTI grant is as follows:

- Cohen is able to participate in the legacy LTI plan (as detailed above and in the 2015 Remuneration Report);
- Whilst Ollington is no longer a KMP executive she is still able to participate in the FY15 legacy LTI plan (as detailed in the 2015 Remuneration Report); and
- McBain participated in the FY15 legacy LTI plan.

Cohen, Ollington and McBain were eligible to participate in the FY15 LTI grant. At the time of writing the FY15 legacy LTI grant had not been assessed and/or approved by the Board for Cohen and Ollington. Details of McBain's FY15 LTI grant vesting are set out on page 47 below.

Former CEO's future grant of options

The Board obtained shareholder approval for the grant of up to 1,050,000 options to McBain, CEO, as part of her long-term incentive (LTI) award for the financial years ending FY18, FY19, FY20.

As a result of McBain departing as CEO the Board cancelled these long-term incentive awards.

Exercise price adjustment

In accordance with Legacy Long Term Incentive Plan Rules, as a result of the June 2017 rights issue, the exercise price of legacy LTI grants has been recalculated as follows:

Grant	Grant Date	Original exercise price	Adjusted exercise price
FY15	29 June 2015	$1.30	$1.20
FY16	23 December 2015	$4.97	$4.87
FY16[1]	30 June 2016	$9.98	$9.88
FY17	3 October 2016	$14.14	$14.04

1. These grants relate to the current CEO's FY16 grant of options

The exercise price of the Turnaround LTI plan is not impacted as the exercise price of this grant already included an adjustment for the rights issue.

Remuneration Report

Executive contracts

The remuneration and other terms of employment for the executives are covered in formal employment contracts that have no fixed terms. Bellamy's 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.

	Notice Period by Bellamy's	Notice Period by Executive	Payment in lieu of notice	Redundancy for fundamental change in role	Redundancy
Current KMP Executives					
Andrew Cohen Chief Executive Officer (CEO)	6 months	6 months	Yes	Yes	Redundancy payment of 6 months' salary and will include any applicable pay in lieu of notice.
Nigel Underwood Chief Financial Officer (CFO)	6 months	6 months	Yes	Yes	Redundancy payment that varies depending on his length of service, the payment will range between 6 months' and 12 months' salary and will include any applicable pay in lieu of notice.
Peter Fridell Director of Operations	6 months	6 months	Yes	No	Redundancy payment that is calculated in accordance with the Company or Group's policy and will include any applicable pay in lieu of notice.
David Jedynak Director Sales & Marketing	6 months	6 months	Yes	No	Redundancy payment that is calculated in accordance with the Company or Group's policy and will include any applicable pay in lieu of notice.
Melinda Harrison General Counsel & Company Secretary	6 months	6 months	Yes	No	Redundancy payment that is calculated in accordance with the Company or Group's policy and will include any applicable pay in lieu of notice.

Non-executive directors' remuneration

Bellamy's remuneration policy for non-executive directors aims to ensure that Bellamy's 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 Bellamy's operations;
- the responsibilities and work requirements of Board members; and
- the skills and diversity of Board members.

Current fee levels and fee pool

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 Company. This amount is currently $1,000,000 as determined by Shareholders at the AGM held on 20 October 2015.

For FY17, non-executive directors' annual fees (inclusive of any superannuation entitlements) were:

Name	Base Fee	Chair of Audit Committee	Chair of Remuneration & Nomination Committee	Member of Audit Committee	Member of Remuneration & Nomination Committee
Chairman [1]	$200,000	$0	$0	$0	$0
Deputy Chairman [2]	$120,000	$0	$0	$3,000	$0
Director	$75,000	$15,000	$15,000	$3,000	$3,000

1. In order to ensure good governance and independence the Chairman made the personal decision to waive his Board fees, and this was approved at the 18 May 2017 Board meeting.
2. The Deputy Chairman is the Chair of the Remuneration & Nomination Committee and does not receive an additional fee for this role.

Directors may also be reimbursed for travel and other expenses incurred in attending to Bellamy's affairs.

Prior to his appointment to the Board of Bellamy's Murphy provided Bellamy's with consultancy services relating to

- assisting the CEO with talent development and acquisition;
- supply chain advice, procurement/ global sourcing, network redesign, and supplier negotiation;
- marketing and sales advice on the overall sales channel development; and
- internal and external Company communications.

These services were in addition to his directors' duties and required involvement outside ordinary board and committee meetings. These services were approved by the Board and the payments have been included in Table A.

All non-executive directors enter into a service agreement with the company in the form of a letter of appointment. The letter summarises the board policies and terms, including remuneration, relevant to the office of director. There are no retirement benefit schemes for directors other than statutory superannuation contributions, and non-executive directors' remuneration must not include a commission on, or a percentage of, the profits or income of Bellamy's.

Participation in Turnaround LTI plan

The Board recognises that the participation of directors in an equity-based plan is not usual.

Given the company is at the beginning of a critical turn-around phase, it was especially important to have high calibre Directors with the requisite and specific skills. The LTI plan is one of the components in being able to attract such talent to the Board.

John Ho, Bellamy's Chairman, led a remuneration review for Directors. The Board decided that instead of simply increasing the cash component of Director fee to attract the most suitable Board talent, it would use an at-risk LTI to motivate and recognise the significant amount of additional effort that will be required over and above what is considered in the ordinary course of business for a board as part of the turnaround of Bellamy's.

Recognising the potential conflict that an LTI plan could create for Directors, the LTI plan design is only linked to Total Shareholder Return. That is, unlike many LTI plans there is no business performance or subjective metrics that need to be assessed for vesting. Hence, this Turnaround LTI plan for Directors further achieves the objective of aligning the long-term enterprise value creation of the company and the total Director remuneration over the next few years.

The current Chairman will not participate in the Turnaround LTI plan.

Shareholder approval for the directors to participate in the Turnaround LTI plan will be sought at the 2017 AGM.

Termination payments to former CEO

Termination payment

Bellamy's has not paid any termination amount to McBain that exceeds the termination benefits cap under the *Corporations Act 2001(Cth)*.

Key terms of leaving arrangement

On 11 January 2017, the Board announced that McBain would leave the role of CEO effective 11 January 2017 (and resigned as a director of the company on 24 January 2017).

Under her employment contract McBain was entitled to 6 months' notice and Bellamy's had the right to require her to work all or part of this notice period. Accordingly, Bellamy's determined as follows:

1. McBain was on gardening leave for the period 11 January 2017 to 31 March 2017 during which time McBain agreed to assist with any outstanding matters; and
2. McBain received a termination payment which included a payment for the remaining 3 months (approximately) in lieu of notice, pro rata long service leave, unused annual leave, and other statutory entitlements.

No ex-gratia payments were or will be made to McBain nor is she entitled to a pro rata STI payment for FY17.

Long-term incentive outcomes

Equity granted in prior years under Bellamy's LTIP will, in accordance with the terms of their issue and McBain's employment contract:

> *If you cease to be employed for any other reason, then a pro rata proportion of any Unvested Options you hold at that time, calculated by reference to the proportion of the Performance Period that has elapsed as at the date you cease employment, will be tested based on performance against the EPS Hurdle and SPG Hurdle to that date.*

As at 31 March 2017, McBain had the following long-term incentive awards:

- The FY15 Options, granted on 29 June 2015;
- The FY16 Options, granted on 23 December 2015; and
- The FY17 Options, granted on 3 October 2016.

Each of the Options invitation letters provided the treatment to apply to McBain's unvested options on cessation of employment. That is, if McBain ceased to be employed for any reason other than termination for cause, then a pro rata proportion of any unvested Options held at that time, calculated by reference to the proportion of the total performance period that had elapsed as at the date McBain ceased employment, were tested based on performance to that date. The terms of the Options invitation letters were consistent with the terms approved by shareholders at the 2014 AGM.

In summary, the Company tested the awards and determined that only 504,870 of McBain's FY15 options would be eligible for vesting at this time as the remaining options did not yet meet the requisite performance hurdles. The FY16 and FY17 options also lapsed as the performance hurdles were not met. Details of the FY15 options that vested are set out in the table below.

Tranche	% of Grant	Performance Measures	Performance Period	Target	Pro rata Target (31 March 2017)	Result (31 March 2017)	% Options vesting	N° Options available for vesting
Tranche 1 EPS	16.67%	Absolute EPS	1-Jul-14 to 30-Jun 15	$0.0474	$0.098	$0.098	100%	**504,870**
Tranche 2 EPS	33.33%	EPS growth	1-Jul-14 to 30-Jun 17	$0.1122	$0.1104	$0.1078	0%	
Tranche 3	50.00%	SPG	1-Jul-14 to 30-Jun 17	$1.64	$1.61	$4.38	100%	

The treatment of unvested options on cessation of employment results in the automatic and accelerated vesting of a share-based payment, which is a termination benefit. Accordingly, any options provided in these circumstances fall within the termination benefits cap. This is because the legislation specifically catches automatic and accelerated share-based payments. Therefore, McBain was only entitled to receive 116,348 of the 504,870 vesting options with a maximum benefit equal to $369,988 (116,348 x $4.38* – 116,348 x $1.20). The remaining 388,522 options under the FY15 grant remain afoot as the company is still assessing the extent to which they will vest. As at the date of this report McBain had not exercised any of the 116,348 options.

*The share price of $4.38 was based on 10 day VWAP of Bellamy's shares up to the date of cessation of 31 March 2017.

Signed in accordance with a resolution of the Board of Directors.

John Ho
Chair

John Murphy
Director

Dated at Melbourne this 25th day of August, 2017

Remuneration Report

Details of the nature and amount of each element of the remuneration
Table A: Remuneration for KMP for the year ended 30 June 2017

		Short Term Employee Benefits			Post-employment Benefits		Share Based Payments		Total	Performance Related %
	Year		STI Payment[1]	Non-monetary benefits	Superannuation	Long term employment benefits	Shares	Options[2]		
Current Non-executive Directors		$	$	$	$	$	$	$	$	%
John Ho	2017	0	0	0	0	0	0	0	0	0%
	2016	0	0	0	0	0	0	0	0	0%
John Murphy[3]	2017	24,303	0	0	1,517	0	0	5,258	31,078	17%
	2016	0	0	0	0	0	0	0	0	0%
Wai-Chan Chan	2017	26,000	0	0	2,470	0	0	986	29,456	3%
	2016	0	0	0	0	0	0	0	0	0%
Rodd Peters	2017	52,237	0	0	4,904	0	0	986	58,127	2%
	2016	0	0	0	0	0	0	0	0	0%
Current KMP Executives										
Andrew Cohen	2017	772,867	295,379	0	19,385	0	0	1,035,465	2,123,096	63%
	2016	8,241	0	0	782	0	0	5,733	14,756	39%
Nigel Underwood	2017	165,015	40,000	44,309	7,758	0	0	12,916	269,998	20%
	2016	0	0	0	0	0	0	0	0	0%
Peter Fridell	2017	12,707	0	0	1,207	0	0	11,964	25,878	46%
	2016	0	0	0	0	0	0	0	0	0%
David Jedynak	2017	12,707	0	0	1,207	0	0	12,916	26,830	48%
	2016	0	0	0	0	0	0	0	0	0%
Melinda Harrison	2017	34,669	0	0	3,294	0	0	5,438	43,401	13%
	2016	0	0	0	0	0	0	0	0	0%
Former Non-executive Directors		$	$	$	$	$	$	$	$	%
Robert Woolley	2017	133,333	0	0	12,667	0	0	0	146,000	0%
	2016	200,000	0	0	19,000	0	0	0	219,000	0%
Michael Wadley	2017	52,000	0	0	4,941	0	0	0	56,941	0%
	2016	84,000	0	0	7,980	0	0	0	91,980	0%
Patria Mann	2017	71,419	0	0	7,054	0	0	0	78,473	0%
	2016	24,437	0	0	2,322	0	0	0	26,759	0%
Launa Inman	2017	54,000	0	0	5,131	0	0	0	59,131	0%
	2016	81,000	0	0	7,695	0	0	0	88,695	0%
Charles Sitch	2017	52,000	0	0	5,558	0	0	0	57,558	0%
	2016	23,860	0	0	2,267	0	0	0	26,127	0%
Former KMP Executives										
Laura McBain[4]	2017	612,300	0	13,243	19,616	457,750	0	175,289	1,278,198	14%
	2016	578,533	267,011	33,572	18,936	51,723	0	293,757	1,243,532	45%
Shona Ollington[5]	2017	158,110	30,000	0	10,882	1	0	34,130	233,123	28%
	2016	279,231	123,336	0	18,427	440	0	58,777	480,211	38%

1. The amounts shown for STI relates to the actual payments for FY16 and the approved amounts for FY17. Noting, the former CEO McBain was not entitled to any pro rata STI payment as part of her termination entitlements.
2. The fair value of options as at the date of their grant has been determined in accordance with AASB 2 Share-based Payment. The amount shown is the amortised expense for FY17 (pro rata for McBain and Ollington). For the Directors, the options granted are subject to shareholder approval at the 2017 AGM.
3. Murphy received $8,335 for consultancy services provided to Bellamy's, this amount has been included in his fees for FY17.
4. McBain received a termination payment of $457,750, which included payments of $224,723 for in lieu of notice, $135,482 for pro rata long service leave, and $97,545 for unused annual leave. Long service leave and annual leave are excluded from the termination cap
5. Ollington participates in the Turnaround LTI plan but was invited to participate after she ceased to be a KMP.

Remuneration Report

Share based payments

Table B: Share-based payments granted as remuneration to KMP during FY17

	Year	Option Series	Grant Date	Number Granted[1]	Value of Options Granted[2] $	Number Vested	Percentage of Grant Forfeited
Current Non-executive Directors							
John Ho	**2017**	**FY17 Grant**	**13-Jun-17**	**0**	**0**	**Nil**	**Nil**
	2016	FY16 Grant		0	0	Nil	Nil
John Murphy	**2017**	**FY17 Grant**	**13-Jun-17**	**193,373**	**395,448**	**Nil**	**Nil**
	2016	FY16 Grant		0	0	Nil	Nil
Wai-Chan Chan	**2017**	**FY17 Grant**	**13-Jun-17**	**36,257**	**74,146**	**Nil**	**Nil**
	2016	FY16 Grant		0	0	Nil	Nil
Rodd Peters	**2017**	**FY17 Grant**	**13-Jun-17**	**36,257**	**74,146**	**Nil**	**Nil**
	2016	FY16 Grant		0	0	Nil	Nil
Current KMP Executives							
Andrew Cohen	**2017**	**FY17 Grant[3]**	**03-Oct-16**	**1,843,345**	**3,762,028**	**35,575**	**Nil**
	2016	FY16 Grant	30-Jun-16	689,950	1,275,000	Nil	Nil
Nigel Underwood	**2017**	**FY17 Grant**	**13-Jun-17**	**475,000**	**973,750**	**Nil**	**Nil**
	2016	FY16 Grant		0	0	Nil	Nil
Peter Fridell	**2017**	**FY17 Grant**	**13-Jun-17**	**440,000**	**902,000**	**Nil**	**Nil**
	2016	FY16 Grant		0	0	Nil	Nil
David Jedynak	**2017**	**FY17 Grant**	**13-Jun-17**	**475,000**	**973,750**	**Nil**	**Nil**
	2016	FY16 Grant		0	0	Nil	Nil
Melinda Harrison	**2017**	**FY17 Grant**	**13-Jun-17**	**200,000**	**410,000**	**Nil**	**Nil**
	2016	FY16 Grant		0	0	Nil	Nil
Former KMP Executives							
Laura McBain	**2017**	**FY17 Grant**	**03-Oct-16**	**239,154**	**466,350**	**Nil**	**100%**
	2016	FY16 Grant	23-Dec-15	530,918	464,554	Nil	100%
	2015	FY15 Grant[4]	29-Jun-15	825,877	240,000	504,870	39%
Shona Ollington	**2017**	**FY17 Grant**	**03-Oct-16**	**40,021**	**78,042**	**Nil**	**Nil**
	2016	FY16 Grant	23-Dec-15	112,000	98,000	Nil	Nil

1. For the Directors, the options granted are subject to shareholder approval at the 2017 AGM.
2. The value of the options is amortised over the period from grant date to the vesting date for purposes of accounting and KMP remuneration reporting. The fair value of each option for the FY16 grant was $1.04 and for the FY17 legacy grant it was $0.875 for McBain and Ollington (the only KMP who participated), and for the FY17 Turnaround grant it was $2.05 for tranche 1 and $2.04 for Tranche 2. In FY18 the June FY17 grant will have a remuneration value of $2,263,986.
3. Cohen's grant for FY17 includes 168,345 options issued under the FY17 legacy LTI plan and 1,675,000 options issued under the FY17 Turnaround LTI plan.
4. For McBain 116,348 of the 504,870 vesting options were eligible to be exercised based on a maximum termination benefit cap of $369,988 (116,348 x $4.38* – 116,348 x $1.20) but at the date of this report they have not been exercised. The remaining 388,522 options under the FY15 grant remain afoot as the company is still assessing extent to which they will vest.
5. Loans to KMP and other transactions of KMP and their personally related entities - neither Bellamy's nor any other Group company:
    - has outstanding loans with KMP; or
    - was party to any other transactions with KMP (including their personally related entities)

Remuneration Report

Options over shares in Bellamy's Australia Limited

Table C: Movements during FY17 in the options over shares in the Company held, directly, indirectly or beneficially, by each KMP, including their related parties.

	Year	Options held at Start of Year	Granted as remuneration in period[1]	Vested in FY17 and exercisable	Exercised during the reporting period	Options pending forfeiture	Options forfeited in FY17	Options held at End of Year
Current Non-executive Directors								
John Ho	**2017**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
	2016	0	0	0	0	0	0	0
John Murphy	**2017**	**0**	**193,373**	**0**	**0**	**0**	**0**	**193,373**
	2016	0	0	0	0	0	0	0
Wai-Chan Chan	**2017**	**0**	**36,257**	**0**	**0**	**0**	**0**	**36,257**
	2016	0	0	0	0	0	0	0
Rodd Peters	**2017**	**0**	**36,257**	**0**	**0**	**0**	**0**	**36,257**
	2016	0	0	0	0	0	0	0
Current KMP Executives								
Andrew Cohen[2]	**2017**	**689,950**	**1,843,345**	**37,575**	**0**	**0**	**0**	**2,533,295**
	2016	0	689,950	**0**	**0**	0	0	689,950
Nigel Underwood	**2017**	**0**	**475,000**	**0**	**0**	**0**	**0**	**475,000**
	2016	0	0	0	0	0	0	0
Peter Fridell	**2017**	**0**	**440,000**	**0**	**0**	**0**	**0**	**440,000**
	2016	0	0	0	0	0	0	0
David Jedynak	**2017**	**0**	**475,000**	**0**	**0**	**0**	**0**	**475,000**
	2016	0	0	0	0	0	0	0
Melinda Harrison	**2017**	**0**	**200,000**	**0**	**0**	**0**	**0**	**200,000**
	2016	0	0	0	0	0	0	0
Former KMP Executives								
Laura McBain[3]	**2017**	**1,356,795**	**239,154**	**116,348**	**0**	**1,010,825**	**(468,776)**	**1,127,173**
	2016	1,779,210	530,918	953,333	(953,333)	0	0	1,356,795
	2015	953,333	825,877	0	0	0	0	1,779,210
Shona Ollington	**2017**	**328,793**	**40,021**	**0**	**0**	**0**	**0**	**368,814**
	2016	216,793	112,000	0	0	0	0	328,793

1. For the Directors, the options granted are subject to shareholder approval at the 2017 AGM.
2. The Board approved the vesting of Cohen's 37,575 sign-on offer options and Cohen exercised them in August 2017 with a nil exercise price and a fair value of each option at the grant date of $1.21.
3. For McBain 116,348 of the 504,870 vesting options were eligible to be exercised based on a maximum termination benefit cap of $369,988 (116,348 x $4.38* – 116,348 x $1.20); and at the date of this report they have not been exercised. The remaining 388,522 options under the FY15 grant remain afoot as the company is still assessing extent to which they will vest.

Fully paid ordinary shares of Bellamy's Australia Limited
Table D: Movement during FY17 in the shares of Bellamy's held, directly, indirectly or beneficially, by each KMP, including their related parties.

	Year	Shares held at Start of Year or when commenced	Net other changes	Shares held at End of Year[1&2]
Non-executive Directors		**No.**		**No.**
John Ho	**2017**	**6,779,284**	**892,010**	**7,671,294**
	2016	0	0	0
Rodd Peters	**2017**	**94,700**	**148,000**	**242,700**
	2016	0	0	0
Wai-Chan Chan	**2017**	**0**	**0**	**0**
	2016	0	0	0
John Murphy	**2017**	**0**	**0**	**0**
	2016			0
Current KMP Executives				
Andrew Cohen	**2017**	**13,750**	**0**	**13,750**
	2016	13,750	0	13,750
Nigel Underwood	**2017**	**0**	**0**	**0**
	2016	0	0	0
Peter Fridell	**2017**	**0**	**0**	**0**
	2016	0	0	0
David Jedynak	**2017**	**0**	**0**	**0**
	2016	0	0	0
Melinda Harrison[3]	**2017**	**3,475**	**0**	**3,475**
	2016	0	0	0
Former Non-executive Directors				
Robert Woolley	**2017**	**452,277**	**(352,277)**	**n/a**
	2016	1,335,739	(883,462)	452,277
Michael Wadley	**2017**	**0**	**0**	**n/a**
	2016	0	0	0
Patria Mann	**2017**	**4,000**	**0**	**n/a**
	2016	0	4,000	4,000
Launa Inman	**2017**	**26,020**	**0**	**n/a**
	2016	22,000	4,020	26,020
Charles Sitch	**2017**	**0**	**0**	**n/a**
	2016	0	0	0
Former KMP Executives				
Laura McBain	**2017**	**1,165,376**	**(1,165,376)**	**n/a**
	2016	1,565,376	(400,000)	1,165,376
Shona Ollington	**2017**	**0**	**0**	**n/a**
	2016	0	0	0

1. There were no shares held nominally by KMP as at 30 June 2017 and as at the date of this report.
2. The shareholding for the exiting directors and former KMP executives are shown at the end of their term, not the end of the year.
3. The shares shown for Harrison are held directly by a family member.

Auditor's Independence Declaration

Auditor's Independence Declaration

As lead auditor for the audit of Bellamy's Australia Limited for the year ended 30 June 2017, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Bellamy's Australia Limited and the entities it controlled during the period.

Alison Tait

Alison Tait
Partner
PricewaterhouseCoopers

Melbourne
25 August 2017

PricewaterhouseCoopers, ABN 52 780 433 757
2 Riverside Quay, SOUTHBANK VIC 3006, GPO Box 1331, MELBOURNE VIC 3001
T: 61 3 8603 1000, F: 61 3 8603 1999, www.pwc.com.au

Financials

Consolidated Financial Statements

Bellamy’s Australia Limited

Consolidated Statement of Profit or Loss and Other Comprehensive Income
for the year ended 30 June 2017

	Note	2017 $’000	Restated 2016 $’000
Revenue	5	240,182	234,083
Cost of sales	6	(148,661)	(132,855)
Gross Profit		**91,521**	**101,228**
Other income	5	248	522
Direct costs (distribution & other costs)	6	(22,258)	(18,010)
Employee costs	6	(15,992)	(10,433)
Marketing & promotion costs		(10,919)	(6,969)
Administrative and other costs	6	(41,220)	(11,725)
Depreciation and amortisation		(787)	(307)
Earnings before net interest and tax (EBIT)		**593**	**54,306**
Net interest (expense) / revenue	6	(1,270)	588
(Loss)/ profit before income tax		**(677)**	**54,894**
Income tax expense	7	(131)	(16,566)
Net (Loss)/profit for the year		**(809)**	**38,328**
Other comprehensive income (net of tax)			
Items that may be reclassified to profit and loss Changes in the fair value of cash flow hedges Income tax relating to these items		540	(565)
Exchange differences arising from translation of wholly owned foreign entities		(447)	(599)
Total other comprehensive income		**93**	**1,164**
Total comprehensive income for the year		**(716)**	**37,164**

	2017 cents	2016 Cents
Basic earnings per share	(0.8)	39.8
Diluted earnings per share	(0.8)	38.6

The above Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

Bellamy's Australia Limited

Consolidated Balance Sheet

as at 30 June 2017

	Note	2017 $'000	2016 $'000
Assets			
Current assets			
Cash and cash equivalents	21(a)	17,479	32,295
Trade and other receivables	8	37,057	33,887
Inventories	11	93,497	67,752
Other financial assets	9	-	500
Financial assets at fair value through profit or loss	10	-	283
Current tax assets	18	274	-
Other assets	16	2,051	4,475
Total current assets		150,358	139,192
Non-current assets			
Property, plant and equipment	12	1,006	1,105
Intangible assets	13	1,740	1,704
Deferred tax assets (net)	18	3,537	1,500
Total Non-current assets		6,283	4,309
Total assets		156,641	143,501
Liabilities			
Current liabilities			
Trade and other payables	14	37,726	48,373
Borrowings	15	25,264	113
Provisions	17	2,329	328
Derivatives	15	34	807
Current tax liabilities	18	-	10,495
Total Current Liabilities		65,353	60,116
Non-current liabilities			
Borrowings	15	-	18
Provisions	17	29	146
Total Non-current liabilities		29	164
Total liabilities		65,382	60,280
Net assets		91,259	83,221
Equity			
Issued capital	19	53,795	40,216
Reserves	20	5,635	2,829
Retained profits		31,829	40,176
Total equity		91,259	83,221

The above Consolidated Balance Sheet should be read with the accompanying notes.

Consolidated Statement of Changes in Equity

For the year ended 30 June 2017

	Issued capital $'000	Foreign currency translation reserve $'000	Cash flow hedge reserve $'000	Share based payment reserve $'000	Retained earnings $'000	Total $'000
Balance as at 1 July 2016	40,216	(373)	(565)	3,767	40,176	83,221
Comprehensive income						
Profit for the year	-	-	-	-	(809)	(809)
Other comprehensive income	-	(447)	540	-	-	93
Total comprehensive income	-	(447)	540	-	(809)	(716)
Issue of shares (net of transaction costs)	13,579	-	-	-	-	13,579
Dividends	-	-	-	-	(7,538)	(7,538)
Share based payments	-	-	-	2,713	-	2,713
Balance as at 30 June 2017	53,795	(820)	(25)	6,480	31,829	91,259
Balance as at 1 July 2015	39,655	(159)	-	499	8,916	48,911
Comprehensive income						
Profit for the year	-	-	-	-	38,328	38,328
Other comprehensive income	-	(214)	(565)	-	(385)	(1,164)
Total comprehensive income	-	(214)	(565)	-	37,943	37,164
Issue of shares (net of transaction costs)	561	-	-	-	-	561
Dividends	-	-	-	-	(6,683)	(6,683)
Share based payments	-	-	-	3,268	-	3,268
Balance as at 30 June 2016	40,216	(373)	(565)	3,767	40,176	83,221

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Bellamy's Australia Limited

Consolidated Statement of Cash Flows

for the year ended 30 June 2017

	Note	2017 $'000	2016 $'000
Cash flows from operating activities			
Cash receipts from customers		237,018	231,092
Cash payments to suppliers and employees		(269,433)	(214,416)
Cash generated from operations		(32,415)	16,676
Interest received		94	598
Dividends received		-	5
Other revenue		-	38
Interest paid		(876)	(10)
Income taxes paid		(12,522)	(8,412)
Net cash inflow/(outflow) from operating activities	21 (b)	(45,718)	8,895
Cash flows from investing activities			
Proceeds from sale of property plant & equipment		48	1
Purchases of property, plant & equipment		(273)	(752)
Proceeds on sale of investments		297	-
Purchases of intangibles		(544)	(1,651)
Net cash outflow from investing activities		(472)	(2,402)
Cash flows from financing activities			
Proceeds from share issue		13,175	561
Proceeds of borrowings		65,452	(107)
Repayment of borrowings		(40,319)	-
Dividends paid to Company's shareholders		(7,135)	(6,684)
Net cash inflow/(outflow) from financing activities		31,173	(6,230)
Net increase/(decrease) in cash equivalents		(15,018)	263
Cash and cash equivalents at the beginning of the financial year		32,295	32,035
Effects of exchange rate changes		202	(3)
Cash and cash equivalents at the end of the financial year	21 (a)	17,479	32,295

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

Notes to the Financial Statements

For the year ended 30 June 2017

These are the consolidated financial statements of Bellamy's Australia Limited and its subsidiaries. A list of all subsidiaries is included in Note 25. The financial statements are presented in the Australian currency. The Notes are set out in the following main sections:

How numbers are calculated: provides a breakdown of those individual line items in the financial statements that the Directors consider most relevant in the context of the operations of the Group, or where there have been significant changes that required specific explanations.

Risk: discusses the Group's exposure to various financial risks and what the Group does to manage these risks.

Group structure: explains significant aspects of the Group structure.

Unrecognised items: provides information about items that are not recognised in the financial statements.

Other information: includes information that is not directly related to specific line items in the financial statements, including: related party transactions and share-based payments. Other information also includes significant accounting policies applied in the preparation of these financial statements.

How numbers are calculated

1 Significant changes in the current reporting period

During the year the Group experienced a disconnect between its production, distribution and sales strategies. In early 2H17, a sales reset strategy was successfully deployed and followed by a supply chain reset. The result has been to stabilise sales and margin and reduce inventory. At the end of 2H17, a capital raise provided funding to acquire a manufacturing facility as well as improve working capital. The Group was debt free by the end of July 2017.

For detailed discussion of the Group's performance and financial position refer also to the Operating and Financial Review on pages 6 to 8. This review identifies costs that are not expected to recur in future financial years.

Refer note 22 for the critical estimates and judgements note related to the future working capital requirements of the Group.

2 Segment information

a) Description of segments

Operating segments are determined in accordance with AASB 8 Operating Segments. To identify the operating segments of the business management has considered the business from both a product and geographical perspective, as well as considering the way information is reported to management and the Board.

The operating segments have been redefined based on the geographical location of the retailer/reseller in respect of the direct sale by the Company to reflect how the business is now managed. Previously segments were determined based on Management's assumption of the location of the end consumer. This change has been implemented to simplify reporting and to eliminate judgement in determination of identification of the end consumer. The 2016 segment disclosure has been amended to reflect the change in segments.

The three operating segments are as follows:

i) Australia – revenues derived from sales to retailers and other resellers within Australia.

ii) China/Hong Kong – revenue derived from sales to Chinese distributors and online sales from third party websites to Chinese customers.

iii) Other/South East Asia – sales to other distributors and retailers, predominantly in South East Asia.

Senior management assess the performance of the operating segments based on a measure of underlying earnings before interest and tax (EBIT). This measurement basis excludes the effects of non-recurring expenditure from the operating segments such as restructuring costs and one-off items to ensure comparability of the underlying operating result. Interest income and expenditure are not allocated to segments.

Significant items relate to significant changes in the business during the past financial year and are identified due to their nature and magnitude on the assessment of segment performance. They include the costs that are associated with the turnaround plan and include costs arising from the supply chain reset, professional fees and restructuring costs that are not expected to recur in future financial years. These have been included as non-recurring and are excluded by management when assessing the underlying EBIT of the segments.

A reconciliation of segment EBIT to profit before income tax is provided in (b) below.

Total assets and liabilities are measured in a manner consistent with that in the financial statements. These assets are allocated based on the operations of the segment and physical location of the asset.

2017 $'000	**Australia**	**China/Hong Kong**	**Other/South East Asia**	**Group Total**
Segment revenue from external customers	160,049	73,143	6,990	240,182
Underlying segment EBIT *	32,221	14,516	115	46,853
Segment EBIT %	20.1%	19.97%	1.7%	19.5%
Total segment assets	123,158	10,956	1,237	**135,351**
Total segment liabilities	34,770	1,558	3,397	**39,725**
Other disclosures				
Depreciation & amortisation	731	31	25	787
Income Tax	(606)	870	(133)	131
Restated 2016 $'000				
Segment revenue from external customers	180,342	49,932	3,809	234,083
Underlying segment EBIT	41,526	14,975	340	56,841
Segment EBIT %	23.0%	30.0%	8.9%	24.3%
Total segment assets	**91,089**	**17,463**	**1,154**	**109,706**
Total segment liabilities	**46,931**	**1,352**	**90**	**48,373**
Other disclosures				
Depreciation & amortisation	249	38	20	307
Income Tax	15,082	1,738	(255)	16,566

b) Reconciliation of the underlying segment EBIT to profit before tax

	2017 $'000	**2016 $'000**
Underlying segment EBIT	46,853	56,841
Unallocated corporate costs *	(4,845)	(2,535)
Significant items /non-recurring:		
Inventory provisions and write-down	(6,838)	-
Restructuring costs	(1,449)	-
Fonterra payment for supply chain reset	(27,500)	-
Costs associated with the acquisition of Camperdown Powder and indirect capital raising costs	(1,083)	-
Professional fees of a non-recurring nature	(2,980)	-
Ineffective foreign exchanges hedge losses	(1,564)	-
	(41,414)	-
Net interest revenue/(expense)	(1,270)	588
(Loss)/profit before tax	(677)	54,894

*Non trading entity costs

c) Reconciliation of segment assets and liabilities

	Australia		China/Hong Kong		Other/South East Asia		Consolidated	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Segment **assets**	123,158	91,089	10,956	17,463	1,237	1,154	135,351	109,706
Unallocated								
Cash and cash equivalents							17,479	32,295
Current tax assets							274	-
Deferred tax assets (net)							3,537	1,500
Total assets							**156,641**	**143,501**
Segment liabilities	34,770	46,931	1,558	1,352	3,397	90	39,725	48,373
Unallocated								
Provisions (employee benefits)							358	474
Borrowings							25,264	131
Derivatives							34	807
Current tax liabilities							-	10,495
Total Liabilities							**65,382**	**60,280**

Shareholder returns

3 Earnings per share

	2017 cents	**2016 Cents**
Basic earnings per share (a)	(0.8)	39.8
Diluted earnings per share (b)	(0.8)	38.6

a) Basic earnings per share

The calculation of basic earnings per share is based on the profit/(loss) attributable to ordinary shareholders of ($809,000) (2016: $38,328,000) and the weighted average number of shares outstanding of 96,736,658 (2016: 96,350,131).

b) Diluted earnings per share

The calculation of diluted earnings per share is based on the weighted average number of shares outstanding of 103,893,555, including unexercised employee options of 6,891,010 (2016: 3,035,662).

The calculation does not include 3,190,042 shares to be issued to the vendors of Camperdown Powder Pty Ltd when conditions subsequent have been achieved. It also does not include 265,888 options issued to the directors which have not yet been approved by the shareholders.

4 Dividends to shareholders

On 19 August 2016, the Directors declared a fully franked dividend of 7.8 cents per share in respect of the financial year ended 30 June 2016. (Dividends of 2.86 cents per share and 4.10 cents per share were paid during the previous financial year.)

As at 30 June 2017, the level of 30% franking credits available to shareholders on a tax paid basis was $12,506,612 (2016: $14,095,000). The franking credits available are based on the balance of the dividend franking account in the prior year tax return adjusted in relation to the current income tax liabilities for the year ended 30 June 2017. The ability to utilise franking credits is dependent upon the ability to declare dividends.

Profit and loss information

This following Notes provides further information about individual line items in the profit and loss statement

5 Revenue

Restatement of prior year

The prior year comparative has been restated to reclassify $10.5 million of expenses from direct costs to reduce revenue. These costs were associated with payments made to domestic retailers to support promotional and brand building activity in the prior year. It was considered that these costs should be more appropriately reflected as a reduction in revenue which is consistent with the accounting for these amounts in 2017.

The expenses have been restated for the comparative line items within the Consolidated Profit and Loss and Other Comprehensive Income that were affected as set out below:

Consolidated Statement of Profit and Loss and Other Comprehensive Income (extract)

	2016 $000	**Increase /(Decrease) $000**	**Restated 2016 $000**
Revenue	244,583	(10,500)	234,083
Costs of sales	(132,855)	-	(132,855)
Gross profit	111,728	(10,500)	101,228
Direct costs	(28,510)	(10,500)	(18,010)

There was no impact on Net Profit /(Loss) for the year, Earnings per share nor any impact on the Consolidated Balance Sheet.

The change is allocated $5.0 million in 1H16 and $5.5 million in 2H16.

	2017 $'000	**Restated 2016 $'000**
Revenue from continuing operations	240,182	234,083
Other income		
Grants received	-	39
Dividends received	-	5
Fair value increment/(decrement) – financial assets	-	66
Gain/(loss) on disposal of assets		(8)
Commissions received	-	353
Sundry income	248	67
Total other income	248	522

Revenue recognition

Measurement of revenue

Revenue is measured at fair value of the consideration received or receivable after taking into account any trade discounts and volume rebates allowed.

Timing of recognition

Revenue from the sale of goods is recognised at the point of delivery as this corresponds to the transfer of significant risks and rewards of ownership of the goods and the cessation of all involvement in those goods.

Interest revenue is reported under the heading of net finance costs and recognised using the effective interest rate method.

Grant income is recognised as income when the grant becomes receivable.

All revenue is stated net of the amount of goods and services tax (GST).

6 Expenses and significant items

		2017 $'000	2016 $'000
Cost of sales			
Shortfall payments		2,000	-
Direct costs			
Inventory provisions and write offs*		6,838	657
Employee costs			
Wages & salaries		9,401	6,860
Restructuring costs*		1,449	-
Share based payments		2,289	685
Administrative & Other			
Fonterra payment for the supply chain reset*		27,500	-
Costs associated with the acquisition of Camperdown Powder and indirect capital raising costs*		1,083	-
Professional fees of a non-recurring nature*		2,980	657
Ineffective foreign exchange hedge losses*		1,564	-
Net finance (revenue)/costs			
Interest revenue		(94)	(598)
Interest expense		1,364	10
Depreciation and amortisation			
Depreciation – property, plant & equipment	12(b)	280	256
Amortisation of product development costs		387	36
Amortisation of software		120	17

* The items above are defined as significant items due to their nature and magnitude and have been included as non-recurring for the underlying EBIT for the segment disclosure – refer Note 2 for more details.

7 Income tax expense

a) Amounts recognised in profit or loss:

	2017 $'000	2016 $'000
Current tax expense	1,948	14,482
Deferred tax expense/(benefit)	(1,817)	2,084
Total income tax expense	131	16,566

b) Numerical reconciliation between tax expense and profit before tax.

	2017 $'000	2016 $'000
(Loss) /profit before tax from continuing operations	(677)	54,894
Prima facie tax payable at 30% (2016:30%)	(203)	16,468
Non deductible expenditure	455	6
Other	-	(51)
Effect of different overseas tax rates	(1,043)	(1,571)
Impact of Controlled Foreign Company Rules	1,071	1,714
R&D benefits	(149)	-
Total income tax expense	131	16,566
Weighted average effective tax rates	(19%)	30%

Financial assets & financial liabilities

8 Trade and other receivables

	2017 $'000	2016 $'000
Current		
Trade receivables (a)	33,942	33,582
Loss allowance provision	(100)	(60)
	33,842	33,522
Other receivables	3,215	365
	37,057	33,887

a) Accounting for trade receivables

The average number of days outstanding for trade debtors is approximately 45 days. Interest is not charged on overdue balances. Less than 1% of the balance is past 60 days overdue with all balances considered to be recoverable. Collectability of trade receivables is reviewed on an ongoing basis and written off by reducing the carrying value when known to be uncollectable. The impairment amount is recognised within administrative costs.

b) Credit risk

The Group applies the simplified approach to providing for expected credit losses prescribed by AASB 9, which permits the use of the lifetime expected loss provision for all trade receivables. The loss allowance provision as at 30 June 2017 is determined as follows:

2017	Current $'000	More than 30 days $'000	More than 60 days $'000	More than 120 days $'000	Total $'000
Expected loss rate	0.3%	-	-	-	0.3%
Gross carrying amount	31,815	945	1,169	13	33,942
Loss allowance provision	100	-	-	-	100
2016	**Current $,000**	**More than 30 days $,000**	**More than 60 days $,000**	**More than 120 days $,000**	**Total $,000**
Expected loss rate	0.3%	-	-	-	0.2%
Gross carrying amount	18,308	15,138	136	-	33,582
Loss allowance provision	60	-	-	-	60

	2017 $'000	2016 $'000
Opening loss allowance 1 July	60	0
Increase in loss allowance recognised in profit or loss during the period	40	60
As at 30 June	100	60

The gross carrying amount of trade receivables is $33.9m (2016: $33.6m).

During the period, the Group made no write offs of trade receivables it did not expect to receive future cash flows from and did not make any recoveries from collection of cash flows previously written off.

9 Other financial assets

	2017 $'000	2016 $'000
Current		
USD held in trust	-	500
	-	500

10 Financial assets at fair value through profit and loss

	2017 $'000	2016 $'000
Current		
Listed equity securities	-	283
	-	283

Listed equity securities

The shares were held for trading and were designated as financial assets at fair value through profit and loss. Changes in fair value were included in the Statement of Comprehensive Income under the heading of other income. The shares were sold during the financial year, resulting in a profit on sale of $15,000.

Non-financial assets & liabilities

11 Inventories

	2017 $'000	2016 $'000
Raw materials	10,483	20,726
Finished goods	83,014	35,109
Goods in transit	-	11,917
	93,497	67,752

Inventories are measured at lower of cost and net realisable value. Refer note 22 for critical estimates and judgements.

12 Property, plant and equipment

a) Carrying amounts

	2017 $'000	2016 $'000
Plant and Equipment		
At cost	1,336	1,238
Accumulated depreciation	(590)	(452)
	746	786
Leasehold improvements		
At cost	369	564
Accumulated depreciation	(108)	(245)
	261	319
Total Property Plant & Equipment	1,006	1,105

b) Reconciliation of carrying amount

	Plant & equipment	Leasehold improvements	Total $'000
Balance as at 1 July 2016	786	319	1,105
Additions	260	13	273
Disposals	(91)	-	(91)
Depreciation expense	(209)	(71)	(280)
Balance as at 30 June 2017	746	261	1,006
Balance as at 1 July 2015	576	41	617
Additions	400	352	752
Disposals	(8)	-	(8)
Depreciation expense	(182)	(74)	(256)
Balance as at 30 June 2016	786	319	1,105

Non-current assets pledged as security

Plant and equipment pledged as security for asset purchase liabilities has a written down value of $5,000 (2016: $103,000).

13 Intangible assets

	2017 $'000	2016 $'000
Product development costs		
At cost	1,560	1,555
Accumulated amortisation and impairment	(424)	(36)
	1,136	1,519
Software		
At cost	596	202
Accumulated amortisation	(123)	(17)
	473	185
Trademarks	131	-
Total intangibles	1,740	1,704

Expenditure during the research phase of a project is recognised as an expense when incurred. Development costs are capitalised only when the project is expected to deliver future economic benefits and those benefits can be reliably measured.

Product development costs will be amortised over 3 years, or where the product line is discontinued, the balance is written off during that financial period.

2017	**Product Development**	**Software**	**Trademarks**	**Total**
Balance as at 1 July 2016	1,519	185	0	1,704
Additions	5	408	131	544
Disposals	-	-	-	-
Amortisation expense	(388)	(120)	-	(508)
Balance as at 30 June 2017	1,136	473	131	1,740
2016				
Balance as at 1 July 2015	104	-	-	104
Additions	1,451	202	-	1,653
Disposals	-	-	-	-
Amortisation expense	(36)	(17)		(53)
Balance as at 30 June 2016	1,519	185	-	1,704

14 Trade and other payables

	2017 $'000	2016 $'000
Current		
Unsecured:		
Trade payables	30,448	42,359
Sundry payables and accrued expenses	7,278	6,014
	37,726	48,373

Payables are unsecured and are usually paid for 30 days from end of month.

15 Borrowings

	2017 $'000	2016 $'000
Current		
Secured		
Trade financing (a)	25,259	-
Asset purchase liabilities (b)	5	113
Total current borrowings	**25,264**	**113**
Non-Current		
Secured		
Asset purchase liabilities (b)	-	18
Total non-current borrowings	**-**	**18**
Total borrowings	**25,264**	**131**

Additional information on finance facilities available

a) HSBC provides a working capital facility to the Group in an aggregate amount of $40 million, together with a credit card facility of $250,000 and a bank guarantee facility of $200,000 (together, the "facilities"). The working capital facility is comprised of a number of sub-facilities with specific conditions and limits, with the effect that the Group's ability to utilise the working capital facility is subject to those conditions being satisfied and those limits not being exceeded. The facilities are secured over assets of the Group and are subject to the Group complying with its obligations (including financial covenants) under those facilities. At 30 June 2017, the aggregate amount outstanding under the facilities was $25.2 million and the Group was in compliance with its obligations under those facilities. Based on current forecasts, the Group expects that the Group will remain in compliance with those obligations. Subject to the terms of its manufacturing agreement, Fonterra has a second-ranking security over the assets of the Group.

b) The asset purchase liabilities are secured by underlying assets carried at $25,778 (2016: $103,000).

Bank accepted letters of credit are provided from time to time in relation to export sale orders and are secured by the underlying receivable balance.

Recognised fair value measurements

Fair value hierarchy

To provide an indication about the reliability of the inputs used in determining fair value, the Group has classified its financial instruments into the three levels prescribed under the accounting standards. An explanation of each level follows underneath the table.

Recurring fair value measurements as at 30 June 2017	Notes	Level 1	Level 2	Level 3	Total
Financial Assets					
Financial assets at FVPL					
Australian listed equity securities		-	-	-	-
Total Financial Assets		-	-	-	-
Financial Liabilities					
Derivatives used for hedging					
Foreign exchange contracts		-	34	-	34
Total Financial Liabilities		-	-	-	-

Recurring fair value measurements as at 30 June 2016	**Notes**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at FVPL					
Australian listed equity securities	10	283	-	-	283
Total Financial Assets		283	-	-	283
Financial Liabilities					
Derivatives used for hedging					
Foreign exchange contracts		-	807	-	807
Total Financial Liabilities		-	807	-	807

There were no transfers between levels 1 and 2 for recurring fair value measurements during the year.

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

Level 1: The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

Level 2: The fair value of financial instruments that are not traded in an active market is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

Valuation techniques used to determine fair values

Specific valuation techniques used to value financial instruments include:

- the use of quoted market prices or dealer quotes for similar instruments
- the fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date

16 Other assets

	2017 $'000	**2016 $'000**
Current		
Prepayments	2,051	4,475

Prepayments for 2016 include payments for purchases of raw materials prior to ownership passing to the Group.

17 Provisions

	2017 $'000	**2016 $'000**
Current		
Employee entitlements	329	328
Minimum annual volume provision	2,000	-
	2,329	328
Non-Current		
Employee entitlements	29	146
	2,358	474

2017	Minimum annual volume	Annual leave	Long service leave	Total
Balance as at 1 July 2016	-	328	146	474
Accrued during the year	2,000	167	18	2,185
Payments made on termination	-	(166)	(135)	(301)
Balance as at 30 June 2017	2,000	329	29	2,358
2016				
Balance as at 1 July 2015	-	179	69	248
Accrued during the year	-	150	77	226
Payments made on termination	-	-	-	-
Balance as at 30 June 2016	-	328	146	474

Refer note 27 (a) for further information on accounting for minimum annual volume provision (shortfall payments).

18 Tax

Current (asset) / liability	2017 $'000	2016 $'000
Income tax payable/(refundable)	(274)	10,495

	2017 $'000	2016 $'000
Deferred tax balances recognised		
Temporary differences relating to income	-	-
Temporary differences relating to spending		
Inventories	138	314
Other liabilities	1,210	196
Employee entitlements	108	141
Foreign exchange losses	342	40
Overseas operating losses	499	290
Share based payments	822	189
Other assets and liabilities	(175)	-
Capital raising costs (equity)	593	330
Net deferred tax balances recognised	3,537	1,500
Represented by		
Deferred tax assets	3,909	2,109
Deferred tax liabilities	(372)	(609)
	3,537	1,500
Movement in recognised deferred tax balances		
Opening balance	1,500	774
Recognised in income	1,817	(2,075)
Recognised in equity	220	2,801
	3,537	1,500

Current (asset) / liability	**2017 $'000**	**2016 $'000**
Income tax payable/(refundable)	(274)	10,495

	2017 $'000	**2016 $'000**
Deferred tax balances recognised		
Temporary differences relating to income	-	-
Temporary differences relating to spending		
Inventories	138	314
Other liabilities	1,210	196
Employee entitlements	108	141
Foreign exchange losses	342	40
Overseas operating losses	499	290
Share based payments	822	189
Other assets and liabilities	(175)	-
Capital raising costs (equity)	593	330
Net deferred tax balances recognised	3,537	1,500
Represented by		
Deferred tax assets not recognised		
Australian Tax Consolidated Group		
Tax losses: capital	201	201
Temporary differences: revenue	-	-

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

19 Issued capital

a) Fully paid ordinary shares

	2017 Shares	**2016 Shares**	**2017 $'000**	**2016 $'000**
Opening balance at 1 July	96,656,397	95,000,392	40,216	39,655
Issue of ordinary shares during the year:				
Employee options exercised	-	1,633,962	-	323
Dividend reinvestment plan	30,128	22,043	404	238
Institutional investment offer	2,992,820	-	13,175	-
Closing balance at 30 June	99,679,345	96,656,397	53,795	40,216

On 26 September 2016, 30,128 shares were issued to existing shareholders under the Bellamy's Australia Limited Dividend Reinvestment Plan (2016: 22,043).

On 23 June 2017, 2,992,820 shares were issued to Institutional investors as part of the capital raise announced on 13 June 2017.

b) Share options granted under the Group's employee share option plan

On 3 October 2016, 614,746 options were granted to executives and employees under the Bellamy's Australia Limited employee option plan. These options have a vesting date of 31 August 2019.

599,398 options were forfeited as a result of eligible employees ceasing employment with the Group.

On 13 June 2017, a further issue of 4,105,888 options were granted to Directors, executives and senior managers under the long-term incentive program. These options have a vesting date no later than 31 March 2021.

As at 30 June 2017, executives and employees held options over 6,891,010 (2016: 2,345,712) ordinary shares of the Group. Note, a further 265,888 options intended for Directors will not be allocated until shareholder approval is received at the AGM.

The holders of these options do not have the right, by virtue of the option to participate in any share issue or interest issue of the Group or of any other related body corporate.

Until they are exercised, the options carry no rights to dividends and no voting rights.

c) Capital management

Management and the Board of Directors monitor the capital of the Group in order to maintain a prudent debt to equity ratio, provide the shareholders with adequate returns and ensure that the Group can effectively fund the operations in line with business growth objectives.

The Group's debt and capital includes ordinary share capital and financial liabilities, supported by financial assets.

Management effectively manages the Group's capital by assessing the Group's risk and adjusting its capital structure in response to changes in these risks. These responses include the management of debt levels, distributions to shareholders and share issues.

In response to this analysis, on the 13 June 2017, the Group issued a prospectus to increase capital by $60.4 million. This capital raise provides funding for the supply chain reset, the Camperdown acquisition and reducing reliance on debt funding.

The net debt to cash position as at the end of the reporting period is as follows:

	2017 $'000	2016 $'000
Total borrowings	25,264	131
Less cash and cash equivalents	(17,479)	(32,295)
Net debt / (cash)	**7,785**	**(32,164)**

The 13 June 2017 Prospectus and the 17 July 2017 Supplementary Prospectus successfully raised $60.4 million (gross) proceeds with a timing that traversed 30 June 2017 as follows:

	Institutional Component	Retail Component
	23/06/2017	**07/07/2017**
Allotted Shares	2,993	9,738
Capital Proceeds	14,216	46,257
Capital Raise Costs	(1,535)	(1,669)
Net Proceeds	**12,681**	**44,588**

Applications for refund of 3,339 shares were received under the supplementary prospectus. These shares were transferred to the underwriters.

20 Reserves (net of income tax)

	2017 $'000	2016 $'000
Foreign currency translation	(821)	(373)
Share based payments	6,480	3,767
Cash flow hedge reserve	(24)	(565)
	5,635	2,829

	2017 $'000	2016 $'000
Foreign currency translation reserve		
Balance at the beginning of the year	(373)	(159)
Exchange differences arising on translating net assets of foreign operations	(448)	(214)
Balance at the end of the year	(821)	(373)

Exchange differences relating to the translation of the results and net assets of the Group's foreign operations are recognised directly in other comprehensive income and are accumulated in the foreign currency translation reserve.

	2017 $'000	2016 $'000
Share based payments reserve		
Balance at the beginning of the year	3,767	499
Arising on share based payments	2,713	3,268
Balance at the end of the year	6,480	3,767

The reserve relates to share options granted by the Group to its employees under its Employee Share Option Plan. Further details are provided in Note 32.

	2017 $'000	2016 $'000
Cash flow hedge reserve		
Balance at the beginning of the year	(565)	-
Arising from changes in fair value of hedging instruments	773	(807)
Income tax effect	(232)	242
Balance at the end of the year	(24)	(565)

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in the cash flow hedge reserve within equity, limited to the cumulative change in fair value of the hedged item on a present value basis from the inception of the hedge. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

21 Additional cash flow information

a) Cash and cash equivalents

	2017 $'000	2016 $'000
Cash and cash equivalents	17,479	32,295

For the purposes of the cash flow statement, cash and cash equivalents includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the financial year as shown in the cash flow statement is reconciled to the related items in the balance sheet as follows:

b) Reconciliation of profit for the period to net cash flows from operating activities

	2017 $'000	2016 $'000
Reconciliation of profit for the year to net cash from operating activities		
Profit after tax	(809)	38,328
Adjust for non- cash items		
Depreciation	280	256
Amortisation	508	51
Loss on sale – plant and equipment	44	8
Profit on sale of investments	(15)	-
Financial assets – fair value through profit or loss	-	66
Stock provision movements	5,374	-
Provision for doubtful debts	40	-
Net exchange movements	(881)	(1,196)
Interest on asset purchase	2	10
Share based payments	2,713	3,268
Movements in working capital		
(Increase)/decrease in trade and other receivables	(3,210)	(13,020)
(Increase)/decrease in inventories	(31,119)	(54,135)
(Increase)/decrease in other assets	2,924	(537)
(Increase)/decrease in net tax assets	(12,806)	6,106
(Decrease)/increase in trade payables	(10,647)	29,264
(Decrease)/increase in provisions	1,884	426
Net cash from operating activities	(45,718)	8,895

Risk

22 Critical estimates and judgements

Estimates and judgement supporting the preparation of the Financial Statements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The most significant estimates and assumptions made in the financial statements are discussed below.

Future working capital requirements

The Group has assessed its working capital requirements for the business for a 12 month period from the date of signing the financial statements. The assessment of the Group’s working capital requirements is based on a forecast of sales, production requirements, production shortfall payments and overheads. The forecast is based on the period from 1 August 2017 to 31 August 2018 (defined as “the forecast”). Forecasts are based on the approved plans of the Board.

The critical judgements in relation to the assessment of working capital requirements are considered below, although the Directors are confident this risk has reduced significantly over the last 6 months as a result of the successful capital raise and trading performance.

The sales forecast is based on a combination of historic trends, engagement with key customers, internal demand analysis and external market information. The sales forecast is dependent on estimates of demand in both the domestic market and sales to distributors/resellers into China and other markets.

There are proposed changes to regulations affecting the sale of the Group’s products in China which will be applicable on 1 January 2018. These China regulations will require Chinese labelled imported products to be accredited with the China Food and Drug Administration (CFDA). The CFDA license operates in addition to the need to maintain Certification Accreditation Administration of the People’s Republic of China (CNCA) accreditation for the facility that produces Bellamy’s Organic infant milk formula products. The forecast assumes there are no sales of Chinese labelled accredited product from 1 January 2018. The forecast assumes continued sale of Australian labelled domestic product, which does not require CFDA or CNCA accreditation for export to China.

The forecast also includes production shortfall payments which may be required under the Group’s manufacturing arrangement (refer note 27 for further information).

The Group has assessed the cash position over the forecast period. The Group raised a net $57.3 million (net of transaction costs) in a non-renounceable entitlement offer during June and July 2017, of which approximately $19.5 million will be used to fund working capital and capital expenditure.

Based on the forecast the Directors believe the Group will be in a net cash position over the forecast period. The Directors acknowledge there are business risks and uncertainties which could result in a reduction in the cash position, however there are banking facilities available to the Group (refer Note 15) and the Directors are confident that the Group will comply with its financial covenants and ancillary obligations under the banking arrangement.

The Group has been served with two Class Actions during the year (refer Note 26). The Group intends to vigorously defend the proceedings. The statements of claim filed in the proceedings do not quantify, and it is too early in the process to assess, these claims to provide a reliable assessment of the likely quantum of any damages that may become payable if its defence is unsuccessful in whole or in part. Defence costs incurred by the Group have been expensed.

The Directors are confident the Group will meet its working capital requirements over the forecast period based on the strategy of the Board and management.

Net realisable value of inventory

The valuation of inventory is considered an area of judgement on the basis that an assessment is required as to whether inventory can be sold above its carrying value. The ability for the Group to sell finished goods above the carrying value is dependent on selling the inventory within the acceptable shelf life required for retailers and distributors. This assessment is based on the sales forecast which requires significant judgements as indicated above. Should sales forecasts not be achieved inventory may not be sold within the expiry period and may be required to be written down to the net realisable value.

Manufacturing contracts

The accounting for manufacturing contracts is based on estimates and judgements in relation to future production levels. Based on the current forecast the Group has assessed that the economic benefit of the manufacturing contracts exceeds the cost of the contracts (including anticipated shortfall payments) and therefore the contracts are not considered onerous.

23 Financial Risk Management

a) Financial risk management policies

The Group's financial instruments consist mainly of loans and deposits with banks, accounts receivable and payable, loans to subsidiaries, and foreign exchange derivatives.

b) Financial risk exposures

The Group is exposed to interest rate, liquidity and credit risks and exposure to foreign exchange and equity price risk.

Interest rate risk

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

Liquidity risk

Liquidity risk is managed by maintaining sufficient cash and monitoring forecast cash flows.

The Group's approach to liquidity management involves projecting cash flows in major currencies and considering the level of liquid assets necessary to meet these.

Consolidated Group 2017

	Weighted Average Interest Rate %	Floating Interest Rate $'000	Fixed Interest Rate Mature within 1 Year $'000	Fixed Interest Rate Mature later than 1 Year $'000	Non-interest bearing $'000	Total 2017 $'000
Financial assets						
Cash and cash equivalents	0.9%	4,963	-	-	12,516	17,479
Receivables		-	-	-	33,842	33,842
Financial assets at fair value through profit or loss		-	-	-	-	-
Total financial assets		**4,963**	**-**	**-**	**46,348**	**51,321**
Financial Liabilities						
Trade payables		-	-	-	(30,449)	(30,449)
Derivative		-	-	-	(34)	(34)
Borrowings	10.9%	-	(25,264)	-	-	(25,264)
Total financial liabilities		**-**	**(25,264)**	**-**	**(30,483)**	**(55,747)**
Net financial assets		**4,963**	**(25,264)**	**-**	**15,875**	**(4,426)**

Consolidated Group 2016

	Weighted Average Interest Rate %	Floating Interest Rate $'000	Fixed Interest Rate Mature within 1 Year $'000	Fixed Interest Rate Mature later than 1 Year $'000	Non interest bearing $'000	Total 2016 $'000
Financial assets						
Cash and cash equivalents	2.6%	17,140	-	-	15,155	32,295
Receivables		-	-	-	33,887	33,887
Financial assets at fair value through profit or loss		-	-	-	283	283
Total financial assets		**17,140**	**-**	**-**	**49,325**	**66,465**
Financial Liabilities						
Trade payables		-	-	-	(48,373)	(48,373)
Derivative		-	-	-	(807)	(807)
Borrowings	6.5%	-	(113)	(18)	-	(131)
Total financial liabilities		**-**	**(113)**	**(18)**	**(49,180)**	**(49,311)**
Net financial assets		**17,140**	**(113)**	**(18)**	**145**	**17,154**

Credit risk

Credit risk arises from exposure to customers and deposits with financial institutions. Management monitors credit risk by actively assessing and rating quality and liquidity of counter parties, through a combination of obtaining external credit ratings, credit checks and past experience. Individual risk limits are set in accordance with the Group's Credit Policy. The compliance with credit limits by customers is regularly monitored by management.

Foreign exchange risk

The Group has exposure to movements in foreign currency exchange rates through:

- Sales to distributors and customers in foreign currency
- Purchases of inventory
- Translations of net investments in foreign subsidiaries denominated in foreign currencies

Bellamy's Australia Limited's functional currency is Australian dollars. For the internal operations in the entities in Singapore, Hong Kong and China, all income and expenses are conducted in local currency.

The Group imports ingredients to meet production requirements, and has exposure to USD and EUR movements directly where it purchases ingredients on its own behalf and indirectly through purchases of finished products where the Group's product manufacturers purchase ingredients on its behalf.

In order to hedge against the exposure to fluctuations in exchange rates associated with the highly probable purchase of ingredients, the Group enters into forward exchange contracts, which are designated as cash flow hedges.

Exposure of overseas debtors to foreign exchange risk is minimal as these transactions in Australia are primarily denominated in AUD while local offices are in their functional currency.

Forward exchange contracts

The Board's risk management policy is to hedge up to 100% of committed foreign currency cash flows within the next twelve months (mainly inventory purchases) in EUR, subject to a review of the cost of implementing each hedge. At 30 June 2016, approximately 100% of inventory purchases were hedged in respect of foreign currency risk.

At balance date, details of the significant outstanding forward exchange contracts, stated in Australian dollar equivalents are:

	Average exchange rate		Foreign currency (in foreign currency)		Contract value (AUD)		Mark to market assets		Mark to market liabilities	
	2017 $	**2016 $**	**2017 $'000**	**2016 $'000**	**2017 $'000**	**2016 $'000**	**2017 $'000**	**2016 $'000**	**2017 $'000**	**2016 $'000**
Hedging Imports:										
Maturing within 12 months										
Buy Euro	0.6600	0.6544	1,175	28,683	1,780	43,826	-	122	(34)	(930)

At the reporting date, the net amount of unrealised losses under forward exchange contracts hedging anticipated purchases of inventory is $34,000 (2016: $807,000).

Derivative financial instruments – foreign exchange forward contracts	**30 June 2017 $'000**	**30 June 2016 $'000**
Carrying amount	$34	$807
Notional amount	$1,780	$43,966
Maturity date	September 2017	July 2016 – December 2016
Hedge ratio	1:1	1:1
Change in fair value of outstanding hedging instruments since 1 July	$1	$79
Change in value of hedged item used to determine hedge effectiveness	($1)	($79)
Weighted average hedged rate for the year (including forward points)	0.6600	0.6533

The foreign exchange forward contracts are denominated in the same currency as the highly probable future inventory purchases (EUR), therefore the hedge ratio is 1:1.

Foreign currency exposures arising on translation of net investments in foreign subsidiaries are predominantly unhedged.

a) Categories of financial instruments

Other than equity investments classified at fair value through profit and loss classified under the heading of current financial assets, all the nature and categories of all other financial instruments are apparent from the Statement of Financial Position.

b) Carrying value of financial assets and financial liabilities

The carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements are considered to approximate their fair values.

Group Structure

24 Parent entity supplementary information

The following information has been extracted from the books and records of the parent and has been prepared in accordance with Australian Accounting Standards.

	2017 $'000	2016 $'000
Statement of Financial Position		
Assets		
Current assets	65,407	52,202
Non-current assets	1,475	530
Total Assets	66,882	52,732
Liabilities		
Current liabilities	1,978	8,654
Non-current liabilities	-	-
Total Liabilities	1,978	8,654
Net Assets	64,904	44,078
Equity		
Issued capital	53,795	40,216
Reserves	6,480	3,767
Retained earnings	4,629	94
Total Equity	64,904	44,078
Statement of Profit or Loss and Other Comprehensive Income		
Total profit	12,086	10,592
Total comprehensive income	12,086	10,592
Guarantees		
Contingent liabilities - Refer note 26		
Contractual commitments	-	-

25 Subsidiaries

Name	Company Number	Principal activity	Place of incorporation and operation	Ownership %	
				2017	2016
Bellamy's Organic Australia Pty Ltd	11 125 461 903	(a)	Australia	100	100
Bellamy's Kitchen Pty Ltd	147 551 639	(b)	Australia	100	100
Yum Mum Pty Ltd	50 148 896 280	(b)	Australia	100	100
Bellamy's Organic (South East Asia) Pte Ltd	201205554M	(a)	Singapore	100	100
Bellamy's Organic (Hong Kong) Company Ltd	CRN 1795740	(a)	Hong Kong	100	100
Bellamy's Food Trading (Shanghai) Co Ltd		(a)	China	100	100

(a) Sale and distribution of organic food and formula products for babies and toddlers

(b) Non-operating

These following entities have financial reporting periods that are not synchronised with the parent entity. The financial reporting year ends with respect to these entities are:

- Bellamy's Organic (Hong Kong) Company Ltd	31 December
- Bellamy's Food Trading (Shanghai) Co Ltd	31 December
- Bellamy's Organic (South East Asia) Pte Ltd	31 March

Post Balance Date

On 3 July 2017, the Group acquired 90% ownership in A.C.N. 619 661 611 Pty Ltd, incorporated on 9 June 2017, which owns 100% of the issued capital of Camperdown Powder Pty Ltd (ABN 56 168 982 250).

Name	**Company Number**	**Principal Activity**	**Place of Incorporation**	**Ownership %**
A.C.N. 619 661 611 Pty Ltd	A.C.N. 619 661 611	(a)	Australia	90
Camperdown Powder Pty Ltd	A.C.N. 168 982 250	(b)	Australia	100
Little Treasure (Aust) Pty Ltd	A.C.N. 103 217 232	(c)	Australia	50
Camperdown Leura Star Brands Pty Ltd	A.C.N. 610 595 803	(c)	Australia	51
Duri Brands Pty Ltd	A.C.N. 600 737 595	(c)	Australia	51
Camperdown Vchina Brands Pty Ltd	A.C.N. 609 645 052	(c)	Australia	51
Camperdown TMP Brands Pty Ltd	A.C.N. 600 788 912	(c)	Australia	51
Comarco Pty Ltd	A.C.N. 155 983 038	(c)	Australia	51
Camperdown AIMI Brands Pty Ltd	A.C.N. 601 363 437	(c)	Australia	51

(a) Investment vehicle
(b) Manufacturing powdered milk products
(c) Joint venture sales and marketing

Unrecognised items

26 Contingent liabilities and contingent assets

a) Contingent liabilities

On 23 February 2017, Slater & Gordon Limited commenced a representative proceeding (shareholder class action) in the Federal Court of Australia against the Group. The statement of claim includes allegations of contraventions of the Corporations Act 2001(Cth) in relation to misleading or deceptive conduct and continuous disclosure obligations. The proceeding is brought on behalf of persons who acquired Bellamy's shares between 14 April 2016 and 12 December 2016.

On 8 March 2017, Maurice Blackburn commenced a further representative proceeding (shareholder class action) in the Federal Court of Australia against the Group. The statement of claim includes allegations of contraventions of the Corporations Act 2001(Cth) in relation to misleading or deceptive conduct and continuous disclosure obligations. The proceeding is brought on behalf of persons who acquired Bellamy's shares between 14 April 2016 and 9 December 2016.

The proceedings have, to date, mostly been consumed with procedural issues relating to the fact that there are two near-identical class actions said to be commenced on behalf of several of the same shareholders. The Group will continue to vigorously defend the proceedings. The statements of claim served by the applicants do not quantify, and it is too early in the process to assess, these claims to provide a reliable assessment of the likely quantum of any damages that may become payable if its defence is unsuccessful in whole or in part.

b) Contingent assets

As at the date of this report the Group is not aware of any reportable contingent assets.

27 Commitments for expenditure

a) Shortfall payments

There are two manufacturing arrangements which have minimum volume commitments which run for a number of years. Where the Group is not able to fulfil minimum volume commitments, it is required to make production shortfall payments. In June 2017, the Group revised the supply agreement with Fonterra, resulting in a one-time $27.5 million payment to Fonterra, which reduces the projected shortfall payments over the life of the agreement but retains minimum volume commitments.

The minimum volume commitments are based on the contract year (which differs from the Group's financial year). At each reporting period, a provision is raised when production thresholds have not been met or the Group does not have the ability to meet the threshold under the contractual terms.

At 30 June 2017, an assessment has been made in relation to achievement against the relevant thresholds for both contracts (which have different contract years). At 30 June 2017, production shortfall payments of $2.0 million have been provided for. An additional expense may be incurred during FY18 if contractual volumes are not met, which is currently estimated to be approximately $4 million. In FY19 if production levels remain consistent with FY18 a higher expense may be incurred. Beyond FY19 shortfall payments and the related expense may continue over the term of the contacts and could increase or decrease depending on the level of production.

b) Other

There are no known other commitments for expenditure (2016: $Nil).

28 Operating lease arrangements

	2017 $'000	2016 $'000
Non-cancellable operating lease commitments		
Not later than 1 year	309	258
Later than one year and not later than 5 years	819	501
Later than 5 years	-	-
	1,128	759

Operating lease commitments primarily relate to office leasing arrangements.

29 Subsequent events

a) Acquisition of Camperdown Powder

On 3 July 2017, the Group acquired 90% of A.C.N. 619 661 611 which owned 100% of Camperdown Powder Pty Ltd. The purchase price comprised $10.5 million in cash and 3,190,042 shares in Bellamy's Australia Limited.

The transaction has conditions subsequent that require satisfaction before the shares can be issued to the Camperdown vendor. The fair value of the shares will be determined when issued and therefore the total acquisition price is yet to be finalised.

At 30 June 2017, the acquisition price was estimated to be approximately $32.5 million (based on the share price at 30 June 2017) against provisional net liabilities $3.0 million.

Accounting standards provide up to 12 months to determine fair value of the acquired assets and liabilities.

The Group has not completed an exercise to consider the fair value of the intangible assets acquired along with any related deferred tax amounts. The types of intangibles which may be recognised as part of the acquisition accounting may include licences and customer contracts. Each of the identified intangibles acquired will have a limited life and must be amortised over that life, accordingly there will be an impact on depreciation and amortisation charge in future periods.

The identified intangible assets and the goodwill will be required to be tested for impairment. The impairment assessment will need to consider future cash flows of the business which are dependent on the CNCA licence and the outcome of the application for the CFDA licence.

b) Suspension of CNCA Licence

On 6 July 2017, the CNCA suspended Camperdown Powder's licence pending enquiries required to investigate allegations received by CNCA from a third-party complainant relating to historical filing and records and to certain previous quality issues relating to Camperdown's processing facility. None of the enquiries raised by the CNCA related to micro-biological or contamination issues or Camperdown's change of ownership.

On the morning of 7 July 2017, the Group sought an ASX Trading Halt progressing to a voluntary suspension on 11 July 2017. Trading resumed on 20 July 2017 subsequent to the issue of a Supplementary Prospectus dated 17 July 2017.

On 9 August 2017, the licence suspension was removed.

c) Accelerated Non-Renounceable Rights Issue and Supplementary Prospectus

On 13 June 2017, Bellamy's Australia Limited announced a 5 for 38 accelerated non-renounceable rights issue pro-rate offer of new ordinary share in the Company at an issue price of $4.75.

The Institutional Entitlement Offer was completed on 15 June 2017 and raised gross proceeds of $14.3 million. The Institutional shares were issued on 23 June 2017.

The Retail Entitlement Offer was completed on 4 July 2017 and raised gross proceeds of $46.3 million. The Retail shares were issued on 7 July 2017.

On 17 July 2017, as a result of requirements under the Corporations Act arising in connection with the suspension of Camperdown Powder's CNCA registration which occurred prior to the issue of certain securities under the Offer, the Company issued a Supplementary Prospectus to provide Entitled Applicants with the right to withdraw their Applications and be repaid any Application Monies paid to the Company by them. The Supplementary Prospectus, closed 17 August 2017. Shareholders sought refund for 3,339 shares.

Other information

30 Related party transactions

a) Parent entities

The parent entity within the Group is Bellamy's Australia Limited.

b) Subsidiaries

A list of subsidiaries is provided in Note 25.

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

Balances and transactions between the Group and its controlled entities, which are related parties of the Group, have been eliminated on consolidation and are not disclosed in this Note. Details of transactions between the Group and other related parties are disclosed below.

c) Transactions with related parties

Key management personnel compensation

The key management personnel compensation included in 'employee costs' (see Note 6) is as follows:

	2017 $'000	2016 $'000
Short term benefits	2,657	1,058
Post-employment benefits	108	37
Other long-term benefits	-	52
Termination benefits	457	-
Share based payments	1,295	359
	4,517	1,506

Individual Directors and executive compensation disclosures

Information regarding individual Directors and key management personnel compensation and some equity instruments disclosures as required by the Corporations Regulations 2M.3.03 is provided in the Remuneration Report section of the Directors' Report.

Apart from the details disclosed in this Note, no Director has entered into a material contract with the Group since the end of the previous financial year and there were no material contracts involving Directors' interests existing at year end.

There were no loans outstanding at reporting date between the Group and key management personnel.

Other key management personnel transactions with the Group or its controlled entities

From time to time, key management personnel of the Group or its controlled entities, or their related entities, may purchase goods from the Group. These purchases are on the same terms and conditions as those entered into by other group employees or customers and are trivial or domestic in nature.

Shareholdings

The number of ordinary shares held in Bellamy's Australia Limited as at the date of this report and as at the end of the reporting period, by each key management person, including their related parties, are as follows:

	1 July 2016 or when commenced	Movement during year	Balance at 30 June 2017	Balance at Reporting Date
	No.	No.	No.	No.
Non-Executive Directors:				
Current directors				
R Peters[5]	-	-	-	-
W Chan[5]	-	-	-	-
John Ho[6]	6,779,284	892,010	7,671,294	8,481,320
John Murphy	-	-	-	-
Former directors				
R Woolley[2]	452,277	(352,277)	n/a	n/a
M Wadley[3]	-	-	n/a	n/a
L Inman[4]	26,020	-	n/a	n/a
C Sitch [3]	-	-	n/a	n/a
P Mann[8]	4,000	-	n/a	n/a
Executives				
A Cohen	13,750	-	13,750	16,012
N Underwood	-	-	-	-
M Harrison	3,475	-	3,475	3,933
D Jedynak	-	-	-	-
P Fridell	-	-	-	-
Former KMP				
L McBain[1]	1,165,376	(1,165,376)	-	-
S Ollington	-	-	-	-

1 Resigned 24 January 2017

2 Resigned 28 February 2017

3 Removed 28 February 2017

4 Resigned 28 February 2017

5 Appointed 28 February 2017

6 Appointed 13 April 2017, indirect interest in the shares held by Janchor Partners Limited in his capacity as a Director.

7 Appointed 18 May 2017

8 Resigned 18 May 2017

Options over ordinary shares

The number of options over Bellamy's Australia Limited ordinary shares held as at the date of this report and as at the end of the reporting period, by each key management person, including their related parties are set out below.

2017

	Balance at 1 July 2016	Granted as remuneration in FY17	Vested in FY17 and exercisable	Exercised during FY17	Forfeited during FY17	Pending forfeiture	Held as at 30 June 2017 [1]
Current directors							
John Murphy	-	193,373	-	-	-	-	193,373
Rodd Peters	-	36,257	-	-	-	-	36,257
Wai-Chan Chan	-	36,257	-	-	-	-	36,257

	Balance at 1 July 2016	Granted as remuneration in FY17	Vested in FY17 and exercisable	Exercised during FY17	Forfeited during FY17	Pending forfeiture	Held as at 30 June 2017 [1]
Executives							
A Cohen	689,950	1,843,345	-	-	-	-	2,533,295
N Underwood	-	475,000	-	-	-	-	475,000
M Harrison	-	200,000	-	-	-	-	200,000
P Fridell	-	440,000	-	-		-	440,000
D Jedynak	-	475,000	-	-		-	475,000
Former KMP							
L McBain	1,356,795	239,154	116,348	-	(468,776)	(1,010,825)	1,127,173
S Ollington	328,793	40,021	-	-		-	368,814

2016

	Balance at 1 July 2015	Granted as remuneration in FY16	Vested in FY16 and exercisable	Exercised during FY16	Forfeited in FY16	Held as at 30 June 2016
Executives						
L McBain	1,779,210	530,918	953,333	(953,333)	-	1,356,795
S Ollington	216,793	112,000	-	-	-	328,793
A Cohen	-	689,950	-	-	-	689,950

No Directors held options over ordinary shares in 2016.

1 Subject to final assessment regarding forfeiture

31 Auditor’s remuneration

a) Auditor of the parent entity

	2017 $	2016 $
Audit of the financial statements	402,000	132,000
Due diligence and other assurance services for the equity raise	500,851	
Other audit, tax and compliance related services	12,587	14,000
Total paid to PricewaterhouseCoopers	915,438	146,000

b) Auditors of the wholly owned overseas subsidiaries

	2017 $	2016 $
Audit of the financial statements	130,000	155,000
Other tax and compliance services	6,000	-
Total paid to PricewaterhouseCoopers	**136,000**	**155,000**

32 Share based payments

a) Employee Option Plan

The Chief Executive Officer and other senior management held, as part of their remuneration, conditional vesting options over 6,891,010 (2016: 3,035,662) ordinary shares of the Group comprising the:

- 2015 grant which was made on 29 June 2015,
- 2016 grants which were made on 23 December 2015, and 30 June 2016;
- 2017 year grants which were made on 3 October 2016, and 13 June 2017.

FY15 grant

The exercise price for the FY15 grant of options is $1.20 (adjusted). The options can only be exercised if specific performance hurdles are met. Refer to the remuneration report on pages 30 to 51 for detail regarding the performance hurdles. These options expire four years after the date of the grant, which should be no later than 29 June 2019.

FY16 grant

The exercise price for the FY16 grant of options is $4.87 (adjusted). The options can only be exercised if specific performance hurdles are met. Refer to the remuneration report on pages 30 to 51 for detail regarding the performance hurdles. These options expire five years after the grant date, which should be no later than 23 December 2020.

Additional grant on 30 June 2016

A subsequent grant of 689,950 options was made on 30 June 2016. The options were granted under the LTI plan.

FY17 grant

The exercise price for the FY17 grant of options is $14.04 (adjusted). The options can only be exercised if specific performance hurdles are met. Refer to the remuneration report on pages 30 to 51 for detail regarding the performance hurdles.

Additional grant on 13 June 2017

The exercise price for the subsequent grant of options is $5.643. The options can only be exercised if specific performance hurdles are met. Refer to the remuneration report on pages 30 to 51 for detail regarding the performance hurdles.

b) Other movements

During the current financial year there were no options exercised. 599,398 options were forfeited.

c) Fair value of options granted during the year

The fair value of the options granted during the year was Legacy Long-term Incentive Plan $1.95, Turnaround Long Term Incentive Plan tranche 1 $2.04 and tranche 2 $2.05 respectively.

d) Expenses arising from share based payment transactions

The value of options granted to key management personnel are amortised over the period from the grant date to the vesting date for accounting purposes. Share based payments expense in relation to key management personnel for the year is as follows:

Name	Option series	Grant date	No. of options	Share based payment expense $
Current directors				
J Murphy	FY17 Grant	13/6/17	193,373	5,258
Wai-Chan Chan	FY17 Grant	13/6/17	36,257	986
Rodd Peters	FY17 Grant	13/6/17	36,257	986
KMP				
A Cohen	FY16 Grant	30/6/2016	689,950	937,014
A Cohen	FY17 Grant	14/10/2016	168,345	52,903
A Cohen	FY17 Grant	13/6/2017	1,675,000	45,548
N Underwood	FY17 Grant	13/6/2017	475,000	12,916
M Harrison	FY17 Grant	13/6/2017	200,000	5,438
P Fridell	FY17 Grant	13/6/2017	440,000	11,964
D Jedynak	FY17 Grant	13/6/2017	475,000	12,916
Former KMP				
Laura McBain	FY15 Grant	29/6/2015	825,877	58,034
Laura McBain	FY16 Grant	23/12/2015	530,918	89,142
Laura McBain	FY17 Grant	14/10/2016	239,154	28,114
Shona Ollington	FY15 Grant	29/6/2015	216,793	13,493
Shona Ollington	FY16 Grant	23/12/2015	112,000	16,985
Shona Ollington	FY17 Grant	14/10/2016	40,021	3,652
Total			**6,353,945**	**1,295,349**

33 Deed of cross guarantee

Bellamy’s Australia Limited and Bellamy’s Organic Pty Ltd executed a deed of cross guarantee on 16 February 2015 under which each company guarantees the debts of the other. By entering into the deed, the wholly owned subsidiaries have been relieved from the requirement to prepare a financial report and Directors’ Report under ASIC Corporations (wholly-owned Companies) Instrument 2016/785 issued by the Australian Securities and Investments Commission. The above companies represent a “Closed Group” for the purposes of the Class Order, and as there are no other parties to the deed of cross guarantee that are controlled by Bellamy’s Australia Limited, they also represent the “extended closed Group”.

34 Summary of significant accounting policies

Reporting entity

Bellamy’s Australia Limited is a listed public company incorporated in Australia. The address of the principal place of business and registered office is as follows:

115 Cimitiere Street
Launceston
Tasmania 7250

The entity’s principal activities are to offer a range of organic food and formula products for babies and toddlers. The Company’s products are certified organic.

The consolidated financial statements and notes represent those of Bellamy’s Australia Limited and Controlled Entity (the “Consolidated Group” or “Group”).

The separate financial statements of the parent entity, Bellamy Australia Limited, have not been presented within this financial report as permitted by the Corporations Act 2001.

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the consolidated entity consisting of Bellamy’s Australia Limited and its subsidiaries.

Basis of preparation

These consolidated general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the Corporations Act 2001. Bellamy’s Australia Limited is a for-profit entity for the purpose of preparing the financial statements.

The financial statements were authorised for issue on 25 August 2017 by the Directors of the Group.

Early adoption of standards

The Group has early adopted AASB 9 – Financial Instruments.

Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available for sale financial assets, financial assets and liabilities.

Compliance with IFRS

The consolidated financial statements of the Bellamy’s Australia Limited group also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

a) Principles of consolidation

i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Bellamy’s Australia Limited (‘company’ or ‘parent entity’) as at 30 June 2017 and the results of all subsidiaries for the year then ended. Bellamy's Australia Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between group companies 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.

b) Income tax

The income tax expense for the financial reporting period comprises current income tax expense (income) and deferred tax expense (income).

Current income tax expense charged to the profit or loss is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantially enacted, as at reporting date. Current tax liabilities (assets) are therefore measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the financial year as well unused tax losses.

Current and deferred income tax expense (income) is charged or credited directly to equity instead of the profit or loss when the tax relates to items that are credited or charged directly to equity.

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, branches, associates, and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where a legally enforceable right of set-off exists, the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that the net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

Bellamy's and its wholly owned Australian controlled entities have implemented the tax consolidation legislation. Bellamy's, as the head entity in the tax consolidated group and its wholly owned Australian controlled entities continues to account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a standalone taxpayer in its own right. In addition to its own current and deferred tax amounts, Bellamy's also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group. Assets or liabilities arising under the tax funding agreement with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Group.

c) Foreign currency translation

Items included in the Financial Information of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Australian dollars.

Transactions in foreign currencies are converted at the exchange rates in effect at the dates of each transaction. Amounts payable to or by the Group in foreign currencies have been translated into Australian currency at the exchange rates ruling on balance date. Gains and losses arising from fluctuations in exchange rates on monetary assets and liabilities are included in the income statement in the period in which the exchange rates change, except when deferred in equity as qualifying cash flow hedges.

d) Employee expenses and entitlements

Provision is made for employee expenses arising to the end of the reporting period. Employee expenses that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled. Employee expenses payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits. In determining the liability, consideration is given to employee wage increases and the probability that the employee may satisfy any vesting requirements.

Provision has been made in the accounts for benefits accruing to employees up to balance date, such as annual leave, long service leave and bonuses. No provision is made for non-vesting sick leave as the anticipated pattern of future sick leave taken indicates that accumulated non-vesting leave will never be paid. Annual leave provisions are measured at their nominal amounts using the remuneration rates expected to apply at the time of settlement and are classified in other payables. Long service leave provisions are measured as the present value of expected future payments to be made in respect of services provided by employees up to reporting date.

Expected future payments are discounted using market yields at reporting date on Australian corporate bonds with terms to maturity that match estimated future cash outflows.

All on-costs, including superannuation, payroll tax, workers' compensation premiums and fringe benefits tax are included in the determination of provisions.

e) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the Statement of Financial Position.

f) Borrowings

Loan facilities are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities, which are not incremental costs relating to the actual drawdown of the facility, are capitalised and amortised on a straight-line basis over the term of the facility.

g) Receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less any provision for doubtful debts. Trade receivables are generally due for settlement based upon trading terms negotiated with customers. Sales to export distributors are generally receivable before shipment or secured by letter of credit for longer periods. Sales to domestic customers are generally receivable approximately 45 days from invoice.

For trade receivables, the Group applies the simplified approach to providing for expected credit losses prescribed by AASB 9, which requires the use of the lifetime loss provision for all trade receivables. Any credit losses are written off to Administrative Costs in the profit and loss.

h) Inventories and cost of sales

Inventories are measured at the lower of cost and net realisable value. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Cost of sales includes the purchase cost of inventory and includes recurring shortfall payments.

i) Impairment of assets

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

j) Property, plant and equipment

Each class of property, plant and equipment is carried at cost or fair value, less where applicable, any accumulated depreciation or amortisation.

Plant and equipment

Plant and equipment are measured on the cost basis and therefore carried at cost less accumulated depreciation and any accumulated impairment

The carrying amount of plant and equipment is reviewed annually by the Directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows which will be received from the assets' employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

Depreciation

The depreciable amount of all fixed assets, excluding freehold land, is depreciated on a straight-line basis over the asset's useful life to the consolidated group commencing from the time the asset is held ready for use.

The depreciation rates used for each class of depreciable assets are:

Class of Fixed Asset	Useful life
Plant and equipment	
• IT Hardware	4 years
• Motor Vehicles	8 years
• Furniture and fittings	10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains or losses are included in the profit and loss statement. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

k) Leases

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other long-term payables. Finance lease payments are allocated between interest expense and reduction of lease liability over the term of the lease. The interest expense is determined by applying the interest rate implicit in the lease to the outstanding lease liability at the beginning of each lease payment period. Finance leased assets are depreciated on a straight-line basis over the shorter of the asset’s estimated useful life and the lease term.

Where the risks and rewards of ownership are retained by the lessor, leased assets are classified as operating leases and are not capitalised. Rental payments are charged to the income statement on a straight-line basis over the period of the lease.

l) Accounts payable

These amounts represent liabilities for goods provided prior to the end of the reporting period and which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition, however some manufacturers retain ownership in the inventory until payment for it is received.

m) Provisions

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

n) Financial Instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets classified at fair value through profit and loss

From time to time the Group may hold listed investments for the purposes of trading, such investments are classified at fair value though profit and loss. These investments are measured at fair value with changes in carrying amount being included in profit or loss. Fair value is determined with reference to ASX quoted bid prices.

o) Goods and Services Tax (GST)

Revenues, expense and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of an expense. Receivables and payables in the balance sheet are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

p) Share based payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in Note 32. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group’s estimate of equity instruments that will eventually vest, with a corresponding increase in equity. At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve.

q) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the new share issue are shown in equity as a deduction, net of tax, from the proceeds.

r) Comparative figures

When required by the Accounting Standards, comparative figures are adjusted to conform to changes in presentation for the current financial year.

In the event that the Group retrospectively applies an accounting policy, makes a retrospective restatement or reclassifies items in its financial statements, an additional (third) Statement of Financial Position as at the beginning of the preceding period in addition to the minimum comparative financial statements is presented.

Comparative information is reclassified where appropriate to enhance comparability and provide more appropriate information to users.

s) Adoption of new and revised Accounting Standards

In the current year, the Group has applied an amendment to AASBs issued by the Australian Accounting Standards Board (AASB) that is mandatorily effective for an accounting period that begins on or after 1 July 2016, and therefore relevant for the current year end. There was no financial impact related to the below amendments.

AASB 2014-4 'Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation'

AASB 2015-1 'Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012-2014 Cycle'

AASB 2015-2 'Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101'

t) New Accounting Standards for application in future periods

The table below lists the standards and amendments to standards that were available for early adoption and were applicable to the Group. The Group is in the process of reviewing the impact of the standards outlined below, however the adoption of the new standards is not expected to have a material impact on the reported results and financial position of the Group.

The Group does not intend on adopting the following new standards or amendments before their mandatory effective dates.

Standard / Interpretation	**Effective for annual reporting periods beginning on or after**	**Expected to be initially applied in the financial year ending**
AASB 15: 'Revenue from Contracts with Customers', and associated Amending Standards	1 January 2018	30 June 2019
AASB 16: 'Leases'	1 January 2019	30 June 2020

u) Rounding of Amounts

The Group is a company of the kind referred to in ASIC Corporations (Rounding in Financials/Directors' Reports) Instrument 2016/191, dated 24 March 2016, and in accordance with that Corporations Instrument amounts in the Directors' Report and the financial statements are rounded off to the nearest thousand dollars, unless otherwise indicated.

Directors' Declaration

for the year ended 30 June 2017

In the Directors' opinion:

(a) The financial statements and notes set out on pages 53 to 92 are in accordance with the *Corporations Act 2001*, including:

  i. complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and

  ii. giving a true and fair view of the consolidated entity's financial position as at 30 June 2017 and of its performance for the financial year ended on that date, and

(b) there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable, and

(c) at the date of this declaration, there are reasonable grounds to believe that the members of the extended closed group identified in Note 33 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the Deed of Cross Guarantee described in Note 33.

Note 34 confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declarations by the Chief Executive Officer and the Chief Financial Officer required by Section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the Directors.

John Ho
Chair

John Murphy
Director

Dated at Melbourne this 25th day of August, 2017

Independent auditor's report

To the shareholders of Bellamy's Australia Limited

Report on the audit of the financial report

Our opinion

In our opinion:

The accompanying financial report of Bellamy's Australia Limited (the Company) and its controlled entities (together, the Group) is in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the Group's financial position as at 30 June 2017 and of its financial performance for the year then ended

b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The Group financial report comprises:

- the consolidated balance sheet as at 30 June 2017
- the consolidated profit and loss and other comprehensive income for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the notes to the consolidated financial statements, which include a summary of significant accounting policies
- the directors' declaration.

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

Independence

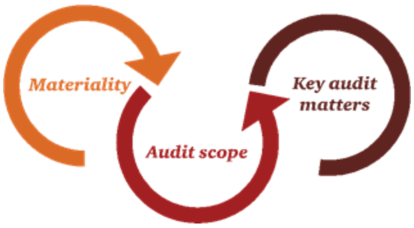
We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Our audit approach

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group, its accounting processes and controls and the industry in which it operates.

The Group operates in Australia, China (including Hong Kong) and Singapore



Materiality	***Audit scope***	***Key audit matters***
• We used overall Group materiality of $1.34 million which represents approximately 5% of the Group's profit before tax after adding back $27.5 million for the Fonterra supply reset payment. • We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole. • We chose Group profit before tax because, in our view, it is the metric against which the performance of the Group is most commonly measured and is a generally accepted benchmark in the consumer goods industry. We adjusted for the Fonterra supply reset payment as it is an infrequently occurring item impacting profit or loss. • We selected 5% based on our professional judgement noting that it is also within the range of commonly acceptable profit related thresholds in the consumer goods industry.	• Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events • We conducted an audit of the financial information of the Group's Australian operations given its financial significance to the Group. • We performed specified risk focused audit procedures for operations in Singapore which were not quantitatively material to the Group financial report. • Component auditors operating under our instructions performed audit procedures on the Group's subsidiaries in China and Hong Kong.	• Amongst other relevant topics, we communicated the following key audit matters to the Audit and Risk Committee: – Financial position and working capital requirements – Valuation of inventory – Accounting for production shortfall provisions – Revenue recognition for sales to Chinese Distributor – Accounting and disclosure for promotional activity • These are further described in the *Key audit matters* (KAM) section of our report.

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. The key audit 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. Further, any commentary on the outcomes of a particular audit procedure is made in that context.

Key audit matter	**How our audit addressed the key audit matter**
Financial position and working capital requirements *(Refer note 22, consolidated statement of profit or loss, consolidated balance sheet, consolidated statement of cash flows, note 15 borrowings)* The Group has assessed its working capital requirements for a 12 month period from the signing date of the financial report. The assessment of the Group's working capital requirements is based on the Group's actual financial position for July 2017 and a forecast of sales, production requirements, production shortfall payments and overheads for the period from 1 August 2017 to 31 August 2018 (defined as "the forecast"). The Group's financial position for July 2017 includes the cash flows from the equity raising announced in June 2017 and the impact of the committed cash outflows for the acquisition of Camperdown Powder Pty Limited (Camperdown) (disclosed in note 29) and the payment to Fonterra Australia Pty Ltd (Fonterra) of $27.5 million for shortfall payments (refer below - Accounting for Production Shortfall Provisions). The Group used the actual financial position as at July 2017 and the forecast to evaluate its ability to meet expected financial commitments, the adequacy of the financing position of the Group and the ability to continue to comply with financial covenants associated with the banking facilities. The critical judgements of the Group in relation to the forecast are disclosed in note 22 and include: • estimated sales to domestic customers and resellers in China • the potential impact of proposed regulations in China • estimated production levels and shortfall payments. Given the critical judgements included in the forecast and the Group's need to ensure compliance with banking covenants to maintain funding we considered this to be a key audit matter.	In considering the Group's financial position and financing arrangements we, among other things: • Considered the Group's forecast financial position for the period from 1 August 2017 to 31 August 2018 and estimated the forecast headroom in the banking facilities and cash position throughout the period. • Agreed the cash received from the equity raise to the relevant bank statements. • Agreed the cash paid by the Group for the acquisition of Camperdown and paid to Fonterra to the relevant bank statements. • Read the banking agreement to obtain an understanding of the financial covenants and other obligations associated with the banking facility. • Considered the impact of the shareholder class action. • Considered the Group's ability to comply with the financial banking covenants by comparing the financial covenants per the banking agreement to the Group's forecast covenant position for each quarter. • Inspected correspondence from the bank confirming that the one-off payment to Fonterra was excluded from the financial covenant calculation. • Considered the reliability of the underlying data used in the Group's forecast and considered whether the key assumptions such as sales volumes and margins were supportable. To do this we: – compared forecast sales volumes and margins to actual sales volume for FY17 – considered the impact of regulatory changes in China and considered how sensitive the forecast would be to changes or potential changes in regulations • Performed a sensitivity analysis by varying the key assumptions in the forecast, in particular sales, to assess whether the Group was likely to continue to comply with its banking covenants.

Key audit matter	How our audit addressed the key audit matter
Valuation of inventory *(refer to note 11)* The Group's inventories at 30 June 2017 amounted to $93.5 million, of which $83 million related to finished goods and $10.5 million related to raw materials. Inventory predominantly consists of infant milk formula, baby food and associated raw materials which are held at third party distribution centres located in Australia and China. Inventory is measured at the lower of cost or net realisable value. To assess net realisable value, the Group estimates the future sales value of inventory and, where this is less than the cost of the inventory, writes down the value of inventory to the estimated sales value. We considered this a key audit matter due to the size of the inventory balance and the judgement required by the Group to estimate the future sales value of inventory. This included considering factors such as: • product expiry dates • expected sales volumes • expected sales prices • the impact of regulations in China.	To assess the valuation of inventory we, among other things: • Inspected a sample of sales invoices issued in July 2017 and August 2017 to identify whether any inventory was sold at less than its cost price. • Examined the Group's report that provides a list of the expiry dates of raw materials and compared a selection of raw materials which were close to expiry or past expiry to the Group's list of raw materials contained in the inventory provision. • Inspected the Group's report that provides a list of the expiry dates of raw ingredients and finished goods and the Group's sales forecast to develop an understanding of whether the finished goods were expected to be sold within the expiry window as required by key customers. • Tested the accuracy of the expiry dates in the underlying report by comparing the expiry date listed for a sample of finished goods to the expiry date on the product label. • Considered announcements from Australian and Chinese regulators relating to sale of infant formula and packaging of infant formula for the period 1 July 2016 to 24 August 2017 and made inquiries of the Group as to whether there were any changes which could impact the sale of inventory on hand.
Accounting for production shortfall provisions *(refer to note 17 and note 27)* The Group has two key contractual arrangements for the manufacture of finished goods. These contracts have minimum volume commitments and where the Group is not able to fulfil these minimum volume commitments, it is required to make production shortfall payments to the relevant manufacturers. The minimum volume commitments are based on each individual contract year (which differs from the Group's financial year). At each financial year- end, the Group raises a provision when production thresholds have not been met or the Group does not have the ability to meet the threshold under the contractual terms. In June 2017, the Group entered into a revised agreement with Fonterra which resulted in the Group agreeing to pay Fonterra $27.5 million to significantly reduce further exposure to future shortfall amounts. We considered the accounting for production shortfall provisions a key audit matter given the judgement required in:	To assess the accounting for the production shortfall provisions we, among other things: • Read the two key contracts with manufacturers to develop an understanding of the key terms and the thresholds for minimum production for each contract. • Compared the actual production from the commencement of the contract year to 30 June 2017 for each contract to the Group's production records. • Considered the Group's ability under the respective contracts to meet the volume threshold for the remaining period of the applicable contract year by considering the maximum production levels specified in the contract • Compared the actual production plus the estimated production volume for the remaining contract period for each contract to the Group's minimum annual volume calculation.

Key audit matter	How our audit addressed the key audit matter
• assessing the Group's ability to reach production thresholds for the contract year • estimating the amount of provision required at 30 June 2017.	• Compared the volume/production shortfall rate per tonne in the relevant contracts to the Group's calculation of the shortfall provision. • Agreed the cash paid for the shortfall payment to Fonterra to the revised agreement and the relevant bank statement.
Revenue recognition for sales to China Distributor *(Refer note 2 Segment revenues)* For the year ended 30 June 2017, the Group generated $73.1 million of sales for the China segment, which included sales to the China distributor. We considered the recognition of revenue to the China distributor to be a key audit matter because there are large shipments close to year-end with specific shipment terms and conditions and certain products imported into China are subjected to sample quality testing, known as China Inspection and Quarantine (CIQ) tests.	To test whether revenue for export sales was recognised in the correct period we: • Read the terms and conditions of the sales contract with the Group's China distributor to develop an understanding of the risks facing the Group with respect to recognising revenue in the correct financial year. • Selected all sales transactions to the China distributor for May 2017 and June 2017 and compared the date of the transaction and the volume of product sold to the terms of the relevant sale agreement. • Considered the Group's quality testing process for export sales. For a sample of export sales in May 2017 and June 2017, we inspected the Group's quality testing results in Australia to assess the risk of product returns.
Accounting and disclosure for promotional activity *(Refer note 5 Revenue)* As is industry practice in Australia there are numerous pricing arrangements ("rebates") with retail customers (supermarkets and chemists) which relate to the retailer selling Bellamy's products on promotion. The amount payable for these rebates depends upon the quantity of units sold in the promotion period. The Group is required to estimate and accrue for these rebates (variable trade spend obligations) at each reporting date to the extent they relate to sales made by the Group in that financial year. We considered this a key audit matter because: • The date Bellamy's products are delivered to retailers differs from the period over which the promotions will run, and therefore estimates are required to ensure all trade spend accruals are recorded (i.e. the accrual is "complete"). • The quantity of product sold on promotion may not be known to the Group at balance date. The Group restated prior period promotional spend to reclassify $10.5 million of expenses from direct costs to reduce revenue.	Our audit procedures over the accounting and disclosure for promotional activity included: • Inspecting a sample of rebates claimed by retailers after the balance date to consider whether claims relating to sales made by the Group before the financial year-end, were accrued for. • Assessing whether the promotional costs for the year ended 30 June 2017 were deducted against revenue. • Considering the reclassification of promotional spend and assessing the related disclosures against the requirements of the Australian Accounting Standards which outline that discounts and rebates should be deducted against revenue. • Agreeing the amount of the restatement for the prior period promotional spend to the amount included in direct costs for the prior period.

Other information

The directors are responsible for the other information. The other information comprises the Chairman's letter, Message from the CEO, Company Overview, Board of Directors, Executive Team, Directors' Report, Corporate Governance Statement and Shareholder Information included in the Group's annual report for the year ended 30 June 2017 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 accordingly 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 identified above 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 the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our auditor's report.

Report on the remuneration report

Our opinion on the remuneration report

We have audited the remuneration report included in pages 30 to 51 of the directors' report for the year ended 30 June 2017.

In our opinion, the remuneration report of Bellamy's Australia Limited, for the year ended 30 June 2017 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.

Pricewaterhouse Coopers

PricewaterhouseCoopers

Alison Tait

Alison Tait
Partner

Melbourne
25 August 2017

Shareholder Information

Bellamy's Australia Limited and controlled entities

The following additional information is provided in accordance with the ASX Listing Rules as at 31 July 2017.

Number of holders of equity securities

Ordinary share capital

109,417,595 shares are held by 17,951 shareholders. At a general meeting, every shareholder present in person or by proxy, attorney or representative has one vote on a show of hands, on a poll, one vote for each fully paid share held.

Unlisted options over ordinary share capital

A total of 7,156,898 options are held by 20 individual option holders, including 265,887 of options not yet approved by shareholders. The options do not carry any voting rights.

Distribution of holders of equity securities

	Ordinary shares		
No. of equity securities held	**No. of holders**	**No. of shares**	**% of shares**
1 to 1000	10,227	4,374,763	4.00%
1,001 to 5,000	6,212	13,564,410	12.40%
5,001 to 10,000	925	6,432,051	5.88%
10,001 to 100,000	551	11,940,247	10.91%
100,001 and Over	36	73,106,124	66.81%
Total	**17,951**	**109,417,595**	

Substantial shareholders

Name	Number of ordinary shares	% of voting power advised
Citicorp Nominees Pty Ltd	18,194,200	16.63
Black Prince Private Foundation	15,842,106	14.48
Quality Life Pty Ltd	8,012,049	7.32
HSBC Custody Nominees (Australia) Limited-GSCO ECA	6,763,733	6.18
HSBC Custody Nominees (Australia) Ltd	4,394,564	4.02

Twenty largest shareholders

Rank	Name	Number of ordinary shares held	% of capital held
1	Citicorp Nominees Pty Ltd	18,194,200	16.63
2	The Black Prince Private Foundation	15,842,106	14.48
3	Quality Life Pty Ltd	8,012,049	7.32
4	HSBC Custody Nominees (Australia) Limited-GSCO ECA	6,763,733	6.18
5	HSBC Custody Nominees (Australia) Ltd	4,394,564	4.02
6	JB Were (NZ) Nominees Ltd	3,162,693	2.89
7	JP Morgan Nominees Australia Ltd	2,523,060	2.31
8	CS Third Nominees Pty Ltd	2,252,198	2.06
9	Miss Mengjie Liu	2,065,158	1.89
10	Merrill Lynch (Australia) Nominees Pty Ltd	1,139,092	1.04
11	Brispot Nominees Pty Ltd	948,004	0.87
12	National Nominees Ltd	915,675	0.84
13	CS Fourth Nominees Pty Ltd	822,504	0.75
14	HSBC Custody Nominees Pty (Australia) Ltd - A/C 2	800,872	0.73
15	Buttonwood Nominees Pty Ltd	662,362	0.61
16	Netwealth Investments Ltd	624,783	0.57
17	Saba Family Investments Pty Ltd	463,948	0.42
18	Suetone Pty Ltd	320,000	0.29
19	RBC Investor Services Australia Nominees Pty Ltd	301,086	0.28
20	BNP Paribas Nominees Pty Ltd	292,063	0.27
	Total	**70,500,150**	**64.43%**
	Total remaining holders balance	**38,917,445**	**35.57%**
	TOTAL	**109,417,595**	**100.00%**