

BELLAMY'S AUSTRALIA LIMITED

ABN 37 124 272 108

ASX (Appendix 4D)

Interim Report

for the half-year ended 31 December 2016

This report is provided to the Australian Stock Exchange (ASX) under ASX Listing Rule 4.2A.

BELLAMY'S AUSTRALIA LIMITED

Results for Announcement to the Market for the half-year ended 31 December 2016

(Previous corresponding reporting period: Half-year ended 31 December 2015)

1. Key Information

	Half-year ended 31 December 2016	Half-year ended 31 December 2015	Period movement up/(down)
Consolidated entity	\$'000	\$'000	%
Revenue	118,297	105,143	12.5%
EBIT	10,105	19,155	(47.2%)
Profit before income tax expense	10,070	19,460	(48.3%)
Income tax expense	(2,834)	(5,804)	(51.2%)
Net profit after income tax expense	7,236	13,656	(47.0%)

Dividends	Franked amount per security cents
Interim dividend (prior year)	4.10
Final dividend (prior year)	7.80
No dividend has been declared in respect of the current financial year	

	Half-year ended 31 December 2016	Half-year ended 31 December 2015	Period movement up/(down)
Net tangible assets backing			
Basic earnings per share (cents)	7.5	14.2	(47.2%)
Diluted earnings per share (cents)	7.2	13.9	(48.2%)
Net Assets	83,950	63,211	32.8%
Net tangible assets	81,949	62,939	30.2%
Net assets per share (cents)	86.8	65.4	32.8%
Net tangible assets per share (cents)	84.8	65.1	30.2%

Definitions

Net Tangible Assets = Total equity less goodwill and other intangible assets

Net Tangible Assets per share - Total equity less goodwill and other intangible assets/ shares on issue

Net tangible asset backing has increased over the period as net tangible assets have increased (primarily due to profits in calendar year 2016) while shares on issue have only increased marginally by 30,128 ordinary shares to 96,686,525 shares on issue (2015: 96,634,354 ordinary shares on issue).

2. Commentary on Results

Bellamy's is implementing a turnaround strategy aimed at improving returns for all stakeholders. We continue to be a leading brand in the Australian and China markets and have a strong platform to build upon. It will be an 18 month journey to return the business to sustainable growth. We have made good progress since December 2016. We have met our guidance in terms of revenue, and normalised Earnings Before Interest and Tax (EBIT) and Net Profit After Tax (NPAT). As a result of reduced production, surplus raw ingredients have been revalued down by \$2.1m to recoverable value. This resulted in EBIT being below guidance.

Financial Performance

In respect of 1H17, the Company achieved Revenue of \$118.3m (1H16: \$105.1m), EBIT of \$10.1m (1H16: \$19.5m) and NPAT of \$7.2m (1H16: \$13.7m).

The major impact on profitability in the half was the recognition of significant items totalling \$8.6m as outlined in Note 4. Excluding the impact of these items, normalised earnings results would have been as follows:

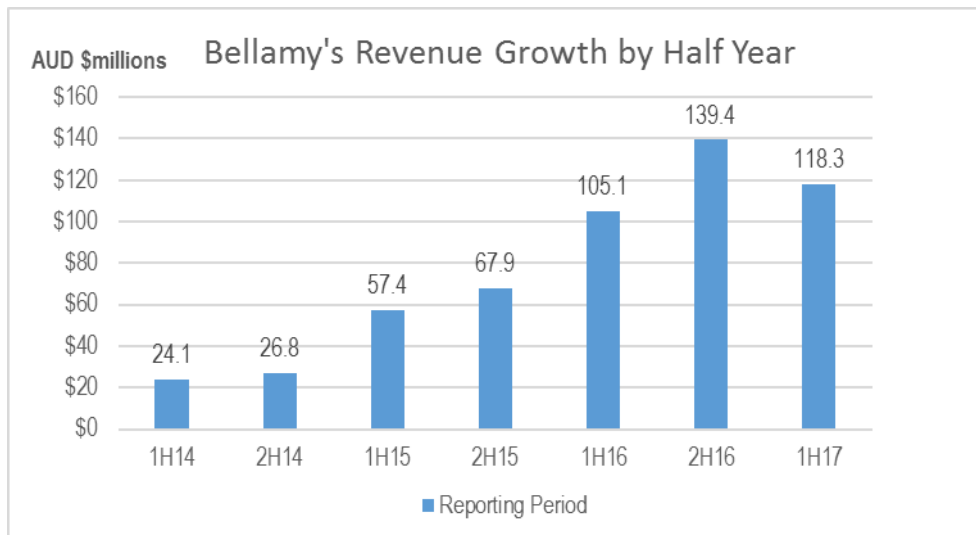
(A\$m)	1H17			1H16		
	Statutory Profit	Significant items(1)	Normalised result(2)	Statutory Profit	Significant items	Normalised result
Revenue	118.3	-	118.3	105.1	-	105.1
EBIT	10.1	8.6	18.7	19.2	-	19.2
Profit before income tax expense	10.1	8.6	18.7	19.5	-	19.5
Net Profit after income tax expense	7.2	6.0	13.3	13.7	-	13.7

(1) Refer Note 4 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 1H17 includes significant items that are not expected to repeated in future years. The table reflects the normalised earnings of the business.

Revenue and Profitability

Bellamy's grew revenue for 6 consecutive halves before declining 15.1% in 1H17. A build up of 'Australian label' inventory by China/Hong Kong resellers in 2H16 and 1H17 led to an oversupply, causing widespread discounting on Chinese e-commerce platforms, which was revealed after the results of Singles Day were known. This impacted the competitiveness of the Daigou channel and slowed Bellamy's Australian sales.



The gross profit margin for the half-year of 39.5% was down 6.2 percentage points on the 2016 full year result of 45.7% (1H16: 41.6%). The decrease in margin is the result of changes in the Company's customer mix, an increase in the cost of organic ingredients in order to secure supply, and directly focused promotional activities in 1H17.

Expenses

Expenses have increased by \$11.6m as a result of investments in marketing costs and employee costs with increased headcount.

Marketing and promotion costs represent the largest single increase in costs, equating to 6.7% of Revenue for the half (1H16: 1.9% of Revenue). While the increased investment in marketing was intentional to support revenue growth, the marketing spend was not as effective as intended and will be redirected to more effective channels as well as joint marketing with customers in current and future periods.

Employee costs increased along with headcount. The headcount level grew to support a larger business and has been reduced to a sustainable level post balance date.

Costs of \$5.0m were included in direct costs in the previous half in relation to brand building. In 1H17 there was a greater focus on discounting to retailers to support revenue, these costs are included in net revenue.

Balance Sheet

Cash at 30 June 2016 of \$32.3m reduced to \$15.6m by 31 December 2016 primarily due to increases in inventory. As a result of the increased production during the half the business increased its inventory levels by \$34.9m to \$102.7m as at 31 December 2016 (1H16: \$67.7m).

Borrowings increased by \$14.5m to \$14.6m as at 31 December 2016. The company has in place a \$40.0m banking facility to manage working capital while efforts are deployed to reduce inventory levels to manageable levels whilst maintaining a pricing strategy that is reflective of the premium branded products produced by Bellamy's. It will take time to reduce inventory levels due to the lead time on ingredient orders and production schedules. With this in mind, the Company anticipates no material change in inventory levels at the end of FY17.

Cash Flow

Net cash outflows from operating activities was \$23.7m. There were no shortfall payments made in 1H17. Bellamy's focus going forward will be on positive cash flow generation by reducing production (payments to suppliers), better cost management and restructuring of sales channels.

Outlook

The Company provides 2H17 guidance of revenue between \$105m to \$120m and EBIT margin of between 8% and 10%. Normalised EBIT margin is expected to range between \$11m and \$15m (10% and 13%). Combining 1H17 actual with 2H17 guidance, FY17 revenue is expected to be between \$220m to \$240m with an EBIT margin of between 8% and 10%.

Net Profit after Tax for 2H17 and FY17 is expected to range between 4% and 6% of Revenue.

January and February are typically slower months because of Chinese New Year. However, Bellamy's has met the Company's internal forecasts over this period.

Bellamy's focus moving forward

The strategy of the current board and management is focused on four imperatives:

1. Establish credibility and stability with the trade
2. A continued focus on cost management
3. Focus on transition to positive free cash flow
4. Reinvest in the Brand and increase market penetration

Significant progress has been achieved in rebuilding our management team, improving operating performance, reducing costs and restructuring sales channels to China.

BELLAMY'S AUSTRALIA LIMITED

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Consolidated interim report for the half-year ended 31 December 2016

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This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report should be read in conjunction with the annual report for the year ended 30 June 2016 and any public announcements made by Bellamy's Australia Limited during the interim financial reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

BELLAMY'S AUSTRALIA LIMITED

Directors' Report

Your directors present their report on the consolidated entity consisting of Bellamy's Australia Limited and the entities it controlled ("the Company" or "Bellamy's") at the end of, or during, the half-year ended 31 December 2016 as follows:

Directors

The following persons were directors of Bellamy's Australia Limited during the whole of the half-year and up to the date of this report.

- Rob Woolley (Chair)
- Laura McBain (Managing Director and Chief Executive Officer) (resigned 23 January 2017)
- Michael Wadley
- Launa Inman
- Patria Mann
- Charles Sitch

Company overview

Bellamy's is an Australian producer, supplier and marketer of 100% organic baby food and formula. Headquartered in Tasmania, Bellamy's offers a range of organic food and formula products for babies and toddlers, starting with an organic infant formula suitable from birth.

Review of Operations

The review of operations is set out on pages 1 to 3 of the Appendix 4D half-year report, together with the Company's half-year media release.

Auditor's 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 6.

Rounding of amounts

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/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.

This report is made in accordance with a resolution of directors.



Rob Woolley
CHAIR

Melbourne

24 February 2017

BELLAMY'S AUSTRALIA LIMITED



Auditor's Independence Declaration

As lead auditor for the review of Bellamy's Australia Limited for the half-year ended 31 December 2016, I declare that to the best of my knowledge and belief, there have been:

1. no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
2. no contraventions of any applicable code of professional conduct in relation to the review.

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

A handwritten signature in black ink that reads 'Alison Tait'.

Alison Tait

Partner
PricewaterhouseCoopers

Melbourne

24 February 2017

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BELLAMY'S AUSTRALIA LIMITED

Consolidated statement of profit and loss and other comprehensive income For the half-year ended 31 December 2016

	Half-year	
	2016	2015
	\$'000	\$'000
Revenue	118,297	105,143
Cost of Sales	(71,536)	(61,402)
Gross Profit	46,761	43,741
Other income	186	643
Direct costs (distribution & other costs)	(14,620)	(13,312)
Employee costs	(8,103)	(5,300)
Marketing and promotion costs	(7,922)	(1,944)
Administrative and other costs	(5,875)	(4,541)
Depreciation and amortisation	(322)	(132)
Earnings before net interest and tax (EBIT)	10,105	19,155
Net interest revenue/(expense)	(35)	305
Profit before income tax	10,070	19,460
Income tax (expense)/benefit	(2,834)	(5,804)
Net profit for the half-year	7,236	13,656
Other comprehensive income (net of tax) Items that may be reclassified subsequently to profit and loss		
Exchange differences arising from translation of wholly owned foreign entities	(1,184)	(392)
Change in fair value of cash flow hedges	440	-
Total comprehensive income for the half-year	6,720	13,264
Earnings per share		
Basic earnings per share (cents)	7.5	14.2
Diluted earnings per share (cents)	7.2	13.9

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 31 December 2016

		31 December 2016 \$'000	30 June 2016 \$'000
	Note		
ASSETS			
Current assets			
Cash and cash equivalents		15,632	32,295
Trade and other receivables		50,300	33,887
Inventories	7	102,710	67,752
Other financial assets		-	500
Financial assets at fair value through profit and loss		-	283
Other assets		513	4,475
Total current assets		169,155	139,192
Non-current assets			
Property, plant & equipment		1,174	1,105
Intangible assets		2,001	1,704
Deferred tax assets (net)		3,428	1,500
Total non-current assets		6,603	4,309
Total assets		175,758	143,501
LIABILITIES			
Current liabilities			
Trade and other payables		64,482	48,373
Borrowings	10	14,584	113
Provisions		533	328
Derivatives		756	807
Current tax liabilities		11,274	10,495
Total current liabilities		91,629	60,116
Non-current liabilities			
Borrowings		-	18
Provisions		179	146
Total non-current liabilities		179	164
Total liabilities		91,808	60,280
Net assets		83,950	83,221
EQUITY			
Issued capital		40,620	40,216
Reserves		3,229	2,829
Retained profits		40,101	40,176
Total equity		83,950	83,221

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

BELLAMY'S AUSTRALIA LIMITED

Consolidated statement of changes in equity For the half-year ended 31 December 2016

	Note	Issued capital \$'000	Foreign currency translation reserve \$'000	Cash flow hedge reserve \$'000	Share based payment reserve \$'000	Retained earnings \$'000	Total equity \$'000
Balance at 1 July 2016		40,216	(373)	(565)	3,767	40,176	83,221
Profit for the half-year		-	-	-	-	7,236	7,236
Other comprehensive income		-	(1,184)	440	-	228	(516)
Total comprehensive income		-	(1,184)	440	-	7,464	6,720
Issue of shares		404	-	-	-	-	404
Dividends		-	-	-	-	(7,539)	(7,539)
Share based payments		-	-	-	1,144	-	1,144
Balance at 31 December 2016		40,620	(1,557)	(125)	4,911	40,101	83,950

	Note	Issued capital \$'000	Foreign currency translation reserve \$'000	Cash flow hedge reserve \$'000	Share based payment reserve \$'000	Retained earnings \$'000	Total equity \$'000
Balance at 1 July 2015		39,655	(159)	-	499	8,916	48,911
Profit for the half-year		-	-	-	-	13,656	13,656
Other comprehensive income		-	(182)	-	-	(210)	(392)
Total comprehensive income		-	(182)	-	-	13,446	13,264
Issue of shares		323	-	-	-	-	323
Dividends		-	-	-	-	(2,722)	(2,722)
Share based payments		-	-	-	3,435	-	3,435
Balance at 31 December 2015		39,978	(341)	-	3,934	19,640	63,211

The above Consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

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Consolidated statement of cash flows
For the half-year ended 31 December 2016

	Note	Half-year	
		2016 \$'000	2015 \$'000
Cash flows from operating activities			
Cash receipts from customers		102,489	90,638
Cash payments to suppliers and employees		(121,718)	(87,952)
Cash generated from operations		(19,229)	2,686
Interest received		80	311
Other revenue		-	7
Dividends received		-	2
Interest paid		(115)	(6)
Income taxes paid		(4,401)	(4,234)
Net cash outflow from operating activities		(23,665)	(1,234)
Cash flows from investing activities			
Proceeds sale property plant & equipment		16	-
Purchases of property plant & equipment		(238)	(487)
Proceeds on sale of investments		297	-
Purchases of intangibles		(348)	(188)
Net cash outflow from investing activities		(273)	(675)
Cash flows from financing activities			
Proceeds from share issue		-	323
Proceeds/(repayment) of borrowings		14,453	(54)
Dividends paid to Company's shareholders		(7,136)	(2,722)
Net cash inflow / (outflow) from financing activities		7,317	(2,453)
Net increase / (decrease) in cash equivalents		(16,621)	(4,362)
Cash and cash equivalents at the beginning of the half-year		32,295	32,035
Effect of exchange rate changes on cash and cash equivalents		(42)	24
Cash and cash equivalents at end of the half-year		15,632	27,697

The above Consolidated statement of cash flows should be read in conjunction with the accompanying notes.

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Notes to the consolidated financial statements

1. Critical estimates and judgements

Estimates and judgements 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 Company makes estimates and assumptions concerning the future. The most significant estimates and assumptions made in the interim financial statements are discussed below.

Future working capital requirements

The Company has assessed its working capital requirements for the business for a 12 month period from the date of signing the interim financial statements. The assessment of the Company'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 February 2017 to 28 February 2018 (defined as "the forecast"). Forecasts are based on the strategic plans of the current board and management.

The critical judgements in relation to the assessment of working capital requirements are considered below.

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 Company's products in China which would be applicable on 1 January 2018. These China regulations will require specified types of imported products to be accredited with the China Food and Drug Administration. The forecast assumes this accreditation is achieved for the Company's infant formula brand. With the support of our manufacturing supplier, Bellamy's is well progressed for timely accreditation. Should the manufacturing supplier not proceed with, or not prioritise, Bellamy's product, registration could be delayed beyond 1 January 2018. Bellamy's is confident that registration could be achieved with other manufacturers.

The forecast also includes judgement in relation to the extent of production shortfall payments which may be required under the Company's manufacturing arrangements (refer note 2 for further information). Shortfall payments are based on an estimate of the shortfall of expected production versus minimum production volumes as defined in the production contracts.

The Company has also considered the forecast in relation to compliance with financial covenants under its banking facilities and assessed the likelihood of compliance with other obligations associated with these banking facilities. Based on the forecast the Directors believe the Company will continue to trade within the limits of the available banking facilities and comply with its financial covenants and ancillary obligations. However, the Directors acknowledge there are business risks and uncertainties which could result in forecast earnings and cash flows not being achieved.

The Directors consider alternative funding options are likely to be available to the Company, if required.

The Directors have prepared the accounts on a going concern basis, taking into consideration the judgements above, and are confident the Company will meet its working capital requirements over the forecast period based on the strategy of the current board and management.

Net realisable value of inventory

The valuation of inventory is considered an area of judgement on the basis that the assessment of whether inventory is valued at lower of cost or net realisable value is based on the sales forecast. The sales forecast is based on significant judgements as indicated above. Should sales forecasts not be achieved inventory may not be sold within the expiry period.

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 Company 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. Further information with respect to production shortfall payments is included in note 2.

2. Commitments and Contingent Liabilities

Shortfall payments

The Company has manufacturing arrangements with suppliers/manufacturers which run over a number of years. The key manufacturing contracts have minimum volume commitments to secure access to the necessary manufacturing facilities. Where the Company is not able to fulfil minimum volume commitments, it is required to make production shortfall payments.

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

At 31 December 2016, the Company had met the production volumes under the contractual arrangements to date and therefore no provision for production shortfall payments has been recognised. At 30 June 2017 an assessment will be required in relation to achievement against the relevant thresholds for the various contracts (which have differing contract years). The Company has estimated that for the year ended 30 June 2017, production shortfall payments in the range of \$6 million to \$8 million may need to be accrued for as an expense, depending on production volumes achieved between January 2017 and June 2017. An additional expense may be incurred during FY18 if contractual volumes are not met, which is currently estimated to be between \$11 million and \$13 million. In FY19 if production levels remain consistent with FY18 a similar expense may be incurred. Beyond FY19 shortfall payments and the related expense may continue over the term of the contracts and could increase or decrease depending on the level of production.

Contingent Liability

As announced by the Company on 23 February 2017, Slater & Gordon Limited has commenced a representative proceeding (shareholder class action) in the Federal Court of Australia against the Company. 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. Bellamy's intends to vigorously defend the proceeding. The Court documents do not quantify the damages that the claimants will seek in the proceeding for all or any part of the claim period. Bellamy's does not consider that there is a reasonable basis on which to estimate any potential liability and no provision has been recognised in the financial statements.

3. Subsequent Events

Since 31 December 2016:

- a. The HSBC banking facility was re-negotiated to, amongst other things (i) increase the limits applying to certain of the sub-facilities provided by HSBC (the overall facility limit for all facilities was not changed) and (ii) set out the conditions which must be satisfied in order for the Company to be permitted to grant second-ranking security to Fonterra (as described in item (b) below) and (iii) include additional ancillary obligations. For more information on the banking facilities see Note 10.
- b. The Company has amended its manufacturing contract with its key manufacturing partner, Fonterra. In support of the Company's and Fonterra's commitment to a long term strategic manufacturing arrangement, the parties have agreed to amend their five-year manufacturing contract, extending the term by a further three years to apportion minimum volume commitments over a longer period. This amendment is conditional on the Company and certain subsidiaries granting Fonterra second-ranking security over their assets, subject to Bellamy's obtaining the consent of its bank.

Under the manufacturing contract with Fonterra, Fonterra and Bellamy's each have termination rights, including in the event of a change of control. As part of the amendment, two additional grounds for termination by Fonterra have been added. The first applies if a person or group of persons acquires 50% or more of Bellamy's voting shares. The second applies if a person or group of persons acquires 30% or more of Bellamy's voting shares and, in Fonterra's opinion, that person or group has effective control of Bellamy's. Further information on this contract was contained in the Company's announcement to ASX titled 'Business Update', released on 11 January 2017.

- c. The CEO Ms McBain was replaced by Mr Cohen on 11 January 2017. Ms McBain resigned as a director of the company on 23 January 2017.
- d. A shareholder of the Company has requisitioned an Extraordinary General Meeting (EGM) of the Company with the purpose of removing four of the existing independent, non-executive directors, being Patria Mann, Launa Inman, Michael Wadley and Charles Sitch, and electing three new proposed directors. The EGM will be held on Tuesday, 28 February 2017. A notice of EGM was lodged with the ASX and sent to shareholders on 19 January 2017.
- e. As noted in the Contingent Liability note above, on 23 February 2017, Slater & Gordon Limited has commenced a representative proceeding (shareholder class action) in the Federal Court of Australia against the Company.
- f. Litigation funders and several plaintiff law firms are reviewing potential class action claims on behalf of shareholders of the Company against the Company for alleged breaches of its continuous disclosure obligations and for alleged misleading and deceptive conduct.

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4. Significant items

	2016 \$'000	Half-year 2015 \$'000
Profit for the half-year includes the following items that are material due to the significance of their nature and/or amount:		
Included in operating expenses		
Inventory provisions and write-offs	6,838	-
Legal, accounting and restructuring	1,018	-
Ineffective foreign exchange hedges	727	-
	8,583	-

5 Operating Segments

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.

Segment revenues are derived from the sale and distribution of organic branded formula and food products to babies and toddlers. Management has determined that there are three operating segments based on geographical location. 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 three operating segments are as follows:

- i) Australia – revenues derived from sales to retailers and 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.

Management primarily uses a measure of earnings before interest and tax (EBIT) to assess the performance of the operating segments.

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.

	Australia \$'000	China/ Hong Kong \$'000	Other/ South East Asia \$'000	Group Total \$'000
31 December 2016				
Revenue from external customers	77,464	37,632	3,201	118,297
Other revenue	153	32	1	186
Total segment revenue	77,617	37,664	3,202	118,483
Segment EBIT	15,107	6,659	(28)	21,738
Unallocated expenses *				(11,633)
Group EBIT after unallocated expenses				10,105
Net financing revenue/(costs)				(35)
Profit before tax				10,070
Total segment assets - 31 December 2016	145,979	9,882	836	156,697
Total segment liabilities - 31 December 2016	61,434	2,793	254	64,482

* Unallocated expenses includes corporate costs of \$3.1m and significant items as outlined in Note 4 above.

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	Australia	China/ Hong Kong	Other/ South East Asia	Group Total
	\$'000	\$'000	\$'000	\$'000
31 December 2015				
Revenue from external customers	89,752	13,925	1,466	105,143
Other revenue	174	269	201	644
Total segment revenue	89,926	14,194	1,667	105,787
Segment EBIT	18,369	3,564	(49)	21,884
Unallocated expenses *				(2,729)
Group EBIT				19,155
Net financing revenue/(costs)				305
Profit before tax				19,460
Total segment assets - 30 June 2016	91,089	17,463	1,154	109,706
Total segment liabilities - 30 June 2016	46,931	1,352	90	48,373

* Unallocated expenses includes corporate costs

Reconciliation of segment assets and liabilities

	Australia	China/ Hong Kong	Other/ South East Asia	Group Total
	\$'000	\$'000	\$'000	\$'000
31 December 2016				
Segment assets	145,979	9,882	836	156,697
Unallocated				
Cash and cash equivalents				15,632
Deferred tax assets (net)				3,428
Total assets				175,758
Segment liabilities	61,435	2,793	254	64,482
Unallocated				
Provisions (employee benefits)				712
Borrowings				14,584
Derivatives				756
Current tax liabilities				11,274
Total liabilities				91,807
	Australia	China/ Hong Kong	Other Export	Group Total
	\$'000	\$'000	\$'000	\$'000
30 June 2016				
Segment assets	91,089	17,463	1,154	109,706
Unallocated				
Cash and cash equivalents				32,295
Deferred tax assets (net)				1,500
Total assets				143,501
Segment liabilities	46,931	1,352	90	48,373
Unallocated				
Provisions (employee benefits)				474
Borrowings				131
Derivatives				807
Current tax liabilities				10,495
Total liabilities				60,280

BELLAMY'S AUSTRALIA LIMITED

5. Operating Segments (cont.)

The amounts provided to the Board of Directors with respect to 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 the physical location of the asset.

6. Income tax

The effective tax rate calculated for the year to 31 December 2016 is 28.1% of Company revenue, compared to 29.8% for the six months ended 31 December 2015. Excluding the tax incentive recognised in respect of the 2016 Research & Development claim, the effective tax rate would be 29.6% for the period.

7. Inventory	Dec 2016 \$000	Jun 2016 \$000
Raw Materials	12,917	20,726
Finished Goods	82,055	35,109
Goods in Transit	7,738	11,917
Inventories	<u>102,710</u>	<u>67,752</u>

Inventories are valued at the lower of cost and net realisable value. As at 31 December 2016, the Company has taken up \$6.8m of inventory provisions and write-offs to ensure that finished goods and ingredients stock is accurately stated at its net realisable value.

8. Issued capital

	31 December		31 December	
	2016 Shares	2015 Shares	2016 \$000	2015 \$000
Opening balance at 1 July	96,656,397	95,000,392	40,216	39,655
Issue of ordinary shares during the half-year:				
Employee option plan – options exercised	-	1,633,962	-	323
Dividend Reinvestment Plan	30,128		404	-
Closing balance at 31 December	<u>96,686,525</u>	<u>96,634,354</u>	<u>40,620</u>	<u>39,978</u>

On 14 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.

On 2 September 2016, 30,128 shares were issued to existing shareholders under the Bellamy's Australia Limited Dividend Reinvestment Plan.

As at 31 December 2016, executives and employees held options over 3,650,408 (2015: 2,345,712) ordinary shares of the Company.

9. Dividends

	Half-year	
	2016 \$'000	2015 \$'000
(a) Ordinary Shares		
Dividends paid during the half-year	<u>7,539</u>	<u>2,722</u>

On 2 September 2016, a fully franked final dividend of 7.8c per share was paid in respect of the year ended 30 June 2016 (2015: 2.86c fully franked).

(b) No dividends have been declared in respect of the half-year ended 31 December 2016.

BELLAMY'S AUSTRALIA LIMITED

10. Borrowings	Half-year	
	Dec 2016	June 2016
	\$'000	\$'000
Current		
Secured		
Trade financing	14,472	-
Asset purchase liabilities	83	184
Total secured borrowings	14,555	184
Unsecured		
Insurance funding	29	-
Total unsecured borrowings	29	-
Total borrowings	14,584	184

Funding Note

HSBC provides a working capital facility to the Company 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 Company'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 Company and are subject to the Company complying with its obligations (including financial covenants) under those facilities. At 31 December 2016, the aggregate amount outstanding under the facilities was \$14.5 million and the Company was in compliance with its obligations under those facilities. Based on current forecasts, the Company expects that the Company will remain in compliance with those obligations.

11. Related party transactions

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

No Director has entered in to a material contract with the Company during the half-year and there were no material contracts involving Director's interests existing at period end.

12. Basis of preparation of half-year report

This condensed consolidated interim financial report for the half-year reporting period ended 31 December 2016 has been prepared in accordance with Accounting Standard AASB 134 *Interim financial Reporting* and the *Corporations Act 2001*.

The condensed consolidated interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2016 and any public announcements made by Bellamy's Australia Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except as set out below. The half-year financial statements have been prepared on the basis of accounting policies consistent with those applied in the 30 June 2016 annual report, with the exception that described in Note 5 (Operating Segments).

(a) New accounting standards and interpretations

The following new accounting standards and interpretations became effective from 1 July 2016

- i) 2010 - 2014 Annual Improvements Cycle (AASB 2015-1)
- ii) AASB 15 Revenue from contracts with customers
- iii) AASB 16 Leases

BELLAMY'S AUSTRALIA LIMITED

The AASB has issued a new standard for the recognition of revenue. This will replace AASB 118 which covers revenue arising from the sale of goods and the rendering of services and AASB 111 which covers construction contracts.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption. The new standard is effective for the first interim period within annual reporting periods beginning on or after 1 January 2018, and will allow early adoption.

Management is currently assessing the effects of applying the new standard on the Company's financial statements however it is not expected to have a significant impact on the results of the Company.

At this stage, the Company is not able to estimate the effect of the new rules on the Company's financial statements. The Company will make more detailed assessments of the effect over the next twelve months. The Company does not expect to adopt the new standard before 1 January 2018.

Under AASB 16 the distinction between operating and finance leases is removed for lessees. The income statement will be affected as operating lease expenses will be replaced by interest and depreciation, and the timing of expenses will also change, typically higher in the earlier years of a lease and lower in later years. Key ratios and metrics are likely to be affected as EBITDA will increase and recognising new lease assets and liabilities will significantly affect balance sheet ratios such as leverage.

Lease term and lease payment are defined more broadly under AASB 16 than under the previous standard.

The standard provides more guidance on the inclusion of extension options in the lease term and the treatment of variable lease payments for clauses including CPI increases and turnover-based rent. The removal of 'off-balance sheet' operating leases brings into focus the distinction between a lease and a service arrangement, which is not accounted for on balance sheet.

The new guidance focuses on the principle of control and whether a lessee has the right to control the use of an identified asset during the lease term; it may give a different classification to the previous standard, which focused on risk and rewards. The group does not expect to adopt the new standard before 1 January 2019.

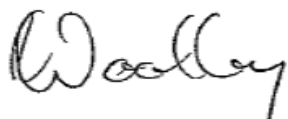
BELLAMY'S AUSTRALIA LIMITED

Directors' declaration

In the Directors' opinion:

- a) The financial statements and notes set out on pages 7 to 17 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 31 December 2016 and of its performance for the half-year ended on that date and
- b) there are reasonable grounds to believe that Bellamy's Australia Limited will be able to pay its debts as and when they become due and payable.

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



Rob Woolley

CHAIR

Melbourne

24 February 2017

BELLAMY'S AUSTRALIA LIMITED



Independent auditor's review report to the members of Bellamy's Australia Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Bellamy's Australia Limited (the company), which comprises the consolidated balance sheet as at 31 December 2016, the consolidated statement of profit and loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration for Bellamy's Australia Limited (the consolidated entity). The consolidated entity comprises the company and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

The directors of the company are responsible for the preparation of the half-year 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 half-year financial report that is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Bellamy's Australia Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

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BELLAMY'S AUSTRALIA LIMITED



Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Bellamy's Australia Limited is not in accordance with the *Corporations Act 2001* including:

1. giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half-year ended on that date;
2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A handwritten signature in black ink that reads 'PricewaterhouseCoopers' in a cursive script.

PricewaterhouseCoopers

A handwritten signature in black ink that reads 'Alison Tait' in a cursive script.

Alison Tait

Partner

Melbourne

24 February 2017

BELLAMY'S AUSTRALIA LIMITED

Corporate Directory

Bellamy's Australia Limited

ABN 37 124 272 108

ASX Code BAL

Principal registered office & Principal administration office

Bellamy's Australia Limited

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www.bellamysorganic.com.au

Company Secretaries

Mr Brian Green

Mr Dimitri Kiriacoulacos

Location of Share Registry

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Melbourne VIC 3000

External auditor

PricewaterhouseCoopers

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Southbank Vic 3006