



ASX RELEASE
31 October 2019

Scheme Booklet Registered with ASIC

Bellamy's Australia Limited (ASX: BAL) (**Bellamy's** or the **Company**) is pleased to announce that the Australian Securities and Investments Commission (**ASIC**) has registered the Scheme Booklet in relation to the proposed acquisition of Bellamy's by a wholly-owned subsidiary of China Mengniu Dairy Company Limited, by way of a scheme of arrangement (**Scheme**). This follows the issuance of orders by the Supreme Court of New South Wales approving the despatch of the Scheme Booklet to Bellamy's shareholders and the convening of a meeting of Bellamy's shareholders (**Scheme Meeting**) to consider and vote on the Scheme, which was announced by Bellamy's yesterday, 30 October 2019.

Scheme Booklet

A copy of the Scheme Booklet, which includes an Independent Expert's Report and a Notice of Scheme Meeting, is attached to this announcement and will be sent to Bellamy's shareholders on or about 4 November 2019. Those Bellamy's shareholders who have previously nominated an electronic means of notification to the Bellamy's Share Registry will receive an email from where they can download the Scheme Booklet. The Scheme Booklet provides Bellamy's shareholders with information about the Scheme. Bellamy's shareholders are advised to read the Scheme Booklet in its entirety. The Notice of Scheme Meeting provides information on how to lodge your Proxy Form.

Independent Expert's Report

The independent expert, Grant Samuel & Associates Pty Limited, has concluded that the Scheme is in the best interests of Bellamy's shareholders, in the absence of a superior proposal.

Directors' recommendation

The Bellamy's Board continues to unanimously recommend that Bellamy's shareholders vote in favour of the Scheme at the Scheme Meeting in the absence of a superior proposal, and subject to the independent expert continuing to conclude that the Scheme is in the best interests of Bellamy's shareholders. Subject to those same qualifications, each Bellamy's Director intends to vote all the Bellamy's Shares held or controlled by them in favour of the Scheme.

Further information

Bellamy's shareholders can obtain further information in relation to the Scheme by calling the Bellamy's Shareholder Information Line on 1800 260 668 (within Australia) or +61 1800 260 668 (outside Australia), Monday to Friday between 8.30am and 5.30pm (AEST).

-ENDS-

Company inquiries, please contact:
Melinda Harrison
Company Secretary
+613 6332 9200

Media inquiries, please contact:
John Hurst
Teneo
+61 418 708 663



BELLAMY'S AUSTRALIA LIMITED

ACN 124 272 108

SCHEME BOOKLET

In relation to the proposed acquisition of Bellamy's Australia Limited (**Bellamy's**) by Mengniu SubCo, a Subsidiary of China Mengniu Dairy Company Limited (**Mengniu**) by way of Scheme of Arrangement.

VOTE IN FAVOUR

Your Directors unanimously recommend that you vote in favour of the Scheme in the absence of a Superior Proposal, and subject to the Independent Expert continuing to conclude that the Scheme is in the best interests of Bellamy's Shareholders.

The Scheme Meeting is scheduled to be held at 10.00am (Sydney time) on Thursday 5 December 2019 at Greenfields Albert Park, Corner Lakeside Drive & Queens Road, Albert Park Lake, Melbourne, Victoria.

This scheme booklet is important and requires your prompt attention. You should read it in its entirety, and consider its contents carefully, before deciding whether or not to vote in favour of the Scheme. If you are in any doubt about what you should do, you should consult with a financial, legal, taxation or other professional adviser.

If you have any questions in relation to this Scheme Booklet or the Scheme, please contact the Bellamy's Shareholder Information Line on 1800 260 668 (within Australia) or +61 1800 260 668 (outside Australia), Monday to Friday between 8.30am and 5.30pm (Sydney time).

This Scheme Booklet has been sent to you because you are shown in Bellamy's Share Register as holding Bellamy's Shares. If you have recently sold all of your Bellamy's Shares, please disregard this Scheme Booklet.



Financial Adviser

Morgan Stanley

Legal Adviser

Allens & Linklaters

IMPORTANT NOTICES

Nature of this Scheme Booklet

This Scheme Booklet provides Bellamy's Shareholders with information about the proposed acquisition of Bellamy's by Mengniu SubCo, a Subsidiary of Mengniu. You should review all of the information in this Scheme Booklet carefully. Section 1.1 sets out the reasons why you should vote in favour of the Scheme and section 1.2 sets out the reasons why you may wish to vote against the Scheme.

If you have sold all of your Bellamy's Shares, please disregard this Scheme Booklet.

Defined terms

A number of defined terms are used in this Scheme Booklet. These terms are explained in section 9 of this Scheme Booklet.

No investment advice

The information contained in this Scheme Booklet does not constitute financial product advice and has been prepared without reference to your own investment objectives, financial situation, taxation position or particular needs. It is important that you read this Scheme Booklet in its entirety before making any investment decision and any decision as to whether or not to vote in favour of the Scheme. If you are in any doubt in relation to these matters, you should consult with a financial, legal, taxation or other professional adviser.

Not an offer

This Scheme Booklet does not constitute or contain an offer to Bellamy's Shareholders, or a solicitation of an offer from Bellamy's Shareholders, in any jurisdiction.

Foreign jurisdictions

The release, publication or distribution of this Scheme Booklet in jurisdictions other than Australia may be restricted by law or regulation in such other jurisdictions and persons outside of Australia who come into possession of this Scheme Booklet should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable laws or regulations.

This Scheme Booklet has been prepared in accordance with Australian law and the information contained in this Scheme Booklet may not be the same as that which would have been disclosed if this Scheme Booklet had been prepared in accordance with the laws and regulations outside of Australia.

Regulatory information

This document is the explanatory statement for the scheme of arrangement between Bellamy's and the Scheme Shareholders for the purposes of section 412(1) of the Corporations Act. A copy of the proposed Scheme is included in this Scheme Booklet in Annexure B.

A copy of this Scheme Booklet was provided to ASIC for examination in accordance with section 411(2)(b) of the Corporations Act and was lodged with ASIC for registration under section 412(6) of the Corporations Act. It was then registered by ASIC under section 412(6) of the Corporations Act before being sent to Bellamy's Shareholders.

ASIC has been requested to provide a statement, in accordance with section 411(17)(b) of the Corporations Act, that ASIC has no objection to the Scheme. If ASIC provides that statement, it will be produced to the Court at the time of the Court hearing to approve the Scheme. Neither ASIC nor any of its officers takes any responsibility for the contents of this Scheme Booklet.

A copy of this Scheme Booklet will be lodged with the ASX. Neither the ASX nor any of its officers takes any responsibility for the contents of this Scheme Booklet.

Notice of Scheme Meeting

The Notice of Meeting is set out in Annexure D.

Bellamy's Shareholder's right to appear at the Second Court Hearing

At the Second Court Hearing, the Court will consider whether to approve the Scheme following the vote at the Scheme Meeting.

Any Bellamy's Shareholder may appear at the Second Court Hearing, expected to be held at 2.00pm (Sydney time) on Monday 9 December 2019 at the Supreme Court of New South Wales, Law Courts Building, 184 Phillip Street, Sydney.

Any Bellamy's Shareholder who wishes to oppose approval of the Scheme at the Second Court Hearing may do so by filing with the Court and serving on Bellamy's a notice of appearance in the prescribed form together with any affidavit that the Bellamy's Shareholder proposes to rely on.

Important notice associated with the Court order under section 411(1) of the Corporations Act

The fact that under section 411(1) of the Corporations Act, the Court has ordered that a meeting be convened and has directed that an explanatory statement accompany the notice of meeting does not mean that the Court:

- has formed any view as to the merits of the proposed Scheme or as to how members should vote (on this matter members must reach their own decision); or
- has prepared, or is responsible for, the content of the explanatory statement.

The order of the Court that the Scheme Meeting be convened is not, and should not be treated as, an endorsement by the Court of, or any other expression of opinion by the Court on, the Scheme.

Disclaimer as to forward-looking statements

This Scheme Booklet contains both historical and forward-looking statements. All statements other than statements of historical fact are, or may be deemed to be, forward-looking statements.

All forward-looking statements in this Scheme Booklet reflect views only as at the date of this Scheme Booklet, and generally may be identified by the use of forward-looking words such as "believe", "aim", "expect", "anticipate", "intending", "foreseeing", "likely", "should", "planned", "may", "estimate", "potential", or other similar words. Similarly, statements that describe Bellamy's or Mengniu's objectives, plans, goals or expectations are or may be forward-looking statements.

Any statements contained in this Scheme Booklet about the impact that the Scheme may have on the results of Bellamy's operations, and the advantages and disadvantages anticipated to result from the Scheme, are also forward-looking statements.

All forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements to differ materially from the anticipated results, performance or achievements, expressed, projected or implied by those forward-looking statements.

The operations and financial performance of Bellamy's are subject to various risks, including those summarised in this Scheme Booklet, which may be beyond the control of Bellamy's and/or Mengniu. Bellamy's Shareholders should note that the historical financial performance of Bellamy's is no assurance of future financial performance of Bellamy's (whether the Scheme is implemented or not). Those risks and uncertainties include factors and risks specific to the industry in which Bellamy's operates as well as general economic conditions, prevailing exchange rates and interest rates and conditions in the financial markets. As a result, the actual results of operations and earnings of Bellamy's following implementation of the Scheme, as well as the actual advantages of the Scheme, may differ significantly from those that are anticipated in respect of timing, amount or nature and may never be achieved.

The forward-looking statements included in this Scheme Booklet are made only as of the date of this Scheme Booklet.

Although Bellamy's believes that the views reflected in any forward-looking statements included in the Bellamy's Information have been made on a reasonable basis, no assurance can be given that such views will prove to have been correct. Although Mengniu believes that the views reflected in any forward-looking statements included in Mengniu Information have been made on a reasonable basis, no assurance can be given that such views will prove to have been correct.

None of the Bellamy's Group, Mengniu Group, Bellamy's Group's officers, Mengniu Group's officers, any persons named in this Scheme Booklet with their consent or any person involved in the preparation of this Scheme Booklet makes any representation or warranty (express or implied) as to the likelihood of fulfilment of any forward-looking statement, or any events or results expressed or implied in any forward-looking statement, except to the extent required by law. You are cautioned not to place undue reliance on any forward-looking statement.

All subsequent written and oral forward-looking statements attributable to any member of Bellamy's Group or any member of Mengniu Group or any person acting on their behalf are qualified by this cautionary statement.

Subject to any continuing obligations under relevant laws or the listing rules of a relevant exchange, the Bellamy's Group and Mengniu Group do not give any undertaking to update or revise any such statements after the date of this Scheme Booklet, to reflect any change in expectations in relation thereto or any change in events, conditions or circumstances on which any such statement is based.

Effect of rounding

A number of figures, amounts, percentages, estimates, calculations of value and fractions in this Scheme Booklet are subject to the effect of rounding. Accordingly, the actual calculation of these figures may differ from the figures set out in this Scheme Booklet.

Responsibility statement

Bellamy's has been solely responsible for preparing the Bellamy's Information. The Bellamy's Information concerning Bellamy's and the intentions, views and opinions of Bellamy's and the Bellamy's Directors contained in this Scheme Booklet has been prepared by Bellamy's and the Bellamy's Directors and is the responsibility of Bellamy's. Mengniu and its directors and officers do not assume any responsibility for the accuracy or completeness of any Bellamy's Information or the Independent Expert's Report (or any information contained therein).

Mengniu has been solely responsible for preparing the Mengniu Information. The Mengniu Information concerning Mengniu and the intentions, views and opinions of any Mengniu Group member contained in this Scheme Booklet have been prepared by Mengniu and is the responsibility of Mengniu. The Bellamy's Group and its directors and officers do not assume any responsibility for the accuracy or completeness of any Mengniu Information.

Grant Samuel has prepared the Independent Expert's Report in relation to the Scheme and takes responsibility for that report. The Independent Expert's Report is set out in Annexure A.

Link Market Services has had no involvement in the preparation of any part of this Scheme Booklet other than being named as the Bellamy's Share Registry. Link Market Services has not authorised or caused the issue of, and expressly disclaims and takes no responsibility for, any part of this Scheme Booklet.

IMPORTANT NOTICES CONT

Privacy

Bellamy's and its agents and representatives may collect personal information in the process of implementing the Scheme. Such information may include the name, contact details and shareholdings of Bellamy's Shareholders and the name of persons appointed by those persons to act as a proxy, attorney or corporate representative at the Scheme Meeting. The primary purpose of the collection of personal information is to assist Bellamy's to conduct the Scheme Meeting and to implement the Scheme. Personal information of the type described above may be disclosed to the Bellamy's Share Registry, print and mail service providers, authorised securities brokers, any member of Mengniu, Bellamy's and its Related Bodies Corporate, and Bellamy's and Mengniu's advisers and service providers. Bellamy's Shareholders have certain rights to access personal information that has been collected. Bellamy's Shareholders should contact the Bellamy's Share Registry in the first instance, if they wish to access their personal information. Bellamy's Shareholders who appoint a named person to act as their proxy, attorney or corporate representative should ensure that they inform that person of these matters.

Times and dates

Unless otherwise stated, all times referred to in this Scheme Booklet are times in Sydney, Australia. All dates following the date of the Scheme Meeting are indicative only and are subject to the Court approval process and the satisfaction or, where capable, waiver of the Conditions Precedent to the implementation of the Scheme. The Conditions Precedent are summarised in section 8.11 and set out in full in clause 3.1 of the Scheme Implementation Deed.

Currency and exchange

Unless otherwise stated, all dollar amounts in this Scheme Booklet are in Australian Dollars and all share prices and trading volumes refer to Bellamy's Shares trading on the ASX.

Date of this Scheme Booklet

This Scheme Booklet is dated Wednesday 30 October 2019.



CONTENTS

Important notices	2	8 Additional information	55
Key dates	6	8.1 Interests of Bellamy's Directors in Bellamy's Shares	55
Letter from the Chairman of Bellamy's	8	8.2 Bellamy's Options	55
1 Key considerations relevant to your vote	11	8.3 Marketable securities in Mengniu or Mengniu SubCo held by, or on behalf of, Bellamy's Directors	56
1.1 Why you should vote in favour of the Scheme	11	8.4 Interests of Bellamy's Directors in contracts of Mengniu or Mengniu SubCo	56
1.2 Why you may wish to vote against the Scheme	15	8.5 Other interests of Bellamy's Directors	56
2 Frequently asked questions	16	8.6 Agreements or arrangements with Bellamy's Directors	57
3 Overview of the Scheme	23	8.7 Payments and other benefits to directors, secretaries or executive officers of Bellamy's	57
3.1 Scheme	23	8.8 Suspension of trading of Bellamy's Shares	57
3.2 Total Cash Amount	23	8.9 Deed Poll	57
3.3 Key Steps in the Scheme	24	8.10 Warranties by Scheme Shareholders	57
3.4 Conditions Precedent to implementation of the Scheme	26	8.11 Summary of Scheme Implementation Deed	58
3.5 Timetable	26	8.12 Status of FIRB approval	60
4 Information about Bellamy's	27	8.13 Consents and disclosures	61
4.1 Overview	27	8.14 No unacceptable circumstances	61
4.2 Overview of assets and operations	27	8.15 No other information material to the making of a decision in relation to the Scheme	61
4.3 Board and Key Management Personnel	28	8.16 Supplementary information	61
4.4 Corporate governance	29	8.17 Transaction costs	62
4.5 Capital structure	31	9 Glossary and interpretation	63
4.6 Group structure	32	9.1 Glossary	63
4.7 Recent Bellamy's Share Price history	32	9.2 Interpretation	71
4.8 Historical financial information	33	ANNEXURE A	72
4.9 Material changes to Bellamy's financial position	37	Independent Expert's Report	72
4.10 Bellamy's Directors' intentions for the business	37	ANNEXURE B	152
4.11 Risks relating to Bellamy's business	37	Scheme of Arrangement	152
4.12 Publicly available information	37	ANNEXURE C	163
5 Information about Mengniu	38	Deed Poll	163
5.1 Overview of Mengniu	38	ANNEXURE D	169
5.2 Overview of Mengniu SubCo	40	Notice of Meeting	169
5.3 Rationale for the proposed acquisition of Bellamy's	41	Corporate Directory	172
5.4 The intentions of Mengniu	41		
5.5 Funding arrangements for the Scheme Consideration	42		
5.6 Other information	43		
6 Risks	45		
6.1 Introduction	45		
6.2 General investment risks	45		
6.3 Risks associated with the Special Dividend	46		
6.4 Risks associated with your current investment in Bellamy's Shares	46		
7 Taxation Implications	51		
7.1 General income tax implications of the Scheme	51		
7.2 Dealings in Bellamy's Shares	51		
7.3 Receipt of Special Dividend	53		

KEY DATES

EVENT	DATE
Date of this Scheme Booklet	Wednesday 30 October 2019
First Court Date	Wednesday 30 October 2019
Scheme Meeting Proxy Forms Last date and time for receipt of Proxy Forms (including proxies lodged online), powers of attorney or certificates of appointment of body corporate representatives for the Scheme Meeting	10.00am (Sydney time) on Tuesday 3 December 2019
Scheme Meeting Record Date Time and date for determining eligibility to vote at the Scheme Meeting	7.00pm (Sydney time) on Tuesday 3 December 2019
Scheme Meeting To be held at Greenfields Albert Park, Corner Lakeside Drive & Queens Road, Albert Park Lake, Melbourne, Victoria	10.00am (Sydney time) on Thursday, 5 December 2019
If the Scheme is approved by eligible Bellamy's Shareholders at the Scheme Meeting	
Second Court Date For approval of the Scheme	Monday 9 December 2019
Effective Date The date on which the Scheme becomes Effective and is binding on Bellamy's Shareholders (other than Excluded Shareholders). The Court order will be lodged with ASIC and announced on the ASX Last day of trading in Bellamy's Shares – Bellamy's suspended from trading on the ASX from close of trading	Tuesday 10 December 2019
If the Scheme is approved by the Court and becomes Effective	
Special Dividend Record Date All Bellamy's Shareholders who hold Bellamy's Shares on the Special Dividend Record Date will be entitled to receive the Special Dividend	7.00pm (Sydney time) on Tuesday 17 December 2019
Scheme Record Date All Bellamy's Shareholders (other than Excluded Shareholders) who hold Bellamy's Shares on the Scheme Record Date will be entitled to receive the Scheme Consideration	7.00pm (Sydney time) on Tuesday 17 December 2019
Special Dividend Payment Date Bellamy's will pay the Special Dividend on this date, immediately prior to implementation of the Scheme	Monday 23 December 2019
Implementation Date All Scheme Shareholders will be paid the Scheme Consideration to which they are entitled on this date and transfer of Scheme Shares to Mengniu	Monday 23 December 2019

All dates following the date of the Scheme Meeting are indicative only and, among other things, are subject to the Court approval process and satisfaction or, where applicable, waiver of the Conditions Precedent. Any changes to the above timetable (which may include an earlier or later date for the Second Court Hearing) will be announced through the ASX and notified on Bellamy's Website.

All references to time in this Scheme Booklet are references to Sydney, Australia time, unless otherwise stated. Any obligation to do an act by a specified time in an Australian time zone must be done at the corresponding time in any other jurisdiction.

Bellamy's Shareholders who have elected to receive communications electronically will receive an email that contains instructions about how to download a copy of the Scheme Booklet, and to lodge their proxy vote online. The Scheme Booklet will also be available for viewing and downloading on the Bellamy's Website.



LETTER FROM THE CHAIRMAN OF BELLAMY'S

30 October 2019

Dear Shareholder,

On 16 September 2019, Bellamy's announced it had entered into a Scheme Implementation Deed under which China Mengniu Dairy Company Limited (**Mengniu**), one of the leading dairy product manufacturers in China, has agreed to acquire¹ all of the shares in Bellamy's, other than those shares already held by the Mengniu Group, via a scheme of arrangement (the **Scheme**).

If the Scheme is approved and becomes Effective, it is intended that Bellamy's Shareholders (other than Excluded Shareholders²) will receive a total of \$13.25 cash per share (the **Total Cash Amount**) in respect of the Bellamy's Shares they hold on the Scheme Record Date, comprising:

- \$12.65 per Bellamy's Share paid by Mengniu under the Scheme (**Scheme Consideration**); and
- a fully franked special dividend of \$0.60 per Bellamy's Share paid by Bellamy's (**Special Dividend**).

The Bellamy's Board has determined to pay the Special Dividend, conditional on the Scheme being approved and becoming Effective³⁴. The Special Dividend would be paid immediately prior to implementation of the Scheme. Bellamy's Shareholders who are able to realise the full benefit of the franking credits attached to the Special Dividend will be entitled to a franking credit of \$0.2572 per Bellamy's Share. Whether you will be able to receive the full benefit of the franking credits attached to the Special Dividend will depend on your personal circumstances and whether a favourable class ruling is obtained from the ATO.⁵

In order for the Scheme to proceed, it must be approved by the requisite majorities of eligible Bellamy's Shareholders at the Scheme Meeting, and then by the Court. The Scheme is also subject to Foreign Investment Review Board (**FIRB**) approval being obtained, and certain other conditions.

The purpose of this Scheme Booklet is to provide you with information about the Scheme to assist you in voting on the Scheme at the Scheme Meeting.

Bellamy's Board recommendation

The Bellamy's Board unanimously recommends that you vote in favour of the Scheme, in the absence of a Superior Proposal, and subject to the Independent Expert continuing to conclude that the Scheme is in the best interests of Bellamy's Shareholders. You should note when considering this recommendation that, as set out below under 'Acceleration of vesting of Directors' Options', a number of Bellamy's directors (John Murphy, Rodd Peters, Wai-Chan Chan and Shirley Liew) have previously been issued Options under Bellamy's Long Term Incentive Plan, and these directors will be receiving a benefit if the Scheme proceeds, in the sense that their Options are subject to vesting conditions which will be waived if the Scheme becomes Effective.

Each Bellamy's Director intends to vote all of the Bellamy's Shares that he or she holds or controls in favour of the Scheme, subject to those same qualifications.⁶

¹ Under the Scheme, the acquiring entity will actually be Mengniu's indirect wholly-owned subsidiary, Mengniu SubCo.

² 'Excluded Shares' means Bellamy's Shares held by any Mengniu Group entity. As at the date of this Scheme Booklet, Mengniu, together with its wholly-owned subsidiary, Vision Clear Limited holds 3,248,482 Bellamy's Shares, which represents approximately 2.9% of the total number of Bellamy's Shares on issue. Those Bellamy's Shares held by Mengniu and Vision Clear Limited will not be acquired under the Scheme, and neither Mengniu nor Vision Clear Limited is able to vote those Bellamy's Shares on the Scheme. Mengniu will however receive the Special Dividend in respect of those Bellamy's Shares, if the Scheme becomes Effective and it continues to hold those shares on the Special Dividend Record Date.

³ Under the Scheme Implementation Deed, Bellamy's is permitted to pay the Special Dividend prior to implementation. This is an exception to the general prohibition under the Scheme Implementation Deed on Bellamy's paying any dividend or other distribution prior to implementation.

⁴ Payment of the Special Dividend is also conditional on Bellamy's continued satisfaction of the applicable Corporations Act requirements for payment of the dividend, as at the Special Dividend Payment Date. See section 6.3(a) for further information.

⁵ You should consult your own taxation adviser to determine the tax consequences relevant to your specific circumstances. Refer to sections 6.3 and 7.3 for further information.

⁶ As previously disclosed to the ASX, and as set out in section 8.1, John Ho has a Relevant Interest in approximately 7.72% of Bellamy's Shares on issue, which shares are owned by Janchor Partners, by virtue of his interest in Janchor Partners, Janchor Partners has advised Bellamy's that it intends to vote all of the Bellamy's Shares that it holds in favour of the Scheme, subject to those same qualifications.

The key reasons for the Bellamy's Directors' recommendation are as follows:

- The Total Cash Amount of \$13.25 represents a **significant premium** to Bellamy's recent historical trading prices. In particular, the Total Cash Amount of \$13.25 per Bellamy's Share represents:
 - a 59% premium to the closing price on 13 September 2019 of \$8.32; and
 - a 54% premium to the 3-month volume weighted average price (**VWAP**) to 13 September 2019 of \$8.59.
- The Total Cash Amount of \$13.25 equates to an **attractive acquisition multiple**, which compares favourably to comparable precedent transactions⁷.
- If the Scheme proceeds, Bellamy's Shareholders will receive cash **certain value** for their investment in Bellamy's and will avoid ongoing risks and **uncertainties** associated with Bellamy's business. These risks and uncertainties are discussed in further detail in sections 1.1(c) and 6.4, and include risks associated with Bellamy's significant exposure to the Chinese infant formula consumer market and regulatory environment. Chinese regulatory risks include risks around obtaining necessary approvals from China's State Administration for Market Regulation (**SAMR**) for the sale of 'Chinese-label' products into China, and cross-border e-commerce (**CBEC**) regulation for the sale of 'Australian-label' products into China, as well as products indirectly imported into China through daigou 'direct mail' channels.
- The Independent Expert has concluded that the Scheme is fair and reasonable and, therefore, is in the **best interests of Bellamy's Shareholders**, in the absence of a Superior Proposal.
- Since the announcement of the Scheme, **no Superior Proposal has emerged**.
- Bellamy's **share price may fall**, perhaps materially, if the Scheme is not implemented and in the absence of a Superior Proposal.
- Those shareholders who can realise the **full benefit of the franking credits** attached to the Special Dividend (provided a favourable class ruling is obtained from the ATO) may receive additional benefit from the value of those franking credits⁸.
- You will **not incur any brokerage charges** on the transfer of your Bellamy's Shares if the Scheme proceeds.

In forming their view that the Scheme is in the best interests of Bellamy's Shareholders, the Bellamy's Board considered the potential disadvantages of the Scheme proceeding. In particular:

- You will not be able to participate in any improvement in the performance of the Bellamy's business, which may occur in the future.
- The tax consequences of the Scheme for you may not suit your financial position.
- You may consider that there is potential for a Superior Proposal to be made in the near future.

Further details on the recommendation given by the Bellamy's Board are contained in section 1.

Independent Expert

The Bellamy's Board appointed Grant Samuel as the Independent Expert to assess the merits of the Scheme.

The Independent Expert has concluded that the Scheme is fair and reasonable and, therefore, in the best interests of Bellamy's Shareholders, in the absence of a Superior Proposal.

The Independent Expert has assessed the full underlying value of Bellamy's Shares at between \$12.25 and \$13.93 per Bellamy's Share⁹. The Total Cash Amount under the Scheme of \$13.25 per Bellamy's Share is within this range.

A complete copy of the Independent Expert's Report is included as Annexure A to this Scheme Booklet.

Acceleration of vesting of Directors' Options

A number of Bellamy's Directors (John Murphy, Rodd Peters, Wai-Chan Chan and Shirley Liew) have previously been issued Options under Bellamy's Long Term Incentive Plan. Each Option confers on the relevant holder the right to receive a Bellamy's Share upon exercise of the Option and payment of the applicable exercise price. All of those Options are currently subject to vesting conditions, which effectively require the market price of Bellamy's Shares to meet a specified share price target during the applicable vesting period.

As discussed in more detail in section 8.2(d), under the terms of the Bellamy's Long Term Incentive Plan the Bellamy's Board has determined that, if the Scheme becomes Effective, all of the director and employee Options issued under the plan which remain outstanding at that time

⁷ See section 1.1(b).

⁸ You should consult your own taxation adviser to determine the tax consequences relevant to your specific circumstances. Refer to sections 6.3 and 7.3 for further information.

⁹ This value is on a cum dividend basis (ie. before the payment of the Special Dividend of \$0.60 per share).

LETTER FROM THE CHAIRMAN OF BELLAMY'S CONT

will vest (ie. any vesting conditions which remain to be satisfied on those Options will be waived), so that the Options will become immediately exercisable by the holders of those Options.

The four directors referred to above will be receiving a benefit if the Scheme proceeds, in the sense that the vesting conditions applying to their Options will be waived if the Scheme becomes Effective. If those directors then exercise their Options, those directors will receive Bellamy's Shares prior to the Scheme Record Date and will, assuming they still hold those Bellamy's Shares on the Scheme Record Date, receive the Total Cash Amount in respect of those Bellamy's Shares on implementation of the Scheme.

The number of Options held by each of those Bellamy's Directors and the total amount to be received by each of those Bellamy's Directors on implementation of the Scheme in respect of their Options (ie. the Total Cash Amount of \$13.25 multiplied by the number of Options held by that director, minus the total exercise price to be paid by that director) is shown in the table below.

Bellamy's Director	Number of Options	Total amount to be received
John Murphy	193,373	\$1,470,988
Rodd Peters	36,257	\$275,807
Wai-Chan Chan	36,257	\$275,807
Shirley Liew	20,878	\$43,009

Each of John Murphy, Rodd Peters, Wai-Chan Chan and Shirley Liew considers that, despite this interest in the outcome of the Scheme, given the importance of the Scheme and their role as directors of Bellamy's, it is important and appropriate for them to provide a recommendation to shareholders in relation to voting on the Scheme.

How to vote

Your vote is important and I encourage you to vote on this significant proposed transaction by appointing a proxy or, alternatively, by attending the Scheme Meeting scheduled to be held at 10am (Sydney time) on Thursday, 5 December at Greenfields Albert Park, Corner Lakeside Drive & Queens Road, Albert Park Lake, Melbourne, Victoria.

The Scheme will only be effective and implemented if it is supported by:

- more than 50% of eligible Bellamy's Shareholders present and voting at the Scheme Meeting (unless the Court orders otherwise); and
- at least 75% of the total number of votes cast on the Scheme Resolution by eligible Bellamy's Shareholders.

If you wish the Scheme to proceed, it is important that you vote in favour of the Scheme.

Further information

This Scheme Booklet sets out important information regarding the Scheme, including the reasons for the Bellamy's Board's recommendation and the Independent Expert's Report. It also sets out reasons why you may wish to vote against the Scheme.

Please read this document carefully and in its entirety as it will assist you in making an informed decision on how to vote. I would also encourage you to seek independent financial, legal and taxation advice before making any investment decision in relation to your shares.

If you require any further information, please call the Shareholder Information Line on 1800 260 668 (within Australia) or +61 1800 260 668 (outside Australia).

On behalf of the Bellamy's Board, I would like to take this opportunity to thank you for your ongoing support.

I look forward to your participation in the Scheme Meeting and encourage you to vote in favour of the Scheme, which the Bellamy's Directors believe, and the Independent Expert has concluded, is in the best interests of Bellamy's Shareholders, in the absence of a Superior Proposal.

Yours sincerely,

John Ho
Chairman

Bellamy's Australia Limited

I KEY CONSIDERATIONS RELEVANT TO YOUR VOTE

The Scheme has a number of advantages and disadvantages which may affect Bellamy's Shareholders in different ways depending on their individual circumstances. Bellamy's Shareholders should seek professional advice on their particular circumstances, as appropriate.

Section I.1 provides a summary of some of the reasons why the Bellamy's Board unanimously recommends eligible Bellamy's Shareholders vote in favour of the Scheme¹⁰. This section should be read in conjunction with section I.2, which sets out other reasons why you may wish to vote against the Scheme.

You should read this Scheme Booklet in full, including the Independent Expert's Report, before deciding how to vote at the Scheme Meeting.

While the Bellamy's Board acknowledges the reasons to vote against the Scheme, they believe the advantages of the Scheme significantly outweigh the disadvantages.

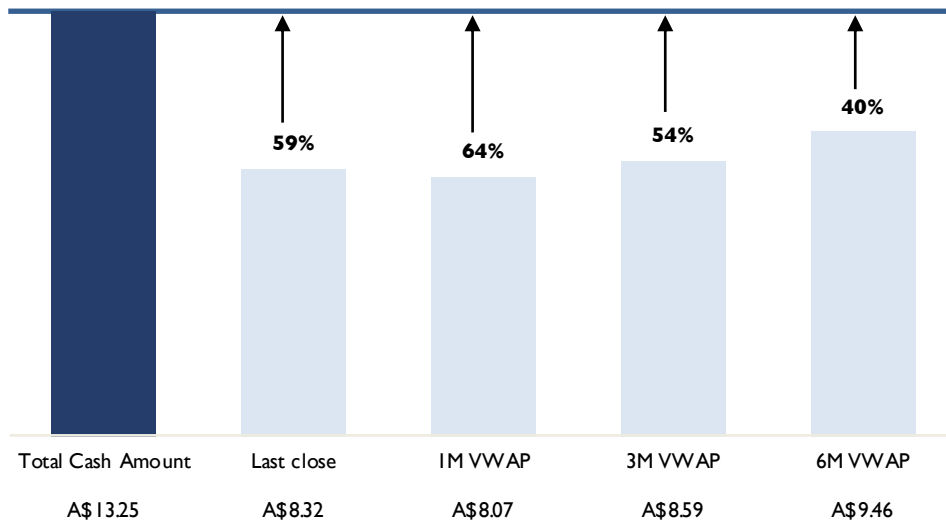
I.1 Why you should vote in favour of the Scheme

The Bellamy's Board has formed the view that the Scheme is in the best interests of Bellamy's Shareholders for the following reasons:

- (a) The Total Cash Amount of \$13.25 per share represents a **significant premium to Bellamy's recent historical trading prices**.

The Total Cash Amount of \$13.25 per share represents an attractive premium to Bellamy's recent trading price prior to the announcement of the Scheme, including:

- (i) 59% premium to the closing price on 13 September 2019 of \$8.32;
- (ii) 64% premium to the 1-month VWAP to 13 September 2019 of \$8.07;
- (iii) 54% premium to the 3-month VWAP to 13 September 2019 of \$8.59; and
- (iv) 40% premium to the 6-month VWAP to 13 September 2019 of \$9.46.

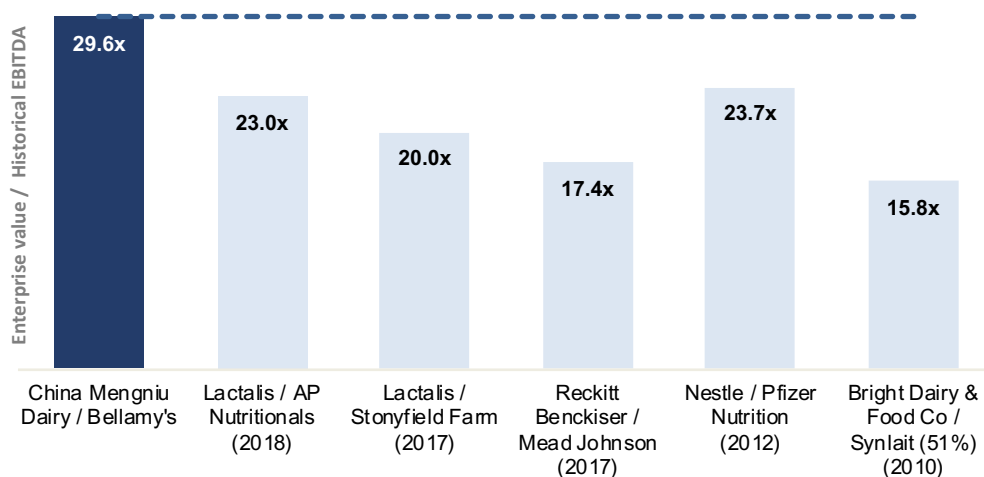


¹⁰ With respect to the recommendation of John Murphy, Rodd Peters, Wai-Chan Chan and Shirley Liew, Bellamy's Shareholders should have regard to the fact that, if the Scheme becomes Effective, the Options currently held by those four directors will be the subject of accelerated vesting and may, subject to payment of the relevant Option exercise price, result in those directors receiving Bellamy's Shares prior to the Scheme Record Date (as described in section 8.2(d)). If the Scheme is implemented, those Bellamy's Shares will be acquired by Mengniu SubCo under the Scheme. The amount to be received by each of those Bellamy's Directors on implementation of the Scheme in respect of their Options (being the Total Cash Amount minus the applicable exercise price for their relevant Options) is shown in the table in section 8.6. Given the importance of the Scheme and their role as directors of Bellamy's, each of John Murphy, Rodd Peters, Wai-Chan Chan and Shirley Liew consider that it is important and appropriate for them to make a recommendation on the Scheme, notwithstanding that vesting of their Options will be accelerated if the Scheme becomes Effective.

I KEY CONSIDERATIONS RELEVANT TO YOUR VOTE CONT

- (b) The Total Cash Amount of \$13.25 per share equates to an **attractive acquisition multiple**, which compares favourably to the multiples of comparable precedent transactions.

The Total Cash Amount of \$13.25 per share implies an Enterprise Value (EV)¹¹ multiple of 29.6 times FY19 underlying EBITDA¹², which is highly attractive relative to comparable precedent transactions, as shown in the table below^{13,14}.



Also see section 5.4.3 of the Independent Expert's Report contained in Annexure A for the Independent Expert's views on this topic.

- (c) If the Scheme proceeds, **Scheme Shareholders will receive cash certain value** for their investment in Bellamy's, and will **avoid ongoing risks and uncertainties** associated with Bellamy's business.

The proposal from Mengniu is a 100% cash proposal. The Total Cash Amount of \$13.25 per Bellamy's Share provides Bellamy's Shareholders with certainty of value for their Bellamy's Shares (subject to the Scheme becoming Effective) and the opportunity for Bellamy's Shareholders to realise certain cash value in the near term, which may not be achieved if the Scheme does not proceed.

Whilst Bellamy's has made significant progress in its turnaround plan, the Bellamy's Board is mindful of the fact that, in the absence of the Scheme, Bellamy's Shareholders face ongoing risks and uncertainties associated with the Bellamy's business. These risks are described further in section 6.4. In particular:

- (i) **'Chinese-label' product regulatory risk:** A key uncertainty for Bellamy's business concerns Chinese regulation of 'Chinese-label' products sold into China.

Currently, the Chinese government requires a manufacturing facility to be registered with the General Administration of Customs of the People's Republic of China (GACC) where 'Chinese-label' products manufactured at that facility are sold into China. Bellamy's Camperdown Manufacturing Facility was granted a GACC licence in July 2015 for 4 years¹⁵. In January 2019, Bellamy's GACC licence was extended to 31 December 2019 when it is expected to be renewed.

¹¹ Calculated based on 113.4 million Bellamy's Shares on issue, reported net cash of \$112.4 million and non-controlling interest of negative \$0.5 million as reported for year ended 30 June 2019.

¹² Based on normalised FY19 EBITDA of \$46.9 million as reported for year ended 30 June 2019.

¹³ The comparable precedent transactions were selected by Bellamy's as being the most relevant global fast-moving consumer goods (FMCG) transactions involving target companies that specialise in the production of high value finished dairy goods. This chart does not include all transactions that have been announced and completed in the FMCG industry and, as such, is not an exhaustive list. This chart also does not include all of the transactions referred to in the table of 'Relevant Comparable Transactions' in section 5.4.3 of the Independent Expert's Report - for example, this chart does not include the Vigor Alimentos transaction in 2017 (which is referred to as being at a 35.2x multiple) or Whitewave transaction in 2016 (which is referred to as being at a 28.5x multiple), as those were acquisitions of broader dairy and broader packaged food and beverage businesses, respectively, rather than companies that specialise in the production of high value finished dairy goods.

¹⁴ The metrics in this chart that have been compared against 29.6x EV/EBITDA multiple were determined by the Independent Expert. Please refer to Section 5.4.3 of the Independent Expert's Report for details.

¹⁵ Bellamy's does not currently sell any Bellamy's Organic branded 'Chinese-label' products into China under its GACC licence, as the Chinese government also requires registration by China's State Administration for Market Regulation (SAMR). Bellamy's has submitted its application for SAMR registration and is awaiting the outcome of this assessment.

In addition, 'Chinese-label' products sold via retail channels in China require formula registration with SAMR¹⁶. Bellamy's submitted its application for SAMR registration in late December 2017 for its core organic formula range and is awaiting the outcome of the assessment. While the Bellamy's Board remains confident that the SAMR registration will be granted, the outcome of this process is by no means certain and there is no set timing for receipt of the registration, with the assessment subject to potential further delays.

If Bellamy's GACC licence was not renewed, or if Bellamy's application for SAMR registration was not ultimately approved, this may have a material adverse impact on Bellamy's business and future prospects. If registration with SAMR is unsuccessful, the valuation of the Camperdown Manufacturing Facility will be reassessed and potentially written down, and Bellamy's will be unable to resume the sale of its 'Chinese-label' organic infant formula products via retail channels in China¹⁷.

- (ii) **'Australian-label' product regulatory risk:** A substantial proportion of sales of its 'Australian-label' organic formula is consumed in China by Chinese consumers supplied through either cross border e-commerce (CBEC) platforms or via daigou 'direct mail' channels. If the Company is unable to comply with any future change in regulation in China or Australia relating to the cross border e-commerce CBEC or 'direct mail' social media channels this may negatively impact financial performance.
- (iii) **Brand damage, product quality issues:** Despite maintaining extensive and high quality controls across the supply chain, the Bellamy's brand and reputation are exposed to material erosion from any actual or perceived contamination, spoilage or other adulteration, product misbranding, failed product testing or tampering, regardless of the merits of the issue. This risk is particularly sensitive in the Chinese market.
- (iv) **Market concentration and political risk:** China-based consumers play a key role in driving the demand in the infant formula category. As is the case with any international market, there are ongoing market specific risks, such as birth rate decline, competitive environment and behaviour, and also geo-political risks. Government policy and regulation may change and restrict or limit the ability to sell product.

If the Scheme is approved and implemented, the Scheme removes these risks and uncertainties for Bellamy's Shareholders for cash certain value, as these risks and uncertainties will be assumed by Mengniu, as the sole shareholder of Bellamy's following implementation of the Scheme.

- (d) The Independent Expert has concluded that the **Scheme is fair and reasonable and, therefore, is in the best interests of Bellamy's Shareholders**, in the absence of a Superior Proposal.

The Bellamy's Board appointed Grant Samuel as the Independent Expert to assess the merits of the Scheme. The Independent Expert has concluded that the Scheme is fair and reasonable and, therefore, is in the best interests of Bellamy's Shareholders, in the absence of a Superior Proposal. The Independent Expert has assessed the full underlying value of Bellamy's at between \$12.25 and \$13.93 per share¹⁸. The Total Cash Amount of \$13.25 per share is within this range.

- (e) Since the announcement of the Scheme Implementation Deed **no Superior Proposal has emerged**.

Since the announcement of entering into the Scheme Implementation Deed with Mengniu on 16 September 2019 and up to the date of this Scheme Booklet, no Superior Proposal has emerged and the Bellamy's Board is not aware, as at the date of this Scheme Booklet, of any Superior Proposal that is likely to emerge.

¹⁶ These restrictions apply to the sale of relevant products in China post 1 January 2018.

¹⁷ The sale of Bellamy's 'Chinese-label' organic infant formula products were zero in FY19 due to the pending SAMR registration process. These sales reached 15.4% of total Bellamy's Group revenue in FY17 prior to the commencement of the Chinese regulations requiring SAMR registration post 1 January 2018.

¹⁸ This value is on a cum dividend basis (ie. before the payment of the Special Dividend of \$0.60 per share).

I KEY CONSIDERATIONS RELEVANT TO YOUR VOTE CONT

- (f) Bellamy's **share price may fall**, perhaps materially, if the Scheme is not implemented.

If the Scheme is not implemented, Bellamy's Shares will remain quoted on the ASX and will continue to be subject to market volatility. If the Scheme is not implemented, and in the absence of a Superior Proposal, the price at which Bellamy's Shares trade may fall, including to a price that is significantly below the Total Cash Amount of \$13.25 per Bellamy's Share.

The closing share price on 13 September 2019, being the trading day prior to the announcement that Bellamy's had entered into the Scheme Implementation Deed with Mengniu, was \$8.32 per Bellamy's Share. Refer to section 1.1(a) above for the VWAP of Bellamy's Shares over the 1, 3 and 6 month periods up to and including 13 September 2019.



- (g) Those shareholders who can realise the **full benefit of the franking credits** attached to the Special Dividend (provided a favourable class ruling is obtained from the ATO) may receive additional benefit from the value of those franking credits.

The Bellamy's Board has determined to pay the fully franked Special Dividend, conditional on the Scheme becoming Effective¹⁹. The Special Dividend would be paid immediately prior to implementation of the Scheme. Bellamy's Shareholders who are able to realise the full benefit of the franking credits attached to the Special Dividend will be entitled to a franking credit of \$0.2572 per Bellamy's Share. Whether you will be able to receive the full benefit of the franking credits attached to the Special Dividend will depend on your personal circumstances and whether a favourable class ruling is obtained from the ATO. You should consult your own taxation adviser to determine the tax consequences relevant to your specific circumstances²⁰.

- (h) You will **not incur any brokerage charges** on the transfer of your Bellamy's Shares if the Scheme proceeds.

You will not incur brokerage charges on the transfer of your Bellamy's Shares to Mengniu SubCo pursuant to the Scheme. If you sell your Bellamy's Shares on ASX (rather than disposing of them via the Scheme), you may incur brokerage charges (and, potentially, GST on those charges).

¹⁹ Payment of the Special Dividend is also conditional on Bellamy's continued satisfaction of the applicable Corporations Act requirements for payment of the dividend, as at the Special Dividend Payment Date. See section 6.3(a) for further information.

²⁰ Refer to sections 6.3 and 7.3 for further information regarding risks associated with the Special Dividend.

1.2 Why you may wish to vote against the Scheme

Although the Scheme is unanimously recommended by the Bellamy's Board and the Independent Expert has concluded that the Scheme is in the best interests of Bellamy's Shareholders in the absence of a Superior Proposal²¹, factors which may lead you to consider voting against the Scheme include the following:

- (a) **You may disagree** with the Bellamy's Board's unanimous recommendation and the Independent Expert's conclusion.

Despite the view of the Bellamy's Board and the Independent Expert, you may believe that the Scheme is not in the best interests of Bellamy's Shareholders and not in your individual interest.

- (b) You will **not be able to participate in any improvement** in the performance of the Bellamy's business, which may occur in the future.

If the Scheme is approved and implemented, you will cease to be a Bellamy's Shareholder. As such, you will no longer be able to participate in any improvement in the performance of the Bellamy's business, which may occur in the future, or the future prospects of the ongoing Bellamy's business, including any benefits that may result from being a Bellamy's Shareholder. However, there is no guarantee as to Bellamy's future performance, as with all investments in listed equities.

- (c) You may **wish to maintain your investment** profile.

You may wish to maintain your investment in Bellamy's in order to have an investment in a publicly listed company with the specific characteristics of Bellamy's in terms of industry and profile.

Implementation of the Scheme may result in a disadvantage to those who wish to maintain their investment profile. Bellamy's Shareholders who wish to maintain their investment profile may find it difficult to find an investment with a similar profile to that of Bellamy's and they may incur transaction costs in undertaking any new investment.

- (d) The **tax consequences** of the Scheme for you may not suit your financial position.

Implementation of the Scheme may trigger taxation consequences for Bellamy's Shareholders, such as the realisation of a capital gain or capital loss. A general guide to the taxation implications of the Scheme is set out in section 7. This guide is expressed in general terms only and Bellamy's Shareholders should seek professional taxation advice regarding the tax consequences applicable to their own circumstances.

- (e) You may consider that there is **potential for a Superior Proposal** to be made in the foreseeable future.

It is possible that, if Bellamy's were to continue as an independent listed entity, a change of control proposal could materialise in the future, such as a takeover bid with a higher price. Implementation of the Scheme will mean that Bellamy's Shareholders will not receive the benefit of any such proposal.

Since the announcement of Bellamy's entering into the Scheme Implementation Deed with Mengniu to the ASX on 16 September 2019 and up to the date of this Scheme Booklet, no Superior Proposal has emerged and, as at the date of this Scheme Booklet, the Bellamy's Board is not aware of any Superior Proposal that is likely to emerge.

The Scheme Implementation Deed prohibits Bellamy's from soliciting a Competing Proposal. However, the Bellamy's Board is permitted to respond to any Competing Proposal should the Bellamy's Board determine that failing to do so would likely constitute a breach of their fiduciary or statutory duties. Further details of the key terms of the Scheme Implementation Deed are provided in section 8.11.

²¹ With respect to the recommendation of John Murphy, Rodd Peters, Wai-Chan Chan and Shirley Liew, Bellamy's Shareholders should have regard to the fact that, if the Scheme becomes Effective, the Options currently held by those four directors will be the subject of accelerated vesting and may, subject to payment of the relevant Option exercise price, result in those directors receiving Bellamy's Shares prior to the Scheme Record Date (as described in section 8.2(d)). If the Scheme is implemented, those shares will be acquired by Mengniu SubCo under the Scheme. The amount to be received by each of those Bellamy's Directors on implementation of the Scheme in respect of their respective Options (being the Total Cash Amount minus the applicable exercise price for their relevant Options) is shown in the table in section 8.6. Given the importance of the Scheme and their role as directors of Bellamy's, each of John Murphy, Rodd Peters, Wai-Chan Chan and Shirley Liew consider that it is important and appropriate for them to make a recommendation on the Scheme, notwithstanding that vesting of their Options will be accelerated if the Scheme becomes Effective.

2 FREQUENTLY ASKED QUESTIONS

QUESTION	ANSWER	MORE INFORMATION
<i>An Overview of the Scheme</i>		
Why have I received this Scheme Booklet?	<p>This Scheme Booklet has been sent to you because you are a Bellamy's Shareholder and eligible Bellamy's Shareholders are being asked to vote on the Scheme, which, if approved, will result in Mengniu SubCo, a Subsidiary of Mengniu, acquiring all of the Scheme Shares.</p> <p>This Scheme Booklet is intended to help you to decide how to vote on the Scheme Resolution which needs to be passed at the Scheme Meeting to allow the Scheme to proceed.</p>	N/A
What is the Scheme?	<p>The Scheme is a scheme of arrangement, which is a statutory procedure that is commonly used to enable one company to acquire another company.</p> <p>The Scheme is between Bellamy's and the Scheme Shareholders and will effect the acquisition of Bellamy's by Mengniu SubCo.</p>	Section 3.
What will I receive if the Scheme is implemented?	<p>If the Scheme becomes Effective, it is intended that Bellamy's Shareholders (other than Excluded Shareholders²²) will receive the Total Cash Amount, being \$13.25 per Bellamy's Share, comprising:</p> <ul style="list-style-type: none"> the Scheme Consideration of \$12.65 per Bellamy's Share held on the Scheme Record Date (currently expected to be 7.00pm (Sydney time) on Tuesday 17 December 2019), paid by Mengniu on implementation of the Scheme, in return for the transfer of their Bellamy's Shares to Mengniu SubCo under the Scheme; and the fully franked Special Dividend of \$0.60 per Bellamy's Share held on the Special Dividend Record Date (currently expected to be 7.00pm (Sydney time) on Tuesday 17 December 2019), paid by Bellamy's immediately prior to implementation of the Scheme. <p>The Bellamy's Board has determined to pay the fully franked Special Dividend, conditional on the Scheme becoming Effective²³. The Special Dividend would be paid immediately prior to implementation of the Scheme. Bellamy's Shareholders who are able to realise the full benefit of the franking credits attached to the Special Dividend will be entitled to a franking credit of \$0.2572 per Bellamy's Share. Whether you will be able to receive the full benefit of the franking credits attached to the Special Dividend will depend on your personal circumstances and whether a favourable class ruling is obtained from the ATO. You should consult your own taxation adviser to determine the tax consequences relevant to your specific circumstances²⁴.</p> <p>If a person sells their Bellamy's Shares before the Special Dividend Record Date, they will not receive the Special Dividend. Similarly, if a Bellamy's Shareholder sells their Bellamy's Shares before the Scheme Record Date, they will not receive the Scheme Consideration.</p> <p>Refer to the question 'Can I sell my Bellamy's Shares now?' for more information.</p>	Section 3.

22 'Excluded Shares' means Bellamy's Shares held by any Mengniu Group entity. As at the date of this Scheme Booklet, Mengniu, together with its wholly-owned subsidiary, Vision Clear Limited holds 3,248,482 Bellamy's Shares, which represents approximately 2.9% of the total number of Bellamy's Shares on issue. Those Bellamy's Shares held by Mengniu and Vision Clear Limited will not be acquired under the Scheme, and neither Mengniu nor Vision Clear Limited is able to vote those Bellamy's Shares on the Scheme. Mengniu will however receive the Special Dividend in respect of those Bellamy's Shares if the Scheme becomes Effective, and it continues to hold those shares on the Special Dividend Record Date.

23 Payment of the Special Dividend is also conditional on Bellamy's continued satisfaction of the applicable Corporations Act requirements for payment of the dividend, as at Special Dividend Payment Date. See section 6.3(a) for further information.

24 Refer to sections 6.3 and 7.3 for further information.

QUESTION	ANSWER	MORE INFORMATION
What do the Bellamy's Directors recommend and how do they intend to vote?	<p>Bellamy's Directors unanimously recommend that eligible Bellamy's Shareholders vote in favour of the Scheme, in the absence of a Superior Proposal and subject to the Independent Expert continuing to conclude that the Scheme is in the best interests of Bellamy's Shareholders.</p> <p>You should note when considering this recommendation that a number of Bellamy's directors (John Murphy, Rodd Peters, Wai-Chan Chan and Shirley Liew) have previously been granted options over Bellamy's shares, and these directors will be receiving a benefit if the Scheme proceeds in the sense that their options are subject to vesting conditions which will be accelerated if the Scheme becomes Effective.</p> <p>The number of Options held by each of those Bellamy's Directors and the total amount to be received by each of those Bellamy's Directors on implementation of the Scheme in respect of their Options (ie. the Total Cash Amount of \$13.25 multiplied by the number of Options held by that director; minus the total exercise price to be paid by that director) is set out below:</p> <ul style="list-style-type: none"> • John Murphy: 193,373 options; \$1,470,988 • Rodd Peters: 36,257 options; \$275,807; • Wai-Chan Chan: 36,257 options; \$275,807; and • Shirley Liew: 20,878 options; \$43,009. <p>Despite this interest, given the importance of the Scheme and their role as directors of Bellamy's, each of John Murphy, Rodd Peters, Wai-Chan Chan and Shirley Liew consider that it is important and appropriate for them to provide a recommendation to shareholders in relation to voting on the Scheme.</p> <p>Each Bellamy's Director who holds or controls Bellamy's Shares intends to vote (or procure the voting of) all Bellamy's Shares held or controlled by them in favour of the Scheme subject to the same qualifications²⁵.</p> <p>The reasons for the Bellamy's Directors' recommendation and other matters that you may wish to consider are outlined in the Chairman's Letter and section 1.</p>	<p>Section 1.1 provides a summary of the reasons why the Bellamy's Directors consider that eligible Bellamy's Shareholders should vote in favour of the Scheme.</p> <p>Section 1.2 provides a summary of some of the reasons why eligible Bellamy's Shareholders may wish to vote against the Scheme.</p> <p>Section 8 sets out further information regarding the interests of the Bellamy's Directors and benefits they will derive if the Scheme is implemented.</p>
What is the opinion of the Independent Expert?	<p>The Independent Expert has concluded that the Scheme is fair and reasonable and, therefore, is in the best interests of Bellamy's Shareholders, in the absence of a Superior Proposal.</p>	<p>A copy of the Independent Expert's Report is contained in Annexure A.</p>

²⁵ As previously disclosed to the ASX, and as set out in section 8.1, John Ho has a Relevant Interest in approximately 7.72% of Bellamy's Shares on issue, which shares are owned by Janchor Partners, by virtue of his interest in Janchor Partners. Janchor Partners has advised Bellamy's that it intends to vote all of the Bellamy's Shares that it holds in favour of the Scheme, subject to those same qualifications.

2 FREQUENTLY ASKED QUESTIONS CONT

QUESTION	ANSWER	MORE INFORMATION
Who are Mengniu and Mengniu SubCo?	<p>Mengniu is one of the leading dairy product manufacturers in China. Mengniu and its subsidiaries manufacture and distribute dairy products in China, with 'Mengniu' as its core brand. Mengniu's diversified product range includes liquid milk, ice cream, milk powder, cheese and other products.</p> <p>Mengniu has been listed on the Hong Kong Stock Exchange since June 2004 (Stock Code: 2319).</p> <p>Mengniu SubCo is a newly incorporated Australian proprietary company established for the purpose of acquiring all of the Bellamy's Shares if the Scheme is implemented. Mengniu SubCo was incorporated on 10 October 2019 and is an indirect wholly-owned subsidiary of Mengniu.</p>	Section 5.
Does Mengniu currently hold any Bellamy's Shares?	<p>Yes. As at the date of this Scheme Booklet, Mengniu, together with its wholly-owned subsidiary, Vision Clear Limited holds 3,248,482 Bellamy's Shares, which represents approximately 2.9% of the total number of Bellamy's Shares on issue²⁶. Those shares will not be acquired under the Scheme, and neither Mengniu nor Vision Clear Limited is able to vote those shares on the Scheme. Mengniu will however receive the Special Dividend in respect of those Bellamy's Shares if the Scheme becomes Effective.</p>	
What choices do I have as a Bellamy's Shareholder?	<p>As a Bellamy's Shareholder (other than an Excluded Shareholder), you have the following choices in relation to the Scheme:</p> <ul style="list-style-type: none"> • vote in favour of the Scheme Resolution at the Scheme Meeting; • vote against the Scheme Resolution at the Scheme Meeting; • sell your Bellamy's Shares on the ASX; or • do nothing. 	For key considerations that may be relevant to your vote, see Section 1.
Why should I vote in favour of the Scheme?	The reasons to vote in favour of the Scheme are set out in section 1.1.	Section 1.1.
Why may I consider voting against the Scheme?	The reasons why you may wish to vote against the Scheme are set out in section 1.2.	Section 1.2.
Can I sell my Bellamy's Shares now?	<p>You can sell your Bellamy's Shares on market at any time before close of trading on the ASX on the Effective Date (which is currently expected to be Tuesday 10 December 2019) at the then prevailing market price (which may vary from the Scheme Consideration and Total Cash Amount).</p> <p>Bellamy's intends to apply to the ASX for Bellamy's Shares to be suspended from official quotation on the ASX from close of trading on the Effective Date. You will not be able to sell your Bellamy's Shares on market after this time.</p> <p>If you sell your Bellamy's Shares prior to the Effective Date you will not receive the Special Dividend or the franking credits attached to the Special Dividend, nor the Scheme Consideration.</p>	N/A

²⁶ Mengniu holds 1,734,104 Bellamy's Shares and Vision Clear Limited holds 1,514,378 Bellamy's Shares.

QUESTION	ANSWER	MORE INFORMATION
<i>Voting at the Scheme Meeting</i>		
What vote is required to approve the Scheme?	For the Scheme to proceed, the Scheme Resolution must be passed by the Requisite Majorities.	Section 3.3(a) and the Notice of Meeting contained in Annexure D set out further details regarding the Requisite Majorities and your entitlement to vote.
Am I entitled to vote?	Each Bellamy's Shareholder (other than an Excluded Shareholder) who is registered on the Bellamy's Share Register on the Scheme Meeting Record Date (currently expected to be 7.00pm (Sydney time) on Tuesday 3 December 2019) is entitled to vote at the Scheme Meeting.	The Notice of Meeting contained in Annexure D sets out further details on your entitlement to vote.
How do I vote?	<p>You can vote:</p> <ul style="list-style-type: none"> • in person by attending the Scheme Meeting; or • by appointing a proxy, attorney or, if you are a body corporate, a duly appointed corporate representative, to attend the Scheme Meeting and vote on your behalf. <p>You can appoint a proxy by completing the Proxy Form attached to the Notice of Meeting in Annexure D and returning the form to Bellamy's or Link Market Services by 10.00am (Sydney time) on Tuesday 3 December 2019.</p>	The Notice of Meeting contained in Annexure D sets out further details on your entitlement to vote and how to submit a Proxy Form.
When and where will the Scheme Meeting be held?	The Scheme Meeting will be held on Thursday 5 December 2019 at Greenfields Albert Park, Corner Lakeside Drive & Queens Road, Albert Park Lake, Melbourne, Victoria, commencing at 10.00am (Sydney time).	The Notice of Meeting contained in Annexure D sets out further details on your entitlement to vote.
When will the result of the Scheme Meeting be known?	The result of the Scheme Meeting will be available shortly after the conclusion of the meeting and will be announced to the ASX once available. Even if the Scheme Resolution is passed by the Scheme Meeting, the Scheme is subject to approval by the Court.	N/A
What happens to my Bellamy's Shares if I do not vote, or if I vote against the Scheme, and the Scheme becomes Effective?	<p>If you do not vote, or vote against the Scheme, and the Scheme becomes Effective, any Bellamy's Shares held by you on the Scheme Record Date will be transferred to Mengniu SubCo and you will receive the Scheme Consideration, notwithstanding that you may not have voted or voted against the Scheme.</p> <p>In addition, you will receive the Special Dividend in respect of any Bellamy's Shares held by you on the Special Dividend Record Date.</p>	N/A
Can I oppose the Scheme at the Second Court Hearing?	As a Bellamy's Shareholder, you have a right to appear and make submissions at the Second Court Hearing which is scheduled to be held at 2.00pm on Monday 9 December 2019 at the Supreme Court of New South Wales, Law Courts Building, 184 Phillip Street, Sydney.	N/A
Do I have to give any warranties in relation to my Scheme Shares?	Yes. Each Scheme Shareholder will be deemed to have warranted to Mengniu that all of their Scheme Shares will, at the date of transfer under the Scheme, be fully paid and free from all mortgages, charges, liens, encumbrances and interests of third parties of any kind; and that they have full power and capacity to sell and transfer their Scheme Shares (together with all rights and entitlements attaching to such shares) to Mengniu SubCo.	Section 8.10.

2 FREQUENTLY ASKED QUESTIONS CONT

QUESTION	ANSWER	MORE INFORMATION
What will Bellamy's Shareholders receive under the Scheme		
What will I receive if the Scheme becomes Effective?	<p>As noted above, if the Scheme becomes Effective, it is intended that Bellamy's Shareholders (other than Excluded Shareholders²⁷) will receive the Total Cash Amount, being \$13.25 per Bellamy's Share, comprising:</p> <ul style="list-style-type: none"> the Scheme Consideration of \$12.65 per Bellamy's Share held on the Scheme Record Date, paid by Mengniu, in return for the transfer of their Bellamy's Shares to Mengniu SubCo under the Scheme; and the fully franked Special Dividend of \$0.60 per Bellamy's Share held on the Special Dividend Record Date, paid by Bellamy's immediately prior to implementation of the Scheme. 	Section 3.2.
When will I be paid?	Payments of the Scheme Consideration will occur in accordance with the Scheme on the Implementation Date. The Implementation Date is expected to occur on Monday 23 December 2019.	Section 3.2(c).
How will I be paid?	<p>All payments will be made by direct deposit into your nominated bank account, as advised to the Bellamy's Share Registry as at the Scheme Record Date.</p> <p>If you have not nominated a bank account, payment will be made by Australian dollar cheque, sent by pre-paid post to your registered address as shown on the Bellamy's Share Register.</p>	Section 3.2(c).
Will I have to pay brokerage?	No brokerage will be payable in any Australian jurisdiction by Bellamy's Shareholders in respect of the disposal of their Bellamy's Shares.	Section 1.1(g)
Special Dividend		
What is the Special Dividend?	The Bellamy's Board has determined to pay the fully franked Special Dividend of \$0.60 per Bellamy's Share, conditional on the Scheme becoming Effective ²⁸ .	Section 3.2(a).
Will I receive the Special Dividend if the Scheme does not proceed?	No. If the Scheme does not become Effective, Bellamy's will not pay the Special Dividend.	Sections 3.2 and 6.3.
Will the Special Dividend be franked?	Yes. Bellamy's Shareholders who are able to realise the full benefit of the franking credits attached to the Special Dividend will be entitled to a franking credit of \$0.2572 per Bellamy's Share. Whether you will be able to receive the full benefit of the franking credits attached to the Special Dividend will depend on your personal circumstances and whether a favourable class ruling is obtained from the ATO. You should consult your own taxation adviser to determine the tax consequences relevant to your specific circumstances ²⁹ .	Sections 3.2, 6.3 and 7.3.

²⁷ 'Excluded Shares' means Bellamy's Shares held by any Mengniu Group entity. As at the date of this Scheme Booklet, Mengniu together with its wholly-owned subsidiary Vision Clear Limited holds 3,248,482 Bellamy's Shares, which represents approximately 2.9% of the total number of Bellamy's Shares on issue. Those Bellamy's Shares held by Mengniu and Vision Clear Limited will not be acquired under the Scheme, and neither Mengniu nor Vision Clear Limited is able to vote those Bellamy's Shares on the Scheme. Mengniu will however receive the Special Dividend in respect of those Bellamy's Shares if the Scheme becomes Effective, and it continues to hold those shares on the Special Dividend Record Date.

²⁸ Payment of the Special Dividend is also conditional on Bellamy's continued satisfaction of the applicable Corporations Act requirements for payment of the dividend, as at Special Dividend Payment Date. See section 6.3(a) for further information.

²⁹ Refer to sections 6.3 and 7.3 for further information.

QUESTION	ANSWER	MORE INFORMATION
Am I eligible to receive the Special Dividend?	If the Scheme becomes Effective, a Bellamy's Shareholder who is recorded on the Bellamy's Share Register on the Special Dividend Record Date will be entitled to receive the Special Dividend.	Sections 3.2 and 6.3.
When will I receive the Special Dividend?	The Special Dividend will be paid by Bellamy's to Bellamy's Shareholders on the Special Dividend Payment Date, which is expected to be Monday 23 December 2019.	Section 3.2(c).
Implementation of the Scheme		
What will happen to Bellamy's if the Scheme becomes Effective and is implemented?	<p>If the Scheme is implemented, Mengniu SubCo will acquire all of the Bellamy's Shares (other than Excluded Shares) and Bellamy's will be delisted from the official list of the ASX after implementation of the Scheme.</p> <p>Mengniu presently intends on transferring (and procuring that Vision Clear Limited transfers) the Excluded Shares to Mengniu SubCo following implementation of the Scheme.</p>	Section 5.4(b) sets out further details on Mengniu and Mengniu SubCo's intentions as to Bellamy's into the future.
Are there any conditions to be satisfied?	<p>There are certain conditions that will need to be satisfied or waived (where capable of waiver) before the Scheme can become Effective.</p> <p>In summary, as at the date of this Scheme Booklet, the outstanding conditions include:</p> <ul style="list-style-type: none"> • FIRB approval; • approval from eligible Bellamy's Shareholders; • Court approval; • no legal or regulatory restraints on, or Orders preventing, the implementation of the Scheme; • no Bellamy's Material Adverse Change occurring between the date of the Scheme Implementation Deed and 8.00am on the Second Court Date; and • no Bellamy's Prescribed Occurrence occurring between the date of the Scheme Implementation Deed and 8.00am on the Second Court Date. <p>As at the date of this Scheme Booklet, the Bellamy's Directors are not aware of any reason why these conditions should not be satisfied or waived (where capable of waiver).</p>	Section 8.11(a).
What happens if the Scheme does not proceed?	<p>If the Scheme is not approved at the Scheme Meeting, or another condition to the Scheme is not satisfied or waived (where capable of waiver), the Scheme will not be implemented.</p> <p>If the Scheme is not implemented, Scheme Shareholders will not receive the Scheme Consideration but will retain their Bellamy's Shares. In these circumstances, Bellamy's will, in the absence of another proposal, continue to operate as a stand-alone company listed on the ASX and you will continue to hold your Bellamy's Shares and continue to be exposed to risks and opportunities associated with your investment in Bellamy's.</p> <p>In addition, if the Scheme does not become Effective, Bellamy's Shareholders will not receive the Special Dividend.</p>	N/A

2 FREQUENTLY ASKED QUESTIONS CONT

QUESTION	ANSWER	MORE INFORMATION
Is there a break fee payable?	<p>Bellamy's has agreed to pay Mengniu a break fee of \$14,300,000 in certain circumstances.</p> <p>However, no break fee is payable merely for the reason that eligible Bellamy's Shareholders do not approve the Scheme at the Scheme Meeting.</p>	Section 8.11(e).
What are the taxation implications of the Scheme?	<p>The tax consequences of the Scheme will depend on your personal situation.</p> <p>A general outline of the main Australian taxation implications of the Scheme for certain Bellamy's Shareholders is set out in section 7 of this Scheme Booklet.</p> <p>As this outline is general in nature, you should consult with your own taxation advisers for detailed tax advice regarding the Australian and, if applicable, foreign taxation implications for participating in the Scheme in light of the particular circumstances which apply to you before making a decision as to how to vote on the Scheme.</p>	Section 7.
Further information		
Where can I get further information?	For further information, you can call the Shareholder Information Line on 1800 260 668 (within Australia) or +61 1800 260 668 (outside Australia).	N/A

3 OVERVIEW OF THE SCHEME

3.1 Scheme

On 16 September 2019, Bellamy's announced that it had entered into the Scheme Implementation Deed with Mengniu, under which Mengniu has agreed to acquire³⁰ all of the Bellamy's Shares (other than Excluded Shares) on issue by way of the Scheme.

For the Scheme to proceed, eligible Bellamy's Shareholders must vote in favour of the Scheme by the Requisite Majorities set out in section 3.3(a), and the Scheme must be approved by the Court. The Scheme is also subject to the satisfaction or waiver (where capable of waiver) of the other Conditions Precedent described in section 8.11(a).

If the Scheme is approved by eligible Bellamy's Shareholders and by the Court, and all other Conditions Precedent are satisfied or waived (where capable of waiver), then Bellamy's will become a wholly-owned subsidiary of Mengniu SubCo and it is intended to be removed from the official list of the ASX on or around the Business Day immediately following the Implementation Date.

If the Scheme is not approved:

- (a) Scheme Shareholders will not receive the Scheme Consideration;
- (b) Bellamy's Shareholders will not receive the Special Dividend; and
- (c) Bellamy's Shareholders will retain their Bellamy's Shares.

In these circumstances, Bellamy's will, in the absence of another proposal, continue to operate as a stand-alone entity listed on the ASX and Bellamy's Shareholders will retain their Bellamy's Shares and continue to be exposed to risks and opportunities associated with their investment in Bellamy's.

3.2 Total Cash Amount

(a) Total Cash Amount

If the Scheme becomes Effective, it is intended that Bellamy's Shareholders (other than Excluded Shareholders³¹) will receive the Total Cash Amount, being \$13.25 per Bellamy's Share, comprising:

- (i) the Scheme Consideration of \$12.65 per Bellamy's Share held on the Scheme Record Date, paid by Mengniu, in return for the transfer of their Bellamy's Shares to Mengniu SubCo under the Scheme; and
- (ii) the fully franked Special Dividend of \$0.60 per Bellamy's Share held on the Special Dividend Record Date, paid by Bellamy's immediately prior to implementation of the Scheme.

(b) Special Dividend paid by Bellamy's

The Bellamy's Board has determined to pay the fully franked Special Dividend, conditional on the Scheme becoming Effective³². The Special Dividend would be paid immediately prior to implementation of the Scheme. Bellamy's Shareholders who are able to realise the full benefit of the franking credits attached to the Special Dividend will be entitled to a franking credit of \$0.2572 per Bellamy's Share. Whether you will be able to receive the full benefit of the franking credits attached to the Special Dividend will depend on your personal circumstances and whether a favourable class ruling is obtained from the ATO. Refer to section 7.2(a) for further information regarding Bellamy's request for the ATO to issue a class ruling. You should consult your own taxation adviser to determine the tax consequences relevant to your specific circumstances³³.

(c) Payment of Total Cash Amount

If the Scheme becomes Effective, it is intended that the Total Cash Amount will be paid as follows:

- (i) The Scheme Consideration will be paid by Mengniu to Scheme Shareholders on the Implementation Date, currently expected to be Monday 23 December 2019. Payments will be made by electronic funds transfer into the Scheme Shareholder's nominated

30 Under the Scheme, the acquiring entity will actually be Mengniu's indirect wholly-owned subsidiary, Mengniu SubCo.

31 'Excluded Shares' means Bellamy's Shares held by any Mengniu Group entity. As at the date of this Scheme Booklet, Mengniu together with its wholly-owned subsidiary Vision Clear Limited holds 3,248,482 Bellamy's Shares, which represents approximately 2.9% of the total number of Bellamy's Shares on issue. Those Bellamy's Shares held by Mengniu and Vision Clear Limited will not be acquired under the Scheme, and neither Mengniu nor Vision Clear Limited is able to vote those Bellamy's Shares on the Scheme. Mengniu will however receive the Special Dividend in respect of those Bellamy's Shares if the Scheme becomes Effective, and it continues to hold those shares on the Special Dividend Record Date.

32 Payment of the Special Dividend is also conditional on Bellamy's continued satisfaction of the applicable Corporations Act requirements for payment of the dividend, as at Special Dividend Payment Date. See section 6.3(a) for further information.

33 Refer to sections 6.3 and 7.3 for further information.

3 OVERVIEW OF THE SCHEME CONT

bank account as advised to the Bellamy's Share Registry as at the Scheme Record Date.

- (ii) The Special Dividend will be paid by Bellamy's on the Special Dividend Payment Date, currently expected to be Monday 23 December 2019, in respect of Bellamy's Shares held on the Special Dividend Record Date³⁴. Payments will be made by electronic funds transfer into the Bellamy's Shareholder's nominated bank account, as advised to the Bellamy's Share Registry as at the Special Dividend Record Date.

If no bank account has been nominated, payment will be made by sending an Australian dollar cheque, by pre-paid post to the relevant shareholder's registered address, as shown on the Bellamy's Share Register.

Bellamy's Shareholders can update their payment information online by logging in to www.linkmarketservices.com.au or downloading a form via https://www.linkmarketservices.com.au/corporate/forms/holding-management/Link_DIV001_Interactive.pdf.

3.3 Key Steps in the Scheme

(a) Overview of Scheme approval requirements

The Scheme will become Effective and be implemented only if it is:

- approved by the Requisite Majorities of eligible Bellamy's Shareholders at the Scheme Meeting to be held on Thursday 5 December 2019; and
- approved by the Court at the Second Court Hearing to be held on Monday 9 December 2019.

Approval by eligible Bellamy's Shareholders at the Scheme Meeting requires the Scheme Resolution to be approved by the Requisite Majorities, being:

- a majority in number (more than 50%) of eligible Bellamy's Shareholders present and voting at the Scheme Meeting (whether in person or by proxy, attorney or corporate representative) (unless the Court orders otherwise); and
- at least 75% of the total number of votes cast on the Scheme Resolution by eligible Bellamy's Shareholders.

The Court has the power to waive the first requirement.

In the event that:

- the Scheme is approved by the Requisite Majorities of eligible Bellamy's Shareholders at the Scheme Meeting; and
- all other conditions (except Court approval of the Scheme) have been satisfied or waived (where capable of waiver),

then Bellamy's will apply to the Court for orders approving the Scheme.

Each Bellamy's Shareholder has the right to appear at the Second Court Hearing.

(b) Scheme Meeting

(i) Date and time of Scheme Meeting

In accordance with an order of the Court dated Wednesday 30 October 2019, Bellamy's has convened the Scheme Meeting to be held on Thursday 5 December 2019 at Greenfields Albert Park, Corner Lakeside Drive & Queens Road, Albert Park Lake, Melbourne, Victoria, commencing at 10.00am (Sydney time). The notice convening the Scheme Meeting is set out in Annexure D to this Scheme Booklet and the terms of the Scheme are contained in Annexure B to this Scheme Booklet. The purpose of the Scheme Meeting is for eligible Bellamy's Shareholders to consider whether to approve the Scheme.

The fact that the Court has ordered the Scheme Meeting does not mean that the Court has formed any view as to the merits of the Scheme or as to how Bellamy's Shareholders should vote on the Scheme Resolution. On these matters, Bellamy's Shareholders must reach their own decision. In any event, the Court must approve the Scheme at the Second Court Hearing before the Scheme can become Effective.

(ii) Scheme Resolution

At the Scheme Meeting, eligible Bellamy's Shareholders will be asked to consider and, if thought fit, pass the Scheme Resolution to approve the Scheme.

³⁴ Payment of the Special Dividend is also conditional on Bellamy's continued satisfaction of the applicable Corporations Act requirements for payment of the dividend, as at Special Dividend Payment Date. See section 6.3(a) for further information.

(iii) Entitlement to vote

Each Bellamy's Shareholder (other than any Excluded Shareholder) who is registered on the Bellamy's Share Register on the Scheme Meeting Record Date is entitled and eligible to vote at the Scheme Meeting.

(c) **Second Court Hearing**

In the event that:

- the Scheme is approved by the Requisite Majorities of eligible Bellamy's Shareholders at the Scheme Meeting; and
- all other Conditions Precedent (except Court approval of the Scheme) have been satisfied or waived (where capable of waiver),

then Bellamy's will apply to the Court for orders approving the Scheme at the Second Court Hearing.

The Court has a broad discretion whether or not to approve the Scheme under section 411(4)(b) of the Corporations Act. The Second Court Hearing is scheduled to occur on the Second Court Date (currently expected to be 2.00pm (Sydney time) on Monday 9 December 2019). Each Bellamy's Shareholder has the right to appear at the Second Court Hearing.

(d) **Effective Date**

If the Court makes orders approving the Scheme and all other conditions have been satisfied or waived (where capable of waiver), then Bellamy's will lodge a copy of those orders with ASIC under section 411(10) of the Corporations Act. As soon as copies of the Court orders approving the Scheme are lodged with ASIC, the Scheme will become Effective. This is expected to occur on the Effective Date.

If the Scheme becomes Effective, then Bellamy's, Mengniu and Mengniu SubCo will become bound to implement the Scheme in accordance with the terms of the Scheme and the Deed Poll.

Bellamy's will, on the Scheme becoming Effective, give notice of that event on the ASX. Bellamy's intends to apply to the ASX for Bellamy's Shares to be suspended from official quotation on the ASX from close of trading on the Effective Date. It is expected that suspension of trading in Bellamy's Shares on the ASX will occur from the close of trading on the Effective Date.

(e) **Scheme Record Date**

Scheme Shareholders will be entitled to receive the Scheme Consideration in respect of the Bellamy's Shares they hold as at the Scheme Record Date.

(f) **Special Dividend Record Date**

Bellamy's Shareholders will be entitled to receive the Special Dividend in respect of the Bellamy's Shares they hold as at the Special Dividend Record Date.

(g) **Dealings on or prior to the Scheme Record Date**

For the purpose of determining which Bellamy's Shareholders are eligible to participate in the Scheme, dealings in Bellamy's Shares will be recognised only if:

- in the case of dealings of the type to be effected using CHESS (Clearing House Electronic Subregister System), the transferee is registered on the Bellamy's Share Register as the holder of the relevant Bellamy's Shares on the Scheme Record Date; and
- in all other cases, registrable transmission applications or transfers in respect of those dealings are received by the Bellamy's Share Registry on or before the Scheme Record Date (and the transferee remains registered as at the Scheme Record Date).

For the purposes of determining entitlements under the Scheme, Bellamy's will not accept for registration or recognise any transfer or transmission applications in respect of Bellamy's Shares received after the Scheme Record Date.

(h) **Dealing on or prior to the Special Dividend Record Date**

For the purpose of determining which Bellamy's Shareholders are eligible to receive the Special Dividend, dealings in Bellamy's Shares will be recognised only if:

- in the case of dealings of the type to be effected using CHESS (Clearing House Electronic Subregister System), the transferee is registered on the Bellamy's Share Register as the holder of the relevant Bellamy's Shares on the Special Dividend Record Date; and
- in all other cases, registrable transmission applications or transfers in respect of those dealings are received by the Bellamy's Share Registry on or before the Special Dividend Record Date (and the transferee remains registered as at the Special Dividend Record Date).

For the purposes of determining entitlements to receipt of the Special Dividend, Bellamy's will not accept for registration or recognise

3 OVERVIEW OF THE SCHEME CONT

any transfer or transmission applications in respect of Bellamy's Shares received after the Special Dividend Record Date.

(i) Dealings after the Scheme Record Date and Special Dividend Record Date

For the purposes of determining entitlements to the Scheme Consideration and the Special Dividend, Bellamy's must maintain the Bellamy's Share Register in its form as at each of:

- (i) the Scheme Record Date until the Scheme Consideration has been paid to the Scheme Shareholders. The Bellamy's Share Register in this form will solely determine entitlements to the Scheme Consideration; and
- (ii) the Special Dividend Record Date until the Special Dividend has been paid to the relevant Bellamy's Shareholders. The Bellamy's Share Register in this form will solely determine entitlements to the Special Dividend.

After the Scheme Record Date:

- all statements of holding for Scheme Shares will cease to have effect as documents relating to title in respect of such Scheme Shares; and
- each entry on the Bellamy's Share Register relating to the Scheme Shares will cease to have effect except as evidence of entitlement to the Scheme Consideration in respect of such Scheme Shares.

(j) Implementation Date

The Implementation Date is, subject to certain conditions set out in the Scheme, the fourth Business Day after the Scheme Record Date. The Implementation Date is currently expected to be Monday 23 December 2019.

Prior to implementation of the Scheme, and by the Business Day prior to the Implementation Date, Mengniu SubCo must pay or procure the payment into an Australian dollar denominated trust account held with an Australian bank nominated by Bellamy's the aggregate of the Scheme Consideration payable to Scheme Shareholders.

On the Implementation Date, Bellamy's will pay to each Bellamy's Shareholder their entitlement to the Special Dividend for each Bellamy's Share held by them as at the Special Dividend Record Date.

On the Implementation Date, subject to the deposit of the aggregate Scheme Consideration being made by Mengniu SubCo:

- Bellamy's will pay to each Scheme Shareholder their entitlement to the Scheme Consideration for each Bellamy's Share held by them as at the Scheme Record Date; and
- the Scheme Shares will be transferred to Mengniu SubCo without Scheme Shareholders needing to take any further action.

(k) Delisting of Bellamy's

Following the implementation of the Scheme, Bellamy's will apply for the termination of the official quotation of Bellamy's Shares on the ASX and for Bellamy's to be removed from the official list of the ASX.

(l) End Date

The Scheme will lapse and be of no further force or effect (and implementation will not occur) if the Effective Date has not occurred on or before the End Date.

3.4 Conditions Precedent to implementation of the Scheme

The implementation of the Scheme is subject to Conditions Precedent which must be satisfied or waived (where capable of waiver) for the Scheme to proceed. A summary of the Conditions Precedent is included in section 8.11(a) and the Conditions Precedent are set out in full in clause 3.1 of the Scheme Implementation Deed, a full copy of which is attached to Bellamy's ASX Announcement on 16 September 2019, which can be obtained from www.asx.com.au or from Bellamy's Website.

3.5 Timetable

An indicative timetable for the Transaction and payment of the Special Dividend appears on page 6. All dates and times following the date of the Scheme Meeting are indicative only and, among other things, are subject to the Court approval process and satisfaction or, where applicable, waiver of the Conditions Precedent. Any changes to the timetable (which may include an earlier or later date for the Second Court Hearing) will be announced on the ASX and notified on the Bellamy's Website.

4 INFORMATION ABOUT BELLAMY'S

4.1 Overview

Bellamy's is a globally recognised Australian organic brand business. Founded in Tasmania in 2004 and listed on the Australian Stock Exchange (ASX: BAL) in 2014, it produces, supplies and markets a range of organic food and infant formula for babies and toddlers.

Bellamy's products are distributed in Australia, Vietnam, Singapore, Malaysia, New Zealand and the People's Republic of China, including Hong Kong. Products are also available through multiple online retail platforms.

In FY19, Bellamy's had revenue of \$266.2 million and a net profit after tax of \$21.7 million.

4.2 Overview of assets and operations

(a) Products

Bellamy's has approximately 40 products covering organic food, infant milk formula and toddler milk. During FY19, Bellamy's upgraded its formulations in its core 'Australian-label' infant formula range (Step 1: for ages 0 – 6 months, Step 2: for ages 6 – 12 months and Step 3: for ages 12+ months) and launched two new products to extend its core range: Step 4 (for ages 3+ years) and Pregnancy Formula (for mothers pre, during and post pregnancy). Bellamy's also launched 12 new food products, including a new range of exotic fruit pouches, a new range of ambient custards (the first 'no added sugar' range in Australia) and extensions to its cereal range ('Baby Rice with prebiotic GOS' and 'Pumpkin Baby Rice with prebiotic GOS').

(b) People

The Bellamy's Group employs approximately 160 full and part time employees. Approximately 20 full and part time employees are located at Bellamy's Launceston head office at 115 Cimitiere Street, Launceston, Tasmania. Approximately 30 full and part time employees are located at Bellamy's Melbourne office at 60 Albert Road, South Melbourne, Victoria and approximately 30 employees are based in offices in China (including Hong Kong), and Singapore. Approximately 80 permanent and casual employees are located at the Camperdown Manufacturing Facility in Braeside, Melbourne.

(c) Customers & Channels

Bellamy's provides nutritious food and formula products for infants and children. Its products are distributed directly and indirectly to Australia, New Zealand, China (including Hong Kong), Singapore, Malaysia and Vietnam.

In FY19, Bellamy's key direct customer channels for its 'Australian-label' products were Australian supermarket and pharmacy retailers (and their wholesale suppliers), Australian-based wholesalers supporting the 'direct mail' and daigou networks, China-based distributors supplying cross-border e-commerce platforms (such as Tmall Direct International, JD.com, Kaola), and distributors in other international markets. In addition, Bellamy's sells products directly to consumers online via its Australian website and its China Tmall Flagship store.

A substantial proportion of products sold to Australia-based retailers and wholesalers are on-sold to Chinese consumers through personal selling channels including private and public Consumer-to-Consumer (C2C) platforms (eg WeChat and Taobao).

In the past, Bellamy's has sold 'Chinese-label' product into retail stores in China. In FY17, prior to the commencement of the Chinese regulations requiring SAMR registration post 1 January 2018, this reached 15.4% of total Bellamy's Group revenue. In FY18, Bellamy's Group revenue for 'Chinese-label' product was 5.8% due to only selling this product into China up until 1 January 2018. In FY19, the sale of Bellamy's 'Chinese-label' products was zero. Bellamy's application to SAMR for registration of its 'Chinese-label' product through the Camperdown Manufacturing Facility is pending. Refer to section 6.4(a) for further information.

Bellamy's has partnered with ViPlus for a co-branding arrangement for ViPlus' existing SAMR registered conventional bovine formula-series. These products will be sold into retail stores in China and marketed by Bellamy's and its network of distributors. Bellamy's currently anticipates first sales of these products to be recognised in the second half of FY20.

4 INFORMATION ABOUT BELLAMY'S CONT

(d) Suppliers

Bellamy's products are Australian-made and certified organic with ingredients sourced from Australia and internationally. Bellamy's contracts directly with local and international ingredient and manufacturing suppliers.

In addition to third-party suppliers, Bellamy's manufactures a proportion of its formula products at its 90 per cent owned formula blending and canning facility, the Camperdown Manufacturing Facility.

Bellamy's also has key multi-year infant formula manufacturing contracts with Bega and Fonterra, utilising facilities in Victoria, Australia. It has also contracted with ViPlus to blend and can Bellamy's 'Australian-label' and ViPlus' SAMR registered conventional 'Chinese-label' products, with production currently expected to commence in FY20.

Bellamy's has been sourcing organic ingredients for its product portfolio for over 10 years and has built a supplier base of international and local ingredients suppliers. Since 2018 Bellamy's has been increasing its use of Australian organic dairy ingredients in its formula range through multi-year agreements to secure and indirectly grow local dairy ingredient supply with Bega, Australian Consolidated Milk and Fonterra.

4.3 Board and Key Management Personnel

(a) Bellamy's Board

As at the date of this Scheme Booklet, the Bellamy's Board comprises the following Bellamy's Directors:

Name	Current position
John Ho	Non-Executive Director and Chairman
John Murphy	Non-Executive Director and Deputy Chair
Rodd Peters	Non-Executive Director
Wai-Chan Chan	Non-Executive Director
Shirley Liew	Non-Executive Director

(b) Bellamy's Executive KMP

As at the date of this Scheme Booklet, Bellamy's Executive KMP comprises the following individuals:

Name	Current position
Andrew Cohen	Chief Executive Officer
Nigel Underwood	Chief Financial Officer
Peter Fridell	Director of Operations
Melinda Harrison	General Counsel and Company Secretary
David Jedynak	Director of Sales and Marketing

4.4 Corporate governance

The Bellamy's Board is responsible for the overall corporate governance of Bellamy's. The Bellamy's Board has incorporated each of the ASX Corporate Governance Council's Principles and Recommendations, in accordance with the ASX Listing Rule 4.10.3, into its corporate governance policies.

Detailed below are the main corporate governance practices of Bellamy's that are in place at the date of this Scheme Booklet. Bellamy's also makes its Corporate Governance policies and charters available under the Corporate Governance section of Bellamy's Website.

Bellamy's corporate governance policies

Corporate governance policy	Description
Bellamy's Board	<p>The Bellamy's Board has adopted a Board Charter that formalises its roles and responsibilities, including defining matters that are reserved for the Bellamy's Board and setting the powers and responsibilities of management.</p> <p>The Bellamy's Board consists of a majority of independent directors. The performance of the Bellamy's Board and senior management is assessed on an annual basis.</p> <p>The Bellamy's Board has established a Remuneration and Nomination Committee and an Audit and Risk Committee to assist the Bellamy's Board in fulfilling its responsibilities.</p>
Ethical and responsible decision making	<p>Bellamy's has adopted a written Code of Conduct which reflects Bellamy's commitment to conducting business honestly and fairly, and in strict compliance with all laws and regulations. The Code of Conduct applies to all employees, managers and the Bellamy's Board.</p> <p>Bellamy's has established and disclosed on Bellamy's Website its Diversity Policy. Among other things, the Diversity Policy sets out Bellamy's commitment to ensure that its corporate culture supports diversity in the workplace and that recruitment and selection practices are appropriately structured so that a diverse range of candidates are considered.</p> <p>Bellamy's has adopted a Securities Trading Policy which applies to Bellamy's, its directors, company secretary and senior management and other persons nominated by the board from time to time. The Securities Trading Policy is intended to explain the types of conduct in relation to dealings in Bellamy's Shares that is prohibited under the Corporations Act and to establish procedures in relation to such persons dealing in Bellamy's Shares.</p>
Safeguard integrity in financial reporting	<p>Bellamy's has established an Audit and Risk Committee which assists the Bellamy's Board in fulfilling its responsibilities for corporate governance and oversight of Bellamy's financial reporting, internal control structure, risk management systems and internal and external audit functions.</p> <p>The Audit and Risk Management Committee comprises a minimum of three members of the Bellamy's Board who are non-executive directors. The committee is comprised of a majority of independent directors. The chair is an independent director who is not the Chair of the Bellamy's Board. The Audit and Risk Management Committee meets as required, and at least four times each financial year.</p> <p>The Audit and Risk Management Committee operates under a Charter approved by the Bellamy's Board which is available on Bellamy's Website.</p>

4 INFORMATION ABOUT BELLAMY'S CONT

Corporate governance policy	Description
Market disclosure and Shareholder communications	<p>Bellamy's has adopted a Disclosure Policy and established a Disclosure Committee comprised of the Chief Executive Officer, Chief Financial Officer and Bellamy's Compliance Officer to ensure compliance with its continuous disclosure requirements under the ASX Listing Rules and the Corporations Act.</p> <p>The Disclosure Policy sets out the circumstances in which price sensitive information must be disclosed to the market and requires all staff to inform a member of the Disclosure Committee of any price sensitive information as soon as they become aware of it.</p> <p>Bellamy's aims to ensure that Bellamy's Shareholders are informed in a timely and readily accessible manner of all matters which affect their investment in Bellamy's through its Shareholder Communication Policy. Information is provided to Bellamy's Shareholders through Bellamy's annual and half-yearly reports, the investor relations section of Bellamy's Website, releases to the ASX and Annual General Meetings.</p> <p>Bellamy's encourages Bellamy's Shareholders to receive company information electronically by registering their email address online with the Bellamy's Share Registry and to attend Annual General Meetings, where Bellamy's Shareholders can express their views to the Bellamy's Board and vote on the Bellamy's Board's proposals.</p>
Risk management	<p>The Audit and Risk Management Committee is responsible for overseeing the effectiveness of Bellamy's financial controls and systems and the risk management function, and evaluating the structure and adequacy of Bellamy's insurance coverage periodically.</p> <p>Bellamy's management is responsible for establishing Bellamy's risk management framework, including identifying major or potentially major risk areas and developing Bellamy's policies and procedures, which are designed effectively to identify, treat, monitor, report and manage key business risks. Each employee and contractor is expected to understand and manage the risks within their responsibility and boundaries of authority when making decisions and undertaking day to day activities.</p>
Directors' fees and executive remuneration	<p>The Bellamy's Board has established a Remuneration and Nomination Committee which is responsible for evaluating and approving the remuneration packages for the Chief Executive Officer and other senior management and non-executive directors.</p> <p>The Remuneration and Nomination Committee comprises three members, all of whom are independent non-executive directors. The chair of the committee is an independent director, who is not the Chair of the Bellamy's Board. The Remuneration and Nomination Committee meets as required, and at least once a year.</p> <p>The Remuneration and Nomination Committee operates under a Charter approved by the Bellamy's Board, which is available in the Corporate Governance section of Bellamy's Website.</p>

4.5 Capital structure

(a) Capital structure and market capitalisation

As at the date of this Scheme Booklet, Bellamy's has:

- 113,368,297 Bellamy's Shares on issue; and
- 5,231,993 Options on issue.

See section 8.2(d) for further information on the intended treatment of the Options in connection with the Scheme.

As at 28 October 2019, being the last practicable date before the date of this Scheme Booklet, Bellamy's had a market capitalisation of approximately \$1,457 million (based on a closing price of \$12.85 per Bellamy's Share and 113,368,297 Bellamy's Shares on issue).

(b) Substantial shareholders

As at 28 October 2019, being the last practicable date before the date of this Scheme Booklet, based on substantial shareholder notice filings to the ASX³⁵, the substantial holders of Bellamy's Shares are as follows.

Name	Number of Bellamy's Shares ³⁶	Percentage
Bicheno Investments Pty Limited as trustee for the Jan Cameron Trust, Boilinger Investments Ltd as trustee for the Brightside Trust, Elsie Cameron Foundation Pty Ltd as trustee for the Elsie Cameron Foundation and Jan Cameron	19,416,464	17.13%
Janchor Partners Limited, Janchor Partners Pan-Asian Master Fund and Vittoria Fund-J, L.P.	8,752,182	7.72%
UBS Group AG and its Related Bodies Corporate	7,261,739	6.41%
Quality Life Pty Ltd as trustee for the Bruce Neill Family Trust	7,011,798	6.18%

The shareholdings listed in this section 4.5(b) are as disclosed to Bellamy's by the shareholders in substantial holding notices. Information in regard to substantial holdings arising, change or ceasing after this time or in respect of which the relevant announcement is not available on the ASX's website (www.asx.com.au) is not included above.

(c) Potential issue of 300,000 Bellamy's Shares as consideration for the acquisition of the remaining 10% of Camperdown

Bellamy's currently owns (through a wholly-owned subsidiary) 90% of the shares in A.C.N. 619 661 611 Pty Ltd, which indirectly owns, the Camperdown Manufacturing Facility in Braeside, Melbourne³⁷. The remaining 10% of the shares in A.C.N. 619 661 611 are held by a third party, Buena Investments Pty Ltd (ACN 619 650 743) (**Buena**). Bellamy's and Buena are parties to a share purchase agreement dated 15 January 2018, under which Bellamy's has agreed to purchase the remaining 10% shareholding in A.C.N. 619 661 611 Pty Ltd from Buena, in return for the issue of 300,000 new Bellamy's Shares to Buena, conditional on Bellamy's obtaining the SAMR registration in respect of Bellamy's organic formula range referred to in sections 1.1(c) and 6.4.

The condition in that share purchase agreement has not yet been satisfied, but Bellamy's has the right under that agreement to waive the benefit of that condition, if it chooses to do so. It is possible that after the date of this Scheme Booklet, Bellamy's does decide to waive that condition and complete the purchase of the remaining 10% of the shares in A.C.N. 619 661 611 Pty Ltd, which would require Bellamy's to issue 300,000 Bellamy's Shares to Buena on completion of that agreement. If that occurs, and those Bellamy's Shares are issued to Buena prior to the Scheme Record Date, and are continued to be held by Buena until the Scheme Record Date, those Bellamy's Shares would, if the Scheme becomes Effective, be acquired by Mengniu SubCo under the Scheme and Buena would receive the Total Cash Amount in respect of those Bellamy's Shares.

³⁵ These substantial notices can be found on Bellamy's website at <https://investors.bellamysorganic.com.au/investors/?page=asx-announcements>.

³⁶ This refers to the number of Bellamy's Shares in which the person or any associate has a Relevant Interest as noted in the substantial shareholder notice.

³⁷ The Camperdown Manufacturing Facility is owned through a wholly-owned subsidiary of A.C.N. 619 661 611 Pty Ltd, Camperdown Powder Pty Ltd.

4 INFORMATION ABOUT BELLAMY'S CONT

4.6 Group structure

As at the date of this Scheme Booklet, Bellamy's was the ultimate holding company of the following Subsidiaries.

Name	Principal place of business/ country of incorporation	Ownership interest
Bellamy's Organic Pty Ltd	Australia	100%
Bellamy's Organic (Hong Kong) Company Limited	Hong Kong	100%
Bellamy's Organic Food Trading (Shanghai) Co Ltd	China	100%
Bellamy's Organic (South East Asia) Pte Ltd	Singapore	100%
A.C.N. 619 661 611 Pty Ltd	Australia	90%
Camperdown Powder Pty Ltd ³⁸	Australia	90%
Yum Mum Pty Ltd ³⁹	Australia	100%
Little Treasure (Aust) Pty Ltd ⁴⁰	Australia	45%
Camperdown Leura Star Brands Pty Ltd ⁴¹	Australia	45.9%

4.7 Recent Bellamy's Share Price history

Bellamy's Shares are listed on the ASX under the trading symbol 'BAL'.

On 16 September 2019, Bellamy's announced that it had entered into the Scheme Implementation Deed with Mengniu, under which Mengniu has agreed to acquire⁴² all of the Bellamy's Shares (other than the Excluded Shares) for the Scheme Consideration, by way of the Scheme of Arrangement. The closing price of Bellamy's Shares on 13 September 2019 (being the last trading day prior to the announcement of Bellamy's and Mengniu's entry into the Scheme Implementation Deed) was \$8.32.

The graph below shows the closing Bellamy's Share Price during the three months ended 13 September 2019.



38 Bellamy's ownership interest in Camperdown Powder Pty Ltd is indirectly held through A.C.N. 619 661 611 Pty Ltd, being a 90% owned Subsidiary of Bellamy's. A.C.N. 619 661 611 Pty Ltd directly owns 100% of Camperdown Powder Pty Ltd.

39 Bellamy's ownership interest in Yum Mum Pty Ltd is indirectly held through Bellamy's Organic Pty Ltd, being a 100% owned subsidiary of Bellamy's.

40 Bellamy's ownership interest in Little Treasure (Aust) Pty Ltd is indirectly held through Camperdown Powder Pty Ltd. Camperdown Powder Pty Ltd directly owns 50% of Little Treasure (Aust) Pty Ltd.

41 Bellamy's ownership interest in Camperdown Leura Star Brands Pty Ltd is indirectly held through Camperdown Powder Pty Ltd. Camperdown Powder Pty Ltd directly owns 51% of Camperdown Leura Star Brands Pty Ltd.

42 Under the Scheme, the acquiring entity will actually be Mengniu's indirect wholly-owned subsidiary, Mengniu SubCo.

As at 13 September 2019:

- the last recorded Bellamy's Share Price was \$8.32;
- the 1-month VWAP of the Bellamy's Shares was \$8.07;
- the 3-month VWAP of the Bellamy's Shares was \$8.59;
- the 6-month VWAP of the Bellamy's Shares was \$9.46;
- the lowest and highest Bellamy's Share Prices during the preceding three months were \$7.50 and \$10.35, respectively.

4.8 Historical financial information

(a) Basis of preparation

This section sets out historical financial information about the Bellamy's Group for FY18 and FY19. The financial information in this section is a summary only and is prepared for the purpose of this Scheme Booklet. It does not contain all the disclosures, presentations, statements or comparatives that are usually provided in an annual report prepared in accordance with the Corporations Act. The information has been extracted from the audited financial reports of Bellamy's for FY18 and FY19.

Further details on Bellamy's financial performance and financial statements for FY19 as announced to the ASX on 28 August 2019 can be found in the Results and Presentations section of Bellamy's Website.

(b) Historical statement of profit or loss and other comprehensive income

Below is a summary of Bellamy's consolidated statements of profit or loss or other comprehensive income for the financial years ended 30 June 2018 and 30 June 2019.

	30 June 2019 \$'ooo	30 June 2018 \$'ooo
Revenue from formula and food	250,973	320,005
Revenue from manufacturing	15,265	8,699
Total revenue	266,238	328,704
Cost of goods sold	(150,366)	(199,830)
Gross profit	115,872	128,874
Other income	1,007	582
Distribution and other direct costs	(30,893)	(21,074)
Employee benefits expense	(17,938)	(19,004)
Marketing and innovation costs	(21,293)	(14,578)
Administrative and other costs	(11,830)	(10,233)
Earnings before interest, tax, depreciation and amortisation	34,925	64,567
Finance revenue	1,758	1,157
Finance expenses	(9)	(230)
Depreciation and amortisation expense	(5,317)	(4,298)
Profit before income tax	31,357	61,196
Income tax expense	(9,694)	(18,380)
Profit after income tax expense for the year	21,663	42,816
OTHER COMPREHENSIVE INCOME		
Items that may be reclassified subsequently to profit or loss		
Net change in fair value of cash flow hedges taken to equity, net of tax	103	45
Foreign operations – foreign currency translation differences	501	392
Other comprehensive income for the year, net of tax	604	437
Other comprehensive income for the year, net of income tax	22,267	43,253
Total comprehensive income for the year attributable to:		
Non-controlling interest	(451)	(451)

4 INFORMATION ABOUT BELLAMY'S CONT

	30 June 2019 \$'000	30 June 2018 \$'000
Owners of Bellamy's Australia Limited	22,114	43,267
	21,663	42,816
Earnings per share		
Basic earnings per share (cents)	19.51	39.61
Diluted earnings per share (cents)	18.54	37.59

(c) Historical statement of financial position

Below is a summary of Bellamy's' consolidated statement of financial position as at 30 June 2018 and 30 June 2019.

	30 June 2019 \$'000	30 June 2018 \$'000
CURRENT ASSETS		
Cash and cash equivalents	112,355	87,634
Trade and other receivables	43,689	49,225
Inventories	96,018	90,453
Other assets	4,949	2,840
Total Current Assets	257,011	230,152
NON-CURRENT ASSETS		
Property, plant and equipment	5,808	3,784
Intangibles	39,704	40,079
Deferred tax	7,141	6,798
Total Non-Current Assets	52,653	50,661
Total Assets	309,664	280,813
CURRENT LIABILITIES		
Trade and other payables	72,964	69,108
Borrowings	65	62
Derivative financial instruments	108	232
Income tax	2,000	2,344
Employee benefits	735	563
Provisions	1,430	1,100
Total Current Liabilities	77,302	73,409
NON-CURRENT LIABILITIES		
Employee benefits	67	45
Total Non-Current Liabilities	67	45
Total Liabilities	77,369	73,454
Net Assets	232,295	207,359
EQUITY		
Issued capital	120,870	120,870
Reserves	14,687	11,414
Retained earnings	97,210	75,096
Equity attributable to the owners of Bellamy's Australia Limited	232,767	207,380
Non-controlling interest	(472)	(21)
Total Equity	232,295	207,359

(d) **Historical statement of changes in equity**

Below is a summary of Bellamy's' consolidated statement of changes in equity for the financial years ended 30 June 2018 and 30 June 2019.

	Issued Capital \$'000	Reserves \$'000	Retained profits \$'000	Non- controlling interest \$'000	Total equity \$'000
CONSOLIDATED					
Balance as at 1 July 2017	53,795	5,637	31,829	–	91,261
Profit for the year	–	–	43,267	(451)	42,816
Other comprehensive income for the year, net of tax	–	437	–	–	437
Non-controlling interest on acquisition of Camperdown	–	–	–	430	430
Contributions of equity, net of transaction costs	67,075	–	–	–	67,075
Share based payments	–	5,340	–	–	5,340
Balance as at 30 June 2018	120,870	11,414	75,096	(21)	207,359
CONSOLIDATED					
Balance as at 1 July 2018	120,870	11,414	75,096	(21)	207,359
Profit for the year	–	–	22,114	(451)	21,663
Other comprehensive income for the year, net of tax	–	604	–	–	604
Share based payments	–	2,669	–	–	2,669
Balance as at 30 June 2019	120,870	14,687	97,210	(472)	232,295

4 INFORMATION ABOUT BELLAMY'S CONT

(e) Historical statement of cash flows

Below is a summary of Bellamy's' consolidated statements of cash flow for the financial years ended 30 June 2018 and 30 June 2019.

	30 June 2019 \$'000	30 June 2018 \$'000
Cash Flows from Operating Activities		
Profit before income tax expense for the year	31,357	61,196
Depreciation and amortisation	5,317	4,298
Share-based payments	2,669	5,340
Foreign exchange differences	478	949
Inventory provision movements	(3,441)	4,499
Bad debt provision movement	–	16
Finance income	(1,758)	(861)
Finance costs paid	9	–
Decrease/(increase) in trade and other receivables	5,561	(12,275)
Decrease/(increase) in inventories	(2,124)	(1,455)
Decrease/(increase) in income tax refund due	–	274
Decrease/(increase) in prepayments	(1,993)	(697)
(Decrease)/increase in trade and other payables	3,841	24,560
(Decrease)/increase in derivative liabilities	(21)	–
(Decrease)/increase in employee benefits	194	250
(Decrease)/increase in other provisions	330	(900)
Finance income	1,617	861
Finance costs paid	(9)	–
Income taxes paid	(10,343)	(17,080)
Net cash provided by operating activities	31,684	68,975
Cash Flows from Investing Activities		
Payment for purchase of subsidiary, net of cash acquired	–	(10,453)
Payments for property, plant and equipment	(3,340)	(2,028)
Payments for intangibles	(3,626)	(6,234)
Net cash used in investing activities	(6,966)	(18,715)
Cash Flows from Financing Activities		
Proceeds from issue of shares	–	45,097
Movements in borrowings	3	–
Repayment of borrowings	–	(25,202)
Net cash used in financing activities	3	19,895
Net increase in Cash and Cash Equivalents	24,721	70,155
Cash and cash equivalents at 1 July	87,634	17,479
Cash and cash equivalents at 30 June	112,355	87,634

4.9 Material changes to Bellamy's financial position

Within the knowledge of the Bellamy's Directors and other than as disclosed in this Scheme Booklet or announced on the ASX, the financial position of Bellamy's has not materially changed as at the date of this Scheme Booklet since 30 June 2019, being the date of Bellamy's consolidated financial report for FY19.

4.10 Bellamy's Directors' intentions for the business

The Corporations Act requires a statement by the Bellamy's Directors of their intentions regarding the Bellamy's Group's business. If the Scheme is implemented, the existing Bellamy's Directors will resign and the Bellamy's Board will be reconstituted in accordance with the instructions of Mengniu on and from the Implementation Date. Accordingly, it is not possible for the Bellamy's Directors to provide a statement of their intentions after the Scheme is implemented regarding:

- the continuation of the business of the Bellamy's Group's or how the Bellamy's Group's existing business will be conducted;
- any major changes, if any, to be made to the business of Bellamy's Group; or
- any future employment of the present employees of Bellamy's Group.

If the Scheme is implemented, Mengniu SubCo will own and control all of the Bellamy's Shares. The Bellamy's Directors have been advised that the intentions of Mengniu and Mengniu SubCo with respect to these matters are set out in section 5.4.

If the Scheme is not implemented, the Bellamy's Directors intend to continue to operate Bellamy's in the ordinary course of the business of Bellamy's.

4.11 Risks relating to Bellamy's business

There are existing risks relating to the Bellamy's Group's business and an investment in Bellamy's which will continue to be relevant to Bellamy's Shareholders if the Scheme does not become Effective. A summary of the key risks relating to the Bellamy's Group's business and an investment in Bellamy's is set out in section 6.4.

4.12 Publicly available information

Bellamy's is a listed disclosing entity for the purposes of the Corporations Act and as such is subject to regular reporting and disclosure obligations. Specifically, as a company listed on the ASX, Bellamy's is subject to the ASX Listing Rules which require (subject to some exceptions) continuous disclosure of any information Bellamy's has that a reasonable person would expect to have a material effect on the price or value of Bellamy's Shares.

ASX maintains files containing publicly disclosed information about all companies listed on the ASX. Information disclosed to the ASX by Bellamy's is available on the ASX's website at www.asx.com.au.

In addition, Bellamy's is required to lodge various documents with ASIC. Copies of documents lodged with ASIC by Bellamy's may be obtained from an ASIC office.

Bellamy's Shareholders may obtain a copy of:

- Bellamy's 2019 Annual Report (being the last full financial statements given to the ASX); and
- the financial statements for the financial half-year ended 30 June 2019,

free of charge, by calling the Shareholder Information Line on 1800 260 668 (within Australia) or +61 1800 260 668 (outside of Australia) Monday to Friday between 8.30am and 5.30pm (Sydney time), or from ASX's website at www.asx.com.au.

5 INFORMATION ABOUT MENGNIU

The information contained in this section has been prepared by Mengniu and Mengniu SubCo. The information concerning Mengniu and Mengniu SubCo and the intentions, views and opinions contained in this section are the responsibility of Mengniu and Mengniu SubCo. Bellamy's and its officers and advisers do not assume any responsibility for the accuracy or completeness of this information.

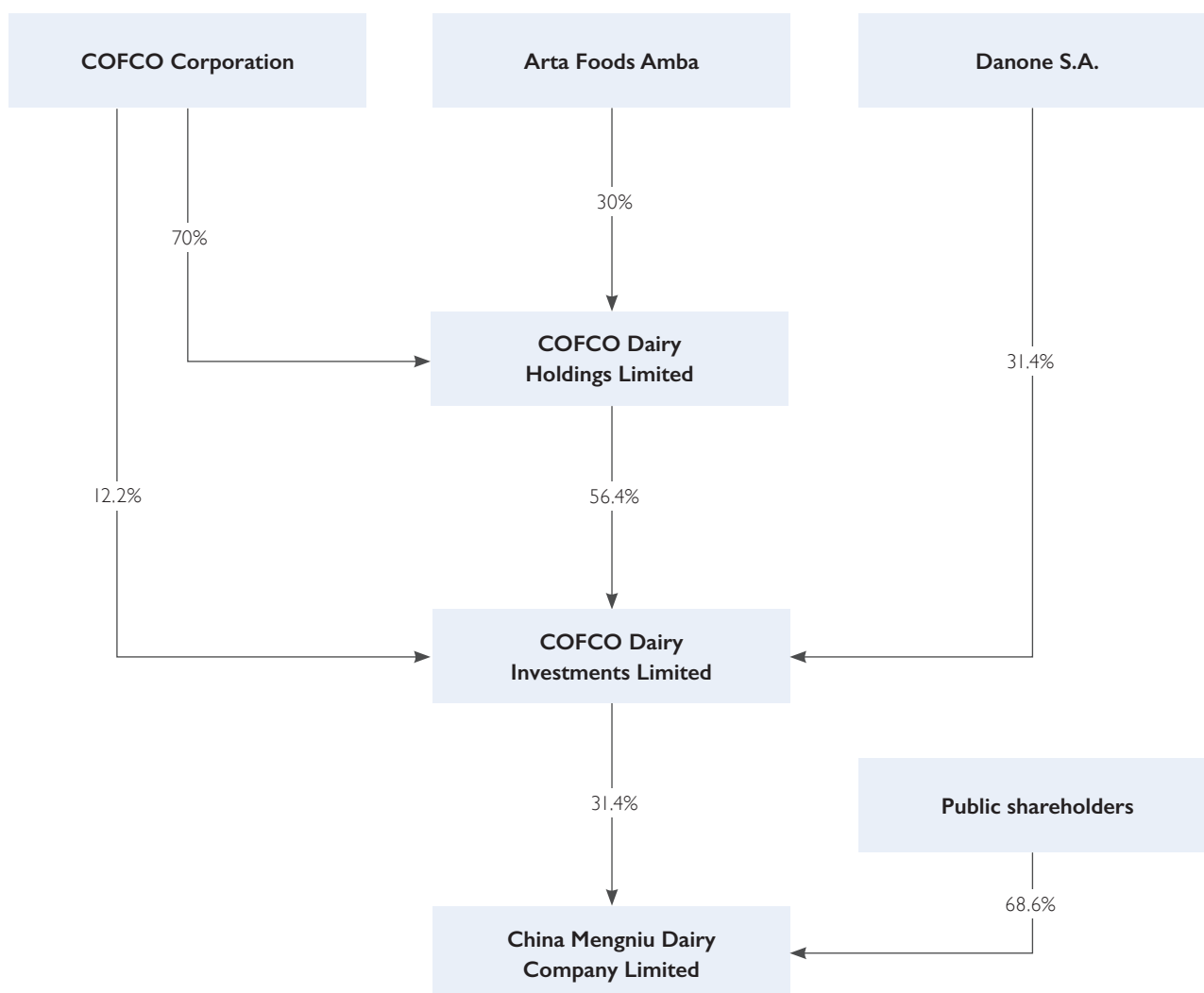
5.1 Overview of Mengniu

(a) Corporate overview, principal activities and operations

Mengniu is one of the leading dairy product manufacturers in China. Mengniu and its subsidiaries manufacture and distribute dairy products in China, with 'Mengniu' as its core brand. Mengniu's diversified product range includes liquid milk, ice cream, milk powder, cheese and other products.

Mengniu has been listed on the Hong Kong Stock Exchange since June 2004 (Stock Code: 2319). As at 23 October 2019, Mengniu's market capitalisation was approximately \$22 billion and with 68.6% of its equity owned by public investors. The remaining 31.4% is held by entities whose ultimate shareholders are COFCO Corporation, a state-owned enterprise in the People's Republic of China, Danone S.A., a French multinational food product corporation and Arla Foods amba, an international cooperative based in Denmark. COFCO Corporation, Danone S.A. and Arla Foods amba have approximately 16.2%, 9.9% and 5.3% indirect effective interests in Mengniu, respectively, which they each hold through their various subsidiary and joint venture entities.

Simplified Corporate Structure as at 9 October 2019



Principal activities

Mengniu operates under the following business units:

- *Liquid milk products segment* – engaged in manufacturing and distribution of ultra-high temperature milk, milk beverages, yogurt and fresh milk;
- *Ice cream products segment* – engaged in manufacturing and distribution of ice cream;
- *Milk powder products segment* – engaged in manufacturing and distribution of milk powder; and
- *Other segment* – principally engaged in cheese and trading businesses.

Operations

As at 30 June 2019, Mengniu and its subsidiaries had 43 production bases in China, 1 in New Zealand and 1 in Indonesia, with a total production capacity of 10.27 million tonnes. Mengniu also distributes its dairy products to Hong Kong, Singapore, Macau, Myanmar and Indonesia through its overseas sales network. It employs a total of over 44,000 employees in China, Hong Kong, Oceania and Southeast Asia.

Mengniu sources its raw milk from standardised ranches and scaled farms. Mengniu has a long-term raw milk procurement arrangement with China Modern Dairy Holdings Limited, the largest raw milk producer in China, to secure a stable supply of high quality raw milk for Mengniu's customers.

Mengniu has an established distribution network throughout China, covering all provinces, municipalities and autonomous regions in China. Mengniu has developed exclusive relationships with the majority of its distributors. In addition, Mengniu conducts online sales through contracted online sales channels, including all major e-commerce platforms in China such as Tmall, JD, Suning, Pinduoduo and Womai.com.

For the year ended 31 December 2018, Mengniu reported total revenue of RMB 69.0 billion and net profit attributable to owners of the company of RMB 3.0 billion. As at 30 June 2019, Mengniu's consolidated total assets were approximately RMB 73.8 billion and its consolidated net assets were approximately RMB 31.7 billion.

A substantial amount of information about Mengniu and filings made by it with the Stock Exchange of Hong Kong is available in electronic form on its website at <http://m.mengniu.com/en/>.

(b) Directors of Mengniu

The directors of Mengniu as at the date of this Scheme Booklet are:

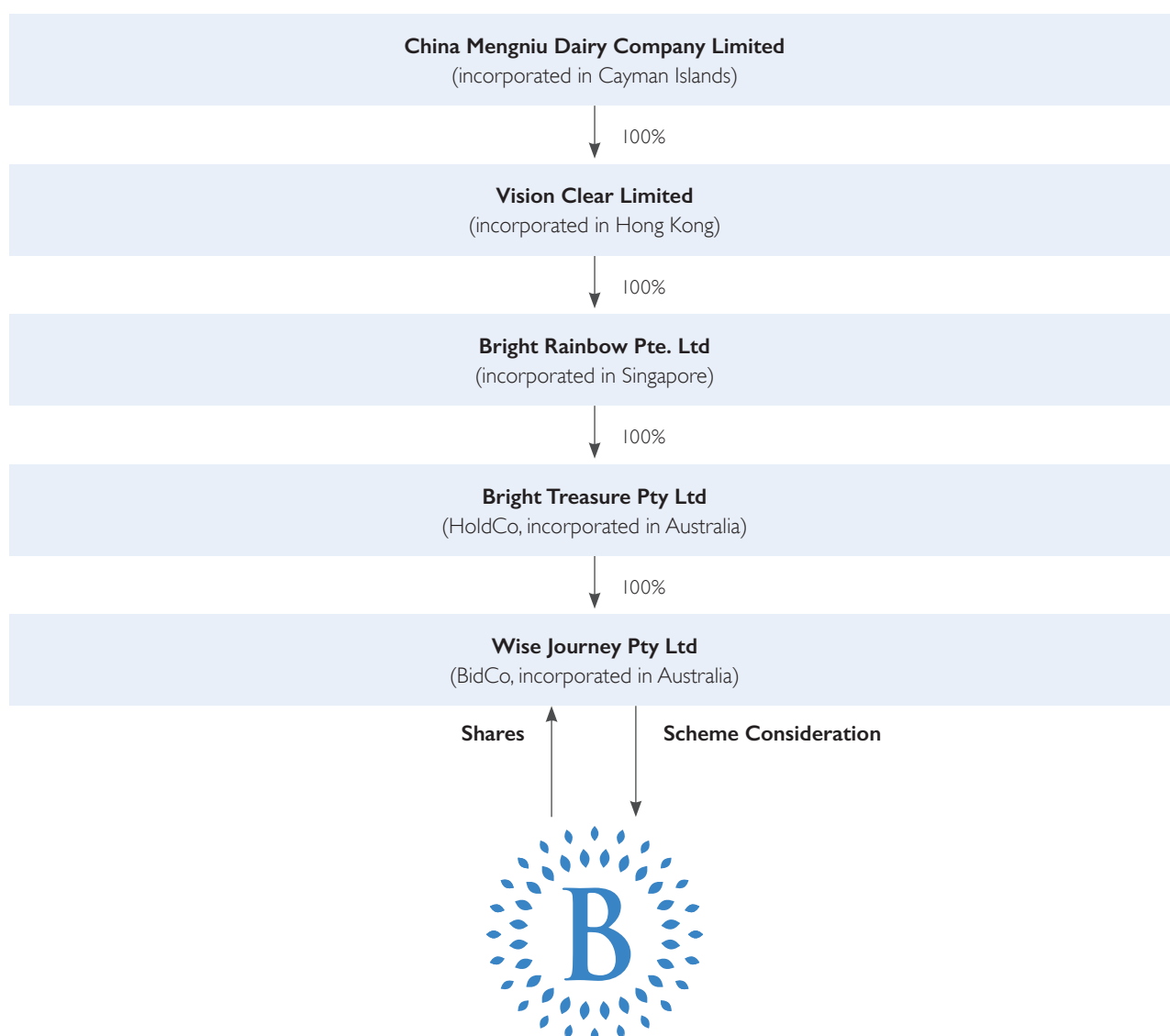
- Mr Jeffrey, Minfang Lu – Chief Executive Officer and Executive Director
- Mr Meng Fanjie – Executive Director
- Mr Chen Lang – Chairman and Non-Executive Director
- Mr Niu Gensheng – Non-Executive Director
- Mr Tim Ørting Jørgensen – Non-Executive Director
- Mr Pascal De Petrini – Non-Executive Director
- Mr Jiao Shuge (alias Jiao Zhen) – Independent Non-Executive Director
- Mr Julian Juul Wolhardt – Independent Non-Executive Director
- Mr Zhang Xiaoya – Independent Non-Executive Director
- Mr Yau Ka Chi – Independent Non-Executive Director

5 INFORMATION ABOUT MENGNIU CONT

5.2 Overview of Mengniu SubCo

(a) Corporate overview, principal activities and operations

Mengniu SubCo is a recently incorporated Australian private company and is an indirectly wholly-owned subsidiary of Mengniu. Mengniu SubCo has been incorporated for the sole purpose of acquiring all of the Scheme Shares if the Scheme becomes Effective and is implemented. Mengniu SubCo was incorporated on 10 October 2019 and is a wholly-owned subsidiary of Bright Treasure Pty Ltd (ACN 636 561 432), which in turn is an indirectly wholly-owned subsidiary of Mengniu. Refer to the corporate structure below.



(b) Directors of Mengniu SubCo

The directors of Mengniu SubCo as at the date of this Scheme Booklet are Xue Peng and Graham Mulligan.

5.3 Rationale for the proposed acquisition of Bellamy's

The proposed acquisition of Bellamy's by Mengniu SubCo is in line with Mengniu's strategies of growing its Infant Milk Formula (*IMF*) segment, and expanding into overseas markets with a near-term focus on Southeast Asia and Australia.

The organic IMF and baby food market represents a highly attractive growth and margin expansion opportunity for Mengniu. Bellamy's is an established and leading brand in Australia in the organic IMF and baby food segment and Mengniu believes it is well positioned to unlock Bellamy's brand potential in Australia as well as in overseas markets including China and Southeast Asia.

Bellamy's positioning, product and channel mix are highly complementary to Mengniu's existing IMF operations. Mengniu anticipates that the Transaction will enable it to expand Bellamy's product range and customer base in both China and overseas markets. In addition, Mengniu expects to be able to offer Bellamy's products in international markets by leveraging its experience, resources and strong network of distribution channels.

5.4 The intentions of Mengniu

(a) Overview

This section 5.4 sets out the present intentions of Mengniu in relation to the following:

- the continuation of the business of Bellamy's;
- any major changes to be made to the business of Bellamy's, including any redeployment of fixed assets of Bellamy's; and
- the future employment of Bellamy's present employees.

These intentions have been formed on the basis of facts and information concerning Bellamy's and the general business environment which are known to Mengniu at the time of preparing this Scheme Booklet. Final decisions about any major changes to the future commercial operating plan and management organisation for Bellamy's will only be made by Mengniu in light of all material facts and circumstances at the relevant time. Accordingly, statements set out in this section 5.4 are statements of current intention only and may change as new information becomes available or circumstances change.

(b) Intentions upon the Scheme being approved

If the Scheme becomes Effective, the current intentions of Mengniu are as set out below.

(i) Business continuity and general operational matters

If the Scheme becomes Effective, Mengniu intends to conduct a broad-based general review of the corporate structure, business, assets and operations of Bellamy's. This review will focus on ensuring that Bellamy's business and assets operate efficiently and competitively, and to identify potential business opportunities generated by the acquisition, areas of cost saving and businesses which may provide overall strategic and operational benefits.

Mengniu values the strength of Bellamy's brand and its established success in Australia and is committed to preserving Bellamy's position as a leading Australian organic IMF and baby food brand. While the process of integrating the two businesses may result in some changes to business operations, Mengniu intends to continue the business of Bellamy's in substantially the same manner as it is presently being conducted. Subject to the actual future demands of Bellamy's products, Mengniu intends to invest in Bellamy's business, including the Camperdown Manufacturing Facility, to ensure the required capacity will be in place to achieve Bellamy's future sales growth ambitions in both Australian and international markets.

Mengniu also intends to continue sourcing Australian local organic ingredients from local Australian farmers and manufacturers, directly or indirectly, for Bellamy's IMF and food products in order to preserve its Australian heritage.

(ii) Corporate Structure

If the Scheme becomes Effective, Mengniu SubCo will become the holder of all Bellamy's Shares (other than Excluded Shares) and Mengniu SubCo will be the direct holding company of Bellamy's. Mengniu presently intends on transferring (and procuring that Vision Clear Limited transfers) the Excluded Shares to Mengniu SubCo following implementation of the Scheme. As part of business as usual planning following implementation of the Scheme, Mengniu may convert Bellamy's to a proprietary company and may reorganise the way that Mengniu's subsidiaries are held within the broader Mengniu corporate structure.

5 INFORMATION ABOUT MENGNIU CONT

(iii) Board of Directors

Mengniu intends to replace the members of the Bellamy's Board and Bellamy's subsidiaries with its own nominees. The replacement directors have not yet been identified.

(iv) Management and employees

Mengniu recognises that Bellamy's management personnel and other employees have been an integral part of the success of the Bellamy's business and are important to driving future growth of the business. Mengniu does not intend to make any material changes to Bellamy's management team and employees. However, final decisions on Bellamy's current employment arrangements and organisational structure (including any changes to the employment of the present employees of Bellamy's) will, if necessary, only be made by Mengniu following completion of the post-acquisition review process described in section 5.4(b)(i) and will be based on all material facts and circumstances at the relevant time.

(v) Bellamy's to be delisted

If the Scheme is implemented, Mengniu will procure that Bellamy's applies to the ASX to be removed from the official list of the ASX after implementation of the Scheme.

5.5 Funding arrangements for the Scheme Consideration

(a) Cash consideration

The Scheme Consideration is \$12.65 in cash per Scheme Share.

If the Scheme is implemented, Scheme Shareholders will be entitled to receive the Scheme Consideration per Scheme Share held on the Scheme Record Date.

Based on the number of Bellamy's Shares and Options currently outstanding, the maximum aggregate amount of cash payable by Mengniu to holders of Scheme Shares (including Scheme Shares to be issued as a result of the vesting and exercise of the Options currently on issue) will be approximately \$1.46 billion.

Mengniu and Mengniu SubCo have executed a Deed Poll dated 22 October 2019 in favour of the Scheme Shareholders. Pursuant to the Deed Poll, Mengniu and Mengniu SubCo have covenanted in favour of Scheme Shareholders that, subject to the Scheme becoming Effective, they will observe and perform the obligations of them under the Scheme. This includes the obligation to deposit (or procure the deposit) into an Australian dollar denominated trust account held with an Australian bank and operated by Bellamy's as trustee for the Scheme Shareholders, by no later than one Business Day before the Implementation Date, an amount at least equal to the aggregate amount of the Scheme Consideration.

(b) Overview of funding arrangements

Mengniu intends to fund the Scheme Consideration entirely using proceeds from borrowings from a committed credit facility.

Mengniu and Mengniu SubCo have entered into a binding commitment letter with HSBC for the provision of a term loan facility in an aggregate principal amount of up to US\$1.0 billion (equivalent to approximately AUD1.46 billion based on the exchange rate applying on 23 October 2019) to be provided by a group of lenders arranged by HSBC (**Term Loan Bridge Facility**).

The borrower under the Term Loan Bridge Facility will be Mengniu, and the proceeds will be made available for the purposes of, amongst other things, financing the Scheme Consideration and fees, costs and expenses incurred directly in connection with the Transaction and the provision of the Term Loan Bridge Facility.

The availability of the Term Loan Bridge Facility is subject to customary conditions precedent to drawdown, such as:

- there being no:
 - breach of certain customary 'major representations';
 - breach of certain customary 'major undertakings'; or
 - 'major default' (limited to customary specified events, including non-payment, breach of certain customary 'major undertakings' and insolvency),
- in respect of Mengniu on the date the Term Loan Bridge Facility is requested or drawn;

- it not being unlawful for any Term Loan Bridge Facility lender to perform its obligations in respect of the Term Loan Bridge Facility;
- no change of control occurring which results in Mengniu not having legal and beneficial ownership of 100% of the equity interests in Mengniu SubCo free and clear of any security interest or Mengniu not exercising, or being entitled to exercise, management control over Mengniu SubCo, or; on or after the date on which Mengniu SubCo acquires 50.1% or more of the voting rights in Bellamy's, no change of control event which results in Mengniu SubCo not having direct or indirect beneficial ownership of at least 50.1% of the equity interests in Bellamy's free and clear of any security interest;
- satisfaction of certain initial customary conditions precedent, including:
 - the provision of constitutional documents, and board minutes (or equivalent documentation) of each of Mengniu and Mengniu SubCo approving the transactions contemplated by the facility agreement and related financing documents;
 - evidence having been provided to the Term Loan Bridge Facility lenders that Mengniu and Mengniu SubCo (taking into account funds to be disbursed to Mengniu under the Term Loan Bridge Facility) have sufficient debt and/or equity funds to pay the Scheme Consideration and complete the Transaction in accordance with the Scheme Implementation Deed and Deed Poll;
 - the provision of copies of the orders of the Court approving implementation of the Scheme; and
- the Scheme Implementation Deed has not been terminated.

It is not a condition to availability of or drawdown under the Term Loan Bridge Facility that Mengniu cause Bellamy's, post-implementation of the Scheme, to grant security over Bellamy's Group assets to secure Mengniu's obligations under the Term Loan Bridge Facility.

Under the terms of the binding commitment letter, up until the point at which Mengniu enters into a binding facility agreement with HSBC, Mengniu is able to seek financing from other lenders to fund some or all of the Scheme Consideration, select or invite other lenders to participate in the Term Loan Bridge Facility, appoint other persons as the mandated lead arranger, determine the allocation of commitments to participating lenders in the Term Loan Bridge Facility and propose changes to the pricing, terms and/or structure of the Term Loan Bridge Facility. If Mengniu does secure alternative financing arrangements, it will ensure that it obtains at least the same level of funding and availability of funding on no less favourable terms as provided for in the Term Loan Bridge Facility.

Mengniu has sufficient cash reserves deposited at call with Standard Chartered Bank (Hong Kong) Limited which are freely available to Mengniu to cover any adverse movements in exchange rates, which Mengniu reasonably believes could occur between the date of this Scheme Booklet and the Implementation Date, which would reduce the Australian dollar value of the Term Loan Bridge Facility.

On the basis of the arrangements described above, Mengniu is of the opinion that it has a reasonable basis for forming the view that it will be able to satisfy its payment obligations under the Scheme, as well as the costs associated with the Scheme.

5.6 Other information

(a) Mengniu's interests in Bellamy's Shares

As at the date of this Scheme Booklet, Mengniu, together with its wholly-owned subsidiary, Vision Clear Limited, holds 3,248,482 Bellamy's Shares, which represents approximately 2.9% of the total number of Bellamy's Shares on issue⁴³.

(b) No dealings in Bellamy's Shares in previous four months

The Bellamy's Shares referred to in section 5.6(a) were acquired in the ordinary course of trading on the ASX between 11 June 2019 and 12 July 2019 for prices ranging between approximately \$7.66 and \$8.73 per Bellamy's Share. Other than in respect of the acquisition of those 3,248,482 Bellamy's Shares (representing approximately 2.9% of the total number of Bellamy's Shares on issue), none of Mengniu, any of its Related Bodies Corporate nor any of their respective Associates has provided or agreed to provide any additional consideration for any Bellamy's Shares under any transaction during the period of four months before the date of this Scheme Booklet.

⁴³ Mengniu holds 1,734,104 Bellamy's Shares and Vision Clear Limited holds 1,514,378 Bellamy's Shares.

5 INFORMATION ABOUT MENGNIU CONT

(c) **Pre-Scheme benefits**

During the four months before the date of this Scheme Booklet, none of Mengniu, Mengniu SubCo nor any of their Associates has given or offered to give or agreed to give a benefit to another person where the benefit was likely to induce the other person or an Associate to:

- (i) vote in favour of the Scheme; or
- (ii) dispose of Bellamy's Shares,

where the benefit was not offered to all Bellamy's Shareholders.

(d) **Benefits to current Bellamy's officers**

None of Mengniu, Mengniu SubCo nor any of their Associates will be making any payment or giving any benefit to any current officers of Bellamy's or any of its Subsidiaries as compensation or consideration for, or otherwise in connection with, their resignation from their respective offices if the Scheme becomes Effective.

(e) **No other information**

Except as set out in this Scheme Booklet, there is no other information regarding Mengniu, or its intentions regarding Bellamy's, that is material to the making of a decision by a Bellamy's Shareholder in relation to the Scheme, being information that is within the knowledge of Mengniu as at the Scheme Record Date, which has not been previously disclosed to Bellamy's Shareholders.

6 RISKS

6.1 Introduction

The Bellamy's Board considers that it is appropriate for Bellamy's Shareholders, in considering the Scheme, to be aware that there are a number of general risk factors as well as risks specific to Bellamy's and/or the industries in which it operates, which could materially adversely affect the future operating and financial performance of Bellamy's, as well as the value of Bellamy's and the potential for any future dividends.

This section outlines:

- general investment risks (refer to section 6.2); and
- specific risks associated with your current investment in Bellamy's (refer to section 6.4).

This section 6 is a summary only. There may be additional risks and uncertainties not currently known to Bellamy's which may also have a material adverse effect on Bellamy's financial and operational performance now or in the future.

If the Scheme becomes Effective, it is intended that Bellamy's Shareholders (other than Excluded Shareholders⁴⁴) will receive the Total Cash Amount, cease to be a Bellamy's Shareholder and also no longer be exposed to some of the risks set out below (and other risks to which Bellamy's may be exposed). If the Scheme does not proceed, you will continue to hold your Bellamy's Shares and continue to be exposed to risks and opportunities associated with that investment.

In making your decision to vote on the Scheme Resolution, you should read this Scheme Booklet carefully. You should carefully consider the risk factors outlined below and your individual circumstances. This section 6 is general in nature only and does not take into account your individual objectives, financial situation, taxation position or particular needs.

While the Bellamy's Board unanimously recommends that eligible Bellamy's Shareholders vote in favour of the Scheme in the absence of a Superior Proposal⁴⁵, Bellamy's Shareholders are encouraged to make their own independent assessment as to whether to vote in favour of the Scheme.

6.2 General investment risks

Like many listed companies, the market price of Bellamy's Shares and the potential for any future dividends to Bellamy's Shareholders are influenced by a number of factors, including the following:

- changes in investor sentiment and overall performance of the Australian and international stock markets;
- changes in sentiment in credit markets;
- changes in general economic and business conditions, including levels of consumer spending, business demand, inflation, interest rates and exchange rates, access to debt and capital markets;
- changes in government fiscal, monetary, taxation and regulatory policies, including foreign investment policies;
- governmental or political intervention in export and import markets (including sanction controls and import duties) and the disruptions this causes to supply and demand dynamics;
- changes to the rate of company income tax or the tax arrangements between China, Australia and other jurisdictions in which Bellamy's operates;
- natural disasters and catastrophes, whether in global, regional or local scale; and
- changes to accounting standards and reporting standards.

⁴⁴ 'Excluded Shares' means Bellamy's Shares held by any Mengniu Group entity. As at the date of this Scheme Booklet, Mengniu, together with its wholly-owned subsidiary, Vision Clear Limited holds 3,248,482 Bellamy's Shares, which represents approximately 2.9% of the total number of Bellamy's Shares on issue. Those Bellamy's Shares held by Mengniu and Vision Clear Limited will not be acquired under the Scheme, and neither Mengniu nor Vision Clear Limited is able to vote those Bellamy's Shares on the Scheme. Mengniu will however receive the Special Dividend in respect of those Bellamy's Shares if the Scheme becomes Effective, and it continues to hold those shares on the Special Dividend Record Date.

⁴⁵ With respect to the recommendation of John Murphy, Rodd Peters, Wai-Chan Chan and Shirley Liew, Bellamy's Shareholders should have regard to the fact that, if the Scheme becomes Effective, the Options currently held by those four directors will be the subject of accelerated vesting and may, subject to payment of the relevant Option exercise price, result in those directors receiving Bellamy's Shares prior to the Scheme Record Date (as described in section 8.2(d)). If the Scheme is implemented, those shares will be acquired by Mengniu SubCo under the Scheme. The amount to be received by each of those Bellamy's Directors on implementation of the Scheme in respect of their respective Options (being the Total Cash Amount minus the applicable exercise price for their relevant Options) is shown in the table in section 8.6. Given the importance of the Scheme and their role as directors of Bellamy's, John Murphy, Rodd Peters, Wai-Chan Chan and Shirley Liew consider that it is important and appropriate for them to make a recommendation on the Scheme, notwithstanding that vesting of their Options will be accelerated if the Scheme becomes Effective.

6 RISKS CONT

6.3 Risks associated with the Special Dividend

(a) Payment of the Special Dividend

The Bellamy's Board has determined to pay the Special Dividend immediately prior to implementation of the Scheme, conditional on:

- the Scheme being approved and becoming Effective; and
- Bellamy's continued satisfaction of the applicable Corporations Act requirements for payment of the Special Dividend, as at the Special Dividend Payment Date.

Under the Corporations Act, certain requirements must be met in order for a company to pay a dividend (for example, the company must satisfy the balance sheet test in the Corporations Act and must have profits or retained earnings available for payment of the dividend). Bellamy's currently has the funds available within the Bellamy's Group to pay the Special Dividend, and currently comfortably satisfies the applicable Corporations Act requirements for payment of the Special Dividend. However, in order to pay the Special Dividend, Bellamy's will need to continue to satisfy those Corporations Act requirements for payment of the Special Dividend, as at the Special Dividend Payment Date.

Bellamy's has no reason to believe that those Corporations Act requirements for payment of the Special Dividend will not continue to be satisfied as at the Special Dividend Payment Date. If for any reason those requirements cease to be satisfied prior to the Scheme Meeting, Bellamy's would approach the Court for directions in relation to appropriate supplementary disclosure and timing of the Scheme Meeting. If those requirements ceased to be satisfied after the Scheme Meeting and before the Special Dividend Payment Date, Bellamy's would likewise approach the Court for directions in relation to the Scheme, ahead of implementation of the Scheme.

(b) Special Dividend dependent on outcome of Scheme

If the Scheme does not become Effective, Bellamy's Shareholders will not receive the Special Dividend nor any franking credits attached to such dividend.

(c) Ability to receive the benefit of the franking credits attached to the Special Dividend

As noted above, the Bellamy's Board has determined to pay the fully franked Special Dividend, subject to certain conditions. If the Special Dividend is paid, Bellamy's Shareholders who are able to realise the full benefit of the franking credits attached to the Special Dividend will be entitled to a franking credit of \$0.2572 per Bellamy's Share. Whether you will be able to receive the full benefit of the franking credits attached to the Special Dividend will depend on your personal circumstances and whether a favourable class ruling is obtained from the ATO.

There is a risk that the ATO Commissioner may use certain powers in the tax law to deny a Bellamy's Shareholder the benefit of the franking credits attaching to the Special Dividend. Bellamy's has sought a class ruling on behalf of Bellamy's Shareholders in relation to, among other things, whether the ATO Commissioner will exercise his discretion to deny access to the franking credits. However, the final class ruling has not been issued as at the date of this Scheme Booklet and is unlikely to be issued prior to the Special Dividend Payment Date. You should consult your own taxation adviser to determine the tax consequences relevant to your specific circumstances. Refer to section 7.3 of this Scheme Booklet for further information regarding the tax implications in respect of the Special Dividend.

6.4 Risks associated with your current investment in Bellamy's Shares

There are a range of business-specific risks associated with your current investment in Bellamy's Shares, as set out below. You will only continue to be exposed to these risks if the Scheme does not proceed, in which case, in the absence of a Superior Proposal which is ultimately consummated, Bellamy's will continue to operate as a stand-alone entity listed on the ASX.

(a) 'Chinese-label' product regulatory risk

Government policy and regulation may change and restrict or limit the ability to sell existing product into key markets. This risk is most pronounced in China's infant formula market.

A key uncertainty for Bellamy's business concerns Chinese regulation of 'Chinese-label' products sold into China. Currently, the Chinese government requires a manufacturing facility to be registered with the GACC where 'Chinese-label' products manufactured at that facility are sold into China. Bellamy's Camperdown Manufacturing Facility was granted a GACC licence in July 2015 for 4 years⁴⁶.

⁴⁶ Bellamy's does not currently sell any Bellamy's Organic branded 'Chinese-label' products into China under its GACC licence, as the Chinese government also requires registration by China's State Administration for Market Regulation (SAMR). Bellamy's is awaiting this registration.

In January 2019, Bellamy's GACC licence was extended to 31 December 2019 when it is expected to be renewed.

In addition, 'Chinese-label' products sold via retail channels in China require formula registration with China's SAMR⁴⁷. Bellamy's submitted its application for SAMR registration in late December 2017 for its core organic formula range and is awaiting the outcome of the assessment. While the Bellamy's Board remains confident that the SAMR registration will be granted, the outcome of this process is by no means certain and there is no set timing for receipt of the registration, with the assessment subject to potential further delays.

If Bellamy's GACC licence was not renewed, or if Bellamy's application for SAMR registration was not ultimately approved, this may have a material adverse impact on Bellamy's business and future prospects. If registration with SAMR is unsuccessful, the valuation of the Camperdown Manufacturing Facility will be reassessed and potentially written down, and Bellamy's will be unable to resume the sale of its 'Chinese-label' organic infant formula products via retail channels in China⁴⁸.

To mitigate this risk, Bellamy's lodged its SAMR registration application through the Camperdown Manufacturing Facility in December 2017 and will closely manage the renewal process of the Camperdown Manufacturing Facility's GACC licence. In addition, Bellamy's continues to diversify revenues across multiple products, markets and channels.

In addition, Bellamy's has partnered with ViPlus for a co-branding arrangement for ViPlus' existing SAMR registered conventional bovine formula-series. This formula series will be manufactured at the ViPlus facility in Toora, Victoria and will be sold and marketed by Bellamy's and its network of distributors. Bellamy's currently anticipates first sales of these products to be recognised in the second half of FY20. There may also be further changes in government policy and regulation (in China and other jurisdictions) that change and restrict or limit the ability to sell existing products into key markets.

(b) **'Australian-label' product regulatory risk**

A substantial proportion of sales of its 'Australian-label' organic formula is consumed in China by Chinese consumers supplied through either cross border e-commerce (CBEC) platforms or via daigou 'direct mail' channels. Both of these channels are regulated by the Australian and Chinese governments and hence are exposed to any future change in regulations.

To mitigate this risk, Bellamy's continues to educate itself on regulatory changes and routes to market in China, maintains multi-channel routes to market for the sale of its products in China, closely monitors changes to regulation and its compliance with regulatory requirements and continues to diversify revenues across multiple products, markets and channels.

(c) **Import testing**

All food product imported into China is subjected to sample-based quality testing, known as China Inspection and Quarantine (CIQ) tests. These tests are governed by SAMR. Should a product in a shipment fail a CIQ test, Chinese law prevents the entire shipment from entering China, even if the affected product forms only part of the shipment. If the Bellamy's Group's products or third-party products produced at the Camperdown Manufacturing Facility fail a CIQ test, it could have a material adverse impact on the Bellamy's Group's business, financial performance and operations.

To mitigate this risk, Bellamy's maintains rigor around testing its products at several stages including at the ingredient procurement stage, throughout the manufacturing process and at the finished goods stage and tests formula products to China standards at a Chinese part state-owned testing lab in China before CIQ testing.

(d) **Brand damage, product quality issues**

Any actual or perceived contamination, spoilage or other adulteration, product misbranding, failed product testing or tampering may lead to a material erosion of the Bellamy's Group's brand reputation in Australia or China, regardless of its merits.

The Bellamy's Group's failure to detect counterfeiting and imitation of its products and trademarks or a failure to mitigate their impact could result in a materially adverse impact to the Bellamy's Group's sales in China.

Publication of reports of contaminated or tainted dairy products by other non-Chinese manufacturers that supply the Chinese market could negatively impact the Bellamy's Group's business, even if there is no direct connection with Bellamy's products. Regardless of their merit, such reports could also lead to additional scrutiny and testing by regulators which could impact the Bellamy's Group's financial performance and operations.

⁴⁷ These restrictions apply to the sale of relevant products in China post 1 January 2018.

⁴⁸ The sale of Bellamy's 'Chinese-label' organic infant formula products were zero in FY19 due to the pending SAMR registration process. These sales reached 15.4% of total Bellamy's Group revenue in FY17 prior to the commencement of the Chinese regulations requiring SAMR registration post 1 January 2018.

6 RISKS CONT

To mitigate this risk, Bellamy's:

- continues to maintain high quality controls throughout its supply chain;
- partners with certified third-party manufacturers with a proven record of product safety and quality;
- maintains comprehensive product quality audits of suppliers and manufacturers and testing and batch release procedures;
- actively manages and investigates customer complaints;
- continues to adopt the latest techniques to improve product security; and
- continues to proactively manage, monitor and enforce intellectual property breaches.

(e) **Complex distribution channels**

Sales of the Bellamy's Group's 'Australian-label' organic products to persons in Australia who on-sell to Chinese consumers via e-commerce and social media platforms cannot reliably be estimated by the Bellamy's Group but is thought to be substantial. Accordingly, Bellamy's has an 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 Bellamy's Group's products in China, could have a material adverse impact on the Bellamy's Group's financial and operating performance.

To mitigate this risk, Bellamy's continues to ensure that the Bellamy's Group has a deep understanding of end consumers, key channels and routes, to market (where possible), and continues to diversify revenues across multiple products, markets and channels including its food business and direct channels with greater transparency.

(f) **Market concentration and political risk**

China-based consumers play a key role in driving the demand in the infant formula category. As is the case with any international market, there are ongoing market specific risks, such as birth rate decline and competitive environment and behaviour, and also geo-political risks. Government policy and regulation may change and restrict or limit the ability to sell product.

To mitigate this risk, Bellamy's continues to invest in the local market and enter into other appropriate South East Asian markets, most recently Vietnam, as well as to grow its food business.

(g) **Shortfall payments**

Bellamy's has two material manufacturing agreements that guarantee long-term access to high quality production facilities in Australia. The two manufacturing arrangements have minimum annual volume commitments, which run for a number of years. Where the Bellamy's Group is not able to fulfil minimum annual volume commitments, it is required to make production shortfall payments. Some contracts provide rebates for exceeding specified volumes. Bellamy's has also entered ingredient supply contracts with minimum volume commitments.

Beyond FY19, shortfall payments may continue over the term of the contracts and could increase or decrease depending on the level of production.

To mitigate this risk, Bellamy's actively manages manufacturing commitments between its facilities and manages production allocation to achieve a variety of outcomes including minimising shortfall payments.

(h) **Workplace health & safety**

Actual or potential harm to any workers and other persons in the workplace could have a reputational and financial impact on the Bellamy's Group, including increases in insurance premiums, penalties and decrease in staff morale and productivity.

To mitigate this risk, Bellamy's:

- maintains a robust governance and reporting framework, including continuous review of the risk register for identification of new risks/hazards and mitigation strategies;
- focuses on Workplace Health & Safety initiatives and ensure regular stakeholder training;
- continues to upgrade equipment (where appropriate) to improve automation and reduce manual handling exposures; and
- uses qualified external consultants to review practices and implement continuous improvements.

(i) Loss of key people

Loss of key management personnel could have a material impact on the Bellamy's Group's operating and financial performance during the period until suitable replacements are found.

To mitigate this risk, Bellamy's has in place employee retention strategies, including adequate remuneration (including appropriate short and long-term incentive programs), culture, employment policies, and succession planning and that an adequate spread of duties is adopted. In addition, Bellamy's undertakes regular 'gap' analysis to continue to build capability and support future growth.

(j) Litigation, disputes and class actions

As with any company, Bellamy's may be exposed to potential legal claims, litigation and disputes in the future. Any such claims, litigation or disputes may, depending on the circumstances (including the size, nature and outcome of the proceedings), have an adverse financial effect on Bellamy's. Even if such matters are successfully disposed of without direct adverse financial effect, they may have an adverse effect on Bellamy's reputation and divert resources and management attention.

As Bellamy's Shareholders are aware, on 23 February 2017 and 8 March 2017 Slater & Gordon Limited and Maurice Blackburn (respectively) each commenced a representative proceeding (shareholder class action) in the Federal Court of Australia against Bellamy's. The statements of claim include allegations of contraventions of the Corporations Act in relation to continuous disclosure obligations and misleading or deceptive conduct. The proceedings have been set down for trial in the Federal Court in August 2020. Bellamy's will continue to vigorously defend the proceedings. If Bellamy's is unsuccessful in the proceedings in whole or in part, or is required to make any payment to the class action claimants as part of any settlement of the proceedings, this could, subject to any insurance cover which Bellamy's may have in respect of any such payments, have a material adverse financial effect on Bellamy's. As discussed above, even if the proceedings are successfully disposed of without direct adverse financial effect, they may have an adverse effect on Bellamy's reputation and divert resources and management attention.

(k) Inability to pay dividends or make distributions

The payment of future dividends (if any) by Bellamy's will be determined by the Bellamy's Board at its discretion and in accordance with the Corporations Act from time to time and will be dependent on factors including profitability, gearing position, the need to fund working capital and acquisitions in line with strategic objectives and the cash flow of Bellamy's business at the relevant time. Further information specific to the Special Dividend is set out in section 6.3.

(l) Inventory write-downs

Unanticipated costs relating to inventory write-downs caused by future regulatory changes, failure to obtain necessary approvals, market conditions or strategy changes may impact Bellamy's financial performance.

(m) Major suppliers' risk

Bellamy's has a number of major suppliers which supply the raw materials used in Bellamy's products. There are a number of risks in relation to these major suppliers, including risk of the following:

- decline in the availability of key input materials, changes in regulatory approval or consumer acceptance of key raw materials or packaging;
- an inability to procure delivery of key supplies and services within expected timeframes and prices, and to meet Bellamy's growth ambitions;
- significant adverse changes in key supplier relationships or any significant supplier product quality and warranty issues;
- supply chain related risks, such as adverse changes in import and export regulations and tariffs or significant increases in shipping and transportation costs; and
- supply chain related shocks, such as business interruption, failure of a key supplier or significant disruption of shipping and logistics services.

While Bellamy's has engaged with its major suppliers, and believes that sufficient ingredients are available to support Bellamy's future growth ambitions, there is a risk that there are insufficient ingredients available in the future.

(n) Capital Expenditure

The risk of unforeseen capital or other expenditure requirements for Bellamy's may impact its financial performance.

6 RISKS CONT

(o) Financial Markets

Bellamy's may face risks relating to the cost and availability of funding, including movements in interest rates. There can be no assurance that sufficient debt or equity funding, if required, will be available to Bellamy's on favourable terms.

If adequate funds are not available on acceptable terms, Bellamy's may not be able to take advantage of opportunities, respond to competitive pressures or meet its debt finance obligations, including covenants.

(p) Market prices for agricultural commodities

Bellamy's is exposed in various ways to fluctuations in the prices of agricultural commodities, particularly related to the organic dairy industry. The market for organic dairy products can be cyclical and is influenced by various factors, including seasonal conditions, global commodity supply-demand dynamics and economic conditions. While Bellamy's seeks to reduce this exposure through contracts designed to protect Bellamy's from short term fluctuations in the prices of these commodities, changes in the prices of commodities can have a material impact on Bellamy's medium term profitability.

(q) Insurance

Bellamy's carries a range of insurance products for, among other things, workers compensation, public liability, industrial special risks, and directors and officers liability. However, Bellamy's insurance will not cover every potential risk associated with its operations.

The occurrence of a significant adverse event, the risks of which are not, or are not fully, covered by insurance, could have a material adverse effect on Bellamy's financial condition or performance. Dependent on the type of coverage, Bellamy's may have to incur an excess prior to any payment by the insurer or pay for any difference between full replacement cost and insured amount. Bellamy's may also incur increases to its insurance premium applicable to other areas of cover as a result of the event.

Bellamy's may not be able to recover under its insurance if the company or companies providing the insurance (or any reinsurance) are under financial distress or fail.

(r) Competition risk

Bellamy's may face the risk of loss of market share to existing or new entrants to the various markets in which it operates. A failure by Bellamy's to effectively compete may adversely affect its sales revenue and financial performance.

(s) Other operating risks

Other risks that may arise in relation to Bellamy's operations include, but are not limited to:

- working capital management related risks, such as:
 - inventory levels and obsolescence;
 - customer credit terms and debtor balances; and
 - supplier credit availability and creditor balances;
- customer related risks, such as the loss of a major customer or credit risks from customer bankruptcies;
- business continuity and interruption related risks, such as:
 - impacts on Bellamy's operations and locations from natural events, such as earthquakes, floods, fires or droughts;
 - interruptions at Bellamy's workplaces arising from industrial disputes and work stoppages and accidents; and
 - information technology related service outages and failures including cyber-incidents; and
- risks related to compliance with laws and regulations relevant to Bellamy's operations in areas including, but not limited to:
 - occupational health and safety;
 - operating licences and permits;
 - competition and fair trading;
 - tax; and
 - environmental standards.

(t) Unknown risks

Additional risks and uncertainties not currently known to Bellamy's may also have a material adverse effect on Bellamy's financial and operational performance. The information set out in this section 6.3 does not purport to be, nor should it be construed as representing, an exhaustive list of all the risks affecting Bellamy's, its business or an investment in Bellamy's.

7 TAXATION IMPLICATIONS

7.1 General income tax implications of the Scheme

This is a general outline of the Australian tax consequences for Bellamy's Shareholders who receive the Special Dividend immediately prior to implementation of the Scheme and dispose of their Bellamy's Shares under the Scheme⁴⁹. These comments assume that the Scheme will be implemented in accordance with the terms described in the Scheme Implementation Deed.

This general outline is based upon Australian taxation law currently in force as at the date of this Scheme Booklet and does not anticipate changes in the current law either by way of legislative action or Court decision.

This outline is general in nature only, and it is not intended to be an authoritative or complete statement of the tax laws applicable to the particular circumstances of Bellamy's Shareholders. It is therefore recommended that Bellamy's Shareholders obtain their own professional tax advice relevant to their circumstances.

This outline is relevant to Bellamy's Shareholders who are individuals, companies (other than life insurance companies), trusts and complying superannuation funds that hold their Bellamy's Shares on capital account for Australian tax purposes. This description does not apply to all Bellamy's Shareholders, for example it does not apply to Bellamy's Shareholders who:

- (a) hold their Bellamy's Shares on revenue account (such as share trading entities) or as trading stock;
- (b) are temporary residents of Australia for Australian taxation purposes;
- (c) are non-residents of Australia for Australian taxation purposes;
- (d) obtained roll-over relief in connection with the acquisition of the relevant Shares or acquired them via inheritance or gift;
- (e) have been a resident of two or more countries for tax purposes during the period they owned the shares;
- (f) may be subject to special tax rules such as partnerships or tax-exempt organisations;
- (g) acquired their Bellamy's Shares under or in connection with an employee share plan of Bellamy's or holders of Bellamy's Options; or
- (h) are subject to the taxation of financial arrangements rules in Division 230 of the *Income Tax Assessment Act 1997* (Cth) in relation to gains and losses that may arise on disposal of their Bellamy's Shares.

7.2 Dealings in Bellamy's Shares

(a) Class ruling application

Bellamy's has lodged a class ruling application with the ATO on behalf of Bellamy's Shareholders on certain matters discussed in this section, including (but not limited to):

- (i) whether the Special Dividend will be assessable to Australian tax resident Bellamy's Shareholders;
- (ii) whether the Special Dividend will constitute a frankable distribution;
- (iii) whether, and the circumstances in which, Bellamy's Shareholders can claim a franking credit tax offset in respect of the Special Dividend;
- (iv) confirmation of the timing of the capital gains tax (**CGT**) disposal;
- (v) confirmation that the capital proceeds received by Bellamy's Shareholders will not include the Special Dividend paid by Bellamy's; and
- (vi) whether the Commissioner of Taxation (the **Commissioner**) will deny the franking credit benefit received by Bellamy's Shareholders pursuant to the dividend stripping, franking credit streaming or other anti-avoidance provisions.

The Scheme is not conditional on the receipt of the class ruling.

As at the date of this Scheme Booklet, the ATO has not issued the class ruling. The class ruling is not expected to be issued until after the implementation of the Scheme. Bellamy's Shareholders should refer to the class ruling once it is published. The class ruling will be available on the ATO's public ruling database.

It is anticipated that the Commissioner's views to be expressed in the class ruling will be generally consistent with the income tax information in this summary. However, it is possible that the Commissioner may reach different conclusions in the final class ruling. Accordingly, it is important that this summary be read on the understanding that it is possible the Commissioner will issue the final ruling after the Implementation Date for the Scheme, and this may express differing views.

⁴⁹ Assuming the Scheme becomes Effective and Bellamy's continues to satisfy the applicable Corporations Act requirements for payment of a dividend. As at the date of this Scheme Booklet, Bellamy's satisfies the applicable Corporations Act requirements. See section 6.3(a) for further information.

7 TAXATION IMPLICATIONS CONT

(b) **Certain income tax consequences of the Scheme for Scheme Shareholders**

If the Scheme becomes Effective, Scheme Shareholders will dispose of their Bellamy's Shares to Mengniu SubCo in exchange for the Scheme Consideration under the Scheme.

If the Scheme becomes Effective, Bellamy's Shareholders will also receive the fully franked Special Dividend in respect of each Bellamy's Share that they hold at the Special Dividend Record Date, to be paid by Bellamy's immediately prior to implementation of the Scheme⁵⁰.

(c) **Capital Gains Tax event**

Under the proposed Scheme, Bellamy's Shareholders will transfer their Bellamy's Shares to Mengniu SubCo. The transfer of the Bellamy's Shares to Mengniu SubCo will cause a change in ownership of the Bellamy's Shares and will trigger a CGT event A1 for Australian tax purposes.

The CGT event should occur on the date on which the transfer of Bellamy's Shares occurs, that is, the Implementation Date.

(d) **Calculation of capital gain or loss**

Bellamy's Shareholders will make a prima facie capital gain on disposal of the Bellamy's Shares to the extent that the capital proceeds received exceeds the cost base of each Bellamy's Share held. Conversely, a Bellamy's Shareholder will make a capital loss if the capital proceeds are less than the reduced cost base of their Bellamy's Shares.

(e) **Capital proceeds**

The capital proceeds from a CGT event are the total of the monies and any other property a taxpayer receives, or is entitled to receive, in respect of the event happening.

The capital proceeds received by the Bellamy's Shareholders for the disposal of their Bellamy's Shares to Mengniu SubCo under the Scheme should be the Scheme Consideration, being \$12.65 per share.

If paid, the Special Dividend should not form part of the capital proceeds for the disposal of the Bellamy's Shares. Regardless of whether the Special Dividend is paid, consistent with the terms of the Scheme, the Special Dividend will have no bearing on the Scheme Consideration and this will remain \$12.65 per share.

Nevertheless, in the final class ruling the Commissioner may adopt a contrary view in relation to the Special Dividend (if any) and include the Special Dividend in the capital proceeds.

In the event that the Commissioner determines that the Special Dividend forms part of the capital proceeds for the disposal of Bellamy's Shares, Bellamy's Shareholders will need to take this into account in calculating any capital gain or loss made.

To the extent the Special Dividend is otherwise included in their assessable income, the anti-overlap provisions should apply such that any capital gain made by a Bellamy's Shareholder would be reduced by the amount of the Special Dividend received. In the event that the Special Dividend is included in capital proceeds, and a Bellamy's Shareholder made a capital loss, the capital loss would be reduced by the amount of the Special Dividend received.

(f) **Cost base and reduced cost base**

The cost base of Bellamy's Shares will generally include the amount of money paid, or the value of any property given, in order to acquire the Bellamy's Shares, plus certain non-deductible incidental costs of acquisition. The reduced cost base of the Bellamy's Shares is usually determined in a similar, but not identical, manner.

The cost base and reduced cost base of a Bellamy's Shareholder's shares will depend on their own specific circumstances. Bellamy's Shareholders should consult their own independent tax adviser.

⁵⁰ Payment of the Special Dividend is also conditional on Bellamy's continued satisfaction of the applicable Corporations Act requirements for payment of the dividend, as at Special Dividend Payment Date. See section 6.3(a) for further information.

(g) CGT discount

If a Bellamy's Shareholder is an individual, complying superannuation fund or trust and acquired their Bellamy's Shares at least 12-months before the Implementation Date (not counting the day of acquisition or the day of disposal), the amount of the capital gain (after being reduced for current year capital losses and prior year capital losses, if any) is reduced by the applicable CGT discount.

The CGT discount percentage for individuals and trusts is 50% and for complying superannuation entities is 33.33%.

There is no CGT discount available for Bellamy's Shareholders that are taxed as companies or Bellamy's Shareholders who have held their Bellamy's Shares for less than 12-months.

(h) Capital losses

Current year capital losses and prior year capital losses of a Bellamy's Shareholder may be applied against a capital gain arising on the disposal of the Bellamy's Shares (subject to satisfaction of certain loss recoupment rules), however the capital gain cannot be reduced below zero.

In the event that a capital loss arises in the income tax year of disposal, the capital loss cannot be deducted from other assessable income of the Bellamy's Shareholder. However, the capital loss may be carried forward to offset capital gains made by Bellamy's Shareholders in future income years, subject to satisfaction of the loss recoupment tests.

Specific loss recoupment rules apply to companies and trusts to restrict their ability to utilise capital losses in future years in some circumstances. All Scheme Shareholders should obtain their own tax advice in relation to the operation of these rules.

(i) Stamp duty

No stamp duty should be payable in any Australian jurisdiction by Bellamy's Shareholders on the disposal of their Bellamy's Shares.

(j) GST

Bellamy's Shareholders should not be liable for Goods And Services Tax (**GST**) in respect of a disposal of the Bellamy's Shares.

Bellamy's Shareholders may be charged GST on costs incurred in relation to the disposal (e.g. tax, legal or other advisory fees). Certain Bellamy's Shareholders may be entitled to claim input tax credits or reduced input tax credits in relation to GST incurred on these costs. Bellamy's Shareholders should seek their own independent tax advice on the impact of GST in their own particular circumstances.

7.3 Receipt of Special Dividend**(a) Overview**

As noted in the Chairman's Letter, the Bellamy's Board has determined to pay the fully franked Special Dividend, conditional on the Scheme being approved and becoming Effective⁵¹. The Special Dividend will only be paid to Bellamy's Shareholders who are listed on the Bellamy's Share Register on the Special Dividend Record Date and will be paid from profits, retained earnings or existing distributable profits.

The Special Dividend may be franked to the maximum extent possible by Bellamy's, subject to compliance with the benchmark franking rules and the requirement that the franking account of Bellamy's must not be in deficit after the Special Dividend Payment Date. Based on the current franking account balance, Bellamy's has determined to fully frank the Special Dividend.

Bellamy's Shareholders who are able to realise the full benefit of the franking credits attached to the Special Dividend (discussed in further detail in section 7.3(b) below) will be entitled to a franking credit of \$0.2572 per Bellamy's Share. Whether you will be able to receive the full benefit of the franking credits attached to the Special Dividend will depend on your personal circumstances and whether a favourable class ruling is obtained from the ATO.

⁵¹ Payment of the Special Dividend is also conditional on Bellamy's continued satisfaction of the applicable Corporations Act requirements for payment of the dividend, as at Special Dividend Payment Date. See section 6.3(a) for further information.

7 TAXATION IMPLICATIONS CONT

(b) Implications for resident Scheme Shareholders

A Bellamy's Shareholder who is an Australian resident should include the Special Dividend in their assessable income.

The franking credits attached to the Special Dividend should also be included in the assessable income of the Bellamy's Shareholder and a corresponding tax offset equal to the amount of those franking credits will be included to reduce any income tax liability.

Australian resident Bellamy's Shareholders that are individuals or complying superannuation entities may be entitled to a refund of excess franking credits ('gross up and offset') where the tax offset exceeds their tax liability for the income year.

Bellamy's Shareholders that are companies will not be entitled to a refund of any excess tax offset but instead, may convert any excess tax offset to a tax loss for the income year.

In order for the 'gross up and offset' approach to apply, a Bellamy's Shareholder must satisfy the 'qualified person' provisions. To be considered a qualified person, they must hold their Bellamy's Shares at risk for a continuous 45 day period within the qualification period (excluding the dates of acquisition and disposal of their Bellamy's Shares). The qualification period starts the day after the Bellamy's Shares were acquired and ends the day before the Scheme Record Date.

As a practical matter, and applying the indicative timetable, a Bellamy's Shareholder who receives the Special Dividend and holds their Bellamy's Shares at risk for a continuous period of at least 45 days during the period from one day after the shares were acquired by the Bellamy's Shareholder to 16 December 2019 (inclusive) should satisfy the 'holding period rules' and be eligible for the franking credit and tax offset.

Under the 'small shareholder exemption', a Bellamy's Shareholder who is an individual will not be required to satisfy the 'qualified person' rules where the total amount of franking credits attached to dividends received by that individual over the course of an income year is less than or equal to \$5,000 and they do not make a related payment in relation to any of those dividends.

These issues are expected to be addressed in the class ruling requested by Bellamy's (as outlined in section 7.2(a) above). Bellamy's Shareholders should refer to the class ruling once published.

8 ADDITIONAL INFORMATION

8.1 Interests of Bellamy's Directors in Bellamy's Shares

The table below lists the Relevant Interests of Bellamy's Directors in Bellamy's Shares as at the date of this Scheme Booklet.

Bellamy's Director	Position	Relevant Interest in Bellamy's Shares
John Ho	Non-executive Director and Chair	8,752,182 Shares ⁵²
John Murphy	Non-executive Director and Deputy Chair	—
Rodd Peters	Non-executive Director	43,600 Shares
Wai-Chan Chan	Non-executive Director	—
Shirley Liew	Non-executive Director	—

Bellamy's Directors who hold Bellamy's Shares will be entitled to vote at the Scheme Meeting and receive the Total Cash Amount along with the other eligible Bellamy's Shareholders.

Each Bellamy's Director intends to vote (or procure the voting of) all Bellamy's Shares held or controlled by them in favour of the Scheme, in the absence of a Superior Proposal and subject to the Independent Expert continuing to conclude that the Scheme is in the best interests of Bellamy's Shareholders.

8.2 Bellamy's Options

(a) Bellamy's Options on issue

As set out in Bellamy's 2019 Annual Report, options are granted by Bellamy's to Bellamy's Directors and senior executives under incentive plans established in accordance with Bellamy's Long Term Incentive Plan Rules (each an **Option** and together the **Options**). Each Option confers on the relevant holder the entitlement to receive a Bellamy's Share where certain performance, service or other vesting conditions are satisfied (such as Bellamy's relative total shareholder return performance and the market price of Bellamy's Shares). The Options have been the subject of a number of different grants, with each grant having different exercise prices, vesting conditions and vesting periods.

As at the date of this Scheme Booklet, Bellamy's has 5,231,993 Options on issue. All of those Options (with the exception of 38,143 Options) are 'in-the-money' (i.e. the exercise price of the Options is less than the Total Cash Amount to be received in respect of Bellamy's Shares if the Scheme proceeds). The terms of grant of the Options include vesting conditions. As discussed in section 8.2(d), the Bellamy's Board has determined that the vesting conditions will be waived (to the extent not already satisfied) if the Scheme becomes Effective.

(b) Options held by Bellamy's Directors

The table below lists the number of Options held by Bellamy's Directors as at the date of this Scheme Booklet.

Holder	Current Position	Number of Options
John Ho	Non-Executive Director	—
John Murphy	Non-Executive Director	193,373
Rodd Peters	Non-Executive Director	36,257
Wai-Chan Chan	Non-Executive Director	36,257
Shirley Liew	Non-Executive Director	20,878
Total number of Options		286,765

⁵² As previously disclosed to the ASX, John Ho has a Relevant Interest in 8,752,182 Bellamy's Shares representing approximately 7.72% of Bellamy's Shares on issue, which shares are owned by Janchor Partners, by virtue of his interest in Janchor Partners. Janchor Partners has advised Bellamy's that it intends to vote all of the Bellamy's Shares that it holds in favour of the Scheme, in the absence of a Superior Proposal and subject to the Independent Expert continuing to conclude that the Scheme is in the best interests of Bellamy's Shareholders. In addition to that approximate 7.72% shareholding, Janchor Partners has cash-settled equity derivative positions in 4,918,837 Bellamy's Shares representing approximately 4.34% of Bellamy's Shares on issue. Those cash-settled equity derivatives do not give Janchor Partners any right to vote the reference shares which are the subject of those derivatives.

8 ADDITIONAL INFORMATION CONT

(c) Options held by Bellamy's Executive KMP

The table below lists the number of Options held by Executive KMP as at the date of this Scheme Booklet.

Holder	Current Position	Number of Options
Andrew Cohen	Chief Executive Officer	2,327,375
Nigel Underwood	Chief Financial Officer	475,000
Melinda Harrison	General Counsel, Company Secretary & Head of Regulatory Affairs	200,000
Peter Fridell	Director of Operations	440,000
David Jedynak	Director of Sales & Marketing	475,000
Total number of Options		3,917,375

(d) Intended treatment of Options in connection with the Scheme

As noted above, as at the date of this Scheme Booklet, Bellamy's has 5,231,993 Options on issue.

Under the Scheme Implementation Deed, Bellamy's is required to ensure that, by no later than the Scheme Record Date, there are no outstanding Options on issue. This was a requirement of Mengniu, in order for Mengniu to ensure that it will own, on implementation of the Scheme, all of the Bellamy's Shares on a fully diluted basis.

Under the terms of Bellamy's Long Term Incentive Plan rules, the Bellamy's Board has determined that, if the Scheme becomes Effective, all of the Options⁵³ which remain outstanding at that time will vest (ie. any vesting conditions which remain to be satisfied on those Options will be waived), so that the Options will become immediately exercisable by the holders of those Options. If any holder of Options exercises those Options prior to the second Business Day after the date the Scheme becomes Effective, and pays the exercise price per Option, the holder will be issued Bellamy's Shares prior to the Scheme Record Date and will, assuming they still hold those Bellamy's Shares on the Scheme Record Date, receive the Total Cash Amount in respect of those Bellamy's Shares on implementation of the Scheme⁵⁴. Any Options not validly exercised by the second Business Day after the date the Scheme becomes Effective will lapse.

Detail regarding the exercise price to be paid by Bellamy's Directors in respect of their Options is set out in the table in section 8.6.

8.3 Marketable securities in Mengniu or Mengniu SubCo held by, or on behalf of, Bellamy's Directors

No marketable securities of Mengniu or Mengniu SubCo are held by, or on behalf of, Bellamy's Directors as at the date of this Scheme Booklet.

8.4 Interests of Bellamy's Directors in contracts of Mengniu or Mengniu SubCo

No Bellamy's Director has an interest in any contract entered into by Mengniu or Mengniu SubCo.

8.5 Other interests of Bellamy's Directors

Other than as noted in this section 8, no Bellamy's Director has any other interest, whether as a director, member or creditor of Mengniu or Mengniu SubCo or otherwise, which is material to the Scheme, other than in their capacity as a holder of:

- Bellamy's Shares, being their entitlement to receive the Total Cash Amount for the Bellamy's Shares they hold; or
- Options, being their entitlement to receive the Total Cash Amount minus the exercise price for the Options they hold. Further information regarding the proposed treatment of Options is set out in sections 8.2(d) and 8.6.

⁵³ Other than 100,000 Options held by an employee who has recently joined Bellamy's. Vesting of those 100,000 Options will not be accelerated unless the Effective Date is delayed until after 2 January 2020.

⁵⁴ Under the Bellamy's Long Term Incentive Plan rules, an Option holder may also elect 'cashless exercise', so that instead of paying the exercise price of their Options, the total number of Bellamy's Shares which the Option holder would otherwise receive on exercise will be reduced by that number of Bellamy's Shares which is equal to the aggregate exercise price on their Options divided by \$13.25.

8.6 Agreements or arrangements with Bellamy's Directors

As noted in section 8.2(b), John Murphy, Rodd Peters, Wai-Chan Chan and Shirley Liew (each a Bellamy's Director) hold Options that will be subject to the regime described in 8.2(d). The following table provides information regarding:

- the date of grant of the relevant Options, together with the last vesting date of the relevant Options and the share price target for 100% vesting⁵⁵ (which vesting date and price target would have applied but for the acceleration of vesting of all outstanding Options upon the Scheme becoming Effective, as described in section 8.2 above);
- the exercise price per Option and total exercise price that will be payable on exercise of the relevant Options; and
- the total amount to be received by each of those Bellamy's Directors on implementation of the Scheme (based on the number of Bellamy's Shares they will be issued upon exercise of their respective Options).

Bellamy's Director	Options on issue (granted 26/10/17)	Options on issue (granted 24/10/18)	Last vesting date	Share price target for 100% vesting	Exercise price per Option	Total exercise price ⁵⁶	Total amount to be received ⁵⁷
John Murphy	193,373	–	28/2/21	\$11.29	\$5.643	\$1,091,204	\$1,470,988
Rodd Peters	36,257	–	28/2/21	\$11.29	\$5.643	\$204,598	\$275,807
Wai-Chan Chan	36,257	–	28/2/21	\$11.29	\$5.643	\$204,598	\$275,807
Shirley Liew	–	20,878	10/9/21	\$22.38	\$11.19	\$233,624	\$43,009

Other than as set out above, there is no agreement or arrangement made between any Bellamy's Director and any other person, including a member of the Mengniu Group, in connection with or conditional upon the outcome of the Scheme.

8.7 Payments and other benefits to directors, secretaries or executive officers of Bellamy's

No payment or other benefit is proposed to be made or given to a director, secretary or executive officer of Bellamy's or any member of the Bellamy's Group as compensation for loss of, or as consideration for or in connection with their retirement from, office in Bellamy's or any member of Bellamy's Group as a result of the Scheme.

8.8 Suspension of trading of Bellamy's Shares

If the Court approves the Scheme, Bellamy's will notify the ASX. It is expected that suspension of trading on the ASX in Bellamy's Shares will occur from close of trading on the Effective Date. This is expected to occur on Tuesday 10 December 2019.

8.9 Deed Poll

Mengniu and Mengniu SubCo have executed the Deed Poll pursuant to which they have undertaken in favour of each Scheme Shareholder to procure that each Scheme Shareholder is provided the Scheme Consideration to which they are entitled under the Scheme, in accordance with the terms of the Scheme and subject to the Scheme becoming Effective.

A copy of the Deed Poll is contained in Annexure C.

8.10 Warranties by Scheme Shareholders

The Scheme provides that each Scheme Shareholder is taken to have warranted to Mengniu, and to the extent enforceable, to have appointed and authorised Bellamy's as that Scheme Shareholder's agent and attorney to warrant to Mengniu, that all of their Scheme Shares which are transferred under the Scheme will, at the date of transfer be fully paid and free from all mortgages, charges, liens, encumbrances, pledges, security interests and interests of third parties of any kind, and that they have full power and capacity to sell and transfer their Scheme Shares (together with all rights and entitlements attaching to such shares) to Mengniu SubCo pursuant to the Scheme. Bellamy's undertakes in favour of each Scheme Shareholder that it will provide such warranty, to the extent enforceable, to Mengniu SubCo on behalf of that Scheme Shareholder.

⁵⁵ But for the Scheme, Vesting occurs as to 50% of the Options upon reaching 50% of the share price target, and increases linearly to 100% of the Options as the share price target approaches 100%.

⁵⁶ The amounts in this column are calculated by reference to the Bellamy's Director's applicable exercise price multiplied by the number of Options held by that director.

⁵⁷ The amounts in this column are calculated by reference to the Total Cash Amount of \$13.25 multiplied by the number of Options held by that director, minus the total exercise price to be paid by that director. The calculations assume that each Option is exercised prior to the Scheme Record Date and the Special Dividend Record Date.

8 ADDITIONAL INFORMATION CONT

8.11 Summary of Scheme Implementation Deed

On 15 September 2019, Bellamy's and Mengniu entered into a binding Scheme Implementation Deed under which Bellamy's agreed to propose and implement the Scheme and Mengniu agreed to assist, and to procure Mengniu SubCo to assist, Bellamy's to propose and implement the Scheme.

A summary of the key elements of the Scheme Implementation Deed is set out below. A full copy of the Scheme Implementation Deed was lodged with the ASX on 16 September 2019 and can be obtained from www.asx.com.au or from Bellamy's Website.

(a) Conditions

Implementation of the Scheme is subject to satisfaction or waiver (where capable of waiver) of the following conditions:

- (i) **FIRB Approval:** before 8.00am of the Second Court Date, either:
 - (A) Mengniu has received written notice under the FATA, by or on behalf of the Treasurer of the Commonwealth of Australia (**Treasurer**), advising that the Commonwealth Government has no objections to the Transaction either:
 - (1) unconditionally; or
 - (2) subject only to certain tax-related conditions which are in the form, or substantially in the form, of those set out in Attachment B of FIRB Guidance Note 47 on 'Tax Conditions' (in the form released on 13 August 2018) and any other proposed conditions notified by FIRB to Mengniu prior to the date of the Scheme Implementation Deed, and any other conditions that are acceptable to Mengniu (acting reasonably); or
 - (B) becomes precluded by passage of time from making any order or decision under Division 2 of Part 3 of the FATA in respect of the Transaction;
- (ii) **Shareholder Approval:** Bellamy's Shareholders (other than any Excluded Shareholders)⁵⁸ approve the Scheme;
- (iii) **Court Approval:** the Court approves the Scheme;
- (iv) **No Restraints:** no applicable law shall have been enacted and no Order shall be in effect as at 8.00am on the Second Court Date (or the intended date for the Second Court Date, but for such Order) that prevents, makes illegal or prohibits the implementation of the Scheme;
- (v) **No Bellamy's Material Adverse Change:** no Bellamy's Material Adverse Change occurs between the date of the Scheme Implementation Deed and 8.00am on the Second Court Date; and
- (vi) **No Bellamy's Prescribed Occurrence:** no Bellamy's Prescribed Occurrence occurs between the date of the Scheme Implementation Deed and 8.00am on the Second Court Date.

(b) Reasonable steps to implement the Scheme

Bellamy's must take all steps reasonably necessary to propose and implement, and Mengniu must take all steps reasonably necessary to assist Bellamy's to propose and implement, the Scheme as soon as is reasonably practicable and must use reasonable endeavours to ensure that each step in the indicative timetable in the Scheme Implementation Deed is met by the date set out beside that step.

(c) Obligation to recommend the Scheme

In the absence of a Superior Proposal and subject to the Independent Expert opining at all times prior to the Second Court Date that the Scheme is in the best interests of Bellamy's Shareholders, the Bellamy's Board must unanimously recommend that Bellamy's Shareholders (other than Excluded Shareholders) vote in favour of the Scheme at the Scheme Meeting.

No Bellamy's Director may change, withdraw or modify his or her recommendation or make a statement that is inconsistent with this recommendation (in the absence of a Superior Proposal, and subject to the Independent Expert continuing to conclude that the Scheme is in the best interests of Bellamy's Shareholders).

⁵⁸ Bellamy's Shares the subject of the Scheme does not include 3,248,482 Bellamy's Shares held by Mengniu, together with its wholly-owned subsidiary, Vision Clear Limited, as these are Excluded Shares held by an Excluded Shareholder under the Scheme.

(d) **Exclusivity**

The Scheme Implementation Deed contains certain exclusivity arrangements in favour of Mengniu. These obligations may be summarised as follows:

- (i) **Cease Discussions:** Bellamy's represents and warrants that neither it nor any representative of Bellamy's is in negotiations or discussions in respect of a Competing Proposal with any person.
- (ii) **No Shop:** Bellamy's must not, and must ensure that none of its representatives solicit, invite, encourage or initiate any enquiries, expressions of interests, offers, proposals, negotiations or discussion with any Third Party in relation to a Competing Proposal (or which would reasonably be expected to lead to a Competing Proposal).
- (iii) **No Talk:** Bellamy's must not, and must ensure that none of its representatives participate in negotiations or discussions, or enter into any agreement or understanding with any Third Party in relation to a Competing Proposal (or which would reasonably be expected to lead to a Competing Proposal).
- (iv) **No due diligence:** Bellamy's must not, and must ensure that none of its Representatives, permit any third party to undertake due diligence investigations on, or disclose or otherwise provide any non-public information about the business or operations of, any member of the Bellamy's Group in connection with the formation of a Competing Proposal.
- (v) **Notification:** If Bellamy's receives in writing a Competing Proposal, Bellamy's must promptly notify Mengniu (which must include the material terms of the Competing Proposal and the identity of the Third Party making the Competing Proposal).
- (vi) **Matching right:** Before any member of the Bellamy's Group enters into a legally binding agreement to give effect to a Competing Proposal and any Bellamy's Director changes their recommendation in favour of the Scheme to support an actual or proposed Competing Proposal, the following conditions must be satisfied:
 - (A) the Bellamy's Board must determine the Competing Proposal would be or would likely be a proposed or potential Superior Proposal;
 - (B) Bellamy's must provide Mengniu with the terms and conditions of the Competing Proposal;
 - (C) Mengniu has 5 Business Days from the date Bellamy's provides the terms and conditions of the Competing Proposal to provide a proposal to amend the terms of the Transaction (a **Counter Proposal**); and
 - (D) Mengniu does not announce or provide a Counter Proposal within 5 Business Days, or provides a Counter Proposal which the Bellamy's Board finds does not provide an equivalent or superior outcome for Bellamy's Shareholders compared to the Competing Proposal.

If Mengniu submits a Counter Proposal and the Bellamy's Board, acting in good faith, determines the Counter Proposal provides equivalent or superior outcome for Bellamy's Shareholders, then Bellamy's and Mengniu must use their best endeavours to amend the Scheme to reflect the Counter Proposal. Once agreed, Bellamy's must ensure that the Bellamy's Board unanimously recommends the Counter Proposal to Bellamy's Shareholders and does not recommend the applicable Competing Proposal.

However, Bellamy's is not required to comply with its obligations under the 'No Shop' and 'No Talk' provisions in the Scheme Implementation Deed if the Bellamy's Board determines that complying with those provisions would be likely to constitute a breach of the fiduciary or statutory duties owed by the Bellamy's Directors.

(e) **Break Fee**

- (i) Bellamy's has agreed to pay Mengniu a break fee of \$14,300,000 if:
 - (A) **Change in recommendation:** any Bellamy's Director makes a public statement:
 - (1) withdrawing or adversely changing their recommendation that Bellamy's Shareholders (other than any Excluded Shareholder) vote in favour of the Scheme at the Scheme Meeting;
 - (2) that they will not vote (or procure the voting of) all Bellamy's Shares held or controlled by him or her in favour of the Scheme at the Scheme Meeting; or
 - (3) supporting or endorsing a Competing Proposal;
 other than where the Independent Expert concludes that the Scheme is not in the best interests of Bellamy's Shareholders (except where that conclusion is a result of a Completing Proposal).

8 ADDITIONAL INFORMATION CONT

- (B) **Competing proposal announced and transaction subsequently completed:** a Competing Proposal is announced by a Third Party prior to the earlier termination of the Scheme Implementation Deed and the End Date and, within one year after that occurring, the Third Party or their Associate:

- (1) completes in all material respects a transaction of the kind referred to in the definition of Competing Proposal; or
- (2) has a Relevant Interest in at least 50% of Bellamy's Shares under unconditional contracts; or

- (C) **Material Breach:** Mengniu terminates the Scheme Implementation Deed due to a material breach by Bellamy's.

However, the Break Fee is not payable if the Scheme nevertheless becomes Effective.

For full details of the Break Fee, see clause 12 of the Scheme Implementation Deed.

(f) Termination

Either Bellamy's or Mengniu may terminate the Scheme Implementation Deed at any time before 8.00am of the Second Court Date by notice in writing if:

- (i) the other party is in material breach of the Scheme Implementation Deed (including a representation and warranty given by either Bellamy's or Mengniu where such a breach is material to the Transaction as a whole) and that breach is not remedied within five Business Days of receiving written notice from the non-breaching party;
- (ii) in certain circumstances where:
 - (A) there is non-satisfaction of a Condition Precedent which is not waived in accordance with the Scheme Implementation Deed by the time or date specified in the Scheme Implementation Deed for the satisfaction of the Condition Precedent;
 - (B) there is an act, failure to act or occurrence which will prevent a Condition Precedent being satisfied by the time and date specified in the Scheme Implementation Deed for the satisfaction of that Condition Precedent; or
 - (C) it becomes more likely than not that the Scheme will not become Effective by the End Date, and after consulting in good faith Bellamy's and Mengniu are unable to reach an agreement to implement the Scheme by alternative means, extend the relevant time for satisfaction of the Condition Precedent or to change the date of the Second Court Hearing or to extend the End Date; or

- (iii) agreed in writing by Bellamy's and Mengniu.

Mengniu can terminate the Scheme Implementation Deed at any time before 8.00am on the Second Court Date if any Bellamy's Director has withdrawn or adversely changed his or her recommendation that Bellamy's Shareholders (other than any Excluded Shareholder) vote in favour of the Scheme at the Scheme Meeting or has recommended or made a statement supporting or endorsing a Competing Proposal.

Bellamy's can terminate the Scheme Implementation Deed at any time before 8.00am on the Second Court Date if a majority of the Bellamy's Board withdraws its recommendation that Bellamy's Shareholders (other than any Excluded Shareholder) vote in favour of the Scheme at the Scheme Meeting, and, if required to pay the Break Fee as a result of such withdrawal, Bellamy's has paid Mengniu the Break Fee.

8.12 Status of FIRB approval

As at the date of this Scheme Booklet:

- (a) the Treasurer of the Commonwealth of Australia has not yet provided notice that there are no objections to the Transaction under the FATA; and
- (b) an update on the status of the FIRB approval will be provided at the Scheme Meeting.

8.13 Consents and disclosures

- (a) The following parties have given, and have not withdrawn before the date of this Scheme Booklet, their consent to be named in this Scheme Booklet in the form and context in which they are named:
 - (i) Morgan Stanley as financial adviser to Bellamy's;
 - (ii) Link Market Services as the manager of the Bellamy's Share Register;
 - (iii) Allens as legal adviser to Bellamy's in relation to the Scheme; and
 - (iv) Janchor Partners in respect of its Bellamy's Shares.
- (b) The Independent Expert has given and has not withdrawn its consent to be named in this Scheme Booklet and to the inclusion of the Independent Expert's Report in Annexure A to this Scheme Booklet and to the references to the Independent Expert's Report in this Scheme Booklet being made in the form and context in which each such reference is included.
- (c) Mengniu and Mengniu SubCo have each given, and neither have withdrawn, its consent to be named in this Scheme Booklet and in relation to the inclusion of the Mengniu Information in this Scheme Booklet in the form and context in which that information is included.
- (d) Each person named in this section 8.13:
 - (i) has not authorised or caused the issue of this Scheme Booklet;
 - (ii) does not make, or purport to make, any statement in this Scheme Booklet or any statement on which a statement in this Scheme Booklet is based, other than as specified in this section 8.13; and
 - (iii) to the maximum extent permitted by law, expressly disclaims all liability in respect of, makes no representation regarding, and takes no responsibility for, any part of this Scheme Booklet, other than a reference to its name and the statement (if any) included in this Scheme Booklet with the consent of that party as specified in this section 8.13.

8.14 No unacceptable circumstances

The Bellamy's Directors believe that the Scheme does not involve any circumstances in relation to the affairs of Bellamy's that could reasonably be characterised as constituting 'unacceptable circumstances' for the purposes of section 657A of the Corporations Act.

8.15 No other information material to the making of a decision in relation to the Scheme

Otherwise than as contained or referred to in this Scheme Booklet, including the Independent Expert's Report and the information that is contained in the Annexures to this Scheme Booklet, there is no other information that is material to the making of a decision by a Bellamy's Shareholder whether or not to vote in favour of the Scheme Resolution to approve the Scheme, being information that is known to any Bellamy's Director and which has not previously been disclosed to Bellamy's Shareholders.

8.16 Supplementary information

If Bellamy's becomes aware of any of the following between the date of lodgement of this Scheme Booklet for registration with ASIC and the Court Approval Date:

- a material statement in this Scheme Booklet is false or misleading;
- a material omission from this Scheme Booklet;
- a significant change affecting a matter in this Scheme Booklet; or
- a significant new matter has arisen and it would have been required to be included in this Scheme Booklet if known about at the date of lodgement with ASIC,

depending on the nature and timing of the changed circumstances, and subject to obtaining any relevant approvals, Bellamy's may circulate and publish any supplementary document by:

- making an announcement to the ASX;
- placing an advertisement in a prominently published newspaper which is circulated generally throughout Australia;
- posting the supplementary document to Bellamy's Shareholders at their registered address as shown in the Bellamy's Share Register; or
- posting a statement on Bellamy's Website,

as Bellamy's in its absolute discretion considers appropriate.

8 ADDITIONAL INFORMATION CONT

8.17 Transaction costs

Bellamy's will incur external transaction costs in connection with the Scheme. Certain of these costs are conditional on the Scheme proceeding, and if the Scheme is implemented these will effectively be borne by Mengniu who will have acquired Bellamy's from implementation. If the Scheme is not implemented, Bellamy's expects to pay an aggregate of approximately \$4 million in external transaction costs in connection with the Scheme. These transaction costs are primarily payable to Bellamy's financial, legal, tax and accounting advisors, the Independent Expert and Bellamy's Share Registry.

These transaction costs do not include any Break Fee that may be payable by Bellamy's (see section 8.11(e) for information on the circumstances in which a Break Fee may be payable by Bellamy's).

9 GLOSSARY AND INTERPRETATION

9.1 Glossary

The meanings of the terms used in this Scheme Booklet are set out below:

Term	Meaning
ASIC	Australian Securities and Investments Commission.
ASX	ASX Limited (ABN 98 008 624 691) and, where the context requires, the financial market that it operates.
ASX Listing Rules	the official listing rules of the ASX.
Associate	has the meaning set out in section 12 of the Corporations Act.
ATO	Australian Tax Office.
Bellamy's	Bellamy's Australia Limited (ACN 124 272 108).
Bellamy's Board	the board of directors of Bellamy's.
Bellamy's Director	a member of the Bellamy's Board.
Bellamy's Group	Bellamy's and each of its Subsidiaries. A reference to a member of the Bellamy's Group is a reference to Bellamy's or any such Subsidiary.
Bellamy's Information	the information contained in this Scheme Booklet, other than the Mengniu Information and the Independent Expert's Report (excluding the information provided by Bellamy's to Grant Samuel).

9 GLOSSARY AND INTERPRETATION CONT

Term	Meaning
Bellamy's Material Adverse Change	<p>any event, occurrence or matter which has resulted in, or is reasonably likely to result in, either individually or when aggregated with all such events, occurrences or matters:</p> <ul style="list-style-type: none"> (a) a diminution in the consolidated net assets of the Bellamy's Group by an amount equal to \$35,000,000 or more, as compared to what the consolidated net assets of the Bellamy's Group could reasonably be expected to have been but for the relevant events, occurrences or matters; or (b) the consolidated annual EBITDA of the Bellamy's Group being reduced (on a recurring basis) by an amount more than \$10,000,000, as compared to what the consolidated annual EBITDA of the Bellamy's Group could reasonably be expected to have been but for the relevant events, occurrences or matters, <p>in each case other than an event, occurrence or matter:</p> <ul style="list-style-type: none"> (c) required or expressly permitted by the Scheme Implementation Deed or the Scheme (including the payment of the Special Dividend); (d) which Mengniu has previously approved or requested in writing, including any consequences reasonably foreseeable as a result of such matters; (e) to the extent that it was Fairly Disclosed in the Due Diligence Material or the Disclosure Letter; (f) Fairly Disclosed to the ASX within 3 years prior to the date of the Scheme Implementation Deed or Fairly Disclosed in a document lodged with ASIC that is publicly available by or on behalf of Bellamy's within 12 months prior to the date of the Scheme Implementation Deed; (g) arising from any actual or proposed change in any law or regulatory or administrative ruling or policy, or change in accounting standards after the date of the Scheme Implementation Deed; (h) arising from general economic, political, business or trading conditions in the markets and jurisdictions in which Bellamy's Group operates, or changes in those conditions (including changes in trading performance of Bellamy's Group unrelated to any specific event; financial market fluctuations, changes in interest rates or changes in foreign currency exchange rates) after the date of the Scheme Implementation Deed;
Bellamy's Material Adverse Change (continued)	<ul style="list-style-type: none"> (i) arising from an act of terrorism, war (whether or not declared), natural disaster or the like after the date of the Scheme Implementation Deed; (j) relating to third party costs and expenses incurred by Bellamy's associated with the Transaction, including any fees payable to external Advisers of Bellamy's, to the extent such amounts or comparable estimates of such amounts are Fairly Disclosed in the Due Diligence Material or Disclosure Letter; or (k) arising from the announcement of, or entry into, or performance of obligations under, the Scheme Implementation Deed and consummation of the transactions contemplated therein.

Term	Meaning
Bellamy's Prescribed Occurrence	<p>any of the following.</p> <ol style="list-style-type: none"> 1 Bellamy's converts all or any of its shares into a larger or smaller number of shares. 2 Bellamy's resolves to reduce its share capital in any way. 3 Bellamy's: <ol style="list-style-type: none"> (a) enters into a buy-back agreement; or (b) resolves to approve the terms of a buy-back agreement under the Corporations Act. 4 Any member of the Bellamy's Group issues shares or other securities to a person, or grants an option over or a right to receive its shares or other securities, or agrees to make such an issue or grant such an option or right, other than: <ol style="list-style-type: none"> (a) where the shares or other securities are issued, or where the options are granted, by a member of the Bellamy's Group (other than Bellamy's) to another member of the Bellamy's Group; (b) the issue of Bellamy's Shares prior to the Scheme Record Date upon the exercise or vesting of Options which are on issue as at the date of the Scheme Implementation Deed; or (c) the issue of 300,000 Bellamy's Shares prior to the Scheme Record Date as 'Consideration Shares' under the Share Purchase Agreement between Buena Investments Pty Ltd, Bellamy's Organic Pty Ltd and Bellamy's dated 15 January 2018. 5 Any member of the Bellamy's Group issues, or agrees to issue, convertible notes or any other instrument or security convertible into shares or securities in or of any member of the Bellamy's Group, other than to another member of the Bellamy's Group. 6 Bellamy's disposes, or agrees to dispose, of the whole or a substantial part of the business or property of the Bellamy's Group. 7 Bellamy's grants, or agrees to grant, a security interest in or over the whole or a substantial part of the business or property of the Bellamy's Group. 8 Any member of the Bellamy's Group agrees to pay, declares, pays or makes, or incurs a liability to pay or make, a dividend (other than any Special Dividend) or any other form of distribution of profits or capital. 9 Any member of the Bellamy's Group resolves to be wound up. 10 A liquidator or provisional liquidator of any member of the Bellamy's Group is appointed. 11 A court makes an order for the winding up of any member of the Bellamy's Group. 12 An administrator of any member of the Bellamy's Group is appointed under section 436A, 436B or 436C of the Corporations Act.

9 GLOSSARY AND INTERPRETATION CONT

Term	Meaning
Bellamy's Prescribed Occurrence (continued)	<p>13 Any member of the Bellamy's Group executes a deed of company arrangement.</p> <p>14 A receiver, or a receiver and manager, is appointed in relation to the whole, or a substantial part, of the property of any member of the Bellamy's Group.</p> <p>15 A product recall of any product distributed, supplied or produced by Bellamy's is initiated at the request of any Government Agency or is otherwise made or notified by Bellamy's.</p> <p>16 Any product distributed, supplied or produced by Bellamy's is the subject of food contamination or food safety issues.</p> <p>Other than an occurrence:</p> <p>(a) required or expressly permitted by the Scheme Implementation Deed or the Scheme;</p> <p>(b) to the extent that it was Fairly Disclosed in the Due Diligence Material or the Disclosure Letter;</p> <p>(c) Fairly Disclosed to the ASX within 3 years prior to the date of the Scheme Implementation Deed or Fairly Disclosed in a document lodged with ASIC that is publicly available by or on behalf of Bellamy's within 12 months prior to the date of the Scheme Implementation Deed; or</p> <p>(d) with the written consent of Mengniu.</p>
Bellamy's Share Register	the register of the members of Bellamy's maintained in accordance with the Corporations Act.
Bellamy's Share Registry	Link Market Services Limited.
Bellamy's Share or Share	a fully paid ordinary share in the capital of Bellamy's.
Bellamy's Share Price	the price of Bellamy's Shares as quoted on the ASX.
Bellamy's Shareholder or Shareholder	each person who is registered as the holder of a Bellamy's Share in the Bellamy's Share Register.
Bellamy's Website	https://investors.bellamysorganic.com.au/investors/
Break Fee	\$14,300,000
Business Day	<p>any day that is each of the following:</p> <p>(a) a Business Day within the meaning given in the ASX Listing Rules; and</p> <p>(b) a day that banks are open for business in Sydney, Australia.</p>
Camperdown Manufacturing Facility	the formula blending and canning facility located in Braeside, Melbourne, which is owned by Camperdown Powder Pty Ltd (ACN 168 982 250). Camperdown Powder Pty Ltd is 100% owned by A.C.N. 619 661 611 Pty Ltd, which is a 90% owned Subsidiary of Bellamy's.
Competing Proposal	<p>a transaction or arrangement, or any proposal, offer or expression of interest in relation to a transaction or arrangement, pursuant to which a Third Party will, if the transaction or arrangement is entered into or completed:</p> <p>(a) acquire (whether directly or indirectly) or become the holder of a legal, beneficial and/or economic interest in, all or a substantial part of the business or assets of the Bellamy's Group taken as a whole;</p> <p>(b) acquire a Relevant Interest in, or otherwise acquire or have a right to acquire a legal, beneficial and/or economic interest in, 20% or more of Bellamy's Shares; or</p> <p>(c) acquire control of Bellamy's within the meaning of section 50AA of the Corporations Act or otherwise acquire or merge with Bellamy's,</p> <p>whether by way of takeover bid, scheme of arrangement, shareholder approved transaction, capital reduction or buy-back, sale or purchase of shares or assets, joint venture, dual-listed company structure (or other synthetic merger), or other transaction or arrangement.</p>

Term	Meaning
Conditions Precedent	each of the conditions set out in clause 3.1 of the Scheme Implementation Deed.
Control	has the meaning given in section 50AA of the Corporations Act.
Corporations Act	the <i>Corporations Act 2001</i> (Cth), as modified or varied by any applicable ASIC class order, ASIC legislative instrument or ASIC relief.
Court	the Supreme Court of New South Wales or such other court of competent jurisdiction under the Corporations Act agreed to in writing between Bellamy's and Mengniu.
Court Approval Date	the date when the Court grants its approval to the Scheme under section 411(4) of the Corporations Act.
Disclosure Materials	the: <ul style="list-style-type: none"> (a) information disclosed by or on behalf of the Bellamy's Group (including in response to requests for information) to a Mengniu Party prior to execution of the Scheme Implementation Deed in the manner described in the Scheme Implementation Deed; and (b) the Disclosure Letter.
Disclosure Letter	the letter identified as such provided by Bellamy's to Mengniu and countersigned by or on behalf of Mengniu on or prior to the date of the Scheme Implementation Deed and any document identified in that letter as having been disclosed to Mengniu subject to such document having been Fairly Disclosed in the Due Diligence Material.
Due Diligence Material	the information disclosed by or on behalf of the Bellamy's Group (including in response to requests for information) to a Mengniu Party prior to execution of the Scheme Implementation Deed, either: <ul style="list-style-type: none"> (a) through the electronic data room, as included on a USB delivered to Roshan Menon of HSBC on 14 September 2019 (acting on behalf of Mengniu) prior to execution of the Scheme Implementation Deed (subject to Roshan Menon confirming on behalf of Mengniu that such USB contains the full contents of the Due Diligence Material for the purposes of the Scheme Implementation Deed); (b) as part of the information disclosed to Mengniu and its legal advisers: <ul style="list-style-type: none"> (i) at the Sydney offices of Minter Ellison on 8 August, 12 August (including via teleconference) and 11 September 2019; and (ii) in a South Melbourne office space near Bellamy's Melbourne Head Office on 6 August 2019; or (c) as part of the information disclosed to Mengniu by email from Allens via Accellion Secure File Transfer on 13 September 2019.
EBIT	earnings before interest and tax.
EBITDA	earnings before interest, tax, depreciation and amortisation.
Effective	the coming into effect, pursuant to section 411(10) of the Corporations Act, of the order of the Court made under section 411(4)(b) of the Corporations Act in relation to this Scheme.
Effective Date	the date on which the Scheme becomes Effective.
End Date	the date that is 6 months after the date of the Scheme Implementation Deed, which is 15 March 2020, or such other date as may be agreed in writing between Bellamy's and Mengniu.
Excluded Share	a Bellamy's Share held by or on behalf of a member of the Mengniu Group.
Excluded Shareholder	any holder of Excluded Shares.

9 GLOSSARY AND INTERPRETATION CONT

Term	Meaning
Executive KMP	as at the date of this Scheme Booklet, those employees listed in section 4.3(b).
FATA	the <i>Foreign Acquisitions and Takeovers Act 1975</i> (Cth).
Fairly Disclosed	a reference to 'Fairly Disclosed' in relation to a matter is to such matter being disclosed in sufficient detail to enable a reasonable person experienced in the industries in which the Bellamy's Group operates or transactions similar to the Transaction to identify the nature and scope of the relevant matter.
FIRB	the Australian Foreign Investment Review Board.
First Court Date	the first day on which an application made to the Court for orders under section 411(1) of the Corporations Act that the Scheme Meeting be convened is heard or, if the application is adjourned for any reason, the day on which the adjourned application is heard.
FY17	the financial year ending 30 June 2017.
FY18	the financial year ending 30 June 2018.
FY19	the financial year ending 30 June 2019.
FY20	the financial year ending 30 June 2020.
Grant Samuel	Grant Samuel & Associates Pty Limited (ACN 050 036 372).
Implementation Date	the fifth Business Day after the Scheme Record Date or such other date agreed to in writing between Mengniu and Bellamy's.
Independent Expert	Grant Samuel, the independent expert engaged by Bellamy's.
Independent Expert's Report	a report (including any written updates to such report) of the Independent Expert stating whether or not in its opinion the Scheme is in the best interests of Bellamy's Shareholders.
Insolvency Event	<p>in the case of any entity:</p> <ul style="list-style-type: none"> (a) it ceases, suspends, or threatens to cease or suspend the conduct of all or a substantial part of its business or disposes of or threatens to dispose of all or a substantial part of its assets; (b) it stops or suspends or threatens to stop or suspend payment of all or a class of its debts; (c) it is, or under legislation is presumed or taken to be, insolvent (other than as the result of a failure to pay a debt or Claim the subject of a good faith dispute); (d) it has an administrator, controller or similar officer appointed, or any step preliminary to the appointment of such an officer is taken; (e) an application or an order is made, proceedings are commenced, or a resolution is passed (and in the case of an application, it is not stayed, withdrawn or dismissed within 30 days) for: <ul style="list-style-type: none"> (i) its winding up, dissolution or administration; or (ii) it entering into an arrangement, compromise or composition with, or assignment for, the benefit of its creditors or a class of them; (f) a: <ul style="list-style-type: none"> (i) receiver, receiver and manager, administrative receiver or similar officer is appointed to; (ii) security interest becomes enforceable or is enforced over; or (iii) distress, attachment or other execution is levied or enforced or applied for over; all or a substantial part of its assets; or (g) anything analogous to anything referred to in the above paragraphs, or which has substantially similar effect, occurs with respect to it, including under any foreign law.

Term	Meaning
Janchor Partners	Janchor Partners Limited, Janchor Partners Pan-Asian Master Fund and Vittoria Fund-J, L. P.
Mengniu	China Mengniu Dairy Company Limited (incorporated in the Cayman Islands).
Mengniu Group	Mengniu and each of its Subsidiaries (including Mengniu SubCo, but excluding, at any time, Bellamy's and its Subsidiaries to the extent that Bellamy's and its Subsidiaries are subsidiaries of Mengniu at that time). A reference to a member of the Mengniu Group is a reference to Mengniu or any such Subsidiary.
Mengniu Information	information about the Mengniu Group provided or approved by Mengniu or any of its Advisers to Bellamy's in writing for inclusion in the Scheme Booklet.
Mengniu Party	has the meaning given in the Scheme Implementation Deed.
Mengniu SubCo	Wise Journey Pty Ltd (ACN 636 561 469), being an Australian indirect wholly-owned subsidiary of Mengniu.
Link Market Services	Link Market Services Limited (ACN 083 214 537).
Option	has the meaning given in, and as described in, section 8.2.
Order	any decree, judgment, injunction, direction, writ or other order; whether temporary, preliminary or permanent, made or given by an Australian court of competent jurisdiction or by another Australian government agency.
Proxy Form	the proxy form which accompanies this Scheme Booklet.
Register	the register of members of Bellamy's maintained in accordance with the Corporations Act.
Related Bodies Corporate	has the meaning set out in section 50 of the Corporations Act.
Related Person	in respect of a party or its Related Bodies Corporate, each director; officer; employee; adviser; agent or representative of that party or Related Body Corporate; and in respect of a financial adviser, each director; officer; employee or contractor of that financial adviser.
Relevant Interest	has the meaning given in sections 608 and 609 of the Corporations Act.
Requisite Majority	<p>in relation to the Scheme Resolution to be put to the Scheme Meeting:</p> <ul style="list-style-type: none"> a majority in number (more than 50%) of eligible Bellamy's Shareholders present and voting at the Scheme Meeting (whether in person or by duly appointed proxy, attorney or corporate representative) (unless the Court orders otherwise); and at least 75% of the total number of votes cast on the Scheme Resolution by eligible Bellamy's Shareholders. <p>and 'Requisite Majorities' means the requisite voting majorities set out in paragraphs (a) and (b) above.</p>
SAMR	China's State Administration for Market Regulation.
Scheme or Scheme of Arrangement	the scheme of arrangement under Part 5.1 of the Corporations Act between Bellamy's and the Scheme Shareholders in the form of Annexure A (or such other form agreed to in writing between Bellamy's and Mengniu).
Scheme Booklet	this document.
Scheme Consideration	\$12.65 per Scheme Share held by that Scheme Shareholder.
Scheme Implementation Deed	the Scheme Implementation Deed between Bellamy's and Mengniu dated 15 September 2019. A summary is set out in section 8.11, and a full copy can be obtained from Bellamy's Website.
Scheme Meeting	the meeting of Bellamy's Shareholders (other than Excluded Shareholders) ordered by the Court to be convened under section 411(1) of the Corporations Act.

9 GLOSSARY AND INTERPRETATION CONT

Term	Meaning
Scheme Meeting Record Date	7.00pm (Sydney time) on Tuesday 3 December 2019.
Scheme Record Date	7.00pm on the sixth Business Day after the Effective Date or such other time and date agreed to in writing between Bellamy's and Mengniu.
Scheme Resolution	a resolution of eligible Bellamy's Shareholders to approve the Scheme, the form of which is set out in the Notice of Scheme Meeting in Annexure D of the Scheme Booklet.
Scheme Share	the Bellamy's Shares on issue as at the Scheme Record Date, other than the Excluded Shares.
Scheme Shareholder	a person registered in the Bellamy's Share Register as the holder of one or more Scheme Shares at the Scheme Record Date.
Second Court Date	the first day on which an application made to the Court for an order under section 411(4)(b) of the Corporations Act approving the Scheme is heard or, if the application is adjourned for any reason, the day on which the adjourned application is heard.
Special Dividend	a fully franked special dividend determined by the Bellamy's Board of \$0.60 per Bellamy's Share held on the Special Dividend Record Date, paid by Bellamy's to Bellamy's Shareholders immediately prior to implementation of the Scheme.
Special Dividend Payment Date	Monday 23 December 2019.
Special Dividend Record Date	7.00pm (Sydney time) on Tuesday 17 December 2019.
Subsidiary	<p>has the meaning given in the Corporations Act, provided that an entity will also be taken to be a Subsidiary of another entity if it is controlled by that entity (as 'control' is defined in section 50AA of the Corporations Act) and, without limitation:</p> <ul style="list-style-type: none"> (a) a trust may be a Subsidiary, for the purposes of which a unit or other beneficial interest will be regarded as a share; (b) an entity may be a Subsidiary of a trust if it would have been a Subsidiary if that trust were a corporation; and (c) an entity will also be deemed to be a Subsidiary of an entity if that entity is required by the accounting standards to be consolidated with that entity.
Superior Proposal	a bona fide, written Competing Proposal received after the date of the Scheme Implementation Deed that the Bellamy's Board determines, acting in good faith, would, if completed substantially in accordance with its terms, be more favourable to Bellamy's Shareholders than the Scheme. Any such determination may only be made after consultation with Bellamy's legal and financial advisers, taking into account all material legal, financial, regulatory and other aspects of the Competing Proposal and the identity of the relevant Third Party.
Total Cash Amount	<p>If the Scheme is approved and becomes Effective, it is intended that the total cash amount will be \$13.25 cash per Bellamy's Share, comprising:</p> <ul style="list-style-type: none"> (a) the Scheme Consideration of \$12.65 per Bellamy's Share held on the Scheme Record Date, paid by Mengniu on implementation of the Scheme, in return for the transfer of their Bellamy's Shares to Mengniu SubCo under the Scheme; and (b) the fully franked Special Dividend of \$0.60 per Bellamy's Share held on the Special Dividend Record Date, paid by Bellamy's immediately prior to implementation of the Scheme.
Third Party	a person other than any member of the Mengniu Group.
Transaction	the acquisition of the Scheme Shares by Mengniu SubCo through implementation of the Scheme in accordance with the terms of the Scheme Implementation Deed.
ViPlus	ViPlus Dairy Pty Ltd (ACN 160 148 434).

9.2 Interpretation

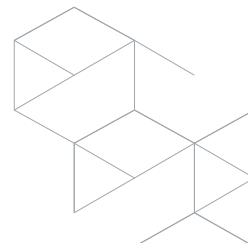
In this Scheme Booklet:

- (a) words of any gender include all genders;
- (b) words importing the singular include the plural and vice versa;
- (c) an expression importing a person includes any company, partnership, joint venture, association, corporation or other body corporate and vice versa;
- (d) a reference to a section or annexure, is a reference to a section of or annexure of, to this Scheme Booklet as relevant;
- (e) a reference to any legislation includes all delegated legislation made under it and amendments, consolidations, replacements or re-enactments of any of them;
- (f) headings and bold type are for convenience only and do not affect the interpretation of this Scheme Booklet;
- (g) a reference to time is a reference to Sydney, Australia time unless otherwise specified;
- (h) a reference to dollars and \$ is to Australian currency;
- (i) an accounting term is a reference to that term as it is used in accounting standards under the Corporations Act, or, if not inconsistent with those standards, in accounting principles and practices generally accepted in Australia; and
- (j) the words "include", "including", "for example" or "such as" when introducing an example, do not limit the meaning of the words to which the example relates to that example or examples of a similar kind.

ANNEXURE A

Independent Expert's Report

GRANT SAMUEL



30 October 2019

The Directors
Bellamy's Australia Limited
115 Cimitiere Street
Launceston Tasmania 7250

Dear Directors

Proposal by China Mengniu Dairy Company Limited

1 Introduction

On 16 September 2019, Bellamy's Australia Limited ("Bellamy's") announced that it had entered into a Scheme Implementation Deed with China Mengniu Dairy Company Limited ("Mengniu") under which Mengniu has agreed to acquire all of the issued shares in Bellamy's by way of a scheme of arrangement ("the Scheme"). If the Scheme is implemented, it is intended that Bellamy's shareholders (other than any Mengniu group entity) will receive a total cash amount of \$13.25 per share comprising:

- \$12.65 cash per share paid by Mengniu under the Scheme; and
- a \$0.60 per share fully franked special dividend paid by Bellamy's prior to implementation of the Scheme.

Mengniu is a leading dairy product manufacturer in China. It manufactures dairy products in China, New Zealand and Indonesia and distributes dairy products throughout China (including Hong Kong) as well as to Singapore, Macau, Myanmar and Indonesia through its overseas sales network. Mengniu generated revenue of RMB69 billion (~\$14.2 billion) in 2018. It is listed on the Hong Kong Stock Exchange and has a market capitalisation of around HK\$124 billion (~\$23 billion).

The Scheme is subject to a number of conditions which are set out in full in the Scheme Booklet, including approval under the *Foreign Acquisitions and Takeovers Act, 1975 (Cth)* and approval by Bellamy's shareholders (other than any Mengniu group entity) under Section 411 of the *Corporations Act, 2001 (Cth)* ("Corporations Act"). Other elements of the Scheme include certain exclusivity arrangements and matching rights, break fees and arrangements in relation to outstanding options.

Subject to an independent expert concluding (and continuing to conclude) that the Scheme is in the best interests of shareholders and in the absence of a superior proposal, the directors of Bellamy's have unanimously recommended that Bellamy's shareholders vote in favour of the Scheme and each director of Bellamy's intends to vote all the Bellamy's shares held or controlled by them in favour of the Scheme.

The directors of Bellamy's have engaged Grant Samuel & Associates Pty Limited ("Grant Samuel") to prepare an independent expert's report setting out whether, in its opinion, the Scheme is in the best interests of shareholders. A copy of the report (including this letter) will accompany the Scheme Booklet to be sent to shareholders by Bellamy's. This letter contains a summary of Grant Samuel's opinion and main conclusions.

2 Opinion

Grant Samuel has concluded that the Scheme is fair and reasonable. Accordingly, the Scheme is in the best interests of Bellamy's shareholders, in the absence of a superior proposal.

GRANT SAMUEL & ASSOCIATES PTY LIMITED

ABN 28 050 036 372 AFS Licence No 240985
Level 19 Governor Macquarie Tower, 1 Farrer Place Sydney NSW 2000 GPO BOX 4301 SYDNEY NSW 2001 T +61 2 9324 4211 F +61 2 9324 4301
GRANTSAMUEL.COM.AU

GRANT SAMUEL



3 Key Conclusions

- The equity in Bellamy's has been valued in the range \$1,455-1,655 million, equivalent to \$12.25-13.93 per share

Grant Samuel's valuation of Bellamy's is summarised below:

BELLAMY'S – VALUATION SUMMARY (\$ MILLIONS)

	FULL REPORT SECTION REFERENCE	VALUE RANGE	
		LOW	HIGH
Business operations	5.4	1,300.0	1,500.0
Other assets and liabilities	5.6	10.4	10.4
Enterprise value		1,310.4	1,510.4
Adjusted net cash	5.7	144.3	144.3
Value of equity		1,454.7	1,654.7
Fully diluted shares on issue (millions) ¹	4.7	118.8	118.8
Value per share		\$12.25	\$13.93

The valuation represents the estimated full underlying value of Bellamy's assuming 100% of the company was available to be acquired and includes a premium for control. The value is on a cum dividend basis (i.e. before payment of the special dividend of \$0.60 per share). The value exceeds the price at which, based on current market conditions, Grant Samuel would expect shares in Bellamy's to trade on the Australian Stock Exchange in the absence of a change of control proposal.

The value attributed to the business operations of \$1,300-1,500 million is an overall judgement having regard to a number of valuation methodologies and parameters, including discounted cash flow ("DCF") analysis and capitalisation of earnings (multiples of EBITDA²).

The valuation reflects the potential for Bellamy's business to achieve significant growth if it receives Chinese State Administration for Market Regulation ("SAMR") registration, enabling it to resume offline sales of Chinese-label infant formula in China. Despite its inconsistent historical earnings, Bellamy's is an attractive business with strong growth prospects and a number of positive attributes, including its:

- strong and internationally recognised and respected brand, focus on the niche organic sector of the infant nutrition market and position at the high quality (i.e. super-premium) end of the market;
- lower exposure to the general dairy commodity price cycle, diversified supplier base underpinned by long term contracts and low capital intensity; and
- exposure to China, the world's largest market for infant formula with a strong growth outlook.

On the other hand, achieving its potential is not without risk, in particular:

- regulatory risk in relation to uncertainty as to the timing of SAMR registration and the ongoing risk of further changes to regulation, particularly in China but also in other jurisdictions such as Australia; and

¹ Fully diluted shares on issue is 118,762,147 ordinary shares and includes 5,093,850 ordinary shares issued on the vesting of options and 300,000 ordinary shares issued on acquisition of the remaining 10% ownership interest in A.C.N. 619 661 611 Pty Ltd (Camperdown). Only 5,093,850 of the 5,231,993 issued options are assumed to vest as 38,143 are out-of-the-money based on the total cash amount of \$13.25 (with an exercise price of \$20.56) and 100,000 will not have vesting accelerated unless the Scheme becomes effective after 2 January 2020 (the Scheme is expected to become effective on 10 December 2019).

² EBITDA is earnings before net interest, tax, depreciation and amortisation and significant and non-recurring items.

ANNEXURE A CONT

GRANT SAMUEL



- execution risk in terms of the take up of Chinese-label products in retail stores in China after SAMR registration is received, sales of its core organic products and revenue and growth for new products (ViPlus, ultra-premium and organic goat infant formula) and new markets (including baby food into China).

The valuation allows for:

- corporate overheads, net of cost savings that could be achieved by any acquirer of Bellamy's (see Section 5.5 of the full report); and
 - other assets and liabilities, including tax losses and other tax benefits, minimum annual volume payments and the mark-to-market of forward foreign exchange contracts (see Section 5.6 of the full report).
- **DCF analysis generates values for Bellamy's business operations that support the value range of \$1,300-1,500 million**

Grant Samuel has prepared a DCF analysis of the business operations of Bellamy's. This analysis is based on a simplified, high level financial model that focuses on revenue growth, gross margins and EBITDA margins as the primary drivers of value. The DCF model projects nominal after tax cash flows from 1 July 2019 to 30 June 2029 (10 years). It assumes a discount rate of 9.5-10.5% and calculates a terminal value based on a perpetual growth rate of 3%.

The following scenarios were considered:

BELLAMY'S - DCF SCENARIOS

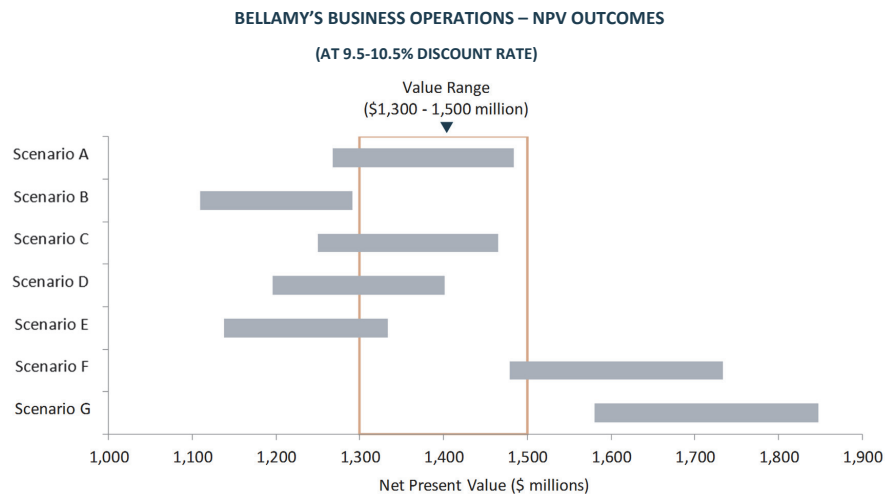
SCENARIO	DESCRIPTION
Scenario A	SAMR registration is received in mid FY21 ³ and sales of Chinese-label products commence in FY21. Average annual revenue growth is around 12.5% over the projection period, including Bellamy's achieving its medium term ambition of \$500 million in revenue in FY22. Sales of Chinese-label products represent approximately 17% of total revenue by FY29. EBITDA margin increases to 25% by FY29
Scenario B	Bellamy's does not receive SAMR registration. Growth is maintained across Australian-label infant formula and baby food as the company focuses on this part of its business. Average annual revenue growth is around 8.5% over the projection period. While sales revenue is lower, EBITDA margin increases to 29% by FY29 due to lower marketing expenses, employee costs and overheads
Scenario C	Scenario A except SAMR registration is delayed by one year (from mid FY21 to mid FY22) and sales of Chinese-label products commence in FY22. Sales revenue growth and margin assumptions delayed by one year. Average annual revenue growth is around 12.5% over the projection period. Sales of Chinese-label products represent approximately 17% of total revenue by FY29. EBITDA margin increases to 25% by FY29
Scenario D	Scenario A except SAMR registration is delayed by three years (from mid FY21 to mid FY24) and sales of Chinese-label products commence in FY24. Sales revenue growth and margin assumptions delayed by three years. Average annual revenue growth is around 12% over the projection period. Sales of Chinese-label products represent approximately 15% of total revenue by FY29. EBITDA margin increases to 24% by FY29
Scenario E	Scenario A except lower revenue growth assumptions across all products. Based on FY20 Budget and median brokers' forecasts (assuming SAMR registration is received) of revenue and EBITDA for FY21 and FY22. From FY23 onwards, revenue growth remains lower so that average annual revenue growth over the projection period is around 12%. Sales of Chinese-label products represent approximately 20% of total revenue by FY29. EBITDA margin increases to 24% by FY29
Scenario F	Scenario A except higher revenue growth across all products. Average annual revenue growth is around 13.5% over the projection period. Sales of Chinese-label products represent approximately 20% of total revenue by FY29. EBITDA margin increases to 26% by FY29
Scenario G	Scenario F except higher revenue growth across all products. Average annual revenue growth is around 14.5% over the projection period. Sales of Chinese-label products represent approximately 33% of total revenue by FY29. EBITDA margins are consistent with Scenario F

³ FYXX is the year end 30 June 20XX (i.e. FY21 is the year end 30 June 2021).

GRANT SAMUEL



The net present value ("NPV") outcomes are illustrated below:



Grant Samuel has considered the NPV outcomes for all the scenarios in determining its value range for Bellamy's business operations. However, it should be noted that:

- Scenarios A, C and D are considered more credible. Projected revenue growth for Scenario A is well above expected industry growth rates (in China) over the period from FY20 to FY24, reflecting the impact of resuming offline sales of Chinese-label infant formula in China and new product launches. Revenue growth rates moderate to expected long term industry averages over the period from FY25 to FY29. Scenarios C and D demonstrate the sensitivity of the NPV outcomes to delays in obtaining SAMR registration. Further delay is not considered unreasonable given the delay to date in the processing of Bellamy's SAMR registration application, which was lodged in December 2017;
- Scenario E is based on the median brokers' forecasts for FY21 and FY22, which are below Bellamy's medium term ambition of \$500 million in revenue. The bottom end of the value range adopted by Grant Samuel is towards the top end of the NPV outcome based on the median brokers' forecasts;
- Scenario B assumes that Bellamy's does not receive SAMR registration. This is considered to be an unlikely outcome. Bellamy's is confident in its technical application and its prospects for registration. While it may appear counter intuitive that there is overlap in the NPV outcome of Scenario B with the NPV outcomes of Scenario D (which assumes SAMR registration is received in FY24) and Scenario E (which assumes SAMR registration is received in FY21 but lower growth in revenue over the projection period), the loss of revenue from offline sales of Chinese-label infant formula is offset in part by revenue growth across Bellamy's core infant formula and baby food categories (given there would be a stronger focus on these products in the absence of SAMR registration) and higher EBITDA margins due to lower employee costs, marketing expenses and overheads in China; and
- Scenarios F and G are considered aspirational scenarios. Scenario F assumes Bellamy's can maintain growth rates above expected industry rates of growth over the projection period. While this is possible in the short term, it is unlikely over the long term. As a result, it is not unreasonable that only the low end of the NPV of Scenario F is included in the value range. Scenario G assumes even higher revenue growth than Scenario F. In addition to assuming SAMR registration is received in FY21, it requires perfect execution of Bellamy's marketing strategy in China and continual premiumisation of the product mix resulting in higher margins.

ANNEXURE A CONT

GRANT SAMUEL



- **The valuation of Bellamy's implies very high multiples of earnings. The multiples reflect the impact of the delay in obtaining SAMR registration, the reduction in earnings caused by resetting the business in FY19 and the launch of new products in 2H20⁴**

The multiples implied by the valuation of Bellamy's business operations are summarised below:

BELLAMY'S BUSINESS OPERATIONS – IMPLIED VALUATION PARAMETERS

	VARIABLE (\$ MILLION)	RANGE OF PARAMETERS	
		LOW	HIGH
Multiple of adjusted EBITDA ⁵ (times)			
FY18 (adjusted actual)	74.5	17.4	20.1
FY19 (adjusted actual)	50.6	25.7	29.6
FY20 (adjusted median brokers' forecast) ⁶	53.9	24.1	27.8
FY21 (adjusted median brokers' forecast, SAMR registration received) ⁶	71.5	18.2	21.0
FY22 (adjusted median brokers' forecast, SAMR registration received) ⁶	89.2	14.6	16.8

Assessing appropriate multiples for the valuation of Bellamy's business operations is not straightforward. Bellamy's future earnings and therefore its value are extremely sensitive to the timing of receipt of SAMR registration (and therefore the ability to resume offline sales of Chinese-label infant formula in China) and the growth in revenue that can be generated from sales of new products planned to be launched (ViPlus, ultra-premium, organic goat), new markets (the Philippines and Indonesia) and offline in China (baby food and, after SAMR registration is received, infant formula).

The FY19 historical multiples (of 25.7-29.6 times adjusted EBITDA) and FY20 forecast multiples (of 24.1-27.8 times adjusted EBITDA) are extremely high (above the top end of the historical multiples for comparable transactions of ~17-24 times EBITDA and significantly higher than the forecast multiples for comparable transactions, which are generally around 18-20 times EBITDA). However, in Grant Samuel's view, this is not unreasonable. FY19 historical EBITDA and FY20 forecast EBITDA are not good benchmarks for assessing the value of Bellamy's business operations as they do not reflect the potential for the high rates of growth for the business that would be expected to follow SAMR registration⁷.

Consequently, Grant Samuel has also considered EBITDA for FY18 and the median brokers' forecasts for FY21 and FY22. However, use of the median brokers' forecasts is also problematic as they assume SAMR registration is received (and Bellamy's resumes offline sales of Chinese-label infant formula in China) but are more conservative than Bellamy's medium term ambition of \$500 million in revenue and an EBITDA margin in the long term of >20%.

The FY18 multiples (of 17.4-20.1 times adjusted EBITDA), although relating to earnings from two years ago, are not dissimilar to the FY21 multiples (of 18.2-21.0 times adjusted EBITDA). These multiples are still at the high end of the range of multiples for comparable transactions and are high relative to the trading EBITDA multiple for The a2 Milk Company Limited ("a2") after taking into account a2's specific

⁴ 2HXX is the six months ending 30 June 20XX (i.e. 2H20 is the six months ending 30 June 2020).

⁵ For valuation purposes, historical and forecast EBITDA have been adjusted by Grant Samuel to add back the charge for shortfall payments as a result of Bellamy's not meeting minimum volume commitments in supplier contracts and the savings in listed company costs that would be available to any acquirer of Bellamy's (see Section 5.3.2 of the full report).

⁶ Bellamy's has not included any forecast information in the Scheme Booklet. To provide an indication of Bellamy's expected financial performance, Grant Samuel has considered broker's forecasts (see Appendix 1 to the full report).

⁷ FY19 adjusted EBITDA does not include any offline sales of Chinese-label infant formula, earnings from new products expected to be launched in FY20 or expansion into the Philippines and Indonesia. FY20 adjusted EBITDA does not include any offline sales of Chinese-label infant formula and only a relatively small contribution from new products (with sales of organic ultra-premium and goat infant formula expected to commence in 2H20) and new markets (the Philippines and Indonesia).

GRANT SAMUEL



characteristics and allowing for a premium for control (a2 is trading at 22.3 times historical EBITDA and 19.3 times forecast EBITDA). However, the FY18 and FY21 multiples for Bellamy's only include a part year of offline sales of Chinese-label infant formula (and, in FY21, a part year of sales of new products), and would be lower if a full year of this additional EBITDA was included.

The FY22 multiples (of 14.6-16.8 times adjusted EBITDA) are below the forecast transaction evidence (of ~18-20 times) but, in Grant Samuel's view, consistent with this evidence taking into account:

- they are based on median brokers' forecasts of earnings two years into the future (i.e. for growth businesses, forecast multiples for FY22 would be expected to be lower than forecast multiples for FY21, which, in turn, would be expected to be lower than forecast multiples for FY20);
- Bellamy's is smaller and generates lower margins than the majority of the companies the subject of comparable transactions (notwithstanding its attractive attributes and strong growth prospects); and
- there are significant risks associated with achieving the FY22 EBITDA (i.e. obtaining SAMR registration and successfully expanding through new products and new markets, including baby food in China).

On balance, and taking all of the above factors into account, Grant Samuel believes that the multiples implied by the valuation of Bellamy's business operations of 18.2-21.0 times forecast FY21 EBITDA and 14.6-16.8 times forecast FY22 EBITDA are appropriate.

■ **The Scheme is fair and reasonable. Therefore, the Scheme is in the best interests of Bellamy's shareholders, in the absence of a superior proposal**

Grant Samuel has estimated the full underlying value of Bellamy's, including a premium for control, to be in the range \$1,455-1,655 million which corresponds to \$12.25-13.93 per share⁸. The total cash amount to be received by Bellamy's shareholders of \$13.25 per share⁹ falls within the value range of \$12.25-13.93 per share. Accordingly, the Scheme is fair.

The value range of \$12.25-13.93 per share estimated by Grant Samuel assumes that Bellamy's obtains SAMR registration. In the event that Bellamy's did not receive SAMR registration, the value of Bellamy's would fall (i.e. the risk is on the downside) and the Scheme would still be fair.

In addition, it is intended that \$0.60 of the total cash amount be paid to Bellamy's shareholders as a fully franked special dividend. For shareholders who can use the attached franking credits, this dividend may deliver additional value of up to \$0.257 per share¹⁰, compared with receiving the same amount as a capital gain.

As the Scheme is fair, it is also reasonable. In any event, there are a number of other factors that support the reasonableness of the Scheme:

- the total cash amount of \$13.25 per share represents a substantial premium over the prices at which Bellamy's shares traded prior to announcement of the Scheme. The premium is 59.3% relative to the closing price on 13 September 2019 and is higher relative to share prices in the month prior to announcement of the Scheme. The premium is lower but still at elevated levels when assessed against Bellamy's share price over the preceding 12 months:

⁸ On a cum dividend basis (i.e. prior to the payment of the \$0.60 per share special dividend to be paid by Bellamy's prior to implementation of the Scheme).

⁹ Comprising the consideration under the Scheme of \$12.65 per share together with the special dividend of \$0.60 per share.

¹⁰ The ability to utilise any franking credits attached to the special dividend is subject to receipt of a class ruling in relation to, among other things, whether the Australian Taxation Office Commissioner will exercise his discretion to deny access to the franking credits. This class ruling is unlikely to be issued prior to the special dividend payment date.

ANNEXURE A CONT

GRANT SAMUEL



BELLAMY'S – PREMIUM OVER PRE-ANNOUNCEMENT PRICES

PERIOD	BELLAMY'S PRICE/VWAP ¹¹	PREMIUM
13 September 2019 – Pre-announcement price	\$8.32	59.3%
1 month prior to 13 September 2019 – VWAP	\$8.07	64.2%
3 months prior to 13 September 2019 – VWAP	\$8.59	54.2%
6 months prior to 13 September 2019 – VWAP	\$9.46	40.1%
12 months prior to 13 September 2019 – VWAP	\$8.82	50.2%

The implied premiums are above the level usually associated with takeovers of 20-35%. There are reasons why Bellamy's shareholders could reasonably expect high premiums in a change of control transaction given the business reset completed in FY19 and Bellamy's considerable growth potential once SAMR registration is received. Ongoing delays in obtaining SAMR registration have made investors cautious about Bellamy's growth potential and this has been reflected in its share price over the past 12 months.

The total cash amount offered under the Scheme of \$13.25 per share is below Bellamy's share price during 1H18¹², when the shares traded as high as \$23.07 in anticipation of the high growth expected through offline sales of Chinese-label infant formula in China, on the assumption that SAMR registration was a formality and would be received immediately. However, failure to secure SAMR registration resulted in a fall in the share price back to 2H17 levels of around \$8.00-11.00. Bellamy's share price prior to announcement of the Scheme of ~\$8.10-8.90 reflected the release at the end of August 2019 of FY19 results that were below expectations, as well as ongoing uncertainty as to whether and when SAMR registration would be received;

- in the absence of the Scheme or a similar transaction, it is likely that Bellamy's shares, under current market conditions, would trade at prices well below \$13.25 and quite possibly back towards the prices prevailing prior to announcement of the Scheme of ~\$8.10-8.90; and
- it is conceivable that a third party could make a higher offer for Bellamy's:
 - Bellamy's has a number of strategic attractions for global infant nutrition and dairy companies including its brand, leading position in the organic sector, focus on super-premium products and real growth potential, particularly from exposure to China; and
 - there are no structural impediments to an alternative acquirer. Only one shareholder has a relevant interest in more than 10% of Bellamy's shares¹³ and this shareholder has not indicated how it intends to vote the shares in its control (and so would be able to consider an alternative proposal). Mengniu's (including its subsidiaries) shareholding in Bellamy's is only 2.9%. While Bellamy's has agreed to customary exclusivity provisions, there is a fiduciary carve out and Bellamy's can respond to unsolicited proposals from other parties (subject to a notification obligation).

However, it should be noted that:

- potential acquirers that already operate in Australia (i.e. local companies such as a2) could potentially face competition issues. On the other hand, the most likely alternative acquirers are other global infant nutrition companies (e.g. Nestlé S.A., Danone S.A. and Reckitt Benckiser Group plc) or Chinese infant formula companies (e.g. Yili Group, Ausnutria B.V. and Health and Happiness International Holdings Limited), none of which would be likely to be blocked from acquiring Bellamy's on competition grounds; and

¹¹ VWAP is volume weighted average price.

¹² 1HXX is the six months ended 31 December 20XX-1 (i.e. 1H18 is the six months ended 31 December 2017).

¹³ Interests associated with Jan Cameron have a relevant interest in approximately 17.1% of Bellamy's shares.

GRANT SAMUEL



- the price offered by Mengniu, which reflects very high multiples of earnings and substantial premiums over pre-announcement Bellamy's share prices, will act as a practical disincentive to alternative acquirers.

The meeting at which Bellamy's shareholders will vote on the Scheme is scheduled for 5 December 2019. There should be ample time for an alternative offeror to come forward. If this does not occur, it would be imprudent for shareholders to vote against the Scheme in anticipation of a higher offer from Mengniu or a third party.

As the Scheme is fair and reasonable, it is therefore in the best interests of Bellamy's shareholders, in the absence of a superior proposal.

4 Other Matters

This report is general financial product advice only and has been prepared without taking into account the objectives, financial situation or needs of individual Bellamy's shareholders. Accordingly, before acting in relation to their investment, shareholders should consider the appropriateness of the advice having regard to their own objectives, financial situation or needs. Shareholders should read the Scheme Booklet issued by Bellamy's in relation to the Scheme.

Grant Samuel has not been engaged to provide a recommendation to shareholders in relation to the Scheme, the responsibility for which lies with the directors of Bellamy's. In any event, the decision whether to vote for or against the Scheme is a matter for individual shareholders, based on their own views as to value and business strategy, their expectations about future economic and market conditions and their particular circumstances including risk profile, liquidity preference, investment strategy, portfolio structure and tax position. Shareholders who are in doubt as to the action they should take in relation to the Scheme should consult their own professional adviser.

Grant Samuel has prepared a Financial Services Guide as required by the Corporations Act. The Financial Services Guide is included at the beginning of the full report.

This letter is a summary of Grant Samuel's opinion. The full report from which this summary has been extracted is attached and should be read in conjunction with this summary.

The opinion is made as at the date of this letter and reflects circumstances and conditions as at that date.

Yours faithfully

GRANT SAMUEL & ASSOCIATES PTY LIMITED

Grant Samuel & Associates

ANNEXURE A CONT

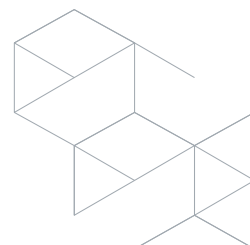


FINANCIAL SERVICES GUIDE
AND
INDEPENDENT EXPERT'S REPORT
IN RELATION TO THE ACQUISITION PROPOSAL BY
CHINA MENGNIU DAIRY COMPANY LIMITED

GRANT SAMUEL & ASSOCIATES PTY LIMITED
ABN 28 050 036 372

30 OCTOBER 2019

GRANT SAMUEL



FINANCIAL SERVICES GUIDE

Grant Samuel & Associates Pty Limited ("Grant Samuel") holds Australian Financial Services Licence No. 240985 authorising it to provide financial product advice on securities and interests in managed investments schemes to wholesale and retail clients.

The *Corporations Act, 2001 (Cth)* ("Corporations Act") requires Grant Samuel to provide this Financial Services Guide ("FSG") in connection with its provision of an independent expert's report ("Report") which is included in a document ("Disclosure Document") provided to members by the company or other entity ("Entity") for which Grant Samuel prepares the Report.

Grant Samuel does not accept instructions from retail clients. Grant Samuel provides no financial services directly to retail clients and receives no remuneration from retail clients for financial services. Grant Samuel does not provide any personal retail financial product advice to retail investors nor does it provide market-related advice to retail investors.

When providing Reports, Grant Samuel's client is the Entity to which it provides the Report. Grant Samuel receives its remuneration from the Entity. In respect of the Report for Bellamy's Australia Limited in relation to the proposal from China Mengniu Dairy Company Limited ("the Bellamy's Report"), Grant Samuel will receive a fixed fee of \$600,000 plus reimbursement of out-of-pocket expenses for the preparation of the Report (as stated in Section 7.3 of the Bellamy's Report).

No related body corporate of Grant Samuel, or any of the directors or employees of Grant Samuel or of any of those related bodies or any associate receives any remuneration or other benefit attributable to the preparation and provision of the Bellamy's Report.

Grant Samuel is required to be independent of the Entity in order to provide a Report. The guidelines for independence in the preparation of Reports are set out in Regulatory Guide 112 issued by the Australian Securities & Investments Commission on 30 March 2011. The following information in relation to the independence of Grant Samuel is stated in Section 7.3 of the Bellamy's Report:

"Grant Samuel and its related entities do not have at the date of this report, and have not had within the previous two years, any business or professional relationship with Bellamy's or Mengniu or any financial or other interest that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Scheme.

Grant Samuel had no part in the formulation of the Scheme. Its only role has been the preparation of this report.

Grant Samuel will receive a fixed fee of \$600,000 for the preparation of this report. This fee is not contingent on the conclusions reached or the outcome of the Scheme. Grant Samuel's out of pocket expenses in relation to the preparation of the report will be reimbursed. Grant Samuel will receive no other benefit for the preparation of this report.

Grant Samuel considers itself to be independent in terms of Regulatory Guide 112 issued by the ASIC on 30 March 2011."

Grant Samuel has internal complaints-handling mechanisms and is a member of the Australian Financial Complaints Authority, No. 11929. If you have any concerns regarding the Bellamy's Report, please contact the Compliance Officer in writing at Level 19, Governor Macquarie Tower, 1 Farrer Place, Sydney NSW 2000. If you are not satisfied with how we respond, you may contact the Australian Financial Complaints Authority at GPO Box 3 Melbourne VIC 3001 or 1800 931 678. This service is provided free of charge.

Grant Samuel holds professional indemnity insurance which satisfies the compensation requirements of the Corporations Act.

Grant Samuel is only responsible for the Bellamy's Report and this FSG. Complaints or questions about the Disclosure Document should not be directed to Grant Samuel which is not responsible for that document. Grant Samuel will not respond in any way that might involve any provision of financial product advice to any retail investor.

GRANT SAMUEL & ASSOCIATES PTY LIMITED

ABN 28 050 036 372 AFS Licence No 240985
 Level 19 Governor Macquarie Tower, 1 Farrer Place Sydney NSW 2000 GPO BOX 4301 SYDNEY NSW 2001 T +61 2 9324 4211 F +61 2 9324 4301
 GRANTSAMUEL.COM.AU

ANNEXURE A CONT

GRANT SAMUEL



TABLE OF CONTENTS

1	Details of the Scheme	1
2	Scope of the Report	3
3	Global Infant Nutrition Market	8
3.1	Overview	8
3.2	Global Infant Formula Market	8
3.3	Chinese Infant Formula Market	9
3.4	Global Baby Food Market	14
4	Profile of Bellamy's	15
4.1	Background	15
4.2	Business Overview and Strategy	16
4.3	Financial Performance	21
4.4	Financial Position	25
4.5	Cash Flow	27
4.6	Other Financial Items	27
4.7	Capital Structure and Ownership	28
4.8	Share Price Performance	30
5	Valuation of Bellamy's	33
5.1	Summary	33
5.2	Methodology	34
5.3	Approach for Bellamy's	37
5.4	Value of Business Operations	39
5.5	Corporate Costs	58
5.6	Other Assets and Liabilities	58
5.7	Net Cash	59
5.8	Franking Credits	59
6	Evaluation of the Scheme	60
6.1	Summary	60
6.2	Fairness	60
6.3	Reasonableness	60
6.4	Shareholder Decision	64
7	Qualifications, Declarations and Consents	65

Appendix

1	Broker Consensus Forecasts
---	----------------------------

THIS PAGE HAS BEEN LEFT BLANK INTENTIONALLY

ANNEXURE A CONT

GRANT SAMUEL



1 Details of the Scheme

On 16 September 2019, Bellamy's Australia Limited ("Bellamy's") announced that it had entered into a Scheme Implementation Deed with China Mengniu Dairy Company Limited ("Mengniu") under which Mengniu¹ has agreed to acquire all of the issued shares in Bellamy's by way of a scheme of arrangement ("the Scheme"). If the Scheme is implemented, it is intended that Bellamy's shareholders (other than excluded shareholders²) will receive a total cash amount of \$13.25 per share comprising:

- \$12.65 cash per share paid by Mengniu under the Scheme; and
- a \$0.60 per share fully franked special dividend paid by Bellamy's prior to implementation of the Scheme.

Mengniu is a leading dairy product manufacturer in China. It manufactures dairy products in China, New Zealand and Indonesia and distributes dairy products throughout China (including Hong Kong) as well as to Singapore, Macau, Myanmar and Indonesia through its overseas sales network. Mengniu generated revenue of RMB69 billion (~\$14.2 billion) in 2018. It is listed on the Hong Kong Stock Exchange and has a market capitalisation of around HK\$124 billion (~\$23 billion).

The Scheme is subject to a number of conditions which are set out in full in the Scheme Booklet to be sent by Bellamy's to shareholders including approval under the *Foreign Acquisitions and Takeovers Act, 1975 (Cth)* and approval by Bellamy's shareholders (other than excluded shareholders) under Section 411 of the *Corporations Act, 2001 (Cth)* ("Corporations Act") ("Section 411"). Other elements of the Scheme include the following:

- Bellamy's has agreed to certain exclusivity arrangements (including no-shop, no-talk and no-due diligence restrictions and a notification obligation) that apply during the exclusivity period³. The no-talk and no-due diligence provisions are subject to a carve out in respect of the fiduciary and statutory obligations of Bellamy's directors;
- Mengniu has been granted the right to match a competing proposal⁴;
- a break fee of \$14.3 million is payable by Bellamy's to Mengniu in certain circumstances⁵; and

¹ Under the Scheme, the acquiring entity will be Mengniu's Australian indirect wholly-owned subsidiary, Wise Journey Pty Ltd.

² Excluded shareholders are those Bellamy's shareholders who hold excluded shares. Excluded shares are Bellamy's shares held by any Mengniu group entity. Mengniu group entities currently hold 3,248,482 Bellamy's shares, or approximately 2.9% of Bellamy's issued shares. The Bellamy's shares held by Mengniu group entities will not be acquired under the Scheme, and Mengniu is not able to vote those Bellamy's shares on the Scheme. However, Mengniu will receive the special dividend in relation to the excluded shares, if the Scheme is implemented.

³ The period from 15 September 2019 to the earlier of termination of the Scheme Implementation Deed (in accordance with its terms) and 15 March 2020 (or such other date as may be agreed in writing between Bellamy's and Mengniu).

⁴ A competing proposal means any transaction or arrangement, or any proposal, offer or expression of interest in relation to a transaction or arrangement, which if entered into or completed would result in a third party:

- acquiring or becoming the holder of a legal, beneficial or economic interest in all or a substantial part of the business or assets of Bellamy's;
- acquiring a relevant interest or acquiring or having a right to acquire a legal, beneficial and/or economic interest in 20% or more of Bellamy's shares; or
- acquiring control of, or merging with, Bellamy's.

⁵ If, prior to 15 March 2020 or, if earlier, the date on which the Scheme Implementation Deed is terminated, any Bellamy's director makes a public statement withdrawing or adversely changing or modifying their recommendation that Bellamy's shareholders vote in favour of the Scheme, that they will or may not vote all Bellamy's shares held or controlled by them in favour of the Scheme or supporting or endorsing a competing proposal (other than where the independent expert has concluded that the Scheme is not in the best interests of Bellamy's shareholders except where the expert states this conclusion as a result of a competing proposal); if a competing proposal is announced by a third party before 15 March 2020 and, within one year of announcement, the third party completes in all material respects the transaction contemplated by the competing proposal or has a relevant interest in at least 50% of Bellamy's shares; or if Mengniu validly terminates the Scheme Implementation Deed for a material breach by Bellamy's.

GRANT SAMUEL



- subject to the Scheme becoming effective (and no later than the Scheme record date), Bellamy's must ensure that there are no outstanding options by:
 - causing some or all of the options to vest and following such vesting:
 - if the options are exercised, transferring or issuing the relevant number of Bellamy's shares to the former holders of the options to enable them to receive the special dividend and participate in the Scheme; or
 - cash settling the options in accordance with the terms of Bellamy's LTI Plan⁶; or
 - entering into a deed with the holders of the options under which the options are cancelled for cash consideration.

Subject to an independent expert concluding (and continuing to conclude) that the Scheme is in the best interests of shareholders and in the absence of a superior proposal⁷, the board of directors of Bellamy's has unanimously recommended that Bellamy's shareholders vote in favour of the Scheme and each director of Bellamy's intends to vote all the Bellamy's shares held or controlled by them in favour of the Scheme.

⁶ LTI Plan is the Long Term Incentive Plan.

⁷ Superior proposal means a bona fide, written competing proposal received after 15 September 2019 that the Bellamy's Board determines, acting in good faith (after consultation with Bellamy's legal and financial advisers, taking into account all material legal, financial, regulatory and other aspects of the competing proposal and the identity of the third party), would, if completed substantially in accordance with its terms, be more favourable to Bellamy's shareholders than the Scheme.

ANNEXURE A CONT

GRANT SAMUEL



2 Scope of the Report

2.1 Purpose of the Report

Under Section 411, the Scheme must be approved by a majority in number (i.e. more than 50%) of each class of shareholders present and voting (either in person or by proxy) at the meeting, representing at least 75% of the votes cast on the resolution. If approved by Bellamy's shareholders, the Scheme will then be subject to approval by the Supreme Court of New South Wales.

Part 3 of Schedule 8 to the Corporations Regulations prescribes the information to be sent to shareholders in relation to schemes of arrangement pursuant to Section 411. Part 3 of Schedule 8 requires an independent expert's report in relation to a scheme of arrangement to be prepared when a party to a scheme of arrangement has a prescribed shareholding in the company subject to the scheme, or where any of its directors are also directors of the company subject to the scheme. In those circumstances, the independent expert's report must state whether the scheme of arrangement is in the best interests of shareholders subject to the scheme and must state reasons for that opinion.

Although there is no requirement in the present circumstances for an independent expert's report pursuant to the Corporations Act or the Australian Securities Exchange ("ASX") Listing Rules, the directors of Bellamy's have engaged Grant Samuel & Associates Pty Limited ("Grant Samuel") to prepare an independent expert's report setting out whether, in its opinion, the Scheme is in the best interests of Bellamy's shareholders and to state reasons for that opinion. A copy of the report will accompany the Scheme Booklet to be sent to shareholders by Bellamy's.

This report is general financial product advice only and has been prepared without taking into account the objectives, financial situation or needs of individual Bellamy's shareholders. Accordingly, before acting in relation to their investment, shareholders should consider the appropriateness of the advice having regard to their own objectives, financial situation or needs. Shareholders should read the Scheme Booklet issued by Bellamy's in relation to the Scheme.

Voting for or against the Scheme is a matter for individual shareholders based on their views as to value and business strategy, their expectations about future economic and market conditions and their particular circumstances including risk profile, liquidity preference, investment strategy, portfolio structure and tax position. Shareholders who are in doubt as to the action they should take in relation to the Scheme should consult their own professional adviser.

2.2 Basis of Evaluation

There is no legal definition of the expression "in the best interests". However, the Australian Securities & Investments Commission ("ASIC") has issued Regulatory Guide 111 ("RG111") which establishes guidelines in respect of independent expert's reports. RG111 differentiates between the analysis required for control transactions and other transactions. In the context of control transactions (whether by takeover bid, scheme of arrangement, the issue of securities or selective capital reduction or buyback), the expert is required to distinguish between "fair" and "reasonable". A proposal that was "fair and reasonable" or "not fair but reasonable" would be in the best interests of shareholders (being the opinion required under Part 3 of Schedule 8). For most other transactions the expert is to weigh up the advantages and disadvantages of the proposal for shareholders. If the advantages outweigh the disadvantages, a proposal would be in the best interests of shareholders.

The Scheme is economically the same as a takeover offer. Accordingly, Grant Samuel has evaluated the Scheme as a control transaction and formed a judgement as to whether the proposal is "fair and reasonable".

GRANT SAMUEL



Fairness involves a comparison of the offer price with the value that may be attributed to the securities that are the subject of the offer based on the value of the underlying businesses and assets. For this comparison, value is determined assuming 100% ownership of the target and a knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious, seller acting at arm's length.

Reasonableness involves an analysis of other factors that shareholders might consider prior to accepting an offer such as:

- the offeror's existing shareholding;
- other significant shareholdings;
- the probability of an alternative offer; and
- the liquidity of the market for the target company's shares.

An offer could be considered "reasonable" if there were valid reasons to accept the offer notwithstanding that it was not "fair".

Fairness is a more demanding criteria. A "fair" offer will always be "reasonable" but a "reasonable" offer will not necessarily be "fair". A fair offer is one that reflects the full market value of a company's businesses and assets. An offer that is in excess of the pre-bid market prices but less than full value will not be fair but may be reasonable if shareholders are otherwise unlikely in the foreseeable future to realise an amount for their shares in excess of the offer price. This is commonly the case where the bidder already controls the target company. In that situation the minority shareholders have little prospect of receiving full value from a third party offeror unless the controlling shareholder is prepared to sell its controlling shareholding.

Grant Samuel has determined whether the Scheme is fair by comparing the estimated underlying value range of Bellamy's with the offer price. The Scheme will be fair if it falls within the estimated underlying value range. In considering whether the Scheme is reasonable, the factors that have been considered include:

- the existing shareholding structure of Bellamy's;
- the likelihood of an alternative offer and alternative transactions that could realise fair value;
- the likely market price and liquidity of Bellamy's shares in the absence of the Scheme; and
- other advantages and disadvantages for Bellamy's shareholders of approving the Scheme.

2.3 Sources of Information

The following information was utilised and relied upon, without independent verification, in preparing this report:

- the Scheme Booklet (including earlier drafts);
- annual reports of Bellamy's for the four years ended 30 June 2019;
- press releases, public announcements, media and analyst presentation material and other public filings by Bellamy's including information available on its website;
- brokers' reports and recent press articles on Bellamy's and the global infant nutrition sector;
- sharemarket data and related information on Australian and international listed companies engaged in the infant nutrition sector and on acquisitions of companies and businesses in this sector; and

ANNEXURE A CONT

GRANT SAMUEL



- other confidential documents, board papers, presentations and working papers provided by Bellamy's including the budget for FY20⁸ and longer term projections prepared by Bellamy's management and its advisers.

Grant Samuel has also held discussions with, and obtained information from, senior management of Bellamy's and its advisers.

2.4 Limitations and Reliance on Information

Grant Samuel believes that its opinion must be considered as a whole and that selecting portions of the analysis or factors considered by it, without considering all factors and analyses together, could create a misleading view of the process employed and the conclusions reached. Any attempt to do so could lead to undue emphasis on a particular factor or analysis. The preparation of an opinion is a complex process and is not necessarily susceptible to partial analysis or summary.

Grant Samuel's opinion is based on economic, sharemarket, business trading, financial and other conditions and expectations prevailing at the date of this report. These conditions can change significantly over relatively short periods of time. If they did change materially, subsequent to the date of this report, the opinion could be different in these changed circumstances.

This report is also based upon financial and other information provided by Bellamy's and its advisers. Grant Samuel has considered and relied upon this information. Bellamy's has represented in writing to Grant Samuel that to the best of its knowledge and belief the information provided by it was then, and is now, complete and not incorrect or misleading in any material respect. Grant Samuel has no reason to believe that any material facts have been withheld.

The information provided to Grant Samuel has been evaluated through analysis, inquiry and review to the extent that it considers necessary or appropriate for the purposes of forming an opinion as to whether the Scheme is in the best interests of Bellamy's shareholders. However, Grant Samuel does not warrant that its inquiries have identified or verified all of the matters that an audit, extensive examination or "due diligence" investigation might disclose. While Grant Samuel has made what it considers to be appropriate inquiries for the purposes of forming its opinion, "due diligence" of the type undertaken by companies and their advisers in relation to, for example, prospectuses or profit forecasts, is beyond the scope of an independent expert.

Accordingly, this report and the opinions expressed in it should be considered more in the nature of an overall review of the anticipated commercial and financial implications rather than a comprehensive audit or investigation of detailed matters.

An important part of the information used in forming an opinion of the kind expressed in this report is comprised of the opinions and judgement of management. This type of information was also evaluated through analysis, inquiry and review to the extent practical. However, such information is often not capable of external verification or validation.

Preparation of this report does not imply that Grant Samuel has audited in any way the management accounts or other records of Bellamy's. It is understood that the accounting information that was provided was prepared in accordance with generally accepted accounting principles and in a manner consistent with the method of accounting in previous years (except where noted).

The information provided to Grant Samuel included:

- the budget for Bellamy's for the year ending 30 June 2020 ("FY20 Budget") prepared by management and approved by the directors of Bellamy's; and

⁸ FYXX is the year end 30 June 20XX (e.g. FY20 is the year end 30 June 2020).

GRANT SAMUEL



- a five year financial model for the business operations for the period commencing 1 July 2019 ("Five Year Model"). The model was prepared by Bellamy's and its advisers and contains a number of scenarios.

Bellamy's is responsible for the information contained in the FY20 Budget and the Five Year Model ("the forward looking information"). Grant Samuel has considered and, to the extent deemed appropriate, relied on the forward looking information for the purposes of its analysis. The major assumptions underlying the forward looking information were reviewed by Grant Samuel in the context of current economic, financial and other conditions and having regard to the underlying objectives of the forward looking information. It should be noted that the forward looking information and the underlying assumptions have not been reviewed (nor is there a statutory or regulatory requirement for such a review) by an investigating accountant for reasonableness or accuracy of compilation and application of assumptions.

Subject to these limitations, Grant Samuel considers that, based on the inquiries it has undertaken and only for the purposes of its analysis for this report (which do not constitute, and are not as extensive as, an audit or accountant's examination), there are reasonable grounds to believe that the forward looking information has been prepared on a reasonable basis. In forming this view, Grant Samuel has taken the following factors into account:

- Bellamy's has sophisticated management and financial reporting processes. The annual financial budget is prepared through a detailed budgeting process involving preparation of "ground up" forecasts by the management of each business and is subject to ongoing analysis and revision to reflect the impact of actual performance or assessments of likely future performance;
- the FY20 Budget has been approved by the directors of Bellamy's;
- Bellamy's actual performance for the two months ended 31 August 2019 is broadly in line with the FY20 Budget; and
- the Five Year Model was developed in conjunction with Bellamy's advisers and has been subject to rigorous testing and critiquing of the reasonableness of key assumptions.

While Bellamy's has made guidance statements about group revenue and group EBITDA⁹ margin for FY20 and has provided a medium term ambition for revenue and long term targets for group EBITDA margin, the directors of Bellamy's have decided not to include the FY20 Budget or any subsequent year financial information in the Scheme Booklet and therefore this information has not been disclosed in this report.

To provide an indication of the expected financial performance of Bellamy's, Grant Samuel has considered brokers' forecasts for Bellamy's (see Appendix 1). Grant Samuel has used the median of the brokers' forecasts to review the parameters implied by its valuation of Bellamy's. The median brokers' forecasts for FY20 are sufficiently close to Bellamy's FY20 Budget to be useful for analytical purposes. While the median brokers' forecasts for FY21 and FY22 (assuming SAMR registration) are below Bellamy's internal projections and its medium term ambition of \$500 million in revenue, they are still useful for analytical purposes.

Grant Samuel has not relied on the Five Year Model for the purposes of its report but has considered this information in its review of the future business strategy of Bellamy's and its prospects and used this information in developing a financial model for the business operations of Bellamy's as discussed in Section 5.

Grant Samuel has no reason to believe that the forward looking information reflects any material bias, either positive or negative. However, the achievability of the forward looking information is not warranted or guaranteed by Grant Samuel. Future profits and cash flows are inherently uncertain. They are predictions by management of future events that cannot be assured and are necessarily based on

⁹ EBITDA is earnings before net interest, tax, depreciation and amortisation and significant and non-recurring items.

ANNEXURE A CONT

GRANT SAMUEL



assumptions, many of which are beyond the control of the company or its management. Actual results may be significantly more or less favourable.

As part of its analysis, Grant Samuel has reviewed the sensitivity of net present values to changes in key variables. The sensitivity analysis isolates a limited number of assumptions and shows the impact of variations to those assumptions. No opinion is expressed as to the probability or otherwise of those variations occurring. Actual variations may be greater or less than those modelled. In addition to not representing best and worst outcomes, the sensitivity analysis does not, and does not purport to, show the impact of all possible variations to the business model. The actual performance of the business may be negatively or positively impacted by a range of factors including, but not limited to:

- changes to the assumptions other than those considered in the sensitivity analysis;
- greater or lesser variations to the assumptions considered in the sensitivity analysis than those modelled; and
- combinations of different variations to a number of different assumptions that may produce outcomes different to the combinations modelled.

In forming its opinion, Grant Samuel has also assumed that:

- matters such as title, compliance with laws and regulations and contracts in place are in good standing and will remain so and that there are no material legal proceedings, other than as publicly disclosed;
- the assessments by Bellamy's and its advisers with regard to legal, regulatory, tax and accounting matters relating to the Scheme are accurate and complete;
- the information set out in the Scheme Booklet sent by Bellamy's to its shareholders is complete, accurate and fairly presented in all material respects;
- the publicly available information relied on by Grant Samuel in its analysis was accurate and not misleading;
- the Scheme will be implemented in accordance with its terms; and
- the legal mechanisms to implement the Scheme are correct and will be effective.

To the extent that there are legal issues relating to assets, properties, or business interests or issues relating to compliance with applicable laws, regulations, and policies, Grant Samuel assumes no responsibility and offers no legal opinion or interpretation on any issue.

GRANT SAMUEL



3 Global Infant Nutrition Market

3.1 Overview

The global infant nutrition market was estimated to be US\$71 billion in 2018¹⁰ and is projected to reach US\$99 billion by 2024¹¹, representing average annual growth of 5.6%. The two key segments of the infant nutrition market are:

- **infant formula**, nutritional powders for infants which are made from a mixture of dairy and other ingredients. Infant formula is designed to be used as a substitute for, or alongside, human breast milk; and
- **baby food**, soft and easily consumable foods prepared for infants and toddlers. Baby food comes in various product types including dried foods, prepared foods and other baby foods.

3.2 Global Infant Formula Market

The global infant formula market was estimated at around US\$54 billion in 2018¹². The key global markets for infant formula are China, the United States, Russia, Indonesia, and Vietnam. However, most of the global growth over the past 10 years has been driven by China, which represents an estimated 46%¹⁰ of the global infant formula market.

In the short term, global revenue growth is expected to remain solid at 7-8% per annum¹³. The key drivers of growth in the global infant formula market include:

- a rising infant population. The global infant population was 673.6 million in 2015 and is expected to increase to 733.3 million in 2025, although rates of growth are expected to vary across countries and regions (e.g. increasing birth rates are projected for Africa, Oceania and North America whereas birth rates are expected to decline in Europe, Asia and Latin America and the Caribbean);
- the increasing participation of women in the workforce and the need for convenient and portable nutrition for their babies;
- the rise in middle class population and growth in disposable income in emerging economies such as India, China and Indonesia;
- higher spending on baby health; and
- an increased awareness about the high nutritional content of infant formula.

The global infant formula market is dominated by Nestlé S.A. ("Nestlé"), Danone S.A. ("Danone") and Reckitt Benckiser Group plc ("Reckitt") (following its acquisition of Mead Johnson & Company, LLC ("Mead Johnson") in 2017), which together represent around 50% of the global market. Other prominent players include Abbott Laboratories ("Abbott"), Royal FrieslandCampina N.V. ("Friesland") and Ausnutria B.V. ("Ausnutria"). There is also a number of niche participants focused on particular countries/regions or market segments such as Mengniu, China Feihe Ltd ("Feihe"), The a2 Milk Company Limited ("a2"), and Bellamy's. These participants have very small overall market shares but are strong in their niche market (e.g. Bellamy's is a leading global provider of organic infant formula).

¹⁰ The size of the global infant nutrition market (US\$71 billion) does not equal the sum of the global infant formula market (US\$54 billion) and the global baby food market (US\$14 billion) due to the use of different sources for data. The market size information is sufficiently close to be useful for the purposes of this report.

¹¹ Source: Mordor Intelligence, 2018.

¹² Source: Euromonitor, JP Morgan broker report, 7 August 2019.

¹³ Source: Euromonitor 2018.

ANNEXURE A CONT

GRANT SAMUEL



The infant formula market can be divided into the following segments:

- **regular infant formula**, which is generally made from dry milk powder;
- **premium infant formula**, which includes key ingredients such as proteins and fat components and can be made from fresh milk or dry milk powder; and
- **super-premium infant formula**, which is typically fortified with additional nutrients such as hydrolysed whey protein, omega-3 docosahexaenoic acid ("DHA") and arachidonic acid ("ARA") (essential fatty acids) and probiotics, or made with fresher ingredients such as fresh milk or organic milk. Within this category, formula can be distinguished by other characteristics such as "science-led" (e.g. *Apatamil*, a Danone product), "organic" (e.g. *Bellamy's*) or "gentle" (e.g. *a2*).

3.3 Chinese Infant Formula Market

Size and Key Drivers

China's infant formula market was around US\$25 billion in 2018¹³ (around 46% of the global infant formula market). The market experienced rapid growth from 2010 to 2015¹⁴, with the volume and value of retail sales increasing by 14% and 19% respectively. A period of deceleration followed, due to market changes from the development of e-commerce channels and the resulting price competition. Nonetheless, demand for infant formula in China is expected to remain strong with 7-9% market growth projected over the next four years to US\$37 billion in 2023¹³.

The key drivers of demand for infant formula in China have been household wealth and the birth rate.

HOUSEHOLD WEALTH

From 2008 until 2018, China's economy grew at an average annual rate of 11%, making it the second largest global economy by gross domestic product. This rapid growth lifted a proportion of the population out of poverty, accelerated urbanisation and increased disposable income, creating a growing middle class. Over the period from 2007 to 2018, disposable income per capita increased by an average of 11% per annum:



Source: CEIC Data

¹⁴ Source: Euromonitor, 2015.

GRANT SAMUEL



The increase in urbanisation and higher per capita disposable income has improved the purchasing power of Chinese consumers, allowing them to purchase more discretionary products such as infant formula.

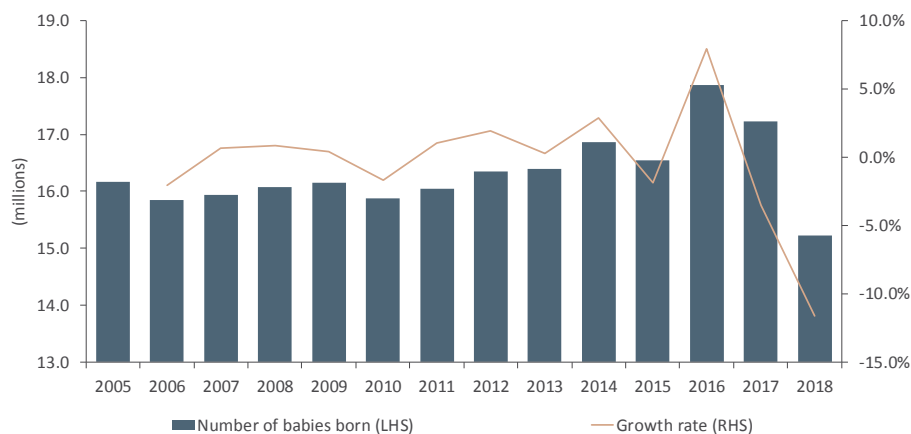
BIRTH RATE

China's demographics have historically been characterised by lower birth rates and an aging population, largely as a result of the one-child policy that was implemented in 1979. Despite these characteristics, it is the largest and fastest growing infant formula market globally due to the size of its population (1.4 billion in 2019).

During 2014, the Chinese government shifted its stance on population management, relaxing its one-child policy and allowing families to have two children. After two years of record births in 2016 and 2017, the birth rate in China fell by 12% to 15.2 million in 2018, the lowest number of births since 1961:

CHINA - NUMBER OF BABIES BORN

2005 TO 2018



Source: China National Bureau of Statistics

China's birth rate is expected to decline further as the female population in China of child-bearing age (between 15 and 49) also fell by seven million in 2018, down 7% on the prior year.

China's declining birth rate can also be attributed to changing social attitudes towards marriage as young couples are delaying starting a family to prioritise their education and careers. This trend is driven by concerns around affordability as the cost of living grows with the pace of China's economic development.

Participants

The Chinese infant formula market is fragmented, with the 15 largest participants representing 75% of the market¹³.

Although imported infant formula has always represented a portion of the market, the 2008 food safety scandal (where milk and infant formula had been contaminated with melamine) resulted in a dramatic shift towards imported infant formula as loss of trust in domestic products led many Chinese consumers to opt for foreign labels that were perceived to be safer and of higher quality. In 2018, imports of infant formula into China are estimated to have represented just under 50% of the market:

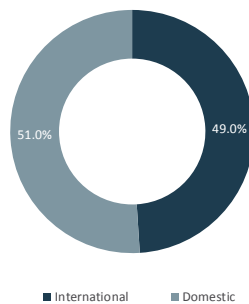
ANNEXURE A CONT

GRANT SAMUEL

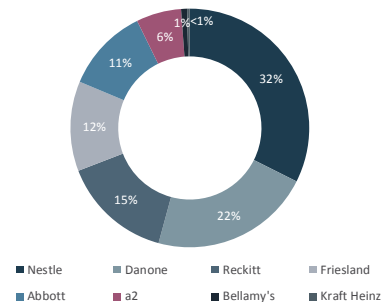


CHINA – INFANT FORMULA MARKET (2018)

DOMESTIC VS FOREIGN



FOREIGN SUPPLIERS



Source: Euromonitor, 2018

The import market is dominated by the global infant formula suppliers (Nestle, Danone and Reckitt), which collectively represent 69% of imported product. Niche participants such as a2 and Bellamy's have considerably smaller market shares although they are strong in their respective niche markets.

In May 2019, the Chinese Government announced an action plan to increase the proportion of domestically produced infant formula to 60% by 2022. The plan involves supporting domestic dairy companies in acquiring or establishing overseas bases for milk supply, encouraging foreign dairy companies to invest in China and tightening regulations on imported milk powder and online sales platforms (see below).

Features

PRODUCT PREMIUMISATION

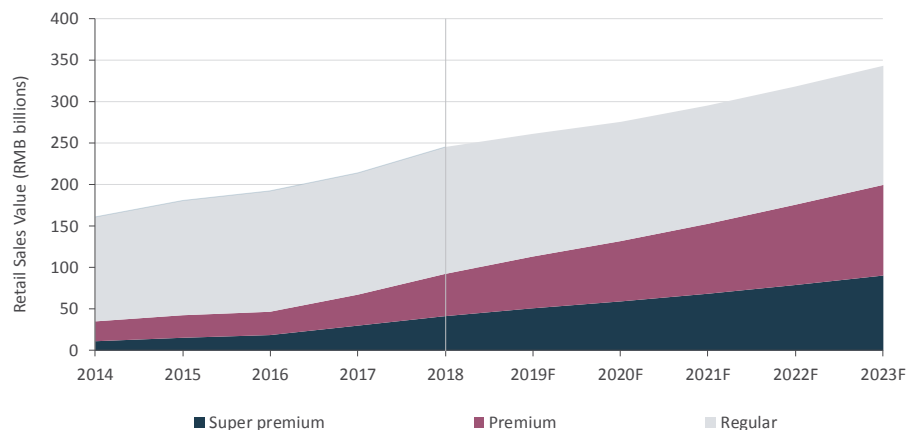
Driven by urbanisation, a growing middle class, increasing disposable income and more educated consumers, China's infant formula market has become increasingly focused on premium brands. Chinese parents are willing to spend a higher proportion of their income on infant products and consider nutritional value, quality and safety as the most important factors when choosing an infant formula. Consumers that are less familiar with infant formula tend to associate higher price with better quality.

Prices for infant formula in China range from below RMB350/kg (~\$73/kg) for regular infant formula, to RMB350-499/kg (~\$73-93/kg) for premium infant formula and at or above RMB450/kg (~\$93/kg) for super-premium infant formula. Premium and super-premium products have almost tripled in retail sales value, increasing from RMB35 billion in 2014 to RMB93 billion in 2018, and are expected to reach RMB200 billion by 2023, driven by both volume growth and price increases:

GRANT SAMUEL



CHINA – INFANT MILK FORMULA MARKET BY PRODUCT TYPE
2014 TO 2023F



Source: Frost & Sullivan

DISTRIBUTION CHANNELS

Success in the Chinese infant formula market is largely dependent on the ability to build a strong distribution network. Distribution channels in China are classified into offline channels (traditional brick-and-mortar stores) and online channels (distribution through various social and e-commerce platforms).

Offline channels account for approximately 70% of infant formula sales in China¹⁵. These channels include:

- **mother and baby stores**, dedicated baby care stores that provide a comprehensive range of baby products and have dedicated staff that provide their expertise and recommendations across product ranges. These stores are very popular among Chinese parents and represent approximately 55% of infant formula sales; and
- **traditional retailers** such as supermarkets/hypermarkets, pharmacies and convenience stores.

Online channels represent the remaining 30% of infant formula sales in China and include:

- **daigou**, a network of individual shoppers located in offshore markets that purchase on behalf of and ship infant formula to residents in China. Daigou typically communicate with customers via online messaging platforms such as WeChat and Weibo, but also trade through their own personal stores on e-commerce platforms;
- **cross border e-commerce ("CBEC") platforms**, which are business-to-consumer online platforms (such as Tmall Direct International and JD.com) where international companies sell their products directly to Chinese consumers;
- **social e-commerce platforms**, which involve the use of social media and other online media that support member interaction and contribution to assist in buying and selling products online. Social e-commerce platforms in China include Yunji and Pinduoduo; and
- **online-to-offline ("O2O")**, where companies that have both physical stores and an online presence create awareness for their products via online promotions. These promotions require consumers to visit physical stores for redemption, effectively converting an online sale to an offline sale. The

¹⁵ Source: a2 Investor Presentation, September 2019.

ANNEXURE A CONT

GRANT SAMUEL



converse can also apply where consumers browse for products in-store, compare with other products on e-commerce platforms, and make a purchase online.

Although the majority of infant formula sales are generated through offline channels, many Chinese consumers begin their product research online and access various social networking sites for product reviews and recommendations. A strong online and offline presence is important for maintaining Chinese consumers' awareness and trust in a brand.

Regulation

The 2008 food safety scandal resulted in a loss of confidence by Chinese consumers in locally manufactured dairy products. As a result, the Chinese Government implemented additional policies and regulations to strengthen supervision of the domestic infant formula and dairy market.

Since 2013, a General Administration of Customs of China ("GACC") licence (formerly a Certification and Accreditation Administration of the People's Republic of China ("CNCA") licence) has been required for international facilities to manufacture infant formula products that are to be sold in China. This includes Australian-label products sold through formal and informal online channels (including the pick and pack and CBEC channels) as well as offline sales of Chinese-label products in retail stores in China. GACC registration is valid for four years before renewal is required and the renewal application must be submitted one year prior to expiry of the four year term.

In late 2016, changes to China's infant formula registration requirements were announced which required all infant formula products sold in China (i.e. Chinese-label offline sales) from 1 January 2018 to be registered with the China Food and Drug Administration ("CFDA"). This registration is also held by the manufacturing facility and is valid for five years. An individual facility can register a maximum of three individual brands and a total of nine formulas and each registered brand must be significantly different in formulation to be recognised. Products sold in stores must have appropriate Chinese labelling and be made to Chinese nutritional and quality standards.

In March 2018, a restructure of the CFDA was announced. A new structure, the State Administration for Market Regulation ("SAMR") was finalised in July 2018, with key officials appointed in September 2018.

As a result of these changes, all infant formula products imported and sold in offline channels in China must be produced by a manufacturing facility registered with GACC and be registered by SAMR. The SAMR application process can be time consuming, involving on-site inspections and sample testing as well as approval of artwork. To date, registration has been granted to over 162 companies for 1,253 infant formula products, although only 58 products have been approved in 2019¹⁶. Products without SAMR approval can only be sold via e-commerce channels or daigou.

On 31 August 2018, the Chinese Government announced several regulatory updates impacting e-commerce and CBEC channels across all products and services. A new e-commerce law (effective 1 January 2019) and CBEC policy framework (effective 31 March 2019) together confirmed:

- strengthened compliance obligations for e-commerce operators (domestic and CBEC);
- English-label infant formula products can continue to be sold via CBEC as imports for personal use (provided CBEC participants adhere to the responsibilities outlined in the CBEC policy framework);
- a continuation of preferential tax rates for imports via CBEC bonded warehouse zones; and
- an increase in the number of approved CBEC bonded warehouse zones across China from 15 to 22 cities.

While infant formula products will continue to benefit from more relaxed regulation (as imports for personal use) and will not require registration or an import licence approval, the stricter CBEC regulation

¹⁶ Source: CIRS article, 29 May 2019.

GRANT SAMUEL



and enforcement has resulted in a shift from daigou to CBEC channels and caused issues for smaller e-commerce and O2O operators.

Food products imported into China are also subject to China Inspection and Quarantine ("CIQ") tests, which are governed by SAMR. Shipments can be prevented from entering China if any of the products in the shipment fail a CIQ test, even if they form only part of the shipment.

3.4 Global Baby Food Market

The global baby food market is an emerging category that was estimated at more than US\$14 billion in 2018¹⁷. Europe represents more than 30% of global volume demand, with other key markets including the United States, Canada, Brazil, China and Australia.

The global baby food market is expected to grow to more than US\$32 billion by 2025¹⁷, representing an average annual growth rate of 12.5%, driven by similar factors to those driving growth in the global infant formula market (see Section 3.2).

The market is highly competitive, with several established international companies such as Nestle, Danone and Reckitt having developed strong brand and consumer loyalty. Other industry participants include Abbott, the Hero Group, Perrigo Company plc, Bellamy's, Hain Celestial Group, Inc., Campbell Soup Company and Friesland.

¹⁷ Source: Global Markets Insights, March 2019

ANNEXURE A CONT

GRANT SAMUEL



4 Profile of Bellamy's

4.1 Background

Bellamy's was established in Tasmania as family-operated company in 2004 and launched the first organic infant formula range in Australia in 2006. In 2007, it was acquired by Tasmanian Pure Foods Ltd, a privately owned business that invested in Tasmanian food and agribusinesses. The business expanded into Asia, exporting its products to China (including Hong Kong), Singapore, Malaysia, Vietnam and New Zealand, benefiting from the increased demand for imported baby formula products in China following the 2008 food safety scandal.

The company was renamed Bellamy's Australia Limited in June 2014 and listed on the ASX in August 2014, following an initial public offer ("IPO") which raised \$25 million at \$1.00 per share (as well as a sell down of 10.9 million existing shares). The funds raised were used for working capital and product range research and development.

Bellamy's continued to grow rapidly following listing and struggled to keep up with the rapid growth in demand for infant formula over the 2014-2016 period. However, changes in China's infant formula registration requirements announced in late 2016 resulted in excess inventory flooding the Chinese market as producers (who would not be able to meet the registration requirements) liquidated their inventories at deeply discounted prices. In addition, Bellamy's brought on significantly increased supply in 2016. The increased availability of stock and the discounted prices significantly reduced the margins able to be generated by daigou traders, reducing demand for Bellamy's products from the important daigou channel. This reduction in demand, combined with minimum annual volume commitments in supply contracts with Bega Cheese Limited ("Bega") and Fonterra Co-operative Group Limited ("Fonterra"), had a substantial adverse impact on Bellamy's performance. Its share price collapsed, leading to the departure of the Chief Executive Officer ("CEO") and a shareholder requisitioned extraordinary general meeting ("EGM") to replace the majority of the Board in early 2017.

Bellamy's was impacted further by Bega's sale of its Tatura manufacturing facility in February 2017, which required Bellamy's to reformulate its Chinese-label formula, source a manufacturing facility and certify the production process and consumer testing before lodging an application for registration with CFDA.

The new Board and senior management put together a turnaround plan to stabilise the business, including:

- completion of an entitlement offer, raising \$60.4 million (before costs) to fund an acquisition (see below) and reduce external borrowings;
- renegotiation of key supply arrangements with Fonterra to increase operational flexibility;
- acquisition of a 90% ownership interest in A.C.N. 619 661 611 Pty Ltd¹⁸ ("Camperdown"), a CNCA¹⁹ licensed powder products blending and canning line in Braeside, Victoria for \$28.5 million. Bellamy's has agreed to acquire the remaining 10% ownership interest conditional on Camperdown receiving CFDA (now SAMR) approval for its Chinese-label products (although Bellamy's has the right to waive this condition). The consideration for the 10% ownership interest is the issue of 300,000 Bellamy's ordinary shares; and
- reinvesting in the Bellamy's brand, focusing on the opportunity in China.

The turnaround plan was successful, with Bellamy's reporting record revenue and earnings in FY18.

¹⁸ The Camperdown facility is owned through a wholly-owned subsidiary of A.C.N. 619 661 611 Pty Ltd, Camperdown Powder Pty Ltd. Bellamy's has a 90% indirect interest in A.C.N. 619 661 611 Pty Ltd, which directly holds 100% of Camperdown Powder Pty Ltd.

¹⁹ Holding a CNCA (now GACC) licence was expected to provide a path to achieve CFDA (now SAMR) registration. Camperdown has received a licence extension from GACC to 31 December 2019, when it is expected to be renewed. Camperdown also received SAMR registration for an external customer in December 2017. This registration is due for renewal in December 2022.

GRANT SAMUEL



Bellamy's submitted its application for CFDA registration (through Camperdown) in December 2017. Shortly after submission the CFDA entered a restructuring process that resulted in the establishment of a new regulatory body, SAMR. The SAMR registration of Bellamy's Chinese-label formula at Camperdown remains in progress without any certainty as to timing.

Bellamy's is an ASX 200 company and, prior to announcement of the Scheme on 16 September 2019, had a market capitalisation of approximately \$950 million.

4.2 Business Overview and Strategy










Business Operations

Bellamy's is a globally recognised Australian organic brand. It is the largest infant organic brand in Australia and the second largest organic baby food brand globally. Bellamy's produces, supplies and markets a range of organic infant formula and food products that are distributed, through offline and online platforms, in Australia, New Zealand, China (including Hong Kong), Singapore, Malaysia and Vietnam. It has approximately 160 employees located in Australia, China and Singapore.

PRODUCTS

Bellamy's product portfolio, all of which target the super-premium consumer segment, are summarised below:

BELLAMY'S – PRODUCT PORTFOLIO

RANGE	DESCRIPTION
Organic Infant Formula (Australian-label)	 Step 1 Organic Infant Formula 0-6 months, contains DHA (an essential fatty acid) and GOS ²⁰ (a prebiotic)
	 Step 2 Organic Follow-on Formula 6-12 months, contains DHA and GOS
	 Step 3 Organic Toddler Milk Drink 1+ years, enriched alternative to ordinary cow's milk, contains DHA, GOS and 16 vitamins and minerals
	 Step 4 Organic Junior Milk Drink 3+ years, enriched alternative to ordinary cow's milk, contains DHA, GOS, FOS ²¹ and 16 vitamins and minerals (in different levels to Step 3)
	 Organic Pregnancy Formula Mothers (pre, during and post pregnancy), contains DHA, GOS, FOS (prebiotic) and 15 vitamins and minerals (including folic acid and iron)
Organic Baby Food	 Organic Cereal 5 SKUs ²² including baby rice (4+ months) and baby porridge (5+ months)
	 Organic Rusks & Snacks 3 SKUs including milk rusks (6+ months) and fruit snacks (12+ months)
	 Organic Ready Meal Pouches 22 SKUs including breakfast (4+ months), fruit (4+ months), exotic fruit (4+ to 6+ months), yoghurt (6+ months), custard (6+ to 8+ months), vegetable (4+ to 6+ months) and meat (6+ months)
	 Organic Pasta 4 SKUs including brown rice (7+ months), spelt (8+ months) and vegetable pastas (8+ to 12+ months)

Source: Bellamy's

²⁰ GOS is galacto-oligosaccharides, a prebiotic.

²¹ FOS is fructooligosaccharides, a prebiotic.

²² An SKU is a stock keeping unit.

ANNEXURE A CONT

GRANT SAMUEL



Bellamy's key point of differentiation is that all of the above products are certified organic by two Australian certification bodies, Australian Certified Organic Pty Ltd ("ACO") (certification number 7124P) and the National Association for Sustainable Agriculture Australia ("NASAA") (certificate number 10025).

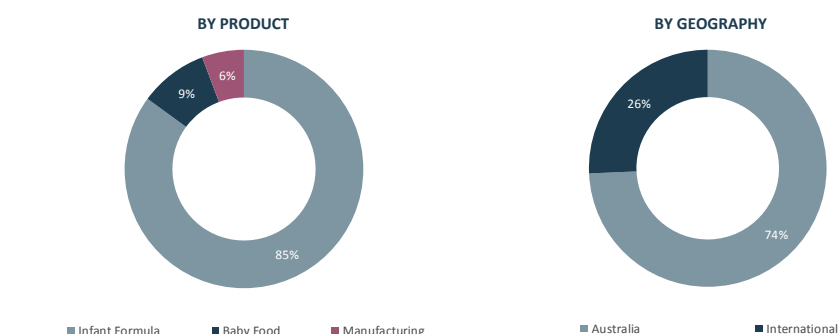
During FY19, Bellamy's undertook a full brand relaunch of its infant formula and food portfolios. It also upgraded the formulation in its core Australian-label infant formula range (Step 1, Step 2 and Step 3) and launched two new products, Step 4 (for ages 3+) and Pregnancy Formula (for mothers), as well as launching 12 new food products including new ranges of exotic fruit pouches and ambient custards and extensions to its cereal range.

All of Bellamy's infant formula production is currently under Australian-label. From 1 January 2018 (when the Chinese SAMR registration requirements became effective), Bellamy's has ceased production of Chinese-label infant formula. Production of Chinese-label organic infant formula for offline sale in China will not resume until Bellamy's Camperdown facility has received SAMR registration. This infant formula will target the super-premium segment of the offline channel in Tier 1, 2 and 3 cities²³.

As part of the strategic plan to build a tiered product portfolio and penetrate the China offline channel, Bellamy's entered into a supply partnership with ViPlus Dairy Pty Ltd ("ViPlus") in April 2019 for a co-branding arrangement for ViPlus's existing SAMR registered infant formula series. This formula will be manufactured at ViPlus's facility in Toora, Victoria. Bellamy's will invest \$4-6 million to transition the product and secure long term production capacity with ViPlus, including competitive pricing for blending and canning and a minimum annual volume commitment (less than 10% of Bellamy's production). The Bellamy's ViPlus series will target the premium segment of the offline channel and initially focus on Tier 3 and Tier 4 cities. It is a conventional formula (i.e. it is not certified organic) which includes premium functional ingredients. Bellamy's anticipates first sales of this product to commence in 2H20.

The vast majority of Bellamy's revenue is from infant formula sales generated in Australia although most of its product is consumed in China:

BELLAMY'S – FY19 REVENUE CONTRIBUTION



In FY19, infant formula represented 85% of revenue. Manufacturing revenue is related to third party processing at Camperdown. 74% of revenue was generated from Australian sales, although this includes sales to Australian-based daigou and sales to Chinese customers through the CBEC channel (see discussion on distribution channels below).

²³ China's cities are classified into one of four tiers based on gross domestic product ("GDP"), administrative level and population, with Tier 1 cities being directly controlled by central government with the highest GDP and population and Tier 4 cities being county level cities with the lowest GDP and population.

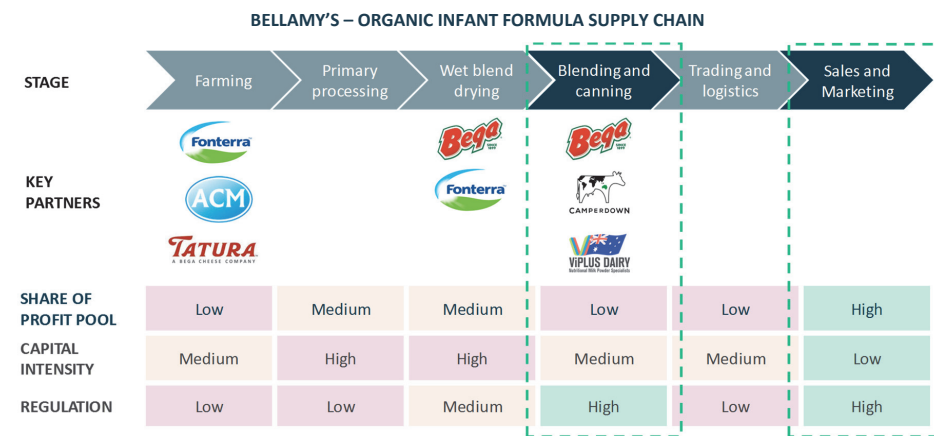
GRANT SAMUEL



SUPPLY CHAIN

The manufacturing process to produce infant formula involves sourcing organic fresh milk from dairy companies, which is then processed into milk powder through a wet blend drying process where ingredients are blended together, homogenised, pasteurised and spray dried. The powdered product is transferred to a dry-blend canning facility to be blended with additional ingredients, packaged and shipped to retailers, wholesalers and other distributors.

The supply chain for the manufacture and sale of Bellamy's organic infant formula is summarised below:



Source: Bellamy's

Note: Not all of Bellamy's key partners have been included in the supply chain chart as this information is confidential

Bellamy's only participates in the blending and canning (through Camperdown) and sales and marketing stages of its supply chain (outlined in the chart above). It is primarily responsible for ingredient selection and formulation, and branding (including marketing).

Bellamy's is not involved in farming (and does not own any farming land) or the manufacture of organic powdered milk or additives (such as DHA, GOS and FOS). It partners with Australian and international (New Zealand, Europe and the United States) ingredient and manufacturing suppliers to produce its organic products and has multi-year contracts with key ingredient suppliers and manufacturers.

Historically, the majority of organic powdered milk has been sourced from overseas. Strategic arrangements recently put in place to increase the supply of fresh local organic milk (to coincide with country of origin compliant labelling ("CoOL") standards) include:

- a partnership with Fonterra to develop the Tasmanian organic milk pool under which Bellamy's will order the first 20 million litres of milk annually with first right of refusal over additional volume;
- a long term contract with Australian Consolidated Milk Pty Ltd ("ACM") to secure local organic fresh milk and milk powders and support ACM's investments in organic processing facilities and farmer conversion; and
- Tatura Milk Industries Ltd ("Tatura") (a subsidiary of Bega) sourcing and incorporating fresh organic milk directly into manufacturing.

The shift from a single international supplier to competitive sourcing is expected to reduce cost and increase availability.

Bellamy's has key manufacturing agreements with Fonterra and Bega. These contracts are multi-year and contain minimum annual volume commitments which require Bellamy's to make production shortfall

ANNEXURE A CONT

GRANT SAMUEL



payments where it is not able to fulfil minimum annual volume commitments. Bellamy's actively manages its production allocation across facilities to ensure shortfall payments are minimised. These contracts have been amended since late 2016 to ensure that Bellamy's owns the intellectual property, reduce the minimum annual volume commitment and provide access to scale rebates.

Bellamy's sources ingredients for its food products from Australia and internationally, contracting directly with ingredient and manufacturing suppliers.

DISTRIBUTION CHANNELS

Bellamy's key direct customer channels for its Australian-label products are:

- Australian supermarket and pharmacy retailers (and their wholesale suppliers);
- Australian-based wholesalers supporting the pick-and-pack and daigou (Australian-based and China-based) networks;
- a select number of China-based distributors supplying CBEC platforms (such as Tmall Direct International, JD.com and Kaola.com); and
- distributors in other international markets (South East Asia and Hong Kong).

Approximately 74% of revenue comes from sales in Australia, although this includes a significant proportion of sales that are on-sold to Chinese customers through Australian-based and China-based daigou via Australian retailers, wholesalers and pick-and-pack networks.

Offline distribution of Chinese-label products in China (other than ViPlus and baby food) will not commence until Bellamy's Camperdown facility receives SAMR registration.

Strategy

Following stabilisation of the business in FY18, Bellamy's has been focused on a three year growth strategy (through to June 2021) that recognises the significant opportunity for organic infant formula in China and Asia more broadly. This strategy initially aimed to achieve \$500 million in revenue by FY21.

Bellamy's executed on this strategy in FY19 through:

- a complete brand relaunch in March 2019, including a review of the product portfolio and a product innovation pipeline:
 - premium branding, reinforced by a premium price position in Australia and China;
 - formulation upgrade, including a world leading level of DHA for an organic formula, ARA²⁴ and GOS;
 - arrangements to increase the supply of Australian organic milk;
 - more attractive trade economics (for daigou, social networks and e-commerce platforms) to drive grassroots recruitment and advocacy; and
 - an extended range for formula (Step 4 and Pregnancy) and foods (cereals, custards and exotic fruit pouches).

Early customer reaction to the rebrand has been positive;

- a substantial increase in marketing investment and China capability:

²⁴ ARA is arachidonic acid, an essential fatty acid.

GRANT SAMUEL



- marketing investment focused on a relaunch of all digital assets, introduction of Chinese ambassadors, outdoor media presence and higher impact selling points (marketing expense increased from 5.3% of sales in 1H19²⁵ to 10.6% in 2H19²⁶); and
- building capability in key sales and marketing functions in China to better activate the brand and engage consumers; and
- entry in new markets such as Vietnam (large population, fast growing upper and middle class, \$1 billion infant formula market growing at 10-15% per annum, focus on “country of origin”).

These changes have set the business up for long term growth and Bellamy's expects to return to sustained revenue growth in FY20 through a focus on investment, with initiatives including:

- accelerated growth in its food business including the launch of a China offline organic food range;
- the launch of new products including:
 - organic ultra-premium infant formula (to premiumise and extend the existing customer base and focused on an advanced “science” proposition); and
 - organic goat formula (to extend the addressable market to the goat segment (estimated at ~\$2 billion in 2018 with +43% annual growth) and focused on a “gentle” proposition),
 both of which are expected to launch in 2H20; and
- expanding into new distribution channels:
 - China offline (ViPlus in the short term and Chinese-label infant formula following receipt of SAMR approval, O2O channels); and
 - markets (middle-class Asian countries such as the Philippines (\$1.6 billion infant formula market growing at 3-4% per annum) and Indonesia (\$2.9 billion infant formula market growing at 8-10% per annum).

Receiving SAMR regulatory approval for Bellamy's Chinese-labelled product would create a new growth platform, and Bellamy's is confident in its technical application and prospects for registration. However, due to the delay in receiving SAMR registration, Bellamy's has revised its \$500 million revenue target beyond FY21.

²⁵ 1HXX is the six months ended 31 December 20XX-1 (i.e. 1H19 is the six months ended 31 December 2018).

²⁶ 2HXX is the six months ended 30 June 20XX (i.e. 2H19 is the six months ended 30 June 2019).

ANNEXURE A CONT

GRANT SAMUEL



4.3 Financial Performance

Historical Financial Performance

Set out below is a summary of the financial performance of Bellamy's for the four years ended 30 June 2019:

BELLAMY'S – HISTORICAL FINANCIAL PERFORMANCE (\$ MILLIONS)

	YEAR ENDED 30 JUNE			
	2016 ACTUAL	2017 ACTUAL	2018 ACTUAL	2019 ACTUAL
Total revenue	234.1	240.2	328.7	266.2
Cost of goods sold	(132.9)	(148.7)	(199.8)	(150.3)
Gross profit	101.2	91.5	128.9	115.9
Overheads	(46.6)	(48.7)	(58.3)	(68.9)
EBITDA	54.6	42.8	70.6	46.9
Depreciation and other amortisation	(0.3)	(0.8)	(1.4)	(2.4)
EBITA²⁷	54.3	42.0	69.2	44.5
Amortisation of acquired intangible assets	-	-	(2.9)	(2.9)
EBIT²⁸	54.3	42.0	66.3	41.6
Net interest income/(expense)	0.6	(1.3)	0.9	1.7
Significant and non-recurring items	0.0	(41.4)	(6.0)	(12.0)
Operating profit before tax	54.9	(0.7)	61.2	31.4
Income tax expense	(16.6)	(0.1)	(18.4)	(9.7)
Operating profit after tax	38.3	(0.8)	42.8	21.7
Outside equity interests	-	-	0.5	0.5
NPAT²⁹ attributable to Bellamy's shareholders	38.3	(0.8)	43.3	22.1
STATISTICS				
Basic earnings per share (cents)	39.8	(0.8)	39.6	19.5
Dividends per share (cents)	7.8	-	-	-
Total revenue growth	+86.8%	+2.6%	+36.9%	-19.0%
Gross profit growth	+145.7%	-9.6%	+40.8%	-10.1%
EBITDA growth	+288.8%	-21.6%	+64.9%	-33.5%
EBITA growth	+299.4%	-22.6%	+64.7%	-35.7%
Gross margin	43.2%	38.1%	39.2%	43.5%
EBITDA margin	23.3%	17.8%	21.5%	17.6%
EBITA margin	23.2%	17.5%	21.0%	16.7%

Source: Bellamy's and Grant Samuel analysis

Bellamy's statutory performance has been inconsistent over the past four years, largely reflecting the growing importance of the Chinese market, the impact of regulatory change in China, disruption to its distribution networks and the complexity of managing the daigou distribution channel. In FY16, revenue grew by 87%, bolstered by a 331% increase in revenue from China as direct trading with China-based enterprises and customers continued to grow. EBITDA grew by almost 290% and the EBITDA margin more than doubled compared to FY15.

²⁷ EBITA is earnings before net interest, tax, amortisation of acquired intangible assets and significant and non-recurring items.

²⁸ EBIT is earnings before net interest, tax and significant and non-recurring items.

²⁹ NPAT is net profit after tax.

GRANT SAMUEL



However, revenue growth stalled in FY17 as Bellamy's struggled to react to the impact of proposed changes in China's formula registration requirements, the resultant flooding of the market with deeply discounted inventory and the impact of this on daigou trading margins and demand. 1H17 revenue fell by 11.7% compared to the prior period, although implementation of the turnaround plan resulted in revenue growth for the year of 2.6%.

The turnaround plan continued to generate strong revenue growth in FY18, with sales increasing by 37%, primarily driven by volume growth. Revenue was lower in 2H18 (compared to 1H18) impacted by seasonality and loss of Chinese-label sales (from 1 January 2018) due to the delay in receiving SAMR registration. The significant decline in revenue in FY19 reflected loss of Chinese-label sales (relative to FY18), CBEC regulation, a declining birth rate and increased competition in China, as well as the transition associated with the Bellamy's rebrand.

Prior to the regulatory change, Chinese-label formula represented 10-15% of Bellamy's revenue. In FY17, revenue included sales of Chinese-label product of \$36.9 million compared to \$13.0 million in FY16. These sales fell to \$18.3 million in FY18 (with no sales in 2H18) and nil in FY19.

The fluctuations in revenue flowed through to gross profit and earnings:

- despite an increase in revenue, gross profit declined by 10% in FY17 as the gross margin fell from 43.2% (in FY16) to 38.1%. The reduction in gross margin in FY17 reflected increased ingredient and production costs and also included a \$2 million charge for shortfall payments, although these factors were partially offset by higher prices towards the end of 2H17 as well as remedial actions taken early in 2H17 as part of the turnaround plan to stabilise sales and margin and reduce trade inventory levels of Australian-label product, including taking greater control over its supply chain (e.g. supplier agreement renegotiations and the acquisition of Camperdown acquisition).

Since FY17, the gross margin has consistently improved. The FY18 gross margin of 39.2% reflected a 37.0% margin in 1H18 which increased to 42.5% in 2H18, driven by improved ingredient purchasing and renegotiated manufacturing arrangements as well as reduced promotional discounts and minor price increases, offset in part by a \$3.3 million charge for shortfall payments. This discipline carried over into FY19, as the gross margin increased to 43.5% despite a 19% decline in revenue. The 1H19 gross margin of 42.8% increased to 46.4% in 2H19 driven by price increases associated with the rollout of the rebrand and a reduction in input costs from procurement savings and ongoing channel mix management. Gross profit in FY18 also included a \$2.9 million charge/accrual for shortfall payments; and

- EBITDA margins have followed the gross margin trend although there was a greater improvement in the EBITDA margin (relative to the improvement in the gross margin) in FY18 and a decline in the EBITDA margin in FY19.

Overheads in FY17 were relatively flat, reflecting reduced marketing expenditure in 2H17 while the marketing strategy was reassessed and a reduction in headcount. Overheads were 23% lower (8.5% lower excluding marketing) in 2H17 compared to 1H17. Sustained management of overheads continued in FY18, with a reduction in direct costs relating to logistics network optimisation and administration costs remaining low following the reset in 2H17. These factors resulted in a 370 basis point increase in the EBITDA margin in FY18 (compared to a 110 basis point increase in the gross margin).

The EBITDA margin declined to 17.6% in FY19 (despite an increase in the gross margin), impacted by a substantially increased investment in marketing and China capability. Between FY16 and FY18, marketing expense as a percentage of revenue ranged from 2.5-3.7%. The rebranding strategy required Bellamy's to review its marketing strategy, including a more active presence in the local Chinese market. This drove a step change in marketing spend by increasing the investment in the local China sales team and expanding its presence on social platforms. Marketing as a percentage of revenue increased to 8.5% in FY19 (and 11.7% in 2H19). These promotional activities were targeted at

ANNEXURE A CONT

GRANT SAMUEL



increasing brand awareness and included refreshing digital assets, outdoor campaigns, city events and celebrity sponsors. The EBITDA margin in FY19 was also impacted by higher regulatory fees and insurance costs.

Earnings and margins in FY18 and FY19 were also impacted by the acquisition of Camperdown in July 2017. While making a small contribution to revenue, Camperdown recorded an EBITDA loss of \$1.4 million in FY18 and operated at breakeven (at the EBITDA level) in FY19, resulting in an adverse impact on Bellamy's overall margins. The margins for Bellamy's core business (i.e. excluding the impact of Camperdown) are shown below:

IMPACT OF CAMPERDOWN ON CORE BUSINESS MARGINS

	YEAR ENDED 30 JUNE			
	2016 ACTUAL	2017 ACTUAL	2018 ACTUAL	2019 ACTUAL
Group				
Revenue	234.1	240.2	328.7	266.2
Gross profit	101.2	91.5	128.9	115.9
EBITDA	54.6	42.8	70.6	46.9
<i>Gross margin</i>	43.2%	38.1%	39.2%	43.5%
<i>EBITDA margin</i>	23.3%	17.8%	21.5%	17.6%
Camperdown				
Revenue	-	-	8.7	15.2
Gross profit	-	-	2.1	4.0
EBITDA	-	-	(1.4)	-
Core business				
Revenue	234.1	240.2	320.0	251.0
Gross profit	101.2	91.5	126.8	111.9
EBITDA	54.6	42.8	72.0	46.9
<i>Gross margin</i>	43.2%	38.1%	39.6%	44.6%
<i>EBITDA margin</i>	23.3%	17.8%	22.5%	18.7%

Source: Bellamy's

The gross margin and EBITDA margin for Bellamy's core business have generally (other than the gross margin in FY18) been approximately 100 basis points higher than Bellamy's group margins.

Significant items and non-recurring items, particularly in FY17, primarily relate to the turnaround plan put in place in 2H17:

BELLAMY'S – REPORTED SIGNIFICANT ITEMS (\$ MILLIONS)

	YEAR ENDED 30 JUNE			
	2016 ACTUAL	2017 ACTUAL	2018 ACTUAL	2019 ACTUAL
Fonterra payment – supply chain reset	-	(27.5)	-	-
Inventory write-off	-	(6.8)	(6.0)	(12.0)
Other ³⁰	-	(7.1)	-	-
Total significant items before tax	-	(41.4)	(6.0)	(12.0)

Source: Bellamy's

³⁰ Other includes costs associated with the acquisition of Camperdown, indirect capital raising costs, legal and other professional fees and restructuring costs.

GRANT SAMUEL



The one-off \$27.5 million payment to Fonterra removed expected shortfall payments over the life of the Fonterra contract and replaced them with a volume rebate provision and a lower minimum annual volume commitment that were more aligned with Bellamy's growth projections at the time.

Further writedowns of inventory were made as a result of the transition to SAMR registered products in China and CoOL in Australia (in FY18) and to write-off stock of old formula product to enable the new rebranded formula product to launch and reset pricing and channel economics (in FY19).

The outside equity interest in FY18 and FY19 represents the 10% ownership interest in Camperdown. It is a negative contribution (i.e. it is added to operating profit after tax to determine NPAT attributable to Bellamy's shareholders) as it is a NPAT figure (i.e. after depreciation and amortisation, net interest expense and tax). While Camperdown was breakeven at the EBITDA level in FY19, it reported an after tax loss after taking into account its capital structure which includes intercompany borrowings.

While Bellamy's has historically paid dividends, no dividends have been paid since FY16.

Forecast Financial Performance

Bellamy's has not publicly released earnings forecasts for FY20 or subsequent years. However, on 28 August 2019, in conjunction with the release of its FY19 results, Bellamy's provided guidance that:

- FY20 group revenue was expected to grow by 10-15% over the prior year, with revenue growth anticipated to accelerate in 2H20 with new product launches (i.e. FY20 group revenue includes only a relatively small contribution from ViPlus, organic ultra-premium infant formula and organic goat formula); and
- FY20 group EBITDA margin was expected to be consistent with the prior year (of 17.6%), reflecting continued strong gross margin and investment in marketing and capability in China.

Bellamy's confirmed its medium term ambition of \$500 million in revenue but deferred achievement of this beyond FY21 given the SAMR process. It also provided guidance of a long term target group EBITDA margin of >20%, supported by scale and its premiumisation strategy.

In the absence of publicly released detailed earnings forecasts for FY20 and subsequent years, Grant Samuel has considered brokers' forecasts to provide an indication of the expected future financial performance of Bellamy's (see Appendix 1 for details):

BELLAMY'S – BROKER FORECAST FINANCIAL PERFORMANCE (\$ MILLIONS)

	YEAR END 30 JUNE			
	2019 ACTUAL	2020 BROKER MEDIAN	ASSUMING SAMR REGISTRATION RECEIVED	
			2021 BROKER MEDIAN	2022 BROKER MEDIAN
Revenue	266.2	296.9	376.0	446.5
EBITDA	46.9	52.3	70.5	88.2
EBITA	45.6	49.4	64.5	79.4
EBIT	41.6	46.2	64.2	79.0

Source: Grant Samuel analysis (see Appendix 1)

The median brokers' forecast for FY20 indicates an 11.5% increase in revenue and an EBITDA margin of 17.6%, which is consistent with the guidance provided by Bellamy's (albeit towards the low end of the guidance for revenue growth).

While the median brokers' forecasts for FY21 and FY22 (assuming SAMR registration is received, see Appendix 1 for details) are below Bellamy's medium term ambition of \$500 million in revenue, they are still useful for analytical purposes.

ANNEXURE A CONT

GRANT SAMUEL



4.4 Financial Position

The financial position of Bellamy's at 30 June 2019 is summarised below:

BELLAMY'S - FINANCIAL POSITION (\$ MILLIONS)

	AT 30 JUNE 2019 ACTUAL
Trade and other receivables and prepayments	48.7
Inventories	96.0
Trade and other payables and accruals	(73.0)
Net working capital	71.7
Plant and equipment (net)	5.8
Goodwill	28.2
Other intangible assets (net)	11.5
Deferred tax	7.1
Derivative financial instruments	(0.1)
Minimum annual volume provision	(1.4)
Other liabilities (income tax and employee benefits)	(2.8)
Total funds employed	120.0
Cash and deposits	112.4
Bank loans, other loans and finance leases	(0.1)
Net cash	112.3
Net assets	232.3
Outside equity interests	(0.5)
Equity attributable to Bellamy's shareholders	232.8
STATISTICS	
Shares on issue at period end (million)	113.4
Net assets per share	\$2.05
NTA ³¹ per share	\$1.70

Source: Bellamy's and Grant Samuel analysis

As a brand-based business that outsources supply, the majority of processing, and logistics, Bellamy's has minimal investment in capital outside of working capital, which represented approximately 60% of funds employed at 30 June 2019. The significant investment in inventory (\$96 million at 30 June 2019) reflects the nature of Bellamy's business and includes \$7.1 million of inventory related to Camperdown (\$5.1 million of ingredients and \$2.0 million of finished goods). The core business inventory is approximately evenly split between ingredients and finished goods, with a small investment in stock in transit. Core business investment in finished goods of \$39 million (net of a \$6.6 million provision for impairment) represents around 3.6 months of sales and was within Bellamy's target level of 2-4 months. While working capital can fluctuate from month to month, there is no material pattern of seasonality in sales or working capital investment, although there will be an increase in working capital associated with the launch of new products in 2H20, expansion into new markets and resumption of offline sales of Chinese-label infant formula in China following the receipt of SAMR registration.

The other key investment is Bellamy's 90% ownership interest in Camperdown, which is consolidated by Bellamy's (with the remaining 10% ownership interest shown as an outside equity interest³²). The majority of the plant and equipment and other intangible assets and all of the goodwill relate to Camperdown.

³¹ NTA is net tangible assets, which is calculated as net assets less intangible assets.

³² The negative outside equity interest reflects the impact of Camperdown's capital structure which includes internal borrowings.

GRANT SAMUEL



Other intangible assets include licences and customer contracts (in relation to Camperdown) of \$3.0 million that are being amortised over the next 1-2 years.

Other items in Bellamy's financial position are set out below:

- deferred tax assets includes \$4.3 million of tax losses that relate to Camperdown (see Section 4.6 below);
- Bellamy's undertakes certain transactions denominated in foreign currency (EUR, US\$ and GBP) and is exposed to foreign currency risk through foreign exchange rate fluctuations. To protect against exchange rate movements, Bellamy's has entered into forward foreign exchange contracts that hedge highly probable cash flows for the following year. Management has a policy to hedge up to 100% of anticipated foreign currency transactions for the subsequent six months. These contracts had a fair value of \$(0.1) million at 30 June 2019; and
- Bellamy's has two material manufacturing agreements that guarantee long term access to production facilities in Australia and which have minimum volume commitments that run for a number of years. Where Bellamy's is not able to fulfil minimum volume commitments, it is required to make production shortfall payments. A minimum annual volume provision is raised when production thresholds have not been met or Bellamy's does not have the ability to meet the threshold under the contract terms.

Bellamy's had net cash of \$112.3 million at 30 June 2019. While it had total facilities of \$40.6 million with HSBC, its drawn borrowings were limited to \$65,000 under a credit card facility, as summarised below:

BELLAMY'S – NET BORROWINGS AT 30 JUNE 2019 (\$ MILLIONS)

FACILITY	FACILITY SIZE	AMOUNT DRAWN	TERM/MATURITY
Working capital facility	40.0	-	February 2021
Credit card facility	0.4	(0.1)	February 2021
Bank guarantee facility	0.2	-	February 2021
Total interest bearing liabilities	40.6	(0.1)	
Cash and short term deposits		112.4	
Net cash		112.3	

Source: Bellamy's

The working capital facility comprises several sub-facilities, with the ability to utilise the facilities subject to Bellamy's satisfying specific conditions and not exceeding certain limits. The facilities are secured over Bellamy's assets and are subject to Bellamy's complying with its obligations (including financial covenants) under those facilities. Under the terms of its manufacturing agreement, Fonterra has a second-ranking security over Bellamy's assets.

ANNEXURE A CONT

GRANT SAMUEL



4.5 Cash Flow

Bellamy's cash flow for the four years ended 30 June 2019 is summarised below:

BELLAMY'S – CASH FLOW (\$ MILLIONS)

	YEAR ENDED 30 JUNE			
	2016 ACTUAL	2017 ACTUAL	2018 ACTUAL	2019 ACTUAL
EBITDA	54.6	42.8	70.6	46.9
Cash impact of significant and non-recurring items	-	(34.6)	-	-
Changes in working capital and other adjustments	(29.7)	(52.4)	14.6	(6.4)
Capital expenditure (net)	(2.4)	(0.5)	(2.8)	(7.0)
Operating cash flow	22.5	(44.7)	82.4	33.5
Tax paid	(16.6)	(0.1)	(17.1)	(10.3)
Net interest paid	0.6	(1.3)	0.9	1.6
Dividends paid	(6.7)	(7.1)	-	-
Acquisitions (net of cash)	-	-	(16.0)	-
Proceeds from share issues	0.6	13.2	45.1	-
Net cash generated/(used)	0.4	(40.0)	95.3	24.8
<i>Net cash/(borrowings) – opening</i>	<i>31.8</i>	<i>32.2</i>	<i>(7.8)</i>	<i>87.5</i>
<i>Net cash/(borrowings) – closing</i>	<i>32.2</i>	<i>(7.8)</i>	<i>87.5</i>	<i>112.3</i>

Source: Bellamy's and Grant Samuel analysis

Bellamy's generates strong operating cash flow when working capital (in particular, investment in inventory) is well managed. There was a substantial increase in working capital in line with the growth in the business in FY16, and as a result of the decline in demand associated with stock flooding the market following the announcement of Chinese registration requirements in FY17, which led to a build-up in inventory (approximately 12 months' supply). Management of working capital improved in FY18 following the reset of the business, with lower investment in finished goods offset in part by an increased investment in raw ingredients as result of the shift to a direct sourcing model. The slight increase in working capital in FY19 was associated with increased production at Camperdown and a further increase in raw ingredients inventory from direct sourcing.

The business has minimal capital expenditure requirements. The relatively large capital expenditure in FY19 was related to improvements to quality, safety and capacity at Camperdown as well as product development costs associated with core and new product investment.

The acquisition of Camperdown in FY18 was funded by a combination of cash and Bellamy's shares. Proceeds from share issues also includes the entitlement offer announced on 13 June 2017, where the institutional component was completed in FY17 and the retail component was completed in FY18.

4.6 Other Financial Items

Taxation

Under the Australian tax consolidation regime, Bellamy's and its wholly owned Australian subsidiaries have elected to be taxed as a single entity. At 30 June 2019, Bellamy's and its wholly owned Australian subsidiaries had no carried forward income tax losses and accumulated franking credits of \$44.9 million.

Bellamy's 90% owned subsidiary, Camperdown, had carried forward tax losses of approximately \$4.3 million at 30 June 2019 which were recognised in the consolidated balance sheet. Utilisation of these tax losses is limited by an available fraction calculation designed to restrict the annual usage of tax losses to an

GRANT SAMUEL



appropriate level. These tax losses will only become available to Bellamy's once Bellamy's owns 100% of Camperdown.

Contingencies

Bellamy's has disclosed a potential contingent liability in relation to two shareholder class action proceedings against Bellamy's that were filed in February 2017 and March 2017 on behalf of shareholders who acquired Bellamy's shares between 14 April 2016 and 9 December 2016. The statements of claim allege contraventions of the Corporations Act in relation to continuous disclosure requirements and misleading or deceptive conduct. The proceedings have been set down for trial in the Federal Court in August 2020. Bellamy's is defending the proceedings.

Other

Bellamy's has agreed to acquire the remaining 10% ownership interest in Camperdown, conditional on Camperdown receiving SAMR approval for manufacture of its Chinese-label products (although Bellamy's has the right to waive this condition). The total consideration for the 10% ownership interest is the issue of 300,000 ordinary shares. This agreement has an end date of 31 December 2019, at which time the terms to acquire the remaining 10% ownership interest revert to the original transaction documentation which is based on a multiple of EBITDA.

4.7 Capital Structure and Ownership

Capital Structure

Bellamy's has the following securities on issue:

- 113,368,297 ordinary shares; and
- 5,231,993 options over ordinary shares.

Details of the issued options are summarised below:

BELLAMY'S – OPTIONS ON ISSUE

ISSUE DATE	EXPIRY DATE	EXERCISE PRICE	ISSUED OPTIONS	LAST VESTING DATE
13 December 2015	23 December 2020	\$4.870	207,214	Vested in full
30 June 2016	30 June 2020/22 December 2020	\$9.880	652,375	Vested in full
13 June 2017	13 June 2021	\$5.643	3,738,090	28 February 2021
2 October 2017	2 October 2021	\$7.820	50,000	28 February 2021
26 October 2017	13 June 2021	\$5.643	265,887	28 February 2021
20 April 2018	20 April 2022	\$20.560	38,143	28 February 2022
28 August 2018	28 August 2022	\$9.670	59,406	28 February 2022
24 October 2018	13 December 2021	\$11.190	20,878	10 September 2021
2 January 2019	2 January 2023	\$7.380	200,000	10 September 2022
Total			5,231,993	

Source: Bellamy's

The options have been issued under Bellamy's long term incentive plans ("LTIP") and provide the holder with an option to acquire fully paid ordinary shares in Bellamy's (subject to payment of the exercise price), that only vest and become exercisable if certain performance hurdles are satisfied:

- prior to FY17, Bellamy's issued options under its employee LTIP ("Legacy LTIP") to the CEO and other senior management (including the issue of options to Andrew Cohen on his commencement with Bellamy's in July 2016); and

ANNEXURE A CONT

GRANT SAMUEL



- following the Board and senior management renewal in FY17, a new long term incentive plan was introduced to motivate and retain executives during the turnaround ("Turnaround LTIP"). The Turnaround LTIP consisted of a single grant of options to cover the following three years of equity remuneration (FY17, FY18 and FY19), with no vesting until the end of the performance period in year 2, 3 and 3.5. These options were issued to the CEO and other senior management as well as to non-executive directors (excluding the Chair of the Board).

The options have no voting rights or entitlement to dividends. In the event of a change of control, the Bellamy's board has determined that any unvested options will vest (i.e. any vesting conditions which remain to be satisfied on the options will be waived)³³, enabling them to be exercised³⁴. Any options not validly exercised will lapse.

Ownership

At 13 August 2019, Bellamy's had 20,200 registered shareholders. The top 10 registered shareholders accounted for approximately 61% of the ordinary shares on issue.

Other than interests associated with Jan Cameron and Bruce Neill (see below), the top 20 registered shareholders are principally investment managers, institutional nominee or custodian companies.

Bellamy's has received notices from the following substantial shareholders:

BELLAMY'S – SUBSTANTIAL SHAREHOLDERS

SHAREHOLDER	DATE OF NOTICE	NUMBER OF SHARES	PERCENTAGE ³⁵
Jan Cameron and associated entities ³⁶	26 July 2018	19,416,464	17.1%
Janchor Partners Limited ³⁷	22 September 2017	8,752,182	7.7%
UBS Group AG	21 October 2019	7,261,739	6.4%
Quality Life Pty Ltd (Bruce Neill)	26 March 2018	7,011,798	6.2%

Source: IRESS

The substantial shareholding of Jan Cameron includes 13,317,106 shares (representing a 11.7% interest) held by Black Prince Private Foundation. Jan Cameron and her associated entities and Black Prince Private Foundation are considered to be associates under the Corporations Act due to:

- them acting together in requisitioning the February 2017 EGM, nominating four directors to the Bellamy's board and voting in favour of the resolutions put to the EGM; and
- the ongoing expectation of the Elsie Cameron Foundation Limited as trustee for the Elsie Cameron Foundation (one of the entities associated with Jan Cameron) to receive shares from Black Prince Private Foundation at some time in the future.

Quality Life Pty Limited is an entity controlled by Bruce Neill. Jan Cameron and Bruce Neill were early investors in Bellamy's, prior to its IPO in August 2014.

³³ Other than 100,000 of the options issued on 2 January 2019 where vesting will not be accelerated unless the Scheme becomes effective after 2 January 2020 (the Scheme is expected to become effective on 10 December 2019).

³⁴ Optionholders may also elect "cashless exercise", so that instead of paying the exercise price of their options, the total number of Bellamy's shares which the optionholder would otherwise receive on exercise will be reduced by the number of Bellamy's shares which is equal to the aggregate exercise price of their options divided by the consideration under the change of control transaction.

³⁵ Based on 113,368,267 shares on issue.

³⁶ Interests associated with Jan Cameron include Bicheno Investments Pty Limited as trustee for the Jan Cameron Trust, Bollinger Investments Limited as trustee for the Brightside Trust, Elsie Cameron Foundation Limited as trustee for the Elsie Cameron Foundation and Jan Cameron.

³⁷ Bellamy's chairman, John Ho, has a relevant interest in the shares held by Janchor Partners Limited by virtue of his interest in Janchor Partners Limited.

GRANT SAMUEL



4.8 Share Price Performance

The following graph illustrates the movement in the Bellamy's share price and trading volumes since 5 August 2014:

BELLAMY'S – SHARE PRICE AND TRADING VOLUME
AUGUST 2014 TO OCTOBER 2019



Source: IRESS

Note: Share prices have been adjusted for the 5:38 non renounceable entitlement offer on 14 June 2017

Shares in Bellamy's commenced trading on the ASX on 5 August 2014 following its IPO (at an issue price of \$1.00). The share price rose strongly on the first day of trade, up to a high \$1.34 before closing at \$1.305. It continued to climb steadily over the following 18 months, reaching a high of \$16.50 in December 2015 on the back of positive announcements including FY15 results substantially exceeding prospectus forecasts, inclusion in the S&P/ASX 300 Index and entering into a strategic manufacturing arrangement with Fonterra.

Bellamy's shares traded in a range around \$10.00-15.00 over the following 12 months, initially losing some momentum, but again tracking upwards followings its inclusion in the key S&P/ASX 200 Index and reporting record FY16 results, including growth in revenue from China of 331%.

However, there was a considerable adverse market reaction to the announcement that China was implementing new registration requirements for offline sales of infant formula in China and that Chinese volumes would be at reduced levels until registration was received. On 2 December 2016, the share price fell from \$12.10 to as low as \$6.80, before closing at \$6.85, representing a 43% decline in the share price in a single day. Bellamy's shares were suspended from trading from 12 December 2016 (with the share price at \$6.88) to 11 January 2017, when there was a further substantial decline in the share price following a business update. The business update revealed that the FY17 results would be impacted by lower than expected demand for its infant formula, which had also led to increased inventory levels, excess ingredients and shortfall payments to suppliers. Shares traded as low as \$3.73 before closing the day at \$5.35, a 20% decline in the share price. The share price fell by a further 25% over the following two days. Bellamy's shares remained at relatively low levels, trading in a range around \$4.00 over the following four months in response to the announcement of a class action, the departure of the CEO and a shareholder requisitioned EGM to replace the majority of the Board in early 2017.

The share price regained positive momentum following the new Board and senior management announcing a turnaround plan to stabilise the business, including the acquisition of Camperdown and the \$60.4 million entitlement offer. There were substantial jumps in the share price in October 2017 (up to around \$10.00)

ANNEXURE A CONT

GRANT SAMUEL



and January 2018 (up to around \$15.00) corresponding to the announcement of upwards revisions to guidance for Bellamy's FY18 results (notwithstanding delays in receiving SAMR registration).

Positive momentum, including the announcement of 1H18 results which represented a new high for revenue and EBITDA and confirmed full year guidance (February 2018) and re-inclusion in the S&P/ASX 200 Index (March 2018), continued to push the share price higher. The share price reached its all time high of over \$23.00 at the end of March 2018.

However, ongoing delays in receiving SAMR registration made investors cautious about Bellamy's growth potential, despite Bellamy's reporting record results for FY18 at the end of August 2018, and the share price trended downwards, trading at a level around \$7.00 by the end of December 2018.

While there were subsequent upticks in the share price associated with the release of Bellamy's 1H19 results (in February 2019) and the announcement that SAMR registration had been received for Bellamy's ViPlus product (in April 2019), the share price largely remained below \$10.00. Following announcement of Bellamy's FY19 results at the end of August 2019, the shares were trading below \$8.00.

The Bellamy's share price closed at \$8.32 on 13 September 2019, the last trading day prior to announcement of the Scheme. Following announcement of the Scheme, the shares have traded in the range \$12.31-13.03 and at a volume weighted average price of \$12.88, a slight discount (~3%) to the total cash amount of \$13.25.

Bellamy's is a liquid stock with no restrictions on its free float. Average weekly volume over the 12 months prior to announcement of the Scheme represented approximately 7.4% of average shares on issue or annual turnover of around 380% of total average issued capital. If the shareholdings controlled by interests associated with Jan Cameron and Bruce Neill are excluded from the free float (i.e. the free float is 77% of total issued shares), average weekly volume over the 12 months prior to announcement of the Scheme represented approximately 9.6% of average shares on issue or annual turnover of around 500% of total average issued capital.

Bellamy's is an ASX 200 company and is a member of a number of indices including the S&P/ASX 200 Index. Its current weighting in this index is approximately 0.1%. The following graph illustrates the performance of Bellamy's shares since listing on the ASX on 5 August 2014 relative to the S&P/ASX 200 Index:

BELLAMY'S SHARE PRICE VS S&P/ASX 200 INDEX

AUGUST 2014 TO OCTOBER 2019



Source: IRESS

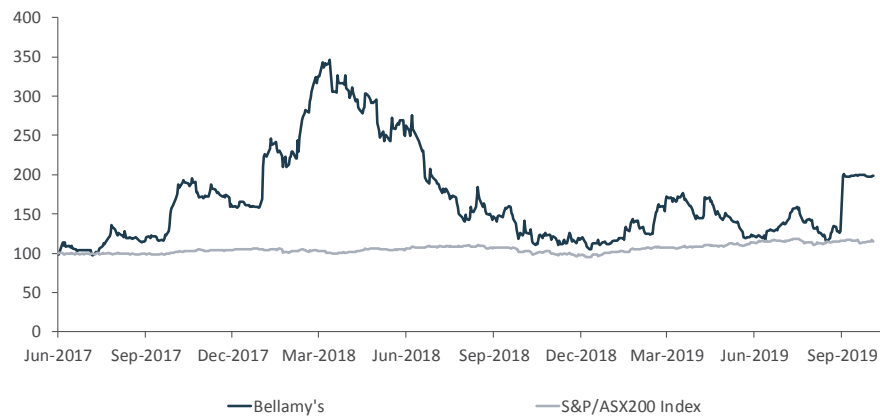
GRANT SAMUEL



Bellamy's shares have materially outperformed the market benchmark (S&P/ASX 200 Index) since listing in August 2014, even allowing for the material share price adjustments reflecting company specific events in December 2016/January 2017 and mid-2018. The performance subsequent to the June 2017 entitlement offer has been largely consistent with the market benchmark (which has been relatively flat), other than for the period of outperformance relating to the reset of the business during FY18, and the subsequent decline due to uncertainty in relation to Bellamy's receiving SAMR registration:

BELLAMY'S SHARE PRICE VS S&P/ASX 200 INDEX

JUNE 2017 TO OCTOBER 2019



Source: IRESS

ANNEXURE A CONT

GRANT SAMUEL



5 Valuation of Bellamy's

5.1 Summary

Grant Samuel has valued Bellamy's in the range \$1,455-1,655 million which corresponds to a value of \$12.25-13.93 per share. The valuation is summarised below:

BELLAMY'S – VALUATION SUMMARY (\$ MILLIONS)

	REPORT SECTION REFERENCE	VALUE RANGE	
		LOW	HIGH
Business operations ³⁸	5.4	1,300.0	1,500.0
Other assets and liabilities	5.6	10.4	10.4
Enterprise value		1,310.4	1,510.4
Adjusted net cash	5.7	144.3	144.3
Value of equity		1,454.7	1,654.7
Fully diluted shares on issue (millions) ³⁹	4.7	118.8	118.8
Value per share		\$12.25	\$13.93

The valuation represents the estimated full underlying value of Bellamy's assuming 100% of the company was available to be acquired and includes a premium for control. The value is on a cum dividend basis (i.e. before payment of the special dividend of \$0.60 per share). The value exceeds the price at which, based on current market conditions, Grant Samuel would expect shares in Bellamy's to trade on the ASX in the absence of a change of control proposal. Shares in a listed company normally trade at a discount of 15-25% to the underlying value of the company as a whole (but this discount does not always apply).

The value attributed to the business operations of \$1,300-1,500 million is an overall judgement having regard to a number of valuation methodologies and parameters, including discounted cash flow ("DCF") analysis and capitalisation of earnings (multiples of EBITDA).

The valuation reflects the potential for Bellamy's business to achieve significant growth if it receives SAMR registration, enabling it to resume offline sales of Chinese-label infant formula in China. Despite its inconsistent historical earnings, Bellamy's is an attractive business with strong growth prospects and a number of positive attributes, including its:

- strong and internationally recognised and respected brand, focus on the niche organic sector of the infant nutrition market and position at the high quality (i.e. super-premium) end of the market;
- lower exposure to the general dairy commodity price cycle, diversified supplier base underpinned by long term contracts and low capital intensity; and
- exposure to China, the world's largest market for infant formula with a strong growth outlook.

On the other hand, achieving its potential is not without risk, in particular:

- regulatory risk in relation to uncertainty as to the timing of SAMR registration and the ongoing risk of further changes to regulation, particularly in China but also in other jurisdictions such as Australia; and

³⁸ The value of the business operations of Bellamy's is after corporate overhead cost savings (i.e. listed company costs) which are available to acquirers of 100% of the company (see Section 5.5 for details).

³⁹ Fully diluted shares on issue is 118,762,147 ordinary shares and includes 5,093,850 ordinary shares issued on the vesting of options and 300,000 ordinary shares issued on acquisition of the remaining 10% ownership interest in Camperdown. Only 5,093,850 of the 5,231,993 issued options are assumed to vest as 38,143 are out-of-the-money based on the total cash amount of \$13.25 (with an exercise price of \$20.56) and 100,000 will not have vesting accelerated unless the Scheme becomes effective after 2 January 2020 (the Scheme is expected to become effective on 10 December 2019).

GRANT SAMUEL



- execution risk in terms of the take up of Chinese-label products in retail stores in China after SAMR registration is received, sales of its core organic products and revenue and growth for new products (ViPlus, ultra-premium and organic goat infant formula) and new markets (including baby food into China).

5.2 Methodology

5.2.1 Overview

The most reliable evidence as to the value of a business is the price at which the business or a comparable business has been bought and sold in an arm's length transaction. In the absence of direct market evidence of value, estimates of value are made using methodologies that infer value from other available evidence. There are four primary valuation methodologies that are commonly used for valuing businesses:

- capitalisation of earnings or cash flows;
- discounting of projected cash flows;
- industry rules of thumb; and
- estimation of the aggregate proceeds from an orderly realisation of assets.

Each of these valuation methodologies has application in different circumstances. The primary criterion for determining which methodology is appropriate is the actual practice adopted by purchasers of the type of business involved.

5.2.2 Capitalisation of Earnings or Cash Flows

Capitalisation of earnings or cash flows is the most commonly used method for valuation of industrial businesses. This methodology is most appropriate for industrial businesses with a substantial operating history and a consistent earnings trend that is sufficiently stable to be indicative of ongoing earnings potential. This methodology is not particularly suitable for start-up businesses, businesses with an erratic earnings pattern or businesses that have unusual capital expenditure requirements. This methodology involves capitalising the earnings or cash flows of a business at a multiple that reflects the risks of the business and the stream of income that it generates. These multiples can be applied to a number of different earnings or cash flow measures including EBITDA, EBIT (or EBITA) or NPAT. These are referred to respectively as EBITDA multiples, EBIT multiples (or EBITA multiples) and price earnings multiples. Price earnings multiples are commonly used in the context of the sharemarket. EBITDA and EBIT (or EBITA) multiples are more commonly used in valuing whole businesses for acquisition purposes where gearing is in the control of the acquirer but are also used extensively in sharemarket analysis.

Where an ongoing business with relatively stable and predictable cash flows is being valued, Grant Samuel uses capitalised earnings or operating cash flows as a primary reference point.

Application of this valuation methodology involves:

- estimation of earnings or cash flow levels that a purchaser would utilise for valuation purposes having regard to historical and forecast operating results, non-recurring items of income and expenditure and known factors likely to impact on operating performance; and
- consideration of an appropriate capitalisation multiple having regard to the market rating of comparable businesses, the extent and nature of competition, the time period of earnings used, the quality of earnings, growth prospects and relative business risk.

While EBITDA multiples are commonly used benchmarks, they are an incomplete measure of cash flow. The appropriate multiple is affected by, among other things, the level of capital expenditure (and working capital investment) relative to EBITDA. In this respect:

ANNEXURE A CONT

GRANT SAMUEL



- EBIT (or EBITA) multiples can in some circumstances be a better guide because (assuming depreciation is a reasonable proxy for capital expenditure) they effectively adjust for relative capital intensity and present a better approximation of free cash flow. However, capital expenditure is lumpy and depreciation expense may not be a reliable indicator of ongoing capital expenditure. In addition, there can be differences between companies in the basis of calculation of depreciation. Where this is an issue, another metric that can be useful is EBITDA-Capital Expenditure (sometimes referred to as Operating Cash Flow); and
- businesses that generate higher EBITDA margins than their peer group companies will, all other things being equal, warrant higher EBITDA multiples because free cash flow will, in relative terms, be higher (as capital expenditure is a smaller proportion of earnings).

Determination of the appropriate earnings multiple is usually the most judgemental element of a valuation. Definitive or even indicative offers for a particular asset or business can provide the most reliable support for selection of an appropriate earnings multiple. In the absence of meaningful offers it is necessary to infer the appropriate multiple from other evidence.

The primary approach used by valuers is to determine the multiple that other buyers have been prepared to pay for similar businesses in the recent past. However, each transaction will be the product of a unique combination of factors, including:

- economic factors (e.g. economic growth, inflation, interest rates) affecting the markets in which the company operates;
- strategic attractions of the business - its particular strengths and weaknesses, market position of the business, strength of competition and barriers to entry;
- rationalisation or synergy benefits available to the acquirer;
- the structural and regulatory framework;
- investment and sharemarket conditions at the time; and
- the number of competing buyers for a business.

A pattern may emerge from transactions involving similar businesses with sales typically taking place at prices corresponding to earnings multiples within a particular range. While averages or medians can be determined it is not appropriate to simply apply such measures to the business being valued. The range will generally reflect the growth prospects and risks of those businesses. Mature, low growth businesses will, in the absence of other factors, attract lower multiples than those businesses with potential for significant growth in earnings. The most important part of valuation is to evaluate the attributes of the specific business being valued and to distinguish it from its peers so as to form a judgement as to where on the spectrum it appropriately belongs.

An alternative approach in valuing businesses is to review the multiples at which shares in listed companies in the same industry sector trade on the sharemarket. This gives an indication of the price levels at which portfolio investors are prepared to invest in these businesses. Share prices reflect trades in small parcels of shares (portfolio interests) rather than whole companies and it is necessary to adjust for this factor. To convert sharemarket data to meaningful information on the valuation of companies as a whole, it is market practice to add a "premium for control" to allow for the premium which is normally paid to obtain control through a takeover offer. This premium is typically in the range 20-35%.

The premium for control paid in takeovers is observable but caution must be exercised in assessing the value of a company or business based on the market rating of comparable companies or businesses. The premium for control is an outcome of the valuation process, not a determinant of value. Premiums are paid for reasons that vary from case to case and may be substantial due to synergy or other benefits available to the acquirer. In other situations premiums may be minimal or even zero. It is inappropriate to

GRANT SAMUEL



apply an average premium of 20-35% without having regard to the circumstances of each case. In some situations there is no premium. There are transactions where no corporate buyer is prepared to pay a price in excess of the prices paid by institutional investors through an initial public offering.

Acquisitions of listed companies in different countries can be analysed for comparative purposes, but it is necessary to give consideration to differences in overall sharemarket levels and ratings between countries, economic factors (economic growth, inflation, interest rates) and market structures (competition etc.) and the regulatory framework. It is not appropriate to adjust multiples in a mechanistic way for differences in interest rates or sharemarket levels.

The analysis of comparable transactions and sharemarket prices for comparable companies will not always lead to an obvious conclusion as to which multiple or range of multiples will apply. There will often be a wide spread of multiples and the application of judgement becomes critical. Moreover, it is necessary to consider the particular attributes of the business being valued and decide whether it warrants a higher or lower multiple than the comparable companies. This assessment is essentially a judgement.

5.2.3 Discounted Cash Flow

Discounting of projected cash flows has a strong theoretical basis. It is the most commonly used method for valuation in a number of industries, including resources, and for the valuation of start-up projects where earnings during the first few years can be negative but it is also widely used in the valuation of established industrial businesses. Discounted cash flow valuations involve calculating the net present value of projected cash flows. This methodology is able to explicitly capture depleting resources, development projects and fixed terms contracts (which are typical in the resources sector), the effect of a turnaround in the business, the ramp up to maturity or significant changes expected in capital expenditure patterns. The cash flows are discounted using a discount rate which reflects the risk associated with the cash flow stream.

Considerable judgement is required in estimating future cash flows and it is generally necessary to place great reliance on medium to long term projections prepared by management. The discount rate is also not an observable number and must be inferred from other data (usually only historical). None of this data is particularly reliable so estimates of the discount rate necessarily involve a substantial element of judgement. In addition, even where cash flow forecasts are available, the terminal or continuing value is usually a high proportion of value. Accordingly, the multiple used in assessing this terminal value becomes the critical determinant in the valuation (i.e. it is a "de facto" cash flow capitalisation valuation). The net present value is typically extremely sensitive to relatively small changes in underlying assumptions, few of which are capable of being predicted with accuracy, particularly beyond the first two or three years. The arbitrary assumptions that need to be made and the width of any value range mean the results are often not meaningful or reliable. Notwithstanding these limitations, discounted cash flow valuations are commonly used and can at least play a role in providing a check on alternative methodologies, not least because explicit and relatively detailed assumptions as to expected future performance need to be made.

5.2.4 Industry Rules of Thumb

Industry rules of thumb are commonly used in some industries. These are generally used as a "cross check" of the result determined by a capitalised earnings valuation or by discounting cash flows. While they are only used as a cross check in most cases, industry rules of thumb can be the primary basis on which buyers determine prices in some industries. However, it should be recognised that rules of thumb are usually relatively crude and prone to misinterpretation.

ANNEXURE A CONT

GRANT SAMUEL



5.2.5 Net Assets/Realisation of Assets

Valuations based on an estimate of the aggregate proceeds from an orderly realisation of assets are commonly applied to businesses that are not going concerns. They effectively reflect liquidation values and typically attribute no value to any goodwill associated with ongoing trading.

5.3 Approach for Bellamy's

5.3.1 Valuation of Business Operations

Grant Samuel's valuation of Bellamy's has been estimated by aggregating the estimated market value of its business operations (on a "control" basis) together with the realisable value of non-trading assets and deducting external borrowings and non-trading liabilities. The value of the business operations has been estimated on the basis of fair market value as a going concern, defined as the maximum price that could be realised in an open market over a reasonable period of time assuming that potential buyers have full information.

In valuing the business operations of Bellamy's, Grant Samuel focused on both DCF analysis and earnings multiples analysis. Grant Samuel is not aware of any commonly used rules of thumb that would be appropriate to value the business of Bellamy's. A net assets/realisation of assets methodology is not appropriate for Bellamy's.

The value range selected for Bellamy's is a judgement. The objective is to determine a value that is both consistent with the market evidence as to multiples and fits with the output of DCF analysis in terms of the various scenarios and their likelihood.

Specific aspects of the methodology adopted by Grant Samuel include the following:

- Bellamy's has been valued as a single business (i.e. the products (infant formula, baby food and manufacturing) or the geographic regions (Australia and international) have not been valued separately and then aggregated). There are a number of reasons for adopting this approach:
 - Bellamy's operates as a single business and its operations (across products or geographies) are not structured as separate businesses. The *Bellamy's* brand is consistent across all products and geographies. Raw material sourcing, trading and logistics, and sales and marketing operate on a global basis. Direct costs, human resources, marketing and administration costs represent the costs of running the overall business. While the vast majority of Bellamy's revenue and earnings is generated from sales in Australia, most of its product is consumed in China. It is unlikely that any of the products or regions could easily be separated from Bellamy's (although the Camperdown facility could be divested);
 - the economic drivers across products (infant formula and baby food) and geographies are similar;
 - in any event, the vast majority of Bellamy's revenue and earnings are generated from sales of infant formula, which represented around 85% of FY19 revenue and gross profit. While baby food has significant growth potential, this is from a relatively low base and its impact on the implied "blended" multiples for Bellamy's overall business operations is immaterial; and
 - a number of the infant nutrition businesses included in the comparable evidence have operations across multiple products and geographies, and these earnings are reflected in their blended multiples;
- EBITDA multiples have been used in the earnings multiples analysis given the low capital intensity of Bellamy's business (i.e. EBITA multiples are similar to EBITDA multiples);
- Grant Samuel has given consideration to (but not made explicit adjustment for) the synergies potentially achievable by acquirers of the business. In this regard, it needs to be recognised that:

GRANT SAMUEL



- normal valuation practice is to include (either implicitly or explicitly) a value for synergies that are available to multiple acquirers but to exclude synergy value that is unique to a particular acquirer⁴⁰; and
- where earnings multiples from comparable transactions represent primary valuation evidence, adding synergies to earnings or making a further multiple adjustment for synergies would potentially result in “double counting” of value as the multiples from the comparable transactions are usually based on “standalone” earnings (either reported or forecast) and the value of synergies is therefore reflected in the multiple (i.e. the transaction multiple would be lower if based on earnings including synergy benefits);
- it has been assumed that Bellamy’s acquires the remaining 10% ownership interest in Camperdown through the issue of 300,000 shares. As a result, the value of Bellamy’s business operations includes 100% of Camperdown’s external (third party) earnings and no adjustment is made for any outside equity interest; and
- the valuation is on a cum dividend basis to align it with the total cash amount of \$13.25 per share (i.e. it is before the special dividend of \$0.60 per share to be paid prior to implementation of the Scheme).

5.3.2 Earnings for Valuation Purposes

Grant Samuel has considered implied multiples of EBITDA for FY18 and FY19 (historical) and FY20, FY21 and FY22 (forecast).

While Bellamy’s has made guidance statements about group revenue and group EBITDA margin for FY20, the directors of Bellamy’s have decided not to include the FY20 Budget in the Scheme Booklet and therefore this information has not been disclosed in this report.

To provide an indication of the expected financial performance of Bellamy’s, Grant Samuel has considered brokers’ forecasts for Bellamy’s (see Appendix 1). Grant Samuel has used the median of the brokers’ forecasts to review the parameters implied by its valuation of Bellamy’s. The median brokers’ forecasts for FY20 are sufficiently close to Bellamy’s FY20 Budget to be useful for analytical purposes. While the median brokers’ forecasts for FY21 and FY22 (assuming SAMR registration) are below Bellamy’s medium term ambition of \$500 million in revenue, they are still useful for analytical purposes.

The historical and forecast EBITDA have been adjusted by Grant Samuel to add back:

- the charge for shortfall payments as a result of Bellamy’s not meeting minimum volume commitments in supplier contracts. These payments are not expected to be paid in the long term (as Bellamy’s increases its production volumes and/or renegotiates its supplier contracts). Consequently, the payments that have been made historically or are expected to be made in the short term have been added back to EBITDA and the present value of the expected payments (after tax) has been treated as a surplus liability (see Section 5.6); and
- the savings in listed company costs that would be available to any acquirer of Bellamy’s (see Section 5.5).

The adjusted EBITDA is summarised below:

⁴⁰ No public statements have been made as to Mengniu’s expectations of synergy benefits and Mengniu has stated in the Scheme Booklet that it intends to continue the Bellamy’s business in substantially the same manner as it is presently being conducted and not make any material changes to Bellamy’s management team and employees. Any synergies available to Mengniu are likely to be limited to duplicated shared services, purchasing power benefits and merging operations such as sourcing and logistics. These synergies would be available to other acquirers of Bellamy’s that operate in the global infant nutrition market and are reflected in the implied multiples for Bellamy’s business operations.

ANNEXURE A CONT

GRANT SAMUEL



BELLAMY'S – ADJUSTED EBITDA (\$ MILLIONS)

	REPORT SECTION REFERENCE	YEAR END 30 JUNE				
		2018 ACTUAL	2019 ACTUAL	2020 BROKER MEDIAN	2021 BROKER MEDIAN	2022 BROKER MEDIAN
Reported/Broker median EBITDA	4.3	70.6	46.9	52.3	70.5	88.2
Charge for shortfall payments	refer above	3.3	2.8	0.6	-	-
Corporate overhead cost savings	5.5	0.6	0.9	1.0	1.0	1.0
Adjusted EBITDA		74.5	50.6	53.9	71.5	89.2

Source: Bellamy's and Grant Samuel analysis

5.4 Value of Business Operations

5.4.1 Summary

Grant Samuel has estimated the value of the business operations of Bellamy's to be in the range \$1,300-1,500 million.

5.4.2 DCF Analysis

Grant Samuel has developed a simplified high level financial model for the business operations of Bellamy's to examine the impact of key drivers on value. The DCF model uses the FY20 Budget as its starting point. Grant Samuel has developed a number of scenarios based on the Five Year Model (which runs to FY24) and has extended the model for a further five years based on broad assumptions in relation to revenue growth, gross margins and EBITDA margin.

The DCF model projects nominal after tax cash flows from 1 July 2019 to 30 June 2029, a period of 10 years, with a terminal value calculated at 30 June 2029 to represent the value of cash flows in perpetuity. The terminal value has been calculated by capitalising net after tax cash flows using a perpetual growth assumption.

Discount Rate

For the purposes of the analysis, Grant Samuel has utilised a nominal discount rate (weighted average cost of capital) ("WACC") in the range 9.5-10.5%. The determination of the appropriate discount rate for the analysis is difficult:

- the cost of equity capital is not a precise or provable number nor can it be estimated with any degree of reliability. The cost of equity capital is not directly observable and models such as the Capital Asset Pricing Model ("CAPM") do no more than infer it from other data using one particular theory about the way in which security prices behave. The usefulness of any estimate therefore depends on the efficacy of the theory and the robustness of the data but the available tools such as CAPM involve:
 - models which have questionable empirical validity (and competing formulation);
 - simplifying assumptions;
 - the use of historical data as proxy for estimates of forward looking parameters;
 - data of dubious statistical reliability; and
 - unresolved issues (such as the impact of dividend imputation).

It is easy to over-engineer the process and to credit the output of models with a precision it does not warrant. The reality is that any cost of capital estimate or model output should be treated as a broad guide rather than an absolute truth. The cost of capital is fundamentally a matter of judgement, not merely a calculation; and

GRANT SAMUEL



- strict application of the CAPM at the present time gives results that are arguably unrealistically low (primarily because of very low government bond rates) and are often inconsistent with other measures.

Use of the CAPM based on current parameters would result in a cost of equity in the range 7.0-7.6% calculated as follows:

- a risk-free rate of 1.0% based on the current 10-year Commonwealth Government bond rate;
- a market risk premium of 6% (a standard rate adopted by Grant Samuel), which is similar to that used by a wide variety of analysts and practitioners (typically in the range 5-7%); and
- a beta factor of 1.0-1.1. It is difficult to determine a reliable beta for Bellamy's:
 - Bellamy's has a beta of 0.11 using four years of data (as reported by SIRCA Technology Pty Limited ("SIRCA") in June 2019) but at a 68% confidence interval is in the range (0.95)-1.16. These unusual betas reflect the significant variation in Bellamy's share price (relative to the market as a whole) over the past four years. In contrast, a2 and Synlait Milk Limited ("Synlait") have betas of 0.98 and 1.16 respectively;
 - the betas of the most relevant peer group companies fall in a very wide range. For example, Bloomberg betas measured monthly over the last four years against the local market index (consistent with the calculation of SIRCA betas) have betas in the range 0.7-7.0, with a median of 1.16. The same betas measured weekly over two years range from 0.8 to 2.0, with a median of 1.31;
 - gearing levels vary significantly but are not always consistent with the beta factors; and
 - intuitively, it would be expected that a company such as Bellamy's, operating in the global infant nutrition sector, would have a beta of around 1.0 given that demand for infant care is in part driven by household wealth and therefore economic cycles.

Taking these factors into account, Grant Samuel believes that a beta of 1.0-1.1 is a reasonable estimate of the appropriate beta for Bellamy's (and reflecting market gearing as opposed to actual gearing as Bellamy's is currently in a net cash position).

The resultant WACC calculation is 6.8-7.6% assuming:

- a cost of debt of 3%, reflecting a 2% margin over the risk-free rate; and
- a debt/equity mix of 0-5% debt and 95-100% equity, based on gearing for Australian and international infant nutrition companies, the majority of which are, and have been over the past four years, in a net cash position at balance date.

The cost of debt and gearing level selected for the purpose of calculating a WACC differ from Bellamy's actual cost of debt (2.8% for the working capital facility) and gearing (of 0%). This is necessary and appropriate to ensure consistency between the beta and gearing assumptions.

However, in Grant Samuel's opinion, these calculations are likely to understate the true cost of capital for Bellamy's. In this context, global interest rates, including long term bond rates, are at low levels by comparison with historical norms. Effective real interest rates are now low and, in some cases, are negative. There is an argument that these conditions have now been present for some years and are therefore the "new normal". While there is some merit in this argument, Grant Samuel does not believe the current position is sustainable over the long term and, in our view, the risk is clearly towards a rise in bond yields, notwithstanding the recent cuts to rates in Australia and the United States.

Conceptually, the interest rates used to calculate the discount rate should recognise this expectation (i.e. they should be forecast for each future period) but for practical ease market practice is that a single average rate based on the long-term bond rate is generally adopted for valuation purposes. Some academics/valuation practitioners consider it to be inappropriate to add a "normal" market risk premium (e.g. 6%) to a temporarily depressed bond yield and therefore advocate that a "normalised" risk free rate should be used. This practice has become increasingly common among broker analysts.

ANNEXURE A CONT

GRANT SAMUEL



On this basis, an increase in the risk-free rate to (say) 4% (still relatively low by historical standards) would, for example, increase the calculated WACC range to 9.7-10.6%.

Having regard to these matters, Grant Samuel considers a discount rate above the calculated WACC to be an appropriate measure of the cost of capital. Accordingly, for this purpose Grant Samuel has adopted a discount rate in the range 9.5-10.5%. This range is broadly consistent with the rates adopted by equity analysts that follow Bellamy's.

Limitations

The DCF model is based on a number of assumptions and is subject to significant uncertainties and contingencies, many of which are outside the control of Bellamy's. Key assumptions regarding future operational performance are highly uncertain and there is scope for significant differences of opinion in relation to these assumptions.

As a result of these uncertainties, there is a wide range of potential outcomes that could occur, both positive and negative (and an even greater number of possible combinations of those outcomes). Accordingly, Grant Samuel has considered a number of scenarios to reflect the impact on value of key assumptions relating to growth and EBITDA margins.

It should be recognised that the scenarios are highly simplified and focus on three value drivers (revenue growth, gross margin and EBITDA margin), rather than detailed "bottom up" parameters. Nevertheless, Grant Samuel considers that the analysis does provide some insight into value. In view of the uncertainties surrounding the future growth of the business operations of Bellamy's, the scenarios analysed are, to some extent, arbitrary. However, they reflect the range of judgements that potential buyers of the business could make. The scenarios do not, and do not purport to, represent the range of potential outcomes for the business operations of Bellamy's. They are simply theoretical indicators of the sensitivity of the net present values derived from the DCF.

The scenarios do not represent Grant Samuel's forecasts of the future financial performance of Bellamy's. Grant Samuel gives no undertaking and makes no warranty regarding the future financial performance of Bellamy's. Such future performance is subject to fundamental uncertainty. Rather, the scenarios have been developed purely to allow Grant Samuel to assess the impact on calculated net present values of alternative assumptions regarding the future growth and financial performance of the business operations of Bellamy's.

Moreover, DCF analysis is subject to significant limitations and net present value outcomes need to be treated with considerable caution. The calculated net present values are extremely sensitive to small changes in assumptions regarding revenue growth, margins and capital expenditure for many years into the future. This sensitivity to assumptions regarding future operational performance is accentuated by the fact that the terminal value (the value contributed by cash flows generated after the end of the explicit cash flow forecast period) normally contributes a high proportion of the overall value.

DCF Assumptions

The DCF analysis considers a number of different scenarios. Scenario A is based on the FY20 Budget and Five Year Model (for the period from FY21 to FY24), with certain growth rates adjusted by Grant Samuel. Grant Samuel has also made longer term assumptions to extend the cash flows for an additional five years to FY29.

The DCF model has discrete sales revenue and gross margin (cost of goods sold) assumptions for each product (core organic, each of the new products (ViPlus, ultra-premium, organic goat) and baby food) with the core organic product also split into regions, being Australian-label (Australian retail, wholesale and CBEC) and Chinese-label (offline retail and O2O). This approach allows for the different sales revenue growth and cost profiles of each product across each region. Overheads (costs of doing business), capital expenditure and working capital assumptions have been made on a business-wide basis.

GRANT SAMUEL



For Scenario A, the DCF model assumes the following:

- average annual growth in sales revenue over the projection period is around 12.5%, including Bellamy's achieving its medium term ambition of \$500 million in revenue target in FY22. This sales revenue growth reflects:
 - strong growth in Chinese-label infant formula sales revenue with sales commencing in FY21 (following receipt of SAMR registration in mid-FY21). The introduction of ViPlus in 2H20 further enhances the growth profile. Sales of Chinese-label products represent approximately 17% of total revenue by FY29;
 - moderate growth in Australian-label infant formula sales revenue, driven by the introduction of new products (organic ultra-premium and goat milk formulas). Sales revenue from the core organic range (i.e. excluding new products) remains relatively flat with price increases offsetting any loss of volume; and
 - strong growth in organic baby food sales revenue from FY20, driven by the introduction of new products (organic cereals and ambient yoghurts in 2H20) and the launch of a Chinese-label organic food range in November/December 2019.

The average annual growth rates are considerably higher in the early years and taper off in the later years of the projection period;

- the core gross margin (i.e. excluding Camperdown) improves by around 450 basis points to 49% by FY29, driven by growth in sales of the new premium products and Chinese-label sales (which generate higher gross margin relative to core product Australian-label sales), channel shift towards CBEC platforms as well as continual improvement in ingredient purchasing and manufacturing arrangements as scale increases. The uplift in margin is evenly spread over the projection period;
- costs of doing business (including employee costs, marketing and overheads) are projected to increase at an average annual rate of 11%, largely due to additional headcount and higher marketing spend (projected as a percentage of revenue) to drive Chinese-label sales;
- the result of the above assumptions is an increase in the EBITDA margin from 17.6% in FY20 to 25% by FY29;
- capital expenditure is based on FY19 capital expenditure of \$3.3 million per year (increased by inflation). Depreciation is assumed to equal capital expenditure;
- a working capital adjustment assuming that working capital is 20% of revenue, which is an assessment taking into account working capital as a percentage of revenue over the past two years;
- approximately \$1 million of public company cost savings annually (increased by inflation);
- an effective corporate tax rate of 30.5% (a blended rate reflecting the mix of Bellamy's global business operations). The ungeared after-tax cash flows assume that tax is paid in cash from 1 July 2019. Bellamy's tax losses have been considered separately; and
- a terminal growth rate of 3% (implying an EBITDA exit multiple of 9.0-10.4 times).

DCF Scenarios

Given the high-level nature of the DCF model and the purpose of the analysis, it is neither practical nor useful to analyse an exhaustive range of alternative scenarios. However, Grant Samuel has considered the impact of alternative assumptions for the key drivers to provide some indication of the sensitivity of the NPV outcome to changes in these drivers.

Each of the scenarios considered by Grant Samuel assumes as a starting point that the FY20 Budget is achieved. Longer term assumptions have been made by Grant Samuel with reference to the Five Year Model following discussions with Bellamy's management. A description of each scenario is outlined in the table below:

ANNEXURE A CONT

GRANT SAMUEL

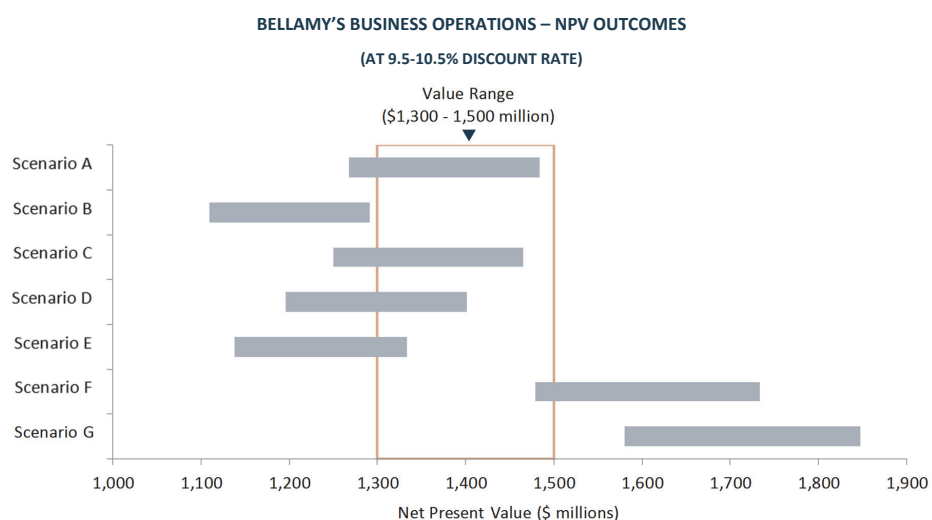


BELLAMY'S - DCF SCENARIOS

SCENARIO	DESCRIPTION
Scenario A	As above
Scenario B	Bellamy's does not receive SAMR registration. Growth is maintained across Australian-label infant formula and baby food as the company focuses on this part of its business. Average annual revenue growth is around 8.5% over the projection period. While sales revenue is lower, EBITDA margin increases to 29% by FY29 due to lower marketing expenses, employee costs and overheads
Scenario C	Scenario A except SAMR registration is delayed by one year (from mid FY21 to mid FY22) and sales of Chinese-label products commence in FY22. Sales revenue growth and margin assumptions delayed by one year. Average annual revenue growth is around 12.5% over the projection period. Sales of Chinese-label products represent approximately 17% of total revenue by FY29. EBITDA margin increases to 25% by FY29
Scenario D	Scenario A except SAMR registration is delayed by three years (from mid FY21 to mid FY24) and sales of Chinese-label products commence in FY24. Sales revenue growth and margin assumptions delayed by three years. Average annual revenue growth is around 12% over the projection period. Sales of Chinese-label products represent approximately 15% of total revenue by FY29. EBITDA margin increases to 24% by FY29
Scenario E	Scenario A except lower revenue growth assumptions across all products. Based on FY20 Budget and median brokers' forecasts (assuming SAMR registration received) revenue and EBITDA for FY21 and FY22. From FY23 onwards, revenue growth remains lower so that average annual revenue growth over the projection period is around 12%. Sales of Chinese-label products represent approximately 20% of total revenue by FY29. EBITDA margin increases to 24% by FY29
Scenario F	Scenario A except higher revenue growth across all products. Average annual revenue growth is around 13.5% over the projection period. Sales of Chinese-label products represent approximately 20% of total revenue by FY29. EBITDA margin increases to 26% by FY29
Scenario G	Scenario F except higher revenue growth across all products. Average annual revenue growth is around 14.5% over the projection period. Sales of Chinese-label products represent approximately 33% of total revenue by FY29. EBITDA margins are consistent with Scenario F

NPV Outcomes

Grant Samuel's selected value range of \$1,300-1,500 million for the business operations of Bellamy's reflects a subjective balancing of the scenarios and a view that the appropriate discount rate to apply is 9.5-10.5%. This is depicted diagrammatically below:



Grant Samuel's value range incorporates the majority of the NPV outcomes of Scenarios A and C, the top half of the NPV outcome of Scenario D, the top end of the NPV outcome of Scenario E and the low end of

GRANT SAMUEL



the NPV outcome of Scenario F. The NPV outcomes of Scenarios B and G are outside the value range. Grant Samuel has considered the NPV outcomes for all the scenarios in determining its value range for Bellamy's business operations. However, it should be noted that:

- Scenarios A, C and D are considered more credible:
 - projected revenue growth for Scenario A is well above expected industry growth rates (in China) over the period from FY20 to FY24, reflecting the impact of resuming offline sales of Chinese-label infant formula in China and new product launches. Revenue growth rates moderate to expected long term industry averages over the period from FY25 to FY29 as Bellamy's business operations, particularly the Chinese-label products, stabilise; and
 - Scenarios C and D demonstrate the sensitivity of the NPV outcomes to delays in receiving SAMR registration. Further delay is not considered to be unreasonable given the delay to date in the processing of Bellamy's SAMR registration application, which was lodged in December 2017;
- Scenario E is based on the median brokers' forecasts for FY21 and FY22, which do not fully capture the expected growth from new products and offline sales of Chinese-label infant formula and are below Bellamy's medium term ambition of \$500 million in revenue. Additional conservatism around growth and margin assumptions, relative to Scenario A, has been factored into this scenario. The bottom end of the value range adopted by Grant Samuel is towards the top end of the NPV outcome based on the median brokers' forecasts;
- Scenario B assumes that Bellamy's does not receive SAMR registration. This is considered to be an unlikely outcome. Bellamy's is confident in its technical application and its prospects for registration. Its Camperdown facility is a GACC-licensed manufacturing facility and it has SAMR registration for ViPlus formula to be produced at a third party manufacturing facility. While it may appear counter intuitive that there is overlap in the NPV outcome of Scenario B with the NPV outcomes of Scenario D (which assumes SAMR registration is received in FY24) and Scenario E (which assumes lower growth in revenue over the projection period), the loss of revenue from offline sales of Chinese-label infant formula is offset in part by revenue growth across Bellamy's core infant formula and baby food categories (given there would be a stronger focus on these products in the absence of SAMR registration) and higher EBITDA margins due to lower employee costs, marketing expenses and overheads in China; and
- Scenarios F and G are considered aspirational scenarios:
 - Scenario F projects higher revenue growth than Scenario A across all products. This scenario assumes Bellamy's can maintain growth rates above expected industry rates of growth over the projection period. While this is possible in the short term given Bellamy's will be starting from a nil base in offline sales of Chinese-label infant formula in China, it is unlikely to be able to maintain this level of growth over the long term. As a result, it is not unreasonable that only the low end of the NPV of Scenario F is included in the value range; and
 - Scenario G assumes even higher revenue growth than Scenario F across all products. Bellamy's ability to achieve revenue and EBITDA at these levels is extremely uncertain. In addition to assuming SAMR registration is received in FY21, it requires perfect execution of Bellamy's marketing strategy in China and continual premiumisation of the product mix resulting in higher margins. Scenario G does, however, consider potential production constraints that may arise if demand for Chinese-label products results in volumes increasing above the maximum capacity at Camperdown (of 6-8 million tins per annum). Expansion of the Camperdown facility is possible. Management of Bellamy's has estimated that capital expenditure of \$12-15 million would be required to increase overall capacity. However, even based on Scenario G, this expenditure would not be required until after the 10 year period of the projections and would be offset in part by an increase in efficiency (an estimated 50% reduction in blending and canning costs).

Taking these factors into account, Grant Samuel believes that the NPV outcomes produced by the DCF analysis support a range of values for the business operations of Bellamy's of \$1,300-1,500 million.

ANNEXURE A CONT

GRANT SAMUEL



5.4.3 Earnings Multiple Analysis

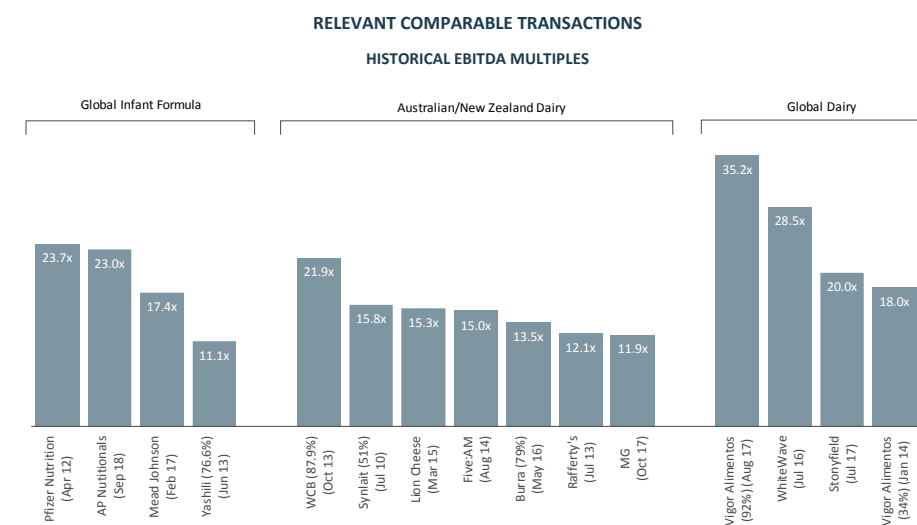
Transaction Evidence

Grant Samuel's research has not revealed any transactions involving infant nutrition businesses in Australia in recent years for which meaningful valuation parameters can be calculated. Consequently, Grant Samuel has considered:

- global transactions for infant formula companies and businesses; and
- Australian/New Zealand and global dairy company and business transactions, with a focus on transactions involving the production of value-add products (such as cheese, yoghurt etc rather than ownership and operation of farms) and niche markets (e.g. organic, goat products).

Grant Samuel has also concentrated on control transactions (i.e. where an interest of 50% or more is acquired as a result of the transaction).

The following charts summarise the historical and forecast EBITDA multiples:



Source: Grant Samuel analysis^{41, 42}

⁴¹ Grant Samuel analysis based on data obtained from IRESS, S&P Global Market Intelligence, company announcements, transaction documentation and, in the absence of company published financial forecasts, brokers' reports. Where company financial forecasts are not available, the median of the financial forecasts prepared by a range of brokers has generally been used to derive relevant forecast value parameters. The source, date and number of broker reports utilised for each transaction depends on analyst coverage, availability and corporate activity.

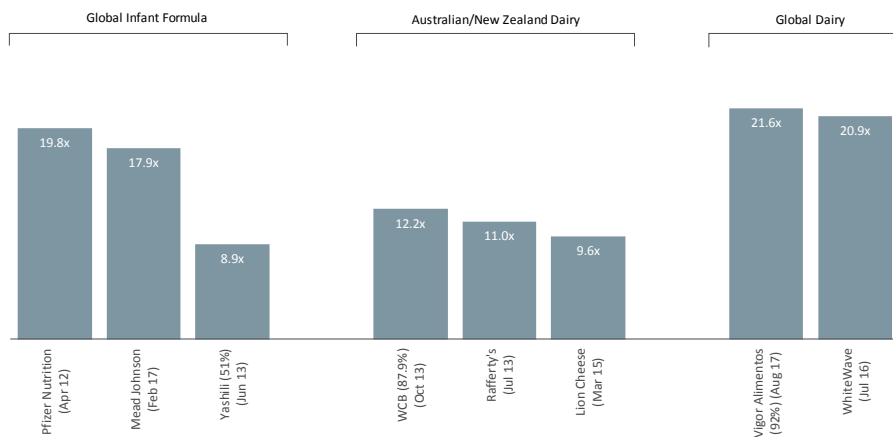
⁴² Historical multiples are based on the most recent publicly available full year earnings prior to the transaction announcement date. Forecast multiples are based on company published earnings forecasts or brokers' reports available at transaction announcement date.

GRANT SAMUEL



RELEVANT COMPARABLE TRANSACTIONS

FORECAST EBITDA MULTIPLES



Source: Grant Samuel analysis ^{41, 42}

The transaction multiples fall in a very wide range, reflecting factors including the strength of relevant brands, the size of the business, investor sentiment at the time of acquisitions, the state of the dairy market, the target's growth expectations at the time of acquisition, the availability of synergies and the level of competition for the asset.

In considering the transaction evidence the following factors should be taken into consideration:

- excluding Mengniu's acquisition of a 76.6% interest in Yashili International Holdings Limited ("Yashili") (which is discussed below), the global infant formula transactions have taken place at very high multiples, generally in excess of 20 times historical EBITDA (17.4-23.7 times historical EBITDA) and just under 20 times forecast EBITDA (17.9-19.8 times forecast EBITDA):
 - Aspen Pharmacare Holdings Limited's ("Aspen Pharmacare") sale of its Nutritionals business ("AP Nutritionals") to Groupe Lactalis ("Lactalis") in September 2018 followed a competitive sales process where over 50 expressions of interest were received. AP Nutritionals had strong brands across three regions, Latin America, Sub-Saharan Africa and the Asia-Pacific. The acquisition by Lactalis was expected to strengthen its presence in those regions (including the fast growing Chinese market) and was consistent with Lactalis' strategy to develop a global infant nutrition business to complement its existing global product range (Lactalis had no base outside of France in infant formula). The historical EBITDA multiple of 23.0 times is based on the FY18 contribution profit of AP Nutritionals (before group administration expenses)⁴³;
 - Mead Johnson Nutritional Company ("Mead Johnson") was a global leader in infant and children's nutrition that developed, manufactured, marketed and distributed more than 70 products in over 50 markets. 50% of sales were generated in Asia. The company enjoyed a period of strong growth from 2010 to 2014 following its demerger from Bristol-Myers Squibb Company in December 2009. However, there was a decline in performance over the period from

⁴³ The transaction value has been adjusted for the payments made to acquire the remaining 50% interests in two joint ventures in the Asia Pacific region as 100% of the joint ventures was included as part of the transaction. The offer price included ~R1.1 billion to be paid to the joint venture partners. In addition, the gross proceeds from the transaction disclosed in Aspen Pharmacare's 2018 Annual Report was R12.1 billion, rather than the R12.9 billion referred to on announcement of the transaction (due to a decline in the ZAR:EUR exchange rate), reducing the historical EBITDA multiple to 21.6 times.

ANNEXURE A CONT

GRANT SAMUEL



2014 to 2016. At the time of its acquisition by Reckitt, it was in a transitional period⁴⁴ and the forecast was for a decline in performance in 2017 before returning to growth in subsequent years, providing some explanation for the multiples of 17.4 times historical EBITDA and 17.9 times forecast EBITDA.

The acquisition was strategically compelling for Reckitt as Mead Johnson was a global leader with a leading global brand (*Enfa*) in a structurally attractive category which provided a 90% increase to Reckitt's consumer health business and significantly strengthened its position in developing markets, particularly China. It combined Mead Johnson's strong research and development, quality, regulatory and specialist distribution capabilities with Reckitt's global marketing, innovation and operational strengths, and was expected to generate significant synergies. Annual cost savings of £200 million (US\$250 million) were expected to be achieved by the end of 2020 (reducing the post synergies forecast EBITDA multiple to 14.3 times). Subsequent to the acquisition, the synergy expectations were increased to £250 million (US\$300 million), implying a post synergies forecast EBITDA multiple of 13.8 times; and

- Pfizer Nutrition was a high quality infant nutrition business with strong brands and a strong presence in premium and super-premium products and in high growth markets (85% of sales were in emerging markets, many with large, fast growing populations). It was a strategic acquisition by Nestle to improve its position in global infant nutrition. Nestle had a share of only around 2.3% of the global infant nutrition market compared to Pfizer Nutrition's ~7.5% share. The combined business would have a 10% market share in China and a 38% market share in the Middle East and Africa region. The sale was the result of a competitive process which included Nestle and Danone and this is reflected in the multiples of 23.7 times historical EBITDA⁴⁵ and 19.8 times forecast EBITDA. Synergies of US\$160 million were expected to be achieved, reducing the forecast EBITDA multiple to 15.6 times.

Despite Pfizer Nutrition's growth profile, attractive margins and emerging market exposure making it an attractive acquisition, analyst views were that the transaction value was quite high and that Nestle was paying a high premium to gain access to infant nutrition markets in emerging countries;

- Yashili is a Hong Kong-based infant formula manufacturer that sources all of its dairy raw materials from New Zealand. In 2014, it was one of the most successful milk powder brands in China with a nationwide distribution network and plans to expand its capacity in New Zealand, although its focus is on regular (rather than premium) infant formula. The acquisition was strategically significant for the expansion of Mengniu's powdered milk business, which represented less than 2% of revenue. The reason for the lower multiples implied by the Yashili acquisition (11.1 times historical EBITDA and 8.9 times forecast EBITDA) is unclear, but may be explained in part by the timing of the transaction, post the 2008 food safety scandal (which saw the share prices and market ratings of Chinese-based infant formula producers crash) and prior to the mid-2014 introduction of new rules requiring foreign companies importing dairy products to undergo a registration and audit process (which had a positive impact on the share prices and market ratings of Chinese-based infant formula producers).

Furthermore, the acquisition price of HK\$3.50 per share was only a 9.4% premium to the last trading price of HK\$3.20 and 16.7% below the HK\$4.20 IPO price in October 2010. Yashili was also trading at a discount to its peers at the time due to concerns over cost inflation (i.e. the cost of New Zealand milk powder) and margin contraction. The 76.6% acquired by Mengniu was held by two shareholders who had provided undertakings to accept the offer prior to its announcement and may have had specific reasons for selling their shareholdings. No other shareholders accepted the offer. The subsequent

⁴⁴ Mead Johnson shares had fallen by a third over the prior two years as the company lost market share in China, largely due to increased competition, changing consumer habits in relation to preferred distribution channels and regulatory changes.

⁴⁵ The Nestle presentation on the transaction refers to a 2011 EBITDA of US\$500 million and an EBITDA margin of 25%. If this EBITDA margin is applied to 2011 revenue of \$2,138 million to calculate the historical EBITDA (US\$534.5 million), the historical EBITDA multiple is 22.2 times (rather than 23.7 times, which has been calculated assuming 2011 EBITDA of \$500 million as disclosed in the Nestle presentation).

GRANT SAMUEL



placement of shares to Danone to give it a 25% interest in Yashili in October 2014 (post announcement of the new rules for foreign companies importing dairy products) was at a considerably higher multiple (16.5 times historical EBITDA) even though it was not a control transaction; and

- the multiples implied by the Australian/New Zealand and global dairy transactions vary, although in general, the Australian dairy transactions are lower (11.9-15.8 times historical EBITDA⁴⁶ and 9.6-12.2 times forecast EBITDA) and the global dairy transactions are higher (18.0-28.5 times historical EBITDA⁴⁷ and 20.9-21.6 times forecast EBITDA) than the EBITDA multiples implied by the global infant formula transactions. These multiples reflect the specific circumstances of each transaction:
 - the Synlait acquisition (15.8 times historical EBITDA) involved Bright Dairy & Food Co. Ltd ("Bright Dairy") investing NZ\$82 million to acquire a controlling 51% interest in Synlait's milk processing business (not its farming interests, which remained owned by a separate entity). At the time of the investment, Synlait was not yet involved in the production of infant formula. The funds invested were used to implement Synlait's growth strategy to become a leading provider of high quality, premium infant formula products through construction of a second spray-drier, purpose built for the manufacture of infant formula. Production of infant formula commenced in FY12. This may explain why the historical EBITDA multiple is high relative to other Australian/New Zealand dairy transactions, but relatively low compared to the global infant formula transactions;
 - volatility in global dairy markets and the consequent variability of corporate earnings impacted the multiples implied in the acquisitions of Warrnambool Cheese and Butter Factory Limited ("WCB")⁴⁸ by Saputo Inc and a 34% interest in Vigor Alimentos S.A. ("Vigor Alimentos")⁴⁹ by FB Participacoes (to take its total interest to 78.6%) in October 2013 and January 2014 respectively. The WCB acquisition followed a period of depressed dairy commodity markets through calendar 2011 and into 2012, followed by a steep increase to record highs in mid-late 2013. These commodity price movements are reflected in the high historical EBITDA multiple and the significantly lower forecast multiple for WCB. In contrast, the Vigor Alimentos acquisition took place after a year (2013) of very high dairy commodity markets and this is reflected in its lower historical EBITDA multiple;
 - similarly, the very high historical EBITDA multiple implied by the 2017 acquisition of Vigor Alimentos by Grupo Lala ("Lala") followed a sharp rise in commodity prices in early FY17 after an extended period of extremely depressed prices. The high price paid by Lala also reflected the strategic importance of the acquisition as a platform for its growth in Latin America. Brazil was the largest dairy market in Latin America, with a favourable medium and long term outlook and Lala expected to generate synergies from improving both upstream and downstream operations⁵⁰;
 - the relatively high multiples implied by the 2013 acquisition of WCB⁴⁸ by Saputo (21.9 times historical EBITDA and 12.2 times forecast EBITDA) also reflected the culmination of a highly competitive three way bidding war between Bega, Saputo and Murray Goulburn Co-Operative Co. Limited ("MG"). The acquisition of WCB would have provided significant synergies to MG and Bega, including greater control over regional milk supply as well as operational scale benefits.

⁴⁶ Excluding the historical EBITDA multiple for Saputo's acquisition of an 87.9% interest in WCB.

⁴⁷ Excluding the historical EBITDA multiple for Grupo Lala's acquisition of the remaining 92% interest in Vigor Alimentos.

⁴⁸ The EBITDA used to calculate the historical and forecast EBITDA multiples for the WCB transactions includes its 50% share of EBITDA and net borrowings from the Great Ocean Ingredients joint venture.

⁴⁹ Vigor Alimentos was a leading Brazilian dairy company with operations in milk collection, production and distribution. It focused on value added dairy segments and innovation and had a portfolio of widely recognised brands including in yoghurt and cheese and a strong presence in the fast growing food service segment.

⁵⁰ Initially, Lala was to also acquire Vigor Alimentos' 50% shareholding in Itambe Alimentos S.A., which also produced a portfolio of dairy products, mainly powdered milk, condensed milk, milk caramel, yoghurt and UHT milk. However, the other 50% shareholder exercised its right of first refusal to acquire Vigor Alimentos' 50% interest. The initial multiples including Vigor Alimentos' 50% interest in Itambe Alimentos S.A. were 23.6 times historical EBITDA and 17.4 times forecast EBITDA.

ANNEXURE A CONT

GRANT SAMUEL



For Saputo, the acquisition represented its first entry into the Australian market. Saputo acquired the remaining 12% for approximately \$80 million in 2017 at an equivalent price to its earlier offer after taking into account the renounceable rights issue in June 2016. While Saputo already controlled WCB, the price paid in this subsequent transaction (at 15 times historical EBITDA) arguably reflected the benefits for Saputo of moving to 100% ownership of WCB (as well as weakness in global dairy prices in FY16);

- the acquisition of Lion Dairy & Drink's Everyday Cheese business ("Lion Cheese") was principally motivated by WCB's ability to realise significant synergies through the vertical integration of operations. The cut and wrap operations of Lion Cheese were located in Allansford, adjacent to WCB's manufacturing facility. Furthermore, WCB supplied Lion Dairy & Drinks with the bulk cheddar used in the production of Lion Dairy & Drink's consumer branded cheese products;
- the sale of MG's operating assets and liabilities to Saputo took place at a very low multiple of 11.9 times historical EBITDA. This multiple reflected MG's exposure to movements in milk prices and the deterioration in MG's competitive position following a major reduction in its milk price and a loss of milk supply. As a result, it was in the midst of a restructuring to rationalise its business and reduce its cost base. The transaction was the outcome of an extensive process to ensure a competitive milk price for suppliers and maximise value for shareholders⁵¹, but was arguably the sale of a distressed business;
- each of The WhiteWave Foods Company ("WhiteWave"), Stonyfield Farm Inc ("Stonyfield") and Five:AM Life Pty Ltd ("Five:AM") were businesses focused on the organic segment. These transactions took place at multiples in a relatively wide range of 15.0-28.5 times historical EBITDA:
 - WhiteWave was a global leader in organic foods, plant-based alternatives to milk and related products, with a portfolio of well recognised brands and a track record of highly profitable growth. Its acquisition by Danone further diversified Danone's product portfolio into the organic and dairy alternative segments, broadened its presence in North America and enhanced its growth profile (WhiteWave was the fastest growing food and beverage company in the United States and one of the fastest growing in Europe for the prior four years). Significant synergies of \$300 million were expected to be achieved by 2020 (representing 8% of WhiteWave's 2015 revenue and almost 80% of its 2015 EBITDA). The substantial expected synergies are reflected in the very high multiples of 28.5 times historical EBITDA and 20.9 times forecast EBITDA (which fall to 16.9 times and 13.9 times respectively post synergies);
 - Stonyfield was a leading organic yoghurt company in the United States and the second largest brand for organic dairy-based yoghurt with 13.3% of the market. Its acquisition strengthened Lactalis' position in the rapidly growing organic dairy category. The reported historical EBITDA multiple of 20 times was considered by analysts to be reasonable; and
 - Five:AM is a leading Australian organic yoghurt brand that manufactures and distributes a range of premium organic yoghurt products. Its acquisition by PZ Cussons Plc ("PZ Cussons") was regarded as an excellent fit with PZ Cussons' existing presence in the fast growing core food and nutrition category⁵².

The differential in the multiples is also likely to reflect the relative size of each business. With a 100% enterprise value of GBP 51.1 million, Five:AM was considerably smaller than Stonyfield (100% enterprise value of US\$875 million), which was in turn was much smaller than WhiteWave (100% enterprise value of US\$14.6 billion);

- the acquisition by Mengniu (via a subsidiary) of a 79% interest in Burra Foods Australia Pty Ltd ("Burra") took place at a relatively low multiple of 13.5 times historical EBITDA, reflecting Burra's

⁵¹ MG had a hybrid co-operative structure where suppliers held all of its shares and current suppliers had 100% of the voting rights. External investors had an effective 37.1% economic interest in MG's equity through the MG Unit Trust, but had no voting rights.

⁵² The historical EBITDA multiple of 15.0 times includes the additional consideration that was payable subject to the performance of the business over the following year (at its present value).

GRANT SAMUEL



activities as a manufacturer and processor of milk products (including milk powder) for customers. Mengniu provided Burra with improved access to high value milk and nutritional powder markets and access to capital to expand its production facilities; and

- Rafferty's Gardens Pty Ltd ("Rafferty's") was Australia's leading premium nutritious baby food brand with approximately 40% of the wet baby food market, growing shares in the infant dry and snacks market and an early stage export business (to Indonesia and Thailand). All manufacturing was outsourced to third parties. The acquisition marked PZ Cussons' entry into the food and nutrition category in the Asia-Pacific, providing a platform for further growth. The historical EBITDA multiple of 12.1 times likely reflects the small size of the transaction (GBP42.2 million).

Sharemarket Evidence

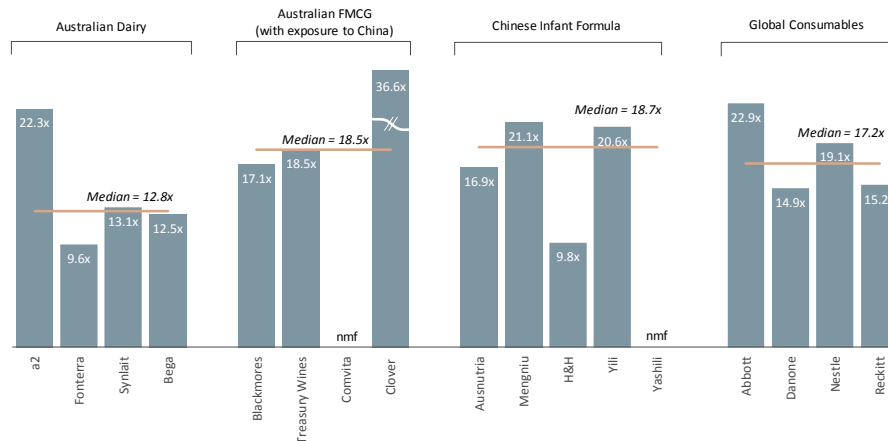
There are a number of Australian listed companies that operate in the infant nutrition sector, including a2, Bubs Australia Limited, Wattle Health Limited and Keytone Dairy Corporation Limited. However, other than a2 (which is discussed below), each of these companies is relatively small and/or still in the development phase and loss making at the EBITDA level such that meaningful trading multiples are not able to be calculated. Consequently, Grant Samuel has considered the trading multiples of:

- Australian-based dairy companies with operations across the farming, milk processing and infant formula production supply chain;
- Australian-based fast-moving consumer goods ("FMCG") businesses with a high level of exposure to the Chinese market via the daigou, CBEC or direct sales channels;
- Chinese-based dairy companies with an established presence in the infant formula market; and
- global consumables companies that are significant participants in the Chinese infant formula market.

The following charts set out the historical and forecast EBITDA multiples for these listed companies based on share prices as at 30 September 2019:

RELEVANT COMPARABLE LISTED COMPANIES

HISTORICAL EBITDA MULTIPLES

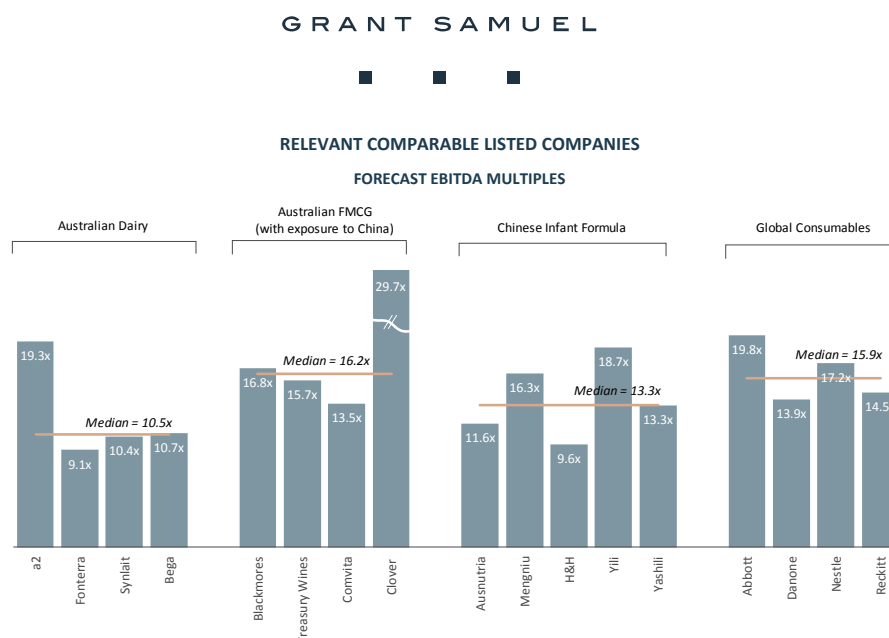


Source: Grant Samuel analysis⁵³

Note: The historical EBITDA multiples for Convita and Yashili are not meaningful as both companies reported an EBITDA loss in FY19

⁵³ Grant Samuel analysis based on data obtained from IRESS, S&P Global Market Intelligence, company announcements and, in the absence of company published financial forecasts, brokers' reports. Where company financial forecasts are not available, the median of the financial forecasts prepared by a range of brokers has generally been used to derive relevant forecast value parameters. The source, date and number of broker reports utilised for each company depends on analyst coverage, availability and recent corporate activity.

ANNEXURE A CONT



Source: Grant Samuel analysis⁵³

The following factors are relevant to consideration of the comparable trading multiples:

- the multiples for the listed entities are based on share prices and therefore do not include a premium for control;
- each of the companies other than the Chinese infant formula and the global consumables companies have either a 30 June or 31 July year end. The Chinese infant formula and the global consumables companies each have a 31 December year end. The data presented for each company is the most recent annual historical result plus the subsequent forecast year. In the case of the Chinese infant formula and global consumables companies, the most recent historical period is the year ended 31 December 2018. The financial data has not been adjusted to align the year end for each company;
- the trading multiples reflect the different characteristics and operations of each of the companies, in particular where they operate in the supply chain and their exposure to growth markets. Excluding the Australian-based dairy companies (which are discussed in more detail below):
 - the historical trading multiples range from 10 to 37 times EBITDA, although with some consistency at around 15-20 times EBITDA; and
 - the forecast trading multiples are more consistent at around 12-17 times EBITDA, with medians of around 15 times (in the range 13.3-16.2 times);
- a2 is a premium dairy and infant formula brand. It is one of the largest companies listed on the ASX, with a market capitalisation of around \$9 billion (and sitting just outside the top 50 ASX listed companies). Infant formula sales represented more than 80% of FY19 revenue. It trades on relatively high multiples of 22.3 times historical EBITDA and 19.3 times forecast EBITDA. These high multiples reflect its size, its strong brand and its track record of growth, particularly in China where it has SAMR registration. Sales to China and other Asia represented 31% of FY19 revenue and have grown at an average rate of 120% per year over the past three years (and at an average rate of 172% per year over the past five years);
- excluding a2, the lower trading multiples for the other Australian-based dairy companies (10-13 times historical EBITDA and 9-11 times forecast EBITDA) reflect their position the supply chain as owners of farms and/or milk processing operations. These companies are more vulnerable to fluctuations in

GRANT SAMUEL



milk price and volumes given their exposure to global dairy commodity and farm gate milk prices and are relatively capital intensive businesses. In addition to processed cheese and branded food products, Bega also operates Tatura Milk, a dairy processor and manufacturer of cream cheese, commodity powders, butter and nutritional powders. Bega does not disclose dairy processing revenue, although Tatura Milk represented approximately 30% of revenue and 42% of EBITDA in FY19. Synlait also has a dairy processing business (in addition to its milk powder manufacturing and infant and adult formula operations). Fonterra⁵⁴ is in the midst of business reset and implementation of a new strategy. It reported a disappointing underlying performance in FY19. While its New Zealand business was solid, its Australian and Latin American operations were challenged. FY20 is regarded as a year of transition. Fonterra's multiples may also be impacted by its structure (an unlisted farmer-owned co-operative combined with an ASX-listed unit trust); and

- the Australian-based FMCG, Chinese-based infant formula and global consumables companies are generally trading below a2 but above the other Australian-based dairy companies:
 - the Australia-based FMCG companies with exposure to China do not produce infant nutrition products but are equally reliant on the growing China middle class and similar distribution channels such as daigou and CBEC (other than Treasury Wine Estates Limited ("Treasury Wines") which has adopted a direct selling route to market through its local sales and marketing team). As such, any regulatory changes that disrupt traditional routes to market would have a similar impact on these companies. The trading multiples for Comvita Limited ("Comvita") and Clover Corporation Limited ("Clover") differ significantly from those of Blackmores Limited and Treasury Wines, which are trading at 17.1-18.5 times historical EBITDA and 15.7-16.8 times forecast EBITDA:
 - Comvita's relatively low forecast multiple (of 13.5 times EBITDA) reflects the impact of three consecutive seasons of suboptimal honey production. It is also in the process of navigating regulatory changes in New Zealand, distribution channel realignment and an ongoing strategic review. Comvita made an EBITDA loss in FY18; and
 - the relatively high multiples for Clover (36.6 times historical EBITDA and 29.7 times forecast EBITDA) reflect its growth profile. The company refines and sells omega-3 oils and bioactive ingredients for infant formula, children's foods, supplements and medical foods (including DHA powders) and has achieved average annual growth in revenue and EBITDA of 23% and 50% respectively over the past five years;
 - the Chinese infant formula companies typically have the benefit of local market and regulatory knowledge that enable them to secure necessary approvals and product registrations such as SAMR. However, consumers continue to favour foreign brands, although recent regulatory changes (e.g. domestic production targets, foreign formula registration requirements etc.) are providing growth opportunities for these local companies:
 - Ausnutria and Yashili⁵⁵ are primarily infant formula producers. These companies are trading in a relatively tight range of 11.6-13.3 times forecast EBITDA and Ausnutria is trading at a historical EBITDA multiple of 16.9 times (Yashili made an EBITDA loss in 2018);
 - Yili Group ("Yili") and Mengniu are diversified across a range of dairy products and only approximately 10% of their revenue comes from infant formula, with strong penetration in Tier 3 and 4 cities. This may explain their higher trading multiples (~21 times historical EBITDA and 16-19 times forecast EBITDA); and

⁵⁴ The equity value for Fonterra has been calculated by combining the market capitalisations of Fonterra Co-Operative Group Limited (a farmer-owned co-operative which has a separate market for trading co-operative shares between permitted holders) and Fonterra Shareholders' Fund (an ASX-listed unit trust established to provide outside investors with an economic exposure to Fonterra Co-operative Group Limited).

⁵⁵ It should be noted that Yashili has a limited free float of only 17.6% of its issued shares. Mengniu (51%), Danone (25%) and Zhang International Investment Ltd (6.4%) collectively hold 82.4% Yashili's issued shares.

ANNEXURE A CONT

GRANT SAMUEL



- Health and Happiness International Holdings Limited ("H&H") produces both adult and children's nutritional products. H&H is trading at lower multiples than its peers (9.8 times historical and 9.6 times forecast EBITDA). These lower multiples appear to be driven by the recent underperformance of its adult nutritional care business due to channel disruption from new regulation. Growth in revenue for this segment was only 2% in 1H19 compared to 17% for the rest of its business; and
- the global consumables companies are the market leaders in the Chinese infant formula market, particularly in the premium segment. However, these companies are much larger than the other comparable companies (with market capitalisations ranging from \$82 billion to \$465 billion⁵⁶) and are diversified across products, markets and geographic regions. Given their diversified nature, any developments in the Chinese infant formula market are likely to have limited impact:
 - Abbott trades at relatively higher multiples of 22.9 times historical EBITDA and 19.8 times forecast EBITDA (compared to 14.9-19.1 times historical EBITDA and 13.9-17.2 times forecast EBITDA for the other global consumables companies). This premium is likely to be driven by Abbott's non-infant formula business, which is involved in the production of (higher growth and higher margin) medical equipment and pharmaceuticals whereas the non-infant formula business of each of the other global consumables companies is predominantly consumer goods (i.e. food and beverages); and
 - infant formula sales represent varying proportions of each company's overall revenue. Abbott is estimated to generate only 1% of its revenue from infant formula. The other global consumables companies have a more significant exposure to the infant formula market. Infant formula represents approximately 24% of Reckitt's revenue and an estimated 10-15% of revenue for Danone and Nestle.

Implied Multiples for Bellamy's

Grant Samuel has valued the business operations of Bellamy's in the range \$1,300-1,500 million. Based on the adjusted earnings set out in Section 5.3.2, the value range represents the following multiples:

BELLAMY'S BUSINESS OPERATIONS – IMPLIED VALUATION PARAMETERS

	VARIABLE (\$ MILLION)	RANGE OF PARAMETERS	
		LOW	HIGH
Multiple of adjusted EBITDA (times)			
FY18 (adjusted actual)	74.5	17.4	20.1
FY19 (adjusted actual)	50.6	25.7	29.6
FY20 (adjusted median brokers' forecast)	53.9	24.1	27.8
FY21 (adjusted median brokers' forecast, SAMR registration received)	71.5	18.2	21.0
FY22 (adjusted median brokers' forecast, SAMR registration received)	89.2	14.6	16.8

Assessing appropriate multiples for the valuation of Bellamy's business operations is not straightforward:

- Bellamy's future earnings and therefore its value are extremely sensitive to the:
 - timing of receipt of SAMR registration (and therefore the ability to resume offline sales of Chinese-label infant formula in China); and
 - growth in revenue that can be generated from sales of new products planned to be launched in 2H20 (ViPlus, ultra-premium, organic goat), new markets (the Philippines and Indonesia) and offline sales of Chinese-label products in China (baby food and, after SAMR registration is received, infant formula);

⁵⁶ Reckitt (\$82 billion), Danone (\$85 billion), Abbott (\$219 billion) and Nestle (\$465 billion).

GRANT SAMUEL



- Bellamy's FY19 (immediate historical) and FY20 (current year forecast) adjusted EBITDAs do not reflect the potential of the business:
 - FY19 adjusted EBITDA does not include any offline sales of Chinese-label infant formula, earnings from new products expected to be launched in FY20 or expansion into the Philippines and Indonesia; and
 - FY20 adjusted EBITDA does not include any offline sales of Chinese-label infant formula and only a relatively small contribution from new products (with sales of ViPlus, ultra-premium and organic goat infant formula expected to commence in 2H20) and new markets (the Philippines and Indonesia); and
- accordingly, Grant Samuel has also considered the FY18 (historical) and FY21 and FY22 (forecast) adjusted EBITDA multiples, although these are also not ideal benchmarks for valuation purposes as:
 - FY18 historical adjusted EBITDA includes only six months of offline sales of Chinese-label infant formula; and
 - forecast adjusted EBITDA for FY21 and FY22 represents median brokers' forecasts (assuming SAMR registration is received):
 - in Grant Samuel's view, assuming that SAMR registration is received is the more appropriate approach given Bellamy's expectation that registration will ultimately be received. In any event, the risk is on the downside (i.e. the value of Bellamy's would be lower if SAMR registration is not received (see the DCF analysis in Section 5.4.2 where this is considered as a scenario)); and
 - while these forecasts do include offline sales of Chinese-label infant formula and revenue from new products and new markets, they assume lower growth in revenue than targeted by Bellamy's (the median brokers' forecast FY22 revenue of \$446.5 million is approximately 11% lower than Bellamy's medium term ambition of \$500 million in revenue).

As a result, caution should be exercised when considering the implied multiples for Bellamy's business operations relative to the transaction and trading evidence.

The most comparable transaction multiples are those implied by the acquisitions of:

- global infant formula companies and businesses (excluding Yashili as an outlier), which have taken place at 17-24 times historical EBITDA and 18-20 times forecast EBITDA; and
- other organic dairy businesses, which have taken place at 15-29 times historical EBITDA and 20.9 times forecast EBITDA.

While these multiples are very high, they reflect the attractive attributes and high growth potential for infant formula and organic dairy businesses and, in some cases (i.e. Pfizer Nutrition, Mead Johnson and WhiteWave), include substantial synergies. The post synergy multiples are in the range 14.0-18.0 times historical EBITDA and 14.3-15.6 times forecast EBITDA.

The other Australian and global dairy transactions (other than organic dairy transactions) are not as relevant to Bellamy's as they operate in a different part of the supply chain and are more exposed to general dairy commodity cycles.

The Rafferty's transaction implied lower multiples for baby food businesses (of 12.1 times historical EBITDA and 11.0 times forecast EBITDA). However, baby food represents a relatively small (albeit fast growth) proportion of Bellamy's revenue and earnings and a number of the global infant formula transactions (e.g. Pfizer Nutrition and Mead Johnson) and companies (e.g. Ausnutria and Yashili) also generate a proportion of total revenue from products other than infant formula. The impact on Bellamy's blended multiple (across infant formula and baby food) would be minimal.

ANNEXURE A CONT

GRANT SAMUEL



In terms of trading multiples, the most relevant Australian company is a2 (which is trading at 22.3 times historical EBITDA and 19.3 times forecast EBITDA). When considering the appropriate multiples for Bellamy's, Grant Samuel has taken into account a2's:

- significantly larger size (it has a market capitalisation of around \$9 billion), scale and higher margins (a2 generated an EBITDA margin of around 32% in FY19, almost double the 17.6% achieved by Bellamy's);
- diversified operations (by product and geography i.e. a2 also supplies liquid milk in Australia, the United States and the United Kingdom and other nutritional products in the Asia-Pacific region);
- stronger infant formula brand and product in China (in particular, the appeal of a2's "gentle" focus);
- ability to continue to export Chinese-label infant formula to China after 31 December 2018 as a result of its manufacturer, Synlait, receiving CFDA registration in September 2017; and
- track record of strong growth in revenue and earnings.

On the other hand, a2 arguably has less upside (capacity to grow) compared to Bellamy's and a2's trading multiples do not reflect any premium for control.

Grant Samuel has also considered the trading multiples of Australian FMCG companies with exposure to China (median forecast EBITDA multiple of around 16 times) and Chinese infant formula companies, the two most comparable being Ausnutria and Yashili (11.6-13.3 times forecast EBITDA).

While the global consumables companies are major participants in the infant nutrition sector, limited weight has been placed on their trading multiples in considering the appropriate earnings multiples for Bellamy's given their significantly larger size and diversified operations, and the relatively small proportion of revenue generated by infant formula.

Despite its inconsistent historical earnings, Bellamy's is an attractive business with strong growth prospects and a number of positive attributes that would justify high adjusted EBITDA multiples relative to the market evidence (i.e. forecast multiples of up to 20 times EBITDA):

- a strong and internationally recognised brand. Bellamy's is a trusted and respected brand with a reputation for high quality products. It is the largest Australian organic infant formula brand, a leading global organic infant formula brand and ranks third in organic brand awareness with consumers in China. Bellamy's is also the second largest organic baby food brand globally;
- focus in the niche organic sector of the infant nutrition market. The organic focus differentiates Bellamy's from its competitors (i.e. conventional infant formula). While competitors are able to offer similar products (e.g. Bubs recent introduction of a grass-fed organic range and Nestle's NAN Organic released in September 2018, as well as expressions of interest in organic products from global infant nutrition companies Danone and Reckitt), and this is likely to increase competition, as the first to offer an organic product, Bellamy's has the advantage of being well established in this sector;
- position at the super-premium end of the market. Premium infant formula products generate higher margins than regular infant formula products;
- lower exposure to the general dairy commodity price cycle. As a niche product, organic milk powder has more limited availability and suppliers are able to command relatively high prices. In addition, Bellamy's has entered into long term agreements with a number of domestic and international suppliers for the supply of key ingredients which lock in prices as well as volumes. As a result, organic milk powder prices do not tend to correlate with short term movements in general dairy commodity cycles. Although ingredient prices can move with the dairy commodity cycle over the longer term, Bellamy's would expect to be able to recover any increase in ingredient cost through price increases for its products;

GRANT SAMUEL



- a diversified supplier base for key ingredients and processing. Bellamy's has long term agreements with key suppliers and manufacturers and is not reliant on any individual supplier (i.e. it has access to alternative sources of supply should these be required). It has also entered into partnerships to develop organic milk pools (to which it has priority access). Bellamy's does not anticipate any supply constraints in relation to its core or new products (i.e. ultra-premium, organic goat) given its planning to date and its ability to manage the launch and ramp up of new products in line with availability;
- low capital intensity. Bellamy's outsources the capital intensive aspects of its business – ingredient supply, most manufacturing (other than Camperdown) and logistics – to third parties. As a result, it generates attractive margins, particularly in China. While its lack of scale has constrained its EBITDA margins, there is significant upside potential in margins as sales volumes increase; and
- exposure to China, the world's largest market for infant formula (US\$25 billion in 2018) with a strong growth outlook driven by increasing premiumisation (premium and super-premium products represent around 40% of the market) and higher penetration into lower tier cities. Many Chinese mothers have a higher propensity to use infant formula and are willing to pay higher prices, particularly for trusted foreign brands. The penetration of organic infant formula into the Chinese market is relatively low. Bellamy's has a substantial presence in China through its established e-commerce distribution channels (CBEC and daigou). However, the real growth will be from offline sales of Chinese-label infant formula (which represent an estimated 70% of infant formula sales in China).

On the downside, the attractiveness of the Chinese infant formula market (despite its declining birth rate) is expected to result in an increase in competition as key participants pursue similar product and growth strategies (i.e. increasing premium offerings, new formula categories such as goat etc).

However, Bellamy's ability to exploit these attractive attributes is not without risk:

- Bellamy's is exposed to considerable regulatory risk:
 - uncertain timing of SAMR registration. While Bellamy's is confident in the technical aspects of its application lodged in December 2017 (and the Camperdown facility already has a GACC licence and is SAMR registered to provide a third party product), the timing for SAMR registration has already been delayed and Bellamy's has no visibility as to timing. Registration is estimated to be a ~12 month process, plus an additional six months to get product to market. Consequently, Bellamy's will not be able to generate revenue from Chinese-label sales until, at best, part way through FY21. There is also a risk that SAMR registration could take longer, or, at worst, not be received; and
 - ongoing risk of further changes to regulation, particularly in China but also in other key jurisdictions such as Australia. Bellamy's has tried to mitigate the risk of doing business in China by developing alternative channels into China (e.g. SAMR registered ViPlus conventional formula and baby food, which has lower regulatory requirements than infant formula because it is not regarded as paediatric). However, regulatory change remains a key risk given there is the potential, as history has shown, for the rules to change at any time; and
- there is also execution risk in relation to:
 - take up of Chinese-label products in retail stores in China once SAMR registration is received. While China is a very large market and Bellamy's has an attractive product, the level of take up and growth in sales is uncertain. Bellamy's last sold in retail stores in China in 2017 and the market has since changed considerably. It is clearly more competitive and the level of competition is likely to increase as a result of the Chinese government initiative to increase the proportion of domestically produced infant formula to 60% of the market by 2022;
 - sales of its core organic products, in particular whether the introduction of Step 4 (junior) and an increase in sales of Step 1 (infant) and Step 2 (follow-on) infant formula can offset the expected

ANNEXURE A CONT

GRANT SAMUEL



decline in sales of Step 3 (toddler) infant formula going forward (following the peak in the Chinese birth rate in 2016 and 2017); and

- revenue and growth for new products and new markets (including baby food into China) expected to launch in FY20. Some of these products are adjacent to Bellamy's niche market of organic infant formula (e.g. ViPlus, organic goat infant formula) which creates additional uncertainty in relation to revenue and growth expectations.

These risks are in addition to risks in China around changing consumer preferences (for product, distribution channel etc) and the outlook for the infant formula market, despite its size and positive growth outlook (i.e. the impact of a declining birth rate to what extent this will be offset by urbanisation and an increase in disposable income per capita) to which all participants in the Chinese infant nutrition sector are exposed.

These risks are not insignificant and need to be reflected in the appropriate multiples for Bellamy's business operations. Recognition of these risks would push the appropriate multiples below the 20 times forecast EBITDA benchmark.

The FY19 historical multiples (of 25.7-29.6 times adjusted EBITDA) and FY20 forecast multiples (of 24.1-27.8 times adjusted EBITDA) are extremely high (above the top end of the historical multiples for comparable transactions of ~17-24 times EBITDA and significantly higher than the forecast multiples for comparable transactions, which are generally around 18-20 times EBITDA). However, in Grant Samuel's view, these multiples are not unreasonable as FY19 historical EBITDA and FY20 forecast EBITDA do not reflect the potential for the high rates of growth for the business that would be expected to follow SAMR registration (see comments above).

The FY18 multiples (of 17.4-20.1 times adjusted EBITDA), although relating to earnings from two years ago, are not dissimilar to the FY21 multiples (of 18.2-21.0 times adjusted EBITDA). These multiples are still at the high end of the range of multiples for comparable transactions and are high relative to the trading EBITDA multiple for a2 (after taking into account a2's specific characteristics and allowing for a premium for control). However, the FY18 and FY21 multiples for Bellamy's only include a part year of offline sales of Chinese-label infant formula (and a part year of sales of new products in FY21), and would be lower if a full year of this additional EBITDA was included.

The FY22 multiples (of 14.6-16.8 times adjusted EBITDA) are below the forecast transaction evidence (of ~18-20 times) but, in Grant Samuel's view, consistent with this evidence taking into account:

- they are based on median brokers' forecasts of earnings two years into the future (i.e. for growth businesses, forecast multiples for FY22 would be expected to be lower than forecast multiples for FY21, which, in turn, would be expected to be lower than forecast multiples for FY20);
- Bellamy's is smaller and generates lower margins than the majority of the companies the subject of comparable transactions (notwithstanding its attractive attributes and strong growth prospects); and
- there are significant risks associated with achieving the FY22 EBITDA (i.e. receiving SAMR registration and successfully expanding through new products and new markets, including baby food into China).

On balance, and taking all of the above factors into account, Grant Samuel believes that the multiples implied by the valuation of Bellamy's business operations of 18.2-21.0 times forecast FY21 EBITDA and 14.6-16.8 times forecast FY22 EBITDA are appropriate.

G R A N T S A M U E L



5.5 Corporate Costs

Bellamy's incurs corporate costs of approximately \$6 million per annum, which include the costs of:

- certain group shared services (such as human resources, information technology etc);
- the Bellamy's executive office (such as costs associated with the offices of the Chief Executive Officer and the Chief Financial Officer, company secretarial and legal, corporate affairs, treasury, tax etc); and
- being a listed company (such as directors' fees and insurance, annual reports and shareholder communications and share registry and listing fees).

Any acquirer of 100% of Bellamy's would be able to save the costs associated with being a publicly listed company. The ability to save other costs is less clear. An acquirer of Bellamy's which has an existing presence in Australia and even financial buyers may be able to rationalise corporate costs (e.g. close the Australian corporate headquarters) but a number of the functions would need to be replicated. In any event, allowing for such savings would potentially double count them given the earnings multiples from comparable transactions reflect (to some extent) synergies available to the acquirer.

For valuation purposes, Grant Samuel has reduced corporate costs by \$0.6 million in FY18, \$0.9 million in FY19 and \$1.0 million in FY20 to FY22 (reflecting listed company costs) in the calculation of adjusted earnings described in Section 5.3.2 and consequently, no separate adjustment has been made for these cost savings.

5.6 Other Assets and Liabilities

Other assets and liabilities have been valued at \$10.4 million (on a net basis) and include:

- the present value of the \$4.3 million of Camperdown tax losses brought to account on Bellamy's balance sheet at 30 June 2019. It has been assumed that Bellamy's owns 100% of Camperdown and that the tax losses are utilised by Bellamy's over the next eight years based on the amount of tax losses able to be utilised each year under the available fraction calculation;
- the present value of the tax impact of a one-off tax deduction available to Bellamy's on exercise of the options of \$35.5 million. The tax deduction arises as a result of the Employee Share Trust structure used by Bellamy's to exercise the options. The tax impact of the deduction is \$10.7 million and will be utilised to offset monthly tax payments up to 30 June with the balance received as a refund on lodgement of Bellamy's tax return in December 2020;
- the present value of minimum annual volume payments (after tax) that Bellamy's expects to make over the period from FY20 to FY23. It is assumed that after FY23, Bellamy's will be producing sufficient volumes of infant formula such that it will meet any minimum volume commitments in its supplier contracts, or that it will have renegotiated the contracts as they approach their current expiry dates (of July 2023 and August 2024); and
- the mark-to-market of forward foreign exchange contracts at 30 June 2019 of \$(0.1) million.

No separate value has been attributed to:

- accumulated franking credits at 30 March 2019 (\$44.9 million) (see Section 5.8);
- the outside equity interest in Camperdown, on the basis that it has been assumed that the remaining 10% ownership interest is acquired by Bellamy's through the issue of 300,000 shares;
- the shareholder class actions filed against Bellamy's in February 2017 and March 2017 (see Section 4.6). Bellamy's is defending the proceedings. To the extent that Bellamy's ultimately has to make any payments to the class action claimants, the net impact of any payments would only reduce the underlying value of Bellamy's shares (i.e. the risk is on the downside); and

ANNEXURE A CONT

GRANT SAMUEL



- the special dividend of \$0.60 per share to be paid prior to implementation of the Scheme as the valuation of Bellamy's has been undertaken on a "cum dividend" basis (see Section 5.3).

5.7 Net Cash

Net cash for valuation purposes is \$144.3 million. This amount reflects the net cash position of Bellamy's at 30 June 2019 adjusted as follows:

BELLAMY'S – ADJUSTED NET CASH (\$ MILLIONS)

	SECTION REFERENCE	AT 30 JUNE 2019	
		LOW	HIGH
Net cash at 30 June 2019	4.4	112.3	112.3
Cash from the exercise of options	refer below	32.0	32.0
Adjusted net cash		144.3	144.3

The valuation assumes that all options over ordinary shares vest and are exercised, other than 38,143 options that are out-of-the-money based on the total cash amount of \$13.25 (with an exercise price of \$20.56) and 100,000 where vesting will not be accelerated unless the Scheme becomes effective after 2 January 2020 (the Scheme is expected to become effective on 10 December 2019). This results in the receipt of cash payments of \$32.0 million and the issue of 5,093,850 ordinary shares (see Section 4.7)⁵⁷.

5.8 Franking Credits

Under Australia's dividend imputation system, domestic equity investors receive a taxation credit (franking credit) for tax paid by a company. The franking credit attaches to any dividends paid by a company and the franking credit offsets personal tax for Australian investors. To the extent that personal tax has been fully offset the individual will receive a refund of the balance of the franking credit. Franking credits therefore have value to the recipient.

However, in Grant Samuel's opinion, while acquirers are attracted by franking credits there is no clear evidence that they will actually pay extra for a company with them (at any rate the sharemarket evidence used by Grant Samuel in valuing the Bellamy's business will already reflect the value impact of the existence of franking credits). Further, franking credits are not an asset of the company in the sense that they can be readily realised for a cash sum that is capable of being received by all shareholders. The value of franking credits can only be realised by shareholders themselves when they receive distributions. Importantly, the value of franking credits is dependent on the tax position of each individual shareholder. To some shareholders (e.g. overseas shareholders) they may have very little or no value. Similarly, if they are attached to a distribution which would otherwise take the form of a capital gain taxed at concessional rates there may be minimal net benefit (in fact, there may be some categories of shareholders who are worse off in this situation such as shareholders with a capital loss on disposal of the shares).

Accordingly, while franking credits may have value to some shareholders they do not affect the underlying value of the company itself. No value has therefore been attributed to the accumulated franking credit position of Bellamy's in the context of the value of Bellamy's as a whole.

Grant Samuel notes that the total amount to be received by Bellamy's shareholders (\$13.25 per share) includes a fully franked special dividend to be paid prior to implementation of the Scheme. In this case, some shareholders may realise additional value from the franking credits (i.e. they will be better off in after tax terms than they would otherwise be) (see Section 6.3.4).

⁵⁷ To the extent that optionholders elect "cashless exercise" of their options (see footnote 34), the cash from the exercise of options would be reduced and there would be a corresponding reduction in the number of ordinary shares issued such that there is no material impact on the value of Bellamy's shares. If all optionholders elected cashless exercise, no cash would be received on the exercise of options and, assuming a share price equivalent to the total cash amount of \$13.25, only 2,679,803 ordinary shares would be issued.

GRANT SAMUEL



6 Evaluation of the Scheme

6.1 Summary

Grant Samuel has concluded that the Scheme is fair and reasonable. Accordingly, the Scheme is in the best interests of Bellamy's shareholders, in the absence of a superior proposal.

6.2 Fairness

Grant Samuel has estimated the full underlying value of Bellamy's, including a premium for control, to be in the range \$1,455-1,655 million which corresponds to \$12.25-13.93 per share⁵⁸. The value is the aggregate value of the estimated value of the Bellamy's operating business together with other assets less external liabilities and any non-trading assets or liabilities. The value range exceeds the price at which, based on current market conditions, Grant Samuel would expect Bellamy's to trade on the ASX in the absence of a change of control proposal (or speculation as to such a proposal). The valuation is set out in detail in Section 5 of this report.

The total cash amount to be received by Bellamy's shareholders of \$13.25 per share⁵⁹ falls within the value range of \$12.25-13.93 per share. Accordingly, the Scheme is fair.

The value range of \$12.25-13.93 per share estimated by Grant Samuel assumes that Bellamy's receives SAMR registration, allowing it to resume offline sales of Chinese-label infant formula in China. In the event that Bellamy's did not receive SAMR registration, the value of Bellamy's would fall (i.e. the risk is on the downside) and the Scheme would still be fair.

6.3 Reasonableness

As the Scheme is fair, it is also reasonable. In any event, there are a number of other factors that support the reasonableness of the Scheme and which Bellamy's shareholders should consider in determining whether or not to vote for or against the Scheme. These factors are set out in the following sections.

6.3.1 Premium for Control

The total cash amount of \$13.25 per share represents a 59.3% premium relative to the price at which Bellamy's shares last traded prior to announcement of the Scheme and is higher (~64%) relative to share prices in the month prior to announcement of the Scheme. The premium is lower but still at elevated levels when assessed against Bellamy's share price over the longer term (~40-54%):

BELLAMY'S – PREMIUM OVER PRE-ANNOUNCEMENT PRICES

PERIOD	BELLAMY'S PRICE/VWAP ⁶⁰	PREMIUM
13 September 2019 – Pre-announcement price	\$8.32	59.3%
1 month prior to 13 September 2019 – VWAP	\$8.07	64.2%
3 months prior to 13 September 2019 – VWAP	\$8.59	54.2%
6 months prior to 13 September 2019 – VWAP	\$9.46	40.1%
12 months prior to 13 September 2019 – VWAP	\$8.82	50.2%

The implied premiums are above the level usually associated with takeovers of 20-35% although it should be recognised that premiums for control:

⁵⁸ On a cum dividend basis (i.e. prior to the payment of the \$0.60 per share special dividend to be paid by Bellamy's prior to implementation of the Scheme).

⁵⁹ Comprising the consideration under the Scheme of \$12.65 per share together with the special dividend of \$0.60 per share.

⁶⁰ VWAP is volume weighted average price.

ANNEXURE A CONT

GRANT SAMUEL



- are an outcome not a determinant of value; and
- vary widely depending on the circumstances of the target and other factors such as the potential for competing offers). In fact, most transactions fall outside (either above or below) the 20-25% range.

There are reasons why Bellamy's shareholders could reasonably expect high premiums in a change of control transaction given the business reset completed in FY19 and Bellamy's considerable growth potential once SAMR registration is received. Ongoing delays in receiving SAMR registration have made investors cautious about Bellamy's growth potential and this has been reflected in its share price over the past 12 months.

The total cash amount offered under the Scheme of \$13.25 per share is below Bellamy's share price during 1H18, when the shares traded as high as \$23.07 in anticipation of the high growth expected through offline sales of Chinese-label infant formula in China, on the assumption that SAMR registration was a formality and would be received immediately. However, failure to secure SAMR registration resulted in a fall in the share price back to 2H17 levels of around \$8.00-11.00. Bellamy's share price prior to announcement of the Scheme of ~\$8.10-8.90 reflected the release at the end of August 2019 of FY19 results that were below expectations, as well as ongoing uncertainty as to whether and when SAMR registration would be received.

6.3.2 Share Trading in the Absence of the Scheme

The Scheme enables shareholders to realise their investment in Bellamy's at a cash price which incorporates a premium for control. In the absence of the Scheme or a similar transaction, shareholders could only realise their investment by selling on market at a price which does not include any premium for control and would incur transaction costs (e.g. brokerage).

In this context, the FY19 results released on 28 August 2019 showed a 19% fall in revenue to \$266.2 million and a decline in the EBITDA margin to 17.6%, both of which were below (downgraded) guidance of \$275-300 million in revenue and an EBITDA margin of 18-22%. Bellamy's also provided guidance for FY20 of 10-15% growth in group revenue and a group EBITDA margin consistent with FY19. This guidance was below most analysts expectations. Analyst reaction to the FY19 results and the FY20 guidance was underwhelming, with most brokers neutral on the stock and a number downgrading their price targets (the range of 12-month price targets for Bellamy's following announcement of its FY19 results was \$7.65-8.70 per share). However, it should be noted that:

- the prior year (FY18) was a record year for Bellamy's and included six months of offline sales of Chinese-label infant formula in China (prior to the new registration requirements commencing 1 January 2018);
- the FY19 results were impacted by, among other things, the loss of Chinese-label sales (relative to the prior year) as well as the transition associated with the Bellamy's rebrand;
- Bellamy's guidance for FY20 does not include any revenue from offline sales of Chinese-label infant formula in China and only a part year contribution from new products, which are expected to launch in 2H20. As a result, there is expected to be an acceleration of growth in 2H20 which should flow through to FY21 (which will include a full year of contribution from new products); and
- the broker target prices assume Bellamy's does not receive SAMR registration in the next 12 months.

Beyond FY20, the outlook for Bellamy's depends on receiving SAMR registration to enable it to resume offline sales of Chinese-label infant formula. Bellamy's has confirmed its \$500 million revenue target but deferred it beyond FY21. However, several analysts have stated that they will not increase their target prices until there is greater clarity in relation to SAMR registration and none of the analysts have incorporated the medium term ambition of \$500 million revenue into their FY22 forecasts.

GRANT SAMUEL



In these circumstances, and in the absence of the Scheme or a similar transaction, it is likely that Bellamy's shares, under current market conditions, would trade at prices well below \$13.25 and quite possibly back towards the prices prevailing prior to announcement of the Scheme of ~\$8.10-8.90.

6.3.3 Alternative Proposals

It is conceivable that a third party could make a higher offer for Bellamy's:

- Bellamy's has a number of strategic attractions for global infant nutrition and dairy companies including its brand, leading position in the organic sector, focus on super-premium products and real growth potential, particularly from exposure to China; and
- there are no structural impediments to an alternative acquirer:
 - only one shareholder has a relevant interest in more than 10% of Bellamy's shares⁶¹ and this shareholder has not indicated how it intends to vote the shares in its control (and so would be able to consider an alternative proposal). Mengniu's (including its subsidiaries) shareholding in Bellamy's is only 2.9%; and
 - while Bellamy's has agreed to customary exclusivity provisions, there is a fiduciary carve out and Bellamy's can respond to unsolicited proposals from other parties (subject to a notification obligation).

While Mengniu's right to match any competing proposal and the \$14.3 million break fee (approximately 12 cents per share) may deter some parties, they would not necessarily stop a determined bidder.

However, it should be noted that:

- potential acquirers that already operate in Australia (i.e. local companies such as a2) could potentially face competition issues. On the other hand, the most likely alternative acquirers are other global infant nutrition companies (e.g. Nestle, Danone and Reckitt) or Chinese infant formula companies (e.g. Yili, Ausnutria and H&H), none of which would be likely to be blocked from acquiring Bellamy's on competition grounds; and
- the price offered by Mengniu, which reflects very high multiples of earnings and substantial premiums over pre-announcement Bellamy's share prices, will act as a practical disincentive to alternative acquirers.

The meeting at which Bellamy's shareholders will vote on the Scheme is scheduled for 5 December 2019. There should be ample time for an alternative offeror to come forward. If this does not occur, it would be imprudent for shareholders to vote against the Scheme in anticipation of a higher offer from Mengniu or a third party.

6.3.4 Franking Credits Benefits

Bellamy's shareholders will receive a fully franked special dividend of \$0.60 per share if the Scheme is implemented.

In Grant Samuel's opinion, it is not appropriate to either:

- factor into the value of Bellamy's the value of accumulated franking credits held by Bellamy's; or
- include in the consideration the value of the franking credits attached to the dividends that form part of the total cash amount to be received by Bellamy's shareholders.

⁶¹ Interests associated with Jan Cameron have a relevant interest in approximately 17.1% of Bellamy's shares.

ANNEXURE A CONT

GRANT SAMUEL



The reasons are manifold but not the least of these is that the franking credits do not have value to a company per se but only have value to the shareholders of a company (when attached to dividends) and the value of those credits to each shareholder varies depending on their individual circumstances (from zero to \$1.00 per \$1.00 of franking credit).

Nevertheless, it needs to be recognised that some shareholders may realise additional value from the franking credits attached to the special dividend (i.e. they would be better off in after tax terms than they would have been had the same amount been paid as part of the Scheme consideration and been received as a capital gain).

The following table sets out illustrative calculations for a variety of shareholder types:

FRANKING CREDIT BENEFIT ANALYSIS (CENTS)

	FOREIGN SHAREHOLDER ⁶²	AUSTRALIAN RESIDENT INDIVIDUAL SHAREHOLDER ⁶³			AUSTRALIAN SUPER FUND ⁶⁴	AUSTRALIAN CORPORATION ⁶⁵
		45% MARGINAL RATE	30% MARGINAL RATE	0% MARGINAL RATE		
60 cents received as a dividend franked to 100%						
Dividend	60.0	60.0	60.0	60.0	60.0	60.0
Franking credit	-	25.7	25.7	25.7	25.7	25.7
Gross taxable income	60.0	85.7	85.7	85.7	85.7	85.7
Tax payable	-	(40.3)	(27.4)	-	(12.7)	(25.7)
Tax credit	-	25.7	25.7	25.7	25.7	25.7
Net tax (payable)/refundable	-	(14.6)	(1.7)	25.7	12.9	-
Net after tax cash income	60.0	45.4	58.3	85.7	72.9	60.0
60 cents received as a capital gain						
Capital gain	60.0	60.0	60.0	60.0	60.0	60.0
Tax payable	-	(14.1)	(9.6)	-	(6.0)	(18.0)
Net after tax cash income	60.0	45.9	50.4	60.0	54.0	42.0
Net benefit of dividend	-	(0.5)	7.9	25.7	18.9	18.0

Primarily, the benefits flow to Australian resident shareholders on lower tax rates (e.g. superannuation funds). There is no benefit to foreign shareholders, while Australian resident individual shareholders on the top marginal tax rate would have been (marginally) better off receiving the amount as a capital gain.

The Australian Taxation Office ("ATO") Commissioner may use certain powers in the tax law to deny Bellamy's shareholders the benefit of the franking credits attached to the special dividend. Bellamy's has sought a class ruling in relation to, among other things, whether the ATO Commissioner will exercise his discretion to deny access to the franking credits. However, the final class ruling is unlikely to be issued prior to the special dividend payment date. As a result, there is a risk that shareholders may not be able to obtain the benefit of the franking credits attached to the special dividend.

⁶² Assumes the same tax rate applies to dividend income and a capital gain for a foreign shareholder.

⁶³ Assumes the shares have been held for more than 12 months and that the Medicare levy is 2%.

⁶⁴ Assumes the superannuation fund is in the accumulation phase (with income taxed at 15%).

⁶⁵ Assumes the Australian corporate pays tax at a rate of 30%.

GRANT SAMUEL



6.3.5 Other Matters

Taxation Consequences

If the Scheme is implemented, shareholders will be treated as having disposed of their Bellamy's shares for tax purposes. A capital gain or loss may arise on disposal depending on the cost base for the Bellamy's shares, the length of time held, whether the shares are held on capital or revenue account and whether the shareholder is an Australian resident for tax purposes. For this purpose, the consideration will be \$12.65 per share (i.e. net of the special dividend).

Details of the Australian taxation consequences for Bellamy's shareholders who are Australian resident individuals and hold their shares on capital account are set out in Section 7 of the Scheme Booklet. Shareholders should consult their own professional adviser in relation to the taxation consequences.

Transaction Costs

If the Scheme is not approved by shareholders or otherwise not implemented, it is estimated that Bellamy's will meet costs (including legal and other adviser's fees as well as printing and mailing costs) of \$4 million (3.4 cents per share). In certain circumstances, Bellamy's will also be liable to pay Mengniu a \$14.3 million break fee. If the Scheme is implemented, all transaction costs will effectively be borne by Mengniu.

6.4 Shareholder Decision

Grant Samuel has been engaged to prepare an independent expert's report setting out whether in its opinion the Scheme is in the best interests of shareholders and to state reasons for that opinion. Grant Samuel has not been engaged to provide a recommendation to shareholders in relation to the Scheme, the responsibility for which lies with the directors of Bellamy's.

In any event, the decision whether to vote for or against the Scheme is a matter for individual shareholders based on each shareholder's views as to value and business strategy, their expectations about future economic and market conditions and their particular circumstances including risk profile, liquidity preference, investment strategy, portfolio structure and tax position. In particular, taxation consequences may vary from shareholder to shareholder. If in any doubt as to the action they should take in relation to the Scheme, shareholders should consult their own professional adviser.

ANNEXURE A CONT

GRANT SAMUEL



7 Qualifications, Declarations and Consents

7.1 Qualifications

The Grant Samuel group of companies provide corporate advisory services in relation to mergers and acquisitions, capital raisings, debt raisings, corporate restructurings and financial matters generally. The primary activity of Grant Samuel & Associates Pty Limited is the preparation of corporate and business valuations and the provision of independent expert's reports in connection with mergers and acquisitions, takeovers and capital reconstructions. Since inception in 1988, Grant Samuel and its related companies have prepared more than 560 public independent expert and appraisal reports.

The persons responsible for preparing this report on behalf of Grant Samuel are Jaye Gardner BCom LLB (Hons) CA SF Fin GAICD and Stephen Cooper BCom (Hons) ACA (SA) ACMA. Both have a significant number of years of experience in relevant corporate advisory matters. Shaun Yu BBA CFA and Wendy Chen BCom (Liberal Studies) CFA assisted in the preparation of the report. Each of the above persons is a representative of Grant Samuel pursuant to its Australian Financial Services Licence under Part 7.6 of the Corporations Act.

7.2 Disclaimers

It is not intended that this report should be used or relied upon for any purpose other than as an expression of Grant Samuel's opinion as to whether the Scheme is in the best interests of shareholders. Grant Samuel expressly disclaims any liability to any Bellamy's shareholder who relies or purports to rely on the report for any other purpose and to any other party who relies or purports to rely on the report for any purpose whatsoever.

Grant Samuel has had no involvement in the preparation of the Scheme Booklet issued by Bellamy's and has not verified or approved any of the contents of the Scheme Booklet. Grant Samuel does not accept any responsibility for the contents of the Scheme Booklet (except for this report).

7.3 Independence

Grant Samuel and its related entities do not have at the date of this report, and have not had within the previous two years, any business or professional relationship with Bellamy's or Mengniu or any financial or other interest that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Scheme.

Grant Samuel had no part in the formulation of the Scheme. Its only role has been the preparation of this report.

Grant Samuel will receive a fixed fee of \$600,000 for the preparation of this report. This fee is not contingent on the conclusions reached or the outcome of the Scheme. Grant Samuel's out of pocket expenses in relation to the preparation of the report will be reimbursed. Grant Samuel will receive no other benefit for the preparation of this report.

Grant Samuel considers itself to be independent in terms of Regulatory Guide 112 issued by the ASIC on 30 March 2011.

7.4 Declarations

Bellamy's has agreed that it will indemnify Grant Samuel and its employees and officers in respect of any liability suffered or incurred as a result of or in connection with the preparation of the report. This indemnity will not apply in respect of the proportion of any liability found by a court to be caused by any conduct involving negligence or wilful misconduct or misleading or deceptive conduct by Grant Samuel. Bellamy's has also agreed to indemnify Grant Samuel and its employees and officers for time spent and

GRANT SAMUEL



reasonable legal costs and expenses incurred in relation to any inquiry or proceeding initiated by any person. Any claims by Bellamy's are limited to an amount equal to the fees paid to Grant Samuel. Where Grant Samuel or its employees and officers are found to have been negligent or engaged in wilful misconduct or misleading or deceptive conduct Grant Samuel shall bear the proportion of such costs caused by its action.

Advance drafts of this report were provided to Bellamy's and its advisers. Certain changes were made to the drafting of the report as a result of the circulation of the draft report. There was no alteration to the methodology, evaluation or conclusions as a result of issuing the drafts.

7.5 Consents

Grant Samuel consents to the issuing of this report in the form and context in which it is to be included in the Scheme Booklet to be sent to shareholders of Bellamy's. Neither the whole nor any part of this report nor any reference thereto may be included in any other document without the prior written consent of Grant Samuel as to the form and context in which it appears.

7.6 Other

The accompanying letter dated 30 October 2019 and the Appendix form part of this report.

Grant Samuel has prepared a Financial Services Guide as required by the Corporations Act. The Financial Services Guide is set out at the beginning of this report.

GRANT SAMUEL & ASSOCIATES PTY LIMITED

30 October 2019

Grant Samuel & Associates

ANNEXURE A CONT

GRANT SAMUEL



APPENDIX 1 – BROKER CONSENSUS FORECASTS

While Bellamy's has provided guidance in relation to FY20 group revenue growth and group EBITDA margin, it has not publicly released earnings forecasts for FY20 or subsequent years. Accordingly, the prospective multiples implied by the valuation of Bellamy's in the Grant Samuel report are based on median brokers' forecasts.

Set out below is a summary of forecasts prepared by brokers that follow Bellamy's in the Australian stockmarket:

BELLAMY'S – BROKER FORECASTS FOR YEAR ENDING 30 JUNE (\$ MILLIONS)

BROKER	DATE	REVENUE			EBITDA			EBIT		
		FY20	FY21	FY22	FY20	FY21	FY22	FY20	FY21	FY22
Broker 1	28 August 2019	293.2	329.7	356.1	52.3	59.4	65.6	45.2	51.4	56.7
Broker 2	16 September 2019	296.9	355.3	394.3	52.3	66.7	77.0	49.1	64.3	74.5
Broker 3	16 September 2019	301.0	380.0	445.0	52.7	72.8	87.4	46.0	64.0	75.0
Broker 4	28 August 2019	295.0	333.7	372.1	51.5	61.7	72.4	46.2	55.7	65.7
Broker 5	16 September 2019	302.0	381.0	463.0	53.0	69.0	89.0	48.0	62.0	83.0
Broker 6	28 August 2019	302.0	372.0	448.0	53.0	72.0	92.0	48.0	68.0	88.8
Broker 7	16 September 2019	292.9	336.8	382.3	51.7	62.0	73.2	44.9	57.0	67.2
No SAMR Registration (FY20, FY21 and FY22 not shaded)										
Minimum		292.9	329.7	356.1	51.5	59.4	65.6	44.9	51.4	56.7
Maximum		302.0	336.8	382.3	53.0	62.0	73.2	49.1	57.0	67.2
Median		296.9	333.7	372.1	52.3	61.7	72.4	46.2	55.7	65.7
Growth		+11.5%	+12.4%	+11.5%	+11.5%	+18.0%	+17.3%	+11.1%	+20.6%	+18.0%
SAMR Registration (FY21 and FY22 shaded)										
Minimum			355.3	394.3		66.7	77.0		62.0	74.5
Maximum			381.0	463.0		72.8	92.0		68.0	88.0
Median			376.0	446.5		70.5	88.2		64.2	79.0
Growth			+26.6%	+18.8%		+34.8%	+25.1%		+39.0%	+23.1%

Source: Brokers' reports, Grant Samuel analysis

When reviewing this data the following should be noted:

- the forecasts presented above represent the latest available broker forecasts for Bellamy's;
- the brokers presented are those who have published research on Bellamy's following Bellamy's announcement of its FY19 results on 28 August 2019;
- Grant Samuel is not aware of any other broker that follows Bellamy's;
- individual brokers have made different assumptions in relation to Bellamy's receiving SAMR registration, which have a material impact on the overall median:
 - all brokers have forecast FY20 on the basis that SAMR registration is not received and there are no offline sales of Chinese-label infant formula in FY20. This is consistent with the guidance provided by Bellamy's in relation to the sale of Chinese-label organic formula;
 - Brokers 1, 4 and 7 have forecast FY21 and FY22 revenue and earnings on the basis that SAMR registration is not received; and
 - Brokers 2, 3, 5 and 6 have either explicitly or implicitly (in the case of Broker 3) assumed that SAMR registration is received. However, even where this is the case, the brokers make different assumptions about the timing of commencement of, and growth in, offline sales of Chinese-label infant formula (which is not unexpected given the uncertainty as to when SAMR registration will be received):

GRANT SAMUEL



- Broker 2 assumes offline sales of Chinese-label infant formula commence in during FY21 (~\$25 million in revenue);
- Broker 5 assumes SAMR registration is received in FY21 but offline sales of Chinese-label infant formula do not commence until FY22; and
- Brokers 3 and 6 appear to assume that offline sales of Chinese-label infant formula commence in FY21.

Despite the different assumptions, there is a clear separation between the forecasts, with those assuming SAMR registration is received showing significantly higher growth in revenue and earnings. Grant Samuel has focused on the median brokers' forecasts assuming SAMR registration is received. This is consistent with the basis on which Bellamy's has provided its medium term ambition of \$500 million in revenue and with the confidence in its technical application and prospects for SAMR registration; and

- as far as is possible to identify from a review of the brokers' reports, Grant Samuel believes that the earnings forecasts do not incorporate any one-off adjustments or non-recurring items.

The median brokers' forecasts for FY20 are sufficiently close to Bellamy's FY20 Budget to be useful for analytical purposes. While the median brokers' forecasts for FY21 and FY22 (assuming SAMR registration is received) are below Bellamy's medium term ambition of \$500 million in revenue, they are still useful for analytical purposes.

ANNEXURE B

Scheme of Arrangement

Allens > Linklaters

Scheme of Arrangement pursuant to section 411 of the *Corporations Act 2001* (Cth)

Between

Bellamy's Australia Limited (ACN 124 272 108) of 115 Cimitiere Street, Launceston, Tasmania, 7250 (**Bellamy's**).

And

Each holder of Bellamy's Shares recorded in the Bellamy's Share Register as at the Scheme Record Date (other than holders of Excluded Shares) (each a **Scheme Shareholder** and together the **Scheme Shareholders**).

Recitals

- A Bellamy's is an Australian public company limited by shares, registered under the Corporations Act, and has been admitted to the official list of the ASX. Bellamy's Shares are quoted for trading on the ASX.
- B Mengniu is a Cayman Islands incorporated company listed on the Hong Kong Stock Exchange, and its indirectly wholly owned subsidiary, Mengniu SubCo, is an Australian proprietary company limited by shares.
- C Bellamy's and Mengniu have entered into a Scheme Implementation Deed dated **15 September 2019** (the **Scheme Implementation Deed**) pursuant to which:
 - (a) Bellamy's has agreed to propose this Scheme to Bellamy's Shareholders; and
 - (a) Bellamy's and Mengniu have agreed to take certain steps to give effect to this Scheme.
- D If this Scheme becomes Effective, then:
 - (a) all of the Scheme Shares and all of the rights and entitlements attaching to them on the Implementation Date will be transferred to Mengniu SubCo;
 - (b) the Scheme Consideration will be provided to the Scheme Shareholders in accordance with the terms of this Scheme and the Deed Poll; and
 - (c) Bellamy's will enter the name and address of Mengniu SubCo in the Bellamy's Share Register as the holder of all of the Scheme Shares.
- E By executing the Scheme Implementation Deed, Bellamy's has agreed to propose and implement this Scheme, and Mengniu has agreed to assist with that proposal and implementation, on and subject to the terms of the Scheme Implementation Deed.
- F Mengniu and Mengniu SubCo have each entered into the Deed Poll for the purpose of covenanting in favour of the Scheme Shareholders that Mengniu and Mengniu SubCo will observe and perform the obligations contemplated of them under this Scheme.

It is agreed as follows.

1 Definitions and interpretation

1.1 Definitions

In this document, unless the context requires otherwise:

ASIC means the Australian Securities and Investments Commission.

ASX means ASX Limited (ABN 98 008 624 691) or, as the context requires, the financial market

Allens > Linklaters

known as 'ASX' operated by it.

ASX Listing Rules means the official listing rules of ASX.

Bellamy's Share Register means the register of members of Bellamy's maintained in accordance with the Corporations Act.

Bellamy's Share Registry means Link Market Services Limited (ACN 083 214 537) of Level 1, 333 Collins Street, Melbourne, or any replacement share registry services provider to Bellamy's.

Bellamy's Shares means fully paid ordinary shares issued in the capital of Bellamy's.

Bellamy's Shareholder means a person who is registered in the Bellamy's Share Register as a holder of Bellamy's Shares.

Business Day means any day that is each of the following:

- (a) a Business Day within the meaning given in the ASX Listing Rules; and
- (b) a day that banks are open for business in Sydney, Australia.

CHESS means the Clearing House Electronic Subregister System for the electronic transfer of securities, operated by ASX Settlement Pty Limited (ABN 49 008 504 532).

Constitution means the constitution of Bellamy's, as amended from time to time.

Corporations Act means the *Corporations Act 2001* (Cth), as amended by any applicable ASIC class order, ASIC legislative instrument or ASIC relief.

Court means the Supreme Court of New South Wales, or such other court of competent jurisdiction under the Corporations Act agreed to in writing between Bellamy's and Mengniu.

Deed Poll means the deed poll executed on 22 October 2019 by Mengniu and Mengniu SubCo in favour of the Scheme Shareholders.

Effective means, when used in relation to this Scheme, the coming into effect, pursuant to section 411(10) of the Corporations Act, of the orders of the Court under section 411(4)(b) (and, if applicable, section 411(6)) of the Corporations Act in relation to this Scheme.

Effective Date means the date on which this Scheme becomes Effective.

End Date means the date that is 6 months after the date of the Scheme Implementation Deed, or such other date as may be agreed in writing between Bellamy's and Mengniu.

Excluded Share means a Bellamy's Share held by or on behalf of a member of the Mengniu Group.

Excluded Shareholder means a holder of an Excluded Share.

Implementation Date means the fifth Business Day after the Scheme Record Date, or such other date as Bellamy's and Mengniu may agree in writing.

Mengniu means China Mengniu Dairy Company Limited (incorporated in the Cayman Islands) of PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

Mengniu SubCo means Wise Journey Pty Ltd ACN 636 561 469, an indirectly wholly owned subsidiary of Mengniu.

Registered Address means, in relation to a Scheme Shareholder, the address of that Scheme Shareholder shown in the Bellamy's Share Register as at the Scheme Record Date.

Scheme means this scheme of arrangement under Part 5.1 of the Corporations Act between Bellamy's and the Scheme Shareholders as set out in this document, subject to any alterations or conditions made or required by the Court and agreed to by Mengniu and Bellamy's (such agreement not to be unreasonably withheld or delayed) made or required by the Court under

section 411(6) of the Corporations Act and agreed to by Bellamy's and Mengniu.

Scheme Consideration means the consideration to be provided to each Scheme Shareholder for the transfer to Mengniu SubCo of each Scheme Share being, in respect of each Scheme Share, a cash amount of \$12.65.

Scheme Meeting means the meeting of Bellamy's Shareholders (other than Excluded Shareholders) ordered by the Court to be convened under section 411(1) of the Corporations Act in relation to this Scheme, and includes any adjournment or postponement of that meeting.

Scheme Orders means the orders of the Court made under section 411(4)(b) of the Corporations Act (and if applicable, section 411(6) of the Corporations Act) in relation to this Scheme.

Scheme Record Date means 7:00pm on the sixth Business Day after the Effective Date or such other time and date agreed to in writing between Bellamy's and Mengniu.

Scheme Shares means the Bellamy's Shares on issue as at the Scheme Record Date, other than the Excluded Shares.

Scheme Transfer means, in relation to each Scheme Shareholder, a proper instrument of transfer of their Scheme Shares for the purpose of section 1071B of the Corporations Act.

Second Court Date means the first day of hearing of an application made to the Court for orders pursuant to section 411(4)(b) of the Corporations Act approving this Scheme or, if the hearing of such application is adjourned for any reason, means the first day of the adjourned hearing.

Subsidiary has the meaning given in the Corporations Act, provided that an entity will also be taken to be a Subsidiary of another entity if it is controlled by that entity (as 'control' is defined in section 50AA of the Corporations Act) and, without limitation:

- (a) a trust may be a Subsidiary, for the purposes of which a unit or other beneficial interest will be regarded as a share;
- (b) an entity may be a Subsidiary of a trust if it would have been a Subsidiary if that trust were a corporation; and
- (c) an entity will also be deemed to be a Subsidiary of an entity if that entity is required by the accounting standards to be consolidated with that entity.

Trust Account means an Australian dollar denominated trust account held with an Australian bank and operated by Bellamy's (or by the Bellamy's Share Registry on behalf of Bellamy's) as trustee for the Scheme Shareholders.

1.2 Interpretation

- (a) Headings are for convenience only and do not affect interpretation.
- (b) Mentioning anything after includes, including, for example, or similar expressions, does not limit what else might be included.
- (c) The following rules apply unless the context requires otherwise.
 - (i) The singular includes the plural, and the converse also applies.
 - (ii) A gender includes all genders.
 - (iii) If a word or phrase is defined, its other grammatical forms have a corresponding meaning.
 - (iv) A reference to a person includes a corporation, trust, partnership, unincorporated body or other entity, whether or not it comprises a separate legal entity.
 - (v) A reference to a clause is a reference to a clause of this Scheme.

Allens < Linklaters

- (vi) A reference to an agreement or document (including a reference to this document) is to the agreement or document as amended, supplemented, novated or replaced, except to the extent prohibited by this document or that other agreement or document.
- (vii) A reference to writing includes any method of representing or reproducing words, figures, drawings or symbols in a visible and tangible form.
- (viii) A reference to a person includes the person's successors, permitted substitutes and permitted assigns (and, where applicable, the person's legal personal representatives).
- (ix) A reference to legislation or to a provision of legislation includes a modification or re-enactment of it, a legislative provision substituted for it and a regulation or statutory instrument issued under it.
- (x) A reference to *dollars* or \$ is to Australian currency.
- (xi) Words and phrases not specifically defined in this Scheme have the same meanings (if any) given to them in the Corporations Act.
- (xii) A reference to time is to Sydney, Australia time.
- (xiii) If the day on which any act, matter or thing is to be done is a day other than a Business Day, such act, matter or thing must be done on the immediately succeeding Business Day.

2 Conditions

2.1 Conditions Precedent

This Scheme is conditional upon, and will have no force or effect until, the satisfaction of each of the following conditions precedent:

- (a) as at 8:00am on the Second Court Date each of the conditions precedent set out in clause 3.1 of the Scheme Implementation Deed (other than the condition precedent relating to the approval of the Court set out in clause 3.1(c) of the Scheme Implementation Deed) has been satisfied or waived in accordance with the Scheme Implementation Deed;
- (b) as at 8:00am on the Second Court Date, neither the Scheme Implementation Deed nor the Deed Poll has been terminated in accordance with its terms;
- (c) the Court makes orders approving this Scheme under section 411(4)(b) of the Corporations Act, including with such alterations made or required by the Court under section 411(6) of the Corporations Act and that are agreed to Bellamy's and Mengniu (such agreement not to be unreasonably withheld or delayed);
- (d) such other conditions made or required by the Court under section 411(6) of the Corporations Act in relation to this Scheme and that are agreed by Bellamy's and Mengniu (such agreement not to be unreasonably withheld or delayed); and
- (e) the orders of the Court made under section 411(4)(b) (and, if applicable, section 411(6)) of the Corporations Act approving this Scheme coming into effect, pursuant to section 411(10) of the Corporations Act on or before the End Date.

2.2 Lapsing

This Scheme will lapse and be of no further force or effect if:

- (a) the Effective Date does not occur on or before the End Date; or

- (b) the Scheme Implementation Deed or the Deed Poll is terminated in accordance with its terms unless Bellamy's and Mengniu otherwise agree in writing.

3 Scheme becoming Effective

Subject to clause 2, this Scheme will take effect on and from the Effective Date.

4 Implementation of Scheme

- (a) If the conditions precedent in clause 2.1 are satisfied or waived, Bellamy's must lodge with ASIC, in accordance with section 411(10) of the Corporations Act, an office copy of the Scheme Orders on the day on which the Scheme Orders are entered, or such other date as agreed by Bellamy's and Mengniu.
- (b) On the Implementation Date, subject to Mengniu having satisfied its obligations in clause 5.2, all of the Scheme Shares, together with all rights and entitlements attaching to the Scheme Shares as at the Implementation Date, will be transferred to Mengniu SubCo, without the need for any further act by any Scheme Shareholder (other than acts performed by Bellamy's or any of its directors and officers as attorney and agent for Scheme Shareholders under this Scheme), by:
 - (i) Bellamy's delivering to Mengniu for execution duly completed (and, if necessary, stamped) Scheme Transfers to transfer all of the Scheme Shares to Mengniu SubCo (and one or more Scheme Transfers can be a master transfer of all or part of all of the Scheme Shares), duly executed by Bellamy's (or any of its directors and officers) as the attorney and agent of each Scheme Shareholder as transferor under clause 8.3;
 - (ii) Mengniu SubCo executing the Scheme Transfers as transferee and delivering them to Bellamy's for registration; and
 - (iii) Bellamy's, immediately after receipt of the Scheme Transfers under clause 4(b)(ii), entering, or procuring the entry of, the name and address of Mengniu SubCo in the Bellamy's Share Register as the holder of all of the Scheme Shares.

5 Scheme Consideration

5.1 Entitlement to Scheme Consideration

Subject to the terms of this Scheme, each Scheme Shareholder will be entitled to the Scheme Consideration for each Scheme Share held by that Scheme Shareholder.

5.2 Deposit of Scheme Consideration

Mengniu must, by no later than the Business Day before the Implementation Date, deposit (or procure the deposit) in cleared funds into the Trust Account an amount at least equal to the aggregate amount of the Scheme Consideration payable to each Scheme Shareholder provided that any interest on the amounts deposited (less bank fees and other charges) will be credited to Mengniu's account.

5.3 Payment to Scheme Shareholders

- (a) On the Implementation Date, subject to Mengniu having satisfied its obligations in clause 5.2, Bellamy's must pay or procure the payment, from the Trust Account, to each Scheme Shareholder the Scheme Consideration as that Scheme Shareholder is entitled under this clause 5.

Allens > Linklaters

- (b) The obligations of Bellamy's under clause 5.3(a) will be satisfied by Bellamy's (in its absolute discretion):
 - (i) where a Scheme Shareholder has, before the Scheme Record Date, made a valid election in accordance with the requirements of the Bellamy's Share Registry to receive dividend payments from Bellamy's by electronic funds transfer to a bank account nominated by the Scheme Shareholder, paying, or procuring the payment of, the relevant amount in Australian currency by electronic means in accordance with that election; or
 - (ii) otherwise, whether or not the Scheme Shareholder has made an election referred to in clause 5.3(b)(i), dispatching, or procuring the dispatch of, a cheque for the relevant amount in Australian currency to the Scheme Shareholder by prepaid post to their Registered Address (as at the Scheme Record Date), such cheque being drawn in the name of the Scheme Shareholder (or in the case of joint holders, in accordance with the procedures set out in clause 5.4).

5.4 Joint holders

In the case of Scheme Shares held in joint names:

- (a) any cheque required to be sent under this Scheme will be made payable to the joint holders and sent to either, at the sole discretion of Bellamy's, the holder whose name appears first in the Bellamy's Share Register as at the Scheme Record Date or to the joint holders; and
- (b) any other document required to be sent under this Scheme, will be forwarded to either, at the sole discretion of Bellamy's, the holder whose name appears first in the Bellamy's Share Register as at the Scheme Record Date or to the joint holders.

5.5 Cancellation and re-issue of cheques

- (a) Bellamy's may cancel a cheque issued under this clause 5 if the cheque:
 - (i) is returned to Bellamy's or the Bellamy's Share Registry; or
 - (ii) has not been presented for payment within 6 months after the date on which the cheque was sent.
- (b) During the period of 12 months commencing on the Implementation Date, on request in writing from a Scheme Shareholder to Bellamy's or the Bellamy's Share Registry (which request may not be made until the date which is 20 Business Days after the Implementation Date), Bellamy's must reissue a cheque that was previously cancelled under clause 5.5(a).

5.6 Fractional entitlements

Where the calculation of the Scheme Consideration to be paid to a Scheme Shareholder would result in the Scheme Shareholder becoming entitled to a fraction of a cent, that fractional entitlement will be rounded down to the nearest whole cent.

5.7 Unclaimed monies

- (a) The *Unclaimed Money Act 1995* (NSW) will apply in relation to any Scheme Consideration which becomes 'unclaimed money' (as defined in section 7 of the *Unclaimed Money Act 1995* (NSW)).
- (b) Bellamy's may cancel a cheque issued under this clause 5 if the cheque:
 - (i) is returned to Bellamy's; or

- (ii) has not been presented for payment within six months after the date on which the cheque was sent.
- (c) During the period of one year commencing on the Implementation Date, on request in writing from a Scheme Shareholder to Bellamy's (or the Bellamy's Share Registry) (which request may not be made until the date which is 20 Business Days after the Implementation Date), Bellamy's must reissue a cheque that was previously cancelled under this clause 5.7.

5.8 Remaining monies (if any) in Trust Account

To the extent that, following satisfaction of Bellamy's obligations under the other provisions of this clause 5 and provided Mengniu SubCo has by that time acquired the Scheme Shares in accordance with this Scheme, there is a surplus in the Trust Account, then subject to compliance with applicable laws, the other terms of this Scheme, the Deed Poll and the Scheme Implementation Deed, that surplus (less any bank fees and related charges) shall be paid by Bellamy's (or the Bellamy's Share Registry on Bellamy's behalf) to Mengniu.

5.9 Orders of a court

- (a) If written notice is given to Bellamy's (or the Bellamy's Share Registry) of an order or direction made by a court that:
 - (i) requires consideration to be provided to a third party (either through payment of a sum or the issuance of a security) in respect of Scheme Shares held by a particular Scheme Shareholder, which would otherwise be payable or required to be issued to that Scheme Shareholder by Bellamy's in accordance with this clause 5, then Bellamy's shall be entitled to procure that provision of that consideration is made in accordance with that order or direction; or
 - (ii) prevents Bellamy's from providing consideration to any particular Scheme Shareholder in accordance with this clause 5, or the payment or issuance of such consideration is otherwise prohibitive by applicable law, Bellamy's shall be entitled to (as applicable) retain an amount equal to the number of Scheme Shares held by that Scheme Shareholder multiplied by the Scheme Consideration in accordance with this clause 5 if permitted by that (or another) court or direction or otherwise by law.
- (b) To the extent that amounts are so deducted or withheld in accordance with clause 5.9(a), such deducted or withheld amounts will be treated for all purposes under this Scheme as having been paid to the person in respect of which such deduction and withholding was made, provided that such deducted or withheld amounts are actually remitted as required.

6 Dealings in Bellamy's Shares

6.1 Dealings in Bellamy's Shares by Scheme Shareholders

For the purpose of establishing the persons who are Scheme Shareholders, dealings in Bellamy's Shares will be recognised by Bellamy's provided that:

- (a) in the case of dealings of the type to be effected using CHESS, the transferee is registered in the Bellamy's Share Register as the holder of the relevant Bellamy's Shares by the Scheme Record Date; and
- (b) in all other cases, registrable transfers or transmission applications in respect of those dealings are received by the Bellamy's Share Registry by 5.00pm on the day which is the Scheme Record Date at the place where the Bellamy's Share Register is located (in

Allens > Linklaters

which case Bellamy's must register such transfers or transmission applications before 7.00pm on that day),

and Bellamy's will not accept for registration, nor recognise for the purpose of establishing the persons who are Scheme Shareholders nor for any other purpose (other than to transfer to Mengniu SubCo pursuant to this Scheme and any subsequent transfers by Mengniu SubCo and its successors in title), any transfer or transmission application in respect of Bellamy's Shares received after such times, or received prior to such times but not in actionable or registrable form (as appropriate).

6.2 Register

- (a) Bellamy's will, until the Scheme Consideration has been provided and the name and address of Mengniu SubCo has been entered in the Bellamy's Share Register as the holder of all of the Scheme Shares, maintain, or procure the maintenance of, the Bellamy's Share Register in accordance with this clause 6, and the Bellamy's Share Register in this form and the terms of this Scheme will solely determine entitlements to the Scheme Consideration.
- (b) As from the Scheme Record Date (and other than for Mengniu SubCo following the Implementation Date), each entry in the Bellamy's Share Register as at the Scheme Record Date relating to Scheme Shares will cease to have any effect other than as evidence of the entitlements of Scheme Shareholders to the Scheme Consideration in respect of those Scheme Shares.
- (c) As soon as possible on or after the Scheme Record Date, and in any event within one Business Day after the Scheme Record Date, Bellamy's will ensure that details of the names, Registered Addresses and holdings of Bellamy's Shares for each Scheme Shareholder as shown in the Bellamy's Share Register are available to Mengniu in the form Mengniu reasonably requires.

6.3 Effect of share certificates and holding statements

As from the Scheme Record Date (and other than for Mengniu SubCo following the Implementation Date), all share certificates and holding statements for Scheme Shares (other than statements of holding in favour of a member of the Mengniu Group) will cease to have effect as documents of title in respect of those Scheme Shares.

6.4 No disposals after Record Date

If this Scheme becomes Effective, each Scheme Shareholder, and any person claiming through that Scheme Shareholder, must not dispose of or purport or agree to dispose of any Scheme Shares or any interest in them after 5.00pm on the Scheme Record Date (other than to Mengniu SubCo in accordance with this Scheme and any subsequent transfers by Mengniu SubCo and its successors in title), and any attempt to do so will have no effect and Bellamy's shall be entitled to disregard any such disposal, purported disposal or agreement.

7 Suspension and termination of quotation of Bellamy's Shares

- (a) Bellamy's must use best endeavours to ensure that ASX suspends trading of the Bellamy's Shares on ASX with effect from the close of business on the Effective Date.
- (b) On a date after the Implementation Date to be determined by Mengniu, Bellamy's must apply to ASX for termination of official quotation of the Bellamy's Shares on ASX and the removal of Bellamy's from the official list of ASX.

ANNEXURE B CONT

8 General provisions**8.1 Further assurances**

- (a) Each Scheme Shareholder and Bellamy's will do all things and execute all deeds, instruments, transfers or other documents as may be necessary or desirable to give full effect to the terms of this Scheme and the transactions contemplated by it.
- (b) Without limiting Bellamy's other powers under this Scheme, Bellamy's has power to do all things that it considers necessary or desirable to give effect to this Scheme and the transactions contemplated by it.

8.2 Scheme Shareholders' agreements and consents

Each Scheme Shareholder:

- (a) irrevocably agrees to the transfer of their Scheme Shares, together with all rights and entitlements attaching to those Scheme Shares, to Mengniu SubCo in accordance with the terms of this Scheme; and
- (b) acknowledges and agrees that this Scheme binds Bellamy's and all Scheme Shareholders (including those that did not attend the Scheme Meeting or did not vote at that meeting or voted against this Scheme at that Scheme Meeting) and, to the extent of any inconsistency, overrides the Constitution; and
- (c) irrevocably consents to Bellamy's, Mengniu and Mengniu SubCo doing all things and executing all deeds, instruments, transfers or other documents as may be necessary or desirable to give full effect to the terms of the Scheme and the transactions contemplated by it,

without the need for any further act by that Scheme Shareholder.

8.3 Appointment of Bellamy's as attorney for implementation of Scheme

Each Scheme Shareholder, without the need for any further act by that Scheme Shareholder, irrevocably appoints Bellamy's as that Scheme Shareholder's agent and attorney for the purpose of:

- (a) doing all things and executing all deeds, instruments, transfers or other documents as may be necessary or desirable to give full effect to the terms of this Scheme and the transactions contemplated by it, including the effecting of a valid transfer or transfers (or the execution and delivery of any Scheme Transfers) under clause 4(b)(i); and
- (b) enforcing the Deed Poll against Mengniu or Mengniu SubCo,

and Bellamy's accepts such appointment. Bellamy's, as agent and attorney of each Scheme Shareholder, may sub delegate its functions, authorities or powers under this clause 8.3 to all or any of its directors and officers (jointly, severally, or jointly and severally).

8.4 Warranty by Scheme Shareholders

Each Scheme Shareholder is deemed to have warranted to Mengniu, and, to the extent enforceable, to have appointed and authorised Bellamy's as that Scheme Shareholder's agent and attorney to warrant to Mengniu, that all of their Scheme Shares (including all rights and entitlements attaching to those Scheme Shares) will, at the time of the transfer of them to Mengniu SubCo pursuant to this Scheme, be fully paid and free from all mortgages, charges, liens, encumbrances, pledges, security interests (including 'security interests' within the meaning of section 12 of the *Personal Property Securities Act 2009* (Cth)) and other interests of third parties of any kind, whether legal or otherwise, and restrictions on transfer of any kind, and that

Allens > Linklaters

they have full power and capacity to sell and to transfer their Scheme Shares (together with any rights and entitlements attaching to those Scheme Shares) to Mengniu SubCo pursuant to this Scheme. Bellamy's undertakes in favour of each Scheme Shareholder that it will provide such warranty, to the extent enforceable, to Mengniu SubCo on behalf of that Scheme Shareholder.

8.5 Title to and rights in Scheme Shares

- (a) To the extent permitted by law, the Scheme Shares (including all rights and entitlements attaching to the Scheme Shares) transferred under this Scheme to Mengniu SubCo will, at the time of transfer of them to Mengniu SubCo, be fully paid and free from all mortgages, charges, liens, encumbrances, pledges, security interests (including 'security interests' within the meaning of section 12 of the *Personal Property Securities Act 2009* (Cth)) and other interests of third parties of any kind, whether legal or otherwise, and restrictions on transfer of any kind.
- (b) Immediately upon the deposit of the Scheme Consideration in the manner contemplated by clause 5.2, Mengniu SubCo will be beneficially entitled to the Scheme Shares transferred to it under this Scheme pending registration by Bellamy's of the name and address of Mengniu SubCo in the Bellamy's Share Register as the holder of the Scheme Shares.

8.6 Appointment of Mengniu as attorney and agent for Scheme Shares

- (a) From the time that Mengniu has satisfied its obligations in clause 5.2 until Mengniu SubCo is registered in the Bellamy's Share Register as the holder of all Scheme Shares, each Bellamy's Shareholder (other than an Excluded Shareholder):
 - (i) without the need for any further act by that Bellamy's Shareholder, irrevocably appoints Mengniu as its proxy to (and irrevocably appoints Mengniu SubCo as its agent and attorney for the purpose of appointing any director or officer of Mengniu SubCo as that Bellamy's Shareholder's proxy and, where appropriate, its corporate representative to):
 - (A) attend shareholders' meetings of Bellamy's;
 - (B) exercise the votes attaching to the Bellamy's Shares registered in the name of the Bellamy's Shareholder; and
 - (C) sign any Bellamy's Shareholders' resolution;
 - (ii) must take all other action in the capacity of a Bellamy's Shareholder as Mengniu SubCo reasonably directs; and
 - (iii) acknowledges and agrees that in exercising the powers referred to in clause 8.6(a), Mengniu SubCo and any person nominated by Mengniu SubCo under clause 8.6(a) may act in the best interests of Mengniu SubCo as the intended registered holder of the Scheme Shares.
- (b) From the time that Mengniu has satisfied its obligations in clause 5.2 until Mengniu SubCo is registered in the Bellamy's Share Register as the holder of all Scheme Shares, no Bellamy's Shareholder may attend or vote at any meetings of Bellamy's Shareholders or sign any Bellamy's Shareholders' resolution (whether in person, by proxy or by corporate representative) other than under this clause 8.6.

8.7 Alterations and conditions to Scheme

If the Court proposes to approve this Scheme subject to any alterations or conditions, Bellamy's may, by its counsel or solicitors, and with the prior written consent of Mengniu:

- (a) consent on behalf of all persons concerned, including each Bellamy's Shareholder, to those alterations or conditions; and
- (b) each Scheme Shareholder agrees to any such alterations or conditions which Bellamy's has consented to.

8.8 Enforcement of Deed Poll

Bellamy's undertakes in favour of each Scheme Shareholder that it will enforce the Deed Poll against Mengniu and Mengniu SubCo on behalf of and as agent and attorney for the Scheme Shareholders.

8.9 Consent

Each of the Scheme Shareholders consents to Bellamy's doing all things necessary or incidental to the implementation of this Scheme, whether on behalf of the Scheme Shareholders, Bellamy's or otherwise.

8.10 Notices

- (a) Where a notice, transfer, transmission application, direction or other communication referred to in this Scheme is sent by post to Bellamy's, it will not be deemed to be received in the ordinary course of post or on a date other than the date (if any) on which it is actually received at Bellamy's registered office or by the Bellamy's Share Registry, as the case may be.
- (b) The accidental omission to give notice of the Scheme Meeting or the non-receipt of such notice by a Bellamy's Shareholder will not, unless so ordered by the Court, invalidate the Scheme Meeting or the proceedings of the Scheme Meeting.

8.11 Duty

Mengniu will:

- (a) pay all duty (including stamp duty and any related fines, penalties and interest) payable on the transfer by Scheme Shareholders of the Scheme Shares to Mengniu pursuant to this Scheme; and
- (b) indemnify each Scheme Shareholder against any liability arising from failure to comply with clause 8.11(a).

8.12 Governing law and jurisdiction

This document is governed by the laws of New South Wales. Each party submits to the non-exclusive jurisdiction of courts exercising jurisdiction there and courts of appeal from them in connection with matters concerning this document. The parties irrevocably waive any objection to the venue of any legal process in these courts on the basis that the process has been brought in an inconvenient forum.

ANNEXURE C

Deed Poll

Allens > < Linklaters

Deed Poll

This Deed Poll is made on 22 October 2019

By

China Mengniu Dairy Company Limited (incorporated in the Cayman Islands) of PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands (**Mengniu**).

Wise Journey Pty Ltd (ACN 636 561 469) of Level 16, Grosvenor Place, 225 George Street, Sydney NSW 2000 (**Mengniu SubCo**).

In favour of

Each Scheme Shareholder

Recitals

- A Mengniu and Bellamy's Australia Limited (ACN 124 272 108) of 115 Cimitiere Street, Launceston, Tasmania, 7250 (**Bellamy's**) have entered into a Scheme Implementation Deed dated 15 September 2019 (the **Scheme Implementation Deed**).
- B Bellamy's has agreed in the Scheme Implementation Deed to propose the Scheme, pursuant to which, subject to the satisfaction or waiver of certain conditions precedent, Mengniu SubCo will acquire all of the Scheme Shares from Scheme Shareholders in return for the payment by Mengniu of the Scheme Consideration.
- C In accordance with the Scheme Implementation Deed, Mengniu and Mengniu SubCo are entering into this Deed Poll for the purpose of covenanting in favour of the Scheme Shareholders that they will observe and perform the obligations contemplated of them under the Scheme.

It is agreed as follows.

1 Definitions and interpretation

1.1 Definitions

Terms defined in the Scheme Implementation Deed have the same meaning in this Deed Poll, unless the context requires otherwise.

1.2 Interpretation

The provisions of clause 1.2 of the Scheme Implementation Deed form part of this Deed Poll as if set out in full in this Deed Poll, and on the basis that references to 'this Deed' in that clause are references to 'this Deed Poll'.

2 Nature of Deed Poll

Each of Mengniu and Mengniu SubCo acknowledges that:

- (a) this Deed Poll may be relied on and enforced by any Scheme Shareholder in accordance with its terms, even though the Scheme Shareholders are not party to it; and
- (b) under the Scheme, each Scheme Shareholder appoints Bellamy's as its agent and attorney to enforce this Deed Poll against each of Mengniu and Mengniu SubCo on behalf of that Scheme Shareholder.

ANNEXURE C CONT

3 Conditions precedent and termination**3.1 Conditions precedent**

The obligations of Mengniu and Mengniu SubCo under this Deed Poll are subject to the Scheme becoming Effective.

3.2 Termination

If the Scheme Implementation Deed is terminated before the Effective Date or the Scheme does not become Effective on or before the End Date, the obligations of Mengniu and Mengniu SubCo under this Deed Poll will automatically terminate and the terms of this Deed Poll will be of no further force or effect, unless Bellamy's, Mengniu and Mengniu SubCo otherwise agree.

3.3 Consequences of termination

If this Deed Poll is terminated under clause 3.2 then, in addition and without prejudice to any other rights, powers or remedies available to it:

- (a) Mengniu and Mengniu SubCo are released from their obligations under this Deed Poll, except those obligations under clause 8.6; and
- (b) each Scheme Shareholder retains any rights, powers or remedies that Scheme Shareholder has against Mengniu and Mengniu SubCo in respect of any breach of their obligations under this Deed Poll that occurred before termination of this Deed Poll.

4 Compliance with Scheme obligations**4.1 Obligations of Mengniu**

Subject to clause 3, each of Mengniu and Mengniu SubCo covenants in favour of each Scheme Shareholder that they will observe and perform all obligations contemplated of Mengniu under the Scheme, including the relevant obligations relating to the provision of the Scheme Consideration in accordance with the terms of the Scheme.

5 Representations and warranties

Each of Mengniu and Mengniu SubCo makes the following representations and warranties in respect of itself.

- (a) **(Status)** It is a corporation duly incorporated and validly existing under the laws of the place of its incorporation.
- (b) **(Power)** It has the power to enter into and perform its obligations under this Deed, and to carry out the transactions contemplated by this Deed.
- (c) **(Corporate authorisations)** It has taken all necessary corporate action to authorise the entry into and performance of this Deed Poll by it and to carry out the transactions contemplated by this Deed Poll.
- (d) **(Document binding)** This Deed Poll is its valid and binding obligation enforceable in accordance with its terms.
- (e) **(Transactions permitted)** The execution and performance by it of this Deed Poll and each transaction contemplated by this Deed Poll did not and will not violate in any respect a provision of:
 - (i) a law or treaty or a judgment, ruling, order or decree binding on it; or
 - (ii) its constitution or other constituent documents.

Allens > < Linklaters

6 Continuing obligations

This Deed Poll is irrevocable and, subject to clause 3, remains in full force and effect until the earlier of:

- (a) each of Mengniu and Mengniu SubCo having fully performed its obligations under this Deed Poll; and
- (b) termination of this Deed Poll under clause 3.

7 Further assurances

Each of Mengniu and Mengniu SubCo will, on its own behalf and, to the extent authorised by the Scheme, on behalf of each Scheme Shareholder, do all things and execute all deeds, instruments, transfers or other documents as may be necessary to give full effect to the provisions of this Deed Poll and the transactions contemplated by it.

8 General**8.1 Notices**

Any notice, demand, consent or other communication (a **Notice**) given or made under this Deed Poll:

- (a) must be in writing and signed by the sender or a person duly authorised by the sender;
- (b) must be sent by regular ordinary post (airmail if appropriate) to the addresses referred to below, or sent by email to the addresses referred to below:

to Mengniu or Mengniu SubCo: 32nd Floor, COFCO Tower,
262 Gloucester Road,
Causeway Bay, Hong Kong

Attention: Lidong Guo
Email: guolidong@mengniu.cn

with a copy to (which by itself does not constitute a Notice):

Norton Rose Fulbright, Level 18, Grosvenor
Place, 225 George Street, Sydney, New South
Wales 2000, Australia

Attention: John Elliott
Email: john.elliott@nortonrosefulbright.com

will be conclusively taken to be duly given or made:

- (i) in the case of delivery in person, when delivered;
- (ii) in the case of delivery by post, 3 Business Days after the date of posting (if posted to an address in the same country) or 7 Business Days after the date of posting (if posted to an address in another country); and
- (iii) in the case of email, at the earliest of:
 - (A) the time that the sender receives an automated message from the intended recipient's information system confirming delivery of the email;
 - (B) the time that the intended recipient confirms receipt of the email by reply email; and

Allens & Linklaters

- (C) two hours after the time the email is sent (as recorded on the device from which the sender sent the email) unless the sender receives, within that two hour period, an automated message that the email has not been delivered,

but if the result is that a Notice would be taken to be given or made:

- (iv) in the case of delivery by hand or post, at a time that is later than 5pm;
- (v) in the case of delivery by email, at a time that is later than 7pm; or
- (vi) on a day that is not a business day,

in the place specified by the intended recipient as its postal address under clause 8.1(b), it will be conclusively taken to have been duly given or made at the start of business on the next business day in that place.

8.2 No waiver

No failure to exercise nor any delay in exercising any right, power or remedy by Mengniu, Mengniu SubCo or by any Scheme Shareholder operates as a waiver. A single or partial exercise of any right, power or remedy does not preclude any other or further exercise of that or any other right, power or remedy. A waiver of any right, power or remedy on one or more occasions does not operate as a waiver of that right, power or remedy on any other occasion, or of any other right, power or remedy. A waiver is not valid or binding on the person granting that waiver unless made in writing.

8.3 Remedies cumulative

The rights, powers and remedies of Mengniu, Mengniu SubCo and of each Scheme Shareholder under this Deed Poll are in addition to, and do not exclude or limit, any right, power or remedy provided by law or equity or by any agreement.

8.4 Amendment

No amendment or variation of this Deed Poll is valid or binding unless:

- (a) either:
 - (i) before the Second Court Date, the amendment or variation is agreed to in writing by Bellamy's, Mengniu and Mengniu SubCo (which such agreement may be given or withheld without reference to or approval by any Scheme Shareholder); or
 - (ii) on or after the Second Court Date, the amendment or variation is agreed to in writing by Bellamy's, Mengniu and Mengniu SubCo (which such agreement may be given or withheld without reference to or approval by any Scheme Shareholder), and is approved by the Court; and
- (b) Mengniu and Mengniu SubCo enter into a further deed poll in favour of the Scheme Shareholders giving effect to that amendment or variation.

8.5 Assignment

The rights and obligations of Mengniu, Mengniu SubCo and of each Scheme Shareholder under this Deed Poll are personal. They cannot be assigned, encumbered or otherwise dealt with and no person may attempt, or purport, to do so without the prior consent of Mengniu, Mengniu SubCo and Bellamy's.

Allens > < Linklaters

8.6 Duty

Mengniu will:

- (a) pay all duty (including stamp duty and any related fines, penalties and interest) payable on the transfer by Scheme Shareholders of the Scheme Shares to Mengniu SubCo pursuant to the Scheme; and
- (b) indemnify each Scheme Shareholder against any liability arising from failure to comply with clause 8.6(a).

8.7 Process Agent

Each of Mengniu and Mengniu SubCo irrevocably appoints Norton Rose Fulbright Australia to receive on its behalf service of process issued out of the courts of New South Wales or courts exercising jurisdiction in New South Wales in relation to any dispute, claim, legal action or proceeding arising out of or in any way related to this deed and related non-contractual matters, and agrees that service of any process or documents on the agent will be sufficient service on it.

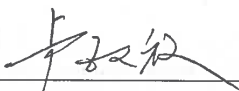
8.8 Governing law and jurisdiction

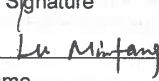
This Deed Poll is governed by the laws of New South Wales. Each of Mengniu and Mengniu SubCo submits to the non-exclusive jurisdiction of courts exercising jurisdiction there in connection with matters concerning this Deed Poll.

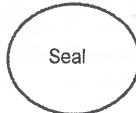
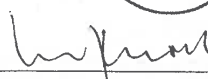
ANNEXURE C CONT

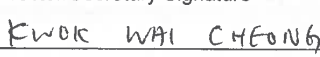
Allens < Linklaters

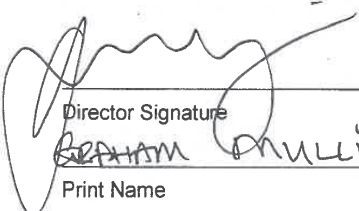
Executed and delivered as a Deed Poll.

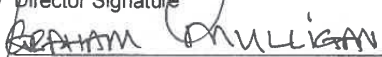
Signed Sealed and Delivered by China
Mengniu Dairy Company Limited:

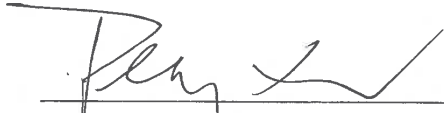
Director Signature



Print Name


Director/Secretary Signature


Print NameSigned Sealed and Delivered by Wise
Journey Pty Ltd in accordance with section
127 of the Corporations Act 2001:

Director Signature


Print Name

Director/Secretary Signature


Print Name

ANNEXURE D

Notice of Meeting

BELLAMY'S AUSTRALIA LIMITED

NOTICE OF MEETING OF REGISTERED HOLDERS OF FULLY PAID ORDINARY SHARES IN BELLAMY'S, OTHER THAN ANY MEMBER OF THE MENGNIU GROUP⁵⁹.

NOTICE IS HEREBY GIVEN, that a Scheme Meeting of Bellamy's Shareholders (other than Excluded Shareholders) will be held at 10.00am (Sydney time) on Thursday 5 December 2019 at Greenfields Albert Park, Corner Lakeside Drive & Queens Road, Albert Park Lake, Melbourne, Victoria.

The Court has directed that John Ho, or failing him, John Murphy act as chair of the meeting and has directed the chair to report the result of the meeting to the Court.

BUSINESS

The purpose of the Scheme Meeting to be held pursuant to this Notice of Meeting is to consider, and if thought fit, to agree (with or without modification) to a scheme of arrangement proposed to be made between Bellamy's and Bellamy's Shareholders (other than Excluded Shareholders).

SCHEME RESOLUTION

To consider and, if thought fit, to pass the following resolution:

That, pursuant to and in accordance with section 411 of the Corporations Act 2001 (Cth), the scheme of arrangement proposed between Bellamy's Australia Limited ("Bellamy's") and the holders of its fully paid ordinary shares (other than certain excluded shareholders), the terms of which are contained in and more particularly described in the Scheme Booklet of which the notice convening the Scheme Meeting forms part, is approved (with or without alteration or conditions as approved by the Supreme Court of New South Wales and agreed to by Bellamy's) and, subject to approval of the Scheme by the Court, the Bellamy's Board is authorised to implement the Scheme with any such alterations or conditions.

BELLAMY'S BOARD COMMENT AND RECOMMENDATIONS

For the reasons set out in the Scheme Booklet, the Bellamy's Board unanimously recommends that eligible Bellamy's Shareholders vote in favour of the Scheme Resolution in the absence of a Superior Proposal, and subject to the Independent Expert continuing to conclude that the Scheme is in the best interests of Bellamy's Shareholders⁶⁰.



Melinda Harrison

Company Secretary

Bellamy's Australia Limited

⁵⁹ Bellamy's Shares the subject of the Scheme does not include 3,248,482 Bellamy's Shares held by Mengniu, together with its wholly-owned subsidiary, Vision Clear Limited, as these are Excluded Shares held by an Excluded Shareholder under the Scheme.

⁶⁰ With respect to the recommendation of John Murphy, Rodd Peters, Wai-Chan Chan and Shirley Liew, Bellamy's Shareholders should have regard to the fact that, if the Scheme becomes Effective, the Options currently held by those four directors will be the subject of accelerated vesting and may, subject to payment of the relevant Option exercise price, result in those directors receiving Bellamy's Shares prior to the Scheme Record Date (as described in section 8.2(d)). If the Scheme is implemented, those shares will be acquired by Mengniu SubCo under the Scheme. The amount to be received by each of those Bellamy's Directors on implementation of the Scheme in respect of their respective Options (being the Total Cash Amount minus the applicable exercise price for their relevant Options) is shown in the table in section 8.6. Given the importance of the Scheme and their role as directors of Bellamy's, each of John Murphy, Rodd Peters, Wai-Chan Chan and Shirley Liew consider that it is important and appropriate for them to make a recommendation on the Scheme, notwithstanding that vesting of their Options will be accelerated if the Scheme becomes Effective.

ANNEXURE D CONT

NOTES TO THE NOTICE OF SCHEME MEETING

These notes should be read in conjunction with the Notice of Meeting and the information in the Scheme Booklet of which that notice forms part. Unless the context requires otherwise, terms used in the Notice of Meeting and in these notes have the same meaning as set out in section 9 (*Glossary and interpretation*) of the Scheme Booklet.

Majorities Required

In accordance with section 411(4)(a)(ii) of the Corporations Act, the Scheme Resolution must be passed by:

- more than 50% in number (unless the Court orders otherwise) of eligible Bellamy's Shareholders who are present and voting, either in person or by proxy, by attorney or; in the case of a corporation, by its duly appointed corporate representative at the Scheme Meeting; and
- at least 75% of the total number of votes cast on the Scheme Resolution by eligible Bellamy's Shareholders.

Entitlement to vote

The time for the purposes of determining voting entitlements pursuant to regulation 7.11.37 of the Corporations Regulations will be 7.00pm (Sydney time) on Tuesday 3 December 2019.

Accordingly, share transfers registered after that time will be disregarded in determining entitlements to attend and vote at the Scheme Meeting.

Voting at the Scheme Meeting

You may vote in person at the Scheme Meeting, or appoint a proxy, attorney or; if you are a body corporate, a duly appointed corporate representative to attend and vote on your behalf.

Voting will be conducted by poll.

Proxies

If you are unable to attend the meeting, you are encouraged to appoint a proxy to attend and vote on your behalf. If you wish to appoint a proxy, please complete the enclosed proxy form.

Bellamy's Shareholders are notified that:

- a member who is entitled to attend and cast a vote at the meeting may appoint a proxy to attend and vote for the member;
- the appointment may specify the proportion or number of votes that the proxy may exercise;
- a member who is entitled to cast two or more votes at the meeting may appoint two proxies and may specify the proportion or number of votes each proxy is entitled to exercise. If you appoint two proxies and the appointment does not specify the proportion or number of votes each proxy may exercise, each proxy may exercise half of the votes, and
- a proxy may be an individual or a body corporate and need not be a member of Bellamy's. If an eligible Bellamy's Shareholder appoints a body corporate as a proxy, the body corporate will need to ensure that it appoints an individual as corporate representative and provides satisfactory evidence of that appointment.

Voting by Proxy

You can direct your proxy to vote by following the instructions on the proxy form.

If the Chair of the meeting is appointed as your proxy (or is appointed your proxy by default), he can be directed how to vote by ticking the relevant boxes next to the Scheme Resolution on the proxy form (i.e. 'for', 'against' or 'abstain'). The Chair of the meeting is required to cast all votes as directed. The Chair of the Scheme Meeting intends to vote all undirected and available proxies in favour of the Scheme Resolution.

Any directed proxies that are not voted on a poll at the meeting by a Bellamy's Shareholder's appointed proxy will automatically default to the Chair of the meeting, who is required to vote proxies as directed on a poll.

Lodging by proxies

The proxy form must be received by Bellamy's or Link Market Services Limited by 10.00am (Sydney time) on Tuesday 3 December 2019.

The completed proxy form may be:

- submitted online to the Company's share registry by visiting the website, www.linkmarketservices.com.au. You will need your Holder Identifier (Securityholder Reference Number (SRN) or Holder Identification Number (HRN) as shown on your proxy form). You will be taken to have signed the proxy form if you lodge in accordance with the instructions on the website;
- by mail (using the reply paid envelope included with the Scheme Booklet) to Bellamy's Australia Limited, C- Link Market Services Limited, Locked Bag A14 Sydney South, NSW, 1235, Australia;
- by fax to Link Market Services Limited on +61 2 9287 0309; or
- by hand delivering it to Link Market Services Limited at 1A Homebush Bay Drive, Rhodes NSW, 2138 or Level 12, 680 George Street, Sydney NSW, 2000 during business hours (Monday – Friday, 9.00am – 5.00pm (Sydney time)).

Bellamy's Shareholders should contact the Shareholder Information Line on 1800 260 668 (callers in Australia) or +61 1800 260 668 (callers outside Australia) between 8.30am and 5.30pm (Sydney time) Monday to Friday (excluding days which are public holidays in New South Wales) with any queries regarding the number of Bellamy's Shares they hold, how to vote at the Scheme Meeting or how to lodge the Proxy Form.

Further details in respect of the Scheme Resolution to be put to the Scheme Meeting are set out in the accompanying Scheme Booklet.

Lodging Online

At www.linkmarketservices.com.au

Select 'Investor Login' and enter Bellamy's Australia Limited or the ASX Code (BAL) in the Issuer name field, your Security Reference Number (SRN) or Holder Identification Number (HIN) (which is shown on the front of your proxy form), postcode (or country of origin if located outside of Australia) and security code which is shown on the screen and click 'Login'.

Select the 'Voting' tab and then follow the prompts. You will be taken to have signed your Proxy Form if you lodge in accordance with the instructions given on the website.

Voting by corporate representative

If you are a body corporate, you can appoint a corporate representative to attend and vote at the Scheme Meeting on your behalf. The appointment must comply with section 250D of the Corporations Act.

A corporate representative should bring to the Scheme Meeting evidence of their appointment including any authority under which the document appointing them as corporate representative was signed.

Voting by attorney

Powers of attorney must be received by the Bellamy's Share Registry by no later than 10.00am (Sydney time) on Tuesday 3 December 2019.

Persons attending the Scheme Meeting as an attorney should bring to the Scheme Meeting the original or certified copy of the power of attorney under which they have been authorised to attend and vote at the Scheme Meeting.

Admission to Scheme Meeting

If you will be attending the Scheme Meeting, you will need to register at one of the registration desks on the day. Prompt registration will be facilitated if you bring a copy of your Proxy Form with you, using the bar code appearing at the top of the Proxy Form.

Bellamy's Shareholders who do not plan to attend the Scheme Meeting are encouraged to complete and return a proxy form for each of their holdings of shares in Bellamy's.

A replacement proxy form may be obtained from the Bellamy's Share Registry, Link Market Services Limited.

Court approval

In accordance with section 411(4)(b) of the Corporations Act, the Scheme (with or without modification) must be approved by an order of the Court. If the Scheme Resolution put to this Scheme Meeting is passed by the Requisite Majorities and the other conditions are satisfied or waived (if applicable), Bellamy's intends to apply to the Court on or around Monday 9 December 2019 for approval of the Scheme.

CORPORATE DIRECTORY

Registered office and principal place of business

Bellamy's Australia Limited

115 Cimitiere Street
Launceston TAS 7250

Legal adviser

Allens

Deutsche Bank Place
Corner Hunter and Philip Streets
Sydney NSW 2000

Financial adviser

Morgan Stanley

Chifley Tower
2 Chifley Square
Sydney NSW 2000

Independent Expert

Grant Samuel & Associates Pty Limited

Level 19, Governor Macquarie Tower
1 Farrer Place
Sydney NSW 2000

Bellamy's Share Registry

Link Market Services Limited

Level 1, 333 Collins Street
Melbourne VIC 3000
Share registry telephone: 1300 554 474

Stock exchange listing

Bellamy's Australia Limited shares are listed on the Australian Securities Exchange (ASX Code: BAL)

Company Website

<https://www.bellamysorganic.com.au/>

Investor Website

<https://investors.bellamysorganic.com.au/investors/>

This page has been left blank intentionally.

This page has been left blank intentionally.



