



VITACO HOLDINGS LIMITED
APPENDIX 4E
PRELIMINARY FINAL REPORT

1. Company details

| | |
|-------------------|---|
| Name of entity: | Vitaco Holdings Limited |
| ACN: | 606 826 493 |
| Reporting period: | Fifteen month period ended 30 June 2016 |
| Previous period: | Twelve month period ended 31 March 2015 |

2. Results for announcement to the market

| | 15 months to 30 June 2016 \$'000 | 12 months to 31 March 2015 \$'000 |
|--|---|--|
| Revenue from ordinary activities | 257,270 | 160,130 |
| Operating (loss) / profit before interest and income tax | (1,936) | 16,635 |
| (Loss) / profit attributable to the shareholders of Vitaco Holdings Limited | (9,137) | 4,417 |

The 2016 operating (loss) / profit before interest and income tax includes non-recurring expenses of \$14,354,807 relating to the listing of Vitaco Holdings Limited on the Australian Securities Exchange ("ASX") on 16 September 2015 and \$9,237,609 relating to redundancy and integration costs with respect to acquisition of Post Foods Australia Pty Limited (Musashi).

For further commentary on the results for the period please refer to the separate market announcement and presentation lodged with the ASX.

3. Dividends

| | Amount per share |
|-------------------------|-----------------------------|
| Proposed final dividend | 2.96 |
| Interim dividend paid | 1.69 |

On 30 August 2016, the directors have recommended that an unfranked dividend of 2.96 cents per ordinary share is paid on 30 September 2016 with a record date of 6 September 2016.



VITACO HOLDINGS LIMITED
APPENDIX 4E
PRELIMINARY FINAL REPORT

3. Net tangible assets

| | 30 June 2016 | 31 March 2015 |
|---|---------------------|----------------------|
| | \$ | \$ |
| Net asset backing per ordinary share | 1.00 | 0.88 |
| Net tangible asset backing per ordinary share | 0.83 | 0.85 |

4. Audit

The financial statements have been audited and an unqualified opinion has been issued.

5. Attachments

The Annual Report of Vitaco Holdings Limited for the fifteen month period ended 30 June 2016 is attached.

6. Signed

Greg Richards
Chairman
30 August 2016



VITACO HOLDINGS LIMITED

ACN 606 826 493

ANNUAL REPORT - 30 JUNE 2016

VITACO HOLDINGS LIMITED AND CONTROLLED ENTITIES

ACN 606 826 493

TABLE OF CONTENTS

| | |
|--|-------|
| Corporate governance statement | 1 |
| Directors' report | 2-10 |
| Remuneration report | 11-26 |
| Auditor's independence declaration | 27 |
| Financial statements | 28-74 |
| Directors' declaration | 75 |
| Independent auditor's report to the members of Vitaco Holdings Limited | 76-77 |
| Shareholder information | 78-80 |

The Board of Vitaco Holdings Limited (the “Company”) and Senior Management are committed to acting responsibly, ethically and with high standards of integrity. The Company is committed to implementing the highest standards of corporate governance appropriate to it, taking into account the Company’ size, structure and nature of its operations.

The Board considers and applies the ASX Corporate Governance Council’s Governance Principles and Recommendations (3rd Edition) (“the Recommendations”) taking into account the circumstances of the Company. Where the Company’s practices depart from a recommendation, the Corporate Governance Statement identifies the area of divergence and the reasons for divergence and any alternative practices adopted by the Company.

The practices detailed in the 2016 Corporate Governance Statement and the documents referred to in it are available on the Company’s website at <http://www.vitaco.com.au/investor-centre/corporate-governance>. The Corporate Governance Statement has been approved by the Board of Vitaco Holdings Limited and is current as at 30 August 2016.

Vitaco Holdings Limited
ACN 606 826 493
Directors' Report
30 June 2016

The Directors of Vitaco Holdings Limited ("**Vitaco**") present their report together with the annual financial report of the consolidated entity consisting of Vitaco and its subsidiaries (collectively "**Vitaco Group**") for the 15 months ended 30 June 2016 and the auditors' report thereon.

1. Directors

The Directors of Vitaco at any time during or since the end of the financial period are:

Mr Greg Richards – Chairman (from 21 August 2015)
 Mr Ryan d'Almeida (from 1 July 2015)
 Mr Emmet Hobbs (from 21 August 2015)
 Mr Andrew (Sandy) Lockhart (from 1 July 2015)
 Ms Katrina Onishi (from 21 August 2015)
 Mr Mark Peters (from 1 July 2015 to 21 August 2015)

Particulars of the skills, experience, expertise and responsibilities of the Directors at the date of this report, including all directorships of other listed companies held by a director at any time in the past three years immediately before 30 June 2016 and the period for which each directorship has been held, are set out below:

| | |
|---|---|
| Name | Greg Richards |
| Title: | Independent Non-executive Chairman |
| Qualifications: | Bachelor of Economics (Hons) |
| Term of office: | Appointed Director and Chairman in August 2015 |
| Experience and expertise | Prior to 2006, Greg had over 25 years' experience in the financial markets and investment banking industry. Most recently he was with Goldman Sachs JBWere for over 19 years where he was an equity partner for 17 years, working primarily in equity capital markets. |
| Other current directorships: | Greg is presently Chairman of JB Hi-Fi Limited (JB Hi-Fi), having been appointed as Chairman of the Board in June 2012 and as a Director in December 2007. Greg is also a member and Chairman of the Remuneration Committee of JB Hi-Fi and was Chairman of the Audit and Risk Management Committee from February 2010 until May 2012. |
| Former directorships of listed companies (last 3 years): | Nil |
| Committee membership: | Chairman of the Nomination & Remuneration Committee |

| | |
|---------------------------------|---|
| Name | Ryan d'Almeida |
| Title: | Chief Executive Officer |
| Qualifications: | Bachelor of Business and a Master of Business Administration |
| Term of office: | Appointed as Chief Executive Officer of the Vitaco Group since October 2014 and appointed as Managing Director of Vitaco in July 2015. |
| Experience and expertise | <p>Ryan has been with the Vitaco Group since March 2009, when he commenced as General Manager Commercial and was responsible for the Vitaco Group's sports and active nutrition business. In 2012 Ryan assumed the role of General Manager for the Vitaco Group's Sports and Active Nutrition and Health Foods division before being appointed as CEO of the Vitaco Group in 2014.</p> <p>Ryan has been involved with the food and nutrition industry for 20 years, commencing his career with Retail Food Group Limited in Australia and the</p> |

| | |
|---|---|
| | United Kingdom, and then spending eight years with Weight Watchers as the General Manager Marketing as well as the General Manager Consumer Products. |
| Other current directorships of listed companies: | Nil |
| Former directorships of listed companies (last 3 years): | Nil |
| Committee membership: | Nil |

| | |
|---|--|
| Name | Emmet Hobbs |
| Title: | Independent Non-executive Director |
| Qualifications: | Bachelor of Arts from the University of Canterbury |
| Term of office: | Appointed a Director in August 2015 |
| Experience and expertise | <p>Emmet has 30 years of experience in business strategy and innovation for the transport industry, including executive career at Brambles Australia and Brambles Europe. Emmet also held the position of Executive Director of Freight for Qantas Airways and General Manager of Freight for Australian Airlines.</p> <p>Emmet has previously been a Director of Auckland Regional Holdings and Ports of Auckland Limited. Emmet has also been a director of a number of listed and unlisted companies in New Zealand, Australia, Europe and the United Kingdom over the past 30 years.</p> |
| Other current directorships of listed companies: | Emmet currently serves as Chairman of Hirepool Limited and a director of Hydraulink New Zealand, Hydraulink Australia Pty Ltd, Next Generation, Net Limited, HGL New Zealand Limited and several other companies in the Hirepool Group. |
| Former directorships of listed companies (last 3 years): | Mainfreight Limited (NZX listed) – resigned December 2013. |
| Committee membership: | Member of both the Audit & Risk Committee and the Nomination & Remuneration Committee |

| | |
|---------------------------------|---|
| Name | Andrew (Sandy) Lockhart |
| Title: | Non-executive Director |
| Qualifications: | Bachelor of Arts (Hons) from Harvard and a PMD from Harvard University, Asia |
| Term of office: | Appointed a Director in July 2015 |
| Experience and expertise | <p>Sandy is a founding partner of Next Capital Pty Limited (Next Capital), a Sydney based private equity manager focussing of middle market and growth opportunities in Australia and New Zealand. Sandy has been a director of a number of Next Capital's investee companies.</p> <p>Sandy has over 35 years' experience in specialised lending situations and private equity investment.</p> <p>Prior to founding Next Capital, Sandy held the position of an executive director of Macquarie Bank Ltd where he had overall responsibility for managing Macquarie Bank's private equity business, which encompassed</p> |

| | |
|---|---|
| | <p>investments made through both Bond Street Investments, a subsidiary of Macquarie Bank, and three Macquarie Investment Trusts during the period between 1987 and 2004.</p> <p>Before joining Macquarie Bank Sandy worked for Bank of Boston NA, holding positions in Boston, London and Sydney where he was head of the Bank of Boston's Australian and New Zealand operations.</p> <p>Sandy was formerly a director of RPG Holdings Pty Ltd (an investee company of funds affiliated with Next Capital) and also previously Chairman of Vitaco Health Group Limited, which was acquired by Vitaco during the IPO.</p> <p>Sandy also served as a council member of the Australian Venture Capital Association Limited (AVCAL) for a number of years and was Chairman of AVCAL from 1995 to 1996.</p> |
| Other current directorships: | Sandy is currently a director of several companies including Onsite Rental Group Pty Ltd, Onslow Holdco Pty Ltd and HGL New Zealand Limited and several other companies in the Hirepool Group. |
| Former directorships of listed companies (last 3 years): | Nil |
| Committee membership: | Member of the Audit & Risk Committee |

| | |
|---|---|
| Name | Katrina Onishi |
| Title: | Independent Non-executive Director |
| Qualifications: | Katrina holds a Bachelor of Arts (Hons) from the University of Sydney and is a Chartered Financial Analyst. Katrina is a member of the CFA Institute, a Graduate Member of the Australian Institute of Company directors and a Fellow of the Financial Services Institute, Australasia. |
| Term of office: | Appointed a Director in August 2015. |
| Experience and expertise | Until 2010 Katrina was an executive director of Concord Capital Limited (Concord), a boutique funds management business that she co-founded in 2000. Prior to co-founding Concord, Katrina held several funds management roles both in Australia and overseas. |
| Other current directorships: | Katrina is a Director of newly listed company, Scottish Pacific Group Limited and is also a director and advisor to several not for profit organisations. |
| Former directorships (last 3 years): | Nil |
| Committee membership: | Katrina is the Chair of the Audit & Risk Committee and a member of the Nomination & Remuneration Committee. |

2. Company Secretaries

The Company Secretaries as at 30 June 2016 are Phil Wiltshire and Anna Sandham.

Phil Wiltshire has been Chief Financial Officer of the Vitaco Group since July 2007 and was appointed Company Secretary of Vitaco in August 2015. Phil has had nearly 20 years' experience in senior finance positions in large New Zealand consumer products businesses. In particular, Phil previously worked for seven years at Tip Top Ice Cream Company (a subsidiary of HJ Heinz before being sold to Fonterra), the last three years of which he was the Chief Financial Officer and four years at Mainland Products as its Chief Financial Officer.

Anna Sandham was appointed co-company Secretary of Vitaco in October 2015. Anna is an experienced company secretary and governance professional with over 16 years' experience in various large and small, public and private, listed and unlisted companies. Anna has previously worked for companies including AMP Financial Services, Westpac Banking Corporation, BT Financial Group and NRMA Limited.

3. Meetings of Directors

The number of meetings of the Company's Board of Directors ("the Board") and of each of the Board Committees and the number of meetings attended by each Director during the financial period are:

| | Board | | Audit & Risk Committee | | Nomination & Remuneration Committee | |
|----------------|-------|----|------------------------|---|-------------------------------------|---|
| | A | B | A | B | A | B |
| Greg Richards | 12 | 12 | - | - | 2 | 2 |
| Ryan d'Almeida | 12 | 12 | - | - | - | - |
| Emmet Hobbs | 12 | 12 | 4 | 4 | 2 | 2 |
| Sandy Lockhart | 12 | 12 | 4 | 4 | - | - |
| Katrina Onishi | 12 | 12 | 4 | 4 | 2 | 2 |

This table shows membership of standing Committees of the Board. From time to time the Board may form other committees or request Directors to undertake specific extra duties.

- A: represents the number of meetings held during the time the Director held office or was a member of the relevant Committee.
B: represents the number of meetings attended.

4. Principal Activities

During the period the principal continuing activities of the Vitaco Group consisted of the development, manufacture and distribution of health food products and nutritional supplements within the broader nutrition, health and wellness industry. The Vitaco Group has distribution and operation centres in New Zealand and Australia and has a growing presence in offshore markets, particularly across Asia.

5. Operating and financial review

Overview of the Group

The after tax net loss for the 15 month period to 30 June 2016 was \$9.1 million (12 month to 31 March 2015: profit of \$4.4 million). This was 6.2% better than our IPO Prospectus forecast loss for the 15 month period of \$9.7 million.

On a pro forma basis, adjusting for a 12 month period, one-off costs associated with the initial public offering of the company in September 2015 (\$14.3 million), and acquisition and integration costs of the Musashi business (\$9.1 million), the Group delivered a profit after tax of \$13.1 million, which is 18.0% higher than the pro forma result for the 2015 year (restated for a June balance date) and 3.1% higher than our IPO Prospectus forecast pro forma profit of \$12.7 million.

The Board is very pleased with the results for the year ended 30 June 2016 which achieved IPO Prospectus forecast revenues and profit. Key highlights for the year include:

- Revenues for the 12 month period ending 30 June 2016 of \$212.8 million.

- A strong result from our Vitamins and Supplements division which delivered a pro forma earnings before interest and tax (EBIT) contribution of \$17.0 million, which is 50.4% higher than the pro forma EBIT for the prior corresponding period and 6.9% higher than our IPO Prospectus forecast EBIT of \$15.9 million.
- The successful integration of the Musashi sports nutrition business which was completed ahead of time.
- Strong sales growth in the Middle East market, and in particular Saudi Arabia, reflecting:
 - Robust demand for our Vitamin and Supplements products
 - The launch of our Sport Nutrition products in Saudi Arabia during the fourth quarter
- Healtheries was voted the most-trusted New Zealand vitamin and supplements brand for the 10th year in a row in the Reader's Digest Trusted Brands awards. Furthermore, Healtheries was ranked as the 17th most trusted brand out of 307 brands evaluated.
- Our sales position in China continues to develop with a strong investment in sales and marketing infrastructure through the period. Sales of \$22.0 million were achieved during the 12 months to 30 June 2016, which is up by 38.4% on sales made into China for the prior corresponding period notwithstanding volatility seen during the second half of the year.
- Declaration of a final dividend of 2.96 cents per share taking total dividends declared in respect of the year ended 30 June 2016 to 4.65 cents per share.

A review of the operations of the Vitaco Group is set out below.

Divisional Performance

The Vitaco Group operates two trading divisions, Vitamins and Supplements (VDS) and Sports and Active Nutrition and Health Foods (SN & HF). To better enable a comparison between periods in this section we discuss the Pro forma performance of each division, which restates the results for a twelve month period ending 30 June.

Vitamins & Supplements

The VDS division delivered strong growth in financial performance. Revenues increased to \$100.2 million (30 June 2015: \$79.5 million) and EBIT contribution to \$17.0 million (30 June 2015: \$11.3 million). Both revenue and EBIT were above our IPO Prospectus forecasts. The result reflects ongoing growth in sales of vitamins and supplements to China, growth in sales to Saudi Arabia, and growth in traditional markets. Looking ahead, the outlook for the VDS will be impacted by recent changes in the trading environment:

- Our agency agreement for the Trilogy natural skin care range in New Zealand ended on 30 June 2016. This provides an opportunity for the Group to extend our product range into functional natural skincare however in the short term the impact on EBIT is estimated to be \$1.7 million.
- Our China sales, which are principally sales of vitamins and supplements, showed increased volatility in the second half of FY16. This volatility was driven by uncertainty surrounding the regulation of, and an increase in taxes payable on, Chinese cross border e-commerce. Whilst China remains a key growth strategy for the Group, we expect this volatility will remain. Vitaco has made a significant investment in sales and marketing infrastructure in the region. Over the past 12 months we expanded our team to 12 dedicated Chinese roles (from three roles in the prior year) including a Shanghai-based General Manager, we have invested in social media marketing campaigns, and continue to develop the range of products we sell through our TMall e-commerce store. The Group expects to continue to invest in sales and marketing and associated infrastructure to support growth in the year ahead.

- The Group also intends to invest in developing and growing its Supplements position within the Australian pharmacy channel, over the coming year.

Sports and Active Nutrition and Health Foods

The SN & HF division delivered a solid result notwithstanding certain earnings drags. Revenues increased to \$112.2 million (30 June 2015: \$92.3 million) and EBIT contribution reduced slightly, as forecast, to \$17.7 million (30 June 2015: \$19.6 million). Revenues and EBIT were generally in line with, albeit slightly below, IPO Prospectus forecasts. This result reflects:

- A solid performance from our core brands.
- The successful integration of the Musashi acquisition ahead of schedule.
- Reduced contribution from sales of SN & HF products to China (predominantly sales of our Milk Biscuits products). Sales of these products were especially high during the prior year and the sales achieved during FY16 are considered to be indicative of a more sustainable sales rate. In addition, the contribution from Chinese sales was impacted by our investment in sales and marketing infrastructure.
- Lower contribution from the Bodytrim brand. The Bodytrim business was acquired by the Group in 2014 (contributing to the pro forma 2015 financial year). The business included a recurring subscription scheme that was considered unsustainable on acquisition and discontinued according to our acquisition strategy for that business. The reduction in contribution from Bodytrim had been factored into the IPO Prospectus forecasts.
- Reduced contribution from agency sales of Comvita honey. Due to strong international demand, Comvita raised its domestic wholesale pricing on 5+ UMF Manuka Honey, limiting its viability in the NZ Grocery channel. As a result Vitaco transitioned from 5+ UMF product to the lower priced 2.5+ UMF product which had a material adverse impact on volume.
- Adverse movements in foreign currency exchange rates on cost of goods sold. Adverse movements in the Australian dollar against the New Zealand dollar and United States dollar increased the cost of the products we sold, compressing margins. This was factored into the IPO Prospectus forecast.

Review of financial position

The Group is in a strong financial position with net debt reduced to \$36.4 million at 30 June 2016 (31 March 2015: \$73.9 million, 31 December 2015: \$44.5 million). This reduction in net debt has been achieved through a combination of proceeds from the issuance of new shares pursuant to our IPO in September 2015 as well as positive operating cash flows through the second half of FY16.

Working capital (being trade receivables plus inventories less trade payables and provisions) has increased by 22% to \$45.2 million (31 March 2015: \$37.0 million). This increase reflects the working capital requirement associated with the acquisition of Musashi, organic revenue growth, and China specific inventory.

Significant changes in the state of affairs

Vitaco Holdings Limited was incorporated on 1 July 2015 and undertook an initial public offering on 16 September 2015. The proceeds of the initial public offering were used to acquire Vitaco Health Group Limited and its controlled entities.

There were no other significant changes in the state of affairs of the Vitaco Group during the financial period.

6. Dividends

On 24 February 2016, Vitaco declared an interim dividend of 1.69 cents per ordinary share which was paid to shareholders registered on 4 March 2016 (\$2,351,525). This dividend was unfranked and paid on 31 March 2016.

On 30 August 2016, the Board recommended the payment of a final, unfranked dividend of 2.96 cents per share (\$4,116,029) to shareholders registered on 6 September 2016. Proposed dividends on ordinary shares are not recognised as a liability as at 30 June 2016. This dividend will be paid on 30 September 2016.

7. Matters subsequent to the end of the financial period

No matter or circumstance has arisen since 30 June 2016 that has significantly affected, or may significantly affect the Vitaco Group's operations, the results of those operations or the Vitaco Group's state of affairs in future financial years other than the following:

On 3 August 2016, Vitaco Holdings Limited ("Vitaco") entered into a Scheme Implementation Deed with, among others, Shanghai Pharmaceuticals Holdings Co., Ltd ("Shanghai Pharma") and Primavera Capital Fund II L.P ("Primavera"), (together, the "Consortium") pursuant to which the Consortium proposes to indirectly acquire 100% of the share capital of Vitaco by way of a scheme of arrangement under Part 5.1 of the Australian Corporations Act 2001 (Cth) ("Scheme") at A\$2.25 per share (for non-management shareholders of Vitaco) less the amount of the Final Dividend (defined below). Management shareholders of Vitaco will instead receive total value equivalent to A\$2.25 per share (less the amount of the Final Dividend) in a combination of cash and shares in a newly established subsidiary of Shanghai Pharma and Primavera. The purchasers of the shares will be a subsidiary of Shanghai Pharma and a subsidiary of Primavera. The Scheme is subject to a number of customary conditions including shareholder and court approval, no material adverse change or prescribed occurrences, as well as the approval of Australia's Foreign Investment Review Board, New Zealand's Overseas Investment Office and Chinese regulators. If the Scheme is implemented after the final dividend is declared and paid by Vitaco for the period ended 30 June 2016 ("Final Dividend"), eligible non-management Vitaco shareholders will receive:

- The cash price of A\$2.25 per share reduced by the amount of the Final Dividend; plus
- The Final Dividend.

8. Likely developments

Information on likely developments in the operations of the Vitaco Group, and the expected results of operations have not been included in this report because the Directors believe it would be likely to result in unreasonable prejudice to the Vitaco Group.

9. Environmental regulation

The Directors recognise the importance of environmental and occupational health and safety issues. The Directors are committed to compliance with all relevant regulations to ensure the protection of the environment, the community and the health and safety of employees. The operations of the Vitaco Group are not subject to any particular and significant environmental regulation under the law of the Commonwealth of Australia or any of its States or territories or New Zealand.

10. Directors' interests

The relevant interest of each director in the shares and rights or options over shares issued by Vitaco, as notified by the Directors to the ASX in accordance with s205G(1) of the Corporations Act 2001 (Cth) (**Act**), at the date of this report is as follows:

| Director | Ordinary shares | Options over ordinary shares | Rights over ordinary shares |
|-----------------|------------------------|-------------------------------------|------------------------------------|
| Greg Richards | 95,238 | - | - |
| Ryan d'Almeida | 357,391 | 343,042 ¹ | 67,003 ¹ |
| Emmet Hobbs | 47,619 | - | - |
| Sandy Lockhart | 142,857 | - | - |
| Katrina Onishi | 47,619 | - | - |

¹ Issued under the Long Term Incentive Plan

11. Share Options and Rights outstanding

As at the date of this report there are 1,000,918 options outstanding and 195,499 share rights outstanding in relation to Vitaco ordinary shares. The expiry date of the options range between October 2018 and October 2020 and the weighted average exercise price is \$2.10. The latest date for exercise of the share rights range between October 2018 and October 2020.

Holders of outstanding share options and share rights in relation to Vitaco ordinary shares do not have any rights under the share options and share rights to participate in any share issue or interest of Vitaco.

There were no ordinary shares of Vitaco issued on the exercise of options or share rights during the period ended 30 June 2016 and up to the date of this report.

12. Indemnity and insurance of officers and auditors

Indemnification

Under the Vitaco Constitution, unless prohibited by statute, Vitaco indemnifies current and former directors and officers for any loss arising from any claim by reason of any wrongful act committed by them in their capacity as a director or officer (subject to certain exclusions as required by law). During the financial period, Vitaco has paid premiums in respect of contracts insuring the directors and officers of Vitaco against any liability of this nature.

Vitaco has not, during or since the end of the financial period, indemnified or agreed to indemnify an officer or auditor of Vitaco or any related entity against a liability as such by an officer or auditor except to the extent permitted by law.

Insurance premiums

In accordance with normal commercial practices, under the terms of the insurance contracts, the nature of liabilities insured against and the amount of the premiums paid are confidential.

13. Non-audit services

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial period by the auditor are outlined in note A4 to the financial statements.

The Directors are satisfied that the provision of non-audit services during the financial period, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the Act.

The Directors are of the opinion that the services disclosed in note A4 to the financial statements do not compromise the external auditor's independence requirements of the Act for the following reasons:

- All non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- None of the services undermines the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risks and rewards.

14. Proceedings on behalf of Vitaco Holdings Limited

No person has applied to the Court under section 237 of the Act for leave to bring proceedings on behalf of Vitaco, or to intervene in any proceedings to which Vitaco is a party for the purpose of taking responsibility on behalf of Vitaco for all or part of those proceedings.

15. Lead Auditor's independence declaration

The Auditor's independence declaration is included on page 27 of the Annual Report.

16. Auditor

PricewaterhouseCoopers continues in office in accordance with section 327 of the Act.

17. Officers of the Company who are former partners of PricewaterhouseCoopers

There are no officers of Vitaco who are former partners of PricewaterhouseCoopers.

18. Remuneration report

The Remuneration Report which forms part of this Directors' Report is presented separately on pages 11 to 26.

19. Rounding of amounts

Vitaco is of a kind referred to the Australian Securities and Investments Commission Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

This report is made in accordance with a resolution of Directors, pursuant to section 298(2)(a) of the Act.

On behalf of the Directors



Greg Richards
Chairman
30 August 2016
Sydney



Letter from the Chairman of the Nominations and Remuneration Committee

Dear Shareholder,

As the Chair of the Nominations & Remuneration Committee (NRC), I am pleased to present Vitaco Holdings Limited ("**Vitaco**" and together with its controlled entities, the "**Vitaco Group**") Remuneration Report for the 15 months ended 30 June 2016.

The report is designed to provide shareholders with an understanding of Vitaco's remuneration philosophy and the link between this philosophy and Vitaco's strategy and performance.

As Vitaco only listed on the Australian Securities Exchange (ASX) in September 2015, the Report specifically focusses on the remuneration arrangements for executives and Non-executive Directors for the 15 months ended 30 June 2016 and the philosophy the Board has set going forward. The remuneration disclosed for the 15 months ended 30 June 2016 is consistent with disclosures made in the Prospectus.

Vitaco's remuneration framework is designed to support and reinforce its business strategy, with four guiding principles in mind:

- Alignment of our executive pay with shareholder interests and wealth outcomes;
- Motivation of senior executive behaviour to execute the Company's strategy through an appropriate mix of fixed and variable pay elements;
- Delivery of a competitive remuneration framework that assists with attracting and retaining high calibre executive talent to ensure business success; and
- Provision of a simple and transparent framework that is clear to participants and external stakeholders.

In 2016/2017, the NRC will work to further implement the remuneration philosophy outlined in this Report. The members of the NRC have the necessary expertise and independence to fulfil their responsibilities and are able to access independent experts in remuneration for advice should this be required. The governance processes in relation to remuneration are working effectively.

Vitaco is committed to developing and communicating an effective remuneration framework that assists with attracting, retaining and motivating our senior executive team, and that supports the execution of our strategy to the benefit of long term value creation. The Board welcomes continual feedback from external stakeholders around its remuneration practices and disclosures.

We look forward to providing further detail on the remuneration and reward framework in future reports and the linkages this provides with business performance.

Greg Richards
Chairman of Nominations and Remuneration Committee

Remuneration report (Audited)

This Remuneration Report (**Report**) for Vitaco for the 15 months ended 30 June 2016 which has been audited in accordance with the Corporations Act 2001 (Cth) (**Act**) and its regulations, outlines key aspects of our remuneration framework, and contains the following sections:

- (a) Who this report covers
- (b) Overview of our remuneration framework
- (c) Linking reward and performance
- (d) Executive Key Management Personnel (**Executive KMP**):
 - i. Remuneration expenses
 - ii. Contractual arrangements
 - iii. Share based remuneration
- (e) Non-executive Director remuneration framework
- (f) Non-executive Director and executive KMP shareholdings in Vitaco
- (g) Other statutory disclosures

a) Who this report covers

This report covers Non-executive Directors and Executive KMP and includes:

Table 1: Non-executive Directors and Executive KMP covered by this report

| | Role |
|---|---|
| Non-executive Directors | |
| Greg Richards | Independent Non-executive Chairman |
| Emmet Hobbs | Independent Non-executive Director |
| Katrina Onishi | Independent Non-executive Director |
| Andrew (Sandy) Lockhart | Non-executive Director |
| Executive Key Management personnel | |
| Ryan d'Almeida | Executive Director and Chief Executive Officer |
| Phil Wiltshire | Chief Financial Officer |
| Roger Scott | Chief Operating Officer |
| John Stanton | General Manager, Vitamins and Supplements |
| Martin Drinkrow | General Manager, Sports and Active Nutrition and Health Foods |
| Jay Drezner | General Manager, International and Business Development |
| Brent Hall | General Manager, Supply Chain and Contract Manufacturing |
| Peter Barraket (<i>since resigned</i>) | General Manager, Supplements |

Since the end of the period, Vitaco have recruited Lucinda Warren as the General Manager, Human Resources. Lucinda Warren will be responsible for leading the existing HR team, while providing new direction to support Vitaco's objectives. Since Lucinda Warren was recruited subsequent to the end of the period, details of her remuneration will be reported in the Remuneration Report for the year ending 30 June 2017.

b) Overview of our remuneration framework

The Board recognises that the performance of Vitaco depends on the quality and motivation of its people. The objective of Vitaco's remuneration policy is to attract, motivate and retain the best available management and employees to operate and manage Vitaco. Non-executive Director remuneration is designed in a way that

Vitaco Holdings Limited
Remuneration Report (forming part of the Directors' Report)
30 June 2016

supports the retention of their independence. Executive remuneration and incentive policies and practices are performance-based and aligned with the Vitaco Group's vision, values and overall business objectives.

The objectives underpinning the remuneration philosophy are that Non-executive Director and Executive KMP remuneration policies and practices will:

- Motivate the Non-executive directors and executives to pursue the Vitaco Group's long-term growth and success;
- Demonstrate a clear relationship between the Vitaco Group's overall performance and the performance of Non-executive Directors and executives; and
- Align the interests of Non-executive directors and executives with the creation of value for shareholders.

The remuneration framework has been designed to enable this.

Governance

When Vitaco listed on the ASX in September 2015, it established a Nomination and Remuneration Committee (**NRC**) whose role is to help the Board with its remuneration responsibilities, including reviewing and recommending remuneration arrangements for Executive KMP's and Non-executive Directors.

The NRC has three members, all of whom are independent Non-executive Directors. The members of the NRC have appropriate qualifications and experience to enable the NRC to fulfil its role.

External remuneration consultants

At the absolute discretion of the NRC, the Vitaco Group may seek professional advice from appropriate external advisers, including external remuneration consultants in relation to making remuneration recommendations on the appropriate level and structure of the remuneration packages in relation to one or more members of the Executive KMP from time to time.

During the 15 months to 30 June 2016, the Board engaged Egan Associates to review the remuneration structure and level of reward for the key management personnel and to provide remuneration recommendations as defined in the Act. Egan Associates was paid \$44,583 for these services.

The Board is satisfied that the remuneration recommendations made by Egan Associates were free from undue influence by members of the key management personnel about whom the recommendations may relate.

Structure of remuneration

The Board has determined that to align the interests of the Vitaco Group's executive team and the goals of Vitaco Group, the remuneration packages of the Executive KMP should comprise the following components:

- Fixed annual base salary (inclusive of superannuation and fringe benefits, if applicable) (**Total Fixed Remuneration or TFR**);
- Cash-based short-term incentives; and
- Equity-based long-term incentives.

Payment of cash under the short term incentives and the award of equity under long-term incentives will be subject to the achievement of performance criteria or hurdles set by the Board. Further information on these performance criteria is provided below.

Fixed annual base salary (TFR)

Fixed annual base salary is set at a level which is commensurate with the skills required for and responsibilities associated with the role, and within the context of external market levels. Fixed remuneration includes base salary, superannuation contribution and fringe (non-monetary) benefits, if applicable.

Vitaco Holdings Limited
Remuneration Report (forming part of the Directors' Report)
30 June 2016

Superannuation is paid at the statutory rate in accordance with legislative requirements in both Australia and New Zealand. In certain elected cases, executive KMP pay additional superannuation via salary sacrifice.

The NRC are responsible for:

- Considering and approving the CEO's total remuneration having regard to executive remuneration and incentive policies; and
- Reviewing and approving, on the recommendation of the CEO the total remuneration and terms of employment, and any subsequent changes thereto, of Executive KMPs.

Fixed remuneration is reviewed annually and accounts for market movements and individual performance outcomes. There are no guaranteed fixed remuneration increases.

Cash-based short-term incentives

Short-term incentives (STIs) are designed to recognise and reward for performance against annual metrics.

The Board has determined that the Vitaco Group's current remuneration policy for its eligible employees includes an annual incentive program, payments under which are subject to satisfaction of performance criteria set by the Board each year. Payment of short-term incentives in any given year is conditional upon achievement of:

- Performance criteria tailored to each respective role (if any); and
- The Vitaco Group's financial performance against criteria set by the Board.

For 2016, the Board determined that the short-term incentives for the Executive KMP will be calculated with reference to the Vitaco Group's forecast pro-forma EBITDA for the 12 months ended 30 June 2016, as set out in the Vitaco Group's prospectus, as follows:

- If the Vitaco Group does not achieve its forecast EBITDA for FY16, no award of STI will be payable;
- If Vitaco Group achieves its forecast EBITDA for FY16, each of the CEO and Management will be entitled to a bonus equivalent to 30% of their TFR;
- If Vitaco Group's EBITDA for FY16 exceeds the forecast EBITDA by 10%, each of the CEO and Management will be entitled to a bonus equivalent to 45% of their TFR pro-rata on a straight line basis having regard to the amount by which the Group's EBITDA exceeds the forecast EBITDA.

As the Vitaco Group's pro-forma EBITDA was \$23.9m, the Board has determined that each of the CEO and Management will be entitled to a bonus equivalent to 30% of their TFR. Details of these payments appear in table 8.

Equity-based long-term incentives

The Board has established a Long-term incentive plan (**New LTIP**) as disclosed in the Prospectus and outlined in the section in this Report titled "Share based remuneration". Non-executive Directors are not entitled to participate in any employee incentive scheme, including the New LTIP.

c) Linking reward to performance

Performance indicators

Vitaco Group's financial performance has met prospectus forecast. As the company has recently listed, statutory disclosures relating to dividend payments, dividend payout ratio, and increase / (decrease) in share price are not applicable. Key financial metrics over the last four years are shown below:

Vitaco Holdings Limited
Remuneration Report (forming part of the Directors' Report)
30 June 2016

Table 2: Key financial metrics

| | Net Revenue | EBITDA | Net profit after tax |
|------|-------------|--------|----------------------|
| | \$m | \$m | \$m |
| 2013 | 146.2 | 17.3 | 9.9 |
| 2014 | 148.4 | 19.7 | 11.0 |
| 2015 | 172.4 | 20.6 | 11.1 |
| 2016 | 212.8 | 23.9 | 13.1 |

The above results are prepared on a pro forma basis, based on 12 month periods ended 30 June.

Performance and impact on remuneration

In 2016 net revenue, pro-forma EBITDA and pro-forma NPAT Prospectus targets were all met. Pro-forma NPAT and earnings per share were \$13.1m and 9.4 cents per Vitaco share respectively. This was a pleasing result and reflects the efforts and contributions of the executive KMP, despite a competitive Australian market, volatile macroeconomic conditions and ongoing regulatory uncertainty in China.

As stated in section b) above, the Board has determined that the CEO and management will be entitled to a bonus equivalent to 30% of their TFR.

Share based remuneration

The Board has established a Long-term incentive plan (**New LTIP**) as disclosed in the Prospectus for eligible employees (including executives, officers, employees and executive Directors). Non-executive Directors are not entitled to participate in any employee incentive scheme, including the New LTIP.

Vitaco Group adopted the New LTIP to encourage executives and employees to have a greater involvement in the achievement of the Vitaco Group's objectives. Under the New LTIP, eligible employees selected by the Board may be offered and granted Options or Rights.

The vesting of Options or Rights is subject to the achievement of performance conditions as set out in the LTI description in the "Overview of Vitaco Group's remuneration framework" section of this report. Options and Rights will not carry any voting or dividend rights.

A summary of the current offers to Executive KMPs under the New LTIP is as follows:

Table 3: Summary of Options/Performance Rights issued to Executive KMP in FY15/16

| | |
|---|--|
| Number of Options | CEO – 25% of TFR worth of options |
| | CFO – 15% of TFR worth of options |
| | COO – 15% of TFR worth of options |
| | GM, Vitamins and Supplements – 15% of TFR worth of options |
| | GM, Sports and Active Nutrition and Health Foods – 15% of TFR worth of options |
| | GM International and Business Development – 10% of TFR worth of options |
| | GM, Supply Chain and Contract Manufacturing – 10% of TFR worth of options |
| Value of Option (determines number granted) | Valued on the Grant Date by an independent consultant using Black Scholes option pricing model Tranche 1 - \$0.33 Tranche 2 - \$0.37 Tranche 3 - \$0.40 |
| Exercise Price per Option | \$2.10 |

Vitaco Holdings Limited
Remuneration Report (forming part of the Directors' Report)
30 June 2016

| | |
|---|--|
| Number of Rights | CEO – 25% of TFR worth of rights |
| | CFO – 15% of TFR worth of rights |
| | COO – 15% of TFR worth of rights |
| | GM, Vitamins and Supplements – 15% of TFR worth of rights |
| | GM, Sports and Active Nutrition and Health Foods – 15% of TFR worth of rights |
| | GM International and Business Development – 10% of TFR worth of rights |
| | GM, Supply Chain and Contract Manufacturing – 10% of TFR worth of rights |
| Value of Rights (determines number granted) | Valued on the Grant Date by an independent consultant using Black Scholes option pricing model Tranche 1 - \$1.92 Tranche 2 - \$1.87 Tranche 3 - \$1.81 |
| Exercise Price per Right | Nil |
| Vesting Conditions for Options and Rights | Annual compound EPS growth over the Performance Period: <ul style="list-style-type: none"> • EPS growth less than or equal to 5%, nil will vest • EPS growth 5% to 15%, 20% to 100% will vest on a linear scale • EPS growth greater than or equal to 15%, 100% will vest |
| Performance period | 5 years |
| Vesting | No Options or Rights vest in the first 2 years. During years 3 to 5, Options and Rights vest as follows: 1/3 vest if EPS target achieved at any time during the first 3 years; 1/3 vest if EPS target achieved at any time during year 4; and 1/3 vest if EPS target achieved at any time during year 5. |

The Board has the discretion to amend the vesting terms and performance hurdles from time to time to ensure that they are aligned to market practice and ensure the best outcome for the Vitaco Group. The Board also has the discretion to change the New LTIP and to determine whether LTI grants will be made in future years.

Proportions of fixed and variable remuneration

The relative proportions of fixed versus variable pay received by reported KMP during the current and next financial period are shown in the two following tables:

Table 4 (a): Proportions of fixed vs variable pay by Executive KMP (amortised LTI)

| | Fixed remuneration | | At risk – STI (on target) | | At risk – LTI* | |
|-----------------|--------------------|------|---------------------------|------|----------------|------|
| | Proposed 2017 | 2016 | Proposed 2017 | 2016 | Proposed 2017 | 2016 |
| Ryan d'Almeida | 59% | 65% | 33% | 29% | 8% | 6% |
| Phil Wiltshire | 62% | 67% | 33% | 29% | 5% | 4% |
| Roger Scott | 62% | 67% | 33% | 29% | 5% | 4% |
| John Stanton | 62% | 67% | 33% | 29% | 5% | 4% |
| Martin Drinkrow | 63% | 68% | 32% | 28% | 5% | 4% |
| Jay Drezner | 64% | 69% | 33% | 28% | 3% | 3% |
| Brent Hall | 63% | 68% | 34% | 29% | 3% | 3% |

Note: this table is based on the 12 months to 30 June 2016 and the 12 months to 30 June 2017 respectively and excludes remuneration earned from the IPO (as detailed in Specific Arrangements for 2016 below)

**Annual value of the LTI (valued at the fair value of rights and options at grant date) – amortised over the vesting period.*

Vitaco Holdings Limited
Remuneration Report (forming part of the Directors' Report)
30 June 2016

Table 4 (b): Proportions of fixed vs variable pay by Executive KMP (total LTI)

| | Fixed remuneration | | At risk – STI (on target) | | At risk – LTI** | |
|-----------------|--------------------|------|---------------------------|------|-----------------|------|
| | Proposed 2017 | 2016 | Proposed 2017 | 2016 | Proposed 2017 | 2016 |
| Ryan d'Almeida | 49% | 51% | 27% | 23% | 24% | 26% |
| Phil Wiltshire | 54% | 58% | 30% | 25% | 16% | 17% |
| Roger Scott | 54% | 58% | 30% | 25% | 16% | 17% |
| John Stanton | 55% | 59% | 30% | 25% | 15% | 16% |
| Martin Drinkrow | 56% | 59% | 29% | 25% | 15% | 16% |
| Jay Drezner | 59% | 63% | 30% | 25% | 11% | 12% |
| Brent Hall | 58% | 61% | 31% | 27% | 11% | 12% |

Note: this table is based on the 12 months to 30 June 2016 and the 12 months to 30 June 2017 respectively and excludes remuneration earned from the IPO (as detailed in Specific Arrangements for 2016 below)

***Total value of the LTI (valued at the fair value of rights and options at grant date).*

Specific Arrangements for 2016

Vitaco listed on the ASX in September 2015 and disclosed specific arrangements for the period ended 30 June 2016 in its Prospectus. Certain Non-executive Directors and Executive KMP were provided with a one-off cash bonus for the successful listing. These amounts are included in the remuneration tables later in this Report. The above arrangements related to the period ended 30 June 2016 only and do not form part of the ongoing remuneration framework.

Assessment of performance

Performance of Executive KMPs will be assessed against the agreed non-financial and financial targets on a regular basis. Based on this assessment, the CEO will make a recommendation to the NRC for approval of the amount of STI and LTI to award (as applicable) to each KMP.

The NRC assesses the actual performance of the Vitaco Group and the CEO against the agreed targets and approves the amount of STI and LTI (as applicable) to be awarded.

Prior to the IPO in September 2015, the following transactions occurred under the Vitaco Health Group Options Deed:

| | Exercised number of options | Vested number of options |
|--|-----------------------------|--------------------------|
| Ryan d'Almeida | 133,000 | - |
| Peter Barraket (<i>since resigned</i>) | 133,333 | 44,444 |

There are no remaining options at the Vitaco Health Group level. No other Options or Rights were exercised or vested during the year.

Options issued to KMPs during the period are as noted below:

Table 5: Options issued to KMPs during FY15/16

| Name | Grant date | Expiry date | Exercise price | Number of options granted | Value per option at grant date | % vested |
|----------------|--------------|--------------|----------------|---------------------------|--|----------|
| Ryan d'Almeida | 16 Sept 2015 | 15 Sept 2020 | A\$2.10 | 343,042 | Tranche 1 - \$0.33 Tranche 2 - \$0.37 Tranche 3 - \$0.40 | 0% |
| Phil Wiltshire | 16 Sept 2015 | 15 Sept 2020 | A\$2.10 | 135,593 | Tranche 1 - \$0.33 Tranche 2 - \$0.37 Tranche 3 - \$0.40 | 0% |

Vitaco Holdings Limited
Remuneration Report (forming part of the Directors' Report)
30 June 2016

| | | | | | | |
|-----------------|--------------|--------------|---------|---------|--|----|
| Roger Scott | 16 Sept 2015 | 15 Sept 2020 | A\$2.10 | 127,845 | Tranche 1 - \$0.33 Tranche 2 - \$0.37 Tranche 3 - \$0.40 | 0% |
| John Stanton | 16 Sept 2015 | 15 Sept 2020 | A\$2.10 | 123,689 | Tranche 1 - \$0.33 Tranche 2 - \$0.37 Tranche 3 - \$0.40 | 0% |
| Martin Drinkrow | 16 Sept 2015 | 15 Sept 2020 | A\$2.10 | 142,019 | Tranche 1 - \$0.33 Tranche 2 - \$0.37 Tranche 3 - \$0.40 | 0% |
| Jay Drezner | 16 Sept 2015 | 15 Sept 2020 | A\$2.10 | 70,619 | Tranche 1 - \$0.33 Tranche 2 - \$0.37 Tranche 3 - \$0.40 | 0% |
| Brent Hall | 16 Sept 2015 | 15 Sept 2020 | A\$2.10 | 58,111 | Tranche 1 - \$0.33 Tranche 2 - \$0.37 Tranche 3 - \$0.40 | 0% |

Rights issued to KMPs during the period are as noted below:

Table 6: Rights issued to KMPs during FY15/16

| Name | Grant date | Expiry date | Exercise price | Number of rights granted | Value per right at grant date | % vested |
|-----------------|--------------|--------------|----------------|--------------------------|--|----------|
| Ryan d'Almeida | 16 Sept 2015 | 15 Sept 2020 | Nil | 67,003 | Tranche 1 - \$1.92 Tranche 2 - \$1.87 Tranche 3 - \$1.81 | 0% |
| Phil Wiltshire | 16 Sept 2015 | 15 Sept 2020 | Nil | 26,484 | Tranche 1 - \$1.92 Tranche 2 - \$1.87 Tranche 3 - \$1.81 | 0% |
| Roger Scott | 16 Sept 2015 | 15 Sept 2020 | Nil | 24,971 | Tranche 1 - \$1.92 Tranche 2 - \$1.87 Tranche 3 - \$1.81 | 0% |
| John Stanton | 16 Sept 2015 | 15 Sept 2020 | Nil | 24,159 | Tranche 1 - \$1.92 Tranche 2 - \$1.87 Tranche 3 - \$1.81 | 0% |
| Martin Drinkrow | 16 Sept 2015 | 15 Sept 2020 | Nil | 27,739 | Tranche 1 - \$1.92 Tranche 2 - \$1.87 Tranche 3 - \$1.81 | 0% |
| Jay Drezner | 16 Sept 2015 | 15 Sept 2020 | Nil | 13,793 | Tranche 1 - \$1.92 Tranche 2 - \$1.87 Tranche 3 - \$1.81 | 0% |
| Brent Hall | 16 Sept 2015 | 15 Sept 2020 | Nil | 11,350 | Tranche 1 - \$1.92 Tranche 2 - \$1.87 Tranche 3 - \$1.81 | 0% |

The Vitaco Group may offer additional incentive schemes to management and employees over time.

The terms of the New LTIP which provide the framework under which the LTI grants were made in FY15/16 and may be made in FY16/17 are as follows:

Vitaco Holdings Limited
Remuneration Report (forming part of the Directors' Report)
30 June 2016

Table 7: Terms of the New LTIP

| LTI parameter | FY15/16 description |
|--|--|
| Eligibility | Eligibility to participate in the New LTIP and the number of Options or Rights offered to each eligible employee, will be determined by the Board. Non-executive Directors of the Vitaco Group are not permitted to participate in the New LTIP. |
| Grants | <p>Under the rules of the New LTIP, Options and/or Rights may be offered and granted to eligible employees of the Vitaco Group from time to time, subject to the absolute discretion of the Board.</p> <p>The Company made offers of Options and Rights to the CEO and each of the Executive KMP for FY15/16 details of which appear in tables 5 and 6 above.</p> <p>As detailed in those tables, the maximum notional value of the Options and Rights offered to the CEO was 50% of his TFR and to each Executive KMP, was 20 – 30% of their aggregate TFR depending on the senior executive.</p> |
| Terms and conditions | The Board has the absolute discretion to set the terms and conditions (including conditions in relation to vesting, cash settlement, disposal restrictions or forfeiture and any applicable exercise price) on which it will offer and grant Options and Rights under the New LTIP and may set different terms and conditions which apply to different participants in the New LTIP. The Board will determine the procedure for offering and granting Options or Rights (including the form, terms and content of any offer or invitation or acceptance procedure) in accordance with the rules of the New LTIP. |
| Vesting conditions | <p>Options and Rights will vest (and in the case of options, become exercisable) if and to the extent that any applicable performance, service and other vesting conditions specified at the time of the granted are satisfied (collectively the Performance Criteria) and the Options or Rights have not been forfeited. Performance Criteria may include conditions relating to employment or service, the individual performance of the participant and/o the Vitaco Group's performance. Typically, the Performance Criteria must be satisfied by reference to a predetermined performance period. Both the performance Criteria and the performance period are set by the Board in its absolute discretion.</p> <p>The Board has set the performance period for the first grant of Options and Rights to the CEO and Management as the five year period following the date of grant of the Options and Rights to these individuals.</p> <p>Thereafter, the Board currently intends that subsequent offers of Options and Rights will have a performance period of four financial years commencing on 1 July of the relevant year in which an offer or grant is made under the New LTIP.</p> |
| Ranking shares | Shares issued or transferred upon exercise of Options or conversion of Rights granted under the New LTIP will rank equally in all respects with the other issued Shares. |
| Voting and dividend rights of Options and Rights | Options and Rights will not carry any voting or dividend rights. Shares issue or transferred to participants on exercise of an Option or conversion of a Right will carry the same rights and entitlements as other issues Shares, including voting and dividend rights. |
| Issue or acquisition of Shares | Generally, Shares to be allocated to participants upon the exercise of Options, or the conversion of Rights, may be issued by the Vitaco Group or acquired on or off market by the Vitaco group or its nominee. The Vitaco Group may appoint a trustee to acquire and hold those Shares on behalf of participants or otherwise for the purposes of the New LTIP. |
| Exercise of Options or Rights | A participant may exercise Options in respect of which the Board has given a vesting notice and which have not expired or been forfeited. To exercise an Option, the |

Vitaco Holdings Limited
Remuneration Report (forming part of the Directors' Report)
30 June 2016

| | |
|-----------------------------|---|
| | participant must lodge with the Company a notice of exercise and comply with any requirements under the rules of the New LTIP or as specified by the Board. Vested Rights will be automatically converted to Shares. |
| Expiry of Options or Rights | Options or Rights which have not been exercised or converted, respectively, will expire if the applicable vesting conditions and any other conditions are not met during the prescribed performance or other relevant time or, in the case of Options, if they are not exercised before the applicable last exercise date. In addition, the Board may determine that Options and Rights will lapse if the participant deals with the Options and Rights in breach of the rules of the New LTIP or in the opinion of the Directors, the participant has acted fraudulently or dishonestly or materially breached his or her obligation to the Company. |
| Quotation | Options and Rights will not be quoted on ASX. The Company will apply for official quotation of any Shares issued upon exercise of Options or conversion of Rights, in accordance with the Listing Rules. |
| Options exercise price | The Board may in its absolute discretion determine that a participant is required to pay an exercise price to exercise the Options offered and granted to that participant. No amount will be payable by a participant to acquire Shares on conversion of vested Rights. |
| Approval | Grants of Options or Rights under the New LTIP to an executive Director may be subject to the approval of Shareholders, to the extent required under the Listing Rules. |
| No hedging and no transfer | Without the prior approval of the Board, unvested or unexercised Options or Rights which have not been exercised may not be sold, transferred, encumbered or otherwise dealt with. Further, participants may not enter into any transaction, scheme or arrangement which hedges or otherwise affects the participant's economic exposure to the Options or Rights before they vest. |
| Capital limit | Subject to the rules of the New LTIP, the Board must not offer the Options or Rights if their grant would breach the capital limit set out in ASIC Class Order 14/1000 in relation to employee share scheme (Class order) or contravene the Corporations Act, Listing Rules or instruments of relief issued by ASIC from time to time. To the extent the Class Order is replaced by a new Class Order at a future date, the Company will ensure that any future offers of Options or Rights are in compliance with any capital limit prescribed under the New Class Order. |
| Cessation of employment | The New LTIP contains provision concerning the treatment of vested and unvested Options or Rights in the event a participant ceases employment. |
| Takeovers | In relation to takeover bids made for Shares, schemes or arrangement proposed in relation to the Company or other change in control transactions in relation to the Company that occur or are proposed, the Board may in its absolute discretion determine, prior to the grant or at the time of the relevant transaction, that all or part of the participants' unvested Options or Rights will become vested. In such circumstances, the Company must promptly notify each participant in writing that he or she may, within the period specified in the notice, exercise vested Options or Rights. |
| Capital reconstruction | If there are certain variations of the share capital of the Company including a capitalisation or rights issue, subdivision, consolidation or reduction in share capital, the Board may make such adjustments (including to matters such as exercise price, number of Options or Rights held or number of Shares received on exercise) as it considers appropriate to ensure participants are not materially advantaged or disadvantaged, in accordance with the provisions of the Listing Rules. |
| Costs and administration | Generally, the Vitaco Group must bear any costs incurred in the administration of the New LTIP. |
| Other terms | The New LTIP also contains customary and usual terms having regard to Australian law for dealing with administration, variation and termination of the New LTIP. |

Vitaco Holdings Limited
Remuneration Report (forming part of the Directors' Report)
30 June 2016

d) Executive KMP:

i. Remuneration expenses

The table below provides remuneration for Executive KMPs for the 15 months ended 30 June 2016. Due to the Company listing in September 2015, no comparatives for the prior year have been provided.

Table 8: *Executive KMP Remuneration expenses for the fifteen months ended 30 June 2016*

| | Short Term | | | | | Long Term | | | |
|---|------------------|----------------|------------------|---------------|------------------|--------------------|---------------|---------------|---------------|
| <i>in AUD</i> | Salary & Fees* | STI** | IPO Bonus | Other Bonus | Total | Other Long Term*** | Options | Rights | Total |
| <u>DIRECTORS</u> | | | | | | | | | |
| <i>Non-executive Directors</i> | | | | | | | | | |
| Greg Richards | 171,400 | - | 100,000 | - | 271,400 | - | - | - | - |
| Emmet Hobbs | 92,896 | - | 50,000 | - | 142,896 | - | - | - | - |
| Sandy Lockhart | 85,632 | - | - | - | 85,632 | - | - | - | - |
| Katrina Onishi | 97,663 | - | 50,000 | - | 147,663 | - | - | - | - |
| Subtotal Non-executive Directors' remuneration | 447,591 | - | 200,000 | - | 647,591 | - | - | - | - |
| <i>Executive Directors</i> | - | - | - | - | - | - | - | - | - |
| Ryan d'Almeida | 597,678 | 150,000 | 1,839,360 | 26,700 | 2,613,738 | 11,064 | 24,227 | 24,615 | 59,906 |
| Total Directors' remuneration | 1,045,269 | 150,000 | 2,039,360 | 26,700 | 3,261,329 | 11,064 | 24,227 | 24,615 | 59,906 |
| | | | | | | | | | |

Vitaco Holdings Limited
Remuneration Report (forming part of the Directors' Report)
30 June 2016

Table 8: *Executive KMP Remuneration expenses for the fifteen months ended 30 June 2016 (continued)*

| | Short Term | | | | | Long Term | | | |
|--|------------------|----------------|------------------|----------------|------------------|--------------------|---------------|---------------|----------------|
| <i>in AUD</i> | Salary & Fees* | STI** | IPO Bonus | Other Bonus | Total | Other Long Term*** | Options | Rights | Total |
| EXECUTIVES | | | | | | | | | |
| Phil Wiltshire | 426,065 | 99,336 | 736,238 | 25,260 | 1,286,899 | - | 9,576 | 9,730 | 19,306 |
| Roger Scott | 395,729 | 93,659 | 575,990 | 25,260 | 1,090,638 | - | 9,029 | 9,174 | 18,203 |
| John Stanton | 379,149 | 90,821 | 575,990 | 25,260 | 1,071,220 | - | 8,736 | 8,875 | 17,611 |
| Martin Drinkrow | 435,102 | 103,500 | - | - | 538,602 | - | 10,030 | 10,191 | 20,221 |
| Jay Drezner | 323,656 | 77,198 | 353,571 | 26,700 | 781,125 | - | 4,987 | 5,067 | 10,054 |
| Brent Hall | 260,779 | 63,859 | 372,409 | 25,260 | 722,307 | | 4,104 | 4,170 | 8,274 |
| Peter Barraket**** | 173,898 | - | 546,429 | 26,700 | 747,027 | - | 8,257 | - | 8,257 |
| Total executives' remuneration | 2,394,378 | 528,373 | 3,160,627 | 154,440 | 6,237,818 | - | 54,719 | 47,207 | 101,926 |
| | | | | | | | | | |
| TOTAL DIRECTORS' AND EXECUTIVE OFFICERS' REMUNERATION | 3,439,647 | 678,373 | 5,199,987 | 181,140 | 9,499,147 | 11,064 | 78,946 | 71,822 | 161,832 |
| | | | | | | | | | |
| FX Rate Applied | 0.91850 | | | | | | | | |

*Salary & Fees are shown inclusive of superannuation, kiwisaver and annual leave entitlements

** STI is shown inclusive of superannuation and kiwisaver entitlements

***AASB119 Long service leave

****since resigned

ii. Contractual arrangements

Remuneration and other terms of employment for each of the Executive KMPs are set out in individual Company employment agreements. None of the Executive KMPs are subject to a fixed term of employment; all of the agreements are open-ended.

Table 9: Executive KMP contractual arrangements

| Name | Notice periods / Termination payments / Non-compete |
|-----------------|---|
| Ryan d'Almeida | 6 months' notice (or payment in lieu) 12 months' post termination non-compete and non-solicitation restriction |
| Phil Wiltshire | 3 months' notice (or payment in lieu) 6 months' post termination non-compete and non-solicitation restriction |
| Roger Scott | 3 months' notice (or payment in lieu) 6 months' post termination non-compete and non-solicitation restriction |
| John Stanton | 3 months' notice (or payment in lieu) 6 months' post termination non-compete and non-solicitation restriction |
| Martin Drinkrow | 3 months' notice (or payment in lieu) 6 months' post termination non-compete and non-solicitation restriction |
| Jay Drezner | 3 months' notice (or payment in lieu) 6 months' post termination non-compete and non-solicitation restriction |
| Brent Hall | 2 months' notice (or payment in lieu) 6 months' post termination non-compete and non-solicitation restriction |

Each Executive may be terminated immediately for serious misconduct. The Board has approved a clawback policy the underlying principle of which is that an Executive should not receive performance based remuneration if the Board considers such remuneration would be an "inappropriate benefit". The clawback policy enables the Board in their absolute discretion to clawback some or all of an Executive's proposed performance based remuneration (this includes any STI award, LTI award and other performance based component of remuneration which has not been paid or vested without restrictions to an Executive). Some examples of actions which may cause the Board to clawback remuneration so that an executive does not receive an inappropriate benefit include (inter alia) if an Executive acts fraudulently or dishonestly or if an Executive is in breach of his or her obligations to Vitaco.

In no instance would a payment in lieu of notice exceed the termination provisions in the Act.

Executive remuneration packages – key changes for FY2017

The NRC and the Board regularly review the Company's remuneration practices to ensure that they remain fit for purpose, appropriate for the Company's operating environment, aligned with evolving market trends and shareholder expectations and continue to reward, incentivise and retain key employees. As a result of its recent review, the Company has decided to implement a number of changes to its STI remuneration framework, a summary of which are as follows:

- STI will be made up of 2 components – a Company component (80% of STI; weighted towards Group EBITDA) and an Individual component (20% of STI, weighted towards strategic Individual qualitative objectives identified by the CEO for the Lead Team and determined by the Board for the CEO;
- The Group EBITDA STI component will be compared to previous years – that is, zero percent of the Company component will be paid at or below the FY2016 EBITDA, increasing on a linear scale to 100% of STI at 110% of FY2016 EBITDA. Refer to table 4 for further details; and
- A STI deferral scheme will be introduced. 10% of any STI earned will be deferred for a period of 12 months increasing to 20% in year 2.

Further details on these changes will be documented in the Remuneration Report for the year ended 30 June 2017.

Vitaco Holdings Limited
Remuneration Report (forming part of the Directors' Report)
30 June 2016

iii. Share based remuneration;

See table in section (f) below for the number of shares in the Company held by each Non-executive Director and Executive KMP during the period, including their related parties.

e) Non-executive Director remuneration framework

Non-executive Directors enter into service agreements through a letter of appointment which are not subject to a fixed term. Non-executive Directors receive a fee for their contribution as Directors.

The following persons acted as Non-executive Directors of the Company during and since listing on ASX in September 2015 and are considered members of Key Management Personnel:

Table 10: Non-executive Directors since listing

| | |
|-------------------------|--|
| Greg Richards | Non-executive Chairman Chairman of the Nominations & Remuneration Committee |
| Emmet Hobbs | Non-executive Director Member of the Nominations & Remuneration Committee Member of the Audit & Risk Committee |
| Andrew (Sandy) Lockhart | Non-executive Director Member of the Audit & Risk Committee |
| Katrina Onishi | Non-executive Director Member of the Nominations & Remuneration Committee Chair of the Audit & Risk Committee |

The CEO is not remunerated separately for acting as a Director.

The objective of Vitaco's remuneration policies with regard to Non-executive Directors is to ensure the Company is able to attract and retain Non-executive Directors with the skills and experience to ensure the Board is able to discharge its oversight and governance responsibilities in an effective and diligent manner and supports the retention of their independence. The Board also believes that remuneration for Non-executive Directors should reflect the time commitment and responsibilities of the role as well as taking into account market levels.

Under the Constitution, the Board may decide the remuneration from the Company to which each Director is entitled for his or her services as a Director. However the total amount provided to all Directors for their services as Directors must not exceed in aggregate in any financial year the amount fixed by the Company in general meeting. This amount has been fixed by the Company at \$750,000. There is no intention to seek to increase the Non-executive Director fee pool at the 2016 AGM.

Non-executive Directors' fees will remain at the current level for the FY16/17 financial year. The NRC will continue to review remuneration for Non-executive Directors on an annual basis to ensure that the objectives set out above in respect of Non-executive Directors' remuneration are met.

Directors receive fees for their role as members of the Board and as members of Board Committees. The annual fees, inclusive of superannuation, provided to Non-executive Directors since listing on ASX are set out below:

Vitaco Holdings Limited
Remuneration Report (forming part of the Directors' Report)
30 June 2016

Table 11: Non-executive Director Annual fees (AUD)

| Role | Chair fee (per annum) \$ | Member fee (per annum) \$ |
|--------------------------------------|---|--|
| Board | 200,000 | 100,000 |
| Audit & Risk Committee | 15,000 | 7,500 |
| Nominations & Remuneration Committee | 15,000 | 7,500 |

It is the policy of Vitaco not to pay lump sum retirement benefits to Non-executive Directors. It is also the policy of Vitaco to not have any elements of Non-executive Director remuneration at risk. Specifically, remuneration of Non-executive Directors does not include a commission on, or percentage of, the profits or income of Vitaco nor do Non-executive Directors receive any bonus payments and are not entitled to participate in any employee incentive scheme (including Vitaco's New LTIP).

f) Non-executive Director and executive KMP Fully Paid Ordinary shareholdings in Vitaco

Fully paid ordinary shares

The table below provides the number of fully paid ordinary shares in the company held by each Non-executive Director and Executive KMP during the period, including their related parties:

Table 12: Non-executive Director and Executive KMP FPO shareholdings in VIT

| | Balance at listing date | Shares received during the period on exercise of Performance Options / Rights | Net changes | Balance at the end of the period |
|--------------------------------|------------------------------------|--|------------------------|---|
| | No. | No. | No. | No. |
| <i>Non-executive Directors</i> | | | | |
| Greg Richards | 95,238 | - | - | 95,238 |
| Emmet Hobbs | 47,619 | - | - | 47,619 |
| Sandy Lockhart | 142,857 | - | - | 142,857 |
| Katrina Onishi | 47,619 | - | - | 47,619 |
| <i>Executive KMP</i> | | | | |
| Ryan d'Almeida | 357,391 | - | - | 357,391 |
| Phil Wiltshire | 355,113 | - | - | 355,113 |
| Roger Scott | 358,936 | - | - | 358,936 |
| John Stanton | 186,941 | - | - | 186,941 |
| Martin Drinkrow | 47,619 | - | - | 47,619 |
| Jay Drezner | 35,714 | - | - | 35,714 |
| Brent Hall | 254,865 | - | - | 254,865 |

Share Options of Vitaco

The table below provides the number of Options in the company held by each Executive KMP during the period, including their related parties. As noted previously, Non-executive Directors do not participate in the New LTIP, the employee incentive plan under which these Options have been issued:

Vitaco Holdings Limited
Remuneration Report (forming part of the Directors' Report)
30 June 2016

Table 13: *Executive KMP Share Options in VIT*

| | Balance at listing date | Granted as compensation | Exercised | Net other change | Balance at 30 June 2016 | Balance vested at 30 June 2016 | Options vested during year |
|-----------------|-------------------------|-------------------------|-----------|------------------|-------------------------|--------------------------------|----------------------------|
| | No. | No. | No. | No. | No. | No. | No. |
| Ryan d'Almeida | 343,042 | - | - | - | 343,042 | - | - |
| Phil Wiltshire | 135,593 | - | - | - | 135,593 | - | - |
| Roger Scott | 127,845 | - | - | - | 127,845 | - | - |
| John Stanton | 123,689 | - | - | - | 123,689 | - | - |
| Martin Drinkrow | 142,019 | - | - | - | 142,019 | - | - |
| Jay Drezner | 70,619 | - | - | - | 70,619 | - | - |
| Brent Hall | 58,111 | - | - | - | 58,111 | - | - |

Performance Rights of Vitaco

The table below provides the number of Performance Rights in the company held by each Executive KMP during the period, including their related parties. As noted previously, Non-executive Directors do not participate in the New LTIP, the employee incentive plan under which these Performance Rights have been issued:

Table 14: *Executive KMP Performance Rights in VIT*

| | Balance at listing date | Granted as compensation | Exercised | Net other change | Balance at 30 June 2016 | Balance vested at 30 June 2016 | Options vested during year |
|-----------------|-------------------------|-------------------------|-----------|------------------|-------------------------|--------------------------------|----------------------------|
| | No. | No. | No. | No. | No. | No. | No. |
| Ryan d'Almeida | 67,003 | - | - | - | 67,003 | - | - |
| Phil Wiltshire | 26,484 | - | - | - | 26,484 | - | - |
| Roger Scott | 24,971 | - | - | - | 24,971 | - | - |
| John Stanton | 24,159 | - | - | - | 24,159 | - | - |
| Martin Drinkrow | 27,739 | - | - | - | 27,739 | - | - |
| Jay Drezner | 13,793 | - | - | - | 13,793 | - | - |
| Brent Hall | 11,350 | - | - | - | 11,350 | - | - |

g) Other statutory disclosures

Loans to Non-executive Directors and Executive KMPs

No loans were made to Non-executive Directors or Executive KMPs at the end of the financial year.

Other transactions with Non-Executive Directors and Executive KMPs

Non-executive Directors and Executive KMPs received dividends on their shareholdings, whether held privately or through related entities or through the New LTIP in the same manner as all ordinary shareholders.

No interest was paid to or received since the IPO from Non-executive Directors or Executive KMPs.

This concludes the remuneration report, which has been audited.



Auditor's Independence Declaration

As lead auditor for the audit of Vitaco Holdings Limited for the period ended 30 June 2016, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Vitaco Holdings Limited and the entities it controlled during the period.

A handwritten signature in black ink, reading 'D Wiadrowski'.

David Wiadrowski
Partner
PricewaterhouseCoopers

Sydney
30 August 2016

VITACO HOLDINGS LIMITED AND CONTROLLED ENTITIES

ACN 606 826 493

FINANCIAL STATEMENTS

TABLE OF CONTENTS

| | |
|--|----|
| Consolidated Income Statement | 29 |
| Consolidated Statement of Comprehensive Income | 30 |
| Consolidated Balance Sheet | 31 |
| Consolidated Statement of Changes in Equity | 32 |
| Consolidated Statement of Cash Flows | 33 |

NOTES TO THE FINANCIAL STATEMENTS

| | | | |
|--|-----------|--|-----------|
| A. FINANCIAL PERFORMANCE | 34 | F. CAPITAL MANAGEMENT | 55 |
| A1 Revenues | | F1 Contributed equity | |
| A2 Employee benefit expense | | F2 Reserves & retained earnings | |
| A3 Non-recurring expenses | | F3 Earnings per share | |
| A4 Operating (loss) / profit | | F4 Dividends | |
| A5 Financing costs | | F5 Share based payments | |
| A6 Segment information | | F6 Cash flow information | |
| B. TAXATION | 38 | G. GROUP STRUCTURE | 63 |
| B1 Income and deferred tax | | G1 Controlled entities | |
| | | G2 Business combinations | |
| | | G3 Parent entity financial information | |
| C. KEY ASSETS | 41 | H. OTHER | 66 |
| C1 Property, plant and equipment | | H1 Commitments and contingencies | |
| C2 Intangible assets | | H2 Related party disclosure | |
| C3 Inventories | | H3 Subsequent events | |
| D. FINANCIAL ASSETS AND LIABILITIES | 46 | I. OTHER SIGNIFICANT ACCOUNTING | |
| D1 Trade and other receivables | | POLICIES | 69 |
| D2 Derivative financial instruments | | I 1 General information | |
| D3 Trade and other payables | | I 2 Basis of preparation | |
| D4 Borrowings | | I 3 Other accounting policies | |
| D5 Financial risk management | | | |
| D6 Fair value measurement | | | |
| E. PROVISIONS | 53 | | |
| E1 Provisions | | | |

VITACO HOLDINGS LIMITED AND CONTROLLED ENTITIES
ACN 606 826 493
CONSOLIDATED INCOME STATEMENT
For the period ended 30 June 2016

| | Note | 15 months to 30 June 2016 \$'000 | 12 months to 31 March 2015 \$'000 |
|---|------|--|---|
| Revenue from ordinary activities | A1 | 257,270 | 160,130 |
| Other income | A1 | 849 | 1,134 |
| Total revenue and other income | | 258,119 | 161,264 |
| Inventories used | | (140,023) | (83,589) |
| Employee benefits expense | A2 | (41,585) | (27,185) |
| Depreciation and amortisation expense | A4 | (3,919) | (2,963) |
| Distribution and commission expense | | (19,707) | (12,268) |
| Marketing and selling costs | | (22,988) | (15,771) |
| Foreign exchange (loss) / gain on borrowings | | (2,849) | 1,440 |
| Other expenses | | (5,391) | (4,293) |
| Non-recurring items | A3 | (23,593) | - |
| Operating (loss) / profit | A4 | (1,936) | 16,635 |
| <i>Financing costs:</i> | | | |
| Interest and finance charges | A5 | (4,603) | (6,260) |
| Gain / (loss) on fair value of derivatives | | 958 | (3,819) |
| (Loss) / profit before income tax | | (5,581) | 6,556 |
| Income tax expense | B1 | (3,556) | (2,139) |
| (Loss) / profit for the period | | (9,137) | 4,417 |
| (Loss) / profit for the period attributable to shareholders of Vitaco Holdings Limited | | (9,137) | 4,417 |
| Earnings per share | | | |
| Basic (loss) / earnings per share (cents) | F3 | (0.07) | 0.04 |
| Diluted (loss) / earnings per share (cents) | F3 | (0.07) | 0.04 |

The above Consolidated Income Statement should be read in conjunction with the accompanying notes.

VITACO HOLDINGS LIMITED AND CONTROLLED ENTITIES
ACN 606 826 493
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the period ended 30 June 2016

| | 15 months to 30 June 2016 \$'000 | 12 months to 31 March 2015 \$'000 |
|--|---|--|
| (Loss) / profit for the period | (9,137) | 4,417 |
| Other comprehensive income | | |
| <i>Items that may be subsequently reclassified to income statement:</i> | | |
| - Net exchange difference on translation of foreign operations | 449 | 3,293 |
| - Change in fair value of cash flow hedges | 13 | - |
| Other comprehensive income, net of tax | 462 | 3,293 |
| Total comprehensive (loss) / income | (8,675) | 7,710 |
| Total comprehensive (loss) / income attributable to shareholders of Vitaco Holdings Limited | (8,675) | 7,710 |

The above Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

VITACO HOLDINGS LIMITED AND CONTROLLED ENTITIES

ACN 606 826 493

CONSOLIDATED BALANCE SHEET

As at 30 June 2016

| | Note | 30 June 2016 \$'000 | 31 March 2015 \$'000 |
|--------------------------------------|------|------------------------|-------------------------|
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | | 9,920 | 3,753 |
| Trade and other receivables | D1 | 33,998 | 29,094 |
| Inventories | C3 | 46,480 | 36,014 |
| Derivative financial instruments | D2 | 204 | 1,423 |
| Current tax receivable | | 2,920 | 334 |
| Total current assets | | 93,522 | 70,618 |
| Non-current assets | | | |
| Property, plant and equipment | C1 | 19,255 | 18,676 |
| Deferred tax assets | B1 | 2,636 | 3,567 |
| Intangible assets | C2 | 108,354 | 113,742 |
| Total non-current assets | | 130,245 | 135,985 |
| Total assets | | 223,767 | 206,603 |
| LIABILITIES | | | |
| Current liabilities | | | |
| Trade and other payables | D3 | 31,065 | 25,668 |
| Derivative financial instruments | D2 | 190 | 4,374 |
| Provisions | E1 | 4,238 | 2,401 |
| Current tax payable | | 1,409 | - |
| Borrowings | D4 | 5,959 | 76,844 |
| Total current liabilities | | 42,861 | 109,287 |
| Non-current liabilities | | | |
| Provisions | E1 | 1,157 | 272 |
| Borrowings | D4 | 40,407 | 779 |
| Total non-current liabilities | | 41,564 | 1,051 |
| Total liabilities | | 84,425 | 110,338 |
| Net assets | | 139,342 | 96,265 |
| EQUITY | | | |
| Contributed equity | F1 | 288,199 | 77,350 |
| Reserves | F2 | (152,938) | 4,525 |
| Retained earnings | F2 | 4,081 | 14,390 |
| Total equity | | 139,342 | 96,265 |

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

VITACO HOLDINGS LIMITED AND CONTROLLED ENTITIES
ACN 606 826 493
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the period ended 30 June 2016

| | Notes | Share Capital \$'000 | Reserves \$'000 | Retained Earnings \$'000 | Total Equity \$'000 |
|---|-------|----------------------------|--------------------|--------------------------------|------------------------|
| Balance at 1 April 2014 | | 77,724 | 123,998 | (112,808) | 88,914 |
| Profit for the year | | - | - | 4,417 | 4,417 |
| Other comprehensive income | | - | 3,293 | - | 3,293 |
| Total comprehensive income | | - | 3,293 | 4,417 | 7,710 |
| Share-based payments expense | | - | 15 | - | 15 |
| De-recognition of mandatory convertible note coupon accrual | F2 | | (89,037) | 89,037 | - |
| De-recognition of convertible preference shares coupon accrual | F2 | | (33,744) | 33,744 | - |
| Decrease in capital | | (374) | - | - | (374) |
| Balance at 31 March 2015 | | 77,350 | 4,525 | 14,390 | 96,265 |
| Balance at 1 April 2015 | | 77,350 | 4,525 | 14,390 | 96,265 |
| Loss for the period | | - | - | (9,137) | (9,137) |
| Other comprehensive income | | - | 462 | - | 462 |
| Total comprehensive income | | - | 462 | (9,137) | (8,675) |
| Share-based payments expense | | - | 143 | - | 143 |
| Share issues and cancellations, net of transaction costs | F1 | 210,849 | - | 1,180 | 212,029 |
| Capital re-organisation | F2 | - | (158,068) | - | (158,068) |
| Dividends paid | | - | - | (2,352) | (2,352) |
| Balance at 30 June 2016 | | 288,199 | (152,938) | 4,081 | 139,342 |

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

VITACO HOLDINGS LIMITED AND CONTROLLED ENTITIES

ACN 606 826 493

CONSOLIDATED STATEMENT OF CASH FLOWS

For the period ended 30 June 2016

| | Note | 15 months to 30 June 2016 \$'000 | 12 months to 31 March 2015 \$'000 |
|--|-----------|--|---|
| Cash flows from operating activities | | | |
| Receipts from customers (inclusive of goods and services tax) | | 302,633 | 214,804 |
| Payments to suppliers (inclusive of goods and services tax) | | (248,599) | (165,128) |
| Payments to employees | | (41,451) | (26,716) |
| Interest paid | | (4,603) | (5,580) |
| Tax payments | | (3,230) | (2,505) |
| Net cash inflows from operating activities | F6 | 4,750 | 14,875 |
| Cash flows from investing activities | | | |
| Purchase of property, plant & equipment | | (3,763) | (2,411) |
| Purchase of intangible assets | | (271) | (1,799) |
| Acquisition of subsidiary, net of cash acquired | | (5,973) | - |
| Proceeds from sale of plant and equipment | | - | 13 |
| Net cash outflows from investing activities | | (10,007) | (4,197) |
| Cash flows from financing activities | | | |
| Proceeds from issue of ordinary shares | | 232,303 | - |
| Purchase of previously issued ordinary and preference shares | | (172,990) | - |
| Share issue costs | | (19,029) | - |
| Dividends paid | | (2,352) | - |
| Increase in borrowings | | 15,362 | 2,500 |
| Repayment of borrowings | | (45,845) | (10,143) |
| Proceeds from shareholder loans | | 4,033 | - |
| Decrease in capital | | - | (371) |
| Net cash inflows / (outflows) from financing activities | | 11,482 | (8,014) |
| Net increase in cash and cash equivalents | | 6,225 | 2,664 |
| Net foreign exchange differences | | (58) | 196 |
| Cash and cash equivalent at the beginning of the period | | 3,753 | 893 |
| Cash and cash equivalent at the end of the period | | 9,920 | 3,753 |

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

VITACO HOLDINGS LIMITED AND CONTROLLED ENTITIES

ACN 606 826 493

NOTES TO THE FINANCIAL STATEMENTS

For the period ended 30 June 2016

A. FINANCIAL PERFORMANCE

| | 15 months to 30 June 2016 \$'000 | 12 months to 31 March 2015 \$'000 |
|----------------------------|--|---|
| A1 REVENUE | | |
| Revenue from sale of goods | 257,270 | 160,130 |
| | 257,270 | 160,130 |
| OTHER INCOME | | |
| Interest income | 160 | 226 |
| Sale of raw materials | 689 | 908 |
| | 849 | 1,134 |

Accounting policy

Sale of goods - Revenue is measured at the fair value of the consideration received or receivable. Revenue from the sale of goods is recognised when the Group has transferred to the buyer the significant risks and rewards of ownership of the goods, the amount of revenue and costs incurred can be measured reliably, management have effectively ceased involvement of control over the goods sold and it is probable that the economic benefits associated with the transaction will flow to the Group. Amounts disclosed as revenue are net of returns, rebates and taxes paid.

Sale of raw materials - Revenue from sale of raw materials or semi processed materials to co- manufacturers are recorded in other income.

Interest income - Interest income is recognised as the interest accrues using the effective interest method.

A2 EMPLOYEE BENEFIT EXPENSE

| | | |
|--------------------------|---------------|---------------|
| Salaries and wages | 40,870 | 27,089 |
| Restructure payments | 217 | 81 |
| Share based compensation | 498 | 15 |
| | 41,585 | 27,185 |

A3 NON-RECURRING EXPENSES

| | | |
|--|---------------|----------|
| Share issue costs | 14,355 | - |
| Post Foods Australia Pty Limited - transaction and integration costs (note G2) | 9,238 | - |
| | 23,593 | - |

VITACO HOLDINGS LIMITED AND CONTROLLED ENTITIES

ACN 606 826 493

NOTES TO THE FINANCIAL STATEMENTS

For the period ended 30 June 2016

A. FINANCIAL PERFORMANCE

A4 OPERATING (LOSS) / PROFIT

| 15 months to 30 June 2016 | 12 months to 31 March 2015 |
|------------------------------|-------------------------------|
| \$'000 | \$'000 |

Operating (loss) / profit excluding non-recurring items include:

| | | |
|---|-------|-------|
| Minimum lease payments relating to operating leases | 4,171 | 2,946 |
| Research costs | 123 | 123 |
| Legal fees | 194 | 27 |
| Bad debts written off | 14 | 8 |

Depreciation and amortisation

| | | |
|--------------|--------------|--------------|
| Depreciation | 3,247 | 2,378 |
| Amortisation | 672 | 585 |
| | <u>3,919</u> | <u>2,963</u> |

| 15 months to 30 June 2016 | 12 months to 31 March 2015 |
|------------------------------|-------------------------------|
| \$ | \$ |

Auditor's remuneration

a) Audit of financial statements

| | | |
|---|---------|---------|
| Annual audit and review of financial statements including controlled entities | 332,365 | 157,641 |
|---|---------|---------|

(b) Taxation services

| | | |
|---|---------|--------|
| Tax compliance services | 141,288 | 81,602 |
| Tax consulting on Initial Public Offering | 606,543 | - |
| Tax consulting services | 126,674 | - |

(b) Advisory services

| | | |
|--|------------------|----------------|
| Investigating Accountant's Report and review of forecast for Initial Public Offering | 936,000 | - |
| Financial due diligence services on acquisition of subsidiary | 124,916 | - |
| Other advisory services | 43,036 | - |
| Other assurance services | 2,750 | 2,545 |
| Financial due diligence services | - | 153,005 |
| | <u>2,313,572</u> | <u>394,793</u> |

A5 FINANCING COSTS

| | | |
|------------------------------|----------------|----------------|
| Interest and finance charges | (4,603) | (6,260) |
| | <u>(4,603)</u> | <u>(6,260)</u> |

Finance costs consist of interest and bank loan arrangement fee amortisation. Interest expense is accrued on a time basis using the effective interest method.

VITACO HOLDINGS LIMITED AND CONTROLLED ENTITIES

ACN 606 826 493

NOTES TO THE FINANCIAL STATEMENTS

For the period ended 30 June 2016

A. FINANCIAL PERFORMANCE

A6 SEGMENT INFORMATION

(a) Description of segments

The Group has identified its operating segments based on the internal reports reviewed by the Board of Directors and the senior management team in assessing performance and determining the allocation of resources. There are two reportable segments as follows:

| Reportable segment | Principal activities |
|--------------------|---|
| Supplements | The principal activity of the supplements segment is the development, manufacture, marketing and sales of natural health supplements. |
| Sports & Foods | The principal activity of the sports & foods segment is the development, manufacture, marketing and sales of various sports related and general food items. |
| Other | Items not directly attributable to segments. |

The Directors and senior management team assess the performance of the operating segments based on a measure of earnings before interest and tax (EBIT) from continuing operations which excludes the effects of non-recurring expenses such as gains or losses on disposals of businesses and restructuring related costs.

Segment and Geographical Revenue

The following is an analysis of the Group's revenue by reportable segment and geography.

| | 15 months to 30 June 2016 \$'000 | 12 months to 31 March 2015 \$'000 |
|-----------------------------|--|---|
| Segment Revenue | | |
| Supplements | 123,704 | 72,749 |
| Sports & Foods | 133,566 | 87,381 |
| Other | 849 | 1,134 |
| | <u>258,119</u> | <u>161,264</u> |
| Geographical Revenue | | |
| Australia | 124,779 | 80,493 |
| New Zealand | 106,698 | 68,439 |
| Other | 26,642 | 12,332 |
| | <u>258,119</u> | <u>161,264</u> |

VITACO HOLDINGS LIMITED AND CONTROLLED ENTITIES

ACN 606 826 493

NOTES TO THE FINANCIAL STATEMENTS

For the period ended 30 June 2016

A. FINANCIAL PERFORMANCE**A6 SEGMENT INFORMATION (continued)**

| Geographical Non-Current Assets | 30 June 2016 \$'000 | 31 March 2015 \$'000 |
|--|---|--|
| Australia | 78,945 | 29,849 |
| New Zealand | 51,300 | 106,136 |
| | <u>130,245</u> | <u>135,985</u> |
| Segment Results | 15 months to 30 June 2016 \$'000 | 12 months to 31 March 2015 \$'000 |
| Earnings before interest and tax reconciliation | | |
| Supplements | 20,148 | 9,915 |
| Sports & Foods | 21,783 | 18,102 |
| Other | (17,425) | (12,822) |
| Adjusted EBIT | <u>24,506</u> | <u>15,195</u> |
| Foreign exchange (loss) / gain on borrowings | (2,849) | 1,440 |
| Non-recurring items (note A3) | (23,593) | - |
| Gain / (loss) on fair value of derivatives | 958 | (3,819) |
| Finance costs (note A5) | <u>(4,603)</u> | <u>(6,260)</u> |
| (Loss) / profit before income tax | <u>(5,581)</u> | <u>6,556</u> |

Accounting policy

Segment revenues and expenses comprise amounts that are directly attributable to a segment and the relevant portion that can be allocated on a reasonable basis. Corporate overheads, including centralised finance, legal and administrative costs, are not allocated against operating segments but rather are included above under other category.

Segment revenues and results exclude transfers between segments. Such transfers are priced on an arms length basis and are eliminated on consolidation.

VITACO HOLDINGS LIMITED AND CONTROLLED ENTITIES

ACN 606 826 493

NOTES TO THE FINANCIAL STATEMENTS

For the period ended 30 June 2016

| | 15 months to 30 June 2016 \$'000 | 12 months to 31 March 2015 \$'000 |
|---|--|---|
| B. TAXATION | | |
| B1 INCOME TAX AND DEFERRED TAX | | |
| (a) Income tax | | |
| Current tax expense | 2,054 | 1,057 |
| Deferred tax expense | 1,502 | 797 |
| Adjustments for current tax of prior periods | - | 285 |
| Income tax expense | 3,556 | 2,139 |
| (b) Numerical reconciliation of income tax expense to prima facie tax payable | | |
| (Loss) / profit from continuing operations before income tax expense | (5,581) | 6,556 |
| Tax at the Australian/New Zealand tax rate of 30%/28% | (1,675) | 1,933 |
| Tax rate differentials | (97) | - |
| Prior period adjustment | - | 285 |
| Foreign tax credits written off | - | 28 |
| Additional deductible expenses | - | (353) |
| Forfeiture of tax losses in relation to IRD settlement | 1,133 | - |
| Losses lost on change of ownership | 890 | - |
| Non-deductible expenses | 3,305 | 246 |
| Income tax expense | 3,556 | 2,139 |
| On 10 February 2016, the Group settled a dispute with the Inland Revenue Department resulting in forfeiture of tax losses of \$3,818,000 (NZ\$4,080,000) claimed during 2012 to 2014. This has no impact to current year and prior year tax expenses. | | |
| (c) Deferred tax assets | | |
| Taxable and deductible temporary differences arise from the following: | | |
| Amounts recognised in profit or loss | | |
| Employee benefits | 329 | (122) |
| Group tax losses | 668 | (722) |
| Losses lost on change of ownership | (890) | - |
| Forfeiture of tax losses in relation to IRD settlement | (1,133) | - |
| Other | (476) | 47 |
| | (1,502) | (797) |
| Amounts recognised in equity | | |
| Deferred tax relating to share issue costs | 571 | - |
| | (931) | (797) |
| Movements : | | |
| Opening balance at beginning of period | 3,567 | 4,364 |
| Credited to the income statement | (1,502) | (797) |
| Recognised in equity | 571 | - |
| Closing balance at end of period | 2,636 | 3,567 |

VITACO HOLDINGS LIMITED AND CONTROLLED ENTITIES

ACN 606 826 493

NOTES TO THE FINANCIAL STATEMENTS

For the period ended 30 June 2016

B. TAXATION

Key judgements and estimates

The Group is subject to income taxes in Australia and jurisdictions where it has foreign operations. Significant judgement is required in determining the provision for income taxes. There are certain transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Group estimates its tax liabilities based on the Group's understanding of the tax law. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Judgement is required in relation to the recognition of carried forward tax losses as deferred tax assets. The Group assesses whether there will be sufficient future taxable profits to utilise the losses based on a range of factors, including forecast earnings and whether the unused tax losses resulted from identified causes which are unlikely to recur.

Accounting policy

The income tax expense for the year is the tax payable on the current year's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements and also adjusted for unused tax losses utilised in the year.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Group's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those enacted tax rates applicable to each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future. Temporary differences in relation to indefinite life intangible assets are determined with reference to their respective capital gains tax bases in respect of assets for which capital gains tax will apply.

VITACO HOLDINGS LIMITED AND CONTROLLED ENTITIES

ACN 606 826 493

NOTES TO THE FINANCIAL STATEMENTS

For the period ended 30 June 2016

B. TAXATION

Accounting policy (continued)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax balances attributable to amounts recognised in other comprehensive income are also recognised in other comprehensive income.

VITACO HOLDINGS LIMITED AND CONTROLLED ENTITIES

ACN 606 826 493

NOTES TO THE FINANCIAL STATEMENTS

For the period ended 30 June 2016

C. KEY ASSETS

C1 PROPERTY, PLANT AND EQUIPMENT

| | Plant & Machinery \$'000 | Leasehold Improvements & Office Equipment \$'000 | Other Assets \$'000 | Total \$'000 |
|----------------------------|--------------------------------|--|------------------------|-----------------|
| 30 June 2016 | | | | |
| Opening net book amount | 12,443 | 6,215 | 18 | 18,676 |
| Additions | 3,208 | 555 | - | 3,763 |
| Acquisition of subsidiary | 253 | 215 | - | 468 |
| Depreciation charge | (2,074) | (1,165) | (8) | (3,247) |
| Exchange differences | (246) | (160) | 1 | (405) |
| | 13,584 | 5,660 | 11 | 19,255 |
| As at 30 June 2016 | | | | |
| Cost | 27,756 | 12,403 | 37 | 40,196 |
| Accumulated depreciation | (14,172) | (6,743) | (26) | (20,941) |
| | 13,584 | 5,660 | 11 | 19,255 |
| 31 March 2015 | | | | |
| Opening net book amount | 11,670 | 6,124 | 40 | 17,834 |
| Additions | 1,772 | 637 | 2 | 2,411 |
| Disposals | (13) | (1) | (10) | (24) |
| Depreciation charge | (1,558) | (811) | (9) | (2,378) |
| Exchange differences | 572 | 266 | (5) | 833 |
| | 12,443 | 6,215 | 18 | 18,676 |
| As at 31 March 2015 | | | | |
| Cost | 23,166 | 10,143 | 37 | 33,346 |
| Accumulated depreciation | (10,723) | (3,928) | (19) | (14,670) |
| | 12,443 | 6,215 | 18 | 18,676 |

Accounting policy

Plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation is calculated using the straight line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives, as follows:

- Plant and machinery 3 - 20 years
- Leasehold improvements and office equipment 3 - 16 years
- Other 5 - 8 years

VITACO HOLDINGS LIMITED AND CONTROLLED ENTITIES

ACN 606 826 493

NOTES TO THE FINANCIAL STATEMENTS

For the period ended 30 June 2016

C. KEY ASSETS

Accounting policy (continued)

The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at each balance date. Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

Impairment of assets

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Assets that are subject to depreciation (amortisation) are tested for impairment whenever changes in circumstances indicate that the asset's carrying amount may exceed its recoverable amount. An impairment charge is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Assets that suffer an impairment are reviewed for possible reversal of the impairment at each reporting date.

| C2 INTANGIBLE ASSETS | Goodwill \$'000 | Software \$'000 | Trademark \$'000 | Other \$'000 | Total \$'000 |
|-----------------------------|----------------------------|----------------------------|-----------------------------|-------------------------|-------------------------|
| 30 June 2016 | | | | | |
| Opening net book amount | 32,107 | 1,332 | 80,229 | 74 | 113,742 |
| Additions | - | 271 | - | - | 271 |
| Acquisition of subsidiary | 1,062 | - | 1,900 | - | 2,962 |
| Amortisation | - | (664) | - | (8) | (672) |
| Exchange differences* | (813) | (23) | (7,107) | (6) | (7,949) |
| Closing net book amount | 32,356 | 916 | 75,022 | 60 | 108,354 |
| As at 30 June 2016 | | | | | |
| Cost | 32,356 | 4,438 | 75,022 | 79 | 111,895 |
| Accumulated amortisation | - | (3,522) | - | (19) | (3,541) |
| | 32,356 | 916 | 75,022 | 60 | 108,354 |
| 31 March 2015 | | | | | |
| Opening net book amount | 30,631 | 1,144 | 75,486 | 29 | 107,290 |
| Additions | - | 705 | 1,044 | 48 | 1,797 |
| Amortisation | - | (580) | - | (5) | (585) |
| Exchange differences | 1,476 | 63 | 3,699 | 2 | 5,240 |
| Closing net book amount | 32,107 | 1,332 | 80,229 | 74 | 113,742 |
| As at 31 March 2015 | | | | | |
| Cost | 32,107 | 4,256 | 80,229 | 79 | 116,671 |
| Accumulated amortisation | - | (2,924) | - | (5) | (2,929) |
| | 32,107 | 1,332 | 80,229 | 74 | 113,742 |

* On 14 September 2015, Health Foods International Limited and Healtheries of New Zealand Limited transferred all trademark assets that were primarily denominated in New Zealand Dollars to the newly created subsidiary, Vitaco Health IP Pty Limited at the prevailing NZD/AUD exchange rate. These assets are now denominated in AUD.

VITACO HOLDINGS LIMITED AND CONTROLLED ENTITIES

ACN 606 826 493

NOTES TO THE FINANCIAL STATEMENTS

For the period ended 30 June 2016

C. KEY ASSETS

Accounting policy

Summary of goodwill and other intangible assets

| Asset | Useful life | Amortisation method | Internally generated or acquired |
|---------------------------|-------------|-----------------------|----------------------------------|
| Goodwill | Indefinite | No amortisation | Acquired |
| Software | 3-6 years | Straight line basis | Acquired |
| Trademarks | Indefinite | No amortisation | Acquired |
| Consumer marketing rights | Finite | Amortise over 5 years | Acquired |

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired business at the date of acquisition. Goodwill is not amortised but rather is subject to periodic impairment testing as described below.

Software

Computer software acquired and computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (three to six years). Costs associated with maintaining computer software programmes are recognised as an expense as incurred.

Trademarks

Acquired trademarks are shown at historical cost. Trademarks acquired in a business combination are recognised at fair value at the acquisition date. Trademarks have an indefinite useful life as there is no foreseeable limit to the period over which they are expected to generate net cash inflows. They are assessed for impairment on an annual basis.

Year-end impairment review

Key judgements and estimates

The Group annually tests whether goodwill and other non-amortising intangible assets have suffered any impairment, in accordance with the accounting policy stated above. The recoverable amounts of cash generating units have been determined based on the higher of fair value less costs to sell, or value in use calculations. These calculations require the use of assumptions. The following table show the details of these assumptions and the potential impact of changes to these assumptions.

VITACO HOLDINGS LIMITED AND CONTROLLED ENTITIES

ACN 606 826 493

NOTES TO THE FINANCIAL STATEMENTS

For the period ended 30 June 2016

C. KEY ASSETS

Impairment tests for goodwill and indefinite life intangible assets

Goodwill and indefinite life intangible assets are assigned to the Group's two cash generating units (CGU's) as follows:

| | 30 June 2016 | 31 March 2015 |
|-------------------|---------------|---------------|
| | \$'000 | \$'000 |
| Goodwill | | |
| Supplements | 13,301 | 13,655 |
| Sports & Foods | 19,055 | 18,452 |
| | <u>32,356</u> | <u>32,107</u> |
| Trademarks | | |
| Supplements | 31,432 | 33,614 |
| Sports & Foods | 43,590 | 46,615 |
| | <u>75,022</u> | <u>80,229</u> |

Accounting policy

A comprehensive impairment review was conducted at 30 June 2016. The recoverable amount of each CGU that includes goodwill or indefinite life intangible assets was reviewed. The recoverable amount of each CGU is determined based on value in use calculations, using management budgets and forecasts for a three year period after adjusting for central overheads. Cash flows beyond three years are extrapolated at growth rates not exceeding the long-term average growth rate for the industry in which the CGU operates. The discount rates used reflect specific risks relating to the relevant segments and the countries in which they operate. Any reasonable change to these key assumptions would not cause the carrying value of the CGU to materially exceed its recoverable amount.

In calculating value in use, the key assumptions used in each calculation are:

| | 2016 | 2015 |
|----------------------------------|------|------|
| Supplements | | |
| Post-tax discount rate per annum | 9.5% | 10% |
| Long-term growth rate per annum | 3% | 3% |
| Sports & Foods | | |
| Post-tax discount rate per annum | 9.5% | 10% |
| Long-term growth rate per annum | 3% | 3% |

VITACO HOLDINGS LIMITED AND CONTROLLED ENTITIES

ACN 606 826 493

NOTES TO THE FINANCIAL STATEMENTS

For the period ended 30 June 2016

C. KEY ASSETS

| | 30 June 2016 \$'000 | 31 March 2015 \$'000 |
|----------------------------------|------------------------|-------------------------|
| C3 INVENTORIES | | |
| Raw materials | 20,958 | 16,122 |
| Work in progress | 894 | 384 |
| Finished goods | 27,024 | 21,291 |
| | <u>48,876</u> | <u>37,797</u> |
| Less: Provision for obsolescence | (2,396) | (1,783) |
| | <u>46,480</u> | <u>36,014</u> |

Inventories serve as security under the Group's term loan security arrangement, refer to note D4.

Accounting policy

Inventories are measured at the lower of cost and net realisable value. Costs are assigned to inventory quantities on hand at balance date using the first in first out basis. Cost comprises material, labour and an appropriate proportion of fixed and variable overheads. Net realisable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and the estimated necessary selling costs.

Key judgements and estimates

Inventory provision is established using management's estimate of the potential future obsolescence.

VITACO HOLDINGS LIMITED AND CONTROLLED ENTITIES

ACN 606 826 493

NOTES TO THE FINANCIAL STATEMENTS

For the period ended 30 June 2016

D. FINANCIAL ASSETS AND LIABILITIES

| | 30 June 2016 \$'000 | 31 March 2015 \$'000 |
|---------------------------------------|------------------------|-------------------------|
| D1 TRADE AND OTHER RECEIVABLES | | |
| Trade receivables | 38,534 | 31,830 |
| Provision for discounts | (5,087) | (4,072) |
| Provision for doubtful debts | (64) | (48) |
| Net trade receivables | 33,383 | 27,710 |
| Prepayments | 615 | 1,384 |
| | 33,998 | 29,094 |

Included in trade receivables are debtors which are past due at balance date, as payment was not received within one month, and for which no provision has been made as there has not been a significant change in credit quality and the amounts are still considered recoverable. No collateral is held over these balances although trade credit insurance cover is obtained in respect of some specific receivables. Interest is not charged on overdue receivables. The ageing of these past due trade but not impaired receivables is:

| | | |
|--------------------------|--------------|------------|
| Overdue by under 30 days | 1,893 | 778 |
| Overdue by over 30 days | 999 | 16 |
| | 2,892 | 794 |

Receivables serve as security under the Group's term loan security arrangements – refer note D4. Refer to note D5 (b) for credit risk and note D6 for fair value information.

Accounting policy

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts.

Collectibility of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the statement of comprehensive income.

A provision is recognised in relation to trade spend and discounts and this is netted against trade receivables to the extent that these items are expected to be deducted from the amounts received from customers.

Key judgements and estimates

Provision for doubtful debts is estimated based on the past due accounts receivable.

Credit Risk Management

The carrying amount of financial assets recorded in the financial statements represents the Group's maximum exposure to credit risk.

VITACO HOLDINGS LIMITED AND CONTROLLED ENTITIES

ACN 606 826 493

NOTES TO THE FINANCIAL STATEMENTS

For the period ended 30 June 2016

D. FINANCIAL ASSETS AND LIABILITIES

| | 30 June 2016 \$'000 | 31 March 2015 \$'000 |
|--|------------------------|-------------------------|
|--|------------------------|-------------------------|

D2 DERIVATIVE FINANCIAL INSTRUMENTS**Current assets**

| | | |
|----------------------------|------------|--------------|
| Forward exchange contracts | 204 | 1,423 |
| | <u>204</u> | <u>1,423</u> |

Current liabilities

| | | |
|------------------------------|------------|--------------|
| Forward exchange contracts | 187 | 4,308 |
| Interest rate swap contracts | 3 | 66 |
| | <u>190</u> | <u>4,374</u> |

Refer to note D5 for further information on financial risk management and D6 for further information on fair value measurement.

D3 TRADE AND OTHER PAYABLES

| | | |
|-----------------------------|---------------|---------------|
| Trade payables | 20,801 | 19,520 |
| Other payables and accruals | 10,264 | 6,148 |
| | <u>31,065</u> | <u>25,668</u> |

Accounting policy

These amounts represent obligations to pay for goods and services provided to the Group in the ordinary course of business from suppliers. The amounts are unsecured and are usually paid within 30 - 60 days of recognition. Trade payables are recognised initially at fair value and subsequently measured at amortised cost.

VITACO HOLDINGS LIMITED AND CONTROLLED ENTITIES

ACN 606 826 493

NOTES TO THE FINANCIAL STATEMENTS

For the period ended 30 June 2016

D. FINANCIAL ASSETS AND LIABILITIES

| | 30 June 2016 \$'000 | 31 March 2015 \$'000 |
|-------------------------|------------------------|-------------------------|
| D4 BORROWINGS | | |
| Bank loans | 45,671 | 76,578 |
| Finance company loans | 695 | 1,045 |
| Total borrowings | 46,366 | 77,623 |
| Current | | |
| Bank loans | 5,684 | 76,578 |
| Finance company loans | 275 | 266 |
| | 5,959 | 76,844 |
| Non-current | | |
| Bank loans | 39,987 | - |
| Finance company loans | 420 | 779 |
| | 40,407 | 779 |
| Total borrowings | 46,366 | 77,623 |

Bank loans - secured

The Group extended its debt facilities with a syndicate of lenders in July 2015 and amended the facility agreement as a result of the IPO on 14 September 2015. The facility now matures in September 2018. The interest rate for the drawn facility is the BKBM option plus margin.

The Group has available an A\$62 million revolving facility and A\$8 million working capital facility. At 30 June 2016, the Group has used A\$40.1 million and A\$5.68 million respectively of the two facilities. The bank facilities are secured by a registered cross guarantee between the group companies identified in G1, a composite general security agreement over all the assets and undertakings of Vitaco Holdings Limited and controlled entities and a composite fixed and floating charge over all the assets and undertakings of the Group.

The bank loans are denominated in New Zealand Dollars (2015: New Zealand and Australian Dollars)

Risk exposures

The exposures of borrowings to interest rate changes and the contractual repricing at the balance dates are as follows:

| | 1 year or less \$'000 | 1 to 5 years \$'000 | Total \$'000 |
|------|-----------------------------|------------------------|-----------------|
| 2016 | 5,959 | 40,407 | 46,366 |
| 2015 | 76,844 | 779 | 77,623 |

Accounting policy

Borrowings are recorded initially at fair value, net of transaction costs. Subsequent to initial recognition, borrowings are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in profit or loss over the period of the borrowing using the effective interest method.

VITACO HOLDINGS LIMITED AND CONTROLLED ENTITIES

ACN 606 826 493

NOTES TO THE FINANCIAL STATEMENTS

For the period ended 30 June 2016

D. FINANCIAL ASSETS AND LIABILITIES

D5 FINANCIAL RISK MANAGEMENT

The Group's activities expose to a variety of financial risks: market risk (including interest rate risk and foreign exchange risk), credit risk and liquidity risk.

The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses derivative financial instruments such as foreign exchange contracts to hedge certain risk exposures and uses different methods to measure different types of risk to which it is exposed.

The group's risk management is carried out under policies approved by the board of directors. The board provides written principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

(a) Market risk

(i) Cash flow and fair value interest rate risk

Long-term borrowings issued at variable rates expose the Group to cash flow interest rate risk. Long-term borrowings issued at fixed interest rates expose the Group to fair value interest rate risk. Group policy is to maintain a mix of fixed and variable rate borrowings using interest rate swap arrangements where necessary.

At 30 June 2016, if interest rate on debt at variable interest rates changed by +1/-1% with all other variables being constant would impact equity and post-tax profit by \$129,000 lower/higher (2015: \$250,000 lower/higher).

(ii) Foreign exchange risk

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities that are denominated in a currency that is not the entity's functional currency. Individual transactions are assessed and forward exchange contracts are used to hedge the risk where deemed appropriate.

The exposure to foreign currency risk at the end of the reporting period, expressed in Australian Dollars:

| | 30 June 2016 \$'000 | 31 March 2015 \$'000 |
|--|------------------------|-------------------------|
| Trade and other receivables denominated in: | | |
| - United States dollars | 2,504 | 3,143 |
| Trade payables denominated in: | | |
| - United States dollars | 3,843 | 4,645 |
| - Euros | - | 80 |
| Inter-company payable denominated in New Zealand Dollars | 5,972 | 17,130 |
| Borrowings | | |
| - Australian dollars | - | 29,702 |

VITACO HOLDINGS LIMITED AND CONTROLLED ENTITIES

ACN 606 826 493

NOTES TO THE FINANCIAL STATEMENTS

For the period ended 30 June 2016

D. FINANCIAL ASSETS AND LIABILITIES

| | 30 June 2016 \$'000 | 31 March 2015 \$'000 |
|---|------------------------|-------------------------|
| <i>(ii) Foreign exchange risk (continued)</i> | | |
| Derivatives | | |
| - Australian dollars | 569 | - |
| - United States dollars | (552) | - |

For the period ended 30 June 2016, if the currency had weakened/strengthened by 10% against the Australian dollar with all other variables held constant, post-tax profit for the period would have been impacted by A\$731,000 (2015: \$1,167,000) higher/lower, mainly as a result of foreign exchange gains/losses on translation of financial assets and financial liabilities. Other component of equity would have been A\$201,000 lower/higher as a result of fair value of derivatives designated as cash flow hedges.

The Group has utilised forward foreign exchange contracts during the year. At 30 June 2016 there were open contracts of NZD21,187,262, USD9,415,394 and GBP9,945 (2015: NZD13,347,987, USD4,500,000).

(iii) Price risk

The Group is not exposed to significant price risk.

(b) Credit risk exposure

The Group is exposed to credit risk on its financial assets, which comprise cash and cash equivalents, trade and other receivables and derivative financial instruments. The exposure to credit risks arises from the potential failure of counterparties to meet their obligations. There is no significant concentration of credit risk.

The Group trades only with recognised, creditworthy third parties. Collateral is generally not obtained from customers.

VITACO HOLDINGS LIMITED AND CONTROLLED ENTITIES

ACN 606 826 493

NOTES TO THE FINANCIAL STATEMENTS

For the period ended 30 June 2016

D. FINANCIAL ASSETS AND LIABILITIES

D5 FINANCIAL RISK MANAGEMENT (continued)

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying business, the Group aims to maintain flexibility in funding by keeping committed credit lines available. Management monitors rolling forecasts of the Group's liquidity reserve on the basis of expected cash flows.

The tables below analyse the Group's financial liabilities, including interest to maturity into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the tables are the contractual undiscounted cash flows. For interest rate swaps, the cash flows have been estimated using current interest rates applicable at the reporting date.

| | Effective interest rate | Less than one year \$'000 | Between one and two years \$'000 | Between two and five years \$'000 | Over five years \$'000 |
|----------------------------------|-------------------------------|---------------------------------|---|--|------------------------------|
| 30 June 2016 | | | | | |
| Trade and other payables | | 31,065 | - | - | - |
| Derivative financial instruments | | 190 | - | - | - |
| Finance company loans | 7.9% | 297 | 453 | | - |
| Bank loans - working capital | 3.5% | 5,883 | - | - | - |
| Bank loans - senior facility | 3.4% | - | - | 41,387 | - |
| | | 37,435 | 453 | 41,387 | - |
| 31 March 2015 | | | | | |
| Trade and other payables | | 25,668 | - | - | - |
| Derivative financial instruments | | 4,374 | - | - | - |
| Finance company loans | 7.9% | 287 | 735 | - | - |
| Bank loans | 6.5% | 81,556 | - | - | - |
| | | 111,885 | 735 | - | - |

D6 FAIR VALUE MEASUREMENT

The Group measures and recognises the derivative financial instruments at fair value on a recurring basis.

(a) Fair value hierarchy

AASB 13 Fair Value Measurement requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

VITACO HOLDINGS LIMITED AND CONTROLLED ENTITIES

ACN 606 826 493

NOTES TO THE FINANCIAL STATEMENTS

For the period ended 30 June 2016

D. FINANCIAL ASSETS AND LIABILITIES

Customers are subject to credit verification procedures including an assessment of their independent credit rating, financial position, past experience and industry reputation. Credit limits are set for individual customers and approved by credit managers in accordance with an approved authority matrix. These credit limits are regularly monitored and revised based on historic turnover activity and credit performance. In addition, overdue receivable balances are monitored and actioned on a regular basis.

(i) Recognised fair value measurements

Shown below is the Group's financial assets and financial liabilities measured and recognised at fair value.

| | Level 1 | Level 2 | Level 3 | Total |
|------------------------------|----------|--------------|----------|--------------|
| | \$'000 | \$'000 | \$'000 | \$'000 |
| 30 June 2016 | | | | |
| Financial assets | | | | |
| Forward exchange contracts | - | 204 | - | 204 |
| | <u>-</u> | <u>204</u> | <u>-</u> | <u>204</u> |
| Financial liabilities | | | | |
| Forward exchange contracts | - | 187 | - | 187 |
| Interest rate swaps | - | 3 | - | 3 |
| | <u>-</u> | <u>190</u> | <u>-</u> | <u>190</u> |
| 31 March 2015 | | | | |
| Financial assets | | | | |
| Forward exchange contracts | - | 1,423 | - | 1,423 |
| | <u>-</u> | <u>1,423</u> | <u>-</u> | <u>1,423</u> |
| Financial liabilities | | | | |
| Forward exchange contracts | - | 4,308 | - | 4,308 |
| Interest rate swaps | - | 66 | - | 66 |
| | <u>-</u> | <u>4,374</u> | <u>-</u> | <u>4,374</u> |

The Group also has a number of assets and liabilities which are not measured at fair value, but for which fair values are disclosed in the notes.

The carrying amounts of trade receivables and payables are assumed to approximate their fair values due to their short-term nature. There are no outstanding non-current receivables as at 30 June 2016 (level 3).

The level 2 inputs used by the Group are derived and evaluated as follows:

The fair value of non-current borrowings is estimated by discounting the future contractual cash flows at the current market interest rates that are available to the Group for similar financial instruments. For the period ended 30 June 2016, the borrowing rates were determined to be 3.3% per annum. The fair value of current borrowings approximates the carrying amount disclosed in note D4, as the impact of discounting is not significant (level 2).

Specific valuation techniques used to value financial instruments include:

- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves; and
- the fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value.

VITACO HOLDINGS LIMITED AND CONTROLLED ENTITIES

ACN 606 826 493

NOTES TO THE FINANCIAL STATEMENTS

For the period ended 30 June 2016

| E. PROVISIONS | 30 June 2016 | 31 March 2015 |
|------------------------------|---------------------|----------------------|
| | \$'000 | \$'000 |
| E1 PROVISIONS | | |
| Current | | |
| Employee benefits | 3,635 | 2,401 |
| Onerous lease | 603 | - |
| | 4,238 | 2,401 |
| Non-current | | |
| Employee benefits | 112 | 74 |
| Onerous lease | 747 | - |
| Premises reinstatement costs | 298 | 198 |
| | 1,157 | 272 |

(i) The employee benefits cover the group's liability for long service leave and annual leave. The current portion of this liability includes all of the accrued annual leave, the unconditional entitlements to long service leave where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances. The entire amount of the provision is presented as current, since the group does not have an unconditional right to defer settlement for any of these obligations. However, based on past experience, the group does not expect all employees to take the full amount of accrued leave or require payment within the next 12 months. The following amounts reflect leave that is not expected to be taken or paid within the next 12 months.

| | | |
|--|------------|------------|
| Employee benefits included in current liabilities but not expected to be settled within the next 12 months | <u>199</u> | <u>155</u> |
|--|------------|------------|

(ii) The onerous lease provision relates to the non-cancellable leasehold premises occupied by Post Foods Australia Pty Limited in Australia that expires on 30 June 2018. In December 2015, Post Foods Australia Pty Limited relocated its manufacturing operations to New Zealand and as a result the premises are now not in use. The provision represents the amount where the expected benefit is lower than the cost for which the group is currently committed under lease contract.

Accounting policy

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

VITACO HOLDINGS LIMITED AND CONTROLLED ENTITIES

ACN 606 826 493

NOTES TO THE FINANCIAL STATEMENTS

For the period ended 30 June 2016

E1 PROVISIONS

Employee benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave, and long service leave, in respect of employees' services up to the reporting date expected to be settled wholly within 12 months from the reporting date are recognised in current provisions and are measured at the amounts expected to be paid when settled.

Liabilities for annual leave and long service leave expected to be settled more than 12 months from the reporting date are recognised in non-current provisions and are measured as the present value of expected future payments to be made. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on corporate bond rates with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Onerous contracts

Provision for onerous contracts represents contracts where the expected economic benefit is lower than the cost for which the Group is currently committed under the terms of the contract. The minimal net obligation under the contract is provided for. The provision is calculated as the net of the estimated revenue and the estimate of the committed cost.

VITACO HOLDINGS LIMITED AND CONTROLLED ENTITIES

ACN 606 826 493

NOTES TO THE FINANCIAL STATEMENTS

For the period ended 30 June 2016

F. CAPITAL MANAGEMENT

| | 30 June 2016 Number '000 | 31 March 2015 Number '000 | 30 June 2016 \$'000 | 31 March 2015 \$'000 |
|--|-----------------------------|------------------------------|------------------------|-------------------------|
| F1 CONTRIBUTED EQUITY | | | | |
| At beginning of period | 84,349 | 84,849 | 77,350 | 77,724 |
| Issued during the period | 139,144 | - | 292,202 | - |
| Cancellation of previously issued shares | (84,349) | - | (77,350) | - |
| Transaction costs arising on share issues, net of deferred tax credit | - | - | (4,003) | - |
| Decrease in capital | - | (500) | - | (374) |
| At end of period | <u>139,144</u> | <u>84,349</u> | <u>288,199</u> | <u>77,350</u> |

Ordinary shares entitle the holder to participate in dividends, and to share in the proceeds of winding up the company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

Ordinary shares have no par value and the company does not have a limited amount of authorised capital.

Accounting policy

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

Capital risk management

The Group is focused on safeguarding its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital.

VITACO HOLDINGS LIMITED AND CONTROLLED ENTITIES

ACN 606 826 493

NOTES TO THE FINANCIAL STATEMENTS

For the period ended 30 June 2016

F. CAPITAL MANAGEMENT

| | 30 June 2016 \$'000 | 31 March 2015 \$'000 |
|--|------------------------|-------------------------|
| F2 RESERVES & RETAINED EARNINGS | | |
| (a) Mandatory convertible notes conversion reserve | | |
| Balance at beginning of period | - | 89,037 |
| De-recognition of mandatory convertible note coupon accrual | - | (89,037) |
| Balance at end of period | - | - |
| (b) Convertible preference shares conversion reserve | | |
| Balance at beginning of period | - | 33,744 |
| De-recognition of convertible preference shares coupon accrual | - | (33,744) |
| Balance at end of period | - | - |
| (c) Share option reserve | | |
| Balance at beginning of period | 1,232 | 1,217 |
| Share based compensation expensed | 143 | 15 |
| Transfer to capital re-organisation | (1,232) | - |
| Balance at end of period | 143 | 1,232 |
| (d) Hedging reserve | | |
| Balance at beginning of period | - | - |
| Cash flow hedges taken directly to equity | 13 | - |
| Balance at end of period | 13 | - |
| (e) Capital re-organisation reserve | | |
| Balance at beginning of period | - | - |
| Capital re-organisation (note iv) | (158,068) | - |
| Transfer from share option reserve | 1,232 | - |
| Balance at end of period | (156,836) | - |
| (f) Foreign currency translation reserve | | |
| Balance at beginning of period | 3,293 | - |
| Exchange differences on translation of foreign operations | 449 | 3,293 |
| Balance at end of period | 3,742 | 3,293 |
| Total reserves | (152,938) | 4,525 |
| (g) Retained earnings | | |
| Balance at beginning of period | 14,390 | (112,808) |
| (Loss) / profit for the period | (9,137) | 4,417 |
| Gain on mandatory convertible notes | 1,180 | - |
| De-recognition of mandatory convertible note coupon accrual | - | 89,037 |
| De-recognition of convertible preference shares coupon accrual | - | 33,744 |
| Dividends paid | (2,352) | - |
| Balance at end of period | 4,081 | 14,390 |

VITACO HOLDINGS LIMITED AND CONTROLLED ENTITIES

ACN 606 826 493

NOTES TO THE FINANCIAL STATEMENTS

For the period ended 30 June 2016

F. CAPITAL MANAGEMENT

Nature and purposes of reserves

(i) *Foreign currency translation reserve*

Exchange differences arising on translation of the foreign controlled entity are recognised in other comprehensive income and accumulated in a separate reserve within equity. The cumulative amount is reclassified to profit or loss when the net investment is disposed of.

(ii) *Share options reserve*

Share based compensation accruals are accumulated in this reserve.

(iii) *Hedging reserve*

The hedging reserve is used to record gains or losses on derivatives that are designated and qualify as cash flow hedges and that are recognised in other comprehensive income. Amounts are reclassified to profit or loss when the associated hedged transaction affects profit or loss.

(iv) *Capital reorganisation reserve*

Represents the capital reorganisation in the current period that presents share capital of the new legal parent entity and the difference arising from this reorganisation, refer to I 2 for details.

VITACO HOLDINGS LIMITED AND CONTROLLED ENTITIES

ACN 606 826 493

NOTES TO THE FINANCIAL STATEMENTS

For the period ended 30 June 2016

F. CAPITAL MANAGEMENT

| F3 EARNINGS PER SHARE | 30 June 2016 | 31 March 2015 |
|--|-------------------------|-------------------------|
| | \$ | \$ |
| Basic earnings per share | (0.07) | 0.04 |
| Diluted earnings per share | (0.07) | 0.04 |
| | 30 June 2016 | 31 March 2015 |
| | \$'000 | \$'000 |
| Earnings per share calculation | | |
| Net (loss) / profit for the period | (9,137) | 4,417 |
| Number of shares - Basic | | |
| Weighted average number of ordinary shares on issue | 126,032,047 | 109,794,014 |
| Adjustment for in-substance options | - | (6,588,577) |
| Total weighted average number of ordinary shares on issue | <u>126,032,047</u> | <u>103,205,437</u> |
| | 30 June 2016 | 31 March 2015 |
| | Number of shares | Number of shares |
| Number of shares - Diluted | | |
| Weighted average number of ordinary shares on issue | 126,032,047 | 109,794,014 |
| Shares deemed to be issued for no consideration in respect of: | | |
| - employee share options | - | 393,157 |
| Weighted average number of shares used in calculating diluted EPS | <u>126,032,047</u> | <u>110,187,171</u> |

Accounting policy

Basic earnings per share

Basic earnings per share is determined by dividing:

- the net profit or loss attributable to owners of the Group; by
- the weighted average number of ordinary shares outstanding during the financial year.

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share by taking into account:

- the after-tax effect of interest and other financing costs associated with dilutive potential ordinary shares; and
- the weighted average number of additional ordinary shares.

VITACO HOLDINGS LIMITED AND CONTROLLED ENTITIES

ACN 606 826 493

NOTES TO THE FINANCIAL STATEMENTS

For the period ended 30 June 2016

F. CAPITAL MANAGEMENT

| | 30 June 2016 \$'000 | 31 March 2015 \$'000 |
|--|------------------------|-------------------------|
| F4 DIVIDENDS | | |
| <i>Dividend proposed and not recognised as a liability</i> | | |
| Final dividend for the period ended 30 June 2016 | 4,116 | |
| <i>Dividend declared and paid</i> | | |
| Interim dividend for the period ended 30 June 2016 | 2,352 | - |
| | 6,468 | - |
| Franking credits available for subsequent reporting periods based on a tax rate of 30% | 253 | - |

Dividend policy

The Directors intend to target a dividend payout ratio between 50% and 60% of the Vitaco Group's underlying profit after tax from 14 September 2015 until the balance date (excluding the impact of non-recurring costs). This level of payout may vary between periods depending on a number of factors including the general business environment, the operating results and financial condition of the Group, future funding requirements, capital management initiatives, taxation considerations (including the level of franking credit and imputation credits available), any contractual, legal or regulatory restrictions on the payment of dividends by the Vitaco Group and any other factors the Directors may consider relevant.

A payable is raised for the amount of any dividend declared, determined or publicly recommended by the Directors before or at the end of the financial year but not distributed at balance date.

VITACO HOLDINGS LIMITED AND CONTROLLED ENTITIES

ACN 606 826 493

NOTES TO THE FINANCIAL STATEMENTS

For the period ended 30 June 2016

F. CAPITAL MANAGEMENT

F5 SHARE BASED PAYMENTS

The Group has a share-based remuneration scheme for executives (including Executive Director). In accordance with the provisions of the scheme, certain executives are entitled to share options and rights. The exercise price of an option is \$2.10 per share. Options may be exercised at any time from the date of vesting to the date of expiry.

Rights currently on issue will vest at various dates in the future if applicable conditions are met. One fully paid ordinary share is allotted for each right which vests.

Shown below are the details of options and rights granted under the plan.

| 30 June 2016 | | | | | Fair value | | | | |
|---------------------------------|--------------|-------------|--------|--|---------------|----------------------|---------------------------|-----------------------------|------------------|
| Grant date | Vesting date | Expiry date | Type | | at grant date | Balance at beginning | Granted during the period | Exercised during the period | Balance at end |
| 29 Jan 10 | 31 Jan 11 | 30 Mar 17 | Option | | \$0.20 | 44,333 | - | (44,333) | - |
| 29 Jan 10 | 31 Jan 12 | 30 Mar 17 | Option | | \$0.20 | 44,333 | - | (44,333) | - |
| 29 Jan 10 | 31 Jan 12 | 30 Mar 17 | Option | | \$0.20 | 44,334 | - | (44,334) | - |
| 17 Aug 12 | 1 Jul 13 | 17 Aug 15 | Option | | \$0.19 | 25,000 | - | (25,000) | - |
| 17 Aug 12 | 1 Jul 14 | 17 Aug 15 | Option | | \$0.19 | 25,000 | - | (25,000) | - |
| 18 Dec 12 | 5 Sep 13 | 18 Dec 15 | Option | | \$0.24 | 44,444 | - | (44,444) | - |
| 18 Dec 12 | 5 Sep 14 | 18 Dec 15 | Option | | \$0.24 | 44,444 | - | (44,444) | - |
| 18 Dec 12 | 5 Sep 15 | 18 Dec 15 | Option | | \$0.24 | 44,445 | - | (44,445) | - |
| 21 Aug 15 | 1 Oct 18 | 16 Sep 21 | Option | | \$1.92 | - | 333,639 | - | 333,639 |
| 21 Aug 15 | 1 Oct 19 | 16 Sep 21 | Option | | \$1.87 | - | 333,639 | - | 333,639 |
| 21 Aug 15 | 1 Oct 20 | 16 Sep 21 | Option | | \$1.81 | - | 333,640 | - | 333,640 |
| 21 Aug 15 | 1 Oct 18 | 16 Sep 21 | Rights | | \$0.33 | - | 65,166 | - | 65,166 |
| 21 Aug 15 | 1 Oct 19 | 16 Sep 21 | Rights | | \$0.37 | - | 65,166 | - | 65,166 |
| 21 Aug 15 | 1 Oct 20 | 16 Sep 21 | Rights | | \$0.40 | - | 65,167 | - | 65,167 |
| Total options and rights | | | | | | 316,333 | 1,196,417 | (316,333) | 1,196,417 |

31 March 2015 (summarised comparatives)

| | | | | |
|--------------------------|----------------|---|---|----------------|
| Total options (as above) | 316,333 | - | - | 316,333 |
|--------------------------|----------------|---|---|----------------|

Inputs into the Black-Scholes model

| | |
|--|---------------|
| Exercise price | \$2.10 |
| Expected volatility, based on S&P/ASX200 Consumer Discretionary Sector Index (3 year median) | 27.0% |
| Option life | 3 - 5 years |
| Dividend yield | 3.0% |
| Risk-free interest rate | 2.00% - 2.14% |

VITACO HOLDINGS LIMITED AND CONTROLLED ENTITIES

ACN 606 826 493

NOTES TO THE FINANCIAL STATEMENTS

For the period ended 30 June 2016

F. CAPITAL MANAGEMENT

F5 SHARE BASED PAYMENTS (continued)

Accounting policies

Share-based compensation benefits are provided to employees via share-based payments or a LTI plan.

The fair value of rights granted under the LTI plan is recognised as an employee benefits expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employee becomes unconditionally entitled to the rights.

The fair value at grant date is independently determined using the Black-Scholes model which takes into account the exercise price, the term of the right, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the right, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the right.

The fair value of the rights granted is adjusted to reflect the market vesting condition, but excludes the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of rights that are expected to become exercisable. At each reporting date, the Group revises its estimate of the number of rights that are expected to become exercisable.

The employee benefits expense recognised each period takes into account the most recent estimate. The impact of the revision to the original estimates, is recognised in profit or loss with a corresponding adjustment to equity.

VITACO HOLDINGS LIMITED AND CONTROLLED ENTITIES

ACN 606 826 493

NOTES TO THE FINANCIAL STATEMENTS

For the period ended 30 June 2016

F. CAPITAL MANAGEMENT**F6 CASH FLOW INFORMATION**

| | 15 months to 30 June 2016 \$'000 | 12 months to 31 March 2015 \$'000 |
|---|---|--|
| Reconciliation of loss / (profit) for the period to net cash generated by operating activities: | | |
| (Loss) / profit for the period | (9,137) | 4,417 |
| <i>Adjustments for non-cash items:</i> | | |
| Depreciation and amortisation | 3,919 | 2,963 |
| Deferred tax | 1,502 | 797 |
| Foreign exchange losses | 2,528 | 1,936 |
| <i>Adjustments for expenses included under financing activities:</i> | | |
| Share issue costs | 14,355 | - |
| <i>Movements in operating assets and liabilities, net of acquisitions and disposals</i> | | |
| Trade and other receivables | (4,904) | 2,038 |
| Inventories | (10,465) | 1,296 |
| Current tax payable | (1,177) | (1,091) |
| Trade payables | 5,407 | 2,413 |
| Other payables | 2,722 | 106 |
| Net cash generated by operating activities | 4,750 | 14,875 |

VITACO HOLDINGS LIMITED AND CONTROLLED ENTITIES

ACN 606 826 493

NOTES TO THE FINANCIAL STATEMENTS

For the period ended 30 June 2016

G. GROUP STRUCTURE

G1 CONTROLLED ENTITIES

The consolidated financial statements incorporate the assets, liabilities and results of the following entities:

| Name of entity | Country of incorporation | Equity Holding | |
|---|--------------------------|----------------|---------------|
| | | 30 June 2016 | 31 March 2015 |
| | | % | % |
| Vitaco Health Australia Pty Limited* | Australia | 100 | 100 |
| Vitaco Health IP Pty Limited* | Australia | 100 | n/a |
| Post Foods Australia Pty Limited* | Australia | 100 | n/a |
| Vitaco Health Finance Pty Limited* | Australia | 100 | n/a |
| Vitaco Health Australia Finance Pty Limited* | Australia | 100 | n/a |
| Nutra-Life Health & Fitness Australia Pty Limited | Australia | 100 | 100 |
| Healtheries of Australia Pty Limited | Australia | 100 | 100 |
| Healtheries Brands Pty Limited | Australia | 100 | 100 |
| Vitaco Health Group Limited* | New Zealand | 100 | 100 |
| Vitaco Health (NZ) Limited* | New Zealand | 100 | 100 |
| Vitaco Health Limited* | New Zealand | 100 | 100 |
| Health Foods International Limited* | New Zealand | 100 | 100 |
| Healtheries of New Zealand Limited* | New Zealand | 100 | 100 |
| Healthy Life Limited | New Zealand | 100 | 100 |
| Nutra-Life Health & Fitness (NZ) Limited | New Zealand | 100 | 100 |
| Health Brands New Zealand Limited | New Zealand | 100 | 100 |
| Healtheries Nutritional Products Limited* | New Zealand | 100 | 100 |
| Nutrition Laboratories Limited | New Zealand | 100 | 100 |
| Kiwi Health Foods Limited | New Zealand | 100 | 100 |
| McFarlane Laboratories New Zealand Limited | New Zealand | 100 | 100 |

* Guarantors (in addition to Vitaco Holdings Limited) to the Group's borrowings.

VITACO HOLDINGS LIMITED AND CONTROLLED ENTITIES

ACN 606 826 493

NOTES TO THE FINANCIAL STATEMENTS

For the period ended 30 June 2016

G. GROUP STRUCTURE

G2 BUSINESS COMBINATIONS

On 1 July 2015, the Group acquired 100% of the share capital of Post Foods Australia Pty Limited and the intellectual property relating to the Post Foods business. Post Foods Australia Pty Limited is an unlisted company based in Australia specialising in the manufacture and distribution of sport nutrition products.

The fair values of the identifiable assets and liabilities of Post Foods Australia Pty Limited as of the date of acquisition were:

| | Fair value at acquisition date \$'000 |
|---|--|
| Assets | |
| Intangible assets (brands and trade marks) | 1,900 |
| Property, plant and equipment | 468 |
| Cash and cash equivalents | 1,093 |
| Trade receivables | 6,116 |
| Inventories | 3,758 |
| | 13,335 |
| Liabilities | |
| Trade payables | (6,230) |
| Employee related liabilities | (1,101) |
| | (7,331) |
| Total identifiable net assets at fair value | 6,004 |
| Goodwill arising on acquisition | 1,062 |
| Purchase consideration transferred | 7,066 |

Post Foods Australia results for the period ended 30 June 2016

| | |
|---|--------|
| Revenue | 21,216 |
| Loss before redundancy, integration costs, interest and tax | (547) |

The Group incurred \$9,237,609 in respect of redundancy and integration costs relating to acquisition of Post Foods Australia Pty Limited.

Accounting policy

The acquisition method of accounting is used to account for all business combinations. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value through profit or loss. Acquisition related costs are expensed as incurred.

The identifiable assets acquired and liabilities and contingent liabilities assumed are measured initially at their fair values at the acquisition date. Non-controlling interests in an acquiree are recognised either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree over the Group's share of the net identifiable assets acquired is recorded as goodwill.

VITACO HOLDINGS LIMITED AND CONTROLLED ENTITIES

ACN 606 826 493

NOTES TO THE FINANCIAL STATEMENTS

For the period ended 30 June 2016

G. GROUP STRUCTURE

G3 PARENT ENTITY FINANCIAL INFORMATION

(a) Summary of financial information for the parent entity

The individual financial statement for the parent entity shows the following aggregate amounts:

| | 30 June 2016 |
|---------------------|--------------|
| | \$'000 |
| Current assets | 97 |
| Total assets | 342,997 |
| Current liabilities | 53,181 |
| Total liabilities | 53,181 |
| Issued capital | 288,199 |
| Reserves | 143 |
| Profit after tax | 3,826 |
| Dividends paid | (2,352) |

(b) Contingent liabilities and contractual commitments of the parent entity

The parent company has issued cross guarantees in favour of the group lenders.

Accounting policy

The financial information for the parent entity, Vitaco Holdings Limited, has been prepared on the same basis as the consolidated financial statements.

Dividends received from subsidiaries are recognised in the parent entity's income statement when its right to receive the dividend is established.

VITACO HOLDINGS LIMITED AND CONTROLLED ENTITIES

ACN 606 826 493

NOTES TO THE FINANCIAL STATEMENTS

For the period ended 30 June 2016

H. OTHER

H1 COMMITMENTS AND CONTINGENCIES

(a) Capital commitments

The Group had \$208,862 (31 March 2015: \$529,632) commitment for capital expenditure at 30 June 2016.

(b) Lease commitments

Operating leases

The Group leases its warehouse and offices under non cancellable operating leases expiring within one to fifteen years. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated. The Group also leases vehicles under non-cancellable operating leases of 1 - 4 years.

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows :

| | 30 June 2016 | 31 March 2015 |
|---|---------------|---------------|
| | \$'000 | \$'000 |
| Within one period | 3,517 | 2,816 |
| Later than one period but not later than five periods | 10,214 | 10,058 |
| Later than five periods | 9,958 | 12,111 |
| Total | <u>23,689</u> | <u>24,985</u> |

Accounting policy

Finance leases are leases of motor vehicles where the Group, as lessee, has substantially all the risk and rewards of ownership. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased asset and the present value of the minimum lease payments. A corresponding liability is also established and each lease payment is allocated between the liability and finance charges. The interest element is charged to the income statement over the period of the lease. Leased assets are amortised on a straight line basis over the term of the lease, or where it is likely that the Group will obtain ownership of the asset, the life of the asset. Leased assets held at balance date are amortised over the shorter of the estimated useful life or the lease term.

Operating leases are other leases under which all the risks and benefits of ownership are effectively retained by the lessor. Operating lease payments, excluding contingent payments, are charged to the income statement on a straight line basis over the period of the lease.

(c) Contingent liabilities.

There are no contingent liabilities that require disclosures in the financial statements.

(2015: In November 2013, the Group received a claim for A\$3.4 million from the liquidators of a customer that went into receivership in November 2011. The claim relates to alleged unfair preference payments received by the Group pursuant to section 588F of the Corporations Act 2001. On 13 October 2015, under a deed of settlement and release, the Group settled the claim for a sum of \$1.5 million, which was funded by the former shareholders of Vitaco Health Group Limited).

(d) Guarantees

The Company's Australian subsidiaries have issued guarantees in favour of Vitaco Health Australia Pty Limited's landlord of \$225,000 (31 March 2015: \$185,542) and Post Foods Australia Pty Limited's landlord of \$266,852.

In addition, the Company's subsidiaries have issued cross guarantees in favour of its lenders, refer to note G1.

VITACO HOLDINGS LIMITED AND CONTROLLED ENTITIES

ACN 606 826 493

NOTES TO THE FINANCIAL STATEMENTS

For the period ended 30 June 2016

H. OTHER

H2 RELATED PARTY TRANSACTIONS

(a) Parent entity

The ultimate parent company is Vitaco Holdings Limited, a company incorporated in Australia and listed on the Australian Securities Exchange.

(b) Key management and personnel compensation

The key management personnel are all the Directors of the Company and the executives with the greatest authority for the strategic direction and management of the Company.

| | 15 months to 30 June 2016 \$'000 | 12 months to 31 March 2015 \$'000 |
|--------------------------------|--|---|
| Short-term employment benefits | 9,497 | 2,416 |
| Post-employment benefits | - | 166 |
| Long-term benefits | 11 | - |
| Share-based compensation | 151 | 15 |
| | <u>9,658</u> | <u>2,597</u> |

Detailed remuneration disclosures are provided in the remuneration report.

(c) Transactions with key management personnel

Subscription for new ordinary shares by key management personnel as a result of the new share issue in the current period

| | |
|-------|---|
| 4,052 | - |
|-------|---|

(d) Purchases from entities controlled by key management personnel

| Transaction type | Class of other related party | | |
|------------------|------------------------------|-----|-------|
| Rent | Key management personnel* | 652 | 1,539 |

* Rental of Auckland office building and warehouses - Premises occupied by Vitaco Health (NZ) Limited in East Tamaki, Auckland are leased from The M L Thompson Family Trust, an entity associated with Michael Thompson. Michael Thompson was a director of Vitaco Health Group Limited until 27 August 2015. Total rental paid for the period 1 April 2015 to 27 August 2015 \$651,698 (2015: \$1,539,236).

VITACO HOLDINGS LIMITED AND CONTROLLED ENTITIES

ACN 606 826 493

NOTES TO THE FINANCIAL STATEMENTS

For the period ended 30 June 2016

H. OTHER

H3 SUBSEQUENT EVENTS

On 3 August 2016, Vitaco Holdings Limited ("Vitaco") entered into a Scheme Implementation Deed with, among others, Shanghai Pharmaceuticals Holdings Co., Ltd ("Shanghai Pharma") and Primavera Capital Fund II L.P ("Primavera"), (together, the "Consortium") pursuant to which the Consortium proposes to indirectly acquire 100% of the share capital of Vitaco by way of a scheme of arrangement under Part 5.1 of the Australian Corporations Act 2001 (Cth) ("Scheme") at A\$2.25 per share (for non-management shareholders of Vitaco) less the amount of the Final Dividend (defined below). Management shareholders of Vitaco will instead receive total value equivalent to A\$2.25 per share (less the amount of the Final Dividend) in a combination of cash and shares in a newly established subsidiary of Shanghai Pharma and Primavera. The purchasers of the shares will be a subsidiary of Shanghai Pharma and a subsidiary of Primavera. The Scheme is subject to a number of customary conditions including shareholder and court approval, no material adverse change or prescribed occurrences, as well as the approval of Australia's Foreign Investment Review Board, New Zealand's Overseas Investment Office and Chinese regulators. If the Scheme is implemented after the final dividend is declared and paid by Vitaco for the period ended 30 June 2016 ("Final Dividend"), eligible non-management Vitaco shareholders will receive:

- The cash price of A\$2.25 per share reduced by the amount of the Final Dividend; plus
- The Final Dividend.

Other than the matter described above, the Directors are not aware of any matter or circumstance that has arisen since the end of the financial period that has significantly affected or may significantly affect the Group's operations, the results of those operations or the Group's state of affairs in future financial years.

VITACO HOLDINGS LIMITED AND CONTROLLED ENTITIES

ACN 606 826 493

NOTES TO THE FINANCIAL STATEMENTS

For the period ended 30 June 2016

I. OTHER SIGNIFICANT ACCOUNTING POLICIES

I 1 GENERAL INFORMATION

Vitaco Holdings Limited (the “Company”) is a for profit company limited by ordinary shares which are publicly traded on the Australian Securities Exchange (“ASX”). The financial statements are for the consolidated entity consisting of Vitaco Holdings Limited and the entities it controls (the “Group”).

I 2 BASIS OF PREPARATION

This general purpose financial report has been prepared in accordance with the Corporations Act 2001, Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB).

All new and amended Accounting Standards and Interpretations issued by the AASB that are relevant to the Group and effective for the current reporting period have been adopted.

The financial report is presented in Australian dollars which is the Company's functional and presentation currency.

It has been prepared under the historical cost convention, as modified by the revaluation of certain financial assets and liabilities (including derivative instruments).

The Company presents reclassified comparative information, where required, for consistency with the current period's presentation.

Vitaco Holdings Limited was incorporated on 1 July 2015 and undertook an initial public offering (“IPO”) on 16 September 2015. The proceeds of the initial public offering were used to acquire Vitaco Holdings Group Limited and its controlled entities.

Vitaco Holdings Limited has determined that the acquisition of Vitaco Holdings Group Limited does not represent a business combination as outlined in Australian Accounting Standard AASB 3 for accounting purposes. The directors have determined the appropriate accounting treatment for recognising the new Group structure is on the basis that the transaction is a form of capital reconstruction and group reorganisation. The continuation of the existing accounting values is consistent with the accounting that would have occurred if the assets and liabilities had already been in a structure suitable to the Offer in the Initial Public Offer (“IPO”) and most appropriately reflects the substance of the internal restructure. Therefore, the financial information has been prepared using principles of a reverse acquisition by Vitaco Health Group Limited of Vitaco Holdings Limited.

As a result, the consolidated financial statements have been prepared as a continuation of the financial statements of the accounting acquirer, Vitaco Health Group Limited. Accordingly, comparative information is provided for the consolidated balance sheet at 31 March 2015 and for the consolidated income statement and consolidated cash flow statement for the year ended 31 March 2015.

VITACO HOLDINGS LIMITED AND CONTROLLED ENTITIES

ACN 606 826 493

NOTES TO THE FINANCIAL STATEMENTS

For the period ended 30 June 2016

I OTHER SIGNIFICANT ACCOUNTING POLICIES

I 2 BASIS OF PREPARATION (continued)

The reorganisation was accounted for to present share capital post reorganisation as the share capital of the new legal parent entity and the difference arising from this reorganisation is recognised within the capital reorganisation reserve.

In adopting this approach the Directors note that there is an alternate view that such a restructure conditional on the IPO event occurring could be accounted for as a business combination that follows the legal structure of the Vitaco Holdings Limited being the acquirer. If this view had been taken, the net assets of the Group would have been uplifted to fair value by \$158.3 million, based on a market capitalisation at IPO of \$292.2 million, with consequential impacts on the income statement and statement of financial position.

An IASB project on accounting for common control transactions is likely to address such restructures in the future. However, the precise nature of any new requirements and the timing of these are uncertain. In any event, history indicates that any potential changes are unlikely to require retrospective amendments to the financial statements.

The Company is of a kind referred to the Australian Securities and Investments Commission Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

Key judgments and estimates

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of the assets and liabilities within the next financial year can be found in the following notes:

- Note B1 Income tax and deferred tax;
- Note C2 Intangible assets;
- Note C3 Inventory provision; and
- Note D1 Bad debts provision.

VITACO HOLDINGS LIMITED AND CONTROLLED ENTITIES

ACN 606 826 493

NOTES TO THE FINANCIAL STATEMENTS

For the period ended 30 June 2016

I OTHER SIGNIFICANT ACCOUNTING POLICIES

I 3 OTHER ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements of Vitaco Holdings Limited include the assets, liabilities and results of Vitaco Holdings Limited and all its legal controlled entities. Controlled entities are all entities over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Controlled entities are fully consolidated from the date on which control is transferred to the group.

The consolidation process eliminates all inter-entity accounts and transactions. Any financial statements of overseas subsidiaries that have been prepared in accordance with overseas accounting practices have been adjusted to comply with Australian Accounting Standards before inclusion in the consolidation process. The financial statements of all material subsidiaries are prepared for the same reporting period.

A change in the ownership interest of a controlled entity, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a controlled entity, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

Foreign currency translation

(i) Change in presentation currency

With effect from 1 April 2014, the Group changed the currency in which it presents its financial statements from NZ\$ to A\$. The cumulative foreign currency translation reserve was set to nil at 1 April 2014, the date of change of presentation currency. The comparative income statement and statement of comprehensive income for the year ended 31 March 2015 and the balance sheet at 31 March 2015 have been presented in A\$ to ensure consistency with the presentation currency.

(ii) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (functional currency). The consolidated financial statements are presented in Australian dollars, which is Vitaco Holdings Limited's functional and presentation currency.

(iii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss, except when they are deferred in equity as qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities are translated at the closing rate at the date of the balance sheet;
- income and expenses are translated at average exchange rates; and

VITACO HOLDINGS LIMITED AND CONTROLLED ENTITIES
ACN 606 826 493
NOTES TO THE FINANCIAL STATEMENTS
For the period ended 30 June 2016

I OTHER SIGNIFICANT ACCOUNTING POLICIES

I 3 OTHER ACCOUNTING POLICIES (continued)

(iii) Transactions and balances (continued)

- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments are recognised in other comprehensive income. When a foreign operation is sold or a partial disposal occurs, a proportionate share of such exchange differences is recognised in the income statement as part of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Financial Assets and Liabilities

Financial Assets

Financial assets are classified into the following specified categories: Financial assets 'at fair value through profit or loss' (FVTPL) and 'measured at amortised cost'.

The classification depends on the business model for managing the financial asset and the cash flow characteristics of the financial asset and is determined at the time of initial recognition or when a change in the business model occurs.

Financial assets at fair value through profit or loss

Financial assets are classified at fair value through profit or loss if they are not measured at cost or amortised cost. Gains and losses on a financial asset designated in this category and not part of a hedging relationship are recognised in profit or loss.

Financial assets measured at amortised cost

The Group's financial assets held in order to collect contractual cash flows that are solely payments of principal and interest on the principal outstanding are measured at amortised cost. Cash and cash equivalents and trade receivables are classified in this category.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the asset have been affected.

Financial Liabilities Measured at Amortised Cost

The Group's financial liabilities include trade and other payables and borrowings. These financial liabilities are initially recognised at fair value plus any directly attributable costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method.

VITACO HOLDINGS LIMITED AND CONTROLLED ENTITIES

ACN 606 826 493

NOTES TO THE FINANCIAL STATEMENTS

For the period ended 30 June 2016

I OTHER SIGNIFICANT ACCOUNTING POLICIES

I 3 OTHER ACCOUNTING POLICIES (continued)

Financial Liabilities Measured at Amortised Cost (continued)

Derivative Financial Instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value with reference to observable market data at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated as an effective hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Group designates certain derivatives as cash flow hedges.

A derivative is presented as a non-current asset or a non-current liability where the cash flow will occur after 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

Hedge Accounting

At the inception of a hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in cash flows of the hedged item, attributable to the hedged risk.

Cash Flow Hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated as a separate component of equity in the hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in 'other income' or 'other losses'.

Amounts recognised in the hedging reserve are reclassified from equity to profit or loss in the periods when the hedged item is recognised in profit or loss, in the same line as the recognised hedged item. Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss deferred in the hedging reserve at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in the hedging reserve is recognised immediately in profit or loss.

VITACO HOLDINGS LIMITED AND CONTROLLED ENTITIES
ACN 606 826 493
NOTES TO THE FINANCIAL STATEMENTS
For the period ended 30 June 2016

I OTHER SIGNIFICANT ACCOUNTING POLICIES

I 3 OTHER ACCOUNTING POLICIES (continued)

Standards and interpretations issued but not yet effective

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2016 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below:

a) AASB 15 Revenue from Contracts with Customers - The AASB has issued a new standard for the recognition of revenue. This will replace AASB 118 which covers revenue arising from the sale of goods and the rendering of services and AASB 111 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption. It applies to annual reporting periods commencing on or after 1 January 2018. The Group is still assessing the impact of the new rules on its revenue recognition policies and at this stage is not able to estimate the impact of the new rules on the Group's financial statements.

b) AASB 9 Financial Instruments - AASB 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. It applies to annual reporting periods commencing on or after 1 January 2018. The Group is still assessing the impact of the new standard on the financial statements when applied to the future periods.

c) AASB 16 Leases - The AASB 16 has issued a new standard for the accounting of leases. The new standard will predominantly affect lessees, with almost all leases brought onto the balance sheet. It applies to annual reporting periods commencing on or after 1 January 2019. The Group is still assessing the impact of the new standard on the financial statements when applied to the future periods.

There are no other standards and interpretations that are not yet effective and that are expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in H4 to the financial statements;
- the attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the financial period ended on that date;
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and
- at the date of this declaration, there are reasonable grounds to believe that the members of the Extended Closed Group will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in note G1 to the financial statements.

The directors have been given the declarations required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of directors made pursuant to section 295(5)(a) of the Corporations Act 2001.

On behalf of the directors



Greg Richards
Chairman
30 August 2016
Sydney



Independent auditor's report to the members of Vitaco Holdings Limited

Report on the financial report

We have audited the accompanying financial report of Vitaco Holdings Limited (the company), which comprises the consolidated balance sheet as at 30 June 2016, the consolidated income statement and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the period 1 April 2015 to 30 June 2016, a summary of significant accounting policies, other explanatory notes and the directors' declaration for Vitaco Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the period's end or from time to time during the financial period.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note I2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the consolidated entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

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

PricewaterhouseCoopers, ABN 52 780 433 757
Darling Park Tower 2, 201 Sussex Street, GPO BOX 2650, SYDNEY NSW 1171
T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au



Auditor's opinion

In our opinion:

- (a) the financial report of Vitaco Holdings Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the period ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.
- (b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 12.

Report on the Remuneration Report

We have audited the remuneration report included in pages 12 to 26 of the directors' report for the period ended 30 June 2016. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion, the remuneration report of Vitaco Holdings Limited for the period ended 30 June 2016 complies with section 300A of the *Corporations Act 2001*.

A stylized, handwritten signature of PricewaterhouseCoopers in black ink.

PricewaterhouseCoopers

A handwritten signature of David Wiadrowski in black ink.

David Wiadrowski
Partner

Sydney
30 August 2016

Vitaco Holdings Limited
Shareholder information
30 June 2016

The shareholder information set out below was applicable as at 22 August 2016:

Issued Capital

As at 22 August 2016, the company had 139,143,525 ordinary fully paid shares (including 28,296,282 escrowed shares) on issue. Further details of the escrowed shares are provided below.

A. Equity security holders

The names of the twenty largest holders of quoted securities are listed below:

| Rank | Name | 22 Aug 2016 | % of issued capital |
|------|---|--------------------|---------------------|
| 1 | HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED | 19,583,007 | 14.07 |
| 2 | CITICORP NOMINEES PTY LIMITED | 14,933,427 | 10.73 |
| 3 | J P MORGAN NOMINEES AUSTRALIA LIMITED | 9,993,829 | 7.18 |
| 4 | NEXT CAPITAL (SERVICES B) PTY LIMITED | 8,262,413 | 5.94 |
| 4 | NEXT CAPITAL (SERVICES A) PTY LIMITED | 8,262,413 | 5.94 |
| 5 | MIKE THOMPSON INVESTMENTS CORPORATE TRUSTEE LIMITED | 5,026,533 | 3.61 |
| 6 | NEXT CAPITAL PTY LIMITED | 4,764,107 | 3.42 |
| 7 | BNP PARIBAS NOMS PTY LTD | 2,346,722 | 1.69 |
| 8 | CS FOURTH NOMINEES PTY LIMITED | 1,973,218 | 1.42 |
| 9 | NATIONAL NOMINEES LIMITED | 1,790,115 | 1.29 |
| 10 | UT 425 VICTORIA PTY LTD | 1,490,327 | 1.07 |
| 11 | HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 3 | 1,363,681 | 0.98 |
| 12 | MISS HAIYUE ZHAO | 1,058,689 | 0.76 |
| 13 | MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LIMITED | 940,858 | 0.68 |
| 14 | UBS NOMINEES PTY LTD | 920,226 | 0.66 |
| 15 | PERSHING AUSTRALIA NOMINEES PT Y LTD | 861,416 | 0.62 |
| 16 | ECAPITAL NOMINEES PTY LIMITED | 844,846 | 0.61 |
| 17 | CITICORP NOMINEES PTY LIMITED | 721,267 | 0.52 |
| 18 | FANG YIN SUPER PTY LTD | 500,000 | 0.36 |
| 18 | REDIMA PTY LTD | 500,000 | 0.36 |
| 19 | HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED-GSCO ECA | 447,238 | 0.32 |
| 20 | BNP PARIBAS NOMINEES PTY LTD | 388,609 | 0.28 |
| | Total (Top 20 shareholders) | 86,972,941 | 62.51 |
| | Balance of register | 52,170,584 | 37.49 |
| | Grand total | 139,143,525 | 100.00 |

B. Distribution of equity securities

Analysis of numbers of equity security holders for VIT fully paid ordinary shares (including the escrowed shares) by size of holding:

| Range | Securities | % | No. of holders | % |
|-------------------|--------------------|---------------|----------------|---------------|
| 100,001 and Over | 94,276,576 | 67.75 | 59 | 0.81 |
| 10,001 to 100,000 | 23,839,083 | 17.13 | 1,030 | 14.06 |
| 5,001 to 10,000 | 10,430,796 | 7.50 | 1,299 | 17.73 |
| 1,001 to 5,000 | 9,516,875 | 6.84 | 3,239 | 44.20 |
| 1 to 1,000 | 1,080,195 | 0.78 | 1,701 | 23.21 |
| Total | 139,143,525 | 100.00 | 7,328 | 100.00 |

Vitaco Holdings Limited
Shareholder information
30 June 2016

As at 22 August 2016, there were 158 investors holding less than a marketable parcel, for a total of 20,880 shares.

C. Substantial holders

Substantial holders in the company as advised to the company via substantial shareholder notices lodged with the ASX are set out below:

| Substantial holders | | |
|---|---------------------------------------|---------------------------------|
| | Number of ordinary shares held | % of total shares issued |
| The Next Entities ¹ | 21,288,933 | 15.30 |
| Escrowed shares ¹ | 7,007,349 | 5.04 |
| Westpac Banking Corporation and its associated entities | 14,788,634 | 10.63 |
| BT Investment Management Limited | 13,737,196 | 9.87 |
| Commonwealth Bank and its related bodies corporate | 7,201,868 | 5.18 |

¹as disclosed in Vitaco's IPO prospectus dated 4 September 2015.

Voting Rights

The voting rights attached to ordinary shares are set out below:

Ordinary shares

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each shares shall have one vote.

There are no other classes of equity securities.

Voluntary Escrow

The following shares are subject to voluntary escrow:

| Number of Shares | Escrow period ends |
|-------------------------|---|
| 28,296,282 | To be released from escrow on the day on which the Company provides to the ASX its preliminary final report for FY16. |

Company Secretaries:

Phil Wiltshire

Anna Sandham

Share Registry

Link Market Services

Level 12, 680 George Street

Sydney NSW 2000

Ph: +61 1300 554 474

Vitaco Holdings Limited
Shareholder information
30 June 2016

Principal registered office in Australia

Level 1, 82 Waterloo Road

North Ryde NSW 2113

Statement regarding use of Cash and Assets

Vitaco has used its cash and assets in a form readily convertible to cash that it had at the time of ASX admission in a way consistent with its business objectives set out in Vitaco's IPO Prospectus dated 4 September 2015.