

INTERIM  
**FINANCIAL  
REPORT**

New Zealand King Salmon  
Investments Limited  
and Subsidiaries

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FOR THE SIX MONTHS ENDED  
31 DECEMBER 2016





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**FOLLOWING THE COMPLETION OF THE SIX MONTH PERIOD TO 31 DECEMBER 2016 (1H17), THE BOARD IS PLEASED TO CONFIRM A STRONG FINANCIAL RESULT, SUPPORTED BY NEW ZEALAND KING SALMON'S BRANDING AND MARKET POSITIONING STRATEGY ALONGSIDE ON-TARGET FISH PERFORMANCE. THE BOARD AFFIRMS ITS FULL YEAR FY17 FORECAST AS PRESENTED IN ITS PRODUCT DISCLOSURE STATEMENT DATED 23 SEPTEMBER 2016.**

### FINANCIAL PERFORMANCE

The six month period ending 31 December 2016 marks a new milestone in the evolution of New Zealand King Salmon with the successful Initial Public Offering (IPO) on the New Zealand and Australian stock exchanges in October 2016. Through this process, New Zealand King Salmon raised \$30 million in new equity to invest in production capacity and working capital to establish and grow our new sea farms, and to carry out improvements in our existing processing and aquaculture infrastructure.

Net profit after tax was \$8.7 million compared to \$5.7 million for the six months to 31 December 2015, an increase of 52%.

This increase was due to additional sales volumes available from our new sea farms and fair value gains associated with the increase in biomass at sea compared to the same time a year ago. For the six month period the total volume sold was 3,407 metric tonnes, which is 405 metric tonnes above sales for the prior comparable period, an increase of 13%. The total biomass of fish at sea was up by 22% on the same time a year ago, principally due to the introduction of new sea farms.

Pro forma operating EBITDA was \$7.3 million. Pro forma operating results reverse out the impact of fair value gains, non-recurring costs relating to New Zealand King Salmon's IPO, the closing out of redundant interest rate swaps, and costs incurred in relation to the Ministry for Primary Industry's consultation process for the possible relocation of six Marlborough salmon farms.

The Board is pleased to advise that a fully imputed interim dividend of 2.0 cents per share has been declared and will be paid on 24 March 2017.

### BUSINESS UPDATE

Our premium branded strategy continues to drive demand in excess of available supply. This underpins improvements in value as well as generating stronger customer loyalty, as we experience a significant increase in salmon production volumes.

During the period we made a number of positive steps towards executing our strategy, including significant production and sales developments.

#### Sales Developments

From a sales and marketing perspective, we have been actively developing branded sales leads with current and new customers to match expected production volumes over the medium term. New channel development in existing markets has also been a feature – for example, over the past six months we have added retail and marketing expertise to our North American team to support existing business but also to drive business development in supermarket channels for the Regal brand. We also commenced an Ōra King sales programme to China in partnership with China Resources Ng Fung Ltd. Finally, we launched our premium pet food brand Omega Plus in South Island supermarkets. Omega Plus, whilst still in its early stages, intends to improve whole-of-fish value for us by enabling us to convert by-products into high value branded pet food products.

We consider that the strong growth in export volumes achieved, which were up 19% on the prior comparable period, confirm the receptiveness of the market to our premium branded export strategy.

## Production Developments

On the production side, salmon farming is now underway at all three of our new sea farms, which all benefit from higher water flow. During the period we had the inaugural harvest from two of our three new farms, Waitata and Ngamahau. The final new farm, Kopaua, is due for harvest later in 2018.

We have an ongoing program to improve the effectiveness of our salmon aquaculture operations. For example, recent improvements implemented at our hatcheries have resulted in larger smolt being put to sea, with the objective of measurable improvements in harvest size and quality. Another area of focus is the improvement of feed performance across a diversified range of feed suppliers. During the period we trialled feed from new potential suppliers and are heading into peak summer with summer diets from two key suppliers.

Early in 2017 we finalised the implementation of our new harvest method utilising leading pump technology, which opens up export opportunities to Europe whilst also driving anticipated operational efficiencies.

Key fish performance metrics were in line with expectations for the period, with feed conversion ratio (FCR) and mortality rate at 1.76x and 4.6% respectively.

## Other Developments

The company continues to develop farming and environmental management practices to optimise production and improve environmental outcomes. In January 2017, the Minister for Primary Industries commenced a consultation process on the proposal to relocate up to six salmon farms from their historic locations (up to 30 years old) to more suitable higher water flow sites. The board

is supportive of this independent process. In our view a successful outcome will generate significant positive environmental, social and financial benefits for all stakeholders, including our Top of the South community.

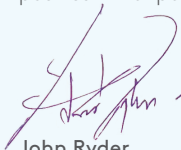
The board also welcomed Ms Wang Xin, Director of China Resources Ng Fung Ltd, as a non-executive director of New Zealand King Salmon. Ms Wang Xin joined the board in February 2017. China Resources Ng Fung Ltd purchased a 9.99% shareholding in New Zealand King Salmon as a part of the recent IPO.

## OUTLOOK

The outlook for New Zealand King Salmon is positive. In the near term, the board has reaffirmed its full year FY17 forecast for a pro forma operating EBITDA of \$19.2 million, as presented in its Product Disclosure Statement dated 23 September 2016.

The longer term outlook for the company is also positive with strong demand building for our premium brands supported by positive global food and health trends.

The board would like to acknowledge the contribution of our team to New Zealand King Salmon's ongoing success. A further update will be provided to the market following the completion of the peak summer period.



**John Ryder**  
CHAIRMAN



**Grant Rosewarne**  
MANAGING DIRECTOR & CEO

## CORPORATE INFORMATION

### DIRECTORS

**John William Dudley Ryder** (Independent Chairman)

**Grantley Bruce Rosewarne** (Chief Executive Officer)

**Mark Robert Hutton** (Independent Director)

**Jack Lee Porus**

**Paul James Steere** (Independent Director)

**Thomas Chai Leng Song**

**Wang Xin** (Non-Executive Director)

### APPOINTMENT DATE

21 September 2016

21 September 2016

21 September 2016

21 September 2016

21 September 2016

21 September 2016

28 February 2017

### REGISTERED OFFICE

93 Beatty Street  
Annesbrook  
Nelson  
New Zealand

### PRINCIPAL PLACE OF BUSINESS

93 Beatty Street  
Annesbrook  
Nelson  
New Zealand

### BANKERS

The Bank of New Zealand  
81 Riccarton Road  
Christchurch  
New Zealand

ANZ Bank New Zealand Limited  
248 Trafalgar Street  
Nelson  
New Zealand

### SOLICITORS

Glaister Ennor  
18 High Street  
Auckland  
New Zealand

### AUDITORS

Ernst & Young (EY)  
20 Twigger Street  
Christchurch  
New Zealand

# INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 31 DECEMBER 2016

	Notes	31 Dec 2016	31 Dec 2015
		UNAUDITED	UNAUDITED
		\$000	\$000
Revenue	5	63,626	56,598
Cost of goods sold		(59,239)	(51,068)
Fair value gain on biological transformation		28,722	16,548
Freight costs to market		(6,077)	(4,839)
<b>Gross profit</b>		<b>27,032</b>	<b>17,239</b>
Other operating income		738	664
Sales, marketing and advertising expenses		(4,012)	(3,005)
Distribution overheads		(1,436)	(968)
Corporate expenses		(3,513)	(2,783)
Other expenses		(2,621)	(4)
<b>Earnings before interest, tax, depreciation and amortisation</b>		<b>16,188</b>	<b>11,143</b>
Depreciation and amortisation expense		(2,106)	(2,024)
Finance income		86	38
Finance costs		(1,572)	(2,175)
<b>Profit before tax</b>		<b>12,596</b>	<b>6,982</b>
Income tax expense		(3,891)	(1,246)
<b>Net profit for the period</b>		<b>8,705</b>	<b>5,736</b>
<b>Other comprehensive income</b>			
Other comprehensive income to be reclassified to profit or loss in subsequent periods (net of tax):			
Exchange differences on translation of foreign operations		(28)	(144)
Net movement on cash flow hedges		1,813	(564)
Other comprehensive income not to be reclassified to profit or loss in subsequent periods (net of tax):			
Share based payment expense		41	-
<b>Net other comprehensive income/(loss)</b>		<b>1,826</b>	<b>(708)</b>
<b>Total comprehensive income for the period</b>		<b>10,531</b>	<b>5,028</b>

	31 Dec 2016	31 Dec 2015
	UNAUDITED	UNAUDITED
<b>Earnings per share</b>		
Basic profit for the period attributable to ordinary equity holders of the parent	\$0.07	\$0.05
Diluted profit for the period attributable to ordinary equity holders of the parent	\$0.07	\$0.05

## Net tangible asset value per share

Net tangible asset value for the period attributable per ordinary share	\$1.08	\$1.09
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The above interim consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

# INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 31 DECEMBER 2016

	Share Capital	Foreign Currency Translation Reserve	Hedge Reserve	Share Based Payment Reserve	Retained Earnings	Total Equity
UNAUDITED	\$000	\$000	\$000	\$000	\$000	\$000
As at 1 July 2016	25,296	(527)	(2,195)	-	14,440	37,014
Profit for the period	-	-	-	-	8,705	8,705
Other comprehensive loss	-	(28)	1,813	41	-	1,826
<b>Total comprehensive income/(loss) for the period</b>	<b>-</b>	<b>(28)</b>	<b>1,813</b>	<b>41</b>	<b>8,705</b>	<b>10,531</b>
Increase in share capital in preparation for IPO	68,915	-	-	-	-	68,915
Shares issued	30,105	-	-	-	-	30,105
Transaction costs arising on share issue	(1,797)	-	-	-	-	(1,797)
<b>As at 31 December 2016</b>	<b>122,519</b>	<b>(555)</b>	<b>(382)</b>	<b>41</b>	<b>23,145</b>	<b>144,768</b>
UNAUDITED	\$000	\$000	\$000	\$000	\$000	\$000
As at 1 July 2015	25,296	(333)	(27)	-	11,847	36,783
Profit for the period	-	-	-	-	5,736	5,736
Other comprehensive income/(loss)	-	(144)	(564)	-	-	(708)
<b>Total comprehensive income/(loss) for the period</b>	<b>-</b>	<b>(144)</b>	<b>(564)</b>	<b>-</b>	<b>5,736</b>	<b>5,028</b>
<b>As at 31 December 2015</b>	<b>25,296</b>	<b>(477)</b>	<b>(591)</b>	<b>-</b>	<b>17,583</b>	<b>41,811</b>

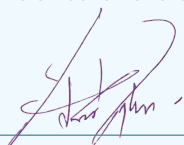
The above interim consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

# INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2016

	Notes	31 Dec 2016	30 Jun 2016
		UNAUDITED	AUDITED
		\$000	\$000
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		10,694	2,419
Trade and other receivables		15,210	10,229
Inventories	7	19,244	17,291
Biological assets	8	58,464	45,537
Income tax receivable		173	-
Non-current assets held for sale		421	421
Other financial assets	13	-	2,758
Derivative financial assets		832	526
<b>Total current assets</b>		<b>105,038</b>	<b>79,181</b>
<b>Non-current assets</b>			
Property, plant and equipment		34,294	32,596
Biological assets	8	8,828	7,413
Derivative financial assets		1,985	1,443
Intangible assets		3,800	3,868
Deferred tax asset		1,527	1,967
Goodwill		39,255	39,255
<b>Total non-current assets</b>		<b>89,689</b>	<b>86,542</b>
<b>TOTAL ASSETS</b>		<b>194,727</b>	<b>165,723</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Interest-bearing loans and borrowings	9	1,239	19,326
Trade and other payables		21,424	15,416
Income tax payable		-	580
Employee benefits		2,481	2,384
Other financial liabilities		-	4,427
Shareholder loans		-	73,114
Derivative financial liabilities		1,820	2,319
<b>Total current liabilities</b>		<b>26,964</b>	<b>117,566</b>
<b>Non-current liabilities</b>			
Interest-bearing loans and borrowings	9	10,140	163
Employee benefits		434	465
Deferred tax liabilities		10,913	7,740
Derivative financial liabilities		1,508	2,775
<b>Total non-current liabilities</b>		<b>22,995</b>	<b>11,143</b>
<b>TOTAL LIABILITIES</b>		<b>49,959</b>	<b>128,709</b>
<b>NET ASSETS</b>		<b>144,768</b>	<b>37,014</b>
<b>EQUITY</b>			
<b>Equity attributed to equity holders of the company</b>			
Share capital	12	122,519	25,296
Reserves		(896)	(2,722)
Retained earnings		23,145	14,440
<b>TOTAL EQUITY</b>		<b>144,768</b>	<b>37,014</b>

For and on behalf of the Board, who authorised the issue of these interim financial statements on 28 February 2017.



John Ryder 28 February 2017  
CHAIRMAN



Paul Steere 28 February 2017  
DIRECTOR AND AUDIT & RISK COMMITTEE CHAIRMAN

The above interim consolidated statement of financial position should be read in conjunction with the accompanying notes.



# INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2016

	31 Dec 2016	31 Dec 2015
	UNAUDITED	UNAUDITED
	\$000	\$000
<b>OPERATING ACTIVITIES</b>		
Receipts from customers	59,744	52,368
Payments to suppliers	(43,033)	(37,925)
Payments to employees	(15,189)	(13,158)
Interest received	78	40
Interest paid	(1,052)	(679)
Insurance income	214	530
Income tax paid	(1,741)	(513)
<b>Net cash flows from/(used in) operating activities</b>	<b>(979)</b>	<b>663</b>
<b>INVESTING ACTIVITIES</b>		
Proceeds from sale of property, plant and equipment	10	31
Purchase of property, plant and equipment	(3,696)	(3,073)
Purchase of intangible assets	(49)	(30)
<b>Net cash flows used in investing activities</b>	<b>(3,735)</b>	<b>(3,072)</b>
<b>FINANCING ACTIVITIES</b>		
Revolving loan repaid	(9,000)	-
Gross proceeds from share issue	30,105	-
Transaction cost arising on share issue	(1,797)	-
Proceeds from shareholder advances	1,402	500
Repayment of shareholder advances	(7,651)	-
Payment of finance lease liabilities	(70)	(40)
<b>Net cash flows from financing activities</b>	<b>12,989</b>	<b>460</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>8,275</b>	<b>(1,949)</b>
<b>Cash and cash equivalents at 1 July</b>	<b>2,419</b>	<b>5,522</b>
<b>Cash and cash equivalents at 31 December</b>	<b>10,694</b>	<b>3,573</b>

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

# NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2016

## 1. CORPORATE INFORMATION

The interim financial statements of New Zealand King Salmon Investments Limited (the Company) and its subsidiaries (together the Group) for the six months ended 31 December 2016 were authorised by the directors on 28 February 2017.

New Zealand King Salmon Investments Limited is a company incorporated and domiciled in New Zealand. The Company is registered under the Companies Act 1993 and listed on the NZX Main Board ("NZX") and the Australian Securities Exchange ("ASX"). The Company is an FMC reporting entity under the Financial Markets Conduct Act 2013 and the Financial Reporting Act 2013.

The interim consolidated financial statements are for the six months ended 31 December 2016 and have been prepared in accordance with NZ GAAP. New Zealand King Salmon Investments Limited is a profit-orientated entity.

The Group is principally engaged in the farming, processing and sale of premium salmon products.

## 2. PREPARATION OF INTERIM FINANCIAL STATEMENTS

### a. Statement of compliance

The interim consolidated financial statements for the six months ended 31 December 2016 have been prepared in accordance with NZ IAS 34 - Interim Financial Reporting and IAS 34 Interim Financial Reporting, and should be read in conjunction with the annual financial statements as at 30 June 2016 which were prepared in accordance with NZ IFRS and IFRS.

The interim consolidated financial statements for the six months ended 31 December 2016 are unaudited. Comparative information for the interim consolidated statement of financial position is at 30 June 2016 and is audited. Comparative information for the interim consolidated statement of comprehensive income, interim consolidated changes in equity and interim consolidated statement of cash flows is for the comparative six month period and is unaudited.

### b. Basis of measurement

The accounting policies adopted in the interim financial statements are consistent with those applied in the annual financial statements as at 30 June 2016.

### c. Significant accounting judgements, estimates and assumptions

Management have applied the same principles and used the same key sources of estimation in the preparation of the interim financial statements as those applied to in the consolidated financial statements for the year ended 30 June 2016.

## 3. SIGNIFICANT CHANGES IN THE CURRENT REPORTING PERIOD

The financial position of the Group was affected by the following significant events and transactions during the reporting period:-

### a. Initial Public Offer (IPO)

On 19 October 2016, the Company listed on the NZX Main Board ("NZX") and Australian Securities Exchange ("ASX"). The listing resulted in a primary issue of 26,785,715 shares and with an additional 1,180,747 shares issued to senior executives and employees. Proceeds of \$30 million were raised in accordance with the Product Disclosure Statement dated 23 September 2016.

### b. Capital Structure

Prior to the IPO shareholder loans were converted to shares, amended banking arrangements were put in place and with the proceeds from the IPO bank borrowings were reduced to \$10 million.

## 4. SEASONALITY

The Group's business is not considered to be highly seasonal. Sales and related costs vary from month to month with overall variation considered to be immaterial. The cost of fish has historically shown seasonal variation between the first and second halves of the financial year due to harvesting from farms with different cost structures. Management has concluded that variations are not 'highly seasonal' in accordance with IAS 34 as this is dependent on operational planning. In any given year the Group would expect to harvest fish from all active sea farms.

# NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2016

## 5. SEGMENT INFORMATION

### a. Segment results

For management purposes, the Group is organised into three business units based on geographical sales market and customer channel. The operating results of the business units are monitored for the purpose of making decisions about resource allocation and performance assessment.

The Group's reportable segments are:

<b>New Zealand Retail</b>	The company provides these customers with pre-packed value added products (including wood roasted and cold smoked product), whole fresh fish and pre-cut fillets.
<b>New Zealand Foodservice</b>	The company provides these customers with a broad variety of salmon products including whole fresh fish, pre-cut fillets, portions and a range of smoked products.
<b>Export Market</b>	Predominantly customers based outside New Zealand, most of whom currently fall into the Foodservice category as described above.

Segment performance is evaluated at the EBITDA level and results are as follows:

	New Zealand Retail	New Zealand Foodservice	Export Market	Total
UNAUDITED	\$000	\$000	\$000	\$000
<b>Six months ended 31 December 2016</b>				
Revenue	17,136	19,490	27,000	63,626
<b>Segment results (EBITDA)</b>	<b>3,944</b>	<b>5,231</b>	<b>7,012</b>	<b>16,188</b>
<b>UNAUDITED</b>				
	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
<b>Six months ended 31 December 2015</b>				
Revenue	14,717	18,510	23,371	56,598
<b>Segment results (EBITDA)</b>	<b>2,421</b>	<b>3,249</b>	<b>5,473</b>	<b>11,143</b>

Depreciation, amortisation, finance income, finance cost and fair value gains and losses on financial assets are not allocated to individual segments as the underlying instruments are managed on a group basis.

	31 Dec 2016 UNAUDITED	31 Dec 2015 UNAUDITED
	\$000	\$000
<b>Segment results reconcile to profit before tax as follows:</b>		
<b>Segment results</b>	<b>16,188</b>	<b>11,143</b>
Depreciation, amortisation and impairment	(2,106)	(2,024)
Finance costs	(1,486)	(2,137)
<b>Group profit before tax</b>	<b>12,596</b>	<b>6,982</b>

The Group does not prepare information allocating assets and liabilities to the market facing segments as all material assets and liabilities are managed on a group basis.

### b. Revenue by geographical location of customers

	31 Dec 2016 UNAUDITED	31 Dec 2015 UNAUDITED
	\$000	\$000
New Zealand	36,626	33,228
North America	14,229	12,223
Australia	6,249	4,688
Japan	2,687	2,641
Europe	946	930
Other	2,889	2,888
	<b>63,626</b>	<b>56,598</b>

Sales net of settlement discounts to one major customer for the period ended 31 December 2016 accounted for over 10% of total revenue. Sales to that customer totalled \$8,516k or 13% of total sales (31 December 2015: one customer accounted for \$5,593k or 10% of total sales and another for \$7,136k or 13% of total sales). In both years these customers were included in the New Zealand Retail segment.

# NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2016

## 6. EARNINGS PER SHARE

Earnings per share is calculated by dividing the profit for the period attributable to shareholders by the weighted average number of ordinary shares on issue during the period.

Diluted earnings per share assume conversion of all potential ordinary shares in determining the weighted average number of ordinary shares on issue.

The Company completed a 2:11 for 1 share split on 19 September 2016. On 19 October 2016 the Company issued 27,966,462 shares in the initial public offering. The weighted average number of ordinary shares used in the calculation of earnings per share, basic and diluted, for 2015 has been adjusted to reflect the share split.

	<u>31 Dec 2016</u>	<u>31 Dec 2015</u>
	UNAUDITED	UNAUDITED
	\$000	\$000
Profit attributable to ordinary equity holders of the parent for basic and diluted earnings	8,705	5,736
	<b>Shares</b>	<b>Shares</b>
	<b>000</b>	<b>000</b>
Weighted average number of ordinary shares for basic earnings per share	121,439	110,191
Share options	-	375
Weighted average number of ordinary shares for diluted earnings per share	<u>121,439</u>	<u>110,566</u>

## 7. INVENTORIES

	<u>31 Dec 2016</u>	<u>30 June 2016</u>
	UNAUDITED	AUDITED
	\$000	\$000
Raw materials	11,286	9,811
Work in progress	111	50
Finished goods	7,847	7,430
<b>Total inventories</b>	<u>19,244</u>	<u>17,291</u>

The closing cost of finished goods as at 31 December 2016 includes a fair value uplift at point of harvest of \$2,212k (June 2016: \$2,507k) and an impairment provision of \$972k (June 2016: \$1,572k).

	<u>31 Dec 2016</u>	<u>31 Dec 2015</u>
	UNAUDITED	UNAUDITED
	\$000	\$000
<b>Amount of inventories recognised as an expense in the statement of comprehensive income</b>		
Cost of inventories recognised as an expense	59,596	50,749
Movement in net realisable value of inventory (increase)/decrease	(357)	319
<b>Total cost of inventories included in cost of goods sold</b>	<u>59,239</u>	<u>51,068</u>

The cost of inventories recognised as an expense for the period ended 31 December 2016 includes a fair value uplift at point of harvest of \$17,688k (December 2015: \$14,625k).

# NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2016

## 8. BIOLOGICAL ASSETS

The Group has three hatcheries in the South Island and eight operational marine salmon farms in the Marlborough Sounds. The fish livestock typically grow for up to 31 months before harvest.

	<u>31 Dec 2016</u> UNAUDITED	<u>30 Jun 2016</u> AUDITED
	Fair value \$000	Fair value \$000
<b>Biological assets:</b>		
As at 1 July	52,950	47,595
Increase due to biological transformation	62,519	91,530
Decrease due to harvest/mortality	(48,907)	(86,754)
Changes in fair value	730	579
<b>As at 31 December 2016 and 30 June 2016</b>	<u>67,292</u>	<u>52,950</u>
Closing fair value uplift from cost on biological assets	27,932	16,602
<b>Fair value gain/(loss) recognised in profit or loss</b>		
Gain arising from growth of biological assets	27,992	29,644
Movement in fair value of biological assets	730	579
<b>Total fair value gain/(loss) on biological transformation</b>	<u>28,722</u>	<u>30,223</u>
	<b>kg 000</b>	<b>kg 000</b>
Closing fresh water stocks	178	174
Closing sea water stocks	5,973	4,400
<b>Total closing biomass (live weight) at 31 December 2016 and 30 June 2016</b>	<u>6,151</u>	<u>4,574</u>
	<b>kg 000</b>	<b>kg 000</b>
<b>Biomass (live weight)</b>		
Fish harvest for the period	3,861	3,392

### Fair value measurement

Measurement of fair value is performed using a fair value model. The method of valuation therefore falls into level 3 of the fair value hierarchy as the inputs are unobservable inputs.

Selling price is estimated at balance dated based on the most relevant future market price at expected harvest date. The valuation of biological assets is carried out separately for each site at a brood and strategy level. Estimated actual cost up to the date of harvest per site is used to measure the expected margin at the time the fish is defined as ready for harvest, being 4.0kg live weight. The expected margin is recognised proportionately based on average biomass at reporting date. Fair value measurement commences at the date of transfer to sea water as this is considered the point at which the fish commence their grow out cycle.

### Fair value risk and sensitivity

The Group is exposed to financial risks relating to the production of salmon stocks including climatic events, disease and contamination of water space.

The Group seeks to produce and market the highest quality salmon products. Extensive monitoring and benchmarking is carried out to provide optimum conditions and diets to maximise fish performance during the grow out cycle. Sales are maintained in a range of brands, products and markets to maximise returns from the quality mix of fish harvested. The Group has insurance to cover various risks relating to the livestock.

The estimate of unrealised fair value uplift from cost is based on several assumptions. Changes in these assumptions will impact the fair value calculation. The realised profit which is achieved on the sale of inventory will differ from the calculations of fair value of biological assets because of changes in key factors such as the final market destinations of inventory sold, changes in price, foreign exchange rates, harvest weight, growth rates, mortality, cost levels and differences in harvested fish quality.

Leaving all other variables constant a 5.0% increase/decrease in average sales prices would increase/decrease the fair value of biological assets and profit before tax by \$4.6m, while a 5.0% increase/decrease in harvest volume would increase/decrease the fair value of biological assets and profit before tax by \$1.4m.

A change in production costs will generally have a lesser impact on the fair value of biological assets than the same percentage change in sale price or harvest volumes. Changes in fish health and environmental factors may affect the quality of harvested fish, which may be reflected in realised profit via both achieved sales price and production costs.

# NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2016

## 9. INTEREST BEARING LOANS AND BORROWINGS

	31 Dec 2016	30 Jun 2016
	UNAUDITED	AUDITED
	\$000	\$000
<b>Current</b>		
Current portion of finance lease liabilities	156	66
Current portion of secured bank loans	-	19,000
Other borrowings	1,083	260
	<b>1,239</b>	<b>19,326</b>
<b>Non-current</b>		
Finance lease liabilities	140	163
Secured bank loans	10,000	-
	<b>10,140</b>	<b>163</b>

The Company has facilities with BNZ for \$30m, secured by a general security deed over the assets of the Group. The expiry date of facility A of \$18m is 25 November 2020, and facility B of \$12m expires on 18 October 2019. At balance date \$10m of facility A was drawn (June 2016: \$19m).

## 10. FAIR VALUES OF FINANCIAL INSTRUMENTS

The table below is a comparison by class of the carrying amounts and fair value of the Group's financial instruments, other than those with carrying amounts that are reasonable approximations of fair values:

	31 Dec 2016		30 Jun 2016	
	Carrying amount	Fair value	Carrying amount	Fair value
	UNAUDITED	UNAUDITED	AUDITED	AUDITED
	\$000	\$000	\$000	\$000
<b>FINANCIAL ASSETS</b>				
<b>Current assets</b>				
Forward exchange contracts	635	635	339	339
Foreign exchange options	197	197	187	187
Loans to employees	-	-	2,758	2,758
	<b>832</b>	<b>832</b>	<b>3,284</b>	<b>3,284</b>
<b>Non-current assets</b>				
Forward exchange contracts	1,002	1,002	734	734
Foreign exchange options	983	983	709	709
	<b>1,985</b>	<b>1,985</b>	<b>1,443</b>	<b>1,443</b>
<b>FINANCIAL LIABILITIES</b>				
<b>Current liabilities</b>				
Loans and borrowings	1,083	1,083	19,000	19,000
Obligations under finance leases	156	156	66	66
Forward exchange contracts	1,077	1,077	1,107	1,107
Foreign exchange options	60	60	27	27
Interest rate swaps	683	683	1,185	1,185
Other financial liabilities	-	-	4,427	4,427
Shareholder loans	-	-	73,114	73,114
	<b>3,059</b>	<b>3,059</b>	<b>98,926</b>	<b>98,926</b>
<b>Non-current liabilities</b>				
Loans and borrowings	10,000	10,000	-	-
Obligations under finance leases	140	134	163	149
Forward exchange contracts	915	915	1,319	1,319
Foreign exchange options	462	462	634	634
Interest rate swaps	131	131	822	822
	<b>11,648</b>	<b>11,642</b>	<b>2,938</b>	<b>2,924</b>

The carrying value of cash and short term deposits, trade receivables, trade payables and other current liabilities is equivalent to their fair value due to the short term maturities of these instruments.

# NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2016

## 10. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

### Valuation methods

Financial instruments have been categorised into the following hierarchy and valued according to the following definitions, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1: Quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices)

Level 3: Inputs for the assets or liabilities that are not based on observable market data (unobservable inputs)

All derivative financial instruments for which a fair value is recognised have been categorised within level 2 of the fair value hierarchy. Industry experts have provided the fair values for all derivatives based on an industry standard model.

## 11. COMMITMENTS AND CONTINGENCIES

### a. Capital expenditure and other commitments

	<u>31 Dec 2016</u>	<u>30 Jun 2016</u>
	<u>UNAUDITED</u>	<u>AUDITED</u>
	\$000	\$000
<b>Total capital and other commitments</b>	<u>1,946</u>	<u>2,602</u>

The Group has entered into agreements to purchase aquaculture plant and equipment and processing plant and equipment. As at 31 December 2016 the total commitment is \$1,946k (June 2016: \$508k).

### b. Contingencies

The Group has a contingent liability of \$783k in respect of a fish transport contract requiring the Group to purchase three bulk tankers, should the fish transport contract be terminated early (June 2016: \$840k).

The Group is currently in discussion with a feed supplier regarding a feed quality issue and the outcome is yet to be resolved.

# NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2016

## 12. CAPITAL AND RESERVES

	31 Dec 2016	30 Jun 2016
	UNAUDITED	AUDITED
	000	000
<b>Issued Capital</b>	138,158	25,268

Issued capital at 31 December 2016 amounted to \$122,517,958 (June 2016: \$25,295,501) and 138,157,843 (June 2016: 25,267,695) ordinary shares.

### a. Ordinary share capital

Ordinary shares

Ordinary shares are fully paid with no par value. Each ordinary share has an equal right to vote, to participate in dividends, and to share in any surplus on the winding up of the Company.

	31 Dec 2016		30 Jun 2016	
	UNAUDITED		AUDITED	
	# shares	Value	# shares	Value
	000	\$000	000	\$000
<b>b. Movement in ordinary share capital</b>				
As at 1 July 2015	25,295	25,296	25,268	25,296
Shareholder loans converted to share capital	26,941	70,202		
Shares issued by way of 2.11 to 1 share split	57,955	-	-	-
Issue of new shares pursuant to IPO	26,786	30,000	-	-
Less: Transactional costs arising on share issue	-	(1,797)	-	-
Employee offer pursuant to IPO	1,181	1,323	-	-
Share issue for employee share scheme	-	(2,505)	-	-
	<b>138,158</b>	<b>122,519</b>	<b>25,268</b>	<b>25,296</b>

In preparation for the IPO, shareholder loans of \$70,202,480 were converted to shares with one share issued for each \$2.6058 of shareholder loan converted. In September 2016 the ordinary share capital that had been converted from shareholder loans was subdivided on the basis of a 2.11 to 1 share split which resulted in an additional 57,955,025 shares being issued on 19 September 2016. The Company issued 26,785,715 of ordinary shares at \$1.12 per share at the IPO on 19 October 2016.

The Senior Executive Share Scheme involves the Company making interest-free loans to selected senior executives to acquire shares in the Company. 5,063,406 shares are held by a custodian at the end of the reporting period.

### c. Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of the foreign subsidiary.

## 13. RELATED PARTY DISCLOSURES

### a. Subsidiaries

New Zealand King Salmon Investments Limited has the following trading subsidiaries.

Name	Country of incorporation	Equity interest	
		31 Dec 2016	30 Jun 2016
The New Zealand King Salmon Co Limited	New Zealand	100%	100%
The New Zealand King Salmon Pty Limited	Australia	100%	100%

The principal activity of The New Zealand King Salmon Co Ltd is the farming and processing of salmon. The activity of The New Zealand King Salmon Pty Ltd is the distribution of salmon.

### b. Entities with significant influence over the Group

At balance date Oregon Group Limited owned 40.26% (30 June 2016: 50.88%) of the shares in New Zealand King Salmon Investments Limited.



# NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2016

## 13. RELATED PARTY DISCLOSURES (CONTINUED)

### c. Transactions with related parties

The following provides the total amount of transactions that were entered into with related parties for the relevant financial year.

	<u>31 Dec 2016</u>	<u>31 Dec 2015</u>
	<u>UNAUDITED</u>	<u>UNAUDITED</u>
	\$000	\$000
Interest paid - Oregon Group Limited	272	787
Interest paid - other shareholders	194	619
Goods and services purchased from other related parties	1	52

### d. Terms and conditions of transactions with related parties

Sales to and purchases from related parties are made in arm's length transactions both at normal market prices and on normal commercial terms.

### e. Amounts owing to related parties

	<u>31 Dec 2016</u>	<u>30 Jun 2016</u>
	<u>UNAUDITED</u>	<u>AUDITED</u>
	\$000	\$000
<b>Current:</b>		
Amounts advanced by shareholders of NZKS Custodian Ltd	-	4,427
Shareholders' loans	-	53,826
Shareholder advance repayable on demand	-	15,765
<b>Current portion of shareholder loans</b>	<b>-</b>	<b>69,591</b>
Accrued interest on shareholders' loans	-	3,523
	<b>-</b>	<b>73,114</b>

On 19 September 2016 shareholder loans of \$70,202,480 were converted to shares with one share issued for each \$2.6058 of shareholder loan converted.

### f. Amounts owing by related parties

	<u>31 Dec 2016</u>	<u>30 Jun 2016</u>
	<u>UNAUDITED</u>	<u>AUDITED</u>
	\$000	\$000
Owing by related parties	-	2,758

These loans are interest free and are in relation to the Senior Executive Share Scheme.

### g. Compensation of key management personnel of the Group

	<u>31 Dec 2016</u>	<u>31 Dec 2015</u>
	<u>UNAUDITED</u>	<u>UNAUDITED</u>
	\$000	\$000
Short-term employee benefits	1,390	1,017
Post employment pension and medical benefits	55	45
	<b>1,445</b>	<b>1,062</b>

## 14. EVENTS AFTER BALANCE DATE

There have been no significant events after balance date.



Chartered Accountants

## Review Report to the Shareholders of New Zealand King Salmon Investments Limited ("the company") and its subsidiaries (together "the group")

We have reviewed the interim financial statements on pages 6 to 17, which comprise the statement of financial position of the group as at 31 December 2016, and the statement of comprehensive income, statement of changes in equity and statement of cash flows of the group for the six month period ended on that date, and a summary of significant accounting policies and other explanatory information.

This report is made solely to the company's shareholders, as a body. Our review has been undertaken so that we might state to the company's shareholders those matters we are required to state to them in a review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's shareholders as a body, for our review work, for this report, or for our findings.

### Directors' Responsibilities

The directors are responsible for the preparation and fair presentation of interim financial statements which comply with New Zealand Equivalent to International Accounting Standard 34: *Interim Financial Reporting* and for such internal control as the directors determine is necessary to enable the preparation and fair presentation of the interim financial statements that are free from material misstatement, whether due to fraud or error.

### Reviewer's Responsibilities

Our responsibility is to express a conclusion on the interim financial statements based on our review. We conducted our review in accordance with NZ SRE 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity*. NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the financial statements, taken as a whole, are not prepared in all material respects, in accordance with New Zealand Equivalent to International Accounting Standard 34: *Interim Financial Reporting*. As the auditor of the group, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

### Basis of Statement

A review of interim financial statements in accordance with NZ SRE 2410 is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand). Accordingly we do not express an audit opinion on these financial statements.

We were engaged as investigating accountant in connection with the public offer of shares in the company and provide taxation advice to the group. We have no other relationship with, or interest in, the group.

### Conclusion

Based on our review nothing has come to our attention that causes us to believe that the accompanying interim financial statements, set out on pages 6 to 17, do not present fairly, in all material respects, the financial position of the group as at 31 December 2016 and its financial performance and cash flows for the six month period ended on that date in accordance with New Zealand Equivalent to International Accounting Standard 34: *Interim Financial Reporting*.

Our review was completed on 28 February 2017 and our findings are expressed as at that date.

Ernst & Young  
Christchurch





# New Zealand King Salmon

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