



**NEW ZEALAND KING SALMON INVESTMENTS LIMITED AND  
SUBSIDIARIES**

**INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE SIX MONTHS ENDED 31 DECEMBER 2017**

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FOR THE SIX MONTHS ENDED 31 DECEMBER 2017

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# NEW ZEALAND KING SALMON INVESTMENTS LIMITED AND SUBSIDIARIES

## CORPORATE INFORMATION

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### Board of Directors

<i>Director</i>	<i>Position</i>	<i>Appointment Date</i>
John William Dudley Ryder	Independent Non-Executive Chairman	21 September 2016
Grantley Bruce Rosewarne	Chief Executive Officer and Managing Director	21 September 2016
Mark Robert Hutton	Independent Non-Executive Director	21 September 2016
Jack Lee Porus	Non-Executive Director	7 November 2017
Paul James Steere	Independent Non-Executive Director	7 November 2017
Thomas Chai Leng Song	Non-Executive Director	21 September 2016
Xin Wang	Non-Executive Director	7 November 2017

### Other Corporate Information

#### *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

#### *Solicitors*

Chapman Tripp  
Level 35  
23 Albert Street  
Auckland  
New Zealand

#### *Auditors*

Ernst & Young (EY)  
Level 4/93  
Cambridge Terrace  
Christchurch  
New Zealand

## INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 31 DECEMBER 2017

	Note	UNAUDITED 31 Dec 2017 \$000	UNAUDITED 31 Dec 2016 \$000
Revenue	4	87,688	63,626
Cost of goods sold		(76,244)	(59,239)
Fair value gain on biological transformation		31,204	28,722
Freight costs to market		(8,222)	(6,077)
<b>Gross profit</b>		<b>34,426</b>	<b>27,032</b>
Other income		1,500	738
Sales, marketing and advertising expenses		(5,863)	(4,012)
Distribution overheads		(1,593)	(1,436)
Corporate expenses		(4,048)	(3,513)
Other expenses		(112)	(2,621)
<b>Earnings before interest, tax, depreciation and amortisation</b>		<b>24,310</b>	<b>16,188</b>
Depreciation and amortisation expense		(2,419)	(2,106)
Finance income		88	86
Finance expenses		(425)	(1,572)
<b>Profit before tax</b>		<b>21,554</b>	<b>12,596</b>
Income tax expense		(5,819)	(3,891)
<b>Net profit after tax</b>		<b>15,735</b>	<b>8,705</b>
<b>Other comprehensive income</b>			
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods (net of tax):</i>			
Exchange differences on translation of foreign operations		87	(28)
Net movement on cash flow hedges		1,032	1,813
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods (net of tax):</i>			
Share based payment expense		121	41
<b>Net other comprehensive income</b>		<b>1,240</b>	<b>1,826</b>
<b>Total comprehensive income</b>		<b>16,975</b>	<b>10,531</b>
<b>Earnings per share</b>			
Basic earnings per share	5	\$ 0.11	\$ 0.07
Diluted earnings per share	5	\$ 0.11	\$ 0.07

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

# INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2017

	Note	UNAUDITED 31 Dec 2017 \$000	AUDITED 30 Jun 2017 \$000
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		15,529	10,647
Trade and other receivables		19,299	11,688
Inventories	6	18,522	16,674
Biological assets	7	74,454	68,556
Non-current assets held for sale		421	421
Other financial assets	12	1	-
Derivative financial assets	9	2,182	2,066
<b>Total current assets</b>		<b>130,408</b>	<b>110,052</b>
<b>Non-current assets</b>			
Property, plant and equipment		38,671	35,726
Biological assets	7	9,126	10,960
Derivative financial assets	9	4,032	3,196
Deferred tax asset		1,761	1,636
Intangible assets		3,598	3,687
Goodwill		39,255	39,255
<b>Total non-current assets</b>		<b>96,443</b>	<b>94,460</b>
<b>TOTAL ASSETS</b>		<b>226,851</b>	<b>204,512</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables		18,790	13,282
Employee benefits		2,974	3,028
Borrowings	8	1,513	414
Other financial liabilities	12	46	18
Derivative financial liabilities	9	906	1,277
Taxation payable		4,240	2,285
<b>Total current liabilities</b>		<b>28,469</b>	<b>20,304</b>
<b>Non-current liabilities</b>			
Employee benefits		464	451
Borrowings	8	10,016	10,124
Deferred tax liabilities		15,621	14,010
Derivative financial liabilities	9	827	948
<b>Total non-current liabilities</b>		<b>26,928</b>	<b>25,533</b>
<b>TOTAL LIABILITIES</b>		<b>55,397</b>	<b>45,837</b>
<b>NET ASSETS</b>		<b>171,454</b>	<b>158,675</b>
<b>EQUITY</b>			
Share capital	11	122,574	122,518
Reserves		3,035	1,795
Retained earnings		45,845	34,362
<b>TOTAL EQUITY</b>		<b>171,454</b>	<b>158,675</b>
<b>Net tangible assets per share</b>			
Net tangible assets per share		\$ 1.31	\$ 1.15

For and on behalf of the Board, who authorised the issue of these financial statements on 28 February 2018.

Director

28 February 2018

Director

28 February 2018

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

## INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 31 DECEMBER 2017

	Share Capital \$000	Foreign Currency Translation Reserve \$000	Hedge Reserve \$000	Share Based Payment Reserve \$000	Retained Earnings \$000	Total Equity \$000
<b>UNAUDITED</b>						
<b>Balance as at 1 July 2017</b>	122,518	(515)	2,168	142	34,362	158,675
Profit for the period	-	-	-	-	15,735	15,735
Other comprehensive income/(loss)	-	87	1,032	121	-	1,240
<b>Total comprehensive income/(loss) for the period</b>	-	87	1,032	121	15,735	16,975
Dividend paid	-	-	-	-	(4,252)	(4,252)
Employee share scheme loans repaid	56	-	-	-	-	56
<b>Balance as at 31 December 2017</b>	<b>122,574</b>	<b>(428)</b>	<b>3,200</b>	<b>263</b>	<b>45,845</b>	<b>171,454</b>
<b>UNAUDITED</b>						
<b>Balance as at 1 July 2016</b>	25,296	(527)	(2,195)	-	14,440	37,014
Profit for the period	-	-	-	-	8,705	8,705
Other comprehensive income/(loss)	-	(28)	1,813	41	-	1,826
<b>Total comprehensive income/(loss) for the period</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	68,914	-	-	-	-	68,914
Shares issued	30,105	-	-	-	-	30,105
Transaction costs arising on share issue	(1,797)	-	-	-	-	(1,797)
<b>Balance as at 31 December 2016</b>	<b>122,518</b>	<b>(555)</b>	<b>(382)</b>	<b>41</b>	<b>23,145</b>	<b>144,767</b>

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

## INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2017

	UNAUDITED 31 Dec 2017	UNAUDITED 31 Dec 2016
	\$000	\$000
<b>Operating activities</b>		
Receipts from customers	82,464	59,744
Payments to suppliers	(49,263)	(43,033)
Payments to employees	(17,329)	(15,189)
Interest received	80	78
Interest paid	(293)	(1,052)
Insurance and settlement income	-	214
Other income received	1,352	-
Income tax paid	(2,783)	(1,741)
<b>Net cash flows from operating activities</b>	<b>14,228</b>	<b>(979)</b>
<b>Investing activities</b>		
Proceeds from sale of property, plant and equipment	-	10
Purchase of property, plant and equipment	(5,263)	(3,696)
Purchase of intangible assets	(14)	(49)
<b>Net cash flow from investing activities</b>	<b>(5,277)</b>	<b>(3,735)</b>
<b>Financing activities</b>		
Repayment of revolving loan	-	(9,000)
Government grants received	147	-
Gross proceeds from share issue	-	30,105
Transaction costs arising from share issue	-	(1,797)
Proceeds from shareholder advances	-	1,402
Repayment of shareholder advances	-	(7,651)
Payment of finance lease liabilities	(50)	(70)
Employee share scheme loans repaid	57	-
Dividends received on behalf of Custodian Holders	28	-
Dividends paid	(4,252)	-
<b>Net cash flows from financing activities</b>	<b>(4,070)</b>	<b>12,989</b>
<b>Net increase in cash and cash equivalents</b>	<b>4,881</b>	<b>8,275</b>
<b>Cash and cash equivalents at 1 July</b>	<b>10,648</b>	<b>2,419</b>
<b>Cash and cash equivalents at 31 December</b>	<b>15,529</b>	<b>10,694</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 2017

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### 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 2017 were authorised by the Directors on 28 February 2018.

New Zealand King Salmon Investments Limited is a profit-orientated 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 2017 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. BASIS OF PREPARATION

#### a. Statement of compliance

The interim consolidated financial statements for the six months ended 31 December 2017 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 2017 which were prepared in accordance with NZ IFRS and IFRS.

The interim consolidated financial statements for the six months ended 31 December 2017 are unaudited. Comparative information for the interim consolidated statement of financial position is at 30 June 2017 and is audited. Comparative information for the interim consolidated statement of comprehensive income, statement of 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 2017.

#### 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 2017.

### 3. 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.

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2017

### 4. SEGMENT INFORMATION

#### 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</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 \$000	New Zealand Foodservice \$000	Export Market \$000	Total \$000
<b>UNAUDITED</b>				
<b>Six months ended 31 Dec 2017</b>				
Revenue	22,985	20,752	43,951	87,688
Segment EBITDA	4,728	5,989	13,593	24,310
<b>UNAUDITED</b>				
<b>Six months ended 31 Dec 2016</b>				
Revenue	17,136	19,490	27,000	63,626
Segment EBITDA	3,944	5,231	7,013	16,188

Depreciation, amortisation, finance income and costs, 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.

Segment profit reconciles to profit before income tax as follows:

	UNAUDITED 31 Dec 2017 \$000	UNAUDITED 31 Dec 2016 \$000
<b>Segment profit</b>	24,310	16,188
Depreciation, amortisation and impairment	(2,419)	(2,106)
Net finance costs	(337)	(1,486)
<b>Group profit before tax</b>	21,554	12,596

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.

	UNAUDITED 31 Dec 2017 \$000	UNAUDITED 31 Dec 2016 \$000
<b>Revenue by geographical location of customers</b>		
New Zealand	43,736	36,626
North America	25,636	14,229
Australia	6,675	6,249
Japan	5,683	2,687
Europe	1,311	946
Other	4,647	2,889
<b>Total revenue</b>	87,688	63,626

Sales net of settlement discounts to two major customer for the period ended December 2017 totalled \$18,842k or 22% of total sales (December 2016 one major customer accounted for \$8,516k or 13%). In both years, these customers were included in the New Zealand Retail segment.

### 5. EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing the profit for the year attributable to shareholders of the Company by the weighted average number of ordinary shares on issue during the year. Diluted earnings per share assume conversion of all potential ordinary shares in determining the weighted average number of ordinary shares on issue.

	UNAUDITED 31 Dec 2017 \$000	UNAUDITED 31 Dec 2016 \$000
<b>Earnings per share</b>		
Profit attributable to ordinary equity holders	15,735	8,705
	# of Shares 000	# of Shares 000
Weighted average number of ordinary shares for diluted earnings per share	138,320	121,439
<b>Basic earnings per share</b>	\$ 0.11	\$ 0.07
<b>Diluted earnings per share</b>	\$ 0.11	\$ 0.07

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2017

### 6. INVENTORIES

	UNAUDITED 31 Dec 2017	AUDITED 30 Jun 2017
	\$000	\$000
<b>Inventories</b>		
Raw materials	12,593	9,525
Work in progress	141	-
Finished goods	5,788	7,149
<b>Total inventories</b>	<b>18,522</b>	<b>16,674</b>
	UNAUDITED 31 Dec 2017	UNAUDITED 31 Dec 2016
	\$000	\$000
<b>Amount of inventories recognised as an expense in the statement of comprehensive income</b>		
Cost of inventories recognised as an expense	76,614	59,596
Movement in net realisable value of inventory decrease	(370)	(357)
<b>Total cost of goods sold</b>	<b>76,244</b>	<b>59,239</b>

The cost of inventories recognised as an expense for the period ended December 2017 includes a fair value uplift at point of harvest of \$26,456k (December 2016: \$17,688k).

### 7. 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.

	UNAUDITED Cost \$000	Fair value \$000	Total \$000
<b>Biological assets</b>			
<b>As at 1 July 2017</b>	45,088	34,428	79,516
Increase due to biological transformation <sup>1</sup>	34,408	27,039	61,447
Decrease due to harvest <sup>2</sup>	(32,138)	(26,456)	(58,594)
Decrease due to mortality <sup>3</sup>	(2,954)	-	(2,954)
Changes in fair value <sup>4</sup>	-	4,165	4,165
<b>As at 31 December 2017</b>	<b>44,404</b>	<b>39,176</b>	<b>83,580</b>

<sup>1</sup> Biological transformation fair value is impacted by volume increases (net of mortalities) and fish size at reporting date relative to the target harvest weight of 4 kgs (proportional recognition).

<sup>2</sup> Harvested fair value is included under cost of goods sold in the statement of comprehensive income and is calculated by multiplying the current years harvest (biomass) by the prior years expected gross margin per kg (recognised at 100%).

<sup>3</sup> Mortality cost is expensed directly to the statement of comprehensive income in the period which it occurs.

<sup>4</sup> Changes in fair value are impacted by movements in margin primarily being changes in sales price and costs to sell (fish cost, harvest, processing and freight to market).

	AUDITED Cost \$000	Fair value \$000	Total \$000
<b>Biological assets</b>			
<b>As at 1 July 2016</b>	36,348	16,602	52,950
Increase due to biological transformation	70,330	50,606	120,936
Decrease due to harvest	(56,346)	(37,019)	(93,365)
Decrease due to mortality	(5,244)	-	(5,244)
Changes in fair value	-	4,239	4,239
<b>As at 30 June 2017</b>	<b>45,088</b>	<b>34,428</b>	<b>79,516</b>

	UNAUDITED 31 Dec 2017	UNAUDITED 31 Dec 2016
	\$000	\$000
<b>Fair value gain / (loss) recognised in profit and loss</b>		
Gain arising from growth of biological assets	27,039	27,992
Movement in fair value of biological assets	4,165	730
<b>Total fair value gain on biological transformation</b>	<b>31,204</b>	<b>28,722</b>

	UNAUDITED 31 Dec 2017	AUDITED 30 Jun 2017
	kg 000	kg 000
<b>Estimated closing biomass</b>		
Closing fresh water stocks	158	142
Closing seawater stocks	6,526	6,085
<b>Total estimated closing biomass live weight</b>	<b>6,684</b>	<b>6,227</b>

	UNAUDITED 31 Dec 2017	UNAUDITED 31 Dec 2016
	kg 000	kg 000
<b>Live weight harvested for the period (metric tonnes)</b>	<b>5,027</b>	<b>3,861</b>

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2017

### BIOLOGICAL ASSETS (continued)

#### 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.

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. Selling price is estimated at balance date based on the most relevant future market price at expected harvest date. The expected gross 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 estimate of unrealised fair value gain 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 estimated average future sales prices would have increased/decreased the fair value of biological assets on hand at balance date and profit before tax by \$5.9m (excludes the impact of finished goods), while a 5.0% increase/decrease in future harvest volume would increase/decrease the fair value of biological assets on hand and profit before tax by \$2.0m.

A 5% increase/decrease in estimated future costs to sell would increase/decrease the fair value of biological assets on hand at balance date and profit before tax by \$4.0m. 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.

### 8. INTEREST BEARING LOANS AND BORROWINGS

	UNAUDITED	AUDITED
	31 Dec 2017	30 Jun 2017
	\$000	\$000
<b>Current interest bearing loans and borrowings</b>		
Finance lease liabilities	201	144
Other borrowings	1,312	270
<b>Total current interest bearing loans and borrowings</b>	<b>1,513</b>	<b>414</b>
<b>Non-current interest bearing loans and borrowings</b>		
Finance lease liabilities	16	124
Secured bank loans	10,000	10,000
<b>Total non-current interest bearing loans and borrowings</b>	<b>10,016</b>	<b>10,124</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 2017: \$10m).

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2017

### 9. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

The carrying value of the BNZ loan drawing of \$10m is considered a reasonable approximation of its fair value due to the short term maturities of the drawings. New Zealand King Salmon Investments has the discretion to roll these short term drawings out to 2020.

The following financial instruments of the Group are carried at fair value:

	UNAUDITED 31 Dec 2017	AUDITED 30 Jun 2017
	\$000	\$000
<b>Current derivative financial assets</b>		
Forward exchange contracts	1,763	1,776
Foreign exchange options	419	290
<b>Total Current derivative financial assets</b>	<b>2,182</b>	<b>2,066</b>
<b>Non-current derivative financial assets</b>		
Forward exchange contracts	2,256	1,882
Foreign exchange options	1,776	1,314
<b>Total Non-current derivative financial assets</b>	<b>4,032</b>	<b>3,196</b>
<b>Current derivative financial liabilities</b>		
Forward exchange contracts	9	519
Foreign exchange options	53	24
Interest rate swaps	844	734
<b>Total Current derivative financial liabilities</b>	<b>906</b>	<b>1,277</b>
<b>Non-current derivative financial liabilities</b>		
Forward exchange contracts	-	451
Foreign exchange options	642	307
Interest rate swaps	185	190
<b>Total non-current derivative financial liabilities</b>	<b>827</b>	<b>948</b>

The carrying value of obligations under financial leases differs from fair value as follows:

	UNAUDITED As at 31 Dec 2017		AUDITED As at 30 Jun 2017	
	Carrying amount	Fair value	Carrying amount	Fair value
	\$000	\$000	\$000	\$000
Obligations under finance leases	217	200	267	233
<b>Total obligations under finance leases</b>	<b>217</b>	<b>200</b>	<b>267</b>	<b>233</b>

#### 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.

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2017

### 10. COMMITMENTS AND CONTINGENCIES

#### UNAUDITED

##### Capital commitments

The Group has entered into an agreement to purchase plant and equipment. As at 31 December 2017 the total commitment is \$1,720k (June 2017: \$1,137k).

##### Contingencies

The Group has a contingent liability of \$1,018k in respect of a fish transport contract requiring the Group to purchase three bulk tankers (including modifications made in 2017), should the fish transport contract be terminated early (June 2017: \$995k).

### 11. CAPITAL AND RESERVES

	UNAUDITED	AUDITED
	31 Dec 2017	30 Jun 2017
Share capital		
Issued shares	000	000
Ordinary shares	138,475	138,158
Total issued shares	138,475	138,158

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 winding up of the Company. Dividends paid during the period ended December 2017 consisted of a fully imputed final dividend of \$0.02 per share and a fully imputed special dividend of \$0.01 paid on 18 September 2017 (December 2016: nil).

	# of Shares		Share Capital	
	UNAUDITED 31 Dec 2017	AUDITED 30 Jun 2017	UNAUDITED 31 Dec 2017	AUDITED 30 Jun 2017
	000	000	\$000	\$000
<b>Movement in ordinary share capital</b>				
<i>As at 1 July</i>	138,158	25,295	122,518	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
Transactional costs arising on share issue	-	-	-	(1,797)
Employee offer pursuant to IPO	-	1,181	-	1,322
Employee share scheme loans repaid	-	-	56	-
Share issue for employee share scheme	317	-	-	(2,505)
<b>As at 31 December or 30 June</b>	<b>138,475</b>	<b>138,158</b>	<b>122,574</b>	<b>122,518</b>

#### Reserves

##### Foreign currency translation reserve

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

##### Hedge reserve

The hedge reserve represents the unrealised gains and losses on interest rate swaps and foreign currency forward contracts that the Group has taken out in order to mitigate interest rate and foreign currency risks, net of deferred tax.

##### Share based payment reserve

The share based payment reserve relates to two long term incentive (LTI) schemes and an employee share ownership scheme. All of these schemes involve the Company making interest-free limited recourse loans to selected personnel to acquire shares in the Company. The employees must remain in employment for the duration of the vesting or escrow periods before the employees receive the full benefit of share ownership.

The senior leadership LTI scheme was established prior to the IPO and relates to 3,176,878 shares in the Company. The ordinary shares in the Company are security for the interest-free limited recourse loans and are held in escrow until after the financial results have been announced for the year ending 30 June 2018. Loans relating to 114,714 shares were repaid during the period.

The senior executive LTI scheme was established at the time of the IPO with 993,671 ordinary shares in the Company being issued at an issue price of \$1.12 per share. The ordinary shares in the Company are security for the interest-free limited recourse loans, are held by a Custodian and will vest three years from the granting date of 19 October 2016. During the period, 164,548 of these shares were forfeited. On 29 September 2017 a further 317,215 shares were issued, being 270,274 shares issued to existing senior executive shareholders at an issue price of \$1.22 per share, and 47,241 shares issued to new senior executive shareholders at an issue price of \$1.77 per share. These shares will also vest three years from the granting date. The price to be paid for each share is the issue price at granting date, reduced by any dividends that are applied to the interest-free limited recourse loans. No shares vested or expired during the period.

The employee share ownership scheme was established at the time of the IPO and relates to 187,076 ordinary shares in the Company. The ordinary shares in the Company are security for the interest-free limited recourse loans which may remain in place whilst the holder is in employment with the Company. Loans relating to 20,538 shares were repaid during the period by employees leaving the Company.

##### Retained earnings

Retained earnings represents the profits retained in the business.

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2017

### 12. RELATED PARTY DISCLOSURES

#### Subsidiaries

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

<i>Subsidiary</i>	<i>Company of Incorporation</i>	<i>Equity Interest</i>
The New Zealand King Salmon Co Limited	New Zealand	100%
The New Zealand King Salmon Pty Limited	Australia	100%
New Zealand King Salmon Exports Limited	New Zealand	100%
New Zealand King Salmon USA Inc.	United States of America	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.

At balance date Oregon Group Limited owned 40.17% (30 June 2017: 40.3%) of the shares in New Zealand King Salmon Investments Limited.

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

	UNAUDITED 31 Dec 2017 \$000	UNAUDITED 31 Dec 2016 \$000
<b>Related party payments</b>		
Interest paid - Oregon Group Limited	-	272
Interest paid - Other shareholders	-	194
Good and services purchased from other related parties	4	1
<b>Total related party payments</b>	<b>4</b>	<b>467</b>
<b>Related party sales</b>		
Goods and services sold to related parties	(550)	(431)
<b>Total related party sales</b>	<b>(550)</b>	<b>(431)</b>

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

	UNAUDITED 31 Dec 2017 \$000	AUDITED 30 Jun 2017 \$000
<b>Amounts owing to related parties</b>		
<b>Current amounts owing to related parties</b>		
Other amounts owing to related parties	46	18
<b>Total current amounts owing to related parties</b>	<b>46</b>	<b>18</b>

	UNAUDITED 31 Dec 2017 \$000	AUDITED 30 Jun 2017 \$000
<b>Amounts owing by related parties</b>		
Amounts owing by related parties	57	94
<b>Total amounts owing by related parties</b>	<b>57</b>	<b>94</b>

	UNAUDITED 31 Dec 2017 \$000	UNAUDITED 31 Dec 2016 \$000
<b>Compensation of key management personnel of the Group</b>		
<b>Key management personnel compensation</b>		
Short-term employee benefits	1,372	1,390
Share based payment expense	121	41
Post employment pension and medical benefits	75	55
<b>Total key management personnel compensation</b>	<b>1,568</b>	<b>1,486</b>

### 13. EVENTS AFTER BALANCE DATE

The Ministry for Primary Industries initiated a process which may result in a swap of certain water space licences for alternative water space which remains ongoing at the date of completing these financial statements. On 14 February 2018 the Marlborough Salmon Farm Relocations Advisory Panel report to the previous Minister for Primary Industries was made publicly available by the Minister of Fisheries. The Minister has indicated that he will consider the report and will take some months to issue a decision. The outcome of this process could create significant changes to the Group's operations in future.

Subsequent to the end of the period there has been significantly lower than normal fish survival rates at sea farms for this time of year. The abnormal survival rates are expected to continue in the short term, and are expected to return to normal historical survival rates as the extraordinarily high summer temperatures return towards normal temperatures. These are considered non-adjusting subsequent events. The financial effect of these events cannot be reliably estimated, as it is highly dependent on a range of future impacts including sales prices, product mix, harvest volume, mortality and harvested fish cost.

## **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 2 to 12, which comprise the statement of financial position of the group as at 31 December 2017, 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 those financial statements.

We 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 2 to 12, do not present fairly, in all material respects, the financial position of the group as at 31 December 2017 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 2018 and our findings are expressed as at that date.



Christchurch