New Zealand
King Salmon

NEW ZEALAND KING SALMON INVESTMENTS LIMITED AND SUBSIDIARIES

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

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FOR THE YEAR ENDED 30 JUNE 2017

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Board of Directors

Director	Position	Appointment Date	
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	21 September 2016	
Paul James Steere	Independent Non-Executive Director	21 September 2016	
Thomas Chai Leng Song	Non-Executive Director	21 September 2016	
Wang Xin	Non-Executive Director	28 February 2017	
Thomas Wilton Sturgess	Independent Non-Executive Chairman	17 March 2009	*Resigned 15 July 2016*

Other Corporate Information

Bankers

The Bank of New Zealand
81 Riccarton Road
Christchurch
New Zealand

ANZ Bank New Zealand Limited
248 Trafalgar Street
Nelson
New Zealand

Auditors

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

Principal Place of Business

93 Beatty Street
Annesbrook
Nelson
New Zealand

Solicitors

Chapman Tripp
Level 35
23 Albert Street
Auckland
New Zealand

Registered Office

93 Beatty Street
Annesbrook
Nelson
New Zealand

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2017

	Note	2017 $000	2016 $000
Revenue	5	136,351	114,060
Cost of goods sold	14	(119,879)	(104,883)
Fair value gain on biological transformation	15	54,845	30,223
Freight costs to market		(13,360)	(10,134)
Gross profit		**57,957**	**29,266**
Other income	6	2,574	1,281
Sales, marketing and advertising expenses		(8,748)	(6,815)
Distribution overheads		(2,993)	(2,041)
Corporate expenses	7	(7,261)	(6,062)
Other expenses	7	(2,996)	(1,813)
Earnings before interest, tax, depreciation and amortisation		**38,533**	**13,816**
Depreciation and amortisation expense	16, 17	(4,366)	(4,244)
Impairment of non-current assets	16, 17	-	(1,037)
Finance income	8	188	65
Finance expenses	8	(1,990)	(5,215)
Profit before tax		**32,365**	**3,385**
Income tax expense	9	(9,601)	(792)
Net profit after tax		**22,764**	**2,593**
Other comprehensive income			
Foreign currency translation differences	10	12	(194)
Net movement on cash flow hedges	10	6,063	(3,011)
Income tax effect of movement on cash flow hedges	10	(1,700)	843
Share based payment expense	10	142	-
Net other comprehensive income/(loss)		**4,517**	**(2,362)**
Total comprehensive income/(loss)		**27,281**	**231**
Earnings per share			
Basic earnings per share	11	$ 0.16	$ 0.02
Diluted earnings per share	11	$ 0.16	$ 0.02

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2017

	Note	2017 $000	2016 $000
ASSETS			
Current assets			
Cash and cash equivalents	12	10,647	2,419
Trade and other receivables	13	11,688	10,229
Inventories	14	16,674	17,291
Biological assets	15	68,556	45,537
Non-current assets held for sale	18	421	421
Other financial assets	28	-	2,758
Derivative financial assets	24	2,066	526
Total current assets		**110,052**	**79,181**
Non-current assets			
Property, plant and equipment	16	35,726	32,596
Biological assets	15	10,960	7,413
Derivative financial assets	24	3,196	1,443
Deferred tax asset	9	1,636	1,967
Intangible assets	17	3,687	3,868
Goodwill	17	39,255	39,255
Total non-current assets		**94,460**	**86,542**
TOTAL ASSETS		**204,512**	**165,723**
LIABILITIES			
Current liabilities			
Trade and other payables	20	13,282	15,416
Employee benefits	21	3,028	2,384
Borrowings	19	414	19,326
Shareholder loans	28	-	73,114
Other financial liabilities	28	18	4,427
Derivative financial liabilities	24	1,277	2,319
Taxation payable		2,285	580
Total current liabilities		**20,304**	**117,566**
Non-current liabilities			
Employee benefits	21	451	465
Borrowings	19	10,124	163
Deferred tax liabilities	9	14,010	7,740
Derivative financial liabilities	24	948	2,775
Total non-current liabilities		**25,533**	**11,143**
TOTAL LIABILITIES		**45,837**	**128,709**
NET ASSETS		**158,675**	**37,014**
EQUITY			
Share capital	26	122,518	25,296
Reserves		1,795	(2,722)
Retained earnings		34,362	14,440
TOTAL EQUITY		**158,675**	**37,014**
Net tangible assets per share			
Net tangible assets per share		$ 1.15	$ 1.09

For and on behalf of the Board, who authorise the issue of these financial statements on 24 August 2017

Director

24 August 2017

Director

24 August 2017

EY

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2017

	Note	Share Capital $000	Foreign Currency Translation Reserve $000	Hedge Reserve $000	Share Based Payment Reserve $000	Retained Earnings $000	Total Equity $000
Balance as at 1 July 2016		25,296	(527)	(2,195)	-	14,440	**37,014**
Profit for the period		-	-	-	-	22,764	**22,764**
Other comprehensive income/(loss)	10	-	12	4,363	142	-	**4,517**
Total comprehensive income/(loss) for the period		**-**	**12**	**4,363**	**142**	**22,764**	**27,281**
Increase in share capital in preparation for IPO	26	68,914	-	-	-	-	**68,914**
Shares issued	26	30,105	-	-	-	-	**30,105**
Transaction costs arising on share issue	26	(1,797)	-	-	-	-	**(1,797)**
Distribution to shareholders	26	-	-	-	-	(2,842)	**(2,842)**
Balance as at 30 June 2017		**122,518**	**(515)**	**2,168**	**142**	**34,362**	**158,675**
Balance as at 1 July 2015		25,296	(333)	(27)	-	11,847	**36,783**
Profit for the period		-	-	-	-	2,593	**2,593**
Other comprehensive income/(loss)	10	-	(194)	(2,168)	-	-	**(2,362)**
Total comprehensive income/(loss) for the period		**-**	**(194)**	**(2,168)**	**-**	**2,593**	**231**
Balance as at 30 June 2016		**25,296**	**(527)**	**(2,195)**	**-**	**14,440**	**37,014**

EY

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2017

	Note	2017 $000	2016 $000
Operating activities			
Receipts from customers		135,163	112,655
Payments to suppliers		(97,428)	(80,432)
Payments to employees		(30,268)	(26,359)
Interest received		181	50
Interest paid		(1,317)	(1,424)
Insurance and settlement income		1,998	562
Income tax paid		(2,999)	(1,002)
Net cash flows from operating activities	30	**5,330**	**4,050**
Investing activities			
Proceeds from sale of property, plant and equipment		29	67
Purchase of property, plant and equipment		(7,449)	(6,972)
Purchase of intangible assets		(48)	(67)
Net cash flow from investing activities		**(7,468)**	**(6,972)**
Financing activities			
Repayment of revolving loan		(8,876)	(1,000)
Government grants received		110	-
Gross proceeds from share issue		30,105	-
Transaction costs arising from share issue		(1,797)	-
Proceeds from shareholder advances		1,402	1,100
Repayment of shareholder advances		(7,651)	(210)
Payment of finance lease liabilities		(85)	(71)
Dividends paid		(2,842)	-
Net cash flows from financing activities		**10,366**	**(181)**
Net increase/(decrease) in cash and cash equivalents		**8,228**	**(3,103)**
Cash and cash equivalents at 1 July	12	2,419	5,522
Cash and cash equivalents at 30 June	12	**10,647**	**2,419**

1. CORPORATE INFORMATION

The financial statements of New Zealand King Salmon Investments Limited (the Company) and its subsidiaries (together the Group) for the year ended 30 June 2017 were authorised by the directors on 24 August 2017.

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

2. BASIS OF PREPARATION

a. Statement of compliance

The consolidated financial statements comply with International Financial Reporting Standards (IFRS) and also with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS).

b. Basis of measurement

The financial statements have been prepared on a historical cost basis except for biological assets and financial instruments which have been measured at fair value.

c. Significant accounting judgements, estimates and assumptions

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported outcomes of revenues, expenses, assets, liabilities and the accompanying disclosures. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Uncertainties about these assumptions and estimates could result in an outcome that requires a material adjustment to the carrying amount of assets or liabilities in future periods.

Specific areas requiring significant estimates and judgements include:

Valuation of biological assets

The Group recognises stocks of live fish at fair value less costs to sell according to the principles of NZ IAS 41 Agriculture. The fair value is measured using a valuation model that relies on various assumptions and information available at balance date. Inputs include anticipated market prices, quality mix, current weights of livestock relative to expected harvest weight, mortality rates, growth rates and production costs. The income or loss that is ultimately recognised at time of sale may be significantly different from that implied by the fair value adjustment at the end of a reporting period. The fair value uplift from accumulated costs to date has no cash impact. Further details of the valuation and sensitivity to change in key inputs are given in note 15.

Impairment testing of intangibles

The Group reviews the carrying value of goodwill on an annual basis and assesses whether it is impaired according to the principles of NZ IAS 36 Impairment of Assets. This requires the goodwill to be allocated to cash generating units with which it would naturally be associated and the value in use of the cash generating units to be estimated. The value in use is estimated using a standard industry model that relies on various assumptions and information available at balance date. Inputs include estimations of the growth rate of the Group, future market conditions, prices, and discount rates. Further details of the valuation are given in note 17.

Valuation of financial derivatives

The Group recognises financial derivatives at fair value according to the principles of NZ IFRS 13 Fair Value Measurement. The value is calculated by a third party expert using an industry standard model. Inputs to the model are obtained externally by the service provider. Further details of the valuation are included in note 24.

Useful lives of assets

The Group estimates the useful lives of property, plant and equipment and intangible assets based on historical performance and currently consented future asset uses.

d. Foreign currency translation

Functional and presentation currency

The Group's consolidated financial statements are presented in New Zealand dollars, which is also the parent Company's functional currency. The Australian subsidiary's functional currency is Australian dollars which is translated into the presentation currency in these financial statements.

Transactions and balances

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange at balance date.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Translation of Group subsidiaries functional currency to presentation currency

The assets and liabilities of the Australian subsidiary are translated into New Zealand dollars at the rate of exchange at balance date. Revenues and expenses are translated at rates approximating the exchange rate at the date of the transaction. The exchange differences arising on translation for consolidation are recognised in other comprehensive income.

3. SUMMARY OF SIGNIFICIANT ACCOUNTING POLICIES

a. Basis of consolidation

The financial statements comprise the financial statements of New Zealand King Salmon Investments Limited and its subsidiaries (per note 28) as at 30 June each year. Subsidiaries are all those entities over which the Company has control.

The financial statements of the subsidiaries are prepared for the same reporting period as the Parent company using consistent accounting policies.

In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full.

Subsidiaries are fully consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date on which control is transferred out of the Group.

b. Business combinations

Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value which is calculated as the sum of the acquisition date fair value of assets acquired by the Group and the liabilities assumed by the Group. Acquisition related costs are expensed as incurred and included in administrative expenses. Any contingent consideration to be transferred by the Group is recognised at fair value at acquisition date.

c. Financial instruments

All financial instruments are initially recognised at the fair value of the consideration received, less directly attributable transaction costs in the case of financial assets and liabilities not recorded at fair value through profit or loss. Subsequently the Group applies the following accounting policies for financial instruments:

Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and call deposits. For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and short-term deposits net of outstanding bank overdrafts.

Trade and other receivables

Short term trade and other receivables are not discounted and are initially stated at cost. Gains and losses are recognised in the profit or loss when the receivables are derecognised or impaired.

Loans

Loans and amounts owing from related companies are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans are derecognised or impaired.

Trade and other payables

Trade and other payables are carried at cost due to their short term nature and are not discounted. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30-60 days of recognition.

Interest bearing borrowings

After initial recognition interest bearing borrowings are subsequently measured at amortised cost using the effective interest method. Fees paid on establishment of loan facilities that are yield related are included as part of the carrying amount. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance date. Borrowing costs are generally recognised as an expense when incurred with the exception of borrowing costs associated with a qualifying asset which are capitalised as part of the cost of that asset.

Financial guarantee

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial Guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributed to the issuance of the guarantee. Subsequently the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at balance date and the amount recognised less cumulative amortisation.

Derivative financial instruments and hedging

The Group uses derivative financial instruments including forward currency contracts, options and interest rate swaps to hedge risks associated with interest rate and foreign currency fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured to fair value at balance date. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

The fair values of forward currency contracts are calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair values of interest rate swaps are determined by reference to market values for similar instruments.

The Group designates its derivative financial instruments as hedges of a particular risk associated with a recognised asset or liability or a highly probable commitment that could affect profit or loss. The effective portion of the gain or loss on the hedging instrument is recognised directly in other comprehensive income in the hedge reserve, while the ineffective portion is recognised in profit or loss as other income or expenses.

Amounts accumulated in equity are transferred to profit or loss when the hedged item affects profit or loss.

d. Inventories

Inventories including raw materials, work in progress and finished goods are valued at the lower of cost or net realisable value. Costs incurred in bringing each product to its present location and condition are accounted for as follows:

Raw materials – the cost of fish is measured at fair value at harvest date. The cost of other raw materials is based on the purchase price including import duties and other taxes, transport, handling and other costs directly attributable to the acquisition of the goods and materials. Costs are determined on a weighted average basis.

Manufactured finished goods and work in progress - cost of direct materials, labour and a proportion of manufacturing overheads appropriate to the state of manufacture. Costs are assigned on the basis of weighted average costs. The cost of items transferred from biological assets is their fair value less costs to sell at the date of harvest.

Net realisable value - the estimated selling price in the ordinary course of business less estimated costs of completion and the estimated costs necessary to make the sale.

e. **Biological assets**

Biological assets include fish livestock measured at fair value less estimated costs to sell. The net gain or loss resulting from the fair value measurement is recognised in profit or loss.

The fair value of fish livestock is derived from the amount expected to be received from the sale of the asset in an active market. The target live weight of the harvestable fish is defined as a fish with a live weight of 4kg or greater. Many fish are harvested with a live weight above or below this weight.

For brood stock and fish where little biological transformation has taken place since initial cost was incurred, cost less impairment is used as an approximation of fair value. This value is used up to the point at which fish are transferred to sea water. Fish stock is transferred to inventory at the time of harvest. The transfer is recorded at its fair value which is deemed to be cost for the purposes of inventory valuation.

f. **Property, plant and equipment**

Property, plant and equipment are stated at historical cost less accumulated depreciation and impairment. Depreciation is provided on a straight line basis over the estimated useful lives of the assets as follows:

Freehold land	not depreciated
Freehold buildings	twenty to fifty years
Building fit out	three to twenty five years
Leasehold improvements	five to ten years
Plant, furniture and fittings	three to twenty years
Motor vehicles	five years
Sea vessels	ten to twenty years

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively if appropriate. An asset's carrying value is written down immediately to its recoverable amount if its carrying value is greater than its estimated recoverable amount.

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

g. **Leases**

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Group as a lessee

A lease is classified at the inception date as a finance lease or an operating lease. Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense in profit or loss.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense in profit or loss on a straight-line basis over the lease term. Lease incentives are recognised in profit or loss as an integral part of the total lease expense.

h. **Intangibles**

Intangible assets acquired separately or in a business combination are initially measured at cost. The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets are not capitalised and the expenditure is recognised in profit or loss in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful life and tested for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for prospectively by changing the amortisation period or method, as appropriate, which is a change in accounting estimate. The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are not amortised but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of useful life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to definite is made on a prospective basis.

A summary of the policies applied to the Group's intangible assets is as follows:

Goodwill and trade marks

Useful lives:	Indefinite
Internally generated or acquired:	Acquired

Intellectual property, marine farm and hatchery licences and marina berth

Useful lives:	Finite
Amortisation method used:	Straight line, five to thirty five years
Internally generated or acquired:	Acquired

Computer Software

Useful lives:	Finite
Amortisation method used:	Straight line, four to seven years
Internally generated or acquired:	Acquired

i. Research and development costs

Research costs are generally expensed as incurred. Development expenditures are capitalised as intangible assets when the Group can demonstrate:

- Costs can be reliably measured.
- Completion of the project is technically feasible.
- Resources are available to complete the project.
- There is an intention to use the resulting asset and it will generate future economic benefits.

During the period of development the asset is tested for impairment annually.

j. Employee benefits

Wages, salaries, annual leave and sick leave

Liabilities for wages and salaries including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

Long service leave

The liability for long service leave is recognised and measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service.

Defined contribution plans

Contributions made to a defined contribution plan are expensed as incurred.

k. Contributed equity

Ordinary shares

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. Other capital raising costs are expensed as incurred.

l. Revenue Recognition

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Risks and rewards of ownership are passed to the buyer depending on the agreed shipping terms. This is typically when legal ownership is passed over.

Interest income

Revenue is recognised as interest accrues using the effective interest method.

Insurance proceeds

Insurance proceeds are recognised in the financial statements when receipt is virtually certain and can be measured reliably.

m. Taxes

Income taxes

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in profit or loss.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

Other taxes

Revenues, expenses and assets are recognised net of the amount of GST, except when:

- The GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable.
- Receivables and payables, which are stated with the amount of GST included.
- The net amount of GST recoverable from or payable to the taxation authority is included as part of receivables or payables in the balance sheet.
- Commitments and contingencies are disclosed net of the amount of GST recoverable from or payable to the taxation authority.
- The Group recognises uncertain tax positions as a liability where it is probable that an outflow of resources will be required.

n. Share-based payments

Certain employees of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments (equity-settled transactions). The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model, further details of which are given in Note 26.

That cost is recognised in employee benefits expense, together with a corresponding increase in equity (other capital reserves), over the period in which the service and, where applicable, the performance conditions are fulfilled (the vesting period). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the statement of comprehensive income for the period represents the movement in cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

No expense is recognised for awards that do not ultimately vest because non-market performance and/or service conditions have not been met. Where awards include a market or non-vesting condition, the transactions are treated as vested irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

When the terms of an equity-settled award are modified, the minimum expense recognised is the grant date fair value of the unmodified award, provided the original terms of the award are met. An additional expense, measured as at the date of modification, is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee. Where an award is cancelled by the entity or by the counterparty, any remaining element of the fair value of the award is expensed immediately through profit or loss.

4. NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

Various new standards, amendments to standards and interpretations are effective for annual periods beginning on or after the current reporting period and have not been applied in preparing these consolidated financial statements. The following changes may have a significant effect on the consolidated financial statements of the group:

NZ IFRS 9: Financial Instruments

NZ IFRS 9, 'Financial Instruments' replaces NZ IAS 39 'Financial Instruments: Recognition and Measurement'. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted.

The new standard addresses the classification, measurement and de-recognition of financial assets and financial liabilities, introduces new rules for hedge accounting and introduced a new impairment model.

The Group intends to adopt NZ IFRS 9 on its effective date and is currently assessing its full impact. The standard is not expected to significantly impact the Group as the valuation and measurement of the Group's financial assets and liabilities are not expected to change.

NZ IFRS 15: Revenue from Contracts with Customers

NZ IFRS 15, 'Revenue from Contracts with Customers' establishes the framework for revenue recognition. The standard replaces NZ IAS 18 'Revenue' and NZ IAS 11 'Construction Contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The notion of control replaces the existing notion of risks and rewards.

The Group intends to adopt NZ IFRS 15 on its effective date and is currently assessing its full impact. This standard is not expected to significantly impact the Group as the majority of sales enable control to be transferred to customers within one to two days of dispatch.

NZ IFRS 16: Leases

NZ IFRS 16, 'Leases', replaces the current guidance in NZ IAS 17. Under NZ IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Under NZ IAS 17, a lessee was required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). NZ IFRS 16 now requires a lessee to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts.

The standard is effective for accounting periods beginning on or after 1 January 2019. Early adoption is permitted but only in conjunction with NZ IFRS 15, 'Revenue from Contracts with Customers'.

The Group intends to adopt NZ IFRS 16 on its effective date and has yet to assess its full impact. The group currently leases a number of offices, buildings, vehicles, water space and minor plant and equipment.

5. 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:

New Zealand Retail

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.

New Zealand Foodservice

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.

Export

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
Year ended 30 June 2017				
Revenue	35,439	38,385	62,527	**136,351**
Segment EBITDA	7,031	12,101	19,401	**38,533**
Year ended 30 June 2016				
Revenue	28,208	35,899	49,953	**114,060**
Segment EBITDA	2,046	3,643	8,127	**13,816**

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:	2017 $000	2016 $000
Segment profit	38,533	13,816
Depreciation, amortisation and impairment	(4,366)	(5,281)
Net finance costs	(1,802)	(5,150)
Group profit before tax	**32,365**	**3,385**

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.

Revenue by geographical location of customers	2017 $000	2016 $000
New Zealand	73,824	64,107
North America	35,956	27,419
Australia	12,035	9,642
Japan	6,034	5,552
Europe	1,986	1,926
Other	6,516	5,414
Total revenue	**136,351**	**114,060**

Sales net of settlement discounts to one major customer for the year totalled $16,511k or 12% of total sales (2016 one major customer accounted for $14,094k or 12%). In both years, these customers were included in the New Zealand Retail segment.

6. OTHER INCOME

Other income	2017 $000	2016 $000
Grants received	112	-
Supplier settlement	1,784	-
Insurance settlements	214	562
Supplier forgiveness of debt	348	549
Profit on sale of property, plant and equipment	28	29
Other income	88	141
Total other income	**2,574**	**1,281**

7. EXPENSES

Corporate and other expenses include:	2017 $000	2016 $000
Trade receivables written off	1	86
Impairment of trade receivables	84	(62)
Professional fees related to capital raising	1,970	841
Research cost	849	927
Fish health event	-	952
Water space process expense	846	397
Loss on disposal of property, plant and equipment	180	20
Minimum lease payments - operating leases	1,118	991
Directors' fees	320	214
Other directors' expenses	18	14
Donations	43	14

In addition to the directors' fees above, capital raising costs expensed and deducted from share capital during the period ended 30 June 2017 included $50k of fees paid to directors in relation to the additonal work in the capital raising process.

Employee benefits expense	2017 $000	2016 $000
Wages and salaries	26,445	23,473
Defined contribution plan expenses	569	472
Restructuring costs	(4)	-
Other employee benefits expenses	4,031	3,132
Total employee benefits expense	**31,041**	**27,077**

8. FINANCE INCOME AND COSTS

Finance income	2017 $000	2016 $000
Interest income	188	65
Total finance income	**188**	**65**

Finance costs	2017 $000	2016 $000
Bank facility fees	284	338
Interest on bank loans and overdrafts	1,210	1,097
Interest on shareholder loans	496	3,780
Total finance costs	**1,990**	**5,215**

Interest was paid on shareholder loans at a rate of 8.5% p.a. (2016: 8.5% p.a.). Interest on shareholder loans commenced in September 2015 and ceased in July 2016. In preparation for the IPO, shareholder loans of $70,202k were converted to shares, see note 26 for further detail

9. INCOME TAX

Recognised in the consolidated statement of comprehensive income	2017 $000	2016 $000
Current income tax expense	4,745	1,574
Over provision - previous year	(49)	-
Deferred tax relating to origination and reversal of temporary differences	4,905	(782)
Total income tax expense/(credit) in the statement of comprehensive income	**9,601**	**792**
Tax amounts posted directly to equity	**(1,700)**	**843**

Reconciliation of tax expense to statutory income tax rate		
Profit/(loss) before tax	32,365	3,385
Income tax using the company tax rate 28%	9,063	948
Non deductible/non assessable items	617	257
Over provision - previous year	(49)	-
Tax losses not previously recognised and now utilised	-	(400)
Other differences	(30)	(13)
Total tax expense	**9,601**	**792**

Statement of financial position deferred tax assets and liabilities	2017 $000	2016 $000
Deferred tax liabilities		
Accelerated depreciation for tax purposes	(2,853)	(2,720)
Fair value adjustment to biological assets	(9,640)	(4,649)
Gains on foreign currency hedges	(1,108)	-
Increase accounting cost for finished goods	(409)	(371)
Total deferred tax liabilities	**(14,010)**	**(7,740)**
Deferred tax assets		
Provision for doubtful trade debtors	43	17
Provision for employee benefits	570	546
Impairment of non-current assets	176	290
Share based payments	40	-
Losses on foreign currency hedges	258	853
Other provisions	549	261
Total deferred tax assets	**1,636**	**1,967**
Net deferred tax liability	**(12,374)**	**(5,773)**

Statement of comprehensive income deferred tax assets and liabilities	2017 $000	2016 $000
Deferred tax liabilities		
Accelerated depreciation for tax purposes	129	(163)
Fair value adjustment to biological assets	4,991	(200)
Increase accounting cost for finished goods	38	122
Total deferred tax liabilities	**5,158**	**(241)**
Deferred tax assets		
Provision for doubtful trade debtors	(26)	20
Provision for employee benefits	(24)	(93)
Impairment of non-current assets	114	(290)
Share based payments	(40)	-
Other provisions	(277)	(178)
Total deferred tax assets	**(253)**	**(541)**
Deferred tax (credit)/expense	**4,905**	**(782)**

Imputation credit account

The imputation credit account balance in the New Zealand King Salmon Company Limited as at 30 June 2017 is $1,821k (2016: $986k).

10. COMPONENTS OF OTHER COMPREHENSIVE INCOME

	2017 $000	2016 $000
Cash flow hedges		
Forward currency contracts		
Reclassification during the year to profit or loss	(18)	(77)
Income tax effect	5	22
Realised/unrealised net gain/(loss) during the year	4,997	(1,961)
Income tax effect	(1,400)	549
Interest rate swaps		
Realised/unrealised net gain/(loss) during the year	1,084	(974)
Income tax effect	(305)	273
Currency translation differences		
Currency translation differences	12	(194)
Share based payment expenses		
Share based payment expense	142	-
Net movement on cash flow hedges	4,517	(2,362)

11. 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.

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 2016 has been adjusted to reflect the share split.

	2017 $000	2016 $000
Earnings per share		
Profit attributable to ordinary equity holders	22,764	2,593

	# of Shares 000	Restated # of Shares 000
Weighted average number of ordinary shares for diluted earnings per share	138,158	110,191
Basic earnings per share	$ 0.16	$ 0.02
Diluted earnings per share	$ 0.16	$ 0.02

12. CASH AND CASH EQUIVALENTS

	2017 $000	2016 $000
Cash and cash equivalents		
Cash at bank and on hand	10,175	1,665
Short-term deposits	472	754
Total cash and cash equivalents	10,647	2,419

13. TRADE AND OTHER RECEIVABLES

	2017 $000	2016 $000
Trade and other receivables		
Trade receivables	10,848	9,156
Allowance for impairment loss	(153)	(69)
Prepayments	970	1,098
Other receivables	23	44
Total trade and other receivables	11,688	10,229

Trade receivables generally have 20-30 day terms and are recognised at their realisable value. Collectability of trade receivables is reviewed on an ongoing basis. Debts that are known to be uncollectable are written off when identified. Impairment losses are recognised net of insurance proceeds when there is objective evidence that the Group will not be able to collect the debt.

	2017 $000	2016 $000
Ageing analysis of trade receivables		
> 90 days overdue	90	176
31 - 90 days overdue	68	45
15 - 30 days overdue	49	82
< 15 days overdue	1,867	1,157
Not yet due	8,774	7,696
Total receivables	10,848	9,156

	2017 $000	2016 $000
Receivables impairment movement		
As at 1 July	69	131
Additional provisions for impairment	151	10
Receivables written off during the year	1	-
Reversal of unused amounts	(68)	(72)
As at 30 June	153	69

14. INVENTORIES

Inventories	2017 $000	2016 $000
Raw materials	9,525	9,811
Work in progress	-	50
Finished goods	7,149	7,430
Total inventories	**16,674**	**17,291**

The closing cost of finished goods as at 30 June 2017 includes a fair value uplift at point of harvest of $2,391k (2016: $2,507k) and an impairment provision of $1,446k (2016: $1,572k).

Amount of inventories recognised as an expense in the statement of comprehensive income	2017 $000	2016 $000
Cost of inventories recognised as an expense	119,627	104,491
Movement in net realisable value of inventory decrease	252	392
Total cost of goods sold	**119,879**	**104,883**

The cost of inventories recognised as an expense for the year ended 30 June 2017 includes a fair value uplift at point of harvest of $37,135k (2016: $30,116k).

15. 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.

Biological assets	Cost $000	Fair Value Gain $000	Total $000
As at 1 July 2016	36,347	16,603	52,950
Increase due to biological transformation [1]	70,330	50,606	120,936
Decrease due to harvest [2]	(56,346)	(37,019)	(93,365)
Decrease due to mortality [3]	(5,244)	-	(5,244)
Changes in fair value [4]	-	4,239	4,239
As at 30 June 2017	**45,087**	**34,429**	**79,516**

[1] Biological transformation fair value is impacted by volume increases and fish weight at reporting date relative to the target fish harvest weight of 4 kgs (proportional recognition).

[2] Harvested fair value is included in cost of goods sold in the statement of comprehensive income and is calculated by multiplying the current years harvest (biomass) by the prior years estimated gross margin per kg (recognised at 100%).

[3] Mortality cost is expensed directly to the statement of comprehensive income in the period which it occurs and is not subject to a fair value uplift.

[4] Changes in fair value are impacted by movements in estimated future gross margin primarily being changes in estimated future sales price and costs to sell (future fish growth costs, harvesting, processing and distribution costs).

Biological assets	Cost $000	Fair Value Gain $000	Total $000
As at 1 July 2015	30,272	17,323	47,595
Increase due to biological transformation	61,886	29,644	91,530
Decrease due to harvest	(47,760)	(30,943)	(78,703)
Decrease due to mortality	(8,051)	-	(8,051)
Changes in fair value	-	579	579
As at 30 June 2016	**36,347**	**16,603**	**52,950**

Fair value gain/(loss) recognised in profit and loss	2017 $000	2016 $000
Gain arising from growth of biological assets	50,606	29,644
Movement in fair value of biological assets	4,239	579
Total fair value gain on biological transformation	**54,845**	**30,223**

Harvested biomass	2017 mt	2016 mt
Harvested live weight biomass	8,218	7,176
Total live weight harvested for the period (metric tonne)	**8,218**	**7,176**

Estimated closing biomass	2017 mt	2016 mt
Closing fresh water stocks	142	174
Closing sea water stocks	6,085	4,400
Total estimated closing biomass live weight as a 30 June	**6,227**	**4,574**

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 Group has insurance to cover some of the risks relating to the livestock.

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 average future sales prices would increase/decrease the fair value of biological assets on hand and profit before tax by $5.4m (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 $1.7m.

A 5% increase/decrease in costs to sell would increase/decrease the fair value of biological assets on hand and profit before tax by $3.7m. 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.

16. PROPERTY, PLANT AND EQUIPMENT

	Freehold land and buildings	Plant, equipment and fittings	Vehicles and sea vessels	Construction in progress	Total
Cost	$000	$000	$000	$000	$000
As at 1 July 2015	8,071	44,891	2,457	2,001	57,420
Additions	958	6,791	122	6,979	14,850
Disposals	-	(763)	(194)	(7,895)	(8,852)
As at 30 June 2016	9,029	50,919	2,385	1,085	63,418
Additions	715	4,744	137	7,573	13,169
Disposals	(49)	(4,456)	(157)	(5,724)	(10,386)
As at 30 June 2017	9,695	51,207	2,365	2,934	66,201
Depreciation and impairment					
As at 1 July 2015	1,241	24,480	1,268	-	26,989
Depreciation	201	3,441	176	-	3,818
Impairment	-	522	391	-	913
Disposals	-	(758)	(141)	-	(899)
As at 30 June 2016	1,442	27,685	1,694	-	30,821
Depreciation	250	3,748	125	-	4,123
Impairment	-	-	-	-	-
Disposals	(33)	(4,285)	(151)	-	(4,469)
As at 30 June 2017	1,659	27,148	1,668	-	30,475
Net Book Value					
As at 30 June 2016	7,587	23,234	691	1,085	32,596
As at 30 June 2017	8,036	24,059	697	2,934	35,726

Borrowing costs

There were no borrowing costs capitalised in 2017 (2016: $46k).

Impairment

There were no impairment losses in 2017 (2016: $913k).

Finance leases

The carrying value of property, plant and equipment held under finance leases as at 30 June 2017 was $353k (2016: $229k). There were additions of property, plant and equipment under finance leases in the 2017 year of $136k (2016: $0). Leased assets are pledged as security for the related finance lease liabilities.

17. INTANGIBLES

	Trademarks	Farm and hatchery licenses	Software licenses	Goodwill	Total
Cost	$000	$000	$000	$000	$000
As at 1 July 2015	242	4,904	3,910	39,255	48,311
Additions	-	50	19	-	69
Disposals	-	-	(2)	-	(2)
Transferred to assets held for sale	-	(632)	-	-	(632)
As at 30 June 2016	242	4,322	3,927	39,255	47,746
Additions	-	57	11	-	68
Disposals	-	-	(1,817)	-	(1,817)
Transferred to assets held for sale	-	-	-	-	-
As at 30 June 2017	242	4,379	2,121	39,255	45,997
Depreciation and impairment					
As at 1 July 2015	200	552	3,532	-	4,284
Amortisation	-	214	211	-	425
Disposals	-	-	-	-	-
Impairment	-	124	-	-	124
Transferred to assets held for sale	-	(210)	-	-	(210)
As at 30 June 2016	200	680	3,743	-	4,623
Amortisation	-	131	112	-	243
Disposals	-	-	(1,812)	-	(1,812)
Impairment	-	-	-	-	-
As at 30 June 2017	200	811	2,043	-	3,054
Net Book Value					
As at 30 June 2016	42	3,642	184	39,255	43,123
As at 30 June 2017	42	3,568	78	39,255	42,943

Goodwill

Goodwill resulted from the acquisition of The New Zealand King Salmon Co Limited and is subject to annual impairment testing. The Group performs an annual impairment test in June each year and reviews for indications of impairment biannually. The Group considers the relationship between its market capitalisation and its book value, among other indicators, when reviewing for indicators of impairment.

The goodwill is allocated to The New Zealand King Salmon Co Limited's cash generating unit. The recoverable amount of the cash generating unit has been determined based on a value in use calculation using future estimated cash flows, capital expenditure and changes in working capital over a five year period, plus an estimated terminal value. The forecasts were based on actual results and expected future use of water space licences currently held, before fair value adjustments to biological assets. The growth rate used to estimate the cash flows of the unit beyond the five-year period is 3.5% p a. based on treasury GDP forecasts (2016: 2.9% p.a.). A discount rate of 11.1% p.a. (2016: 10.4% p.a.) has been applied to discount future estimated cash flows to their present value. The net present value of these future estimated cash flows exceeds the carrying amount of goodwill therefore the Company has concluded that there is no impairment to the goodwill.

The calculation of value in use is most sensitive to changes in sales prices, exchange rates, sales volumes and fish performance. Reasonably probable changes in the assumptions used would not cause the carrying value of goodwill to exceed the recoverable amount.

Trade marks

Trademarks are externally acquired and are carried at cost less impairment. They have indefinite useful lives and are assessed annually for impairment and reviewed for indications of impairment biannually. No impairment has been recognised during the period (2016: nil).

18. NON-CURRENT ASSETS HELD FOR SALE

	2017	2016
Non-current assets held for sale	$000	$000
Marine licences held for sale	421	421
Total non-current assets held for sale	421	421

Marine license held for sale

The Ministry of Primary Industries initiated a process which may result in a swap of the licence to operate a currently unused farm for alternative water space. The process is currently under the control of the Marlborough Salmon Farm Relocations Advisory Panel, who make a recommendation to Central Government to decide the outcome of the process. The carrying value of the licence less costs to sell is considered to be fully recoverable in the event of either a swap or sale.

19. INTEREST BEARING LOANS AND BORROWINGS

	2017	2016
Current interest bearing loans and borrowings	**$000**	**$000**
Finance lease liabilities	144	66
Secured bank loans	-	19,000
Other borrowings	270	260
Total current interest bearing loans and borrowings	**414**	**19,326**
Non-current interest bearing loans and borrowings		
Finance lease liabilities	124	163
Secured bank loans	10,000	-
Other borrowings	-	-
Total non-current interest bearing loans and borrowings	**10,124**	**163**

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).

20. TRADE AND OTHER PAYABLES

	2017	2016
Trade and other payables	**$000**	**$000**
Trade payables	11,318	12,213
Other payables	1,964	3,203
Total trade and other payables	**13,282**	**15,416**

21. EMPLOYEE BENEFITS

	2017	2016
Current employee benefits	**$000**	**$000**
Bonuses	903	530
Employee annual and sick leave benefits	1,956	1,689
Long service leave	169	165
Total current employee benefits	**3,028**	**2,384**
Non-current employee benefits		
Long service leave	451	465
Total non-current employee benefits	**451**	**465**

Long service leave

Long service leave provisions are calculated based on the expected future payments to employees, discounted to their net present value.

22. COMMITMENTS AND CONTINGENCIES

Operating leases

The Group has entered into various operating lease arrangements with providers of premises, vehicles, water space and equipment. Many of these arrangements are for specified terms with rights of renewal on expiry of the terms. The commitments under non-cancellable operating leases take into account the renewal periods existing at balance date and are as follows:

	2017	2016
Operating lease commitments as a lessee	**$000**	**$000**
Less than one year	607	669
Between one and five years	948	989
More than five years	722	772
Total operating lease commitments as a lessee	**2,277**	**2,430**

Finance leases

The Group has finance leases for various items of plant and machinery. The Group's obligations under finance leases are secured by the lessor's title to the leased assets. Future minimum lease payments under finance leases, together with the present value of the net minimum lease payments are as follows:

	Minimum lease payments	Present value of payments
Finance lease commitments as at 30 June 2017	**$000**	**$000**
Less than one year	143	125
Between one and five years	124	108
Total finance lease commitments as at 30 June 2017	**267**	**233**
Finance lease commitments as at 30 June 2016		
Less than one year	66	66
Between one and five years	163	149
Total finance lease commitments as at 30 June 2016	**229**	**215**

Capital commitments

The Group has entered into an agreement to purchase plant and equipment. As at 30 June 2017 the total commitment is $1,137k (2016: $508k) which includes $995k contract to build a new feed barge.

Contingencies

The Group has a contingent liability of $995k 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 (2016: $840k).

Guarantees

The Group has four guarantee facilities totalling $316k.

EY

23. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. The Group uses derivative financial instruments to hedge certain risk exposures. Financial risk management is the responsibility of the Chief Financial Officer in accordance with the Treasury Policy approved by the Board of Directors. In addition, the Group has a Treasury Committee, a sub-committee of the Board that oversees financial risk management.

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. This comprises of two key types of risks; currency and interest rate risk.

Currency risk

The Group has exposure to foreign exchange risk as a result of transactions denominated in foreign currency, arising primarily from normal trading activities, but also from the net investment in the foreign subsidiary.

The Group manages its foreign currency risk by hedging its future exposure in respect of its import purchases and its export sales, over a maximum of four years, when exposures are considered highly probable. The Group hedges this exposure with the use of forward foreign exchange contracts and options. The notional contract amounts of forward foreign exchange contracts and options outstanding at balance date were $57,636k on the import side (2016: $67,132k) and $79,293k on the export side (2016: $43,476k), for delivery over the next four financial years, in line with anticipated payment dates.

The Group imports feed from Chile and Australia, purchases of which are in US and Australian dollars respectively. In order to protect against exchange rate movements and to manage the inventory costing process, the Group has entered into forward exchange contracts to purchase Australian dollars.
The Group exports salmon to many countries, the major ones being Australia, Japan and the United States, sales are denominated in Australian dollars, Japanese yen and US dollars respectively. The Group has entered into forward exchange contracts to sell Yen and US dollars.

The cash flows are expected to occur up to 45 months from 1 July 2017. The profit or loss within cost of sales will be affected as sales are made.

The Group tests each of the designated cash flow hedges for effectiveness on a monthly basis both retrospectively and prospectively using the ratio offset method. If the testing falls within the 80%:125% range, the hedge is considered highly effective and continues to be designated as a cash flow hedge. At balance date all foreign currency hedges were determined to be highly effective.

The NZ dollar equivalent of un-hedged currency risk on assets at balance date is $220k (2016: $70k) whilst the NZ dollar equivalent of un-hedged currency risk on liabilities at balance date is $86k (2016: $4k).

Currency sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in the value of the New Zealand Dollar against the key currencies to which the Group is exposed. The impact on the Group's pre-tax profit is the result of a change in fair value of monetary assets and liabilities. The impact on the Group's equity is due to changes in the fair value of forward exchange contracts and options designated as cash flow hedges.

	Equity $000	Profit $000
As at 30 June 2017		
Impact of a 5% strengthening of the NZD	94	(32)
Impact of a 5% weakening of the NZD	(151)	29
Impact of a 10% strengthening of the NZD	150	(68)
Impact of a 10% weakening of the NZD	(346)	56
As at 30 June 2016		
Impact of a 5% strengthening of the NZD	913	(3)
Impact of a 5% weakening of the NZD	(1,097)	3
Impact of a 10% strengthening of the NZD	1,702	(7)
Impact of a 10% weakening of the NZD	(2,413)	7

Interest rate risk

The Group has exposure to interest rate risk that arises mainly due to the Groups long term debt obligations with floating interest rates. Interest earned on call deposits are based on the current interest rate. Interest rate swaps are used to manage interest rate risk. The amount of Parent borrowing covered using swaps at balance date was $10m (2016: $19m).

The Group manages its interest rate risk by hedging its future exposure with interest swaps, fixing a minimum of 50% of a rolling 12 month projected debt balance. Longer dated periods may be covered with forward starting swaps out to a maximum of 10 years.

Interest rate swaps in place at balance date cover 100% (2016: 100%) of the principal outstanding and are timed to expire in the next three to forty-two months. Forward starting swaps have been used to further extend maturities out to 2024 ($10m). The fixed interest rates for the existing swaps range between 3.4% and 4.75% (2016: 3.4% and 4.75%) and the floating rate of 1.93% is aligned to the floating quarterly bank bill rate. The loss on interest rate swaps at balance date was $986k (2016: $2,007k loss), which has been taken to reserves.

Interest rate sensitivity

The following table demonstrates the sensitivity of the fair value of the interest rate swaps to a reasonably possible change in interest rates:

	2017 $000	2016 $000
Impact of an increase of 50 basis points	319	525
Impact of a decrease of 50 basis points	(334)	(547)

Credit risk

Credit risk is the risk of financial loss that arises if a counterparty to a financial instrument does not meet its contractual obligations. Financial instruments which potentially subject the Group to credit risk principally consist of bank balances, trade receivables, derivative financial instruments and financial guarantees. Financial instruments are only entered into with banks that have in place an executed International Swaps and Derivatives Association (ISDA) Master Agreement with the Group.

Maximum exposures to credit risk as at balance date are:	2017 $000	2016 $000
Cash and short term deposits	10,647	2,419
Trade and other receivables	11,688	10,229
Derivative financial assets/(liabilities)	45	225

The above maximum exposures are net of any recognised provision for losses. No collateral is held on the above amounts.

Concentrations of credit risk

Bank balances are maintained with several banks but mainly with Bank of New Zealand Limited. There is a wide spread of debtors, in terms of size and geographical location within New Zealand and overseas. Concentration of credit risk in trade receivables is not considered significant as the Group's customers operate in different market channels and geographic areas.

Liquidity risk

The Group performs cash flow forecasting activities on a daily basis to ensure it has sufficient cash to meet operational needs and monitors performance against bank covenants on a monthly basis. Surplus cash is invested in short-term or money market deposits.

Undrawn committed facilities and/or liquid assets are maintained at all times at an amount sufficient to cover the forecast cash payments to employees, suppliers, tax authorities and banking institutions as they fall due.

The following table analyses the contractual and expected cash flows for all financial liabilities:

	Less than one year	Between one and two years	Between two and five years
As at 30 June 2017	$000	$000	$000
Bank loans	330	371	1,351
Finance lease liabilities	144	80	44
Trade and other payables	13,282	-	-
Financial guarantee contracts	315	315	315
Total non-derivative liabilities	14,071	766	1,710
Forward foreign currency exchange contracts	46,198	34,221	21,171
Forward foreign currency options	5,495	6,620	4,963
Interest swaps	252	245	603
Total derivative liabilities	51,945	41,086	26,737
As at 30 June 2016			
Bank loans	798	1,817	5,293
Development loans	370	3,700	-
Finance lease liabilities	66	66	97
Trade and other payables	15,416	-	-
Financial guarantee contracts	41	41	41
Total non-derivative liabilities	16,691	5,624	5,431
Forward foreign currency exchange contracts	39,404	34,263	21,428
Forward foreign currency options	7,005	1,484	7,023
Interest swaps	342	381	1,128
Total derivative liabilities	46,751	36,128	29,579

24. 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:

	2017	2016
	$000	$000
Current derivative financial assets		
Forward exchange contracts	1,776	339
Foreign exchange options	290	187
Total Current derivative financial assets	**2,066**	**526**
Non-current derivative financial assets		
Forward exchange contracts	1,882	734
Foreign exchange options	1,314	709
Total Non-current derivative financial assets	**3,196**	**1,443**
Current derivative financial liabilities		
Forward exchange contracts	519	1,107
Foreign exchange options	24	27
Interest rate swaps	734	1,185
Total Current derivative financial liabilities	**1,277**	**2,319**
Non-current derivative financial liabilities		
Forward exchange contracts	451	1,319
Foreign exchange options	307	634
Interest rate swaps	190	822
Total non-current derivative financial liabilities	**948**	**2,775**

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

	As at 30 June 2017		As at 30 June 2016	
	Carrying amount	Fair value	Carrying amount	Fair value
	$000	$000	$000	$000
Obligations under finance leases	267	233	229	215
Total obligations under finance leases	**267**	**233**	**229**	**215**

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.

25. CAPITAL MANAGEMENT

Group capital

The capital of the Group consists of share capital, reserves and retained earnings. The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders, benefits for shareholders and to maintain an optimal capital structure to reduce the cost of capital.
In addition to this the Group aims to ensure that it meets financial covenants attached to the interest bearing loans and borrowings that define capital structure requirements. There have been no breaches in the financial covenants of any interest-bearing loans and borrowings in the current period.
In order to maintain or adjust the capital structure the Group may adjust dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

26. CAPITAL AND RESERVES

Share capital	2017	2016
Issued shares	**000**	**000**
Ordinary shares	138,158	25,268
Total issued shares	**138,158**	**25,268**

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 year consisted of a fully imputed dividend of $0.02 per share paid on 24 March 2017 (2016: nil).

	# of Shares		Share Capital	
	2017	2016	2017	2016
Movement in ordinary share capital	**000**	**000**	**$000**	**$000**
As at 1 July	25,295	25,268	25,296	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	-
Share issue for employee share scheme	-	-	(2,505)	-
Total share capital as at 30 June	**138,158**	**25,268**	**122,518**	**25,296**

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.

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.

The senior executive scheme was established at the time of the IPO and relates to 993,671 shares in the Company. 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. The price to be paid for each share is the issue price at grant date, reduced by any dividends that are applied to the interest-free limited recourse loans. No shares vested, expired or were forfeited during the year.

The employee share ownership scheme was established at the time of the IPO and relates to 187,076 shares in the Company and was established at the time of the IPO. 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.

The estimated value of share options was determined using the Black-Scholes pricing calculator and is being amortised over the respective restrictive periods. The option cost is treated as an employee expense with the corresponding credit included in the share based payment reserve. The inputs into the option pricing valuation model are the acquisition or granting date share price of $1.12 (which accordingly is the option exercise price), expected share price volatility of 14.1%, option life relative to each respective vesting or escrow period and a risk free interest rate of 2.1%.

Retained earnings

Retained earnings represents the profits retained in the business.

27. EVENTS AFTER BALANCE DATE

The Ministry of 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. The process is currently under the control of the Marlborough Salmon Farm Relocations Advisory Panel, who will be making a recommendation to central Government. Central Government will then decide the outcome of the process. The outcome of this process could create significant changes to the Group's operations in the future.

	2017	2016
Dividends declared after balance date:	**$000**	**$000**
Final cash dividend of 2.00 cents per share	2,763	-
Special dividend of 1.00 cents per share	1,382	-
	4,145	**-**

The final and special fully imputed dividends on ordinary shares were approved on 24 August 2017 for payment on 18 September 2017. These dividends are not recognised as a liability as at 30 June 2017.

28. RELATED PARTY DISCLOSURES

Subsidiaries

New Zealand King Salmon Investments Limited has the following trading subsidiaries

Subsidiary	*Company of Incorporation*	*Equity Interest*
The New Zealand King Salmon Co Limited	New Zealand	100%
The New Zealand King Salmon Pty Limited	Australia	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 40.3% (30 June 2016: 50.9%) 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:

	2017 $000	2016 $000
Related party payments		
Interest paid - Oregon Group Limited	272	2,062
Interest paid - Other shareholders	194	1,477
Good and services purchased from other related parties	258	87
Total related party payments	**724**	**3,626**
Related party sales		
Goods and services sold to related parties	(462)	-
Total related party sales	**(462)**	**-**

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

Amounts owing to related parties	2017 $000	2016 $000
Current amounts owing to related parties		
Amounts advanced by shareholders of NZKS Custodian Ltd	-	4,427
Shareholders' loans	-	53,826
Shareholder advance repayable on demand	-	15,765
Accrued interest on shareholders' loans	-	3,523
Other amounts owing to related parties	18	-
Total current amounts owing to related parties	**18**	**77,541**
Non-current amounts owing to related parties		
Shareholders' loans		2,757
Total non-current amounts owing to related parties	**-**	**2,757**

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

Amounts owing by related parties	2017 $000	2016 $000
Shareholders' loans	-	2,757
Amounts owing by related parties	94	-
Total amounts owing by related parties	**94**	**2,757**

Compensation of key management personnel of the Group	2017	2016
Key management personnel compensation	$000	$000
Short-term employee benefits	2,159	1,809
Share based payment expense	112	-
Post employment pension and medical benefits	108	53
Total key management personnel compensation	**2,379**	**1,862**

29. AUDITORS REMUNERATION

	2017	2016
Auditors remuneration	**$000**	**$000**
Audit fees	95	115
Other assurance	45	-
Tax advisory	88	120
Other assurance and transaction advisory services	175	376
Total auditors remuneration	**403**	**611**

Other assurance services include the review of the interim financial statements and agreed upon procedures over sustainability data. Transactional advisory services relates to work performed as investigating accountant in connection with the public offer of shares in the Company.

30. RECONCILIATION OF NET OPERATING CASH FLOW TO PROFIT/(LOSS)

	2017	2016
Reconciliation of the profit for the year with the net cash from operating activities	**$000**	**$000**
Profit before tax	32,365	3,385
Adjusted for		
Depreciation and amortisation	4,366	4,243
(Gain)/loss on sale of assets	(29)	(9)
Impairment of fixed assets	-	913
Impairment of intangibles	-	124
Loss on disposals of assets	182	-
Share-based payments	142	-
Net foreign exchange differences	(70)	(120)
Capitalised interest on shareholder loans	389	3,482
Fair value adjustment to shareholder loans	-	(186)
Movement in prepaid insurances and other loans	(112)	(33)
Income tax expense	(9,601)	(792)
(Increase) in deferred tax on reserves	(1,700)	843
(Increase)/decrease in trade and other receivables and prepayments	(1,458)	(1,561)
(Increase)/decrease in inventories and biological assets	(25,948)	(10,889)
Increase/(decrease) in trade and other payables	(1,503)	5,695
Increase/(decrease) in tax liabilities	8,307	(1,045)
Net cash flow from operating activities	**5,330**	**4,050**

31. COMPARISON TO PROSPECTIVE FINANCIAL STATEMENTS

		Actual	Prospective
		2017	**2017**
		$000	**$000**
a.	Revenue	136,351	130,079
	Cost of goods sold	(119,879)	(117,803)
	Fair value gain on biological transformation	54,845	41,342
	Freight costs to market	(13,360)	(12,040)
	Gross profit	**57,957**	**41,578**
	Other operating income	2,574	-
	Sales, marketing and advertising expenses	(8,748)	(8,838)
	Distribution overheads	(2,993)	(1,893)
	Corporate expenses	(7,261)	(6,764)
	Other expenses	(2,996)	(2,984)
	Earnings before interest, tax, depreciation and amortisation	**38,533**	**21,099**
	Depreciation and amortisation	(4,366)	(4,776)
	Asset Impairment	-	-
	Finance income	188	377
	Finance expenses	(1,990)	(1,441)
	Profit before tax	**32,365**	**15,259**
	Income tax expense	(9,601)	(5,136)
	Net profit after tax	**22,764**	**10,123**

Explanation of variances

The fair value gain on biological transformation is higher than the prospective financial information (PFI) due to increases in sales price, fish numbers and average fish weight (see note 15). Gross profit is also higher than PFI due to higher sales volumes and price increases. Other operating income primarily relates to supplier and insurance settlements not included in PFI.

b. **Prospective statement of financial position**

	Actual 2017 $000	Prospective 2017 $000
ASSETS		
Current assets		
Cash and cash equivalents	10,647	5,489
Trade and other receivables	11,688	11,407
Inventories	16,674	18,515
Biological assets	68,556	56,936
Assets held for sale	421	421
Other financial assets	-	1,475
Derivative financial assets	2,066	141
Total current assets	**110,052**	**94,384**
Non-current assets		
Property, plant and equipment	35,726	38,854
Biological assets	10,960	9,781
Derivative financial assets	3,196	96
Deferred tax asset	1,636	1,423
Intangible assets	3,687	3,411
Goodwill	39,255	39,255
Total non-current assets	**94,460**	**92,820**
TOTAL ASSETS	**204,512**	**187,204**
LIABILITIES		
Current liabilities		
Trade and other payables	13,282	18,535
Employee benefits	3,028	2,204
Borrowings	414	252
Shareholder loans	-	-
Other financial liabilities	18	-
Derivative financial liabilities	1,277	428
Taxation payable	2,285	580
Total current liabilities	**20,304**	**21,999**
Non-current liabilities		
Employee benefits	451	465
Borrowings	10,124	10,126
Deferred tax liabilities	14,010	9,005
Derivative financial liabilities	948	992
Total non-current liabilities	**25,533**	**20,588**
TOTAL LIABILITIES	**45,837**	**42,587**
NET ASSETS	**158,675**	**144,617**
EQUITY		
Share capital	122,518	123,334
Reserves	1,795	(780)
Retained earnings	34,362	22,063
TOTAL EQUITY	**158,675**	**144,617**

Explanation of variances

Cash and cash equivalents are up on PFI due to the receipt of a feed supplier settlement and also as capital expenditure is lower than forecast in PFI (timing of capital expenditure due to timing of IPO). This coupled with a significant increase in the value of biological assets (due to increases in gross margin and average size at balance sheet date) have led to a significant increase in net assets. Trade and other payables are lower than PFI due to capital expenditure below forecast and also timing of feed purchases and other creditor payments. Derivative financial assets and liabilities were revalued at year end. Deferred tax liabilities were greater than PFI as a result of a combination of these factors.

c. **Prospective statement of changes in equity**

	Actual 2017 $000	Prospective 2017 $000
Balance at beginning of period	37,014	37,014
Capitalisation of shareholder loans to equity	68,914	69,890
Issue of shares	30,105	30,000
Capitalisation of offer costs	(1,797)	(1,275)
Change in other reserves	4,517	1,365
Total profit for the period	22,764	10,123
Dividends paid	(2,842)	(2,500)
Balance at End of Year	158,675	144,617
Equity breakdown by component		
Share capital	122,518	123,334
Reserves	1,795	(780)
Retained earnings	34,362	22,063
Total equity	158,675	144,617

Explanation of variances

Total equity is higher than PFI due to the higher profit for the period and the movements in cash flow hedge reserve as a result of changes in forward currency contract positions and movements in foreign exchange rates.

d. **Prospective statement of cash flows**

	Actual 2017 $000	Prospective 2017 $000
Operating Activities		
Receipts from customers	135,163	128,910
Payments to suppliers and employees	(127,696)	(117,897)
Interest received	181	-
Interest paid	(1,317)	(1,064)
Feed supplier settlement	1,998	-
Income tax paid	(2,999)	(3,327)
Net cash flows from operating activities	5,330	6,622
Investing Activities		
Proceeds from sale of property, plant and equipment	29	-
Purchase of property, plant and equipment	(7,449)	(10,584)
Purchase of intangible assets	(48)	-
Net cash flow from investing activities	(7,468)	(10,584)
Financing Activities		
Repayment of revolving loan	(8,876)	(9,000)
Government grants received	110	-
Gross proceeds from share issue	30,105	30,000
Transaction costs arising from share issue	(1,797)	(5,100)
Proceeds from shareholder advances	1,402	1,283
Repayment of shareholder advances	(7,651)	(7,651)
Payment of finance lease liabilities	(85)	-
Payment of dividends	(2,842)	(2,500)
Net cash flows from financing activities	10,366	7,032
Net increase/(decrease) in cash and cash equivalents	8,228	3,070
Cash and cash equivalents at 1 July	2,419	2,419
Cash and cash equivalents at 30 June	10,647	5,489

Explanation of variances

Payments to suppliers and employees were up on PFI as a result of an increase in feed purchases and changes to the timing associated with payments of these and other purchases. Feed supplier settlement relates to a one-off payment received from a supplier. Share issue related transaction costs have been split between payments to suppliers and employees $2,811 and transaction costs arising from share issue $1,797 (total $4,608).

Independent Auditor's Report to the Shareholders of New Zealand King Salmon Investments Limited

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of New Zealand King Salmon Investments Limited ("the company") and its subsidiaries (together "the group") on pages 2 to 25, which comprise the consolidated statement of financial position of the group as at 30 June 2017, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended of the group, and the notes to the consolidated financial statements including a summary of significant accounting policies.

In our opinion, the consolidated financial statements on pages 2 to 25 present fairly, in all material respects, the consolidated financial position of the group as at 30 June 2017 and its consolidated financial performance and cash flows for the year then ended in accordance with New Zealand equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

This report is made solely to the company's shareholders, as a body. Our audit has been undertaken so that we might state to the company's shareholders those matters we are required to state to them in an auditor's 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 audit work, for this report, or for the opinions we have formed.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

We are independent of the group in accordance with Professional and Ethical Standard 1 (revised) *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

We were engaged as investigating accountant in connection with the public offer of shares in the company. We provide taxation advice to the company and have performed other assurance services including review of the interim financial statements and performance of agreed upon procedures on sustainability information of the group. Partners and employees of our firm may deal with the group on normal terms within the ordinary course of trading activities of the business of the group.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of the audit report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Building a better working world

1. Valuation and Existence of Biological Assets

Why significant	How our audit addressed the key audit matter
At 30 June 2017, the consolidated statement of financial position includes biological assets (live salmon) of $79.5 million with a biomass of 6,227 metric tonne of live salmon measured at fair value less costs to sell. This includes a fair value increase above cost of $34.4 million in the carrying amount. This is a key audit matter because the company's estimation of the fair value of biological assets involves estimation of year end biomass, and a valuation model that relies on significant estimation including: ▶ existence and live weight of biological assets; ▶ future sales product mix; ▶ forecast sales volumes and prices; ▶ costs to harvest date and sale; ▶ period end and future biomass growth to harvest; ▶ future fish mortalities; and ▶ proportionate recognition of estimated future gross margin on salmon at sea farms. The group's disclosures are included in Note 15 to the financial statements.	Our approach to live salmon valuation focused on the following procedures: ▶ evaluated the appropriateness of key estimations and assumptions and their impact on discounted future cash flows; ▶ tested the mathematical accuracy of discounted cash flow forecasts; ▶ agreed key estimation inputs used by the company in their model to source data and to board approved budgets; ▶ involved our valuation specialists in the evaluation and testing of the mathematical logic and accuracy of the calculation in the model and of the discount rate used; and ▶ challenged the accuracy of model inputs compared to historical actual figures and considering the accuracy of previous input forecasts. Our approach to live salmon existence focused on the following procedures: ▶ agreed a sample of the records of fish transfers to sea farms; ▶ considered the key inputs used by the company in estimating growth and biomass; ▶ tested controls over fish quantity and biomass adjustments to the livestock recording system; ▶ agreed significant quantity and biomass adjustments made by the company in the livestock recording system to source data; ▶ performed analytical procedures over feed conversion to biomass; ▶ considered the accuracy of previous internal forecasts of average fish weight, and quantity of fish harvested compared to the livestock recording system; and ▶ considered the appropriateness, sufficiency, and clarity of biological assets disclosures included in the group financial statements.

2. Goodwill Impairment Assessment

Why significant	How our audit addressed the key audit matter
At 30 June 2017, the consolidated statement of financial position includes goodwill acquired in business combinations of $39.3 million, assigned to one cash generating unit (CGU). This is a key audit matter because the annual impairment assessment of goodwill involves significant judgements related to future cash flow forecasts, discount rate and terminal growth rate assumptions. The group's disclosures are included in Note 17 to the financial statements.	Our approach focused on the following procedures: ► evaluated the basis of the group's CGU determination; ► assessed the allocation of goodwill to CGUs; ► evaluated the appropriateness of key assumptions and their impact on estimated future cash flows; ► tested the mathematical accuracy of cash flow forecasts; ► involved our valuation specialists in assessing the discount rates and terminal growth rates applied; ► agreed inputs used by the company in their model to assess impairment, to board approved budgets, and compared these with historical actual results. We also considered the accuracy of previous internal forecasts; ► performed sensitivity analyses on key cash flow forecast assumptions, including EBITDA, WACC and capital expenditure levels, to understand the impact of reasonably possible changes in key assumptions; ► compared the calculated recoverable values to the associated carrying amounts, and assessed whether any impairment charges were required; and ► considered the appropriateness, sufficiency, and clarity of goodwill related disclosures included in the group financial statements.

3. Valuation of Sea farm related assets

Why significant	How our audit addressed the key audit matter
At 30 June 2017, the consolidated statement of financial position includes sea farm assets recorded within property, plant and equipment of $19.7m million, and related marine licenses and resource consents recorded within intangible assets and non-current assets held for sale of $3.7 million. This is a key audit matter because the annual assessment of remaining useful lives, amortisation periods and identification of indicators of impairment involves significant judgements related to future sea farm use, marine license and resource consent renewal and environmental compliance. The group's disclosures are included in Note 16 and Note 17 to the financial statements.	Our approach focused on the following procedures: ► considered the group's assessment of compliance with resource consents relating to sea farms; ► enquired into the status of the Proposal to Amend the Marlborough Sounds Resource Management Plan to enable the relocation of up to six sea farms to higher flow sites; ► evaluated the appropriateness of key assumptions used by the company in their assessment of indicators of impairment of property, plant and equipment; ► evaluated the appropriateness of key assumptions used by the company in their determination of remaining useful lives of significant sea farm assets; and ► considered the appropriateness, sufficiency, and clarity of property, plant and equipment and marine license intangible assets related disclosures included in the group financial statements.

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Information Other than the Financial Statements and Auditor's Report

The directors of the company are responsible for the Annual Report, which includes information other than the consolidated financial statements and auditor's report which is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and, if uncorrected, to take appropriate action to bring the matter to the attention of users for whom our auditor's report was prepared.

Directors' Responsibilities for the Financial Statements

The directors are responsible, on behalf of the entity, for the preparation and fair presentation of the consolidated financial statements in accordance with New Zealand equivalents to International Financial Reporting Standards and International Financial Reporting Standards, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing on behalf of the entity the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (New Zealand) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located at External Reporting Board's website: https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities. This description forms part of our auditor's report.

The engagement partner on the audit resulting in this independent auditor's report is Bruce Loader.

Ernst + Young

Christchurch
24 August 2017