New Zealand
King Salmon

NEW ZEALAND KING SALMON INVESTMENTS LIMITED AND SUBSIDIARIES

INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2018

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FOR THE SIX MONTHS ENDED 31 DECEMBER 2018

NEW ZEALAND KING SALMON INVESTMENTS LIMITED AND SUBSIDIARIES

CORPORATE INFORMATION

Board of Directors

Director	***Position***	***Appointment Date***
John William Dudley Ryder	Independent Non-Executive Chairman	6 November 2018
Grantley Bruce Rosewarne	Chief Executive Officer and Managing Director	21 September 2016
Mark Robert Hutton	Independent Non-Executive Director	21 September 2016
Jack Lee Porus	Non-Executive Director	7 November 2017
Paul James Steere	Independent Non-Executive Director	7 November 2017
Thomas Chai Leng Song	Non-Executive Director	6 November 2018
Xin Wang	Non-Executive Director	7 November 2017
Nelson Liu	Alternate to Xin Wang	Resigned 20 December 2018, appointed 6 June 2018

Other Corporate Information

Registered Office
93 Beatty Street
Annesbrook
Nelson
New Zealand

Principal Place of Business
93 Beatty Street
Annesbrook
Nelson
New Zealand

Bankers
The Bank of New Zealand
Deloitte Centre
Level 6, 80 Queen Street
Auckland
New Zealand

Solicitors
Chapman Tripp
Level 35
23 Albert Street
Auckland
New Zealand

Gascoigne Wicks
79 High Street
Blenheim
New Zealand

Duncan Cotterill
197 Bridge Street
Nelson
New Zealand

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

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 31 DECEMBER 2018

	Note	UNAUDITED 31 Dec 2018 $000	UNAUDITED 31 Dec 2017 $000
Revenue from contracts with customers	4	87,681	-
Revenue		-	87,688
Cost of goods sold		(82,316)	(76,244)
Fair value gain on biological transformation		39,202	31,204
Freight costs to market		(7,823)	(8,222)
Gross profit		36,744	34,426
Other income		186	1,500
Sales, marketing and advertising expenses		(5,911)	(5,863)
Distribution overheads		(1,949)	(1,593)
Corporate expenses		(4,071)	(4,048)
Other expenses		(187)	(112)
Earnings before interest, tax, depreciation and amortisation		24,812	24,310
Depreciation and amortisation expense		(2,958)	(2,419)
Finance income		36	88
Finance expenses		(504)	(425)
Profit before tax		21,386	21,554
Income tax expense		(6,306)	(5,819)
Net profit after tax		15,080	15,735
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods (net of tax):			
Exchange differences on translation of foreign operations		(185)	87
Net movement on cash flow hedges		(1,440)	1,032
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods (net of tax):			
Share based payment expense		140	121
Net other comprehensive income		(1,485)	1,240
Total comprehensive income		13,595	16,975

		UNAUDITED 31 Dec 2018	UNAUDITED 31 Dec 2017
Earnings per share			
Basic earnings per share	5	$ 0.11	$ 0.11
Diluted earnings per share	5	$ 0.11	$ 0.11

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

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INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2018

ASSETS	Note	UNAUDITED 31 Dec 2018 $000	AUDITED 30 Jun 2018 $000
Current assets			
Cash and cash equivalents		7,425	14,428
Trade and other receivables		18,274	12,426
Inventories	6	26,106	16,582
Biological assets	7	83,419	71,566
Derivative financial assets	9	581	1,057
Total current assets		135,805	116,059
Non-current assets			
Property, plant and equipment		48,803	43,722
Biological assets	7	10,779	7,888
Derivative financial assets	9	1,719	1,884
Deferred tax asset		2,233	2,052
Intangible assets		5,828	5,114
Goodwill		39,255	39,255
Total non-current assets		108,617	99,915
TOTAL ASSETS		244,422	215,974
LIABILITIES			
Current liabilities			
Trade and other payables		25,791	13,924
Contract liabilities		554	-
Employee benefits		3,197	3,384
Borrowings	8	1,664	461
Other financial liabilities	12	46	46
Derivative financial liabilities	9	1,577	1,189
Taxation payable		2,552	4,902
Total current liabilities		35,381	23,906
Non-current liabilities			
Employee benefits		490	473
Borrowings	8	15,000	10,000
Deferred tax liabilities		15,609	13,995
Derivative financial liabilities	9	2,275	1,299
Total non-current liabilities		33,374	25,767
TOTAL LIABILITIES		68,755	49,673
NET ASSETS		175,667	166,301
EQUITY			
Share capital	11	122,585	122,579
Reserves		(1,157)	328
Retained earnings		54,239	43,394
TOTAL EQUITY		175,667	166,301
Net tangible assets per share			
Net tangible assets per share		$ 0.93	$ 0.87

For and on behalf of the Board, who authorised the issue of these financial statements on 27 February 2019

Director
27 February 2019

Director
27 February 2019

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

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 31 DECEMBER 2018

UNAUDITED	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 2018	122,579	(395)	318	405	43,394	166,301
Profit for the period	-	-	-	-	15,080	15,080
Other comprehensive income/(loss)	-	(185)	(1,440)	140		(1,485)
Total comprehensive income/(loss) for the period	-	(185)	(1,440)	140	15,080	13,594
Dividend paid	-	-	-	-	(4,235)	(4,235)
Employee share scheme loans repaid	6	-	-	-	-	6
Balance as at 31 December 2018	122,585	(580)	(1,122)	545	54,239	175,667

UNAUDITED	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 2017	122,518	(515)	2,168	142	34,362	158,675
Profit for the period	-	-	-	-	15,735	15,735
Other comprehensive income/(loss)	-	87	1,032	121	-	1,240
Total comprehensive income/(loss) for the period	-	87	1,032	121	15,735	16,975
Dividends paid	-	-	-	-	(4,252)	(4,252)
Employee share scheme loans repaid	56	-	-	-	-	56
Balance as at 31 December 2017	122,574	(428)	3,200	263	45,845	171,454

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

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2018

	UNAUDITED 31 Dec 2018 $000	UNAUDITED 31 Dec 2017 $000
Operating activities		
Receipts from customers	83,020	82,464
Payments to suppliers	(55,194)	(49,263)
Payments to employees	(19,965)	(17,329)
Interest received	78	80
Interest paid	(371)	(293)
Other income received	186	1,352
Income tax paid	(6,663)	(2,783)
Net cash flows (to) / from operating activities	1,091	14,228
Investing activities		
Proceeds from sale of property, plant and equipment	(6)	-
Purchase of property, plant and equipment	(8,812)	(5,263)
Purchase of intangible assets	(4)	(14)
Net cash flow (to) / from investing activities	(8,822)	(5,278)
Financing activities		
Drawdown / (Repayment) of revolving loan	5,000	-
Government grants received	100	147
Payment of finance lease liabilities	(140)	(50)
Employee share scheme loans repaid	6	57
Dividends received on behalf of Custodian Holders	-	28
Dividends paid	(4,235)	(4,252)
Net cash flows (to) / from financing activities	731	(4,070)
Net increase / (decrease) in cash and cash equivalents	(7,000)	4,881
Cash and cash equivalents at 1 July	14,425	10,648
Cash and cash equivalents at 31 December	7,425	15,529

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

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2018

1. CORPORATE INFORMATION

The interim financial statements of New Zealand King Salmon Investments Limited (the Company) and its subsidiaries (together the Group) for the six months ended 31 December 2018 were authorised by the Directors on 27 February 2019.

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

The interim consolidated financial statements are for the six months ended 31 December 2018 and have been prepared in accordance with NZ GAAP.

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

2. BASIS OF PREPARATION

a. Statement of compliance

The interim consolidated financial statements for the six months ended 31 December 2018 have been prepared in accordance with NZ IAS 34 - Interim Financial Reporting and IAS 34 Interim Financial Reporting, and should be read in conjunction with the annual financial statements as at 30 June 2018 which were prepared in accordance with NZ IFRS and IFRS.

The interim consolidated financial statements for the six months ended 31 December 2018 are unaudited. Comparative information for the interim consolidated statement of financial position is at 30 June 2018 and is audited. Comparative information for the interim consolidated statement of comprehensive income, statement of interim consolidated changes in equity and interim consolidated statement of cash flows is for the comparative six month period and is unaudited.

b. Basis of measurement

The accounting policies adopted in the interim financial statements are consistent with those applied in the annual financial statements as at 30 June 2018, used except as noted in (d) and (e)

c. Significant accounting judgements, estimates and assumptions

Management have applied the same principles and used the same key sources of estimation in the preparation of the interim financial statements as those applied to in the consolidated financial statements for the year ended 30 June 2018.

d. Application of NZ IFRS 9 Financial Instruments

NZ IFRS 9 Financial Instruments replaces NZ IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

Under NZ IFRS 9 debt instruments are subsequently measured at fair value through profit or loss, amortised cost or fair value through other comprehensive income. The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principle and interest' on the principle amount outstanding.

The assessment of the Group's business model was made as of the date of initial application, 1 January 2018, and then applied retrospectively to those financial assets that were recognised before 1 January 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principle and interest was made based on the facts and the circumstances as at the initial recognition of the assets.

The classification and measurement requirements of NZ IFRS 9 did not have a significant impact on the Group. The Group continued measuring at fair value all financial assets previously held at fair value under NZ IAS 39. The Group has reclassified *Trade receivables* as *Debt instruments at amortised cost*, these were previously classified as *Loans and receivables*.

The adoption of NZ IFRS 9 has changed the Group's accounting for impairment losses for financial assets by replacing NZ IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. NZ IFRS 9 requires the Group to recognise an allowance for ECLs for all debt instruments not held at fair value through profit or loss and contract assets. The assessment of the ECL was made at balance date 30 June and it was deemed that no material provision was required due to the negligible risk of credit loss.

Impairment

Financial assets measured at amortised cost being cash and cash equivalents, trade receivables, and employee loans are subject to the impairment provisions of NZ IFRS 9

The Group applies the simplified approach to recognise lifetime expected credit losses for the above financial assets as required or permitted by NZ IFRS 9. In general, the application of the expected credit loss model of NZ IFRS 9 results in earlier recognition of credit losses and increases the amount of loss allowance recognised for those items.

Hedge accounting

As the new hedge accounting requirements align more closely with the Group's risk management policies, with generally more qualifying hedging instruments and hedged items, an assessment of the Group's current hedging relationships indicated that they qualified as continuing hedging relationships upon application of NZ IFRS 9. Similar to the Group's current hedge accounting policy, the directors do not intend to exclude the forward element of foreign currency forward contracts from designated hedging relationships.

e Application of NZ IFRS 15 Revenue from Contract with Customers

NZ IFRS 15 supersedes NZ IAS 11 Construction Contracts, NZ IAS 18 Revenue and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. NZ IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

NZ IFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

The Group adopted NZ IFRS 15 using the modified retrospective method of adoption with the date of initial application of 1 July 2018. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group elected to apply the standard to all contracts as at 1 July 2018.

The cumulative effect of initially applying NZ IFRS 15 is recognised at the date of initial application as an adjustment to the opening balance of retained earnings. Therefore, the comparative information was not restated and continues to be reported under NZ IAS 11, NZ IAS 18 and related Interpretations.

The effect of adopting NZ IFRS 15 as at 1 July 2018 was, as follows:

Interim consolidated statement of profit or loss
for the six months ended 31 December 2018

	Amounts prepared under		
	NZ IFRS 15	Previous NZ IFRS	Increase / (Decrease)
Revenue from contracts with customers	87,681	-	87,681
Revenue	-	87,681	(87,681)
Cost of goods sold	(82,316)	(82,316)	-
Fair value gain on biological transformation	39,202	39,202	-
Freight costs to market	(7,823)	(7,823)	-
Gross profit	36,744	36,744	-
Earnings before interest, tax, depreciation and amortisation	24,812	24,812	-
Profit before tax	21,386	21,386	-
Income tax expense	(6,306)	(6,306)	-
Net profit after tax	15,080	15,080	-

Interim consolidated statement of financial position
as at 31 December 2018

	Amounts prepared under		
	NZ IFRS 15	Previous NZ IFRS	Increase / (Decrease)
ASSETS			
Current assets			
Cash and cash equivalents	7,425	7,425	-
Trade and other receivables	18,274	17,720	554
Inventories	26,106	26,106	-
Biological assets	83,419	83,419	-
Derivative financial assets	581	581	-
Total current assets	135,805	135,251	554
TOTAL ASSETS	244,422	243,868	554
LIABILITIES			
Current liabilities			
Trade and other payables	25,791	25,791	-
Contract liabilities	554	-	554
Employee benefits	3,197	3,197	-
Borrowings	1,664	1,664	-
Other financial liabilities	46	46	-
Derivative financial liabilities	1,577	1,577	-
Taxation payable	2,552	2,552	-
Total current liabilities	35,381	34,827	554
TOTAL LIABILITIES	68,755	68,201	554
NET ASSETS	175,667	175,667	-
EQUITY			
Share capital	122,585	122,585	-
Reserves	(1,157)	(1,157)	-
Retained earnings	54,239	54,239	-
TOTAL EQUITY	175,667	175,667	-

The nature of the adjustments as at 1 July 2018 and the reasons for the significant changes in the statement of financial position as at 31 December 2018 and the statement of profit or loss for the six months ended 31 December 2018 are described below:

(a) Sale of goods with variable consideration

Some contracts for the sale of goods provide customers with volume rebates. Before adopting NZ IFRS 15, the Group recognised revenue from the sale of goods measured at the fair value of the consideration received or receivable, net of volume rebates. If revenue could not be reliably measured, the Group deferred recognition of revenue until the uncertainty was resolved. Under NZ IFRS 15, volume rebates give rise to variable consideration.

- Volume rebates

Before adoption of NZ IFRS 15, the Group estimated the expected volume rebates using the probability-weighted average amount of rebates approach and included an allowance for rebates in trade and other payables.

The Group provides retrospective volume rebates to certain customers on the quantity of product purchased during the period. The rebate is charged at time of settlement. Therefore the Group does not see the need to recognise a refund liability due to timeliness of the transaction.

(b) Contract balances: contract liabilities

A contract liability is the obligation to transfer goods to a customer for which the Group has received consideration from the customer. If a customer pays consideration before the Group transfers goods to the customer, a contract liability is recognised when the payment is made or when the payment is due (whichever is earlier). Contract liabilities are revenue when the Group performs under the contract.

Application of NZ IFRS 15 Revenue from Contract with Customers which became effective on 1 January 2018 has not resulted in any material contracts being reclassified. The Group recognises revenue from the following major sources:

- Ora King
- Regal
- Southern Ocean
- New Zealand King Salmon (unbranded)

(c) Performance obligations

Information about the Group's performance obligations are summarised below:

Delivered to Customer

The performance obligation is satisfied upon delivery of salmon products to the customer, and payment terms generally range between cash on delivery and 20th of the month following invoice date.

On collection

The performance obligation is satisfied upon collection of salmon products by the customer and payment terms generally on collection.

Receipt into store

The performance obligation is satisfied upon delivery of salmon products when receipted into the customers store and payment terms generally on the 20th of the month following invoice date.

CIF, Into hold

The performance obligation is satisfied upon delivery of shipping documents including either the bill of lading or way bill dependant on transportation mode. Payment terms generally range between 7 days from invoice date and 20th of the month following invoice date.

f NZ IFRS 16: Leases

IFRS16 Leases will be adopted by the Group from 1 July 2019. This accounting standard requires certain long term leased assets to be treated as through they are fixed assets of the company. For the Group this will mean that leased vehicles, forklifts, offices, warehouses and office equipment will be treated as though the Group owns them.

The result of adopting IFRS 16 will impact the Profit and Loss by reducing the cost of goods sold by the principle portion of the lease payment, increase the cost of interest from the interest portion of the lease payment and increase depreciation from the amortisation of the leased assets.

The Group will be required to reclassify the current lease payments and instead report deemed depreciation and interest on the assets. A reconciliation will be provided in the full year financial statements so investors can fully understand the impact of adopting the new accounting standard.

3. SEASONALITY

The Group's business is not considered to be highly seasonal. Sales and related costs vary from month to month with overall variation considered to be immaterial.

4. SEGMENT INFORMATION

Segment results

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

The Group's reportable segments are:

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	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	15 $000	Total $000
UNAUDITED				
Six months ended 31 Dec 2018				
Revenue from contracts with customers	26,292	19,657	41,732	**87,681**
Segment EBITDA	7,026	5,797	11,989	**24,812**
UNAUDITED				
Six months ended 31 Dec 2017				
Revenue from contracts with customers	22,985	20,752	43,951	**87,688**
Segment EBITDA	4,728	5,989	13,593	**24,310**

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

Segment profit reconciles to profit before income tax as follows:	UNAUDITED 31 Dec 2018 $000	UNAUDITED 31 Dec 2017 $000
Segment profit	24,812	24,310
Depreciation, amortisation and impairment	(2,958)	(2,419)
Net finance costs	(468)	(337)
Group profit before tax	21,386	21,554

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	UNAUDITED 31 Dec 2018 $000	UNAUDITED 31 Dec 2017 $000
New Zealand	41,264	43,736
North America	28,839	25,636
Australia	6,422	6,675
Japan	2,819	5,683
Europe	1,827	1,311
Other	6,510	4,647
Total revenue	87,681	87,688

Sales net of settlement discounts to two major customers for the period ended December 2018 totalled $14,619k or 17% of total sales (December 2017 two major customer accounted for $18,842k or 22%). In both years, these customers were included in the New Zealand Retail segment.

5. EARNINGS PER SHARE

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

	UNAUDITED 31 Dec 2018	UNAUDITED 31 Dec 2017
Earnings per share	$000	$000
Profit attributable to ordinary equity holders	15,080	15,735
	# of Shares 000	# of Shares 000
Weighted average number of ordinary shares for diluted earnings per share	138,525	138,320
Basic earnings per share	$ 0.11	$ 0.11
Diluted earnings per share	$ 0.11	$ 0.11

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6. INVENTORIES

	UNAUDITED	AUDITED
	31 Dec 2018	30 Jun 2018
Inventories	$000	$000
Raw materials	18,640	9,822
Work in progress	3	106
Finished goods	7,463	6,654
Total inventories	26,106	16,582

	UNAUDITED	UNAUDITED
	31 Dec 2018	31 Dec 2017
Amount of inventories recognised as an expense in the statement of comprehensive income	$000	$000
Cost of inventories recognised as an expense	81,988	76,614
Movement in net realisable value of inventory decrease	328	(370)
Total cost of goods sold	82,316	76,244

The cost of inventories recognised as an expense for the period ended December 2018 includes a fair value uplift at point of harvest of $31,941k (December 2017: $26,456k).

7. BIOLOGICAL ASSETS

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

UNAUDITED	Cost	Fair value	Total
Biological assets	$000	$000	$000
As at 1 July 2018	42,667	36,787	79,454
Increase due to biological transformation [1]	43,905	39,894	83,799
Decrease due to harvest [2]	(33,983)	(31,941)	(65,924)
Decrease due to mortality [3]	(2,439)	-	(2,439)
Changes in fair value [4]	-	(692)	(692)
As at 31 December 2018	50,150	44,048	94,198

[1] Biological transformation fair value is impacted by volume increases (net of mortalities) and fish size at reporting date relative to the target harvest weight of 4 kgs (proportional recognition).
[2] Harvested fair value is included under cost of goods sold in the statement of comprehensive income and is calculated by multiplying the current years harvest (biomass) by the prior years expected gross margin per kg (recognised at 100%).
[3] Mortality cost is expensed directly to the statement of comprehensive income in the period which it occurs.
[4] Changes in fair value are impacted by movements in margin primarily being changes in sales price and costs to sell (fish cost, harvest, processing and freight to market).

AUDITED	Cost	Fair value	Total
Biological assets	$000	$000	$000
As at 1 July 2017	45,087	34,429	79,516
Increase due to biological transformation [1]	67,846	36,692	104,538
Decrease due to harvest [2]	(57,768)	(47,951)	(105,719)
Decrease due to mortality [3]	(12,498)	-	(12,498)
Changes in fair value [4]	-	13,617	13,617
As at 30 June 2018	42,667	36,787	79,454

	UNAUDITED	UNAUDITED
	31 Dec 2018	31 Dec 2017
Fair value gain / (loss) recognised in profit and loss	$000	$000
Gain arising from growth of biological assets	39,894	27,039
Movement in fair value of biological assets	(692)	4,165
Total fair value gain on biological transformation	39,202	31,204

The performance obligation is satisfied upon delivery of shipping documents including either the bill of lading or way bi	UNAUDITED	AUDITED
	31 Dec 2018	30 Jun 2018
Estimated closing biomass	kg 000	kg 000
Closing fresh water stocks	129	105
Closing seawater stocks	6,785	5,286
Total estimated closing biomass live weight	6,914	5,391

	UNAUDITED	UNAUDITED
	31 Dec 2018	31 Dec 2017
	kg 000	kg 000
Live weight harvested for the period (metric tonnes)	4,575	5,027

BIOLOGICAL ASSETS (continued)

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

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

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

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

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

Leaving all other variables constant a 5.0% increase/decrease in average future sales prices would have increased/decreased the fair value of biological assets on hand and profit before tax by \$6.5m (excludes the impact of finished goods), while a 5.0% increase/decrease in estimated 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 estimated costs to sell would decrease/increase the fair value of biological assets on hand at balance date and profit before tax by \$4.7m. 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.

8. INTEREST BEARING LOANS AND BORROWINGS

	UNAUDITED 31 Dec 2018 \$000	AUDITED 30 Jun 2018 \$000
Current interest bearing loans and borrowings		
Finance lease liabilities	-	133
Other borrowings	1,664	328
Total current interest bearing loans and borrowings	1,664	461
Non-current interest bearing loans and borrowings		
Secured bank loans	15,000	10,000
Total non-current interest bearing loans and borrowings	15,000	10,000

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 \$15m of facility A was drawn (June 2018: \$10m).

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2018

9. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

The carrying value of the BNZ loan drawing of $15m is considered a reasonable approximation of its fair value due to the short term maturities of the drawings. New Zealand King Salmon Investments has the discretion to roll these short term drawings out to 2020.

The following financial instruments of the Group are carried at fair value:	UNAUDITED 31 Dec 2018	AUDITED 30 Jun 2018
Current derivative financial assets	$000	$000
Forward exchange contracts	214	662
Foreign exchange options	367	395
Total Current derivative financial assets	581	1,057
Non-current derivative financial assets		
Forward exchange contracts	577	892
Foreign exchange options	1,142	992
Total Non-current derivative financial assets	1,719	1,884
Current derivative financial liabilities		
Forward exchange contracts	627	213
Foreign exchange options	111	150
Interest rate swaps	839	826
Total Current derivative financial liabilities	1,577	1,189
Non-current derivative financial liabilities		
Forward exchange contracts	1,050	425
Foreign exchange options	862	630
Interest rate swaps	363	244
Total non-current derivative financial liabilities	2,275	1,299

The carrying value of obligations under financial leases is the same as the fair value as follows:

	UNAUDITED As at 31 Dec 2018		AUDITED As at 30 Jun 2018	
	Carrying amount	Fair value	Carrying amount	Fair value
	$000	$000	$000	$000
Obligations under finance leases	-	-	133	133
Total obligations under finance leases	-	-	133	133

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.

10. COMMITMENTS AND CONTINGENCIES

UNAUDITED

Capital commitments

The Group has entered into agreements to purchase plant and equipment. As at 31 December 2018 the total commitment is $4,092k (June 2018: $1,547k).

Contingencies

The Group has a contingent liability of $912k in respect of a fish transport contract requiring the Group to purchase three bulk tankers (including modifications made in 2017), should the fish transport contract be terminated early (June 2018: $1,066k).

11. CAPITAL AND RESERVES

	UNAUDITED	AUDITED
Share capital	**31 Dec 2018**	**30 Jun 2018**
Issued shares	**000**	**000**
Ordinary shares	138,571	138,475
Total issued shares	138,571	138,475

Ordinary shares are fully paid with no par value. Each ordinary share has an equal right to vote, to participate in dividends, and to share in any surplus on winding up of the Company. Dividends paid during the period ended December 2018 consisted of a fully imputed final dividend of $0.03 per share paid on 21 September 2018 (December 2017: $0.03 paid on 18 September 2018).

	# of Shares		Share Capital	
	UNAUDITED 31 Dec 2018	AUDITED 30 Jun 2018	UNAUDITED 31 Dec 2018	AUDITED 30 Jun 2018
Movement in ordinary share capital	000	000	$000	$000
As at 1 July	138,475	138,158	122,579	122,518
Share issue for employee share scheme	96	317	-	-
Share issue recognised on repayment of employee loans	-	-	6	61
As at 31 December or 30 June	138,571	138,475	122,585	122,579

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 two 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 executive LTI scheme was established at the time of the IPO with 993,671 ordinary shares in the Company being issued at an issue price of $1.12 per share. The ordinary shares in the Company are security for the interest-free limited recourse loans, are held by a Custodian and will vest three years from the granting date of 19 October 2016.

On 29 September 2017 a further 317,215 shares were issued, being 270,274 shares issued to existing senior executive shareholders at an issue price of $1.22 per share, and 47,241 shares issued to new senior executive shareholders at an issue price of $1.77 per share. The vesting date being 1 September 2020.

On 26 September 2018, a further 311,527 shares were a new issue of shares as part of the scheme, being 260,321 shares issued to original members of the share program at a price of $1.30 per share, 33,858 shares issued to members that were new in 2017 at a price of $1.95 per share and 17,348 shares issued to new members at a price of $2.78 per share. The vesting date being 1 September 2021.

The employee share ownership scheme was established at the time of the IPO and relates to 187,076 ordinary shares in the Company. The ordinary shares in the Company are security for the interest-free limited recourse loans which may remain in place whilst the holder is in employment with the Company. Loans relating to 11,928 shares were repaid during the period by employees leaving the Company.

Retained earnings

Retained earnings represents the profits retained in the business.

12. RELATED PARTY DISCLOSURES

Subsidiaries

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

Subsidiary	*Country of Incorporation*	*Equity Interest*
The New Zealand King Salmon Co Limited	New Zealand	100%
New Zealand King Salmon Exports Limited	New Zealand	100%
The New Zealand King Salmon Pty Limited	Australia	100%
New Zealand King Salmon USA Incorporated	United States of America	100%

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

At balance date Oregon Group Limited owned 40.14% (30 June 2018: 40.16%) and China Resources Ng Fung Limited owned 9.96% (30 June 2018: 9.96%) of the shares in New Zealand King Salmon Investments Limited.

Transactions with related parties

Sales to and purchases from related parties are made in arm's length transactions both at normal market prices and on normal commercial terms. The following provides the total amount of transactions that were entered into with related parties for the relevant financial year:

	UNAUDITED 31 Dec 2018 $000	UNAUDITED 31 Dec 2017 $000
Related party payments		
Good and services purchased from other related parties	4	4
Total related party payments	4	4
Related party sales		
Goods and services sold to related parties	(2,096)	(550)
Total related party sales	(2,096)	(550)

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

	UNAUDITED 31 Dec 2018 $000	AUDITED 30 Jun 2018 $000
Amounts owing to related parties		
Current amounts owing to related parties		
Other amounts owing to related parties	46	46
Total current amounts owing to related parties	46	46

	UNAUDITED 31 Dec 2018 $000	AUDITED 30 Jun 2018 $000
Amounts owing by related parties		
Amounts owing by related parties	120	177
Total amounts owing by related parties	120	177

	UNAUDITED 31 Dec 2018 $000	UNAUDITED 31 Dec 2017 $000
Compensation of key management personnel of the Group		
Key management personnel compensation		
Short-term employee benefits	1,032	1,372
Share based payment expense	140	121
Post employment pension and medical benefits	56	75
Total key management personnel compensation	1,228	1,568

13. DISAGGREGATION OF REVENUE

	UNAUDITED 31 Dec 2018 $000	UNAUDITED 31 Dec 2017 $000
New Zealand King Salmon label (unbranded)	31,586	34,908
Regal	16,183	15,181
Ōra King	32,157	29,847
Southern Ocean	7,329	7,537
Omega Plus	426	215
Total disaggregated revenue	87,681	87,688

Revenue breakdown by operating segments is disclosed in Note 4.

14. EVENTS AFTER BALANCE DATE

	UNAUDITED 31 Dec 2018 $000	UNAUDITED 31 Dec 2017 $000
Dividends declared after balance date:		
Interim dividend	2,771	2,842
	2,771	2,842

A interim fully imputed dividend of 2 cents per share on ordinary shares was approved on 27 February 2019 for payment on 22 March 2019. These dividends are not recognised as a liability as at 31 December 2018.

EY

Building a better working world

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

We have reviewed the interim financial statements on pages 2 to 14, which comprise the statement of financial position of the group as at 31 December 2018, and the statement of comprehensive income, statement of changes in equity and statement of cash flows of the group for the six-month period ended on that date, and a summary of significant accounting policies and other explanatory information.

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

Directors' Responsibilities

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

Reviewer's Responsibilities

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

Basis of Statement

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

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

We provide taxation advice to the group. We have no other relationship with, or interest in, the group.

Conclusion

Based on our review nothing has come to our attention that causes us to believe that the accompanying interim financial statements, set out on pages 2 to 14, do not present fairly, in all material respects, the financial position of the group as at 31 December 2018 and its financial performance and cash flows for the six-month period ended on that date in accordance with New Zealand Equivalent to International Accounting Standard 34: *Interim Financial Reporting*.

Our review was completed on 27 February 2019 and our findings are expressed as at that date.

Ernst + Young

Chartered Accountants
Christchurch