New Zealand King Salmon

NEW ZEALAND KING SALMON INVESTMENTS LIMITED AND SUBSIDIARIES

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

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FOR THE YEAR ENDED 30 JUNE 2019

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	1 September 2009	
Grantley Bruce Rosewarne	Chief Executive Officer and Managing Director	15 July 2016	
Mark Robert Hutton	Independent Non-Executive Director	23 September 2008	
Jack Lee Porus*	Non-Executive Director	23 September 2008	
Paul James Steere*	Independent Non-Executive Director	23 September 2008	
Lai Po Sing	Non-Executive Director	01 May 2019	
Chiong Yong Tiong	Non-Executive Director	19 June 2019	
Thomas Chai Leng Song **	Non-Executive Director	7 August 2008	*Deceased 14 April 2019*
Xin Wang	Non-Executive Director	23 February 2017	*Resigned 1 April 2019*
Carol Yuen Ping Cheng	Non-Executive Director - Alternate to Wang Xin	27 March 2018	*Resigned 6 June 2018*
Nelson Yunshu Liu	Non-Executive Director - Alternate to Wang Xin	6 June 2018	*Resigned 20 December 2018*

* These Directors retired by rotation and were re-appointed at the AGM held on 17 November 2017.

** These Directors retired by rotation and were re-appointed at the AGM held on 06 November 2018.

Other Corporate Information

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

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

Gascoigne Wicks
79 High Street
Blenheim
New Zealand

Duncan Cotterill
197 Bridge Street
Nelson
New Zealand

Registered Office
93 Beatty Street
Annesbrook
Nelson
New Zealand

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2019

	Note	2019 $000	2018 $000
Revenue from contracts with customers	5	172,609	-
Revenue	5	-	160,271
Cost of goods sold including fair value uplift at point of harvest	14	(172,147)	(145,320)
Fair value gain on biological transformation	15	60,002	50,309
Freight costs to market		(15,642)	(15,212)
Gross profit		44,822	50,048
Other income	6	857	1,822
Sales, marketing and advertising expenses		(9,619)	(10,381)
Distribution overheads		(3,600)	(3,348)
Corporate expenses	7	(7,006)	(6,728)
Other expenses	7	(2,391)	(2,931)
Earnings before interest, tax, depreciation and amortisation		23,063	28,482
Depreciation and amortisation expense	16, 17	(6,234)	(5,105)
Finance income	8	96	198
Finance expenses	8	(1,188)	(888)
Profit before tax		15,737	22,687
Income tax expense	9	(4,387)	(6,562)
Net profit after tax		11,350	16,125
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations	10	(244)	120
Movement on cash flow hedges	10	(2,374)	(2,571)
Income tax effect of movement on cash flow hedges	10	665	721
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:			
Net other comprehensive income		(1,953)	(1,730)
Total comprehensive income		9,397	14,395
Earnings per share			
Basic earnings per share	11	$ 0.08	$ 0.12
Diluted earnings per share	11	$ 0.08	$ 0.12

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

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2019

ASSETS	Note	2019 $000	2018 $000
Current assets			
Cash and cash equivalents	12	6,231	14,428
Trade and other receivables	13	13,502	12,426
Inventories	14	20,830	16,582
Biological assets	15	68,052	71,566
Non-current assets held for sale		-	-
Derivative financial assets	23	494	1,057
Total current assets		109,109	116,059
Non-current assets			
Property, plant and equipment	16	51,843	43,722
Biological assets	15	10,180	7,888
Derivative financial assets	23	1,709	1,884
Deferred tax asset	9	2,443	2,052
Intangible assets	17	7,521	5,114
Goodwill	17	39,255	39,255
Total non-current assets		112,951	99,915
TOTAL ASSETS		222,060	215,974
LIABILITIES			
Current liabilities			
Trade and other payables	19	16,499	13,924
Contract liabilities		-	-
Employee benefits	20	2,429	3,384
Borrowings	18	416	461
Other financial liabilities	27	149	46
Derivative financial liabilities	23	2,091	1,189
Taxation payable		605	4,902
Total current liabilities		22,189	23,906
Non-current liabilities			
Employee benefits	20	566	473
Borrowings	18	15,000	10,000
Deferred tax liabilities	9	13,507	13,995
Derivative financial liabilities	23	2,046	1,299
Total non-current liabilities		31,119	25,767
TOTAL LIABILITIES		53,308	49,673
NET ASSETS		168,752	166,301
EQUITY			
Share capital	25	122,595	122,579
Reserves		(1,455)	328
Retained earnings		47,612	43,394
TOTAL EQUITY		168,752	166,301
Net tangible assets per share			
Net tangible assets per share		$ 0.86	$ 0.87

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

For and on behalf of the Board, who authorised the issue of these financial statements on 28 August 2019

Director
28 August 2019

Director
28 August 2019

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2019

	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 2018		122,579	(395)	318	405	43,394	**166,301**
Profit for the period		-	-	-	-	11,350	**11,350**
Other comprehensive income/(loss)	10	-	(244)	(1,709)		-	**(1,953)**
Total comprehensive income/(loss) for the period		-	**(244)**	**(1,709)**	-	**11,350**	**9,397**
Shares issued	25	-	-	-	-	-	-
Employee share scheme loans repaid	25	16	-	-	-	-	**16**
Share based payment expense					170		**170**
Dividends paid	25	-	-	-	-	(7,131)	**(7,131)**
Balance as at 30 June 2019		**122,595**	**(639)**	**(1,391)**	**575**	**47,612**	**168,752**
Balance as at 1 July 2017		122,518	(515)	2,168	142	34,362	**158,675**
Profit for the period		-	-	-	-	16,125	**16,125**
Other comprehensive income/(loss)	10	-	120	(1,850)		-	**(1,730)**
Total comprehensive income/(loss) for the period		-	**120**	**(1,850)**	-	**16,125**	**14,395**
Shares issued	25	61	-	-	-	-	**61**
Employee share scheme loans repaid	25	-	-	-	-	-	-
Share based payment expense					263		**263**
Dividends paid	25	-	-	-	-	(7,093)	**(7,093)**
Balance as at 30 June 2018		**122,579**	**(395)**	**318**	**405**	**43,394**	**166,301**

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

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CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2019

	Note	2019 $000	2018 $000
Operating activities			
Receipts from customers		171,892	161,212
Payments to suppliers		(115,746)	(97,453)
Payments to employees		(39,731)	(35,029)
Interest received		138	164
Interest paid		(850)	(597)
Insurance and settlement income		500	150
Income tax paid		(5,361)	(3,609)
Net cash flows from / (used in) operating activities	29	10,841	24,838
Investing activities			
Proceeds from sale of property, plant and equipment		10	19
Purchase of property, plant and equipment		(14,191)	(14,022)
Purchase of intangible assets		(2,709)	(88)
Net cash flow (used in) / from investing activities		(16,890)	(14,091)
Financing activities			
Drawdown of revolving loan			124
Proceeds from borrowings		5,000	-
Government grants received		100	148
Gross proceeds from share issue		16	42
Repayment of shareholder advances		-	(89)
Payment of finance lease liabilities		(134)	(98)
Dividends paid		(7,131)	(7,093)
Net cash flows (used in) / from financing activities		(2,149)	(6,966)
Net increase/(decrease) in cash and cash equivalents		(8,197)	3,781
Cash and cash equivalents at 1 July	12	14,428	10,647
Cash and cash equivalents at 30 June	12	6,231	14,428

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

1. CORPORATE INFORMATION

The consolidated financial statements of New Zealand King Salmon Investments Limited (the Company) and its subsidiaries (together the Group) for the year ended 30 June 2019 were authorised by the directors on 28 August 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 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 New Zealand Equivalents to International Financial Reporting Standards (IFRS) and also with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS). The financial statements are prepared under NZ GAAP and FMC Act 2013.

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. The carrying values of recognised assets and liabilities that are designated as hedged items in
hedging instruments otherwise be carried at amortised cost are adjusted to recognise changes in the fair values attributable to the risks that are being hedged in effective hedge relationships.

The consolidated financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand ($000), except when otherwise indicated.

The consolidated financial statements provide comparative information in respect of the previous period.

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 value in use assessment 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.

Revenue from contracts with customers

The Group reviews individual transactions to determine the amount and timing of revenue from contracts with customers.

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. The USA subsidiary's functional currency is United States 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.

3. SIGNIFICANT 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 27) 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 from contracts with customers

The Group is in the business of growing, processing and selling King Salmon to New Zealand based retailers, New Zealand food service and export markets. Revenue from contracts with customers is recognised when control of the goods are transferred to the customer at the amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods. The Group has generally concluded that it is the principal in its revenue arrangements becasue it typically controls the goods before transferring them to the customer.

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.

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 25.

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:

a. ***New and amended standards and interpretations***

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 July 2017, and then applied retrospectively to those financial assets that were recognised before 1 July 2017. 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, and trade receivables 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 are not excluding the forward element of foreign currency forward contracts from designated hedging relationships.

NZ IFRS 15: Revenue from contract with customers

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 as there was no impact on transition from the figures reported under NZ IAS 11, NZ IAS 18 and related Interpretations.

b. ***New and amended standards and interpretations not yet adopted***

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 a number of the Group's applicable contracts.

The standard will have an impact on the balance sheet and EBITDA, once fully transitioned to the new standard. The estimated impact on the consolidated income statements of the Group for the period ending 30 June 2020 is expected to be:

- An increase in Finance costs (interest expense) of $153k.
- Increase in depreciation and amortization expense $1.1m
- An increase in EBITDA of $1m.
- Rights-of-use assets on the balance sheet of $4.5m with corresponding liabilities.

The above has no cash effect to the Group and the change is for financial reporting purposes only.

Current estimations are likely to change for the period ending 30 June 2020, mainly due to:

- New lease contracts entered by the Group during the financial year.
- Any changes to exiting lease contracts; and
- Change in management's judgements to exercise rights of renewals under lease arrangements.

In accordance with the transition provisions of NZ IFRS 16, the Group intends to elect to apply several practical expedients available for transitioning into the new standard. These include:

- The use of hindsight to determine the lease term where the lease term contains options to exercise rights of renewal out of the final term of the lease.
- Non-capitalisation of leases that expire within twelve months from adoption date. Costs relating to these leases will continue to be recognised in the income statement as an expense.

In accordance with the transition provisions of NZ IFRS 16, comparatives will not be restated, with the cumulative effect being recognized in opening retained earnings at the date of initial application of 1 July 2019. Right-of-use assets will be measured at 1 July 2019 at an amount equal to the lease liability remaining at this time.

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	New Zealand Foodservice	Export Market	Total
	$000	$000	$000	$000
Year ended 30 June 2019				
Revenue	40,609	39,151	92,850	172,609
Segment EBITDA	2,197	4,851	16,015	23,063
Year ended 30 June 2018				
Revenue	41,415	37,811	81,045	160,271
Segment EBITDA	4,904	6,702	16,876	28,482

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:	2019	2018
	$000	$000
Segment profit	23,063	28,482
Depreciation, amortisation and impairment	(6,234)	(5,105)
Net finance costs	(1,092)	(690)
Group profit before tax	15,737	22,687

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	2019 $000	2018 $000
New Zealand	79,759	79,226
North America	58,479	48,435
Australia	11,862	11,497
Japan	5,893	8,265
China	3,591	1,610
Europe	3,117	2,860
Other	9,907	8,378
Total revenue	172,609	160,271

Sales net of settlement discounts attributable to individual customers that were greater than 10% of gross revenue for the year was nil (2018 two major customers accounted for $16,595k and $16,535k or 10.4% and 10.3%). In both years, these customers were included in the New Zealand Retail segment.

6. OTHER INCOME

Other income	2019 $000	2018 $000
Grants received	100	148
Rebate on supply	-	1,135
Insurance settlements	534	188
Claim received	84	-
Contract penalties (received)	-	175
Profit on sale of property, plant and equipment	10	19
Other income	129	157
Total other income	857	1,822

7. EXPENSES

Corporate and other expenses include:	2019 $000	2018 $000
Trade receivables written off	2	10
Impairment of trade receivables	38	20
Research cost	440	660
Water space process expense	23	171
Loss on Assets Held for Sale	12	113
Minimum lease payments - operating leases	1,428	1,477
Directors' fees	414	420
Other directors' expenses	12	43
Donations	22	17

Employee benefits expense	2019 $000	2018 $000
Wages and salaries	32,473	29,616
Defined contribution plan expenses	785	683
Restructuring costs	(38)	40
Other employee benefits expenses	4,800	3,933
Outsourced labour	1,035	1,399
Total employee benefits expense	39,055	35,671

8. FINANCE INCOME AND COSTS

Finance income	2019 $000	2018 $000
Interest income	96	198
Total finance income	96	198

Finance costs	2019 $000	2018 $000
Bank facility fees	290	293
Interest on bank loans and overdrafts	898	595
Total finance costs	1,188	888

9. INCOME TAX

Recognised in the consolidated statement of comprehensive income	2019 $000	2018 $000
Current income tax expense	3,943	6,143
Under provision - previous year	285	127
Deferred tax relating to origination and reversal of temporary differences	159	292
Total income tax expense/(credit) in the statement of comprehensive income	4,387	6,562
Tax amounts posted directly to equity	(723)	(721)
Reconciliation of tax expense to statutory income tax rate		
Profit/(loss) before tax	15,737	22,687
Income tax using the company tax rate 28%	4,406	6,352
Non deductible/non assessable items	(50)	73
Under provision - previous year	285	127
Prior period adjustment	(242)	(30)
Adjustment for varying tax rates	(36)	-
Other differences	24	40
Total tax expense	4,387	6,562

Statement of financial position deferred tax assets and liabilities	2019	2018
Deferred tax liabilities	$000	$000
Accelerated depreciation for tax purposes	(3,009)	(2,807)
Fair value adjustment to biological assets	(9,481)	(10,300)
Gains on foreign currency hedges	116	(426)
Increase accounting cost for finished goods	(693)	(462)
Total deferred tax liabilities	(13,067)	(13,995)
Deferred tax assets		
Provision for doubtful trade debtors	19	23
Provision for employee benefits	739	793
Impairment of non-current assets	-	-
Share based payments	167	113
Losses on foreign currency hedges	426	299
Other provisions	652	824
Total deferred tax assets	2,003	2,052
Net deferred tax liability	(11,064)	(11,943)

Statement of comprehensive income deferred tax assets and liabilities	2019	2018
Deferred tax liabilities	$000	$000
Accelerated depreciation for tax purposes	(202)	(42)
Fair value adjustment to biological assets	819	661
Increase accounting cost for finished goods	(231)	53
Total deferred tax liabilities	386	672
Deferred tax assets		
Provision for doubtful trade debtors	(4)	20
Provision for employee benefits	(54)	(222)
Impairment of non-current assets	-	176
Share based payments	-	(74)
Other provisions	(169)	(280)
Total deferred tax assets	(227)	(380)
Deferred tax (credit)/expense	159	292

Imputation credit account

The imputation credit account balance in the New Zealand King Salmon Company Limited as at 30 June 2019 is $8,638k (2018: $3,504k).

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10. COMPONENTS OF OTHER COMPREHENSIVE INCOME

	2019	2018
Movement in reserves	**$000**	**$000**
Forward currency contracts		
Reclassification during the year to profit or loss	13	12
Income tax effect	(4)	(2)
Realised/unrealised net gain/(loss) during the year	(1,936)	(2,436)
Income tax effect	542	682
Interest rate swaps		
Realised/unrealised net gain/(loss) during the year	(451)	(147)
Income tax effect	126	41
Currency translation differences		
Currency translation differences	(244)	120
Net movement in reserves	(1,953)	(1,730)

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 are calculated by dividing the profit attributable to shareholders of the Company by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of shares that would be issued on conversion of all dilutive potential ordinary shares into ordinary shares.

	2019	2018
Earnings per share	**$000**	**$000**
Profit attributable to ordinary equity holders	11,350	16,125

	# of Shares 000	# of Shares 000
Weighted average number of ordinary shares for basic and diluted earnings per share	138,548	138,397
Basic earnings per share	$0.08	$0.12
Diluted earnings per share	$0.08	$0.12

12. CASH AND CASH EQUIVALENTS

	2019	2018
Cash and cash equivalents	**$000**	**$000**
Cash at bank and on hand	5,350	14,021
Short-term deposits	881	407
Total cash and cash equivalents	6,231	14,428

13. TRADE AND OTHER RECEIVABLES

	2019	2018
Trade and other receivables	**$000**	**$000**
Trade receivables	11,868	11,016
Allowance for expected credit losses	(146)	(110)
Prepayments	1,195	1,103
Other receivables	585	417
Total trade and other receivables	13,502	12,426

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. Impairment losses are recognised net of insurance proceeds when there is objective evidence that the Group will not be able to collect the debt.

	2019	2018
Ageing analysis of trade receivables	**$000**	**$000**
> 90 days overdue	76	112
31 - 90 days overdue	(55)	141
15 - 30 days overdue	321	784
< 15 days overdue	739	356
Not yet due	10,787	9,623
Total receivables	11,868	11,016

	2019	2018
Receivables impairment movement	**$000**	**$000**
As at 1 July	110	153
Additional provisions for impairment	142	130
Receivables written off during the year	2	(10)
Reversal of unused amounts	(108)	(163)
As at 30 June	146	110

14. INVENTORIES

Inventories	2019 $000	2018 $000
Raw materials	11,902	9,822
Work in progress	(1)	106
Finished goods	8,929	6,654
Total inventories	20,830	16,582

The closing cost of finished goods as at 30 June 2019 includes a fair value uplift at point of harvest of $3,428k (2018: $2,354k) and an impairment provision of $1,261k (2018: $1,638k).

Amount of inventories recognised as an expense in the statement of comprehensive income	2019 $000	2018 $000
Cost of inventories recognised as an expense	172,400	145,093
Movement in net realisable value (increase)/decrease of inventory	(253)	227
Total cost of goods sold including fair value uplift at point of harvest	172,147	145,320

The cost of inventories recognised as an expense for the year ended 30 June 2019 includes a fair value uplift at point of harvest of $61,851k (2018: $47,988k). This cost is included in cost of goods sold in the Statement of Comprehensive Income.

15. BIOLOGICAL ASSETS

The Group has three hatcheries in the South Island and nine 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 2018	42,667	36,787	79,454
Increase due to biological transformation [1]	85,635	57,567	143,202
Decrease due to harvest [2]	(66,468)	(62,926)	(129,394)
Decrease due to mortality [3]	(17,465)	-	(17,465)
Changes in fair value [4]	-	2,434	2,434
As at 30 June 2019	44,369	33,862	78,232

[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 margin primarily being changes in sales price and costs to sell (fish cost, harvest, processing and freight to market).

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

Fair value gain/(loss) recognised in profit and loss	2019 $000	2018 $000
Gain arising from growth of biological assets	57,567	36,692
Movement in fair value of biological assets	2,434	13,617
Total fair value gain on biological transformation	60,002	50,309

Harvested biomass	2019 mt	2018 mt
Harvested live weight biomass	9,013	9,112
Total live weight harvested for the period (metric tonne)	9,013	9,112

Estimated closing biomass	2019 mt	2018 mt
Closing fresh water stocks	100	105
Closing sea water stocks	5,073	5,286
Total estimated closing biomass live weight as at period end	5,173	5,391

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 stock including increasing climate change volatility, 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 10% increase/decrease in average future sales prices would increase/decrease the fair value of biological assets on hand and profit before tax by $10.2m (2018: 10% increase/decrease $10.8m) (excludes the impact of finished goods), while a 10% increase/decrease in future harvest volume would increase/decrease the fair value of biological assets on hand and profit before tax by $3.3m (2018: 10% increase/decrease $3.6m).

A 10% increase/decrease in costs to sell would decrease/increase the fair value of biological assets on hand and profit before tax by $6.8m (2018: 10% increase/decrease $7.0m). Changes in fish health and environmental factors may affect the quality of harvested fish, which may be reflected in realised profit via both achieved sales price and production costs.

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 2017	9,695	51,207	2,365	2,934	66,201
Additions	301	10,427	334	12,009	23,071
Disposals	-	(116)	(97)	(10,209)	(10,422)
As at 30 June 2018	9,996	61,518	2,602	4,734	78,850
Additions	860	11,072	1,120	14,196	27,248
Disposals	-	(1,352)	(71)	(13,057)	(14,480)
As at 30 June 2019	10,856	71,238	3,651	5,873	91,618
Depreciation and impairment					
As at 1 July 2017	1,659	27,148	1,668	-	30,475
Depreciation	281	4,437	145	-	4,863
Impairment	-	-	-	-	-
Disposals	-	(113)	(97)	-	(210)
As at 30 June 2018	1,940	31,472	1,716	-	35,128
Depreciation	363	5,337	248	-	5,948
Impairment	-	-	-	-	-
Disposals	-	(1,248)	(53)	-	(1,301)
As at 30 June 2019	2,303	35,561	1,911	-	39,775
Net Book Value					
As at 30 June 2018	8,056	30,046	886	4,734	43,722
As at 30 June 2019	8,553	35,677	1,740	5,873	51,843

Borrowing costs
There were no borrowing costs capitalised in 2019 (2018: $nil).

Impairment
There were no impairment losses recognised in 2019 (2018: $nil).

Finance Leases
There is no property, plant and equipment held under finance leases as at 30 June 2019 (2018: $310k). There were no additions of property, plant and equipment under finance leases in the 2019 year (2018: $nil). Leased assets are pledged as security for the related finance lease liabilities.

17. INTANGIBLES

	Development in progress	Trademarks	Farm and hatchery licenses	Software	Goodwill	Total
Cost	$000	$000	$000	$000	$000	$000
As at 30 June 2017	8	242	4,379	2,121	39,255	46,005
Additions	1,363	-	6	524	-	1,893
Disposals	(541)	-	-	-	-	(541)
Transferred from assets held for sale	-	-	308	-	-	308
As at 30 June 2018	830	242	4,693	2,645	39,255	47,665
Additions	2,680	-	12	17	-	2,709
Disposals	(17)	-	-	(219)	-	(236)
Transferred from assets held for sale	-	-	-	-	-	-
As at 30 June 2019	3,493	242	4,705	2,443	39,255	50,138
Depreciation and impairment						
As at 30 June 2017	-	200	811	2,043	-	3,054
Amortisation	-	-	141	101	-	242
Disposals	-	-	-	-	-	-
Impairment	-	-	-	-	-	-
As at 30 June 2018	-	200	952	2,144	-	3,296
Amortisation	-	-	168	118	-	286
Disposals	-	-	-	(220)	-	(220)
Impairment	-	-	-	-	-	-
As at 30 June 2019	-	200	1,120	2,042	-	3,362
Net Book Value						
As at 30 June 2018	830	42	3,741	501	39,255	44,369
As at 30 June 2019	3,493	42	3,585	401	39,255	46,776

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. 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 notionally allocated to the New Zealand King Salmon Company's operating segments as cash generating units. The recoverable amounts of the cash generating units have 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 terminal value calculation assumes sea farm consents expiring in 2021 and 2024 will be renewed on reasonable commercial terms to enable water space to continue to be utilised. 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 1.72% p.a. (2018: 1.70% p.a.). A discount rate of 7.61% p.a. (2018: 10.36% 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 for any of the cash generating units. The amount of goodwill allocated to NZ Retail cash generating unit is $9.630m, NZ Food Service cash generating unit is $14.573m, and Export cash generating unit is $15,052m.

Trade marks

Trademarks are externally acquired and are carried at cost less impairment. They have indefinite useful lives and are assessed annually for impairment. No impairment has been recognised during the period (2018: Nil).

18. INTEREST BEARING LOANS AND BORROWINGS

Current interest bearing loans and borrowings	2019 $000	2018 $000
Finance lease liabilities	-	133
Secured bank loans	-	-
Other borrowings	416	328
Total current interest bearing loans and borrowings	416	461
Non-current interest bearing loans and borrowings		
Finance lease liabilities	-	-
Secured bank loans	15,000	10,000
Other borrowings	-	-
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).

19. TRADE AND OTHER PAYABLES

Trade and other payables	2019 $000	2018 $000
Trade payables	10,294	11,170
Other payables	6,205	2,754
Total trade and other payables	16,499	13,924

20. EMPLOYEE BENEFITS

Current employee benefits	2019 $000	2018 $000
Bonuses	85	1,193
Employee annual and sick leave benefits	2,264	2,022
Long service leave	80	169
Total current employee benefits	2,429	3,384
Non-current employee benefits		
Long service leave	566	473
Total non-current employee benefits	566	473

Long service leave

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

21. 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:

Operating lease commitments as a lessee	2019 $000	2018 $000
Less than one year	1,152	568
Between one and five years	3,091	1,052
More than five years	754	-
Total operating lease commitments as a lessee	4,997	1,620

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:

Finance lease commitments as at 30 June 2019	Minimum lease payments $000	Present value of payments $000
Less than one year	-	-
Between one and five years	-	-
Total finance lease commitments as at 30 June 2019	-	-
Finance lease commitments as at 30 June 2018		
Less than one year	133	133
Between one and five years	-	
Total finance lease commitments as at 30 June 2018	133	133

Capital commitments

The Group has entered into agreements to purchase plant and equipment. As at 30 June 2019 the total commitment is $3,265k (2018: $1,547k).

Contingencies

The Group has a contingent liability of $809k in respect of a fish transport contract requiring the Group to purchase three bulk tankers (including modifications made in 2018), should the fish transport contract be terminated early (2018: $1,066k).

Guarantees

The group has three guarantee facilities totalling $115k (2018: $115k).

22. 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 five 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 $54m on the import side (2018: $47.5m) and $151.9m on the export side (2018: $126.2m), for delivery over the next five 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 and United States 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 60 months from 1 July 2019. The profit and loss within cost of sales will be affected as sales are made.

Foreign exchange forward contracts are designated as hedging instruments in cash flow hedges of forecast sales in USD, AUD and JPY and forecast purchases in USD, and AUD. These forecast transactions are highly probable, and they comprise about 50% of the Group's expected sales in foreign currency and about 40% of its total expected purchases in USD and AUD. The foreign exchange forward contract balances vary with the level of expected foreign currency sales and purchases and changes in foreign

There is an economic relationship between the hedged items and the hedging instruments as the terms of the foreign exchange ande commodity forward contracts match the terms of the expected highly probable forecast transactions (i.e., notional amount and expected payment date). The Group has established a hedge ratio of 1:1 for the hedging relationships as the underlying risk of the foreign exchange and commodity forward contracts are identical to the hedged risk components. To test the hedge effectiveness, the Group uses the hypothetical derivative method and compares the changes in the fair value of the hedging instruments against the changes in fair value of

The hedge effectiveness can arise from:
- Differences in the timing of the cash flows of the hedged items and the hedging instruments
- Different indexes (and accordingly different curves) linked to the hedged risk of the hedged items and hedging instruments
- The counterparties' credit risk differnetly impacting the fair value movements of the hedging instruments and hedged items
- Changes to the forecasted amount of cash flows of hedged items and hedging instruments

The NZ dollar equivalent of unhedged currency risk on assets at balance date is $143k (2018: $113k) whilst the NZ dollar equivalent of unhedged currency risk on liabilities at balance date is ($83k) (2018: $31k).

Currency sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in AUD, USD and JPY exchange rates. 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.

	Change in AUD rate	Equity $000	Profit $000
2019	+5%	(2,483)	14
	-5%	2,745	(15)
2018	+5%	(2,241)	93
	-5%	2,477	(1,033)
	Change in USD rate	**Equity $000**	**Profit $000**
2019	+5%	4,148	(330)
	-5%	(4,561)	365
2018	+5%	3,110	(31)
	-5%	(3,414)	344
	Change in JPY rate	**Equity $000**	**Profit $000**
2019	+5%	1,176	(30)
	-5%	(1,275)	33
2018	+5%	1,158	(22)
	-5%	(1,261)	24

Interest rate risk

The Group has exposure to interest rate risk that arises mainly due to the Group's 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, current swap cover out to 2024. The amount of Parent borrowing covered using swaps at balance date was $10m (2018: $10m).

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 66% (2018: 100%) of the principal outstanding and are timed to expire in the next eighteen to sixty three months. Forward starting swaps have been used to further extend maturities out to 2024 ($6m). The fixed interest rates for the existing swaps range between 4.3% and 5.01% (2018: 4.3% and 5.01%) and the floating rate of 1.58% is aligned to the floating quarterly bank bill rate. The loss on interest rate swaps at balance date was $1,608k (2018: $1,142k 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:

	2019 $000	2018 $000
Impact of an increase of 50 basis points	263	287
Impact of a decrease of 50 basis points	(271)	(298)

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.

Customer credit risk is managed centrally subject to the Group's established policy, procedures and control relating to customer credit risk management. Credit quality of a customer is assessed based on an extensive external credit rating scorecard and individual credit limits are defined in accordance with this assessment. Outstanding customer receivables and contract assets are regularly monitored and any shipments to major customers are generally covered by trade credit insurance.

An impairment analysis is performed at each reporting date using the accounts receivable aging report to measure expected credit losses. The impairment analysis is based on days past due for all customers with coverage by trade credit insurance. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written-off if past due for more than one year and are not subject to enforcement activity.

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:	2019 $000	2018 $000
Cash and short term deposits	6,231	14,428
Trade and other receivables	13,502	12,426
Derivative financial assets/(liabilities)	124	88

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. 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 2019	$000	$000	$000
Bank loans	438	14,562	-
Credit card facilities	300		
Trade and other payables	16,499	-	-
Financial guarantee contracts	115	-	-
Total non-derivative liabilities	17,352	14,562	-
Forward foreign currency exchange contracts	43,467	59,325	41,486
Forward foreign currency options	13,105	16,144	39,887
Interest swaps	583	658	726
Total derivative liabilities	57,155	76,127	82,099
As at 30 June 2018			
Bank loans	(4,580)	431	9,149
Finance lease liabilities	143	-	-
Credit card facilities	300		
Trade and other payables	13,924	-	-
Financial guarantee contracts	115	-	-
Total non-derivative liabilities	9,902	431	9,149
Forward foreign currency exchange contracts	42,518	47,088	25,788
Forward foreign currency options	21,931	17,639	15,771
Interest swaps	616	804	2,620
Total derivative liabilities	65,065	65,531	44,179

23. 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 November 2020.

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

	2019	2018
Current derivative financial assets	$000	$000
Forward exchange contracts	224	662
Foreign exchange options	270	395
Total Current derivative financial assets	494	1,057
Non-current derivative financial assets		
Forward exchange contracts	709	892
Foreign exchange options	1,001	992
Total Non-current derivative financial assets	1,709	1,884
Current derivative financial liabilities		
Forward exchange contracts	1,043	213
Foreign exchange options	110	150
Interest rate swaps	938	826
Total Current derivative financial liabilities	2,091	1,189
Non-current derivative financial liabilities		
Forward exchange contracts	667	425
Foreign exchange options	797	630
Interest rate swaps	582	244
Total non-current derivative financial liabilities	2,046	1,299

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

	As at 30 June 2019		As at 30 June 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. There were no transfers between Level 1 and Level 2 during the year ended 30 June 2019.

24. 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.

25. CAPITAL AND RESERVES

Share capital	2019	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 year consisted of a fully imputed dividend of $0.03 per share paid on 21 September 2018 (2018: $0.02 per share and a $0.01 special dividend both paid on 6 September 2017). Additionally, a fully imputed interim dividend of $0.02 per share was paid on 22 March 2019 (2018: $0.02 paid on 14 March 2018).

	# of Shares		Share Capital	
	2019	2018	2019	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 LTI share scheme	96	317	-	-
Share issue recognised on repayment of employee loans	-	-	16	61
Total share capital as at 30 June	138,571	138,475	122,595	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 leadership share ownership plan 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 LTI 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 during the year, however 20,336 shares were forfeited during the year (2018: 202,714).

A further 317,515 shares were issued on 29 September 2017 with vesting date being 1 September 2020. These shares are also held by a Custodian with the ordinary shares in the Company being security for the interest free limited recourse loan. 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 loan. No shares vested or expired during the year however 5,238 shares were forfeited during the year (2018: 13,024).

A further 311,527 shares were issued on 27 September 2018 with vesting date being 1 September 2021. These shares are also held by a Custodian with the ordinary shares in the Company being security for the interest free limited recourse loan. 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 loan. No shares vested or expired during the year however 2,487 shares were forfeited during the year (2018: nil).

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

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, initial issue at the time of the IPO in October 2016, share price of $1.12, $1.22 for further shares issued in September 2017, and $1.30 for further shares issued in September 2018 or $1.77 for those who joined the scheme in September 2017, and $1.95 for further shares issued in September 2018 or $2.78 for those who joined the scheme in September 2018 (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%. During the year 28,061 (2018: 215,738) forfeited LTI shares were held by the Company as treasury stock, and may be issued to nominated executives in future grants of LTI shares.

The balance of unvested and forfeited shares for the following arrangements as at 30 June 2019 are: LTI IPO shares - 993,671, LTI 2017 shares - 317,515, LTI 2018 shares -

Retained earnings

Retained earnings represents the profits retained in the business.

26. EVENTS AFTER BALANCE DATE

	2019	2018
Dividends declared after balance date:	$000	$000
Final cash dividend	4,157	4,152
	4,157	4,152

A final fully imputed dividend of 3 cents per share on ordinary shares was approved on 28 August 2019 for payment on 20 September 2019. These dividends are not recognised as a liability as at 30 June 2019.

27. 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: 9.97%) 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:

	2019	2018
Related party payments	$000	$000
Good and services purchased from other related parties	423	63
Total related party payments	423	63
Related party sales		
Goods and services sold to related parties	(1,931)	(1,527)
Total related party sales	(1,931)	(1,527)

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	2019	2018
Current amounts owing to related parties	$000	$000
Other amounts owing to related parties	149	46
Total current amounts owing to related parties	149	46
Non-current amounts owing to related parties		

	2019	2018
Amounts owing by related parties	$000	$000
Amounts owing by related parties	221	177
Total amounts owing by related parties	221	177

Compensation of key management personnel of the Group	2019	2018
Key management personnel compensation	$000	$000
Short-term employee benefits	1,555	1,947
Share based payment expense	48	161
Post employment pension and medical benefits	82	86
Total key management personnel compensation	1,685	2,194

28. AUDITORS REMUNERATION

Auditors remuneration	2019 $000	2018 $000
Audit fees	126	112
Other assurance	33	33
Tax compliance and consultancy	60	67
Total auditors remuneration	**219**	**212**

Other assurance services include review of the interim financial statements and performance of agreed upon procedures on sustainability information of the Group. Taxation compliance and consultancy services relates to work performed on reviewing parameters on the new Research & Development Tax Credit regime beginning 1 July 2019 and how they apply to the Group and in relation to last years tax return for the Group.

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

Reconciliation of the profit for the year with the net cash from operating activities	2019 $000	2018 $000
Profit before tax	15,737	22,687
Adjusted for		
Depreciation and amortisation	6,234	5,105
(Gain)/loss on sale of assets	128	94
Loss on Asset Held for Sale	-	2
Share-based payments	170	263
Net foreign exchange differences	(140)	367
Movement in prepaid insurances and other loans	-	(461)
Income tax expense	(4,387)	(6,562)
(Increase) in deferred tax on reserves	665	721
(Increase)/decrease in trade and other receivables and prepayments	(1,076)	(738)
(Increase)/decrease in inventories and biological assets	(3,026)	154
Increase/(decrease) in trade and other payables	1,713	1,020
Increase/(decrease) in tax liabilities	(5,176)	2,186
Net cash flow from operating activities	**10,841**	**24,838**

30. REVENUE FROM CONTRACTS WITH CUSTOMERS

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

Consolidated statement of profit or loss for the year ended 30 June 2019	Amounts prepared under		
	NZ IFRS 15	Previous NZ IFRS	Increase / (Decrease)
Revenue from contracts with customers	172,609	-	172,609
Revenue	-	172,609	(172,609)
Cost of goods sold	(172,147)	(172,147)	-
Fair value gain on biological transformation	60,002	60,002	-
Freight costs to market	(15,642)	(15,642)	-
Gross profit	**44,822**	**44,822**	-
Earnings before interest, tax, depreciation and amortisation	**23,063**	**23,063**	-
Profit before tax	**15,737**	**15,737**	-
Income tax expense	(4,387)	(4,387)	-
Net profit after tax	**11,350**	**11,350**	-

Consolidated statement of financial position as at 30 June 2019	Amounts prepared under		
	NZ IFRS 15	Previous NZ IFRS	Increase / (Decrease)
ASSETS			
Current assets			
Cash and cash equivalents	6,231	6,231	-
Trade and other receivables	13,502	13,502	-
Inventories	20,830	20,830	-
Biological assets	68,052	68,052	-
Derivative financial assets	494	494	-
Total current assets	**109,109**	**109,109**	-
TOTAL ASSETS	**222,060**	**222,060**	-

LIABILITIES			
Current liabilities			
Trade and other payables	16,499	16,499	-
Contract liabilities	-	-	-
Employee benefits	2,429	2,429	-
Borrowings	416	416	-
Other financial liabilities	149	149	-
Derivative financial liabilities	2,091	2,091	-
Taxation payable	605	605	-
Total current liabilities	22,189	22,189	-
TOTAL LIABILITIES	53,308	53,308	-
NET ASSETS	168,752	168,752	-
EQUITY			
Share capital	122,595	122,595	-
Reserves	(1,455)	(1,455)	-
Retained earnings	47,612	47,612	-
TOTAL EQUITY	168,752	168,752	-

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 30 June 2019 and the statement of profit or loss for the year ended 30 June 2019 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.

Revenue by Product group	2019	2018
	$000	$000
Whole fish	84,880	79,182
Fillets, Steaks & Portions	38,624	36,713
Wood Roasted	13,400	12,238
Cold Smoked	30,011	27,607
Other	5,693	4,532
Total	172,609	160,272

Revenue by Brand	2019	2018
	$000	$000
Ora King	65,163	56,611
Regal	30,762	28,857
Southern Ocean	14,783	15,364
New Zealnd King Salmon label (unbranded)	61,901	59,440
Total	172,609	160,272

Building a better working world

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 24, which comprise the consolidated statement of financial position of the group as at 30 June 2019, 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 24 present fairly, in all material respects, the consolidated financial position of the group as at 30 June 2019 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.

Ernst & Young provides taxation services to the group, has performed a review of the interim financial statements and performs agreed upon procedures in relation to 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. We have no other relationship with, or interest in, 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.

Valuation and existence of biological assets

Why significant	How our audit addressed the key audit matter
At 30 June 2019, the consolidated statement of financial position includes biological assets (live salmon) of $78.2 million with an estimated biomass of 5,173 metric tonnes measured at fair value less costs to sell. This includes a fair value increase above cost of $33.9 million in the carrying amount. This is a key audit matter because the group'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: ▸ future biomass growth to harvest; ▸ future fish mortalities; ▸ forecast sales prices; ▸ costs to harvest date and sale; ▸ sales product mix; and ▸ use of a weight-based methodology, in calculating the present value of estimated gross margin on future fish sales. Disclosures in relation to biological assets are included in Note 15 to the group financial statements.	In considering the valuation of live salmon we: ▸ 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 group 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 calculations in the valuation model and of the discount rate used; and ▸ challenged the accuracy of model inputs compared to historical actual values and considered the accuracy of previous input forecasts. In considering live salmon existence we: ▸ tested controls over fish count recording of transfers from a fresh water farm to sea farms; ▸ considered the key inputs used by the group 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 group 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 and sufficiency of biological assets disclosures included in the group financial statements.

Goodwill impairment assessment

Why significant	How our audit addressed the key audit matter
At 30 June 2019, the consolidated statement of financial position includes goodwill arising in business combinations of $39.3 million, assigned to three cash generating units (CGUs). 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. Disclosures in relation to goodwill are included in Note 17 to the group financial statements.	In obtaining sufficient, appropriate audit evidence we: ▶ evaluated the basis of the group's CGU determination; ▶ assessed the allocation of assets and goodwill to CGUs; ▶ evaluated the appropriateness of key assumptions; ▶ tested the mathematical accuracy of future cash flow forecasts; ▶ involved our valuation specialists in assessing the discount rate and terminal growth rate applied; ▶ agreed relevant valuation inputs 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 future cash flow forecast assumptions, including earnings before interest, tax, depreciation and amortisation (EBITDA), renewal periods of sea farm licence consents, weighted average cost of capital (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 and sufficiency of goodwill disclosures included in the group financial statements.

Building a better working world

Valuation of sea farm related assets

Why significant	How our audit addressed the key audit matter
At 30 June 2019, the consolidated statement of financial position includes sea farm assets recorded within property, plant and equipment of $16.9 million, and related marine licences and resource consents recorded within intangible assets of $3.4 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 licence and resource consent renewal and environmental compliance. Disclosures in relation to intangibles and property, plant and equipment are included in Note 17 and 16 respectively to the group financial statements.	In obtaining sufficient, appropriate audit evidence we: ▸ considered the group's assessment of compliance with resource consents relating to sea farms; ▸ evaluated the appropriateness of key assumptions used by the group in their assessment of indicators of impairment of intangibles and property, plant and equipment; ▸ evaluated the appropriateness of key assumptions used by the group in their determination of remaining useful lives of significant sea farm assets; and ▸ considered the appropriateness and sufficiency of property, plant and equipment and marine licence intangible assets disclosures included in the group financial statements.

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 the External Reporting Board's website: https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1/. 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

Chartered Accountants
Christchurch
28 August 2019