New Zealand
King Salmon

NEW ZEALAND KING SALMON INVESTMENTS LIMITED AND SUBSIDIARIES

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

CONTENTS

FOR THE YEAR ENDED 30 JUNE 2020

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	Retired 05 November 2019
Jack Lee Porus*	Non-Executive Director	23 September 2008	
Paul James Steere*	Independent Non-Executive Director	23 September 2008	
Lai Po Sing, Tomakin	Non-Executive Director	01 May 2019	
Chiong Yong Tiong	Non-Executive Director	19 June 2019	
Catriona MacLeod	Independent Non-Executive Director	26 February 2020	

* These Directors retired by rotation and were re-appointed at the AGM held on 7 November 2017.
** These Directors retired by rotation and were re-appointed at the AGM held on 05 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 2020

	Note	2020 $000	2019 $000
Revenue from contracts with customers	33	155,344	172,609
Cost of goods sold including fair value uplift at point of harvest	14	(145,768)	(172,147)
Fair value gain on biological transformation	15	64,124	60,002
Freight costs to market		(15,351)	(15,642)
Gross profit		**58,349**	**44,822**
Other income	6	4,247	857
Sales, marketing and advertising expenses		(12,473)	(9,619)
Distribution overheads		(4,131)	(3,600)
Corporate expenses	7	(9,012)	(7,006)
Other expenses	7	(906)	(2,391)
Earnings before interest, tax, depreciation and amortisation		**36,074**	**23,063**
Depreciation and amortisation expense	16,17,18	(9,385)	(6,234)
Finance income	8	12	96
Finance expenses	8	(1,748)	(1,188)
Profit before tax		**24,953**	**15,737**
Income tax expense	9	(6,949)	(4,387)
Net profit after tax		**18,004**	**11,350**
Other comprehensive income			
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations	10	154	(244)
Movement on cash flow hedges	10	5,522	(2,374)
Income tax effect of movement on cash flow hedges	10	(1,546)	665
Net other comprehensive income		**4,130**	**(1,953)**
Total comprehensive income		**22,134**	**9,397**
Earnings per share			
Basic earnings per share	11	$ 0.13	$ 0.08
Diluted earnings per share	11	$ 0.13	$ 0.08

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

EY

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2020

ASSETS	Note	2020 $000	2019 $000
Current assets			
Cash and cash equivalents	12	7,115	6,231
Trade and other receivables	13	12,777	13,502
Inventories	14	35,612	20,830
Biological assets	15	81,784	68,052
Derivative financial assets	26	907	494
Total current assets		**138,195**	**109,109**
Non-current assets			
Property, plant and equipment	16	60,481	51,843
Biological assets	15	10,594	10,180
Derivative financial assets	26	9,120	1,709
Deferred tax asset	9	3,303	2,443
Intangible assets	17	8,655	7,521
Right-of use assets	18	4,581	-
Goodwill	17	39,255	39,255
Total non-current assets		**135,989**	**112,951**
TOTAL ASSETS		**274,184**	**222,060**
LIABILITIES			
Current liabilities			
Trade and other payables	22	14,847	16,499
Employee benefits	23	2,884	2,429
Borrowings	21	1,132	416
Lease liabilities	19	1,347	-
Other financial liabilities	30	149	149
Derivative financial liabilities	26	3,868	2,091
Taxation payable		3,866	605
Total current liabilities		**28,093**	**22,189**
Non-current liabilities			
Employee benefits	23	558	566
Borrowings	21	37,000	15,000
Lease liabilities	19	3,258	-
Deferred tax liabilities	9	18,436	13,507
Derivative financial liabilities	26	2,525	2,046
Total non-current liabilities		**61,777**	**31,119**
TOTAL LIABILITIES		**89,870**	**53,308**
NET ASSETS		**184,314**	**168,752**
EQUITY			
Share capital	28	122,606	122,595
Reserves		2,978	(1,455)
Retained earnings		58,730	47,612
TOTAL EQUITY		**184,314**	**168,752**
Net tangible assets per share			
Net tangible assets per share		$ 0.96	$ 0.86

The above consolidated statement 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 26 August 2020

Director
26 August 2020

Director
26 August 2020

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2020

		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 2019			122,595	(639)	(1,391)	575	47,612	**168,752**
Profit for the period			-	-	-	-	18,004	**18,004**
Other comprehensive income/(loss)		10	-	154	3,978	-	-	**4,132**
Total comprehensive income/(loss) for the period			**-**	**154**	**3,978**	**-**	**18,004**	**22,136**
Shares issued		28	11	-	-	-	-	**11**
Share based payment expense			-	-	-	301	-	**301**
Dividends paid	- ordinary	28	-	-	-	-	(6,886)	**(6,886)**
	- supplementary		-	-	-	-	(211)	**(211)**
	- foreign investor tax credit		-	-	-	-	211	**211**
Balance as at 30 June 2020			**122,606**	**(485)**	**2,587**	**876**	**58,730**	**184,314**
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		28	16	-	-	-	-	**16**
Share based payment expense			-	-	-	170	-	**170**
Dividends paid	- ordinary	28	-	-	-	-	(7,131)	**(7,131)**
	- supplementary		-	-	-	-	(189)	**(189)**
	- foreign investor tax credit		-	-	-	-	189	**189**
Balance as at 30 June 2019			**122,595**	**(639)**	**(1,391)**	**575**	**47,612**	**168,753**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2020

	Note	2020 $000	2019 $000
Operating activities			
Receipts from customers		158,080	171,892
Payments to suppliers		(109,849)	(115,746)
Payments to employees		(42,212)	(39,731)
Interest received		12	138
Interest paid		(1,210)	(850)
Insurance and settlement income		311	500
Government grant received - Wage subsidy		3,772	-
Government grants received		97	100
Income tax paid		(4,777)	(5,361)
Net cash flows from / (used in) operating activities	32	**4,224**	**10,941**
Investing activities			
Proceeds from sale of property, plant and equipment		24	10
Purchase of property, plant and equipment		(16,148)	(14,191)
Purchase of intangible assets		(1,643)	(2,709)
Net cash flow (used in) / from investing activities		**(17,767)**	**(16,890)**
Financing activities			
Proceeds from borrowings		22,716	5,000
Gross proceeds from share issue		11	16
Dividends paid		(6,886)	(7,131)
Payment of lease liabilities		(1,414)	(134)
Net cash flows (used in) / from financing activities		**14,427**	**(2,249)**
Net increase/(decrease) in cash and cash equivalents		**884**	**(8,197)**
Cash and cash equivalents at 1 July	12	6,231	14,428
Cash and cash equivalents at 30 June	12	**7,115**	**6,231**

The above consolidated statement 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 2020 were authorised by the directors on 26 August 2020.

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 (FMC) 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 International Financial Reporting Standards (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.

Inventory (Finished goods) obsolescence

Inventories are stated at the lower of cost or net realisable value, and the Group uses judgment and estimate to determine the net realisable value of inventory at the end of each reporting period.

Due to the rapid impact of the pandemic virus Covid-19 impacting significantly on finished stock holdings, the Group estimates the net realisable value of inventory for obsolescence and unmarketable items at the end of reporting period and then writes down the cost of inventories to net realisable value. The net realisable value of the inventory is mainly determined based on assumptions of future demand within a specific time horizon.

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 25.

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 and then translated 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

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.
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 written off or impaired.

For trade receivables and contract assets, the Group applies a simplified approach in calculating an allowance for expected credit loss (ECL). Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECL's at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

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 guarantees

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 to ten 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

At the inception of a contract, the group is required to assess whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period in exchange for consideration.

Right of use assets

The Group recognises right of use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right of use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.
The cost of right of use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right of use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets.

The Group's lease portfolio

Property leases

The Group's real estate includes office buildings and storage facilities. The group classified these office spaces as operating leases under NZIAS 17, and has recognised some storage contracts that meet the identifiable criteria as a Right of use asset and corresponding liability portfolio under NZIFRS 16.

Vehicle leases

The Group lease vehicles are predominantly used by sales staff and the transportation of personnel between operating locations. These vehicles were classified as operating leases under NZIAS 17 and are generally held for a term of 3 years. During the Covid-19 pandemic Level 4 restrictions several lease contracts were due to expire and were renewed for an additional period of one year as replacement negotiations were not accessible during this time.

Plant and Equipment Leases

The Group sometimes leases machinery used for the production or processing of salmon. The current leases relate to equipment being utilised for the upwelling on sea farms and various forklifts operated throughout the company. The Group has elected to apply the recognition exemption for short-term leases for all other machinery employed for less than 12 months duration and for leases where the underlying asset is of low value.

Contracts not recognised under NZIAS 17

The Group has transport contracts that have not been recognised as leases under NZIAS 17 but on assessment of NZ IFRS 16 can identify an asset to which the contract relates. These leases have been assessed as variable lease payments linked to future performance. These contracts have an operating expense value of $1.7M in the 12 months to 30 June 2020.

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

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 customers in New Zealand and overseas. Revenue from contracts with customers is recognised when control of the goods is 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 because it typically controls the goods before transferring them to the customer.

NZ IFRS 15 established 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 ADOPTED AND STANDARDS ISSUED NOT YET ADOPTED

a. New standards adopted

NZ IFRS16: Leases

The Group adopted NZ IFRS16: Leases, effective from 1 July 2019. The transitional approach adopted by the group is the modified retrospective approach. Under this method, the group has not restated comparatives therefore reclassifications and adjustments are recognised in the opening balance sheet as at 1 July 2019.

The adoption of NZIFRS 16 resulted in the following changes.

•In the Income Statement an increase in Earnings before Interest, Tax, Depreciation and Amortisation is a result of the decrease in operating expenses which have been reclassified to 'finance costs' includes interest and depreciation expense associated with lease liabilities and Right of use assets.

•In the Statement of Cash Flows lease payments are now split between principal repayments classified within 'financing activities' and interest repayments classified within 'operating activities. Previously lease payments were included within payments to suppliers within 'operating activities'.

At inception, the group has assessed that it is reasonably certain to exercise all renewal options available under the contracts for property relating to office space and storage facilities to the full extent allowed for under the contracts.

The practical expedient available allowing the use of hindsight in determining the lease term has been used as vehicle leases are not customarily extended by the Group.

The weighted average incremental borrowing rate on adoption was 3.65%.

a. New standards not yet adopted

Standards issued but not yet effective are not expected to have a material impact on the financial statements when they become effective.

5. SEGMENT INFORMATION

Segment results

The group has reviewed the operating segments and considers that there is only one operating segment. This is based on management's on going review of the business and operations and as crystallised by the pandemic Covid-19 virus. The strategy is to focus on branded, premium priced and differentiated sales in all markets / channels / customers so as to maximise longer term sales and overall margins. The group has executed this strategy during the COVID-19 situation, resulting in product being deployed to certain other markets, channels and customers.

For management purposes, the Group is organised into one business unit (2019: three business units based on geographical sales market and customer channel). The operating results of the whole business are monitored for the purpose of making decisions about resource allocation and performance assessment.

Segment performance - Refer also Note 33 for detail of disaggregation of revenue by product, brand and geographical area.

	2020 $000	2019 $000
Revenue	**155,344**	**172,609**
Segment EBITDA	**36,074**	**23,063**

Segment profit reconciles to profit before income tax as follows:	2020 $000	2019 $000
Segment EBITDA	**36,074**	**23,063**
Depreciation, amortisation and impairment	(9,385)	(6,234)
Net finance costs	(1,736)	(1,092)
Group profit before tax	**24,953**	**15,737**

Prior year comparatives have been restated to respond to the change to a single operating segment.

6. OTHER INCOME

Other income	2020 $000	2019 $000
Grants received	97	100
Grants received - Wage subsidy	3,772	-
Insurance settlements	311	534
Claim received	-	84
Profit on sale of property, plant and equipment	26	10
Other income	41	129
Total other income	**4,247**	**857**

7. EXPENSES

Corporate and other expenses include:	2020 $000	2019 $000
Trade receivables written off	18	2
Impairment of trade receivables	76	38
Research cost	278	440
Loss on sale of assets	51	12
Lease rentals	1,941	1,428
Directors' fees	465	414
Other directors' expenses	4	12
Donations	14	22

Employee benefits expense	2020 $000	2019 $000
Wages and salaries	36,017	32,473
Defined contribution plan expenses	872	785
Restructuring costs	-	(38)
Other employee benefits expenses	5,301	4,800
Outsourced labour	593	1,035
Total employee benefits expense	**42,783**	**39,055**

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8. FINANCE INCOME AND COSTS

	2020	2019
Finance income	**$000**	**$000**
Interest income	12	96
Total finance income	**12**	**96**

	2020	2019
Finance costs	**$000**	**$000**
Bank facility fees	586	290
Interest on bank loans and overdrafts	993	898
Interest on leases	169	-
Total finance costs	**1,748**	**1,188**

9. INCOME TAX

	2020	2019
Recognised in the consolidated statement of comprehensive income	**$000**	**$000**
Current income tax expense	4,437	4,228
Deferred tax relating to origination and reversal of temporary differences	2,512	159
Total income tax expense/(credit) in the statement of comprehensive income	**6,949**	**4,387**
Tax amounts posted directly to other comprehensive income	**1,546**	**(665)**
Reconciliation of tax expense to statutory income tax rate		
Profit/(loss) before tax	24,953	15,737
Income tax using the company tax rate 28%	6,987	4,406
Non deductible/non assessable items	49	(50)
Under provision - previous year	(196)	-
Prior period adjustment	(51)	43
Adjustment for varying tax rates	16	(36)
Other differences	144	24
Total tax expense	**6,949**	**4,387**

	2020	2019
Statement of financial position deferred tax assets and liabilities		
Deferred tax liabilities	**$000**	**$000**
Accelerated depreciation for tax purposes	(3,114)	(3,009)
Fair value adjustment to biological assets	(10,829)	(9,481)
Gains on foreign currency hedges	(2,807)	116
Increase accounting cost for finished goods	(1,607)	(693)
Other provisions	(79)	-
Total deferred tax liabilities	**(18,436)**	**(13,067)**
Deferred tax assets		
Provision for doubtful trade debtors	45	19
Provision for employee benefits	787	739
Share based payments	167	167
Losses on foreign currency hedges	1,791	426
Other provisions	513	652
Total deferred tax assets	**3,303**	**2,003**
Net deferred tax liability	**(15,133)**	**(11,064)**

	2020	2019
Statement of comprehensive income deferred tax assets and liabilities		
Deferred tax liabilities	**$000**	**$000**
Accelerated depreciation for tax purposes	105	(202)
Fair value adjustment to biological assets	1,348	819
Increase accounting cost for finished goods	914	(231)
Other provisions	79	-
Total deferred tax liabilities	**2,446**	**386**
Deferred tax assets		
Provision for doubtful trade debtors	(26)	(4)
Provision for employee benefits	(47)	(54)
Other provisions	139	(169)
Total deferred tax assets	**66**	**(227)**
Deferred tax (credit) / expense	**2,512**	**159**

Imputation credit account
The imputation credit account balance in the New Zealand King Salmon Company Group as at 30 June 2020 is $4,023k (2019: $8,638k).

10. COMPONENTS OF OTHER COMPREHENSIVE INCOME

	2020	2019
Movement in reserves	**$000**	**$000**
Forward currency contracts		
Reclassification during the year to profit or loss	(45)	13
Income tax effect	13	(4)
Realised/unrealised net gain/(loss) during the year	5,796	(1,935)
Income tax effect	(1,623)	542
Interest rate swaps		
Realised/unrealised net gain/(loss) during the year	(229)	(451)
Income tax effect	64	126
Currency translation differences		
Translation of foreign operations	154	(244)
Net movement in other comprehensive income	**4,130**	**(1,953)**

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.

	2020	2019
Earnings per share	**$000**	**$000**
Profit attributable to ordinary equity holders	18,004	11,350
	# of Shares 000	**# of Shares 000**
Weighted average number of ordinary shares for basic and diluted earnings per share	138,986	138,548
Basic earnings per share	$0.13	$0.08
Diluted earnings per share	$0.13	$0.08

12. CASH AND CASH EQUIVALENTS

	2020	2019
Cash and cash equivalents	**$000**	**$000**
Cash at bank and on hand	6,387	5,350
Short-term deposits	728	881
Total cash and cash equivalents	**7,115**	**6,231**

13. TRADE AND OTHER RECEIVABLES

	2020	2019
Trade and other receivables	**$000**	**$000**
Trade receivables	9,921	11,868
Allowance for expected credit losses	(90)	(146)
Prepayments	1,604	1,195
Other receivables	1,342	585
Total trade and other receivables	**12,777**	**13,502**

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.

	2020	2019
Ageing analysis of trade receivables	**$000**	**$000**
> 90 days overdue	41	76
61 - 90 days overdue	33	27
31 - 60 days overdue	20	8
< 30 days overdue	1,226	970
Not yet due	8,601	10,787
Total receivables	**9,921**	**11,868**

	2020	2019
Receivables impairment movement	**$000**	**$000**
As at 1 July	146	110
Additional provisions for impairment	54	142
Receivables written off during the year	18	2
Reversal of unused amounts	(128)	(108)
As at 30 June	**90**	**146**

14. INVENTORIES

Inventories	2020 $000	2019 $000
Raw materials	9,184	11,901
Work in progress	1,192	1,017
Finished goods	25,236	7,912
Total inventories	35,612	20,830

The closing cost of finished goods as at 30 June 2020 includes a fair value uplift at point of harvest of $7,939k (2019: $3,428k) and an impairment provision of $2,201k (2019: $1,261k).

Amount of inventories recognised as an expense in the statement of comprehensive income	2020 $000	2019 $000
Cost of inventories recognised as an expense	144,828	172,400
Movement in net realisable value provision (increase)/decrease of inventory	940	(253)
Total cost of goods sold including fair value uplift at point of harvest	145,768	172,147

The cost of inventories recognised as an expense for the year ended 30 June 2020 includes a fair value uplift at point of harvest of $54,802k (2019: $61,851k). This cost is included in cost of goods sold in the Statement of Comprehensive Income.

The cost of inventory includes fish harvested measured at their fair value less costs to sell ("deemed cost") at harvest date based on management's expected future sales pricing and mix of salmon products. At 30 June 2020, around 10% of budgeted FY21 sales volumes are expected to be sold at returns materially below deemed cost plus further manufacturing costs. As a result, the overall deemed cost of inventory on hand takes this into account and is therefore reduced by the impact of the lower expected FY 21 sales prices.

The estimated unrealised fair value gain from cost at 30 June 2020 is decreased from the prior year end estimation due to expected increased costs of working and selling due to Covid-19 and a change in product mix to incorporate a proportion of lower value frozen product sales. Core sales volumes are expected to return to pre Covid- 19 levels during the second half of FY21.

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 2019	44,370	33,862	78,232
Increase due to biological transformation [1]	84,126	67,399	151,525
Decrease due to harvest [2]	(63,144)	(59,312)	(122,456)
Decrease due to mortality [3]	(11,648)	-	(11,648)
Changes in fair value [4]		(3,275)	(3,275)
As at 30 June 2020	53,704	38,674	92,379

[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 2018	42,667	36,787	79,454
Increase due to biological transformation	85,636	57,567	143,203
Decrease due to harvest	(66,468)	(62,926)	(129,394)
Decrease due to mortality	(17,465)	-	(17,465)
Changes in fair value	-	2,434	2,434
As at 30 June 2019	44,370	33,862	78,232

Fair value gain/(loss) recognised in profit and loss	2020 $000	2019 $000
Gain arising from growth of biological assets	67,399	57,567
Movement in fair value of biological assets	(3,275)	2,434
Total fair value gain on biological transformation	64,124	60,001

Harvested biomass	2020 tonnes	2019 tonnes
Total live weight harvested for the period	8,336	9,013

Estimated closing biomass	2020 tonnes	2019 tonnes
Closing fresh water stocks	158	100
Closing sea water stocks	6,136	5,073
Total estimated closing biomass live weight as at period end	6,294	5,173

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 estimated unrealised fair value gain from cost at 30 June 2020 is decreased from the prior year end estimation due to expected increased costs of working and selling due to Covid-19 and a change in product mix to incorporate a proportion of lower value frozen product sales. Core sales volumes are expected to return to pre Covid-19 levels during the second half of FY21. 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 and product mix 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 15% increase/decrease in average future sales prices would increase/decrease the fair value of biological assets on hand and profit before tax by $19.4m (2019: 10% increase / decrease $10.2m) (excludes the impact of finished goods), while a 15% increase/decrease in future harvest volume would increase/decrease the fair value of biological assets on hand and profit before tax by $5.8m (2019: 10% increase / decrease $3.3m).

A 15% increase/decrease in costs to sell would increase/decrease the fair value of biological assets on hand and profit before tax by $13.6m (2019: 10% increase / decrease $6.8m). 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 2018	9,996	61,372	2,357	4,734	78,459
Additions	-	-	-	14,191	14,191
Disposals	-	(1,352)	(71)		(1,423)
Transfers from WIP	860	11,072	1,120	(13,052)	-
As at 30 June 2019	**10,856**	**71,092**	**3,406**	**5,873**	**91,227**
Additions	-	-	-	16,148	16,148
Disposals	-	(727)	(79)	-	(806)
Transfers from WIP	515	16,488	235	(17,238)	-
As at 30 June 2020	**11,371**	**86,853**	**3,562**	**4,783**	**106,569**
Depreciation and impairment					
As at 1 July 2018	1,940	31,467	1,327	-	34,734
Depreciation	363	5,337	248	-	5,948
Disposals	-	(1,248)	(54)	-	(1,302)
As at 30 June 2019	**2,303**	**35,556**	**1,521**	**-**	**39,380**
Depreciation	405	6,757	279	-	7,441
Disposals		(681)	(52)	-	(733)
Transfers					
As at 30 June 2020	**2,708**	**41,632**	**1,748**	**-**	**46,088**
Net Book Value					
As at 30 June 2019	8,553	35,536	1,885	5,873	51,847
As at 30 June 2020	8,663	45,221	1,814	4,783	60,481

Property, Plant and Equipment is stated at historical cost less depreciation and any impairment adjustments. Historical cost includes expenditure that is directly attributable to the acquisition of Property, Plant and Equipment. Asset residual values and useful lives are reviewed, and adjusted if appropriate, at each balance day or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. New Zealand King Salmon has considered the effects Covid-19 may have on the carrying value of its specialised assets, and has concluded there is no evidence of technical or functional obsolescence which would impact the carrying value of its assets in use.

Borrowing costs

There were no borrowing costs capitalised in 2020 (2019: $nil).

17. INTANGIBLES

	Development in progress	Trademarks	Farm and hatchery licenses	Software	Goodwill	Total
Cost	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**
As at 1 July 2018	830	242	4,572	2,645	39,255	47,544
Additions	2,680	-	12		-	2,692
Disposals	-	-	-	(219)	-	(219)
Transfers from WIP	(17)	-	-	17	-	-
As at 1 July 2019	3,493	242	4,584	2,443	39,255	50,017
Additions	1,643	-	-	-	-	1,643
Disposals	-	-	(289)	-	-	(289)
Transfers from WIP	(2,394)	-	-	2,394	-	-
As at 30 June 2020	2,742	242	4,295	4,837	39,255	51,371
Depreciation and impairment						
As at 1 July 2018	-	200	830	2,144	-	3,174
Amortisation	-	-	168	118	-	286
Disposals	-	-	-	(220)	-	(220)
As at 30 June 2019	-	200	998	2,042	-	3,240
Amortisation			168	341	-	509
Disposals	-	-	(287)		-	(287)
As at 30 June 2020	-	200	879	2,383	-	3,462
Net Book Value						
As at 1 July 2019	3,493	42	3,586	401	39,255	46,777
As at 30 June 2020	2,742	42	3,416	2,454	39,255	47,909

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 allocated to the New Zealand King Salmon Company's one cash generating unit. Refer to note 5 for reassessment of operating segments. The recoverable amount of the cash generating unit has been determined based on a value in use calculation using future estimated cash flows, capital expenditure and changes in working capital over a five year period, plus an estimated terminal value. The 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 0.83% p.a. (2019: 1.72% p.a.). A discount rate of 6.01% p.a. (2019: 7.61% 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 the CGU, therefore the Group 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 the cash generating unit.

Trademarks

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 (2019: Nil).

18. RIGHT-OF-USE ASSETS

	Land & Buildings	Motor Vehicles	Plant & Equipment	Total
	$000	$000	$000	$000
Asset recognition on transition at 01 July 2019	3,617	380	449	4,446
Additions	-	199	1,105	1,304
Remeasurement	268	-	-	268
Depreciation for the period	(752)	(225)	(460)	(1,437)
Carrying amount 30 June 2020	3,133	354	1,094	4,581
Cost	3,885	579	1,554	6,018
Accumulated Depreciation	(752)	(225)	(460)	(1,437)
Carrying amount 30 June 2020	3,133	354	1,094	4,581

19. LEASE LIABILITIES CURRENT/NON-CURRENT

	2020	2019
	$000	$000
Current	1,347	-
Non-current	3,258	-
Total	4,605	-

20. LEASE LIABILITIES

	Land & Buildings $000	Motor Vehicles $000	Plant & Equipment $000	Total $000
Liability recognition on transition at 01 July 2019	3,617	380	449	4,446
Additions		199	1,105	1,304
Remeasurement	268	-	-	268
Interest for the period	127	13	30	170
Lease payments made	(698)	(213)	(502)	(1,413)
Lease liabilities 30 June 2020	**3,187**	**366**	**1,052**	**4,605**

Short term leases
The Group recognised $ 974k of payments for short term lease equipment in the 12 months to 30 June 2020.
Low value leases
The Group does hold lease commitments for equipment that meets the definition under NZ IFRS 16 – Low value leases.

21. INTEREST BEARING LOANS AND BORROWINGS

	2020 $000	2019 $000
Current interest bearing loans and borrowings		
Secured bank loans	97	-
Other borrowings	1,035	416
Total current interest bearing loans and borrowings	**1,132**	**416**
Non-current interest bearing loans and borrowings		
Secured bank loans	37,000	15,000
Total non-current interest bearing loans and borrowings	**37,000**	**15,000**

The Company has facilities with BNZ for $60m, secured by a general security deed over the assets of the Group. The expiry date of facility A of $20m is 18 October 2021, facility B of $20m expires on 18 October 2023, and facility C of $20m expires on 18 October 2024. At balance date $20m of facility A was drawn and $17m of facility B was drawn (June 2019: $15m).Subsequent to balance date, the financial covenants relating to interest coverage and leverage ratios have been amended for the FY21 year and facility A extended to 18 October 2022.

22. TRADE AND OTHER PAYABLES

	2020 $000	2019 $000
Trade payables	12,969	10,294
Other payables	1,878	6,205
Total trade and other payables	**14,847**	**16,499**

23. EMPLOYEE BENEFITS

	2020 $000	2019 $000
Current employee benefits		
Bonuses	171	85
Employee annual and sick leave benefits	2,453	2,264
Long service leave	260	80
Total current employee benefits	**2,884**	**2,429**
Non-current employee benefits		
Long service leave	558	566
Total non-current employee benefits	**558**	**566**

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

24. COMMITMENTS AND CONTINGENCIES

Capital commitments
The Group has entered into agreements to purchase plant and equipment. As at 30 June 2020 the total commitment is $2,598k (2019: $3,265k).

Contingencies
The Group has a contingent liability of $784k 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 (2019: $809k).

Guarantees
The group has three guarantee facilities totalling $115k (2019: $115k).

25. 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's Audit and Finance Committee 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. NZKS have a policy of hedging foreign exchange exposures within a range of hedging limits broadly summarised as follows: Up to two years – 15% to 100%, two to five years – 0% to 50%. The notional contract amounts of forward foreign exchange contracts and options outstanding at balance date were $87.5m on the import side (2019: $54m) and $283m on the export side (2019: $151.9m), 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 United States and Australian dollars respectively. The Group exports salmon to many countries, the major ones being Australia, Japan and the United States. Sales are denominated in Australian dollars (AUD), Japanese yen (JPY) and United States dollars (USD) respectively. In order to protect against exchange rate movements and to manage the inventory costing process, the Group has entered into forward exchange contracts and options to hedge the net exposure to AUD, JPY and USD respectively.

The cash flows are expected to occur up to 60 months from 1 July 2020. The profit or 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 highly probable forecast sales in USD, AUD and JPY and forecast purchases in USD, and AUD. We have hedged 50-55% of the net exposure of these forecast transactions. The foreign exchange forward contract balances vary with the level of expected foreign currency sales and purchases and changes in foreign exchange forward rates.

There is an economic relationship between the hedged items and the hedging instruments as the terms of the foreign exchange and 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 hedged items attributable to the hedged risks.

The hedge ineffectiveness 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 differently 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 $ 474k (2019: $143k) whilst the NZ dollar equivalent of unhedged currency risk on liabilities at balance date is $133k (2019: $83k).

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
2020	+5%	(2,652)	(257)
	-5%	6,251	284
2019	+5%	(2,483)	14
	-5%	2,745	(15)
	Change in USD rate	**Equity $000**	**Profit $000**
2020	+5%	13,245	328
	-5%	(7,031)	(362)
2019	+5%	4,148	(330)
	-5%	(4,561)	365
	Change in JPY rate	**Equity $000**	**Profit $000**
2020	+5%	2,775	14
	-5%	(262)	(15)
2019	+5%	1,176	(30)
	-5%	(1,275)	33

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 company borrowing covered using swaps at balance date was $10m (2019: $10m).

NZKS have a policy of fixing interest rates within a range of 50% to 100% of the exposure. 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% (2019: 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 $1,847k (2019: $1,608k), 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:

	2020 $000	2019 $000
Impact of an increase of 50 basis points	224	263
Impact of a decrease of 50 basis points	(230)	(271)

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:	2020 $000	2019 $000
Cash and short term deposits	7,115	6,231
Trade and other receivables	12,777	13,502
Derivative financial assets/(liabilities)	3,603	(2,058)

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 2020	**$000**	**$000**	**$000**
Bank loans	834	36,263	-
Credit card facilities	350	-	-
Lease liabilities	1,347	1,385	1,873
Trade and other payables	14,847	-	-
Financial guarantee contracts	115	-	-
Total non-derivative liabilities	**17,493**	**37,648**	**1,873**
Forward foreign currency exchange contracts	83,311	81,869	135,606
Forward foreign currency options	36,576	20,219	13,037
Interest swaps	224	253	495
Total derivative liabilities	**120,111**	**102,341**	**149,138**
As at 30 June 2019			
Bank loans	438	14,562	-
Lease liabilities	-	-	-
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**

26. 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 $37M is considered a reasonable approximation of its fair value due to the short term maturities of the drawings. The Group has the discretion to roll these short term drawings out within facility A ($20m) to 18 Oct 2021 , and within facility B ($17m) to 18 Oct 2023.

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

	2020	2019
Current derivative financial assets	**$000**	**$000**
Forward exchange contracts	599	224
Foreign exchange options	309	270
Total Current derivative financial assets	**907**	**494**
Non-current derivative financial assets		
Forward exchange contracts	8,360	708
Foreign exchange options	759	1,001
Total Non-current derivative financial assets	**9,120**	**1,709**
Current derivative financial liabilities		
Forward exchange contracts	1,684	1,043
Foreign exchange options	435	110
Interest rate swaps	1,749	938
Total Current derivative financial liabilities	**3,868**	**2,091**
Non-current derivative financial liabilities		
Forward exchange contracts	1,642	667
Foreign exchange options	883	797
Interest rate swaps		582
Total non-current derivative financial liabilities	**2,525**	**2,046**

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 2020.

27. 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.

28. CAPITAL AND RESERVES

	2020	2019
Share capital		
Issued shares	**000**	**000**
Ordinary shares	138,986	138,571
Total issued shares	**138,986**	**138,571**

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 20 September 2019 (2019: $0.03 per share paid on 21 September 2018). Additionally, a fully imputed interim dividend of $0.02 per share was paid on 20 March 2020 (2019: $0.02 paid on 22 March 2019).

	# of Shares		Share Capital	
	2020	**2019**	**2020**	**2019**
Movement in ordinary share capital	**000**	**000**	**$000**	**$000**
As at 1 July	138,571	138,475	122,595	122,579
Share issue for employee LTI share scheme	415	96	-	-
Share issue recognised on repayment of employee loans	-	-	11	16
Total share capital as at 30 June	**138,986**	**138,571**	**122,606**	**122,595**
Shares held as treasury stock	4	38		
Total shares outstanding at 30 June	**138,982**	**138,533**		

Reserves

Foreign currency translation reserve

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

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.

Retained earnings

Retained earnings represents the profits retained in the business.

Share based payment reserve

The share based payment reserve relates to one long term incentive (LTI) scheme and two employee share ownership schemes. 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 subsequent to repayment of the loan balance remaining at

Share scheme	Grant date	30 June 2019 shares not yet vested	New shares issued to custodian	Shares allocated from treasury stock	Shares forfeited to treasury stock	Shares vested	30 June 2020 shares not yet vested
		000	000	000	000	000	000
ESOP	10/14/2016 *	141	-	-	-	(141)	-
LTI IPO 2016	10/19/2016 *	771	-	-	-	(771)	-
LTI 2017	9/29/2017	297	-	-	(2)	-	295
LTI 2018	9/27/2018	302	-	-	(1)	-	300
LTI 2019	11/5/2019	-	414	38	(1)	-	451
Total share scheme		**1,510**	**414**	**38**	**(4)**	**(911)**	**1,046**

* Fully vested in current year

The estimated value of share options was determined using the Black-Scholes pricing calculator and is being amortised over the 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 share price of the Group at time of allocation and the compounded risk free interest rate.

Share allocation price for share schemes

Share scheme	Employee Group 1	Employee Group 2	Employee Group 3	Employee Group 4
ESOP	$1.12	-	-	-
LTI IPO 2016	$1.12	-	-	-
LTI 2017	$1.22	$1.77	-	-
LTI 2018	$1.30	$1.95	$2.78	-
LTI 2019	$1.41	$2.13	-	$2.20

29. EVENTS AFTER BALANCE DATE

Covid-19

On 12 August 2020, the Government announced a second wave of Covid-19 outbreak in New Zealand and as a result, the Auckland region moved up to alert Level 3 lockdown restrictions whilst the rest of New Zealand moved up to alert Level 2 lockdown restrictions. This second wave is considered a non-adjusting subsequent event. It is not possible to estimate the impact of the second wave outbreak's near-term and longer effects or the Government's efforts to combat the second wave outbreak and support businesses. This being the case, we do not consider it practicable to provide a quantitative or qualitative estimate of the potential impact of this outbreak, or any future outbreaks, on the Group at this time. The Group continues its farming and processing operations under Levels 2 and 3 lockdown, and continues to pursue its strategy of marketing its branded products across the range of customers, and markets and products. In the event of a Level 4 lockdown the Group anticipates being able to operate as an essential industry.

	2020	2019
Dividends declared after balance date:	**$000**	**$000**
Final cash dividend	-	4,157
	-	4,157

No final dividend was declared in respect of the year ended 30 June 2020 (2019: 3 cents per share).

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30. 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 40.02% (30 June 2019: 40.14%) and China Resources Ng Fung Limited owned 9.93% (30 June 2019: 9.96%) of the shares in New Zealand King Salmon Investments Limited.

Transactions with related parties

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

	2020	2019
Related party payments	**$000**	**$000**
Good and services purchased from other related parties	238	423
Total related party payments	**238**	**423**
Related party sales		
Goods and services sold to related parties	3,078	1,931
Total related party sales	**3,078**	**1,931**

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	2020	2019
Current amounts owing to related parties	**$000**	**$000**
Other amounts owing to related parties	149	149
Total current amounts owing to related parties	**149**	**149**

	2020	2019
Amounts owing by related parties	**$000**	**$000**
Amounts owing by related parties	7	221
Total amounts owing by related parties	**7**	**221**

	2020	2019
Compensation of key management personnel of the Group	**$000**	**$000**
Short-term employee benefits	1,770	1,555
Share based payment expense	49	48
Post employment pension and medical benefits	61	82
Total key management personnel compensation	**1,880**	**1,685**

31. AUDITORS REMUNERATION

	2020	2019
	$000	**$000**
Audit fees	191	126
Other assurance	40	33
Tax advisory and compliance	4	44
Transaction advisory services	-	16
Total auditors remuneration	**235**	**219**

Other assurance services include review of the interim financial statements and performance of agreed upon procedures on sustainability information of the Group.

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

	2020	2019
Reconciliation of the profit for the year with the net cash from operating activities	**$000**	**$000**
Profit before tax	24,953	15,737
Adjusted for		
Depreciation and amortisation	9,385	6,234
(Gain)/loss on sale of assets	51	128
Share-based payments	301	170
Net foreign exchange differences	106	(140)
Net loss/(profit) on derivative instruments at fair value through profit or loss	(30)	1
(Increase)/decrease in trade and other receivables and prepayments	725	(1,076)
(Increase)/decrease in inventories and biological assets	(28,928)	(3,027)
Increase/(decrease) in trade and other payables	2,438	(1,725)
Income tax paid	(4,777)	(5,361)
Net cash flow from operating activities	**4,224**	**10,941**

33. REVENUE FROM CONTRACTS WITH CUSTOMERS

(a) Sale of goods with variable consideration
Some contracts for the sale of goods provide customers with volume rebates. Under NZ IFRS 15, volume rebates give rise to variable consideration.

- Volume rebates

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.
The Group recognises revenue from the following major sources:

- Ōra King
- Regal
- Southern Ocean
- Omega Plus
- New Zealand King Salmon

(c) Performance obligations
Information about the Group's performance obligations is summarised below:
Delivery 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 are generally on collection.

Receipt into store
The performance obligation is satisfied upon delivery of salmon products when receipted into the customer's store and payment terms are 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 dependent 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	**2020**	**2019**
	$000	**$000**
Whole fish	76,501	84,880
Fillets, Steaks & Portions	32,082	38,624
Wood Roasted	12,075	13,400
Cold Smoked	26,605	30,011
Other	8,082	5,693
Total	**155,344**	**172,609**

Revenue by Brand	**2020**	**2019**
	$000	**$000**
Ōra King	61,323	65,163
Regal	30,182	30,762
Southern Ocean	10,433	14,783
Omega Plus	1,549	1,006
New Zealand King Salmon	51,857	60,895
Total	**155,344**	**172,609**

	2020	**2019**
Revenue by geographical location of customers	**$000**	**$000**
New Zealand	66,003	79,759
North America	58,432	58,479
Australia	9,280	11,862
Japan	5,275	5,893
China	3,746	3,591
Europe	3,625	3,117
Other	8,981	9,908
Total revenue	**155,344**	**172,609**

Sales net of settlement discounts to one major customer for the year totalled $15.63m or 10.06% of total gross revenue (2019 no major customers were greater than 10% of sales).

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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 23, which comprise the consolidated statement of financial position of the group as at 30 June 2020, 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 23 present fairly, in all material respects, the consolidated financial position of the group as at 30 June 2020 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 *International Code of Ethics for Assurance Practitioners* (including International Independence Standards) (New Zealand) 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

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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

At 30 June 2020, the consolidated statement of financial position includes biological assets (live salmon) of $92.4 million with an estimated biomass of 6,294 metric tonnes measured at fair value less costs to sell. This includes a fair value increase above cost of $38.7 million.

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;
- forecast costs to harvest date and sale;
- forecast 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.

How our audit addressed the key audit matter

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 the 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;
- challenged the accuracy of model inputs compared to historical actual values and considered the accuracy of previous input forecasts; and
- challenged the appropriateness of model assumptions that may be materially impacted by the COVID -19 pandemic (sales price and quantity, freight costs to sell and inventory holding costs), including the sensitivity analysis prepared by management.

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;

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- 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; and
- considered the accuracy of historical forecasts of average fish weight and quantity recorded in the livestock recording system to actual fish harvest data.

We also 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 2020, the consolidated statement of financial position includes goodwill arising in business combinations of $39.3 million, assigned to the single cash generating unit (CGU) assessed by management. 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. These are key inputs into the discounted cashflow ("DCF") model used to assess the value of the CGU. 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; ► 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 and capital expenditure. In doing so we considered the possible impact of COVID -19 on the future cash flow forecast, to understand the impact of reasonably possible changes in key assumptions; ► performed sensitivity analysis on the weighted average cost of capital (WACC) assumption included in the value in use calculation; and

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- considered the appropriateness and sufficiency of goodwill disclosures included in the group financial statements.

Finished goods inventory net realisable value provision

Why significant	How our audit addressed the key audit matter
At 30 June 2020, the consolidated statement of financial position includes finished goods inventory of $25.2 million (2019: $7.9m), net of a net realisable value provision of $2.2 million (2019: $1.3m). This is a key audit matter because of the significant increase in the volume of finished goods, and the level of judgement involved in management's assessment of the net realisable value provision. Disclosures in relation to inventories are included in Note 14 to the group financial statements.	In obtaining sufficient, appropriate audit evidence we: ► obtained an understanding of management's inventory provisioning process; ► compared the net realisable value of aged inventory items and high volume inventory items to subsequent selling values, the 2021 sales plan and the Board approved budget. In doing so, we considered the greater price uncertainty as a result of the COVID-19 pandemic; ► tested the mathematical accuracy of the provision calculation; and ► considered the appropriateness and sufficiency of inventory 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

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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
26 August 2020