

# WAIKATO INNOVATION GROWTH LIMITED

Annual Report 2019



## TABLE OF CONTENTS

*For the year ended 30 June 2019*

Directory	3
Chairman's and Chief Executives Annual Report	4
Annual Report	7
Statement of Comprehensive Income	8
Statement of Changes in Equity	9
Statement of Financial Position	10
Statement of Cash Flows	12
Notes to the Financial Statements	13
Performance Targets and Results	35
Auditors Report	37

## DIRECTORY

As at 30 June 2019

Nature of Business	Service provider
Address	Waikato Innovation Park Ruakura Lane Hamilton 3216
Registered Office	Tompkins Wake 430 Victoria Street Hamilton 3204
Authorised Capital	4,000,100 Ordinary Shares
Directors	Barry Harris Earl Rattray David Stanley Peter Hobman
Shareholders	Hamilton City Council                      4,000,100 Ordinary Shares
Auditors	Audit New Zealand on behalf of the Auditor-General PO Box 256 Hamilton 3240
Bankers	BNZ 354 Victoria Street Hamilton
Solicitors	Tompkins Wake 430 Victoria Street Hamilton
IRD Number	124-736-676

## CHAIRMAN'S AND CHIEF EXECUTIVE'S ANNUAL REPORT

### Major Milestones for the year include:

- Revenue for Food Waikato at \$9,589,000 exceeded last year of \$7,143,000 by \$2,446,000.
- NZFIW obtain the Resource Consent to build a new spray dryer in December 2018 and sold that consent on to Melody Dairies Limited Partnership for profit on sale of \$1,215,000. NZFIW received 5 % of the shares in Melody Dairies as compensation.
- Achievement of Group Profit after tax of \$1,294,000 compared with last year of \$368,000.
- Food Waikato undertook 13 days of manufacture of its own base infant formula compared to 9 days last year.
- Extra management were hired in the Quality area due to the complexity of Infant formula production.
- Food Waikato undertook 230 dryer days of manufacturing against a plan of 257.
- Food Waikato undertook 260 days of combined Wetside mixing thermalisation against a budget of 316.
- 277 tonnes of sheep milk manufactured at Food Waikato
- Manufacture of encapsulated Omega 3 and 6 powders under contract to Nu Mega of Australia.
- On the 1<sup>st</sup> July 2018 the contract for Regional Business Partnership was transferred to Waikato Regional Economic Development Limited. This company subsequently has been branded as Te Waka. This independent company was set up by regional local authorities and Waikato businesses to promote economic development across the whole of the Waikato.



**Barry Harris**  
Chairman



**Stuart Gordon**  
Chief Executive



### **Melody Dairies Limited Partnership - Created December 2018**

The Melody Dairies Partnership Agreement along with the Construction contract, for a new spray dryer, with Tetra Pak were signed in December 2018. The four partners in Melody Dairies are:

1. Nu-Mega Ingredients (NZ) Limited, a company owned by Australian Listed Clover Corporation Ltd, with a 35 per cent stake in Melody Dairies;
2. Landcorp Farming Limited (Pāmu), with a 35 per cent in the partnership;
3. Dairy Nutraceuticals Limited, with a 20 per cent share; and
4. Food Waikato, with a 10 per cent share.

Food Waikato has been appointed manager of the complex. The plant forecasted commissioning date is April 2019. Burgeoning global demand for sheep milk products is the impetus behind the new project

#### **Food Waikato contribution to the regional economy:**

Food Waikato produced 1387 tonnes of product in the 2018-2019 year at an export value of \$33m. This means that an estimated \$258 million of export sales have been manufactured in the seven years of its life. A survey of customers indicates they have invested \$218 million in farms, genetics, and or production facilities over the last seven years.

#### **Financial Performance:**

The year ending June 2019 produced a better overall financial performance for Waikato Innovation Growth Limited group. Group Revenue increased by 27% to \$9,590,000 this year. Group Total Comprehensive Income for the year just ended was \$2,850,000 compared to a \$368,000 profit last year. The important Net Cash Flow from operating activities was a surplus of \$1,682,000 this year. Food Waikato carried a closing balance of \$1,483,000 in inventory as at 30 June 2019.

Total Equity improved by \$2,850,000 to \$13,975,000. It now is standing at a healthy 55% of Total Assets.

#### **Board of Directors:**

Given the unique role Food Waikato is performing as part of the New Zealand Food Innovation Network a Board with specialised skills governs Food Waikato. Barry Harris (chairman), Matt Kenny (Callaghan Innovation), Peter Hobman, Earl Rattray and Dave Stanley comprise the Food Waikato board. The Board of Directors met formally six times through the year.

The Board also met key Stakeholders, the auditors (Audit New Zealand) and its bankers (the Bank of New Zealand). The Board has set up a series of best practice policies and monitors those policies and the company risk register to ensure compliance.

The Board takes seriously its ongoing obligation to ensure public safety and a safe working environment. A strategic review of workplace safety policies and hazards has been undertaken and health and safety leadership is a priority for the board.

**Strategic Direction:**

The Board of New Zealand Food Innovation Waikato through its Statement of Intent for the 2020 year has set out clear aspirations to grow the sheep milk industry. The next year will be a difficult year as we transition some clients over to Melody Dairies and develop new clients in the space vacated. This is a difficult business model with the strategic aim to graduate our successful clients onto new plant while building relationships with new businesses.

**Management:**

The Food Waikato team had an excellent year and the Board thanks them for their dedication and achievements. Lead by our Chief Executive, Stuart Gordon, the team can be proud of the 2019-year achievements, which mean we are now well placed for growth in the future. In particular Food Waikato's opportunity to expand its capacity with a second dryer under its management. Food Waikato now has critical mass and financial stability and is looking forward to its next growth stage.



## ANNUAL REPORT

*For the year ended 30 June 2019*



### Approval and issue of financial statements

On this date the Directors approve and issue the annual report including the attached financial statements for Waikato Innovation Growth Limited for the year ended 30 June 2019.

### Auditor

An auditor has been appointed.

For and on behalf of the Board

Director

28 August 2019

Director

28 August 2019



## STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2019

		Group \$000		Company \$000	
	NOTE	2019	2018	2019	2018
<b>Revenue</b>					
Revenue	4	9,590	7,567	-	424
Cost of sales		(2,957)	(358)	-	-
<b>Gross profit</b>		<b>6,633</b>	<b>7,209</b>	<b>-</b>	<b>424</b>
Share of profit/(loss) from associate	16	(7)	(20)	-	-
Sale of consent	5	1,610	-	-	-
Cost of consents	5	(395)	-	-	-
<b>Expenses</b>					
Operating expenses		(2,763)	(2,941)	(16)	(227)
Lease payments	25	(23)	(23)	-	-
Personnel costs	6	(2,017)	(2,017)	6	(248)
Depreciation	18	(1,187)	(1,182)	-	(5)
Audit fees	7	(55)	(26)	(15)	(7)
Directors fees		(161)	(139)	-	-
Other gains and losses	9	(47)	(20)	-	(1,200)
Write down of inventories		(30)	-	-	-
<b>Total expenses</b>		<b>(6,283)</b>	<b>(6,348)</b>	<b>(25)</b>	<b>(1,687)</b>
Finance income	1	-	-	-	-
Finance costs		(227)	(322)	(4)	(3)
<b>Net finance costs</b>	<b>8</b>	<b>(226)</b>	<b>(322)</b>	<b>(4)</b>	<b>(3)</b>
<b>Profit/(loss) before tax</b>		<b>1,332</b>	<b>519</b>	<b>(29)</b>	<b>(1,266)</b>
Subvention payment received/(paid)		-	-	65	-
Income tax	10	(37)	(151)	(10)	18
<b>Profit/(loss) for the year, net of tax</b>		<b>1,295</b>	<b>368</b>	<b>26</b>	<b>(1,248)</b>
<b>Other comprehensive income</b>					
Gain/(loss) on property revaluation	18	2,160	-	-	-
Income tax on other comprehensive income	10	(605)	-	-	-
<b>Total other comprehensive income, net of tax</b>		<b>1,555</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total comprehensive income for the year</b>		<b>2,850</b>	<b>368</b>	<b>26</b>	<b>(1,248)</b>
<b>Total profit/(loss) attributable to:</b>					
Waikato Innovation Growth Limited		914	243	26	(1,248)
Non-controlling interest		381	125	-	-
<b>Total comprehensive income attributable to:</b>					
Waikato Innovation Growth Limited		2,003	243	26	(1,248)
Non-controlling interest		847	125	-	-

The accompanying notes form part of these financial statements.



## STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2019

Group	NOTE	\$000 Share capital	\$000 Revaluation reserve	\$000 Retained earnings	\$000 Non- controlling interest	\$000 Total equity
<b>Balance as at 1 July 2017</b>		-	3,402	1,327	2,028	6,758
<i>Total comprehensive income</i>						
Profit for the year		-	-	243	125	368
Other comprehensive income for the year		-	-	-	-	-
<b>Total comprehensive income for the year</b>		-	-	243	125	368
<i>Transaction with owners of the company</i>						
Share transactions with non-controlling interest		-	-	(1,200)	1,200	-
Proceeds from shares issued		4,000	-	-	-	4,000
<b>Balance as at 30 June 2018</b>		4,000	3,402	371	3,353	11,125
<b>Balance as at 1 July 2018</b>		4,000	3,402	371	3,353	11,125
<i>Total comprehensive income</i>						
Profit for the year		-	-	914	381	1,295
Other comprehensive income for the year		-	1,089	-	466	1,555
<b>Total comprehensive income for the year</b>		-	1,089	914	847	2,850
<b>Balance as at 30 June 2019</b>		4,000	4,491	1,286	4,199	13,975

Company	NOTE	\$000 Share Capital	\$000 Revaluation reserve	\$000 Retained earnings	\$000 Non- controlling interest	\$000 Total equity
<b>Balance as at 1 July 2017</b>		-	-	-	-	-
<i>Total comprehensive income</i>						
Profit for the year		-	-	(1,248)	-	(1,248)
Other comprehensive income for the year		-	-	-	-	-
<b>Total comprehensive income for the year</b>		-	-	(1,248)	-	(1,248)
<i>Transaction with owners of the company</i>						
Proceeds from shares issued		4,000	-	-	-	4,000
<b>Balance as at 30 June 2018</b>		4,000	-	(1,248)	-	2,752
<b>Balance as at 1 July 2018</b>		4,000	-	(1,248)	-	2,752
<i>Total comprehensive income</i>						
Profit for the year		-	-	26	-	26
Other comprehensive income for the year		-	-	-	-	-
<b>Total comprehensive income for the year</b>		-	-	26	-	26
<b>Balance as at 30 June 2019</b>		4,000	-	(1,222)	-	2,778

The accompanying notes form part of these financial statements.

## STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

		Group \$000		Company \$000	
	NOTE	2019	2018	2019	2018
<b>ASSETS</b>					
<b>Non-current assets</b>					
Investment in subsidiaries	17	-	-	2,800	2,800
Investment in associates	16	2,619	-	-	-
Property, plant and equipment	18	20,016	18,926	-	27
Assets under construction		40	15	-	-
Deferred tax assets	10	-	-	8	18
Intangible asset	19	1	1	-	-
<b>Total non-current assets</b>		<b>22,676</b>	<b>18,942</b>	<b>2,808</b>	<b>2,845</b>
<b>Current assets</b>					
Cash and cash equivalents	12	82	351	-	85
Inventories	13	1,483	2,329	-	-
Trade and other receivables	14	916	926	-	68
Prepayments		102	315	-	2
<b>Total current assets</b>		<b>2,583</b>	<b>3,921</b>	<b>-</b>	<b>155</b>
<b>Total assets</b>		<b>25,259</b>	<b>22,863</b>	<b>2,808</b>	<b>3,000</b>
<b>EQUITY AND LIABILITIES</b>					
<b>Equity</b>					
Share capital	11	4,000	4,000	4,000	4,000
Revaluation reserve	11	4,491	3,402	-	-
Retained earnings		1,286	371	(1,222)	(1,248)
<b>Equity attributable to owners of the Company</b>		<b>9,776</b>	<b>7,773</b>	<b>2,778</b>	<b>2,752</b>
<i>Non-controlling interest</i>		<i>4,199</i>	<i>3,353</i>	<i>-</i>	<i>-</i>
<b>Total equity</b>		<b>13,975</b>	<b>11,125</b>	<b>-</b>	<b>-</b>
<b>Non-current liabilities</b>					
Deferred tax liabilities	10	2,230	1,565	-	-
Deferred income	20	2,487	2,617	-	-
Term loans	23	4,274	4,574	-	-
Other loans	24	350	450	-	-
Provisions	22	168	356	-	-
<b>Total non-current liabilities</b>		<b>9,509</b>	<b>9,562</b>	<b>-</b>	<b>-</b>

The accompanying notes form part of these financial statements.

## STATEMENT OF FINANCIAL POSITION

As at 30 June 2019 (Continued)

		Group \$000		Company \$000	
	NOTE	2019	2018	2019	2018
<b>Current liabilities</b>					
Payables and accruals	15	721	742	4	42
Short term employee entitlements		268	282	-	6
Deferred income	20	296	302	-	-
Other loans	24	490	650	-	-
Related parties loans	21	-	200	26	200
<b>Total current liabilities</b>		<b>1,775</b>	<b>2,176</b>	<b>30</b>	<b>248</b>
<b>Total liabilities</b>		<b>11,284</b>	<b>11,738</b>	<b>30</b>	<b>248</b>
<b>Total equity and liabilities</b>		<b>25,259</b>	<b>22,863</b>	<b>2,808</b>	<b>3,000</b>

The accompanying notes form part of these financial statements.

Director  
28 August 2019

Director  
28 August 2019

## STATEMENT OF CASH FLOWS

For the year ended 30 June 2019

		Group \$000		Company \$000	
	NOTE	2019	2018	2019	2018
<b>Cash flow from operating activities</b>					
Receipts from customers		9,509	7,628	59	366
Payments to suppliers and employees		(7,400)	(7,552)	(42)	(444)
Interest received		1	-	-	-
Interest paid		(249)	(319)	(6)	-
Tax payments		(16)	(242)	-	-
GST (net)*		(163)	(105)	5	(5)
<b>Net cash from operating activities</b>	28	<b>1,682</b>	<b>(590)</b>	<b>16</b>	<b>(83)</b>
<b>Cash flow from investing activities</b>					
Purchase of property, plant and equipment		(177)	(553)	-	(32)
Proceeds from sale of property, plant and equipment		27	-	27	-
Purchase of assets under construction		(25)	326	-	-
Investment in associate		(1,016)	-	-	-
Purchase of shares in subsidiary		-	-	-	(4,000)
<b>Net cash from/(used in) investing activities</b>		<b>(1,191)</b>	<b>(227)</b>	<b>27</b>	<b>(4,032)</b>
<b>Cash flow from financing activities</b>					
Proceeds from borrowing		2,040	2,360	-	200
Proceeds from issues of shares		-	4,000	-	4,000
Repayment of borrowings		(2,800)	(5,400)	(128)	-
<b>Net cash from/(used in) financing activities</b>	26	<b>(760)</b>	<b>960</b>	<b>(128)</b>	<b>4,200</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(269)</b>	<b>143</b>	<b>(85)</b>	<b>85</b>
Cash and cash equivalents at 1 July		351	208	85	-
<b>Cash and cash equivalents at 30 June</b>	12	<b>82</b>	<b>351</b>	<b>-</b>	<b>85</b>

\*The GST (net) component of operating activities reflects the net GST transactions with the Inland Revenue Department. The GST (net) component has been presented on a net basis, as the gross amounts do not provide meaningful information for financial statement purposes.

The accompanying notes form part of these financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 30 June 2019*

### 1. REPORTING ENTITY

Waikato Innovation Growth Limited (the "Company") is a company domiciled and incorporated in New Zealand under the Companies Act 1993, and a Council-Controlled Organisation under the Local Government Act 2002 with effect from the 1st December 2017. The Company's parent and ultimate parent entity is Hamilton City Council.

The financial statements of Waikato Innovation Growth Limited and Group are for the year ended 30 June 2019. The financial statements were authorised for issue by the Board of Directors on the 28 August 2019. The owners or others do not have the power to amend the financial statements after issue.

The group consists of Waikato Innovation Growth Limited, its subsidiary New Zealand Food Innovation (Waikato) Limited (70% owned) and New Zealand Food Innovation (Waikato) Limited subsidiary's NZFIW D2 LP Limited (100% owned).

### 2. BASIS OF PREPARATION

#### a. Statement of Compliance

The financial statements for the Company and Group have been prepared in accordance with the requirements of the Companies Act 1993 and the Local Government Act 2002. Waikato Innovation Growth Limited is a for-profit entity.

The financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand ("NZ GAAP"). They comply with New Zealand equivalents to International Financial Reporting Standards - Reduced Disclosure Regime ("NZ IFRS RDR"), and other applicable Financial Reporting Standards, as appropriate for profit oriented entities. The Company qualifies for NZ IFRS (RDR) as it does not have public accountability and it is not a large for-profit public sector entity. The Company has elected to apply NZ IFRS (RDR) and has applied disclosure concessions.

#### *New and amended standards adopted this year*

- NZ IFRS 15 - Revenue from Contracts with Customers

In the current year, the Group has applied NZ IFRS 15 Revenue from Contracts with Customers (as amended in 2016). NZ IFRS 15 introduces a 5-step approach to revenue recognition. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Details of these new requirements as well as their impact on the Entity's financial statements are described below.

The Group has applied NZ IFRS 15 in accordance with the fully retrospective transitional approach without using the practical expedients for completed contracts in NZ IFRS 15.C5(a), and (b), or for modified contracts in NZ IFRS 15.C5(c) but using the expedient in NZ IFRS 15.C5(d) allowing both non-disclosure of the amount of the transaction price allocated to the remaining performance obligations, and an explanation of when it expects to recognise that amount as revenue for all reporting periods presented before the date of initial application, i.e. 1 January 2017.

NZ IFRS 15 uses the terms 'contract asset' and 'contract liability' to describe what might more commonly be known as 'accrued revenue' and 'deferred revenue', however the Standard does not prohibit an entity from using alternative descriptions in the statement of financial position. The Group has adopted the terminology used in NZ IFRS 15 to describe such balances, as applicable.

The Group's accounting policies for its revenue streams are disclosed in detail in Revenue recognition. Apart from providing more extensive disclosures on the Group's revenue transactions, the application of NZ IFRS 15 has not had a significant impact on the financial position and/or financial performance of the Group. There has been no amount of adjustment required as determined in Management's assessment of the impact of the Standard.

#### *- NZ IFRS 9 Financial Instruments*

In the current year, the Group has applied NZ IFRS 9 Financial Instruments that are effective for an annual period that begins on or after 1 July 2018. Under NZ IFRS 9, financial assets are required to be measured subsequently at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

## NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 30 June 2019*

The Group has applied the classification and measurement requirements of NZ IFRS 9 to its financial instruments which are previously in accordance with NZ IAS 39. The transition to the new standard has not resulted in a change to the classification or measurement of financial assets held by the Group as at 1 July 2018.

NZ IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under NZ IAS 39. The Group applies the simplified approach permitted by NZ IFRS 9, which requires the Group to measure the loss allowance at an amount equal to lifetime expected credit losses from initial recognition of the trade and other receivables. The Group write off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospects of recovery. These amount are recognised in the profit and loss statements.

All regular purchases or sales of financial assets are recognised and derecognised on a trade date basis. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred.

### **b. Discontinued Operations**

From the 1st of July 2018 the business growth operations have been transferred to Waikato Regional Economic Development Limited. Waikato Innovation Growth Limited will continue to exist and hold the shares of New Zealand Food Innovation (Waikato) Limited. The presentation requirements relating to discontinued operations have not been applied in the preparation of the financial statements on the basis that it is not material.

### **c. Basis of Measurement**

The financial statements have been prepared on an historical basis except for property, plant and equipment which is measured to fair value.

### **d. Functional and Presentational currency**

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars (\$000).

### **e. Use of Estimates and Judgements**

The preparation of the financial statements in conformity with NZ IFRS RDR requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes:

Note 18: Property, plant and equipment

Note 20: Deferred income

Note 22: Provisions



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2019

### 3. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been applied consistently to all periods presented in these financial statements.

#### a. Basis of Consolidation

The consolidated financial statements are prepared adding together like items of assets, liabilities, equity, income and expenses on a line-by-line basis. All significant intragroup balances, transactions, income and expenses are eliminated on consolidation.

##### *Transactions eliminated on consolidation*

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

##### *Subsidiaries*

Subsidiaries are those entities that are controlled by the Company. Subsidiaries are consolidated from the date control is transferred to the Group. They are de-consolidated from the date that control ceases. All significant intercompany accounts and transactions are eliminated on consolidation. Control exists when the Company has power over the entity, exposure or rights to variable returns from its involvement with the entity, and the ability to use its power over the entity to offset the amount of the entity's returns.

Investments in subsidiaries are recorded at cost less the amount of estimated value of impairment in the parent company's financial statements.

The interest of minority shareholders is stated at the minority's proportion of the fair values of the identifiable assets and liabilities recognised on acquisition together with the minority interest's share of post acquisition surpluses.

The Company holds 70% shares in its subsidiary New Zealand Food Innovation (Waikato) Limited and there is no significant restriction on its ability to access or use assets or settle liabilities of the group.

The New Zealand Food Innovation (Waikato) Limited holds 100% shares in its subsidiary NZFIW D2 LP Limited and there is no significant restriction on its ability to access or use assets or settle liabilities, of the group. The reporting period for NZFIW D2 LP Limited is for the 10 months ending 30 June 2019.

##### *Associates*

An associate is an investee, not being a subsidiary or joint venture arrangement, over which the group has the capacity to exercise significant influence through participation in the financial and operating policy decisions of the investee.

Associates are recognised using the equity method which recognises the Group's share of the associate's net surplus or deficit in the profit or loss and its share of other comprehensive income. The Group's associate is:

- **Melody Dairies Limited Partnership.** Melody Dairies Limited Partnership (MDLP) is 10% owned by NZFIW D2 LP Limited. Significant judgement and assumptions have been used to determine that New Zealand Food Innovation (Waikato) Limited Group (NZFIW Group) has significant influence over MDLP. NZFIW Group has a representation on the board of directors of MDLP. Due to the existing Management Agreement between NZFIW Group and MDLP, NZFIW Group is considered providing essential technical information to MDLP. As a result, it has been determined that NZFIW Group has significant influence over MDLP and therefore should account for it as an associate under NZ IAS 28 Investments in Associates and Joint Ventures.

Melody Dairies Limited Partnership's principle place of business is 12 Melody Lane, Hamilton.

- **Melody Dairies GP Limited.** Melody Dairies GP Limited (MDGPL) is 10% owned by New Zealand Food Innovation (Waikato) Limited (NZFIW). Significant judgement and assumptions have been used to determine that NZFIW has significant influence over MDGPL. NZFIW has a representation on the board of directors of MDGPL. As a result, it has been determined that NZFIW has significant influence over MDGPL and therefore should account for it as an associate under NZ IAS 28 Investments in Associates and Joint Ventures. MDGPL is dormant.



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2019

### *Non-controlling interest (NCI)*

The interests of the parent and the NCI in the subsidiaries are adjusted to reflect the relative change in their interests in the subsidiaries equity. Any difference between the amount by which the NCI is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owner of the parent.

### **b. Revenue**

The Group recognises revenue from the rendering of spray dryer services and from rendering of sales of goods. Spray drying is a method of producing a dry powder from a liquid provided by customers by quickly drying this with a hot gas. The Group enters into a contract with the customer for usage of the spray dryer for a fixed period of time and the consideration includes the daily charge rates and utility costs oncharged. The Group enters into a contract with the customer to produce product per minimum quantity specified.

The Group satisfies its performance obligations as services are rendered. Payment terms are the customer must pay the amount due or before the 20th day of the month of invoice. No obligations for returns, refunds and other similar obligation or types and warranties and related obligations are attached to the contracts.

Revenue is measured based on the consideration to which the Group expects to be entitled in a contract with a customer. The Group recognises revenue when it transfers control of the service to a customer.

Judgements around the timing of satisfaction of performance obligations, the transaction price and amounts allocated to performance obligations are determined per the contracts.

The directors are satisfied that control has been transferred and that recognition of the revenue in the current year is appropriate as the performance obligations are satisfied at a point in time, and there is no contractual liability for unsatisfied performance obligations at year end.

The Group recognises sale of consents revenue when it transfers the control of the consents to the customer.

Interest income is accounted for on an accrual basis.

Grants received are recognised in the Statement of Comprehensive Income when the requirements under the grant agreement have been met. Any grants for which the requirements under the grant agreement have not been completed are carried as liabilities until all the conditions have been fulfilled.

Government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the Statement of Financial Position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Other government grants are recognised as revenue over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Company with no future related costs are recognised in profit or loss in the period in which they become receivable.

### **c. Foreign Currency Translation**

Transactions in foreign currencies are translated to the functional currency of the Company at exchange rates at the date of the transactions.

## NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 30 June 2019*

### **d. Finance Costs**

Finance costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other finance costs are recognised in profit or loss in the period in which they are incurred.

### **e. Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

### **f. Inventories**

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a first-in first-out basis. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

### **g. Trade and Other Receivables**

Trade and other receivables are stated initially at fair value then at estimated realisable value after providing against debts where collection is doubtful. Bad debts are written off during the period in which they are identified. Trade and Other Receivables are classed as 'Trade and other receivables' financial instruments (Note 27).

### **h. Work in progress**

Work in progress is valued at cost.

### **i. Intangible Assets**

Externally acquired intangible assets are initially recognised at cost and subsequently amortised on a straight-line basis over their useful economic lives.

Trademarks	10 years
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### **j. Property, Plant & Equipment**

Property, plant & equipment is measured at fair value less subsequent depreciation. Computer and office equipment is recognised at cost price less depreciation and impairment losses.

Depreciation is calculated on a straight line basis and diminishing value basis to allocate the cost or revalued amounts over the estimated useful lives, as follows:

Buildings	25 years
Plant & Equipment	20 years
Computer hardware	3-5 years
Office Equipment	20 years

The assets' residual values, depreciation method and useful lives are reviewed and adjusted, if appropriate, at the end of each reporting period.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2019

### Revaluation

Property, plant & equipment is revalued with sufficient regularity and at least every three years to ensure that its carrying amount does not differ materially from fair value.

The carrying values of revalued assets are assessed annually to ensure that they do not differ materially from fair value. If there is evidence supporting a material difference, then the off-cycle asset classes are revalued.

Property, plant and equipment revaluation movements are accounted for on a class-of-asset basis.

The net revaluation results are credited or debited to other comprehensive income and are accumulated to an asset revaluation reserve in equity for that class of asset. Where this would result in a debit balance in the asset revaluation reserve, this balance is not recognised in other comprehensive income but is recognised in the profit or loss. Any subsequent increase on revaluation that reverses a previous decrease in value recognised in the profit or loss will be recognised first in the profit or loss up to the amount previously expensed, and then recognised in other comprehensive income.

### k. Trade and Other Payables

Payables and accruals are recognised when the Group becomes obligated to make future payments resulting from the purchase of goods or services. They are recognised initially at fair value and subsequently at amortised cost.

### l. Goods and Services Tax (GST)

All items in the financial statements are stated exclusive of GST, except for receivables and payables, which are stated on a GST inclusive basis. Where GST is not recoverable as input tax then it is recognised as part of the related asset or expense.

The net amount of GST receivable from, or payable to, the Inland Revenue Department (IRD) is included as part of receivables or payables in the balance sheet.

### m. Income Tax

Income tax expense includes components relating to both current tax and deferred tax.

Current tax is the amount of income tax payable based on the taxable profit for the current year, and any adjustments to income tax payable in respect of prior years. Current tax is calculated using tax rates (and tax laws) that have been enacted or substantively enacted at balance date.

Deferred tax is the amount of income tax payable or recoverable in future periods in respect of temporary differences and unused tax losses. Temporary differences are differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred tax is measured at tax rates that are expected to apply when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at balance date. The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the entity expects to recover or settle the carrying amount of its assets and liabilities.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences or tax losses can be utilised.

Deferred tax is not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition of an asset or liability in a transaction that is not a business combination, and at the time of the transaction, affects neither accounting profit nor taxable profit.

Current and deferred tax is recognised against the profit or loss for the period, except to the extent that it relates to a business combination, or to transactions recognised in other comprehensive income or directly in equity.

## NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 30 June 2019*

### **n. Short-term employee entitlements**

Employee benefits that are due to be settled within 12 months after the end of the year in which the employee renders the related service are measured based on accrued entitlements at current rates of pay. These include salaries and wages accrued up to balance date, annual leave and bonuses. Short-term employee entitlement obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

### **o. Provisions**

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as a finance cost.

### **p. Impairment**

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of the fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2019

	Group \$000		Company \$000	
4. REVENUE	2019	2018	2019	2018
Revenue from contracts for the sale of goods	3,543	417	-	-
Revenue from contracts for the rendering of services	5,853	6,971	-	424
Revenue from the rendering of services	15	-	-	-
Deferred Grant income	179	179	-	-
<b>Total operating revenue</b>	<b>9,590</b>	<b>7,567</b>	<b>-</b>	<b>424</b>

Timing of revenue recognition - At point in time

	Group \$000		Company \$000	
5. OTHER INCOME	2019	2018	2019	2018
Sale of consent	1,610	-	-	-
less cost of consent	(395)	-	-	-
<b>Total other income</b>	<b>1,215</b>	<b>-</b>	<b>-</b>	<b>-</b>

	Group \$000		Company \$000	
6. PERSONNEL COSTS	2019	2018	2019	2018
Salaries and wages	1,981	1,983	(6)	246
Defined contribution plan	36	34	-	2
<b>Total personnel costs</b>	<b>2,017</b>	<b>2,017</b>	<b>(6)</b>	<b>248</b>

Annual remuneration by band for employees	2019 Number	2018 Number
< \$100,000	21	23
\$100,000 - \$109,999	-	-
\$110,000 - \$119,999	3	1
\$120,000 - \$129,999	1	1
\$130,000 - \$139,999	1	-
\$140,000 - \$149,999	-	-
\$150,000 - \$159,999	1	1
<b>Total Employees</b>	<b>27</b>	<b>26</b>

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2019

### 7. AUDIT FEES

	Group \$000		Company \$000	
	2019	2018	2019	2018
Audit fee for 2018/19 year	41	-	8	-
Audit fee for 2017/18 year	14	26	7	7
<b>Total audit fees</b>	<b>55</b>	<b>26</b>	<b>15</b>	<b>7</b>

### 8. FINANCE COSTS

	Group \$000		Company \$000	
	2019	2018	2019	2018
<i>Finance income</i>				
Interest income	1	-	-	-
<b>Total finance income</b>	<b>1</b>	<b>-</b>	<b>-</b>	<b>-</b>
<i>Finance costs</i>				
Bank fees	(5)	(5)	-	-
Interest on bank overdraft	-	(1)	-	-
Interest on Hamilton City Council loan	(4)	(3)	(4)	(3)
Interest on bank borrowings	(218)	(313)	-	-
<b>Total finance costs</b>	<b>(227)</b>	<b>(322)</b>	<b>(4)</b>	<b>(3)</b>
<b>Net finance costs</b>	<b>(226)</b>	<b>(322)</b>	<b>(4)</b>	<b>(3)</b>

### 9. OTHER GAINS AND LOSSES

	Group \$000		Company \$000	
	2019	2018	2019	2018
<i>Losses</i>				
Net foreign exchange loss	(31)	(20)	-	-
Loss on disposal of fixed assets	(16)	-	-	-
Loss on disposal of shares	-	-	-	(1,200)
<b>Total other gains and losses</b>	<b>(47)</b>	<b>(20)</b>	<b>-</b>	<b>(1,200)</b>



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2019

	Group \$000		Company \$000	
10. INCOME TAX	2019	2018	2019	2018
<i>Current tax</i>				
Current year	(2)	(126)	-	-
Adjustment for prior years	25	-	-	-
	23	(126)	-	-
<i>Deferred tax</i>				
Current year	(36)	(25)	8	18
Adjustment for prior year	(24)	-	(18)	-
<b>Total income tax expense recognised</b>	<b>(37)</b>	<b>(151)</b>	<b>(10)</b>	<b>18</b>
<i>The income tax expense for the year can be reconciled to the accounting profit as follows:</i>				
Profit before tax	1,332	519	(29)	(1,266)
Income tax expense at 28%	(373)	(145)	8	354
Effect of income that is exempt from tax	451	(6)	-	-
Effect of expenses that are not deductible	(115)	-	-	(336)
Adjustment for prior year - subvention payment	-	-	(18)	-
<b>Income tax expense recognised in profit or loss</b>	<b>(37)</b>	<b>(151)</b>	<b>(10)</b>	<b>18</b>

### Deferred tax balances

#### Group (\$000)

*Deferred tax assets/(liabilities) in relation to:*

	Opening Balance	Recognised in profit or loss	Recognised in other comprehensive income	Closing balance
Property, plant and equipment	(2,340)	15	(605)	(2,930)
Provisions	(3)	(19)	-	(22)
Deferred income	762	(50)	-	712
Tax losses	16	(6)	-	10
<b>Balance as at 30 June 2019</b>	<b>(1,565)</b>	<b>(60)</b>	<b>(605)</b>	<b>(2,230)</b>

#### (\$000)

*Deferred tax assets/(liabilities) in relation to:*

	Opening Balance	Recognised in profit or loss	Recognised in other comprehensive income	Closing balance
Property, plant and equipment	(2,356)	16	-	(2,340)
Provisions	4	(7)	-	(3)
Deferred income	812	(50)	-	762
Tax losses	-	16	-	16
<b>Balance as at 30 June 2018</b>	<b>(1,540)</b>	<b>(25)</b>	<b>-</b>	<b>(1,565)</b>



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2019

### Deferred tax balances

#### Company (\$000)

Deferred tax assets/(liabilities) in relation to:

Provisions

Tax losses

**Balance as at 30 June 2019**

Opening Balance	Recognised in profit or loss	Recognised in other comprehensive income	Closing balance
2	(2)	-	-
16	(8)	-	8
<b>18</b>	<b>(10)</b>	<b>-</b>	<b>8</b>

#### (\$000)

Deferred tax assets/(liabilities) in relation to:

Provisions

Tax losses

**Balance as at 30 June 2018**

Opening Balance	Recognised in profit or loss	Recognised in other comprehensive income	Closing balance
-	2	-	2
-	16	-	16
<b>-</b>	<b>18</b>	<b>-</b>	<b>18</b>

## 11. EQUITY

### Share capital

Ordinary shares (4,000,100 shares)

Balance 1 July

Shares issued (4,000,100 shares)

**Total Ordinary shares**

**Total issued and called shares 30 June**

Group \$000		Company \$000	
2019	2018	2019	2018
4,000	-	4,000	-
-	4,000	-	4,000
<b>4,000</b>	<b>4,000</b>	<b>4,000</b>	<b>4,000</b>
<b>4,000</b>	<b>4,000</b>	<b>4,000</b>	<b>4,000</b>

### Ordinary Shares

All ordinary shares carry equal voting rights and entitle the holder to participate in dividends and the right to share in any surplus on winding up. The shares have no par value.

4,000,100 shares have been issued and fully paid.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2019

Revaluation Reserve	Group \$000		Company \$000	
	2019	2018	2019	2018
<b>Property</b>				
Opening balance	(168)	(168)	-	-
Revaluation	198	-	-	-
Income tax on revaluation surplus	(55)	-	-	-
<b>Closing balance</b>	<b>(25)</b>	<b>(168)</b>	<b>-</b>	<b>-</b>
<b>Plant and equipment</b>				
Opening balance	3,956	3,956	-	-
Revaluation	1,962	-	-	-
Income tax on revaluation surplus	(549)	-	-	-
<b>Closing balance</b>	<b>5,369</b>	<b>3,956</b>	<b>-</b>	<b>-</b>
<b>Total revaluation reserve</b>	<b>5,343</b>	<b>3,788</b>	<b>-</b>	<b>-</b>

12. CASH AND CASH EQUIVALENTS	Group \$000		Company \$000	
	2019	2018	2019	2018
BNZ Bank account	82	351	-	85
<b>Total cash and cash equivalents</b>	<b>82</b>	<b>351</b>	<b>-</b>	<b>85</b>

New Zealand Food Innovation (Waikato) Limited has an overdraft facility with BNZ with a limit of \$250,000.

13. INVENTORIES	Group \$000		Company \$000	
	2019	2018	2019	2018
Goods in transit	395	247	-	-
Raw materials	1,086	911	-	-
Finished goods	2	1,171	-	-
<b>Total inventories</b>	<b>1,483</b>	<b>2,329</b>	<b>-</b>	<b>-</b>

The cost of inventories recognised as an expense during the year was \$2,956,168 (2018: \$357,868).

The amount of inventories write down recognised as an expense during the year was \$30,286 (2018: Nil).

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2019

	Group \$000		Company \$000	
	2019	2018	2019	2018
<b>14. TRADE AND OTHER RECEIVABLES</b>				
Contract assets	763	705	-	-
Trade receivables	2	68	-	68
Related parties receivable	24	100	-	-
Income tax receivable	91	53	-	-
Other receivables	36	-	-	-
<b>Total trade and other receivables</b>	<b>916</b>	<b>926</b>	<b>-</b>	<b>68</b>
	Group \$000		Company \$000	
	2019	2018	2019	2018
<b>15. PAYABLES AND ACCRUALS</b>				
Trade payables	633	626	-	29
Accruals	84	112	4	12
Other payables	4	3	-	1
<b>Total payables and accruals</b>	<b>721</b>	<b>741</b>	<b>4</b>	<b>42</b>
	Group \$000		Company \$000	
	2019	2018	2019	2018
<b>16. INVESTMENT IN ASSOCIATES</b>				
<i>New Zealand Food Innovation Network Ltd</i>				
Interest held by the group	-	25%	-	-
Opening balance	-	19	-	-
Share of revenue and expenses	-	(19)	-	-
<b>Balance at 30 June</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<i>Melody Dairies Limited Partnership</i>				
Interest held by the group	10%	-	-	-
Opening balance	-	-	-	-
Additions during the year	2,626	-	-	-
Share of revenue and expenses	(7)	-	-	-
<b>Balance at 30 June</b>	<b>2,619</b>	<b>-</b>	<b>-</b>	<b>-</b>
<i>Melody Dairies GP Limited</i>				
Interest held by the group	10%	-	-	-
<b>Balance at 30 June</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total investment in associates</b>	<b>2,619</b>	<b>-</b>	<b>-</b>	<b>-</b>

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2019

	Group \$000		Company \$000	
17. INVESTMENT IN SUBSIDIARIES	2019	2018	2019	2018
<i>New Zealand Food Innovation (Waikato) Limited</i>				
Shares at cost	-	-	4,000	4,000
Transfer of shares	-	-	(1,200)	(1,200)
<b>Total investment in subsidiaries</b>	<b>-</b>	<b>-</b>	<b>2,800</b>	<b>2,800</b>

## 18. PROPERTY, PLANT AND EQUIPMENT

Group (\$000)	Property	Plant & Equipment	Computer & Office	Total
<b>For the year ended 30 June 2018</b>				
Opening net book amount	3,619	15,909	14	19,542
Additions	6	539	21	566
Depreciation charge	(175)	(1,005)	(2)	(1,182)
<b>Closing net book amount</b>	<b>3,450</b>	<b>15,443</b>	<b>33</b>	<b>18,926</b>
<b>As at 30 June 2018</b>				
Cost or valuation	4,396	20,102	36	24,534
Accumulated depreciation	(946)	(4,659)	(3)	(5,608)
<b>Net book amount</b>	<b>3,450</b>	<b>15,443</b>	<b>33</b>	<b>18,926</b>
<b>For the year ended 30 June 2019</b>				
Opening net book amount	3,450	15,443	33	18,926
Additions	12	144	8	164
Disposals	-	(41)	(6)	(47)
Revaluation	198	1,962	-	2,160
Depreciation charge	(177)	(1,004)	(6)	(1,187)
<b>Closing net book amount</b>	<b>3,483</b>	<b>16,504</b>	<b>29</b>	<b>20,016</b>
<b>As at 30 June 2019</b>				
Cost or valuation	3,483	16,504	38	20,025
Accumulated depreciation	-	-	(9)	(9)
<b>Net book amount</b>	<b>3,483</b>	<b>16,504</b>	<b>29</b>	<b>20,016</b>

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2019

Company (\$000)	Property	Plant & Equipment	Computer & Office	Total
<b>For the year ended 30 June 2018</b>				
Opening net book amount	-	-	-	-
Additions	-	25	7	32
Depreciation charge	-	(4)	(1)	(5)
<b>Closing net book amount</b>	-	<b>21</b>	<b>6</b>	<b>27</b>
<b>As at 30 June 2018</b>				
Cost or valuation	-	25	7	32
Accumulated depreciation	-	(4)	(1)	-
<b>Net book amount</b>	-	<b>21</b>	<b>6</b>	<b>27</b>
<b>For the year ended 30 June 2019</b>				
Opening net book amount	-	21	6	27
Disposals	-	(21)	(6)	(27)
<b>Closing net book amount</b>	-	-	-	-
<b>As at 30 June 2019</b>				
Cost or valuation	-	-	-	-
Accumulated depreciation	-	-	-	-
<b>Net book amount</b>	-	-	-	-

Property, plant & equipment was valued by North Langley & Associates Ltd, an independent registered valuer on 26 February 2019. The valuation technique used was the Optimised Depreciated Replacement Cost as the spray dryer has specialised equipment and comparable sale information is limited. North Langley & Associates Ltd are a reputable valuation company specialising in the valuation of plant, machinery and equipment

There was no impairment in 2019 (2018: NIL). No borrowing costs were capitalised during the year (2018: NIL).

The spray dryer plant is noted as security against the Bank loans to Waikato Innovation Park Ltd.

### 19. INTANGIBLE ASSETS

	Group \$000		Company \$000	
	2019	2018	2019	2018
<i>Cost - Trademark</i>				
Balance 1 July 2018	1	1	-	-
Amortisation	-	-	-	-
<b>Balance 30 June 2019</b>	<b>1</b>	<b>1</b>	<b>-</b>	<b>-</b>

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2019

	Group \$000		Company \$000	
20. DEFERRED INCOME	2019	2018	2019	2018
Original Grant	3,794	3,794	-	-
less Deferred Grant recognised prior years	(1,074)	(895)	-	-
	<b>2,720</b>	<b>2,899</b>	-	-
Opening balance	2,720	2,899	-	-
less Deferred Grant recognised	(179)	(179)	-	-
<b>Total deferred grant</b>	<b>2,541</b>	<b>2,720</b>	-	-
Revenue received in advance	242	199	-	-
<b>Total deferred income</b>	<b>2,783</b>	<b>2,919</b>	-	-
Current portion	296	302	-	-
Non current portion	2,487	2,617	-	-
<b>Total deferred income</b>	<b>2,783</b>	<b>2,919</b>	-	-

Deferred Grant relates to Government Grants provided to develop the Spray Dryer Facility (part of property, plant and equipment). The Deferred Grant is written off over 20 and 25 years respectively for the Spray Dryer Facility being the estimated useful life of the assets.

	Group \$000		Company \$000	
21. RELATED PARTIES LOANS	2019	2018	2019	2018
Hamilton City Council	-	200	-	200
New Zealand Food Innovation (Waikato) Limited	-	-	26	-
<b>Total related parties loans</b>	<b>-</b>	<b>200</b>	<b>26</b>	<b>-</b>

Parent Entity: Waikato Innovation Growth Limited is owned 100% by Hamilton City Council. Hamilton City Council provided a loan for working capital to Waikato Innovation Growth Limited.

New Zealand Food Innovation (Waikato) Limited is owned by Waikato Innovation Growth (70%) and Callaghan (30%). New Zealand Food Innovation (Waikato) Limited has paid operating costs on behalf of Waikato Innovation Growth Limited.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2019

	Group \$000		Company \$000	
22. PROVISIONS	2019	2018	2019	2018
<i>Nu-Mega Ingredients (NZ) Limited contract</i>				
Opening balance	196	191	-	-
Charged to profit or loss	-	5	-	-
Unused amounts reversed	(196)	-	-	-
<b>Balance 30 June</b>	<b>-</b>	<b>196</b>	<b>-</b>	<b>-</b>
<i>Silo contracts</i>				
Opening balance	160	-	-	-
On acquisition	-	160	-	-
Charge to profit or loss	8	-	-	-
<b>Balance 30 June</b>	<b>168</b>	<b>160</b>	<b>-</b>	<b>-</b>
<b>Total provisions</b>	<b>168</b>	<b>356</b>	<b>-</b>	<b>-</b>

NZFIW entered into a contract with the following customers, Central Dairy Goat, Spring Sheep Dairy, NZ Nutritional Goat and Maui Milk for use of Silo 4 for five years and to each loan NZFIW \$65,000 for the building of Silo 4 at the factory. NZFIW will reimburse the customers \$43,333 on the 30th June 2022. Should the Customer still be manufacturing at the FoodWaikato site beyond May 2022 the repayment will be made at the end of the year, that the Customer stops manufacture at Food Waikato. NZFIW has created a provision (discounted to present value) for \$43,333 of the loan.

	Group \$000		Company \$000	
23. TERM LOANS	2019	2018	2019	2018
BNZ 92346126-03 loan	4,274	4,574	-	-
	<b>4,274</b>	<b>4,574</b>	<b>-</b>	<b>-</b>
Current portion	-	-	-	-
Non current portion	4,274	4,574	-	-
<b>Total term loan</b>	<b>4,274</b>	<b>4,574</b>	<b>-</b>	<b>-</b>

Term loans are secured by a mortgage over the property at Ruakura Road, Hamilton certificate of title No. 135745.

	2019		2018	
	<i>Interest rate</i>	<i>Maturity Date</i>	<i>Interest rate</i>	<i>Maturity Date</i>
BNZ 92346126-03 loan	5.07%	August 2021	5.14%	August 2021



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2019

	Group \$000		Company \$000	
24. OTHER LOANS	2019	2018	2019	2018
Bonds	840	1,100	-	-
<b>Total other loans</b>	<b>840</b>	<b>1,100</b>	<b>-</b>	<b>-</b>
Total current portion	490	650	-	-
Total non current portion	350	450	-	-
<b>Total other loans</b>	<b>840</b>	<b>1,100</b>	<b>-</b>	<b>-</b>

## 25. CAPITAL COMMITMENTS AND OPERATING LEASES

The following amounts have been committed to by the group but are not recorded in either the Statement of Comprehensive Income or the Statement of Financial Position.

	Group \$000		Company \$000	
Operating leases	2019	2018	2019	2018
<b>Non-cancellable operating lease commitments</b>				
No later than one year	23	23	-	-
Later than one year and no later than five years	93	93	-	-
Later than five years	301	301	-	-
	<b>417</b>	<b>417</b>	<b>-</b>	<b>-</b>

Operating lease amounts relates to the lease of land at Ruakura Road. The lease represents the first 20 years of a 1 x 20 and 1 x 30 year lease entered into in July 2018. Total lease expense for 2019 was \$23,162 (2018: \$23,162).

### Capital commitments

As at 30 June 2019 New Zealand Food Innovation (Waikato) Limited has capital commitments of \$9,848 to Combined Technologies Limited for the completion of a Store Management System (2018: \$34,593).

NZFIW D2 LP Limited has capital commitments of \$656,698 to Melody Dairies Limited Partnership for capital drawdown (2018: NIL).

## 26. RECONCILIATION OF FINANCING ACTIVITIES

Group \$000	2018	Cash flows	Non-cash changes	2019
<b>Financing activities</b>			Fair value changes	
Term loans	4,574	(300)	-	4,274
Other loans	1,100	(260)	-	840
Provisions	356	-	(188)	168
Related parties	200	(200)	-	-
<b>Total liabilities from financing activities</b>	<b>6,230</b>	<b>(760)</b>	<b>(188)</b>	<b>5,282</b>

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2019

	2017	Cash flows	Non-cash changes	2018
<b>Financing activities</b>			Fair value changes	
Term loans	8,174	(3,600)	-	4,574
Other loans	900	200	-	1,100
Provisions	191	160	5	356
Related parties	-	200	-	200
Share capital	-	4,000	-	4,000
<b>Total liabilities from financing activities</b>	<b>9,265</b>	<b>960</b>	<b>5</b>	<b>10,230</b>

	2018	Cash flows	Non-cash changes	2019
<b>Company \$000</b>				
<b>Financing activities</b>				
Related parties	200	(128)	(72)	-
<b>Total liabilities from financing activities</b>	<b>200</b>	<b>(128)</b>	<b>(72)</b>	<b>-</b>

	2017	Cash flows	Non-cash changes	2018
<b>Financing activities</b>			Fair value changes	
Related parties	-	200	-	200
Share capital	-	4,000	-	4,000
<b>Total liabilities from financing activities</b>	<b>-</b>	<b>4,200</b>	<b>-</b>	<b>4,200</b>

## 27. FINANCIAL INSTRUMENTS

	Group \$000		Company \$000	
	2019	2018	2019	2018
<b>Financial assets at amortised cost</b>				
Cash and cash equivalents	82	351	-	85
Trade and other receivables	789	693	-	68
<b>Total loans and receivables</b>	<b>871</b>	<b>1,044</b>	<b>-</b>	<b>153</b>
<b>Financial liabilities at amortised cost</b>				
Payables and accruals	721	742	4	624
Short term employee entitlements	268	282	-	6
Term loans	4,274	4,574	-	-
Other loans	840	1,100	-	-
Provisions	168	356	-	-
Related parties	-	-	26	200
<b>Total financial liabilities at amortised costs</b>	<b>6,271</b>	<b>7,054</b>	<b>30</b>	<b>830</b>

The Group has no financial liabilities classified at fair value through profit or loss, financial assets classified at fair value through profit or loss; or fair value through other comprehensive income.

Net gains or net losses on financial assets measured at amortised costs are recognised through the profit or loss and includes interest or dividend income. Net gains or net losses on financial liabilities at amortised cost are recognised in the profit or loss and includes interest expense.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2019

Per NZ IFRS 7, the entity should disclose the following information for each class of financial assets and financial liabilities as at the date of initial application:

- The original measure category and carrying amount determined in accordance with NZ IAS 39.

	Loans and receivables	Assets at fair value through profit or loss	Derivatives used for hedging	Available-for- sale	Total
<b>Company \$000</b>					
<b>Assets per balance sheet</b>					
Cash and cash equivalents	85	-	-	-	85
Trade and other receivables	68	-	-	-	68
<b>Balance as at 30 June 2018</b>	<b>153</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>153</b>

	Liabilities at fair value through profit or loss	Derivatives used for hedging	Other financial liabilities at amortised cost	Total
<b>Company \$000</b>				
<b>Liabilities as per balance sheet</b>				
Payables and accruals	-	-	624	624
Short term employee entitlements	-	-	6	6
Related parties	-	-	200	200
<b>Balance as at 30 June 2018</b>	<b>-</b>	<b>-</b>	<b>830</b>	<b>830</b>

	Loans and receivables	Assets at fair value through profit or loss	Derivatives used for hedging	Available-for- sale	Total
<b>Group \$000</b>					
<b>Assets per balance sheet</b>					
Cash and cash equivalents	351	-	-	-	351
Trade and other receivables	693	-	-	-	693
<b>Balance as at 30 June 2018</b>	<b>1,044</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,044</b>

	Liabilities at fair value through profit or loss	Derivatives used for hedging	Other financial liabilities at amortised cost	Total
<b>Group \$000</b>				
<b>Liabilities as per balance sheet</b>				
Payables and accruals	-	-	742	742
Short term employee entitlements	-	-	282	282
Term loans	-	-	4,574	4,574
Other loans	-	-	1,100	1,100
Provisions	-	-	356	356
<b>Balance as at 30 June 2018</b>	<b>-</b>	<b>-</b>	<b>7,054</b>	<b>7,054</b>

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2019

	Group \$000		Company \$000	
28. RECONCILIATION OF PROFIT/(LOSS) FOR THE YEAR TO NET CASH	2019	2018	2019	2018
<b>Profit/(loss) for the year</b>	<b>1,295</b>	<b>368</b>	<b>26</b>	<b>(1,248)</b>
<b>Add/(less) non-cash items</b>				
Other income	(1,610)	-	-	-
Cost of consent	395	-	-	-
Interest - Provisions	(23)	-	-	-
Depreciation and amortisation	1,187	1,182	-	5
Subvention payment	-	-	(65)	-
Loss on disposal of fixed assets	16	-	-	-
Loss on disposal of shares	-	-	-	1,200
Share of associates (surplus)/deficit	7	20	-	-
Deferred income	(287)	(179)	-	-
<b>Total non-cash items</b>	<b>(315)</b>	<b>1,023</b>	<b>(65)</b>	<b>1,205</b>
<b>Add/(less) movements in working capital</b>				
Revenue received in advance	(15)	(44)	-	-
Trade debtors and other receivables	49	170	68	(68)
Prepayments	(182)	(234)	2	(2)
Income tax expense & subvention payment in profit/loss	37	89	10	(18)
Payables and accruals	(19)	268	(38)	48
Short term employee entitlements	(14)	-	(6)	-
Related parties loans	-	-	19	-
Inventories	846	(2,230)	-	-
<b>Total movement in working capital</b>	<b>702</b>	<b>(1,981)</b>	<b>55</b>	<b>(40)</b>
<b>Net cash flow from operating activities</b>	<b>1,682</b>	<b>(590)</b>	<b>16</b>	<b>(83)</b>

## 29. RELATED PARTY TRANSACTIONS

The following transactions were carried out with related parties on normal commercial terms during the year:

### Shareholder

Waikato Innovation Growth Limited has paid no venue hire to Hamilton City Council (2018: \$6,141). No amount is outstanding at balance date (2018: NIL).

Waikato Innovation Growth Limited has received no sponsorship income from Hamilton City Council (2018: \$1,000). No amount is outstanding at balance date (2018: NIL).

New Zealand Food Innovation (Waikato) Limited paid \$131,720 (2018: \$189,059) to Hamilton City Council for trade waste and application fees. No amount is outstanding at balance date (2018: NIL).

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2019

### Subsidiaries and associates

#### *New Zealand Food Innovation (Waikato) Limited*

New Zealand Food Innovation (Waikato) Limited has paid operating costs of \$86,759.11 (2018: \$76,083) on behalf of Waikato Innovation Growth Limited. No amount is outstanding at balance date (2018: \$230).

New Zealand Food Innovation (Waikato) Limited has paid expenses of \$68,597.50 (2018: NIL) to Waikato Innovation Growth Limited for insurances.

New Zealand Food Innovation Limited (Waikato) paid a subvention payment of \$64,773 (2018: NIL) to Waikato Innovation Growth Limited for the 2018 tax year.

#### *NZFIW D2 LP Ltd*

New Zealand Food Innovation (Waikato) Limited made sales of \$1,609,820 to NZFIW D2 LP Limited for consent costs in accordance with an agreement with NZFIW D2 LP Limited.

New Zealand Food Innovation (Waikato) Limited has paid operating costs of \$1,786 on behalf of NZFIW D2 LP Limited. No amount is outstanding at balance date.

New Zealand Food Innovation (Waikato) Limited has paid \$1,016,361 to NZFIW D2 LP Limited for capital amounts for Melody Dairies Limited Partnership.

#### *Melody Dairies Limited Partnership*

Melody Dairies Limited Partnership has paid \$190,959 to New Zealand Food Innovation (Waikato) Limited for project management and have reimbursed \$302,460 for project costs paid by the Company previously. A balance of \$23,940 inclusive is outstanding at 30 June 2019.

#### *New Zealand Food Innovation Network Ltd*

New Zealand Food Innovation (Waikato) Limited made no sales in 2019 (2018: \$15,000) to New Zealand Food Innovation Network Ltd for Business Development Manager services. No amount is outstanding at balance date (2018: NIL).

#### *Callaghan Innovation*

New Zealand Food Innovation (Waikato) Limited made sales of \$80,004 (2018: \$80,000) to New Zealand Food Innovation Network Ltd for Business Development Manager services. No amount is outstanding at balance date (2018: NIL).

### Key Management Personnel Disclosure

Key management personnel compensation	2019: \$560,227	2018: \$533,122
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### Other

Stuart Gordon the CE of NZFIW and the Interim CE of WIGL (ceased 1 July 2018), is the CE of Waikato Innovation Park Limited which provides management services and lease to NZFIW & WIGL (ceased 1 July 2018). During the year Waikato Innovation Park Limited charged the Group \$160,758 GST exclusive for these services (2018: \$239,545). A balance of \$8,068 inclusive is owing at 30 June 2019 (2018: \$27,660)

Peter Hobman is a Director and Shareholder of Working Foods International (NZ) Limited which provides consultancy work. The Company was not charged for any consultancy work in 2019 (2018: \$25,941) and no balance was outstanding at 30 June 2019 (2018: NIL).

Shane Kells an employee of NZFIW (resigned 31 August 2018) is a Director and Shareholder of Commercial Compliance Limited which provides consultancy work. During the year Commercial Compliance Limited charged NZFIW \$19,460 GST exclusive (2018: \$8,760) for consultancy work; A balance of \$1,150 inclusive is owing at 30 June 2019 (2018: NIL).

## 30. CONTINGENCIES

No contingencies have been identified at balance date (2018: NIL).

## PERFORMANCE TARGETS AND RESULTS

For the year ended 30 June 2019

The Group prepares an annual Statement of Corporate Intent, which is approved by the Shareholders and incorporates financial and performance measure for the ensuing year. This is in accordance with section 64(5) of the Local Government Act 2002. The 2018/19 Statement of Corporate Intent was approved by Hamilton City Council.

Performance information relevant to the Company is disclosed below:

### Waikato Innovation Growth Limited (Group)

	2019 Actual \$000	2019 Statement of Corporate Intent \$000	2018 Actual \$000	2018 Statement of Corporate Intent \$000
<b>Budget and actual results</b>				
Group EBITDA	2,745	1,979	2,023	1,921
Group cash from operating activities	1,682	1,505	(590)	1,036
Net Profit after tax	1,295	385	368	170
Shareholder's funds/Tangible assets	55%	53%	38%	64%

### Waikato Innovation Growth Limited

Waikato Innovation Growth Limited operations were transferred on the 1st of July 2018 to Waikato Regional Economic Development Limited. There was no operational activities taking place during the year, therefore the reporting of actual performance against the target is not applicable.

### New Zealand Food Innovation (Waikato) Limited

	2019 Actual \$000	2019 Statement of Corporate Intent \$000	2018 Actual \$000	2018 Statement of Corporate Intent \$000
<b>Budget and actual results</b>				
Revenue NZFIW	11,200	7,461	7,143	6,104
EBITDA NZFIW	2,776	1,963	2,081	-

### Key objectives and actual results to 30 June 2019

Key objectives	Actual results
1. 267 days of product development production via the spray dryer contributing \$55 million to the regional economy.	242.5 days of production days 24.5 under budget while contributing \$33.3m to the regional economy through exports.
2. Commitment by private capital to establish increased spray drying capacity alongside the existing dryer in 2018/2019.	New Spray dryer partnership and construction Agreement for \$53.9m signed in December 2018. To date June 2019 \$20.0 m capital contributed with a further \$12.9 m to be contributed in the next financial
3. A 10% minority interest in new spray dryer is planned to increase open access space for the sheep industry customers. \$1.4 million will available within the company's own cash flow.	NZFIW has contributed to date June 2019 \$1.0 m and will contribute a further \$0.6 m in the next financial year for its 10% share of Melody Dairies Limited Partnership.





4. Assist with the development of new valued added sheep milk industry products and the international launch of one substantial new product.	While trials and product development has been undertaken by various companies, the launch with a strategic partner of added value sheep milk product has been delayed to September 2019.
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