Waikato Innovation Growth Limited
New Zealand Food Innovation (Waikato) limited
NZFIW D2 Limited and

10% ownership in Melody Dairies Limited Partnership
10% ownership in Melody Dairies GP Limited

Statement of Intent

1st March 2019

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1. Introduction

a. This statement is presented by the Directors NZFIW in accordance with s.64 (1) Local Government Act 2002 and sets out the Board's intentions for the Companies for the year ending 30 June 2020 plus estimates for the years ending 30th June 2021 and 2022. It covers Waikato Innovation Growth Limited (WIG), New Zealand Food innovation (Waikato) Limited (NZFIW) and NZFIW D2 Limited (D2) collectively called the NZFIW Group in this report. NZFIW D2 Limited owns 10% in both Melody Dairies Limited Partnership (MDLP) and Melody Dairies GP Limited (MDGPL).

2. Corporate Intent

a. NZFIW Group. The core purpose of NZFIW Group is to promote innovation in the food industry both in the Waikato region and nationally, including:

   i. providing facilities on an open access basis in which food processing companies and those entering new markets can develop new or improved food ingredient products;

   ii. providing on an open access basis a small-scale production plant capable of producing samples for market development which is to be self-sustaining in the medium to long term;

   iii. participating in and promoting a national network of similarly focussed food innovation organisations as a shareholder in a food innovation network

   iv. providing an independent and secure facility to ensure that the intellectual property and know-how of the Company and its customers are protected;

   v. providing a centre of learning for food technology, catering primarily to the pastoral product value chain, in cooperation with tertiary education institutions; and

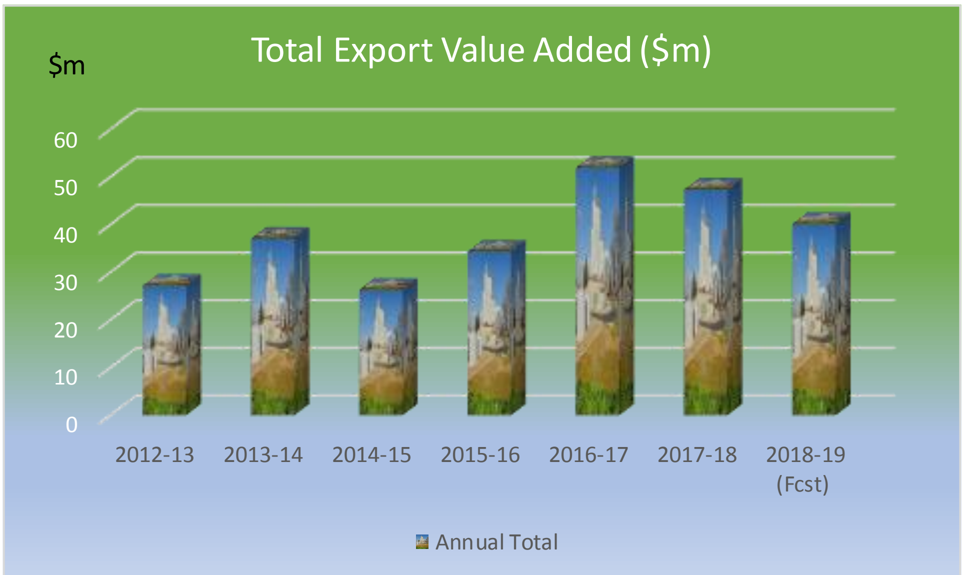
   vi. providing one of several tangible centres and organisations throughout New Zealand around which networks of food processors and exporters, food equipment manufacturers and other partners can develop.

3. Achievements to date

a. Food Innovation

- The spray dryer was successfully commissioned in July 2012 and initially met Dairy Goat Cooperative's customer requirements to allow it to expand its sales and supply. As a result, Dairy Goat Cooperative made an investment of $68million in a plant on its own site.

- A further $3million investment by Callaghan Innovation allowed a full infant formula blending plant of $5.7million and ingredient warehouse to be established. It allows specialty ingredients such as vitamins, minerals and oils to be 'wet blended' with milk or fruit juice prior to being spray dried to powder in the facility. Since the upgrade, there has been increase in goat and sheep fresh milk production.
- NZFIW is fully booked until June 2019 for drying of fresh goat and sheep milk production plus infant formula nutritionals from those bases. There remains a small amount of space for one-day trials. As a result, NZFIW is now contributing, through manufacturing, approximately $53 million of exports per year.
- In November 2017, Hamilton city Council approved NZFIW to promote a privately funded second Spray Dryer which NZFIW would have a Minority 10% holding through a $1.67m investment.
- On 1 December 2017, HCC and Callaghan injected a further capital of $4m (cash) into NZFIW through the sale of WIPL property; shareholding of NZFIW between HCC and Callaghan remains at a ratio of 70:30.
- NZFIW incepted a 100% owned subsidiary NZFIW D2 Limited (D2) in September 2018 solely for the purpose of investing $1.67 m for a 10% ownership in a second spray dryer: Melody Dairies Limited Partnership.
- NZFIW in December 2018 signed a management agreement with Melody Dairies LP to manage 100% of the operations of the LP.



NZFIW has proven itself as a growth engine, contributing to the New Zealand economy through innovation and being a facilitator in product and business development.

4. Key assumptions

Food Waikato will continue its toll processing activities plus investing about $1.67m as a 10% minority shareholder in a second dryer (Melody Dairies Limited Partnership – Melody Dairies) before the financial year ending 30 June 2019.

5. Nature and Scope of Activities to be Undertaken

Key Objectives

The key objectives that can be achieved during the years ending June 2020 to 2022:

New Zealand Food Innovation Waikato Limited

2019- 2020

1. 284 days of product development production via the spray dryer contributing exceeding $60 million to the regional economy.
2. Commitment by private capital to establish increased spray drying capacity alongside the existing dryer in 2019/2020.
3. A 10% minority interest in new spray dryer is planned to increase open access space for the sheep industry customers. $1.67 million will available within the company's own cash flow.
4. Assist with the development of new valued added sheep milk industry products and the international launch of one substantial new product.
5. Income receiving from managing Melody Dairies expects to amount to a net of $400k.

2020-2021

1. 284 days of product development production via the spray dryer contributing $65 million to the regional economy.
2. New privately-owned spray dryer facility: Melody Dairies plant completed.
3. The management of Melody Dairies by NZFIW management.
4. Income receiving from managing Melody dairies expects to amount to a net of $1.1m

2021-2022

1. 284 days of product development production via the spray dryer contributing $80 million to the regional economy.
2. Income receiving from management fees and dividends expects to maintain $1.1m by 20 Jun 2022.
3. Launch of one new value-added products within the sheep milk industry.

6. Key Performance Targets ($,000)

Key Performance Indicators	2020	2021	2022
NZFIW EBITDA	1,956	2,381	2,443
NZFIW Cash from operating activities	856	2,680	1,712
Net Profit After Tax	337	683	755
Shareholders' funds / Tangible assets	70%	79%	84%

7. Capital Expenditure ($,000)

Capital Expenditure	2020	2021	2022
Food Waikato	650	400	600
Investment in Melody Dairies	1,670		

It is envisaged that the Melody Dairies LP plant will be completed by Nov 2019.

8. Financial Disclosure

1. REPORTING ENTITY

a. **New Zealand Food Innovation (Waikato) Limited** (NZFIW) 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 9th October 2013. The Company's parent entity is Waikato Innovation Growth Limited, and the ultimate parent entity is Hamilton City Council.

b. NZFIW D2 Limited is wholly owned by New Zealand Food Innovation (Waikato) Limited. It is a Council-Controlled Organisation under the Local Government Act 2002 with effect from 20th Sep 2018.

c. The forecast financial statements of NZFIW are for the year ending 30 June 2019. The audited financial statements will be authorised for issue by the Board of Directors on the 22nd August 2019. The owners and/or others do not have the power to amend the financial statements after issue.

2. BASIS OF PREPARATION

a. Statement of Compliance

The financial statements for the Company have been prepared in accordance with the requirements of the Companies Act 1993, the Financial Reporting Act 1993 and the Local Government Act 2002.

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. The Company early adopted the Reduced Disclosure regime framework for the financial year ended 30 June 2015.

b. 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.

c. Functional and Presentational currency

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

d. 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.

e. Change in Accounting Policies

Intangible Assets

A new accounting policy for Intangible Assets has been created due to the registration of the FoodWaikato Trademark.

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. Accounting for 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.

Under IFRS 11 the investment in D2 (by NZFIW) will be recognised as a joint venture. IFRS 11 states that “A joint venture shall recognise its interest in a joint venture as an investment and shall account for that investment using the equity method in accordance with NZ IAS 28 Investments in Associates and Joint Ventures

b. Revenue

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates or similar allowances. Revenue comprises the amounts received and receivable for goods and services supplied to customers in the ordinary course of business.

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.

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.

h. 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 to allocate the cost or revalued amounts over the estimated useful lives, as follows:

Buildings	25 years
Plant & Equipment	20 years
Computer & 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.

Revaluation

Property, plant & equipment is revalued with sufficient regularity and at least every three years to ensure that it's 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.

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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.

i. Work in progress

Work in progress is valued at cost.

j. 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

k. Trade and Other Payables

Trade and other payables are stated at 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.

n. Short-term Employee Benefits

Short-term (settled within 12 months) employee benefit 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 under short-term cash bonus or profit-sharing plans 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.

q. Dividend Policy

In view of the risks associated with the business and future market development need, the Directors propose to recommend that no dividend be paid for the next three years and that the dividend payment decisions for subsequent years are determined annually at the annual general meeting each year.

r. Compensation from local authority. No compensation has been sought from any local authority by any director.

s. The Directors have deemed the commercial value of the business is the same as the carry values expressed in the accounts.

9. Information to be provided to Shareholders

The company will deliver the following Reports or Statements to the Shareholder:

- Unaudited Half Year Report within two months of the end of the first half of the financial year (28 February); commenting on the operations and results for the six months.

- Statement of Intent
  - By 1 March of each year a Draft Statement of Intent for the consideration of the shareholders
  - Final Statement of Intent to the shareholders by 30 June.

- Financial Statements
  - Draft financial statements by 31 July.
  - Audited Annual Accounts by 30 September.

10. Governance Statements

Board of Directors

NZFIW Board, whose members with the exception of Mr Matt Kenny who is appointed by Callaghan Innovation are also members of Waikato Innovation Growth Limited and NZFIW D2 Limited. The board is a skill based board that must govern in the best interests of the company.

The NZFIW Board currently includes the following Directors

- **Barry Harris - Chair.** Former Chief Executive officer of the Hamilton City Council, has had many years of Chief Executive roles in regional local bodies including Environment Waikato and the Greater Wellington Regional Council. He was also the Group Director of Fonterra Milk Supply. Barry over the years has served and is serving in numerous varied Governance roles, with a mix of commercial industry good and research organisations including WinTec and DairyNZ.
- **Earl Rattray** is a former Director of Fonterra and past chair of Dairy Companies Association of New Zealand; a Director of other companies active in the Agricultural and construction sectors. Earl is a NZ dairy farmer and has interests in several international farming enterprises. Earl is a Chartered Fellow member of the NZ Institute of Directors.
- **Matt Kenny** has had over 13 years' experience in executive-level CFO roles. Between 2012 and 2017, he was CFO of Acurity Health Group, an Australian equity owned (and previously NZX-listed) healthcare business providing private surgical facilities, with a turnover of over $150m and around 500 staff. As CFO and Company Secretary, Matt was the key financial adviser to the CEO and Board, and led a team of 22 with responsibilities including financial reporting, tax compliance, planning and forecasting, funding, risk management, procurement and IT. Since 2016, he has also served as a Director of New Zealand Golf. Matt is a Chartered Accountant with a Bachelor of Business from Victoria University of Technology in Melbourne.
- **Peter Hobman.** Peter has had a life-long career in Food & Health related R & D, sales and marketing of specialised dairy products and senior management; including wide-ranging company governance experience in NZ, Australia and Japan particularly in the dairy industries. Peter holds a Bachelor of Technology (Biotech) (Hons) degree from Massey University. He is a Fellow of the New Zealand Institute of Food Science and Technology, an author and inventor of numerous patents.
- **Dave Stanley.** Dave is a member of the Institute of Directors and has been Chair and/or Director of several companies. As CEO of Dairy Goat Co-operative for 21 years, and subsequently MD of DGC's European subsidiary for 2 years, he has extensive experience in the manufacture and marketing of infant formula.

11. Health and Safety

a. The NZFIW Group is committed to providing and maintaining a safe and healthy working environment for its employees, visitors, contractors and others. This commitment is achieved by board governance, management leadership, the provision of appropriate resources to administer its legislative responsibilities, and to pursue best practice in health and safety management.

b. Every member of the NZFIW group has a responsibility for health and safety which is appropriate to their role and designation, and to promote the health and safety of themselves and others involved in or affected by Food Innovation Waikato activities. NZFIW undertakes to be compliant with all food safety legislations.

12. Environment

The NZFIW Group is committed to minimise and/or mitigate the adverse impact of the company's operations on the environment.

13. Financials:

New Zealand Food Innovation Limited Income Statements

All in $000	FY 20	FY 21	FY 22
NZFIW Income	8,193	6,799	6,931
Income From Melodoy	436	1,281	1,318
Total Income NZFIW Group	8,629	8,080	8,249
Expenses			
Direct Expenses	3,827	2,544	2,595
Overhead	2,846	3,155	3,210
Total expenses	6,673	5,699	5,805
EBITDA	1,956	2,381	2,443
Other Overheads			
Depreciation	1,252	1,284	1,309
Interest	236	148	86
Total Other Overheads	1,488	1,432	1,394
Net Profit Before Tax	468	949	1,049
Tax	131	266	294
Net Profit After Tax	337	683	755

New Zealand Food Innovation (Waikato) Limited
Financial Positions

$ '000	Jun-20	Jun-21	Jun-22
Current Assets			
Accounts Receivable	1,114	915	932
Bank Accounts	200	200	200
Inventories	1,899	1,118	1,118
Other Current Assets	217	217	217
Total Current Assets	3,431	2,450	2,467
Non Current Assets			
Plant & Equipment	13,868	13,222	12,910
Buildings	3,249	3,067	2,835
Other Non-Current Assets	1,745	1,745	1,745
Total Non-current Assets	18,862	18,034	17,489
Total Assets	22,293	20,484	19,957
Current Liabilities			
Accounts Payable	557	492	499
Bank Overdraft			
Other Current Liabilities	573	556	557
Total Current Liabilites	1,130	1,048	1,056
Non Current Liabilities			
Bank Loans	3,989	1,758	646
Deferred Grant Income	2,364	2,186	2,007
Other non-Current Liabilities	3,081	3,081	3,081
Total Non-Current Liabilities	9,435	7,025	5,734
Total Liabilities	10,565	8,073	6,791
Total Equity	11,728	12,411	13,166

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