Good Health Healthy Future

ANNUAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2020

2020

1 Contents

2 Company Directory

Company Number	CH/1168773
Issued Capital	218,769,344 Ordinary Shares
Registered Office	3 Desi Place Hillsborough, 8022 Christchurch
Shareholders	Listed on the USX (Unlisted Securities Exchange)
Directors	Mr K W Fergus *(Chairman)* Mr C L McIntosh Dr W L Burt Mr P W Dobbs Mr G P Shepherd
Bankers	Bank of New Zealand Limited Christchurch
Solicitors	Wynn Williams and Co. Christchurch
Auditors	Deloitte Limited Christchurch

3 Key Achievements

Financial highlights

2020 Sales

+24%

2020	21,506
2019	17,317

(000's)

Gross Margin

–2PPS

2020	44%
2019	46%

EBITDA*

+23%

2020	6,705
2019	5,432

(000's)

Net Profit Before Tax

+30%

2020	5,210
2019	4,014

(000's)

Earnings Per Share (cps)

+35%

2020	1.77cps
2019	1.31cps

Operating highlights

- Expansion programme continues with construction of new manufacturing facility at Rolleston underway.
- Continuing strengthening international demand for product range.

*EBITDA for the current year is calculated as Net Profit Before Tax of $5,210,391 plus Finance Costs of $188,590 plus Depreciation of $1,291,844 plus Amortisation of $14,575 (EBITDA for 2019 calculated as Net Profit Before Tax of $4,014,137 plus Finance Costs of $248,033 plus Depreciation of $1,169,989)

4 Chairman's Report

Dear Shareholders,

We are extremely pleased to report another strong result for PharmaZen for the financial year to 31 December 2020.

The result was achieved in what was, and continues to be, an extremely challenging environment for any business but more so for an organisation such as ours which is heavily dependent on movement of plant, product and people globally.

Despite the challenges, we have continued to significantly grow the business in terms of sales and profitability. The investment in capacity and efficiencies has enabled us to largely protect margin in the face of increased costs as a consequence of COVID-19 disruptions.

Financial overview

PharmaZen achieved a net profit before tax of $5.2 million, 30% ahead of the $4.0 million achieved last year.

Earnings before interest, tax, depreciation, and amortisation increased by 23% from last year's $5.4 million to $6.7 million on the back of increased sales, up 24% to $21.5 million.

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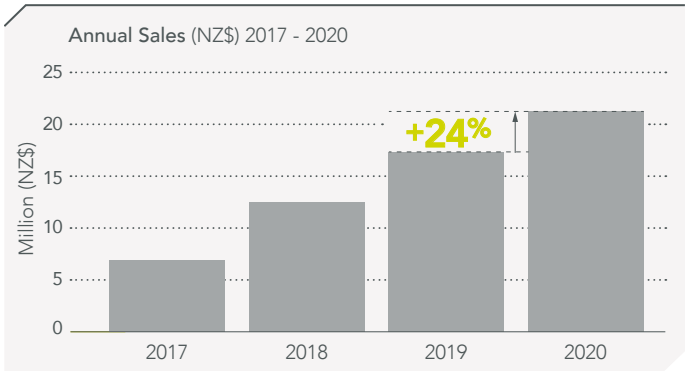
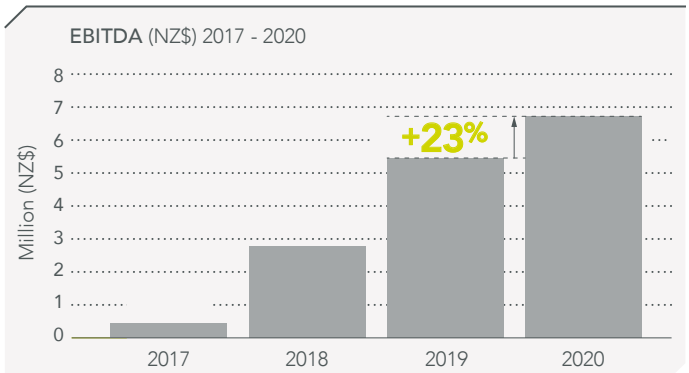
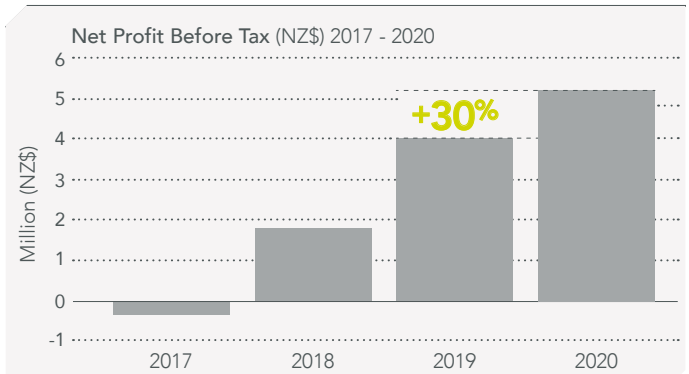
The margin at 44% held up extremely well in light of the impact from the COVID-19 supply chain disruptions – particularly in the last quarter of the year.

As at year end, we have over $8 million of capital installations underway where approximately 40% of these projects were originally anticipated to be operational in 2020. Delays with equipment delivery due to various lock downs, difficulty in sourcing timely shipping options and the restricted movement of commissioning staff all had an impact.







Operations

There was no shortage of challenges for the business in 2020 as we navigated through the COVID-19 disruptions. While demand continued to grow after the initial blip, it was logistics and supply chain that caused the greatest challenges.

The media has extensively covered the issues for exporters in respect of freight and logistics, both in terms of cost and availability. These challenges have continued well into 2021, and we were certainly not immune from that impact. However, the greater challenge for us was around the capital expansion projects, which were impacted initially by the various lock downs then further affected when it came to securing freight and the movement of international commissioning staff.

An example of this was the two 2,000kg freeze dryers we had on order. The first was expected to be operational in the fourth quarter of 2020 and the second by March 2021. However, whilst management is working extremely hard to make up for these delays it has pushed these dates out to the end of quarter two and into quarter three respectively.

4 Chairman's Report (Cont.)

Capital raise

As demand for our premium nutritional products continued to surge in 2020, it became clear the development needed to substantially increase our manufacturing capacity could not be funded solely from cash flow. This was a similar situation to 2017 during the last capital raise.

While we had options for additional debt, past experiences combined with the increased global volatility with people and product movement meant it was deemed prudent to make the next significant growth initiative equity funded.

Restrictions on travel and significant activity in the equity market for distressed capital raises meant this process was more challenging than normal, however, despite these hurdles we are extremely pleased with the outcome.

The introduction of ADM Capital's Cibus Fund, which has considerable expertise in the global food and nutritional sectors was a significant milestone. For PharmaZen to be its first New Zealand investment is a strong endorsement of our business model and strategies.

We are also very happy with the quantum, terms, and the impact for existing shareholder value.

We were obviously extremely happy the market recognised the significance of the investment and quality of the investor to the business. This recognition came in the form of the firming share price which provided strong endorsement of the approach taken.

People and capability

The Company continues its commitment to staff development and welfare with the appointment of an experienced Health, Safety and Environment Manager who has significant experience both internationally and in New Zealand in a variety of sectors including food manufacturing, construction, logistics and agriculture.

Mike Callagher has been engaged to help with the Company's quality and capability work and will be looking to join the board at the AGM this year in an executive director role. Mike is well known in the industry having held senior technical and quality roles at New Zealand Pharmaceuticals and most recently as General Manager of New Zealand Blackcurrant Co-operative Limited.

As previously advised to the market we have also been joined on the board by Damon Petrie from ADM Capital Europe LLP.

4 Chairman's Report (Cont.)

Looking ahead

The first quarter of 2021 has been a difficult one with continued delays to the delivery and installation of the first new freeze dryer challenging our ability to service demand.

Orders received for the quarter were significantly up on first quarter 2020 sales, however, our capacity constraints have seen us around four weeks behind schedule resulting in actual sales being lower in Q1 2021, than Q1 2020. Compounding the capacity challenges has been shipping logistics where we have seen containers off-loaded on multiple occasions.

This has seen us forced to absorb higher costs from increased use of air freight – on top of the already increased prices across other forms of transport.

The capacity problem was temporary, and we were back to full production capacity by the end of March. We also have the first freeze dryer due for commissioning in June and the second early in the third quarter – both of which have capacity largely spoken for.

This will almost double the drying capacity at the Port Hills Road site.

With the Port Hills Road site effectively fully developed by the end of July, we are well down the track with the developments at Rolleston with the initial build of just under 3,000sq m due for completion late this year. We have orders in place for three additional 2,000kg freeze dryers that will sit alongside spray drying and extraction facilities at the Rolleston site.

For perspective, the current Hillsborough manufacturing site is approximately 3,000sq m in total.

We have a second site at Rolleston, adjacent to the first, that is in the final stages of the consent process with plans for an additional 2,800sqm site. We will be looking to commence the build in June for this site that will ultimately house six 2,000kg freeze dryers.

While the primary purpose of the investment is to increase our capacity and capabilities the development is also providing significant risk mitigation by way of multiple sites. The Rolleston development is across two 1ha titles. The Hillsborough plant is effectively split across four sites encompassing the two leased properties on Desi Place and factories on Port Hills Road and the adjoining Nuttall Drive. It also allows us to specialise, whilst retaining the ability to multipurpose individual sites if required.

Port Hills Road additional site - Late 2020

Port Hills Road additional site - Early 2021

Port Hills Road additional site - Now

Project summary:

- Complete Site Development Port Hills Road – commission 2 x 2,000kg freeze dryers.
  - Manufacturing 3,000sq m, freeze drying 9,000kg
- New Build Rolleston 1
  - 3,000sq m manufacturing
  - 3 x 2,000kg freeze dryers, spray dryer and extraction facilities.
- New Build Rolleston 2
  - 2,800sq m manufacturing
  - 3 x 2,000kg freeze dryers 2021
  - 3 x 2,000kg freeze dryers 2022

4 Chairman's Report (Cont.)

Acknowledgments

The Board extends its thanks and appreciation to management and staff for their efforts and contribution to a strong result. Our staff's commitment to PharmaZen is no better illustrated than by their response to the COVID-19 outbreak and the additional workload and changes in practices required as a result of that. We have no doubt our shareholders have benefitted from the resilience of a team with such experience in navigating the business through these challenging times.

Summary

COVID-19 has provided many short-term challenges but the mid to long-term outlook remains a very positive one for our sector. Whether it is general health and wellness concerns, storage and shelf-life requirements or the boom in companion animals driving the pet sector, it is all part of our core skills and focus.

We have long identified these areas as our target sectors and have been building the capabilities and capacity accordingly. The capital injection allows us to convert the intellectual property we hold in the business into significant additional capacity at a greatly accelerated rate.

Seven years ago the sum total capacity of the freeze drying plant was 2,000kg per day. In 2021 we will be installing eight new freeze dryers – each with 2,000kg per day of capacity – generating the capacity between existing and new facilities to almost 25,000kg per day.

The COVID-19 pandemic has placed an even larger focus on maintaining healthy diets, lifestyles and wellbeing, so worldwide demand for supplements continues to grow. That combined with the quality and traceability of ingredients becoming increasingly important, means the opportunities for PharmaZen have never been better.

PharmaZen is now firmly established on a cash-positive growth path, with increasing demand being well supported by efficient, quality manufacturing. This momentum places the Company in an excellent position to look further ahead and capture future growth opportunities as they arise. We are moving forward with considerable optimism.

Mr K W Fergus
Chairman

New Build Rolleston Site 1 - March 2021

New Build Rolleston Site 1 - April 2021

5 Directors' Report

Principal Activity

The Company manufactures and sells advanced human and animal nutritional ingredients.

Dividend

No dividend was declared or paid during the period.

Directors' Interests

Directors' Remuneration
Remuneration and other benefits paid or due to the Directors of the Company and receivable during the year, were $55,000 (2019: $56,665).

Directors' Loans
There were no loans by the Company to Directors.

Share Dealing
The table below records the PharmaZen Limited ordinary shares in which each Director had a relevant interest as at 31 December 2020 and 31 December 2019.

Director	Number of Ordinary Shares			
	Beneficial		Non–Beneficial	
	2020	**2019**	**2020**	**2019**
Mr K W Fergus	8,000,000	9,000,000	5,659,996	6,859,996
Mr C L McIntosh	28,016,000	28,116,000	–	–
Dr W L Burt	32,000,000	32,000,000	–	–
Mr P W Dobbs	1,978,674	1,978,674	–	–
Mr G P Shepherd	2,067,282	2,067,282	–	–

Substantial Security Holders

The Companies register of substantial security holders at 31 December 2020 is as follows.

Name	Number of voting securities
MG Shepherd & LA Shepherd & Downie Stewart Trustee Ltd	36,092,204
Bruce Hector McIntosh & Craig Lachlan McIntosh & Triplet Trustee Limited	20,536,000
Citibank Nominees New Zealand Limited	16,000,000
Lotus Capital Partners Limited	16,000,000
Lee Patterson Family Trust Co. Limited	11,557,312

Employee Remuneration

Eight employees received remuneration or benefits in excess of $100,000 as follows:

$100,000 - $120,000	2 employees
$110,001 - $120,000	1 employees
$120,001 - $130,00	2 employees
$140,001 - $150,000	1 employee
$160,001 - $170,000	1 employee
$310,001 - $320,000	1 employee

6 Directors' Responsibility Statement

The Directors are pleased to present to shareholders the financial statements for PharmaZen Limited for the year ended 31 December 2020. The financial statements presented are signed for, and on behalf of the Board, authorised for issue on the date below.

The Directors are responsible for presenting financial statements in accordance with New Zealand law and generally accepted accounting practice, which materially reflect the financial position of the Company as at 31 December 2020 and the results of its operations and cash flows for the year ended on that date.

The Directors consider the financial statements of the Company have been prepared using accounting policies which have been consistently applied and supported by reasonable judgements and estimates and that all relevant financial reporting and accounting standards have been followed.

The Directors believe that proper accounting records have been kept which enable with reasonable accuracy, the determination of the financial position of the Company and facilitate compliance of the financial statements with the Financial Reporting Act 2013 and Financial Markets Conduct Act 2013.

The Directors consider that they have taken adequate steps to safeguard the assets of the Company and to prevent and detect fraud and other irregularities. Internal control procedures are also considered to be sufficient to provide a reasonable assurance as to the integrity and reliability of the financial statements.

The financial statements are signed on behalf of the Board by:

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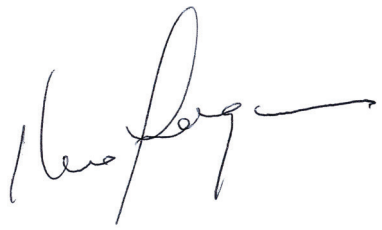

Mr K W Fergus
Chairman

Mr C L McIntosh
Managing Director

22 April 2021

7 Statement of Profit and Loss

	Notes	2020	2019
		$	$
Revenue			
Sales	3a	21,506,147	17,316,806
Cost of sales		11,991,872	9,357,678
Gross profit		9,514,275	7,959,128
Other income	3b	535,947	937
Expenses			
Marketing		885,586	722,904
Occupancy		104,198	60,924
Administrative		1,023,663	796,330
Consultancy		200,878	58,601
Research		363,801	305,738
Finance costs	3c	188,590	248,033
Depreciation	11	1,291,844	1,169,989
Amortisation of Intangibles	12	14,575	-
Insurance		552,713	405,813
Other		213,983	177,596
		4,839,831	3,945,928
Net Profit Before Taxation from Continuing Activities		5,210,391	4,014,137
Taxation expense	4a	1,337,913	1,152,594
Net profit for the year		3,872,478	2,861,543
Earnings Per Share			
Basic (cents per share)	13	1.77	1.31
Diluted (cents per share)	13	1.77	1.31

Calculated on a weighted average basis of the number of shares outstanding.

8 Statement of Comprehensive Income

	2020	2019
	$	$
Net profit for the year	3,872,478	2,861,543
Total Comprehensive Income	3,872,478	2,861,543

9 Statement of Changes in Equity

	Fully Paid Ordinary Shares	Treasury Stock	Retained Earnings	Total
	$	$	$	$
Balance at 1 January 2019	12,108,256	(44,451)	1,366,031	13,429,836
Net profit for the year	–	–	2,861,543	2,861,543
Balance at 31 December 2019	12,108,256	(44,451)	4,227,574	16,291,379
Balance at 1 January 2020	12,108,256	(44,451)	4,227,574	16,291,379
Net profit for the year	–	–	3,872,478	3,872,478
Balance at 31 December 2020	12,108,256	(44,451)	8,100,052	20,163,857

PharmaZen
Good Health Healthy Future

10 Statement of Financial Position

	Notes	2020 $	2019 $
Assets			
Current assets			
Cash and cash equivalents		328,910	68,556
Trade and other receivables	7	4,383,270	2,551,994
Prepayments		508,645	117,554
Inventories	8	3,327,933	1,852,298
Total current assets		8,548,758	4,590,402
Non–current assets			
Property, plant and equipment	11	29,028,235	22,945,525
Intangible assets	12	507,363	314,677
Total non–current assets		29,535,598	23,260,202
Total assets		38,084,356	27,850,604
Liabilities			
Current liabilities			
Bank overdraft		1,385,369	483,592
Accounts payable and accruals	9	2,387,237	1,246,573
Lease liabilities		98,446	149,034
Current tax liabilities	4c	2,402,394	1,263,395
Borrowings	10	1,005,120	1,136,717
Total current liabilities		7,278,566	4,279,311
Non–current liabilities			
Borrowings	10	9,582,190	6,587,814
Lease liabilities		383,830	39,421
Deferred tax liability	4d	675,913	652,679
Total non–current liabilities		10,641,933	7,279,914
Total liabilities		17,920,499	11,559,225
Owners' Equity			
Share capital	13	12,108,256	12,108,256
Treasury stock	13	(44,451)	(44,451)
Retained earnings	14	8,100,052	4,227,574
Total equity		20,163,857	16,291,379
Total liabilities and Owners' Equity		38,084,356	27,850,604

11 Statement of Cashflows

	Notes	2020 $	2019 $
Cash Flows from Operating Activities			
Cash was provided from (applied to):			
Receipts from customers and other income		20,656,293	16,689,116
Interest received		1	937
Taxation refund received/(paid) – net		(175,679)	5,294
Payments to suppliers and employees		(16,508,235)	(12,042,012)
Payment of interest		(452,892)	(370,012)
Net cash inflow from operating activities	20	3,519,488	4,283,323
Cash Flows from Investing Activities			
Cash was provided from (applied to):			
Payment for property, plant and equipment		(6,652,968)	(4,552,484)
Payment for intangible assets		(207,261)	(176,472)
Net cash outflow applied to investing activities		(6,860,229)	(4,728,956)
Cash Flows from Financing Activities			
Cash was provided from (applied to):			
Proceeds from borrowings		3,960,000	487,692
Lease liability		(163,462)	(142,063)
Repayment of loans		(1,097,220)	(544,845)
Net cash outflow (applied to)/inflow from financing activities		2,699,318	(199,216)
Net increase/(decrease) in cash and cash equivalents		(641,423)	(644,849)
Cash and cash equivalents at the beginning of the year		(415,036)	229,813
Cash and short term deposits at the end of the year		(1,056,459)	(415,036)
Comprised of:			
Cash and cash equivalents		328,910	68,556
Bank Overdraft		(1,385,369)	(483,592)
Net Cash		(1,056,459)	(415,036)

12 Notes to the Financial Statements

1) Summary of Accounting Policies

Reporting entity

PharmaZen Limited ("PharmaZen" or "Company") is a profit-oriented entity incorporated under the Companies Act 1993 and domiciled in New Zealand.

The principal activity of the Company is formulating, manufacturing and marketing specialised animal and human health products based on immune protective bioactive components and other novel bioactive ingredients.

As an issuer, the Directors have determined that the Company is a FMC reporting entity.

These financial statements comply with the Financial Markets Conduct Act 2013 and the Financial Reporting Act 2013.

Statement of compliance

The financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand ("NZ GAAP"). For the purposes of complying with NZ GAAP, the Company is a for-profit entity. They comply with the New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") and other applicable financial reporting standards as appropriate for profit-oriented entities.

The financial statements also comply with International Financial Reporting Standards ("IFRS").

Basis of preparation

The financial statements have been prepared on the basis of historical cost unless otherwise stated. Cost is based on the fair values of the consideration given in exchange for assets.

The financial statements are presented in New Zealand dollars.

Critical judgements and estimates in applying accounting policies

In the application of NZ IFRS, management is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of NZ IFRS that have significant effects on the financial statements and estimates are disclosed, where applicable, in the relevant notes to the financial statements. The key areas where judgement is required are:

- Revenue recognition (refer to Judgement - Sale of goods note and Judgement - Processing Services note)
- Inventory Costings (refer to Judgement - Inventories note)

Summary of significant accounting policies

The principal accounting policies applied in the preparation and presentation of the financial statements are set out below. These policies have been consistently applied unless otherwise stated.

Property, plant and equipment

All items of property, plant and equipment are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item.

Depreciation is provided on property, plant and equipment, other than land.

Depreciation is calculated on a straight line basis so as to write off the net cost of the asset over its expected useful life to its estimated residual value. The following estimates of useful lives are used in the calculation of depreciation:

	Years
• Buildings	6–50
• Furniture, fixtures and fittings	1–15
• Motor vehicles	7
• Plant and machinery	2–44
• Right of use assets	2–7

Accounting policies relating to right of use lease assets are separately disclosed.

Assets in the course of construction for use in the production or supply of goods, or administrative purposes are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Company's accounting policy. Such assets are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

12 Notes to the Financial Statements (Cont.)

Impairment of non-financial assets

At each balance sheet date, the Company reviews the carrying amounts of its 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.

The recoverable amount is the higher of 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 (cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (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 (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately.

Intangible assets

Intangible assets relate to expenditure on patents, trademarks and licences that is expected to have an enduring benefit to the Company. Intangible assets are stated at their accumulated historical cost until such time as confirmation has been received that the patent, trademark or licence to which the expenditure relates has been approved. From that time the cost is amortised on a straight-line basis over the expected useful life of the asset for intangible assets with a finite useful life. Any amortisation is based on an expected useful life of 10 years for both patents and trademarks.

For intangible assets with an indefinite useful life there is no amortisation of cost. Where an application is declined, and management decides not to take the matter further, the accumulated expenditure is expensed in the year that decision is taken. Management assesses all intangible assets for impairment on an annual basis and any necessary adjustments are made to carrying values. Management believe there is a probable economic benefit based on their market forecasts.

Internally-generated intangible assets – research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if all of the following conditions have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use;
- the intention to complete the intangible asset and use it;
- the ability to use the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Revenue recognition

Sale of goods

PharmaZen sells human, animal and nutritional products to customers in Asia, Australia, Europe, New Zealand and the United States.

Revenue is recognised by the Company when it passes control of the goods, which occurs at the time a customer's order has been fulfilled in all aspects, including the physical specifications (based on lab testing results) at which time the customer will be invoiced. This represents the point in time at which the right to consideration becomes unconditional, as only the passage of time is required before payment is made.

Judgement - Sale of goods

The Company concluded that control of the goods passes to the customer upon invoicing at the point the customer's order requirements, including detailed product specifications, have been fully complied with. At that point in time the Company concluded that the customer is considered to have accepted the goods and that the actual acceptance of the customer is a formality that would not affect the Company's determination of when the customer has obtained the goods.

12 Notes to the Financial Statements (Cont.)

Processing services

PharmaZen provides contract processing services to external customers. Revenue is recognised by the Company over time as these services are being performed. There are no other obligations to perform services under such contracts that will impact the revenue being recognised as services are performed.

Judgement - Processing services

The Company concluded that the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date. The Company determined that the output method is the best method in measuring progress of the processing services (based on the quantity of goods processed), because there is a direct relationship between the Company's effort and the transfer of services to the customer.

Other income

Other income is recognised to the extent that it is probable that the economic benefits will flow to the Company and the income can be reliably measured, regardless of when the payment is received. Other income is measured at the fair value of the consideration received or receivable.

Grants are recognised where it is probable that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset.

Government grants

Government grants are recognised in the profit and loss in the period in which they become receivable under NZ IAS 20. Income from these grants are reported in the same period that costs are incurred. Income from these grants are recognised as part of other income.

Interest revenue

Interest revenue is accrued on a time basis, by reference to the principal outstanding and the effective interest rate applicable.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of these assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognised in the income statement in the period in which they are incurred.

Taxation

Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or taxable loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent it is unpaid (or refundable).

Deferred tax

Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases of those items.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax rates that have been enacted or substantively enacted at reporting date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited to other comprehensive income or directly to equity, in which case the deferred tax is also dealt with in other comprehensive income or equity respectively.
At the moment of initial recognition of a right of use asset the deferred tax liability is not recognised as at the time of the transaction there is no impact on either accounting profit or taxable profit (tax loss). At the moment of initial recognition of a lease liability the deferred tax asset is not recognised as at the time of the transaction there is no impact on either accounting profit nor taxable profit (tax loss).

Inventories

Inventories are valued at the lower of cost and net realisable value where cost is determined using standard costing. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventory on hand on a first in first out basis. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Judgement - Inventories

The Company determined that standard costing method of stock valuation is the most appropriate method for the Company.

12 Notes to the Financial Statements (Cont.)

Goods and Services Tax (GST)

All items in the balance sheet are stated exclusive of GST, with the exception of receivables and payables, which include GST. All items in the income statement are stated exclusive of GST.

Financial instruments

Financial assets and financial liabilities are recognised on the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits, other short-term highly liquid investments (with a maturity less than three months) that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Trade receivables

Trade receivables are measured at initial recognition at fair value and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss at an amount equal to lifetime expected credit losses.

Expected credit losses on these financial assets are estimated using a provision matrix based on the Company's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received net of direct issue costs. Direct issue costs include registration and other regulatory fees, amounts paid to legal, accounting and other professional advisers and printing and distribution costs.

Accounts payable

Trade payables and other accounts payable are recognised at fair value when the Company becomes obliged to make future payments resulting from the purchase of goods and services. These are initially recorded at fair value and substantially amortised cost using the effective interest rate.

Borrowings

Borrowings are initially recorded at fair value, plus transaction costs and subsequently at amortised cost using the effective interest rate method.

Employee benefits

Provisions are recognised for benefits accruing to employees in respect of wages and salaries, annual leave and accumulating sick leave when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Provisions made in respect of employee benefits which are not expected to be settled within 12 months are measured at the present value of the estimated future cash outflows to be made by the Company in respect of services provided by employees up to reporting date.

Financial assets

The Company's financial assets held in order to collect contractual cash flows that are solely payments of principal and interest on the principal outstanding are measured at amortised cost. Cash and cash equivalents and accounts receivable are classified in this category.

The Company recognises a loss allowance for lifetime expected credit losses ("ECL") on accounts receivable (see Note 21(g)). For all other financial instruments, the Company recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Company measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Company in accordance with the contract and all the cash flows that the Company expects to receive, discounted at the original effective interest rate.

Foreign currency transactions

All foreign currency transactions during the financial year are brought to account using the exchange rate in effect at the date of the transaction. Foreign currency monetary items at reporting date are translated at the exchange rate existing at reporting date.

Exchange differences are recognised in profit or loss in the period in which they arise.

Leases

The Company assesses whether a contract is, or contains a lease, at inception of the contract. The Company recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones). For these leases, the Company recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If

12 Notes to the Financial Statements (Cont.)

this rate cannot be readily determined, the lessee uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments (including in substance fixed payments), less any lease incentives receivable
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date
- The amount expected to be payable by the lessee under residual value guarantees
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Company remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which case the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used)
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Company did not make any such adjustments during the periods presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Company incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under NZ IAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Company expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The Company applies NZ IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'impairment of non-financial assets' policy.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in expenses in profit or loss.

As a practical expedient, NZ IFRS 16 permits a lessee not to separate non-lease components and instead account for any lease and associated non-lease components as a single arrangement. The Company has used this practical expedient.

Statement of cashflows

The statement of cashflows is prepared exclusive of GST, which is consistent with the method used in the statement of profit and loss. Overdraft is considered to be part of the Company's cash management, therefore, included in the cash flow statement.

Definition of terms used in the statement of cashflows

Operating activities include all transactions and other events that are not investing or financing activities.

Investing activities are those activities relating to the acquisition and disposal of current and non-current investments and any other non-current assets.

Financing activities are those activities relating to changes in the equity and debt capital structure of the Company and those activities relating to the cost of servicing the Company's equity.

12 Notes to the Financial Statements (Cont.)

Adoption of new revised standards and interpretations

New and amended IFRS Standards that are effective for the current year

In the current year, the Company has applied the below amendments to NZ IFRS Standards and Interpretations issued by the New Zealand Accounting Standards Board of the External Reporting Board that are effective for an annual period that begins on or after 1 January 2020. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

Amendments to References to the Conceptual Framework in IFRS Standards

The Company has adopted the amendments included in Amendments to References to the Conceptual Framework in NZ IFRS (the"Framework"), for the first time in the current year. The amendments include consequential amendments to affected Standards so that they refer to the new Framework. Not all amendments, however, update those pronouncements with regard to references to and quotes from the Framework so that they refer to the revised Conceptual Framework. Some pronouncements are only updated to indicate which version of the Framework they are referencing to or to indicate that definitions in the Standard have not been updated with the new definitions developed in the revised Conceptual Framework.

The Standards which are amended are NZ IFRS 2, NZ IFRS 3, NZ IFRS 6, NZ IFRS 14, NZ IAS 1, NZ IAS 8, NZ IAS 34, NZ IAS 37, NZ IAS 38, NZ IFRIC 12, NZ IFRIC 19, NZ IFRIC 20, NZ IFRIC 22 and NZ SIC 32.

Amendments to NZ IAS 1 and NZ IAS 8 definition of material.

The Company has adopted the amendments to NZ IAS 1 and NZ IAS 8 for the first time in the current year. The amendments make the definition of material in NZ IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in NZ IFRS RDR Standards. The concept of 'obscuring' material information with immaterial information has been included as part of the new definition.

The threshold for materiality influencing users has been changed from 'could influence' to 'could reasonably be expected to influence'.

The definition of material in NZ IAS 8 has been replaced by a reference to the definition of material in NZ IAS 1. In addition, the Board amended other Standards and the Conceptual Framework that contain a definition of 'material' or refer to the term 'material' to ensure consistency.

New and revised IFRS Standards in issue but not yet effective

The Directors do not expect that the adoption of the Standards issued but not effective will have a material impact on the financial statements of the Company in future periods.

12 Notes to the Financial Statements (Cont.)

2) Going concern

After reviewing internal management financial reports and budgets, the Directors believe the Company will continue to be a going concern in the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

3) Profit from operations

	2020 $	2019 $
(a) Revenue		
Trading revenue consisted of the following items:		
Sales of goods and services	21,506,147	17,316,806
	21,506,147	17,316,806

(b) Other income		
Other income from operations consisted of the following items:		
COVID-19 wage subsidy	323,262	–
Grants received	51,638	–
Settlement of Legal Claim	158,338	–
Interest	1	937
Miscellaneous income	2,708	–
	535,947	937
(c) Finance costs		
Interest on borrowings	443,024	357,245
Interest on lease liabilities	9,868	12,767
Less capitalised interest	(264,302)	(121,979)
	188,590	248,033

Interest costs that are directly attributable to the acquisition of property, plant and equipment have been capitalised at an average interest rate of 4.5% (2019: 4.6%).

(d) Other expense disclosures		
Net profit before taxation includes the following specific expenses:		
Directors' fees	55,000	56,665
Operating lease	146,712	82,742
Inventory written off (on)	(12,871)	330,988
Employee benefits expensed	3,321,322	2,491,844
KiwiSaver employer contributions	95,114	66,199

12 Notes to the Financial Statements (Cont.)

4) Income taxes

(a) Income tax recognised in profit or loss

The prima facie income tax expense on pre-tax accounting profit reconciles to the income tax expense in the financial statements as follows:

	2020 $	2019 $
Profit/(loss) before taxation	5,210,391	4,014,137
Income tax expense calculated at 28% (2019: 28%)	1,459,443	1,123,958
Non–deductible expenses	1,016	28,111
Prior period adjustments	3,524	643
Other	(126,070)	(118)
Tax expense	1,337,913	1,152,594
Recognised as:		
Current tax	1,314,679	1,089,502
Deferred tax	23,234	63,092
	1,337,913	1,152,594

(b) Income tax recognised in other comprehensive income or directly in equity

There was no current or deferred tax charged/(credited) directly to other comprehensive income or equity during the period.

(c) Current tax assets and liabilities

	2020 $	2019 $
Current tax assets:	–	–
Income tax refundable - current year	–	–
Current tax liabilities:		
Income tax payable - current year	1,314,678	1,263,395
Income tax payable - prior years	1,087,716	–
	2,402,394	1,263,395

12 Notes to the Financial Statements (Cont.)

(d) Deferred tax balances

Deferred tax assets/(liabilities) arise from the following:

2020	Opening Balance $	Charged to Income $	Closing Balance $
Property, plant and equipment	(738,363)	(30,312)	(768,675)
Employee entitlements	65,435	15,880	81,315
Provisions	20,249	(8,802)	11,447
	(652,679)	(23,234)	(675,913)

2019	Opening Balance $	Charged to Income $	Closing Balance $
Property, plant and equipment	(672,286)	(66,077)	(738,363)
Employee entitlements	63,650	1,785	65,435
Provisions	19,049	1,200	20,249
	(589,587)	(63,092)	(652,679)

(e) Imputation credit account balances

	2020 $	**2019** $
Balance at beginning of the year	2,434,844	1,350,425
Income tax paid	175,679	(5,294)
Income tax payable - current year	2,402,394	1,089,502
Income tax payable - prior year	(1,089,502)	–
Other adjustments	272	211
	3,923,687	2,434,844

12 Notes to the Financial Statements (Cont.)

5) Remuneration of auditors

	2020 $	2019 $
Audit of the financial statements	49,500	50,929
Other advisory services	–	–
	49,500	50,929

6) Key management personnel compensation

	2020 $	2019 $
Short-term employee benefits for Managing Director	317,454	288,554
Directors' fees	55,000	56,665
	372,454	345,219

There were no long term benefits, post employment benefits, termination benefits or share based payments.

Key management is defined as the Directors and including the Managing Director.

7) Trade and other receivables

	2020 $	2019 $
Trade receivable (i)	3,938,797	2,560,335
Other receivables	–	787
Goods and Services Tax receivable (payable)	444,473	(9,128)
	4,383,270	2,551,994

(i) The average credit period on sales of goods is 45 days from delivery.

The average age of these receivables at 31 December 2020 is 78 days (2019: 50 days). The expected credit losses are immaterial for both 2020 and 2019 as all material offshore receivables are insured.

8) Inventories

	2020 $	2019 $
Raw materials	1,808,293	893,922
Work in progress	762,649	341,010
Finished goods	756,991	617,366
	3,327,933	1,852,298

12 Notes to the Financial Statements (Cont.)

9) Accounts payable and accruals

	2020 $	2019 $
Accounts payable	1,741,610	906,990
Other payables and accruals	226,852	18,343
Employee entitlements	418,775	321,240
Total accounts payable and accruals	2,387,237	1,246,573

10) Borrowings

	2020 $	2019 $
Total borrowings at beginning of period	7,724,531	7,781,683
Accrued interest	–	12,205
Proceeds from borrowings during the year	3,960,000	475,488
Loans repaid during the year	(1,097,221)	(544,845)
Total borrowings at end of period	10,587,310	7,724,531
Borrowings repayable within one year at amortised cost		
Secured borrowings	1,005,120	749,150
Secured export trade finance	–	387,567
	1,005,120	1,136,717
Borrowings repayable after one year at amortised cost		
Secured borrowings	9,582,190	6,587,814
	9,582,190	6,587,814

The secured borrowings mature between 31 January 2024 and 19 May 2025, bear interest at a weighted average rate of 4.12% (2019: 4.60%) and are secured by a mortgage over the Company's land and buildings at Port Hills Road and Nuttall Drive, Christchurch and all property currently owned and acquired in the future during the borrowing terms.

The Company entered into an export trade finance facility on 4 June 2015. This is a revolving credit facility allowing the Company to fund up to $1,200,000 of its total debt in foreign currencies where favourable interest rates are available. This facility was not drawn against at 31 December 2020. The Company is in compliance with all bank covenants.

Letters of Credit

The Company has a Letter of Credit facility with Datacom Employer Services Limited securing the payment of wages and salaries to a maximum of $130,000 per pay period (2019: $95,000) and a further Letter of Credit facility with Polson Higgs Limited securing the payment of wages and salaries to a maximum of $20,000 per pay period (2019: $20,000).

Other Borrowings

The Company has bank overdraft facilities with BNZ with a limit of $1,750,000 (2019: $1,750,000). At balance date the Company had drawn down $1,385,369 of that facility (2019: $483,592).

All overdraft facilities drawn down as at 31 December 2020, relate to the development of property, plant and equipment and thus have been considered as part of total borrowings.

The Company operates credit card accounts, mainly for traveling expenses, with a combined credit limit of $59,500.

12 Notes to the Financial Statements (Cont.)

11) Property, Plant and Equipment

2020	Cost 1 Jan 2020 $	Additions $	Additions of Right of Use Asset in 2020 $	Transfers from work in progress $	Cost 31 Dec 2020 $	Accumulated depreciation 1 Jan 2020 $	Depreciation on all other Fixed Assets $	Depreciation on Right of Use Assets $	Accumulated depreciation 31 Dec 2020 $	Book value 31 Dec 2020 $
Land	1,911,004	171,902	–	–	2,082,906	–	–	–	–	2,082,906
Buildings	9,034,350	267,367	457,283	835,476	10,594,476	(1,201,116)	(330,793)	(143,879)	(1,675,788)	8,918,688
Plant and machinery	12,975,900	721,902	–	1,663,822	15,361,624	(4,876,366)	(776,349)	(18,912)	(5,671,627)	9,689,997
Motor vehicles	7,817	–	–	–	7,817	(3,618)	(1,117)	–	(4,735)	3,082
Furniture, fixtures, fittings	174,752	102,031	–	–	276,783	(143,223)	(20,793)	–	(164,016)	112,767
Construction in progress	5,066,025	5,654,068	–	(2,499,298)	8,220,795	–	–	–	–	8,220,795
Total property, plant and equipment	29,169,848	6,917,270	457,283	–	36,544,401	(6,224,323)	(1,129,052)	(162,791)	(7,516,166)	29,028,235

2019	Cost 1 Jan 2019 $	Additions $	Recognition of Right of Use Asset in 2019 $	Transfers from work in progress $	Cost 31 Dec 2019 $	Accumulated depreciation 1 Jan 2019 $	Depreciation on all other fixed assets $	Depreciation on right of use assets $	Accumulated depreciation 31 Dec 2019 $	Book value 31 Dec 2019 $
Land	1,911,004	–	–	–	1,911,004	–	–	–	–	1,911,004
Buildings	8,386,016	331,094	276,355	40,885	9,034,350	(760,567)	(313,002)	(127,547)	(1,201,116)	7,833,234
Plant and machinery	12,509,599	411,355	54,165	781	12,975,900	(4,164,693)	(692,761)	(18,912)	(4,876,366)	8,099,534
Motor vehicles	7,817	–	–	–	7,817	(2,501)	(1,117)	–	(3,618)	4,199
Furniture, fixtures, fittings	165,667	9,085	–	–	174,752	(126,573)	(16,650)	–	(143,223)	31,529
Construction in progress	1,184,763	3,922,928	–	(41,666)	5,066,025	–	–	–	–	5,066,025
Total property, plant and equipment	24,164,866	4,674,462	330,520	–	29,169,848	(5,054,334)	(1,023,530)	(146,459)	(6,224,323)	22,945,525

No impairment losses were recorded in 2020 or 2019.

The book value of the building right of use lease assets at 31 December 2020 is $462,210 (2019: $148,806) and the book value of plant and machinery right of use lease assets at 31 December 2020 is $16,343 (2019: $35,255).

12 Notes to the Financial Statements (Cont.)

12) Intangible assets

Intangible assets of the Company comprise of internally generated patents and licences. At 31 December 2020 all such expenditure incurred related to projects that were still in progress at that date. Management is certain that all projects will receive appropriate approval and future economic benefits will be generated and flow to the Company.

2020	Progress costs for patents with finite useful life	Progress costs for trademarks and licences	Total
Cost	**$**	**$**	**$**
Balance at beginning of the year	75,991	238,686	314,677
Additions	138,840	93,072	231,912
Balance at end of the year	214,831	331,758	546,589
Amortisation and impairment			
Balance at beginning of the year	–	–	–
Amortisation	–	(14,575)	(14,575)
Impairment	–	(24,651)	(24,651)
Balance at end of the year	–	(39,226)	(39,226)
Net balance of intangibles after amortisation and impairment	214,831	292,532	507,363

2019	Progress costs for Patents with finite useful life	Progress costs for Trademarks and Licences	Total
Cost	**$**	**$**	**$**
Balance at beginning of the year	5,285	132,920	138,205
Additions	70,706	105,766	176,472
Balance at end of the year	75,991	238,686	314,677
Amortisation and impairment			
Balance at beginning of the year	–	–	–
Amortisation	–	–	–
Impairment	–	–	–
Balance at end of the year	–	–	–
Net balance of intangibles after amortisation and impairment	75,991	238,686	314,677

12 Notes to the Financial Statements (Cont.)

13) Share capital

	2020 No. of Shares	2020 $	2019 No. of Shares	2019 $
Balance at beginning of the year	218,769,344	12,063,805	218,769,344	12,063,805
Balance at end of the year	218,769,344	12,063,805	218,769,344	12,063,805

All shares are fully paid ordinary shares and carry equal voting rights. All shares participate equally in any dividend.

	2020 Cents/Share	2019 Cents/Share
Basic and diluted earnings per share	1.77	1.31

The earnings and weighted average number of ordinary shares used in the calculation of basic and diluted earnings per share are as follows:

	2020 $	2019 $
Net profit/(loss) after tax	3,872,478	2,861,543
Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share:	218,769,344	218,769,344

12 Notes to the Financial Statements (Cont.)

14) Retained earnings

	2020 $	2019 $
Balance at beginning of the year	4,227,574	1,366,031
Total comprehensive income/(loss) for the year	3,872,478	2,861,543
	8,100,052	4,227,574

15) Related party transactions

There were no related parties, including Directors, that have a significant influence which provided and or received services and or supplies to or from the Company during the period, other than the Directors' remuneration and other key management personnel compensation set out in Note 6.

16) Commitments for expenditure

(a) Capital expenditure commitments

The Company has committed to construction contracts as part of its programme for broadening and expanding its production capacity. The expenditure committed to, but not yet incurred, as at 31 December 2020 is $1,533,000 (2019: $164,990).

(b) Operating lease commitments

The Company leases low value items of office equipment in the normal course of business. There were no restrictions imposed by lease arrangements for those assets. There are no sub-lease payments expected to be received at the end of the reporting period.

	2020 $	2019 $
Not later than one year	14,561	11,417
Later than one year but not later than two years	8,162	8,364
Later than two years but not later than five years	–	10,586
Later than five years	–	–
	22,723	30,367

17) Contingent assets and liabilities

There are no contingent liabilities as at 31 December 2020 (2019: $Nil).

18) Subsequent events

On 15 January 2021 the Company announced the issue to Cibus Oscar Limited of 35 million Redeemable Convertible Preference Shares (RCPS) and 10 million options to apply for RCPS. The RCPS were issued at a price of 40 cents and the options at a price starting at 40 cents and rising to 45 cents over the life of the option. The shares would participate in any dividends declared in the same ratio as ordinary shares. In the absence of any dilution events, each redeemable preference share converts into one ordinary share. The RCPS retain the right of conversion for a maximum of seven years while the options lapse after three years. If the Company defaults under a number of covenants (which are under the control of the Company) then the RCPS can be redeemed at the market value of the ordinary shares which would be issued on conversion. The Company will use this additional funding for expansion of its operations including building a new factory and purchase of land at

12 Notes to the Financial Statements (Cont.)

a site in Rolleston in Canterbury. The Company is currently considering accounting implications for the financial statements for the treatment of these RCPS for the year ending 31 December 2021. There have been no other material events requiring reporting since balance date.

19) Segment information

Products and services from which reportable segments derive their revenues

The Company operates in one industry, being the manufacture and sale of advanced human and animal nutritional ingredients from New Zealand. Raw materials may be of animal, marine or plant origin but the manufacturing process is largely the same with the same plant and equipment being used irrespective of the origin of the raw materials.

The regulatory environment for the Company's products varies in different markets. The Company generally manufactures to specifications and standards that meet the most stringent regulations in order to obtain the greatest flexibility in terms of the market for the product. Marketing initiatives target the global market without specific focus on location.

Segment revenues and results

As there is only one reportable segment for the Company the segment profit or loss represents profit or loss earned for the Company after all costs including administration costs, Directors' salaries, investment revenue, finance costs and income tax expenses. This is the measure reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance.

Information about major customers

Included in total revenue are revenues which arose from sales to the Company's largest customers as follows:

31 December 2020

There were two customers that each comprised more than 10% of total revenue with total sales of $13,180,439 to these customers.

31 December 2019

There were two customers that each comprised more than 10% of total revenue with total sales of $9,280,250 to these customers.

12 Notes to the Financial Statements (Cont.)

20) Notes to the Cash Flow statement

	2020 $	2019 $
Reconciliation of net profit/(loss) after taxation with net cash flows from operating activities		
Net profit/(loss) for the year	3,872,478	2,861,543
Adjustments for non–cash items:		
Depreciation on property, plant and equipment and amortisation on intangibles	1,306,419	1,169,989
Write off inventory	(12,871)	330,988
Movement in deferred taxation	23,234	63,092
Interest capitalised	(264,302)	(121,979)
	1,052,480	1,442,090
Movements in working capital:		
Accounts receivable and prepayments	(2,230,493)	(322,954)
Inventories	(1,462,764)	(712,688)
Employee entitlements	97,535	(30,698)
Current tax payable	1,139,000	1,094,796
Accounts payable and accruals	1,051,252	11,765
Movements related to capital expenditure financing	–	(60,531)
	(1,405,470)	(20,310)
Net cash inflow/(outflow) from operating activities:	3,519,488	4,283,323

21) Financial instruments

All of the Company's financial assets are measured at amortised cost.

All of the Company's financial liabilities are measured at amortised cost.

(a) Financial risk management objectives

Exposure to credit, interest rate, foreign currency and liquidity risks arises in the normal course of the Company's business.

The Company does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes. Specific risk management objectives and policies are set out below:

(b) Capital risk management

The Company manages its capital to ensure that the Company will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Company consists of debt (Note 10), cash, cash equivalents, including the overdraft and equity; comprising issued capital and retained earnings as disclosed in Notes 13 and 14 respectively.

12 Notes to the Financial Statements (Cont.)

The Company's Board of Directors reviews the capital structure on a regular basis. The Company is in compliance with all externally imposed capital requirements in the form of covenant requirements on external borrowings. These covenants relate to tangible asset ratios and earnings before interest and tax cover ratios.

The Company's overall strategy remains unchanged from 2019.

(c) Market risk

Market risk is the potential for change in the value of balance sheet positions caused by a change in the value, volatility or relationship between market risks and prices. Market risk arises from the mismatch between assets and liabilities. The Company's activities expose it primarily to market risk associated with changes in foreign currency rates and interest rates as set out below. The mechanisms to manage these risks are set out below. There have been no changes during the year to the Company's exposure to risk or the manner in which the risks are measured and managed.

(d) Interest rate risk

The Company is exposed to interest rate risk as from time to time it borrows funds at floating interest rates.

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. Investments at fixed interest rates expose the Company to fair value interest rate risk. The Company does not hedge this risk.

Cash flow interest rate risk is the risk that the cash flows from a financial instrument will fluctuate because of changes in market interest rates. Borrowings issued at variable interest rates expose the Company to cash flow interest rate risk. The Company does not hedge this risk.

The Company's exposure to interest rates on financial assets and financial liabilities is detailed in the liquidity risk management section of this note.

(e) Foreign exchange risk

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

In the course of normal trading activities, the Company undertakes transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise.

There were no foreign currency hedge instruments in place for this purpose at 31 December 2020 (2019: $Nil).

The carrying amount of the Company's foreign currency denominated monetary assets and monetary liabilities at the balance date are as follows:

	Liabilities		Assets	
	2020	**2019**	**2020**	**2019**
	$	$	$	$
Euro	–	164,253	797,125	163,133
United States Dollar	–	223,314	2,544,389	1,496,934
Australian Dollar	–	–	47,438	9,519
Japanese Yen	1,616	–	–	812
	1,616	387,567	3,388,951	1,670,398

The table expresses the foreign currency amounts in New Zealand dollar equivalents using the exchange rate at 31 December 2020 and 31 December 2019.

12 Notes to the Financial Statements (Cont.)

(f) Other price risk

The Company is not exposed to substantial other price risk arising from financial instruments.

(g) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. Financial instruments which potentially subject the Company to credit risk principally consist of bank balances and accounts receivable. The Company has adopted a policy which is used to manage this exposure to credit risk. As part of this policy, limits on exposures with counterparties are monitored on a regular basis.

The Company does not have any significant credit risk exposure to any single counterparty or group of counterparties having similar characteristics, except that all cash deposit balances are held with the BNZ and that in 2020 the Company's four largest customers accounted for 71% of total revenue (2019: 67%) and 51% of total accounts receivable (2019: 73%).

The maximum exposures to credit risk at balance date are:

	2020	**2019**
	$	$
Cash and cash equivalents	328,910	68,556
Accounts receivable	3,826,128	2,551,994
	4,155,038	2,620,550

In assessing the Company's exposure to credit risk it has applied the NZ IFRS 9 simplified approach to measuring expected credit losses. This requires an assessment of the risk characteristics applying to all trade receivables and where applicable, grouping them based on those characteristics and the days past due.

The nature of the Company's business, the markets in which it operates and its credit policies means that credit losses are irregular, however could be significant if they occur. For that reason the Company carries insurance against credit losses in its export markets.

12 Notes to the Financial Statements (Cont.)

(h) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Board of Directors, who have built an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities using interest rates applying at year end.

The maturity profiles of the Company's interest bearing investments and borrowings are disclosed later in this note.

Liquidity and interest risk tables

The following tables detail the Company's remaining contractual maturity for its non-derivative financial assets and financial liabilities. The tables have been drawn up based on the undiscounted contractual maturities of the financial assets and financial liabilities including interest that will accrue to those assets or liabilities.

2020	Weighted Average Effective Interest Rate %	Less than 1 Year $	1–2 Years $	3–5 Years $	Later than 5 years $	Total $
Financial assets:						
Cash and short term deposits	–	328,910	–	–	–	328,910
Accounts receivable	–	3,938,797	–	–	–	3,938,797
Financial liabilities:						
Bank Overdraft	4.60%	1,385,369	–	–	–	1,385,369
Accounts payable	–	1,961,151	–	–	–	1,961,151
Secured borrowings (including interest)	4.12%			10,587,310	–	10,587,310
Lease liabilities	3.70%	98,446	61,185	197,323	125,323	482,276
Net position		822,741	(61,185)	(10,784,633)	(125,323)	(10,148,400)

2019	Weighted Average Effective Interest Rate %	Less than 1 Year $	1–2 Years $	3–5 Years $	Later than 5 years $	Total $
Financial assets:						
Cash and short term deposits	–	68,556	–	–	–	68,556
Accounts receivable	–	2,561,122	–	–	–	2,561,122
Financial liabilities:						
Bank Overdraft	5.71%	483,592	–	–	–	483,592
Accounts payable	–	925,333	–	–	–	925,333
Secured borrowings (including interest)	4.60%	1,068,508	651,600	6,819,236	–	8,539,344
Secured export trade finance	2.53%	387,567	–	–	–	387,567
Lease liabilities	4.80%	149,035	38,224	1,196		188,455
Net position		(384,357)	(689,824)	(6,820,432)	–	(7,894,613)

12 Notes to the Financial Statements (Cont.)

(i) Sensitivity

The Company is exposed to foreign currency risk arising from transactions denominated in currencies other than the Company's functional currency, arising from normal trading activities.

The majority of foreign currency related exposure relates to accounts receivable, mitigated for some foreign receivables by amounts owing under the Export Trade Finance facility. For any foreign receivables financed by the Export Trade Finance facility any unfavourable movements in foreign exchange rates will be offset by a favourable movement in amounts repayable under that facility. The Company is mainly exposed to the Euro, United States Dollar, Japanese Yen and Australian Dollar.

The exchange rates adopted in converting foreign currency denominated assets and liabilities at 31 December 2020 were as follows:

	2020	**2019**
Euro	0.5880	0.6000
United States Dollar	0.7184	0.6600
Australian Dollar	0.9340	0.9600
Japanese Yen	74.2000	72.0000

Foreign currency exchange rate sensitivity is calculated at balance date assuming that the bank balances and accounts receivable balances denominated in foreign currencies had been converted to New Zealand dollars at rates above.

If exchange rates had been 10% higher/lower at balance date and all other variables held constant, the Company's:

- Profit for the 2020 year would decrease/increase by $221,716 (2019: Profit decrease/increase by $109,335);
- Equity for the 2020 year would decrease/increase by $221,716 (2019: Equity decrease/increase by $109,335).

The Company is exposed to interest rate risk arising from unhedged floating rate liabilities at balance date. The sensitivity analysis below has been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the reporting date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at reporting date was outstanding for the whole year. A 1% increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. Impact on net profit after tax and equity, assumes that none of the floating interest rate borrowings were hedged.

	2020		**2019**	
	1%	–1%	1%	–1%
Impact on net profit after tax, and equity	(86,203)	86,203	(52,425)	52,425

(j) Fair Value of Financial Instruments

The Directors consider that the carrying amount of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values.

13 Statement of Corporate Governance

The Directors are responsible for the Corporate Governance of the Company. The Corporate Governance processes set out in this statement outline the governance policies and practices followed by the Company.

Financial statements

The Directors are responsible for ensuring the financial statements materially reflect the financial position of the Company as at 31 December 2020 and its financial performance and cash flows for the year ended on that date. The external auditors are responsible for expressing an opinion on the financial statements, based on their assessment of the conclusions drawn from evidence obtained during the course of the audit.

The Directors consider that the financial statements of the Company have been prepared using appropriate accounting policies, consistently applied and supported by reasonable judgements and estimates and that all relevant financial reporting and accounting standards have been followed.

The Directors believe that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the Company and facilitate compliance of the financial statements with the Financial Reporting Act 2013 and the Financial Markets Conduct Act 2013.

After reviewing internal management financial reports and budgets, the Directors believe that the Company will continue to be a going concern in the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Board of Directors

The Board of Directors of PharmaZen Limited is elected by the shareholders to supervise the management of the Company. The Board establishes the Company's objectives, strategies for achieving these objectives, the overall policy framework within which the business of the Company is conducted, monitors management's performance and ensures that procedures are in place to provide effective internal financial control. The day-to-day management responsibilities of the Company have been delegated to the Managing Director.

The Directors have a diverse range of expertise and experience, and are committed to use this to benefit the Company.

The primary responsibilities of the board include:

- The approval of the annual financial report;
- The establishment of the long term goals of the Company and strategic plans to achieve those goals;
- Succession planning for the Managing Director and the Board;
- The review and adoption of annual budgets for the financial performance of the Company and monitoring the results on a regular basis;
- Monitoring environmental, social and economical performance;
- Ensuring that the Company has implemented adequate systems of internal controls including internal financial controls together with appropriate monitoring of compliance activities;
- Ensuring legislative compliance;
- Monitoring executive management;
- Communicating with stakeholders.

Board membership

The Board currently comprises four non-executive Directors including the Chairman. Three formal Board meetings and monthly operational meetings were held during the financial year.

Code of conduct

As part of the Board's commitment to the highest standard of conduct, the Company adopts a code of conduct as part of a Directors' Operations Manual to guide Directors and management in carrying out their duties and responsibilities.

The Directors' Operations Manual covers such matters as:

- Corporate governance matters;
- Role of the Board and Composition of the Board;
- Director responsibilities;
- Appointment of, responsibilities of and remuneration of a Managing Director;
- Confidentiality and the safeguarding of Company information;
- Compliance with laws and regulations;
- Shareholder participation.

Newly elected Directors are required to familiarise themselves with and comply with the Directors' Operations Manual.

Training is also provided to new and existing Directors, where this is required to enable Directors to fulfil their responsibilities.

Conflicts of interest

All Directors must disclose any specific and general interests which could be in conflict with their obligations to PharmaZen Limited.

Sub committees

There were no sub committees in operation in the 2020 year. Rather, the full Board is involved in the Director nomination process, liaison with the Company's external auditors and other corporate financial matters.

The Directors' Operations Manual sets out a written charter in relation to:

- Appointment of external auditors
- Monitoring the external audit of the Company's affairs
- Reviewing the annual financial statements
- Reviewing the Company's internal controls and systems

The Board receives reports from the external auditors concerning any matters which arise in connection with the performance of their role. The full Board also monitors the independence of the external auditors and reviews and approves any services provided by the auditors other than in their statutory role.

14 Independent Auditor's Report

Deloitte.

To the Shareholders of PharmaZen Limited

Opinion

We have audited the financial statements of PharmaZen Limited (the 'Company'), which comprise the statement of financial position as at 31 December 2020, and the statement of profit and loss, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements, on pages 10 to 34, present fairly, in all material respects, the financial position of the Company as at 31 December 2020, and its financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards ('NZ IFRS') and International Financial Reporting Standards ('IFRS').

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ('ISAs') and International Standards on Auditing (New Zealand) ('ISAs (NZ)'). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Company in accordance with Professional and Ethical Standard 1 International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Other than in our capacity as auditor, we have no relationship with or interests in the Company, except that partners and employees of our firm deal with the Company on normal terms within the ordinary course of trading activities of the business of the Company.

Materiality

We consider materiality primarily in terms of the magnitude of misstatement in the financial statements of the Company that in our judgement would make it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced (the 'quantitative' materiality). In addition, we also assess whether other matters that come to our attention during the audit would in our judgement change or influence the decisions of such a person (the 'qualitative' materiality). We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined materiality for the Company's financial statements as a whole to be $348,000.

Key audit matters

We have determined that there are no key audit matters to communicate in our report.

14 Independent Auditor's Report (Cont.)

Other information

The directors are responsible on behalf of the Company for the other information. The other information comprises the information in the Annual Report that accompanies the financial statements and the audit report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and consider whether it is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If so, we are required to report that fact. We have nothing to report in this regard.

Directors' responsibilities for the financial statements

The directors are responsible on behalf of the Company for the preparation and fair presentation of the financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether e to fraud or error.

In preparing the financial statements, the directors are responsible on behalf of the Company for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and ISAs (NZ) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the External Reporting Board's website at:

https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-2

This description forms part of our auditor's report.

Restriction on use

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

Deloitte Limited

Mike Hoshek, Partner
for Deloitte Limited
Christchurch, New Zealand
22 April 2021

PharmaZen

Good Health Healthy Future

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