



**2013 ANNUAL REPORT**  
BLIS TECHNOLOGIES LIMITED

# ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED 31 MARCH 2013

## CONTENTS

Company Directory	2
Operations Report	3
Directors' Report	12
Directors' Responsibility Statement	14
Income Statement	15
Statement of Comprehensive Income	16
Statement of Changes in Equity	16
Balance Sheet	17
Statement of Cashflows	18
Notes to the Financial Statements	19
Statement of Corporate Governance	45
Additional Stock Exchange Information	48
Audit Report	52

## COMPANY DIRECTORY

AS AT 31 MARCH 2013

<b>Company Number</b>	DN/1042367
<b>Issued Capital</b>	669,593,903 Ordinary Shares
<b>Registered Office</b>	<b>BLIS Technologies Limited</b> Level 1, 87 St David Street Dunedin 9016
<b>Shareholders</b>	Listed on the New Zealand Stock Exchange Main Board
<b>Share Registrar</b>	<b>Link Market Services Limited</b> PO Box 384 Ashburton
<b>Directors</b>	<b>P F Fennessy (Chairman)</b> <b>C E Dawson</b> <b>A P Offen</b> <b>M G Shepherd (resigned 1/8/12)</b> <b>B H Wallace</b> <b>A J McKenzie (appointed 1/8/12)</b>
<b>Chief Executive:</b>	<b>B C Richardson</b>
<b>Auditors</b>	<b>Deloitte</b> PO Box 1245 Dunedin
<b>Bankers</b>	<b>Bank of New Zealand</b> Dunedin  <b>Westpac Banking Corporation</b> Dunedin
<b>Solicitors</b>	<b>Anderson Lloyd</b> PO Box 1959 Dunedin 9054
<b>Website</b>	<a href="http://www.blis.co.nz">www.blis.co.nz</a>
<b>Facebook</b>	<a href="https://www.facebook.com/BLISTechnologiesLtd?ref=ts">https://www.facebook.com/BLISTechnologiesLtd?ref=ts</a> BLIS Technologies Limited

# OPERATIONS REPORT

FOR THE YEAR ENDED 31 MARCH 2013

## FINANCE

	Group FY 2013 \$000	Group FY 2012 \$000	Change \$000
<b>Revenue</b>			
New Zealand	672	546	126
United States of America	104	676	(572)
Asia and Europe	217	52	165
Australia	103	129	(26)
Other	25	64	(39)
<b>Trading revenue</b>	<b>1,121</b>	<b>1,467</b>	<b>(346)</b>
Other revenue	40	43	(3)
<b>Total Revenue</b>	<b>1,161</b>	<b>1,510</b>	<b>(349)</b>
<i>Net Deficit before depreciation, amortisation, capitalisation of costs, finance and tax</i>	<i>(1,693)</i>	<i>(1,340)</i>	<i>(353)</i>
Depreciation and amortisation of assets	(536)	(414)	(122)
Capitalisation of Development & Patent costs	431	516	(85)
<b>Finance costs</b>			
Amortisation of transaction costs for Convertible Preference Shares	(16)	(121)	105
Dividend – Convertible Preference Shares	(42)	(400)	358
<b>Net Deficit</b>	<b>(1,856)</b>	<b>(1,759)</b>	<b>97</b>

The Group recorded a net deficit of \$1,856k (2012:\$1,759) in line with the revised guidance provided by Directors in February 2013. The deficit was substantially in excess of preliminary guidance provided in March 2012 being for an \$800k operating deficit with the guidance being revised in August 2012 to an operating deficit of \$1,300k.

The shortfall from initial expectations leading to the revised guidance in August reflected suspension of a major product launch by a United States formulator, deferral of the launch of products into the Chinese market and a review of supply chain requirements by our distributor Stratum Nutrition. The full year result was further affected by the poor performance of the Gourmet Ice Cream operations of BLIS Functional Foods (BFF) ultimately leading to a decision in February to restructure operations with the cessation of ice-cream production together with a review of depreciation associated with relocation of the operations of Group operations to the original BFF site.

Following the decision by shareholders to maintain an NZX listing, Directors fees were reinstated and a Small Shareholding Plan initiated.

## Revenues

The Group's trading revenue decreased from \$1,467k to \$1,121k. The latter included a full years trading from BLIS Functional Foods.

As noted above, the key reason for this reduction was a review of supply chain requirements by Stratum Nutrition compounded by the suspension of a United States formulator's major product launch. Stratum Nutrition had purchased a significant volume of ingredients at the end of previous financial year (March 2012) and as a consequence of slower than expected conversion to sales, they supplied the United States market from inventory through much of the year. However, Stratum Nutrition did make better than expected progress in Europe and Asia which resulted in this segment recording a \$165k improvement in revenue against the previous year.

Much of the 23% increase in NZ sales was due to a full 12 months of trading by BFF of \$408k (2012: \$279k from 8 months of trading). New Zealand revenue (exclusive of BFF) decreased slightly (\$264k compared with \$267 in 2012).

## OPERATIONS REPORT *continued*

FOR THE YEAR ENDED 31 MARCH 2013

Australian sales declined by \$26k. Other revenue (internet sales) also increased.

No licensing income was earned during the year.

### Costs

The Group maintained a disciplined approach to containment of operating costs implementing a number of cost saving measures associated with production and overheads.

The ice-cream manufacturing operations of BLIS Functional Foods were not sustainable in the face of substantial capital expenditure required to achieve competitive operating costs. A decision was therefore taken to cease operations.

As a result of ceasing operations, the Group was faced with one-off costs totalling \$159k including, writing-off of goodwill and writing down of some of the assets that were transferred to the Parent Company. The Parent Company itself made a provision of \$478k against an advance made to BFF. Associated restructuring and relocation of remaining Group operations is budgeted to reduce operating costs although some capital expenditures will necessarily be incurred.

Aggregate costs capitalised to Development, Patent and the Website reduced to \$454k (2012: \$526k), while depreciation and amortisation increased by \$122k to \$536k.

### Cash flows

	FY 2013 \$000	FY 2012 \$000	Change \$000
<b>Operating Activities</b>			
Group Net cash outflow before payment of dividend on Convertible Preference Shares	(627)	(1,358)	731
Payment of Dividend	(26)	(400)	374
Net cash outflow from Operating Activities	(653)	(1,758)	1,105
<b>Investing Activities</b>			
Acquisition of business	0	(225)	225
Capital Expenditure (net)	(467)	(522)	55
Net Cash Outflows from Investing Activities	(467)	(747)	280
<b>Financing Activities</b>			
Issue of Ordinary Shares during the year	1,314	1,551	(237)
Net cash Inflows from Financing Activities	1,314	1,551	(237)
Bank Balance 31/03/2013	759	565	194

The Group recorded a Net Cash Outflow from Operating Activities of \$653k (2012: \$1,758k) an improvement in the Operating Cash Outflow of \$1,105k. The improvement reflects two items in particular being the accounting treatment of the Dividend on Preference Shares which converted to Ordinary Shares during the financial year and the receipt shortly after the March 2012 balance date of \$569k from a customer for amounts owing as at 31 March 2012.

Investment activities were kept to a minimum. No acquisitions were made (2012: \$225k) while the reduction in capital expenditure reflects lower capitalisation

of Development and Patent Costs. Minor assets surplus to operations following the cessation of the activities of BLIS Functional Foods have yet to be realised.

During the year, the Company raised \$1,314k (2012:\$1,551k) through a Share Purchase Plan and associated Placement.

The net cash flows resulted in an increase of \$194k to the cash balances held as at 31 March to \$759k (2012: \$565k).

## OPERATIONS REPORT *continued*

FOR THE YEAR ENDED 31 MARCH 2013

### Capital

#### *Preference shares Final Dividend and Conversion*

BLIS satisfied the final dividend distribution of \$200,000 (gross) payable in respect of the Cumulative Preference Shares on 8 May 2012 by issuing further Ordinary Shares. After meeting associated withholding tax obligations, a further 12,990,194 Ordinary Shares were issued by the Company for satisfaction of the dividend pursuant to the conversion terms of the Cumulative Preference Shares as set out in the 30 March 2009 Prospectus under which they were issued.

Pursuant to the Prospectus terms, the Company (on 8 May 2012) also converted all of the Cumulative Preference Shares which it had on issue into a further 298,062,787 Ordinary Shares.

The 311,052,981 Ordinary Shares issued under the conversion and dividend for a total of \$4,174,324 rank equally with all other Ordinary Shares on issue in the Company.

Under the Prospectus, the number of Ordinary Shares issued in satisfaction of the final dividend on and the conversion of the Cumulative Preference Shares was fixed at 95% of the prevailing Ordinary Share price over the 20 business days prior to conversion, being \$0.01342 per Ordinary Share.

On 11 May 2012, the independent Directors of the Company advised that they had written to both the NZX and the Financial Markets Authority seeking assurances that certain trading of Ordinary Shares in BTL that occurred during the period in which the share price under the terms of conversion of the cumulative preference shares was determined did not breach NZX rules and/or relevant securities legislation. The NZX Market Supervision immediately confirmed that it had commenced an enquiry. The Financial Markets Authority is also considering the matter. As at the date of this report, neither NZX Market Supervision nor the Financial Markets Authority has advised the Company of any formal concerns regarding the trading.

#### *Treasury Stock*

On 9 May 2012, the Company cancelled 5,000,000 Ordinary Shares which it held as treasury stock.

#### *Share Purchase Plan and Private Placement*

The Company initiated a Share Purchase Plan and Private Placement of shares in September 2012. The funds were sought to maintain the Company's core competencies, support the launch of K12 ice cream and M18 dietary supplements in New Zealand and to continue with the execution of its branded ingredients strategy for advanced probiotics internationally. On 25 October, 101,285,696 shares were issued pursuant to the Share Purchase Plan

and 86,428,571 shares were issued pursuant to the Private Placement. All shares were issued at the same price being \$0.007 per share raising \$1,314,000. These shares rank equally with all other Ordinary Shares on issue in the Company.

#### *Requirement for further capital*

At the time of the Share Purchase Plan and Placement in September 2012, the Company signaled that supplementary funds would likely be required in the 2014 financial year. The assessment was based on the outcome of an external strategic and financial review and on operating expectations at the time. Subsequent operating performance has not met expectations and, as a result, the Company will need further capital in order to fund the execution of its business strategy.

For the Company to offset an anticipated near term operating deficit and to meet its capital expenditure and working capital requirements thereby remaining a going concern, the Directors consider at least \$1 million in new equity will be required.

The Company has initiated plans to raise such further capital and the expectations of Directors are that a minimum \$1 million in new equity can be raised in support of the business strategy.

#### *Small Shareholding Plan*

On 21 December, a Small Shareholding Plan was announced to facilitate the transfer of holdings of less than 25,000 shares. First NZ Capital Securities Limited is currently facilitating the sale of shares pursuant to the Plan subject to NZX participant rules. Upon completion of the associated transactions the Company, through its share registrar LINK Market Services, will account to individual shareholders that have had shares transferred pursuant to the Plan.

### COMMERCIALISATION PROGRESS

The operating performance of the Company continued to disappoint in 2013.

Our expectations were for significant growth in ingredient sales into the nutraceutical sector but in the absence of the launch of new products on any significant scale, there was not the anticipated lift in demand for ingredients, a factor that was further exacerbated by changes in supply chain arrangements of our new distributor Stratum Nutrition ([www.stratumnutrition.com](http://www.stratumnutrition.com)), a subsidiary of Novus Nutrition Brands. The result was a significant decline in our ingredient sales as Stratum Nutrition largely met ingredient demand from inventory they had acquired from BLIS in our 2012 financial year. However, significant progress was made during the year, both in conjunction with Stratum Nutrition

## OPERATIONS REPORT *continued*

FOR THE YEAR ENDED 31 MARCH 2013

and in separate dealings, in advancing the plans of product formulators and distributors to launch products containing BLIS ingredients in major international markets. As a consequence, we anticipate ingredient sales to increase materially although we do not anticipate significant sales into the food ingredient sector in 2014.

Our strategy to support ingredient sales by exemplar in-market consumer products and food applications produced mixed results in 2013. Despite enabling critical proof of concept for delivery of our ingredients in ice-cream and yoghurt formulations, the operation of BLIS Functional Foods was not on a commercial scale and would have continued to run an operating deficit absent substantial new investment; therefore operations ceased in February 2013. In contrast, investment in developing web-based delivery of our consumer products has proved successful with an immediate financial return along with development of a sound platform through which to educate formulators and consumers of the benefits of BLIS-based products.

BLIS Technologies has continued to make significant progress in facilitating the commercialisation of its probiotic offerings particularly in the regulatory and market development areas. The company has also made significant progress in terms of Intellectual Property protection through further advancing our overall patent portfolio. Documentation for product support in market including ingredient delivery systems continues as an important endeavour. Affirmation of progress and the underlying scientific support for claims associated with our proprietary probiotics is reflected in peer recognition and independent commissioning of clinical studies, scientific publications and an increasing number of global research collaborations. These are solid achievements for a small company with limited resources but now need to be reflected in revenue.

The focus for the Company remains the need to build immediate sales in conjunction with our global partner Novus Nutrition Brands and to achieve meaningful sales in China. This can only be achieved on the basis of communication to, and education of, product formulators and ultimately the consumer on the benefits of BLIS oral probiotics. Execution has proved frustratingly difficult and now is being supported by developing other revenue streams, notably those based on finished retail products and nutritional formulations with additional healthcare benefits.

### **BUSINESS DEVELOPMENT STRATEGY**

BLIS Technologies Ltd is a biotechnology company whose principal focus is the execution of a global branded probiotic ingredient strategy supported by exemplar in-market consumer products and food applications.

The business development strategy is based on five primary platforms:

1. Building dietary and food ingredient sales in North America, Asia and Europe (with NNB), and in China with our Chinese partner.
2. Developing exemplar in-market products - consumer products and nutritional formulations.
3. Building finished product sales through web marketing and partnerships.
4. Developing long-term strategic partnerships with companies that have significant regional and global reach.
5. Obtaining regulatory approval and intellectual property protection in defined markets.

The Company is also exploring additional strategic opportunities in food and finished product applications as well as personal care and animal health applications by developing long-term strategic partnerships. Since they represent a diversion away from its core business, the personal and animal health applications are considered more strategic in nature at this stage and these developments, while important, currently have a lower priority.

### **Strategy 1: Building Ingredient Sales**

Our partnership with Novus Nutrition Brands Inc (Stratum Nutrition) is the core of ingredient sales. NNB has chosen to keep a narrow focus on the ingredients that it offers to the market, preferring instead to represent the best examples within a category. The BLT ingredients marketed by NNB include BLIS K12™ and BLIS M18™ with options on future BLIS probiotics. It is anticipated that developments in probiotics could be extended to include relevant products for companion animals.

The NNB business strategy in the US is based on working closely with major dietary supplement manufacturers and a number of consumer product manufacturers, multi-level marketers and companies in the professional channel in key markets. In Europe, the strategy is targeted to specific companies able to penetrate the market in specific target applications. In the US we are endeavouring to get closer to the end-consumer through education and a consumer-focused website that is dedicated entirely to the branded ingredient, BLIS K12™ ([www.blisk12.com](http://www.blisk12.com)).

Much of the international focus is on ingredient sales, but the Company has found that the investment in developing exemplar products and sales of finished products often provide a practical introduction to a new market.

## OPERATIONS REPORT *continued*

FOR THE YEAR ENDED 31 MARCH 2013

### **Strategy 2: Developing Exemplar In-market Products**

The development and support of exemplar products and the development of licensable intellectual property is a key strategic investment for the company. The development of the technology to incorporate BLIS K12™ in ice cream and yogurt through investment in the Gourmet Ice Cream Company is an example of this. We are now seeking licensing partners for this technology. We have also developed the technology to incorporate BLIS probiotics in nutritional formulations.

### **Strategy 3: Building Finished Product Sales**

Finished products have been an important part of the company strategy for several years. Both the New Zealand and the Australian markets are important ones for such products. The web-based market that the company has developed over the last year takes this to a new level. While the web has helped build sales, it also serves a very valuable purpose in alerting potential new customers to the benefits of BLIS products. In particular it provides an opportunity for customers to provide feedback about their experiences with our products. We have also found that finished products provide a ready solution to new market assessments in that opportunity partners can assess the opportunity for products in their own markets.

### **Strategy 4: Developing Long-term Strategic Partnerships**

While the relationship with Stratum Nutrition is a key partnership, the long-term strategy also involves strategic relationships with companies such as Nestlé Nutrition and other leading global and regional consumer product and technology companies, and relationships with potential manufacturers. BLIS Technologies is also working to establish new relationships with companies operating in Asia and the Middle East, and companies with distribution networks in China through its Chinese partner, NZPR Group.

### **Strategy 5: Obtaining Regulatory Approval and Intellectual Property Protection**

Regulatory approvals are proving more and more important for the company. These take many forms from safety such as GRAS to clinical evidence, depending on the specific market requirements. While many of these regulatory approvals are expensive, they also act as barriers to entry for competitors. As a result of its regulatory initiatives, the Company is able to sell its probiotics as dietary and food supplements and food ingredients in a number of markets. This area requires on-going investment. Other progress in regulatory aspects has been covered under Commercialisation. Our investment

in patent protection and in trademarks is another feature of our strategic investment. Such protection also provides our partners with the confidence to invest in product development and marketing.

The Company is aware of its potential competitors and regularly monitors their activity. As noted previously, there has been increased market activity from some other probiotic companies. However BLIS Technologies is confident that it can retain its leadership position in the market. The reasoning is that our continued emphasis in a range of areas provides a very solid basis for success; this includes regulatory approvals, our intellectual property strategy and our emphasis on supporting research, along with the momentum created by the wide range of independent studies that show the benefits of BLIS K12™ and BLIS M18™ in oral health applications.

## MARKETING AND SALES

### **Building Ingredient Sales**

#### *Overview*

Stratum Nutrition (a subsidiary of NNB) was appointed as the global distributor, except for China and New Zealand, for BLIS probiotic ingredients in late 2011 although signing of the formal distribution agreement did not take place until July 2012. Following an initial period of familiarisation and transfer of technology to NNB from early 2012, BLIS Technologies invested time with NNB on product and sales training for both BLIS K12™ and the BLIS M18™ ingredients. NNB has developed sales and marketing strategies for each specific geographic market that recognise the strengths of applications for BLIS K12™ and BLIS M18™. They have focused on upper respiratory, otitis media, halitosis and applicable immune applications for BLIS K12™, and teeth and gum health for BLIS M18™. Sales strategies have been developed for each regional market. As a result, Stratum Nutrition has now initiated more regular purchases of ingredients.

In the last year the Company has continued to introduce products into new territories. These include both BLIS M18™, targeted at anti-caries applications and its flagship product, BLIS K12™, targeted at oral health and oral immune applications.

The pattern of sales through the year with the tendency of buyers to make a few large orders makes it difficult to detect a pattern of growth in the value of sales. Therefore the Company is now working with NNB and other buyers to develop a more orderly pattern of purchases that will enable BLIS Technologies to plan and manage supply in a more structured manner.



## OPERATIONS REPORT *continued*

FOR THE YEAR ENDED 31 MARCH 2013

### *United States and Canada*

A significant focus on the North American market with the branded ingredients of BLIS K12™ and BLIS M18™ continues. After transfer of the distribution relationship from Frutarom USA to Stratum Nutrition, there have been significant improvements in the rebuilding and repositioning of the sales and marketing strategy within this market, including the establishment of new strategic customer relationships. This has involved working with major players in the multi-level marketing channel and the professional channel, with these projects starting to come to fruition.

There are new initiatives in Canada with some further work required in this market on regulatory aspects in updating the Master File submitted on behalf of the Company earlier to Health Canada.

### *Europe and the Middle East*

The Company is still in the early phases of business development in Europe but progress is expected to accelerate as a result of recent market developments. There is strong interest in BLIS ingredients in Europe and this market is anticipated to be key to the future success of the Company and NNB.

The wider European market represents a major opportunity for the Company with the introduction of the BLIS K12™ and BLIS M18™ ingredients via new products. The current focus is on specific markets within the European Union, with products having been launched, or are about to be launched in Italy, Spain and Germany. Similarly, partners have launched products in Eastern Europe and Russia, and there are also several products in the market in Israel.

A most interesting development is Bactoblis, a lozenge product originally launched in Italy containing 50 mg of BLIS K12™ in each lozenge (in other markets 20 mg is used). This product has formed the basis of two very successful clinical studies which have been published (see references). A larger clinical trial is now in progress, independent of BLIS and NNB. The studies which have been published have reported very good results with infants (upper respiratory and otitis media issues) and with adults.

### **Developing exemplar in-market products**

Consistent with our strategy to support ingredient sales through the development of exemplar in-market products, a new initiative planned for the 2014 financial year is the further development and manufacture of a nutritional formulation based on blending our branded ingredients with milk powder. An agreement with an in-market client is expected in the first half of the year.

### **Building finished product sales**

#### *New Zealand and Australia*

At this stage much of the focus in New Zealand is on finished product sales. The Company has maintained its market in New Zealand through its distributor Pharmabroker for pharmacy retail sales, and through internet sales. Pharmabroker has now introduced new packaging formats and is expected to launch a new blister pack format for the winter.

The Australian market at present is in finished or part-finished products. Even though revenue decreased in comparison to the previous year, the Company regards Australia as a key market. Further developments that require regulatory approval are in progress. This market is significant being relatively accessible and seven times larger than the NZ market, but the regulatory requirements are complex.

#### *E-commerce and website*

Re-development of the website ([www.blis.co.nz](http://www.blis.co.nz)) and the introduction of internet sales have resulted in web sales becoming a significant and growing sales channel for the Company. Internet sales provide a solid platform for growth as the company continues to roll out its web-based marketing strategy.

### **Developments in other countries and regions**

#### *China*

As reported last year, BLIS Technologies achieved a major milestone with the approval for BLIS K12™ as a food ingredient in the Peoples' Republic of China. The decision has been made to proceed with a partner with a nationwide distribution network. The sales and marketing strategy is now being finalised although discussions are proceeding with other companies with a view to expanding the reach in this market.

#### *Japan*

There is an increasing number of BLIS probiotic products in the market with sales starting to gain traction. There are some larger product development projects in progress but Japan is a market that usually moves slowly until the "early adopters" provide evidence of the opportunity. Japan is now an important market for BLIS probiotic ingredients but there is considerable opportunity for the market to develop further. In this respect, we expect an important product launch within the current financial year. The potential for sales in Japan is significant because of the high proportion of people above the age of 65 years and the focus on oral health.

## OPERATIONS REPORT *continued*

FOR THE YEAR ENDED 31 MARCH 2013

### *Other parts of Asia*

The process of seeking approval in Korea has been a somewhat protracted process. While the Company had been working with a well-established pharmaceutical company in Korea, this has been superseded in favour of a plan to proceed with partners aligned with our distributor, Novus Nutrition Brands.

BLIS products are now in market in Taiwan, Singapore and Pakistan. The Company also has new business development projects in India and Pakistan.

### **Developing long-term strategic partnerships**

Partnerships are fundamental to the success of a small company such as BLIS Technologies. The on-going review of facilities to provide manufacturing capability for BLIS K12™ and BLIS M18™ ingredients and finished products is continuing. However at this stage, all manufacturing of the probiotics themselves is being done in New Zealand but finished products are being sourced from offshore. In this respect, the Company has successfully sourced lozenges from India, Canada and New Zealand. To ensure security of supply at least two suppliers are being used but the Company also plans to increase its ability to pack finished retail products in New Zealand at its Birch Street facility.

Other delivery formats such as chewing gum and chewable soft gels are being evaluated. These and other novel formats broaden the capabilities of the Company and its partners to provide a range of effective product delivery formats for oral probiotics that have the potential to significantly enhance the Company's current capability in finished products. The Company also intends to manufacture nutritional products at its own facilities for specific customers and is currently preparing for this development with details to be announced once arrangements are completed.

### **Obtaining regulatory approval and Intellectual Property protection**

#### *Regulatory*

Regulatory activities have been some of the most important issues considered by the company in the period. It is pleasing to note two very significant milestones over the past year: approval of BLIS M18™ as a food ingredient in Australia and New Zealand and a legal opinion in Europe that BLIS K12™ and BLIS M18™ are safe as food ingredients and food supplements. It is this opinion which has been instrumental in the rapid growth in Europe of sales based on BLIS probiotic ingredients.

The Company now has a legal opinion in Europe on the safety of BLIS K12™ and BLIS M18™ to complement the achievement of self-affirmed GRAS in the United States for BLIS K12™ and the approval of BLIS K12™ as a food ingredient in the Peoples' Republic of China. These all represent major milestones for the Company that will have a profound impact on the future of the Company.

Ingredients have also been approved for dietary supplement and food applications by regulatory authorities in New Zealand (BLIS K12™ and BLIS M18™), Australia (BLIS K12™ and BLIS M18™ as a food ingredient) in Russia. In Canada, a Master File has been submitted for BLIS K12™ with Health Canada.

While regulatory barriers remain, further progress has been made with some regulatory approvals outstanding. We have progressed the application to the FDA with respect to the final notification of full GRAS status for BLIS K12™ in the United States. Additional approval processes in Australia and Europe have commenced to both enable enhanced market access and further strengthen the regulatory position of BLIS ingredients.

The Company is currently in the process of seeking self-affirmed GRAS status with BLIS M18™ with some clarification required with respect to the requirements. As part of this project, an analysis of several *S. salivarius* genomes has been carried out to provide a comparative analysis of the BLIS probiotics with other *S. salivarius* strains. This work was carried out in conjunction with New Zealand Genomics Limited (Dunedin) and will now be used in support of our regulatory applications.

The next step in our regulatory journey in the United States is full notification of GRAS status for BLIS K12™ and the submission of BLIS M18™ for self-affirmed GRAS status.

#### *Intellectual Property*

The Company has a robust intellectual property (IP) portfolio and continues to underpin its technology and scientific platform to support the commercial development of the Company. In total, 49 patents in 4 patent families have been granted (2 accepted but awaiting full registration). Several applications are under examination and the Company remains committed to its policy of filing patents surrounding its core technologies. BLIS Technologies considers this is an important strategy as it ensures a strong IP portfolio and helps position the Company well in discussing commercial opportunities with potential partners.

In the last 12 months the Mia anti-caries patent (BLIS M18™) was approved in Canada and the BLIS Q24 patent for topical applications has been granted in Europe. The Q24 patent is still under examination in a number of jurisdictions.

## OPERATIONS REPORT *continued*

FOR THE YEAR ENDED 31 MARCH 2013

The Company continues to generate considerable intellectual property in the form of trade secrets. The commercial focus of the Company has resulted in more extensive use of trademark applications to strengthen its position in the market and this area of protection is expected to be utilized more heavily in future to protect our trading platform in markets of direct interest to the Company.

### PRODUCT DEVELOPMENT

#### *Development*

BLIS Technologies is founded on a strong research and development platform with exceptionally strong scientific knowledge of its products, and this lies at the core of its values. In accordance with its strategic shift in direction five years ago, the Company continues to largely focus upon projects that advance commercial operations and assist with customer's technical needs and requirements, particularly in Asia (Japan and Taiwan) and more recently in Europe (e.g. Italy, Spain and Finland). Our people have also been involved in supporting and training our international distributor, NNB. Development work has involved our scientific staff assisting customers with projects involving laboratory testing, production, quality assurance and regulatory aspects. The handling of probiotic bacteria and the production of probiotic products requires considerable experience and careful management and BLIS Technologies is able to assist many customers, making this an important step in the commercialization process.

The past year has seen a focus on the development of nutritional formulations and other food formats as part of

our exemplar product development strategy. Work continues to evaluate the stability of our products under different environmental conditions, extending our knowledge and supporting access to new countries including new BLIS M18™ lozenges, gums, and products for ASEAN IV countries (Malaysia region), nutritional ingredient formulations, and food formats (yoghurt). In addition, BLIS has assisted a number of companies in different countries with the development of their products.

The Company has investigated new areas for the application of its proprietary strains, such as probiotic products for domestic animals where trials were encouraging. Further human applications are being investigated through a collaborative approach that involves the Murdoch Children's Research Institute in Melbourne investigating the potential of BLIS K12™ to prevent childhood pneumonia.

A number of papers have been published by both The Company and external researchers on aspects of the BLIS K12™ and BLIS M18™ strains in the previous 12 months (1 April 2012 to 31 March 2013<sup>1</sup>).

#### *Clinical trials*

The Company continues to support clinical trials of its products. In the past twelve months a number of studies have been set up and/or completed. Locally, we have determined the success of different delivery formats with BLIS K12™, supporting our knowledge and development. Internationally, two clinical trials using BLIS K12™ were recently published by an Italian group. Both trials demonstrated the effectiveness of BLIS K12™ in reducing the frequency of streptococcal sore throats in both adults and children.

#### <sup>1</sup>References

- John D.F. Hale, John R. Tagg, and Philip A. Wescombe. BLIS-producing probiotics targeting the oral cavity. *Microbiology Australia*, Official journal of the Australian society for Microbiology Inc. Volume 33 Number 3 September 2012 pg. 103-105
- Barretto C, Alvarez-Martin P, Foata F, Renault P, Berger B. Genome Sequence of the Lantibiotic Bacteriocin Producer *Streptococcus salivarius* Strain K12. *J Bacteriol*. 2012 Nov;194(21):5959-60.
- Lee HJ, Zhang H, Orlovich DA, Fawcett JP. The influence of probiotic treatment on sulfasalazine metabolism in rat. *Xenobiotica*. 2012 Aug;42(8):791-7.
- Masdea L, Kulik EM, Hauser-Gerspach I, Ramseier AM, Filippi A, Waltimo T. Antimicrobial activity of *Streptococcus salivarius* K12 on bacteria involved in oral malodour. *Arch Oral Biol*. 2012 Aug;57(8):1041-7. Epub 2012 Mar 10.
- Philip A. Wescombe, John D. F. Hale, Nicholas C.K. Heng and John R. Tagg. Developing oral probiotics from *Streptococcus salivarius*. *Future Microbiology*, 2012, 7 (12) pg.1-17
- Di Pierro, F., et al., Preliminary pediatric clinical evaluation of the oral probiotic *Streptococcus salivarius* K12 in preventing recurrent pharyngitis and/or tonsillitis caused by *Streptococcus pyogenes* and recurrent acute otitis media. *Int J Gen Med*, 2012. 5: p. 991-7.
- Di Pierro, F., et al., Clinical evaluation of the oral probiotic *Streptococcus salivarius* K12 in the prevention of recurrent pharyngitis and/or tonsillitis caused by *Streptococcus pyogenes* in adults. *Expert Opin Biol Ther*, 2013. 13(3): p. 339-43.
- Fiedler, T., et al., Protective mechanisms of respiratory tract *Streptococci* against *Streptococcus pyogenes* biofilm formation and epithelial cell infection. *Appl Environ Microbiol*, 2013. 79(4): p. 1265-76.
- Burton, J.P., et al., The influence of the probiotic *Streptococcus salivarius* M18 on indices of dental health in children: a randomised double-blind placebo-controlled trial. *J Med Microbiol*, 2013 Feb 28.
- Cohen, R., et al., Probiotics and prebiotics in preventing episodes of acute otitis media in high-risk children: A randomized, double-blind, placebo-controlled study. *Pediatr Infect Dis J*, 2013.
- Wescombe, P.A., et al., Developing oral probiotics from *Streptococcus salivarius*. *Future Microbiol*, 2012. 7(12): p. 1355-71.
- Santagati, M., et al., Bacteriocin-producing oral *streptococci* and inhibition of respiratory pathogens. *FEMS Immunol Med Microbiol*, 2012. 65(1): p. 23-31.

## OPERATIONS REPORT *continued*

FOR THE YEAR ENDED 31 MARCH 2013

The Company has recently published a successful clinical trial investigating the impact of BLIS M18™ on dental caries indicators in children. This has been the catalyst for further clinical trials including the potential of BLIS M18™ to prevent dental caries (Italy), and to relieve periodontal disease (India). Another study on the persistence of BLIS M18™ in the oral cavity and its effect on the general health is currently under way in Canada.

With the increasing stringency imposed by regulatory authorities, The Company continues to maintain its leading position by supporting clinical trials as evidence of the effectiveness of its products.

New Zealand has major issues with rheumatic fever and the Company is working with the various parties to provide assistance in trials that could utilise BLIS K12™. While there is strong evidence for the potential efficacy of the strain, the requirements for a trial are complex and the costs very significant.

In this respect BLIS Technologies has joined forces with The Salvation Army in the battle against tonsillitis and rheumatic fever by providing young children and their families in the Otago and Southland with free throat probiotic lozenges.

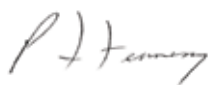
### STAFF

Directors and the Chief Executive wish to acknowledge the significant contribution by staff during the past twelvemonths. It has been a difficult year and without their dedication and support, the Company would have been unable to make the progress that it has in building a commercial foundation for the business. Full-time staff numbers currently stand at 11. In particular we acknowledge the major contribution of Dr Max Shepherd, a director for many years, who retired at the last AGM.

### OUTLOOK

Despite setbacks and delays in the implementation of its strategy and the consequent adverse financial consequences, the Company remains confident that it is on the right path to commercialisation of its proprietary probiotic strains. The market for probiotics is well established and is growing rapidly, as is the recognition of the efficacy of our patented strains in various applications. Our partners have invested considerable funds in developing and marketing products based on our branded ingredients and share our expectation for achieving commercial sales volumes in the near future.

The base of our business is forecast to increase significantly with greater concentration on finished product sales globally, assisted by new partners and commercial contacts. The route to market has been determined in China and this will lead to new business developments in the FY 14.



Peter Fennessy

*Chairman*

27th day of May 2013



Barry Richardson

*Chief Executive Officer*

BLIS K12 and BLIS M18 are trade marks of BLIS Technologies Limited.

Purchase products directly from [www.blis.co.nz](http://www.blis.co.nz) Free delivery.

## DIRECTORS' REPORT

FOR THE YEAR ENDED 31 MARCH 2013

### STATEMENT OF AFFAIRS OF THE COMPANY AND GROUP

The results of operations for the year and the financial position of the Company and Group are detailed in the accompanying financial statements.

### PRINCIPAL ACTIVITY

The principal activity of the Company is developing healthcare products based on strains of bacteria that produce Bacteriocin-Like Inhibitory Substances (BLIS).

### DIVIDEND

The Directors recommend that no dividend be paid in relation to Ordinary Shares on issue.

### AUDITORS

It is proposed that the auditors, Deloitte, continue in office in accordance with *Section 200(1)* of the *Companies Act 1993*.

### PARTICULARS OF NOTICES OR STATEMENTS GIVEN TO OR APPROVED BY THE BOARD

#### Interests Register

Directors have declared interest in the following transactions with the Group during the year:

- Mr C E Dawson disclosed his interests through his role as Chief Executive of Otago Innovation Limited, a wholly owned subsidiary of the University of Otago. University of Otago has been involved in commercial transactions with the Company, the terms of which the other Directors considered fair and reasonable to the Company and its existing shareholders.

### Directors' remuneration

	Year Ended 31 March 2013
Directors' remuneration is as follows:	\$
C E Dawson	5,000
P F Fennessy	10,000
A J McKenzie	5,000
A P Offen	5,000
B H Wallace	5,000
M Shepherd	Nil

### DIRECTORS' LOANS

There were no loans from the Company to Directors.

### USE OF COMPANY INFORMATION

The Board received no notices during the year from Directors requesting to use the Company and Group information received in their capacity as Directors which would not have been otherwise available to them.

**DIRECTORS' REPORT** *continued*

FOR THE YEAR ENDED 31 MARCH 2013

**EMPLOYEES' REMUNERATION**

The number of employees whose income was within the specified bands are as follows:

\$	Year Ended 31 March 2013	Year Ended 31 March 2012
110,000 – 120,000	-	1
120,001 – 130,000	1	-
210,000 – 220,000	1	-
240,000 – 250,000	-	1

**DONATIONS**

Donations of products were made by the Group during the year ended 31 March 2013. The retail value of the products donated totalled \$9,645 (2012: \$Nil).

**SHARE DEALING**

During the year the following Directors (or the relevant associated entity in which the Director has a relevant interest) acquired or disposed of equity securities in the Group:

ASSOCIATED ENTITY	DIRECTOR	CLASS OF SHARE	ACQUIRED/ (SOLD) ORDINARY SHARES	CONSIDERATION \$	FULLY PAID CONVERTING PREFERENCE SHARES & DIVIDENDS	TOTAL CONSIDERATION FOR CONVERTING PREFERENCE SHARES & DIVIDENDS*
CE & AC Dawson	C E Dawson	F.P.O	2,142,858	15,000	745,631	10,003
PF&M Fennessy Trust	P F Fennessy	F.P.O	2,142,858	15,000	1,540,239	20,663
Edinburgh Equity Nominee Ltd	A P Offen	F.P.O	(2,730,000)	(36,429)	163,334,699	2,191,252
A J McKenzie & Co	A J McKenzie	F.P.O	714,285	5,000	-	-
SIL Long Term Holdings Ltd	A J McKenzie	F.P.O	21,428,571	150,000	-	-
Morgan Wallace Ltd	B H Wallace	F.P.O	285,714	2,000	385,061	5,166
Lee & Wallace Holdings Ltd	B H Wallace	F.P.O	-	-	385,061	5,166
B H Wallace	B H Wallace	F.P.O	2,142,858	15,000	4,620,716	61,990
Bevan Wallace Family Trust	B H Wallace	F.P.O	-	-	2,310,359	30,995
Wallace Family Trust	B H Wallace	F.P.O	-	-	2,310,359	30,995

\* On 8 May, 2012 there were 311,052,981 Ordinary Shares issued under the preference share conversion and final dividend payment for a total consideration of \$4,173k. These shares rank equally with all other Ordinary Shares on issue in the company.

## DIRECTORS' RESPONSIBILITY STATEMENT

FOR THE YEAR ENDED 31 MARCH 2013

The Directors of BLIS Technologies Limited ("the Company") are pleased to present to shareholders the financial statements for BLIS Technologies Limited and Group for the year ended 31 March 2013.

The Directors are responsible for presenting financial statements in accordance with New Zealand law and generally accepted accounting practice, which give a true and fair view of the financial position of the Company and Group as at 31 March 2013 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 and Group 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 Group and facilitate compliance of the financial statements with the Financial Reporting Act 1993.

The Directors consider that they have taken adequate steps to safeguard the assets of the Company and Group, 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.

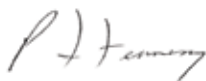
The financial statements are signed on behalf of the Board by:



Anthony Offen

*Director*

27<sup>th</sup> day of May 2013



Peter Fennessy

*Director*

# INCOME STATEMENT

FOR THE YEAR ENDED 31 MARCH 2013

	Notes	Group		Company	
		2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
<b>REVENUES</b>					
Trading revenue	2a	1,121	1,467	714	1,188
Interest received		22	27	65	35
Other income		18	16	72	82
		1,161	1,510	851	1,305
<b>LESS</b>					
Distribution expenses		29	20	3	3
Impairment of investment in subsidiary	17	-	-	-	225
Impairment of loan to subsidiary		-	-	478	-
Marketing expenses		35	26	24	21
Occupancy expenses		153	115	72	69
Operating expenses	2b, 4, 5	2,342	2,243	1,682	1,855
Other expenses		400	344	400	344
		2,959	2,748	2,659	2,517
<b>NET SURPLUS/(DEFICIT) BEFORE TAX AND FINANCE COST</b>					
Amortisation of transaction cost for Convertible Preference Shares	2b	(1,798)	(1,238)	(1,808)	(1,212)
Dividend on Convertible Preference Shares	13	42	400	42	400
		(1,856)	(1,759)	(1,866)	(1,733)
NET SURPLUS/(DEFICIT) BEFORE TAX		(1,856)	(1,759)	(1,866)	(1,733)
Taxation	3	-	-	-	-
		(1,856)	(1,759)	(1,866)	(1,733)
<b>NET SURPLUS/(DEFICIT) FOR THE YEAR</b>					
Net surplus/ (deficit) for the year is attributable to:					
Equity holders of the parent		(1,810)	(1,734)		
Non-controlling Interest		(46)	(25)		
		(1,856)	(1,759)		
Earnings per share:					
Basic (cents per share)	18	(0.34)	(1.1)		
Diluted (cents per share)	18	(0.34)	(0.38)		

The accompanying notes form part of these financial statements.



## STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2013

	Notes	Group		Company	
		2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
Surplus/(Deficit) for the year		(1,856)	(1,759)	(1,866)	(1,733)
<b>TOTAL COMPREHENSIVE INCOME/ (DEFICIT) FOR THE YEAR</b>		(1,856)	(1,759)	(1,866)	(1,733)
Total comprehensive income/ (Deficit) is attributed to:					
Equity holders of the parent		(1,810)	(1,734)	(1,866)	(1,733)
Non-controlling interest	14	(46)	(25)	-	-
		(1,856)	(1,759)	(1,866)	(1,733)

## STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2013

<b>EQUITY AT THE BEGINNING OF THE YEAR</b>		(140)	52	(130)	52
Surplus/(Deficit) and total comprehensive income/(deficit)		(1,810)	(1,734)	(1,866)	(1,733)
Increase in share capital	18	5,486	1,551	5,486	1,551
Non-controlling Interest	14	(46)	(9)	-	-
		3,490	(140)	3,490	(130)
<b>EQUITY (DEFICIT) AT THE END OF THE YEAR</b>		3,490	(140)	3,490	(130)

The accompanying notes form part of these financial statements.

**BALANCE SHEET**

AS AT 31 MARCH 2013

	Notes	Group		Company	
		2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
<b>ASSETS</b>					
<b>CURRENT ASSETS</b>					
Cash and short-term deposits	6	759	565	759	537
Accounts receivable	7	208	733	208	666
Prepayments		49	45	49	43
Inventory	8	230	276	230	218
		1,246	1,619	1,246	1,464
<b>LESS CURRENT LIABILITIES</b>					
Accounts payable	12	337	373	337	309
Convertible Preference Shares	13	-	3,983	-	3,983
Convertible Preference Share dividend payable	13	-	158	-	158
		337	4,514	337	4,450
<b>WORKING CAPITAL</b>					
		909	(2,895)	909	(2,986)
<b>NON CURRENT ASSETS</b>					
Advances to subsidiary	9	-	-	-	294
Property, plant and equipment	10	164	296	164	187
Intangible assets	11	2,417	2,375	2,417	2,375
Goodwill	15	-	84	-	-
Investment in subsidiary	16, 17	-	-	-	-
		2,581	2,755	2,581	2,856
<b>NET ASSETS</b>					
		3,490	(140)	3,490	(130)
<b>OWNERS EQUITY</b>					
Share Capital	18	33,071	27,585	33,071	27,585
Retained earnings/(deficit)	19	(29,581)	(27,716)	(29,581)	(27,715)
Equity attributable to equity holders of parent		3,490	(131)	3,490	(130)
Non-controlling interest	14	-	(9)	-	-
<b>TOTAL EQUITY</b>					
		3,490	(140)	3,490	(130)
<b>TOTAL INVESTORS INTERESTS INCLUDING PREFERENCE SHARES</b>					
		3,490	3,843	3,490	3,853

The accompanying notes form part of these financial statements.

## STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 MARCH 2013

	Notes	Group		Company	
		2013 '000	2012 \$'000	2013 \$'000	2012 \$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
<b>Cash was provided from (applied to):</b>					
Trading revenue & other income		1,661	974	1,260	819
Interest received		22	27	65	35
Interest paid		-	-	-	-
Payments to suppliers and employees		(2,310)	(2,359)	(1,660)	(1,947)
Net cash inflow/(outflow) from operations before payments relating to Convertible Preference Shares (CPS)					
		(627)	(1,358)	(335)	(1,093)
Payment of withholding tax/dividend (CPS)		(26)	(400)	(26)	(400)
<b>Net cash inflow (outflow) from operating activities</b>	25	(653)	(1,758)	(361)	(1,493)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Cash was provided from (applied to):					
Sale of property, plant & equipment		-	9	-	9
Investment in subsidiaries		-	-	-	(225)
Funding of subsidiaries		-	-	(286)	(294)
Acquisition of business		-	(225)	-	-
Capitalised development costs		(360)	(408)	(360)	(408)
Capitalised patent costs		(71)	(107)	(71)	(107)
Capitalised website development		(23)	(11)	(23)	(11)
Purchase of property, plant & equipment		(13)	(5)	(13)	(4)
<b>Net cash inflow (outflow) from investing activities</b>		(467)	(747)	(753)	(1,040)
<b>CASH FLOWS FINANCING ACTIVITIES</b>					
<b>Cash was provided from (applied to):</b>					
Issue of Ordinary Shares		1,314	1,551	1,314	1,551
<b>Net cash inflow (outflow) from financing activities</b>		1,314	1,551	1,314	1,551
Net increase/(decrease) in cash held					
		194	(954)	200	(982)
Add cash and short-term deposits transferred from subsidiary				22	-
Add cash and short-term deposits at start of period		565	1,519	537	1,519
<b>Balance at end of period</b>		759	565	759	537
<b>COMPRISED OF:</b>					
Cash and short-term deposits		759	565	759	537
Bank overdraft		-	-	-	-
		759	565	759	537

The accompanying notes form part of these financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2013

## 1. SUMMARY OF ACCOUNTING POLICIES

### REPORTING ENTITY

BLIS Technologies Limited (“the Company”) is a profit-oriented entity incorporated and domiciled in New Zealand. The principal activity of the Company is developing healthcare products based on strains of bacteria that produce Bacteriocin-Like Inhibitory Substances (BLIS).

The financial statements represented are those for BLIS Technologies Limited and Group (“the Group”).

BLIS Technologies Limited is an issuer for the purposes of the *Financial Reporting Act 1993* and its financial statements comply with that act and the *Companies Act 1993*.

### STATEMENT OF COMPLIANCE

The financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (“NZ GAAP”). 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 comply with International Financial Reporting Standards (“IFRS”).

### BASIS OF PREPARATION

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

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

The financial statements are presented in thousands of New Zealand dollars.

### CRITICAL JUDGEMENTS 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 circumstance, 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.

### KEY SOURCES OF ESTIMATION UNCERTAINTY AND KEY JUDGEMENTS

Judgements made by management in the application of NZ IFRS that have significant effects on the financial statements and estimates with a significant risk of material adjustments in the next year are disclosed, where applicable, in the relevant notes to the financial statements.

#### Key Sources of estimation uncertainty and key judgements include:

- Estimating the remaining useful life of intangible assets. If the useful life does not reflect the actual consumption of the benefits of the assets, the Directors could be over or under estimating the amortisation charge required as an expense in the income statement. Refer Note 11.
- If the product groupings to which the development expenditure relate are not economically viable in the future the development expenditure asset could be overstated. Refer Note 11.
- The Group determines whether goodwill and finite life intangibles are impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash generating units to which goodwill and indefinite life intangibles are allocated. Determining the recoverable amounts of goodwill and intangible assets requires judgement in relation to the effects of uncertain future events at balance date. Assumptions are required with respect to future cashflows and discount rates used. Refer Note 11 for sensitivities of assumptions used.
- Capitalisation of development expenditure. The Company uses an allocation methodology to capitalise certain costs, including payroll expenditure, to the intangible assets. Various assumptions relating to the applicability of individual costs and group of costs to the development activities are recognised as part of this methodology.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be measurable under the circumstances.

## NOTES TO FINANCIAL STATEMENTS *continued*

FOR THE YEAR ENDED 31 MARCH 2013

### 1. SUMMARY OF ACCOUNTING POLICIES *continued* ...

#### SIGNIFICANT ACCOUNTING POLICIES

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

#### BASIS OF CONSOLIDATION

The Group financial statements incorporate the financial statements of the Company and all entities controlled by the Company (its subsidiary) that comprise the Group, being BLIS Technologies Limited (the parent entity) and its subsidiary BLIS Functional Foods Limited. Subsidiaries are entities over which the Company has the power to govern the financial and operating policies so as to obtain benefits from their activities. Consistent accounting policies are employed in the preparation and presentation of the group financial statements.

The results of subsidiaries acquired or disposed of during the year are included in the Group Income Statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. The interests of non-controlling shareholders may be initially measured either at fair value or at the non-controlling interest's proportionate share of the fair value of the acquiree's identifiable assets. The choice of measurement basis is made on an acquisition-by-acquisition basis. Subsequent to acquisition, non-controlling interests consist of the amount attributed to such interests at initial recognition and the non-controlling interests share of changes in equity since the date of combination. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Investments in subsidiaries are recorded at cost in the parent company's financial statements.

#### BUSINESS COMBINATIONS

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The cost of the business combination is measured as the aggregate of the fair values

(at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. Acquisition related costs are included directly in the income statement.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under NZ IFRS-3 *Business Combinations* are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with NZ IFRS-5 assets held for sale and discontinued operations, which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition of a subsidiary is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously-held equity interest (if any) in the acquiree over the fair value of the identifiable net assets recognised.

If after reassessment, the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously-held equity interest (if any) in the acquiree, the excess is recognised immediately in profit or loss as a bargain purchase gain.

Goodwill is not amortised, but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. The recoverable amount is the higher of fair value less cost to sell and value in use. If the recoverable amount of the cash generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets in the unit pro-rata on the basis of the carrying amount of each asset in the unit. Any impairment loss is recognised immediately in profit or loss and is not subsequently reversed.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

## NOTES TO FINANCIAL STATEMENTS *continued*

FOR THE YEAR ENDED 31 MARCH 2013

### 1. SUMMARY OF ACCOUNTING POLICIES *continued* ...

The interest of the non-controlling shareholders in the acquiree is initially measured at the non-controlling shareholders's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

#### 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. In the event that settlement of all or part of a purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

Depreciation is provided on property, plant and equipment.

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:

Leasehold improvements	1 - 3 years
Furniture and fittings	5 - 10 years
Plant and equipment	5 - 10 years

#### INTANGIBLE ASSETS

Intangible assets acquired separately are reported at cost less accumulated amortisation and accumulated impairment losses. Amortisations are charged on a straight-line basis over their estimated useful lives. The estimated useful lives, residual values and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

##### Intellectual property

The cost of intellectual property is written off until such time as it becomes clear that future economic benefits attributable to that expenditure will flow to the company and there is sufficient evidence to support the probability of the expenditure generating sufficient future economic benefits.

Intellectual property including patents, trademarks and licenses are considered finite life intangibles and are recorded at cost less accumulated amortisation and impairment. Amortisation is charged on a straight line basis over the estimated useful life of the intangible asset being 8 to 18 years. The estimated useful life and amortisation method is reviewed at the end of each annual reporting period.

##### Website

The cost of website development is capitalised and is depreciated over 3 years.

##### *Internally-generated Intangible Assets – Capitalised 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 have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell 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 or sell 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 charged to 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 acquired separately. The useful life of internally-generated intangible assets is 8 years.

#### IMPAIRMENT OF ASSETS

At each balance sheet date, the Group 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

## NOTES TO FINANCIAL STATEMENTS *continued*

FOR THE YEAR ENDED 31 MARCH 2013

### 1. SUMMARY OF ACCOUNTING POLICIES *continued* ...

cash flows that are independent from other assets, the Group 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, unless the 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 (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 as income immediately unless the asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

#### REVENUE RECOGNITION

Revenue is measured at the fair value of the consideration received.

##### **Sale of Goods**

Revenue from the sale of goods is recognised when the Group has transferred to the buyer the significant risks and rewards of ownership of the goods.

##### **Interest Revenue**

Interest revenue is accrued on a time basis, by reference to the principal outstanding and the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

##### **Other Income**

Grant income is recognised when the Group has met all of the requirements established by the grant. Grant income

that is receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the entity with no future required costs are recognised as income of the period in which it becomes receivable.

License income is recognised by reference to the stage of completion of the transaction at balance date.

##### **Foreign Exchange**

In the course of normal trading activities, the Group undertakes transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise. Accounts receivable, Accounts payable and the United States Dollar (USD) denominated bank account balances are translated at closing rate for the month as sourced from the Reserve Bank of New Zealand.

For transactions in USD, the Group forecasts all its cash inflow and matches to known outflows that will be transacted in USD. The USD denominated bank account is used as a means to hedge these outflows.

#### 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 tax 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 arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base 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.

## NOTES TO FINANCIAL STATEMENTS *continued*

FOR THE YEAR ENDED 31 MARCH 2013

### 1. SUMMARY OF ACCOUNTING POLICIES *continued* ...

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 directly to equity, in which case the deferred tax is also dealt with in equity.

#### **INVENTORIES**

Inventories are valued at the lower of cost and net realisable value. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

#### **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.

Cash flows are included in the cash flow statement on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

#### **FINANCIAL INSTRUMENTS**

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

##### **a) Cash & Short Term Deposits**

Cash and short-term deposits comprise cash on hand, demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

##### **b) Accounts Receivable**

Accounts receivable 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 when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying

amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

##### **c) Equity Instruments**

Equity instruments issued by the Group are recorded at the proceeds received.

##### **d) Other Financial Liabilities**

Other financial liabilities, including borrowings are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest/dividend expense recognised on an effective interest basis.

##### **e) Accounts Payable**

Accounts payable are initially measured at fair value and subsequently measured at amortised cost using the effective interest rate method.

#### **EMPLOYEE BENEFITS**

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

Provision 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 Group in respect of services provided by employees up to reporting date.

#### **STATEMENT OF CASH FLOW**

For the purpose of the cashflow statement, cash and cash equivalents includes cash on hand and in banks and investments in money market instruments net of outstanding bank overdrafts.

The cash flow statement is prepared exclusive of GST, which is consistent with the method used in the income statement.



## NOTES TO FINANCIAL STATEMENTS *continued*

FOR THE YEAR ENDED 31 MARCH 2013

### 1. SUMMARY OF ACCOUNTING POLICIES *continued*...

*Definition of terms used in the cash flow statement:*

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 Group and those activities relating to the cost of servicing the Group's equity.

#### **ADOPTION OF NEW REVISED STANDARDS AND INTERPRETATIONS**

No standards have been adopted during the year which have had a material impact on the financial statements. There are no standards in issue but not yet effective which would materially impact the amounts recognised in the financial statements.

## NOTES TO FINANCIAL STATEMENTS *continued*

FOR THE YEAR ENDED 31 MARCH 2013

### 2. SURPLUS/(DEFICIT) FROM OPERATIONS

	Group		Company	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
<b>(a) Trading revenue</b>				
<i>Trading revenue consisted of the following items:</i>				
Sale of goods – domestic sales	672	564	255	285
Sale of goods – export sales	449	903	449	903
	1,121	1,467	714	1,188
<b>(b) Surplus/(Deficit) before tax &amp; finance cost</b>				
<i>This includes the following specific expenses:</i>				
Employee benefits (net of capitalised development) (i)	697	700	547	606
Directors' fees	30	50	30	45
Cost of goods sold	527	602	336	461
Research and development costs immediately expensed	652	662	559	555
Amortisation of finite life intangible assets (Note 11)	412	356	412	356
Patent and trademark costs immediately expensed	11	11	11	11
Operating leases - minimum lease payments (ii)	130	109	78	74
Depreciation of property, plant and equipment (note 10)	124	57	109	46
Goodwill impairment	84	-	-	-
Costs associated with GRAS (Safety Study)	-	56	-	56

(i) During the year the Group and Company capitalised as development \$205,278 (2012: \$192,088) of employee benefits.

(ii) Operating lease rentals include rental streams associated with the laboratory utilised by the development team and administration.

## NOTES TO FINANCIAL STATEMENTS *continued*

FOR THE YEAR ENDED 31 MARCH 2013

### 3. 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:

	Group		Company	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
Deficit before tax	(1,856)	(1,759)	(1,866)	(1,508)
Income tax expense (benefit) calculated at 28%	(520)	(493)	(522)	(422)
Dividend on Convertible Preference Shares	12	112	12	112
Non-deductible items	184	139	278	139
Temporary differences excluding tax losses not recognised	(23)	(42)	(22)	(45)
Tax losses not recognised	347	284	254	216
Tax expense	Nil	Nil	Nil	Nil

#### (b) Income tax recognised directly in equity

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

#### (c) Current tax assets and liabilities

##### Current tax assets:

Current tax refundable	3	3	3	3
	3	3	3	3

##### Current tax payables:

Current tax payable	–	–	–	–
	Nil	Nil	Nil	Nil

#### (d) Deferred tax balances

The Group has an unrecognised deferred tax asset in relation to temporary differences of \$410,667 (2012 \$454,943). In addition the Group has an unrecognised deferred tax asset arising from tax losses of \$4,167,810 measured at 28% as discussed below (2012: \$3,820,210)

The Group has estimated tax losses of \$14,885,034 at balance date (2012: \$13,643,607). These are subject to confirmation by the Inland Revenue Department and subject to meeting the requirements of the *2007 Income Tax Act*.

## NOTES TO FINANCIAL STATEMENTS *continued*

FOR THE YEAR ENDED 31 MARCH 2013

### 3. INCOME TAXES *continued*...

	Group		Company	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
<b>(e) Imputation credit account balances</b>				
Balance at beginning of the year	3	-	3	-
Income tax paid	-	3	-	3
R & D tax credit	-	-	-	-
Taxation refund (net)	-	-	-	-
Prior period adjustment	-	-	-	-
Balance at 31 March 2013	3	3	3	3

### 4. REMUNERATION of AUDITORS

Audit of the financial statements	32	39	32	39
Financial reporting services	13	4	13	4
Tax services	15	8	15	8
Other assurance services	2	-	2	-
	62	51	42	51

The auditor of BLIS Technologies Limited is Deloitte.

### 5. KEY MANAGEMENT PERSONNEL COMPENSATION

The compensation of the Chief Executive Officer, Directors and other senior management, being the key management personnel of the entity, is set out below:

Short-term employee benefits	338	390	338	390
	338	390	338	390

### 6. CASH AND SHORT-TERM DEPOSITS

Cash	127	150	127	122
Short-term deposits	632	415	632	415
	759	565	759	537

#### Short-term deposits

Short-term deposits include \$75,000 held in a bank account as a bond for the New Zealand Stock Exchange.

**NOTES TO FINANCIAL STATEMENTS** *continued*

FOR THE YEAR ENDED 31 MARCH 2013

**7. ACCOUNTS RECEIVABLE**

	<b>Group</b>		<b>Company</b>	
	<b>2013 \$'000</b>	<b>2012 \$'000</b>	<b>2013 \$'000</b>	<b>2012 \$'000</b>
Accounts receivable	180	720	180	666
Goods and services tax (GST) receivable	28	13	28	-
	208	733	208	666

**8. INVENTORIES**

Raw materials	18	158	18	116
Work in progress	37	9	37	9
Finished goods	175	109	175	93
	230	276	230	218

**9. ADVANCES TO SUBSIDIARY**

Advances made to BLIS Functional Foods Limited, a subsidiary of the Parent Company were made, under a revolving credit facility established in 2011 for an amount of \$450,000 and increased in 2012 to \$550,000. An annual interest rate of 10% was applied. The loan was secured under a General Security Agreement over the subsidiary's property. Provision for full impairment of these advances was made in March 2013 when the subsidiary ceased trading and the Parent Company assumed responsibility for the debts of the subsidiary.

## NOTES TO FINANCIAL STATEMENTS *continued*

FOR THE YEAR ENDED 31 MARCH 2013

### 10. PROPERTY, PLANT & EQUIPMENT

#### Group 2013

	Cost 1 April 2012 \$'000	Acquisitions through business combinations \$'000	Additions/ Transfers \$'000	Disposals \$'000	Cost 31 March 2013 \$'000	Accumulated depreciation 1 April 2012 \$'000	Depreciation expense \$'000	Accumulated depreciation reversed on disposal \$'000	Transfer	Accumulated depreciation 31 March 2013 \$'000	Book Value 31 March 2013 \$'000
Leasehold improvements	246	-	(102)	28	116	(73)	(83)	5	35	(116)	-
Furniture and fittings	71	-	-	-	71	(64)	(1)	-	-	(65)	6
Plant and equipment	510	-	115	19	606	(394)	(40)	21	(35)	(448)	158
<b>Total Property, Plant and Equipment</b>	<b>827</b>	<b>-</b>	<b>13</b>	<b>47</b>	<b>793</b>	<b>(531)</b>	<b>(124)</b>	<b>26</b>	<b>-</b>	<b>(629)</b>	<b>164</b>

#### 2012

	Cost 1 April 2011 \$'000	Acquisitions through business combinations \$'000	Additions \$'000	Disposals \$'000	Cost 31 March 2012 \$'000	Accumulated depreciation 1 April 2011 \$'000	Depreciation expense \$'000	Accumulated depreciation reversed on disposal \$'000	Accumulated depreciation 31 March 2012 \$'000	Book Value 31 March 2012 \$'000
Leasehold improvements	219	27	-	-	246	(63)	(10)	-	(73)	173
Furniture and fittings	67	-	4	-	71	(62)	(2)	-	(64)	7
Plant and equipment	467	91	1	49	510	(396)	(45)	47	(394)	116
<b>Total Property, Plant and Equipment</b>	<b>753</b>	<b>118</b>	<b>5</b>	<b>49</b>	<b>827</b>	<b>(521)</b>	<b>(57)</b>	<b>47</b>	<b>(531)</b>	<b>296</b>

No impairment losses were recorded in 2013 or 2012.

## NOTES TO FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 MARCH 2013

### 10. PROPERTY, PLANT & EQUIPMENT continued...

Company	2013										Book Value 31 March 2013 \$'000
	Cost 1 April 2012 \$'000	Additions/ Transfers \$'000	Disposals \$'000	Cost 31 March 2013 \$'000	Accumulated depreciation 1 April 2012 \$'000	Depreciation expense \$'000	Accumulated depreciation reversed on disposal \$'000	Accumulated depreciation 31 March 2013 \$'000	Transfer	Accumulated depreciation 31 March 2013 \$'000	
Leasehold improvements	219	(102)	-	117	(71)	(81)	-	(117)	35	(117)	-
Furniture and fittings	70	-	-	70	(64)	(1)	-	(65)	-	(65)	5
Plant and equipment	418	188	-	606	(385)	(27)	-	(447)	(35)	(447)	159
<b>Total Property, Plant and Equipment</b>	<b>707</b>	<b>86</b>	<b>-</b>	<b>793</b>	<b>(520)</b>	<b>(109)</b>	<b>-</b>	<b>(629)</b>	<b>-</b>	<b>(629)</b>	<b>164</b>
	2012										Book Value 31 March 2012 \$'000
	Cost 1 April 2011 \$'000	Additions \$'000	Disposals \$'000	Cost 31 March 2012 \$'000	Accumulated depreciation 1 April 2011 \$'000	Depreciation expense \$'000	Accumulated depreciation reversed on disposal \$'000	Accumulated depreciation 31 March 2012 \$'000		Accumulated depreciation 31 March 2012 \$'000	
Leasehold improvements	219	-	-	219	(63)	(8)	-	(71)		148	
Furniture and fittings	67	3	-	70	(62)	(2)	-	(64)		6	
Plant and equipment	467	-	(49)	418	(396)	(36)	47	(385)		33	
<b>Total Property, Plant and Equipment</b>	<b>753</b>	<b>3</b>	<b>(49)</b>	<b>707</b>	<b>(521)</b>	<b>(46)</b>	<b>47</b>	<b>(520)</b>		<b>187</b>	

No impairment losses were recorded in 2013 or 2012.

## NOTES TO FINANCIAL STATEMENTS *continued*

FOR THE YEAR ENDED 31 MARCH 2013

### 11. FINITE LIFE INTANGIBLE ASSETS

#### Group and Company

	Patents \$'000	Capitalised development \$'000	Website development \$'000	Total \$'000
<b>Gross carrying amount</b>				
Balance at 1 April 2012	536	2,755	46	3,337
Additions from patent acquisition costs	71	-	-	71
Additions from internal developments	-	360	-	360
Additions from website development	-	-	23	23
Balance at 31 March 2013	607	3,115	69	3,791
<b>Accumulated amortisation and impairment</b>				
Balance at 1 April 2012	114	830	18	962
Amortisation expense	44	356	12	412
Balance at 31 March 2013	158	1,186	30	1,374
<b>Net Book Value at 31 March 2012</b>	449	1,929	39	2,417
<b>Gross Carrying Amount</b>				
Balance at 1 April 2011	429	2,347	35	2,811
Additions from patent acquisition costs	107	-	-	107
Additions from internal developments	-	408	-	408
Additions from website development	-	-	11	11
Balance at 31 March 2012	536	2,755	46	3,337
<b>Accumulated amortisation and impairment</b>				
Balance at 1 April 2011	76	524	6	606
Amortisation expense	38	306	12	356
Balance at 31 March 2012	114	830	18	962
<b>Net Book Value at 31 March 2012</b>	422	1,925	28	2,375

No impairment losses have been recorded in the current period (2012: Nil).

The capitalised development expenditure relates to the continued development of ingredient, intermediate and food products containing BLIS, and the associated regulatory approval processes.

During the year ended 31 March 2013, the Board reviewed the intangible assets and have determined that there is no impairment of any intangible assets.

The calculation of the recoverable amounts has been determined based on a value in use calculation that uses cash flow projections based on the financial forecasts prepared by management covering a five-year period.

Management has determined that the recoverable amount calculations are most sensitive to change in the following assumptions. Annual sales growth rates of between 19% to 125% (2012: 11% to 104%) and pre-tax discount rates of 20% (2012: 20%) have been applied in these projections. Cashflows beyond the five year period have been extrapolated using a steady 2% (2012: 2%) growth rate. The recoverable amount is very sensitive to each of these assumptions being achieved. If these assumptions are not achieved, it is likely that the recoverable amount of the capitalised development expenditure will be less than carrying value.



**NOTES TO FINANCIAL STATEMENTS** *continued*

FOR THE YEAR ENDED 31 MARCH 2013

## 12. ACCOUNTS PAYABLE

	Group		Company	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
Accounts payable	261	293	261	241
Employee entitlements	59	72	59	61
Directors' fees	17	7	17	7
	337	373	337	309

## 13. CONVERTIBLE PREFERENCE SHARES (CPS)

Group and Company	2013 No. of Shares	2013 \$'000	2012 No. of Shares	2012 \$'000
Balance at the beginning of the year (i) (ii)	4,000,000	4,000	4,000,000	4,000
Converted to Ordinary Shares	(4,000,000)	(4,000)	-	-
Balance at the end of the year	-	-	4,000,000	4,000
<b>Less cost of raising CPS</b>				
Balance at the beginning of the year		16		137
Amortisation of transaction cost for Convertible Preference Shares		(16)		(121)
Balance at the end of the year		-		16
<b>Add dividend payable</b>		-		158
NET BALANCE - Current liability		-		4,141

(i) On 8 May, 2009, the Company issued 3,000,000 \$1 mandatory convertible cumulative preference shares (CPS). The CPS carry rights to a 10% gross dividend payable semi-annually. The CPS converted to Ordinary Shares on 8 May, 2012. On the basis the conversion to Ordinary Shares was not at a fixed ratio, the CPS were recognised as a liability for financial reporting purposes.

(ii) Edinburgh Equity Nominee Limited, a related party, was the underwriter with respect to the CPS issue and pursuant to the underwriting agreement was issued an option to subscribe for 1,000,000 preference shares at \$1.00 each by 31 March 2010. Edinburgh Equity Nominee Limited exercised this option on 29 March 2010. The 1,000,000 preference shares issued pursuant to the exercise of this option ranked equally with the existing preference shares on issue excluding entitlement to the May 2010 dividend.

On 8 May, 2012 the Cumulative Preference Shares converted into 298,062,787 Ordinary Shares in accordance with the prospectus dated 30 March 2009. Ninety five percent of the prevailing Ordinary Share price over the previous 20 business days was used for the conversion, being \$0.01342 per Ordinary Share.

Immediately prior to the conversion BLIS satisfied the final distribution of \$200,000 (gross) payable in respect of the Cumulative Preference Shares after provision for withholding taxes by issuing further Ordinary Shares using the same Ordinary Share price of \$0.01342 per Ordinary Share. A further 12,990,194 Ordinary Shares were issued by BLIS to satisfy the distribution.

## NOTES TO FINANCIAL STATEMENTS *continued*

FOR THE YEAR ENDED 31 MARCH 2013

### 13. CONVERTIBLE PREFERENCE SHARES (CPS) *continued*...

The 311,052,981 Ordinary Shares issued under the conversion and dividend rank equally with all other Ordinary Shares on issue in the Company and participate equally in all distributions declared after the date of issue.

### 14. NON-CONTROLLING INTEREST

<b>Group</b>	<b>2013 \$'000</b>	<b>2012 \$'000</b>
Balance at the beginning of the year	(9)	-
Acquired on acquisition of subsidiary	-	16
Share of net surplus/deficit for the year	(46)	(25)
Share of other comprehensive income	-	-
Transfer to retained earnings on buy-out of non-controlling interest (Note 19)	55	-
Balance at the end of the year	Nil	(9)

On 23 March 2013, the shares held by the non-controlling interest were transferred to BLIS Technologies Limited for nominal consideration.

### 15. GOODWILL

<b>Group</b>	<b>2013 \$'000</b>	<b>2012 \$'000</b>
<b>Gross carrying amount</b>		
Balance at the beginning of the year	84	-
Amounts recognised from business combinations occurring during the period	-	84
Goodwill impairment	(84)	-
Balance at the end of the year	-	84

### 16. INVESTMENT in SUBSIDIARY

<b>Subsidiary</b>	<b>Percentage held</b>		<b>Balance date</b>	<b>Principal activity</b>
	<b>2013</b>	<b>2012</b>		
BLIS Functional Foods Limited	100%	90%	31 March	Production, distribution and sale of ice cream and yoghurt.

On 23 March 2013, BLIS Functional Foods Limited ceased trading.

## NOTES TO FINANCIAL STATEMENTS *continued*

FOR THE YEAR ENDED 31 MARCH 2013

### 17. ACQUISITION OF BUSINESS

On 2 August 2011, BLIS Functional Foods Limited (then a 90% owned subsidiary of BLIS Technologies Limited) acquired the business of Gourmet Ice Cream Co. Limited for \$225,000. BLIS Functional Foods Limited was incorporated on 18 July 2011. BLIS Functional Foods Limited commenced trading on 2 August 2011.

Financial information in respect of the net assets recognised on acquisition of the business of Gourmet Ice Cream Co. Limited in the year ended 31 March 2012, is set out below:

	<b>Gourmet Ice Cream Co. Limited</b>		
	<b>Book value</b>	<b>Fair value adjustment</b>	<b>Total fair value on acquisition</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Net Assets Acquired</b>			
<b>Current assets:</b>			
Inventories	38	–	38
<b>Non-current assets:</b>			
Property, plant and equipment	119	–	119
<b>Net assets</b>	157	–	157
Non-controlling Interest			(16)
Net assets acquired			141
Goodwill on acquisition of business			84
Cost of acquisition			\$225

The contribution to net surplus/(deficit) for the 2012 year attributable to the purchase of Gourmet Ice Cream Co. Limited business was a deficit of \$251,452. The assessment of the deficit had the acquisition been made at the start of the year is impractical.

The investment in subsidiary within the Company at 31 March 2012 was impaired by \$225,000 to reflect the estimated recoverable amount at that date.

## NOTES TO FINANCIAL STATEMENTS *continued*

FOR THE YEAR ENDED 31 MARCH 2013

### 18. SHARE CAPITAL

<b>Group &amp; Company</b>	<b>2013 No. of Shares</b>	<b>2013 \$'000</b>	<b>2012 No. of Shares</b>	<b>2012 \$'000</b>
Balance at the beginning of the year	175,826,655	27,585	143,846,586	26,034
Shares issued in lieu of Dividend due on Cumulative Preference Shares	12,990,194	173		
Shares issued on conversion of Cumulative Preference Shares	298,062,787	4,000		
Cancellation of Treasury Stock 9 May 2012	(5,000,000)			
Shares issued pursuant to Share Purchase Plan To eligible shareholders on 25 October 2012	101,285,696	709		
Shares issued pursuant to Share Purchase Placement offer on 25 October 2012	86,428,571	604		
Shares issued pursuant to Share Purchase Plan to eligible shareholders on 27 September 2011			14,000,301	679
Shares issued pursuant to Share Purchase Placement offer on 27 September 2011			17,216,865	835
Shares issued pursuant to Share Purchase Plan to eligible shareholders on 4 October 2011			350,523	17
Shares issued pursuant to Share Purchase Plan to eligible shareholders on 26 October 2011			412,380	20
Balance at the end of the year	669,593,903	33,071	175,826,655	27,585

All 669,593,903 Ordinary Shares are issued and fully paid Ordinary Shares and carry equal voting rights. All issued shares participate equally in any dividend distribution or any surplus on winding up of the company.

Changes to the *Companies Act in 1993* abolished the authorised capital and par value concept in relation to share capital from 1 July 1994. Therefore, the company does not have a limited amount of authorised capital and issued shares do not have a par value.

The Company converted all of the Cumulative Preference Shares which it had on issue as at 5pm 8 May 2012 into a further 298,062,787 Ordinary Shares in accordance with its prospectus date 30 March 2009. Ninety five percent of the prevailing Ordinary Share price over the previous 20 business days was used for the conversion, being \$0.01342 per Ordinary Share. Immediately prior to the conversion BLIS satisfied the final distribution of \$200,000 (gross) payable in respect of the Cumulative Preference Shares after provision for withholding taxes by issuing further Ordinary Shares using the same Ordinary Share price of \$0.01342 per Ordinary Share. A further 12,990,194 Ordinary Shares were issued by the Company to satisfy the distribution.

The 311,052,981 Ordinary Shares issued under the conversion and dividend rank equally with all other Ordinary Shares on issue in the Company and participate equally in all distributions declared after the date of issue.

The Company cancelled 5,000,000 Ordinary Shares which it was holding as treasury stock on 9 May 2012.

On 25 October 2012, 101,285,696 shares were issued pursuant to a Share Purchase Plan offered to eligible shareholders and 86,428,571 shares were issued pursuant to a share placement offer. The shares were issued at a price of \$0.0070 per share.

On 27 September 2011, 14,000,301 shares were issued pursuant to a Share Purchase Plan offered to eligible shareholders and 17,216,865 shares were issued pursuant to a share placement offer.

350,523 shares were issued on 4 October 2011 pursuant to a Share Purchase Plan offered to eligible shareholders. 412,380 shares were issued on 26 October 2011 pursuant to a private placement offer. The shares issued pursuant to the allotments on 27 September 2011, 4 and 26 October 2011 under the Share Purchase Plan and placements were at a price of \$0.0485 per share.

**NOTES TO FINANCIAL STATEMENTS** *continued*

FOR THE YEAR ENDED 31 MARCH 2013

## 18. SHARE CAPITAL continued ...

	Group	
	2013 Cents per Share	2012 Cents per Share
Basic earnings per share	(0.34)	(1.1)
The earnings and weighted average number of ordinary issued shares used in the calculation of basic earnings per share are as follows:		
	\$'000	\$'000
Net deficit	(1,810)	(1,734)
Weighted average number of Ordinary Shares for the purpose of basic earnings per share	530,277,718	154,417,490
	2013 Cents per Share	2012 Cents per Share
Diluted earnings per share	(0.34)	(0.38)
The earnings and weighted average number of issued Ordinary Shares used in the calculation of diluted earnings per share are as follows:		
	\$'000	\$'000
Net deficit	(1,810)	(1,734)
	No.	No.
Weighted average number of Ordinary Shares for the purpose of diluted earnings per share	530,277,718	455,480,277
	2013 Cents per Share	2012 Cents per Share
Net tangible asset/(liability) per share at year end	0.16	(1.48)
The net tangible assets and number of issued Ordinary Shares used in the calculation of net tangible asset per share are as follows:		
	\$'000	\$'000
Net tangible assets	1,073	(2,599)
	No.	No.
Number of Ordinary Shares held at 31 March	669,593,903	175,826,655

## NOTES TO FINANCIAL STATEMENTS *continued*

FOR THE YEAR ENDED 31 MARCH 2013

### 19. RETAINED EARNINGS (DEFICIT)

	Group		Company	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
Balance at the beginning of year	(27,716)	(25,982)	(27,715)	(25,982)
Net surplus/(deficit) for the year	(1,810)	(1,734)	(1,866)	(1,733)
Non-controlling interest share of losses transferred (Note 14)	(55)	-	-	-
Balance at the end of the year	(29,581)	(27,716)	(29,581)	(27,715)

### 20. RELATED PARTY TRANSACTIONS

During the period the following transactions were entered into with related parties:

Mr C E Dawson is Chief Executive Officer of Otago Innovation Limited, a wholly owned subsidiary of the University of Otago. During the period the University of Otago provided rental space, goods and services to BLIS Technologies Limited. The total value of these services was \$80,831 (2012: \$83,279). \$5,326 was owing at 31 March 2013 (2012: \$1,786).

During the year, BLIS products were sold to the following related parties:

Associated Entity	Director	Amount
Edinburgh Equity Nominee Ltd	A P Offen	\$185
P F Fennessy	P F Fennessy	\$883
A J McKenzie	A J McKenzie	\$104
B H Wallace	B H Wallace	\$333

### 21. COMMITMENTS for EXPENDITURE

#### (a) Capital expenditure commitments

As at 31 March 2013 there were no capital expenditure commitments (2012: \$Nil).

#### (b) Lease commitments

Non-cancellable operating lease commitments are as follows:

	Group		Company	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
Less than 1 year	55	115	55	65
1 - 5 years	95	147	95	2
Longer than 5 years	-	-	-	-

### 22. CONTINGENT ASSETS and CONTINGENT LIABILITIES

There were no material contingent assets or contingent liabilities at 31 March 2013 (2012: \$Nil).

## NOTES TO FINANCIAL STATEMENTS *continued*

FOR THE YEAR ENDED 31 MARCH 2013

### 23. GOING CONCERN

The financial statements have been prepared based on an assumption of going concern.

The Group and the Company have recorded a net deficit of \$1,856,000 (2012: \$1,759,000) and \$1,866,000 (2012: \$1,733,000), respectively, for the year ended 31 March 2013.

The Directors believe the going concern assumption is valid, reaching such a conclusion after having regard to the circumstances which they consider reasonably likely to affect the Group and Company during the period of one year from the date these financials statements are approved.

Specifically, the going concern assumption relies on the Group and Company raising further capital to offset an anticipated near term operating deficit and to meet its capital expenditure and working capital requirements.

Management have prepared a budget and cash flow projections which the Board considers credible and indicate that subject to raising at least \$1 million in new equity and achieving targeted revenue forecasts, the Group and Company will be able to meet its financial obligations for at least the next 12 months. The Company has initiated plans to raise such further capital and the expectations of Directors are that a minimum \$1 million in new equity will be raised in support of the Management Plan.

While the Directors believe in the Group and Company's ability to continue as a going concern, there is material uncertainty as to whether the Group and Company will be able to raise the \$1 million cash by way of new equity and achieve future profitability within the timeframe set out in the Management Plan. Even in the event that the Company raises sufficient cash by way of new equity to enable the Company to operate for the next 12 months, there remains uncertainty as to whether the Company can achieve commercial sales levels, and thereby the cash flow required to operate as a going concern, prior to utilisation of current and any future available cash resources. In the event it cannot raise additional cash and/or fails to achieve future profitability as planned, it is likely the Group and Company will not be able to continue as a going concern.

If the Group and Company were unable to continue as a going concern, and pay debts as, and when, they become due and payable, adjustments to the carrying value of assets would have to be made to reflect the situation. In such circumstances assets may need to be realised and liabilities extinguished, other than in the normal course of business and at amounts which could differ significantly from the amounts at which they are currently recorded in the balance sheet. This situation would likely impact in particular on the carrying value of property, plant and equipment and Intangible assets.

These financial statements do not include any adjustments relating to the classification and recoverability of recorded asset amounts or to the amounts and classification of liabilities that may be necessary should the Group and Company be unable to continue as a going concern.

## NOTES TO FINANCIAL STATEMENTS *continued*

FOR THE YEAR ENDED 31 MARCH 2013

### 24. SEGMENTAL REPORTING

#### 24.1 Adoption of NZ IFRS 8 operating segments

The Group is internally reported as a single operating segment to the chief operating decision-maker.

	Group	
	2013	2012
	\$'000	\$'000

#### 24.2 Revenue from major products and services

The Group's revenues from its major products and services were as follows:

BLIS products	1,121	1,467
Other	40	43
<b>Total Revenue</b>	<b>1,161</b>	<b>1,510</b>

#### 24.3 Information about geographical areas

The Group operates in four principal geographical areas; New Zealand (country of domicile), United States of America, Asia/Europe and Australia.

The Group's revenue from external customers and information about its assets by geographical location (of the customer) are detailed below:

Trading revenue	Group		Group	
	2013	2012	2013	2012
	\$'000	\$'000	\$'000	\$'000
	Revenue from external customers		Non-current Assets	
New Zealand	672	546	2,654	2,755
United States of America (USA)	104	676	-	-
Asia/Europe	217	52	-	-
Australia	103	129	-	-
Other	25	64	-	-
<b>Total Trading Revenue</b>	<b>1,121</b>	<b>1,467</b>	<b>2,654</b>	<b>2,755</b>
Other	40	43	-	-
<b>Total Revenue</b>	<b>1,161</b>	<b>1,510</b>	<b>2,654</b>	<b>2,755</b>

Included in revenue are revenues of \$209,470, \$179,382 and \$103,943 (2012: \$128,632, \$264,968 and \$621,074) which arose from sales to company's three largest customers.



**NOTES TO FINANCIAL STATEMENTS** *continued*

FOR THE YEAR ENDED 31 MARCH 2013

**25. RECONCILIATION OF NET DEFICIT WITH CASH FLOWS  
FROM OPERATING ACTIVITIES**

	<b>Group</b>		<b>Company</b>	
	<b>2013 \$'000</b>	<b>2012 \$'000</b>	<b>2013 \$'000</b>	<b>2012 \$'000</b>
Net surplus /(deficit) for the year	(1,856)	(1,759)	(1,866)	(1,733)
Adjustments for non-cash items:				
Amortisation of capitalised development costs	356	306	356	306
Amortisation of patents	44	38	44	38
Amortisation of website development	12	12	12	12
Amortisation of transaction costs for Convertible Preference Shares	16	121	16	121
Ordinary Shares issued in lieu of dividend on CPS	174	-	174	-
Depreciation	124	58	109	46
Loss/(Gain) on sale of fixed asset	6	(6)	-	(6)
Impairment of loan to subsidiary	-	-	478	-
Impairment of goodwill and property, plant and equipment	97	-	-	-
Increase in working capital on wind-up of subsidiary operations	-	-	7	-
Impairment of investment in subsidiary	-	-	-	225
	(1,027)	(1,230)	(670)	(991)
Movements in working capital				
Accounts receivable	525	(509)	458	(442)
Prepayments	(3)	(8)	(5)	(6)
Inventories	46	54	(13)	74
Accounts payable	(36)	(65)	27	(128)
Convertible Preference Share dividend payable	(158)	-	(158)	-
	374	(528)	309	(502)
Net cash inflow (outflow) from operating activities	(653)	(1,758)	(361)	(1,493)

## NOTES TO FINANCIAL STATEMENTS *continued*

FOR THE YEAR ENDED 31 MARCH 2013

### 26. FINANCIAL INSTRUMENTS

All of the Group's financial assets are recognised as loans and receivables measured at amortised cost. The Group does not have any financial assets recognised as held to maturity, designated at fair value or available for sale. All of the Group'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 Group's business.

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

The capital structure of the Group comprises issued capital and retained earnings as disclosed in Notes 18 and 19 respectively.

The Group's Board of Directors reviews the capital structure on a regular basis.

The Group is not subject to externally imposed capital requirements.

The Group's overall strategy remains unchanged from 2012.

#### (c) Market Risk

Market risk is the potential for change in the value of financial instruments 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 Group's activities expose it primarily to market risk associated with changes in foreign currency rates and interest rates as set out below. These risks are measured using sensitivity analysis. The mechanisms for managing these risks are set out below. There have been no changes during the year to the Group's exposure to such risks or the manner in which the risks are measured and managed.

#### (d) Interest Rate Risk

The Group is exposed to interest rate risk as from time to time it borrows funds at floating interest rates and also invests cash in short term deposits at fixed 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 Group to fair value interest rate risk. The Group 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 Group to cash flow interest rate risk. The Group does not hedge this risk.

#### (e) Foreign Exchange Risk

In the course of normal trading activities, the Group undertakes transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise. The Group does not hedge this risk.

The carrying amount of the Group's foreign currency denominated monetary assets are as follows:

	Group and Company	
	2013	2012
	\$'000	\$'000
Australian Dollar	-	17
United States Dollar	167	501

The table expresses foreign currency amounts in New Zealand dollar equivalents using the exchange rates at 31 March 2013 and 31 March 2012. The rates applied at 31 March 2013 were:

NZ\$1: A\$0.8014 (2012: A\$0.7779), and

NZ\$1: US\$0.8369 (2012: US\$0.8208)

## NOTES TO FINANCIAL STATEMENTS *continued*

FOR THE YEAR ENDED 31 MARCH 2013

### 26. FINANCIAL INSTRUMENTS *continued...*

#### (f) Other Price Risk

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

#### (g) Credit Risk

Credit risk refers to the risk that a counter-party will default on its contractual obligations resulting in financial loss to the Group. Financial instruments which potentially subject the Group to credit risk, principally consist of bank balances and Accounts receivable. The Board monitors and manages the exposure to credit risk.

The maximum exposures to credit risk at balance date are:

	Group		Company	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
Cash and short-term deposits	759	565	759	537
Accounts receivable	208	733	208	666
	967	1,298	967	1,203

At 31 March 2013, Accounts receivable include an amount of \$94,266 (2012:\$567,694) due from one customer (all paid subsequent to year end), and all of the Group's bank accounts are held with Bank of New Zealand and Westpac Banking Corporation Limited. Otherwise the Group does not have any other concentrations of credit risk. The Group does not require any collateral or security to support financial instruments.

#### (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 Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities (if required) by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

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

#### Liquidity and Interest Risk Tables

The following tables detail the Group and Company's remaining contractual maturity for 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 except where the Group/Company is entitled and intends to repay a liability before its maturity.

	Weighted Average Effective Interest Rate %	Less than 1 year \$'000	1-2 years \$'000	2-3 years \$'000	3-4 years \$'000	4-5 years \$'000	5+ years \$'000	Interest	Total \$'000
<b>Group &amp; Company – 31 March 2013</b>									
Financial assets:									
Cash and short-term deposits	3.40	759	-	-	-	-	-	-	759
Accounts receivable	-	208	-	-	-	-	-	-	208
Total	-	967	-	-	-	-	-	-	967
Financial liabilities:									
Accounts payable	-	337	-	-	-	-	-	-	337
Total	-	337	-	-	-	-	-	-	337

## NOTES TO FINANCIAL STATEMENTS *continued*

FOR THE YEAR ENDED 31 MARCH 2013

### 26. FINANCIAL INSTRUMENTS *continued*...

	Weighted average effective interest rate %	Less than 1 year \$'000	1-2 years \$'000	2-3 years \$'000	3-4 years \$'000	4-5 years \$'000	5+ years \$'000	Interest	Total \$'000
<b>Group – 31 March 2012</b>									
Financial assets:									
Cash and short-term deposits	3.35	565	-	-	-	-	-	-	565
Accounts receivable	-	733	-	-	-	-	-	-	733
Total	-	1,298	-	-	-	-	-	-	1,298
Financial liabilities:									
Convertible Pref Shares – 10%(i)	-	25	-	-	-	-	-	-	25
Accounts payable	-	373	-	-	-	-	-	-	373
Total	-	398	-	-	-	-	-	-	398

	Weighted average effective interest rate %	Less than 1 year \$'000	1-2 years \$'000	2-3 years \$'000	3-4 years \$'000	4-5 years \$'000	5+ years \$'000	Interest	Total \$'000
<b>Company – 31 March 2012</b>									
Financial assets:									
Cash and short-term deposits	3.35	537	-	-	-	-	-	-	537
Advances to subsidiary	10	-	287	-	-	-	-	-	294
Accounts receivable	-	666	-	-	-	-	-	7	666
Total	-	1,203	287	-	-	-	-	7	1,497
Financial liabilities:									
Convertible Pref Shares- 10%(i)	-	25	-	-	-	-	-	-	25
Accounts payable	-	309	-	-	-	-	-	-	309
Total	-	334	-	-	-	-	-	-	334

(i) As set out in note 13 the Convertible Preference Shares converted into Ordinary Shares in May 2012. The 2012 tables above include the contractual obligation for the withholding tax on the dividend payment, paid semi-annually, pursuant to the terms of the instrument.

#### (i) Sensitivity Analysis

The Group is exposed to foreign currency risk arising from license revenue and sales denominated in currencies other than the Group's functional currency, arising from normal trading activities.

The majority of foreign currency related exposures relate to accounts receivable. The Group is mainly exposed to the Australian Dollar, and the United States dollar.

Exposures to movements in these foreign currency rates are not considered material at balance date. However the year end exposure (and sensitivity to foreign currency rate movements at this time) does not reflect the risk and exposure during the course of the year. The Group's sensitivity to foreign currency rate movements has not changed during the year.

## NOTES TO FINANCIAL STATEMENTS *continued*

FOR THE YEAR ENDED 31 MARCH 2013

### 26. FINANCIAL INSTRUMENTS *continued*...

Exposure to movement in floating interest rates in respect of cash on deposit and the overdraft facility is also not considered material at balance date.

#### **(j) Fair Value of Financial Instruments**

The fair values of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices; and
- the fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

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

## STATEMENT OF CORPORATE GOVERNANCE

FOR THE YEAR ENDED 31 MARCH 2013

Board and Management are committed to ensuring that the Company maintains Corporate Governance structures which ensure that the Company operates efficiently and effectively in the best interests of the Company, but at the same time recognises that certain elements of international “best practice” corporate governance are not appropriate for a small company.

This statement of Corporate Governance provides a summary of the Company’s corporate governance processes, and the code of conduct contained in the Board of Directors operations manual.

The Company’s corporate governance policies meet the nine principles of corporate governance issued by the Securities Commission. The nine principles are:

- Ethical standards
- Board composition and performance
- Use of Board committees where this would enhance effectiveness
- Reporting and disclosure
- Remuneration of Directors and Executives
- Risk management
- Quality and independence of the external audit process
- Shareholder relations
- Shareholder interest.

### FINANCIAL STATEMENTS

The Directors are responsible for ensuring that the Company’s financial statements give a true and fair view of the financial position of the company and its financial performance and cash flows for the year. The external auditors are responsible for expressing an opinion on the financial statements, based on their review and assessment of the conclusions drawn from evidence obtained in the course of the audit.

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 1993*.

After reviewing internal management financial reports and budgets, the Directors believe that provided additional capital is raised 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.

### ROLE OF THE BOARD OF DIRECTORS

Directors are elected by the shareholders to govern the Company in the Company’s best interests. The Board is the overall and final body of responsibility for all decision making within the Company.

The Directors have a diverse range of expertise and experience, and are committed to use this to benefit the company. The Board is responsible to shareholders for charting the direction of the Company by participating in the setting of objectives, strategy and key policy areas. It is then responsible for monitoring management’s running of the business to ensure implementation is in accordance with the agreed framework. The Board delegates the conduct of the day-to-day affairs of the Company to the Chief Executive Officer within this framework.

The primary responsibilities of the Board include:

- establishing the long-term goals of the company and strategic plans to achieve those goals;
- succession planning for the Chief Executive Officer and the Board;
- risk management in order to protect its employees, assets, earnings and reputation;
- reviewing and adopting a plan and operating budget produced annually;

## STATEMENT OF CORPORATE GOVERNANCE *continued*

FOR THE YEAR ENDED 31 MARCH 2013

- monitoring environmental, social and financial performance;
- ensuring that the company has implemented adequate systems of internal controls including internal financial controls together with appropriate monitoring of compliance activities;
- appointing and monitoring the Chief Executive Officer and other executive managers and determining their remunerations;
- communicating with shareholders and other stakeholders; and
- approving the annual and half-year financial statements.

The directors appoint a Chair from amongst their members. The Board supports separation of the role of Chairman and Chief Executive Officer. The chairman's role is to provide leadership and to manage the Board effectively. The Chief Executive Officer is not a Director, and where necessary, the Board will meet without the Chief Executive Officer being present.

The Board receives reports from management and has access to all of the information necessary for it to effectively discharge its duties.

### BOARD MEMBERSHIP & INDEPENDENCE

The Constitution currently sets the size of the Board at a minimum of three and at least two Directors must be resident in New Zealand. The Board currently comprises five Directors, comprising a Chairman and four Directors appointed for their mix of commercial and technical skills. The Board aims to meet on at least six occasions in the financial year. Under the Company's constitution, one third of all Directors must retire every year, but can be re-elected at an annual meeting if eligible.

All five directors are non-executive members and three are independent members. The independent directors are Mr P F Fennessy, Mr C E Dawson, and Mr B H Wallace. A director is "independent" when he or she does not have any direct or indirect interest or relationship with the Company which could reasonably influence, in a material way, that Director's decisions relating to the company. The Board will consider all relevant circumstances when determining independence, but is of the view that a Director cannot be independent where the Director, or an associated person of the Director:

- is a substantial security holder in the Company; or
- has a relationship with the Company (other than being a Director of the Company) under which the Director or associated person is likely to derive a substantial portion (generally 10% or more) of their annual revenue or income from the Company.

The Company has no requirement for Directors to hold shares in the Company but actively encourages them to do so.

The Board as a whole is involved with recommending candidates to act as Directors to shareholders. When considering candidates for nomination, the Board will consider, amongst other things, the individual's experience, qualifications and skills in comparison to the experience, qualifications and skills of other Directors, whether that individual is "independent" and whether that individual would be able to work effectively with other Directors. The Board has the ability to appoint an individual to fill a casual vacancy on the Board until the Company's next annual general meeting.

The procedures for the appointment and removal of Directors are governed by the Company's constitution. The constitution provides for one third of the Company's Directors (rounded, if necessary, to the nearest number) to retire and stand for re-election at every Annual General Meeting, with those Directors to retire being those who have been in office longest since they were elected or deemed to be elected.

Total Directors' remuneration is fixed by shareholders at the Company's Annual General Meeting, upon the recommendation of the Board as a whole. Within that cap, the Board is responsible for determining the remuneration paid to each Director.

### 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:

## STATEMENT OF CORPORATE GOVERNANCE *continued*

FOR THE YEAR ENDED 31 MARCH 2013

- Corporate governance matters;
- Role of the Board and composition of the Board;
- Director responsibilities;
- Appointment of, responsibilities of and remuneration of a Chief Executive Officer;
- 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

The Board Operations Manual sets out a procedure to be followed where Directors are faced with a conflict of interest. At all times a Director must be able to act in the interests of the organisation as a whole and in accordance with all relevant laws, including the NZX Listing Rules. The interests and associates, individual shareholders and the personal interests of the Director and his family must not be allowed to prevail over those of the Company and its shareholders generally.

### AUDIT, RISK MANAGEMENT AND INTERNAL FINANCIAL CONTROL

The Board has overall responsibility for risk management and the Company's system of internal financial control, for liaising with the Company's external auditors, and for ensuring the integrity of the Company's financial reporting. The Board constantly monitors the operational and financial aspects of the Company's activities and has established procedures and policies that are designed to provide effective internal financial control. Annual budgets and business plans are prepared, and agreed by the Board. Monthly management accounts are prepared and reviewed by the Board throughout the year to monitor performance against budget.

The Board considers the recommendations and advice of external auditors and other external advisors on the operational and financial risks that face the company. The Board ensures that recommendations made by the external auditors and other external advisers are investigated and, where considered necessary, action is taken to ensure that the company has an appropriate internal control environment in place to manage the key risks identified.

In addition, the Board investigates ways of enhancing existing risk management strategies, including appropriate segregation of duties and the employment and training of suitably qualified and experienced personnel.

Given the size of the company an internal audit function is not considered necessary.

### NZX CORPORATE BEST PRACTICE CODE

Given the size and composition of the Board, there are no significant benefits in delegating matters in relation to the Board nomination process and liaison with external auditors to committees.

The Board convenes as the audit committee for the purposes of meeting with the auditors and considering the reports of the auditors. Other than on this point, the Company's Corporate Governance processes do not materially differ from the principles set out in the NZX Corporate Governance Best Practice Code.



## ADDITIONAL STOCK EXCHANGE INFORMATION

FOR THE YEAR ENDED 31 MARCH 2013

The Company's Ordinary Shares are listed on the New Zealand Exchange (NZX). Details in regard to such securities are as follows.

As at 19 April 2013 the total number of issued Ordinary Shares in the Company was 669,593,903.

### 1. SUBSTANTIAL SECURITY HOLDERS

The company's register of the disclosure by substantial security holders, kept in accordance with *section 35C* of the *Securities Markets Act 1988* recorded the following information as at 19 April 2013.

Name	Number of Voting Securities Ordinary Shares
Edinburgh Equity Nominee Limited	177,931,743
Xu Qi Wu & Yao Hong Shen	45,000,000

### 2. SPREAD OF SECURITY HOLDERS AT 19 APRIL 2013 – ORDINARY SHARES

	Number of Security Holders	
1 – 50,000	424	37.10%
50,001 – 100,000	266	23.27%
100,001 – 150,000	79	6.91%
150,001 – 200,000	87	7.61%
200,001 – 300,000	77	6.74%
300,001 – 500,000	80	7.00%
500,001 – 1,000,000	60	5.25%
1,000,001 – 5,000,000	58	5.07%
5,000,001 and above	12	1.05%
Total number of holders	1,143	100.00%

## ADDITIONAL STOCK EXCHANGE INFORMATION *continued*

FOR THE YEAR ENDED 31 MARCH 2013

### 3. TWENTY LARGEST EQUITY SECURITY HOLDERS

The names of the 20 largest holders of each class of quoted equity security as at 19 April 2013, are listed below.

#### TOP 20 SHAREHOLDERS

	Number of Issued Ordinary Shares	Percentage Issued
Edinburgh Equity Nominee Limited	177,931,743	26.57%
Xu Qi Wu & Yao Hong Shen	45,000,000	6.72%
New Zealand Central Securities Depository Limited	34,214,912	5.11%
Sil Long Term Holdings Limited	21,428,571	3.20%
Michael Herbert Bird	18,979,590	2.83%
Stephen Patrick Ward & Julie Patricia Ward & Elisabeth Patrice Welson	18,490,472	2.76%
Custodial Services Limited	16,688,530	2.49%
Mark Alexander Stevens & Wendy Joanne Stevens & WMC Trustees Limited	16,639,525	2.49%
First NZ Capital Securities Limited	8,827,667	1.32%
Bevan Hugh Wallace	8,143,859	1.22%
University of Otago	6,700,000	1.00%
Graeme Alan Hoy	5,298,181	0.79%
John Robert Tagg	4,936,885	0.74%
J B Were (NZ) Nominees Limited	4,655,727	0.70%
Mingchun Qiu	4,374,769	0.65%
Vivienne Louise Cowan	4,350,263	0.65%
Peter Francis Fennessy & Mary Elizabeth Fennessy	4,298,182	0.64%
Nicholas Robin White	4,022,468	0.60%
Kirkland Properties Limited	3,745,377	0.56%
Richard Mark Keenan	3,656,000	0.55%
	412,382,721	61.59%

## ADDITIONAL STOCK EXCHANGE INFORMATION *continued*

FOR THE YEAR ENDED 31 MARCH 2013

### 4. DIRECTORS' SHAREHOLDINGS

The following table sets out, for the purposes of the disclosures required under rule 10.5.3(c) of the New Zealand Stock Exchange Listing Rules, the relevant interests of Directors and associated persons of the Directors in equity securities of the company as at 31 March 2013.

Name of Director		Number of equity securities in which a relevant interest is held by the Director	Number of equity securities in which a relevant interest is held by an associated person (and not included in the previous column)
C E Dawson	Ordinary	3,633,474 (1)	
P F Fennessy	Ordinary	4,298,182 (2)	-
A P Offen	Ordinary	177,931,743 (3)	-
A J McKenzie	Ordinary	200,621,517 (4)	-
B H Wallace	Ordinary	15,092,270 (5)	-
B C Richardson	(Chief Executive)	16,403,624 (6)	-

Note that particular shareholdings can appear under more than one director.

- 1) The number of equity securities in which Mr C E Dawson holds a beneficial interest includes 3,633,474 Ordinary Shares, owned jointly with Mrs A C Dawson.
- 2) The number of equity securities in which Mr P F Fennessy holds a relevant interest includes 4,298,182 Ordinary Shares, in which the PF & ME Fennessy Family Trust has a relevant interest.
- 3) The number of equity securities in which Mr A P Offen holds a relevant interest includes 177,931,743 Ordinary Shares, in which Edinburgh Equity Nominee Limited has a relevant interest. Mr Offen is a Director of Edinburgh Equity Nominee Limited and has a relevant interest in shares in the company.
- 4) The number of equity securities in which Mr A J McKenzie holds a relevant interest includes:
  - 177,931,743 Ordinary Shares in which Edinburgh Equity Nominee Limited has a relevant interest. Mr A J McKenzie is a non beneficial Director of SIL Long Term Holdings Limited which has a beneficial interest in the shares held by EENL.
  - 1,099,346 Ordinary Shares in which A J McKenzie & Co has a relevant interest.
  - 21,428,571 Ordinary Shares in which SIL Long Term Holdings Limited has a relevant interest. Mr McKenzie is a non beneficial Director of SIL Long Term Holdings Limited.

Mr A J McKenzie also has a beneficial interest in 161,857 Ordinary Shares owned personally.
- 5) The number of equity securities in which Mr B H Wallace holds a relevant interest includes:
  - 2,810,359 Ordinary Shares, in which the Bevan Wallace Family Trust has a relevant interest,
  - 2,810,359 Ordinary Shares, in which the Wallace Family Trust has a relevant interest,
  - 791,394 Ordinary Shares, in which Morgan Wallace Limited has a relevant interest,
  - 536,299 Ordinary Shares, in which Lee & Wallace Holdings Limited has a relevant interest.

Mr B H Wallace also has a beneficial interest in 8,143,859 Ordinary Shares owned personally.
- 6) The number of equity securities in which Mr B C Richardson holds a relevant interest includes 16,403,624 Ordinary Shares, owned jointly with Mrs J V Richardson (held on account at Custodial Services).

## ADDITIONAL STOCK EXCHANGE INFORMATION *continued*

FOR THE YEAR ENDED 31 MARCH 2013

BLIS Technologies Limited (BLIS) appointed First NZ Capital Securities Limited (FNZC) to facilitate the sale of shares pursuant to the small shareholding plan (SSP) announced on 21 December 2012. FNZC was advised of the aggregate number of shares to be sold pursuant to the SSP by our share registrar LINK Market Services Limited (LINK) on 21 March 2013. This transfer resulted in the issuing of NIL balance statements by LINK. FNZC are in the process of selling the relevant shares. The Board had anticipated that the sale process would have been completed by 31 March but this has not been the case. The execution of the associated transactions is at the discretion of FNZC and subject to NZX participant rules. FNZC are acting in the interests of the selling shareholders and are endeavouring to maximise the sale proceeds. Upon completion of the associated transactions LINK will allocate the net proceeds pro-rata based on the number of shares transferred and remit proceeds to individual holders.

On 9 January 2013 BLIS received an enquiry from the NZX seeking advice as to whether the Company continues to comply with its continuous disclosure obligations. The Company responded on 10 January that "BLIS continues to comply with its disclosure obligations pursuant to *Listing Rule 10.1.1*. On 21 December 2012 BLIS gave shareholders three months notice of its intention to enforce a minimum shareholding of 25,000 shares. As a consequence approximately 1,600 shareholders would be required to supplement their existing shareholding if they wish to continue to remain shareholders. Due to the relative lack of liquidity in the market for BLIS shares, shareholders who are seeking to top up their holdings may have influenced the market price."

The Company undertook both a private placement and Share Purchase Plan at the same time and at the same price per share in September/October 2012. Due to fluctuations in price at the time and the discount that was applied by the Board to encourage shareholders to participate, the issue of these shares was at a price which was less than 85% of the Average Market Price at the relevant time. Accordingly the Company sought and obtained approval to the issue from NZX under Listing Rule 8.1.3 and provided the relevant certificates required under that rule.

The Company has previously invited both NZX and the Financial Markets Authority to confirm that certain share dealings immediately prior to the conversion of the Convertible Notes of the Company in May 2012 were conducted without breaching any NZX rules and/or securities legislation. The Company has been advised that the both the NZX and FMA are investigating the relevant trades and will advise if they have any concerns. As at the date of this report the Company has received no such advice.

### **DIVERSITY POLICY**

As at 31 March 2013 all of the directors of the Company were male. The Chief Executive Officer was also male.

The Company does not have a gender diversity policy for the Board and management as at 31 March 2013.



## INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF BLIS TECHNOLOGIES LIMITED

### Report on the Financial Statements

We have audited the financial statements of BLIS Technologies Limited and group on pages 15 to 44, which comprise the consolidated and separate balance sheets of BLIS Technologies Limited, as at 31 March 2013, the consolidated and separate income statements, statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

This report is made solely to the company's shareholders, as a body, in accordance with Section 205(1) of the Companies Act 1993. 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.

### Board of Directors' Responsibility for the Financial Statements

The Board of Directors are responsible for the preparation of financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate, and for such internal control as the Board of Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibilities

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing and International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates, as well as the overall presentation of the financial statements.

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

Other than in our capacity as auditor, the provision of taxation advice and financial reporting services, we have no relationship with or interests in BLIS Technologies Limited or any of its subsidiaries. In addition to this, principals and employees of our firm deal with BLIS Technologies Limited on normal terms within the ordinary course of trading activities of the business of BLIS Technologies Limited. The firm has no other relationship with, or interest in, BLIS Technologies Limited.

### Opinion

In our opinion, the financial statements on pages 15 to 44:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards; and
- give a true and fair view of the financial position of BLIS Technologies Limited and group as at 31 March 2013, and their financial performance and cash flows for the year then ended.

INDEPENDENT AUDITOR'S REPORT continued ...

**Emphasis of Matter – Going Concern**

Without qualifying our opinion, we draw your attention to Note 23 in the financial statements which indicates that BLIS Technologies Limited and the group incurred a net loss of \$1,856,000, and \$1,866,000, respectively during the year ended 31 March 2013. These conditions, along with other matters as set out in Note 23, indicate the existence of a material uncertainty that may cast significant doubt about BLIS Technologies Limited and the group's ability to continue as a going concern.

**Report on Other Legal and Regulatory Requirements**

We also report in accordance with section 16 of the Financial Reporting Act 1993. In relation to our audit of the financial statements for the year ended 31 March 2013:

- we have obtained all the information and explanations we have required; and
- in our opinion proper accounting records have been kept by BLIS Technologies Limited as far as appears from our examination of those records.



Chartered Accountants  
27 May 2013  
Dunedin, New Zealand











10 Birch Street  
PO Box 5804  
Dunedin 9058  
New Zealand

Email: [info@blis.co.nz](mailto:info@blis.co.nz)  
Telephone: +64 3 474 1338  
Facsimile: +64 3 474 9050

[www.blis.co.nz](http://www.blis.co.nz)