

**ANNUAL REPORT 2018** 







# Key highlights for the year include:

2HY18 recovery in revenue with 19% growth and a profit in the last two quarters.

BLIS K12® approved by Australia Therapeutic Goods Administration as a listed complementary medicine

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# **COMPANY DIRECTORY**

AS AT 31 MARCH 2018

Company number 1042367

**Issued capital** 1,107,653,565 ordinary shares

Registered office Blis Technologies Limited

10 Birch Street Dunedin 9016

**Shareholders** Listed on the NZX Main Board

Share registrar Link Market Services Limited

P O Box 384 Ashburton

**Directors A P Offen** (Chair, appointed 1 August 2017, previously Deputy Chair)

P F Fennessy (Deputy Chair, appointed 1 August 2017, previously Chair)

V M Aris G S Boyd A J McKenzie

**G Plunket** (appointed 4 May 2018) **B H Wallace** (resigned 19 May 2017)

Chief Executive: B D Watson

Auditors Deloitte Limited

P O Box 1245 Dunedin 9054

Bankers Bank of New Zealand

Dunedin

Solicitors Anderson Lloyd

Private Bag 1959 Dunedin 9054

**Downie Stewart Lawyers** 

P O Box 1345 Dunedin 9054

**Website** www.blis.co.nz

Facebook https://www.facebook.com/BLISTechnologiesLtd

Blis Technologies Limited

# **OPERATIONS REPORT**

FOR THE YEAR ENDED 31 MARCH 2018

OVERVIEW	FY18 \$000	FY17 \$000	CHANGE \$000
Revenue			
Australasia	873	1,092	(219)
Asia, including China	680	1,322	(642)
Europe	2,817	2,316	501
North America	834	1,682	(848)
Other	81	124	(43)
Trading revenue	5,285	6,536	(1,251)
Other revenue	3	11	(8)
Total revenue	5,288	6,547	(1,259)
Net surplus/(deficit) before interest expense, tax, depreciation and			
amortisation (EBITDA)	(422)	585	(1,007)
Depreciation and amortisation of assets	(612)	(609)	(3)
Interest expense	(8)	_	(8)
Net surplus/(deficit)	(1,042)	(24)	(1,018)

The Blis Technologies Group, made up of Blis Technologies Limited (the "Company" or "Blis Technologies") and its subsidiary, Blis Functional Foods Limited reports a net deficit for the financial year ended 31 March 2018 ("FY18") of \$1,042k (FY17: \$24k deficit) and net deficit before interest expense, tax, depreciation and amortisation of \$422k (FY17: \$585k surplus) on total revenue of \$5,288k (FY17: \$6,547k)

Trading revenue for the full year decreased by 19% (\$1,251k) compared with the previous financial year (FY18: \$5,285k FY17: \$6,536k) and \$176k was due to discontinued non-core activities. However, the trading revenue for the second half of FY18 ("2HY18") increased by 19% (\$509k) compared with the same period last year (2HY18: \$3,216k and 2HY17 \$2,707k).

In the half year report for the six months ended 30 September 2017 ("1HY18"), we overviewed several one-off impacts on our revenue for that period including changes in buying patterns by some of our customers, a run-down in their inventories and the extended period it took for Maspex Group to complete the acquisition of BLIS K12® containing brands from Sequoia Pharma.

As expected we saw a recovery in the second half year but not sufficient to fully offset the disappointing start to the year.

# Key challenges for FY18 include:

Several customers choosing to run down stock levels through the first half of FY18;

- Long lead times with new customer initiatives;
- Delays in new regulatory approvals; and
- Limited resources for targeting accelerated growth opportunities.

# Key highlights for FY18 include:

- 2HY18 recovery in revenue with 19% growth over the same period last year and a profit in the last two quarters:
- Change in distributor relationship for the New Zealand Pharmacy market to Radiant Healthcare, including expanded promotion to medical health professionals;
- Approval by the Australia Therapeutic Goods Administration for BLIS K12® as a complementary medicine;
- Finalising a clear range portfolio of Blis-branded BLIS K12® and BLIS M18® finished products differentiated for specific health targets within the NZ market, and in preparation for similar launches into overseas markets;
- Blis-branded BLIS K12® throat lozenges sales grew by 6% in value in the NZ Pharmacy Throat Lozenge category (12 month moving annual total compared with previous year);
- Year to date calendar 2018, ThroatGuard Pro® is the number one throat lozenge in NZ pharmacies;

- HoneyBlis® sales grew by 72% over the previous year;
- Maspex Group, a leading food and supplements company taking over the Poland product range containing BLIS K12®; and launching a BLIS M18® based brand for dental health;
- BLIS ElitePro® ElitePro approved as a preferred supplier to the High Performance Sport NZ supplement programme;
- European/Middle East expansion with Bluestone Pharma, signing several new partner agreements for new launch activity:
- Purchase and commissioning of a new tablet press for lozenge production ensuring improvement in consistent quality and ensuring capacity requirements are met.

#### **FINANCIAL**

The Company reports a consolidated net deficit for the twelve months to 31 March 2018 of \$1,042k (FY17: \$24k deficit). This includes interest income of \$3k received for the period (FY17: \$4k).

Reporting a further annual net deficit is disappointing and reflects the 1HY18 result which saw a deficit of \$1,246k. The results in 2HY18 were an improvement with a return to revenue growth and recording a net surplus of \$204k.

# Regional performance:

# Europe/Middle East:

Europe was our best performing territory in FY18 with a 22% increase in trading revenue. Our distributor Bluestone Pharma has created a strong growth business based on consistent value propositions within multiple markets across both Europe and the Middle East regions. Key contributors to this strong performance were the recovery of the Poland business, continued growth across existing markets including Italy, Switzerland, Germany, Czech Republic, Slovakia, Romania and Israel, as well as new product registrations and advanced launch plans into new countries.

In Poland the Maspex Group has completed the acquisition of two brands, ENTitis  $^{\mathbb{M}}$  and ENTitis baby  $^{\mathbb{M}}$  (both of which contain BLIS K12®) from Sequoia Pharma. Following this change in ownership we have experienced a return to strong ordering to support the Maspex Group business along with the launch of a new brand for dental health containing BLIS M18®.

#### North America:

In 1HY18 our distributor changed its ordering patterns and ran down their stock levels which resulted in a significant reduction in ordering from the Company. This resulted in a 50% decline in trading revenue for the region in FY18 compared with last year. However, reporting on in-market sales from our distributor to their customer base shows a 19% growth FY18 when compared with the FY17 financial year. This in-market growth underpins confidence that the recovery in ordering we have seen in the 2HY18 year will be sustained.

# Asia:

The Company recorded a 49% decrease in FY18 trading revenue for Asia, with most of this decline due to a run down by our distributors of their stock levels in Japan in 1HY18. During the 2HY18 ordering from Japan recovered significantly with our two key customers forecasting steady ordering moving forward. Japan remains a large and attractive market for us and we are looking to broaden our customer base to drive future growth.

China remains an emerging opportunity for the Company with further test market initiatives underway which we will build upon in the coming year.

# Australasia:

New Zealand pharmacy retail sales grew by 26%. However, there was a decline in Australian sales as we move to reposition our selling model in the Australian market following the TGA (Therapeutic Goods Administration) approval of BLIS K12®.

# Overheads:

Overall expenses were down \$241k compared with last financial year (FY18: \$6,330k FY17: \$6,571k) reflecting lower sales. During FY18 we continued investment in marketing and pipeline development. However, these were constrained by cost containment measures taken in line with the 1HY18 trading revenue performance.

Salaries increased by \$191k compared with FY17. However, in the final quarter of FY18 the Company underwent a staffing review resulting in two roles being disestablished which will result in meaningful savings in the next financial year.

#### **CASH FLOWS**

	FY18 \$000	FY17 \$000	Change \$000
Operating activities			
Trading income and other revenue received	5,737	6,574	(837)
Payments to suppliers, employees and finance costs	(5,619)	(6,330)	711
Net cash inflow/(outflow) from operating activities	118	244	(126)
Investing activities			
Capital expenditure	(476)	(315)	(161)
Net cash inflow/(outflow) from investing activities	(476)	(315)	(161)
Financing activities			
Borrowings	290	-	290
Share option repayment	32	_	32
Net cash inflows from financing activities	322	_	322
Bank balance year end	1,134	1,140	(6)

The Company recorded positive net cash flow from operating activities in FY18 of \$118k (FY17: \$244k inflow). Capital expenditure for FY18 totalled \$476k (FY17: \$315k) reflecting the ongoing investment in the manufacturing process and the purchase of a new tablet press and capitalisation of patent costs.

Aggregate cash flows for FY18 resulted in a decrease in bank balance of \$6k (FY17: a decrease of \$69k). The bank balance held as at 31 March 2018 was \$1,134k (31 March 2017: \$1,140k).

No tax was payable and no dividend will be paid on ordinary shares.

At 31 March 2018, the Company held a net working capital position of \$1,548k (FY17: \$2,253k). The budget prepared by the Company shows that existing cash resources and cash generated from operations should be sufficient to meet commitments as they fall due. By their nature, budgets are based on assumptions as to customer demand, pricing, costs and exchange rates and actual results may vary from expectations. The Company is investing in upgrading plant to a fully accredited "Good Manufacturing Practice" (GMP) status, regulatory approvals and new product launches. Depending on progress, the Company may consider options to fund its growth.

# **GENERAL COMMENTARY**

It has been a year of two halves with a disappointing 1HY18 followed by a recovery in 2HY18 more in line with real inmarket dynamics within the Company's offshore territories. Monitoring of in-market dynamics gives us confidence that the recovery we have seen will be sustained into the new financial year along with new market opportunities helping us return to solid revenue growth.

We continue to invest in growth and pipeline initiatives.

New distribution relationships have been progressed both in NZ and offshore. New market opportunities have been established in the US, Australia and Europe. We have also progressed plans to position the Company with a strong on-line sales presence. We are revising our plans in China given the slow progress to date. We continue to advance our international regulatory and clinical credentials for opening new markets and growing consumer education and awareness around the science and benefits of BLIS® products. These developments are active initiatives designed to set us up for sustainable profitable growth into the future.

#### **BUSINESS STRATEGY**

Management and the Board continue to review the Company's strategy and ensure clarity regarding the commercial focus of the Company. We remain committed to our stated purpose, our value proposition and our strategic priorities.

#### Our purpose:

"Leadership in the commercial applications of bacteriocin–producing microbes."

#### Our value proposition:

Blis Technologies is a leader in the manufacture of advanced probiotic strains that go beyond the gut. We combine innovation with a strong evidence base and the highest quality controls to deliver probiotic solutions for specific health targets.

# Our objective

Blis Technologies will become an integrated company, controlling our intellectual property and ensuring the highest quality standards throughout the supply chain.

Our current core internal functions include:

- Probiotic strain development (discovery work);
- Manufacturing of finished good solutions for selected markets;
- · Scientific and technical product support;
- · Marketing and sales channel development.

#### Our addressable markets

Probiotics for human health beyond the gut, targeting a leadership position in:

- ENT (ear, nose and throat);
- Oral (teeth, gums, halitosis);
- Dermatology (future focus).

Our focus will be on human health supplements based on our strengths today. However, we recognise the potential for licensing opportunities beyond this, including:

- Realising untapped therapeutic potential;
- BLIS®-containing functional food solutions;
- BLIS®-containing pet applications and animal health solutions.

# Our strategic priorities:

# 1. Positioning – consistency of value proposition and development of the BLIS® brand

We are moving our focus towards being a supplier of BLIS®-branded finished goods (including prominent co-branding) to help ensure that Blis Technologies is recognized as the source; this is a means of future-proofing the business by developing a closer relationship with customers and consumers.

#### Progress:

- Completion of a product portfolio update around key value propositions which are uniquely placed to provide global sales growth;
- Building a stronger on-line sales presence;
- Expanded distributor relationships in New Zealand:
- New distributor relationships with Radiant Health including promotion to medical professionals as well as pharmacy staff;
- Broadening customer base internationally:
- EU/ Middle East seven new partner agreements established;
- USA new customer launches across a range of channels including retail, direct selling and on-line;
- China further test market launches underway.

# 2. Supply chain – ensuring quality, capacity and IP protection within our supply chain

We are the core source of knowledge about our BLIS® products, so that we will have the internal expertise and processes all through our supply chain (from the organism to fermentation to formulation to end-products, including regulatory and clinical efficacy right through to the consumer).

#### **Progress:**

- Updating of our plant including the purchase of a new tablet press to expand our capacity;
- Packaging updates to ensure the highest quality of finished products;
- Continuous improvement initiatives within manufacturing focused on quality and efficiency;
- Establishment of new relationships for future offshore raw ingredient manufacturing to meet capacity and logistical needs;
- Investment in equipment and development of plans to upgrade our manufacturing plant to GMP status;
- IP portfolio management and protection through on-going R&D, patent filings, development and protection of trade secrets, regulatory approvals and trademark registrations towards building a stronger BLIS® brand.

#### 3. Pipeline - optimising value from our IP

Our library of defined organisms provides the core resource that underpins the future of the Company. Along with this we continue to progress new product and formulation initiatives to meet the needs of consumers.

# Progress:

### R&D:

- Ongoing investment in scientific services to accelerate R&D activity;
- Approval received in April 2018 for of a Growth Grant from Callaghan Innovation of 20% rebate on qualifying Research and Development spend over three years;
- Initiation of joint Blis-Callaghan Innovation supported research projects including:
  - Master's project at the University of Otago understanding immunological responses to BLIS® probiotics;
  - PhD project at the University of Otago assessing food formats for oral probiotics.

### • New strain development:

 Along with progress in the development of BLIS Q24™ for skin applications the company has been reviewing the extensive library of strains for candidates and has a number progressing through the assessment pipeline.

# • New product development:

- Work assessing new flavour formats on HoneyBlis® was carried out;
- Assessment of new formats and formulations containing BLIS K12<sup>®</sup>.

#### • Clinical trials:

Publications on the efficacy of both BLIS K12® and BLIS M18® included:

- Further studies continue to validate the taking of BLIS K12® to reduce recurrent sore throats and ear infections in children.<sup>1,2</sup>
- A systematic review of BLIS K12® use in supporting ear and oral cavity health was published.³

# Regulatory updates – new approvals, applications submitted

- Approval of BLIS K12® as a Complementary Listed Medicine by the Australian Therapeutic Goods Administration (TGA approval);
- Regulatory approval for both BLIS K12® and BLIS M18® in UAE;
- Good progress has been made with BLIS M18® regulatory status in Australia, USA (self-affirmed GRAS), India and Canada.

#### **OUTLOOK**

Our review of in market sales along with the prospects from new customer relationships and regulatory approvals provide good indicators that we will see a sustained recovery and a return to revenue growth in FY19.

We remain focused on building a pipeline of growth opportunities whether they be new markets, new product development or new strain opportunities.

Along with this we are prioritising finished goods opportunities that have a consistent value proposition with our distributors and customers along with developing our online sales under the BLIS® brand.

Thank you for your ongoing support.

Anthony Offen Chair Brian Watson Chief Executive

Di Pierro et al Use of Streptococcus salivarius K12 to reduce the incidence pharyngo-tonsillitis and acute otitis media in children: a retrospective analysis in not-recurrent pediatric Subjects. Minerva Pediatrica 2018 Jan 11

<sup>&</sup>lt;sup>2</sup> Taylan et al Clinical evaluation of the therapeutic use of oral probiotic Streptococcus salivarius K12 for recurrent pharyngitis and/or tonsillitis. Indian Journal of Research 6(9) September 2017

<sup>&</sup>lt;sup>3</sup> Zupancic et al. Influence of Oral Probiotic Streptococcus salivarius K12 on Ear and Oral Cavity Health in Humans: Systematic Review Probiotics and Antimicrobial Proteins. 2017 Jun 9(2): 102-110

# **DIRECTORS' REPORT**

FOR THE YEAR ENDED 31 MARCH 2018

#### STATEMENT OF AFFAIRS OF THE COMPANY

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

# PRINCIPAL ACTIVITIES

The principal activities of the Company are research, development and commercialisation of healthcare products based on strains of bacteria that produce bacteriocins used for the supply of healthcare ingredients and the manufacture of part and finished goods and other food products for sale in domestic and international markets.

# **DIVIDEND**

The Directors recommend that no dividend be paid.

# **AUDITORS**

It is proposed that the auditors, Deloitte Limited, continue in office in accordance with Section 207T of the Companies Act 1993.

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

#### **INTERESTS REGISTER**

Directors and officers (as that term is defined in the Companies Act 1993) have declared interest in the following transactions with the Group during FY18:

- Mr P F Fennessy disclosed his interests in providing professional consulting services to the Company through AbacusBio Limited, the terms of which the other Directors considered fair and reasonable to the Company and its existing shareholders.
- All of the Directors have the benefit of a directors and officers insurance policy approved by the Board under the Companies Act 1993, and the terms of which the Board consider are fair and reasonable to the Company and its existing shareholders.
- All of the Directors have the benefit of a Deed of Indemnity approved by the Board under the Companies Act 1993, the terms of which the Board consider are fair and reasonable to the Company and its existing shareholders.

# **DIRECTORS' REMUNERATION FOR FY18**

	Position	Fees (per annum)
Board of Directors	Chair	\$40,000
	Deputy Chair	\$25,000
	Member	\$20,000
Audit Committee	Chair	\$5,000
	Member	_
Remuneration Committee	Chair	\$4,000
	Member	_

Name of Director	<b>Board Fees</b>	Audit Committee	Remuneration Committee	Total Remuneration	Board Meetings Attended
PF Fennessy*	\$30,000 (Deputy Chair)			\$30,000	13
A P Offen*	\$35,000 (Chair)			\$35,000	13
V M Aris	\$20,000		\$2,667 (Chair)	\$22,667	11
G S Boyd	\$20,000			\$20,000	13
A J McKenzie	\$20,000	\$4,583 (Chair)		\$24,583	12
B H Wallace	\$2,213	\$417		\$2,630	1
TOTAL	\$127,213	\$5,000	\$2,667	\$134,880	

<sup>\*</sup> Note that the fees payable to Mr Offen (as Chair) and Mr Fennessy (as Deputy Chair) differ from those shown in the Director Remuneration Table for FY18 on the previous page due to Mr Offen taking over as Chair from Mr Fennessy on 1 August 2017 (part way through FY18).

#### **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 Information received in their capacity as Directors which would not have been otherwise available to them.

# **EMPLOYEES' REMUNERATION**

Employees receiving remuneration or benefits exceeding \$100,000 were as follows:

	Year ended	Year ended
Remuneration	31 March 2018	31 March 2017
\$100,000 - 110,000	0	1
\$110,001 - 120,000	2	0
\$120,001 - 130,000	1	1
\$140,000 - 150,000	1	1
\$150,001 - 160,000	0	1
\$170,001 - 180,000	1	0
\$180,001 - 190,000	0	2
\$270,000 - 280,000	1	1

# **DONATIONS**

There were no donated products during the year ended 31 March 2018 (2017: \$4,914) nor any other donations made by the Company.

# **DIRECTORS**

The persons holding office as Directors of the Company as at 31 March 2018 are set out below:

# A P Offen (Chair)

Tony Offen has been a Director and shareholder of Blis Technologies Limited since May 2009 and is the current Chair. Through his Dunedin-based investment company, Edinburgh Securities Limited, Tony has been a director and shareholder of private companies involved in commercial property, FMCG business sectors nationally and internationally and with investment interests requiring venture and start-up capital. Tony holds professional memberships with the

Chartered Accountants Australia and New Zealand and is a Chartered Member of the Institute of Directors. He is an elected member of the National Council for the Neurological Foundation of NZ, is the Council Deputy Chair and current Chair of its Audit and Risk Management Committee. Tony is also an independent member of the Governance Board of Brain Research New Zealand, Centre of Research Excellence (CoRE) and holds a B.Com. (Accounting) and B.A. (Philosophy) from University of Otago.

#### P F Fennessy (Deputy Chair)

Peter Fennessy is a consulting partner with AbacusBio Limited, a privately-held Dunedin technical and scientific consultancy and venture development business with its major focus in the agricultural sector. Peter has been a Director of Blis Technologies Limited since November 2000 and is the current deputy chair. He is also chair of Anagenix Limited, a director of Taylor Pass Honey Company Ltd, and a member of the governance board of the Food Industry Enabling Technologies (FIET). Peter is a Chartered Member of the Institute of Directors.

#### V M Aris

Veronica Aris has over 17 years of sales and marketing experience in senior management level positions across many industry sectors, including primary care consumables, pharmaceutical, natural health care supplements, consumer products, DRTV and industrial products for companies such as Sanofi-Synthelabo, Pfizer, Abbott Laboratories, EBOS, Brand Developers and Wesfarmers, within UK, Australia and New Zealand. Her expertise is in the area of pharma product launches, brand management, marketing, sales and regulatory affairs, as well as social media and web strategies. Veronica has been a director of Blis Technologies Limited since July 2014 and was elected Chair of the Remuneration Committee in April 2017. Veronica is passionate about expanding this business into the global market and providing health and wellbeing solutions to a range of communities.

Veronica holds a number of board positions instilling robust governance practices to enable listed companies, community groups and sporting associations to achieve their long-term goals and vision. She is a Board Member of CASA (working with agencies and communities to help them best manage suicide risk) and Northern Auckland Kindergarten Association, and holds a Chartered Marketer status from the Chartered Institute of Marketers and is a Chartered Member of the Institute of Directors. She holds a BSc in Chemistry and French and a DipM in Marketing.

Veronica is a keen yachtswoman and has competed in the Clipper Round the World Yacht Race (1st place) and the Sydney to Hobart Yacht Race. She continues to sail and coach others in the sport. Veronica is also a trained marine medic with Project Jonah.

# G S Boyd

Graeme Boyd joined ICI New Zealand Limited in 1971 and for over 26 years held a variety of positions across the business, including management of the Pharmaceuticals Division, culminating in the role of NZ General Manager from 1990 to 1997. He was appointed CEO of Comvita in 1998 and developed the company from a small privately-owned company to a publicly-listed company centred on marketing natural health products internationally. Graeme left Comvita in 2005 and formed a management consulting business specialising in company turnarounds, growth strategies and international marketing. Graeme has been a director of Blis Technologies Limited since July 2014. Graeme is a professional director, a Chartered Member of the Institute of Directors and holds an MSc (Chemistry) from University of Canterbury.

# A J McKenzie

Alan McKenzie is a Dunedin-based business adviser with over 40 years' experience as a Chartered Accountant working in New Zealand and overseas, in both public practice and industry. Alan has been a director of Blis Technologies Limited since August 2012 and is currently Chair of the Audit Committee. He has worked with numerous businesses ranging from new ventures requiring day to day input, to substantial multi-national companies. His focus is advising clients regarding structuring business investment, financing, and related taxation issues. He is a Fellow Chartered Director of the Institute of Directors, a Fellow of the Institute of Chartered Secretaries and a director of several client-owned businesses and investment groups operating within New Zealand and internationally. He is a Trustee for several private family groups and local charitable organisations.

# SHARE DEALING

During the year, no Directors (or associated entities in which the Directors have relevant interests) acquired/(disposed) of equity securities in the Group.

#### **BLIS FUNCTIONAL FOODS LIMITED**

The Company has a wholly-owned subsidiary called Blis Functional Foods Limited which was incorporated on 28 February 2011. The status of the subsidiary since March 2013 is that it is non-trading. The director of this subsidiary as at 31 March 2018 is Tony Offen. Mr Offen does not receive separate remuneration in relation to his directorship of the subsidiary.

# **DIRECTORS' RESPONSIBILITY STATEMENT**

FOR THE YEAR ENDED 31 MARCH 2018

The Directors of Blis Technologies Limited are pleased to present to shareholders the financial statements for the Group for the year ended 31 March 2018.

The Directors are responsible for presenting financial statements in accordance with New Zealand law and generally accepted accounting practice, which fairly presents the financial position of the Group as at 31 March 2018 and the results of its operations and cash flows for the year ended on that date.

The Directors consider the financial statements of the 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 Group and facilitate compliance of the financial statements with the Financial Reporting Act 2013 and the Financial Markets Conduct Act 2013.

The Directors consider that they have taken adequate steps to safeguard the assets of the 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

17 May 2018

Peter Fennessey Director

# STATEMENT OF CORPORATE GOVERNANCE

FOR THE YEAR ENDED 31 MARCH 2018

The Board and Management of the Company 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 Directors' Operations Manual.

The Company's Corporate Governance policies are based on the principles set out in the NZX Corporate Governance Best Practice Code, as follows:

- Code of Ethical Behaviour
- Board Composition and Performance
- Board Committees
- · Reporting and Disclosure
- Remuneration
- Risk Management
- Auditors
- Shareholder Rights and Relations

# **Financial statements**

The Directors are responsible for ensuring that the Company's financial statements fairly present 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 Markets Conduct Act 2013 and Financial Reporting Act 2013.

# 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. The Board 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;
- 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;
- Approving the annual and half-year financial statements; and
- Providing the necessary leadership and responsibility for the major decisions that influence health and safety: including the strategic direction, securing and allocating resources and ensuring the Company has appropriate people, systems and equipment.

The Directors appoint a Chair from amongst their members. The Board supports separation of the role of Chair and Chief Executive Officer. The Chair's role is to provide leadership and to manage the Board effectively.

The Chief Executive Officer is not a Director, the Board will meet without the Chief Executive Officer being present; in this respect, the Board has a practice of Director-only meetings either prior to or following each Board meeting.

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

# Board membership and 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. As at the date of the report the Board comprises six Directors, comprising the Chair, Deputy Chair and four Directors appointed for their mix of commercial and technical skills. The Board aims to meet in person on at least eight occasions in the financial year plus up to four scheduled teleconferences.

All six Directors are non-executive members and independent members. A Director is "Independent" when they are not an executive officer of the Company and do not have a 'Disqualifying Relationship' (as defined in the NZX Main Board Listing Rules) where for instance he or she has 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.

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 and the NZX Main Board Listing Rules. One third of the Company's Directors (rounded, if necessary, to the nearest number) are required to retire and may stand for re-election at every Annual Meeting, with those Directors to retire being those who have been in office longest since they were elected or deemed to be elected.

The total aggregate Directors' remuneration is fixed and may only be increased by shareholders at the Company's Annual Meeting, upon the recommendation of the Board as a whole. 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 has adopted a code of conduct as part of a Directors' Operations Manual to guide Directors and management in carrying out their duties and responsibilities. The Directors' Operations Manual covers such matters as:

- Corporate governance matters;
- Role of the Board and composition of the Board;
- Director responsibilities;
- Appointment of, responsibilities of and remuneration of a Chief Executive Officer;
- Confidentiality and the safeguarding of company information;
- Compliance with laws and regulations;
- Shareholder participation; and
- Code of ethics.

Newly-elected Directors are required to familiarise themselves with and comply with the Directors' Operations Manual. Some training is also provided to new and existing Directors where this is required to enable Directors to fulfil their responsibilities.

#### Conflicts of interest

As part of the Code of Ethics contained in the Directors' Operations Manual there is 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 Main Board Listing Rules. The interests and associates, individual shareholders and the personal interests of the Director and their 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 has established an Audit Committee to assist the Board in discharging its responsibilities relative to financial reporting, related regulatory conformance and liaising with the external auditors. The terms of reference for the audit committee are set out in the Directors' Operations Manual. Membership of the audit committee must comprise three Directors, the majority of whom are to be independent and the chair of the Board shall not be the chair of the audit committee. The current members of the audit committee are Alan McKenzie (Independent Chair), Tony Offen (Independent) and Graeme Boyd (Independent).

The Board considers the recommendations of the audit committee 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 audit committee, 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.

#### Remuneration committee

The Board has established a remuneration committee to assist the Board in discharging its responsibility for setting the remuneration policy for all members of the senior management team with regard to pay and employment conditions across the Company, especially when determining salary increases.

The terms of reference for this committee are set out in the Directors' Operations Manual.

The committee must comprise three Directors, the majority of whom shall be independent. The Chair of the Board may serve on the committee. Members of the remuneration committee are Veronica Aris (Independent Chair), Peter Fennessy (Independent) and Tony Offen (Independent).

The Board ensures that the recommendations made by the committee are considered and acted on accordingly.

# **NZX Corporate Best Practice Code**

Given the size and composition of the Board, directors believe that there are no significant benefits in delegating matters in relation to Board nominations.

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.

# **CONSOLIDATED INCOME STATEMENT**

FOR THE YEAR ENDED 31 MARCH 2018

	Notes	2018 \$'000	2017 \$'000
REVENUES			
Revenue Interest received	2a 	5,285 3 5,288	6,543 4 6,547
LESS		3,200	0,017
Distribution expenses Marketing expenses		87 402	64 94
Occupancy expenses Operating expenses	2b	156 5,677	161 6,252
Finance expenses		6,330	- 6,571
SURPLUS/(DEFICIT) BEFORE TAX	2b, 4, 5	(1,042)	(24)
Income tax expense SURPLUS/(DEFICIT) FOR THE YEAR	3	- (1,042)	(24)
Surplus/(Deficit) for the year is attributable to	:		
Equity holders of the Parent		(1,042) (1,042)	(24) (24)
Earnings/(Deficit) per Share: Basic (cents per share)	14	(0.09)	(0.00)
Diluted (cents per share)	14	(0.09)	(0.00)

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2018

	Notes	2018 \$'000	2017 \$'000
Surplus/(Deficit) for the year		(1,042)	(24)
Other comprehensive income		-	_
TOTAL COMPREHENSIVE INCOME/ (DEFICIT) FOR THE YEAR	:::::	(1,042)	(24)

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2018

	Note	Share capital	Retained earnings/ (deficit)	Share option equity	Total attributable to Group
		\$'000	\$'000	reserve \$'000	\$'000
OPENING EQUITY – 1 APRIL 2016		37,298	(33,311)	-	3,987
Surplus/(Deficit) for the year Other comprehensive income <b>Total comprehensive income</b>		-	(24)	-	(24)
		_	(24)	_	(24)
<b>Equity contributions and distributions</b> Share option equity reserve	14	_	-	54	54
CLOSING EQUITY – 31 MARCH 2017		37,298	(33,335)	54	4,017
Surplus/(Deficit) for the year Other comprehensive income		_	(1,042)	_	(1,042)
Total comprehensive income			(1,042)		(1,042)
<b>Equity contributions and distributions</b> Share option equity reserve	14	40	-	(8)	32
CLOSING EQUITY – 31 MARCH 2018		37,338	(34,377)	46	3,007

# **CONSOLIDATED BALANCE SHEET**

AS AT 31 MARCH 2018

	Notes	2018 \$'000	2017 \$'000
ASSETS			
CURRENT ASSETS  Cash and short-term deposits  Accounts receivable  Prepayments  Inventory	6 7 8	1,134 694 89 343 2,260	1,140 1,150 97 349 2,736
Accounts payable Current borrowings Foreign exchange contracts	11 12 20(e)	581 121 10 712	476 - 7 483
WORKING CAPITAL		1,548	2,253
NON-CURRENT ASSETS  Property, plant and equipment Finite life intangible assets	9 10 	785 843 1,628	646 1,118 1,764
NON-CURRENT LIABILITIES  Non-current borrowings	12	169	_
NET ASSETS	::::	3,007	4,017
OWNERS' EQUITY Share capital Share option equity reserve Retained earnings/(deficits)  TOTAL EQUITY	14 15	37,338 46 (34,377) 3,007	37,298 54 (33,335) 4,017
	2222	2,007	.,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,

# CONSOLIDATED STATEMENT OF CASHFLOWS

FOR THE YEAR ENDED 31 MARCH 2018

	Notes	2018 \$'000	2017 \$'000
CASH FLOWS FROM OPERATING ACTIVITIE Cash was provided from/(applied to):	S		
Receipts from customers Interest received		5,734	6,570 4
Payments to suppliers and employees Finance costs		(5,611) (8)	(6,330) –
Net cash inflow/(outflow) from operating activ	vities 19	118	244
CASH FLOWS FROM INVESTING ACTIVITIES Cash was provided from/(applied to):	5		
Capitalised intangible costs	10	(121)	(179)
Purchase of property, plant and equipment	9	(355)	(136)
Net cash inflow/(outflow) from investing activ	ities	(476)	(315)
CASH FLOWS FROM FINANCING ACTIVITIE Cash was provided from/(applied to):	S		
Drawdown of borrowings		290	_
Repayment of share option		32	_
Net cash inflow/(outflow) from financing activ	rities	322	_
Net increase/(decrease) in cash held		(36)	(71)
Add cash and short-term deposits at start of year	ear	1,140	1,209
Foreign exchange differences		1 124	1 140
Balance at end of year		1,134	1,140
COMPRISED OF:			
Cash and short-term deposits		1,134	1,140
	5555	1,134	1,140

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

#### 1. BASIS OF REPORTING

# Reporting entity

Blis Technologies Limited (the "Company") is a profit-oriented entity incorporated and domiciled in New Zealand and is registered under the Companies Act 1993. The principal activity of the Company is developing healthcare products based on strains of bacteria that produce Bacteriocin activity.

The financial statements represented are those for the Company together with Blis Functional Foods Limited (together referred to as the "Group").

The Company is a FMC Reporting Entity under the Financial Markets Conduct Act 2013 and the Financial Reporting Act 2013 and its financial statements comply with these Acts. The Company is listed on the NZX Main Board.

The Financial Statements were approved by the Board of Directors on 17th May 2018.

### 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").

The Group is a Tier 1 for profit entity in terms of the External Reporting Board Standard A1: Application of the Accounting Standard Framework.

# Basis of preparation

The financial statements have been prepared on the basis of historical cost except for derivative financial instruments that are measured at fair value at the end of each reporting period as explained in the relevant accounting policies.

Historical 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. The New Zealand dollar is the Group's functional currency.

# Critical judgements in applying accounting policies

In the application of NZ IFRS, the Directors are 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:

- If the product groupings to which the development expenditure relate are not economically viable in the future the development expenditure asset could be overstated.
- The Group determines whether finite life intangibles are impaired at least on an annual basis. Where there is an indication of impairment then an estimation of the recoverable amount of the finite life intangible assets is required.

Determining the recoverable amounts of intangible assets requires judgement in relation to the effects of uncertain future events at balance date. Assumptions are required with respect to future cash flows and discount rates used. Refer Note 10 for sensitivities and assumptions used.

- Tax Losses the recognition of a deferred tax asset arising from current and prior year tax losses is dependent on generating future taxable profits. No deferred tax asset has been recognised as at 31 March 2018 as a result of the fact the Group made a loss for the year. The uncertainty relating to the Group's ability to utilise tax losses is explained in Note 3.
- The Directors have considered the validity of the going concern assumption. Refer to "Going Concern" at the end of Note 1 for judgements relating to this assessment.
- During the prior year, the Company entered a scheme covered by NZ IFRS 2 Share Based Payments. The application of the accounting standard involved judgement in respect of the nature of the arrangement and complexity in valuation judgements. Refer to Note 15 for further information.

## Significant accounting policies

The principal accounting policies applied in the preparation and presentation of the financial statements are set out below or in the notes with the item to which they relate, where policies are specific to certain transactions or balances.

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 subsidiaries) that comprise the Group, being Blis Technologies Limited (the parent entity) and its subsidiary Blis Functional Foods Limited. Control is obtained when the Company has power over the investee, is exposed to or has rights to variable returns from its investment, and has the ability to use its power to affect returns. 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 Consolidated 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.

# 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, the Euro denominated bank account and the United States Dollar (USD) denominated bank account balances are translated at the exchange rates prevailing at the end of each reporting period as sourced from the Reserve Bank of New Zealand. Exchange differences are recognised in the income statement in the period in which they occur.

# 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.

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.

# New financial reporting standards effective in the reporting period

The accounting policies adopted are consistent with those of the previous financial year. The Group has applied the Disclosure Initiative (Amendments to NZ IAS 1) which became effective for the first time in the prior year. All other mandatory new or amended accounting standards were adopted in the current year. None had a material impact on these financial statements.

# New NZ IFRS standards and interpretations issued but not yet adopted

At the date of authorisation of these financial statements, certain new standards and interpretations to existing standards have been published but are not yet effective, and have not been adopted early by the Group.

Management anticipates that all pronouncements will be adopted in the first accounting period beginning on or after the effective date of the new standard. Information on new standards, amendments and interpretations that are expected to be relevant to the Group financial statements is provided below. Other new standards and interpretations issued but

not yet effective, that are not expected to have a material impact on the Group's financial statements have not been disclosed.

# NZ IFRS 9 - Financial instruments (effective for annual reporting periods beginning on or after 1 January 2018)

NZ IFRS 9 Financial Instruments replaces NZ IAS 39 Financial Instruments: Recognition and Measurement.

The new standard includes a new classification and measurement regime for financial instruments, amendments to hedge accounting and changes in determining and measuring impairment of financial assets.

Management has completed an initial high level impact assessment of NZ IFRS 9 on the Group and do not anticipate the new standard will have a material impact on the Group's financial statements. The areas most impacted are the classification of financial assets and recognition of expected credit losses on financial assets.

Classification of financial assets: The Group's financial assets are all currently classified as loans and receivables. Based on the Group's business model and the cash flow characteristics of these financial assets, they will be classified as financial assets at amortised cost. The measurement of financial assets will be unchanged.

Recognition of expected credit losses: Based on the Group's customer's strong credit records, any recognition of expected credit losses on adoption of NZ IFRS 9 are expected to be immaterial.

# NZ IFRS 15 – Revenue from contracts with customers (effective for annual reporting periods beginning on or after 1 January 2018)

The new standard establishes principles for reporting about the nature, amount, timing and uncertainty of revenue arising from an entity's contracts with customers. It prescribes when an entity will recognise revenue, how much revenue to recognise, and what disclosures to make about revenue.

The core principle of the Standard is to recognise revenue for the amount of consideration due to an entity in exchange for the goods and services provided to the customer. This is done by following a five-step process:

- Step 1: Identify the contract with the customer;
- Step 2: Identify the performance obligations in the contract;
- Step 3: Determine the transaction price;
- Step 4: Allocate the transaction price to the performance obligations in the contract; and
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation by transferring control of an asset to a customer. This may be at a point in time (typically for goods), or over time (typically for services).

Management has completed an initial high level impact assessment of NZ IFRS 15, and has also reviewed its more significant contracts covering approximately 80% of revenues earned for the 2018 financial year. Management has determined that the standard is not expected to have a material impact on the timing of revenue recognition nor financial performance of the Group.

# NZ IFRS 16 - Leases (effective for annual reporting periods beginning on or after 1 January 2019)

NZ IAS 16: Leases removes the distinction between operating and finance leases for lessees and requires a lessee to recognise all leases on balance sheet through:

- An asset representing its right to use the leased item for the lease term;
- A liability for its obligation to pay rentals.

NZ IFRS 16 contains guidance on identification, recognition, measurement, presentation, and disclosure of leases by lessees and lessors.

Management has completed an initial high-level impact assessment of NZ IFRS 16 on the Group. The new standard will result in recognition of right-of-use assets and lease liabilities for those leases disclosed in note 16 (b) and other leases not included in this disclosure due to not meeting the 'non-cancellable operating lease commitments' threshold. This includes carpark leases.

The lease payments are currently recognised in operating expenses. In future the expense will be recorded as depreciation on the right to use asset and interest cost on the lease liability. The impact on surplus / (deficit) before tax is expected to be immaterial.

Management has not fully quantified the impact of NZ IFRS 16 on the amounts presented in these financial statements, which a more detailed analysis will provide.

# Going concern

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

The Group has recorded a net deficit of \$1,041,958 (2017: deficit \$24,582) for the year ended 31 March 2018.

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 during the period of one year from the date these financials statements are approved.

Specifically, the Group held cash reserves of \$1,133,900 as at 31 March 2018 which is considered sufficient to meet its working capital requirements for at least 12 months from the date these financial statements are approved. The Company is investing in upgrading plant to a fully accredited "Good Manufacturing Practice" (GMP) status, regulatory approvals and new product launches as part of the Company's growth strategy. Depending on progress, the Company may consider options to fund its growth.

Based on management budgets and plans, the Group will be able to meet financial obligations for at least 12 months from the date of approval of the financial statements.

The Directors believe that there is no material uncertainty in respect of the Group ability to continue as a going concern for the period assessed above due to the level of its current cash holdings and ability to generate operating cash flows. Nevertheless, in the event it fails to achieve planned profitability the Group may not be able to continue as a going concern.

If the Group 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 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 be unable to continue as a going concern.

# 2. SURPLUS/(DEFICIT) FROM OPERATIONS

# Policy

#### Sale of goods

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

#### **Grant revenue**

Grant revenue is recognised when the Group has met all of the requirements established by the grant. Grant revenue 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 revenue of the period in which it becomes receivable.

# Income in advance

Revenue is recognised when all associated obligations have been met. Where income has been received but the associated obligations have not been met, for instance goods have not yet been provided, it will be recognised as Income in Advance on the balance sheet.

## 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, the Euro-denominated bank account and the United States Dollar (USD)-denominated bank account balances are translated at the exchange rates prevailing at the end of each reporting period as sourced from the Reserve Bank of New Zealand. Exchange differences are recognised in the income statement in the period in which they occur.

# 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.

	2018	2017
	\$'000	\$'000
(a) Revenue		
Revenue consists of the following items:		
Sale of goods – domestic sales	814	970
Sale of goods – export sales	4,471	5,566
Grant revenue	_	7
	5,285	6,543
(b) Operating expenses		
This includes the following specific expenses:		
Employee benefits	2,251	2,024
Directors' fees	135	150
Raw materials and consumables	1,354	1,688
Other operating expenses	1,218	1,614
Amortisation of finite life intangible assets (Note 10)	395	404
Operating leases - minimum lease payments (i)	109	107
Depreciation of property, plant and equipment (Note 9)	215	204
CEO share plan (Note 15)	_	54
Loss of fair value foreign exchange contracts	_	7
	5,677	6,252

<sup>(</sup>i) Operating lease rentals include rental streams associated with the laboratory utilised by the development team and administration and buildings leased at Glasgow Street and the Birch Street production facility.

# 3. INCOME TAXES

# **Policy**

#### **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.

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.

2018	2017
\$'000	\$'000

# (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:

Net deficit before tax	(1,042)	(24)
Income tax benefit calculated at 28%	(292)	(7)
Non-deductible items	74	130
Temporary differences excluding tax losses not recognised	(36)	(23)
Tax losses (recognised)/not recognised	254	(100)
Income tax expense	_	_

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

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

#### (c) Deferred tax balances

The Group has unrecognised deferred income tax assets in relation to temporary differences of \$359,593 (2017 \$395,835). Furthermore, the Group has unrecognised deferred income tax assets of \$4,984,681 (2017 \$4,730,384) in respect of tax losses amounting to \$17,802,431 (2017 \$16,894,230) that may be able to be carried forward and offset against future taxable income (subject to meeting the requirements of the Income Tax Act 2007). The availability of these tax losses to apply against future income is contingent upon maintaining a minimum level of shareholder continuity and is therefore highly uncertain.

# 4. REMUNERATION OF AUDITORS

Audit of the financial statements	60	43
Additional fees relating to the 2017 audit	20	_
	80	43

The auditor of Blis Technologies Limited is Deloitte Limited.

# 5. KEY MANAGEMENT PERSONNEL COMPENSATION

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

Short-term employee and contractor benefits	1,228	1,162
Share-based option	_	54
	1,228	1,216

# 6. CASH AND SHORT-TERM DEPOSITS

# **Policy**

#### **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.

# Cash and 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.

Cash	1,059	1,065
Short-term deposits (i)	75	75
	1,134	1,140

# (i) Short-term deposits

Short-term deposits include \$75,000 held in a bank account as a bond for the NZX. These funds are held as security and restricted. The carrying amount of cash and cash equivalents approximates their fair value.

#### 7. ACCOUNTS RECEIVABLE

# **Policy**

# 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.

2018	2017
\$'000	\$'000
678	1,120
16	30
694	1,150
	678 16

Trade debtors and other receivables are non-interest bearing and receipt is normally on 30 to 60 day terms. Therefore, the carrying value of trade debtors and other receivables approximates its fair value.

# 8. INVENTORIES

#### **Policy**

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

# **Inventories**

Raw materials	283	309
Finished goods	60	40
	343	349

# 9. PROPERTY, PLANT AND EQUIPMENT

# **Policy**

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 improvements1-10 yearsFurniture and fittings2-15 yearsPlant and equipment3-12 years

# Property, plant and equipment

## 2018

	Cost 1 April 2017	Additions/ Transfers	Disposals	Cost 31 March 2018	Accumulated depreciation 1 April 2017		Accumulated depreciation reversed on disposal	Transfer	Accoumulated depreciation 31 March 2018	Book value 31 March 2018
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$000	\$'000	\$'000
Leasehold improvements	342	1	_	343	(244)	(60)	_	_	(304)	38
Furniture and fittings	90	2	_	92	(70)	(3)	_	_	(73)	19
Plant and equipment	1,270	352	_	1,622	(742)	(152)	_	_	(894)	728
Total property, plant and equipment	1,702	355	_	2,057	(1,056)	(215)	_	_	(1,271)	785

#### 2017

2017	Cost 1 April 2016	Additions/ Transfers	Disposals	Cost 31 March 2017	Accumulated depreciation 1 April 2016		Accumulated depreciation reversed on disposal	Transfer	Accoumulated depreciation 31 March 2017	Book value 31 March 2017
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$000	\$'000	\$'000
Leasehold improvements	318	24	_	342	(178)	(66)	_	_	(244)	98
Furniture and fittings	84	8	(2)	90	(67)	(3)	_	_	(70)	20
Plant and equipment	1,166	104	_	1,270	(606)	(135)	_	_	(742)	528
Total property, plant and equipment	1,568	136	(2)	1,702	(851)	(204)	_	_	(1,056)	646

# 10. FINITE LIFE INTANGIBLE ASSETS

#### **Policy**

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 Group 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 20 years. The estimated useful life and amortisation method is reviewed at the end of each annual reporting period.

#### Website

Following the initial investment, which is recorded at cost and amortised over 3 years, the cost of further website development is expensed as incurred.

# Internally-generated intangible assets - capitalised product 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 eight 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 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.

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.

The group has determined that it is inappropriate to capitalise any further development costs on products that are now in commercial production or website development costs.

	Patents	Capitalised Development		
	\$'000	\$'000	\$'000	\$'000
Gross carrying amount				
Balance at 1 April 2017	966	3,115	159	4,240
Additions	98	_	23	121
Balance at 31 March 2018	1,064	3,115	182	4,361
Accumulated amortisation and impairm	ent			
Balance at 1 April 2017	444	2,607	70	3,123
Amortisation expense	109	242	45	395
Balance at 31 March 2018	553	2,849	115	3,519
Net book value at 31 March 2018	511	266	67	843

No impairment losses have been recorded in the current year (2017:Nil).

Capitalised product development expenditure relates to costs incurred in relation to the development of ingredient, intermediate and food products containing BLIS, and the associated regulatory approval processes.

For the purposes of preparing these accounts, 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.

The recoverable amount calculations are most sensitive to assumptions regarding growth rate, contribution margins and the required rate of return. Annual sales growth rate of between 0% - 31% (2017: 21% - 30%), and contribution margins pre-personnel costs of 77% (2017; 67%-70%) and a post-tax discount rate of 12.5% (2017: 12.5%) have been applied in these projections. Cash flows beyond the five year period have been extrapolated using a steady 2.5% (2017: 2.5%) growth rate. The recoverable amount is very sensitive to each of these assumptions. If sales growth and/or contribution margins fall short of projections, it is likely that the recoverable amount of the capitalised product development and patent expenditure will be less than the carrying value.

# 11. ACCOUNTS PAYABLE

# **Policy**

# 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.

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

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

	2018 \$'000	2017 \$'000
Accounts payable	429	316
Employee entitlements	152	160
	581	476
12. BORROWINGS		
Current	121	_
Non-current	169	_
	290	_

Included in the above balance is a loan of \$208,760 from the Bank of New Zealand with an effective interest rate of 6.04%. This is secured over the Natoli Tablet Press asset purchased for \$293,479. The term of this loan is over 60 months with the final payment due December 2022.

Other borrowings comprise insurance premium funding of \$81,240 with effective interest rates ranging from 3.93%-13.58%. The final payments of the funding are due in October 2018.

#### 13. INVESTMENT IN SUBSIDIARY

Subsidiary	Percentage Held		Balance Date	Principal Activity
•	2018	2017		
Blis Functional Foods Limited	100%	100%	31 March	Non-trading
14. SHARE CAPITAL				
	2018	2018	2017	2017
	No. of Shares	\$'000	No. of Shares	\$'000
Balance at the beginning of the year	ar			
(fully-paid)	1,107,653,565	37,298	1,102,153,565	37,298
Shares issued pursuant to CEO				
share plan	_	40	5,500,000	_
Balance at the end of the year	1,107,653,565	37,338	1,107,653,565	37,298

All 1,107,653,565 ordinary shares are issued and carry equal voting rights.

All issued shares participate equally in any dividend distribution or any surplus on winding up of the Company.

On 2 June 2016, 5,500,000 shares were issued to Mr Brian Watson, Chief Executive of the Company. The shares were issued at a price of \$0.0299 per share. Details of this transaction is shown in note 15.

# **Policy**

# **Equity instruments**

Equity instruments issued by the Group are recorded at the proceeds received other than in respect to the CEO share plan refer Note 15.

	2018 Cents per Share	2017 Cents per Share
Basic earnings/(deficit) per share	(0.09)	(0.00)
The earnings and weighted average number of ordina share are as follows:	ary outstanding share	s used in the calcula
	\$'000	\$'000
Net earnings/(deficit)		(24)
	No.	No.
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,107,653,565	1,106,704,250
	Cents per Share	Cents per Share
Diluted earnings/(deficit) per share	(0.09)	(0.00)
The earnings and weighted average number of outstands share are as follows:	anding ordinary share	s used in the calcula
	\$'000	\$'000
Net earnings/(deficit)	(1,042)	(24)
	No.	No.
Weighted average number of ordinary shares for the purpose of diluted earnings per share	1,107,653,565	1,106,704,250
	Cents per Share	Cents per Share
Net tangible assets/(liabilities) per share at year end	0.20	0.26
The net tangible assets and number of outstanding or share are as follows:	ordinary shares used in	n the calculation of n
	\$'000	\$'000
Net tangible assets	2,164	2,899
	No.	No.
Number of ordinary shares held at 31 March 2018	1,107,653,565	1,107,653,565

# Net tangible assets

As at 31 March 2018 the net tangible asset per share was 0.20 cents (2017: 0.26 cents).

	2018	2017
	\$'000	\$'000
Total assets	3,888	4,500
Less intangible assets	(843)	(1,118)
Less total liabilities	(881)	(483)
Net tangible assets	2,164	2,899
	'000	'000
Number of shares outstanding	1,107,654	1,107,654
	Cents	Cents
Net tangible assets per share	0.20	0.26

#### 15. RELATED PARTY TRANSACTIONS

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

During FY18 Mr A P Offen did not provide any services to the Group through Edinburgh Securities Ltd. Payments for executive director services amounted to \$23,728 in FY17.

Mr P F Fennessy provided professional consulting services to the Group through AbacusBio Ltd during the year. Payments for these services amounted to \$5,500 (2017: \$31,200). There was \$Nil owing at 31 March 2018 (2017: \$5,000).

Mr T J Mepham, the Chief Financial Officer of the Group until October 2017, provided professional consulting services to the Group through Rautaki Advisory during the year. Payments for these services amounted to \$28,624 (2017: \$15,802).

During the year, BLIS products were sold to the following related parties (excluding web sales):

Associated Entity	Director	2018	2017
P F Fennessy	P F Fennessy	\$1,089	\$78
Edinburgh Securities Ltd	A P Offen	\$104	\$609
B H Wallace	B H Wallace	\$0	\$824
A J McKenzie	A J McKenzie	\$141	\$126
G S Boyd	G S Boyd	\$0	\$49
V M Aris	V M Aris	\$0	\$58

Product samples are also made available to the staff and Board members for personal use.

# CEO share option and issue of shares to the CEO

The Company entered into a Subscription Agreement and issued 5,500,000 new ordinary shares to Brian Watson, the Chief Executive Officer (CEO) on 2 June 2016. The shares were issued for cash consideration of 2.99 cents per share being an aggregate \$164,500, which was satisfied by way of a contemporaneous interest free loan provided by the Company to the CEO for an aggregate amount equivalent to the subscription price for the shares.

The loan is secured by a lien on the issued shares and repayable in equal annual instalments commencing on the 1st of December 2017 with the final instalment due on 1 December 2021. The 1st December 2017 payment was made.

The shares were issued at 90% of the volume weighted average share price for the 5 trading days prior to 1 June 2016. The issue price was considered by the Directors of the Company to be equivalent to the price that the tranche of shares would have been issued to an independent third party at the time of issue.

The Subscription Agreement provides security against the loan through a charge on the shares. For accounting treatment

only, the Directors have accepted that the appropriate approach consistent with the relevant accounting standard is to treat the entire arrangement as a share option.

Accordingly, the Company took independent professional advice and received an opinion as to the quantum of the expense to bring to bear. The Company was advised that using the Black Scholes option pricing model for the CEO Share Plan at an implied volatility of 32% and referenced to the prevailing share price of 3.32 cents on 2 June 2016 yielded an aggregate option value of \$54,517. This amount was treated as an expense as required under NZ IFRS 2.

As a result of the charge to the Income Statement, a CEO Share Option Reserve was created in the Balance Sheet. Accordingly there is no effect on total equity, in treating the option value as an expense. Upon receipt of each of the scheduled loan repayments the notional option value associated with each tranche will be transferred from the CEO Share Plan Reserve to Share Capital and the amount of each loan repayment will be recorded to equity to represent the consideration received for each tranche of shares issued to the CEO.

Consideration of \$32,900 was received from the CEO for the first tranche of shares in November 2017.

#### Fair value of share options

The fair value of the share options granted during the 2017 financial year was \$54,517. Options were priced using the Black-Scholes option pricing model. Expected volatility is based on the historical share price over the past 5 years, consistent with the options lives, factoring in a step change in the 9 months prior to grant date.

No allowance for early exercise was incorporated into the fair value calculation as it was assumed that the CEO would exercise the options at the latest exercise date.

There are no market or service conditions.

The fair value model is most susceptible to changes in the expected volatility. Had an expected volatility of 45% been utilised, the fair value of the share options would have been \$69,000.

#### Inputs to the model

Options series	1	2	3	4	5
Grant date weighted average share price	\$0.0322	\$0.0322	\$0.0322	\$0.0322	\$0.0322
Exercise price	\$0.0299	\$0.0299	\$0.0299	\$0.0299	\$0.0299
Expected volatility	31.93%	31.93%	31.93%	31.93%	31.93%
Option life	1.5 years	2.5 years	3.5 years	4.5 years	5.5 years
Dividend yield	0%	0%	0%	0%	0%
Risk-free interest rate	2.07%	2.01%	2.00%	2.06%	2.02%
Final exercise date	1/12/17	1/12/18	1/12/19	1/12/20	1/12/21

# 16. COMMITMENTS FOR EXPENDITURE

# (a) Capital expenditure commitments

As at 31 March 2018 there is \$38,510 of capital expenditure commitments (2017: \$23,000).

# (b) Lease commitments

Non-cancellable operating lease commitments are as follows:

	2018 \$'000	2017 \$'000
Less than 1 year	89	83
1 - 5 years	273	328
Longer than 5 years	183	208

# 17. CONTINGENT ASSETS AND CONTINGENT LIABILITIES

There were no material contingent assets or contingent liabilities at 31 March 2018 (2017: \$Nil).

# 18. SEGMENTAL REPORTING

# 18.1 Operating segments

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

# 18.2 Revenue from major products and services

	2018 \$'000	2017 \$'000	
The Group's revenues from its major products and services were as follows:			
BLIS products	5,242	6,325	
Non-core business	46	222	
Total revenue	5,288	6,547	

Non-core revenues mainly include interest received and contract manufacturing revenue of non BLIS®-branded products.

# 18.3 Information about geographical areas

The Group operates in four principal geographical areas; Australasia, Asia (incl. China), Europe and North America.

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

	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
	Revenue from External Customers		Non-current Assets	
Trading revenue				
Australasia	873	1,092	1,628	1,764
Asia (incl. China)	680	1,322	-	_
Europe	2,817	2,316	-	_
North America	834	1,682	-	_
Rest of the world	81	124	_	_
Total trading revenue	5,285	6,536	1,628	1,764
Interest received	3	4	_	_
Grant revenue	_	7	-	_
Total revenue	5,288	6,547	1,628	1,764

Included in revenue are revenues of \$2,796,626, \$834,266 and \$588,556 (2017: \$2,285,423, \$1,670,629 and \$1,152,604) which arose from sales to the Group's three largest customers.

Web sales are allocated to region where the end consumer is based.

# 19. RECONCILIATION OF NET DEFICIT WITH CASH FLOWS FROM OPERATING ACTIVITIES

# **Policy**

For the purpose of the cash flow 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. 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.

	2018 \$'000	2017 \$'000
Net surplus/(deficit) for the year	(1,042)	(24)
Adjustments for non-cash items:		
Amortisation of capitalised product development costs	242	313
Amortisation of patents	109	91
Amortisation of website development	45	1
CEO share plan costs	_	54
Depreciation	215	204
Foreign exchange loss/(gain)	(30)	(2)
Loss/(Gain) on fair value of foreign exchange contracts	_	7
Loss/(Gain) on disposal of fixed asset	-	2
	(461)	646
Movements in working capital		
Accounts receivable	456	57
Prepayments	8	(41)
Inventories	6	(21)
Accounts payable and income in advance	109	(397)
	579	(402)
Net cash inflow/(outflow) from operating activities	118	244

# 20. 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. Foreign exchange contract liabilities are measured at fair value, all of the Group's other 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 derivative financial instruments for speculative purposes. The Group utilises forward cover on confirmed foreign currency transactions. 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 reserves, share option equity reserve and retained earnings as disclosed in the Statement of Changes in Equity.

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 FY 2017.

#### (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. The Group enters into foreign exchange contracts to manage its exposure to foreign currency transactions, 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 and borrowings 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 enters into foreign exchange contacts on certain sales in denominated in foreign currencies to economically hedge the foreign exchange risk associated with the timing between the date of sale and receipt of payment. The Group has not adopted hedge accounting.

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

	2018 \$'000	2017 \$'000
Euro	61	117
Australian Dollar	27	_
United States Dollar	357	1,091

The table below details the notional principal amounts and remaining terms of foreign exchange contracts outstanding at reporting date:

	Average con	tract rate	Foreign	currency	contr	Nominal act value	-	air value (liability)	
	2018	2017	2018 \$000's	2017 \$000's	2018 \$000's	2017 \$000's	2018 \$000's	2017 \$000's	
Euro									
Less than 1 year	0.5850	0.6540	510	13	512	13	(2)	0	
USD									
Less than 1 year	0.7203	0.6983	1,381	778	1,389	784	(8)	(7)	
			1,891	791	1,901	797	(10)	(7)	

The tables above express foreign currency amounts in New Zealand dollar equivalents using the exchange rates at 31 March 2018 and 31 March 2017. The rates applied at 31 March 2018 were:

NZ\$1:0.9409	AU\$ (2017: AU\$0.9142)
NZ\$1:0.5850	EU\$ (2017: EU\$0.6543)
NZ\$1:0.7203	US\$ (2017: US\$0.6991)

The fair value of the foreign exchange contracts is based on a discounted cash flow analysis using observable market data and is a level 2 fair value measurement.

# (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:

	2018 \$'000	2017 \$'000
Cash and short-term deposits	1,134	1,140
Accounts receivable	678	1,120
GST receivable	16	30
	1,828	2,290

# Ageing receivables breakdown

Agenia receivables breakdown				
2018	Gross amounts receivable	Impairment	Net balance	
Ageing analysis of trade receivables	\$'000	\$'000	\$'000	
Current	636	_	636	
0 - 30 days (past due)	28	_	28	
31 - 60 days (past due)	0	_	0	
Greater than 60 days (past due)	14	_	14	
Total past due	42		42	
Total of accounts receivable	678	<del>-</del>	678	
Total past due	42		42	

2017	Gross amounts receivable	Impairment	Net balance
Ageing analysis of trade receivables	\$'000	\$'000	\$'000
Current	981	_	981
0 - 30 days (past due)	6	_	6
31 - 60 days (past due)	1	_	1
Greater than 60 days (past due)	132	_	132
Total past due	139	<del>-</del>	139
Total of accounts receivable	1,120		1,120

At 31 March 2018, accounts receivable include an amount of \$237,810 (2017: \$590,787) due from one customer and \$151,270 from another customer (2017: \$250,015 from another customer). All of the Group's bank accounts are held with Bank of New Zealand. 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 by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. The Group also has approved trade funding facilities up to \$750,000 which are linked to customer specific limits. Whilst being used during the period the funding facility was not utilised at 31 March 2018.

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

# Liquidity and interest risk tables

The following tables detail the Group'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.

Weighted a effective inter	_	ess than	1-2 years	2-3 years	3-4 years	4-5 years	5+ years	Interest	Total
	%	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000		\$'000
31 March 2018									
Financial assets:									
Cash and short-term									
deposits	0.26	1,134	_	_	_	_	_	_	1,134
Accounts receivable	_	678	_	_	_	_	_	_	678
GST receivable	_	16	_	_	_	_	_	_	16
Total		1,828	_	_	_	_	_	_	1,828
Financial liabilities:									
Accounts payable	_	581	_	_	_	_	_	_	581
Borrowings	7.11	121	42	44	47	37	_	41	332
Total	_	702	42	44	47	37	_	41	913
===									
31 March 2017									
Financial assets:									
Cash and short-term									
deposits	1.11	1,140	_	_	_	_	_	_	1,140
Accounts receivable	_	1,120	_	_	_	_	_	_	1,120
GST receivable	_	30	_	_	_	_	_	_	30
Total		2,290	_	_	_	_	_	_	2,290
Financial liabilities:									
Accounts payable		476	_	_	_	_		_	476
Total		476			_	_	_	_	476

# (i) Sensitivity analysis

The Group is exposed to foreign currency risk arising from 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, the Euro and the United States Dollar.

Exposures to movements in these foreign currency rates are not considered material at balance date. 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 increased during the year due to an increased proportion of export sales.

Exposure to movement in floating interest rates in respect of cash on deposit and borrowings is 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.

#### 21. EVENTS AFTER BALANCE DATE

There were no significant events after balance date (2017:Nil).

# ADDITIONAL STOCK EXCHANGE INFORMATION

FOR THE YEAR ENDED 31 MARCH 2018

The Company's ordinary shares are listed on the NZX Limited Main Board (NZSX).

As at 31 March 2018 the total number of issued ordinary shares in the Company was 1,107,653,565

# 1. Substantial product holders

The following substantial product holder information is given pursuant to section 293 of the Financial Markets Conduct Act 2013. These substantial product holders are shareholders that have a relevant interest in 5% or more of the ordinary shares in the Company. As at 31 March 2018 details of the substantial product holders of the Company and their relevant interests in the ordinary shares of the Company are as follows:

Name of substantial product holder	Number of voting securities ordinary shares
	as at 31 March 2018
Leveraged Equities Finance Limited	172,155,529
Wen Yi (UOB Kay Hian Limited)	75,670,169

# 2. Spread of security holders at 31 March 2018 – ordinary shares

	Number of	Percentage of	Percentage of
	security holders	security holders	shares held
1 - 50,000	642	37.53%	1.62%
50,001 - 100,000	347	20.28%	2.42%
100,001 - 150,000	136	7.95%	1.57%
150,001 - 200,000	119	6.95%	1.94%
200,001 - 300,000	106	6.20%	2.49%
300,001-500,000	132	7.71%	4.84%
500,001 - 1,000,000	108	6.31%	7.20%
1,000,001 - 5,000,000	95	5.55%	18.80%
5,000,001 and above	26	1.52%	59.12%
	1,711	100.00%	100.00%

# 3. Twenty largest equity security holders

The names of the 20 largest holders of each class of quoted equity security as at 31 March 2018 are listed below.

Top 20 shareholders	Number of issued ordinary shares	Percentage issued
Leveraged Equities Finance Limited	172,155,529	15.54%
Wen Yi (UOB Kay Hian Limited)	75,670,169	6.83%
Xu Qi Wu & Yao Hong Shen	46,370,689	4.19%
New Zealand Central Securities Depository Limited	44,228,660	3.99%
Mingchun Qiu	39,000,000	3.52%
Edinburgh Equity Limited	31,157,388	2.81%
Hui Ai Adriana Tong & Morlan Tong	29,000,000	2.62%
Michael Herbert Bird	28,000,000	2.53%
Stephen Patrick Ward, Julie Patricia Ward & James Mic	hael Ward 25,174,672	2.27%
Mark Alexander Stevens & Wendy Joanne Stevens	24,094,577	2.18%
Asia Pacific Partners Limited	21,850,878	1.97%
Custodial Services Limited	20,599,074	1.86%
Custodial Services Limited	17,126,189	1.55%
Richard Mark Keenan	10,590,000	0.96%
Lisa Cherie Van Kampen	7,500,000	0.68%
Graeme Alan Hoy	6,698,181	0.60%
Colin John Wilson & Glenys Ann Wilson	6,400,000	0.58%
Vivienne Louise Cowan	6,000,263	0.54%
Peter Francis Fennessy & Mary Elizabeth Fennessy	5,798,182	0.52%
Kirkland Properties Limited	5,745,377	0.52%
TOTAL	623,159,828	56.26%

# 4. Directors' shareholdings

The following table sets out, for the purposes of the disclosures required under Listing Rule 10.4.5 (c) of the NZX Main Board Listing Rules, the relevant interests of Directors and associated persons of the Directors in equity securities of the Company as at 31 March 2018:

Name of Director	in whi	er of equity securities ich a relevant interest s held by the Director
P F Fennessy	Ordinary	5,798,182 (1)
A P Offen	Ordinary	31,157,388 (2)
A J McKenzie	Ordinary	29,789,774 (3)
G S Boyd	Ordinary	800,000 (4)

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

- 1) The number of equity securities in which Mr P F Fennessy holds a relevant interest includes 5,798,182 ordinary shares, in which the trustees of the PF & ME Fennessy Family Trust have a relevant interest.
- 2) The number of equity securities in which Mr A P Offen holds a relevant interest includes 31,157,388 ordinary shares, held by Edinburgh Equity Limited. Mr Offen is a director and beneficial shareholder of Edinburgh Equity Limited.
- 3) The number of equity securities in which Mr A J McKenzie holds a relevant interest includes:
  - 1,599,346 ordinary shares, held by A J McKenzie & Co Limited. Mr McKenzie is a director and shareholder of A J McKenzie & Co Limited;
  - 5,100,000 ordinary shares held by the trustee of the Pinot Trust. Mr McKenzie is a non-beneficial Trustee of the Pinot Trust:
  - 22,928,571 ordinary shares held by Leveraged Equities Finance Limited on nominee account for SIL Long Term Holdings Limited. Mr McKenzie is a non-beneficial Director of SIL Long Term Holdings Limited;

- 161,857 ordinary shares held by Mr McKenzie personally.
- 4) The number of equity securities in which Mr G S Boyd holds a relevant interest includes 800,000 ordinary shares held by Mr Boyd personally.

#### 5. Credit rating

The Company does not currently have a credit rating.

# 6. NZX matters

No waivers were granted by NZX (or relied upon) with respect to the Company during the period 1 April 2017 to 31 March 2018.

# 7. Diversity policy

	Current year		Previous year	
	Male	Female	Male	Female
Number of Directors	4	1	5	1
Percentage of Directors	80%	20%	83.3%	16.7%
Number of Officers	3	1	3	1
Percentage of Officers	75%	25%	75%	25%

The Company has a Diversity and Inclusion Policy for the Board and Management as at 31 March 2018.

# 8. Independence of Directors

As at 31 March 2018, the following Directors are considered by the Board to be Independent (as defined by the NZX Main Board Listing Rules): Dr P F Fennessy, Ms V Aris, Mr G S Boyd, Mr A J McKenzie and Mr A P Offen.

# Independent Auditor's Report

# To the Shareholders of Blis Technologies Limited

#### Opinion

We have audited the consolidated financial statements of Blis Technologies Limited (the 'Company') and its subsidiaries (the 'Group'), which comprise the consolidated balance sheet as at 31 March 2018, and the consolidated income statement, statement of comprehensive income, statement of changes in equity and statement of cashflows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements, on pages 15 to 38 present fairly, in all material respects, the consolidated financial position of the Group as at 31 March 2018, and its consolidated financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards ('NZ IFRS') and International Financial Reporting Standards ('IFRS').

#### **Basis for opinion**

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

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

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

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

#### **Audit materiality**

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

We determined materiality for the Group financial statements as a whole to be \$80,000 (2017: \$95,000).

#### **Key audit matters**

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

# **Key audit matter**

# How our audit addressed the key audit matter

#### Impairment of intangible assets

The Group's ability to generate revenue is linked to capitalised development costs and patents in respect of ingredients for the Group's products. These are included in the balance sheet as intangible assets.

The total carrying value of intangible assets at 31 March 2018 is \$0.843m as shown in the Consolidated Balance Sheet and note 10, of which \$0.776m relates to capitalised development costs and patents.

The carrying value of intangible assets is particularly judgemental given its dependency on forecasts of revenue

Our procedures focused on evaluating the appropriateness of the revenue forecasts and operating cash flows included in the impairment model.

Our procedures included, amongst others:

- Obtaining the Group's impairment model and gaining an understanding of key assumptions and judgements underlying the model.
- Assessing the impairment model for consistency with the prior year and determining whether any

growth, contribution margins and required rate of return.

We included impairment of intangible assets as a key audit matter because if the Group is unable to generate revenue growth and produce sustainable operating cashflows, this affects the carrying value of its key intangible assets.

significant changes to the model were appropriate.

- Challenging the reasonableness of the key assumptions including those driving the cash flows underpinning the analysis, by:
  - Comparing historical budget forecasts against actual results.
  - Comparing forecast growth to business plans approved by the Board.
  - Engaging an internal valuation expert to benchmark the discount rate against companies of a similar nature.
- Performing sensitivity analysis on revenue growth assumptions to assess the impact on forecasted cashflows.

#### **Going Concern**

The financial statements have been prepared on a going concern basis as discussed in note 1.

Historically, the Group has been loss making, and has raised capital and taken out borrowings to fund costs during an extended growth phase.

Accumulated losses shown in the Consolidated Balance Sheet totalled \$34.4m as at 31 March 2018.

We included the going concern assumption as a key audit matter as it relies on existing cash reserves and revenue growth generating sufficient cashflows to cover necessary expenditure.

In assessing the appropriateness of the going concern assumption used in preparing the financial statements, our procedures included, amongst others:

- Assessing the cash flow requirements of the Group over 14 months from 31 March 2018 based on budgets and forecasts.
- Understanding what forecast expenditure is committed and what could be considered discretionary.
- Considering the liquidity of existing assets on the balance sheet.
- Considering the terms of the bank loan and trade finance facilities and the amount available for drawdown
- Considering potential downside scenarios and the resultant impact on available funds.

The prior year audit report included one other key audit matter which is not included in our report this year: Fair Value of Share Options under Subscription Agreement and Related Accounting Treatment. The share options were valued on grant date in June 2016 with the full fair value expensed at that time due to the share options vesting immediately at grant date. There are no further judgements to be applied in relation to these share options and the Group has not entered into any new share option arrangements during the current year.

# Other information

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

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

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

#### Directors' responsibilities for the consolidated financial statements

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

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

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditorsresponsibilities/audit-report-1

This description forms part of our auditor's report.

Restriction on use

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

Heidi Rautjoki, Partner for Deloitte Limited Dunedin, New Zealand

Deloitte Limited

17 May 2018

This audit report relates to the consolidated financial statements of Blis Technologies Limited (the 'Company') for the year ended 31 March 2018 included on the Company's website. The Directors are responsible for the maintenance and integrity of the Company's website. We have not been engaged to report on the integrity of the Company's website. We accept no responsibility for any changes that may have occurred to the consolidated financial statements since they were initially presented on the website. The audit report refers only to the consolidated financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these consolidated financial statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited consolidated financial statements and related audit report dated 17 May 2018 to confirm the information included in the audited consolidated financial statements presented on this website.





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