

Synlait

INTERIM FINANCIAL STATEMENTS

For the six months ended 31 January 2021



CONTENTS

Directors' responsibility statement	03
Interim financial statements	04
Income statement	04
Statement of comprehensive income	05
Statement of changes in equity	06
Statement of financial position	07
Statement of cash flows	08
Notes to the financial statements	09
01 Reporting entity	09
02 Basis of preparation of six monthly financial report	10
03 Segment reporting	11
04 Expenses	14
05 Reconciliation of profit after income tax to net cash outflow from operating activities	15
06 Trade and other receivables	15
07 Inventories	16
08 Property, plant and equipment	16
09 Loans and borrowings	17
10 Share capital	18
11 Related party transactions	18
12 Contingencies	20
13 Commitments	20
14 Events occurring after the reporting period	20
Independent Auditor's Review Report	21

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors are pleased to present the condensed interim financial statements for Synlait Milk Limited and its subsidiaries, Synlait Milk Finance Limited, The New Zealand Dairy Company Limited, Eighty Nine Richard Pearse Drive Limited, Synlait Business Consulting (Shanghai) Limited, Dairyworks Limited, and Dairyworks (Australia) Pty Limited (together "the Group") as set out on pages 4 to 20 for the six months ended 31 January 2021.

The Directors are responsible for ensuring that the condensed interim financial statements present fairly the financial position of the Group as at 31 January 2021 and the financial performance and cash flows for the six months ended on that date.

The Directors consider that the condensed interim financial statements of the Group have been prepared using appropriate accounting policies, consistently applied and supported by reasonable judgements and estimates and that all relevant financial reporting and accounting standards have been followed. The Directors believe that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the Group and facilitate compliance of the financial statements with the Financial Markets Conduct Act 2013.

For and on behalf of the Board.



Graeme Milne
Chair
26 March 2021



Simon Robertson
Independent Director
26 March 2021

INCOME STATEMENT

For the six months ended 31 January 2021

		Period ended 31 January 2021 Unaudited \$'000	Period ended 31 January 2020 Unaudited \$'000	Year ended 31 July 2020 Audited \$'000
	Notes			
Revenue		664,182	559,286	1,302,025
Cost of sales	4	(604,529)	(476,410)	(1,098,292)
Gross profit		59,653	82,876	203,733
Other income		1,611	604	404
Share of (loss)/profit from associates		(33)	-	33
Sales and distribution expenses	4	(18,739)	(13,871)	(32,318)
Administrative and operating expenses	4	(22,906)	(23,230)	(48,561)
Earnings before net finance costs and income tax		19,586	46,379	123,291
Finance expenses		(10,720)	(8,610)	(19,777)
Finance income		30	49	134
Loss on derecognition of financial assets		(436)	(938)	(1,747)
Net finance costs		(11,126)	(9,499)	(21,390)
Profit before income tax		8,460	36,880	101,901
Income tax expense		(2,087)	(10,684)	(26,693)
Net profit after tax for the period		6,373	26,196	75,208
Earnings per share		Cents	Cents	Cents
Basic earnings per share (cents)		3.23	14.61	41.95
Diluted earnings per share (cents)		3.22	14.57	41.85

The accompanying notes form part of and are to be read in conjunction with these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 31 January 2021

	Period ended 31 January 2021 Unaudited \$'000	Period ended 31 January 2020 Unaudited \$'000	Year ended 31 July 2020 Audited \$'000
Profit for the period	6,373	26,196	75,208
Items that may be reclassified subsequently to profit and loss			
Effective portion of changes in fair value of cash flow hedges	30,306	1,515	53,882
Exchange differences on translation of foreign operations	2	(49)	(12)
Income tax on other comprehensive income	(8,486)	(424)	(15,087)
Total items that may be reclassified subsequently to profit and loss	21,822	1,042	38,783
Other comprehensive income for the period, net of tax	21,822	1,042	38,783
Total comprehensive income for the period	28,195	27,238	113,991

STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 January 2021

	Share Capital	Employee Benefits Reserve	Cash Flow Hedge Reserve	Foreign Currency Translation Reserve	Retained Earnings	Total Equity
	Unaudited \$'000	Unaudited \$'000	Unaudited \$'000	Unaudited \$'000	Unaudited \$'000	Unaudited \$'000
Equity as at 1 August 2019	268,074	1,658	(26,148)	-	248,776	492,360
Profit or loss for the year	-	-	-	-	26,196	26,196
Other comprehensive income						
Effective portion of changes in fair value of cash flow hedges	-	-	1,515	-	-	1,515
Exchange differences on translation of foreign operations	-	-	-	(49)	-	(49)
Income tax on other comprehensive income	-	-	(424)	-	-	(424)
Total other comprehensive income	-	-	1,091	(49)	-	1,042
Total comprehensive income	-	-	1,091	(49)	26,196	27,238
Employee benefits reserve	470	(426)	-	-	-	44
Total contributions by and distributions to owners	470	(426)	-	-	-	44
Equity as at 31 January 2020	268,544	1,232	(25,057)	(49)	274,972	519,642
Equity as at 1 August 2020	268,544	1,322	12,647	(12)	323,983	606,484
Profit or loss for the period	-	-	-	-	6,373	6,373
Other comprehensive income						
Effective portion of changes in fair value of cash flow hedges	-	-	30,306	-	-	30,306
Exchange differences on translation of foreign operations	-	-	-	2	-	2
Income tax on other comprehensive income	-	-	(8,486)	-	-	(8,486)
Total other comprehensive income	-	-	21,820	2	-	21,822
Total comprehensive income	-	-	21,820	2	6,373	28,195
Issue of new shares	10	196,082	-	-	-	196,082
Employee benefits reserve	10	148	(637)	-	-	(489)
Total contributions by and distributions to owners	196,230	(637)	-	-	-	195,593
Equity as at 31 January 2021	464,774	685	34,467	(10)	330,356	830,272

The accompanying notes form part of and are to be read in conjunction with these financial statements.

The accompanying notes form part of and are to be read in conjunction with these financial statements.

STATEMENT OF FINANCIAL POSITION

As at 31 January 2021

	Notes	31 January 2021 Unaudited \$'000	31 January 2020 Unaudited \$'000	31 July 2020 Audited \$'000
ASSETS				
Cash and cash equivalents		9,133	6,974	5,887
Trade and other receivables	6	123,030	68,184	63,057
Intangible assets		5,290	4,959	4,230
Goods and services tax refundable		9,340	7,841	6,398
Income accruals and prepayments		7,561	6,811	12,404
Inventories	7	406,404	306,441	269,384
Derivative financial instruments		63,498	2,525	22,530
Other current assets		2,500	2,500	2,500
Total current assets		626,756	406,235	386,390
Non-current assets				
Property, plant and equipment	8	1,007,149	934,497	965,104
Intangible assets		49,260	17,845	42,503
Goodwill		64,189	19,143	65,545
Other investments		110	110	143
Derivative financial instruments		969	1,253	14,084
Right-of-use assets		15,583	11,861	18,497
Total non-current assets		1,137,260	984,709	1,105,876
Total assets		1,764,016	1,390,944	1,492,266
LIABILITIES				
Trade and other payables		324,218	305,788	238,770
Loans and borrowings	9	214,199	174,328	102,837
Current tax liabilities		22,714	32,431	24,561
Derivative financial instruments		8,903	29,798	14,148
Lease liabilities		3,126	4,629	4,422
Total current liabilities		573,160	546,974	384,738
Non-current liabilities				
Loans and borrowings	9	276,956	276,267	426,754
Derivative financial instruments		3,552	8,803	4,805
Deferred tax liabilities		66,649	31,297	54,647
Lease liabilities		13,427	7,961	14,838
Total non-current liabilities		360,584	324,328	501,044
Total liabilities		933,744	871,302	885,782
Net assets		830,272	519,642	606,484
Equity				
Share capital	10	464,774	268,544	268,544
Reserves		35,142	(23,874)	13,957
Retained earnings		330,356	274,972	323,983
Total equity attributable to equity holders of the Group		830,272	519,642	606,484
Total equity and liabilities		1,764,016	1,390,944	1,492,266

The accompanying notes form part of and are to be read in conjunction with these financial statements.

STATEMENT OF CASH FLOWS

For the six months ended 31 January 2021

	Notes	Period ended 31 January 2021 Unaudited \$'000	Period ended 31 January 2020 Unaudited \$'000	Year ended 31 July 2020 Audited \$'000
Cash flows from operating activities				
Cash receipts from customers		611,349	563,830	1,316,076
Cash paid for milk purchased		(320,097)	(277,945)	(545,792)
Cash paid to other creditors and employees		(357,427)	(269,580)	(635,402)
Net movement in goods and services tax		(2,940)	(4,155)	(2,709)
Income tax payments		2	(1)	(26,633)
Net cash (outflow)/inflow from operating activities	5	(69,113)	12,149	105,540
Cash flows from investing activities				
Acquisition of subsidiaries, net of cash acquired		-	(18,988)	(72,927)
Interest received		30	49	134
Purchase of property, plant and equipment		(62,578)	(87,321)	(139,212)
Proceeds from sale of property, plant and equipment		3,467	(81)	242
Purchase of intangible assets		(11,364)	(3,902)	(13,262)
Net cash outflow from investing activities		(70,445)	(110,243)	(225,025)
Cash flows from financing activities				
Proceeds from the issuance of subordinated bonds	9	-	180,000	180,000
Transaction costs paid on issue of subordinated bonds		-	(3,294)	(3,370)
Repayment of borrowings	9	(65,000)	(120,000)	(43,224)
Net movement in working capital facility	9	26,363	44,652	3,211
Interest paid		(11,786)	(11,163)	(23,048)
Repayment of lease liabilities		(2,808)	(1,144)	(4,185)
Receipt of cash from issue of shares	10	196,081	-	-
Net cash inflow from financing activities		142,850	89,051	109,384
Net increase/(decrease) in cash and cash equivalents		3,292	(9,043)	(10,101)
Cash and cash equivalents at the beginning of the financial year		5,887	16,007	16,007
Effects of exchange rate changes on cash and cash equivalents		(46)	10	(19)
Cash and cash equivalents at end of year		9,133	6,974	5,887

The accompanying notes form part of and are to be read in conjunction with these financial statements.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

For the six months ended 31 January 2021

01. REPORTING ENTITY

The consolidated condensed interim financial statements presented are those of the Group, including Synlait Milk Limited and its subsidiaries Synlait Milk Finance Limited, The New Zealand Dairy Company Limited, Eighty Nine Richard Pearce Drive Limited, Synlait Business Consulting (Shanghai) Limited, Dairyworks Limited, and Dairyworks (Australia) Pty Limited.

Readers of these financial statements should be mindful of the impact of the acquisition of Dairyworks Limited on 1 April 2020 when making comparisons to the comparative periods presented.

Synlait Milk Limited is primarily involved in the manufacture and sale of dairy products.

The parent company, Synlait Milk Limited, is a profit-oriented entity, domiciled in New Zealand, registered under the Companies Act 1993 and listed on the New Zealand Stock Exchange and the Australian Securities Exchange. Synlait Milk Limited is a FMC reporting entity under the Financial Market Conducts Act 2013 and its financial statements comply with that Act.

02. BASIS OF PREPARATION OF SIX MONTHLY FINANCIAL REPORT

The unaudited consolidated condensed interim financial statements have been prepared in accordance with Generally Accepted Accounting Practice (NZ GAAP) as appropriate for interim financial statements. They comply with International Accounting Standard 34 (IAS 34) and New Zealand equivalent to International Accounting Standard 34 (NZ IAS 34) Interim Financial Reporting and other applicable financial reporting standards appropriate for profit oriented entities.

Synlait Milk Limited is subject to seasonal fluctuations which have an impact on both revenue and production levels due to northern hemisphere dairy market demand and the dairy milking season. Synlait Milk Limited recognises this is the nature of the industry and plans and manages the business accordingly.

Items included in the condensed interim financial statements of the Group are measured using the currency of the primary economic environment in which each entity operates ('the functional currency'). The financial statements are presented in New Zealand Dollars (\$), which is the functional currency of the parent and are rounded to the nearest thousand (\$000).

There have been no significant changes in accounting policies during the current period. The same accounting policies and methods of computation are followed in these financial statements as the most recent annual financial statements for the year ended 31 July 2020.

Economic conditions and uncertainties

Current global economic conditions continue to be highly volatile due to the COVID-19 pandemic, which was declared in March 2020. Ongoing uncertainty around the magnitude, duration and severity of the COVID-19 pandemic could affect the significant estimates and judgements used in the preparation of the consolidated financial statements. Management continues to assess the impact of COVID-19 on all aspects of the Group's supply chain and financial performance and position, in particular the carrying value of receivables and inventory, the impact of key customer demand on revenue, the timing of receivables collection on cashflows, impairment of assets such as goodwill and intangibles, and any impact from currency volatility on the Group portfolio of derivatives.

Milk accrual

At interim reporting date, the milk accrual is a key management estimate. The milk accrual represents the amount the Group is forecasting to pay its suppliers for the current year less advance payments made during the period. The Group's policy is to value its inventory using the weighted average monthly milk price necessary to achieve the Group's forecast annual milk price for the season. Managements' forecast of the milk price for the season is the basis of the calculation of the milk accrual and at interim reporting date requires judgement from management. Key assumptions in the calculation of the forecast annual milk price for the season include dairy commodity prices, on-farm milk composition, sales and production curves, annual foreign exchange conversion rate and other conversion costs.

03. SEGMENT REPORTING

(a) Reportable segments

NZ IFRS 8 Operating Segments requires disclosure of information about operating segments, products and services, geographical areas of operation, and major customers. Information is based on internal management reports, both in the identification of operating segments and measurement of disclosed segment information.

The Group's chief operating decision maker is the Synlait Milk Limited Board of Directors ("the board"). Previously the board made resource allocation decisions based on expected cash flows and results of the Group's operations as a whole rather than on a segment basis. In prior years, the Group has therefore reported that it operates in one segment, being the manufacture and sale of fresh milk and milk powder related products.

During the period ended 31 July 2020, the Group acquired selected assets in Talbot Forest Cheese Limited through its newly incorporated subsidiary Synlait Foods (Talbot Forest) Limited and also acquired Dairyworks Limited. On 31 December 2020, Synlait Foods (Talbot Forest) Limited was amalgamated into Dairyworks Limited. Following the acquisition, the Group has determined that the company (and its predecessor companies) operates in the manufacture and sale of cheese and other products segment, and that this segment exceeds the qualitative thresholds for a reportable segment under NZ IFRS 8.

As such, although the Group continues to report internally on a consolidated Group basis, the Group has identified the following segments for external reporting purposes:

- Manufacture and sale of fresh milk and milk powder related products (Nutritionals, ingredients, fresh milk)
- Manufacture and sale of cheese and other products (Cheese, butter, ice-cream)

The accounting policies of the Group have been consistently applied to the operating segments. Net Profit After Tax (NPAT) is the measure reported to the chief operating decision-maker for the purposes of resource allocation and assessment of performance for the Group. A consistent measure has been used for the purpose of reporting the performance of each operating segment. Inter-segment pricing is determined on an arm's length basis.

(b) Description of segments

The following is an analysis of the Group's revenue and results by reportable segment:

	31 January 2021 Unaudited \$000's	31 January 2021 Unaudited \$000's	31 January 2021 Unaudited \$000's	31 January 2021 Unaudited \$000's
	Nutritionals, ingredients, fresh milk	Cheese, butter, ice-cream	Eliminations	Total
External revenue	551,625	112,557	-	664,182
Inter-segment revenue from sale of goods	10,097	-	(10,097)	-
Revenue from sale of goods	561,722	112,557	(10,097)	664,182
Net profit after tax for the period	4,521	1,852	-	6,373

The following is an analysis of other financial information by reportable segment:

	31 January 2021 Unaudited \$000's	31 January 2021 Unaudited \$000's	31 January 2021 Unaudited \$000's	31 January 2021 Unaudited \$000's
	Nutritionals, ingredients, fresh milk	Cheese, butter, ice-cream	Eliminations	Total
Finance income	4	26	-	30
Finance expense	(8,961)	(1,759)	-	(10,720)
Depreciation and amortisation	(24,967)	(3,142)	-	(28,109)
Income tax (expense) / benefit	(1,369)	(718)	-	(2,087)
Total assets	1,588,829	175,187	-	1,764,016
Total liabilities	(859,370)	(74,374)	-	(933,744)
Total net assets	729,459	100,813	-	830,272

	31 January 2020 Unaudited \$000's	31 January 2020 Unaudited \$000's	31 January 2020 Unaudited \$000's	31 January 2020 Unaudited \$000's
	Nutritionals, ingredients, fresh milk	Cheese, butter, ice-cream	Eliminations	Total
External revenue	551,327	7,959	-	559,286
Inter-segment revenue from sale of goods	10,298	-	(10,298)	-
Revenue from sale of goods	561,625	7,959	(10,298)	559,286
Net profit (loss) after tax for the period	28,154	(1,958)	-	26,196
Finance income	45	4	-	49
Finance expense	(8,558)	(52)	-	(8,610)
Depreciation and amortisation	(20,514)	(661)	-	(21,175)
Income tax (expense) / benefit	(11,447)	763	-	(10,684)
Total assets	1,339,819	51,125	-	1,390,944
Total liabilities	(855,282)	(16,020)	-	(871,302)
Total net assets	484,537	35,105	-	519,642

	31 July 2020 Unaudited \$000's	31 July 2020 Unaudited \$000's	31 July 2020 Unaudited \$000's	31 July 2020 Unaudited \$000's
	Nutritionals, ingredients, fresh milk	Cheese, butter, ice-cream	Eliminations	Total
External revenue	1,209,980	92,045	-	1,302,025
Inter-segment revenue from sale of goods	13,296	-	(13,296)	-
Revenue from sale of goods	1,223,276	92,045	(13,296)	1,302,025
Net profit (loss) after tax for the period	77,334	(2,126)	-	75,208
Finance income	125	9	-	134
Finance expense	(18,661)	(1,116)	-	(19,777)
Depreciation and amortisation	(45,362)	(2,698)	-	(48,060)
Income tax (expense) / benefit	(27,890)	1,197	-	(26,693)
Total assets	1,294,742	197,524	-	1,492,266
Total liabilities	(787,218)	(98,564)	-	(885,782)
Total net assets	507,524	98,960	-	606,484

03. SEGMENT REPORTING (CONTINUED)

(c) Geographical revenue

The Group operates in one principal geographical area being New Zealand. Although the Group sells to many different countries, it is understood that a significant portion of both infant nutritional and ingredients sales are ultimately consumed in China.

The proportion of sales revenue by geographical area is summarised below:

	Period ended 31 January 2021 Unaudited	Period ended 31 January 2020 Unaudited	Year ended 31 July 2020 Audited
China	13%	8%	5%
Rest of Asia	24%	23%	19%
Middle East and Africa	5%	6%	8%
New Zealand	51%	35%	43%
Australia	5%	24%	22%
Rest of World	2%	4%	3%
Total	100%	100%	100%

All Group non-current assets are located in New Zealand, other than \$0.6m (31 January 2020: \$0.7m, 31 July 2020: \$0.9m) located in China.

(d) Other profit and loss disclosures

Revenues of approximately 60% (31 January 2020: 63%, 31 July 2020: 66%) are derived from the top three external customers.

04. EXPENSES

	Notes	Period ended 31 January 2021 Unaudited \$'000	Period ended 31 January 2020 Unaudited \$'000	Year ended 31 July 2020 Audited \$'000
<i>The following items of expenditure are included in cost of sales</i>				
Depreciation and amortisation		22,607	17,172	38,851
Employee benefit expense		41,001	33,821	78,748
Kiwisaver contributions		1,059	749	1,656
(Decrease) / increase in inventory provision	7	(585)	1,471	1,702
Increase / (decrease) in onerous contracts provision	7	1,235	(397)	(156)
<i>The following items of expenditure are included in sales and distribution</i>				
Depreciation and amortisation		3,202	2,869	5,936
Employee benefit expense		8,246	5,648	13,137
Kiwisaver contributions		196	153	376
<i>The following items of expenditure are included in administrative and operating expenses</i>				
Depreciation and amortisation		2,300	1,134	3,273
Employee benefit expense		10,471	10,790	21,467
Kiwisaver contributions		282	276	618
Directors fees		414	369	802
Share based payments expense		673	321	523
Impairment of intangibles		530	1,561	1,561

05. RECONCILIATION OF PROFIT AFTER INCOME TAX TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	Period ended 31 January 2021 Unaudited \$'000	Period ended 31 January 2020 Unaudited \$'000	Year ended 31 July 2020 Audited \$'000
Profit for the period	6,373	26,196	75,208
Non-cash and non-operating items:			
Depreciation and amortisation of non-current assets	25,094	19,302	43,112
Depreciation of right-of-use assets	3,015	1,874	4,948
Loss on sale of property, plant and equipment	27	81	355
Impairment of property, plant and equipment and intangible assets	530	1,561	4,761
Impairment recovery on property, plant and equipment	-	-	(2,958)
Share of loss / (gain) from associate	33	-	(33)
Non-cash share based payments expense	(673)	321	523
Interest costs classified as financing cash flow	10,720	8,610	19,777
Interest received classified as investing cash flow	(30)	(49)	(134)
Loss on derecognition of financial assets	436	938	1,747
Deferred tax	3,938	7,469	9,291
(Gain) / loss on derivative financial instruments	(4,044)	96	(23)
Unrealised foreign exchange loss (gain)	46	(10)	6
Movements in working capital:			
(Increase) / decrease in trade and other receivables	(59,973)	(6,251)	1,833
Decrease / (increase) in income accruals and prepayments	4,843	2,743	(2,850)
(Increase) in inventories	(137,021)	(141,591)	(104,533)
(Increase) in goods and services tax refundable	(2,942)	(4,152)	(2,709)
Increase in trade and other payables	82,362	90,165	34,673
(Decrease) / increase in current tax liabilities	(1,847)	3,211	(4,659)
Working capital items acquired	-	1,635	27,205
Net cash inflow from operating activities	(69,113)	12,149	105,540

06. TRADE AND OTHER RECEIVABLES

The Group has derecognised trade receivables that have been sold pursuant to the terms of receivables purchase agreements that the Group has entered into with its bankers. The Group has assessed the terms of the agreements and has determined that substantially all the risks and rewards have been transferred to the respective banks.

07. INVENTORIES

	Period ended 31 January 2021 Unaudited \$'000	Period ended 31 January 2020 Unaudited \$'000	Year ended 31 July 2020 Audited \$'000
Raw materials at costs	82,580	46,376	71,305
Work in progress at cost	26,940	10,712	11,573
Finished goods at cost	255,699	246,941	178,336
Finished goods at net realisable value	41,185	2,412	8,170
Total inventories	406,404	306,441	269,384

Raw material inventories at \$82.6m (16,667 MT) have increased (31 January 2020: \$46.4m, 9,455 MT; 31 July 2020: \$71.3m, 13,614 MT), primarily due to the acquisitions of subsidiaries with a business model geared towards a higher holding of raw materials than finished goods.

Work in progress inventories at \$26.9m (3,537 MT) have increased (31 January 2020: \$10.7m, 1,578 MT; 31 July 2020: \$11.6m, 1,678 MT), also from subsidiary acquisition with a larger holding of cheese undergoing the maturation process.

Finished goods have increased to \$296.9m (60,101 MT) (31 January 2020: \$249.4m, 48,144 MT; 31 July 2020: \$186.5m, 32,109 MT). The increase half on half relates to finished goods holdings of acquired subsidiaries, and a larger holding of lower value commodity products, due to reduced demand for infant formula converting the fixed milk pool into commodity powders.

The cost of inventories recognised as an expense during the year was \$567.9m (31 January 2020: \$460.9m; 31 July 2020: \$1,098.3m). The cost of inventories recognised as an expense includes \$4.6m (31 January 2020: \$2.5m; 31 July 2020: \$10.9m) in respect of write downs of inventory to net realisable value.

The total inventory condition provision as at reporting date was \$1.4m, of which \$1.2m related to finished goods and \$0.2m to raw materials (31 January 2020: \$1.8m, all related to finished goods; 31 July 2020: \$2.0m, \$1.8 for finished goods and \$0.2m for raw materials). The decrease results from production mix gearing towards less-complex commodity products, leading to lower production issues.

In addition, the total onerous contracts provision as at reporting date was \$1.6m (31 January 2020: \$0.1m; 31 July 2020: \$0.3m). Onerous contracts have increased due to unfavourable foreign currency exchange rates lowering converted revenues, and rising milk prices driving a higher cost to fulfil.

08. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 31 January 2021, \$69.3m has been added to capital work in progress relating primarily to three projects (Drystore 4 and rail siding project, Dunsandel Farms, and Synlait Pokeno). During this period, \$105.2m of historical work in progress as well as additions during the six months relating primarily to three projects (Drystore 4, Dunsandel Farms, and Liquid Products UHT plant) have been transferred to fixed assets.

09. LOANS AND BORROWINGS

Interest bearing liabilities are recognised initially at fair value, net of transaction costs incurred. Interest bearing liabilities are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss component of the consolidated statement of comprehensive income over the period of the borrowings using the effective interest method.

	Period ended 31 January 2021 Unaudited \$'000	Period ended 31 January 2020 Unaudited \$'000	Year ended 31 July 2020 Audited \$'000
Current liabilities			
Working capital facility (syndicated) NZD	77,900	99,800	68,910
Working capital facility (syndicated) USD	51,299	44,528	33,927
Revolving credit facility	85,000	30,000	-
	214,199	174,328	102,837
Non-current liabilities			
Revolving credit facility	100,000	100,000	250,000
Loan facility fees	(373)	(440)	(259)
Subordinated Bonds	180,000	180,000	180,000
Bond facility fees	(2,671)	(3,293)	(2,987)
	276,956	276,267	426,754

The bank loans and working capital facility within the Group are secured under the terms of the General Security Deed dated 26 June 2013, by which all present and future property is secured to the ANZ Bank and Bank of New Zealand.

The Group facilities include:

- A secured revolving credit facility (Facility A) of \$100m that matures on 1 October 2021.
- A secured revolving credit facility (Facility B and Facility C) of \$100m that matures on 1 August 2023.
- A secured working capital facility of NZD \$250m that matures on 30 September 2021.

The Group is subject to capital requirements imposed by its bank through covenants agreed as part of the lending facility arrangements. The Group has met all externally imposed capital requirements for the six months ended 31 January 2021, 31 January 2020 and the year ended 31 July 2020.

Retail bonds:

Borrowings under the retail bond programme are supported by a Master Trust Deed and supplemented by the Series Supplement entered into between the Group and the New Zealand Guardian Trust Company Limited. The retail bonds are unsecured and subordinated and mature on 17 December 2024. At 31 January 2021, the retail bond had a fair value of \$184.4m (31 January 2020: \$181.1m 31 July 2020: \$187.7m), based on NZX Debt Market valuation.

10. SHARE CAPITAL

The Group had 218,581,661 ordinary shares on issue as at 31 January 2021 (31 January 2020: 179,306,908, 31 July 2020: 179,306,908).

During the reporting period, 59,068 new ordinary shares were granted to participants of the Group's Long Term Incentive scheme as a result of share options that were granted under the scheme vesting and being converted to ordinary shares (31 January 2020: 83,880, 31 July 2020: 83,880). These shares were issued to the participants at no cost.

On 18 November 2020 32,785,933 shares were granted to participants of an underwritten placement announced on 10 November 2020 for total proceeds of \$167.2m. On 1 December 2020 a further 6,429,752 shares were granted to participants of a share purchase plan for existing shareholders which was also announced on 10 November 2020 for total proceeds of \$32.8m. Total transaction costs for shares issued under the underwritten placement and share purchase plan were \$3.9m for net proceeds of \$196.1m.

11. RELATED PARTY TRANSACTIONS

Parent entity

Bright Dairy Holding Limited hold 39.01% of the shares issued by the Synlait Milk Limited (31 January 2020: 39.02%; 31 July 2020: 39.02%). Bright Dairy Holding Limited is a subsidiary of Bright Food (Group) Co. Limited, a State Owned Enterprise domiciled in the Peoples Republic of China.

Other related entities

In June 2013 a subsidiary of Synlait Milk Limited, Synlait Milk Finance Limited, was set up primarily for holding all banking facilities for the Group and related interest rate swaps. Funds are loaned to Synlait Milk Limited and interest is charged at market rates.

In January 2015, the Group acquired 25% of the shares of Sichuan New Hope Nutritionals, an infant formula company registered in China. This company owns and markets the "Akara" and "E-Akara" infant formula brands in the Chinese market, which are exclusively manufactured by Synlait Milk Limited. New Hope Innovation (Hong Kong) Trading Company Limited is a related entity of Sichuan New Hope Nutritionals and is engaged in the import and export of dairy foods. Main products include whole milk powder, skim milk powder and whey powder. The company is the Hong Kong operation of the Chinese New Hope Dairy group, New Hope Dairy.

In May 2017 the Group acquired 100% of the share capital of The New Zealand Dairy Company Limited and Eighty Nine Richard Pearse Drive Limited. The New Zealand Dairy Company Limited was constructing a blending and canning plant in Auckland, which was subsequently sold to Synlait Milk Limited. The New Zealand Dairy Company Limited is now a nontrading entity. Eighty Nine Richard Pearse Drive Limited owns the land and buildings at which the Auckland blending and canning plant was constructed. Eighty Nine Richard Pearse Drive Limited leased its land and buildings to The New Zealand Dairy Company Limited, and now leases them to Synlait Milk Limited.

11. RELATED PARTY TRANSACTIONS (CONTINUED)

In May 2019, Synlait Business Consulting (Shanghai) Limited was incorporated. The wholly owned foreign entity started operations from 1 August 2019 and the principal activity of the entity is to provide services to assist Synlait to market products in China.

On 1 August 2019, the Group acquired selected assets and liabilities of Talbot Forest Cheese Limited. The acquirer was a newly incorporated company, Synlait Foods (Talbot Forest) Limited. The acquisition included a cheese manufacturing plant located in Temuka, New Zealand, capable of manufacturing a variety of cheese products. On 31 December 2020, Synlait Foods (Talbot Forest) Limited was amalgamated into Dairyworks Limited.

On 1 April 2020, the Group acquired 100% of the share capital in Dairyworks Limited. Dairyworks Limited specialises in the processing, packaging, and marketing of dairy products, including cheese, butter, and milk powder. Dairyworks Limited owns an Australian subsidiary, Dairyworks (Australia) Pty Limited. Refer to the Group's 31 July 2020 financial statements for additional information regarding the acquisition of Dairyworks Limited.

(a) Transactions with other related parties

	Period ended 31 January 2021 Unaudited \$'000	Period ended 31 January 2020 Unaudited \$'000	Year ended 31 July 2020 Audited \$'000
<i>Purchase of goods and services</i>			
Bright Dairy and Food Co Ltd - Directors fees	133	102	259
<i>Sales of goods and services</i>			
Bright Dairy and Food Co Ltd - Sale of milk powder products	5,531	-	4,074
New Hope Innovation (Hong Kong) - Sale of milk powder products	809	1,773	1,773

All transactions with related parties are at arm's length on normal trading terms.

(b) Outstanding balances

The following balances are outstanding at the reporting date in relation to transactions with related parties:

	Period ended 31 January 2021 Unaudited \$'000	Period ended 31 January 2020 Unaudited \$'000	Year ended 31 July 2020 Audited \$'000
<i>Current receivables (sales of goods and services)</i>			
Bright Dairy and Food Co Ltd - Sale of milk powder products	3,564	1	-
Bright Dairy and Food Co Ltd - Reimbursement of costs	(625)	(335)	(492)
Sichuan New Hope Nutritionals Ltd - Sale of milk powder products	(65)	(72)	(71)
Sichuan New Hope Nutritionals Ltd - Other costs	269	300	292
New Hope Innovation (Hong Kong) - Sale of milk powder products	253	1,122	-

12. CONTINGENCIES

As at 31 January 2021 the Group had no contingent liabilities or assets (31 January 2020: \$nil, 31 July 2020 \$nil).

13. COMMITMENTS

The Group has committed expenditure as at 31 January 2021 for the construction of a significant processing modification to the Pokeno processing plant of \$42.0m (31 January 2020: \$nil, 31 July 2020: \$nil), Dairyworks plant upgrades of \$4.0m (31 January 2020: \$nil, 31 July 2020: \$nil) and the SAP implementation project of \$11.7m (31 January 2020: \$nil, 31 July 2020: \$17.0m).

The Group also has remaining commitments relating to the initial construction of the Pokeno dryer and related facilities of \$5.7m as at 31 January 2021 (31 January 2020: \$18.5m, 31 July 2020 \$10.3m) and the Drystore 4 rail siding project which has committed expenditure of \$5.9m as at 31 January 2021 (31 January 2020: \$20.1m, 31 July 2020: \$14.1m).

14. EVENTS OCCURRING AFTER THE REPORTING PERIOD

Banking facilities

Subsequent to reporting date, the Group renegotiated and amended certain terms and conditions of its banking facility agreements with its banking syndicate.



INDEPENDENT AUDITOR'S REVIEW REPORT TO THE SHAREHOLDERS OF SYNLAIT MILK LIMITED

Conclusion

We have reviewed the unaudited condensed consolidated interim financial statements ("interim financial statements") of Synlait Milk Limited and its subsidiaries ("the Group") which comprise the statement of financial position as at 31 January 2021, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the period ended on that date, and a summary of significant accounting policies and other explanatory information on pages 4 to 20.

Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements of the Group do not present fairly, in all material respects, the financial position of the Group as at 31 January 2021 and its financial performance and cash flows for the period ended on that date in accordance with NZ IAS 34 Interim Financial Reporting and IAS 34 *Interim Financial Reporting*.

Basis for Conclusion

We conducted our review in accordance with NZ SRE 2410 (Revised) *Review of Financial Statements Performed by the Independent Auditor of the Entity* ("NZ SRE 2410 (Revised)"). Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Interim Financial Statements* section of our report.

We are independent of the Group in accordance with the relevant ethical requirements in New Zealand relating to the audit of the annual financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Other than in our capacity as auditor and the provision of taxation advice, we have no relationship with or interests in Synlait Milk Limited or its subsidiaries. These services have not impaired our independence as auditor of the Company and Group.

Directors' responsibilities for the interim financial statements

The directors are responsible on behalf of the Company for the preparation and fair presentation of the interim financial statements in accordance with NZ IAS 34 Interim Financial Reporting and IAS 34 Interim Financial Reporting and for such internal control as the directors determine is necessary to enable the preparation and fair presentation of the interim financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibilities for the review of the interim financial statements

Our responsibility is to express a conclusion on the interim financial statements based on our review. NZ SRE 2410 (Revised) requires us to conclude whether anything has come to our attention that causes us to believe that the interim financial statements, taken as a whole, are not prepared, in all material respects, in accordance with NZ IAS 34 *Interim Financial Reporting* and IAS 34 *Interim Financial Reporting*.

A review of the interim financial statements in accordance with NZ SRE 2410 (Revised) is a limited assurance engagement. We perform procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand) and consequently do not enable us to obtain assurance that we might identify in an audit. Accordingly we do not express an audit opinion on the interim financial statements.

Restriction on use

This report is made solely to the company's shareholders, as a body. Our review has been undertaken so that we might state to the company's shareholders those matters we are required to state to them in a review 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 engagement, for this report, or for the conclusions we have formed.

**Mike Hawken, Partner
for Deloitte Limited**

Christchurch, New Zealand
26 March 2021

This review report relates to the unaudited interim financial statements of Synlait Milk Limited for the 6 months ended 31 January 2021 included on Synlait Milk Limited's website. The Board of Directors is responsible for the maintenance and integrity of Synlait Milk Limited's website. We have not been engaged to report on the integrity of Synlait Milk Limited's website. We accept no responsibility for any changes that may have occurred to the unaudited interim financial statements since they were initially presented on the website. The review report refers only to the unaudited interim financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these unaudited interim 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 unaudited interim financial statements and related review report dated 26 March 2021 to confirm the information included in the unaudited interim financial statements presented on this website. Legislation in New Zealand governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

