

ANNUAL FINANCIAL REPORT – 31 MARCH 2018

Keytone Dairy Corporation Ltd (ASX:KTD) (“Keytone Dairy” or the “Company”) was incorporated on 28 September 2017 for the primary purpose of acquiring Keytone Enterprises (NZ) Company Limited (a company incorporated in New Zealand) (“**Keytone NZ**”), as well as managing and operating Keytone NZ’s business. Prior to the completion of this acquisition, which occurred in July 2018, Keytone Dairy was a dormant entity.

The attached annual financial report of Keytone Dairy is reflective of the dormant state of the entity and does not include the financial results from Keytone NZ for the period to 31 March 2018. The financial statements for Keytone NZ for the year ending 31 March 2018 were released to the ASX on 16 July 2018.

Further Information

Jourdan Thompson
Chief Financial Officer, Keytone Dairy Corporation Limited
Email: investors@keytonedairy.com
Tel: +612 9969 9690

About Keytone Dairy Corporation Limited

Based in Sydney, Australia and Christchurch, New Zealand, Keytone Dairy is an established manufacturer and exporter of formulated dairy products. In addition to Keytone Dairy’s own brands, the company is a trusted production partner, contract packing for well-known brands in New Zealand and internationally. Keytone’s purpose built dairy production facility offers a wide range of dairy and nutrition packing solutions, meeting the diverse needs of consumers from different markets and cultures.

Keytone Dairy’s facility is certified with the New Zealand Ministry of Primary Industries, and Keytone holds a Certification and Accreditation Administration (CNCA) of the People’s Republic of China manufacturer registration, thereby enabling export of Keytone’s products to China. In addition, the facility holds a Halal certification from the Federation of Islamic Associations of New Zealand (an accredited body recognised by Islamic countries worldwide). Please visit www.keytonedairy.com

ENDS

Keytone Dairy Corporation Limited

ABN 49 621 970 652

Annual Report - 31 March 2018

The directors present their report, together with the financial statements, on the company for the period from 28 September 2017 to 31 March 2018.

Directors

The following persons were directors of the company during the financial period and/ up to the date of this report, unless otherwise stated:

Robert Clisdell (appointed 28 September 2017)
James Gong (appointed 19 April 2018)
Peter Graeme Hobman (appointed 19 April 2018)
Peter James (appointed 24 September 2018)
Andrew Reeves (appointed 24 September 2018)
Bernard James Kavanagh (appointed 20 April 2018) (resigned 24 September 2018)
Mark Matthew McConnell (appointed 28 September 2017) (resigned 20 April 2018)
Peter Christopher Wall (appointed 28 September 2017) (resigned 20 April 2018)

Principal activities

Keytone Dairy Corporation Limited (the Company) was incorporated on 28 September 2017 for the primary purpose of acquiring Keytone Enterprises (NZ) Company Limited (a company incorporated in New Zealand) (Keytone), as well as managing and operating Keytone's business.

Dividends

There were no dividends paid, recommended or declared during the current financial period.

Review of operations

The loss for the company after providing for income tax amounted to \$419,721.

Significant changes in the state of affairs

Other than the matters detailed in the Principal activities above, there were no significant changes in the state of affairs of the company during the financial period.

There were no other significant changes in the state of affairs of the company during the financial period.

Matters subsequent to the end of the financial period

On 16 July 2018 the company successfully completed its Initial Public Offering (IPO) and was admitted to the Australian Stock Exchange. 75,000,000 shares were issued in relation to the IPO raising \$15 million (before costs).

On 16 July 2018 the company also completed the acquisition of Keytone Enterprises (NZ) Company Ltd (KTE). Under the acquisition agreement, the company issued 75,000,000 and 49,500,000 performance shares to the vendors of KTE.

No other matter or circumstance has arisen since 31 March 2018 that has significantly affected, or may significantly affect the company's operations, the results of those operations, or the company's state of affairs in future financial years.

Likely developments and expected results of operations

Information on likely developments in the operations of the company and the expected results of operations have not been included in this report because the directors believe it would be likely to result in unreasonable prejudice to the company.

Environmental regulation

The company is not subject to any significant environmental regulation under Australian Commonwealth or State law.

Information on directors

Name: Peter James
Title: Non-Executive Chairman,
Experience and expertise: Peter James is an experienced business leader with significant strategic and operational expertise. He has over 30 years' experience in the commercial sector and extensive experience as a Chair, Non-Executive Director and Chief Executive Officer across a range of publicly listed and private companies. He is currently Chair of ASX-listed companies including Macquarie Telecom, Nearmap and DroneShield. Mr. James recently completed 12 years as a Non-Executive Director of the ASX-listed iiNet, chairing iiNet's strategy and innovation committee, culminating in a divestiture of iiNet for \$1,560,000,000. He is a fellow of the Australian Institute of Company Directors.

Name: James Gong
Title: Executive Director and Chief Executive Officer
Experience and expertise: Mr. Gong is a co-founder of Keytone. Prior to founding Keytone, Mr. Gong was the Sales and Marketing Manager at Westland Co-operative Dairy Company Limited (also known as Westland Milk Products), a major producer of dairy and infant nutrition ingredients in New Zealand, where was responsible for sales and exports to Asia, for 11 years.

Name: Robert Clisdell
Title: Non-Executive Director
Experience and expertise: Mr. Clisdell is a non-executive director of DroneShield Limited (ASX:DRO) and UUV Aquabotix Limited (ASX:UUV) and is the head of Bergen Capital (Australia), LLC's Sydney office.

Name: Peter Hobman
Title: Non-Executive Director
Experience and expertise: Mr. Hobman currently provides business development consulting services to dairy-related businesses and other organisations globally. He is a Director of NZ Food Innovation Waikato Ltd, NZ and Waikato Innovation Growth Ltd. He held the position of General Manager, MG Nutritionals Ltd, Murray Goulburn Coop Dairy Co Ltd, Australia from 2002 to 2012 with responsibility for the creation and executive management of the new business unit. These activities covered R & D and marketing and sales of B2B and own-brand retail pediatric nutrition powders, sports nutrition (powders, bars and beverages), formulated meal replacers for hospital diets and specialised bioactive ingredients such as lactoferrin.

Name: Andrew Reeves
Title: Non-Executive Director
Experience and expertise: Mr. Reeves is a highly respected leader and strategist in FMCG with extensive exposure to public equity markets and brings invaluable experience to the Keytone Dairy Board and management team. Mr. Reeves has more than 40 years' experience in FMCG and his prior roles have included Chief Executive Officer of George Weston Foods, Managing and Executive Director of Lion Nathan Limited (including Managing Director of Lion Dairy & Drinks), Managing Director Australia of Coca-Cola Amatil and Managing Director of The Smith's Snack Food Company among others. Mr. Reeves currently serves as Chair on Netget Limited, trading as IR Exchange, as well as The Healthy Grain. Additionally, he is a non-executive director of Credit Union Australia and Oz Harvest.

Company secretary

Andrew Bursill

Shares under option

There were no unissued ordinary shares of the company under option outstanding as at 31 March 2018.

Shares issued on the exercise of options

There were no ordinary shares of the company issued on the exercise of options during the period ended 31 March 2018.

Indemnity and insurance of officers

The company has indemnified the directors and executives of the company for costs incurred, in their capacity as a director or executive, for which they may be held personally liable, except where there is a lack of good faith.

The company has paid a premium in respect of a contract to insure the directors and executives of the company against a liability to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

Indemnity and insurance of auditor

The company has not, during or since the end of the financial period, indemnified or agreed to indemnify the auditor of the company or any related entity against a liability incurred by the auditor.

During the financial period, the company has not paid a premium in respect of a contract to insure the auditor of the company or any related entity.

Proceedings on behalf of the company

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the company, or to intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or part of those proceedings.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this directors' report.

Auditor

HLB Mann Judd continues in office in accordance with section 327 of the Corporations Act 2001.

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the Corporations Act 2001.

On behalf of the directors

A handwritten signature in black ink, appearing to read 'R. Clisdell', with a horizontal line underneath.

Robert Clisdell
Director

28 September 2018

**KEYTONE DAIRY CORPORATION LIMITED
ACN 621 970 652**

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the financial report of Keytone Dairy Corporation Limited for the period ended 31 March 2018, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- (a) the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- (b) any applicable code of professional conduct in relation to the audit.



**N J Guest
Director**

**Sydney, NSW
28 September 2018**

Statement of profit or loss and other comprehensive income	6
Statement of financial position	7
Statement of changes in equity	8
Statement of cash flows	9
Notes to the financial statements	10
Directors' declaration	21
Independent auditor's report to the members of Keytone Dairy Corporation Limited	22

General information

The financial statements cover Keytone Dairy Corporation Limited as an individual entity. The financial statements are presented in Australian dollars, which is Keytone Dairy Corporation Limited's functional and presentation currency.

Keytone Dairy Corporation Limited was established on 28 September 2017 with the primary purpose of acquiring Keytone Enterprises (NZ) Company Ltd. The financial statements cover the period from 28 September 2017 to 31 March 2018. This is the first period of operation for the Company hence no comparative information is included in the financials statement and related notes.

Keytone Dairy Corporation Limited was an unlisted public company limited by shares at 31 March 2018, incorporated and domiciled in Australia. Its registered office and principal place of business are:

Registered office

Level 5
126 Phillip Street
Sydney NSW 2000

Principal place of business

7 Paragon Place, Sockburn
Christchurch, 8042
New Zealand

On 16 July 2018 the company completed an Initial Public Offering (IPO) and was admitted to the Australian Stock Exchange.

A description of the nature of the company's operations and its principal activities are included in the directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 28 September 2018. The directors have the power to amend and reissue the financial statements.

Keytone Dairy Corporation Limited
Statement of profit or loss and other comprehensive income
For the period ended 31 March 2018



	Note	For the period from 28 September 2017 to 31 March 2018 \$
Revenue		
Other income	3	129
Expenses		
Professional service expenses		(164,443)
Directors and employee benefits expense		(193,038)
Marketing		(11,000)
Administration		(51,369)
Loss before income tax expense		(419,721)
Income tax expense	4	-
Loss after income tax expense for the period attributable to the owners of Keytone Dairy Corporation Limited	10	(419,721)
Other comprehensive income for the period, net of tax		-
Total comprehensive income for the period attributable to the owners of Keytone Dairy Corporation Limited		<u>(419,721)</u>

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes

Keytone Dairy Corporation Limited
Statement of financial position
As at 31 March 2018



	Note	31 March 2018 \$
Assets		
Current assets		
Cash and cash equivalents	5	18,526
Trade and other receivables	6	12,885
Other	7	100,510
Total current assets		<u>131,921</u>
Total assets		<u>131,921</u>
Liabilities		
Current liabilities		
Trade and other payables	8	551,641
Total current liabilities		<u>551,641</u>
Total liabilities		<u>551,641</u>
Net liabilities		<u><u>(419,720)</u></u>
Equity		
Issued capital	9	1
Accumulated losses	10	(419,721)
Total deficiency in equity		<u><u>(419,720)</u></u>

The above statement of financial position should be read in conjunction with the accompanying notes

Keytone Dairy Corporation Limited
Statement of changes in equity
For the period ended 31 March 2018



	Issued capital \$	Retained profits \$	Total deficiency in equity \$
Balance at 28 September 2017	-	-	-
Loss after income tax expense for the period	-	(419,721)	(419,721)
Other comprehensive income for the period, net of tax	-	-	-
Total comprehensive income for the period	-	(419,721)	(419,721)
<i>Transactions with owners in their capacity as owners:</i>			
Contributions of equity, net of transaction costs (note 9)	1	-	1
Balance at 31 March 2018	<u>1</u>	<u>(419,721)</u>	<u>(419,720)</u>

The above statement of changes in equity should be read in conjunction with the accompanying notes

Keytone Dairy Corporation Limited
Statement of cash flows
For the period ended 31 March 2018



	For the period from 28 September 2017 to 31 March 2018	
	\$	
Cash flows from operating activities		
Payments to suppliers (inclusive of GST)	(260,017)	
Interest received	<u>129</u>	
Net cash used in operating activities	19 <u>(259,888)</u>	
Cash flows from investing activities		
Net cash from investing activities	<u>-</u>	
Cash flows from financing activities		
Advances from related party	<u>278,414</u>	
Net cash from financing activities	<u>278,414</u>	
Net increase in cash and cash equivalents	18,526	
Cash and cash equivalents at the beginning of the financial period	<u>-</u>	
Cash and cash equivalents at the end of the financial period	5 <u><u>18,526</u></u>	

The above statement of cash flows should be read in conjunction with the accompanying notes

Note 1. Significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below.

New or amended Accounting Standards and Interpretations adopted

The company has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

Historical cost convention

The financial statements have been prepared under the historical cost convention, except for, where applicable, the revaluation of available-for-sale financial assets, financial assets and liabilities at fair value through profit or loss, investment properties, certain classes of property, plant and equipment and derivative financial instruments.

Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2.

Going concern

The financial report has been prepared on a going concern basis, which assumes continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business. The company has incurred net losses after tax of \$419,721 and its liabilities exceeds its asset by \$419,720 for the period ended 31 March 2018.

The Directors have prepared the financial statements on a going concern basis on the success of the company's initial public offering on 16 July 2018 raising \$15 million (before costs). The company also completed the acquisition of Keytone Enterprises (NZ) Company Limited on 16 July 2018. Refer to Note 18. Events after the reporting period for further detail.

Revenue recognition

Revenue is recognised when it is probable that the economic benefit will flow to the company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable.

Interest

Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Income tax

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- When the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Note 1. Significant accounting policies (continued)

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

Current and non-current classification

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the company's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in the company's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Trade and other receivables

Other receivables are recognised at amortised cost, less any provision for impairment.

Trade and other payables

These amounts represent liabilities for goods and services provided to the company prior to the end of the financial period and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

Fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Issued capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Note 1. Significant accounting policies (continued)

Goods and Services Tax ('GST') and other similar taxes

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the company for the annual reporting period ended 31 March 2018. The company's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the company, are set out below.

AASB 9 Financial Instruments

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard replaces all previous versions of AASB 9 and completes the project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. AASB 9 introduces new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost, if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, which arise on specified dates and solely principal and interest. All other financial instrument assets are to be classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income ('OCI'). For financial liabilities, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements will use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment will be measured under a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. The standard introduces additional new disclosures. The company will adopt this standard from 1 January 2018 but the impact of its adoption is yet to be assessed by the company.

AASB 15 Revenue from Contracts with Customers

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard provides a single standard for revenue recognition. The core principle of the standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard will require: contracts (either written, verbal or implied) to be identified, together with the separate performance obligations within the contract; determine the transaction price, adjusted for the time value of money excluding credit risk; allocation of the transaction price to the separate performance obligations on a basis of relative stand-alone selling price of each distinct good or service, or estimation approach if no distinct observable prices exist; and recognition of revenue when each performance obligation is satisfied. Credit risk will be presented separately as an expense rather than adjusted to revenue. For goods, the performance obligation would be satisfied when the customer obtains control of the goods. For services, the performance obligation is satisfied when the service has been provided, typically for promises to transfer services to customers. For performance obligations satisfied over time, an entity would select an appropriate measure of progress to determine how much revenue should be recognised as the performance obligation is satisfied. Contracts with customers will be presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Sufficient quantitative and qualitative disclosure is required to enable users to understand the contracts with customers; the significant judgements made in applying the guidance to those contracts; and any assets recognised from the costs to obtain or fulfil a contract with a customer. The company will adopt this standard from 1 January 2018 but the impact of its adoption is yet to be assessed by the company.

Note 1. Significant accounting policies (continued)

AASB 16 Leases

This standard is applicable to annual reporting periods beginning on or after 1 January 2019. The standard replaces AASB 117 'Leases' and for lessees will eliminate the classifications of operating leases and finance leases. Subject to exceptions, a 'right-of-use' asset will be capitalised in the statement of financial position, measured at the present value of the unavoidable future lease payments to be made over the lease term. The exceptions relate to short-term leases of 12 months or less and leases of low-value assets (such as personal computers and small office furniture) where an accounting policy choice exists whereby either a 'right-of-use' asset is recognised or lease payments are expensed to profit or loss as incurred. A liability corresponding to the capitalised lease will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs. Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset (included in operating costs) and an interest expense on the recognised lease liability (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results will be improved as the operating expense is replaced by interest expense and depreciation in profit or loss under AASB 16. For classification within the statement of cash flows, the lease payments will be separated into both a principal (financing activities) and interest (either operating or financing activities) component. For lessor accounting, the standard does not substantially change how a lessor accounts for leases. The company will adopt this standard from 1 July 2019 but the impact of its adoption is yet to be assessed by the company.

Note 2. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

Share-based payment transactions

The company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using either the Binomial or Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

Fair value measurement hierarchy

The company is required to classify all assets and liabilities, measured at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being: Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date; Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and Level 3: Unobservable inputs for the asset or liability. Considerable judgement is required to determine what is significant to fair value and therefore which category the asset or liability is placed in can be subjective.

The fair value of assets and liabilities classified as level 3 is determined by the use of valuation models. These include discounted cash flow analysis or the use of observable inputs that require significant adjustments based on unobservable inputs.

Impairment of non-financial assets other than goodwill and other indefinite life intangible assets

The company assesses impairment of non-financial assets other than goodwill and other indefinite life intangible assets at each reporting date by evaluating conditions specific to the company and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves fair value less costs of disposal or value-in-use calculations, which incorporate a number of key estimates and assumptions.

Note 2. Critical accounting judgements, estimates and assumptions (continued)

Income tax

The company is subject to income taxes in the jurisdictions in which it operates. Significant judgement is required in determining the provision for income tax. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The company recognises liabilities for anticipated tax audit issues based on the company's current understanding of the tax law. Where the final tax outcome of these matters is different from the carrying amounts, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences only if the company considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Employee benefits provision

As discussed in note 1, the liability for employee benefits expected to be settled more than 12 months from the reporting date are recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at the reporting date. In determining the present value of the liability, estimates of attrition rates and pay increases through promotion and inflation have been taken into account.

Note 3. Other income

	For the period from 28 September 2017 to 31 March 2018 \$
Interest income	129

Note 4. Income tax expense

	For the period from 28 September 2017 to 31 March 2018 \$
<i>Numerical reconciliation of income tax expense and tax at the statutory rate</i>	
Loss before income tax expense	(419,721)
Tax at the statutory tax rate of 27.5%	(115,423)
Current period tax losses not recognised	115,423
Income tax expense	-

Note 4. Income tax expense (continued)

	For the period from 28 September 2017 to 31 March 2018 \$
<i>Tax losses not recognised</i>	
Unused tax losses for which no deferred tax asset has been recognised	<u>419,721</u>
Potential tax benefit @ 27.5%	<u>115,423</u>

The above potential tax benefit for tax losses has not been recognised in the statement of financial position. These tax losses can only be utilised in the future if the continuity of ownership test is passed, or failing that, the same business test is passed.

Note 5. Current assets - cash and cash equivalents

	31 March 2018 \$
Cash at bank	<u><u>18,526</u></u>

Note 6. Current assets - trade and other receivables

	31 March 2018 \$
BAS receivable	<u><u>12,885</u></u>

Note 7. Current assets - other

	31 March 2018 \$
Prepayments	100,509
Other current assets	<u>1</u>
	<u><u>100,510</u></u>

Note 8. Current liabilities - trade and other payables

	31 March 2018 \$
Trade payables	87,916
Other payables - related entity	278,414
Other payables	<u>185,311</u>
	<u><u>551,641</u></u>

Refer to note 12 for further information on financial instruments.

Note 9. Equity - issued capital

	31 March 2018
	Shares \$
Ordinary shares - fully paid	<u> 1</u> <u> 1</u>

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the company does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Capital risk management

The company's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

Capital is regarded as total equity, as recognised in the statement of financial position, plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents.

In order to maintain or adjust the capital structure, the company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The company is subject to certain financing arrangements covenants and meeting these is given priority in all capital risk management decisions. There have been no events of default on the financing arrangements during the financial period.

Note 10. Equity - accumulated losses

	31 March 2018 \$
Retained profits at the beginning of the financial period	-
Loss after income tax expense for the period	<u>(419,721)</u>
Accumulated losses at the end of the financial period	<u><u>(419,721)</u></u>

Note 11. Equity - dividends

There were no dividends paid, recommended or declared during the current financial period.

Note 12. Financial instruments

Financial risk management objectives

The company's activities expose it to a variety of financial risks: market risk (including foreign currency risk, price risk and interest rate risk), credit risk and liquidity risk. The company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the company. The company uses derivative financial instruments such as forward foreign exchange contracts to hedge certain risk exposures. Derivatives are exclusively used for hedging purposes, i.e. not as trading or other speculative instruments. The company uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks, ageing analysis for credit risk and beta analysis in respect of investment portfolios to determine market risk.

Risk management is carried out by senior finance executives ('finance') under policies approved by the Board of Directors ('the Board'). These policies include identification and analysis of the risk exposure of the company and appropriate procedures, controls and risk limits. Finance identifies, evaluates and hedges financial risks within the company's operating units. Finance reports to the Board on a monthly basis.

Market risk

Foreign currency risk

The Company undertakes certain transactions denominated in foreign currency and is exposed to foreign currency risk through foreign exchange rate fluctuations. Foreign exchange risk arises from future commercial transactions and recognised financial assets and financial liabilities denominated in a currency that is not the Company's functional currency. As the Company primarily transact using its functional currency, foreign currency risk is deemed to be minimal.

Price risk

The company is not exposed to any significant price risk.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the company. The company has a strict code of credit, including obtaining agency credit information, confirming references and setting appropriate credit limits. The company obtains guarantees where appropriate to mitigate credit risk. The maximum exposure to credit risk at the reporting date to recognised financial assets is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements. The company does not hold any collateral.

The Company deemed its credit risk to be minimal as its financial assets are mainly prepayments.

Liquidity risk

Vigilant liquidity risk management requires the company to maintain sufficient liquid assets (mainly cash and cash equivalents) and available borrowing facilities to be able to pay debts as and when they become due and payable.

The company manages liquidity risk by maintaining adequate cash reserves and available borrowing facilities by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities.

Fair value of financial instruments

Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value.

Note 13. Key management personnel disclosures

Directors

The following persons were directors of Keytone Dairy Corporation Limited during the financial period and/ or up to the date of this report:

Robert Clisdell (appointed 28 September 2017)
 James Gong (appointed 19 April 2018)
 Peter Graeme Hobman (appointed 19 April 2018)
 Bernard James Kavanagh (appointed 20 April 2018)
 Mark Matthew McConnell (appointed 28 September 2017) (resigned 20 April 2018)
 Peter Christopher Wall (appointed 28 September 2017) (resigned 20 April 2018)

Other key management personnel

The following person also had the authority and responsibility for planning, directing and controlling the major activities of the company, directly or indirectly, during the financial period:

Jourdan Thompson Chief Financial Officer

Compensation

The aggregate compensation made to directors and other members of key management personnel of the company is set out below:

	For the period from 28 September 2017 to 31 March 2018 \$
Short-term employee benefits	177,125
Post-employment benefits	15,913
	193,038

In accordance with the Directors terms of appointment, remuneration has been accrued from the date of the company's incorporation

Note 14. Remuneration of auditors

During the financial period the following fees were paid or payable for services provided by HLB Mann Judd Assurance (NSW) Pty Ltd, the auditor of the company:

	For the period from 28 September 2017 to 31 March 2018 \$
<i>Audit services - HLB Mann Judd Assurance (NSW) Pty Ltd</i>	
Audit or review of the financial statements	10,000

Note 15. Contingent assets

The Company had no contingent assets as at 31 March 2018.

Note 16. Contingent liabilities

The Company had no contingent liabilities as at 31 March 2018.

Note 17. Related party transactions

Parent entity

Keytone Dairy Corporation Limited is the parent entity.

Key management personnel

Disclosures relating to key management personnel are set out in note 13.

Transactions with related parties

The following transactions occurred with related parties:

	For the period from 28 September 2017 to 31 March 2018 \$
Other transactions:	
Payment made by Keytone Enterprises (NZ) Company Limited (Keytone NZ) on behalf of the Company. Keytone NZ is company associated with Mr James Gong, a director of the Company.	278,414

Receivable from and payable to related parties

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

	31 March 2018 \$
Current payables:	
Amount owing to Keytone NZ	278,414

Loans to/from related parties

There were no loans to or from related parties at the balance date.

Terms and conditions

All transactions were made on normal commercial terms and conditions and at market rates.

Note 18. Events after the reporting period

On 16 July 2018 the company successfully completed its Initial Public Offering (IPO) and was admitted to the Australian Stock Exchange. 75,000,000 shares were issued in relation to the IPO raising \$15 million (before costs).

On 16 July 2018 the company also completed the acquisition of Keytone Enterprises (NZ) Company Ltd (KTE). Under the acquisition agreement, the company issued 75,000,000 and 49,500,000 performance shares to the vendors of KTE.

No other matter or circumstance has arisen since 31 March 2018 that has significantly affected, or may significantly affect the company's operations, the results of those operations, or the company's state of affairs in future financial years.

Note 19. Reconciliation of loss after income tax to net cash used in operating activities

	For the period from 28 September 2017 to 31 March 2018 \$
Loss after income tax expense for the period	(419,721)
Change in operating assets and liabilities:	
Increase in trade and other receivables	(12,886)
Increase in prepayments	(100,507)
Increase in trade and other payables	<u>273,226</u>
Net cash used in operating activities	<u><u>(259,888)</u></u>

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 1 to the financial statements;
- the attached financial statements and notes give a true and fair view of the company's financial position as at 31 March 2018 and of its performance for the financial period ended on that date; and
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors made pursuant to section 295(5)(a) of the Corporations Act 2001.

On behalf of the directors

A handwritten signature in blue ink, appearing to read 'R. Clisdell', with a horizontal line underneath.

Robert Clisdell
Director

28 September 2018

**KEYTONE DAIRY CORPORATION LIMITED
ACN 621 970 652**

INDEPENDENT AUDITOR'S REPORT

To the Members of Keytone Dairy Corporation Limited

Opinion

We have audited the financial report of Keytone Dairy Corporation Limited ("the Company") which comprises the statement of financial position as at 31 March 2018, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the period then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Company is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Company's financial position as at 31 March 2018 and of its financial performance for the period then ended; and
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's *APES 110 Code of Ethics for Professional Accountants* ("the Code") that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company on 28 September 2018, would be in the same terms if given to the directors as at the time of this auditor's report.

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

Information Other than the Financial Report and Auditor's Report Thereon

The directors are responsible for the other information. The other information comprises the information included in the Company's annual report for the period ended 31 March 2018, but does not include the financial report and our auditor's report thereon.

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

**KEYTONE DAIRY CORPORATION LIMITED
ACN 621 970 652**

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Information Other than the Financial Report and Auditor's Report Thereon (Continued)

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is 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 Australian Auditing Standards 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 this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

**KEYTONE DAIRY CORPORATION LIMITED
ACN 621 970 652**

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Auditor's Responsibilities for the Audit of the Financial Report (Continued)

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

HLB Mann Judd

**HLB Mann Judd Assurance (NSW) Pty Ltd
Chartered Accountants**

**Sydney, NSW
12 October 2018**



**Nicholas Guest
Director**