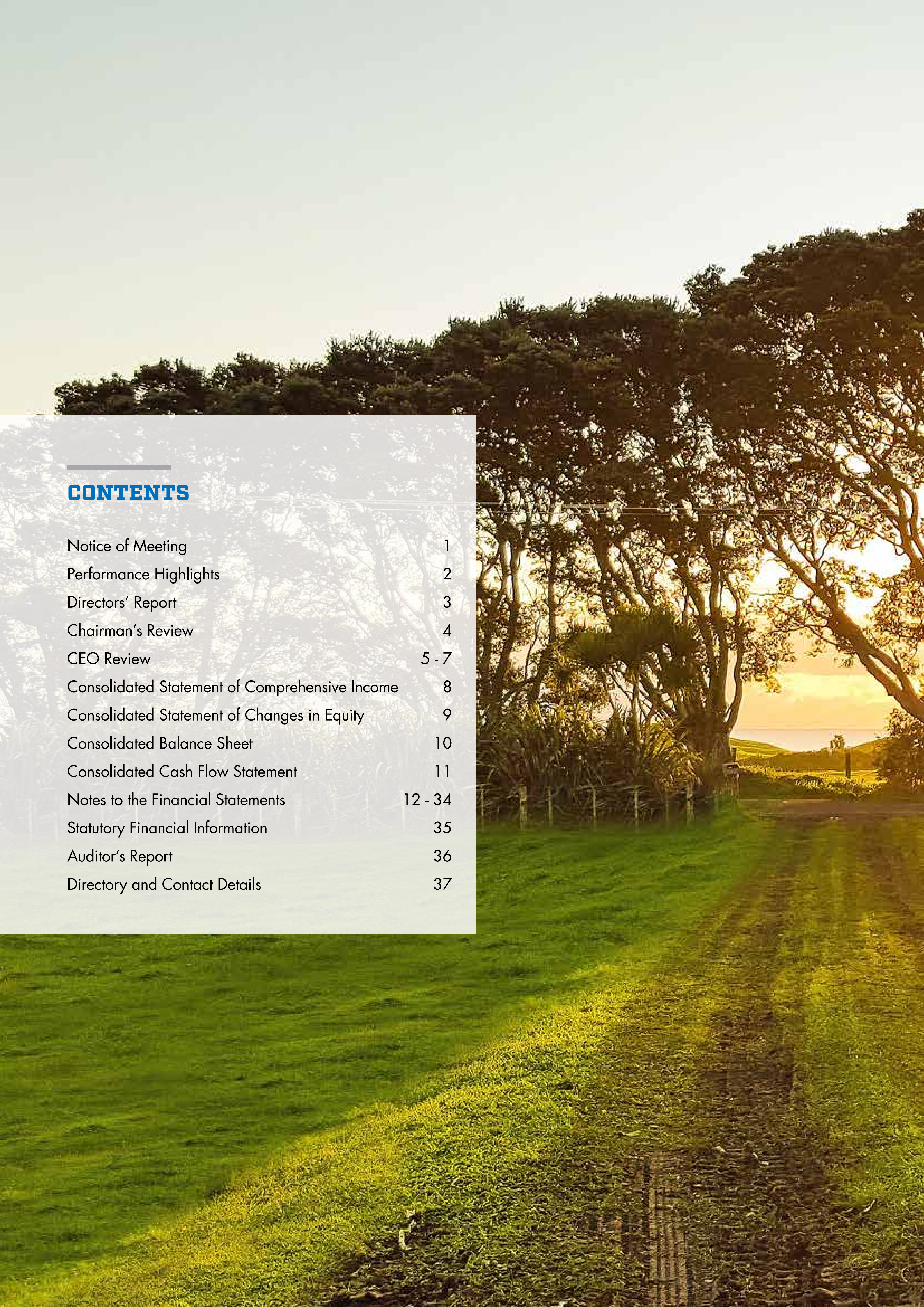
COMMITTED TO SOUTHERN FARMERS

ANNUAL REPORT 2017

BlueSkyMeats



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NOTICE OF MEETING

The directors of Blue Sky Meats (NZ) Limited request the pleasure of your attendance at the Thirty First Annual Meeting of the Company to be held at Transport World, Tay Street, Invercargill on Monday, 21st August 2017 at 4.00 pm and afterwards as their guests for refreshments.

Business

1. To receive and consider the Annual Report including the Financial Statements for the year ended 31st March 2017 and the Auditors Report to shareholders.
2. Election of directors. In accordance with the Constitution, Mr A Lowe retires by rotation. Mr A Lowe, being eligible, offers himself for re-election.
3. To authorise directors' fees of $240,000 per annum, in total, for the 2017/2018 year.
4. To record the reappointment of Deloitte Limited as auditors and to authorise the directors to fix their remuneration for the ensuing year.
5. To transact any other business that may properly be transacted at the meeting.

By Order of the Board

McCulloch + Partners
Chartered Accountants
Invercargill

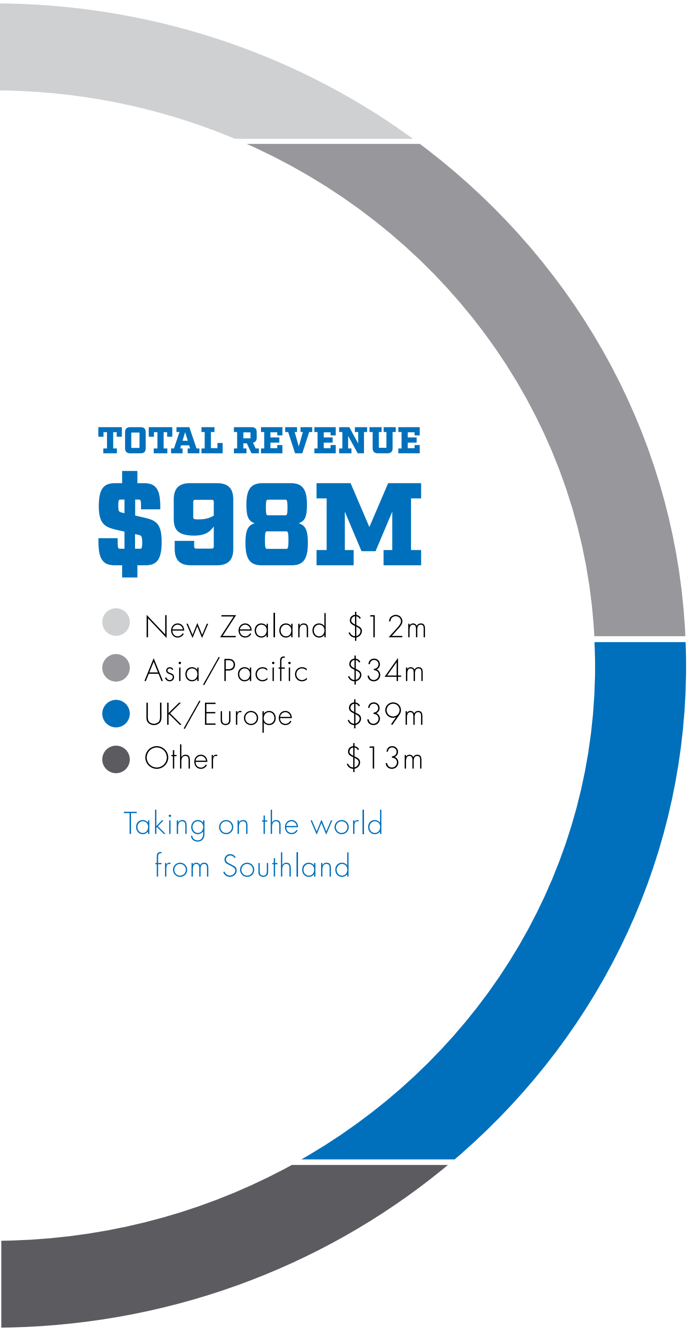
Date: 3 July 2017

Proxies

Shareholders may be represented by a proxy and a proxy need not be a shareholder.

A proxy form is forwarded with this notice. Proxies must be received by the Company Accountant at least 48 hours before the meeting.

PERFORMANCE HIGHLIGHTS



TOTAL REVENUE

$98M

New Zealand	$12m
Asia/Pacific	$34m
UK/Europe	$39m
Other	$13m

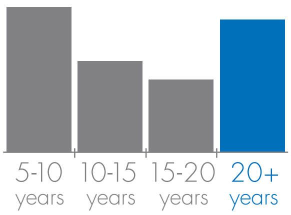
Taking on the world
from Southland

33%

CORE DEBT
REDUCED BY 33%

30 YEARS
IN BUSINESS
Proud of our provenance
and committed to the South

350 STAFF
Securing livelihoods of
Southern families



LONG SERVICE
Committed, loyal staff
growing with the company

DIRECTORS' REPORT

Your directors present their report and 2017 Financial Statements.

Principal Activities

The Group's principal activities during the year were:

- The operation of an Export Food Processing Facility at Morton Mains
- The marketing of products produced
- The selling of products produced

Results and Distributions

Group Net Loss After Taxation	(1,906,157)
Movement in Cash Flow Hedge Reserve	(813,199)
Net Comprehensive Income	(2,719,356)
Increase/(Decrease) in Group Equity	(2,719,356)

Directors

Mr A Lowe retires by rotation.

Mr A Lowe offers himself for re-election.

Auditor

In accordance with the provisions of Section 207T of the Companies Act 1993, the auditors, Deloitte Limited, continue in office.

This Annual Report has been prepared in accordance with a resolution of the directors made pursuant to Section 461 (1) (b) of the Financial Markets Conduct Act 2013 and is signed on behalf of the board by:

S O'Donnell
Director

P J Carnahan
Director

3 July 2017

CHAIRMAN'S REVIEW

Change has been the main topic since I took over the chair role in October 2016.

In the period from the last Annual Report we have:

- A new CEO in Todd Grave
- A new chairman in myself
- A board much reduced in size
- A new major shareholder
- An unsuccessful takeover bid

We welcomed Todd as our new CEO in early October 2016. Todd has a strong background in the international dairy markets, especially Asia and has enjoyed the move back to his home town. A special vote of thanks must go to Malcolm McMillan for his caretaker role from December 2015 until Todd started in October 2016.

Graham Cooney had signalled to shareholders at the last two AGM's that it was getting near his time to retire. Sadly a review of the constitution as part of the takeover offer discovered a clause that clearly states that no board member can be over the age of 65. This was reviewed by the board and at the October board meeting, meant that Graham, Malcolm and Peter Houlker were immediately disqualified from being directors. In an effort to retain this bank of knowledge, both Graham and Malcolm were retained as consultants to the board until December 2016.

The board thank Graham, Malcolm and Peter for the numerous years of service to the business and wish them well in retirement.

The board has remained at three since October 2016 which was appropriate given the speed required to act during the takeover period which ended in March 2017. We do think it is now time to review the board make up as we move the business forward. The Directors Fees paid since 1 April 2017 have been at a much reduced level to reflect the smaller board.

The Binxi takeover bid was officially launched in November, having purchased a 13% shareholding from Graham, Malcolm, Peter plus others before making the bid to all other shareholders.

The board gave its support to the offer in January 2017 at $2.20, but it failed to conclude as the Overseas Investment Office (OIO) had not provided the appropriate authority before the closure date of 20 March 2017. OIO have since provided the sign off to Binxi.

Binxi now have a holding of 17.71% and have become our second largest shareholder.

The 2016/17 year started with great promise based on the feedback from our supplier base, but sadly a number of factors conspired to create an outcome that yet again is well below expectation.

Trading Results

The companies trading results are summarised as follows:

	2017	2016
Revenue (including interest)	$97,919,186	$117,242,007
Expenses	$100,473,802	$119,953,152
Net Deficit before Tax	($2,554,398)	($2,710,261)
Tax Benefit	($648,242)	($753,344)
Net Deficit after Tax	($1,906,157)	($1,956,917)
Net Cash Flow from Operating Activities	$2,293,266	$10,030,812

A number of factors impacted the financial result in the year. The main negative impacts arose as a result of the following:

- $163,000 was incurred as a result of the takeover which could not be recovered from Binxi.
- The Gore plant incurred a $1,400,000 loss as a result of difficult market conditions.
- Weather related effluent issues at the rendering plant led to it being closed for 9 weeks giving rise to a loss of approximately $860,000

The Gore investment was a case of poor timing. The purchase in December 2014 appeared to make sense at the time but history has proven this to be wrong.

It is my opinion that Blue Sky Meats does have the ability to operate profitably. The business plan prepared in late 2016 and presented to shareholders in January 2017 provides a clear pathway for a return to profitability. A refreshed management team plus ongoing support from livestock suppliers will enable this turnaround to be achieved.

Dividend

Given the above result we recommend no dividend be paid.

Scott O'Donnell
Chairman

3 July 2017

CEO REVIEW

Financials

Net loss after tax for the year ending March 2017 was $1,906,157. Following on from a similar size loss in 2016, this is a disappointing result. It further reinforces the need for the step-change in performance which we embarked upon in Q4 of this year with our Strategic Plan implementation.

The business absorbed several large, unbudgeted, one-off costs throughout the year. When normalised for these items, such as takeover related cost and effluent pond delays, the net loss before tax position improves somewhat but remains unacceptable.

Encouragingly, our base business - the Morton Mains plant - generated a small net profit before tax.

Revenue and volume were down on last year. But strong selling prices helped offset this decrease, with revenue per kg climbing throughout the period and ending significantly up on last year. Some of these gains were undone by a strengthening in the New Zealand dollar against our main trading currencies.

As selling prices rose our margins improved substantially, accommodating regular increases in the schedule price needed to stay competitive. Strategic plan projects, especially yield improvements and chilled sales increases, further contributed to the stronger margin performance.

Core debt was reduced by $740,000 during the year. An increase in chilled sales and a concerted effort by the marketing and operating teams to manage down inventory levels throughout the year ensured a continuation of the downward trend in seasonal borrowings.

Our management team is acutely aware of the impact financial underperformance in recent years has had on the balance sheet of the company. The only remedy is a return to profit.

The disappointing financial result for the 2017 fiscal year is set amongst a background of both significant challenges but also some significant progress which I outline below.

Livestock Procurement

The new ovine season started with a promising outlook, with contracted stock commitments from suppliers up 23% on the previous year. However, almost immediately the projected strong lamb numbers did not eventuate, driven by a number of factors but primarily by an unusually cold and wet start to the season.

Disrupted and inconsistent stock flows continued throughout the season, with large numbers of lamb and mutton being lost to yards sales at unprofitably high prices. The season proved to be one of the most difficult in recent years, with the national industry ovine kill numbers down 6% on the previous year. This saw a commensurate increase in schedule prices to recent historic highs.

Our decision to no longer expose ourselves to the profit risk and cash flow impact of 'per head' procurement resulted in lower overall stock numbers for the season but a stronger margin per unit.

It was a tough year for livestock procurement and a reminder of the challenges we face operating in a weather dependent, biological supply chain. One positive consequence of the industry-wide supply shortage was increasing international market prices, which continued to rise throughout the period and contributed to a strong financial end to our year.

CEO REVIEW

Strategic Plan

In Q3 we undertook Blue Sky Meats first comprehensive strategic review. This was a rigorous, bottom-up process, involving significant input from across the management team. With a series of disappointing financial performances in recent years it was important to stop, take full stock of the situation and plot a clear path forward that the entire business could rally around.

The resulting strategic plan now forms the platform for a return to profit, outlining in detail 20 projects, bringing a targeted $7.8 million of added value over the next three years. The projects span all key areas of our business, with an emphasis on modernisation, simplification and innovation.

The first period of implementation for the strategic plan was Q4 of fiscal year 2017. In the context of a tough year, overall our performance in implementing the strategic plan is a positive highlight. The team delivered $1,495,000 of additional value to the business during the period. This is more than double the financial benefits targeted in the strategic plan for the period and lays the foundations for ongoing delivery of performance improvement. Importantly, this value addition helped to reduce the eventual year-end loss.

We prioritised our focus on the top three contributing projects for initial implementation. These account for more than 50% of the strategic plan's total financial benefits over the next three years and in order of importance are: substantial improvements in our yields, a year-on-year doubling of export chilled volume and remediation of the Gore beef plant. The Q4 strategic plan targets were exceeded with minimal additional operating and capital expenditure.

The strategic plan is now the focal point of all management and workers' efforts at Blue Sky Meats. The team has embraced the changes positively and proven itself more than capable of the challenge. I take this opportunity to thank everyone involved and I look forward to the continual delivery of the strategic plan goals.

STRATEGIC ACHIEVEMENTS (Q4 FY 2017)

Overall Performance

1.5M $1.5M additional value generated over the first 3 months of Strategic Plan implementation

All 9 projects scheduled for 2017 started on or ahead of time

Sales Optimisation - Chilled

Higher margin product with faster cash turnover

170% increase in volume compared with last year

Operational Excellence - Yields and Cost Savings

Yields 3.9% increase in yield through a combination of improved cutting lines, waste minimisation and revenue maximisation

Cost Savings 5 projects dedicated to cost savings across the business

CEO REVIEW

Operations

Cost savings are an integral part of our strategic plan. Performance on this element of the plan was made all the more important given the difficult financial environment which played out in 2017. All operational departments achieved cost savings versus last year. Again, the combined efforts of our management team and workers deserve positive recognition.

Weather driven delays in the completion of our new effluent pond meant we had to stop our rendering operations for certain periods during Q3 and Q4. As a result, we lost several weeks of profit opportunity. This setback made the single largest one-off contribution to the year-end loss. Rendering is a profitable and important component of our business and this decision was not taken lightly. This proactive measure ensured compliance with our resource consent and minimised risk to the surrounding environment. The pond is now complete and fully operational, giving us 15 times more storage capacity and the ability to better operate our effluent management programme.

The NZ Binxi (Oamaru) Limited takeover attempt presented additional operational challenges and costs. As with most takeover processes, conditions within the offer constrained or delayed certain business and operational decisions available to us during that period. Unfortunately, the takeover did not receive Overseas Investment Office approval within the specified time. As a result, the company incurred $163,420 of non-recoverable advisory costs during the process, contributing to this year's poor financial result.

Marketing

Our marketing team rode the rising world market prices throughout the year, balancing the needs of strategic long-term 'programme' customers with tactical spot-market sales to maximise per carcass revenues. The team's efforts in more than doubling our chilled sales made a significant contribution to the delivery of the strategic plan gains.

We closed the fiscal year with world prices up 15-20% on the same period last year. For the most part schedule prices followed this trend over the year, ensuring our suppliers shared in the gains.

Gore Beef Plant

Since its acquisition in 2014 our beef plant has failed to reach breakeven and has been a drag on the resources and overall performance of the company. In Q3 the tough decision was made to temporarily close the plant with the objective of stopping the losses until we can review the situation in detail and implement a feasible solution.

Gore staff were offered secondment to the Morton Mains plant in an effort to protect livelihoods. The temporary closure meant we were not exposed to the unfavourable bovine supply and demand conditions that prevailed during most of the year.

As part of the strategic plan, we are now in the process of reviewing our options, which range from the reinstatement of full operations to an asset sale.

Health, Safety and the Environment

During the year considerable progress was made towards improving our health and safety performance. Improvement in this area is as much about simple cultural changes as it is about investing in plant improvements.

The first steps forward have been instituting accurate measurement of injury frequency rates and their benchmarking and an enhanced focus by the management team. This has resulted in lower injury frequency rates, and a better understanding of the situation and the path forward.

The completion of the new effluent pond is the first step in a concerted effort to improve our environmental management and goes hand-in-hand with our increased focus on health and safety. During the year we embarked on a long-term project to review and improve all key elements of our environmental practices. We have registered some small wins already, with enhanced standard operating procedures for risk mitigation, more comprehensive water use tracking, and a complete review of our effluent systems, equipment and technology.

We have only just begun this journey and substantial improvements to health, safety and environmental culture and performance are needed.

Thank You

Throughout this difficult year our employees have shown tremendous resilience, professionalism and commitment – I would like to thank them for their efforts and acknowledge their positive accomplishments outlined above.

I would also like to thank our suppliers, who despite a challenging start to their season and a period of uncertainty regarding the ownership of the company, stuck with us; reinforcing the special business relationship that Blue Sky Meats has with its suppliers.

It was a year of change and that change is set to continue as we focus on the ongoing implementation of our strategic plan and a return to profit.

Todd Grave
Chief Executive Officer

3 July 2017

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the Year Ended 31 March 2017

	Note	2017 $	2016 $
Revenue		97,914,159	117,240,153
Less			
Cost of Sales		89,855,341	109,283,023
Gross Profit		8,058,818	7,957,130
Interest Income		5,027	1,854
Other Income		217	884
Less Expenses			
Audit Fees	1	42,940	43,287
Depreciation	8	1,186,324	1,167,911
Directors Fees	2	240,000	240,000
Interest Expense		432,293	642,226
Operating Costs	1	8,716,904	8,576,705
Net Profit (Loss) Before Taxation		(2,554,398)	(2,710,261)
Income Tax Expense/(Benefit)	3	(648,242)	(753,344)
Net Profit (Loss) After Taxation		(1,906,157)	(1,956,917)
Items of Comprehensive Income that may be Reclassified subsequently to Profit or Loss (net of tax)			
Net Gain (Loss) on Cash Flow Hedges	10	(813,199)	411,748
Total Comprehensive Income (Loss)		$(2,719,356)	$(1,545,169)
Basic and Diluted Loss Per Share (cents)	5	(16.54¢)	(16.98¢)

The Consolidated Statement of Comprehensive Income should be read in conjunction with the notes on pages 12-34

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Year Ended 31 March 2017

	Note	Share Capital $	Retained Earnings $	Cash Flow Hedge Reserve $	Total Equity $
Equity Balance at 31 March 2015		5,150,725	18,269,729	221,103	23,641,557
Add					
(Loss) After Tax		-	(1,956,917)	-	(1,956,917)
Other Comprehensive Income		-	-	411,748	411,748
Total Comprehensive Income (Loss)		-	(1,956,917)	411,748	(1,545,169)
Less					
Dividend Paid	7	-	(576,481)	-	(576,481)
Equity Balance at 31 March 2016		$5,150,725	$15,736,331	$632,851	$21,519,907
Add					
(Loss) After Tax		-	(1,906,157)	-	(1,906,157)
Other Comprehensive Income (Loss)		-	-	(813,199)	(813,199)
Total Comprehensive Income (Loss)		-	(1,906,157)	(813,199)	(2,719,356)
Equity Balance at 31 March 2017		$5,150,725	$13,830,176	$(180,348)	$18,800,553

The Consolidated Statement of Changes in Equity should be read in conjunction with the notes on pages 12-34

CONSOLIDATED BALANCE SHEET

As at 31 March 2017

	Note	2017 $	2016 $
Equity			
Share Capital	5	5,150,725	5,150,725
Cash Flow Hedge Reserve	6	(180,348)	632,851
Retained Earnings	7	13,830,176	15,736,331
Total Equity		$18,800,553	$21,519,907
Represented by:			
Non-Current Assets			
Property, Plant and Equipment	8	13,992,095	14,296,831
Goodwill	9	3,221,574	3,221,574
Deferred Tax	10	1,177,239	223,130
Other Investments	12	19,139	5,853
		18,410,047	17,747,388
Current Assets			
Cash and Short Term Deposits	17	138,095	17,115
Accounts Receivable	13	19,489,282	16,110,135
Inventories	14	10,031,467	14,039,587
Livestock	15	79,659	488,509
Taxation Receivable		-	22
Derivative Financial Instruments	16	-	1,490,457
		29,738,503	32,145,825
Total Assets		48,148,550	49,893,213
Non-Current Liabilities			
Borrowings	20	-	1,523,905
		-	1,523,905
Current Liabilities			
Accounts Payable and Accruals	18	10,930,370	9,147,943
Income Received in Advance	19	517,875	432,808
Borrowings	20	17,501,019	17,268,649
Derivative Financial Instruments	16	398,733	-
		29,347,997	26,849,401
Total Liabilities		29,347,997	28,373,306
Net Assets as Per Total Equity		$18,800,553	$21,519,907

S O'Donnell
Director

P J Carnahan
Director

The Consolidated Balance Sheet should be read in conjunction with the notes on pages 12-34

CONSOLIDATED CASH FLOW STATEMENT

For the Year Ended 31 March 2017

	Note	2017 $	2016 $
Cash Flows From Operating Activities			
Cash Was Provided From:			
Receipts From Customers		95,478,260	126,339,732
Interest Received		2,390	2,738
Taxation Received (Net of Payments)		-	1,034
Goods and Services Tax / VAT		-	1,441,059
		95,480,650	127,784,563
Cash Was Disbursed To:			
Payment to Suppliers and Employees		92,615,454	117,110,689
Interest Paid		433,130	643,063
Goods and Services Tax / VAT		138,800	-
		93,187,384	117,753,751
Net Cash From/(Applied to) Operating Activities	25	$2,293,266	$10,030,812
Cash Flows From Investing Activities			
Cash Was Provided From:			
Proceeds from Sale of Property, Plant and Equipment		7,003	2,870
		7,003	2,870
Cash Was Applied To:			
Other Investments		-	18
Purchase of Property, Plant and Equipment		888,590	1,862,100
		888,590	1,862,118
Net Cash From/(Applied to) Investing Activities		$(881,587)	$(1,859,248)
Cash Flows From Financing Activities			
Cash Was Provided From:			
Borrowings		-	3,000,000
		-	3,000,000
Cash Was Applied To:			
Dividends Paid		-	576,481
Borrowings		1,290,699	10,225,216
		1,290,699	10,801,697
Net Cash From/(Applied to) Financing Activities		$(1,290,699)	$(7,801,697)
Net Increase/(Decrease) in Cash Held		120,980	369,867
Add Opening Cash and Short Term Deposits/(Bank Overdraft)		17,115	(352,752)
Ending Cash and Short Term Deposits		$138,095	$17,115
Represented by:			
Cash and Short Term Deposits		138,095	17,115
		$138,095	$17,115

The Consolidated Cash Flow Statement should be read in conjunction with the notes on pages 12-34

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 March 2017

Statement of Accounting Policies

Reporting Entity

Blue Sky Meats (NZ) Limited (the "Company") is an unlisted company incorporated and domiciled in New Zealand and registered under the Companies Act 1993.

The Group consists of Blue Sky Meats (NZ) Limited, and its subsidiaries, Horizon Meats New Zealand Limited, Blue Sky Meats (UK) Limited and Blue Sky Meats (Gore) Limited.

Statutory Base

Blue Sky Meats (NZ) Limited is a reporting entity for the purposes of the Financial Markets Conduct Act 2013. The financial statements of Blue Sky Meats (NZ) Limited have been prepared in accordance with the Financial Markets Conduct Act 2013 and the Companies Act 1993.

Statement of Compliance

The financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP) and comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) as appropriate for profit-oriented entities. The financial statements comply with International Financial Reporting Standards.

Basis for Preparation

The financial statements have been prepared on the historical cost basis, as modified by the revaluation of livestock and certain financial assets and liabilities (including derivative instruments). The reporting currency is New Zealand dollars.

Critical Accounting Estimates and Judgements

The preparation of Financial Statements in conformity with NZ IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

Inventory Valuation

Inventory is recognised at the lower of cost and net realisable value. To determine cost, inventories are valued using the discounted selling price "retail" method. This method deducts an estimated profit margin from the last sales price, or committed sales price, and converts these factors back to New Zealand dollars.

Estimate of Useful Lives of Assets

The estimation of the useful lives of assets has been based on historical information. In addition, the condition of the assets is assessed at least once per year and considered against the remaining useful life. Adjustments to useful life are made when considered necessary.

Tax Losses

The recognition of a deferred tax asset arising from current and prior year tax losses relies on the directors estimating that sufficient future taxable amounts will be available against which unused tax losses can be utilised and upon maintaining at least minimum levels of shareholder continuity from the date the tax loss was incurred to the date of utilisation. If insufficient future taxable amounts are available the directors could be overstating the deferred tax asset and consequently net profit after tax to date may also be overstated.

Impairment of Goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the cash generating unit and a suitable discount rate in order to calculate present value.

Specific Accounting Policies

The following are specific accounting policies which materially affect the measurement of balances in the financial statements.

a. Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- Has power over the investee;
- Is exposed, or has rights, to variable returns from its involvement with the investee; and
- Has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

b. Property, Plant and Equipment

All property plant and equipment are recorded at cost less accumulated depreciation and accumulated impairment losses.

Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

c. Depreciation

Depreciation of fixed assets has been provided for using rates which will write off the cost of the assets over their expected useful lives.

	Useful Life	Depreciation Method
Buildings and Improvements	10 - 50 years	Diminishing Value and Straight-line
Plant and Equipment	2 - 10 years	Diminishing Value
Furniture	5 - 8 years	Diminishing Value
Vehicles	3 - 5 years	Diminishing Value

d. Business Combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that deferred tax assets or liabilities, are recognised and measured in accordance with NZ IAS 12 *Income Taxes*.

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

e. Goodwill

Goodwill arising on the acquisition of a business is recognised as an asset at the date control is acquired. Goodwill is measured as the sum of the consideration transferred in excess of the fair value of the identifiable net assets recognised. Goodwill is not amortised. Instead, goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired and is carried at cost less accumulated impairment losses. Any impairment loss is recognised immediately in profit and loss and is not reversed in a subsequent period.

Goodwill is allocated to cash generating units for the purpose of impairment testing.

f. Accounts Receivable

Accounts receivable that have fixed or determinable payments that are not quoted in an active market are classified as "loans and receivables". Loans and receivables are measured at amortised cost using the effective interest method less impairment.

A provision for impairment is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the assets carrying amount and the present value of the estimated future cash flows, discounted at the original effective interest rate. The amount of the provision is expensed in the profit or loss.

g. Inventories

Inventory is recognised at the lower of cost and net realisable value. To determine cost, inventories are valued using the discounted selling price "retail" method. This method deducts an estimated profit margin from the last sales price, or committed sales price, and converts these factors back to New Zealand dollars.

h. Livestock

Livestock is valued at fair value, less any point of sale costs. Fair value is determined by reference to market-based evidence, which is 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. Point of sale costs include any necessary costs to dispose of livestock, excluding costs incurred to get the livestock to market.

Resulting gains or losses on livestock valuation are recognised in profit or loss.

i. Accounts Payable

Accounts payable are recognised when the Group becomes obliged to make future payments resulting from the purchase of goods and services.

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

j. Borrowings

Borrowings are initially recognised at fair value, net of transaction costs.

Subsequent to initial recognition, borrowings are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in the profit or loss over the period of the borrowing using the effective interest method.

k. Income Tax

The income tax expense or income for the period is the tax payable on the current period's taxable income based on the income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted by the balance sheet date. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss. Also, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

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 deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities are not recognised for temporary differences between the carrying amount and tax bases of investments in subsidiaries where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets arising from deductible temporary differences within such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they expect to reverse in the foreseeable future.

Deferred tax attributable to amounts recognised directly in other comprehensive income are also recognised directly in other comprehensive income.

Current tax assets and liabilities and deferred tax assets and liabilities of individual entities are reported separately in the consolidated financial statements unless the entities have a legally enforceable right to make or receive a single net payment of tax and the entities intend to make or receive such a net payment or to recover the current tax asset or settle the current tax liability simultaneously.

l. Derivative Financial Instruments and Hedging Activities

Derivatives are recognised at fair value. The method of recognising the subsequent gain or loss depends on whether the derivative is designated as a hedging instrument. The Group designates certain derivatives as hedges of highly probable forecast transactions (cash flow hedges).

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents their assessment, both at hedge inception and on an on-going basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in cash flows of hedged items.

The fair values of various derivative financial instruments used for hedging purposes are disclosed in movements in the cash flow hedge reserve in shareholders' equity.

Cash Flow Hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated as a separate component of equity in the cash flow hedge reserve. The gain or loss relating to the ineffective portion is recognised immediately in the profit or loss.

Amounts recognised in the hedge reserve are reclassified from equity to profit or loss (revenue) in the periods when the hedged item will affect profit or loss (for instance when the forecast sale that is hedged takes place). However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example Inventory) or a non-financial liability, the gains and losses previously deferred in equity are reclassified from equity and included in the measurement of the initial cost of the asset or liability.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at the time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to profit or loss.

Derivatives that do not qualify for hedge accounting

When certain derivative instruments do not qualify for hedge accounting or hedge accounting has not been adopted, changes in the fair value of these derivative instruments are recognised immediately in profit or loss.

m. Foreign Currencies

Both the functional and presentation currency of the Group and Company is New Zealand dollars ($).

Transactions in foreign currencies are converted at the New Zealand rate of exchange ruling at the date of the transaction. At balance date foreign monetary assets and liabilities are translated at the closing rate.

Exchange variations arising from these translations are included in the profit or loss.

n. Cash Flow Statement

The Cash Flow Statement is prepared exclusive of GST, which is consistent with the method used in the Statement of Comprehensive Income.

Definitions of the terms used in the Cash Flow Statement:

"Cash" includes coins and notes, demand deposits and other highly liquid investments readily convertible into cash and includes at call borrowings, such as bank overdrafts used by the Company and the Group as part of their day-to-day cash management.

"Operating Activities" include all principal revenue producing activities of the Company and Group and other activities that are not investing or financing activities.

"Investing Activities" are the activities relating to the acquisition and disposal of long term assets and other investments not included in cash equivalents that have been made to generate future cash flows.

"Financing Activities" are those activities that result in changes in the size and composition of the contributed equity and borrowings of the entity.

o. Impairment of Non-Financial Assets Excluding Goodwill

Property, plant and equipment and other non-financial assets are assessed for indicators of impairment at each reporting date. They are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows that are largely independent of the cash inflows from other assets or groups of assets (cash generating units). Assets for which an impairment has previously been recorded are tested for possible reversal of the impairment when events or changes in circumstances indicate that impairment may have reversed.

p. Employee Benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised separately in current liabilities in respect of employees services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

The provision for sick leave, being an accumulating compensating absence, is recognised based on the expectation the company will pay sick leave as a result of the unused entitlement that has accumulated at the balance sheet date.

q. Earnings Per Share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Parent by the weighted average number of ordinary shares in issue during the year.

r. Revenue Recognition

Revenue is recognised at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business.

Sale of Goods

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

Interest Revenue

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

s. Leases

Rental payable under operating leases are charged to the profit or loss on a straight line basis over the term of the relevant lease.

t. Operating Segments

Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance.

u. Adoption of New and Revised Standards and Interpretations

In the current year, there have been no material changes arising from changes to NZ Standards and Interpretations that have impacted these financial statements.

v. Standards and Interpretations in Issue Not Yet Adopted

At year end date, a number of Standards and Interpretations were in issue but not yet effective.

The Standards most likely to have an impact on the Group financial statements are:

NZ IFRS 9 Financial Instruments: This Standard addresses the requirements for classification and measurement of financial assets and liabilities, impairment methodology and hedge accounting.

NZ IFRS 15 Revenue from Contracts with Customers: The Standard establishes the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. The Standard provides a single, principles based five-step model to be applied to all contracts with customers.

NZ IFRS 16 Leases: This Standard sets out the principles for the recognition, measurement, presentation and disclosure of leases.

The Standards noted above have an effective date of 1 January 2018, except for NZ IFRS 16 (which has an effective date of January 2019). Management have not yet assessed the impact of these Standards on the Group financial statements.

1 Net Profit (Loss) Before Tax

The following are included in the profit or loss:

	2017	2016
Auditors' Remuneration		
Audit Fees are payable or due and payable to the auditors of the Group as follows:		
- Parent Company Auditor	38,500	37,500
- Other Auditors of the Group	4,440	5,787
Total Audit Fees	$42,940	$43,287
The Auditor of the Group is Deloitte Limited.		
Operating Lease Costs		
Total operating costs include operating lease costs of:	140,197	172,597
(Gain)/Loss on Sale		
Total operating costs include losses on sale of property, plant and equipment of:	-	94
Total operating costs include profits on sale of property, plant and equipment of:	(4,824)	839
Bad Debts	-	9,803
Employee Benefits Expenses	18,199,636	19,988,958
Kiwisaver & Superannuation	403,909	417,683
Net Foreign Exchange (Gain)/Loss	(102,032)	855,120

2 Key Management Personnel

The compensation of the directors and executives, being the key management personnel of the entity, is set out below:

	2017	2016
Short Term Employee Benefits	735,192	889,840
Other (Directors Fees)	240,000	240,000
	$975,192	$1,129,840

3 Taxation

	2017	2016
Profit (Loss) Before Taxation	(2,554,398)	(2,710,261)
Prima Facie Taxation at 28%	(715,233)	(758,874)
Non-Deductible Expenses/(Assessable Income)	55,218	11,459
Tax on Foreign Income Due to Different Tax Rates	11,476	(5,929)
Prior Period Adjustment	294	-
Total Adjustments	66,990	5,530
Taxation Expense (Benefit) For Year	$(648,242)	$(753,344)
The Taxation Charge is Represented By:		
Deferred Taxation	(637,866)	(753,021)
Current Taxation	(10,376)	(323)
	(648,242)	(753,344)

4 Imputation Credit Account

	2017	2016
Imputation credits available directly and indirectly to shareholders of the Parent:	$4,332,479	$4,331,833

5 Share Capital

	2017	
	Number	Value $
Balance at Beginning of Year	11,526,098	5,150,725
Total Shares on Issue at End of Year	11,526,098	$5,150,725

All shares are fully paid and have equal voting rights and share equally in dividends and surplus on winding up.

Basic and diluted earnings per share is calculated using net profit (loss) after tax of ($1,906,157) (2016: ($1,956,917)) and weighted average number of ordinary shares issued of 11,526,098.

6 Cash Flow Hedge Reserve

	2017	2016
Balance at Beginning of Year	632,851	221,103
Gains/(loss) Recognised on Cash Flow Hedges		
Forward Foreign Exchange Contracts	(250,483)	878,960
Transfer to Profit or Loss	(878,960)	(307,087)
	(1,129,442)	571,874
Income Tax Related to Gains/Losses Recognised in Other Comprehensive Income	316,243	(160,126)
Balance at End of Year	$(180,348)	$632,851

The cash flow hedge reserve represents gains/losses net of tax recognised on the effective portion of cash flow hedges. The cumulative deferred gain or loss on the hedge is recognised in the profit or loss when the hedged transaction impacts the profit or loss.

7 Retained Earnings

	2017	2016
Balance at Beginning of Year	15,736,331	18,269,729
Plus		
Net (Loss) After Tax	(1,906,157)	(1,956,917)
	13,830,176	16,312,812
Less Distributions		
Dividend Paid (2016: 5 cents per share)	-	576,481
Balance at End of Year	$13,830,176	$15,736,331

8 Property, Plant and Equipment

2017 Group	Cost 1 April 2016 $	Additions $	Disposals $	Cost 31 March 2017 $
Freehold Land & Land Improvements	3,451,708	410,467	-	3,862,175
Buildings	10,597,252	75,278	-	10,672,530
Plant and Equipment	14,369,505	237,001	-	14,606,506
Furniture	111,039	1,531	-	112,570
Vehicles	774,969	164,313	79,969	859,313
	$29,304,473	$888,590	$79,969	$30,113,094

	Accumulated Depreciation 1 April 2016 $	Depreciation $	Disposals $	Accumulated Depreciation 31 March 2017 $	Net Book Value 31 March 2017 $
Freehold Land & Land Improvements	124,716	23,896	-	148,612	3,713,563
Buildings	5,308,141	319,497	-	5,627,640	5,044,891
Plant and Equipment	9,020,708	741,768	-	9,762,475	4,844,031
Furniture	65,920	16,678	-	82,596	29,974
Vehicles	488,157	84,485	72,965	499,677	359,636
	$15,007,642	$1,186,324	$72,965	$16,121,000	$13,992,095

2016 Group	Cost 1 April 2015 $	Additions $	Disposals $	Cost 31 March 2016 $
Freehold Land & Land Improvements	3,448,283	3,425	-	3,451,708
Buildings	9,435,038	1,162,214	-	10,597,252
Plant and Equipment	13,813,786	572,925	17,206	14,369,505
Furniture	67,666	43,373	-	111,039
Vehicles	702,261	79,418	6,710	774,969
	$27,467,034	$1,861,355	$23,916	$29,304,473

	Accumulated Depreciation 1 April 2015 $	Depreciation $	Disposals $	Accumulated Depreciation 31 March 2016 $	Net Book Value 31 March 2016 $
Freehold Land & Land Improvements	111,786	12,930	-	124,716	3,326,992
Buildings	5,050,116	258,025	-	5,308,141	5,289,111
Plant and Equipment	8,243,202	796,334	18,828	9,020,708	5,348,797
Furniture	40,160	25,760	-	65,920	45,119
Vehicles	416,257	74,862	2,962	488,157	286,812
	$13,861,521	$1,167,911	$21,790	$15,007,642	$14,296,831

9 Goodwill

	Group	
	2017	2016
Balance at Beginning of Year	$3,221,574	$3,221,574

Management have assessed that goodwill is allocated to one cash generating unit (CGU) being the whole Group.

During the year ended 31 March 2017 management have determined that there is no impairment of the CGU that contained goodwill.

The recoverable amount (i.e. higher of value in use and fair values less costs to sell) of the CGU is determined on the basis of the value in use calculation.

The value in use calculation uses cash flow projections based on financial budgets approved by management covering a five year period. The value in use calculations are most sensitive to the assumptions regarding growth rates, margins and discount rates. The calculation uses the budget for 2018 as a starting point and annual growth rates of 3% (2016: 3%) subsequent to this. Pre-tax discount rates of 20% (2016: 20%) have been applied to these projections based on past experience. Cash flows beyond the five year period have been extrapolated using a steady 3% (2016: 3%) growth rate based on past experience. The directors also believe that any reasonably possible change in the key assumptions would not cause the carrying amount of the cash generating unit to exceed its recoverable amount.

10 Deferred Tax Asset (Liability)

2017 Group	Opening Balance	Charged To Profit Or Loss	Charged To Other Comprehensive Income	Closing Balance
Derivative Financial Instruments	(246,110)	-	316,243	70,133
Accounts Payable and Accruals	255,788	46,177	-	301,965
Livestock Revaluations	-	-	-	-
Property, Plant and Equipment	(826,490)	49,234	-	(777,256)
Tax Losses	1,039,942	542,455	-	1,582,397
	$223,130	$637,866	$316,243	$1,177,239

2016 Group	Opening Balance	Charged To Profit Or Loss	Charged To Other Comprehensive Income	Closing Balance
Derivative Financial Instruments	(85,984)	-	(160,126)	(246,110)
Accounts Payable and Accruals	327,914	(72,126)	-	255,788
Livestock Revaluations	(7,500)	7,500	-	-
Property, Plant and Equipment	(880,956)	54,467	-	(826,490)
Tax Losses	276,762	763,180	-	1,039,942
	$(369,765)	$753,021	$(160,126)	$223,130

Income Tax Effects Relating to Each Component of Other Comprehensive Income:

2017 Group	Before Tax Amount	Tax Benefit/ (Expense)	Net of Tax Amount
Cash Flow Hedges	(1,129,442)	316,243	(813,199)
	$(1,129,442)	$316,243	$(813,199)
2016 Group			
Cash Flow Hedges	571,874	(160,126)	411,748
	$571,874	$(160,126)	$411,748

11 Investments in Subsidiaries

	Country of Incorporation	Percentage Held 2017	Percentage Held 2016	Balance Date
Horizon Meats New Zealand Limited	New Zealand	100%	100%	31 March
Blue Sky Meats (UK) Limited	United Kingdom	100%	100%	31 March
Blue Sky Meats (Gore) Limited	New Zealand	100%	100%	31 March

The Principal activity of Blue Sky Meats (UK) Limited is the sale of products in the UK for Blue Sky Meats (NZ) Limited.

The Principal activity of Blue Sky Meats (Gore) Limited is to be a multi-species processor of all animals, primarily the ability to process cattle and deer.

12 Other Investments

	2017	2016
Shares in Ovine Automation Limited	430	430
Shares in Ballance Agri Nutrients Limited	7,730	5,146
Shares in Farmlands Co-operative Society Limited	277	277
Investment in OAL Limited Partnership	10,702	-
	$19,139	$5,853

Other Investments are carried at cost.

13 Accounts Receivable

	2017	2016
At Amortised Cost:		
Trade Debtors	18,014,837	14,774,490
VAT	264	283
Goods and Services Tax	1,474,181	1,335,362
	$19,489,282	$16,110,135

The average credit period on accounts receivable is 30 days. No interest is charged on accounts receivable.

a) Analysis Of Past Due But Not Impaired Assets:

	2017	2016
30 – 60 days	1,026,561	3,425,758
60 – 90 days	1,669	530,323
90 days +	412	779
	$1,028,642	$3,956,860

14 Inventories

	2017	2016
Packaging Materials	588,763	555,980
Finished Goods	9,442,704	13,483,607
	$10,031,467	$14,039,587

Included in the carrying value of finished goods above is the write-down of any carrying value of stock to net realisable value.

The amount expensed in Cost of Sales for the write-down of Finished Goods at year end was $Nil (2016: $Nil) for the group.

15 Livestock

	2017	2016
Opening Balance	488,509	409,861
Purchases	2,437,285	6,246,955
Livestock Processed	(2,846,135)	(6,168,307)
Changes in Livestock Fair Value Less Estimated Selling Cost	-	-
	$79,659	$488,509

The fair value of livestock is classified as Level 2 according to the classification hierarchy outlined in NZ IFRS 13: Fair Value Measurement. The Fair Value has been determined using independent pricing information obtained from third parties.

The Livestock asset consists of lambs and sheep, which the Group purchases for the following purposes:

Lamb Finishing
Lambs are purchased from breeders and are placed with finishers until they reach optimal weights. Finishers are paid on a live weight gain basis as livestock is delivered within specification for processing.

Other
Additional lambs and sheep are farmed on land owned or leased by the Group adjacent to processing facilities.

As at the end of the year 759 (2016: 5,906) head of livestock were held.

16 Derivative Financial Instruments

At Fair Value:	2017	2016
Foreign Exchange Contracts		
Derivatives Designated as Effective Hedging Instruments	(250,483)	878,959
Held For Trading Derivatives Not Designated as Hedging Instruments	(148,251)	611,498
	$(398,733)	$1,490,457

Derivatives are not held for speculative purposes.

17 Bank Overdraft

The bank overdrafts are secured by a first mortgage and first charge debentures over the assets and undertakings of the Group.

Interest is charged at a floating rate based on the Westpac Prime Lending Rate plus a 1.8% margin (refer note 19).

18 Accounts Payable and Accruals

	2017	2016
Trade Creditors and Accruals	9,268,929	7,344,392
Employee Entitlements	1,661,441	1,803,551
	$10,930,370	$9,147,943

The average credit period of a trade creditor is 44 Days.

19 Income Received in Advance

For some overseas customers, income has been received in advance, before product is shipped.

	2017	2016
Income Received in Advance	517,875	432,808
	$517,875	$432,808

20 Borrowings

At Amortised Cost:	2017	2016
Current:		
Seasonal Facility	12,253,834	12,701,421
Discounted Bills	3,726,220	3,819,499
Wholesale Term Loan	1,520,000	740,000
Trade Finance Loans	965	7,729
	$17,501,019	$17,268,649
Non Current:		
Wholesale Term Loan	-	1,520,000
Trade Finance Loans	-	3,905
	-	$1,523,905

Bank Borrowings, Discounted Bills and Trade Finance Loans are secured by a first charge mortgage and first charge debenture over the assets and undertakings of the Group. The seasonal facility has an expiry date of 31 August 2017. Management will review its bank funding requirements for the 2017/2018 processing season in late November based on anticipated schedule prices and other known revenue and cost drivers. Revised budgets will be prepared in conjunction with bank discussions for finalising seasonal funding.

Interest on the seasonal facility as at the 31 March 2017 was 3.80% (2016: 3.90%). Interest is charged at a floating rate based on the Westpac Prime Lending Rate plus a 1.8% margin.

Interest on discounted bills as at 31 March 2017 was charged at interest rates between 1.77% - 3.08% (2016: 1.82% - 2.62%).

The Wholesale Term Loan drawn down in April 2015 to purchase Clover Export Limited (subsequently renamed Blue Sky Meats (Gore) Limited) is secured by a General Security Agreement over its present and acquired property. There are also cross guarantees between the Parent company and all of its subsidiaries for the Wholesale Term Loan.

Interest on the Wholesale Term Loan as at the 31st March 2017 was 4.1% (2016: 4.8%). Interest is charged at Westpac's 90 day bank bill rate plus a 2% margin.

As of 31 March 2017, the Company had breached debt covenants it had with the lender. As a result, the non-current borrowings of the Company had been reclassified to current as of year-end. Prior to the date of approval of the financial statements, the lender had written to the Company approving an unconditional waiver of the said covenant.

21 Commitments and Contingent Liabilities

a) There is a cross guarantee in relation to debt and interest among the group companies, Horizon Meats New Zealand Limited, Blue Sky Meats (UK) Limited, Blue Sky Meats (Gore) Limited and Blue Sky Meats (NZ) Limited. The parent company guarantees the trade finance and discounted bills of the subsidiaries. As at 31 March 2017 these totalled $Nil (2016: $Nil).

b) Estimated capital expenditure contracted for at balance date but not provided for amounted to $Nil (2016: $Nil).

22 Operating Lease Commitments

Lease Commitments Under Non-Cancellable Operating Leases:

	2017	2016
Not Later Than One Year	42,997	140,197
Later Than One Year and Not Later Than Two Years	-	-
	$42,997	$140,197

These commitments include the lease of an Auckland office with a lease term of four years, with an option to extend for a further four years. This lease contract contains market review clauses in the event that the Group exercises its options to renew. The Group does not have an option to purchase the leased asset at the expiry of the lease period.

23 Segment Reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to the risks and returns that are different to those of other business segments.

NZ IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the group that are regularly reviewed by the chief operating decision makers in order to allocate resources to the segment and to assess its performance.

The Group considered carefully the nature of its internal reports about the components of the Group and concluded that the Group is internally reported as a single segment to the chief decision maker.

a) Geographical Information:

	2017 Group				
NZ$000	New Zealand	Asia/ Pacific	UK/ Europe	Other Foreign	Group
External Revenue	11,996	34,216	39,396	12,306	97,914
	$11,996	$34,216	$39,396	$12,306	$97,914

	2016 Group				
NZ$000	New Zealand	Asia/ Pacific	UK/ Europe	Other Foreign	Group
External Revenue	26,088	37,716	40,766	12,670	117,240
	$26,088	$37,716	$40,766	$12,670	$117,240

The Group does not hold non-current assets in any foreign country.

b) Information About Major Customers:
The Group has no customers which individually account for greater than 10% of sales revenue (2016: None).

24 Financial Instruments

a) Financial Risk Management Objectives
Specific risk management objectives and policies are set out below.

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

c) Interest Rate Risk and Liquidity Management
The Group is exposed to interest rate risk as it borrows funds at floating rates of interest.

The following table details the Group's exposure to interest rate risk on financial instruments. It also analyses the group's financial assets and financial liabilities into relevant maturity groupings based on undiscounted contractual maturity date.

2017 Group	Weighted Average Effective Interest Rate	Less than 1 Year $000	1 - 3 Years $000	3 – 5 Years $000	5+ Years $000	Total $000
Financial Assets:						
Cash and Short Term Deposits		138	-	-	-	138
Accounts Receivable		19,489	-	-	-	19,489
Financial Liabilities:						
Accounts Payable and Accruals		(10,930)	-	-	-	(10,930)
Bank Overdraft	10.10%	-	-	-	-	-
Borrowings	1.77%-15.87%	(18,492)	-	-	-	(18,492)
Derivative Financial Instruments		(399)	-	-	-	(399)
		$(10,194)	-	-	-	$(10,194)

2016 Group	Weighted Average Effective Interest Rate	Less than 1 Year $000	1 - 3 Years $000	3 – 5 Years $000	5+ Years $000	Total $000
Financial Assets:						
Accounts Receivable		14,775	-	-	-	14,775
Derivative Financial Instruments		1,490	-	-	-	1,490
Financial Liabilities:						
Accounts Payable and Accruals		(9,148)	-	-	-	(9,148)
Bank Overdraft	10.20%	-	-	-	-	-
Borrowings	1.82%-15.87%	(18,928)	(1,524)	-	-	(20,452)
		$(11,811)	$(1,524)	-	-	$(13,335)

The Group manages its liquidity risk by maintaining adequate reserves and banking facilities, by continuously monitoring forecast and actual cashflows and by matching the activity profiles of financial assets and liabilities. Details of the Groups funding arrangements are disclosed in note 19.

The group has determined that fair value of all financial assets and liabilities approximates carrying amounts.

24 Financial Instruments *continued*

d) Credit Risk

The Group performs credit evaluations on all customers requiring credit and generally does not require collateral.

Maximum exposures to credit risk as at balance date are:

	2017	2016
Trade Debtors	18,014,837	14,774,490
Cash and Short Term Deposits	138,095	17,115

The above maximum exposures are net of any recognised provision for losses on these financial instruments. No collateral is held on the above amounts.

e) Concentrations of Credit Risk

The group does not have any significant concentrations of credit risks.

f) Fair Values

The fair value of derivative instruments is calculated using quoted market prices. Forward Foreign exchange contracts are measured using observable market forward exchange rates and yield curves derived from observable market interest rates matching maturities of the contracts.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	2017			2016		
Group	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Financial Assets						
Derivative Financial Assets	-	-	-	-	1,490,457	-
Financial Liabilities						
Derivative Financial Liabilities	-	(398,733)	-	-	-	-

24 Financial Instruments *continued*

g) Foreign Exchange Contracts

The Group has a policy to hedge all sales denominated in foreign currencies.

The following table details the forward foreign currency contracts outstanding at reporting date:

Outstanding Contracts	Average Exchange Rate		Foreign Currency		Contract Value		Fair Value	
	2017	2016	2017	2016	2017	2016	2017	2016
Australian Dollars	-	0.9307	-	46,600	-	50,070	-	(1,673)
Canadian Dollars	0.9454	-	208,863	-	220,918	-	(3,377)	-
US Dollars	0.7093	0.6654	10,673,463	7,318,670	15,047,842	10,998,548	(243,676)	367,513
Euro	0.6591	0.5932	3,493,372	3,522,302	5,300,044	5,937,990	(55,035)	112,690
British Pound	0.5655	0.4371	3,618,650	4,740,739	6,398,484	10,845,869	(80,218)	999,333
Chinese Yuan	4.8703	4.4303	7,639,426	7,142,800	1,568,560	1,612,258	(16,427)	12,594
							$(398,733)	$1,490,457

All foreign exchange contracts mature in less than one year.

h) Sensitivity Analysis

Foreign Currency

The following table details the Groups sensitivity to a 10% increase or decrease in the various foreign currencies to which the Company is exposed at balance date. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the balance date for a 10% change in the relevant foreign currency rate. An increase in foreign currency will increase Profit and Equity.

	2017 $000	2016 $000
Net Profit (Loss) After Taxation	(18)	63
Total Equity	(18)	63

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the balance date exposure does not reflect the exposure during the year.

Interest Rate

The sensitivity analysis below has been determined based on the exposure to interest rates for interest bearing financial instruments at the balance sheet date. For floating rate instruments, the analysis is prepared assuming the amount of the liability outstanding at the balance sheet date was outstanding for the whole year. If interest rates had been 100 basis points higher or lower and all other variables were held constant the impact would have been:

	2017 $000	2016 $000
Net Profit (Loss) After Taxation	126	135
Total Equity	126	135

An increase in interest rates would decrease Profit and Equity.

25 Reconciliation of Profit (Loss) After Taxation With Net Cash From Operating Activities

	2017	2016
Net Surplus (Deficit) After Taxation	(1,906,157)	(1,956,917)
Non-Cash Items:		
Depreciation and Gain (Loss) On Sale	1,181,500	1,167,911
Income from Investments	(14,122)	-
Deferred Tax	(648,263)	(753,022)
	(1,387,043)	(1,542,028)
Movement In Working Capital		
Accounts Payable and Accruals	1,787,252	(846,953)
Income Received in Advance	85,067	256,419
Derivative Financial Instruments	770,146	(528,700)
Accounts Receivable and Prepayments	(3,379,148)	4,168,983
Inventory	4,008,120	8,601,029
Livestock	408,850	(78,648)
Taxation Payable (Receivable)	22	708
	3,680,309	11,572,840
Net Cash Inflow/(Outflow) From Operating Activities	$2,293,266	$10,030,812

26 Transactions With Related Parties

Mr M McMillan, a former director of the company, was employed as General Manager. Salary paid was $173,734 and represented 1.1% of total wages paid during the year (2016: 0.3%).

Mr G Cooney, a former director of the company, was paid consulting fees for services provided during the year, totalling $15,621 (2016: $6,226).

Mr G Cooney is also a director of the Red Meat Profit Partnership (RMPP). RMPP is a collaboration between the Red Meat Sector and the Government with the aim of boosting sheep and beef farmer productivity and profitability. Blue Sky Meats (NZ) Limited received $55,875 from RMPP and $29,171 was paid to RMPP. At balance date $3,082 was owed to Blue Sky Meats (NZ) Limited (2016: $22,351).

Mr S O'Donnell, a director of the company, is a director of a group of companies who provide transportation services to the company. These were provided for on normal commercial terms. $1,146,628 was paid to the various transportation companies during the year and at balance date $177,094 was owed by the Company (2016: $1,724,502 was paid to the various transportation companies and $207,302 was owed at balance date).

Mr A Lowe, a director of the company, is a director of a group of companies who procures pelts and skins, and markets meat and bone meal. These were provided for on normal commercial terms. $1,250 was paid to Lowe Corporation Limited during the year and $4,099,051 was received. At balance date $780,107 was owed by Lowe Corporation Limited to Blue Sky Meats (NZ) Limited (2016: $110,386).

Mr P Carnahan, a director of the company, is a director of Southfuels Limited who provides fuel to the company. These were provided for on normal commercial terms. $20,429 was paid to Southfuels Limited during the year. At balance date $3,550 was owed by the company (2016: $2,283).

No amounts were forgiven or written off during the year.

STATUTORY FINANCIAL INFORMATION

For the Year Ended 31 March 2017

Remuneration of Directors

Director's remuneration and other benefits received, or due and receivable during the year, is as follows:-

Directors Fees	Group
Mr S O'Donnell - Chairman	62,858
Mr P Carnahan	48,571
Mr A Lowe	48,571
Mr G Cooney - Retired 13 October 2016	40,000
Mr J Houlker - Retired 13 October 2016	20,000
Mr M McMillan - Retired 13 October 2016	20,000
	$240,000

Other Remuneration	
Mr M McMillan	173,734
	$173,734

Remuneration of Employees

Eight employees received remuneration exceeding $100,000:

Remuneration Levels	No of Employees
$100,000 - $109,999	1
$110,000 - $119,999	2
$130,000 - $139,999	0
$140,000 - $149,999	2
$150,000 - $159,999	0
$160,000 - $169,999	1
$170,000 - $179,999	1
$180,000 - $189,999	1

Donations

No donations were paid by the Parent Company or subsidiary companies during the year.

Entries in Interests Register during Financial Year

a) Directors Interests

The following transactions were entered into by the directors of the Company during the year:

- Consulting fees were paid to Mr G Cooney during the year.
- Mr M McMillan, a former director of the Company, was also employed as the General Manager of the company.
- Transportation services were provided to the Company by a group of companies, of which Mr S O'Donnell is a director.
- Lowe Corporation Limited who procure pelts and skins and market meat and bone meal, of which Mr A Lowe is a director.
- Fuel provided to the company by Southfuels Limited, of which Mr P Carnahan is a director.

All of these transactions are provided on normal commercial terms.

The details of these transactions are given in Note 26 to the financial statements "Transactions with Related Parties".

Key Figures

	2017	2016	2015	2014	2013
Revenue and Interest Income	97,919,186	117,242,007	102,137,698	95,297,021	97,455,073
Net Profit (Loss) after Tax	(1,906,157)	(1,956,917)	1,239,630	1,946,504	(3,875,093)
Number of Shares (on which dividend paid)	11,526,098	11,526,098	11,526,098	11,526,098	11,526,098
Total Dividend	-	-	576,305	1,152,610	-
Ordinary Dividend (cents per share)	-	-	5 cps	10 cps	-
Equity	18,800,553	21,519,907	23,641,557	23,705,778	21,583,817
Net Tangible Asset Backing per Ordinary Share at 31 March	$1.25	$1.57	$1.80	$1.92	$1.66
Earnings per Share (cents)	(16.54¢)	(16.98¢)	10.75¢	16.89¢	(33.62¢)

AUDIT REPORT

Deloitte.

Independent Auditor's Report To the Shareholders of Blue Sky Meats (NZ) Limited

Opinion

We have audited the consolidated financial statements of Blue Sky Meats (NZ) Limited and its subsidiaries (the 'Group'), which comprise the consolidated balance sheet as at 31 March 2017, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements, on pages 8 to 34, present fairly, in all material respects, the consolidated financial position of the Group as at 31 March 2017, and its consolidated financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards ('NZ IFRS') and International Financial Reporting Standards ('IFRS').

Basis for Opinion

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

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

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

Other than in our capacity as auditor, we have no relationship with or interests in the Company or any of its subsidiaries.

Other Information

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

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

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

Directors' Responsibilities for the Consolidated Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-5

This description forms part of our auditor's report.

Restriction on Use

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

Deloitte Limited

Mike Hawken, Partner
for Deloitte Limited
Dunedin, New Zealand
3 July 2017

DIRECTORY

Directors:

Scott O'Donnell (Chairman)
Peter J Carnahan
Andrew G Lowe

Accountants:

McCulloch + Partners
Chartered Accountants
Invercargill

Divisional Managers:

Chief Executive	T Grave
Marketing Manager	C Brown
Morton Mains Slaughter Operations / Technical Manager	W Wells
Morton Mains Further Processing / Human Resource Operations Manager	B Jenkins
Procurement Manager	W Watson

Auditors:

Deloitte Limited
Dunedin

Share Registrar:

McCulloch + Partners
Chartered Accountants
Invercargill

Bank:

Westpac Banking Corporation
Invercargill

Registered Office and Address for Service:

McCulloch + Partners
Cargill Chambers, 128 Spey Street
Invercargill

CONTACT DETAILS

Plant

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	Mobile	After Hours
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Mr Brent Pierce	0274 328 568	03-213 1081
Mr Norm Wilson	0272 310 039	03-208 8157
Mr Paul McCabe	0274 064 589	03-203 8374
Mr Marc Hamilton	0276 132 444	0276 132 444

Horizon Meats New Zealand

PO Box 4249, Auckland

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Telephone:	03-208 7513
Facsimile:	03-208 0496

Company Accountant and Share Register

McCulloch + Partners, Chartered Accountants
Cargill Chambers, 128 Spey Street
PO Box 844, Invercargill

Telephone:	03-218 6179
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Internet:	www.mcp.co.nz

46⁰ South
LAMB FROM THIS FAR SOUTH IS AS FRESH AS IT GETS
BlueSkyMeats