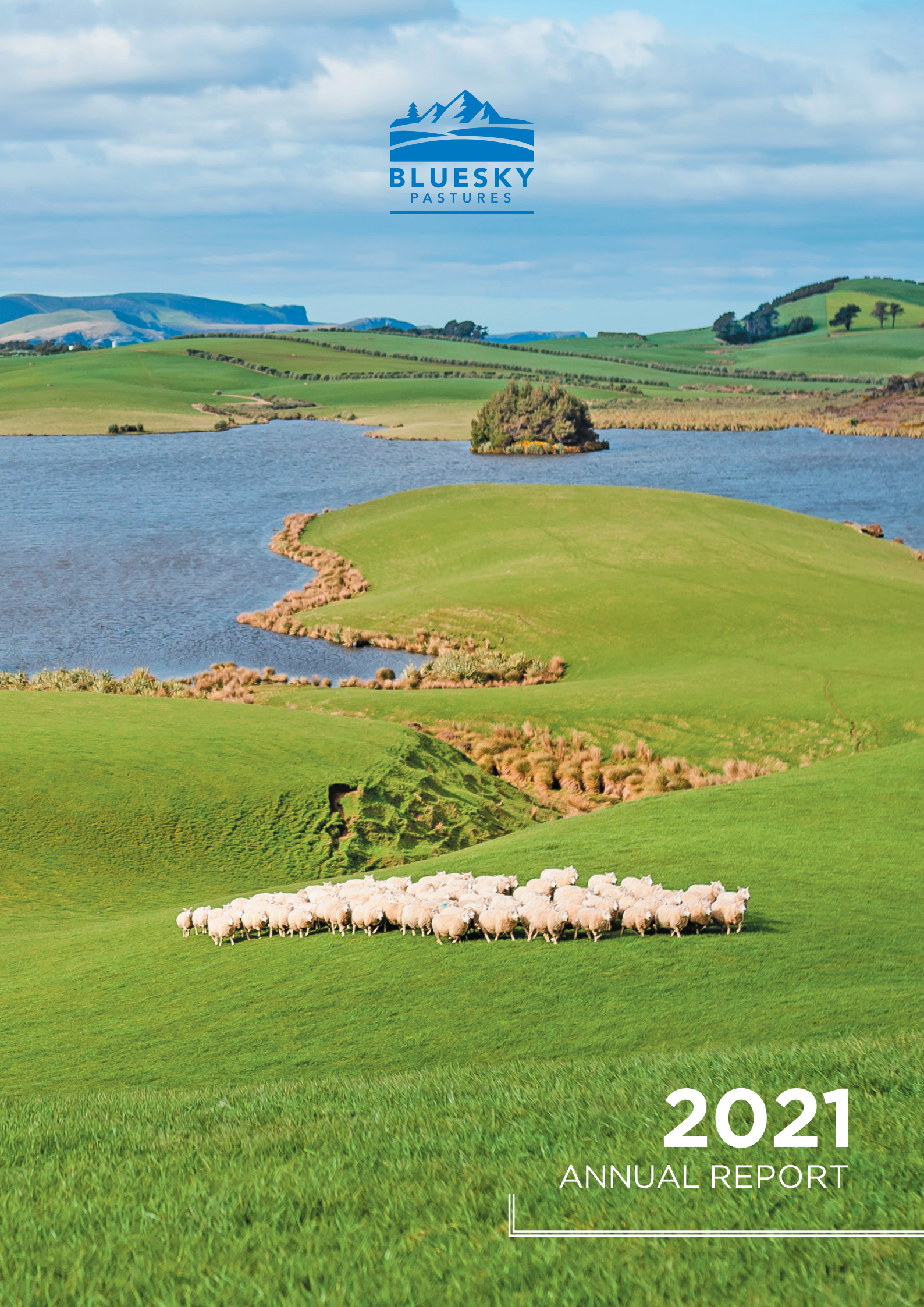

BLUESKY PASTURES

2021 ANNUAL REPORT

Directory

Directors:

Scott O'Donnell (Chairman)
Sarah Brown
Arron Hoyle
Andrew Lowe
Melvin Sutton

Executives:

Chief Executive Officer J Goodall
Chief Financial Officer J Vickery

Accountants:

McCulloch + Partners
Chartered Accountants
Invercargill

Auditors:

Deloitte Limited
Dunedin

Share Registrar:

McCulloch + Partners
Chartered Accountants
Invercargill

Bank:

Westpac Banking Corporation
Invercargill

Registered Office and Address for Service:

McCulloch + Partners
Level 1, 20 Don Street
Invercargill

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DIRECTORS' REPORT

Your Directors present their Report and 2021 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 Profit After Taxation	3,779,583
Movement in Cash Flow Hedge Reserve	(481,187)
Net Comprehensive Income	3,298,396
Dividends Paid	(576,481)
Increase/(Decrease) In Group Equity	**2,721,915**

Directors

Scott O'Donnell and Andrew Lowe retire by rotation, and being eligible, offer themselves for re-election.

Sarah Brown having been appointed as a Director since the last Annual General Meeting and being eligible, offers herself 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

A Hoyle
Director

20 September 2021

CHAIRMAN'S REVIEW

We finished the 2020 year with the hope that COVID-19 and the uncertainty that it brings was behind us. Sadly as I write this report in late August 2021, we are in lockdown Level 4.

We have seen Todd Grave leave us to find new opportunities in the mushroom sector and the arrival of Jim Goodall as CEO.

A special thank you to Todd for getting us back on track and profitable after the issues around the BX Foods takeover, director retirements and procurement challenges. The entire team wish Todd all the best in his new role.

But even with all those challenges, the team from Blue Sky have managed to deliver a satisfactory result for shareholders.

Profitability has grown by 20% ($3.8m vs $3.1m) over 2020 which was a 15 month year. Cashflow has stayed strong, at a positive $10.7m, borrowings have decreased by $6.4m, and total shareholders equity is up by $2.7m (or 10%).

Our Balance Sheet is now strong enough to look at future strong reinvestment, and the bank has agreed to further debt to support this strategy.

We have sold the Gore plant with this transaction due to settle in November.

Jim Goodall's arrival in July of this year has been a great boost for the business. His long years of experience in the red meat sector plus his history of brand development in offshore markets sets Blue Sky up well for a new future.

We welcome Sarah Brown as our new independent director. Sarah is a qualified lawyer, a farmers daughter from Drummond, and brings a huge level of governance experience to Blue Sky.

2021 will go down as one of the most unusual periods of trading in my 35 year career, but the resilience and effort of the entire team at Blue Sky have allowed the business to continue to build momentum. Blue Sky is nowhere near its potential, but Jim can lead us into new and exciting directions which will allow the business to reach this potential.

The companies trading results are summarised as follows:

	2021 (12 Months)	2020 (15 Months)
Revenue (including interest)	$163,492,190	$203,963,552
Expenses	$158,156,452	$199,790,233
Net Surplus before Tax	$5,335,738	$4,173,319
Taxation	$1,556,154	$1,033,956
Net Surplus after Tax	$3,779,583	$3,139,363
Net Cash Flow from Operating Activities	$10,732,837	$11,666,813

Scott O'Donnell
Chairman

20 September 2021

HIGHLIGHTS

Procurement volume up **11%!** over three years

Reduction in Inventory of **$5.5M**

CEO REPORT

OVERVIEW

I write this report as Interim CEO, bridging between Todd Grave, who moved on from the business in March, and Jim Goodall who joined the business as the new CEO from the 5th of July this year.

As with every business, in 2021 Blue Sky has been significantly influenced by the COVID-19 Pandemic. Strong demand for protein from key international markets through the second half of our season, as our major markets came out of prolonged lockdowns, has seen both strong price growth for our products internationally and increasing prices for our farmer suppliers. Getting products to these markets has proved very challenging with a worldwide shipping crisis and breakdown in logistics supply chains.

The labour market has also been a challenge, with a steep rise in absenteeism across the industry. This, coupled with increased competition for a diminished pool of local labour resource, has influenced Blue Sky as well as the economy in general. Despite this, we have an engaged team at Blue Sky, demonstrated by how well the plant has managed through COVID-19 restrictions.

This has also been a year of change for the Management Team at Blue Sky. In addition to Todd moving on, we have seen the retirement of Ross Smith, our General Manager of Operations for the past four years. We wish Ross well with his retirement and thank him for his efforts while at Blue Sky. I know the great strides taken with Environmental and Safety performance are a source of pride for Ross and will be an area of continuous improvement from the Management Team going forward.

Excitingly for Blue Sky, Jim Goodall has joined us as CEO as we start a new financial year. Jim has significant leadership, business management and red meat experience, having joined us most recently from Progressive Meats/ Atkins Ranch. Jim's history within the sector, and his experience and focus on extracting maximum value from premium New Zealand lamb, gives Blue Sky a real competitive advantage to deliver increased value for shareholders and partners.

BUY

Another strong performance from our procurement team this year, with overall volume slightly up on the previous season (810,000 head versus 800,000 (seasonal numbers) last year and 730,000 two seasons ago).

This was a great result given the peak season processing capacity was back slightly with less weekend killing undertaken due to shipping and logistics concerns. The focus continues to be to increase the sourcing of the right stock outside of peak seasons to maximise the throughput of the plant and offer the best season-long employment opportunity for the Blue Sky team.

MAKE

Given the tightened labour market through 2021 and a significant lift in absenteeism this season, the production team delivered strongly for the business with the volume of animals processed. A focus for the coming year is getting on top of the labour constraints, enabling the maximisation of value for every animal which comes through the plant. A major piece to this puzzle will be to agree a modern collective agreement with our workforce to allow the business to move forward, delivering good outcomes for all. As with all manufacturing environments, continuous improvement and investment is required to deliver increased efficiency. Capturing all the ideas for iterative improvements in our daily processes is key to continually improving financial performance.

SELL

A story of two halves at the sales and marketing end of the business this year. The first half of the financial year saw major export markets still suffering from COVID-19 related lockdowns and decreased volumes and prices, especially through food service channels. The second half of the year has seen constantly strengthening demand and prices across the board for lamb and mutton. The complication which has mirrored this increase in demand has been an unprecedented worldwide shock to shipping capacity, limiting the amount of product that could be sent to markets. Lack of shipping space drove a backlog of products onshore and a crisis with available cold storage. This cold storage space was stretched beyond capacity during the peak of the processing season, with some exporters needing to decrease production to match space freed up by shipping availability. The Blue Sky Marketing and Logistics teams delivered a great outcome through these challenging times.

Their work, with the support of great partners in South Port, Maersk and others, allowed our plant to continue effectively at full production through the whole season.

It appears this global challenge is going to be with us for some time yet and will be a headwind that will need careful management during the next season. The team have managed to get all of 2021's product on ships, prior to the 2022 season starting, giving Blue Sky the best possible start to the new financial year.

RESULT

Overall, the financial performance of the business in 2021 is satisfactory. The company has recorded an improved profit for the 2021 year, equivalent of $6.58 per animal processed, up from $4.19 per animal for the 15 month period last year. We continue to focus on driving this return up through maximising the revenue from all parts of the animal and constantly questioning our processes and costs. A strong feature on the balance sheet this year is the decreased volume of stock on hand at year-end. The team delivering a reduction in stock on hand, year on year, of $5.5m, given the severe difficulty in securing space to export product, is to be celebrated. This has assisted with the strengthened cash position of Blue Sky at balance date.

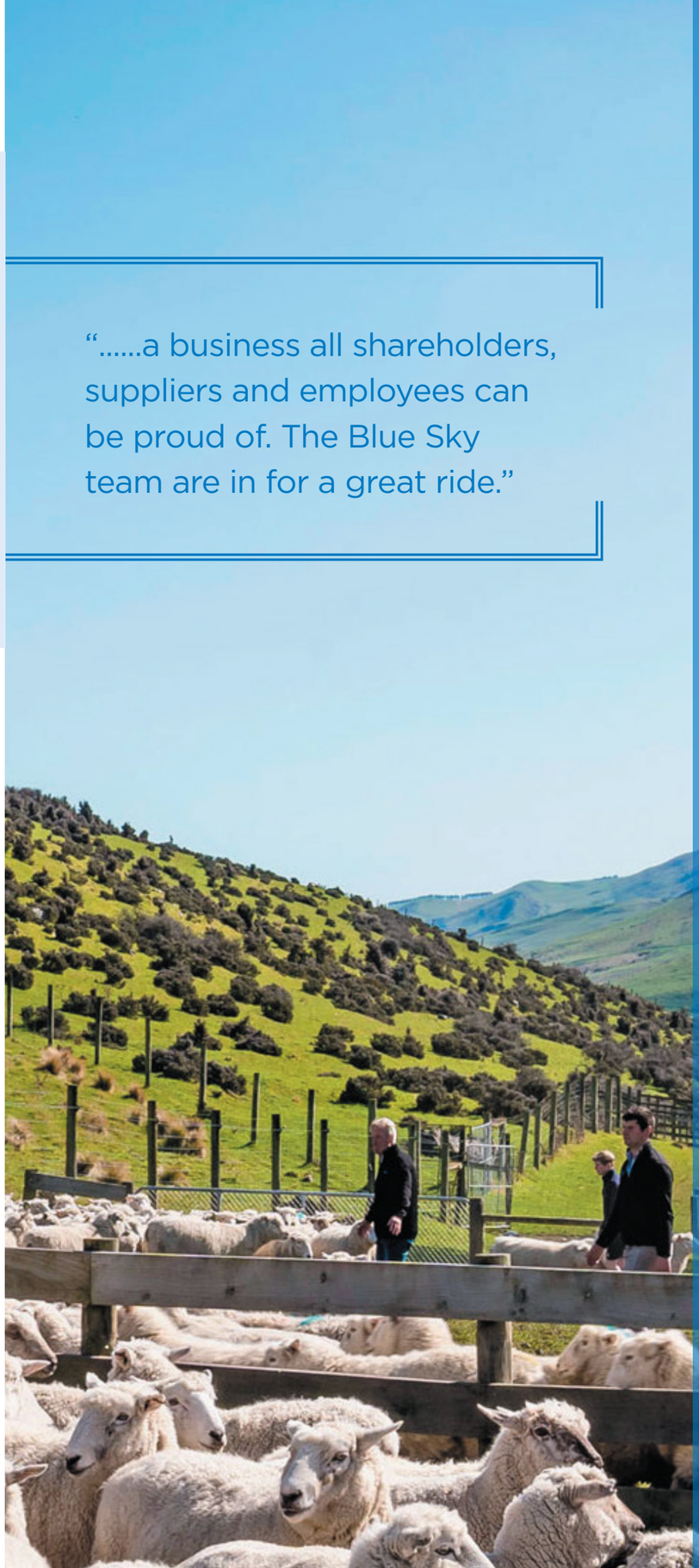
With Blue Sky not holding any term debt and major 'licence to operate' capital projects of $10.9m having been completed over the previous three years, the business is in a strong position to focus on the future. Outside of large capital reinvestment which the balance sheet will now allow, the business is also focusing on projects with short repayment timeframes to deliver increased operational efficiencies. The objective of these short, sharp projects is to deliver further sustainable improvements to the bottom line and shareholder value. The outlook for Blue Sky looks positive, although the turmoil still unfolding around the world holds risk. Management is very conscious of the risk COVID-19 poses to the red meat industry and Blue Sky. Having COVID-19 at a processing facility would most likely lead to the suspension of exporting product to China. This is a significant risk to this business and the rural sector. China is now the major market for lamb exports from New Zealand, including some lines which do not have an easily substitutable home. Management have had and will continue to have a tight focus on keeping our people and business safe during these uncertain times.

PEOPLE

2021 has seen a continuation for Blue Sky of having the safety of our people at the centre of everything we do. Those risks which have been identified as 'critical' are being removed or mitigated with improvements in technology and engineering solutions. Continuously improving the culture of safety and 'looking after your mates' is a priority for all of the Management Team and the Board. A further $250,000 has been invested during the recent plant shutdown to further address critical risks through new machinery and improved guarding.

Across our business, we have many talented people completing highly skilled work. To continue to deliver high standards and to encourage new entrants to our industry, Blue Sky continues to offer staff development opportunities to all levels of our business. This is highlighted by the investment the business is making through an apprenticeship program to provide a pathway for employees to develop through the business, with butchery, engineering and other production-related skills.

"……a business all shareholders, suppliers and employees can be proud of. The Blue Sky team are in for a great ride."



FINAL THOUGHT

As I come towards the end of my time with Blue Sky, I would like to take this opportunity to thank Scott and the Board for giving me the opportunity to step in and lead the business while a permanent Chief Executive was recruited. I would also like to thank the staff, especially the Management Team, including Todd, for all their support and hard work. I have really valued the support and guidance I have received from both the Chairman and from Jim since he has stepped into lead the business. The future of the business looks very promising, with Jim bringing great skills and knowledge to deliver profitability, shareholder value and a business all shareholders, suppliers and employees can be proud of. The Blue Sky team are in for a great ride.

Reece Oliver
Interim Chief Executive Officer

20 September 2021

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For The Year Ended 30 June 2021

	Note	2021 $ (12 Months)	2020 $ (15 Months)
Revenue	1	163,487,191	203,960,634
Less			
Cost of Sales		143,673,823	184,140,147
Gross Profit		19,813,368	19,820,487
Interest Income		4,999	2,918
Other Income	1	(197,071)	488,569
Government Subsidies	1	72,000	2,288,391
Less Expenses			
Audit Fees	1	55,692	52,196
Depreciation	8	1,890,668	2,156,551
Depreciation of Right-of-Use Assets	25	55,750	69,687
Directors Fees	2	150,000	160,000
Impairment of Assets		-	79,389
Interest and Finance Costs	1	358,155	712,328
Operating Costs	1	11,847,293	15,196,895
Net Profit Before Taxation		5,335,738	4,173,319
Income Tax Expense	3	1,556,154	1,033,956
Net Profit After Taxation		3,779,583	3,139,363
Items of Comprehensive Income that may be Reclassified Subsequently to Profit or Loss (net of tax)			
Net (Loss)/Gain on Cash Flow Hedges		(481,187)	343,502
Total Comprehensive Income		$3,298,396	$3,482,865
Basic and Diluted Earnings Per Share (cents)	5	32.72c	27.24c

The Consolidated Statement of Comprehensive Income should be read in conjunction with the notes on pages 15-38

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For The Year Ended 30 June 2021

	Note	Share Capital	Retained Earnings	Cash Flow Hedge Reserve	Total Equity
		$	$	$	$
Equity Balance at 31 March 2019		5,150,725	19,602,429	(3,254)	24,749,900
Add					
Profit After Tax (15 months)		-	3,139,363	-	3,139,363
Other Comprehensive Income (15 months)		-	-	343,502	343,502
Total Comprehensive Income (15 months)		-	3,139,363	343,502	3,482,865
Less					
Dividend Paid (15 months)	7	-	(576,481)	-	(576,481)
Equity Balance at 30 June 2020		5,150,725	22,165,311	340,248	27,656,284
Add					
Profit After Tax (12 months)		-	3,779,583	-	3,779,583
Other Comprehensive Income (12 months)		-	-	(481,187)	(481,187)
Total Comprehensive Income (12 months)		-	3,779,583	(481,187)	3,298,396
Less					
Dividend Paid (12 months)	7	-	(576,481)	-	(576,481)
Equity Balance at 30 June 2021		5,150,725	25,368,413	(140,939)	30,378,199

CONSOLIDATED BALANCE SHEET

As at 30 June 2021

	Note	2021	2020
		$	$
Equity			
Share Capital	5	5,150,725	5,150,725
Cash Flow Hedge Reserve	6	(140,939)	340,248
Retained Earnings	7	25,368,413	22,165,311
Total Equity		30,378,199	27,656,284
Represented by:			
Non Current Assets			
Property, Plant and Equipment	8	18,518,486	20,466,193
Right-of-Use Asset	25	382,449	438,198
Goodwill	10	3,221,574	3,221,574
Deferred Tax	11	152,144	-
Other Investments	13	8,007	8,007
		22,282,660	24,133,973
Current Assets			
Cash and Short Term Deposits		2,933,561	881,976
Accounts Receivable	14	13,352,678	14,167,205
Assets Classified as Held for Sale	9	1,716,408	-
Inventories	15	7,450,771	13,003,231
Prepayments		-	36,722
Derivative Financial Instruments	16	-	931,285
		25,453,418	29,020,419
Total Assets		47,736,078	53,154,392
Non Current Liabilities			
Deferred Tax	11	-	122,158
Lease Liabilities	25	362,077	415,622
		362,077	537,780
Current Liabilities			
Provision for Taxation		1,084,611	503,126
Accounts Payable and Accruals	17	3,907,934	7,779,514
Income Received in Advance	18	1,857,482	636,510
Lease Liabilities	25	46,464	40,005
Borrowings	19	9,650,748	16,001,172
Derivative Financial Instruments	16	448,563	-
		16,995,802	24,960,327
Total Liabilities		17,357,880	25,498,108
Net Assets as Per Total Equity		$30,378,199	$27,656,284

S O'Donnell
Director

A Hoyle
Director

The Consolidated Statement of Changes in Equity should be read in conjunction with the notes on pages 15-38

The Consolidated Balance Sheet should be read in conjunction with the notes on pages 15-38

CONSOLIDATED CASH FLOW STATEMENT

For The Year Ended 30 June 2021

	Note	2021 $ (12 Months)	2020 $ (15 Months)
Cash Flows From Operating Activities			
Cash Was Provided From:			
Receipts From Customers		163,597,117	209,279,424
Interest Received		4,999	2,918
Government Subsidies		72,000	2,288,391
Goods and Services Tax		2,750,091	-
		166,424,207	211,570,733
Cash Was Disbursed To:			
Payment to Suppliers and Employees		154,290,683	196,840,960
Interest Paid		338,600	681,306
Goods and Services Tax		-	1,007,242
Taxation Paid (Net of Refunds)		1,062,087	1,374,412
		155,691,370	199,903,920
Net Cash From/(Applied to) Operating Activities	23	$10,732,837	$11,666,813
Cash Flows From Investing Activities			
Cash Was Provided From:		-	9,830
Other Investments		48,442	105,709
Proceeds from Sale of Property, Plant and Equipment		48,442	115,539
Cash Was Applied To:			
Other Investments		-	-
Purchase of Property, Plant and Equipment		1,736,148	8,585,317
		1,736,148	8,585,317
Net Cash (Applied to) Investing Activities		$(1,687,706)	$(8,469,778)
Cash Flows From Financing Activities			
Cash Was Provided From:			
Borrowings (net)		-	-
		-	-
Cash Was Applied To:			
Dividends Paid		576,481	576,481
Lease Payments		66,217	78,972
Borrowings (net)	19	6,350,848	3,160,087
		6,993,546	3,815,540
Net Cash From/(Applied to) Financing Activities		$(6,993,546)	$(3,815,540)
Net Increase in Cash Held		2,051,585	(618,506)
Add Opening Cash and Short Term Deposits		881,976	1,500,482
Ending Cash and Short Term Deposits		$2,933,561	$881,976
Represented by:			
Cash and Short Term Deposits		2,933,561	881,976
		$2,933,561	$881,976

The Consolidated Cash Flow Statement should be read in conjunction with the notes on pages 15-38

NOTES TO THE CONSOLIDATED STATEMENTS

For The Year Ended 30 June 2021

Statement of Accounting Policies

Reporting Entity

Blue Sky Meats (NZ) Limited (the "Company") is a company incorporated and domiciled in New Zealand and registered under the Companies Act 1993. The Company's shares are traded on the Unlisted exchange.

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) Ltd.

Statutory Base

Blue Sky Meats (NZ) Limited is an FMC 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.

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 also 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.

Comparatives

The 30 June 2020 Results are for a 15 month period, due to a change in balance date to align with the traditional processing season in Southland. Therefore the current period is not directly comparable to the prior period.

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. Consistent with other meat processors, finished goods inventories are valued using the discounted selling price "retail" method. This method deducts an estimated profit margin from the expected sales value, based on the last sales price, or committed sales price, and converts these factors back to New Zealand dollars.

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
Improvements	10 - 50 years	Diminishing Value and Straight-line
Buildings	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 have fixed or determinable payments and are not quoted in an active market. They are measured at amortised cost using the effective interest method less any provision for expected credit losses.

The Group applies the simplified approach to measuring expected credit losses which uses a lifetime expected credit loss allowance for receivables as they all display the same risk profile.

The movement of expected credit losses is a function of the probability of default, loss given default and exposure at default. The Group considers an event of default as occurring when information obtained (internally and externally) indicates a debtor is unlikely to pay it creditors, including the Group. The assessment of the probability of default and loss given default is based on historical data adjusted by forward looking information relating to the debtor and general economic conditions of the debtors. As for the exposure at default, this is represented by the assets gross carrying amount at the reporting date.

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 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

The presentation currency is New Zealand dollars ($) which is the functional currency of the company.

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. Diluted earnings per share is calculated by dividing the profit attributable to equity holders of the parent by the weighted average number of ordinary shared adjusted for the effects of dilutive potential ordinary shares.

r. Revenue from Contracts with Customers

Sale of Goods

Revenue from the sale of goods is recognised when goods leave the port of shipment in line with the terms of the agreement with customers and when there is supporting evidence that control and ownership of the goods has transferred to the customer.

Freight and Insurance

The Group derives revenue through provision of freight and insurance services on goods sold. Revenue from these services is recognised simultaneously as the services are being performed over the length of the shipment.

s. 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.

t. Government Subsidies

Government subsidies were received as part of the wage subsidy program in New Zealand. The subsidy was conditioned on a 30% decrease in revenue over the national lockdown period. The Group did not benefit directly from any other forms of Government assistance. These have been recognised at the time that the related expense has been incurred.

u. Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The Group recognises right-of-use asset at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets which is between 3 to 20 years. The right-of-use assets are also subject to impairment testing.

Lease liabilities

At the commencement date of the lease, the Group recognises lease liability measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of buildings and property (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that is considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term. The Group does not carry short-term leases as at the date of statement of financial position.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date
- amounts expected to be payable by the Group under residual value guarantees
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

u. Leases (continued)

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Group, which does not have recent third party financing, and
- makes adjustments specific to the lease, eg term, country, currency and security.

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment and small items of office furniture.

v. 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.

w. Adoption of New and Revised Standards and Interpretations

All mandatory amendments and interpretations have been adopted in the current year. None had a material impact on these financial statements, all other policies have been applied consistently.

x. Standards and Interpretations in Issue Not Yet Adopted

There are no standards or amendments that have been issued but are not yet effective that are expected to have a significant impact on the Group.

The Company has not adopted, and currently does not anticipate adopting, any standards prior to their effective date.

y. Significant Changes During the Period

The financial position and performance of the Group was affected by the following event during the reporting period.

COVID-19 Global Pandemic

There were no COVID-19 Level 3 or Level 4 lockdowns in the Southern region during the financial year therefore there was minimal direct impact on business operations. Level 2 requires some additional sanitising and mask wearing but this does not impact the business significantly. There are some ongoing operational changes as a result of COVID-19 which have been mandated by some of the countries we export to. We have put in place a system to record and temperature check everyone who comes on site. If you have COVID-19 symptoms, you are not permitted to enter.

As of late August 2021, we entered Level 4 lockdown as a result of an outbreak of the Delta variant in Auckland. As an essential service, we had been preparing for this, and as expected there were some strict compliance requirements issued by the government and New Zealand Meat Industry Association. We were able to adjust our production to fit these requirements and continue processing with minimal disruption.

Sales prices were negatively impacted at the beginning of 2020/2021 year as the world was still in various stages of lockdown. This improved as the year went on with improved vaccination rates and countries opening for business in a new normal environment. Sea-freight is now our most significant challenge, with delays, additional costs and changes to shipping routes all impacting the business, with no change to the current situation expected as we head toward 2022.

1 Net Profit (Loss) Before Tax

The following are included in the profit or loss:

	2021 $ (12 Months)	2020 $ (15 Months)
Revenue from Contracts with Customers		
Nature of Revenue and Timing of Revenue Recognition		
Point in Time		
Sale of Goods	159,081,466	198,180,337
Over Time		
Freight and Insurance	4,405,725	5,780,297
Total Revenue	163,487,191	203,960,634
Other Income includes		
Insurance Receivable/(Reversal)	(241,683)	498,044
Government Subsidies		
Government Grants (2021: Apprenticeship Support Programme, 2020: Wage Subsidy)	72,000	2,288,391
Auditors' Remuneration		
Audit Fees are paid or due and payable to the auditors of the Group as follows		
- Auditor of the Parent	50,000	46,750
- Other Auditors of the Group	5,692	5,446
Total Audit Fees	55,692	52,196
The Auditor of the Group is Deloitte Limited.		
Interest and Finance Costs		
- Interest Expense (Bank Borrowings)	339,024	685,615
- Interest Expense (Lease Liability)	19,131	26,713
	358,155	712,328
Operating costs include:		
(Gain)/Loss on Sale		
Total operating costs include losses on sale of property plant and equipment of:	28,335	31,357
Total operating costs include losses on disposal of investments of:	-	9,861
Total operating costs include profits on sale of property plant and equipment of:	-	(98,881)
Employee Benefits Expenses	22,878,919	28,583,448
This includes $0 for historic Rest Breaks and Donning and Doffing settlements which were agreed with the Union during the year (2020: $2,167,751).		
Impairment of Assets	-	79,389
KiwiSaver and Superannuation	622,894	704,925
Net Foreign Exchange (Gain)/Loss	266,086	(684,387)

2 Key Management Personnel

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

	2021 $ (12 Months)	2020 $ (15 Months)
Short Term Employee Benefits	1,293,957	1,666,835
Other (Directors Fees)	150,000	160,000
	$1,443,957	$1,826,835

3 Taxation

	2021 $ (12 Months)	2020 $ (15 Months)
Profit (Loss) Before Taxation	5,335,738	4,173,319
Prima Facie Taxation at 28%	1,494,007	1,168,529
Non Deductible Expenses/(Assessable Income)	63,715	69,744
Tax on Foreign Income Due to Different Tax Rates	(1,567)	(1,469)
Reduction in Deferred Tax on Buildings	-	(202,849)
Total Adjustments	62,148	(134,574)
Taxation Expense (Benefit) For Year	$1,556,154	$1,033,956
The Taxation Charge is Represented By:		
Deferred Taxation	(87,173)	(206,450)
Current Taxation	1,643,327	1,240,406
	1,556,154	1,033,956

4 Imputation Credit Account

	2021 $	2020 $
Imputation credits available directly and indirectly to Shareholders of the Parent:	6,647,501	5,818,139

5 Share Capital

	2021 and 2020 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 $3,779,583 (2020: $3,139,363) and weighted average number of ordinary shares issued of 11,526,098 (2020: 11,526,098).

6 Cash Flow Hedge Reserve

	2021 $	2020 $
Balance at Beginning of Period	340,248	(3,254)
Gains/(Loss) Recognised on Cash Flow Hedges	(195,749)	472,567
Forward Foreign Exchange Contracts	(472,567)	4,518
Transfer to Profit or Loss	(668,316)	477,085
Income Tax Related to Gains/(Losses) Recognised in Other Comprehensive Income	187,129	(133,583)
Balance at End of Period	$(140,939)	$340,248

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

	2021 $	2020 $
Balance at Beginning of Period	22,165,311	19,602,429
Plus		
Net Profit/(Loss) After Tax	3,779,583	3,139,363
	25,944,894	22,741,792
Less Distributions		
Dividend Paid (2021 and 2020: 5 cents per share)	576,481	576,481
Balance at End of Period	$25,368,413	$22,165,311

8 Property, Plant and Equipment

2021	Cost 1 July 2020	Additions	Disposals	Reclassified to Held for Sale	Cost 30 June 2021
	$	$	$	$	$
Freehold Land and Land Improvements	9,253,728	74,711	-	-	9,328,439
Buildings	11,346,091	229,304	7,757	(2,246,269)	9,321,369
Plant and Equipment	19,005,057	1,299,967	163,737	(1,022,681)	19,118,606
Furniture	219,344	27,737	-	-	247,081
Vehicles	735,017	104,429	56,913	-	782,533
	$40,559,237	$1,736,148	$228,407	$(3,268,950)	$38,798,028

	Accumulated Depreciation and Impairment 1 July 2020	Depreciation	Disposals	Reclassified to Held for Sale	Accumulated Depreciation and Impairment 30 June 2021	Net Book Value 30 June 2021
	$	$	$	$	$	$
Freehold Land and Land Improvements	680,475	487,102	-	-	1,167,577	8,160,862
Buildings	6,717,149	330,194	7,757	(557,069)	6,482,517	2,838,852
Plant and Equipment	12,096,774	982,763	102,105	(995,475)	11,981,957	7,136,650
Furniture	155,097	25,375	-	-	180,472	66,610
Vehicles	443,550	65,234	41,766	-	467,018	315,515
	$20,093,045	$1,890,668	$151,628	$(1,552,544)	$20,279,541	$18,518,486

2020	Cost 1 April 2019	Additions	Disposals	Reclassified to Held for Sale	Cost 30 June 2020
	$	$	$	$	$
Freehold Land and Land Improvements	4,967,036	4,467,388	180,696	-	9,253,728
Buildings	11,148,454	197,637	-	-	11,346,091
Plant and Equipment	15,289,269	3,737,724	21,936	-	19,005,057
Furniture	148,061	71,283		-	219,344
Vehicles	694,607	111,285	70,875	-	735,017
	$32,247,427	$8,585,317	$273,507	-	$40,559,237

	Accumulated Depreciation and Impairment 1 April 2019	Depreciation	Disposals	Impairment	Accumulated Depreciation and Impairment 30 June 2020	Net Book Value 30 June 2020
	$	$	$	$	$	$
Freehold Land and Land Improvements	308,606	402,644	30,775	-	680,475	8,573,253
Buildings	6,282,011	412,995	-	22,143	6,717,149	4,628,942
Plant and Equipment	10,848,286	1,210,088	18,844	57,244	12,096,774	6,908,283
Furniture	107,157	47,938	-	2	155,097	64,248
Vehicles	411,259	82,886	50,595	-	443,550	291,467
	$17,957,319	$2,156,551	$100,214	$79,389	$20,093,045	$20,466,193

9 Assets Held for Sale

	2021 $	2020 $
Assets Reclassified as Held for Sale	$1,716,408	-

The Directors have determined the Gore processing plant no longer fits with the strategic plan set out for the Group and intend to dispose of the parcel of assets comprising the buildings and plant and equipment located at Gore. The property is being actively marketed to prospective purchasers and interested parties. A sale is expected in the next 12 months. Assets Held for Sale are carried at the lower of carrying amount or fair value less cost to sell.

10 Goodwill

	2021 $	2020 $
Balance at Beginning and End of Period	$3,221,574	$3,221,574

The carrying amount of goodwill has been allocated to one cash generating unit (CGU) being the whole Group.

During the 12 month period ended 30 June 2021 management have determined that there is no impairment of the CGU that contained goodwill (2020: 15 month period, nil impairment).

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 for a 5 year period based on financial budgets approved by the Directors. The value in use calculation is most sensitive to the assumptions regarding gross profit margins and discount rates. The calculation uses the budget for 2022 as a starting point and a gross profit margin of 11.1% (2020:11%). The calculation uses pre tax discount rates of 20% (2020: 20%). Cash flows beyond the five year period have been extrapolated using a 2% (2020: 2%) growth rate. 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.

11 Deferred Tax Asset (Liability)

2021	Opening Balance $	Charged To Profit Or Loss $	Charged To Other Comprehensive Income $	Closing Balance $
Derivative Financial Instruments	(132,321)	-	187,128	54,807
Accounts Payable and Accruals	182,332	53,899	-	236,231
Property, Plant and Equipment	(172,168)	33,274	-	(138,894)
	$(122,158)	$87,173	$187,128	$152,144

2020	Opening Balance $	Charged To Profit Or Loss $	Charged To Other Comprehensive Income $	Closing Balance $
Derivative Financial Instruments	1,262	-	(133,583)	(132,321)
Accounts Payable and Accruals	254,797	(72,465)	-	182,332
Property, Plant and Equipment	(451,083)	278,915	-	(172,168)
	$(195,024)	$206,450	$(133,583)	$(122,158)

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

2021	Before Tax Amount $	Tax Benefit/ (Expense) $	Net of Tax Amount $
Cash Flow Hedges	(668,316)	187,129	(481,187)
	$(668,316)	$187,129	$(481,187)

2020	Before Tax Amount $	Tax Benefit/ (Expense) $	Net of Tax Amount $
Cash Flow Hedges	477,085	(133,583)	343,502
	$477,085	$(133,583)	$343,502

12 Investments in Subsidiaries

	Principal Activity	Country of Incorporation	Percentage Held 2021	Percentage Held 2020	Balance Date
Horizon Meats New Zealand Limited	Dormant	New Zealand	100%	100%	30 June
Blue Sky Meats (UK) Limited	Sale of products in the UK for Blue Sky Meats (NZ) Limited	United Kingdom	100%	100%	30 June
Blue Sky Meats (Gore) Limited	Multi species processor of all animals	New Zealand	100%	100%	30 June

13 Other Investments

	2021 $	2020 $
Shares in Ballance Agri Nutrients Limited	7,730	7,730
Shares in Farmlands Co-operative Society Ltd	277	277
	$8,007	$8,007

14 Accounts Receivable

	2021 $	2020 $
At Amortised Cost:		
Trade Debtors	12,619,682	11,329,327
Insurance Receivable	-	498,043
VAT	2,704	1,074
Goods and Services Tax	730,292	2,338,761
	$13,352,678	$14,167,205

The average credit period on accounts receivable is 22 days. No interest is charged on accounts receivable.

a) Analysis Of Receivables:

Current	8,347,168	8,293,232
30 – 60 days	3,503,532	2,859,236
60 – 90 days	567,968	27,372
90 days +	201,014	149,487
	$12,619,682	$11,329,327

The level of impairment is considered negligible at the end of the reporting period. There have been no bad debts recognised during the period (2020: Nil)

15 Inventories

	2021 $	2020 $
Packaging Materials	499,841	522,172
Finished Goods	6,950,930	12,481,059
	$7,450,771	$13,003,231

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 (2020: $Nil) for the Group.

16 Derivative Financial Instruments - Assets/(Liabilities)

	2021 $	2020 $
At Fair Value:		
Foreign Exchange Contracts		
Derivatives Designated as Effective Hedging Instruments	(195,748)	472,566
Derivatives Not Designated as Hedging Instruments	(252,815)	458,719
Derivatives are not held for speculative purposes.	$(448,563)	$931,285

Derivatives are not held for speculative purposes.

17 Accounts Payable and Accruals

	2021 $	2020 $
Trade Creditors and Accruals	2,855,014	5,717,256
Employee Entitlements	1,052,920	2,062,258
	$3,907,934	$7,779,514

The average credit period of a trade creditor is 14 Days.

18 Income Received in Advance

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

	2021 $	2020 $
Income Received in Advance	1,857,482	636,510
	$1,857,482	$636,510

19 Borrowings

	2021 $	2020 $
At Amortised Cost:		
Current:		
Seasonal Facility	9,650,748	16,001,172
	$9,650,748	$16,001,172
The reconciliation of borrowings is shown as follows:		
Opening balance	16,001,172	19,156,950
Drawdowns	70,077,397	131,394,076
Repayments	(76,427,821)	(134,549,854)
Closing balance	$9,650,748	$16,001,172

Seasonal Facility, 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. Management will review its bank funding requirements for the 2021/2022 processing season in September 2021 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 with the new facility expected to be approved in October 2021.

Interest on the seasonal facility as at the 30 June 2021 was 2.95% (2020: 2.95%). Interest is charged at a floating rate based on the Westpac Prime Lending Rate plus a 1.8% margin.

20 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 30 June 2021 these totalled $Nil (2020: $Nil).

b) Estimated capital expenditure contracted for at balance date but not provided was Nil (2020: $Nil).

21 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:

	2021 Group				
	New Zealand	Asia/ Pacific	UK/ Europe	Other Foreign	Group
NZ$000 (12 months)					
External Revenue	22,600	91,548	33,831	15,508	163,487
	$22,600	$91,548	$33,831	$15,508	$163,487

	2020 Group				
	New Zealand	Asia/Pacific	UK/Europe	Other Foreign	Group
NZ$000 (15 months)					
External Revenue	23,929	108,679	52,277	19,076	203,961
	$23,929	$108,679	$52,277	$19,076	$203,961

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

b) Information About Major Customers:
The Group has one customer which individually accounts for greater than 10% of sales revenue, $24,959,362 (15.3%), (2020: None).

22 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. Refer to note 25 for maturity analysis relating to leases.

2021	Weighted Average Effective Interest Rate	Less than 3 Months	3 - 12 Months	1 - 5 Years	5+ Years	Total
		$000	$000	$000	$000	$000
Financial Assets:						
Cash and Short Term Deposits	-	2,934	-	-	-	2,934
Accounts Receivable	-	13,353	-	-	-	13,353
		$16,287	-	-	-	$16,287
Financial Liabilities:						
Accounts Payable and Accruals	-	(3,908)	-	-	-	(3,908)
Lease Liabilities	4.50%	(20)	(44)	(210)	(276)	(549)
Borrowings	2.95%	(26)	(9,782)	-	-	(9,808)
Derivative Financial Instruments	-	(449)	-	-	-	(449)
		$(4,403)	$(9,826)	$(210)	$(276)	$(14,714)

2020	Weighted Average Effective Interest Rate	Less than 3 Months	3 - 12 Months	1 - 5 Years	5+ Years	Total
		$000	$000	$000	$000	$000
Financial Assets:						
Cash and Short Term Deposits	-	882	-	-	-	882
Accounts Receivable	-	14,167	-	-	-	14,167
Derivative Financial Instruments	-	926	5	-	-	931
		$15,975	$5	-	-	$15,980
Financial Liabilities:						
Accounts Payable and Accruals	-	(7,780)	-	-	-	(7,780)
Lease Liabilities	4.50%	(19)	(47)	(239)	(310)	(615)
Borrowings	2.1%-4.64%	(16,175)	-	-	-	(16,175)
		$(23,974)	$(47)	$(239)	$(310)	$(24,570)

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 Group's funding arrangements are disclosed in note 19.

The Group is exposed to interest rate risk on movements in floating interest rates on loans and borrowings. In managing interest rate risk, the Group monitors the level of borrowings and associated interest rates to limit the impact on the Group's earnings.

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

22 Financial Instruments continued

d) Credit Risk

In order to minimise credit risk, the Group has adopted a policy of only dealing with creditworthy counterparties and, where appropriate, negotiating payment prior to delivery of goods. The Group performs credit evaluations on all customers and generally does not require collateral. In addition to this, the Group enters into trade finance arrangements with its bank in order to manage its exposure. The Group only banks with registered banks with Standard and Poors credit ratings AA- or better.

Maximum exposures to credit risk as at balance date are:	2021 $	2020 $
Trade Debtors	12,619,682	11,329,327
Cash and Short Term Deposits	2,933,561	881,976
Derivative Financial Instruments - Assets	-	931,285

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

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 Directors consider the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements approximate to their fair value.

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).

	2021			2020		
	Level 1 $	Level 2 $	Level 3 $	Level 1 $	Level 2 $	Level 3 $
Financial Assets						
Derivative Financial Assets	-	-	-	-	931,285	-
Financial Liabilities						
Derivative Financial Liabilities	-	(448,563)	-	-	-	-

22 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	
	2021 $	2020 $	2021 $	2020 $	2021 $	2020 $	2021 $	2020 $
Canadian Dollars	0.8838	0.8635	290,656	394,280	328,869	456,607	(6,832)	7,804
US Dollars	0.7142	0.6174	11,286,922	11,585,606	15,802,842	18,764,129	(401,037)	793,106
Euro	0.5913	0.5760	1,762,855	1,129,796	2,981,343	1,961,333	(17,685)	(8,354)
British Pound	0.5139	0.4947	740,500	1,505,900	1,440,866	3,044,127	(23,009)	138,729
							$(448,563)	$931,285

All foreign exchange contracts mature in less than one year.

h) Sensitivity Analysis

Foreign Currency

The following table details the Group's sensitivity to a 10% strengthening/weakening 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. The table below shows the impact of a 10% strengthening/weakening of NZD against the relevant currency.

	2021 $	2020 $
Net Profit (Loss) After Taxation	-	-
Total Equity	(14.1)/14.1	(34.0)/34.0

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:

	2021 $000	2020 $000
Net Profit (Loss) After Taxation	69	115
Total Equity	69	115

An increase in interest rates would decrease Profit and Equity.

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

	2021 $	2020 $
Net Surplus (Deficit) After Taxation	3,779,583	3,139,363
Non Cash Items:		
Depreciation and (Gains)/Loss on Sale	1,946,420	2,226,238
Interest - Lease	19,131	26,713
Income from Investments	424	5,694
Deferred Tax	(87,417)	(206,450)
Impairment of Property, Plant and Equipment	-	79,389
Unrealised Foreign Exchange (Gains)/Losses	(266,088)	(485,997)
	5,392,054	4,784,950
Movement In Working Capital		
Accounts Payable and Accruals	(4,152,816)	(1,208,966)
Income Received in Advance	1,220,972	(176,634)
Derivative Financial Instruments	711,534	(498,352)
Accounts Receivable and Prepayments	1,427,148	5,260,579
Inventory	5,552,460	3,433,236
Livestock	-	207,955
Taxation Payable (Receivable)	581,485	(135,955)
	5,340,783	6,881,863
Net Cash Inflow/(Outflow) From Operating Activities	$10,732,837	$11,666,813

24 Transactions With Related Parties

Mr S O'Donnell, a director of the company, is a director and interim CEO of H. W. Richardson Group who provide transportation services and the secondment of the Interim CEO to the company. These were provided for on normal commercial terms. $4,715,737 was paid to the H. W Richardson Group during the year and at balance date $209,074 was owed by the Company (2020: $4,128,227 was paid to the H. W. Richardson Group and $250,259 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 commerical terms. $335,549 was paid to Lowe Corporation Ltd during the year and $2,278,453 was received. At balance date $Nil was owed by the Company (2020: $13,073 was paid to Lowe Corporation Ltd, $2,726,438 was received and $145 was owed by the company).

No amounts were forgiven or written off during the year.

25 Right-of-Use Assets / Lease Liabilities

This note provides information for leases where the Group is a lessee.

(a) Amounts recognised in the balance sheet

The balance sheet shows the following amounts relating to leases:

	2021 $	2020 $
Right-of-Use Assets		
Land	199,094	205,920
Buildings	182,788	230,014
Other	566	2,264
Total	$382,449	$438,198

Right-of-use of assets includes land lease, office space, portacabin, and copiers.

Additions to the right-of-use assets during the 2021 financial year were $Nil (2020: $Nil).

Lease Liabilities		
Non-current liabilities	362,077	415,622
Current liabilities	46,464	40,005
Total	$408,541	$455,627

The movement in lease liabilities are as follows:

Opening balance	455,627	-
Recognised upon adoption of NZ IFRS 16	-	507,886
Accretion expense for the year	19,131	26,713
Payments during the year	(66,217)	(78,972)
Balance as at the end of the year	$408,541	$455,627

Maturity Analysis

Future minimum rentals payable under leases as at 30 June 2021, are as follows:

Not later than 1 year	63,490	66,217
Later than 1 year and not later than 5 years	209,604	239,337
Later than 5 years	276,000	309,756
Total	$549,094	$615,310

25 Right-of-Use Assets / Lease Liabilities continued

(b) Amounts recognised in the statement of profit or loss

	2021 $	2020 $
Depreciation charge of right-of-use assets:		
Land	6,826	8,532
Buildings	47,226	59,032
Other	1,698	2,123
Total	$55,750	$69,687
Interest expense (included in finance cost)	19,131	26,713
Expense relating to short-term leases (included in cost of goods sold and operating expenses)	-	-
Expense relating to leases of low-value assets that are not shown above as short-term leases (included in operating expenses)	-	-
Expense relating to variable lease payments not included in lease liabilities (included in operating expenses)	-	-

The total cash outflow for leases in 2021 was $66,217 (2020: $78,972).

(c) The Group's leasing activities and how these are accounted for

The Company leases land (35 years), office premises (8 years) and portable buildings with average lease term of 3 years. There are no restrictions or covenants imposed by the lease contracts.

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices.

However, for leases of real estate for which the Group is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

(d) Variable lease payments

There are no variable components to the lease agreements.

(e) Extension and termination options

Extension and termination options are included in some of the land and office space leases across the Group. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

26 Significant Events after Balance Date

Dividend Payment

It was proposed by the Directors that a final dividend of 5 cents per share based on 11,526,098 shares be paid to shareholders requiring $576,305 (2020: $576,305).

The dividend will be paid on 1 December 2021, on all shares held as at 17 November 2021.

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	60,000
Mr A Hoyle	30,000
Mr A Lowe	30,000
Mr M Sutton	30,000
	$150,000

Remuneration of Employees

Twenty one employees received remuneration exceeding $100,000:

Remuneration Levels	No of Employees
$100,000 - $109,999	6
$110,000 - $119,999	7
$120,000 - $129,999	2
$130,000 - $139,999	2
$150,000 - $159,999	1
$160,000 - $169,999	1
$220,000 - $229,999	1
$280,000 - $289,999	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:

- Transportation services and the secondment of the interim CEO were provided to the Company by a group of companies, of which S O'Donnell is a director.
- Lowe Corporation Ltd who procure pelts and skins and market meat and bones meal, of which A Lowe is a director.

All of these transactions are provided on normal commercial terms.

The details of these transactions are given in Note 24 to the financial statements "Transactions with Related Parties".

Key Figures

	2021 (12 Months)	2020 (15 Months)	2019 (12 Months)	2018 (12 Months)	2017 (12 Months)
Revenue and Interest Income	$163,492,190	$203,963,552	$140,075,192	$104,591,777	$97,919,186
Net Profit (Loss) after Tax	$3,779,583	$3,139,363	$3,661,153	$2,687,581	($1,906,157)
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	$576,305	$576,305	$576,305	-
Ordinary Dividend (cents per share)	5 cps	5 cps	5 cps	5 cps	-
Equity	$30,378,199	$27,656,284	$24,749,900	$21,595,398	$18,800,553
Net Tangible Asset Backing per Ordinary Share at 30 June (2019-2016: 31 March)	$2.34	$2.13	$1.88	$1.59	$1.25
Earnings per Share (cents)	32.72¢	27.24¢	31.76¢	23.32¢	(16.54¢)

AUDITOR'S 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 30 June 2021, and the consolidated statement of comprehensive income, statement of changes in equity and 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 11 to 38, present fairly, in all material respects, the consolidated financial position of the Group as at 30 June 2021, 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 Company in accordance with Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards),* and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Cost of finished goods inventories As disclosed in note 15 finished goods inventories at 30 June 2021 were $7.0m. Inventories are measured at the lower of cost and net realisable value. Consistent with industry practice, the Group adopts the 'retail method' to determine the cost of finished goods inventories. Under the retail method inventory units are measured at the expected sales value, based on future committed sales price or last sales price, adjusted for an estimated profit margin. We consider that the carrying value of finished goods inventories to be a key audit matter due to the degree of estimation uncertainty associated with the retail method, specifically in determining the expected selling price and margin adjustment.	Our procedures, amongst others, included: • Comparing management's inventory valuation approach under the retail method with the requirements of NZ IAS 2 *Inventories*; • Comparing the expected selling price for finished goods units to actual contracted volumes and sales completed subsequent to year end; • Comparing the expected selling price to recent sales values for finished goods items with no contracted or completed sales subsequent to year end; • Assessing the quantum of finished goods on hand at year end for risk of obsolescence; • Assessing the mathematical accuracy of the profit margin adjustment, including recalculating the adjustment; and • Challenging management's assessment of inclusion or exclusion of certain expense items within the margin adjustment calculation.

Key audit matters continued

Key audit matter	How our audit addressed the key audit matter
Sales to International Customers As disclosed in note 1, the Group's revenue primarily consists of the sale of meat products and related shipping and insurance services which totalled $163 million for the period ended 30 June 2021. As disclosed in note 21, $141 million of this revenue was derived from sales to customers outside of New Zealand. The contract terms for international customers determines the point at which control of the products transfer to the buyer, which is when the goods leave the port of shipment. The incorrect application of the contract terms may result in revenue being recorded in the incorrect period. We have included revenue recognition for sales to international customers as a key audit matter due to the significance of these sales to the Group and the potential impact that would arise from revenue being recorded in the incorrect period.	We have evaluated the application of the sales contract terms for international customers to recognise revenue by performing the following: • We have obtained an understanding of and evaluated the design and implementation of internal controls used by the Group to ensure that the correct sale contract terms for international customers are used to recognise revenue for the meat products at the appropriate time; and • For a sample of sales recognised for international customers for the period prior to and after 30 June 2021 we have obtained specific documentation that outlines the sales and delivery terms. We have read the documentation, noted the specific terms and conditions and checked that revenue is recognised at the appropriate time in accordance with those conditions.

Other information

The directors are responsible on behalf of the Group for the other information. The other information comprises the information in the Financial Statements that accompanies the consolidated financial statements and the audit report, and the Annual Report, which is expected to be made available to us after the date of 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.

When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and consider further appropriate actions.

Directors' responsibilities for the consolidated financial statements

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

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

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

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

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

https://www.xrb.govt.nz/assurance-standards/auditors-responsibilities/audit-report-1

This description forms part of our auditor's report.

Restriction on use

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

Deloitte Limited

Heidi Rautjoki, Partner
for Deloitte Limited
Dunedin, New Zealand
20 September 2021

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