
UNIQUELY SOUTHERN NEW ZEALAND

ANNUAL REPORT 2018



BlueSkyMeats

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Grant & Megan Scott from Mataura

NOTICE OF MEETING

The Directors of Blue Sky Meats (NZ) Limited request the pleasure of your attendance at the Thirty Second Annual Meeting of the Company to be held at Transport World, Tay Street, Invercargill on Thursday the 2nd August 2018 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 2018 and the Auditors Report to shareholders.
- 2 Election of Directors. In accordance with the Constitution, Scott O'Donnell retires by rotation, and being eligible, offers himself for re-election.
- 3 Arron Hoyle has been appointed a Director since the last Annual General Meeting and being eligible, offers himself for election.
- 4 To consider the Directors' recommendation that a final dividend of 5 cents per share be paid.
- 5 To authorise Directors' fees of \$150,000 per annum, in total, for the 2018/2019 year.
- 6 To record the reappointment of Deloitte Limited as auditors and to authorise the Directors to fix their remuneration for the ensuing year.
- 7 To transact any other business that may properly be transacted at the meeting.

By Order of the Board

McCulloch + Partners
Chartered Accountants
Invercargill

Date: 19 June 2018

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

NET OPERATING PROFIT

= **\$3.7M** RETURN TO PROFIT

\$6.7M TURNAROUND

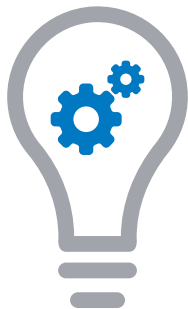
TOTAL REVENUE **\$105m**



7% increase on last year

● New Zealand	\$14m
● Asia/Pacific	\$40m
● UK/Europe	\$38m
● Other	\$13m

Taking on the world
from Southland



\$6.9M TOTAL
STRATEGIC PLAN GAIN

PERFORMANCE HIGHLIGHTS

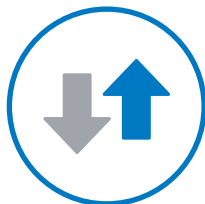


RENDERING INCOME IS HIGHEST IN 5 YEARS

Income per unit **up 80%** and volume **up 50%**
on last year

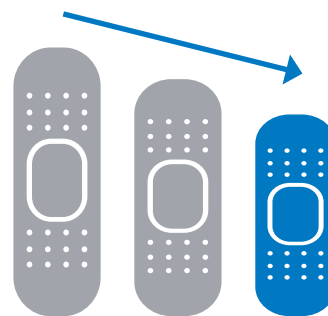
DAILY KPI SYSTEMS

Improving operational
EFFICIENCY



MEAT SELLING PRICE

HIGHEST PRICE on record



FY 16 FY 17 FY 18

DECREASE IN INJURY FREQUENCY RATE

(10% year on year)



DIRECTORS' REPORT

Your Directors present their report and 2018 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	2,687,581
Movement in Cash Flow Hedge Reserve	107,265
Net Comprehensive Income	<u>2,794,846</u>
Increase In Group Equity	<u>2,794,846</u>

Directors

Scott O'Donnell retires by rotation, and being eligible, offers himself for re-election.

Arron Hoyle has been appointed a Director since the last Annual General Meeting and being eligible, offers himself for 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

19 June 2018

CHAIRMAN'S REVIEW

It gives me great pleasure to report a strong profit for the year ended 31 March 2018, and to be able to announce a dividend of 5c per share.

The year can be summarised as one of strong demand in the markets plus a time for Todd to reorganise and strengthen his management team and make some real progress on the Strategic Plan that was outlined to shareholders in early 2017.

	2011 (000's)	2012 (000's)	2013 (000's)	2014 (000's)	2015 (000's)	2016 (000's)	2017 (000's)	2018 (000's)
Kill	741	748	677	698	694	746	620	595
NPBT	6,517	(605)	(5,309)	2,729	1,738	(2,170)	(2,544)	3,748
Dividend	19.5 cps	0 cps	0 cps	10 cps	5 cps	0 cps	0 cps	5 cps

The move away from simply trying to keep the plant full (at any cost) and focusing on getting maximum value from each carcass has paid off.

Although our kill was lower than recent years, the financial result is near record levels.

This result came from three major areas:

1. A move to more chilled sales
2. Better yield from each carcass
3. Increased rendering returns

None of these moves are ground breaking but at least it gets us back towards the better performers in the market. Our next move is to ensure we continue the in-factory gains while developing a brand and a product that gives Blue Sky Meats a point of difference.

Sadly, the intensive nature of agriculture in New Zealand has put additional pressure on our environment. As a nation we need to find a way to put less pressure on the environment while achieving better returns for every kilogram sold, hence my comments in the paragraph above.

We are retaining the lion's share of this years profit to reinvest into the Morton Mains site. Our under investment in the basic resource (due to poor profitability in the previous two financial years) has created a tale of investment required in efficient refrigeration, power supply, environment and effluent management and health and safety that we intend to address as soon as possible.

I must compliment Todd on his management during a very difficult time for the company and his development of a strong management team from which we can build a better future for the business.

CHAIRMAN'S REVIEW

BOD meeting at Melrose Station (Wilson family farm)



We only have one impediment to moving the business forward and that is a very rigid Collective Employment Agreement, this needs to change if we are to move forward. We do not want to pay our staff less, but need the ability to match resource to demand, increase productivity as well as having a document that both parties can easily understand.

A final word of thanks to our long-standing and loyal livestock suppliers who can now see the light at the end of the tunnel.

I look forward to offering continued good news in the future.

The companies trading results are summarised as follows:

	2018	2017
Revenue (including interest)	\$104,591,777	\$97,919,186
Expenses	\$100,843,476	\$100,473,584
Net Surplus/(Deficit) before Tax	\$3,748,301	(\$2,554,398)
Taxation (Tax Benefit)	\$1,060,720	(\$648,242)
Net Surplus/(Deficit) after Tax	\$2,687,581	(\$1,906,157)
Net Cash Flow from Operating Activities	\$5,224,727	\$2,293,266

Scott O'Donnell
Chairman

19 June 2018

CEO REPORT

Financials

We ended the 2018 financial year with a net profit before tax of \$3.7 million. When the non-cash write-down of our Gore plant (see below) is excluded the operating net profit before tax was \$4.1 million. This represents a turnaround of \$6.7 million on the previous year; a result everyone at Blue Sky Meats can be proud of.

Despite volume being down revenue climbed 7% to \$104.6 million. We processed slightly less animals but sold at higher prices. Our Strategic Plan projects focused on optimising carcass value (such as yield improvement and increasing chilled sales) allowed us to take maximum advantage of historically high selling prices.

World markets held strong throughout the 2018 financial year with average prices up around 15% on last year. Schedule prices naturally followed suit and were up a similar amount, ensuring our farmer-suppliers shared in the gains. The consistently high schedule prices over the year are reflected in livestock payments to farmers being up \$12 million on last year.

Our emphasis on prudent cost management continued throughout the year. This resulted in a \$1.0 million reduction in operating expenses. The strong world market, a focus on more valued-added business and reduced operating expenses combined to generate a 5 percentage point improvement in gross margin. While still not good enough, at 13% our gross margin was the best it has been in several years.

Similarly, a net operating profit before tax margin of 4% needs further improvement. However, it places Blue Sky Meats amongst the better performers in an industry with serious structural challenges. It's our job to transform our business-model to overcome such challenges.

We significantly reduced our core debt over the period. It now stands at a conservative \$965,000. This, combined with improvements in the management of working capital, reduced total liabilities by \$6.0 million. This reduction along with a profitable year and a more than doubling of operating cashflow helped add \$2.8 million to shareholders' equity.

After a review during the year the Gore plant is now up for sale. This decision was not taken lightly but is best for the ongoing financial performance of the overall company. As part of this process we took a non-cash impairment charge of \$390,875 to the carrying value of this asset on the balance sheet. The core ovine business is working well and we need to focus our resources on its further improvement.

Importantly, our return to profit was achieved in conjunction with an investment in plant infrastructure. As part of our Strategic Plan, this year we embarked upon a phased capital and operating expenditure programme to address infrastructure constraints and modernise elements of our operations. This is the first step in a long-term plan of investment required to facilitate sustainable operations and profit growth.

One profitable year does not make a trend and a lot of work remains ahead of us. The team is concentrated on building a business that can:

1. Deliver further increases in profitability
2. Be more resilient to external factors such as inevitable swings in commodity cycles and weather patterns
3. Create a value-added, differentiated brand position in the market

CEO REPORT

Strategic Plan

Last year we communicated the implementation of an ambitious 3 year Strategic Plan. We are now 18 months into the plan and exceeding the targets set. So far the 20 projects in the plan have generated \$6.9 million of additional value for the business. This has been achieved with minimal additional operating expense and capital investment.

The most pleasing aspect of this achievement is the way in which the team focused all their efforts on making the plan happen. Everyone at Blue Sky Meats has contributed to this result and I thank them for an outstanding commitment to the improvement of our company.

Large gains from yield projects in both the boning room and slaughter board led the way. This was followed by a doubling of higher-value chilled sales. Various company-wide cost-saving initiatives and process improvements also delivered substantial benefits.

During the year we invested in strengthening and developing the Management Team and worked on multiple opportunities to modernise, simplify and innovate across the business. A culture of performance and positive change is now becoming embedded in the business.

We expect more gains to come as the plan continues to deliver over time. The aforementioned infrastructure investment programme will become important as the operational limits of the plant start to be reached.



Livestock Procurement

Procurement is the lifeblood of our operations and one of the most challenging parts of the business. The year started off with a difficult April and May, with volume down on last year as the weather-impacted 16/17 season came to an end. During the financial year the traditional stock pattern was again disrupted by an unusually dry spell of weather which drove higher than normal December and January volumes. Then as growth conditions improved on-farm, February and March volumes declined.

A reinvigorated Procurement Team, supported by our commitment to improve the competitiveness of our schedule pricing, dealt with the challenges head-on. We held our market share for the year during a period when the South Island kill was down slightly due to the aforementioned weather events. I would like to thank the Procurement Team for this performance. During the year we expanded our catchment area, simplified our schedule system, introduced an incentive to reward well-presented stock and started to streamline our transport and booking management systems. There is a general feeling amongst our farmer-suppliers that we have restored our position as a top payer for quality stock.

Greater variability in stock-flows due to more extreme weather patterns and geo-political events is the new environment in which we operate. It is imperative we reorient all elements of the business towards increased flexibility and agility to better deal with this.

I would like to take this opportunity to thank our farmer-suppliers. They stuck with us through a difficult 2017 financial year and continue to tell us Blue Sky Meats is an approachable company, focused on being responsive to their individual requirements.

CEO REPORT

Operations

The major operational focus during the 2018 financial year was embedding multiple yield improvement projects and facilitating timely fulfilment of a doubling in chilled sales generated by the Marketing Team. This was about getting more out of the constrained existing infrastructure through smart planning and teamwork.

The establishment of a daily Key Performance Indicator system has been a major step forward. This has enhanced teamwork and put more rigour around quantitative performance management. The Management Team embraced this change and we are seeing benefits across the business.

During the year we also undertook upgrades to the plant's power infrastructure. This was needed to address aging equipment, improve health and safety and facilitate an increased emphasis on value-added business.

Rendering is a major contributor to the profit of our business. Throughout the 2018 financial year we significantly increased both the volume and value of this important co-product by adopting new commercial arrangements and ways of working: An excellent example of innovative thinking applied to an existing operation.

Our technical compliance remained on the highest MPI rating. This supports our quality proposition and is a credit to the Operations Team.



Marketing

Market conditions in our major export destinations were to our favour throughout much of the financial year. We faced some weakness in the UK but this was off-set by strong demand in continental Europe, North America and Asia in particular.

Customer inventories remained low throughout the year, underpinning historically high prices and solid demand. The Marketing Team worked hard to take maximum advantage of this, focusing on the continual build in chilled sales and carcass optimisation as part of the Strategic Plan. The higher the prices our Marketing Team achieve the more profit the yield improvements generate. So we saw a multiplier effect on our yield enhancement efforts this year.

Additional gains in working capital were achieved by the Marketing Team's emphasis on stock-turn, significant sea cargo cost savings and improvements in trading terms with customers. Foreign exchange movements and geo-political uncertainties such as Brexit continue to be challenges and highlight the importance of our efforts to become a more flexible and resilient business.

Longer term, as a smaller-scale red meat company, Blue Sky Meats needs to build a distinctive brand and implement strategies to create additional value beyond low-profit, inconsistent commodity returns. During the year we kicked off a brand and market development project to envision what this would look like and create go-to-market plans for trial implementation in 2019.

CEO REPORT

Health, Safety and Environment

Financial year 2018 marked the first full year of an increased emphasis on health and safety. During the year we built our organisational capability in this area with key management appointments and a significant investment in systems, processes and training.

Our injury frequency rate has decreased approximately 10% in each of the last two years. However, a long hard road lies ahead to reach best practice health and safety performance. The investment of time, money and management effort made this year will take time to bear fruit. Communicating and engaging with all employees on health and safety at Blue Sky Meats needs to improve and we are committed to creating a safety-conscious culture that our staff and their families deserve.

We derive our livelihood from the environment, just like farmers, so it was disappointing that we had three effluent incidents during the year. As part of our Strategic Plan a substantial programme of investment in our effluent management infrastructure and practices took place this year. This included a full review and corrective actions taken for the aforementioned incidents, putting significant IT around systems and processes, capital expenditure on equipment, a strengthening of organisational capabilities with appointments at both the management and operator level, a training programme and increased senior management attention on a daily basis.

Operating our business on a much more sustainable basis is a key pillar of our long-term investment programme. Significant investment in this area is planned for financial year 2019.

People

With profitability comes increased opportunity to invest in building organisational capabilities. During the year we reorganised and augmented our Senior Management Team. We also embarked upon a long-term training programme for Senior and Middle Management focused on the key themes of leadership, performance management and health and safety.

It is crucial we equip our people with the capabilities needed to continue our transformation of the company. In financial year 2019 we will expand our training programme to all employees, focusing on health and safety and skill enhancement.

Our employees on the floor have made the Strategic Plan a reality through understanding and embracing the changes and sheer hard work. Looking forward, we must ensure we continue to reward employees competitively and build a working relationship which addresses the very real challenges we face from significantly more variability in weather, stock patterns and international market fluctuations.



Alex Shaw – Blue Sky Meats processing room

On behalf of all our shareholders I thank everyone at Blue Sky Meats. A lot was accomplished during the year. Business performance has improved and real, tangible progress is being made.

A handwritten signature in black ink, appearing to read 'Todd Grave'.

Todd Grave
Chief Executive Officer

19 June 2018

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the Year Ended 31 March 2018

	Note	2018 \$	2017 \$
Revenue		104,589,530	97,914,159
Less			
Cost of Sales		91,162,832	89,855,341
Gross Profit		13,426,698	8,058,818
Interest Income		2,247	5,027
Other Income		78,973	217
Less Expenses			
Audit Fees	1	50,650	42,940
Depreciation	8	1,138,915	1,186,324
Directors Fees	2	115,000	240,000
Impairment of Assets Held for Sale	9	390,875	-
Interest Expense		333,157	432,293
Operating Costs	1	7,731,020	8,716,904
Net Profit (Loss) Before Taxation		3,748,301	(2,554,398)
Income Tax Expense/(Benefit)	3	1,060,720	(648,242)
Net Profit (Loss) After Taxation		2,687,581	(1,906,157)
Items of Comprehensive Income that may be Reclassified subsequently to Profit or Loss (net of tax)			
Net Gain (Loss) on Cash Flow Hedges	11	107,265	(813,199)
Total Comprehensive Income (Loss)		\$2,794,846	\$(2,719,356)
Basic and Diluted Earnings (Loss) Per Share (cents)	5	23.32¢	(16.54¢)

The Consolidated Statement of Comprehensive Income should be read in conjunction with the notes on pages 16-38

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Year Ended 31 March 2018

Note	Share Capital \$	Retained Earnings \$	Cash Flow Hedge Reserve \$	Total Equity \$
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	-	-	(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
Add				
Profit After Tax	-	2,687,581	-	2,687,581
Other Comprehensive Income (Loss)	-	-	107,265	107,265
Total Comprehensive Income (Loss)	-	2,687,581	107,265	2,794,846
Equity Balance at 31 March 2018	5,150,725	16,517,757	(73,083)	21,595,398

The Consolidated Statement of Changes in Equity should be read in conjunction with the notes on pages 16-38

CONSOLIDATED BALANCE SHEET

As at 31 March 2018

	Note	2018 \$	2017 \$
Equity			
Share Capital	5	5,150,725	5,150,725
Cash Flow Hedge Reserve	6	(73,083)	(180,348)
Retained Earnings	7	16,517,757	13,830,176
Total Equity		21,595,398	18,800,553
Represented by:			
Non-Current Assets			
Property, Plant and Equipment	8	10,995,444	13,992,095
Goodwill	10	3,221,574	3,221,574
Deferred Tax	11	78,897	1,177,239
Other Investments	13	19,139	19,139
		14,315,055	18,410,047
Current Assets			
Cash and Short Term Deposits		403,611	138,095
Accounts Receivable	14	18,159,231	19,489,282
Assets Classified as Held for Sale	9	2,285,525	-
Inventories	15	9,517,417	10,031,467
Livestock	16	263,186	79,659
		30,628,970	29,738,503
Total Assets		44,944,025	48,148,550
Current Liabilities			
Accounts Payable and Accruals	18	9,096,508	10,930,370
Income Received in Advance	19	634,444	517,875
Borrowings	20	13,419,763	17,501,019
Derivative Financial Instruments	17	197,913	398,733
		23,348,628	29,347,997
Total Liabilities		23,348,628	29,347,997
Net Assets as Per Total Equity		\$21,595,398	\$18,800,553



S O'Donnell
Director



P J Carnahan
Director

The Consolidated Balance Sheet should be read in conjunction with the notes on pages 16-38

CONSOLIDATED CASH FLOW STATEMENT

For the Year Ended 31 March 2018

	Note	2018 \$	2017 \$
Cash Flows From Operating Activities			
Cash Was Provided From:			
Receipts from Customers		107,133,502	95,478,260
Interest Received		2,247	2,390
Taxation Received (Net of Payments)		564	-
		107,136,313	95,480,650
Cash Was Disbursed To:			
Payment to Suppliers and Employees		100,503,498	92,615,454
Interest Paid		333,212	433,130
Goods and Services Tax / VAT		1,074,877	138,800
		101,911,586	93,187,384
Net Cash From/(Applied to) Operating Activities	25	\$5,224,727	\$2,293,266
Cash Flows From Investing Activities			
Cash Was Provided From:			
Proceeds from Sale of Property Plant and Equipment		50,107	7,003
		50,107	7,003
Cash Was Applied To:			
Purchase of Property Plant and Equipment		928,115	888,590
		928,115	888,590
Net Cash From/(Applied to) Investing Activities		\$(878,008)	\$(881,587)
Cash Flows From Financing Activities			
Cash Was Applied To:			
Borrowings		4,081,202	1,290,699
		4,081,202	1,290,699
Net Cash From/(Applied to) Financing Activities		\$(4,081,202)	\$(1,290,699)
Net Increase/(Decrease) in Cash Held		265,516	120,980
Add Opening Cash and Short Term Deposits/(Bank Overdraft)		138,095	17,115
Ending Cash and Short Term Deposits		\$403,611	\$138,095
Represented by:			
Cash and Short Term Deposits		403,611	138,095
		\$403,611	\$138,095

The Consolidated Cash Flow Statement should be read in conjunction with the notes on pages 16-38

NOTES TO THE CONSOLIDATED STATEMENTS

For the Year Ended 31 March 2018

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.

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.

NOTES TO THE CONSOLIDATED STATEMENTS *continued*

For the Year Ended 31 March 2018

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 have fixed or determinable payments and are not quoted in an active market. They 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. Objective evidence could include: significant financial difficulty of the counter party; or a breach of contract. 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 and accounts receivable reduced by the corresponding amount.

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.

NOTES TO THE CONSOLIDATED STATEMENTS *continued*

For the Year Ended 31 March 2018

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. Non-current Assets Held for Sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset (or disposal group) and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

k. 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.

l. 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.

NOTES TO THE CONSOLIDATED STATEMENTS *continued*

For the Year Ended 31 March 2018

m. 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.

n. 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.

o. 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.

NOTES TO THE CONSOLIDATED STATEMENTS *continued*

For the Year Ended 31 March 2018

p. 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.

q. 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.

r. Earnings Per Share

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.

s. 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.

t. 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.

u. 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.

v. 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.

NOTES TO THE CONSOLIDATED STATEMENTS *continued*

For the Year Ended 31 March 2018

w. Standards and Interpretations in Issue Not Yet Adopted

At the date of authorisation of the financial statements, a number of Standards and Interpretations were in issue but not yet effective.

The Company does not intend to adopt any new pronouncements before their effective date. The impact on the initial application of these standards is estimated as set out below:

The Company has not applied the following new and revised NZ IFRSs that have been issued but are not yet effective:

- NZ IFRS 9 – Financial Instruments
- NZ IFRS 15 – Revenue from Contracts with Customers
- NZ IFRS 16 – Leases

NZ IFRS 9, introduced new requirements for the classification and measurement of financial assets, impairment and hedge accounting. NZ IFRS 9 makes limited changes to the accounting for financial liabilities. It includes a framework for classification and measurement of financial instruments in a single, forward-looking impairment model. The financial assets of the Company are made up of current assets consisting predominantly of cash and trade accounts receivable. The classification and recognition of financial assets under NZ IFRS 9, which becomes effective for the Company from 1 April 2018, has been assessed and is not expected to have a significant impact on the financial statements.

NZ IFRS 15 establishes the principles that an entity should apply in determining the recognition of revenue with customers. NZ IFRS 15 establishes a new control based approach to the recognition of revenue from contracts with customers. Revenue is recognised when control of a good or services transfers to the customer. The Company has reviewed the impact of NZ IFRS 15 and has concluded that applying the standard will not have a significant effect on the financial statements on adoption of the new standard (which becomes effective for the company from 1 April 2018).

NZ IFRS 16 eliminates the distinction between operating and finance leases for lessees and will result in lessees bringing most leases onto their balance sheets. The Company does not have any significant operating or financing leases which under this standard, (effective for the Company from 1 April 2019) are expected to have a significant impact on the financial statements.

NOTES TO THE CONSOLIDATED STATEMENTS *continued*

For the Year Ended 31 March 2018

1 Net Profit (Loss) Before Tax

The following are included in the profit or loss:

Auditors' Remuneration

Audit Fees are payable or due and payable to the auditors of the Group as follows:

- Auditor of the Parent
- Other Auditors of the Group

Total Audit Fees

The Auditor of the Group is Deloitte Limited.

Operating Lease Costs

Total operating costs include operating lease costs of:

(Gain)/Loss on Sale

Total operating costs include losses on sale of property, plant and equipment of:

Total operating costs include profits on sale of property, plant and equipment of:

Employee Benefits Expenses

Kiwisaver and Superannuation

Net Foreign Exchange (Gain/Loss)

2018 \$	2017 \$
48,000	38,500
2,650	4,440
50,650	42,940
60,437	140,197
60,353	-
(1,006)	(4,824)
17,070,404	18,199,636
392,696	403,909
(198,392)	(102,032)

2 Key Management Personnel

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

	2018 \$	2017 \$
Short Term Employee Benefits	889,637	735,192
Other (Directors Fees)	115,000	240,000
	\$1,004,637	\$975,192

NOTES TO THE CONSOLIDATED STATEMENTS *continued*

For the Year Ended 31 March 2018

3 Taxation

	2018 \$	2017 \$
Profit (Loss) Before Taxation	3,748,301	(2,554,398)
Prima Facie Taxation at 28%	1,049,523	(715,233)
Non Deductible Expenses/(Assessable Income)	16,779	55,218
Tax on Foreign Income Due to Different Tax Rates	(5,584)	11,476
Prior Period Adjustment	-	294
Total Adjustments	11,196	66,990
Taxation Expense (Benefit) For Year	\$1,060,720	\$(648,242)
The Taxation Charge is Represented By:		
Deferred Taxation	1,056,629	(637,866)
Current Taxation	4,091	(10,376)
	1,060,720	(648,242)

4 Imputation Credit Account

	2018 \$	2017 \$
Imputation credits available directly and indirectly to shareholders of the Parent:	4,331,933	4,332,479

NOTES TO THE CONSOLIDATED STATEMENTS *continued*

For the Year Ended 31 March 2018

5 Share Capital

	2018	
	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 \$2,687,579 (2017: (\$1,906,157)) and weighted average number of ordinary shares issued of 11,526,098 (2017: 11,526,098).

6 Cash Flow Hedge Reserve

	2018 \$	2017 \$
Balance at Beginning of Year	(180,348)	632,851
Gains/(loss) Recognised on Cash Flow Hedges		
Forward Foreign Exchange Contracts	(101,504)	(250,483)
Transfer to Profit or Loss	250,483	(878,960)
	148,980	(1,129,442)
Income Tax Related to Gains/Losses Recognised in Other Comprehensive Income	(41,715)	316,243
Balance at End of Year	\$(73,083)	\$180,348

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

	2018 \$	2017 \$
Balance at Beginning of Year	13,830,176	15,736,331
Plus		
Net Profit/(Loss) After Tax	2,687,581	(1,906,157)
	16,517,757	13,830,176
Balance at End of Year	\$16,517,757	\$13,830,176

NOTES TO THE CONSOLIDATED STATEMENTS *continued*

For the Year Ended 31 March 2018

8 Property, Plant and Equipment

2018 Group	Cost	Additions	Disposals	Reclassified as Held for Sale	Cost
	1 April 2017				31 March 2018
	\$	\$	\$	\$	\$
Freehold Land and Land Improvements	3,862,175	278,855	-	-	4,141,030
Buildings	10,672,530	344,337	-	2,297,929	8,718,938
Plant and Equipment	14,606,506	190,628	614,907	1,008,313	13,173,914
Furniture	112,570	3,262	-	-	115,832
Vehicles	859,313	111,033	307,294	-	663,052
	\$30,113,094	\$928,115	\$922,201	\$3,306,242	\$26,812,766

	Accumulated Depreciation	Depreciation	Disposals	Reclassified as Held for Sale	Accumulated Depreciation and Impairment	Net Book Value
	1 April 2017				31 March 2018	31 March 2018
	\$	\$	\$	\$	\$	\$
Freehold Land and Land Improvements	148,612	66,909	-	-	215,521	3,925,509
Buildings	5,627,640	326,416	-	169,323	5,784,733	2,934,206
Plant and Equipment	9,762,475	661,965	581,924	460,519	9,381,997	3,791,917
Furniture	82,596	10,665	-	-	93,261	22,571
Vehicles	499,677	72,960	230,826	-	341,811	321,241
	\$16,121,000	\$1,138,915	\$812,750	\$629,842	\$15,817,323	\$10,995,444

2017 Group	Cost	Additions	Disposals	Reclassified as Held for Sale	Cost
	1 April 2016				31 March 2017
	\$	\$	\$	\$	\$
Freehold Land and 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	Depreciation	Disposals	Reclassified as Held for Sale	Accumulated Depreciation and Impairment	Net Book Value
	1 April 2016				31 March 2017	31 March 2017
	\$	\$	\$	\$	\$	\$
Freehold Land and 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

NOTES TO THE CONSOLIDATED STATEMENTS *continued*

For the Year Ended 31 March 2018

9 Assets Held for Sale

	2018 \$	2017 \$
Assets Reclassified as Held for Sale	2,676,400	-
Less Impairment	(390,875)	-
	<u>\$2,285,525</u>	<u>-</u>

The Directors have determined the Gore processing plant no longer fits with the Strategic Plan set out for the Group and intends 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 within the next 12 months. An impairment loss of \$390,875 was recognised on reclassification of the assets as held for sale as the directors of the Group expect that the realisable value (determined via external valuation) is lower than the previous carrying amount.

The parcel of assets are stated at their revalued amounts, being the fair value as at the date of revaluation. The fair value measurements of buildings as at 31 March 2018 were performed by E Percy of Colliers International, independent valuers not related to the Group. E Percy is a member of the Property Institute of New Zealand and has appropriate qualifications and recent experience in the fair value measurement of properties in the relevant locations. The fair value of the buildings was determined based on the market comparable approach that reflects recent transaction prices for similar properties.

The fair value measurements of plant and equipment as at 31 March 2018 were performed by J C Wanty of Byrne & Wanty Consultants and R Smith of Rolton Limited, independent valuers not related to the Group. Messrs J C Wanty and R Smith have appropriate qualifications and recent experience in the fair value measurement of specialised plant and equipment in the meat industry. The fair value of the plant and equipment was determined using the market comparable approach by reference to recent comparable transactions for similar assets.

10 Goodwill

	Group	
	2018 \$	2017 \$
Balance at Beginning of Year	<u>\$3,221,574</u>	<u>\$3,221,574</u>

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

During the year ended 31 March 2018 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% (2017: 3%) subsequent to this. The calculation uses pre-tax discount rates of 20% (2017: 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% (2017: 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.

NOTES TO THE CONSOLIDATED STATEMENTS *continued*

For the Year Ended 31 March 2018

11 Deferred Tax Asset (Liability)

2018 Group	Opening Balance \$	Charged To Profit Or Loss \$	Charged To Other Comprehensive Income \$	Closing Balance \$
Derivative Financial Instruments	70,133	-	(41,715)	28,418
Accounts Payable and Accruals	301,965	(70,121)	-	231,844
Property, Plant and Equipment	(777,256)	159,993	-	(617,263)
Tax Losses	1,582,397	(1,146,502)	-	435,895
	\$1,177,239	\$(1,056,629)	\$(41,715)	\$78,897

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
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

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

2018 Group	Before Tax Amount \$	Tax Benefit/ (Expense) \$	Net of Tax Amount \$
Cash Flow Hedges	148,980	(41,715)	107,265
	\$148,980	\$(41,715)	\$107,265
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)

NOTES TO THE CONSOLIDATED STATEMENTS *continued*

For the Year Ended 31 March 2018

12 Investments in Subsidiaries

	Principal Activity	Country of Incorporation	Percentage Held		Balance Date
			2018	2017	
Horizon Meats New Zealand Limited	Dormant	New Zealand	100%	100%	31 March
Blue Sky Meats (UK) Limited	Sale of products in the UK for Blue Sky Meats (NZ) Limited	United Kingdom	100%	100%	31 March
Blue Sky Meats (Gore) Limited	Multi-species processor of animals	New Zealand	100%	100%	31 March

13 Other Investments

	2018 \$	2017 \$
Shares in Ovine Automation Limited	430	430
Shares in Ballance Agri-Nutrients Limited	7,730	7,730
Shares in Farmlands Co-operative Society Limited	277	277
Investment in OAL Limited Partnership	10,702	10,702
	<u>\$19,139</u>	<u>\$19,139</u>

Other Investments are carried at cost.

14 Accounts Receivable

	2018 \$	2017 \$
At Amortised Cost:		
Trade Debtors	15,609,909	18,014,837
VAT	271	264
Goods and Services Tax	2,549,051	1,474,181
	<u>\$18,159,231</u>	<u>\$19,489,282</u>

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:

30 – 60 days	275,338	1,026,561
60 – 90 days	-	1,669
90 days +	-	412
	<u>\$275,338</u>	<u>\$1,028,642</u>

There are no amounts considered to be individually impaired at the end of the reporting period.

NOTES TO THE CONSOLIDATED STATEMENTS *continued*

For the Year Ended 31 March 2018

15 Inventories

	2018 \$	2017 \$
Packaging Materials	543,788	588,763
Finished Goods	8,973,629	9,442,704
	<u>\$9,517,417</u>	<u>\$10,031,467</u>

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 (2017: \$Nil) for the Group.

16 Livestock

	2018 \$	2017 \$
Opening Balance	79,659	488,509
Purchases	5,871,819	2,437,285
Livestock Processed	(5,688,292)	(2,846,135)
Changes in Livestock Fair Value Less Estimated Selling Cost	-	-
	<u>\$263,186</u>	<u>\$79,659</u>

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 2,153 (2017: 759) head of livestock were held.

NOTES TO THE CONSOLIDATED STATEMENTS *continued*

For the Year Ended 31 March 2018

17 Derivative Financial Instruments

At Fair Value:

Foreign Exchange Contracts

Derivatives Designated as Effective Hedging Instruments

Held For Trading Derivatives Not Designated as Hedging Instruments

2018 \$	2017 \$
(101,504)	(250,483)
(96,408)	(148,251)
<u>\$(197,913)</u>	<u>\$(398,733)</u>

Derivatives are not held for speculative purposes.

18 Accounts Payable and Accruals

Trade Creditors and Accruals

Employee Entitlements

2018 \$	2017 \$
7,533,381	9,268,929
1,563,126	1,661,441
<u>\$9,096,508</u>	<u>\$10,930,370</u>

The average credit period of a trade creditor is 36 Days.

19 Income Received in Advance

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

Income Received in Advance

2018 \$	2017 \$
634,444	517,875
<u>\$634,444</u>	<u>\$517,875</u>

NOTES TO THE CONSOLIDATED STATEMENTS *continued*

For the Year Ended 31 March 2018

20 Borrowings

At Amortised Cost:

Current:

Seasonal Facility

Discounted Bills

Wholesale Term Loan

Trade Finance Loans

	2018 \$	2017 \$
Seasonal Facility	7,402,311	12,253,834
Discounted Bills	5,052,452	3,726,220
Wholesale Term Loan	965,000	1,520,000
Trade Finance Loans	-	965
	\$13,419,763	\$17,501,019
	2018 \$	2017 \$
Opening balance	17,501,019	18,792,554
Drawdowns	87,971,848	55,565,370
Repayments	(92,053,104)	(56,856,905)
	\$13,419,763	\$17,501,019

The reconciliation of borrowings is shown as follows:

Opening balance

Drawdowns

Repayments

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 2018. Management will review its bank funding requirements for the 2018/2019 processing season in July 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 2018 was 3.80% (2017: 3.80%). 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 2018 was charged at interest rates between 2.1% - 4.1% (2017: 1.77% - 3.08%).

The Wholesale Term Loan drawn down in April 2015 to purchase Clover Export Ltd (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 2018 was 4.0% (2017: 4.1%). Interest is charged at Westpac's 90 day bank bill rate plus a 2% margin.

NOTES TO THE CONSOLIDATED STATEMENTS *continued*

For the Year Ended 31 March 2018

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 2018 these totalled \$Nil (2017: \$Nil).
- b) Estimated capital expenditure contracted for at balance date but not provided for amounted to \$Nil (2017: \$Nil).
- c) During the year the Otago/Southland Meat Workers Union (the Union) raised the prospect of possible liabilities arising from historical payments to employees for break times during shift work. These issues arose as a consequence of lengthy litigation involving another meat manufacturer. The Company has amended its method for determining payments going forward and is negotiating with the Union for settlement of back pay relating to this matter. The calculations involved in determining the settlement are complex and likely to take several months to conclude, with negotiations with the Union being likely following the determination. Discussions are ongoing and the Company is unable to estimate the amount of any settlement at the time of approving the financial statements.

22 Operating Lease Commitments

Lease Commitments Under Non-Cancellable Operating Leases:

	2018 \$	2017 \$
Not Later Than One Year	60,437	140,197
Later Than One Year and Not Later Than Two Years	17,440	-
	<u>\$77,877</u>	<u>\$140,197</u>

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.

NOTES TO THE CONSOLIDATED STATEMENTS *continued*

For the Year Ended 31 March 2018

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:

		2018 Group			
NZ\$000	New Zealand	Asia/ Pacific	UK/ Europe	Other Foreign	Group
External Revenue	14,037	39,853	37,550	13,149	104,590
	\$14,037	\$39,853	\$37,550	\$13,149	\$104,590

		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

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 (2017: None).

NOTES TO THE CONSOLIDATED STATEMENTS *continued*

For the Year Ended 31 March 2018

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.

	Weighted Average Effective Interest Rate	Less than 1 Year \$000	1 - 3 Years \$000	3 - 5 Years \$000	5+ Years \$000	Total \$000
2018 Group						
Financial Assets:						
Cash and Short Term Deposits		404	-	-	-	404
Accounts Receivable		18,159	-	-	-	18,159
Financial Liabilities:						
Accounts Payable and Accruals		(9,097)	-	-	-	(9,097)
Borrowings	2.1%-4.1%	(13,535)	-	-	-	(13,535)
Derivative Financial Instruments		(198)	-	-	-	(198)
		\$(4,266)	-	-	-	\$(4,266)
2017 Group						
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)
Borrowings	1.77%-15.87%	(18,492)	-	-	-	(18,492)
Derivative Financial Instruments		(399)	-	-	-	(399)
		\$(10,194)	-	-	-	\$(9,795)

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 20.

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 Groups earnings.

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

NOTES TO THE CONSOLIDATED STATEMENTS *continued*

For the Year Ended 31 March 2018

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:

	2018 \$	2017 \$
Trade Debtors	15,609,909	18,014,837
Cash and Short Term Deposits	403,611	138,095

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 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).

Group	2018			2017		
	Level 1 \$	Level 2 \$	Level 3 \$	Level 1 \$	Level 2 \$	Level 3 \$
Financial Liabilities						
Derivative Financial Liabilities	-	(197,913)	-	-	(398,733)	-

NOTES TO THE CONSOLIDATED STATEMENTS *continued*

For the Year Ended 31 March 2018

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	
	2018 \$	2017 \$	2018 \$	2017 \$	2018 \$	2017 \$	2018 \$	2017 \$
Canadian Dollars	0.9075	0.9454	178,819	208,863	197,052	220,918	4,403	(3,377)
US Dollars	0.7214	0.7093	8,036,615	10,673,463	11,140,751	15,047,842	(33,057)	(243,676)
Euro	0.5907	0.6591	3,822,200	3,493,372	6,470,372	5,300,044	(95,532)	(55,035)
British Pound	0.5231	0.5655	1,522,448	3,618,650	2,910,364	6,398,484	(73,726)	(80,218)
Chinese Yuan	-	4.8703	-	7,639,426	-	1,568,560	-	(16,427)
							\$(197,913)	\$(398,733)

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% 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 of NZD against the relevant currency.

	2018 \$000	2017 \$000
Net Profit (Loss) After Taxation	(6)	(18)
Total Equity	(6)	(18)

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:

	2018 \$000	2017 \$000
Net Profit (Loss) After Taxation	97	126
Total Equity	97	126

An increase in interest rates would decrease Profit and Equity.

NOTES TO THE CONSOLIDATED STATEMENTS *continued*

For the Year Ended 31 March 2018

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

	2018 \$	2017 \$
Net Surplus (Deficit) After Taxation	2,687,581	(1,906,157)
Non-Cash Items:		
Depreciation and (Gain)/Loss On Sale	1,138,915	1,181,500
Income from Investments	(54)	(14,122)
Deferred Tax	1,056,067	(648,263)
Impairment of Property, Plant and Equipment	390,875	-
Unrealised Foreign Exchange (Gains)/Losses	(96,360)	-
	5,177,024	(1,387,043)
Movement In Working Capital		
Accounts Payable and Accruals	(1,774,519)	1,787,252
Income Received in Advance	116,569	85,067
Derivative Financial Instruments	(51,844)	770,146
Accounts Receivable and Prepayments	1,426,412	(3,379,148)
Inventory	514,050	4,008,120
Livestock	(183,527)	408,850
Taxation Payable (Receivable)	562	22
	47,703	3,680,309
Net Cash Inflow From Operating Activities	\$5,224,727	\$2,293,266

NOTES TO THE CONSOLIDATED STATEMENTS *continued*

For the Year Ended 31 March 2018

26 Transactions With Related Parties

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. \$1,423,549 was paid to the various transportation companies during the year and at balance date \$82,975 was owed by the Company (2017: \$1,146,628 was paid to the various transportation companies and \$177,094 was owed at balance date).

Mr A G Lowe, a former 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. \$4,384 (2017: \$1,250) was paid to Lowe Corporation Ltd during the year and \$1,541,675 (2017: \$4,099,051) was received. At balance date \$0 was owed by Lowe Corporation Ltd to Blue Sky Meats (NZ) Ltd (2017: \$780,107).

Mr P J Carnahan, a director of the Company, is a director of Southfuels Ltd who provides fuel to the Company. These were provided for on normal commercial terms. \$23,697 (2017: \$20,429) was paid to Southfuels Ltd during the year. At balance date \$2,560 was owed by the Company (2017: \$3,550).

The followings parties and transactions were related in the prior year only:

- Mr M McMillan, a former director of the company, was employed as General Manager during 2017. For the year ended 31 March 2017 salary paid was \$173,734 and represented 1.1% of total wages paid during the year.
- Mr G Cooney, a former director of the Company, was paid consulting fees for services provided during the 2017 year, totalling \$15,621.
- 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. For the 2017 year Blue Sky Meats (NZ) Ltd received \$55,875 from RMPP and \$29,171 was paid to RMPP. At 31 March 2017 \$3,082 was owed to Blue Sky Meats (NZ) Ltd.

No amounts were forgiven or written off during the year.

27 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.

The dividend will be paid on 9 August 2018, on all shares held as at the 2 August 2018.

STATUTORY FINANCIAL INFORMATION

For the Year Ended 31 March 2018

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 P J Carnahan	30,000
M A Hoyle - Appointed 7 November 2017	12,500
Mr A G Lowe - Retired 21 August 2017	12,500
	\$115,000

Remuneration of Employees

Eight employees received remuneration exceeding \$100,000:

Remuneration Levels	No of Employees
\$100,000 - \$109,999	3
\$110,000 - \$119,999	3
\$150,000 - \$159,999	1
\$290,000 - \$299,999	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 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 bone meal, of which A G Lowe is a director.
- Fuel provided to the Company by Southfuels Ltd, of which 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

	2018	2017	2016	2015	2014
Revenue and Interest Income	\$104,591,777	\$97,919,186	\$117,242,007	\$102,137,698	\$95,297,021
Net Profit (Loss) after Tax	\$2,687,581	(\$1,906,157)	(\$1,956,917)	\$1,239,630	\$1,946,504
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	\$1,152,610
Ordinary Dividend (cents per share)	5 cps	-	-	5 cps	10 cps
Equity	21,595,398	18,800,553	23,641,557	23,641,557	23,705,778
Net Tangible Asset Backing per Ordinary Share at 31 March	\$1.59	\$1.25	\$1.57	\$1.80	\$1.92
Earnings per Share (cents)	23.32¢	(16.54¢)	(16.98¢)	10.75¢	16.89¢

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

Opinion	<p>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 2018, 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.</p> <p>In our opinion, the accompanying consolidated financial statements, on pages 12 to 38, present fairly, in all material respects, the consolidated financial position of the Group as at 31 March 2018, and its consolidated financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards ('NZ IFRS') and International Reporting Standards ('IFRS').</p>
Basis for Opinion	<p>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 <i>Auditor's Responsibilities for the Audit of the Consolidated Financial Statements</i> section of our report.</p> <p>We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.</p> <p>We are independent of the Group in accordance with Professional and Ethical Standard 1 (Revised) <i>Code of Ethics for Assurance Practitioners</i> issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' <i>Code of Ethics for Professional Accountants</i>, and we have fulfilled our other ethical responsibilities in accordance with these requirements.</p> <p>Other than in our capacity as auditor, we have no relationship with or interests in the Company or any of its subsidiaries.</p>
Other Information	<p>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.</p> <p>Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.</p> <p>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.</p>
Directors' Responsibilities for the Consolidated Financial Statements	<p>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.</p> <p>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.</p>
Auditor's Responsibilities for the Audit of the Consolidated Financial Statements	<p>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.</p> <p>A further description of our responsibilities for the audit of the consolidated financial statements is located on the External Reporting Board's website at:</p> <p>https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-5</p> <p>This description forms part of our auditor's report.</p>
Restriction on Use	<p>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.</p>

Deloitte Limited

Mike Hawken, Partner
for Deloitte Limited
Dunedin, New Zealand
19 June 2018

DIRECTORY

Directors

Scott O'Donnell (Chairman)
Peter J Carnahan
Arron Hoyle

Accountants

McCulloch + Partners
Chartered Accountants
Invercargill

Divisional Managers

Chief Executive Officer	T Grave
General Manager of Operations	R Smith
Chief Financial Officer	J Vickery
Marketing Manager	C Brown
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
Level 1, 20 Don Street
Invercargill

CONTACT DETAILS

Plant

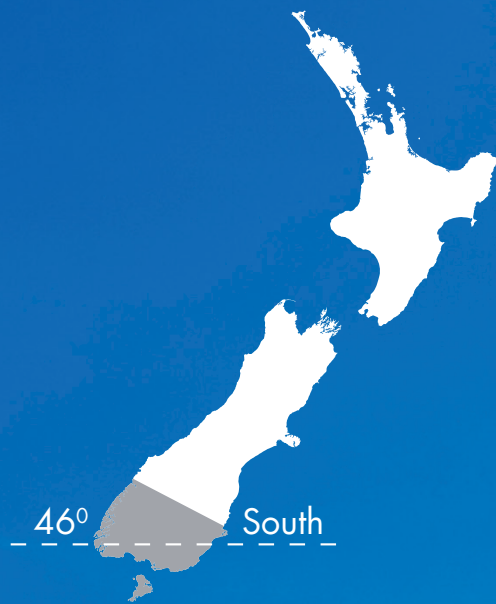
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Norm Wilson	0272 310 039	03 208 8157
Marc Hamilton	0276 132 444	0276 132 444

Company Accountant and Share Register

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