Annual Report 2020

RESILIENCE

Cover photo: L-R: Rex Maheno – Team Member, Craig Tutem – People Development Manager, Emma Scobie – Slaughter Board Team Member, Mihi Ngatai – Boning Room Team Member, Sian Ririnui – Office Administrator, Jared Apu – Team Member, Kane Sell – Waste Water Operator

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Blue Sky Pastures farmer-suppliers, Glen and Michelle Mitchell

Directory

Directors:

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

Accountants:

McCulloch + Partners
Chartered Accountants
Invercargill

Divisional Managers:

Chief Executive Officer	T Grave
Chief Financial Officer	J Vickery
General Manager of Operations	R Smith
Director of Sales	C Brown
Procurement Manager	W Watson
Production Innovation Manager	B Evans
Business Transformation Manager	B Nally

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

Notice of Meeting

The Directors of Blue Sky Meats (NZ) Limited request the pleasure of your attendance at the Thirty Fourth Annual Meeting of the Company to be held at Transport World, Tay Street, Invercargill on Thursday the 29th October 2020 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 15 months ended 30 June 2020 and the Auditors Report to shareholders.

2 Election of Directors. In accordance with the Constitution Arron Hoyle retires by rotation, and being eligible, offers himself for re-election.

3 Andrew Lowe and Melvin Sutton have been appointed as Directors since the last Annual General Meeting and being eligible, offer themselves for re-election.

4 To authorise Directors' fees of $150,000 per annum, in total, for the 2020/2021 year.

5 To record the reappointment of Deloitte Limited as auditors and to authorise the Directors to fix their remuneration for the ensuing year.

6 To transact any other business that may properly be transacted at the meeting.

By Order of the Board
McCulloch + Partners
Chartered Accountants
Invercargill

Date: 1 October 2020

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 (Tuesday, 27th October 2020, 4pm).

Brett Duncan, Boning Room Supervisor and Jack Low, Boning Room Team Member

Directors' Report

Your Directors present their Report and 2020 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

Results and Distributions

Group Net Profit After Taxation	$3,139,363
Movement in Cash Flow Hedge Reserve	$343,502
Net Comprehensive Income	$3,482,865
Dividends Paid	$(576,481)
Increase/(Decrease) In Group Equity	**$2,906,384**

Directors

Arron Hoyle retires by rotation, and being eligible, offers himself for re-election.

Andrew Lowe and Melvin Sutton have been appointed as Directors since the last Annual General Meeting and being eligible, offer themselves 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	A Hoyle
Director	**Director**

1 October 2020

CHAIRMAN'S REVIEW

OUR FISCAL YEAR IS

15

MONTHS

A DIVIDEND OF

5¢

PER SHARE

A challenging but rewarding year.

I have much pleasure in delivering the Chairman's report for the period of 15 months for the 2020 year.

In a year that we had planned to deliver so much, conditions outside our control made the year one of the most challenging, but also rewarding, in my time on the Blue Sky Board.

A profit of $4.2M before tax and a dividend of 5 cents per share are certainly good financial outcomes but it is the other measures such as the 50% decrease in our injury frequency rate, ensuring a COVID-19 free work environment, plus the completion of our $11M capital programme that round out the good story for the 2020 year.

When the going gets tough, the tough get going certainly ran true through the last year. It is a testament to Todd and the whole Blue Sky team amidst a global pandemic, retrospective employment law rulings (rest-breaks and donning and doffing), a major flood in the Gore factory, and a large capex programme which put a real squeeze on cash that the business delivered increased production and a strong profit when many other businesses have not.

The low value of wool and pelts has been saddening to watch. To see such great natural fibre being sold for so little or taken to landfill is beyond belief. It is hoped that as a country we can find a way to use this great fibre for other applications, such as insulating the homes of New Zealand and the world.

Governance changes.

We welcome Andy Lowe back to the Board. He is joined by Mel Sutton who brings a huge level of knowledge around business strategy, retail and offshore meat production gained through a long period as a CEO and Director in Australia. Although based in Melbourne, Mel has a strong connection to Southland as Invercargill is his town of birth and location of all of his schooling. We thank Mel for joining the team and we are already seeing the great outcomes from his input into the Board.

Scott Dillon, Cutting Room Team Member

Looking forward.

After four years of consistent and considerable effort we now have a business that is set to move up a gear and deliver better outcomes for all stakeholders. 2021 is the year when we can stop chasing our tails on plant efficiency thanks to the $11M capex programme and train our minds to deliver better value for every kilogram of output.

We have two issues which remain integral to our future growth, access to capital and skilled labour. We discussed possible capital options at the 2019 AGM and intend to act on these during the 2021 year.

COVID-19 has made all New Zealanders review their career aspirations and hopefully, between training and the desire from Kiwis living offshore to return to live in New Zealand, we can gain skilled workers as we require them.

To close off, can I thank all our suppliers and customers for their loyalty during this difficult COVID-19 period. Having a strong and dependable supply chain certainly makes a difference in times of uncertainty.

The companies trading results are summarised as follows:

	2020 (15 Months)	2019 (12 Months)
Revenue (including interest)	$203,963,552	$140,075,192
Expenses	$199,790,233	$134,962,108
Net Surplus before Tax	$4,173,319	$5,113,084
Taxation	$1,033,956	$1,451,931
Net Surplus after Tax	$3,139,363	$3,661,153
Net Cash Flow from Operating Activities	$11,666,813	($1,871,765)

Scott O'Donnell
Chairman

1 October 2020

OUR FISCAL YEAR TIMELINE SUMMARY

April 2019 to June 2019

- Decision made to transition to Halal processing from August 2020
- Commissioning of new staff records and consumables management platform

July 2019 to September 2019

- Winners of Southland Westpac Business Excellence Awards
- Commissioning of new ammonia refrigeration plant
- Commissioning of new Enterprise Resource Planning platform
- Commissioning of new plant roading layout
- Six year backpay settlement agreed with Meat Workers' Union

October 2019 to December 2019

- China market disruption (release of strategic pork reserves)
- Financial pressure as market conditions begin to weaken
- 100% transition to hand-sensing bandsaws
- Commissioning of new power supply and reticulation
- Commissioning of new Waste Water Treatment Plant
- New Directors appointed

January 2020 to March 2020

- Emergence of COVID-19 in China (supply-chain disruptions and deterioration of market conditions)
- Market and product mix adaptions to address China dynamics
- Increased focus on margin protection and cashflow management
- Flooding of Gore plant
- Commissioning of new livestock transport platform (reorganisation and digitisation)
- End of first 3 year strategic plan (delivery of profit commitments made to shareholders)

April 2020 to June 2020

- Spread of COVID-19 to all markets (ongoing deterioration of global market conditions)
- High-value FoodService channel particularly impacted by COVID-19
- Ongoing operations and sales responses to volatile and uncertain market demand
- Alert Level 4 protocols impact throughput and costs
- Move to 7-day, continuous operations
- 36% revenue decline in May
- Positive farmer-supplier and employee COVID-19 surveys
- Launch of webstore trial

CEO REPORT

In last year's annual report we highlighted the importance of delivering resilient performance. As we embarked upon fiscal year 2020 (FY20) we could not have foreseen just how much our resilience would be tested.

Starting in December, an unprecedented series of events unfolded which was to challenge the resilience of our people and our business: Risks to the health of our people, price volatility and rapid changes in the location of demand necessitated major adjustments to the variables under our control - as we adapted to a range of external factors not under our control.

The Board and I would like to thank everyone at Blue Sky Pastures for the remarkable commitment and resilience they demonstrated to safely and successfully navigate through an extraordinary period of time.

Blue Sky Pastures farmer-supplier Karl Watson – Karl coaches the Tokanui under 10 rugby team

Financials

Managing margins and cash flow in a volatile world to deliver a solid result.

We have moved our financial year end to June. This better aligns with livestock flows and creates a more natural, logical conclusion to the year. As a consequence, this year's financial results span 15 months.

In the 15 months to 30th June 2020 the business generated a profit of $4.2M, before tax. In the context of the various challenges faced, shareholders can be pleased with this outcome.

During the year we settled backpay claims for employees' time spent taking rest-breaks and donning and doffing (putting on and taking off protective gear and clothing) for the period 2013 to 2019. This large one-off expense was $2.2M this year.

Our 15 month revenue reached $204M, on the back of livestock volume of 996K units. Both these top-line measures increased substantially on an annualised basis.

Two extraordinary market disruptions occurred during the year: In December China released large quantities of pork from its strategic reserves, and then in February COVID-19 emerged and began to spread from China to other countries. These events caused a rapid deterioration in global market conditions. They necessitated an ongoing series of nimble sales and operational responses to minimise negative financial impacts (see Sales and Marketing and Operations sections).

Our revenue per metric tonne began declining in December and continued through to the end of the fiscal year. Market prices for important cuts such as Lamb Flaps into China and French Racks into Europe and the USA fell by 20-30% in the space of a few weeks. Schedules reacted accordingly but not always fully commensurate with in-market prices. Lamb farm-gate prices moved from a record high in December to below that of last year, but remained consistently above the five year average.

Financial performance from December onwards therefore deteriorated. We focused on protecting margins, maintaining sales velocity, managing country and customer exposure, and constantly adjusting our efforts to wherever the best opportunities were.

FY20 was another challenging year for co-products. Pelt prices were down 50% on last year, reflecting the ongoing move towards use of synthetic leathers. Meat and bone meal prices decreased 30%, with large customer inventories and a trend towards higher-value pet foods.

Our efforts to optimise sales despite the various challenges, generated an 8% increase in revenue per unit vs last year. An increase in chilled volume and relentlessly hunting out value-addition opportunities drove this. However, livestock costs per unit were up 11%, indicative of a highly competitive procurement market for much of the year. Variable costs were well managed, producing a gross profit margin of 10%, slightly down on last year.

FY20 operating costs per unit were up 28%, mainly as a consequence of the one-off rest-break and donning and doffing back payment. Our resulting 2.0% NPBT margin and 3.5% EBITDA margin were thus down on LY, and reflect the unprecedented events and one-off costs encountered during the year.

COVID-19 physical distancing protocols put in place during Alert Level 4 resulted in an approximate 30% decline in weekly throughput and an increase in operating costs per unit. Additional operating and labour costs were incurred to ensure our people's work environment remained safe and free from COVID-19.

15 month revenue reached
$204M
on the back of livestock volume of **996K units**

15 Months
$4.2M
profit before tax

8%
increase
in revenue per unit vs last year.

Reduced weekly throughput filtered through to a 36% revenue decline in May, 2020. This made us eligible for the Government's wage subsidy. As an essential business, we were privileged to be able to continue working when many New Zealanders were experiencing significant hardship. Access to this subsidy proved crucial to our ongoing operations through to the natural end of the season. Had we not received this subsidy, our financial performance during this difficult period would have forced an abrupt end to the season – resulting in a seasonal layoff of our workforce three months earlier than normal. The subsidy also sustained incomes for a significant part of our workforce who were classified as 'At Risk' and unable to work. Continuing to operate during this period also helped our farmer-suppliers minimise on-farm pressure (see Procurement section). The unused portion of the wage subsidy was paid back to the Government in July, 2020.

Earlier in the year we invested $8.5M in capital projects, bringing the total investment across the last three years to $10.9M. The improved financial performance of the business means these investments in our future have been funded from operating cash flow – with the business carrying no term debt.

$8.5M
in capital project investments

Our investment programme has focused on bringing our infrastructure up to industry standard and creating a safe, efficient, environmentally sustainable platform for growth (see Operations and Health, Safety and Environment (HSE) sections). During the year we funded $700,000 in health and safety (H&S) projects – over and above our day-to-day reoccurring H&S expenses (see HSE section). This brings our 3 year investment in H & S initiatives to $1.6M.

H&S Investment ($000)			
Year	2018	2019	2020*
Value	200	700	700

Capital Investment ($000)			
Year	2018	2019	2020*
Value	500	1,900	8,500

*Note: 2020 is 15 months

At the time of writing this report COVID-19 continues to impact our business. Demand and prices in all our markets have been negatively affected. Countries are at different stages of coping with the virus, and the future impact on their economies remains unknown. Asia remains an important market but is weighted to lower-value cuts. Demand in our traditionally higher-value markets of the UK, EU and USA is tepid, and a quick rebound in the higher-value FoodService channel is unlikely. The spectre of a large-scale second wave in New Zealand remains. This will present ongoing business challenges and require continual adaptation to rapidly changing external variables.

Throughout the year the Finance and Administration Team displayed astute commercial leadership to maintain cash flow and profitability, manage the backpay settlement process, fund our investment programme and accurately administer the wage subsidy.

Aided by the wage subsidy and facilitated by an incredible effort from our people, we managed through this tumultuous year. Thanks to the resilience of our people and the improvements we have made to the resilience of our business model over the last three years, we stand ready to make the most of whatever comes.

Livestock Procurement

Continued growth, transport reorganisation and adjusting to challenging throughput constraints.

This year we grew our annualised procurement volume by 7%. Our annual volume has grown more than 30% over the last three years. In a volume-sensitive business this growth has been a cornerstone of our improved financial performance. The positive, downstream impact of this performance on the business and the incomes of our people is a real credit to the Procurement Team.

Procurement Volume (000 Units)					
Year	2016	2017	2018	2019	2020*
Volume	746	620	595	742	996

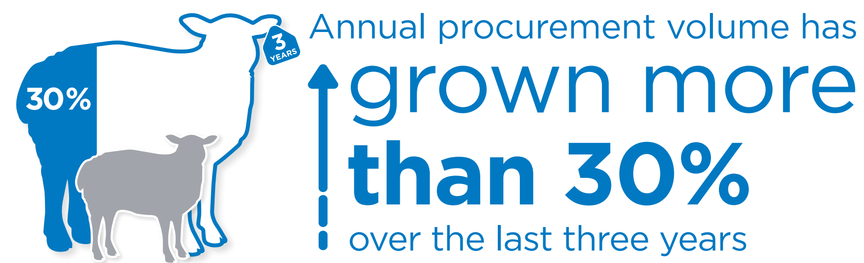
*Note: 2020 is 15 months

In FY20 the Procurement Team reorganised the management of our livestock transportation. Paired with digitised booking and real-time tracking of trucks, this initiative has resulted in more efficient livestock transportation. The cost savings generated have been pivotal to the expansion of our catchment area.

Like other parts of our business, COVID-19 put significant strain on the Procurement Team. But our emphasis on long-term, service-based relationships helped us through an extremely difficult time.

The large reduction in weekly capacity during Alert Level 4 meant our contracted space commitments during this period could not be fulfilled in whole. This resulted in on-farm financial pressure and animal welfare concerns, as livestock accumulated and feed stores reduced.

In response we instituted a weekly review of processing capacity against the most pressing farmer-supplier requirements. The Operations Team completely reconfigured our work patterns, moving to a 7-day operation, instituting continuous processing and working public holidays – all in an effort to maximise the processing capacity available to our farmers.



Post Alert Level 3, farmer-supplier survey

Majority of our farmers felt we:

- handled the situation appropriately
- managed capacity well
- communicated effectively

As demand and selling prices declined quickly from December onwards we progressively adjusted the schedule to align with in-market conditions. There was a lag in schedule movements and a balance needed to be struck between passing on the selling price impact to our farmers and maintaining long-term livestock supply relationships.

As we came out of Alert Level 3, we undertook a farmer-supplier survey. The majority of our farmers felt we handled the situation appropriately, managed the rebalancing of capacity well and communicated effectively. The Procurement Team and our farmer-suppliers did a great job of working together to minimise the impact to our respective businesses.

We are extremely grateful to our farmer-suppliers who endured an uncertain and stressful period. Our whole team was encouraged by the messages of support that we received from many of them.

Tekapo Kapea, Salt Shed Team Member and Kerry Condon, Salt Shed Supervisor

Operations

Delivery of our infrastructure programme while responding and adapting to external events.

It was a particularly demanding year for our Operations Team, focused on four broad areas of work:

1. Commissioning of infrastructure projects.
2. Responding to market disruptions.
3. Changing work patterns and practices to ensure a safe working environment during the peak of COVID-19.
4. Accommodating increases in processing volumes.

Our Phase 1 infrastructure upgrade programme began in FY19 but the majority of the work occurred in FY20. Our Engineering Team did an incredible job to commission the new $4M Waste Water Treatment Plant (WWTP) in November. This investment helps ensure compliance with consent requirements and is futured-proofed for even more rigorous environmental performance. The plant is designed to handle the ongoing growth in processing capacity implicit in our long-range aspirations for the business.

The new ammonia refrigeration system was commissioned in July 2019. It replaces our existing 40+ year old freon-based plant. Its benefits include substantially reduced maintenance costs, more efficient use of electricity (generating $70,000 savings per year), a 15% reduction in the freeze cycle-time and the elimination of freon gas (see HSE section). This $2.1M investment eliminates processing bottlenecks, enables us to better leverage our existing cold-floor footprint and is future-proofed for additional blast freezing floor-space.

The WWTP and the ammonia refrigeration plant are more energy efficient per unit. However, the growth in the number of units processed and the increased use of machinery means our total electricity consumption has grown considerably in recent years. Our $750,000 investment to increase power supply to and around the plant addresses this and will facilitate significant capacity growth into the future.

These and other projects completed by the Operations Team during the year have addressed our most immediate infrastructure requirements – making significantly better use of our existing plant footprint, as throughput continues to grow.

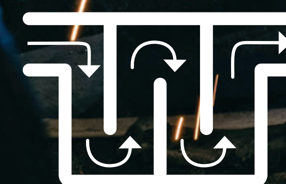
In February, flooding of the Mataura river resulted in substantial damage to our Gore plant. The plant, which currently processes pet food, lost four days of operations.

While the Sales and Marketing Team dealt with severe market volatility, the Operations Team worked incredibly hard at the other end of the business. They delivered tactical production changes to match the movements in market conditions and ensure inventories remained low. This involved constant, meticulous reconfiguration of cutting plans and staffing levels. This challenge was amplified during the peak of COVID-19, with rigorous H&S protocols and daily variability in the number of staff able to work due to health precautions.

Moving to a 7-day operation and continuous processing reduced the loss of processing capacity during Alert Level 4. This unique solution was critical to our ongoing business viability through this period. It was possible thanks to the support and cooperation of our people, and the ingenuity and leadership shown by the Operations Team.

Over the past three years the Operations Team have implemented a number of well thought out changes to the way we work in order to accommodate our procurement growth. This year we introduced the Night Shift one month earlier than normal – sharing the seasonally increasing volume across a broader group of employees. The ongoing growth in throughput represents large organisational, commercial and human resources challenges, managing within the constraints of our existing infrastructure and workforce.

Grant Cairns, Engineer



$4M investment
in a new Waste Water Treatment Plant commissioned in November

$2.1M investment
in a new ammonia refrigeration system commissioned in July

$750,000 investment
to increase power supply to and around the plant to facilitate capacity growth

Sales and Marketing

Agile responses to market disruptions, demand volatility and margin pressure.

The year began with strong prices in China, as African Swine Fever decimated hog livestock numbers and stimulated demand for other meat proteins such as lamb and mutton. To address this, in December the Chinese government released large quantities of pork from its strategic reserves. This had the immediate effect of radically changing the supply and demand dynamics of the global meat market.

In the space of a few weeks selling prices into China dropped by 20-30%. Our Sales and Marketing Team quickly reduced exposure to China and adjusted the product and channel mix to suit other markets. But livestock schedule prices were slow to adjust and our margins were impacted.

In February the scale and impact of COVID-19 in China became clear. As demand declined and supply-chain disruptions began to occur we transitioned product to other countries that were yet to experience the virus. However, as COVID-19 quickly spread to other countries options to rebalance away from China diminished. Demand in each market reacted differently and at different speeds, resulting in a highly dynamic and uncertain sales environment.

In the closing months of the year, China began to get on top of the virus and demand started to improve. Other markets were at various stages of containment and 'lockdown', with consequential low and variable demand. Sales into the high-value FoodService channel in all countries slowed to a trickle, as people avoided social gatherings. Our focus thus moved to maximising opportunities in China and other Asian markets, as their economies began to recover. These lower-value markets and channels provided an outlet for our volume which ensured inventories and cash flow were well managed, but they generated considerably lower margins than our traditional markets.

> The interaction between the Procurement, Operations and Sales and Marketing Teams this year was exceptional. They handled the numerous swings in location of demand and price movements quickly – tactically responding to each situation to find profit opportunities and manage risks.

COVID-19 and the resulting changes in consumer purchase habits provided us with an opportunity to fast-track our efforts to reach further along the value-chain. In the space of just ten days we developed a direct-to-consumer webstore, from scratch. The results from this pilot project generated learnings and the confidence to expand our digital marketing efforts in the future.

During the year we made the decision to institute Halal processing in FY21. This will provide numerous commercial advantages over our current non-Halal model. It will:

1. Improve our ability to sell into our existing markets: 20% of Americans will not purchase non-Halal lamb, and 35% are willing to pay a premium for it.
2. Provide access to mainstream supermarket and FoodService channels: These large business customers require Halal certification.
3. Enable us to diversify our sales into a range of new geographic markets, channels and customers: Our current model constrains our ability to diversify to wherever the market conditions - at any point in time - are best for the business and shareholders.
4. Decrease our storage costs and inventory risk during periods where sales conditions in our traditional markets are depressed.
5. Improve our carcass optimization, product mix, margins and cash flow as a function of the above points.

Barry Evans, Production Innovation Manager and Daniel Jennings, Butchery Manager at New World

People

Teamwork, ingenuity and resilience - keeping everyone safe and earning.

Unite against COVID-19

The highlight of the year was the resilience that our people displayed in responding to the challenges of COVID-19. All levels and departments of the organisation worked together to keep everyone safe and free from COVID-19, and the business viable.

The rigorous safety protocols implemented during Alert Levels 3 and 4 ensured we all remained safe. As a small, single-chain plant with aging facilities, we had limited space available to accommodate the required physical distancing. These challenges and others were solved by practical thinking, empathy and cooperation, including:

- Giving our employees time to organise their home-lives before returning to work at each Alert Level (along with take-home information packs and sanitiser for family use).
- Working closely with onsite MPI staff and the Union to ensure agreement on all safety protocols and fair treatment of staff before implementation.
- Providing every employee with a comprehensive COVID-19 H&S induction before commencement of work under each Alert Level.
- Configuring work patterns to ensure everyone got access to work and sufficient time-off to be with their families and recuperate.
- Providing additional PPE, reconfigured and screened workstations and dedicated sanitisation teams.
- Creating new in-house IT systems:
  1. A text message system for our entire workforce, providing daily updates
  2. A gate scan-in/out app for health screening and contact tracing
  3. Mobile phone surveys to check-in with employees
- Access to various support services, flexible leave arrangements and work-from-home options (where applicable).

Val Withers, COVID-19 Gate Control

The examples of personal sacrifice and commitment are too numerous to mention, but I would like to give particular thanks to our Operations Team (especially our Supervisors and Technical Compliance Team) and our workforce. They moved quickly and in unison, to completely reconfigure, not only the plant, but also work patterns and practices. Our workforce displayed genuine care for each other and for the future of the company.

Survey results indicate that our people felt well informed and were supportive of how the company handled the challenges of COVID-19. The high levels of trust and cooperation demonstrated by our workforce is something we can all be very proud of. The experience generated a host of new ideas and opportunities and has built a platform for improved industrial relations going forward.

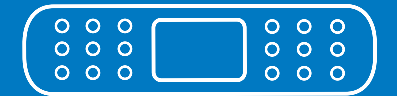
During the year we continued building our organisational capabilities. It is imperative that we equip our people with the skills and abilities to create meaningful work and career paths within our company. As our aspirations for the business continue to grow, focusing on our people will become an increasingly important part of what we do.

This year, as part of our People Development strategy we:

- Supported more than 200 staff to complete the Level 2 New Zealand Certificate in Meat Processing.
- Took on 12 apprentices as part of what will be an ongoing programme.
- Digitised our staff training records.
- Began negotiations towards a new, modern Collective Employment Agreement, that better addresses the changing employment needs of our people and society.

Health and Safety

Three years of effort and investment come to fruition.



Total Recordable Injury Frequency Rate

50% decrease IN FY20

FY20 was the third year of putting H&S at the centre of everything we do. We continued to invest across a wide range of areas, including:

- Full transition to hand-sensing, auto-stop bandsaws.
- Replacement of high-risk hock-choppers.
- Continuation of our plant-wide machine guarding programme.
- Enhanced rendering plant ventilation.
- New roading layout and improved onsite vehicle safety.
- Continual upgrading of PPE and training on its use.
- Comprehensive inductions for all staff and contractors.
- Building-out and digitising our H&S systems, processes and reporting.

H&S is a continuous journey and tangible results do not proceed in a linear manner. However, the results from our investment and efforts confirm we are moving in the right direction. In FY20 our Total Recordable Injury Frequency Rate (TRIFR) declined by 50%. Bringing our total reduction over the last 3 years to 85%. This is an extremely pleasing result, which has been led by our H&S and Operations Teams and facilitated by a highly engaged workforce.

As TRIFR has improved we have begun to focus on the broader wellbeing of our people. We undertook initiatives in this direction during the year, including health screening and a mental wellbeing pilot project. As we progress, we will invest more resources towards this important and complex aspect of caring for our people.

Environment

Large scale investments in the long-term sustainability of the business.

FY20 represents our largest step forward in our journey towards better environmental stewardship.

The extraction of water and disposal of effluent must be fully self-contained within our property at Morton Mains. This requires ongoing attention and prudent management of these two important environmental variables.

Our new WWTP is therefore a critical investment in the long-term viability of the business. Supported by the diligent work of our Waste Water Management Team, key effluent metrics have decreased by more than 50%, soil health markers have improved considerably and there has been a noticeable reduction in odour. These improvements and future-proofing options will position us well for our 2022 re-consenting process, which we are now actively working towards.

The progressive replacement of freon gas is also an important part of our environmental journey. Freon is an expensive, ozone depleting gas, which is being phased out worldwide. Our new blast freezing refrigerant system uses ammonia which has zero global warming and ozone depletion potential. It is also significantly more energy efficient.

Strategic Plan and Business Transformation

Delivery of three-year profit commitments and a focus on value-addition in the future.

In September Blue Sky Pastures won the Primary Sector and the Supreme categories at the Westpac Southland Business Excellence Awards. These awards recognised the achievements of our people and the effectiveness of our Strategic Plan – a plan that created a focused, unifying direction for everyone in the company.

Between FY18 and FY20 our Strategic Plan delivered $6.8M of incremental EBITDA: More than 90% achievement of the targeted $7.4M. The main drivers of this success were:

2018 to 2020 Strategic Plan EBITDA Gains

- Yield enhancement **+$4M**
- Redressing issues at the Gore plant **+$0.9M**
- Carcass trimming **+$0.8M**
- Increasing chilled sales **+$0.7M**

More than **90%** achievement of target

These gains delivered on the annual profit performance commitments made to shareholders in August 2017.

Profit Performance (EBITDA, $M)

Year	2018	2019	2020*	Total
Target	4.0	5.5	7.8	17.3
Actual	5.2	6.7	7.1	19.0
Index to Target	130%	122%	91%	110%

*Note: 2020 is 15 months

This year, our Business Transformation efforts focused on embedding organisation-wide, integrated digital platforms to generate more value from our commercial and operational data. These platforms are flexible and scalable, to ensure they grow with the business:

- A new Enterprise Resource Planning platform that incorporates multiple sources of data from across the business, increasing the accuracy and speed of analysis and decision making.
- A new app developed in-house which encompasses all aspects of employee and training record management, consumables ordering and usage tracking, site access, yards and slaughter scheduling and H&S monitoring.

The last three years have been about getting the basics right and creating a platform for the future. Profitability has been restored and financial performance is now more in line with the industry. We have developed the capabilities of our people and made their workplace safer, and we have addressed critical infrastructure and environmental requirements. The Strategic Plan initiatives are now embedded into 'business as usual' and the organisation has evolved towards a more positive, modern, innovative culture.

We must always deliver on the fundamentals, but our attention will now expand to seeking out and delivering on the next value-creation opportunities for our shareholders and employees. However, the business and the infrastructure which drives it are now much closer to being fully leveraged. Gains from this point forward will therefore be harder earnt, more incremental and delivered over a longer period of time.

In FY21 we will embark upon our next three-year Strategic Plan. We have reviewed and refreshed our aspirations for the business and our people, but the underlying long-range direction of the business remains consistent: Use the improvements made to the business as a platform for a staged, prudent evolution further along the value-chain. This is encapsulated in our refreshed Strategy Statement below.

To create a resilient, profitable company, growing our value-added share of revenue that delivers over and above our commodity base-business.

By transforming the company into an innovative, digitally driven, consumer-centric food-processing and marketing business; using our small size and unique location to our advantage.

Underpinned by the continual improvement of our: Procurement network, operational performance, HSE performance and people development.

Todd Grave
Chief Executive Officer

1 October 2020

During the last three years our efforts have been mainly inward focused. We are now ready to assume a more outward facing, consumer-centric posture:

1. Expand our presence into new geographies, customer-groups and channels.
2. Employ consumer-led innovation (procurement, process, product and marketing), to drive cost-effective value-addition.
3. Build a branded business with more stable, profitable pathways to market and end-consumers.
4. Leverage digital opportunities across the business, to increase the speed, accuracy and effectiveness of strategy execution.
5. Continue to develop the capabilities of our people and deliver procurement, operational and HSE improvements – building our agility, resilience and market-responsiveness.

KJ & GA Watson Farm in Tokanui (Karl & Glenda)

Financials

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Back row, L to R, Josh Soper, Boning Room 2IC, Rex Maheno, Boning Room Team Member, Jared Apu, Boning Room Team Member, Mihi Ngatai, Boning Room Team Member, Joe McWilliam, Slaughter Board Team Member. Front Row L to R, John MacPherson, Boning Room Team Member, Tracy Kumeroa, Slaughter Board 2IC, Emma Scobie, Slaughter Board Team Member.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For The 15 Months Ended 30 June 2020

	Note	2020 $ (15 Months)	2019 $ (12 Months)
Revenue	1	203,960,634	140,062,687
Less			
Cost of Sales		184,140,147	124,402,293
Gross Profit		19,820,487	15,660,394
Interest Income		2,918	12,505
Other Income	1	488,569	8,656
Government Subsidies	1	2,288,391	-
Less Expenses			
Audit Fees	1	52,196	54,060
Depreciation	8	2,156,551	1,180,014
Depreciation of Right-of-Use Assets	25	69,687	-
Directors Fees	2	160,000	120,000
Impairment of Assets	9	79,389	-
Interest and Finance Costs	1	712,328	363,871
Operating Costs	1	15,196,895	8,850,526
Net Profit Before Taxation		4,173,319	5,113,084
Income Tax Expense	3	1,033,956	1,451,931
Net Profit After Taxation		3,139,363	3,661,153
Items of Comprehensive Income that may be Reclassified subsequently to Profit or Loss (net of tax)			
Net Gain on Cash Flow Hedges	10	343,502	69,830
Total Comprehensive Income		$3,482,865	$3,730,983
Basic and Diluted Earnings Per Share (cents)	5	27.24c	31.76c

The Consolidated Statement of Comprehensive Income should be read in conjunction with the notes on pages 25-48

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For The 15 Months Ended 30 June 2020

	Note	Share Capital $	Retained Earnings $	Cash Flow Hedge Reserve $	Total Equity $
Equity Balance at 31 March 2018		5,150,725	16,517,757	(73,084)	21,595,398
Add					
Profit After Tax (12 months)		-	3,661,153	-	3,661,153
Other Comprehensive Income (12 months)		-	-	69,830	69,830
Total Comprehensive Income (12 months)		-	3,661,153	69,830	3,730,983
Less					
Dividend Paid (12 months)	7	-	(576,481)	-	(576,481)
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

The Consolidated Statement of Changes in Equity should be read in conjunction with the notes on pages 25-48

CONSOLIDATED BALANCE SHEET

As at 30 June 2020

	Note	2020 $	2019 $
Equity			
Share Capital	5	5,150,725	5,150,725
Cash Flow Hedge Reserve	6	340,248	(3,254)
Retained Earnings	7	22,165,311	19,602,429
Total Equity		$27,656,284	$24,749,900
Represented by:			
Non-Current Assets			
Property, Plant and Equipment	8	20,466,193	14,290,110
Right-Of-Use Asset	25	438,198	-
Goodwill	9	3,221,574	3,221,574
Other Investments	12	8,007	19,221
		24,133,973	17,530,905
Current Assets			
Cash and Short Term Deposits		881,976	1,500,482
Accounts Receivable	13	14,167,205	18,667,116
Inventories	14	13,003,231	16,436,467
Livestock	15	-	207,955
Prepayments		36,722	311,395
Derivative Financial Instruments	16	931,285	-
		29,020,419	37,123,415
Total Assets		53,154,392	54,654,320
Non-Current Liabilities			
Deferred Tax	10	122,158	195,024
Lease Liabilities	25	415,622	-
		537,780	195,024
Current Liabilities			
Provision for Taxation		503,126	639,081
Accounts Payable and Accruals	17	7,779,514	9,056,070
Income Received in Advance	18	636,510	813,144
Lease Liabilities	25	40,005	-
Borrowings	19	16,001,172	19,156,950
Derivative Financial Instruments	16	-	44,151
		24,960,327	29,709,396
Total Liabilities		25,498,108	29,904,420
Net Assets as Per Total Equity		$27,656,284	$24,749,900

S O'Donnell
Director

A Hoyle
Director

The Consolidated Balance Sheet should be read in conjunction with the notes on pages 25-48

CONSOLIDATED CASH FLOW STATEMENT

For The 15 Months Ended 30 June 2020

	Note	2020 $ (15 Months)	2019 $ (12 Months)
Cash Flows From Operating Activities			
Cash Was Provided From:			
Receipts From Customers		209,279,424	138,923,578
Interest Received		2,918	12,505
Government Subsidies		2,288,391	-
Goods and Services Tax		-	755,717
		211,570,733	139,691,800
Cash Was Disbursed To:			
Payment to Suppliers and Employees		196,840,960	140,636,525
Interest Paid		681,306	367,041
Goods and Services Tax		1,007,242	-
Taxation Paid (Net of Refunds)		1,374,412	560,000
		199,903,920	141,563,565
Net Cash From/(Applied to) Operating Activities	23	$11,666,813	$(1,871,765)
Cash Flows From Investing Activities			
Cash Was Provided From:			
Other Investments		9,830	-
Proceeds from Sale of Property, Plant and Equipment		105,709	-
		115,539	-
Cash Was Applied To:			
Other Investments		-	82
Purchase of Property, Plant and Equipment		8,585,317	2,195,159
		8,585,317	2,195,241
Net Cash (Applied to) Investing Activities		$(8,469,778)	$(2,195,241)
Cash Flows From Financing Activities			
Cash Was Provided From:			
Borrowings (net)		-	5,740,358
		-	5,740,358
Cash Was Applied To:			
Dividends Paid		576,481	576,481
Lease Payments		78,972	-
Borrowings (net)		3,160,087	-
		3,815,540	576,481
Net Cash From/(Applied to) Financing Activities		$(3,815,540)	$5,163,877
Net Increase in Cash Held		(618,506)	1,096,871
Add Opening Cash and Short-Term Deposits		1,500,482	403,611
Ending Cash and Short-Term Deposits		$881,976	$1,500,482
Represented by:			
Cash and Short-Term Deposits		881,976	1,500,482
		$881,976	$1,500,482

The Consolidated Cash Flow Statement should be read in conjunction with the notes on pages 25-48

NOTES TO THE CONSOLIDATED STATEMENTS

For The 15 Months Ended 30 June 2020

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 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.

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, (March 2019: 12-months). 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, 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.

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 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.

NOTES TO THE CONSOLIDATED STATEMENTS continued
For The 15 Months Ended 30 June 2020

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 programme 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 has changed its accounting policy for leases where the Group is the lessee. The new policy is described in Note w and the impact of the change in Note 25.

Until 31 March 2019, leases in which a significant portion of the risk and rewards of ownership were retained by the lessor were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to the Group income statement on a straight-line basis over the period of the lease. From 1 April 2019 short-term lease expenses, leases of low-value assets and variable lease expenses that are not included in the measurement of the lease liabilities are classified as operating expenses.

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.

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

In the current year there have been no material changes arising from changes to NZ Standards and Interpretations that have impacted these financial statements other than those set out below, all other policies have been applied consistently.

NZ IFRS 16 - Leases

The Group has adopted NZ IFRS 16 from 1 April 2019 using the modified retrospective approach and has not restated comparatives for the 2019 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 April 2019. The new accounting policies are disclosed in Note U above.

On adoption of NZ IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of *NZ IAS 17 Leases*. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 April 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 April 2019 was 4.5%.

For leases previously classified as finance leases the entity recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right-of-use asset and the lease liability at the date of initial application. The measurement principles of NZ IFRS 16 are only applied after that date.

In applying NZ IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 April 2019
- accounting for operating leases with a remaining lease term of less than 12-months as at 1 April 2019 as short-term leases
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying *NZ IAS 17 and NZ IFRIC 4 Determining whether an Arrangement contains a Lease.*

The following table explains the differences between the operating lease commitments previously disclosed in the financial statements as at 31 March 2019 and the lease liabilities recognised in the statement of financial position as at 1 April 2019:

	2020 **$**
Operating lease commitments as at 31 March 2019, as previously disclosed	114,466
Less: Lease of low-value recognised as expense	(2,480)
Less: Effect of discounting at weighted average incremental borrowing rate at 1 April 2019, 4.5%	(274,396)
Add/(Less): Adjustment as a result of extension and termination options	670,296
Lease liabilities as at 1 April 2019	507,886

The associated right-of-use assets for property leases were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 March 2019.

x. Standards and Interpretations in Issue Not Yet Adopted

Going Concern Disclosure (Amendments to FRS-44) will be effective for the period beginning 1 July 2020 and will be adopted once becoming mandatory. 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

In March 2020, the World Health Organisation designated COVID-19 to be a pandemic, threatening the health and wellbeing of large number of people across multiple countries. The global outbreak has caused escalating levels of societal uncertainty.

In response, the New Zealand Government imposed some level of restrictions on business activity and societal interaction, as well as initiating strong border restrictions. The restrictions created conditions where only essential services could trade and people must remain at home, venturing out to access only the most essential goods and services.

New Zealand has made significant steps towards pre-pandemic normality. Under current rules, national travel is allowed, schools have reopened and businesses can trade including the Group, albeit some restrictions remain in place around social-distancing and contact tracing measures are required to be followed.

All business units of the Group were deemed essential services and were allowed to continue to operate subject to social distancing restrictions.

The emergence of COVID-19 necessitated an ongoing series of nimble sales and operational responses to minimise negative financial impacts. Market prices for important cuts such as Lamb Flaps into China and French Racks into Europe and the USA fell significantly in the space of a few weeks. Schedules reacted accordingly but not always fully commensurate with in-market prices. Lamb farm-gate prices moved from a record high in December to below that of last year, but remained consistently above the five-year average.

COVID-19 physical distancing protocols put in place during Alert Level 4 resulted in a significant decline in weekly throughput and an increase in operating costs per unit. Additional operating and labour costs were incurred to ensure our people's work environment remained safe and free from COVID-19. A move to a 7-day operation and continuous processing reduced the loss of processing capacity during Alert Level 4. This was critical to ongoing business viability through this period. On return to Alert Level 3, we were able to return to a more normal operating schedule.

The reduced weekly throughput filtered through to a decline in May revenue, making us eligible for the Government's wage subsidy.

COVID-19 continues to impact our business. Demand and prices in all our markets have been negatively affected. Countries are at different stages of coping with the virus and the future impact on their economies remains unknown. Asia remains an important market but is weighted to lower-value cuts. Demand in our traditionally higher-value markets of the UK, EU and USA is tepid, and a quick rebound in the higher-value FoodService channel is unlikely.

We have reviewed and refreshed our FY21 budgets and the underlying long-range direction of the business remains consistent.

The Directors have assessed and will continue to assess the impact of COVID-19 on the Group's operations now and in the future, and are confident the Group will continue to operate profitably.

1 Net Profit (Loss) Before Tax

The following are included in the profit or loss:

	2020 $ (15 Months)	2019 $ (12 Months)
Revenue from Contracts with Customers		
Nature of Revenue and Timing of Revenue Recognition		
Point in Time		
Sale of Goods	198,180,337	136,210,267
Over Time		
Freight and Insurance	5,780,297	3,852,420
Total Revenue	$203,960,634	$140,062,687
Other Income		
Insurance Receivable	498,044	-
Government Subsidies		
Government Grants (Wage Subsidy)	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	46,750	49,000
- Other Auditors of the Group	5,446	5,060
Total Audit Fees	$52,196	$54,060
The Auditor of the Group is Deloitte Limited.		
Operating costs include:		
(Gain)/Loss on Sale		
Total operating costs include losses on sale of property, plant and equipment of:	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)	(6,005)
Employee Benefits Expenses	28,583,448	20,553,129
This includes $2,167,751 for Donning and Doffing which was agreed with the Union during the year (2019: Nil)		
Impairment of Assets	79,389	-
KiwiSaver and Superannuation	704,925	480,185
Net Foreign Exchange (Gain)/Loss	(684,387)	(363,298)
Interest and Finance Costs		
- Interest Expense (Bank Borrowings)	685,615	363,871
- Interest Expense (Lease Liability)	26,713	-
	$712,328	$363,871

2 Key Management Personnel

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

	2020 $ (15 Months)	2019 $ (12 Months)
Short Term Employee Benefits	1,666,835	1,025,603
Other (Directors Fees)	160,000	120,000
	$1,826,835	$1,145,603

3 Taxation

	2020 $ (15 Months)	2019 $ (12 Months)
Profit (Loss) Before Taxation	4,173,319	5,113,084
Prima Facie Taxation at 28%	1,168,529	1,431,664
Non-Deductible Expenses/(Assessable Income)	69,744	20,776
Tax on Foreign Income Due to Different Tax Rates	(1,469)	(509)
Reduction in Deferred Tax on Buildings	(202,849)	-
Total Adjustments	(134,574)	20,267
Taxation Expense (Benefit) For Year	$1,033,956	$1,451,931
The Taxation Charge is Represented By:		
Deferred Taxation	(206,450)	246,761
Current Taxation	1,240,406	1,205,170
	1,033,956	1,451,931

4 Imputation Credit Account

	2020 $	2019 $
Imputation credits available directly and indirectly to shareholders of the Parent:	$5,818,139	$4,667,840

NOTES TO THE CONSOLIDATED STATEMENTS continued
For The 15 Months Ended 30 June 2020

5 Share Capital

	2020 and 2019	
	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 $3,139,363 (2019: $3,661,153) and weighted average number of ordinary shares issued of 11,526,098 (2019: 11,526,098).

6 Cash Flow Hedge Reserve

	2020 $	2019 $
Balance at Beginning of Period	(3,254)	(73,084)
Gains/(loss) Recognised on Cash Flow Hedges		
Forward Foreign Exchange Contracts	472,567	(4,518)
Transfer to Profit or Loss	4,518	101,504
	477,085	96,986
Income Tax Related to Gains/(Losses) Recognised in Other Comprehensive Income	(133,583)	(27,156)
Balance at End of Period	$340,248	$(3,254)

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

	2020 $	2019 $
Balance at Beginning of Period	19,602,429	16,517,757
Plus		
Net Profit/(Loss) After Tax	3,139,363	3,661,153
	22,741,792	20,178,910
Less Distributions		
Dividend Paid (2020 and 2019: 5 cents per share)	576,481	576,481
Balance at End of Period	$22,165,311	$19,602,429

8 Property, Plant and Equipment

2020 Group	Cost 1 April 2019 $	Additions $	Disposals $	Reclassified as 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	6,908,284
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

2019 Group	Cost 1 April 2018 $	Additions $	Disposals $	Reclassified as Held for Sale $	Cost 31 March 2019 $
Freehold Land and Land Improvements	4,141,030	826,006	-	-	4,967,036
Buildings	8,718,938	131,587	-	2,297,929	11,148,454
Plant and Equipment	13,173,914	1,173,782	66,740	1,008,313	15,289,269
Furniture	115,832	32,229	-	-	148,061
Vehicles	663,052	31,555	-	-	694,607
	$26,812,766	$2,195,159	$66,740	$3,306,242	$32,247,427

	Accumulated Depreciation and Impairment 1 April 2018 $	Depreciation $	Disposals $	Reclassified as Held for Sale $	Accumulated Depreciation and Impairment 31 March 2019 $	Net Book Value 31 March 2019 $
Freehold Land and Land Improvements	215,521	93,085	-	-	308,606	4,658,430
Buildings	5,784,733	327,955	-	169,323	6,282,011	4,866,443
Plant and Equipment	9,381,997	675,630	60,735	851,394	10,848,286	4,440,984
Furniture	93,261	13,896	-	-	107,157	40,905
Vehicles	341,811	69,448	-	-	411,259	283,348
	$15,817,323	$1,180,014	$60,735	$1,020,717	$17,957,319	$14,290,110

NOTES TO THE CONSOLIDATED STATEMENTS continued
For The 15 Months Ended 30 June 2020

9 Goodwill

	Group 2020 $	Group 2019 $
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 15-month period ended 30 June 2020 management have determined that there is no impairment of the CGU that contained goodwill (2019: 12-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 five year period based on financial budgets approved by the Board. The value in use calculation is most sensitive to the assumptions regarding gross profit margins and discount rates. The calculation uses the budget for 2021 as a starting point and a gross profit margin of 11% (2019:11.8%-12.5%). The calculation uses pre-tax discount rates of 20% (2019: 20%). Cash flows beyond the five year period have been extrapolated using a 2% (2019: 3%) 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.

10 Deferred Tax Asset (Liability)

2020 Group	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)

2019 Group	Opening Balance $	Charged To Profit Or Loss $	Charged To Other Comprehensive Income $	Closing Balance $
Derivative Financial Instruments	28,418	-	(27,156)	1,262
Accounts Payable and Accruals	231,844	22,953	-	254,797
Property, Plant and Equipment	(617,263)	166,180	-	(451,083)
Tax Losses	435,895	(435,895)	-	-
	$78,897	$(246,761)	$(27,156)	$(195,024)

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

2020 Group	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

2019 Group	Before Tax Amount	Tax Benefit/ (Expense)	Net of Tax Amount
Cash Flow Hedges	96,986	(27,156)	69,830
	$96,986	$(27,156)	$69,830

11 Investments in Subsidiaries

	Principal Activity	Country of Incorporation	Percentage Held 2020	Percentage Held 2019	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

12 Other Investments

	2020 $	2019 $
Shares in Ovine Automation Limited	-	430
Shares in Ballance Agri-Nutrients Limited	7,730	7,730
Shares in Farmlands Co-operative Society Ltd	277	277
Investment in OAL Limited Partnership	-	10,784
	$8,007	$19,221

13 Accounts Receivable

	2020 $	2019 $
At Amortised Cost:		
Trade Debtors	11,329,327	16,873,511
Insurance Receivable	498,043	-
VAT	1,074	293
Goods and Services Tax	2,338,761	1,793,312
	$14,167,205	$18,667,116

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

a) Analysis Of Receivables:

	2020	2019
Current	8,293,232	16,392,688
30 – 60 days	2,859,236	353,907
60 – 90 days	27,372	46,626
90 days +	149,487	80,290
	$11,329,327	$16,873,511

The level of impairment is considered negligible at the end of the reporting period. There have been no bad debts recognised during the period (2019: Nil)

14 Inventories

	2020 $	2019 $
Packaging Materials	522,172	473,696
Finished Goods	12,481,059	15,962,771
	$13,003,231	$16,436,467

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 (2019: $Nil) for the Group.

15 Livestock

	2020 $	2019 $
Opening Balance	207,955	263,186
Purchases	8,624,617	7,949,080
Livestock Processed	(8,832,572)	(8,004,311)
Changes in Livestock Fair Value Less Estimated Selling Cost	-	-
Closing Balance	-	$207,955

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 no livestock was on hand (2019: 1,665).

16 Derivative Financial Instruments

	2020 $	2019 $
At Fair Value:		
Foreign Exchange Contracts		
Derivatives Designated as Effective Hedging Instruments	472,566	(4,518)
Derivatives Not Designated as Hedging Instruments	458,719	(39,633)
	$931,285	$(44,151)

Derivatives are not held for speculative purposes.

17 Accounts Payable and Accruals

	2020 $	2019 $
Trade Creditors and Accruals	5,717,256	7,310,170
Employee Entitlements	2,062,258	1,745,900
	$7,779,514	$9,056,070

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

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For The 15 Months Ended 30 June 2020

18 Income Received in Advance

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

	2020 $	2019 $
Income Received in Advance	636,510	813,144
	$636,510	$813,144

19 Borrowings

	2020 $	2019 $
At Amortised Cost:		
Current:		
Seasonal Facility	16,001,172	17,105,481
Discounted Bills	-	2,051,469
	$16,001,172	$19,156,950
The reconciliation of borrowings is shown as follows:		
Opening balance	19,156,950	13,419,763
Drawdowns	131,394,076	85,489,565
Repayments	(134,549,854)	(79,752,378)
Closing balance	$16,001,172	$19,156,950

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. The seasonal facility had an initial expiry date of 31 December 2020. Subsequent to balance date, the total facility limit has been extended from $6.5M to $9.5M in order to allow the Group to meet its obligations as they fall due until the new seasonal facility for the 2020/21 processing season is approved. Management will review its bank funding requirements for the 2020/2021 processing season in September 2020 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 2020.

Interest on the seasonal facility as at the 30 June 2020 was 2.95% (2019: 3.90%). Interest is charged at a floating rate based on the Westpac Prime Lending Rate plus a 1.8% margin.

Interest on discounted bills as at 30 June 2020 was charged at fixed interest rates between 2.1% - 4.64% (2019: 2.1% - 4.66%).

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 2020 these totalled $Nil (2019: $Nil).

b) Estimated capital expenditure contracted for at balance date but not provided was Nil (2019: $4,201,710).

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:

2020 Group

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

2019 Group

NZ$000 (12 months)	New Zealand	Asia/ Pacific	UK/ Europe	Other Foreign	Group
External Revenue	19,459	63,584	34,343	22,677	140,063
	$19,459	$63,584	$34,343	$22,677	$140,063

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 (2019: 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.

2020 Group	Weighted Average Effective Interest Rate	Less than 3 Months $000	3 - 12 Months $000	1 - 5 Years $000	5+ Years $000	Total $000
Financial Assets:						
Cash and Short Term Deposits	-	882	-	-	-	882
Accounts Receivable	-	14,167	-	-	-	14,167
Derivative Financial Instruments	-	926	5	-	-	931
Financial Liabilities:						
Accounts Payable and Accruals	-	(7,780)	-	-	-	(7,780)
Borrowings	2.1%-4.64%	(16,175)	-	-	-	(16,175)
		$(7,979)	$5	-	-	$(7,974)

2019 Group	Weighted Average Effective Interest Rate	Less than 3 Months $000	3 - 12 Months $000	1 - 5 Years $000	5+ Years $000	Total $000
Financial Assets:						
Cash and Short Term Deposits	-	1,500	-	-	-	1,500
Accounts Receivable	-	18,667	-	-	-	18,667
Financial Liabilities:						
Accounts Payable and Accruals	-	(9,056)	-	-	-	(9,056)
Borrowings	2.1%-4.66%	(19,270)	-	-	-	(19,270)
Derivative Financial Instruments	-	(44)	-	-	-	(44)
		$(8,203)	-	-	-	$(8,203)

The Group manages its liquidity risk by maintaining adequate reserves and banking facilities, by continuously monitoring forecast and actual cash flows and by matching the activity profiles of financial assets and liabilities. Details of the Groups 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 Groups 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:	2020 $	2019 $
Trade Debtors	11,329,327	16,873,511
Cash and Short Term Deposits	881,976	1,500,482
Derivative Financial Instruments	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).

	2020			2019		
Group	Level 1 $	Level 2 $	Level 3 $	Level 1 $	Level 2 $	Level 3 $
Financial Assets						
Derivative Financial Assets	-	931,285	-	-	-	-
Financial Liabilities						
Derivative Financial Liabilities	-	-	-	-	(44,151)	-

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	
	2020 $	2019 $	2020 $	2019 $	2020 $	2019 $	2020 $	2019 $
Canadian Dollars	0.8635	0.9219	394,280	348,672	456,607	378,217	7,804	(4,828)
US Dollars	0.6174	0.6801	11,585,606	12,409,096	18,764,129	18,245,364	793,106	(39,458)
Euro	0.5760	0.5963	1,129,796	3,451,796	1,961,333	5,789,094	(8,354)	50,662
British Pound	0.4947	0.5234	1,505,900	2,472,400	3,044,127	4,723,568	138,729	(50,526)
							$931,285	$(44,151)

All foreign exchange contracts mature in less than one year.

22 Financial Instruments continued

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/weakening of NZD against the relevant currency.

	2020 $000	2019 $000
Net Profit (Loss) After Taxation	(34.0)/34.0	(0.3)/0.3
Total Equity	(34.0)/34.0	(0.3)/0.3

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:

	2020 $000	2019 $000
Net Profit (Loss) After Taxation	115	138
Total Equity	115	138

An increase in interest rates would decrease Profit and Equity.

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

	2020 $ (15 Months)	2019 $ (12 Months)
Net Surplus (Deficit) After Taxation	3,139,363	3,661,153
Non Cash Items:		
Depreciation	2,226,238	1,180,014
Interest - Lease	26,713	-
Income from Investments	5,694	(3,172)
Deferred Tax	(206,450)	246,761
Impairment of Property, Plant and Equipment	79,389	-
Unrealised Foreign Exchange (Gains)/Losses	(485,997)	(164,906)
	4,784,950	4,919,850
Movement In Working Capital		
Accounts Payable and Accruals	(1,208,966)	(34,111)
Income Received in Advance	(176,634)	178,700
Derivative Financial Instruments	(498,352)	(56,776)
Accounts Receivable and Prepayments	5,260,579	(654,374)
Inventory	3,433,236	(6,919,050)
Livestock	207,955	55,231
Taxation Payable (Receivable)	(135,955)	638,764
	6,881,864	(6,791,616)
Net Cash Inflow/(Outflow) From Operating Activities	$11,666,813	$(1,871,765)

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 to the company. These were provided for on normal commercial terms. $4,128,227 was paid to the various transportation companies during the year and at balance date $250,259 was owed by the Company (2019: $1,829,154 was paid to the various transportation companies and $236,254 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. $13,073 was paid to Lowe Corporation Ltd during the year and $2,726,438 was received. At balance date $145 was owed by the Company.

Mr P Carnahan, a former director of the company, is a director of Southfuels Ltd who provides fuel to the Company. These were provided for on normal commercial terms. $20,758 (2019: $40,755) was paid to Southfuels Ltd during the year. At balance date $Nil (2019: $3,933) 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:

	2020 $	2019 $
Right-of-use assets:		
Land	205,920	-
Buildings	230,014	-
Other	2,264	-
Total	$438,198	-

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

Additions to the right-of-use assets during the 2020 financial year were $0.

	2020 $	2019 $
Lease Liabilities		
Non-current liabilities	415,622	-
Current liabilities	40,005	-
Total	$455,627	-
The movement in lease liabilities are as follows:		
Recognised upon adoption of NZ IFRS 16	507,886	-
Accretion expense for the year	26,713	-
Payments during the year	(78,972)	-
Balance as at the end of the year	$455,627	-
Maturity analysis		
Future minimum rentals payable under leases as at 30 June 2020, are as follows:		
Not later than 1 year	66,217	78,954
Later than 1 year and not later than 5 years	239,337	35,512
Later than 5 years	309,756	-
Total	$615,310	$114,466

* The 2019 amount disclosed relates to the non-cancellable operating and finance payments under NZ IAS 17 in 2019.

25 Right-of-Use Assets/Lease Liabilities continued

b) Amounts recognised in the statement of profit or loss

The statement of profit or loss shows the following amounts relating to leases:

	2020 $	2019 $
Depreciation charge of right-of-use assets:		
Land	8,532	-
Buildings	59,032	-
Other	2,123	-
Total	$69,687	-
Interest expense (included in finance cost)	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 2020 was $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.

Until the 2019 financial year, leases of property, plant and equipment were classified as either finance leases or operating leases. From 1 April 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

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.

NOTES TO THE CONSOLIDATED STATEMENTS continued

For The 15 Months Ended 30 June 2020

25 Right-of-Use Assets/Lease Liabilities continued

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

(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 (2019: $576,305).

The dividend will be paid on the 21 December 2020, on all shares held as at the 14 December 2020.

STATUTORY FINANCIAL INFORMATION

For The 15 Months Ended 30 June 2020

Remuneration of Directors (15 Months)

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		75,000
Mr P Carnahan	*Retired 8 August 2019*	12,500
Mr A Hoyle		37,500
Mr A Lowe	*Appointed 18 November 2019*	17,500
Mr M Sutton	*Appointed 18 November 2019*	17,500
		$160,000

Remuneration of Employees (15 Months)

Sixty nine employees received remuneration exceeding $100,000:

Remuneration Levels	No of Employees
$100,000 - $109,999	34
$110,000 - $119,999	13
$120,000 - $129,999	9
$130,000 - $139,999	4
$140,000 - $149,999	3
$150,000 - $159,999	1
$170,000 - $179,999	1
$190,000 - $199,999	1
$210,000 - $219,999	1
$270,000 - $279,999	1
$440,000 - $449,999	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 and interim CEO.
- fuel provided to the Company by Southfuels Ltd, of which P Carnahan is a director.
- Lowe Corporation Ltd who procure pelts and skins and market meat and bone 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

	2020 (15 Months)	2019 (12 Months)	2018 (12 Months)	2017 (12 Months)	2016 (12 Months)
Revenue and Interest Income	$203,963,552	$140,075,192	$104,591,777	$97,919,186	$117,242,007
Net Profit (Loss) after Tax	$3,139,363	$3,661,153	$2,687,581	($1,906,157)	($1,956,917)
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	-	-
Ordinary Dividend (cents per share)	5 cps	5 cps	5 cps	-	-
Equity	27,656,284	24,749,900	21,595,398	18,800,553	23,641,557
Net Tangible Asset Backing per Ordinary Share at 30 June (2019-2016: 31 March)	$2.13	$1.88	$1.59	$1.25	$1.57
Earnings per Share (cents)	27.24¢	31.76¢	23.32¢	(16.54¢)	(16.98¢)

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 2020, and the consolidated statement of comprehensive income, statement of changes in equity and cash flow statement for the 15 month period 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 21 to 48 present fairly, in all material respects, the consolidated financial position of the Group as at 30 June 2020, and its consolidated financial performance and cash flows for the 15 month period 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) (PES 1) 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, except that we identified an inadvertent breach of the independence rules relating to the engagement quality control reviewer (EQCR). The EQCR acted in the role for a period one year longer than the seven consecutive years allowed by PES 1. To ensure our objectivity was not compromised as a result of the long association of the original EQCR on our audit, an independent partner performed an EQCR review of the audit file prior to the issuance of this opinion. This matter does not impact on the financial statements.

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 consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated 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
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 $204 million for the period ended 30 June 2020. As disclosed in note 21, $180 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 and when revenue should be recognised. 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. • For a sample of sales recognised for international customers for the period prior to and after 30 June 2020 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 Annual Report that accompanies the consolidated financial statements and the audit report. The Annual Report is expected to be made available to us after the date of this auditor's report.

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

Our responsibility is to read the other information identified above when it becomes available 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.

When we read the other information in 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
1 October 2020

BUILDING

RELATIONSHIPS AND
DEVELOPING CUSTOMER

INSIGHTS

HELPS US BETTER
IDENTIFY AND

DELIVER

ON MARKET
OPPORTUNITIES

Les Watson, Butchery Manager at New World

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