BlueSkyMeats

New Zealand farmed, Southern fresh

BLUE SKY MEATS (NZ) LIMITED | ANNUAL REPORT | 31 MARCH 2011

  

CONTACT DETAILS

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Procurement Staff	Mobile	After Hours
Mr Jeff Rule	0273 541 413	03-213 0319
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Mr Norm Wilson	0272 310 039	03-208 8157

Horizon Meats New Zealand Limited	
PO Box 4249, Auckland	
Telephone:	09-366 6234
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Company Accountant and Share Register	
McCulloch & Partners, Chartered Accountants	
Cargill Chambers, 128 Spey Street	
PO Box 844, Invercargill	
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CONTENTS

DIRECTORY

Directors:	Graham J Cooney (Chairman)
	J Peter Houlker
	Malcolm J McMillan
	Peter J Carnahan
	Sarah C Ottrey
Accountants:	McCulloch & Partners
	Chartered Accountants
	Invercargill
Divisional Managers:	
General Manager	R Larsen
Plant Manager	I McCreath
Procurement Manager	J Rule
Production Manager Slaughter Floor	W Wells
Production Manager Further Processing	B Jenkins
Administration Manager	M Sloan
Chief Engineer	M Harrison
Marketing Manager	C Brown
Technical Manager	M Ferguson
Auditors:	Deloitte
	Dunedin
Share Registrar:	McCulloch & Partners
	Chartered Accountants
	Invercargill
Bank:	Westpac Banking Corporation
	Invercargill
Registered Office and Address for Service:	McCulloch & Partners
	Cargill Chambers, 128 Spey Street
	Invercargill

NOTICE OF MEETING

The Directors of Blue Sky Meats (NZ) Limited request the pleasure of your attendance at the Twenty Fifth Annual Meeting of the Company to be held at Ascot Park Hotel, Invercargill on Wednesday the 27th July 2011 at 4.00 pm and afterwards as their guests for refreshments.

BUSINESS

1. To receive and consider the Annual Report including the Financial Statements for the year ended 31st March 2011 and the Auditors Report to members.
2. Election of Directors. In accordance with the Constitution Messrs P J Carnahan and G J Cooney retire by rotation and, being eligible, offer themselves for re-election.

   Ms S C Ottrey, having been appointed by the Board during the year, now retires and, being eligible, offers herself for re-election.
3. To consider the Directors' recommendation that a final dividend of 19.5 cents per share be paid.
4. To authorise Directors' fees of $240,000 per annum, in total, for the 2011/2012 year.
5. To record the reappointment of Deloitte 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: 20th June 2011

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.

DIRECTORS' REPORT

Your Directors have pleasure in presenting their Report and 2011 Financial Statements.

Principal Activities

The group's principal activities during the year were:

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

Results and Distributions

Group Net Profit After Taxation	3,689,285
Movement in Cash Flow Hedge Reserve	(150,657)
Net Comprehensive Income	3,538,628
Less Distributions	576,305
Increase In Group Equity	$2,962,323

Dividend

Having considered the solvency of the parent company and group, the Directors recommend that the dividend paid of 19.5 cents per share, imputed at 30%, on 3rd August 2011 be treated as the final dividend for the year ended 31 March 2011. A Solvency Certificate has been completed in support of the dividend declaration.

Directors

Messrs P J Carnahan and G J Cooney retire by rotation and, being eligible, offer themselves for re-election.

Ms S C Ottrey, having been appointed by the Board during the year, now retires and, being eligible, offers herself for re-election.

Auditor

In accordance with the provisions of Section 200 of the Companies Act 1993, the auditors, Deloitte, continue in office

This Annual Report has been prepared in accordance with Section 211 of the Companies Act 1993 and is signed on behalf of the Board by:

G J Cooney
Director

P J Carnahan
Director

20th June 2011

The year ending 31st March 2011 has been one of the most successful in the company's history. Operating revenue increased by 18.6% to $100.8 million. This is the first time company turnover has exceeded $100 million. Expenses were $94.4 million, an increase of 13.2%. Profit before tax is $6.517 million (last year $1.668 million).

This year's result is notable because -

- Previous good results in the last ten years have been achieved on the back of capital stock slaughter. That did not apply in 2010-11 with the national kill reducing year on year.
- The weather in September 2010, leading to the deaths of high numbers of both ewes and lambs, resulted in a 20-25% reduction in livestock numbers available from the company's normal catchment.
- Most importantly, the company enjoyed a successful year at the same time as its farmer clients had unprecedented payout increases.

The latter point is critical if sheep farming is to resist the land use changes that have applied in Southland and Otago in the last decade.

The Government's budget in May 2010 included the removal of tax depreciation on buildings. From the 1st April 2011, the depreciation rate applicable to "building structures" will reduce to 0%.

This change in depreciation rate will result in a reduction to the tax book value of items classified as "building structures" to nil for financial reporting purposes because future tax deductions will no longer be available from the financial year commencing 1st April 2011.

The net effect of these deferred tax adjustments is a $920,785 increase in the income tax expense and the deferred tax liability, resulting in a reduction in both Net Profit after Tax and Shareholders Funds. The $920,785 is included in the $2,828,092 income tax expense.

Trading Results

The Company's trading results for the year ending 31st March 2011 are summarised as follows:

	2011	2010
Revenue (including interest)	$100,899,945	$85,068,724
Expenses	$94,382,568	$83,400,798
Net Profit before Tax	$6,517,377	$1,667,926
Tax Expense	$2,828,092	$503,034
Net Profit after Tax	$3,689,285	$1,164,892
Final Dividend	$2,247,589	$576,305
Net Cashflow from Operating Activities	$(6,741,306)	$7,079,574

Depreciation on Buildings

As described above, new depreciation rules affected the after tax result. These changes apply to buildings with a life expectancy of more than 50 years. It was aimed at buildings sold at an appreciated price following a period when the owner had claimed tax deductibility for both depreciation and repairs and maintenance. It was clearly not aimed at buildings used in a business such as meat processing.

This adjustment to profit is a one-off non-cash accounting entry which has no impact on the Company's underlying profitability or cashflows.

The company may enter into discussions with the Inland Revenue to apply for a depreciation rate for a class of building specific to the meat industry.

Dividend

The directors are recommending a dividend of 19.5 cents per share (tax paid), requiring $2,247,589. Based on a normal taxation payment this is 48.8% of after tax profit.

Share Price

Shareholders will note that after tax earnings are 32 cents per share (if the one-off non-cash deferred tax adjustment is ignored this is about 40 cents). Blue Sky Meats Net Asset backing at balance date was 240 cents per share. Share price at balance date was $1.40. Successful companies with proven financial performance, such as Blue Sky Meats in this 2011 year and years prior, would in normal circumstances have a share price trading higher than net asset backing. Directors believe that the 2011 profit and resulting strong dividend would lead to a share price appreciation reflecting the company's current value.

Livestock Procurement

The company has always aimed to align the needs of livestock suppliers, processor and market requests. The obvious first step was the forward contract system used for livestock procurement for 25 years. A loyal group of farmers have signed contracts locking in dates and numbers, allowing them to plan ahead as well as assisting Blue Sky Meats to make sensible processing and marketing decisions.

It has become clear that the next step in this alignment is working harder on adding pre-agreed grades and weights to the supplier requirements if Blue Sky Meats is to enhance its market relationships and, consequently, reap benefits for shareholders, suppliers and staff.

The return of contracts in November confirmed the drastic effect of last spring's storms on available stock numbers. This was the catalyst to speed up discussions regarding a strategy that would provide a more reliable supply of animals that meet both processing and market requirements. As a result, Blue Sky Meats entered a relationship with finishers using modern agronomy and other technology with the aim of providing animals on time and within specification. The relationship has a long way to go but this year was an important first step on a long term pathway.

The policy is not aimed at replacing the contract system, but will work alongside it. Eventually, the technology will provide assistance to contracted clients, both in terms of extra income to Blue Sky Meats shareholders and the availability of proven technology to farmer suppliers. However, the major benefit is meeting throughput and market requirements in a structured manner. The strategy is not without risk and the next phase concerns policies that minimise the risks.

The obvious procurement highlight was the largest year on year gains in supplier income in the company's history, at the same time as achieving an acceptable company return. Lamb and mutton procurement were challenging with an early finish to the 2009-10 season, an elevated mutton kill in October following the September storm, and a slow start to the normal season, partly because of the earlier mutton kill, but accentuated by suppliers holding stock back to increase weights.

Bobby calf numbers increased by more than 5% compared to the previous years.

Processing

Given the challenges described above, it was satisfying to provide more employment than expected for the seasonal staff. The need to provide an acceptable annual return to workers, in order to recruit and retain the type of staff the industry requires, is often overlooked in discussions that normally concentrate on farmer and company income.

The rendering plant, built in 2009, provided net income per annum that was greater than initially budgeted. While this was 12 months later than originally planned, the plant is now an integral part of the company's business. It was helped by strong international prices for tallow and meal in the latter part of the year. Similarly that trend also applied to sales of offal, casings, skins and wool.

Meat Marketing and Sales

Despite the satisfying end result, there were considerable challenges throughout the year. These included dealing with the continually increasing NZ dollar against the currencies the company trades in, however fortunately market prices increased at a faster rate than the currencies.

Determining timing of sales and the volume committed in each sale posed a greater challenge than normal. This also applied to choice of specification as importing countries had different requirements regarding reprocessing as budget conscious purchasers demanded differing cut size. In addition, a greater emphasis on lower value manufacturing based bone-in cuts significantly increased saleable yields and per carcass returns. The final result is a credit to the marketing personnel.

Percentage of total production to various markets did not change much from one year to the next. An increase to North America was a reflection of a low previous year at the peak of their recession. Rack prices into that market doubled in 12 months and other products increased by 15 to 45%.

In Asia, Chinese pricing increased by 37% for mutton cuts and offal, while the ongoing and successful partnership with Kanematsu Group in Japan realised a 45% increase in product pricing into that market.

Veal prices were up 9% on medium legs and 6% on heavy legs but there was virtually no demand for light legs. Trunk prices increased on average 16.3% into USA. Strict testing for E Coli only applying to USA means the company is continually looking for alternative veal markets.

Red Meat Strategy

The strategy, released in early May, is a comprehensive summary of the industry's challenges. It has clear recommendations concentrating on in-market behaviour, aligned livestock procurement and on-farm sector best practice leading to significant productivity improvements.

Anyone who is serious about improving the sector's returns should read it. It makes clear that there can be no compulsion forcing companies, farmers and other industry participants to implement its recommendations.

Blue Sky Meats agrees with the general recommendations in the report and, as a responsible member of the industry, it will use the document as a guide in its short term decision making. For example, procurement staff are revisiting policies that reward loyal suppliers. Determining the description of a loyal supplier is arguably a more difficult task than how to reward them. This has been the main reason for not moving on this idea before now. The red meat strategy identifies that the idea of rewarding loyal suppliers is the opposite of recent industry policy where suppliers with no loyalty to any company have been getting the best rewards from some companies. Reversing that trend is a large risk for a company that relies on throughput for its income. Therefore Blue Sky Meats will be relying on the large number of farmers, who say they agree with the red meat strategy proposals, to support Blue Sky Meats by providing some livestock to the company.

Similarly, the company will be determining what role, if any, it has in assisting on-farm productivity amongst its farmer clients. This particularly applies as technology becomes available that assists with providing lambs on time and within specification.

Capital Expenditure

The company is presently building an onsite salting shed for skins. A major benefit is damage reduction due to heating. There will also be better control over the grading of pelts e.g. wool on rugs versus traditional fellmongering. If the value of pelts and wool move ahead of salted skins they can easily be directed to fellmongering. Those skins going to the fellmongery can go at a time that is most suitable, thereby reducing costs. Quality control will also be improved with damage being assessed onsite.

As technology becomes available from Ovine Automation Limited, the industry consortium investing in slaughterboard technology, the company will be investing in it.

Staff

On behalf of the Board I record my thanks to Ricky Larsen, Ivan McCreath and the other staff at the plant, as well as the marketing team led by Chad Brown. The strong result is a credit to your outstanding efforts during the year.

Suppliers

Thank you to our loyal suppliers. You have had the absolute highs and lows that go with farming during the last 12 months. We are all well aware of the need to at least maintain the present lamb and mutton prices in order to get real investment into the industry.

Board

The Board continued to give me excellent support. Issues are debated and resolved in a proper manner. I cannot ask for any more than that. The Board started the year with a vacancy. It was resolved that this should be filled by a person with marketing skills. We were fortunate to persuade Sarah Ottrey to join the Board. Sarah has considerable marketing experience in management positions and, in recent years, has added governance experience at the public company level. Combined with a rural background, originally from West Otago, she was exactly the type of person we were looking for. Her short time on the Board has reinforced that view.

Finally, I wish to thank Greg Munro, the company secretary, who continues to do a fine job under ever increasing demands, particularly relating to the annual report and the demands of the International Financial Reporting Standards.

G J Cooney
Chairman

20th June 2011

GROUP STATEMENT OF COMPREHENSIVE INCOME *for the year ended 31 March 2011*

	Note	2011 $	2010 $
Revenue		100,803,530	85,060,890
Less			
Cost of Sales		85,724,513	74,733,301
Gross Profit		15,079,017	10,327,589
Interest Income		96,415	7,834
Less Expenses			
Audit Fees	1	50,402	47,455
Depreciation	7	1,098,274	960,020
Directors Fees		300,000	180,000
Interest Expense		153,542	156,003
Operating Costs	1	7,055,837	7,324,019
Net Profit Before Taxation		6,517,377	1,667,926
Income Tax Expense	3	2,828,092	503,034
Net Profit After Taxation		3,689,285	1,164,892
Other Comprehensive Income Net of Tax			
Net Gain/(Loss) on Cash Flow Hedges	9	(150,657)	(588,498)
Total Comprehensive Income attributed to Equity Holders of the Parent		$3,538,628	$576,394
Basic and Diluted Earnings Per Share (cents)	4	32.01¢	10.11¢

GROUP STATEMENT OF CHANGES IN EQUITY *for the year ended 31 March 2011*

	2011 $	2010 $
Equity at beginning of year	25,132,212	26,284,733
Add		
Total Comprehensive Income	3,538,628	576,394
Less		
Dividend Paid	576,305	1,728,915
Equity at end of year	$28,094,535	$25,132,212

The financial statements should be read in conjunction with the notes to the financial statements on pages 14 to 34

GROUP BALANCE SHEET *as at 31 March 2011*

	Note	2011	2010
		$	$
Equity			
Share Capital	4	5,150,725	5,150,725
Cash Flow Hedge Reserve	5	135,774	286,431
Retained Earnings	6	22,808,036	19,695,056
Total Equity		$28,094,535	$25,132,212
Represented by:			
Non Current Assets			
Property, Plant and Equipment	7	11,499,561	12,245,882
Goodwill	8	1,356,890	1,356,890
Deferred Tax	9	-	119,889
Other Investments	11	323	-
		12,856,774	13,722,661
Current Assets			
Cash and Short Term Deposits	16	1,675,035	332,012
Accounts Receivable	12	22,883,402	14,584,239
Inventories	13	17,654,408	15,619,170
Livestock	14	14,022,785	-
Taxation Receivable		-	75,767
Derivative Financial Instruments	15	203,855	859,357
		56,439,485	31,470,545
Total Assets		69,296,259	45,193,206
Non Current Liabilities			
Deferred Tax	9	879,744	-
		879,744	-
Current Liabilities			
Accounts Payable and Accruals	17	20,451,340	9,794,165
Borrowings	18	19,277,777	10,266,829
Taxation Payable		592,863	-
		40,321,980	20,060,994
Total Liabilities		41,201,724	20,060,994
Net Assets as per Total Equity		$28,094,535	$25,132,212

G J Cooney
Director

P J Carnahan
Director

20th June 2011

The financial statements should be read in conjunction with the notes to the financial statements on pages 14 to 34

GROUP CASH FLOW STATEMENT *for the year ended 31 March 2011*

	Note	2011	2010
		$	$
Cash Flows From Operating Activities			
Cash was provided from:			
Receipts from Customers		94,125,201	87,148,619
Interest Received		96,415	7,834
Goods and Services Tax / VAT		308,953	1,014,117
		94,530,569	88,170,570
Cash was disbursed to:			
Payment to Suppliers and Employees		100,028,654	79,653,230
Interest Paid		153,347	156,003
Taxation Paid		1,089,874	1,281,762
		101,271,875	81,090,995
Net Cash From/(Applied to) Operating Activities	23	$(6,741,306)	$7,079,575
Cash Flows From Investing Activities			
Cash was provided from:			
Proceeds from Sale of Property, Plant and Equipment		3,308	10,764
		3,308	10,764
Cash was applied to:			
Other Investments		323	-
Purchase of Property, Plant and Equipment		353,104	989,523
		353,427	989,523
Net Cash From/(Applied to) Investing Activities		$(350,119)	$(978,759)
Cash Flows From Financing Activities			
Cash was provided from:			
Borrowings		9,010,753	-
		9,010,753	-
Cash was applied to:			
Dividends Paid		576,305	1,728,915
Borrowings		-	3,666,991
		576,305	5,395,906
Net Cash From/(Applied to) Financing Activities		$8,434,448	$(5,395,906)
Net Increase/(Decrease) in Cash Held		1,343,023	704,910
Add Opening Cash and Short Term Deposits		332,012	(372,898)
Ending Cash and Short Term Deposits		$1,675,035	$332,012
Represented by:			
Cash and Short Term Deposits		1,675,035	332,012
		$1,675,035	$332,012

The financial statements should be read in conjunction with the notes to the financial statements on pages 14 to 34

PARENT STATEMENT OF COMPREHENSIVE INCOME *for the year ended 31 March 2011*

	Note	2011	2010
		$	$
Operating Revenue		97,794,366	79,907,122
Less			
Cost of Sales		82,900,981	69,733,742
Gross Profit		14,893,385	10,173,380
Interest Income		96,415	7,771
Less Expenses			
Audit Fees	1	45,000	41,800
Directors Fees		300,000	180,000
Depreciation	7	1,098,274	960,020
Interest Expenses		153,542	156,003
Operating Costs	1	6,943,577	7,182,525
Net Profit Before Taxation		6,449,407	1,660,803
Income Taxation Expense	3	2,807,366	499,333
Net Profit After Taxation		$3,642,041	$1,161,470
Other Comprehensive Income		-	-
Total Comprehensive Income		$3,642,041	$1,161,470
Basic and Diluted Earnings per Share (cents)	4	31.60¢	10.08¢

PARENT STATEMENT OF CHANGES IN EQUITY *for the year ended 31 March 2011*

	2011	2010
	$	$
Equity at beginning of year	24,688,389	25,255,834
Add		
Total Comprehensive Income	3,642,041	1,161,470
Less		
Dividend Paid	576,305	1,728,915
Equity at end of year	$27,754,125	$24,688,389

The financial statements should be read in conjunction with the notes to the financial statements on pages 14 to 34

PARENT BALANCE SHEET *as at 31 March 2011*

	Note	2011	2010
		$	$
Equity			
Share Capital	4	5,150,725	5,150,725
Retained Earnings	6	22,603,400	19,537,664
Total Equity		$27,754,125	$24,688,389
Represented by:			
Non Current Assets			
Property, Plant and Equipment	7	11,499,561	12,245,882
Goodwill	8	1,356,890	1,356,890
Deferred Tax	9	-	242,645
Investments in Subsidiaries	10	103,393	103,393
Advances to Subsidiaries	24	3,530,000	3,530,000
Other Investments	11	323	-
		16,490,167	17,478,810
Current Assets			
Cash at Bank	16	964,897	-
Accounts Receivable	12	5,957,816	2,856,400
Amount Owed by Subsidiaries	24	19,449,320	20,534,643
Inventories	13	2,507,964	2,088,559
Livestock	14	14,022,785	-
Taxation Receivable		-	76,961
		42,902,782	25,556,563
Total Assets		59,392,949	43,035,373
Non Current Liabilities			
Deferred Tax	9	826,943	-
		826,943	-
Current Liabilities			
Bank Overdraft	16	-	52,422
Accounts Payable and Accruals	17	19,735,971	9,355,736
Borrowings	18	10,501,280	8,938,826
Taxation Payable		574,630	-
		30,811,881	18,346,984
Total Liabilities		31,638,824	18,346,984
Net Assets as per Total Equity		$27,754,125	$24,688,389

G J Cooney
Director

P J Carnahan
Director

20th June 2011

The financial statements should be read in conjunction with the notes to the financial statements on pages 14 to 34

PARENT CASH FLOW STATEMENT *for the year ended 31 March 2011*

	Note	2011	2010
		$	$
Cash Flows From Operating Activities			
Cash was provided from:			
Receipts from Customers		97,271,238	75,437,966
Interest Received		96,415	7,771
Goods and Services Tax		5,412	272,717
		97,373,065	75,718,454
Cash was disbursed to:			
Payment to Suppliers and Employees		95,752,047	75,224,319
Interest Paid		153,347	156,003
Taxation Paid		1,086,187	1,273,929
		96,991,581	76,654,251
Net Cash From/(Applied to) Operating Activities	23	$381,484	$(935,797)
Cash Flows From Investing Activities			
Cash was provided from:			
Proceeds from Sale of Property, Plant and Equipment		3,308	10,764
		3,308	10,764
Cash was applied to:			
Other Investments		323	-
Purchase of Property, Plant and Equipment		353,104	989,523
		353,427	989,523
Net Cash From/(Applied to) Investing Activities		$(350,119)	$(978,759)
Cash Flows From Financing Activities			
Cash was provided from:			
Borrowings		1,562,259	4,287,275
		1,562,259	4,287,275
Cash was applied to:			
Dividend Paid		576,305	1,728,915
		576,305	1,728,915
Net Cash From/(Applied to) Financing Activities		$985,954	$2,558,360
Net Increase/(Decrease) in Cash Held		1,017,319	643,804
Add Opening Cash and Short Term Deposits		(52,422)	(696,226)
Ending Cash and Short Term Deposits		$964,897	$(52,422)
Represented by:			
Cash at Bank		964,897	(52,422)
		$964,897	$(52,422)

The financial statements should be read in conjunction with the notes to the financial statements on pages 14 to 34

Statement of Accounting Policies

Reporting Entity

Blue Sky Meats (NZ) Limited is an unlisted company registered under the Companies Act 1993.

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

Statutory Base

Blue Sky Meats (NZ) Limited is an issuer for the purposes of the Financial Reporting Act 1993. The financial statements of Blue Sky Meats (NZ) Limited have been prepared in accordance with the Financial Reporting Act 1993 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) at fair value through profit or loss. The reporting currency is New Zealand dollars.

Critical Accounting Estimates and Judgements

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

Inventory Valuation

Inventory is recognised at the lower of cost and net realisable value. To determine cost, inventories are valued using the discounted selling price method. This method uses the last sales price, or committed sales price, and converts these factors back to New Zealand dollars, less expenses incurred, to bring the inventory to a saleable location. A margin is deducted from inventory where applicable to determine cost.

Livestock Valuation

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 amount for which the asset could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arms length transaction as at the valuation date. Point of sale costs include any necessary costs to dispose of livestock, excluding costs incurred to get the livestock to market.

Estimate of Useful Lives of Assets

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

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 Group financial statements include the Parent Company and its controlled subsidiaries accounted for using the acquisition method. Control is achieved where the Parent Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. All inter-company transactions are eliminated on consolidation. In the parent company financial statements, investments in subsidiaries are stated at cost.

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 is provided at rates which allocate the costs of the assets on a straight line basis over the following estimated useful lives:

Buildings	10 - 50 years
Plant and Equipment	2 - 10 years
Furniture	5 - 8 years
Vehicles	3 - 5 years

Certain assets are depreciated on a diminishing value basis.

d. Goodwill

Goodwill arising on the acquisition of a subsidiary is recognised as an asset at the date control is acquired. Goodwill is measured as the excess of 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.

e. Accounts Receivable

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

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

f. Inventories

Inventory is recognised at the lower of cost and net realisable value. To determine cost, inventories are valued using the discounted selling price method. This method uses the last sales price, or committed sales price, and converts these factors back to New Zealand dollars, less expenses incurred, to bring the inventory to a saleable location. A margin is deducted from inventory where applicable to determine cost.

g. 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 amount for which the asset could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arms length transaction as at the valuation 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.

h. 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.

i. 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.

j. 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.

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 and assets 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 attributable to amounts recognised directly in other comprehensive income are also recognised directly in other comprehensive income.

Current 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.

k. 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 probably 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 ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in cash flows of hedged items.

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

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated as a separate component of equity in the 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 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 carrying amount 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.

l. Foreign Currencies

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

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

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

m. Statement of Cash Flows

The Statement of Cash Flows 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 Statement of Cash Flows:

"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.

n. 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.

o. Employee Benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to settle 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 (if material) 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.

p. 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.

q. Revenue Recognition

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

Sale of Goods

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

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.

r. Leases

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

s. 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.

t. New Standards and Interpretations

The following new standards, amendments and interpretations relevant to the Group have been adopted from 1st April 2010 and have been applied in the preparation of these financial statements. Adoption of these standards have not resulted in any change to the Group’s reported results or financial position.

Standard/Interpretation

Improvements to New Zealand Equivalents to International Reporting Standards 2009

NZ IFRS 3 ‘Business Combinations’-(revised 2008)

NZ IAS 27 ‘Consolidated and Separate Financial Statements’-(revised 2008)

u. Standards and Interpretations in issue but not yet adopted

At the date of authorisation of the financial statements, a number of standards and interpretations were in issue but not yet effective, including:

Standard/Interpretation	*Effective for annual reporting periods beginning on or after*	*Expected to be initially applied in the financial year ending*
NZ IFRS 9 ‘Financial Instruments’	1 January 2013	31 March 2014
IFRS 10 ‘Consolidated Financial Statements’	1 January 2013	31 March 2014
IFRS 13 ‘Fair Value Measurements’	1 January 2013	31 March 2014
IAS 27 ‘Separate Financial Statements’-(revised 2011)	1 January 2013	31 March 2014

These new standards are expected to be initially applied in the financial year ending 31st March 2014, and the impact on the initial application of these standards is not yet able to be reasonably estimated. Other standards and intepretations are not expected to impact the entity’s financial statements.

1 Net Profit Before Tax

The following are included in the profit or loss:

	Group		Parent	
	2011	2010	2011	2010
Auditors' Remuneration				
Audit Fees are payable or due and payable to the auditors of the Parent entity for auditing the financial statements of the Group as follows:				
- Parent Company Auditor	45,000	41,800	45,000	41,800
- Other Auditors of the Group	5,402	5,655	-	-
	$50,402	$47,455	$45,000	$41,800

The Auditor of the Group is Deloitte.

	Group 2011	Group 2010	Parent 2011	Parent 2010
Operating Lease Costs				
Total operating costs include operating lease costs of:	38,802	45,079	38,802	45,079
Gain/Loss on Sale				
Total operating costs include losses on sale of property, plant and equipment of:	180	13,888	180	13,888
Total operating costs include profits on sale of property, plant and equipment of:	2,336	34	2,336	34
Employee Benefits Expenses	14,926,201	15,084,818	14,926,201	15,084,818
Net Foreign Exchange (gain)loss	48,014	(617,439)	-	-
Impairment of Financial Assets	24,074	-	24,074	-
Revaluation Gain - Livestock	600,829	-	600,829	-

2 Key Management Personnel

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

	Group		Parent	
	2011	2010	2011	2010
Short term employee benefits	720,058	724,927	720,058	724,927
Other (Directors fees)	300,000	180,000	300,000	180,000
	$1,020,058	$904,927	$1,020,058	$904,927

For the current year, Directors Fees include a one off retiring allowance of $120,000, paid to Mr B C Thomas.

3 Taxation

	Group		Parent	
	2011	2010	2011	2010
Surplus before Taxation	6,517,377	1,667,926	6,449,407	1,660,803
Prima Facie Taxation at 30%	1,955,213	500,378	1,934,822	498,241
Change in Corporate Tax Rate	(59,067)	-	(59,067)	-
Change in Building Depreciation Rules	920,875	-	920,875	-
Non Deductible Expenses/(Assessable Income)	10,736	2,656	10,736	1,092
Other items	335	-	-	-
Total adjustments	872,879	2,656	872,544	1,092
Taxation charge for year	$2,828,092	$503,034	$2,807,366	$499,333
The taxation charge is represented by:				
Current taxation	1,758,503	480,981	1,737,777	477,280
Deferred taxation	1,069,588	22,053	1,069,588	22,053
	$2,828,092	$503,034	$2,807,366	$499,333

Company Tax Rate Change

On 20th May 2010 the Government announced that the company tax rate was to reduce from 30% to 28% and tax depreciation deductions will no longer be available for any buildings with an estimated useful life of 50 years or more. The changes were enacted on 27th May 2010. The effect of these changes has been brought to account in these financial statements, with the impact on the current tax expense shown above. The impact on the deferred taxation liability of the company is detailed in Note 9.

Imputation Credit Account	Parent & Group	
	2011	2010
Opening Balance	4,129,712	3,699,969
Income tax payments during the year	1,086,134	1,835,127
	5,215,846	5,535,096
Less		
Income Tax refunded during the year	-	553,829
Imputation Credits attaching to dividends paid during the year	246,988	851,555
Other Debits	7,316	-
Closing Balance	$4,961,541	$4,129,712

Imputation credits available directly and indirectly to shareholders of the Group and Parent through:

Parent	4,961,541	4,129,712
Subsidiaries	-	-
	$4,961,541	$4,129,712

4 Share Capital - Parent & Group

	2011		2010	
	Number	Value $	Number	Value $
Balance at beginning of year	11,526,098	5,150,725	11,526,098	5,150,725
Total Shares on issue at end of year	11,526,098	$5,150,725	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.

Group

Basic and diluted earnings per share is calculated using net profit after tax of $3,689,285 (2010: $1,164,892) and weighted average number of ordinary shares issued of 11,526,098.

Parent

Basic and diluted earnings per share is calculated using net profit after tax of $3,642,041 (2010: $1,161,470) and weighted average number of ordinary shares issued of 11,526,098.

5 Cash Flow Hedge Reserve

	Group		Parent	
	2011	2010	2011	2010
Balance at beginning of year	286,431	874,929	-	-
Gains/(loss) recognised on cash flow hedges				
Forward Foreign Exchange Contracts	188,575	409,187	-	-
Transfer to profit or Loss	(409,187)	(1,249,899)	-	-
	(220,612)	(840,712)	-	-
Income tax related to gains/losses recognised in Other Comprehensive Income	66,184	252,214	-	-
Effect on reserve balance due to changes in Company Tax Rate	3,771	-	-	-
Balance at end of year	$135,774	$286,431	-	-

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.

6 Retained Earnings

	Group		Parent	
	2011	2010	2011	2010
Balance at beginning of year	19,695,056	20,259,079	19,537,664	20,105,109
Plus				
Net profit after tax	3,689,285	1,164,892	3,642,041	1,161,470
	23,384,341	21,423,971	23,179,705	21,266,579
Less Distributions				
Dividend Paid				
(2011: 5 cents per share, 2010: 15 cents per share)	576,305	1,728,915	576,305	1,728,915
Balance at end of year	$22,808,036	$19,695,056	$22,603,400	$19,537,664

7 Property, Plant & Equipment

2011 Group & Parent	Cost 1 April 2010	Additions	Disposals	Cost 31 March 2011	Accumulated Depreciation 1 April 2010	Depreciation	Disposals	Accumulated Depreciation 31 March 2011	Net Book Value 31 March 2011
	$	$	$	$	$	$	$	$	$
Freehold land & land improvements	3,315,152	36,175	-	3,351,327	49,893	6,064	-	55,957	3,295,370
Buildings	7,576,980	43,001	-	7,619,981	3,960,870	213,874	-	4,174,744	3,445,237
Plant & Equipment	10,006,460	207,372	17,624	10,196,208	4,781,040	828,259	16,473	5,592,826	4,603,382
Furniture	39,528	-	-	39,528	33,524	678	-	34,202	5,326
Vehicles	432,802	66,556	-	499,358	299,713	49,399	-	349,112	150,246
	$21,370,922	$353,104	$17,624	$21,706,402	$9,125,040	$1,098,274	$16,473	$10,206,841	$11,499,561

2010 Group & Parent	Cost 1 April 2009	Additions	Disposals	Cost 31 March 2010	Accumulated Depreciation 1 April 2009	Depreciation	Disposals	Accumulated Depreciation 31 March 2010	Net Book Value 31 March 2010
	$	$	$	$	$	$	$	$	$
Freehold land & land improvements	3,313,617	1,535	-	3,315,152	45,985	3,908	-	49,893	3,265,259
Buildings	7,511,855	65,125	-	7,576,980	3,756,846	204,024	-	3,960,870	3,616,110
Plant & Equipment	9,112,849	901,084	7,473	10,006,460	4,082,037	705,510	6,507	4,781,040	5,225,420
Furniture	49,640	-	10,112	39,528	38,509	774	5,759	33,524	6,004
Vehicles	460,793	21,778	49,769	432,802	284,379	45,804	30,470	299,713	133,089
	$20,448,754	$989,522	$67,354	$21,370,922	$8,207,756	$960,020	$42,736	$9,125,040	$12,245,882

8 Goodwill

	Group		Parent	
	2011	2010	2011	2010
Balance at beginning of year	1,356,890	1,356,890	1,356,890	1,356,890
	$1,356,890	$1,356,890	$1,356,890	$1,356,890

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

For the Goodwill Impairment Test the Meat Segment of Segment Reporting was identified as the relevant CGU.

The Goodwill asset arose from the historic acquisition of a company in 2002 which had previously done marketing activities associated with the selling and shipping of Blue Sky Meats Products.

If the carrying amount of the Meat Segment exceeds the recoverable amount, an impairment loss is recognised for the difference. In this case, the Meat Segment Goodwill would first be written down. Any remaining impairment would be allocated on a pro rata basis to the assets of the segment to the carrying amount of the assets on the balance sheet date.

During the year ended 31st March 2011 management have determined that there is no impairment of the meat segment that contained goodwill.

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

The value in use calculation uses cashflow projections based on financial budgets approved by management covering a five year period. Annual growth rates of 2% (2010: 2%) and pre-tax discount rates of 15% (2010: 15%) have been applied to these projections. Cashflows beyond the five year period have been extrapolated using a steady 2% (2010: 2%) growth rate. Management also believes 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.

9 Deferred Tax Asset (Liability)

2011 Group	Opening Balance	Charged to Profit or Loss	Charged to Other Comprehensive Income	Closing Balance
Derivative financial instruments	(122,756)	-	69,955	(52,801)
Accounts payable & accruals	242,645	(41,872)	-	200,773
Livestock Revaluations	-	(168,232)	-	(168,232)
Property, Plant & Equipment	-	(859,484)	-	(859,484)
	$119,889	$(1,069,588)	$69,955	$(879,744)

2010 Group	Opening Balance	Charged to Profit or Loss	Charged to Other Comprehensive Income	Closing Balance
Derivative financial instruments	(374,970)	-	252,214	(122,756)
Accounts payable & accruals	264,698	(22,053)	-	242,645
	$(110,272)	$(22,053)	$252,214	$119,889

2011 Parent	Opening Balance	Charged to Profit or Loss	Charged to Other Comprehensive Income	Closing Balance
Accounts payable & accruals	242,645	(41,872)	-	200,773
Livestock Revaluations	-	(168,232)	-	(168,232)
Property, Plant & Equipment	-	(859,484)	-	(859,484)
	$242,645	$(1,069,588)	-	$(826,943)

2010 Parent	Opening Balance	Charged to Profit or Loss	Charged to Other Comprehensive Income	Closing Balance
Accounts payable & accruals	264,698	(22,053)	-	242,645
	$264,698	$(22,053)	-	$242,645

Income Tax effects relating to each component of Other Comprehensive Income:

2011 Group	Before Tax Amount	Tax Benefit/ (Expense)	Net of Tax Amount
Cash Flow Hedges	(220,612)	69,955	(150,657)
	$(220,612)	$69,955	$(150,657)

2010 Group	Before Tax Amount	Tax Benefit/ (Expense)	Net of Tax Amount
Cash Flow Hedges	(840,712)	252,214	(588,498)
	$(840,712)	$252,214	$(588,498)

10 Investments In Subsidiaries

	Parent 2011	Parent 2010
Shares in Horizon Meats New Zealand Limited	100,000	100,000
Shares in Blue Sky Meats (UK) Limited	3,393	3,393
	$103,393	$103,393

	Percentage Held 2011	Percentage Held 2010	Balance Date
Horizon Meats New Zealand Limited	100%	100%	31 March
Blue Sky Meats (UK) Limited	100%	100%	31 March

The principal activity of Horizon Meats New Zealand Limited is the marketing of products produced by Blue Sky Meats (NZ) Limited.

The principal activity of Blue Sky Meats (UK) Limited is the sale of products in the UK for Horizon Meats New Zealand Limited.

11 Other Investments

	Group 2011	Group 2010	Parent 2011	Parent 2010
Shares in Ovine Automation Limited	323	-	323	-
	$323	-	$323	-

Ovine Automation Limited is a New Zealand incorporated company, whose principal activity is automation technology research and development in the meat processing industry.

12 Accounts Receivable

At amortised cost:	Group 2011	Group 2010	Parent 2011	Parent 2010
Trade Debtors & Goods and Services Tax	22,883,402	14,584,239	5,957,816	2,856,400
	$22,883,402	$14,584,239	$5,957,816	$2,856,400

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

a) Analysis of past due but not impaired assets:				
30 – 60 days	369,590	-	369,590	-
60 – 90 days	270,785	-	270,785	-
90 days +	178,427	-	178,427	-
	818,801	-	818,801	-

13 Inventories

	Group 2011	Group 2010	Parent 2011	Parent 2010
Livestock	-	340,129	-	340,129
Packaging Materials	330,248	291,714	330,248	291,714
Finished Goods	17,324,160	14,987,327	2,177,716	1,456,716
	$17,654,408	$15,619,170	$2,507,964	$2,088,559

14 Livestock

	Group 2011	Parent 2011
Net Purchases of Livestock	13,421,956	13,421,956
Changes in Livestock Fair Value Less Estimated Selling Cost	600,829	600,829
	$14,022,785	$14,022,785

The Livestock asset consists of 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 liveweight gain basis as livestock is delivered within specification for processing.

Other

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

As at the end of the year 134,168 head of livestock were held.

15 Derivative Financial Instruments

	Group	
At fair value:	2011	2010
Foreign Exchange Contracts		
Derivatives designated as effective hedging instruments	188,576	409,187
Held for trading derivatives not designated as hedging instruments	15,279	450,170
	$203,855	$859,357

Derivatives are not held for speculative purposes.

16 Bank

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

Interest is charged at a floating rate based on the Westpac Prime Lending Rate plus a 1.5% margin (refer Note 22).

17 Accounts Payable and Accruals

	Group		Parent	
	2011	2010	2011	2010
Trade Creditors and Accruals	18,931,455	8,172,893	18,216,087	7,734,464
Employee Entitlements	1,519,884	1,621,272	1,519,884	1,621,272
	$20,451,340	$9,794,165	$19,735,971	$9,355,736

18 Borrowings

	Group		Parent	
At amortised cost:	2011	2010	2011	2010
Bank Borrowings (a)	10,501,280	8,901,085	10,501,280	8,901,085
Discounted Bills (a)	4,679,243	-	-	-
Trade Finance Loans (a)	4,097,254	1,328,003	-	-
Vendor Finance (b)	-	37,741	-	37,741
	$19,277,777	$10,266,829	$10,501,280	$8,938,826

a) Bank Borrowings, Discounted Bills & Trade Finance Loans

Secured by a first charge mortgage and first charge debenture over the assets and undertakings of the company.

Interest on the bank borrowings as at the 31st March 2011 was 4.45% (2010: 4.45%). Interest is charged at a floating rate based on the Westpac Prime Lending Rate plus a 1.5% margin. This advance was on call and drawn down when required.

Interest on the trade finance loans as at 31st March 2011 was charged at interest rates between 2.15% - 2.93% (2010: 1.99% - 2.31%).

Interest on the discounted bills as at 31st March 2011 was charged at interest rates between 2.33 - 3.08%.

b) Vendor Finance

The advance relates to an item of capital expenditure financed during a previous year.

Breach of Banking Covenant

Blue Sky Meats (NZ) Ltd was in breach of its shareholder funds equity ratio covenant as at 31st March 2011. In the event of a breach a repayment in full is required, however Westpac NZ has waived its right to take action in respect of the breach, resulting in no consequence for the company.

On preparation of the April management accounts, the company complied with the shareholder funds equity ratio as at 30th April 2011.

19 Commitments & 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 and Blue Sky Meats (NZ) Limited. The parent company guarantees the trade finance and discounted bills of the subsidiaries. As at 31st March 2011 these totalled $8,776,497 (2010: $1,328,003).

b) Estimated capital expenditure contracted for at balance date but not provided for amounted to $314,417 (2010: $Nil).

20 Operating Lease Commitments

Lease commitments under non-cancellable operating leases:

	Group		Parent	
	2011	2010	2011	2010
Not later than one year	42,688	38,745	42,688	38,745
Later than one year and not later than two years	40,966	40,982	40,966	40,982
Later than two years and not later than five years	33,301	66,073	33,301	66,073
	$116,955	$145,800	$116,955	$145,800

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

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.

a) The following Group operating segments have been identified considering differences in the nature of the product, processing procedure required and markets for the end-product:

Meat
This segment derives its revenues from the sale of lamb, mutton and veal meat, casings and offal.

Other Associated Products
This segment derives its revenues from the sale of pelts, bone and by-products.

b) Group segment revenues and results:

	Meat		Other		Total	
NZ$000	2011	2010	2011	2010	2011	2010
Segment Revenue						
External Operating Revenue	92,648	81,062	8,156	3,999	100,804	85,061
Segment Expenditure						
Depreciation	515	551	583	409	1,098	960
Operating Expenditure	87,234	77,589	4,632	3,696	91,865	81,286
	87,748	78,141	5,215	4,105	92,964	82,246
Segment Profit Before Tax	$4,899	$2,921	$2,941	$(106)	$7,840	$2,815

21 Segment Reporting *continued*

c) Reconciliation of segment profit before income tax to net profit before taxation as reported in the consolidated financial statements:

NZ$000	Group 2011	Group 2010
Segment Profit Before Tax	7,840	2,815
Revenue not Allocated to Segments		
Interest Revenue	96	8
Expenditure not Allocated to Segments		
General Administration Costs	1,265	999
Interest	154	156
	1,419	1,155
Net Profit Before Tax	6,517	1,668
Income Tax Expense	2,828	503
Net profit after tax	$3,689	$1,165

d) Geographical Information:

2011 Group					
NZ$000	New Zealand	Asia/ Pacific	UK/ Europe	Other Foreign	Group
External Revenue	21,359	21,422	48,464	9,558	100,804
	$21,359	$21,422	$48,464	$9,558	$100,804

2010 Group					
NZ$000	New Zealand	Asia/ Pacific	UK/ Europe	Other Foreign	Group
External Revenue	10,662	17,067	51,474	5,859	85,061
Group	$10,662	$17,067	$51,474	$5,859	$85,061

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

e) Information about Major Customers:

The Group has no customers which individually account for greater than 10% of sales revenue (2010: Nil).

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 & Liquidity Management

The Group is exposed to interest rate risk as it borrows funds at floating rates of interest.

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

2011 Group	Weighted Average Effective Interest Rate	Less than 1 Year $000	1 - 3 Years $000	3 - 5 Years $000	5+ Years $000	Total $000
Financial assets:						
Cash and short term deposits		1,675	-	-	-	1,675
Accounts receivable		22,883	-	-	-	22,883
Derivative financial instruments		204	-	-	-	204
Financial liabilities:						
Accounts payable & accruals		(20,451)	-	-	-	(20,451)
Borrowings	2.15%-4.45%	(19,496)	-	-	-	(19,496)
		$(15,185)	-	-	-	$(15,185)

2010 Group	Weighted Average Effective Interest Rate	Less than 1 Year $000	1 - 3 Years $000	3 - 5 Years $000	5+ Years $000	Total $000
Financial assets:						
Cash and short term deposits		332	-	-	-	332
Accounts receivable		14,584	-	-	-	14,584
Derivative financial instruments		859	-	-	-	859
Financial liabilities:						
Accounts payable & accruals		(9,794)	-	-	-	(9,794)
Borrowings	4.45%	(10,267)	-	-	-	(10,267)
		$(4,286)	-	-	-	$(4,286)

22 Financial Instruments *continued*

2011 Parent	Weighted Average Effective Interest Rate	Less than 1 Year $000	1 - 3 Years $000	3 - 5 Years $000	5+ Years $000	Total $000
Financial assets:						
Cash and short term deposits	9.95%	965	-	-	-	965
Accounts receivable		5,958	-	-	-	5,958
Advances to subsidiaries		-	-	-	3,530	3,530
Amounts owing by subsidiaries		19,449	-	-	-	19,449
Financial liabilities:						
Accounts payable & accruals		(19,736)	-	-	-	(19,736)
Borrowings	4.45%	(10,657)	-	-	-	(10,657)
		$(4,021)	-	-	$3,530	$(491)

2010 Parent	Weighted Average Effective Interest Rate	Less than 1 Year $000	1 - 3 Years $000	3 - 5 Years $000	5+ Years $000	Total $000
Financial assets:						
Accounts receivable		2,856	-	-	-	2,856
Amount owned by subsidiaries		-	-	-	3,530	3,530
Advances to subsidiaries		20,535	-	-	-	20,535
Financial liabilities:						
Bank overdraft	10.25%	(52)	-	-	-	(52)
Accounts payable & accruals		(9,356)	-	-	-	(9,356)
Borrowings	4.45%	(8,939)	-	-	-	(8,939)
		$5,044	-	-	$3,530	$8,574

d) Credit Risk

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

Maximum exposures to credit risk as at balance date are:

	Group 2011	Group 2010	Parent 2011	Parent 2010
Cash and short term deposits	1,675,035	332,012	964,897	-
Net advances to subsidiaries	-	-	3,530,000	3,530,000
Amounts owed by subsidiaries	-	-	19,449,320	20,534,643
Accounts receivable	22,883,402	14,584,239	5,957,816	2,856,400
Derivative financial instruments	203,855	859,357	-	-

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

22 Financial Instruments *continued*

e) Concentrations of Credit Risk

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

The Parent Company has the following concentration of credit risk.

	Parent	
	2011	2010
Net advances to subsidiaries	3,530,000	3,530,000
Amounts owed by subsidiaries	19,449,320	20,534,643

Blue Sky Meats (NZ) Limited's largest customer, being its wholly owned subsidiary Horizon Meats New Zealand Limited, accounts for 98.90% of total meat sales, and 100% of receivables owed by subsidiaries at balance date.

The Parent Company does not have any other significant concentrations of credit risk.

f) Fair Values

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

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

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

		2011			2010	
Group	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Financial Assets						
Derivative financial assets	-	203,855	-	-	859,357	-

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	
	2011	2010	2011	2010	2011	2010	2011	2010
Australian Dollars	0.7792	-	12,474	-	16,009	-	(944)	-
US Dollars	0.7445	0.7000	6,467,482	4,579,263	8,686,441	6,541,348	144,865	65,216
Euro	0.542	0.5003	4,754,819	2,409,725	8,773,084	4,817,005	(38,057)	240,376
British Pound	0.4662	0.4479	4,855,233	5,403,800	10,413,378	12,064,154	98,159	550,470
Singapore Dollars	0.9588	0.9750	82,784	178,720	86,345	183,311	(168)	3,295
							$203,855	$859,357

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% increase or decrease in the various foreign currencies to which the Group 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.

	Group		Parent	
	2011	2010	2011	2010
	$000	$000	$000	$000
Net Profit after Taxation	13	29	-	-
Total Equity	13	29	-	-

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:

	Group		Parent	
	2011	2010	2011	2010
	$000	$000	$000	$000
Net Profit after Taxation	135	72	74	62
Total Equity	135	72	74	62

23 Reconciliation of Net Profit After Taxation with Net Cash from Operating Activities

	Group		Parent	
	2011	2010	2011	2010
Net Profit After Taxation	3,689,285	1,164,892	3,642,041	1,161,470
Non Cash items:				
Depreciation & Gain on Sale	1,096,118	973,874	1,096,118	973,874
Deferred Tax	1,069,588	(230,161)	1,069,588	22,052
Unrealised Foreign Exchange Losses	48,014	-	-	-
Livestock Revaluation	(600,829)	-	(600,829)	-
Impairment of Financial Asssets	24,074	-	24,074	-
	5,326,250	1,908,605	5,230,992	2,157,396
Movement in Working Capital				
Accounts Payable and Accruals	10,633,295	2,433,923	10,356,355	2,411,576
Derivative Financial Instruments	434,890	241,481	-	-
Accounts Receivable	(8,347,176)	2,868,180	(3,101,416)	460,646
Amounts Owed by Subsidiaries	-	-	1,085,323	(4,864,615)
Inventory	(2,035,238)	428,166	(419,405)	(304,152)
Livestock	(13,421,956)	-	(13,421,956)	-
Taxation Payable (Receivable)	668,630	(800,780)	651,591	(796,648)
	(12,067,556)	5,170,970	(4,849,508)	(3,093,193)
Net Cash Inflow/(Outflow) from Operating Activities	$(6,741,306)	$7,079,575	$381,484	$(935,797)

24 Transactions With Related Parties

Group

Mr G J Cooney, a director of the company, was paid consulting fees for services provided during the year, totalling $1,250 (2010: $2,000).

Mr M J McMillan, a director of the company, was paid consulting fees for services provided during the year, totalling $23,383 (2010: $16,500).

No amounts were forgiven or written off during the year.

Parent

Blue Sky Meats (NZ) Limited sells its product to Horizon Meats New Zealand Limited.

Any surplus obtained by Horizon Meats New Zealand Limited for such product is payable to Blue Sky Meats (NZ) Limited at year end.

Sales to Horizon Meats New Zealand Limited for the year were $82,655,495 (2010: $70,171,395). The amount recoverable from Horizon at year end is $19,449,320 (2010: $20,534,643).

Advances to/from subsidiaries are interest free and repayable on demand. The amount owing from the subsidiary to the parent is $3,530,000 (2010: $3,530,000).

25 Significant Events After Balance Date

Dividend Payment

It was proposed by the Directors on 3rd May 2011 that a final dividend of 19.5 cents per share based on 11,526,098 shares be paid to shareholders, requiring $2,247,589 (2010: $576,305).

The dividend will be paid on 3rd August 2011, on all shares held as at the 27th July 2011.

Remuneration of Directors

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

	Group	Parent
Mr G J Cooney - Chairman	65,455	65,455
Mr B C Thomas	120,000	120,000
Mr J P Houlker	32,727	32,727
Mr P J Carnahan	32,727	32,727
Mr M J McMillan	32,727	32,727
Ms S C Ottrey	16,364	16,364
	$300,000	$300,000

As provided for in the Company's Constitution, Mr B C Thomas received a retiring allowance of $120,000 on his retirement from the Board of Directors.

Remuneration of Employees

Seven employees received remuneration exceeding $100,000:

Remuneration Levels	No of Employees
$100,000 - $109,999	2
$110,000 - $119,999	1
$120,000 - $129,999	1
$130,000 - $139,999	1
$140,000 - $149,999	1
$210,000 - $219,999	1

Donations

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

Entries in Interests Register during Financial Year

a) Directors Interests

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

- Consulting fees were paid to Mr Cooney during the year.
- Consulting fees were paid to Mr McMillan during the year.

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".

b) Share Dealings

In November 2010, Mr J P Houlker purchased 20,000 shares in the company, for a consideration of $1.50 per share.

Key Figures	2011	2010	2009	2008	2007
Revenue & Interest Income	100,899,945	85,068,724	99,969,592	79,690,246	89,202,235
Net Profit after Tax	3,689,285	1,164,892	3,878,316	282,116	1,531,843
Number of Shares (on which dividend paid)	11,526,098	11,526,098	11,526,098	11,526,098	11,526,098
Total Dividend	2,247,589	576,305	1,728,915	-	1,152,610
Ordinary Dividend (cents per share)	19.5 cps	5 cps	15 cps	-	10 cps
Equity	28,094,535	25,132,212	26,284,733	21,357,689	22,401,982
Net Tangible Asset Backing per Ordinary Share at 31st March	$2.40	$2.05	$2.17	$1.72	$1.81
Earnings per Share (cents)	32¢	10¢	34¢	2¢	13¢

Deloitte.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF BLUE SKY MEATS (NZ) LIMITED

Report on the Financial Statements

We have audited the financial statements of Blue Sky Meats (NZ) Limited and group on pages 8 to 34, which comprise the consolidated and separate balance sheets of Blue Sky Meats (NZ) Limited, as at 31 March 2011, the consolidated and separate statements of comprehensive income, statements of changes in equity and cash flow statements for the year then ended, and a summary of significant accounting policies and other explanatory information.

This report is made solely to the company's shareholders, as a body, in accordance with Section 205(1) of the Companies Act 1993. 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.

Board of Directors' Responsibility for the Financial Statements

The Board of Directors are responsible for the preparation of financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate, and for such internal control as the Board of Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing and International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates, as well as the overall presentation of the financial statements.

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

Other than in our capacity as auditor we have no relationship with or interests in Blue Sky Meats (NZ) Limited or any of its subsidiaries.

Opinion

In our opinion, the financial statements on pages 8 to 34:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards; and
- give a true and fair view of the financial position of Blue Sky Meats (NZ) Limited and group as at 31 March 2011, and their financial performance and cash flows for the year then ended.

Report on Other Legal and Regulatory Requirements

We also report in accordance with section 16 of the Financial Reporting Act 1993. In relation to our audit of the financial statements for the year ended 31 March 2011:

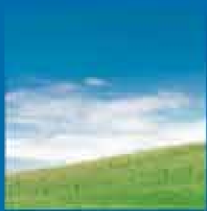
- we have obtained all the information and explanations we have required
- in our opinion proper accounting records have been kept by Blue Sky Meats (NZ) Limited as far as appears from our examination of those records.

Deloitte

Chartered Accountants
20 June 2011
Dunedin, New Zealand



BlueSkyMeats



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