Mars New Zealand Limited
Annual Report
for the 52 week period ended
30 December 2017

Contents

Directory

Principal business	Manufacturing of pet food products for the domestic and export markets, and the distribution of food, chocolate, gum, mints, confectionery and pet food products throughout New Zealand
Directors	Gerard Lynch (resigned 26 March 2018) Peter Simmons (appointed 26 March 2018) Paul Roberts Derek Pickering Cate Walsh
Registered office	Building 14, 666 Great South Road Penrose Auckland 1051
Auditor	PricewaterhouseCoopers
Solicitors	Simpson Grierson

Directors' responsibility statement
For the 52 week period ended 30 December 2017

The Directors are responsible for ensuring that the financial statements give a true and fair view of the financial position of the Company as at 30 December 2017 and its financial performance for the 52 week period ended on that date.

The Directors consider that the financial statements of the Company have been prepared using appropriate accounting policies, consistently applied and supported by reasonable judgements and estimates and that all relevant financial reporting and accounting standards have been followed.

The Directors believe that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the Company and facilitate compliance of the financial statements with the Companies Act 1993.

The Directors consider they have taken adequate steps to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The Board of Directors have pleasure in presenting the annual report of Mars New Zealand Limited, incorporating the financial statements and the auditors' report, for the 52 week period ended 30 December 2017.

With the unanimous agreement of all shareholders, Mars New Zealand Limited has taken advantage of the reporting concessions available to it under section 211(3) of the Companies Act 1993.

For and on behalf of the Board of Directors who approved these financial statements for issue on the date shown below:

Peter Simmons
Director
8 May 2018

Paul Roberts
Director
8 May 2018

Independent auditor's report

To the shareholders of Mars New Zealand Limited

The financial statements comprise:

- the balance sheet as at 30 December 2017;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the financial statements of Mars New Zealand Limited (the Company), present fairly, in all material respects, the financial position of the Company as at 30 December 2017, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards Reduced Disclosure Regime (NZ IFRS RDR).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs NZ) and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the 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 (Revised) *Code of Ethics for Assurance Practitioners* (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our firm carries out other services for the Company in the areas of tax advisory and compliance, and provision of ValueFinancials support. The provision of these other services has not impaired our independence as auditor of the Company.

Information other than the financial statements and auditor's report

The Directors are responsible for the annual report. Our opinion on the financial statements does not cover the other information included in the annual report and we do not express any form of assurance conclusion on the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

PricewaterhouseCoopers, 188 Quay Street, Private Bag 92162, Auckland 1142, New Zealand
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Responsibilities of the Directors for the financial statements

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

In preparing the financial statements, the Directors are responsible for assessing the Company'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 Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the 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 NZ and ISAs 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 financial statements.

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

https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-8/

This description forms part of our auditor's report.

Who we report to

This report is made solely to the Company's shareholder. Our audit work has been undertaken so that we might state those matters which 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 and the Company's shareholder, for our audit work, for this report or for the opinions we have formed.

The engagement partner on the audit resulting in this independent auditor's report is Keren Blakey.

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
8 May 2018

Auckland

Mars New Zealand Limited
Statement of comprehensive income
For the 52 week period ended 30 December 2017

	Notes	**52 week period ended 30 December 2017 $'000**	52 week period ended 31 December 2016 $'000
Revenue - sale of goods	4	**244,199**	221,342
Cost of sales		**(148,153)**	(129,754)
Gross profit		**96,046**	91,588
Expenses	6		
Distribution costs		**(10,874)**	(9,558)
Administrative expenses		**(33,800)**	(32,120)
Other expenses		**(1,560)**	(2,014)
Advertising and promotion costs		**(9,155)**	(9,046)
Other gains		**2,923**	-
Expenses, excluding finance costs		**(52,466)**	(52,738)
Finance expenses		**(841)**	(774)
Finance income		**2,735**	2,588
Finance income - net	5	**1,894**	1,814
Profit before income tax		**45,474**	40,664
Income tax expense	7	**(11,802)**	(11,564)
Total comprehensive income for the year		**33,672**	29,100
Profit is attributable to:			
Owners of Mars New Zealand Limited		**33,672**	29,100
		33,672	29,100
Total comprehensive income for the period is attributable to:			
Owners of Mars New Zealand Limited		**33,672**	29,100
		33,672	29,100

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

	Notes	as at 30 December 2017 $'000	as at 31 December 2016 $'000
ASSETS			
Current assets			
Trade and other receivables	8	**20,198**	14,579
Inventories	9	**25,503**	21,646
Amounts owing by related parties	21	**137,682**	99,982
Total current assets		**183,383**	136,207
Non-current assets			
Property, plant and equipment	10	**12,037**	12,885
Intangible assets	11	**1,079**	5,748
Deferred tax assets	14	**4,271**	3,190
Total non-current assets		**17,387**	21,823
Total assets		**200,770**	158,030
LIABILITIES			
Current liabilities			
Trade and other payables	12	**30,209**	26,633
Current tax liabilities		**24,387**	22,603
Amounts owing to related parties	21	**21,475**	18,305
Provisions	13	**5,082**	4,949
Retirement benefit obligations	15	**6,397**	-
Total current liabilities		**87,550**	72,490
Non-current liabilities			
Retirement benefit obligations	15	**-**	5,992
Total non-current liabilities		**-**	5,992
Total liabilities		**87,550**	78,482
Net assets		**113,220**	79,548
EQUITY			
Contributed equity	16	**25,000**	25,000
Retained earnings	17	**88,220**	54,548
Total equity		**113,220**	79,548

The above balance sheet should be read in conjunction with the accompanying notes.

	Notes	Attributable to equity holders of the Company		
		Contributed equity	**Retained earnings**	**Total equity**
		$'000	**$'000**	**$'000**
Balance as at 3 January 2016		25,000	55,448	80,448
Comprehensive income				
Profit for the year		-	29,100	29,100
Other comprehensive income, net of tax		-	-	-
Total comprehensive income		-	29,100	29,100
Transactions with owners				
Dividend paid	18	-	(30,000)	(30,000)
Balance as at 31 December 2016		25,000	54,548	79,548
Balance as at 1 January 2017		25,000	54,548	79,548
Comprehensive income				
Profit for the year		-	33,672	33,672
Other comprehensive income, net of tax		-	-	-
Total comprehensive income		-	33,672	33,672
Transactions with owners				
Dividend paid	18	-	-	-
Balance as at 30 December 2017		25,000	88,220	113,220

The above statement of changes in equity should be read in conjunction with the accompanying notes.

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Mars New Zealand Limited
Statement of cash flows
For the 52 week period ended 30 December 2017

	52 week period ended 30 December 2017 $'000	52 week period ended 31 December 2016 $'000
Cash flows from operating activities		
Receipts from customers	**239,008**	220,446
Payments to suppliers and employees	**(199,217)**	(174,955)
Interest paid	**(840)**	(774)
Income tax paid	**(11,100)**	(8,722)
Net cash inflow from operating activities	**27,851**	35,995
Cash flows from investing activities		
Proceeds from sale of intangible assets	**7,422**	-
Payments for property, plant and equipment	**(1,533)**	(2,192)
Net cash outflow from investing activities	**5,889**	(2,192)
Cash flows from financing activities		
Proceeds from loans to related parties	**2,735**	2,588
Loan to related parties	**(36,475)**	(36,391)
Net cash outflow from financing activities	**(33,740)**	(33,803)
Cash at the beginning of the financial year	**-**	-
Cash at end of year	**-**	-

The above statement of cash flows should be read in conjunction with the accompanying notes.

1 Summary of significant accounting policies

Mars New Zealand Limited ('the Company') manufactures pet food for the domestic and export markets, and distributes pet food, chocolate, gum, mints, confectionery and food products in New Zealand. The Company is a limited liability company incorporated and domiciled in New Zealand.

The immediate parent for Mars New Zealand Limited is Mars Japan Limited. The ultimate parent company is Mars, Incorporated in USA.

These financial statements have been approved for issue by the Board of Directors on 8 May 2018. The Directors do not have the power to amend the financial statements after issue.

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

The financial statements of the Company have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP).The Company is a for-profit entity for the purpose of complying with NZ GAAP. The financial statements comply with New Zealand equivalents to International Financial Reporting Standards Reduced Disclosure Regime (NZ IFRS RDR), other New Zealand accounting standards and authoritative notices that are applicable to entities that apply NZ IFRS RDR.

The Company is eligible and has elected to report in accordance with Tier 2 for-profit accounting standards, NZ IFRS Reduced Disclosure Regime (NZ IFRS RDR) on the basis that the Company has no public accountability and is not a large for-profit public sector entity. The Company has elected to report in accordance with IFRS RDR and has applied disclosure concessions.

Entities reporting
The financial statements for the Company are for Mars New Zealand Limited as a separate legal entity. The Company is designated as a profit oriented entity for financial reporting purposes.

Statutory base
Mars New Zealand Limited is a Company registered under the Companies Act 1993. The financial statements have been prepared in accordance with the requirements of the Companies Act 1993.

Measurement base
These financial statements have been prepared under the historical cost convention as identified in specific accounting policies below. The accounts are presented in New Zealand dollars rounded to the nearest thousand.

Going concern
The financial statements have been prepared on a going concern basis.

Reporting period
The Company has reported its full year result on a 52 week basis. The current year represents the 52 week period commencing 1 January 2017 to 30 December 2017. The prior full comparative represents the 52 week period commencing 3 January 2016 to 31 December 2016.

(b) Revenue recognition

(i) Sale of goods
Sale of goods comprises the amount received and receivable by the Company for goods supplied to customers in the ordinary course of business. Revenue includes the fair value for the sale of products, net of Goods and Services Tax, rebates and discounts. Sales of products are recognised in accordance with the terms of sale when title has been transferred and benefits of ownership and risk pass to the customer.

(ii) Interest income
Interest income is accounted for as earned.

(c) Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

1 Summary of significant accounting policies (continued)

(c) Property, plant and equipment (continued)

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the reporting period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

- Building and improvements	5% - 9% per annum
- Plant and equipment	10% - 33% per annum
- Furniture and fixtures	16% - 33% per annum
- Computer equipment	33% per annum

Capital work in progress is not depreciated until commissioned.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the statement of comprehensive income.

(d) Trade and other receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts.

A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation are considered indicators that the trade receivable is impaired. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the statement of comprehensive income within 'administrative expenses'. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against 'administrative expenses' in the statement of comprehensive income.

(e) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Cost is determined using the first-in, first-out (FIFO) method and in the case of manufactured goods, includes direct materials, labour and production overheads. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(f) Income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the national tax laws enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

1 Summary of significant accounting policies (continued)

(f) Income tax (continued)

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

(g) Goods and Services Tax (GST)

The statement of comprehensive income has been prepared so that all components are stated exclusive of GST. All items in the balance sheet are stated net of GST, with the exception of receivables and payables, which include GST invoiced.

(h) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in New Zealand dollars, which is the Company's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

(i) Impairment of non-financial assets

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever 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 purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Prior impairments of non-financial assets (other than goodwill) are reviewed for possible reversal of the impairment at each reporting date.

(j) Employee benefits

(i) Wages, salaries, annual leave and sick leave
Liabilities for wages and salaries, including non-monetary benefits and annual leave are recognised in other payables in respect of employees' service up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

(ii) Long service leave
The liability for long service leave is recognised in provisions and measured as the present value of expected future payments to be made in respect of services provided by employees up to reporting date using the projected unit credit method. Consideration is given to expected future wages and salary levels, experience of employees departures and period of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms of maturity and currency that match, as closely as possible, the estimated future cash outfows.

1 Summary of significant accounting policies (continued)

(j) Employee benefits (continued)

(iii) Retirement Benefit Obligations
The Company provides retirement benefits to senior employees through a defined benefit plan and defined contribution plan. The defined benefit plan provides defined lump sum benefits and pensions based on years of service and final average salary. The defined contribution plan receives fixed contributions from the Company and employee and the Company's legal or constructive obligation is limited to these contributions.

The defined benefit plan is unfunded, and therefore there is no calculation of the expected rate of return on assets.

The present value of the defined benefit obligation is based on expected future payments which arise from membership of the fund to the reporting date, calculated annually by independent actuaries using the projected unit credit method. Consideration is given to expected future wage and salary levels and period of service.

Expected future payments are discounted using the market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Actuarial gains and losses arising from experience, adjustments and changes in actuarial assumptions are recognised in the period in which they occur directly in the statement of comprehensive income.

Past service costs are recognised immediately in income, unless the changes to the superannuation fund are conditional on the employees remaining in service for a specified period of time (investing period). In this case, the past service costs are amortised on a straight line basis over the vesting period.

Future taxes are taken into account in the actuarial assumptions used to determine the relevant components of the employer's defined benefit liability.

Contributions to the defined contribution fund are recognised as incurred.

(k) Trade and other payables

Trade payables represent liabilities for goods and services provided to the Company prior to the end of the reporting period and which remain unpaid. The amounts are unsecured and are normally settled within the terms of trade of the relevant transactions. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(l) Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

(m) Financial Assets

Classification

The Company classifies its financial assets in the following categories: loans and receivables. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at the end of each reporting period.

Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Company commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

1 Summary of significant accounting policies (continued)

(m) Financial Assets (continued)

Measurement

At initial recognition, the Company measures a financial asset at its fair value plus transaction costs that are directly attributable to the acquisition of the financial asset.

Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Impairment

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

For loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the statement of comprehensive income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the statement of comprehensive income. Impairment testing of trade receivables is described in Note 1(d).

(n) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

(o) Intangible assets

(i) Brands
Acquired brands with a substantial and long-term sustainable value, that are supported by advertising expenses, and that have an indefinite life are recorded under the heading intangible assets in the balance sheet.

Brands are recorded at historical cost. Trademark are not amortised due to their indefinite nature but are assessed annually by the directors for impairment. Where the estimated recoverable amount is less than the carrying amount an impairment loss is recognised in the profit and loss component of the statement of comprehensive income.

2 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Trade promotion accruals are estimated based on the agreed terms with customers, or the agreed discounts/contribution for a promotional event. The accruals include trading terms, growth rebate, case deals, scan rebate, display allowances (co-op), and mailer advertising allowances. The accuracy of the accruals for volume-related terms or discounts largely rely on the accuracy of sales estimates/forecast.

3 Financial risk management

Financial instruments by category

	as at 30 December 2017 $'000	as at 31 December 2016 $'000
Financial assets as per balance sheet		
Loans and receivables	157,878	114,564

Prepayments do not meet the definition of a financial asset and has been excluded from the above table.

Financial liabilities as per balance sheet		
Measured at amortised cost	45,861	39,910

Employee entitlements and GST do not meet the definition of a financial liability and have been excluded from the above table.

4 Revenue

	52 week period ended 30 December 2017 $'000	52 week period ended 31 December 2016 $'000
Sale of goods	244,199	221,342

5 Finance income and expenses

	52 week period ended 30 December 2017 $'000	52 week period ended 31 December 2016 $'000
Finance costs		
Defined benefit interest expense	273	180
Other third party interest expense	568	594
Total finance costs	841	774
Finance income		
Interest income from related party loans	(2,735)	(2,588)
Net finance income	(1,894)	(1,814)

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6 Expenses

	52 week period ended 30 December 2017 $'000	52 week period ended 31 December 2016 $'000
Profit before income tax includes the following specific expenses:		
Bad and doubtful debts (recovery) expense	**(3)**	5
Rental expense relating to operating leases	**1,041**	950
Research and Development	**891**	1,003
Employee benefit expense		
Wages, salaries and other short term benefits	**28,182**	27,888
Pension costs - defined contribution plan	**474**	466
	28,656	28,354

7 Income tax

	52 week period ended 30 December 2017 $'000	52 week period ended 31 December 2016 $'000
(a) Income tax expense		
Current tax	**12,883**	11,888
Deferred tax	**(1,081)**	(324)
	11,802	11,564
(b) Numerical reconciliation of income tax expense to prima facie tax payable		
Profit from continuing operations before income tax expense	**45,474**	40,664
Income tax calculated at domestic tax rate 28%	**12,733**	11,386
Tax effect of amounts which are not (taxable) / deductible in calculating taxable income	**(764)**	31
Other	**(59)**	95
(Over) Under provision in prior years	**(108)**	52
	(167)	147
Income tax expense	**11,802**	11,564

8 Trade and other receivables

	as at 30 December 2017 $'000	as at 31 December 2016 $'000
Trade receivables	**20,196**	14,582
Prepayments	**2**	(3)
	20,198	14,579

(a) Impaired receivables

Movements on the provision for impairment of trade receivables are as follows:

	52 week period ended 30 December 2017 $'000	52 week period ended 31 December 2016 $'000
Balance at beginning of period	**3**	-
Provision for impairment recognised during the period	**-**	8
Receivables recovered / written-off during the period as uncollectible	**(3)**	(5)
Balance at end of period	**-**	3

(b) Bad and doubtful trade receivables

The Company has recognised a recovery of $3,000 (2016: loss of $5,000) in respect of bad and doubtful trade receivables during the year ended 30 December 2017. The recovery has been included in 'other expenses' in the statement of comprehensive income.

9 Inventories

	as at 30 December 2017 $'000	as at 31 December 2016 $'000
Raw materials	**216**	295
Packaging materials	**783**	1,626
Finished goods	**24,504**	19,725
	25,503	21,646

The cost of inventories recognised as an expense and included in 'cost of sales' amounted to $148,153,000 (2016: $129,754,000).

Total net inventory write-down expense was $137,000 during the year (2016: $492,000). The amount written down has been included in 'other expenses' in the statement of comprehensive income

10 Property, plant and equipment

	Capital WIP $'000	Plant and equipment $'000	Furniture & fixtures $'000	Building & improvements $'000	Land $'000	Computer equipment $'000	Total $'000
At 3 January 2016							
- Cost	1,514	28,874	930	6,701	576	2,578	41,173
Accumulated depreciation	-	(22,032)	(602)	(2,963)	-	(2,427)	(28,024)
Net book amount	1,514	6,842	328	3,738	576	151	13,149
At 31 December 2016							
Cost	1,217	28,949	926	6,697	576	2,556	40,921
Accumulated depreciation	-	(21,579)	(704)	(3,401)	-	(2,352)	(28,036)
Net book amount	1,217	7,370	222	3,296	576	204	12,885
As at 1 January 2017							
Opening net book amount	1,217	7,370	222	3,296	576	204	12,885
Additions	621	578	-	196	-	138	1,533
Disposals	-	(104)	-	-	-	(2)	(106)
Depreciation charge	-	(1,457)	(89)	(501)	-	(228)	(2,275)
Transfers	(1,216)	778	-	112	-	327	-
Closing net book amount	622	7,164	134	3,103	576	438	12,037
At 30 December 2017							
Cost	622	27,512	918	6,938	576	2,248	38,814
Accumulated depreciation	-	(20,348)	(784)	(3,835)	-	(1,810)	(26,777)
Net book amount	622	7,164	134	3,103	576	438	12,037

Depreciation of $2,275,000 (2016: $2,456,000) is included in 'other expenses' in the profit and loss component of the statement of comprehensive income.

11 Intangible assets

At 3 January 2016	**Trademarks $'000**	**Patents $'000**	**Customer Contracts $'000**	**Total $'000**
Cost	-	-	-	-
Accumulated amortisation	-	-	-	-
Net book amount	-	-	-	-
At 31 December 2016				
Cost	3,018	431	2,299	5,748
Accumulated amortisation	-	-	-	-
Net book amount	3,018	431	2,299	5,748
Year Ended 30 December 2017				
Opening net book amount	3,018	431	2,299	5,748
Disposals	(2,587)	(287)	(1,724)	(4,598)
Amortisation charge	-	(13)	(58)	(71)
Closing net book amount	431	131	517	1,079
At 30 December 2017				
Cost	431	144	575	1,150
Accumulated amortisation	-	(13)	(58)	(71)
Net book amount	431	131	517	1,079

IAMS and EUKANUBA brands were acquired in 2016 for US$4million (NZ$ 5,748,000).

(i) Trademark

The trademark have been subjected to impairment review and were determined to have an indefinite useful life.

(ii) Patents and customer contracts

Separately acquired patents and customer contracts are shown at historical cost. Patents and customers contracts acquired in a business combination are recognised at fair value at the acquisition date. They have a finite useful life and are subsequently carried at cost less accumulated amortisation and impairment losses.
During the year, the estimated total useful lives of patents and customer contracts have been revised. The net effect of the changes in the current financial year was an increase in amortisation expense of $71,000.
The patents and customer contracts are now amortised with a limited useful life using the straight-line method over the following periods:
Patents - 11 years
Customer contracts - 10 years

12 Trade and other payables

	as at 30 December 2017 $'000	as at 31 December 2016 $'000
Trade payables	**12,945**	10,247
Accruals	**11,441**	11,358
Employee entitlements	**4,155**	3,333
GST Payable	**1,668**	1,695
	30,209	26,633

13 Provisions

	as at 30 December 2017 $'000	as at 31 December 2016 $'000
Long service benefit provision	**4,932**	4,850
Growth incentive provision	**150**	99
	5,082	4,949

(a) Long service benefit provision

Employees who joined the business prior to 1 April 2008 (the start of Kiwisaver) are entitled to payment of a certain percentage of their earnings when they leave the business. The long service provision represents the accumulated amounts accrued in relation to this scheme that is payable as and when relevant associates leave the business.

(b) Growth incentive provision

The Company operated a medium term incentive plan for certain Directors and Managers which ceased at the end of 2009. The plan rewarded the participants for business growth over a three year period, with payment made annually based on the prior three years actual results. The growth incentive provision represents the expected amounts remaining due under the scheme, payable over the coming three years.

	Long service benefit provision $'000	Growth incentive provision $'000	Total $'000
At 1 January 2017	4,850	99	4,949
Charged to the statement of comprehensive income	164	51	215
Used during year	(134)	-	(134)
Additional provisions	52	-	52
At 30 December 2017	4,932	150	5,082

	Long service benefit provision $'000	Growth incentive provision $'000	Total $'000
At 3 January 2016	3,598	80	3,678
Charged to the statement of comprehensive income	502	306	808
Used during year	(67)	(287)	(354)
Additional provisions	817	-	817
At 31 December 2016	4,850	99	4,949

14 Deferred income tax

	Retirement Benefit Obligation $'000	Provisions and other temporary differences $'000	Property, Plant and Equipment $'000	Total $'000
At 3 January 2016	1,566	1,550	(250)	2,866
Charged to the statement of comprehensive income	112	175	37	324
At 31 December 2016	1,678	1,725	(213)	3,190
At 1 January 2017	1,678	1,725	(213)	3,190
Charged to the statement of comprehensive income	113	649	319	1,081
At 30 December 2017	1,791	2,374	106	4,271

15 Retirement benefit obligations

The Company has two retirement benefit plans, provided through related parties. The first plan is a Mirror Promise plan, where associates hired from overseas related parties have their pension benefits matched in New Zealand and the second plan is a retirement savings plan called (IARP), which is provided to selected employees. These plans are structured such that where the account balances under the plan at the time a benefit is payable are below the defined benefit level, the Company makes a special contribution. The defined benefit arrangements provide a lump sum benefit base on years of membership and final average salary.

Balance sheet amounts

The amounts recognised in the balance sheet are determined as follows:

	as at 30 December 2017 $'000	as at 31 December 2016 $'000
Liability in the balance sheet	**6,397**	5,992
Adjustment for contributions tax	**-**	-
Present value of obligation	**6,397**	5,992

(a) The movement in the defined benefit obligation and fair value of plan assets over the year

The movement in the defined benefit obligation over the year is as follows:

	as at 30 December 2017 $'000	as at 31 December 2016 $'000
Balance at beginning of year	**5,992**	5,592
- Current service and interest costs	**474**	466
- Benefit payments	**(193)**	(182)
- Actuarial losses	**124**	116
Balance at end of year	**6,397**	5,992

15 Retirement benefit obligations (continued)

(b) Amount recognised in the profit and loss component of the statement of comprehensive income

	as at 30 December 2017 $'000	as at 31 December 2016 $'000
Current service cost (net of member contributions)	234	237
Net interest on net defined benefit liability	240	229
	474	466

(c) Remeasured effects recognised / included in administrative expenses

	52 week period ended 30 December 2017 $'000	52 week period ended 31 December 2016 $'000
Remeasured losses recognised during the period (including contributions tax)	124	116
Total, included in staff costs	124	116

(d) Significant actuarial assumptions

The significant actuarial assumptions were as follows:

	as at 30 December 2017	as at 31 December 2016
Discount rate (before tax)	2.8 %	3.4 %
Salary increases	7.0 %	7.0 %
Expected future inflation	2.0 %	2.0 %
AUD Exchange rate	0.9096	0.9622
USD Exchange rate	0.7097	0.6968

16 Contributed equity

	Shares	Shares	**$'000**	$'000
(a) Share capital				
Ordinary shares				
Ordinary shares	**100**	100	**-**	-
Preference shares	**250,000**	250,000	**25,000**	25,000
	250,100	250,100	**25,000**	25,000

(b) Ordinary shares

There were 100 fully paid and authorised shares on issue (2016: 100). All ordinary shares rank equally with one vote attached to each fully paid ordinary share.

(c) Preference Shares

There were 250,000 fully paid and authorised shares on issue at 30 December 2017 (2016: 250,000). Preference shares have priority right to any payment of dividend and priority rights to surplus assets of the Company above ordinary shares.

(d) Capital Risk Management

The main objective of capital risk management is to ensure that Mars New Zealand Limited operates as a going concern, meets debts as they fall due, maintains an effective capital structure, and reduces the cost of capital.

Mars New Zealand Limited's capital consists of share capital and retained earnings. To maintain or alter the structure the Company has the ability to review the size of dividends paid to shareholders, return capital or issue new shares.

Mars New Zealand Limited did not have any external debt during the period (2016: nil) and therefore did not have any externally imposed capital equivalents that it needed to comply with during the period. During the period Mars New Zealand Limited did not change its capital risk management strategy.

17 Retained earnings

Movements in retained earnings were as follows:

	as at 30 December 2017 $'000	as at 31 December 2016 $'000
Balance at beginning of period	**54,548**	55,448
Net profit for the period	**33,672**	29,100
Dividends	**-**	(30,000)
Balance at end of period	**88,220**	54,548

18 Dividends

No dividends were paid in 2017 (2016: $30,000,000).

19 Contingencies

As at 30 December 2017 the Company had no contingent liabilities or assets (2016:$nil).

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20 Commitments

(a) Capital commitments

Capital expenditure contracted for at the end of the reporting period but not yet incurred is as follows:

	as at 30 December 2017 $'000	as at 31 December 2016 $'000
Property, plant and equipment	**622**	1,217

(b) Lease commitments: as lessee

	as at 30 December 2017 $'000	as at 31 December 2016 $'000
Within one year	**1,143**	1,025
Later than one year but not later than five years	**673**	957
Total	**1,816**	1,982

21 Related party transactions

The immediate parent for Mars New Zealand Limited is Mars Japan Limited. The ultimate parent company is Mars Incorporated in USA.

The treasury operations, accounts payable, accounts receivable, payroll, and systems support operations are performed with Mars Australia Pty Limited, a related entity. Mars New Zealand Limited imports, from related parties, around 80% of the products sold in local market. The Company also exports pet food to other related parties overseas such as Australia.

Mars Incorporated	Ultimate parent company
Mars Japan	Immediate parent company
Mars Australia	Fellow Subsidiary
Mars Belgium	Fellow Subsidiary
Mars Canada	Fellow Subsidiary
Mars China	Fellow Subsidiary
Mars Egypt	Fellow Subsidiary
Mars Financial Services	Fellow Subsidiary
Mars India	Fellow Subsidiary
Mars Indonesia	Fellow Subsidiary
Mars Information Services	Fellow Subsidiary
Mars Malaysia	Fellow Subsidiary
Mars Nederland	Fellow Subsidiary
Mars Philipines	Fellow Subsidiary
Mars Singapore	Fellow Subsidiary
Mars South Africa	Fellow Subsidiary
Mars Taiwan	Fellow Subsidiary
Mars Thailand	Fellow Subsidiary
Mars UK	Fellow Subsidiary
Mars US	Fellow Subsidiary
Nutro US	Fellow Subsidiary
Royal Canin	Fellow Subsidiary
The Wrigley Company NZ	Fellow Subsidiary
Treasury and Benefits Centre	Fellow Subsidiary

21 Related party transactions (continued)

The Pedigree Adoption Drive Trust	Directors as trustees

Transactions with related parties

Relationship with company	Nature of transactions	Transaction 2017 $'000	Transaction 2016 $'000	Year-end 2017 $'000	Year-end 2016 $'000
Ultimate Parent	Loan and interest	**33,341**	49,253	**107,002**	73,661
	Dividends	-	(30,000)	-	-
	Transfer / purchase of IAMS & EUKANUBA brands	-	(5,748)	-	-
	Corporate and other service fees	**(2,230)**	(1,530)	**(107)**	(126)
Fellow subsidiary	Sale of products	**44,637**	44,010	**12,842**	11,628
	Business service fees	**1,914**	3,041	**17,838**	14,693
	Imports of products	**(88,766)**	(76,695)	**(17,260)**	(17,435)
	purchase of products	**(18,615)**	-	**(3,512)**	-
	Business service fees	**(8,265)**	(9,033)	**(596)**	(744)
Directors as trustees	Charitable donations	**(71)**	-	-	-
		(38,055)	(26,702)	**116,207**	81,677

The loan and interest owing from Mars Incorporated relates to a short-term loan renewable at the mutual agreement of parties and subject to an interest rates of 2.98% to 3.16% per annum.

Key management compensation

Key management includes the General Manager, the Finance Director and the Plant Manager. The total compensation paid or payable to key management for employee services is $1,304,792 (2016: $1,286,211).

22 Events occurring after the reporting period

Wrigley UNO New Zealand and Mars New Zealand Limited will be amalgamated on 20 May 2018. Under the amalgamation, Mars New Zealand Limited will take control of all the assets of Wrigley New Zealand and will assume responsibility for its liabilities