MARKET GARDENERS LIMITED

ANNUAL REPORT

FOR THE YEAR ENDED

30 JUNE 2018

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Financial highlights

• **Group gross sales under management**	$862.391 million
Group profit before income tax and impairment (including gain on acquisition)	$13.667 million
Impairment of intangible asset (goodwill and brand)	($32.330 million)
• **Group (loss) before income tax**	($18.663 million)
• **Group (loss) for the year (after income tax)**	($19.502 million)
• **Group total equity**	$107.147 million
• **Group total assets**	$262.749 million

	2018 $'000	**2017** $'000
Shareholder distributions		
• Special Bonus Issue (November 2018)		
• 1 for 20 on "A" shares (2017 : 1 for 15)	976	1,172
• 1 for 5 on "B" shares (2017 : 1 for 3)	1,666	2,518
• 1 for 2 on "C" shares (2017 : 1 for 3)	442	331
• 1 for 20 on "D" shares (2017 : 1 for 15)	155	190
• Supplier shareholder rebate (issued as 2018 "C" shares) (2017: issued as 2017 "C" shares)	250	250
• Bonus issue on supplier shareholder rebate of 3 for 1 (2017 : 3 for 1)	750	750
• Final gross dividend on "A" shares : 6 cents per share (2017 : 6 cents per share)	1,171	1,125
• November 2018 - final gross dividend on "D" shares : 6 cents per share (November 2017 : 6 cents per "D" share)	186	182
Total shareholder distributions in relation to the year ended 30 June	5,596	6,518

Chairman's and Chief executive officer's review

We entered the 2018 financial year full of anticipation that we could build on a great 2017. However, the year has presented unforeseen challenges to the business to which we have needed to adapt. The year has therefore ended with mixed results - a record result for New Zealand but a disappointing outcome for Australia. We remain confident that the strategic initiatives of recent years well positions your Co-operative for a sound and sustainable future.

The New Zealand trading operations recorded another strong performance with record turnover and profitability. Market share gains and generally good values across a broad product range, together with tight management of expenses, have assisted in achieving this result. Our associates also performed well and are in a good position for future growth and profitability gains.

The Australian market suffered from depressed pricing with many product lines undervalued because of weak demand, over production or, in some cases, both. This impacted not only our farming operations but the marketing divisions, resulting in a reduction of revenue and a significant loss for the year. The LaManna Premier Group (LPG) board and management teams recognised the ongoing effect of weak market conditions and pricing throughout the year, and while merger synergies had already assisted, further business improvements were necessary. While these improvements will take time to bed in, the Company is confident that an enhanced performance will be achieved. The specifics of this strategy are discussed in the LPG section of this review.

Given the difficult trading environment and trading loss in Australia, the board has decided to take a $32.330 million impairment of the brand and goodwill related to the business. This is a non-cash impairment (reduction in the value recorded for the brand and goodwill) and does not impact on our debt facilities or compliance with banking covenants. This is explained in more detail in the financial section later in this review.

The combined trading profit, before tax and impairment, and including the gain on acquisition , was $13.667 million for the year, down from $16.018 million for the previous year.

The vagaries of climate and other disruptions are becoming the norm for the horticulture industry. We witness first-hand the vulnerability of growers and marketers, alike, to these variables and the need to develop sustainable farming practices in the long-term interest of the industry. These industry challenges demonstrate, once again, the benefits of working together to meet the ever-discerning needs of our customers and consumers– as a co-operative we are Together. Stronger. ® It also demonstrates the value of diversification across countries and key categories.

Chairman's and Chief executive officer's review (continued)

Today's consumer is defining our business like never before. They seek what were seasonal products on an all year-round basis and continually look for better eating experiences. Given traditional growing models, the impact of the weather and the lead times associated with new varietal development, this becomes a challenging proposition to deliver on. Our focus remains on ensuring we are assisting our growers in meeting these consumer demands by being an integrated part of their business, providing the necessary support around planning to meet demand expectations, supporting with marketing insight on buying behaviour, meeting customer expectations and the further enhancement through the use of Intellectual Property rights (IP). Successfully delivering on these key priorities creates competitive advantages that assist with the sustainability of our grower suppliers, our customer relationships and our Co-operative.

Our people are vital to delivering on these priorities. We continue to work on attracting the right people into our business and developing their capabilities within our cultural boundaries. It is essential that they are philosophically aligned with the grower, understand and deliver on customer expectations, and have the skills to create game-changing innovation. To this end, our capability to support this wide range of demands is a core focus of 'our people' strategies.

Information technology is also a critical component of our business success. Our current IT platform has served the business extremely well and will be phased out over the following year with the new system currently under development. This will greatly assist with further efficiency gains and improved flexibility to adopt new digital technologies.

The use of smart technology and digital responses for business are also necessary for efficiency gains, improved communication and decision making. A good example of this is MG's Grower Delivery Advice (GDA) web portal which is now well established in the business, with close to 60% of all growers using the system and over 75% of all produce currently supplied now being pre-receipted online.

We will continue to strategically review and invest in growing operations, joint ventures, partnerships and provide grower financial assistance where this strengthens the Co-operative and is in line with our Co-operative principles, to grow the overall wealth of the Co-operative, its shareholders and growers through relevant initiatives.

Despite the setbacks this year, there have been significant positives. Our New Zealand operations continue to perform strongly and we are well placed for further growth. LPG is working hard on its business remodelling and the early signs of improving performance are encouraging.

Chairman's and Chief executive officer's review (continued)

The Board remains focused on strategically positioning the company for future success and we thank the Board members for their governance and leadership in the face of some significant industry-wide challenges. The Board's engagement on the health, safety and wellbeing of our people is paramount and our culture of care strategies are under constant review to achieve this goal.

We pay tribute to our prior Chairman Brian Gargiulo's service to the company later in this review - on behalf of the Board and management we thank Brian for his outstanding contribution to the success of the Co-operative.

And finally, on behalf of the Board and management team, we acknowledge and thank the support of all our stakeholders – our suppliers, customers and fellow staff - as we work together to grow our Co-operative for a stronger future.

MG has operated now for 95 years and has a proud history. We will continue to be creative, identifying new opportunities for our shareholders, grower suppliers and customers, take controlled risks and remain passionate about what we do. We look forward to working with you all on this endeavour in 2019.

® Together. Stronger.

Bruce Irvine
Chairman

27 September 2018

Peter Hendry
CEO

27 September 2018

Financial Overview & Distributions

The Group's financial highlights are reported on page 2 of this report.

For the year to 30 June 2018 Group Gross Sales under Management amounted to $862 million ($894 million in 2017). For the same period net profit before tax and impairment, including the gain on acquisition amounted to $13.667 million compared to $16.018 million in 2017. This result came from the strength of both the NZ market and the business, offset by the challenges that were faced in the Australian market.

Chairman's and Chief executive officer's review (continued)

As is noted above, this year there has been a partial impairment of the Group's intangible assets, amounting to $32.330 million. Each year MG is required to undertake an assessment of the carrying value of its various investments and intangible assets against the assessed ongoing value. If the carrying value is higher than the ongoing value, then there is an impairment. The investment, or intangible asset, is written down in value and this represents an expense in the profit and loss. It is important to note that this is a non-cash write down / reduction in value. Details around the assessment process and the variables used in this calculation are more fully set out in note 9 of the financial statements (refer to the full Annual Report).

MG invested in LaManna Bananas Pty Ltd (LMB) in July 2003 with an initial 25% shareholding which grew to 50% in 2004 and eventually became 100% in 2005. Over the years, the percentage shareholding has varied as a result of share issues, acquisitions and mergers and currently stands at 69.3%. The last significant event was the merger with Premier Fruits Group in 2016 – this saw LMB rebrand as LaManna Premier Group (LPG).

The Group net (loss) after tax, the gain on acquisition and the impairment expense amounted to ($19.502) million compared to a profit of $11.609 million in 2017.

Group Profitability – year ended 30 June 2018	Net profit/(Loss) after tax $'000
MG Group excluding Australia	10,788
Gain on acquisition	6,568
Australia	(4,528)
Impairment expense	(32,330)
(Loss) for the year	(19,502)

At a Group level, MG remains strong with equity standing at $107.147 million (2017 $129,678) and total assets of $262.749 million (2017 $277.127 million). The reduction between years is primarily as a result of the impairment expense as discussed above.

As announced at the November 2017 Annual Meeting of Shareholders, MG exercised the option to purchase the JS Ewers Ltd business, effective 1 December 2017. The 7 months results (to 30 June) for this business are reflected in the Group results for the year.

Distributions

Given the strength of the Company and the strong results that have come from the NZ operations, the MG Board of Directors has resolved to return to its shareholders significant distributions totalling $5.596 million (2017: $6.518 million) by way of rebate shares, bonus issues and dividends. This is the fourth consecutive year that shareholders have received a special bonus issue.

On 7 September 2018 the Board declared the following distributions in relation to the year ended 30 June 2018:

Chairman's and Chief executive officer's review (continued)

- Special bonus issue – a fully imputed taxable special bonus issue of:
  - One new "A" share for every twenty existing "A" shares; and
  - One new "B" share for every five existing "B" shares; and
  - One new "C" share for every two existing "C" shares; and
  - One new "D" share for every twenty existing "D" shares.
- Supplier shareholder rebate – a taxable rebate of $250,000 to be applied by the Company in paying up in full "C" shares of the Company to be issued at $1.00 each and made in such manner as the Directors determine to those shareholders that are Current Producers that have supplied on a consignment basis during the financial year ended 30 June 2018.
- Bonus issue – a three for one fully imputed taxable bonus issue on the "C" shares issued out of the above rebate. This amounts to $750,000 worth of "C" shares being issued (Shareholders that are Current Producers receive three further "C" shares for every one "C" share they receive from the above rebate). As imputation credits have been attached to the bonus issue shares they are mostly tax paid in the hands of the shareholder.
- Final dividend – a fully imputed taxable gross dividend of six cents on every "A" share and six cents on every "D" share. Once again imputation credits are attached to this dividend.

The above distributions will be made only to those shareholders entered on the share register at 30 June 2018 who continue to hold, at the date of the 2018 Annual Meeting, the shares held at 30 June 2018.

The above special bonus issue, rebate, bonus issue and dividends represent $5.596 million being distributed back to MG's loyal and supportive shareholders. Not only is this a significant distribution of wealth to the shareholders it represents the strength of the Co-operative as a whole.

In addition, and as has occurred for many years now, we are pleased to note the support of the shareholders through their high level of reinvestment of their dividends back into more MG shares ("A" and "D" shares). If you would like to participate in the dividend reinvestment plan please contact our Company Secretary, Duncan Pryor, at MG's Support Office for further information on email dpryor@mgmarketing.co.nz or phone (03) 343 1794.

Annual Review / Annual Report

In addition to this Annual Report inclusive of full financial statements, MG presents an Annual Review. If you would like a copy of the Annual Review visit the website, www.mgmarketing.co.nz, or contact the Company Secretary, Duncan Pryor, on (03) 343 1794 or email dpryor@mgmarketing.co.nz

Chairman's and Chief executive officer's review (continued)

Directorate & Management

Change is inevitable and with it comes new faces and new thinking to the business. The Board is no exception to this. As featured later in this review, Brian Gargiulo handed over the Chairmanship to Bruce Irvine after last year's election. Mark O'Connor re-joined the Board after last year's election and Trevor Burt joined the Board as a special director earlier in 2017. In addition, following the introduction in 2015 of the Director Internship Programme, Trudi Webb was appointed as the second Director Intern.

As a Board, your directors maintain their focus on strategic issues affecting our industry and your Co-operative. The Board continued with its review and updates to the Charter, code of conduct and policies during the year. A key part of this is regularly reviewing the Board's collective skill set and evaluating the best mix of skills required to continue to take the company forward. This resulted in the Board Capability Framework being developed and subsequently published.

In accordance with the company's constitution, Alan Franklin and Lynn Crozier retire by rotation and, being eligible, have put themselves forward for re-election. Two other nominees, Diana Baird and Joanna Lim, have been nominated and put themselves forward for election. As there are four candidates for two positions on the Board, an election is being held by postal ballot. Voting papers for the postal ballot will be sent to shareholders together with the Notice of Meeting on or around 19 October 2018.

Bruce R Irvine, Chairman, Appointed Special Director.
Bruce joined the MG Marketing Board in 1994. He comes with an extensive business background and previously held the position of Managing Partner of the Christchurch office of Chartered Accountants, Deloitte, between 1995 and 2007; and is past Chairman of Christchurch City Holdings Limited. Bruce is currently a director of Heartland Bank, PGG Wrightson and a number of other public and private companies. Bruce is Chairman of the Company, Chair of the LaManna Premier Group's Audit Committee, a Director of LaManna Premier Group Pty Ltd and member of MG's Remuneration & Nomination Committee.
Chartered Fellow of the IOD* and Accredited Fellow of the CAANZ**.

Andrew G Fenton, Deputy Chairman, Elected Director.
Andrew joined the Board in 2002. He has more than 35 years in the avocado and kiwifruit industries through the Bay of Plenty-based Phoenix Partnership and Beresford Orchards Ltd.
He has extensive commercial and governance experience in businesses and industry groups.

*Institute of Directors **Chartered Accountants Australia and New Zealand

Chairman's and Chief executive officer's review (continued)

Andrew is currently a director of New Zealand Horticultural Export Authority and Kiwifruit New Zealand, President of the NZ Fruitgrowers' Federation, Chairman of the NZ Fruitgrowers' Charitable Trust, a Member of NZ Kiwifruit Growers Inc. and Chairman of Huddart Parker Building Co. Ltd.
Andrew is Deputy Chairman, Chairman of the MG Remuneration & Nomination Committee and Director of LaManna Premier Group Pty Ltd.
Andrew was previously the President of Horticulture NZ and Chairman of Satara Co-operative Group Ltd.
Chartered Fellow of the IOD*.

Alan G Franklin, Elected Director.
Alan was appointed to the MG Marketing Board in 2010.
Alan's family has been growing for five generations in Auckland since 1906.
Member of the IOD*.

Alan D Thompson, Elected Director
Alan was appointed to the MG Marketing Board in November 2016.
Alan has a long history and background in the growing of many crops for the domestic market and export, and is an experienced exporter in his own right. The family business, Kainui Pack & Cool, is involved in the growing and packing of citrus, kiwifruit, avocados and melons, with pack house and cool stores in Kerikeri.
Alan's family business holds a 25% shareholding in Te Mata Exports 2012 Ltd and Alan is both a Director and finance director of that business.
Alan is a member of MG's Audit Committee.

Trevor J Burt, Appointed Special Director.
Trevor has high level experience in the strategic leadership of large and complex corporate organisations, and a proven record of implementing change and achieving results. Trevor holds Chair roles of Ngai Tahu Holdings Corporation Ltd, Lyttelton Port of Christchurch Ltd, and New Zealand Lamb Company Ltd. He is Deputy Chair of PGG Wrightson Ltd and a Director of Silver Fern Farms Ltd, Landpower NZ Ltd, as well as a former member of the Executive Board of the Linde Group based in Munich.
Trevor is Chairman of the MG Audit Committee.
Chartered fellow of the IOD*

Lynn T Crozier, Elected Director.
Lynn joined the MG Marketing Board in 2012. Today Lynn, through a family-owned and operated business since the 1960's, is a grower of potatoes, onions and carrots in Central Canterbury.
Lynn is a member of the MG Audit Committee.
Member of the IOD*.

Chairman's and Chief executive officer's review (continued)

Mike J Russell, Elected Director.

Mike was appointed to the MG Marketing Board in November 2016.

Mike is a first-generation Hawkes Bay grower with 35 years' experience, in partnership with his wife Julie, specialising in plums.

Mike is a member of the MG Remuneration & Nomination Committee.

Mark R O'Connor, Elected Director.

Mark is serving a second term having originally joined the MG Marketing Board in November 2014.

He is a Director and shareholder of a family-owned market gardening business in Nelson on the Waimea Plains.

Member of the IOD*.

The End of One Chapter Signals the Beginning of Another – A Tribute to Brian Gargiulo, MBE

Brian Gargiulo is well acknowledged for his standing within the horticultural industry, and for good reason. It is only but appropriate to reflect on the role he has played in the industry during his 40-plus years of service to the industry and, most particularly, the part he has played in securing the profitability and sustainability of New Zealand's largest fresh produce co-operative.

Awarded an MBE for services to horticulture and New Zealand, Brian has been relentless in his commitment to developing the industry as a commercial proposition. He has championed innovation, lobbied for change when change was clearly long overdue and represented growers when they felt ill-equipped to represent themselves.

Brian was a key player in the establishment of Horticulture New Zealand and held the role of Vice-president for nine years (2005-2014); he served as president on the Board of New Zealand Vegetable and Potato Growers' Federation (1998 - 2015) and on the Board of MG for 36 years (1981-2017) – 25 as Chairman.

Brian's achievements within the industry have been well documented but his contribution to the growth and success of the grower co-operative, MG, is less well published.

Established in 1923 by a small band of resolute and like-minded growers, MG today stands as a leading supplier of fresh produce to New Zealand, Australia and the Asia-pacific region. The success of the Co-operative is testimony to the vision, the leadership and the tenacity of a few and the commitment of many. Brian Gargiulo is one of the few – a leader, a visionary and an individual who was keenly focused on building resilience in the business, first and foremost, from which opportunities could be successfully leveraged. It was during Brian's tenure as Chairman that the Co-operative flourished and became a substantial organisation.

Chairman's and Chief executive officer's review (continued)

The son of a grower and a grower himself, Brian's ability to identify an opportunity and then find a pathway to commercialise that opportunity has been to the benefit of many. There are many milestones during his tenure on the MG Board that secured real and sustainable growth for the company and shareholder wealth, not the least of which are the Dole partnership that changed the game for the banana category in New Zealand, the expansion of the MG branch network, establishment of MG Direct to provide growers with a direct distribution channel to key customers, the acquisition of the Australian LaManna Group of companies and the merger of LaManna Group with the Premier Fruits Group to form the LaManna Premier Group. Brian's continuation as Chair of the LaManna Premier Board is testimony to the regard in which he is also held across the Tasman.

Brian's years around the MG boardroom table will be remembered not only for his business acumen, but for the value he placed on people and the things that they valued. The impact that his inclusiveness and collaborative approach has had on the culture of the company is evident, both in terms of the team culture within the Group and the strength of relationships that have been built with growers and customers alike.

While Brian has handed over the reins to Bruce Irvine to lead MG into the next decade, he will continue to focus on resolving the challenges facing the LaManna Premier Group and leading a strategic programme of growth in the Australian market for the long-term benefit of the Co-operative.

MG People

In order to stay ahead of the field, and to continuously meet the changing needs of our diverse customer base, we must focus on our people - ensuring we have the best people working with us and that we continually build their capabilities. In doing so, we strengthen you, our business and the Co-operative.

Our aim is to provide a work environment where our people are safe and have the opportunity to grow and develop. We work in a very competitive and constantly-changing environment. We understand that for MG to meet these challenges, we continually need to attract outstanding people who are also culturally aligned with our business.

The MG Graduate Programme and Sales Academy have been tremendously successful in this regard. Both initiatives are being further developed, not only to support development opportunities for our people, but to invest in the long-term capability of our industry.

Chairman's and Chief executive officer's review (continued)

Whilst new talent is essential to all organisations MG has also developed a culture of long-serving staff. This stability and wealth of knowledge is highlighted repeatedly as a key factor in our commercial success as a business. As we to look to the future and recognise the challenges of change and succession, we are committed to developing tomorrow's leaders from within the Co-operative. To this end, leadership forms a key part of our of people programmes.

The well-being, health and safety of all our people comes before anything. It is, of course, a never-ending journey but the 'culture of care' framework that has been established within the business is the essential foundation of our ® Together. Safer. programme. The Co-operative's emphasis on the importance of keeping safe is also populated throughout the entire supply chain, with ongoing engagement with our suppliers and our growers through SupplyLine and the grower 'shed' meetings.

On behalf of the Board and Management, we thank our staff for their dedication, hard work and loyal service to our growers, customers and to our business. We proudly acknowledge this contribution by featuring their names in this publication.

New Zealand Operations

The New Zealand operations maintained growth and had a record year, both in terms of gross sales under management and profit before tax.

This result is again the accumulation of good operating performances across all divisions, improved volumes sold and higher values across many fruit and vegetable lines for much of the year.

The success of different operating models, such as MG Direct and the Grower Delivery Advice (GDA) portal, continue to gain momentum and bring efficiency gains for all.

MG has progressively invested in its branch network infrastructure throughout the country, with all facilities being temperature controlled for the optimum storage of product. Upgrading continues as needed to cope with growth, as was the case with our Palmerston North branch which was upgraded with new chiller facilities during the year.

Our investment in human resource is another constant for the business. Our capability to provide consistent and value-added support for our suppliers and customers is contingent on our ability to deliver on our human resource strategies. Additionally, as the business grows, and to effectively manage succession planning in all areas of the business, we are committed to developing fresh talent.

Chairman's and Chief executive officer's review (continued)

MG continues to look for new ways of adding value for the benefit of the grower shareholders. The partnership with RuralCo, a co-operative that provides MG members with the ability to access savings on farm supplies, fuel, power and fertilizer, has now been running for over a year. If you have not had the opportunity to review the benefits of this association, please contact your MG procurement representative for further information.

In December 2017 MG purchased the JS Ewers Ltd Nelson growing operations. Prior to this, MG had been working collaboratively with the JS Ewers business through various contractual arrangements and exercised the right for the acquisition midway through the year. This substantial glasshouse and outdoor vegetable production unit continues to deliver against MG's core purpose of generating shareholder wealth and the strategic pillars that support this purpose. As well as being a profitable business, the scale, range, quality and continuity of supply it brings creates category support from key customers. This allows other suppliers to support category supply initiatives and grow their business.

MG has also made an investment in Gisborne-based First Fresh NZ Ltd. First Fresh is a leading citrus supplier, both to domestic and export markets. Citrus is complimented by persimmons, kiwifruit and other sub-tropical lines. The investment will strengthen MG's citrus supply base and provide further growth opportunities for our business. This investment was a natural extension of what had been a very successful working relationship over many years.

Our shareholding in both New Zealand Fruit Tree Company Ltd and Zee Sweet Ltd forms an integral part of our commitment to more sustainable farming and to delivering better quality and taste for the consumer through investment in IP varieties.

International Trading

MG is the leading importer of fresh fruit and vegetables into New Zealand. Much like our domestic growing operations, global producers have faced their challenges with weather variables during the year. Logistical challenges have also impacted throughout the year. Despite these challenges import revenues improved across all key categories, driven by both volume and value.

Our imports team is focused on maximising sales of products not grown in New Zealand or out of season. As consumers become more adventurous with their culinary skills and the food service sector grows, the opportunities for more 'exotic' products also show promise.

Chairman’s and Chief executive officer’s review (continued)

Dole is the largest selling proprietary brand in the market. They continue to deliver high quality and innovation to the market place. MG has now been in partnership with Dole for 25 years and Dole remains the leading brand across the tropical fruit range of bananas, pineapples and paw paw.

Our imports division continues to drive initiatives which deliver great tasting fruit and vegetables that will enhance repeat purchases and meet the customer’s expectations for all round supply and diversity of product. This is no more evident within the grape category where old, high cost, varieties are being replaced with high producing, lower cost and improved flavour seedless varieties. Our key category supply partners, such as Jasmine Vineyards in California, Dole Chile and Fruitmaster in Australia, are at the forefront of this evolution.

Convenience is also another factor shaping other categories and consumer shopping behaviour. Easy peel mandarins are fast becoming the citrus category leader and close to year-round supply, including domestic production, is being supported by our key supply partners Sunkist and Mildura Fruit Company. The recent introduction of an innovative pineapple coring machine to the market demonstrates how providing the consumer with a cost-effective and convenient product can drive sales momentum. Store trials are underway throughout the country and we expect to roll out more of these machines later in the year.

Our international supply partners are leaders in their particular field and most have a long-standing relationship with MG. This is a key factor in our success as they understand our marketplace and help to bring innovation and competitive advantage to our business.

Te Mata Exports 2012 Ltd (Te Mata Exports)

MG’s joint venture export partner, Te Mata Exports, consolidated on growth in recent years to provide another solid trading result.

Despite industry apple export volume being down on forecasts, our market share grew against this trend. Generally, export apple values were lower than the previous year but overall our revenue showed strong gains on the back of improved volume.

As our apple business continues to show year on year growth, other products in the portfolio are also showing rapid growth, in particular citrus. Our diversification strategy continues to gain momentum with non-apple product lines now representing approximately 50% of turnover. The business is now trading product from New Zealand, Australia and the USA. This continues the strategy of linking global opportunities through the Group’s relationships to Te Mata Export’s reputable customer base.

Chairman's and Chief executive officer's review (continued)

International trading of perishable products is a challenging environment to operate in – so while not without risks our business growth is being managed prudently. Fundamentally, this relies on partnering with quality growers and working collaboratively to achieve the best possible returns. This also extends to enhancing customer relationships by providing sustainable business partnerships. To maintain service levels as we continue our growth trajectory, additional human resource is being employed.

Our export industry has enormous growth potential – our ideal climate and soils, investment in R&D and new varieties, a focus on best-practice growing, our proximity to key markets and the global environmental consciousness of consumers all have the New Zealand horticultural industry well positioned.

United Flower Growers Ltd (UFG)

MG's joint venture flower business, UFG, reported a record year in both sales and profitability, up from the previous year's high. 2018 has been characterised by a number of significant events which have impacted on the business. Despite these challenges the business has responded and performed well.

The purchase of the Floramax flower auction business in April 2017 required the successful merger of staff and company cultures which has been achieved, along with the synergy gains this acquisition expected to realise.

The business has continued to expand services with a dual auction clock being introduced into the Auckland branch. After some consenting delays, UFG also introduced a clock auction system into the Christchurch market during October 2018. This will further improve service levels to both suppliers and customers alike and deliver efficiency gains for the business.

With all the changes and disruptions behind us, the focus is on continued commitment and stabilising our services to flower growers and buyers. We plan to move forward from here by continuing to develop programs, resources and opportunities that best benefit everyone associated with the industry. This includes access to analytical and technical information to better assist flower growers, expansion of our digital auction platforms and the introduction of remote buying (cloud auction) to the South Island, or finding more ways to improve the demand for New Zealand grown flowers.

Chairman’s and Chief executive officer’s review (continued)

Australian Operations – LaManna Premier Group (LPG)

2018 was a challenging year on many fronts, weak market conditions and product values across LPG’s key categories being the most significant disruptor.

Low product values on certain lines have become the norm for an extended period now. We need to adapt to this challenge and the changing market conditions and look to new initiatives in order to mitigate some of the economic consequences. This may take some time to achieve but initiatives are well underway. There are some early signs of improving market conditions which are also encouraging.

Sales volume on some lines has also deteriorated as over production has limited opportunities into key customer accounts. New commitments from these customers are being built on the back of our farming operations and by providing more certainty for the business across the core categories of bananas, tomatoes, pumpkin, melons and citrus.

Consequentially, our farming operations also suffered from depressed market pricing. Some categories have experienced 10-year pricing lows which, to a certain point, are beyond our control. As such, farming yields and operating efficiencies are the immediate focus to mitigate weak market conditions where possible.

The LPG business handles over 20 million cartons of produce per annum. Product handling efficiency is therefore a critical component in capturing cost efficiencies. A full review of our logistics and service provisions is well underway. The business is, however, mindful of the need to balance growth opportunities with a cost efficiency focus.

LPG has been working hard on business improvement strategies for these disruptors and on a number of key priorities in the immediate future. First and foremost, the executive team has been realigned and refocused on these key priorities. They are also focused on ensuring that the company values and culture continued to be aligned with the organisation strategies.

Investment in resource and infrastructure within farming operations has commenced to provide improved stewardship on operational improvements, quality and consistency of supply.

Efficiencies across warehouse operations and productivity are a complex area of the business and will take time to come to fruition. Direct to store models, similar to those implemented in New Zealand operations, along with on-farm quality assurance, compliance and technical support initiatives are all key enablers for improvement in this area.

Chairman’s and Chief executive officer’s review (continued)

The final stages of our network and systems integration is almost complete. Ongoing development and implementation of business analytics tools are also underway, which will improve the availability of information to support sound decision making.

Profitable sales growth initiatives are a key priority - this is underpinned by building on initiatives that allow for having ‘skin in the game’ and developing strategic grower partnerships and customer relationships.

Significant post-merger efficiency gains have been implemented during 2017 and 2018, with further gains initiated as we enter 2019. We will take lessons from the past but have a firm focus on the future. We remain steadfast on our commitment to invest in our people and communities. Whilst there is uncertainty on the timing of improvement of the low-price environment we remain optimistic about the future. MG and LPG are taking a long term view so that, whilst the immediate focus and priorities are to strengthen the business to address the challenges, the strategic focus is to continually improve the business model and associated infrastructure to take full advantage of future opportunities and set the business up for long term sustainable success.

® Growing You

For some time now, investment in our people, growers and community has been part of our strategic fabric, with a number of unique initiatives being developed as a result.

We have made significant investment in the grower development programme, partnering with organisations such as Lincoln University, to offer our growers access to some of the latest thinking and learning within the sector – this is our Grower Development Workshop Programme. We are currently looking at additional programmes that include elements of the Graduate Programme and Sales Academy and potentially extending to a growing academy.

Our biennial regional grower shed meetings were conducted across the country. This is our opportunity to keep the grower Co-operative abreast of MG’s recent initiatives, discuss the financial performance of the company, provide insights on topical issues affecting our industry, gain feedback and respond to questions. We encourage you to participate in these meetings to enable a two-way flow of ideas and information.

The Director Internship programme was introduced in 2015 with the aim of encouraging shareholders to grow their knowledge and governance experience.

Chairman's and Chief executive officer's review (continued)

The position allows the intern to attend all meetings with full speaking rights, but no voting rights, and is supported by a mentor from the MG Board. Trudi Webb has now joined the programme, being our second Director Intern, as the Co-operative's commitment to developing the governance skill set of our members.

MG's Intern Director - Trudi Webb

The MG Marketing Board is pleased to announce Trudi Webb as the recipient of the 2017 Director Internship for MG Marketing.

The director internship was introduced in 2015 as part of the ® Growing You initiative and also formed part of the MG Board's strategy to broaden the knowledge and experience base of our shareholders and their families, while giving those with an interest in the governance of MG Marketing a taste of what is involved. While the intern is not an actual director, the appointment allows the intern to participate and gain experience in MG's corporate governance.

Trudi is part of a fourth-generation family growing enterprise, Webb's Fruit - arguably one of New Zealand's most successful summerfruit and apple producers. Alongside her husband Simon, Trudi operates the original family-owned orchard that was established over 100 years ago on 32 hectares of land near Cromwell in Central Otago.

Trudi holds a first-class honours Bachelor of Applied Science (Horticulture) degree and is Chairperson of the Otago Fruit Growers Association. Her wealth of experience in the summerfruit sector underpins her vision for the industry of environmental and economic sustainability for future generations.

Annual Meeting of Shareholders

All shareholders are invited to attend MG's Annual Meeting of shareholders. This year the event will be held at the Copthorne Hotel, Palmerston North, on Wednesday 21 November 2018, commencing at 5.00pm. Shareholders are welcome to join MG directors, management and staff to formally or informally discuss topics of interest.

There will be a dinner following on from the meeting at approximately 7.30 pm and all shareholders and their partners are warmly welcome to attend (RSVPs are required for catering purposes – details are included in the invitations to all shareholders distributed with the notice of the meeting).

MG in the Community

The health of our people and our wider community is at the heart of what MG does – primarily this is what we call 'selling health to the nation'.

Chairman's and Chief executive officer's review (continued)

MG is a significant sponsor of the United Fresh and the 5+A Day Charitable Trust programme. The Trust was launched over ten years ago to help encourage consumption of more fresh fruit and vegetables to improve the wellbeing of New Zealanders. Ten years is a significant milestone and MG is proud of its association – the Trust plans to focus on the workplace and education sectors, stay at the forefront of social media and develop more nutritional information for consumers to use.

MG continues to support the efforts of the Salvation Army who help to fight poverty and social and emotional distress in New Zealand.

Last year we announced our partnership with the Māia Health Foundation as a Founding Business Partner. Both organisations are focused on health and well-being of our communities. Māia is working to raise funds for essential projects to help New Zealanders get the right medical care, at the right time and in the right place. By supporting Māia we can play an important role in supporting the health of many in the community.

Sustainability Initiatives

Sustainability is the "development that meets the needs of the present without compromising the ability of future generations to meet their own needs".

Sustainability affects many areas of our lives and business. Be it through the drive to reduce waste, lower our carbon footprint, enhance staff well-being, lower energy consumption or a myriad of other initiatives.

MG is committed to enhancing sustainable practices across the organisation through the delivery of five key sustainability factors:

Reducing Waste

Over the past year we have worked hard to improve our waste diversion and to improve recycling within our branch network. Improving our waste control throughout our sites and working with our waste management partners to better provide more accurate and environmentally friendly collections, will improve our diversion from landfill into more recyclable streams.

Chairman's and Chief executive officer's review (continued)

Refrigeration

We are constantly reviewing and planning for anticipated change. A move to natural gas solutions has seen recent changes to some sites. All facilities will be progressively changed to environmentally sustainable solutions over time.

Packaging

The need to reduce, reuse and recycle is of paramount importance to all our futures. We are constantly looking at ways to improve our packaging solutions and are currently working on guidelines to assist our grower suppliers, and to provide packaging that is recyclable when packaging is necessary. Finding solutions around alternate packaging that comply with a myriad of challenges, such as food safety, cost and practicality, will not be easy. It is a complex discussion, and will no doubt take time to resolve, given the on-going influence of the consumer voice.

Energy

With changes to both our lighting systems across the country and improvements and upgrades to our refrigeration plants we are constantly looking at ways to improve our use of energy.

Our People

We are actively engaged in the health and wellbeing of our people. Our team has access to and support from Synergy Health's Tracksuit Inc. website. This is a web-based platform that encourages and supports healthy lifestyles through education, information and reward-based programmes which encourage participation. To further support this our branch sites actively encourage group participation in physical based activities (various run/walk activities throughout the year), as well as providing access to affordable fresh fruit and vegetables.

mg marketing

Together. Stronger.

MARKET GARDENERS LIMITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

The Directors are pleased to present the financial statements of Market Gardeners Limited for the year ended 30 June 2018.

For and on behalf of the Board of Directors:

B.R. Irvine Chairman	L.T. Crozier Director
27 September 2018	27 September 2018

Statement of comprehensive income

For the year ended 30 June

	Note	Group 2018 $'000	2017 $'000
Revenue – sale of goods	11	525,054	570,413
Cost of sales		467,794	508,901
Gross profit		57,260	61,512
Other operating income	11	2,888	3,703
Administrative expenses	12	11,844	10,880
Other operating expenses		38,988	36,106
Results from operating activities before other income and other expenses		9,316	18,229
Other income – gain on acquisition	23	6,568	-
Other expenses – impairment	9	32,330	-
Results from operating activities		(16,446)	18,229
Finance income		83	51
Finance expense		2,973	2,954
Net finance costs		2,890	2,903
(Loss)/profit before equity earnings and income tax		(19,336)	15,326
Share of profit of equity accounted investees	21	673	692
(Loss)/profit before income tax		(18,663)	16,018
Income tax expense	15	839	4,409
(Loss)/profit for the year		(19,502)	11,609
Other comprehensive income			
Items to be reclassified to profit or loss in subsequent periods (net of tax):			
Foreign currency translation differences for foreign operations		2,138	39
Effective portion of changes in the fair value of cash flow hedges		7	235
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		2,145	274
Total comprehensive (loss)/income for the year		**(17,357)**	**11,883**
Profit attributable to:			
Owners of the Company		(14,121)	10,620
Non-controlling interest		(5,381)	989
(Loss)/profit for the year		**(19,502)**	**11,609**
Total comprehensive (loss)/income attributable to:			
Owners of the Company		(12,207)	10,894
Non-controlling interest		(5,150)	989
Total comprehensive (loss)/income for the year		**(17,357)**	**11,883**

The significant accounting policies and notes to the financial statements on pages 27 to 46 form part of and are to be read in conjunction with these financial statements.

Statement of changes in equity

For the year ended 30 June

Group	Share capital $'000	Revaluation reserve $'000	Hedging reserve $'000	Foreign currency translation reserve $'000	Total reserves $'000	Retained earnings $'000	Non-controlling interest $'000	Total equity $'000
Balance at 1 July 2016	21,802	34,132	(328)	(3,821)	29,983	49,389	2,020	103,194
Profit for the year	-	-	-	-	-	10,620	989	11,609
Other comprehensive income	-	-	235	39	274	-	-	274
Total comprehensive income for the year	-	-	235	39	274	10,620	989	11,883
Transactions with owners, recorded directly in equity								
Dividends	369	-	-	-	-	(1,121)	-	(752)
Shares issued	4,346	-	-	-	-	(4,316)	-	30
Shares issued to Non-controlling Interest	-	-	-	-	-	-	15,711	15,711
Shares surrendered	(388)	-	-	-	-	-	-	(388)
Balance at 30 June 2017	26,129	34,132	(93)	(3,782)	30,257	54,572	18,720	129,678
Balance at 1 July 2017	26,129	34,132	(93)	(3,782)	30,257	54,572	18,720	129,678
Loss for the year	-	-	-	-	-	(14,121)	(5,381)	(19,502)
Other comprehensive income	-	-	7	1,907	1,914	-	231	2,145
Total comprehensive income/(loss) for the year	-	-	7	1,907	1,914	(14,121)	(5,150)	(17,357)
Transactions with owners, recorded directly in equity								
Dividends	437	-	-	-	-	(1,307)	-	(870)
Shares issued	5,016	-	-	-	-	(5,015)	-	1
Shares acquired on acquisition	(1,855)	-	-	-	-	1,322	(3,543)	(4,076)
Shares surrendered	(229)	-	-	-	-	-	-	(229)
Balance at 30 June 2018	29,498	34,132	(86)	(1,875)	32,171	35,451	10,027	107,147

The significant accounting policies and notes to the financial statements on pages 27 to 46 form part of and are to be read in conjunction with these financial statements.

Statement of financial position

As at 30 June

	Note	Group 2018 $'000	Group 2017 $'000
EQUITY			
Share capital	6	29,498	26,129
Reserves		32,171	30,257
Retained earnings		35,451	54,572
Total equity attributable to equity holders of the Parent Company		97,120	110,958
Non-controlling interests		10,027	18,720
Total equity		107,147	129,678
NON-CURRENT ASSETS			
Property, plant and equipment	8	142,324	121,373
Intangible assets	9	26,440	57,716
Investments in equity accounted investees	21	8,922	6,277
Trade and other receivables	5 (b)	37	2,479
Deferred tax assets	15	7,564	5,017
Total non-current assets		185,287	192,862
CURRENT ASSETS			
Inventories	10	9,766	7,326
Trade and other receivables	5 (b)	51,823	63,904
Cash and cash equivalents	5 (a)	9,253	13,035
Non-current assets held for sale		6,620	-
Total current assets		77,462	84,265
Total assets		262,749	277,127
NON-CURRENT LIABILITIES			
Borrowings	5 (c)	60,275	56,235
Trade and other payables	5 (c)	964	925
Deferred tax liabilities	15	11,272	7,341
Total non-current liabilities		72,511	64,501
CURRENT LIABILITIES			
Borrowings	5 (c)	10,737	1,444
Trade and other payables	5 (c)	71,030	79,908
Taxation payable		1,324	1,596
Total current liabilities		83,091	82,948
Total liabilities		155,602	147,449
NET ASSETS		107,147	129,678

The significant accounting policies and notes to the financial statements on pages 27 to 46 form part of and are to be read in conjunction with these financial statements.

Statement of cash flows

For the year ended 30 June

	Group 2018 $'000	Group 2017 $'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash was provided from:		
Cash receipts from customers	549,953	563,213
Dividends received	705	578
Interest received	83	63
Cash was applied to:		
Cash paid to suppliers and employees	(528,800)	(537,234)
Interest paid	(2,803)	(2,355)
Income tax paid	(3,303)	(3,803)
Net cash from operating activities	15,835	20,462
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash was provided from:		
Proceeds from sale of property, plant and equipment	1,704	3,142
Proceeds from loans and advances	-	371
Cash was applied to:		
Acquisition of property, plant and equipment	(12,548)	(18,498)
Acquisition of investment / intangible assets	(5,245)	(1,223)
Acquisition of subsidiary, net of cash acquired	(4,500)	(8,554)
Net cash (used in) investing activities	(20,589)	(24,762)
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash was provided from:		
Proceeds from issue of share capital	1	30
Proceeds from bank and other borrowings	7,297	45,310
Proceeds from other receivables	670	894
Cash was applied to:		
Shares surrendered	(229)	(388)
Repayment of borrowings	(2,967)	(30,147)
Dividends paid	(1,338)	(752)
Loans and advances to other receivables	(3,221)	(1,160)
Net cash from financing activities	213	13,787
Net (decrease) / increase in cash and cash equivalents	(4,541)	9,487
Cash and cash equivalents at 1 July	13,035	3,476
Effect of exchange rate fluctuations on cash held	759	72
Cash and cash equivalents at 30 June	9,253	13,035

The significant accounting policies and notes to the financial statements on pages 27 to 46 form part of and are to be read in conjunction with these financial statements.

Statement of cash flows (continued)

Reconciliation of the profit for the period with the net cash from operating activities

	Group	
	2018	**2017**
	$'000	**$'000**
(Loss) / profit for the year	(19,502)	11,609
Adjustments for:		
Depreciation	6,895	5,741
Change in derivatives recognised in hedging reserve	7	252
(Increase) in deferred tax on reserves	-	(17)
(Increase) in future taxation benefit	(2,502)	(717)
Equity accounted earnings of equity accounted investees	32	(114)
(Gain) on fixed assets disposals	(115)	(822)
(Gain) on acquisition	(6,568)	-
Impairment of intangible assets	32,330	-
Other	11	76
	30,090	4,399
Impact of changes in working capital items:		
Change in inventories	(2,440)	(2,515)
Change in trade and other receivables	17,798	(20,010)
Change in taxation receivable / payable	(272)	903
Change in trade and other payables	(9,839)	26,076
	5,247	4,454
Net cash from operating activities	15,835	20,462

The significant accounting policies and notes to the financial statements on pages 27 to 46 form part of and are to be read in conjunction with these financial statements.

Notes to the financial statements

REPORTING ENTITY

Market Gardeners Limited is a for-profit entity domiciled in New Zealand and registered under the Companies Act 1993 and the Co-operative Companies Act 1996. The Company is an FMC Entity for the purposes of the Financial Markets Conduct Act 2013 and prepares its financial statements in accordance with that Act and the Financial Reporting Act 2013.

The consolidated financial statements are for Market Gardeners Limited and its subsidiaries and Market Gardeners interests in associates and joint arrangements as at the and for the year ended 30 June 2018 (together referred to as "Market Gardeners" or "Group").

The Group is primarily involved in growing, merchandising, wholesale, ripening, distribution, import and export operations of fresh fruit and produce. The Group's registered office is 78 Waterloo Road, Hornby, Christchurch 8440.

BASIS OF PREPARATION

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ("NZ GAAP"). For the purpose of complying with NZ GAAP the Parent and Group are for-profit entities.

The financial statements are prepared for the 52-week period ending 29 June 2018 (2017: 52-week period ending 30 June 2017). This is done to ensure comparability given the weekly trading cycles of the Parent and Group. For simplicity the financial statements and accompanying notes will be presented and referred to as 30 June 2018 year end.

Certain comparative information has been reclassified in order to provide a more appropriate basis for comparison.

STATEMENT OF COMPLIANCE

The financial statements comply with New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS"). The financial statements also comply with International Financial Reporting Standards ("IFRS").

BASIS OF MEASUREMENT

The financial statements have been prepared on the historical cost basis except for land and buildings, and derivative financial instruments which are measured at fair value.

These financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand ($000), except when otherwise indicated.

SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies have been applied consistently to all periods presented in these financial statements and have been applied consistently by Group entities. No new accounting standards and interpretations that became effective have had a material impact on the financial statements.

1. Basis of consolidation and accounting for associates and joint arrangements

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) Associates and joint arrangements (equity accounted investees)

Associates and joint arrangements are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Associates and joint arrangements are accounted for using the equity method (equity accounted investees). The investment in associates and joint arrangements is initially recognised at cost. The consolidated financial statements include the Group's share of the income and expenses of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term advances) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

(iii) Transactions eliminated on consolidation

Intra-group balances and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(iv) Step acquisitions from significant influence to control

When the Group acquires a controlling interest in an investment that was previously equity accounted, goodwill is determined by comparing the fair value of the consideration paid and the fair value of the assets and liabilities acquired at the date that control is obtained. The fair value of the investment immediately prior to acquisition is deducted from the total assets and liabilities acquired to determine goodwill.

Notes to the financial statements (continued)

2. Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss except for differences arising on a financial liability designated as a hedge of the net investment in a foreign operation (see (iii) below).

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and brand assets, are translated to New Zealand dollars at the exchange rate at the reporting date. The income and expenses of foreign operations are translated to New Zealand dollars at the exchange rate at the dates of the transactions.

Foreign currency differences in relation to foreign operations are recognised in the foreign currency translation reserve (FCTR). When a foreign operation is disposed of, in part or in full, the relevant amount in the FCTR is transferred to profit or loss.

(iii) Hedge of net investment in foreign operation

Foreign currency differences arising on the retranslation of a financial liability designated as a hedge of a net investment in foreign operations are recognised through other comprehensive income in equity, in the FCTR, to the extent that the hedge is effective. To the extent that the hedge is ineffective, such differences are recognised in profit or loss. When the hedged net investment is disposed of, the cumulative amount in the FCTR is transferred to profit or loss on disposal.

3. Fair Value hierarchy

Fair values have been categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: 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).
- Level 3: inputs for the asset or liability that are not based on observable market data (i.e. unobservable inputs).

4. Use of estimates and judgements

Key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

(i) Revaluation of land and buildings

Every three years the fair value of land and buildings is determined by an independent valuer based on active market values, adjusted for differences in the nature, location or condition of land and buildings. The fair value of land and buildings is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. Details relating to the revaluation of land and buildings are shown in note 8.

(ii) Impairment of non-financial/intangible assets

Impairment exists when the carrying value of an asset or cash generating unit (CGU) exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use.

The fair value less costs of disposal calculation is based on available data from sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset.

The value in use calculation is based on a discounted cashflow (DCF) model. The estimated future cash flows are discounted to their present value using a post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

Notes to the financial statements (continued)

5. Working capital

Non-derivative financial instruments

Non-derivative financial instruments are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are classified and measured as follows:

(a) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with a maturity of three months or less, which are subject to an insignificant risk of changes in value.

(b) Loan and receivables

Loan and receivables consist of trade and other receivables.

Trade and other receivables are subsequently stated at their amortised cost using the effective interest method less impairment losses.

	Group	
	2018 $'000	**2017 $'000**
Non-current		
Other receivables	37	2,479
Total non-current other receivables	37	2,479
Current		
Trade receivables	41,030	45,983
Other receivables	10,793	23,138
Provision for other receivables	-	(5,217)
Total current trade and other receivables	51,823	63,904
Total trade and other receivables	51,860	66,383

Individual debts that are known to be uncollectible are written off when identified. An impairment provision is recognised when there is objective evidence that the Group will not be able to collect the receivable. Financial difficulties of the debtor, default payments or debts more than 90 days overdue are considered objective evidence of impairment. The amount of the impairment loss is the receivable carrying amount compared to the present value of estimated future cash flows.

As detailed in the above table a provision was taken up in prior years against other receivables. When the receipt of other receivables, including any associate receivable, is deferred and / or interest is not paid, then a provision is raised to reflect the fair value discount against the carrying value of the receivable. The fair value discount provision balance as at 30 June 2018 was $Nil (2017: $1,070,000).

The ageing of trade receivables is as follows:	**Group**	
	2018 $'000	**2017 $'000**
Not past due	39,202	44,309
Past due 1-30 days	1,705	1,612
Past due 31-60 days	280	334
Past due 61-90 days	506	655
Past due greater than 91 days	448	357
Total trade receivables (gross)	42,141	47,267
Provision for doubtful debts	(1,111)	(1,284)
Total trade receivables (net)	41,030	45,983

Notes to the financial statements (continued)

5. Working capital (continued)

(c) Financial liability at amortised cost

Financial liabilities at amortised cost consist of trade and other payables and borrowings.

Trade and other payables

Trade and other payables are subsequently carried at amortised cost and due to their short term nature they are not discounted.

	Group	
	2018 $'000	**2017 $'000**
Non-current		
Other payables	133	286
Employee benefits	831	639
Total non-current trade and other payables	964	925
Current		
Trade and other payables	60,621	69,202
Employee benefits	10,409	10,706
Total current trade and other payables	71,030	79,908
Total trade and other payables	71,994	80,833

Employee benefits, as disclosed above, are accounted for as disclosed in Note 13, but are included within the "trade and other payables" balance – they are not financial liabilities at amortised cost.

Payables denominated in currencies other than the functional currency comprise $21,733,000 (2017: $22,635,000) of trade payables denominated in Australian dollars and $1,276,000 (2017: $1,694,000) of trade payables denominated in US dollars.

Interest-bearing borrowings

Interest-bearing borrowings are subsequently stated at amortised cost using the effective interest rate method. In 2018 the effective interest rate on bank balances for the Group was 3.68% (2017: 3.36%).

	Group	
	2018 $'000	**2017 $'000**
Non-current liabilities		
Secured bank loans and other liabilities	60,275	53,384
Redeemable "D" shares	-	2,851
	60,275	56,235
Current liabilities		
Current portion of secured bank loans and other liabilities	7,611	1,444
Redeemable "D" shares	3,126	-
	10,737	1,444
Total borrowings	71,012	57,679

The bank loans are secured over land and buildings with a carrying amount of $121,180,000 (2017: $100,527,000).

"D" shares issued under a prospectus dated 14 November 2013 have been classified as current liabilities (2017: non-current liabilities) on the basis that the Parent Company and Group has an obligation to pay a minimum fixed dividend and may be redeemed for cash at the end of their term at the option of the shareholder. All shares have a nominal value of $1.00 as permitted by the Co-operative Companies Act 1996. "D" shares carry the right to an annual dividend of 6% gross of imputation credits or the same dividend declared on "A" shares, whichever is the higher. Dividends on "D" shares are accumulating in the event that there are insufficient profits to declare the required dividend and take priority to the dividends on "A" shares. Any outstanding payment for "D" share dividends shall rank ahead of all other payments to "A", "B" and "C" shareholders.

On 7 September 2018 the directors declared a fully taxable special bonus issue of 1 new "D" share for every existing 20 "D" shares (2017: 1 new "D" share for every 15 existing "D" shares). A final dividend of 6 cents per "D" share (2017: 6 cents per "D" share) was also declared. This special bonus issue and dividend were accounted for in the period they were declared, namely the 30 June 2019 financial statements. This final dividend was issued from retained earnings upon completion at the 2018 Annual Meeting. No interim dividend was declared in the year to 30 June 2018 (2017: $Nil).

Notes to the financial statements (continued)

5. Working capital (continued)

Further, "D" shares participate in any bonus issue, ordinary or special, in the same manner as "A" shares. Ordinarily "D" shares do not carry the right to vote. "D" shares also participate in a "D" share dividend election plan pursuant to which dividends on "D" shares are able to be reinvested into further "D" shares. "D" shares are only able to be transferred with the specific written approval of the Parent Company's Board. The initial period of issue for "D" shares is to 29 March 2019. The Board may, by giving 4 month's notice, extend this term by successive periods of up to 5 years. At the end of each period, including the initial period, the Parent Company may elect to repay the "D" shares or renew the period (or a shorter period), or a combination of both renewal / repayment. In the event that the Parent Company elects to renew the "D" shares, each "D" shareholder has the right, within 20 business days, to give notice requiring the repayment of some / all of their "D" shares – this is subject to a minimum continued "D" shareholding in the event of a partial repayment. "D" shares may not be redeemed prior to 29 March 2019 and thereafter may only be redeemed at the conclusion of the extended period.

The maturity analysis for non-derivative financial liabilities is as follows:

Group 2018	Balance sheet $'000	Contractual cash flows $'000	6 months or less $'000	6-12 months $'000	1-2 years $'000	2-5 years $'000	More than 5 years $'000
Borrowings	71,012	78,291	1,695	11,684	2,279	62,633	-
Trade and other payables (1)	71,600	71,600	65,630	5,139	185	409	237
Total financial liabilities	142,612	149,891	67,325	16,823	2,464	63,042	237
Group 2017							
Borrowings	57,679	60,262	1,354	2,087	56,821	-	-
Trade and other payables (1)	80,362	80,362	74,968	4,755	139	310	190
Total financial liabilities	138,041	140,624	76,322	6,842	56,960	310	190

(1) = excluding derivative financial liabilities

6. *Share capital*

"A", "B" and "C" shares, which are defined as puttable equity instruments under NZ IAS 32, are classified as equity in the financial statements. In determining this view the key areas of judgement and assumptions were:

- The cash flows that arise from rebates do not substantially restrict the returns to "A", "B" and "C" shareholders.
- "A", "B" and "C" shares are considered to be materially the same financial instrument.

Incremental costs directly attributable to the issue of "A", "B" and "C" shares are recognised as a deduction from equity.

Movements in the Group's issued and paid up share capital are as follows:

	Rebate Shares (Number '000 / $'000)			
	A Shares	**B Shares**	**C Shares**	**Total**
Balance at 1 July 2016	15,426	5,377	999	21,802
Shares issued	1,164	2,151	1,400	4,715
Shares transferred	1,338	61	(1,399)	-
Shares surrendered	(347)	(34)	(7)	(388)
Balance at 30 June 2017	17,581	7,555	993	26,129
Balance at 1 July 2017	17,581	7,555	993	26,129
Shares acquired on acquisition	(538)	(1,205)	(112)	(1,855)
Shares issued	1,604	2,518	1,331	5,453
Shares transferred	1,792	(468)	(1,324)	-
Shares surrendered	(178)	(49)	(2)	(229)
Balance at 30 June 2018	20,261	8,351	886	29,498

The Board considers all shareholder applications for the surrender / repurchase / redemption of shares on at least a quarterly basis. This process involves a review of the applications, the solvency test as detailed in the Companies Act 1993, the requirements of the Co-operative Companies Act 1996, bank ratios and covenants and the Parent Company's constitution. There have been no changes to these policies and practices from the previous period. The expected cash outflow on the surrender / redemption / repurchase of shares is fixed as being the nominal value of those shares ($1.00 each).

"A", "B" and "C" shares are rebate shares and carry a right to such dividends and rebates as determined by the Board. Rebates may not be paid unless there are sufficient profits from which to pay the minimum dividend due on the "D" shares as detailed in note 5.

Notes to the financial statements (continued)

6. *Share capital (continued)*

Each holder of "A" shares has one vote for each "A" share up to a maximum of 1,000 votes if 1,000 or more "A " shares are held by that holder. Such voting rights are suspended if the shareholder has not transacted a minimum level of business (i.e. is therefore not a Current Producer as defined in the Parent Company's constitution) with the Parent Company or a subsidiary over a period of three years until such time as the shareholder achieves the minimum level of business of $10,000 of produce sales in any one year in or on average over a rolling three year period.

"B" shares do not carry the right to vote and may be converted to voting "A" shares at the Board's discretion. Any dividend or rebate on "B" shares may be capitalised into further "B" shares.

"C" shares are created from the capitalisation of a supplier shareholder rebate, carry the same rights as "B" shares currently on issue and may be converted to "B" or "A" shares at the Board's discretion.

Upon winding up all "A", "B" and "C" shareholders rank equally with regard to the Parent Company's residual assets.

The full terms and conditions applicable to each class of shares are as detailed in the Company's constitution. The above disclosures are a summary of the key features only.

Shareholders are able to apply to the Board for the surrender of their shares on certain grounds as determined by the Parent Company's constitution and the Co-operative Companies Act 1996.

All shares are surrendered at the lesser of their nominal value of $1.00 or the amount paid up on those shares. Where a shareholder holds over 100,000 and up to 1,000,000 shares, the surrender of those shares shall be made in instalments of 100,000 shares payable initially on the approval of the surrender application and thereafter on each anniversary of that approval until paid in full (with the final payment being the remaining balance outstanding). For holdings over 1,000,000 shares the surrender will be made in 10 equal instalments with the first payment being made on the approval of the surrender application and thereafter on each anniversary of that approval until paid in full. Where a shareholder holds under 100,000 shares, the surrender payment shall be made in full upon the approval of the surrender application. All surrenders are subject to the provisions of the Companies Act 1993, the Co-operative Companies Act 1996, bank facility requirements and restrictions, and the solvency test.

In accordance with the Parent Company's constitution the Board may from time-to-time forfeit shares in certain limited circumstances and after following due procedure.

The Parent Company has a first lien on all shares and the proceeds from the sale or surrender of such shares for unpaid amounts in relation to those shares, amounts due under any legislation in relation to those shares and any money, debts or other liabilities owing to the Parent Company or a related company.

Special bonus issue (2018)

On 7 September 2018 the Directors declared a fully imputed taxable special bonus issue of;

- 1 new "A" share for every 20 existing "A" shares;
- 1 new "B" share for every 5 existing "B" shares;
- 1 new "C" share for every 2 existing "C" shares;

for the year to 30 June 2018. The special bonus issue was accounted for in the period it was declared, namely the year ended 30 June 2019 and occurred prior to the distributions detailed below.

Special bonus issue (2017)

On 6 July 2017 the Directors declared a fully imputed taxable special bonus issue of;

- 1 new "A" share for every 15 existing "A" shares;
- 1 new "B" shares for every 3 existing "B" shares;
- 1 new "C" shares for every 3 existing "C" shares;

for the year to 30 June 2017. The special bonus issue was accounted for in the period it was declared, namely the year ended 30 June 2018 and occurred prior to the distributions detailed below.

Supplier shareholder rebate (2018)

On 7 September 2018, a taxable rebate of $250,000 was declared by the Directors for the year to 30 June 2018 (2017: $250,000) which is to be applied by the Parent Company in paying up in full "C" shares of the Parent Company to be issued at $1.00 each upon completion at the 2018 Annual Meeting. The rebate was accounted for in the period it was declared, namely the year ended 30 June 2019.

Bonus issue on supplier shareholder rebate (2018)

On 7 September 2018, the directors declared a three for one (3 for 1) bonus issue on the above "supplier shareholder rebate (2018)". The bonus issue was accounted for in the period it was declared, namely the year ended 30 June 2019 (the bonus issue for the year ended 30 June 2017 was three for one (3 for 1)).

Notes to the financial statements (continued)

6. *Share capital (continued)*

Final dividend (2018)

On 7 September 2018 the Directors declared a fully imputed taxable gross final dividend of 6 cents per "A" share (2017: 6 cents per "A" share). This final dividend was issued from retained earnings upon completion at the 2018 Annual Meeting. This final dividend was accounted for in the period the dividend is actually declared, namely the 30 June 2019 financial statements. No interim dividend was declared in the year to 30 June 2018 (2017: $Nil).

7. Reserves

(i) Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations as well as from the translation of liabilities that hedge the Parent Company's net investment in a foreign subsidiary.

(ii) Revaluation reserve

The revaluation reserve relates to the revaluation of land and buildings.

(iii) Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

8. Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment (other than land and buildings) are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset.

Land and buildings are measured using the revaluation model. The basis of the valuation is highest and best use as determined by an independent valuer, disposal costs are not deducted. Any surplus on revaluation is recorded in other comprehensive income and credited to equity unless it offsets a previous decrease in value recognised in profit or loss, in which case it is recognised in profit or loss. A revaluation deficit is recognised in profit or loss, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve. Upon revaluation all accumulated depreciation is netted against the cost of the land and buildings prior to determining the amount by which the land and buildings are to be revalued.

(ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is recognised in the profit and loss on a straight-line (SL) and diminishing value (DV) basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets held under a finance lease, where the Group is lessee, are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated. The estimated useful lives for the current and comparative periods are as follows:

• buildings, leasehold improvements and entitlements	1 – 20% SL
• motor vehicles	20 – 25% DV
• plant and equipment	7 – 40% DV
• fixtures and fittings	5 – 60% DV

(iv) Capital work in progress

Capital work in progress is recognised as an asset and is stated at cost less impairment. Expenditure directly attributable to the acquisition or creation of the asset, together with borrowing costs associated with the construction of a long life asset (such as a building), is capitalised up to the time of commissioning of substantially all of the asset. Once commissioned, the asset is transferred out of work in progress and depreciated over its expected useful life.

(v) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised on the Group's Statement of Financial Position.

Notes to the financial statements (continued)

8. Property, plant and equipment (continued)

(vi) Impairment of property, plant and equipment

The carrying amounts of property, plant and equipment are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount.

For land and buildings, impairment loss is recognised in profit or loss, except to the extent that it offsets a previous revaluation surplus recognised in the asset revaluation reserve, in which case the impairment loss is recognised in other comprehensive income. For all other items of property, plant and equipment, impairment losses are recognised in profit or loss.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Group	Land and buildings $'000	Motor Vehicles $'000	Fixtures and fittings $'000	Plant and equipment $'000	Capital work in progress $'000	Total $'000
Cost or valuation						
Balance at 1 July 2016	90,683	2,981	3,242	23,421	7	120,334
Additions	10,193	1,344	530	3,452	3,175	18,694
Disposals	(2,385)	(441)	(494)	(919)	-	(4,239)
Reclassification	191	-	-	(191)	-	-
Additions through acquisition	4,866	339	-	1,987	4,357	11,549
Effect of movements in exchange rates	25	5	(13)	18	(23)	12
Balance at 30 June 2017	103,573	4,228	3,265	27,768	7,516	146,350
Balance at 1 July 2017	103,573	4,228	3,265	27,768	7,516	146,350
Additions	3,576	1,200	433	5,785	1,554	12,548
Disposals	(51)	(322)	(95)	(487)	-	(955)
Transfer to non-current asset held for sale	(6,751)	-	-	-	-	(6,751)
Reclassification	7,558	-	-	-	(7,558)	-
Additions through acquisition	18,661	765	30	1,424	227	21,107
Effect of movements in exchange rates	974	81	75	982	198	2,310
Balance at 30 June 2018	127,540	5,952	3,708	35,472	1,937	174,609
Accumulated depreciation						
Balance at 1 July 2016	978	1,675	2,859	15,632	-	21,144
Depreciation for the year	2,837	584	291	2,029	-	5,741
Disposals	(843)	(384)	(483)	(210)	-	(1,920)
Reclassification	71	-	-	(71)	-	-
Effect of movements in exchange rates	3	5	(10)	14	-	12
Balance at 30 June 2017	3,046	1,880	2,657	17,394	-	24,977
Balance at 1 July 2017	3,046	1,880	2,657	17,394	-	24,977
Depreciation for the year	3,320	898	361	2,316	-	6,895
Disposals	(20)	(205)	(90)	(50)	-	(365)
Transfer to non-current asset held for sale	(131)	-	-	-	-	(131)
Effect of movements in exchange rates	145	51	60	653	-	909
Balance at 30 June 2018	6,360	2,624	2,988	20,313	-	32,285

Notes to the financial statements (continued)

8. Property, plant and equipment (continued)

Group	Land and buildings $'000	Motor Vehicles $'000	Fixtures and fittings $'000	Plant and equipment $'000	Capital work in progress $'000	Total $'000
Carrying amounts						
At 1 July 2016	89,705	1,306	383	7,789	7	99,190
At 30 June 2017	100,527	2,348	608	10,374	7,516	121,373
At 1 July 2017	100,527	2,348	608	10,374	7,516	121,373
At 30 June 2018	121,180	3,328	720	15,159	1,937	142,324

Leased plant and equipment

The Group leases certain plant and equipment under a number of finance lease arrangements. The net carrying amount of this leased plant and equipment was $2,752,000 (2017: $2,756,000).

Land and buildings

Land and buildings include leasehold improvements and leasehold entitlements. Land and buildings were revalued to fair value as at 30 June 2016 based on the valuations provided as at that date by the following registered, independent valuers: Duke and Cooke Ltd, Truebridge Partners, Chadderton Valuation, Herron Todd White, Valuecorp, Colliers International. The Directors consider that the fair value of land and buildings is accurately represented by the current carrying value. Land and buildings are both categorised as level 3 in the fair value hierarchy. Fair value of land and buildings was determined by using the following methods:

Investment/Income Approach
This approach capitalises the actual contract and / or potential income at an appropriate market derived rate of return. Capitalisation rates applied range from 6.0% to 11.0% (2017: 6.0% to 11.0%). The valuations are sensitive to the capitalisation rate in that increases in the relative rates have the impact of decreasing the valuation and vice versa.

Sales/ Market comparison approach
This approach analyses comparable sales evidence to a sale price per square metre of floor area (or hectare in the case of land) and makes adjustment to these rates to reflect differences in the location, size and quality of the land and buildings, together with an adjustment for any market movement since the sales occurred.

Depreciated replacement cost approach
This approach involves assessing the replacement cost of building and site improvements, adjusting this cost for depreciation, any obsolescence and the market value of land.

If the land and buildings were measured using the cost model then the carrying value would be $90,911,000 (2017: $62,890,000) for the Group.

9. Intangible assets

(i) Goodwill

Goodwill arises on the acquisition of subsidiaries and associates. Goodwill represents any excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), a gain on acquisition is recognised immediately in profit or loss.

Goodwill is subsequently measured at cost less accumulated impairment losses. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment.

(ii) Brand

Brand intangible assets are acquired by the Group as part of business combinations. Such assets are recorded at fair value at the date of acquisition.

Where a brand is considered to have an indefinite life, no amortisation is provided for in the financial statements but it is subject to an annual impairment test. Brands are an intangible asset of foreign operations with a functional currency of Australian dollars and therefore a foreign exchange translation arises on consolidation.

Notes to the financial statements (continued)

9. Intangible assets (continued)

(iii) Other

Other includes acquisition of marketing agreements, patents and trademarks. Such assets are recorded at cost at the date of acquisition.

Marketing agreements are deemed to have an indefinite life and therefore are not amortised but subject to an annual impairment test.

(iv) Impairment of intangible assets

Goodwill and intangible assets that have indefinite lives are subject to an annual impairment test. An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro-rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Group	Goodwill $'000	Brand $'000	Other $'000	Total $'000
Cost				
Balance at 1 July 2016	17,787	11,345	4,047	33,179
Business acquisition	20,988	-	-	20,988
Stepped acquisition and other adjustments	3,422	-	-	3,422
Effect of movements in exchange rates	118	18	-	136
Balance at 30 June 2017	42,315	11,363	4,047	57,725
Balance at 1 July 2017	42,315	11,363	4,047	57,725
Disposal	(1,026)	-	-	(1,026)
Effect of movements in exchange rates	1,580	500	-	2,080
Balance at 30 June 2018	42,869	11,863	4,047	58,779
Accumulated amortisation and impairment losses				
Balance at 1 July 2016	-	-	(9)	(9)
Amortisation for the year	-	-	-	-
Balance at 30 June 2017	-	-	(9)	(9)
Balance at 1 July 2017	-	-	(9)	(9)
Impairment	(20,467)	(11,863)	-	(32,330)
Amortisation for the year	-	-	-	-
Balance at 30 June 2018	(20,467)	(11,863)	(9)	(32,339)
Carrying amounts				
At 1 July 2016	17,787	11,345	4,038	33,170
At 30 June 2017	42,315	11,363	4,038	57,716
At 1 July 2017	42,315	11,363	4,038	57,716
At 30 June 2018	22,402	-	4,038	26,440

With the exception of $357,000 of goodwill, which relates to the New Zealand cash generating unit, the goodwill and the indefinite life brand intangible asset of the Group have been allocated to the Australian operation cash generating unit (CGU) for the purpose of impairment testing. The recoverable amount of the New Zealand and Australian CGUs were determined to be their fair value less costs to sell, which was calculated based on discounted cash flows.

Determining the recoverable amount of the Australian operation cash CGU involves estimating future cash flows. The cash flows, which have been estimated by management over the next 5 years, are adjusted for future growth based on historical inflation and discounted at a post-tax discount rate of 9.8 % to arrive at the present value, or recoverable amount. This constitutes a level 3 measurement in the fair value hierarchy.

Notes to the financial statements (continued)

9. Intangible assets (continued)

The key inputs and assumptions used in the calculation of recoverable amounts were:

Annual revenue growth rate	2.5 – 4.0%
Post-tax discount rate	9.8%
Terminal growth rate	2.0%

The recoverable amount of the CGU was determined to be lower than its carrying amount and an impairment loss of $32,330,000 (2017: $Nil) was recognised. A reduction in the annual revenue growth rate or terminal growth rate or an increase in the post-tax discount rate would result in an increased impairment.

The recoverable amount of the New Zealand CGU exceeds its carrying amount and no impairment loss was recognised with respect to goodwill allocated to that CGU. Management does not believe that a reasonably possible change in key assumptions would result in the impairment of goodwill allocated to the New Zealand CGU.

The recoverable amount of the marketing agreement, which has been determined as their fair value less costs to sell, has been estimated using a discounted cash flow methodology. This did not result in the recognition of an impairment loss.

10. Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

	Group	
	2018 $'000	**2017 $'000**
Inventory	9,766	7,326
Inventory subject to contract	2,439	1,831
Amount due to supplier	(2,439)	(1,831)
	9,766	7,326

In 2018 inventories recognised as cost of sales amounted to $395,029,000 (2017: $445,977,000) for the Group.

11. Revenue and other operating income

(i) Revenue – sale of goods

Operating revenue represents the value of traded product and the commission earned from sales made as agent.

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably and there is no continuing management involvement with the goods.

Transfers of risks and rewards vary depending on the individual terms of the contract of sale. For sales of produce transfer usually occurs when the product is despatched.

When the Group acts in the capacity of an agent rather than as the principal in a transaction, the revenue recognised is the net amount of commission made by the Group.

In 2018 gross sales under management, which represent the value of traded product and the gross value of sales made as agent, for the Group were $862,391,000 (2017: $894,336,000).

(ii) Other operating income – rental income, gain on sale of property, plant and equipment and sundry income

Rental income from property is recognised in the profit or loss on a straight-line basis over the term of the lease. In 2018 rental income for the Group was $2,644,000 (2017: $2,719,000).

In 2018 gain on sale of property, plant and equipment was $115,000 (2017: $822,000).

Notes to the financial statements (continued)

12. Auditor remuneration

	Group	
Auditor's remuneration comprises:	**2018 $'000**	**2017 $'000**
For audit work:		
• to Market Gardeners Limited and subsidiaries (KPMG)	85	85
• to LaManna Premier Group Pty Limited (formerly LaManna Bananas Pty Ltd) and subsidiaries (Pitcher Partners)	215	210
For other services:		
• to Market Gardeners Limited and subsidiaries (KPMG)	2	2
• to Market Gardeners Limited (BDO)	6	6
• to LaManna Premier Group Pty Limited (formerly LaManna Bananas Pty Ltd) and subsidiaries (Pitcher Partners)	66	31
Total auditor's remuneration	374	334

Other audit related services paid to KPMG include fees in respect of the audit of the Parent Company's share register; BDO relate to the audit, account preparation and taxation services for the fruit ripening business; Pitcher Partners relate to accounts preparation and taxation services.

13. Employee benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution superannuation plans are recognised as an expense in profit or loss when they are due.

(ii) Other long-term employee benefits

The Group's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value and the fair value of any related assets is deducted. Any actuarial gains or losses are recognised in profit and loss or other comprehensive income in the period in which they arise. The calculation is performed using actuarial methodology.

(iii)Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related benefit is provided.

	Group	
	2018 $'000	**2017 $'000**
Wages and salaries	67,938	67,188
Contributions to defined contribution superannuation plans	3,846	3,877
Increase in liability for long-service leave	743	487
Total personnel expenses	72,527	71,552

14. Leases

(i) Group as a lessee

Operating leases: The Group leases business premises, plant and equipment and motor vehicles under operating leases. Motor vehicle leases are for periods of between 3 and 5 years, business premise leases are for periods of between 1 and 18 years and plant and equipment leases are for periods of between 1 and 5 years.

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. During the year ended 30 June 2018 $8,190,000 (2017: $8,543,000) was recognised as an expense in profit or loss in respect of operating leases for the Group.

Notes to the financial statements (continued)

14. Leases (continued)

Non-cancellable operating lease rentals are payable as follows:

	Group	
	2018 $'000	**2017 $'000**
Less than one year	6,264	6,038
Between one and five years	12,135	11,719
More than five years	3,007	4,374
	21,406	22,131

(ii) Group as a lessor

Operating leases: The Group leases out some of its property held under operating leases. On behalf of the Group the Parent Company acts as the lessor of packaging equipment to certain suppliers.

The future minimum lease payments under non-cancellable leases are as follows:

	Group	
	2018 $'000	**2017 $'000**
Less than one year	1,909	1,937
Between one and five years	1,652	2,499
More than five years	758	491
	4,319	4,927

15. Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities and their tax bases. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax is not recognised for the following temporary differences:

- the initial recognition of goodwill;
- the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit; and
- differences relating to investments in subsidiaries and equity accounted investees to the extent that the timing of the reversal is controlled by the Group and it is probable that they will not reverse in the foreseeable future.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which deferred tax asset can be utilised.

Income tax	Group	
	2018	**2017**
	$'000	**$'000**
Current tax expense	4,017	5,214
Prior period adjustment to current tax	(676)	87
	3,341	5,301
Deferred tax – origination and reversal of temporary differences	(2,502)	(892)
Tax (credit)/expense	(2,502)	(892)
Total income tax expense	839	4,409

Notes to the financial statements (continued)

15. Income tax (continued)

Reconciliation of income tax expense

	Group 2018 $'000	Group 2017 $'000
(Loss)/Profit before tax	(18,663)	16,018
Income tax using the Parent Company's domestic tax rate (28%)	(5,226)	4,485
Add/(deduct) taxation effect of:		
Effect of tax rates in foreign jurisdictions	(396)	91
Tax impact of equity accounted investees	187	66
Non-deductible expenses	9,864	398
Tax exempt income	(2,720)	(318)
Group loss offset	-	-
Current year losses for which no deferred tax asset is recognised	-	84
Under/(over) provided in prior periods	(645)	(232)
Prior year losses for which no deferred tax was recognised	(225)	(165)
Total income tax expense	839	4,409

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
Group	**2018 $'000**	**2017 $'000**	**2018 $'000**	**2017 $'000**	**2018 $'000**	**2017 $'000**
Property, plant and equipment	-	-	(9,801)	(6,656)	(9,801)	(6,656)
Provisions and other	5,171	5,017	(1,471)	(685)	3,700	4,332
Tax losses	2,393	-	-	-	2,393	-
Tax assets/(liabilities)	7,564	5,017	(11,272)	(7,341)	(3,708)	(2,324)

Movement in temporary differences during the year

Group	Balance 1 July 16 $'000	Recognised in Profit and Loss $'000	Recognised in equity $'000	Balance 30 June 17 $'000
Property, plant and equipment	(6,877)	221	-	(6,656)
Provisions and other	2,697	1,652	(17)	4,332
	(4,180)	1,873	(17)	(2,324)

Group	Balance 1 July 17 $'000	Recognised in Profit and Loss $'000	Recognised in equity $'000	Arising on acquisition $'000	Balance 30 June 18 $'000
Property, plant and equipment	(6,656)	202	-	(3,347)	(9,801)
Provisions and other	4,332	(48)	130	(714)	3,700
Tax losses	-	2,348	45	-	2,393
	(2,324)	2,502	175	(4,061)	(3,708)

Imputation credits
The imputation credits are available to shareholders of the Parent Company:

	Group 2018 $'000	Group 2017 $'000
Through the Parent Company	15,985	12,548
Through subsidiaries	307	246
Imputation credits at 30 June	16,292	12,794

Notes to the financial statements (continued)

16. Financial risk management

Exposure to credit, liquidity, market, interest rate and foreign currency risks arises in the normal course of the Group's business.

Credit risk

Management has a credit policy in place under which each new significant customer is individually analysed for credit worthiness by reference to independent sources where available before the standard payment and delivery terms and conditions are offered. Where available, the Group reviews external ratings. In order to determine which customers are classified as having payment difficulties, the Group reviews each debtor when receipts become past due. Generally, the Group does not require collateral in respect of trade and other receivables.

The carrying amount of financial assets represents the Group's maximum credit exposure. The Group has no undue concentrations of credit risk.

Liquidity risk

Liquidity risk represents the Group's ability to meet its contractual obligations. The Group evaluates its liquidity requirements on an ongoing basis. In general, the Group generates sufficient cash flows from its operating activities to meet its obligations arising from its financial liabilities and has credit lines in place to cover potential shortfalls. It is the Group's policy to provide credit and liquidity enhancement only to wholly or majority owned subsidiaries, associates, shareholders and grower/suppliers.

Market risk

The Group enters into derivative arrangements in the ordinary course of business to manage foreign currency and interest rate risks. The Board provides oversight for risk management and derivative activities. The Board determines the Group's financial risk policies and objectives and provides guidelines for derivative instrument utilisation. The Board also establishes procedures for control and valuation, risk analysis, counterparty credit approval and ongoing monitoring and reporting. These policies are implemented by management and reviewed and monitored by the Group's internal audit function.

Interest rate risk

The group is exposed to interest rate risk on its bank borrowings, which are at floating rates. The group manages interest rate risk through policies determined by the board. The group has entered into interest rate swaps, denominated in Australian and New Zealand dollars, with a notional value of $52,480,000 (2017: $47,700,000) to achieve an appropriate mix of fixed and floating rates. The Group classifies interest rate swaps as cash flow hedges.

Foreign currency risk

The Group is exposed to foreign currency risk on sales and purchases that are denominated in a currency other than the Parent Company's functional currency, New Zealand dollars ($), which is also the presentation currency of the Group. The foreign currencies in which foreign currency transactions are primarily denominated are Australian dollars (AUD) and US dollars (USD).

The Group manages its foreign exchange risk in respect of significant overseas investments through determining the expected foreign currency dividend and revenue streams and borrowing in that currency. The Group hedges all material trade debtors and creditors denominated in a foreign currency.

The Group's exposure to foreign currency risk at balance date can be summarised as follows:

The following borrowings are denominated in Australian dollars and are designated as hedges against the investment in the Australian operations, subsidiaries, associates and in the case of the Australian finance leases, the particular element of Australian plant and equipment that is subject to the finance lease:

	2018 AUD $'000	2017 AUD $'000
Investment foreign currency risk		
Net investment (including intangible assets that arise on consolidation) in Australian operations	25,934	53,861
Foreign currency denominated borrowings		
Secured bank borrowings	(17,714)	(17,714)
Net unhedged exposure	8,220	36,147

It is estimated that a general increase of one percentage point in the value of the New Zealand dollar against other foreign currencies would have decreased (2017: decreased) the Group's loss (2017: profit) before income tax by approximately $215,000 for the year ended 30 June 2018 (2017: $46,000). The Group policy of entering into forward exchange contracts has been allowed for in this calculation. The impact of such a foreign currency movement is generally mitigated by a similar movement in the pricing of the associated produce sold.

Notes to the financial statements (continued)

16. Financial risk management (continued)

Capital management

The Group's capital includes share capital, reserves and retained earnings.

The Board recognises the need for and at all times looks to maintain a strong capital base whilst applying co-operative principles. These principles form the basis for rebates to transacting shareholders, distributions to shareholders in general and the surrender of share capital to those shareholders leaving the co-operative.

At all times the Board balances these requirements in order to provide the base for the future and returns for the present.

The allocation of capital and funding is, to a large extent, driven by the opportunities available and the returns able to be achieved. The process of allocating capital to specific businesses or geographic segments is undertaken by the Parent Company Board.

The Group's capital management allocation is regularly considered and reviewed by the Board. There have been no material changes in the Group's management of capital during the period.

Hedging

Hedge of net investment in foreign operation

The Group hedges part of its net investment in Australian operations by borrowing in Australian dollars. The Australian dollar loan is designated as the hedge instrument of the net investment. For quantification of the hedge relationship refer to the section on foreign currency exchange risks.

17. Capital Commitments

As at 30 June 2018 the Group had capital commitments of $1,333,000 in respect of building fit-out in Palmerston North and plant and motor vehicles in Nelson (30 June 2017: $2,020,000 in respect of building extensions and fit-out in Christchurch and Tauranga).

18. Contingencies

The Group had the following contingencies.

Trade indemnities and guarantees issued by the Group amount to $4,197,000 for associate companies (2017: $1,950,000).

In the normal course of operations the Group may be subject to potential claims or warranties. There are no individual matters which require individual disclosure.

19. Related parties

The immediate parent and ultimate controlling party of the Group is Market Gardeners Limited.

From time to time the Group makes advances to associates. Such advances are not interest bearing where they are considered to be part of the investment or are otherwise interest bearing at the parent company's average cost of borrowing.

Sales of goods and services and purchases of goods and services transactions with the Group are detailed in the table below includes sales and purchases of produce, property rentals, management fees and interest charges.

	Group	
	2018 $'000	**2017 $'000**
Transactions with associates and joint arrangements		
Sales of goods and services	6,282	5,355
Purchases of goods and services	24,556	25,580
Closing advances/receivables	2,038	13,166
Closing loans/payables	5	3,656

For the year ended 30 June 2018 there has been no expense recognised or any movement in provisions relating to outstanding balances with associates (2017: $Nil expense / movement).

In New Zealand, the Parent Company is a participating employer in a defined contribution superannuation fund. In Australia LaManna Premier Group make superannuation contributions in accordance with Australian legislative requirements. During the year the Group made employer contributions to the fund as disclosed in note 13.

The Group does not guarantee the performance or value of any superannuation fund which are operated by third party superannuation funds.

Notes to the financial statements (continued)

19. Related parties (continued)

Key management personnel compensation

In addition to their salaries, the Group also provides non-cash benefits to directors and executive officers, and for executive officers contributes to a defined contribution superannuation plan on their behalf.

Like most co-operatives the Group has frequent transactions with its grower Directors (sales to, agency sales for and purchases from Directors) in the ordinary course of business.

Key management personnel compensation comprised:	2018 $'000	2017 $'000
Director's fees and remuneration	1,206	1,332
Short-term employee benefits	3,960	3,976

Other transactions with key management personnel	**2018**	**2017**
	$'000	**$'000**
Gross value of Directors' sales	10,984	15,242
Commission charged on Directors' sales (as above)	1,318	1,830
Gross value of Directors' other transactions (prepacking services, sundry expense recharges and sundry other expenses)	59	68
Amounts owing to key management personnel as a result of the above transactions	155	70

20. Subsidiary with material non-controlling interest – LaManna Premier Group Pty Ltd (formerly LaManna Bananas Pty Ltd)

Summary presentation of the subsidiary entity LaManna Premier Group Pty Ltd (Group) (formerly LaManna Bananas Pty Ltd (Group)), consolidated financial statements.

(a) Summarised statement of financial position	**2018 $'000**	**2017 $'000**
Total equity	32,663	49,411
Total non-current assets	56,415	63,548
Total current assets	34,937	39,012
Total assets	91,352	102,560
Total non-current liabilities	17,540	18,127
Total current liabilities	41,149	35,022
Total liabilities	58,689	53,149
NET ASSETS	32,663	49,411
(b) Summarised statement of comprehensive income		
(Loss)/Profit for the year	(17,528)	3,091
Other comprehensive (loss)/income for the year	(19)	237
Total comprehensive (loss)/income for the year	(17,547)	3,328
(c) Summarised statement of cash flows		
Net cash (used in)/provided by operating activities	(892)	3,938
Net cash (used in) investing activities	(4,729)	(5,791)
Net cash provided by financing activities	2,626	4,984
Net (decrease)/increase in cash held	(2,995)	3,131

Notes to the financial statements (continued)

21. Group entities

(i) Significant subsidiaries	**Country of incorporation and principal place of business**	**2018 %**	**2017 %**	**Balance date**	**Principal activity**
Hansons Lane International Holdings Ltd	New Zealand	100	100	30 June	Investment Holding
J. S. Ewers Ltd	New Zealand	100	-	30 June	Produce Grower
Blackbyre Horticulture Ltd	New Zealand	100	100	30 June	Property Holding
Market Fresh Wholesale Ltd	New Zealand	100	100	30 June	Property Holding
Phimai Holdings Ltd	New Zealand	100	100	30 June	Property Holding
Southland Produce Markets Ltd	New Zealand	100	100	30 June	Property Holding
MG Group Holdings Ltd	New Zealand	100	100	30 June	Asset Holding
Market Gardeners (USA) Inc.	USA	100	100	30 June	Produce Sourcing and Exporting
LaManna Premier Group Pty Ltd (formerly LaManna Bananas Pty Ltd)	Australia	69	68	30 June	Produce Wholesale
LaManna Bananas (Adelaide) Pty Ltd	Australia	100	100	30 June	Produce Wholesale
Australian Banana Company Pty Ltd	Australia	100	100	30 June	Produce Packing & Wholesale
Carbis Bananas Pty Ltd	Australia	100	100	30 June	Investment Holding
LaManna Group Holdings Three Pty Ltd	Australia	100	100	30 June	Investment Holding
Lambells Properties Pty Ltd	Australia	100	100	30 June	Property Holding
Premier Fruits Group Pty Ltd	Australia	100	100	30 June	Produce Wholesale
GV Agri Services Pty Ltd	Australia	100	100	30 June	Asset Holding
Fresh Choice W.A. Pty Ltd	Australia	100	100	30 June	Produce Wholesale

(ii) Investments in equity accounted investees (associates and joint arrangements)

United Flower Growers Ltd (2)	New Zealand	50	50	30 June	Flower Wholesale
Te Mata Exports 2012 Ltd (2)	New Zealand	50	50	31 Dec	Produce Exporting
Zee Sweet Limited (1)	New Zealand	33	33	31 Dec	Horticulture
New Zealand Fruit Tree Company Limited (1)	New Zealand	22	22	31 Dec	Horticulture
First Fresh New Zealand Ltd (1)	New Zealand	30	-	31 March	Produce Marketing & export
Darwin Fruit Farms Pty Ltd (formerly Darwin Banana Farming Co. Pty Ltd) (2)	Australia	50	50	30 June	Tropical fruit Production
Innisfail Banana Farming Co. Pty Ltd (2)	Australia	50	50	30 June	Banana Production
Col Johnson Pty Ltd (2)	Australia	50	50	30 June	Produce Wholesale

(1) = associate, (2) = joint arrangement

The interests in the Australian incorporated companies detailed in the table above are the actual interests held by the Group. As LaManna Premier Group Pty Ltd is a 69% (2017: 68%) owned subsidiary company, all of its subsidiaries are effectively 69% (2017: 68%) owned by the Group and its associate companies, Darwin Fruit Farms Pty Ltd (formerly Darwin Banana Farming Company Pty Ltd), Col Johnson Pty Ltd and Innisfail Banana Farming Company Pty Ltd are effectively 35% (2017: 34%) owned by the Group.

The Group's share of profit in its equity accounted investees for the year was $673,000 (2017: $692,000).

None of the associates or joint arrangements are considered to be individually material and are measured under the equity method.

Notes to the financial statements (continued)

21. Group entities (continued)

The summary of financial information for individually immaterial but collectively material equity accounted investees (associates and joint arrangements) is as follows:

	Pre-tax Profit/(loss) from continuing operations $'000	Post-tax Profit/(loss) from discontinued operations $'000	Other comprehensive income $'000	Total Post-tax Comprehensive income $'000	Carrying amount $'000
2018	914	-	-	656	8,922
2017	4,259	-	-	2,926	6,277

22. Accounting standards issued but not yet effective

A number of new standards, amendments and interpretations that could be expected to have a material impact on the financial statements, which are not yet effective for the year ended 30 June 2018 and have not been applied in preparing these financial statements, are detailed below.

- NZ IFRS 9 (2014) *Financial Instruments* addresses the classification, measurement and derecognition of financial assets, financial liabilities, impairment of financial assets and hedge accounting. The application date of standard is 1 January 2018. The application date for the Group is 1 July 2018. The impact of this standard is not considered to be material.
- NZ IFRS 15 *Revenue from Contacts with Customers* replaces NZ IAS 11 *Construction Contracts*, NZ IAS 18 *Revenue* and related revenue interpretations. The core principle of NZ IFRS 15 is that an entity recognises revenue to reflect the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The application date of standard is 1 January 2018. The application date for the Group is 1 July 2018. The impact of this standard is not considered to be material.
- NZ IFRS 16 Leases (will replace NZ IAS17 Leases, NZ IFRIC 4 Determining whether an Arrangement contains a Lease, NZ SIC 15 Operating Leases-Incentives and NZ SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease). NZ IFRS 16 requires lessees to account for all leases under a single on-balance sheet model (subject to certain exemptions) in a similar way to finance leases under NZ IAS 17. The application date of the standard is 1 January 2019. The application date for the Group is 1 July 2019. At the time of the annual report the impact of this standard had not yet been determined.

23. Business combination

A business combination is a transaction or other event in which an acquirer obtains control of one or more businesses and results in the consolidation of the assets and liabilities acquired. Business combinations are accounted for by applying the acquisition method.

The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued or liabilities incurred by the acquirer to former owners of the acquiree.

Goodwill is recognised initially at the excess of: (a) the aggregate of the consideration transferred, the fair value of the non-controlling interest, and the acquisition date fair value of the acquirer's previously held equity interest (in case of step acquisition); over (b) the net fair value of the identifiable assets acquired and liabilities assumed.

If the net fair value of the acquirer's interest in the identifiable assets acquired and liabilities assumed is greater than the aggregate of the consideration transferred, the fair value of the non-controlling interest, and the acquisition date fair value of the acquirer's previously held equity interest, the difference is immediately recognised as a gain in the profit and loss.

Acquisition related costs are expensed as incurred.

On 1 December 2017 the Group (through its parent company Market Gardeners Ltd) acquired 100% of the voting share capital of J S Ewers Ltd, a produce grower based in Nelson, New Zealand, in exchange for cash and loan offsets.

Notes to the financial statements (continued)

23. Business combination (continued)

The fair values of the identifiable assets and liabilities as at the date of acquisition were:

	2018 $'000
Assets:	
Cash	309
Debtors	5,231
Inventory	2,834
Property, plant and equipment	21,107
Other assets	3,240
Total identifiable assets	**32,721**
Liabilities	
Creditors	1,582
Provisions	736
Other Liabilities	19,026
Total identifiable liabilities	**21,344**
Total identifiable net assets at fair value	**11,377**
Gain on acquisition	**(6,568)**
Purchase consideration transferred (cash and loan offsets)	**4,809**

The gain on acquisition has been recognised in the profit and loss and is expected to be non-taxable for income tax purposes. From the date of acquisition J S Ewers Ltd has contributed $546,000 profit after tax for the year to 30 June 2018

Analysis of cash flows on acquisition:

	2018 $'000
Purchase consideration	4,809
Less: cash acquired with the subsidiary	(309)
Acquisition of subsidiary, net of cash acquired (included within cash from investing activities)	**4,500**
Other cash flows recognised separately from the business combination:	
Transaction costs of the acquisition (included in cash flows from operating activities)	15
Net cash flows on acquisition	**4,515**

Transaction costs of $15,000 have been included in other expense line item.

24. Subsequent events

On 22 July 2018 a Sale and Purchase Agreement was executed for the sale of the property at 12 Carter St, Sydney, Australia for AUD$15,080,000 (NZ$16,488,000 using exchange rate of 0.9146). This was settled on 24 September 2018. At 30 June 2018 this property was classified on the Statement of Financial Position as a non-current asset held for sale of NZ$6,620,000. The gain on sale will be recognised in the year to 30 June 2019.

KPMG

Independent Auditor's Report

To the shareholders of Market Gardeners Limited

Report on the consolidated financial statements

Opinion

In our opinion, the accompanying consolidated financial statements of Market Gardeners Limited (the company) and its subsidiaries (the group) on pages 22 to 46

i. present fairly in all material respects the Group's financial position as at 30 June 2018 and its financial performance and cash flows for the year ended on that date; and

ii. comply with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

We have audited the accompanying consolidated financial statements which comprise:

- the consolidated statement of financial position as at 30 June 2018;
- the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended; and
- notes, including a summary of significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ('ISAs (NZ)'). 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 group in accordance with Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners 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 and the IESBA Code.

Our responsibilities under ISAs (NZ) are further described in the auditor's responsibilities for the audit of the consolidated financial statements section of our report.

Our firm has also provided other services to the group in relation to the audit of the share register. Subject to certain restrictions, partners and employees of our firm may also deal with the group on normal terms within the ordinary course of trading activities of the business of the group. These matters have not impaired our independence as auditor of the group. The firm has no other relationship with, or interest in, the group.

Other information

The Directors, on behalf of the group, are responsible for the other information included in the entity's Annual Report. Other information includes the Financial Highlights, Chairman's and Chief Executive's Review, disclosures relating to corporate governance and statutory information. Our opinion on the consolidated financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears materially misstated. If, based on the work we have performed, 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.

KPMG

Use of this independent auditor's report

This independent auditor's report is made solely to the shareholders as a body. Our audit work has been undertaken so that we might state to the shareholders those matters we are required to state to them in the independent 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 shareholders as a body for our audit work, this report, or any of the opinions we have formed.

Responsibilities of the Directors for the consolidated financial statements

The Directors, on behalf of the company, are responsible for:

- the preparation and fair presentation of the consolidated financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards;
- implementing necessary internal control to enable the preparation of a consolidated set of financial statements that is fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.

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

Our objective is:

- to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error; and
- to issue an independent 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 will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of these consolidated financial statements is located at the External Reporting Board (XRB) website at:

https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-5/

This description forms part of our independent auditor's report.

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

For and on behalf of

KPMG

KPMG
Christchurch

27 September 2018

Statutory information

1. Directors' fees & remuneration

Parent Company The following people held office as Director of the Parent Company during the year and received the following remuneration and other benefits for acting as such:	*** Directors' fees**	*** Special project and other fees**	**Other benefits**
T.J. Burt	55,000	6,583	1,867
L.T. Crozier	55,000	5,500	1,867
A.G. Fenton (Deputy Chairman - from 23 November 2017)	63,021	9,750	1,867
A.G. Franklin	55,000	4,250	1,867
B.D. Gargiulo, MBE. (Chairman – retired 22 November 2017)**	46,250	180,500	1,867
B.R. Irvine (Chairman – from 23 November 2017)	93,396	11,333	1,867
M.J. Russell	55,000	5,833	1,867
A.D. Thompson	55,000	16,750	1,867
M.R. O'Connor (appointed 22 November 2017)	32,083	2,250	1,089
T. Webb (Intern – appointed 22 November 2017)	-	7,500	-
	509,750	250,249	16,025

Subsidiary Company The following people held office as Director of subsidiary company LaManna Premier Group Pty Ltd and received the following remuneration and other benefits for acting as such:			
A.J. Di Pietro	-	-	-
A.G. Fenton	59,539	31,008	-
B.D. Gargiulo, MBE. (Chairman)	102,839	84,386	-
B.R. Irvine	59,539	22,901	-
P.S. Hendry	-	-	-
M. LoGiudice	59,539	9,841	-
	281,456	148,136	-

Other than for subsidiary company LaManna Premier Group Pty Ltd as detailed in the table above, no director of a subsidiary company receives any remuneration or other benefits from the subsidiary company for acting as such.

Any remuneration or other benefits received by employees, as employees, are included in the relevant bandings in the table below.

* Messrs Fenton, Gargiulo and Irvine as directors of LaManna Premier Group Pty Ltd and Mr Gargiulo as Chairman of all LaManna Premier Group Pty Ltd subsidiary and associate companies, receive meeting fees and travel allowances from the Parent Company which are included in the Subsidiary Company table above. Whilst these fees are special project fees they are allocated in the above table as directors fees for disclosure purposes. The Parent Company charges LaManna Premier Group Pty Ltd for such payments.

** Mr B. Gargiulo retired from the Board during the period (refer table above) and received a retirement allowance of $165,000 (included in Special project and other fees).

During the course of the year, Mr B. Gargiulo attended 36 board and committee meetings (for the Parent Company to November 2017, subsidiaries and associates) and the other directors attended up to 28 meetings in both Australia and New Zealand. Travel time, executive meetings and other projects / commercial negotiations were in addition to those meetings attended.

Special Project and other fees are paid to Directors for duties outside those of a normal Director role including negotiation of commercial contracts, attendance at associate and subsidiary company meetings, travel time and attendance at committee meetings.

Statutory information (continued)

2. Auditors' remuneration

The amounts payable to the auditors of the Parent Company and subsidiaries during the year are detailed in note 12 of the attached financial statements to 30 June 2018.

3. Co-operative Companies Act 1996 Declaration

In compliance with clause 10 of the Co-operative Companies Act 1996 the Board of Directors of Market Gardeners Limited unanimously resolved on 18 July 2018 that, in their opinion, the Parent Company had been a co-operative company throughout the period 1 July 2017 to 30 June 2018. This opinion was based on the fact that, more than 60% of the voting rights were held by transacting shareholders and that the Parent Company continued to carry on its principal co-operative activities as detailed in its constitution.

4. Executive employees' remuneration

During the year the following numbers of employees received remuneration in excess of $100,000:

Remuneration range	Number of employees	Remuneration range	Number of employees
100,000 to 109,999	16	250,000 to 259,999	2
110,000 to 119,999	17	260,000 to 269,999	3
120,000 to 129,999	10	270,000 to 279,999	2
130,000 to 139,999	11	280,000 to 289,999	1
140,000 to 149,999	9	290,000 to 299,999	1
150,000 to 159,999	9	320,000 to 329,999	1
160,000 to 169,999	11	330,000 to 339,999	1
170,000 to 179,999	7	350,000 to 359,999	2
180,000 to 189,999	6	360,000 to 369,999	1
190,000 to 199,999	9	410,000 to 419,999	1
200,000 to 209,999	2	460,000 to 469,999	1
210,000 to 219,999	3	480,000 to 489,999	1
220,000 to 229,999	1	1,050,000 to 1,059,999	1
230,000 to 239,999	5	1,150,000 to 1,159,999	1
240,000 to 249,999	2		

The remuneration details of those employees paid outside New Zealand have been converted into New Zealand dollars. Remuneration includes an employee's remuneration, together with the value of other benefits received such as vehicle usage, medical insurance and telephone rentals.

The remuneration of employees in Australia, USA and New Zealand, is included in the above table.

5. Interests register

The following entries were recorded in the interest's register of the Group during the accounting period.

General disclosures

Like most co-operative companies, Market Gardeners Limited has frequent transactions with its grower Directors (sales to, agency sales for and purchases from Directors) in the ordinary course of business. For additional information refer to note 19 of the attached financial statements to 30 June 2018.

Statutory information (continued)

5. Interests register (continued)

The following are the new disclosures made in the general interests register of the Group:

Directors' interests in companies and other entities which have or may have material ongoing dealings with the Company and / or Group.

Director	Nature of Interest	Company / Entity
As directors of the Parent Company, Market Gardeners Ltd		
M.R. O'Connor	Director / shareholder	Appleby Fresh Ltd Waimea Irrigators Ltd
	Partner	Mountain View Forest Partnership
	Director	Vegetables NZ
B.R. Irvine	Director	J.S. Ewers Ltd

Director	Nature of Interest	Company / Entity
As directors of the subsidiary company, LaManna Premier Group (formerly LaManna Bananas Pty Ltd)		
No new declarations		

In addition to the above new disclosures, a number of directors disclosed changes to existing disclosures (such as being appointed Chairman), resignations from other directorships held and previously disclosed in the interests register and changes in shareholdings in the Parent Company (as detailed below).

Particular disclosures

During the period Messrs Fenton, Crozier, Franklin, O'Connor, Russell, Thompson reconfirmed their interests by virtue of being directly or indirectly shareholders in Market Gardeners Ltd.

On his re-appointment as a Director of Market Gardeners Ltd, Mr. O'Connor declared an interest by virtue of a direct or indirect shareholding in Market Gardeners Ltd (as disclosed below) together with an interest in all directors remuneration and other benefits received or paid by the Parent Company including (without limitation) Director's fees, special project fees (if any), committee fees (if any), Directors and Officers liability insurance, an indemnity from the Parent Company and Southern Cross Medical insurance.

(a) Directors' & officers' indemnity and insurance

The Group (Parent Company, its subsidiaries and associates) has effected Directors' and Officers' liability insurance on behalf of the Directors and Officers of those entities and have also entered into indemnities with those Directors and Officers as permitted by the relevant parent, subsidiary or associate company's constitution.

(b) Use of company information

During the accounting period, the Boards of the Group entities (Parent Company, subsidiary and associate companies) did not receive any notices from any Directors of the relevant entity requesting the use of company information received in their capacity as Directors which would not otherwise have been available to them.

(c) Interest in actual or proposed transactions of the Parent Company

No declarations in actual or proposed transactions of the Parent Company were made during the accounting period.

Statutory information (continued)

5. Interests register (continued)

(d) Share dealings

The following are the shareholdings of Directors of the Parent Company at 30 June 2018. The changes in the shareholdings are in accordance with the Parent Company's normal operating policies and constitution which are applied equally to all shareholders.

	30 June 2018				30 June 2017			
	A Shares	B Shares	C Shares	D Shares	A Shares	B Shares	C Shares	D Shares
L.T. Crozier	-	-	-	-	-	-	-	-
Held by a company of which he is a shareholder & director	58,428	78,736	8,436	-	35,605	66,552	7,408	-
A.G. Fenton	-	-	-	-	-	-	-	-
Held by a company of which he is a shareholder & director	13,857	68	52	14,708	11,464	66	8	13,257
A.G. Franklin	147,173	47,971	5,608	148,610	124,030	38,191	4,956	133,938
Mr B.R. Irvine as Director of MG Group Holdings Ltd and J S Ewers Ltd (100% subsidiary companies of Market Gardeners Ltd)	655,153	1,204,665	112,016	-	117,208	-	-	-
M.R. O'Connor	-	-	-	-	-	-	-	-
Held by a company of which he is a shareholder & director	261,321	210,509	25,272	-	203,618	158,232	26,200	-
A.D. Thompson	-	-	-	-	-	-	-	-
Held by a company of which he is a shareholder & director	6,343	63,829	7,208	-	5,717	41,677	6,196	-
M.J. Russell	-	-	-	-	-	-	-	-
Held by a company of which he is a shareholder & director	12,936	41,623	4,216	-	7,180	31,493	3,684	-

The above table discloses the shareholdings of Directors of the Parent Company. The changes in the shareholdings are in accordance with the Parent Company's normal operating policies and constitution which are applied equally to all shareholders. "A", "B" and "C" shares are rebate shares.

6. Changes in accounting policies

The attached financial statements to 30 June 2018 have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ("NZ GAAP"). They comply with New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities. The accounting policies set out in the attached financial statements have been applied consistently to all periods presented in those financial statements and by Group entities.

7. Donations

During the year the Parent Company made donations of $42,000 (2017: $2,000), the Group $78,000 (2017: $17,000).

Statutory information (continued)

8. Directors of subsidiaries

As at 30 June 2018:

Messrs B.R. Irvine, P.S. Hendry (CEO) and D.J. Pryor (Company Secretary and CFO) were the Directors of Blackbyre Horticulture Ltd, Bowdens Mart Ltd, Bray Frampton Ltd, Cockerill and Campbell (2007) Ltd, Hansons Lane International Holdings Ltd, Market Fresh Wholesale Ltd, Market Gardeners Orders (Christchurch) Ltd, Market Gardeners Orders Wellington Ltd, MG Marketing Ltd, MG New Zealand Ltd, Phimai Holdings Ltd, Quitachi Ltd, LaManna Ltd, LaManna Bananas (NZ) Ltd, Southland Produce Markets Ltd, MG Group Holdings Ltd and J.S. Ewers ltd.

Messrs K.J. Wells (International Business Manager) and D. Trask were the directors of Market Gardeners (USA), Inc.

Messrs B.D. Gargiulo (MBE), A.G. Fenton, B.R. Irvine, P.S. Hendry, A. Di Pietro and M. LoGiudice were the directors of LaManna Premier Group Pty Ltd (formerly LaManna Bananas Pty Ltd).

Messrs B.D. Gargiulo (MBE) and A. Di Pietro (appointed 1 March 2018) were the directors of Australian Banana Company Pty Ltd. Mr. G. Thompson resigned on 1 March 2018.

Messrs B.D. Gargiulo (MBE) and A. Di Pietro (appointed 1 March 2018) were the directors of Carbis Bananas Pty Ltd, Fruitology Pty Ltd, LaManna Bananas Pty Ltd (formerly SureStak Pty Ltd), Gold Tyne Pty Ltd, LaManna Bananas (Adelaide) Pty Ltd, LaManna Group Pty Ltd, LaManna Fresh Pty Ltd, LaManna Fruit Pty Ltd, LaManna Bananas Property One Pty Ltd, LaManna Bananas Property Two Pty Ltd, LaManna Group Holdings Three Pty Ltd, LaManna Group Holdings Four Pty Ltd and LaManna Group Holdings Five Pty Ltd, Verona Fruit Pty Ltd. Mr. G. Thompson resigned on 1 March 2018.

Messrs B.D. Gargiulo and A. Di Pietro were the directors of Fresh Choice W.A. Pty Ltd. Messrs Thompson and LoGiudice resigned on 1 March 2018.

Messrs B.D. Gargiulo, B.R. Irvine, P.S. Hendry and D.J. Pryor (appointed 1 March 2018 upon Mr. G Thompsons resignation) were the directors of Lambell's Properties Pty Ltd.

Messrs B.D. Gargiulo and A. Di Pietro were the directors of Premier Fruits Group Pty Ltd, Premier Fruits International Pty Ltd, Premier Fruits NSW Pty Ltd, Premier Fruits Pty Ltd, Premier Fruits Brisbane Pty Ltd, Premier Farms Pty Ltd, Premier Fruits Adelaide Pty Ltd, Absolutely Fresh Prepacking Pty Ltd, Premier Fruits Lancaster (Vic) Farming Pty Ltd and Premier Fruits W.A. Pty Ltd.

Corporate governance statement

The Board of Market Gardeners Ltd (MG) reaffirms its commitment to ensuring that the Company and wider Group implements and adheres to high levels of good corporate governance principles and ethical standards.

Role of the Board

The Board's primary objective is the creation of sustainable shareholder value through following appropriate strategies and ensuring they are implemented effectively by management. The Board has delegated to the CEO, management and subsidiary company boards, the day to day leadership of the group's operations.

The majority of the Board is elected by shareholders with at least two special directors required to be also appointed by the shareholder appointed grower directors. Under the Companies Act 1993 and the Cooperative Companies Act 1996 the Board has overall responsibility for the governance, management and supervision of the Company and wider Group.

The Board's responsibilities include general stewardship, working with management to set the Company and Group's strategic direction, providing leadership, monitoring management and financial performance, monitoring compliance and risk management and ensuring that there are effective policies, procedures and guidelines in place to ensure these responsibilities are performed to a high standard of accepted business practice and financial accountability. To this end the Board, primarily through the audit committee, continues to review, add to and update its policies and practices, and those of the Group, to keep pace with both domestic and international developments in this area. It is important to note that developments occur frequently and the Board continues to reaffirm its commitment to maintaining high quality policies, procedures and practices into the future, throughout the Group.

Board Operations and Membership

The Board is committed to the principle that there should be a balance of independence, skills, knowledge and experience among the directors. The current Board of Directors consists of 6 shareholder appointed Directors (Messrs Fenton (Deputy Chairman), Franklin, Crozier, Thompson, Russell and O'Connor) and 2 Special Directors (Messrs Irvine (Chairman) and Burt). Notwithstanding normal business operations, none of the MG Directors are directly involved in the day-to-day management of the Company's operations. From time to time the board appoints Special Directors - Mr Irvine (Chairman since November 2017) who has been on the MG board since December 1994 and Mr Burt who commenced in January 2017.

Like most cooperatives, MG has frequent transactions with its grower directors (sales to, agency sales for and purchases from Directors or their businesses / companies). These transactions are entered into in the normal course of business. A register of interests is maintained and regularly updated documenting interests disclosed by all Board members. The statutory disclosure section of the annual report documents all disclosures made in the current year.

With regards to appointments of Directors for subsidiary and associate companies which form part of the Group, the MG Board considers and makes all appointments of the MG representative directors. As associate companies are only partly owned, MG only appoints certain representative directors to such entities. The remaining directors are appointed by the other shareholders in those companies.

As at 30 June 2018, LaManna Premier Group Pty Ltd (LaManna Premier) was a 69.3% (2017: 68%) subsidiary. MG has appointed four representative directors to the LaManna Premier Board. The non-controlling interest shareholders have appointed two Directors to represent them on the LaManna Premier Board – Messrs Di Pietro and LoGiudice.

MG's current constitution was unanimously adopted by shareholders at the 23 November 2016 Annual Meeting. The constitution has specific procedures for the appointment and retirement of MG Directors, eligibility requirements for being nominated / appointed and automatic retirement rotations every three years. The MG Board met 10 times during the financial year (13 times last financial year), in addition to attending to committee matters between meetings. These meetings include conference calls to address any matters or issues arising between set meeting dates. In addition to the meetings of the Parent Company, Directors of the subsidiary and associate companies also met throughout the year. The outcomes of such meetings, key business issues and the performance of such companies are reported through to each meeting of the MG Board by MG's representative Directors.

Group Management Structure

The core business of the Group is transacted in New Zealand by Market Gardeners Ltd and in Australia by LaManna Premier Group Pty Ltd (in both countries the parent companies are supplemented by their respective subsidiaries and associates). MG is represented on the boards of the subsidiary and core trading associate companies by members of the MG Board, MG appointees and / or senior management.

The Board delegates the management of the day-to-day affairs of the Company to the Senior Management Team under the leadership of the CEO. MG's Chief Executive together with the Company Secretary/Chief Financial Officer and International Business Manager attend all MG Board meetings.

Corporate governance statement (continued)

Similarly, LaManna Premier's Chief Executive, Chief Operating Officer, Chief Financial Officer and certain other senior executives of LaManna Premier and MG attend all LaManna Premier Group board meetings.

From time to time the MG and LaManna Premier Boards invite other employees and external advisors to attend and present at Board meetings particularly in key areas such as workplace health and safety.

In the case of all operating entities, budgets, strategic plans and monthly reporting are the key tools utilised in assessing and monitoring management's performance throughout the year.

Board Remuneration
MG obtains external professional advice on remuneration to be paid to Directors on a two to three yearly basis. The recommendations of the external advisor are, if required and after consideration by the Remuneration Committee and full Board, submitted as a resolution to shareholders at the Company's annual meeting.

For the year under review, no directors' fees were paid to MG Directors that are also MG representative directors of any subsidiary or associate companies. As a result, members of MG's Board acting as representative directors on subsidiary and associate company boards are remunerated by MG with special project fees. These fees are disclosed in the schedule of statutory disclosures detailed in the attached annual report and are based on the external professional advice sought for directors fees as detailed above. The non-controlling interest representative Directors on the LaManna Premier board are remunerated directly by LaManna Premier. These fees are also set by reference to the external professional advice referred to above and are disclosed in the schedule of statutory disclosures detailed in the attached annual report.

Shareholder Relations
The Board actively fosters constructive relationships with its shareholders as appropriate. The Board is at all times aware of the need to protect the interests of the Company, Company's shareholders and act in their best interests.

The Company encourages shareholder participation at the annual meeting. In addition to this, the Board has continued with the ongoing communication programme with all shareholders.

Risk Management
It is a key role of the Board to ensure that risk management processes are in place and operating effectively. The Board has undertaken a number of steps to ensure this is carried out including:

- Considering the nature and extent of risk the Board is willing to take to meet the company's strategic objectives and the associated risks;
- Set up internal control processes to ensure management efficiently manage resources in compliance with the risk framework;
- In conjunction with the CEO and management, reviewed the effectiveness of compliance with risk management policies and systems; and
- Mandated (as part of its charter), the audit committee to monitor detailed risk management procedures on the Board's behalf.

Board Committees

Audit Committee
This sub-committee of the MG Board met 4 times during the financial year (5 times last financial year) in its chartered role of reviewing all financial, management, auditing, compliance and risk factors affecting the Company and Group. As a sub-committee of the MG Board, it is made up of four Directors, two of whom (Messrs Burt and Irvine) are special directors, with appropriate experience, accounting skills and knowledge. From November 2017 Mr. Burt took over from Mr. Irvine as chairman of the committee. The Committee's meetings are attended by MG's Chief Executive, Chief Financial Officer, the Risk and Internal Audit Manager and the Company's external auditors, KPMG, as required.

As noted in 2017, a comprehensive risk based approach to the Company and Group's risk management and internal audit processes is now undertaken. This approach is wider than the past main focus on the accuracy of external financial reporting / operational activities and extends into overall compliance requirements of the Group (for example the new Food Safety Act requirements). Whilst internal audit still ensures that all branches and divisions of MG are subject to regular internal audit visits (on a rotational basis), its procedures focus on making the overall process wider reaching and more regular, such as the introduction of self-audit procedures and reporting. A full revision / update of MG's corporate policies is also under way to ensure that they appropriately cater for the current business.

Corporate governance statement (continued)

The LaManna Premier Group also has an Audit Committee and is working with an external service provider, Shine Wing, to undertake focused internal audit visits on a targeted basis. This programme is designed to develop the internal audit testing programme in order to transition to an internal resource at an appropriate time. In conjunction with this, MG's Internal Audit and Risk Manager is assisting in the development of the risk-based approach to focus the internal audit function appropriately.

In both New Zealand and Australia all internal audit reports are presented to and considered by the relevant Audit Committee. The internal audit function provides assistance to the Board and management in the discharge of their duties in ensuring that appropriate controls exist within the Group.

The Audit Committee continues to monitor domestic and international developments in corporate governance best practices, procedures and policies.

Remuneration and Nomination Committee

The Remuneration and Nomination Committee consists of the MG Chairman (Mr B.R. Irvine), Deputy Chairman (Mr A.G. Fenton who is Chairman of this committee) and one other director (Mr M.J. Russell). The committee is responsible for the review and administration of director's fees, establishing coherent remuneration policies and practices, and the remuneration of the MG Chief Executive and senior management personnel. This committee has been delegated the task of reviewing and providing recommendations to the full board in relation to corporate governance and regular reviews of policies and charters such as the Board Charter and Code of Conduct and the Director Capability Framework.

Board charter, code of conduct and Director Capability framework

In 2017 the Board revised and adopted the Board Charter, Code of Conduct and a Director Capability Framework. These documents are reviewed regularly and published on MG's website. The Charter formalises and sets out the manner in which the Board's powers and responsibilities will be exercised and discharged, adopting principles of good corporate governance and practice that accord with best practice, the applicable laws in the jurisdictions in which the Company operates and the Core Purpose of the Company. This is supported by the Code of Conduct and further by the Director Capability framework.

Annual Review

This corporate governance code, and the associated policies and procedures are reviewed on at least an annual basis.