MARKET GARDENERS LIMITED

ANNUAL REPORT

FOR THE YEAR ENDED

30 JUNE 2019

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Financial highlights

• **Group gross sales under management**	$923.612 million
Group profit before income tax and gain on sale of property	$15.301 million
Gain on sale of property	$9.448 million
• **Group profit before income tax**	$24.749 million
• **Group profit for the year (after income tax)**	$17.166 million
• **Group total equity**	$133.947 million
• **Group total assets**	$279.032 million

	2019 $'000	**2018** $'000
Shareholder distributions		
• Special Bonus Issue (November 2019)		
• 1 for 30 on "A" shares (2018 : 1 for 20)	772	976
• 2 for 5 on "B" shares (2018 : 1 for 5)	3,308	1,666
• 2 for 5 on "C" shares (2018 : 1 for 2)	399	442
• "D" shares - nil (2018 : 1 for 20)	-	155
• Supplier shareholder rebate (issued as 2019 "C" shares) (2018: issued as 2018 "C" shares)	250	250
• Bonus issue on supplier shareholder rebate of 5 for 1 (2018 : 3 for 1)	1,250	750
• Final gross dividend on "A" shares : 6 cents per share (2018 : 6 cents per share)	1,436	1,171
• "D" Shares – March 2019 – final gross dividend : 2 cents per "D" share ("D" Shares - November 2018 : 6 cents per "D" share)	66	186
• Imputation credits attaching to the above distributions	2,228	1,552
Total shareholder distributions in relation to the year ended 30 June	9,709	7,148

Chairman's and Chief executive officer's review

®Together. Stronger.

On behalf of the Board and Management we are pleased to report a year of record performance for the Market Gardeners Group. Market Gardeners Limited, trading as MG Marketing (MG), has recorded a consolidated Group net profit before tax of $24.7 million.

The 2019 results are notable for a record trading result from the New Zealand operations, a significant improvement in the LaManna Premier Group (LPG) Australian operations to post a modest profit, a solid performance from associates and a substantial gain on the sale of a Sydney based property.

Based on this result the Board has once again declared a substantial special bonus issue, which together with normal distributions, amounts to $9.7 million – this is detailed more fully on page 6. As a Co-operative, we continue to generate consistently strong growth in revenue and profitability– Together. Stronger. ®

Increased market share and mostly good values across a broad range of products, together with tight fiscal management, have contributed to our excellent New Zealand result. However, values did decline across many product lines in the last quarter of the financial year due to increased volumes. That said, MG's greatest strengths lie with its active grower-shareholders and the value of their support, further complimented by our diverse customer base and ability to market New Zealand-grown product - both of which have been critical in successfully managing these additional volumes. Our import programmes have also supported the business well, an important component of a full service to our customers, ensuring that we can supply a range of product which would otherwise be unavailable to consumers – we are a leading importer in this sector.

We are particularly pleased to see improvements for LPG, which is reported on more fully on page 11. Like the New Zealand marketplace Australia continued to suffer from depressed product prices. However, this has been mitigated somewhat through operational improvements in both warehousing and farms, on-going refinement of customer support and channels to market, cost management and other business improvement strategies.

We look across the trading performances of many of our Australasian competitors over the last year in review and see similar commentary on the challenges we are all facing. It is somewhat gratifying to see that your Co-operative's performance compares favourably to many companies.

Strategically, we continue with our focus on the five key pillars - securing supply, the capability of our people, communication, business growth and improved systems and technology.

Like any business of our kind, we face a number of challenges including rising costs, scarcity of labour, compliance, freight, packaging and land use. Amongst the obstacles, we also grapple with water and environmental issues, softening consumer demand and falling product values. For horticulture itself, the unpredictability of disruptions from climate and other factors are becoming the norm. These industry challenges demonstrate, once again, the benefits of working co-operatively to satisfy our discerning customers and consumers.

The Co-operative will continue to invest in the development of intellectual property and exclusive licencing agreements on selected product categories that provide a genuine point of difference for consumers and growers. We will continue to strategically review and invest in growing operations, joint ventures and partnerships and provide grower financial assistance where this strengthens the Co-operative and is in line with our Co-operative principles. We will also continue to forge new supply channels for loyal MG growers. Investment in strategic product categories often requires significant capital investment - and our primary focus remains to increase the overall wealth of the Co-operative and its shareholders.

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

We remain committed to helping our growers respond to the industry challenges through our people capabilities by assisting with production planning, procurement, selling and marketing initiatives, logistics and operational efficiencies.

Our people are vital to creating a competitive advantage for our grower suppliers, customer relationships and for our Co-operative. We are fortunate to have a long-serving, diverse and highly experienced team, and we continue to work on attracting more of the right people into our business and developing their capabilities. Cultural fit is all important. It is essential that our staff are philosophically aligned with the grower, understand and deliver on customer expectations, and have the skills to create game-changing innovation. As part of our continued focus on the ‘Our People’ strategy, we are pleased to have further evolved the already successful MG Graduate Programme and Sales Academy.

With this cultural fit comes the need for active and clear communication with all our stakeholders and we trust that you are seeing an improvement in this area through a number of channels. This extends to communication on relevant business matters including the performance, strategy and direction of the business, global trends and key activities within the Co-operative. MG’s team is well informed on key matters as they relate to them with respect to delivering these messages. Equally we place high importance on customer service and communication to support our growers regarding supply, product availability, quality, logistics and innovation, in a planned and consistent manner.

Technology improvements come in many forms – technology in the form of our new operating platform (which will be installed by the June 2020 year-end) will be utilised to increase business productivity, improve employee work quality and effectiveness of work functions, reduce operating costs and enhance grower and customer service levels. This technology will extend to better planning capabilities and provide growers and customers with timely and meaningful information. Other forms of artificial intelligence business tools, automation and growing technology will also be progressively utilised to improve efficiencies.

Initiatives that support business growth are critical to our on-going success. Continually ensuring we remain relevant to our customers and grower shareholders is critical and is supported by the other key pillars explained in this report. Once again, the tailoring of business plans at each end of the supply chain are essential for mutual success.

The Board remains focused on strategically positioning the Group 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.

In addition, the Board has been active in a number of additional work streams including:

- The two-year review of the constitution adopted in 2016 to ensure that it is fit for purpose. Proposed changes are being submitted to the 2019 Annual Meeting of Shareholders (AGM). This work has been undertaken by the Constitution and Capital Structure Review committee (a sub-committee of the full Board). The focus will now move on to the second part of the project which is looking at the Group’s capital structure. This is expected to be an eighteen month to two-year programme - an update will be provided to the 2019 AGM and fully reported to the 2020 AGM.

- The introduction of an Industry Trust – The Trust Deed and initial trustees are being submitted to the 2019 AGM for shareholder approval. The Industry Trust is intended to be a charitable trust focussing both on industry good (training, education, promotion and the like) and on giving back to the industry and communities that MG and its shareholders operate in. More details are included in the notice of meeting.

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

On behalf of the Board and Management team, we acknowledge and thank all our stakeholders – our suppliers, customers and fellow staff for their continued support.

Looking ahead, we are well positioned and committed to creatively supporting our stakeholders in a challenging commercial environment as we work to grow our Co-operative, together for a stronger future.

We look forward to working with you all in 2020.

Together. Stronger. ®

Bruce Irvine	Peter Hendry
Chairman	CEO

Financial Overview

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

For the year to 30 June 2019 Group Gross Sales under Management amounted to $923 million (2018: $862 million). For the same period Group net profit before tax was $24.74 million compared to $13.67 million in 2018 (before impairment of $32.33 million which resulted in a net loss of $18.66 million).

As noted earlier, the strong performance was made up by a record result from the New Zealand operations, a solid turnaround in Australia and good contributions from the associate companies. Also of note is the one-off $9.4 million gain from the sale of our Sydney warehouse property. This warehouse will not meet future operational requirements due to the rezoning of the suburb to include more residential buildings. It has however been leased back for the short term whilst alternative premises are sourced. The proceeds from the sale of this property were used to strengthen the Group working capital, and to repay debt of AUD$5.0 million. This sale was signalled in the 2018 financial statements and the property was disclosed in the statement of financial position as "non-current asset held for sale".

Also of note, total Group Equity continues to show positive growth, at $133 million (2018: $107 million) while total assets have increased to more than $279 million (2018: $260 million), reflecting the strong financial performance and inclusion of the latest property revaluations (an increase of $13.5m taken to the revaluation reserve). In addition, in March 2019 the "D" shares (which were accounted for as debt / borrowings) were repaid.

This strong financial performance will allow your Co-operative to continue to make strategic investments and create further shareholder wealth, whilst also continuing to distribute significant wealth to shareholders - the 2019 distributions are detailed below.

MG presents an Annual Report inclusive of full financial statements and an Annual Review with summarised information. If you would like a copy of the either document, visit 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)

Distributions

Following another very strong year to 30 June 2019, the MG Board of Directors has resolved to return to its shareholders significant distributions totalling $9.709 million (2018: $7.148 million) by way of rebate shares, bonus issues and dividends. This is the fifth consecutive year that shareholders have received a special bonus issue. We note that the reported total now includes the value of imputation credits attached to those distributions.

On 7 August 2019 the Board declared the following distributions in relation to the year ended 30 June 2019:

- Special bonus issue – a fully imputed taxable special bonus issue of:
  - One new "A" share for every thirty existing "A" shares; and
  - Two new "B" shares for every five existing "B" shares; and
  - Two new "C" shares for every five existing "C" 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 2019.
- Bonus issue – a five for one fully imputed taxable bonus issue on the "C" shares issued out of the above rebate. This amounts to $1.25 million worth of "C" shares being issued (Shareholders that are Current Producers receive five 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. Once again imputation credits are attached to this dividend.

The above distributions will be made only to those shareholders entered on the share register with effect from 30 June 2019 who continue to hold, at the date of the 2019 Annual Meeting, the shares held at 30 June 2019.

As noted above, the "D" shares were repaid in March 2019. As a result, a final dividend of two cents per "D" share was paid at that time.

The above special bonus issue, rebate, bonus issue and dividends represent $9.7 million being distributed back to MG's loyal and supportive shareholders. Not only is this a significant distribution of wealth to the shareholders, but it also represents the continuing 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 "A" 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 email dpryor@mgmarketing.co.nz or phone (03) 343 1794.

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 Cellar Door, 143 Centennial Ave, Alexandra, on Wednesday 20 November 2019, commencing at 5.00pm. Shareholders are welcomed to join MG directors, management and staff to formally or informally discuss matters of interest.

There will be drinks following on from the meeting and a dinner at approximately 7.30pm and all shareholders and their partners are 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).

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

Directors & Management

As part of the Board's focus on strategic issues affecting our industry and Co-operative, we are continuing our constitutional and capital review as discussed above.

During the year, MG has successfully completed its second Director Internship, now to be called Associate Directorship. The Associate Director role is designed for those who have an interest in corporate governance and who aspire to director level roles. It allows for the recipient to gain valuable experience by having a non-voting seat at the board table for approximately 12 months. The Board's Remuneration & Nomination Committee are currently in the process of considering candidates for the third Associate Director position.

In accordance with the Company's constitution, Mike Russell and Alan Thompson retired by rotation and, being eligible, offered themselves forward for re-election. Alan Thompson subsequently resigned as a director with effect from 28 June 2019. Trudi Webb was validly nominated to stand for election. As a result of there being two people standing, both of whom were validly nominated for the two positions available, Mike Russell and Trudi Webb will, in accordance with the constitution, be declared automatically re-elected / elected at the 2019 AGM and no election ballot is required. In the interim period, on 7 August 2019 the Board appointed Trudi Webb as a director to fill the casual vacancy on the Board.

Bruce Irvine, Chairman, Appointed Special Director.
Bruce joined the MG Marketing Board in 1994. He has 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 Chairman of Heartland Bank, House of Travel Holdings, Rakon and Skope Industries and director of a number of other public and private companies. Bruce is MG's Chairman, Chair of the LaManna Premier Group's Audit Committee and a Director of LaManna Premier Group Pty Ltd. Bruce is also a member of MG's Remuneration & Nomination Committee, Audit Committee and Constitution & Capital Structure Review Committee.
Chartered Fellow of the IOD* and Accredited Fellow of the Chartered Accountants Australia and New Zealand.

Andrew 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.
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.
MG Deputy Chairman, Chairman of the MG Remuneration & Nomination Committee, member of the Constitution & Capital Structure Review Committee and a 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 Thompson, Elected Director (resigned 28 June 2019)
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 for 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 30% shareholding in Te Mata Exports (2012) Ltd and Alan is a director of that business.
Alan resigned as an MG director on 28 June 2019.

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

Trevor 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. As an experienced professional director, Trevor has held a number of previous roles including Chair of Ngai Tahu Holdings Corporation Ltd and Lyttelton Port of Christchurch Ltd, and Deputy Chair of PGG Wrightson Ltd. Trevor is currently Chair of the New Zealand Lamb Company Ltd and Hikurangi Cannabis Company Ltd and is a Director of Silver Fern Farms Ltd, Landpower NZ Ltd and Hossack Station Ltd. He is also a trustee of the Māia Health Foundation.

Chairman of the MG Audit Committee and member of the Constitution & Capital Structure Review Committee.

Chartered fellow of the IOD*.

Lynn 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 major grower of potatoes, onions and carrots in Central Canterbury.

Member of the MG Audit Committee.

Member of the IOD*.

Mike 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.

Member of the MG Remuneration & Nomination Committee.

Member of the IOD*.

Mark O'Connor, Elected Director.

Mark is serving his second term as a MG Director having originally joined the MG Marketing Board in November 2014. He is a Director and shareholder of Appleby Fresh Ltd, a family-owned market gardening business in Nelson on the Waimea Plains.

Member of the Constitution & Capital Structure Review Committee.

Member of the IOD*.

Joanna Lim, Elected Director.

Joanna (Jo) was elected to the MG board in 2018. She and her husband have a market garden business (Jade Garden Produce) and a share in a cucumber glasshouse operation (Island Horticulture Limited), both in the Christchurch area. Jo is also a Senior Associate at national law firm Simpson Grierson and specialises in financial markets / services and corporate advice. She also has expertise in climate change issues and the New Zealand emissions trading scheme. Jo involves herself in the local community as a trustee of the Selwyn Arts Trust and member of the St John Selwyn Central Area Committee.

Chair of the Constitution & Capital Structure Review Committee and member of MG's audit committee.

Member of the IOD*.

Trudi Webb, Board-appointed Director to fill a casual vacancy.

Trudi is part of a fourth-generation family growing enterprise, Webb's Fruit, 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 and director of Summerfruit NZ. Trudi has recently completed the MG Director Internship programme (now Associate Director programme) and has been appointed to the MG board to fill a casual vacancy until this year's AGM at which time she will become an elected director (as discussed above).

*Institute of Directors in New Zealand.

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

MG People

Our perennial theme on the value of our people is no less diminished as we charter a challenging market environment. We need to continually invest in our people so we can stay ahead of our competition and keep pace with the requirements of our broad customer base. This means employing the best people and continually building their capabilities. By keeping this top of mind – and following through in practice - we strengthen them, our business and the Co-operative.

Our priority must be creating a work environment that values diversity, where our people are safe and have the opportunity to grow and develop. Ours is a competitive and constantly changing environment. For MG to meet these challenges, we have to be an attractive environment for outstanding people, who understand and promote the culture of our business. The MG Graduate Programme and Sales Academy is an excellent example of how we foster this alignment. The sales and marketing development programmes are not only an investment in our people but also in the long-term capability of our industry.

As much as MG does to identify new talent, we also continue to work hard on maintaining our legacy of long-serving staff. We repeatedly hear from our customers how valuable continuity is to the success of both their and our businesses.

As we navigate continual change in our industry, we are committed to supporting tomorrow's leaders from within the Co-operative. To this end, leadership forms a key part of our people development programmes. Above all else, we value the well-being, and health and safety of our people. The 'culture of care' should never cease and for MG it is the essential foundation of our 'Together. Safer.'® programme.

A recurring theme within our industry is the difficulty in finding the next generation of growers. Succession is one of the many challenges facing us all and MG is playing its part in assisting with this process with another Growing You initiative discussed later in this review.

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 again proudly acknowledge this contribution by featuring their names in this Review.

New Zealand Operations

The New Zealand operations maintained an upward growth curve and had another record year in gross sales under management and pre-tax profit. It was especially pleasing to see sales increasing in the current market climate despite deflated prices across many lines at times during the year, especially in the last quarter of the financial year. All operating divisions performed well, and expenses continue to be appropriately managed.

Responding to climate variables seems like a never-ending theme and is very visible through media and on the farm. The mild autumn and winter of this year has created early and large volumes of crops across many products with the consequence of reduced returns. A softening of demand is also evident, and we expect this to continue for some time as domestic and global financial pressures shape consumer purchasing behaviour to some extent.

We remain acutely conscious of the need to create and maintain sustainable supply programmes with growers and customers despite events beyond our control. A recurring theme throughout this report is the need for good communication and planning, allied to investment in human resources.

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

Some major capital work projects are underway and will continue throughout 2020. A new computer operating system will be in place by the June 2020 year end – this will allow our growers and customers to access information seamlessly and in real time, while providing more efficiency and accuracy for the business. For insurance purposes we are now retrofitting our five largest branches with sprinkler systems. This is a significant expense imposed on the business to ensure our major assets are able to be insured. Auckland branch extensions are commencing and will progressively occur over two years. Even with new ways of facilitating business direct to customers, the continued growth at our Auckland operations is no longer supported by the current facilities. Extensions and, potentially, adding a new building will allow further growth and efficiency gains.

JS Ewers Ltd (Ewers), in its second year as a fully owned MG entity, has had a very good performance despite the lower values through the later part of the 2019 financial year. Ewers continues to enhance its sustainability with capital projects focused on heat recovery and efficiencies in the glasshouse operations. Ewers has also played its part in securing long term water supply through a significant investment in and support of the Waimea Dam project.

There is an on-going requirement for the industry to continually develop fresh talent and improve succession planning. Ewers recognises this and is implementing a grower internship this coming December, working with several schools to find the next generation of growers. Our intention is to roll this out to other supply regions in partnership with growers after gaining insight and learnings from the implementation of the programme.

Ewers is a substantial glasshouse and outdoor vegetable production unit that delivers on MG's core purpose of generating shareholder wealth in line with our strategic pillars. 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 made a further investment in a berry fruit joint venture, Kaipaki Berryfruits Ltd, with a similar strategy of securing supply and custom. This will be a substantial operation which moves away from traditional growing methods, requiring high capital input for under cover cropping to better manage weather variables, while creating labour efficiency. The business is located in Cambridge and will utilise IP varieties that will help grow category demand here and at other MG supplier operations.

Costs continue to be well managed, but we face continual inflationary pressure and we are crucially aware of the ongoing focus needed in this area. As mentioned earlier the cost of compliance, insurance, rising minimum wage costs, fuel and many other areas of our business, requires on-going investment in technology, systems and people to lower the affects. Our MG Direct and Grower Delivery Advice portal have been recent examples of this, but we will continue to do things smarter and more efficiently as costs rise and margins are squeezed.

We are always looking at ways to make work at MG more rewarding, whether it's for long-serving staff or newcomers who we recruit through our graduate programme. We pay particular attention to enhancing our procurement systems, the effectiveness of our sales team and key account management - the 2019 results demonstrate that the physical, financial and emotional investment is well worthwhile. Crucially, at a broad level, the effort also serves to strengthen us as a Co-operative.

International Trading

The imports marketplace has been competitive across all major import lines. Market share on bananas remained stable, with consumer consumption down on the previous year, but average values improved. Imports of other product lines improved in terms of market share during the year but were constrained on margin in a competitive market - the legacy of some challenging growing seasons.

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

Overall the Company had a record year of turnover across all import lines - MG leads the way with the import of domestically unavailable or out of season products and continues to provide the necessary resources to growing and improving this key category to support the Company's overall business proposition.

Our ability to meet discerning customer and consumer needs is supported by many suppliers from 17 countries who are leaders in their field. Much like our domestic suppliers, the ability to build lasting relationships and a deep understanding of the marketplace are key factors in our success. Many of our international supply partners have been with MG from the early days of import deregulation in the mid '90s.

Across the key import lines of bananas, citrus and grapes we have supply partnerships with highly regarded international suppliers such as Dole (25 years in partnership), Sunkist (19 years), Mildura Fruit Co in Australia, Jasmine Vineyards (19 years) in California, Dole Chile (24 years), Fruitmaster in Australia and many more family run businesses. They provide MG with the necessary supply and support to meet the discerning needs of our customers and consumers.

New pest interceptions and the need to protect our borders from unwanted pests through new post-harvest treatments are presenting some supply challenges moving forward. MPI is currently reviewing all import health standards for fruit and vegetables, which is likely to present new challenges and potentially opportunities.

Australian Operations – LaManna Premier Group (LPG)

The 2019 financial year shows a substantial improvement on LPG's 2018 trading results. This has been encouraging progress in an environment of continued volatility and challenging market conditions in Australia. The Board and Management of LPG continue to focus on post-merger structural change and business improvement strategies. All of this is aimed at underpinning continued growth and sustainability in all market conditions.

The 2018 depressed market conditions continued early into 2019 before an improvement halfway through the year. Whilst supply conditions fluctuated and impacted market conditions, several of our initiatives helped mitigate this.

From a cost management perspective, improvements in operational efficiencies reduced year on year costs as well as delivering customers and grower suppliers with industry leading service. An expansion of 'direct to distribution facilities' supply across all categories is having a positive effect on our cost management which will also enable warehouse consolidation over the medium to longer term. The development of our business analytics tool progressed in 2019. Its implementation through 2020 will enable close performance management reporting according to activity in the key revenue streams of the business in all operating divisions.

Our investments in key categories from farm production right through the supply chain enabled LPG to secure strategic sales volume commitments with major retailers. The banana and tomato categories are the flagship of LPG, nationally, and are both supported by our industry leading farming and packing operations. LPG also continues to evolve as an industry leader in its other key categories of soft vegetables (capsicum, zucchini and eggplant), melons, pumpkin, citrus, tropical fruits and stone (summer) fruits.

Ripening and service provision to third party growers and packers, particularly mangoes and avocadoes, grew significantly. This was on the back of ripening infrastructure improvements and a focus on building facilities with industry leading systems, processes and team expertise in ripening management.

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

International sales are set to grow significantly in 2020 following the commencement of the 'LPG Cutri Fruit Global' business in 2019. Cutri Fruit is one of Australia's leading stone fruit growers and packers and a trusted partner of LPG. We are excited about the prospect of our joint approach to international sales and marketing, which will leverage the benefits and strengths of both partners.

Volumes of non-core lines continue to be challenging with limited opportunities into major retailers and most sales being through our Trading (central market) Division.

LPG is well placed to continue to grow with major retailers. Our supply chain model offers consistency of supply, fully integrated quality management systems, category management teams that plan alongside retailers, along with compliance and ethical standards that meet and exceed requirements of the corporate ownership of major retailers.

Our farming operations have maintained an ongoing focus on improving operational efficiencies, yields and quality production. Our supply commitments with the major retailers underpin continued investment in growth and improvement. Maintaining product values continues to be the most significant challenge for our farms.

We continue to invest in infrastructure and system improvements to drive cost efficiencies and revenue growth. Such initiatives included the expansion of the Brisbane distribution centre with new state of the art ripening facilities, and the installation of pipe and rail infrastructure at the Lancaster Farms greenhouse.

Investment in our talent programme is also having a positive impact on LPG's performance with the third-year intake of the Graduate Programme underway. Our inaugural graduates are all progressing well. Our teams are now investing in the "Growing You" High Performance Programme, aimed at accelerating the development of our high potential employees.

Our LPG team members continue to strive for excellence and are proud to be part of the Trans-Tasman Group. We are addressing our short-term challenges head on in order to meet MG's and LPG's long-term vision of growth and sustainability.

Te Mata Exports 2012 Ltd (Te Mata)

MG's joint venture export partner, Te Mata, has had mixed trading across its product portfolio in its financial year ended 31 December 2018.

Generally speaking, the apple industry enjoyed another strong export season in 2018 and this was reflected in the company's performance with sales volume, turnover and returns improved on the previous year. We expect our apple exports to continue to grow as supply partners increase their volume and yields. We see a positive future in this category – backed by on-going investment in scale, post-harvest infrastructure and new IP varieties creating improved eating experiences, shelf life and grower returns.

Sales across other traded products (citrus, cherries, avocado and grapes) were more challenging due to weather variables, shorter crops and some fruit condition issues. Seasonal variances are not unusual, and we expect there to be an improvement in future years as we continue to diversify further with scale in these categories.

The business is continuing to invest in more internal resources to assist with additional volumes and capturing new opportunities. Te Mata will also look at other strategic investments to secure supply and grow the business.

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

United Flower Growers Ltd (UFG)

MG's joint venture flower business also had a challenging year of trading, with top line sales slightly down on last year and higher operating costs contributing to a reduced result.

General trading conditions reflect a weakening of consumer economic confidence and the tightening of spend on luxury or discretionary items. These financial headwinds look likely to continue for some time. Overall, the industry is consolidating and channels to market are evolving. UFG is monitoring these changes and continues to adapt accordingly. This business is no different to fruit and vegetables, requiring the same levels of discipline around cost control, stakeholder service, support and communication in order to be successful.

The business now operates from a network of five locations with auction and wholesale facilities in Auckland, Wellington and Christchurch, as well as wholesale facilities in Dunedin and Invercargill. The cloud auction services (online auction portal) through the Auckland and Christchurch branches provide further reach beyond the main cities.

UFG is investing in a new business operating platform that will further improve company performance, efficiencies and enhance the cloud auction. The business will continue to focus on investing in streamlining processes, product consistency, improved logistics and effective marketing of New Zealand cut flowers, supplementing this with imported product at appropriate times.

First Fresh New Zealand Ltd (First Fresh)

MG purchased a 30% share of Gisborne based First Fresh in December 2017. This company was formed in 1989 to pack and market an expanding volume of locally grown product, both domestically and offshore. First Fresh are the largest citrus supplier to the domestic market, as well as a leading exporter of both citrus and persimmons. The investment has strengthened MG's supply base in these products, along with kiwifruit and other sub-tropical lines, for the New Zealand market.

Overall the industry volume of citrus was up for the year. Citrus is particularly prone to biennial bearing which led to periods of oversupply on the domestic market and this year values were generally lower per kilo as a result. First Fresh managed to maintain market share across all of the major varieties. Challenging weather conditions through the autumn and winter of 2018 meant that managing quality was paramount and this is an area where First Fresh excels.

Citrus exports, which mainly focuses on lemons, were steady in the main markets of Japan, the US and China. New Zealand is very much a niche player on a global scale but nonetheless it can exploit counter seasonal opportunities that exist.

First Fresh has secured the exclusive right to pack Sunkist branded citrus in New Zealand (Meyer lemons, oranges and mandarins) and market this fruit to Sunkist receivers in Asia. The Sunkist brand is well recognised in Asian markets and offers First Fresh further scope to develop citrus exports.

New plantings of persimmons coming on stream in Gisborne saw an overall lift in production of this crop. First Fresh packs and markets over 70% of the national persimmon crop and with a strong export component this product is hugely important to the business. Access has recently been granted to two new markets (USA and China) and the company is in the process of developing supply programmes to them.

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

New Zealand Fruits Limited, First Fresh's postharvest service provider, completed a multimillion upgrade to its facility including the installation of the latest in fruit grading and sizing technology. In time this new line will provide efficiencies around packing and quality.

The addition of two new staff members in late 2018 bolstered the First Fresh sales, marketing and field service teams, which has the company well poised for future growth.

New Zealand Fruit Tree Company Ltd

MG now has a 33% shareholding (2018: 22%) in the New Zealand Fruit Tree Company Ltd, along with 33% of Zee Sweet Ltd – these companies were established in 1996 and manage intellectual property rights, representing a wide range of global plant breeders in the New Zealand market for summer-fruit and pip-fruit in particular.

The investment was strategically designed to strengthen MG's position as a leading domestic marketer of New Zealand summer-fruit. In addition, MG is now at the forefront of assisting growers with new varieties that appeal to consumers, along with enhancing farmgate returns and a more sustainable future. There are a number of exciting new apple varieties also coming to market which MG will participate in through its involvement in Te Mata (discussed above).

The business has suffered setbacks during the year but continues to perform well. These setbacks were due to biosecurity issues which have delayed the importation and commercialisation of a number of new varieties – the business (along with other affected parties) successfully contested the adverse MPI rulings, but the commercial setback could not be reversed immediately.

MG in the Community

We are in the business of 'selling health' to our people and the nation and are responsive to the needs of our community.

In keeping with that broad ambition, MG is a major supporter of the United Fresh and the 5+A Day Charitable Trust programme, an initiative launched over 10 years ago to encourage consumption of more fresh fruit and vegetables. MG is proud of its contribution to this programme and its work with the charitable trust behind it.

MG has always supported a wide range of community and industry good initiatives. One of our longstanding partnerships is with the Salvation Army, which works tirelessly across New Zealand to fight poverty and social distress. MG has continued its partnership with the Māia Health Foundation (Māia) which raises funds for essential projects to help New Zealanders get the right medical care. By supporting Māia we can play an important role in supporting the health of many New Zealanders.

As communicated earlier in the year, and as already discussed, to demonstrate our commitment to the produce industry and community, the Board is putting a proposal to shareholders at this year's AGM (20 November 2019 in Alexandra) for the formation of an Industry Trust to undertake industry good projects in general. The proposed resolution will seek approval of the trust deed and the initial trustees. The Industry Trust is intended to be a charitable trust focussing on industry good (training, education, promotion etc) and on giving back to the produce industry and communities that MG and its shareholders operate in. More details are included in the notice of meeting.

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

Growing You

We have put significant resources into our Grower Development Workshop Programme again this year, working with organisations such as Lincoln University to offer our growers access to some of the latest insights within horticulture. The most recent workshop in Napier attracted a record number of growers – we will keep moving these events around to different locations to cater for product interests.

The regional grower 'shed' meetings are part of our communication plan. This is our opportunity to keep the grower Co-operative members and suppliers 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 Intern Director Programme, now called Associate Director Programme, was introduced in 2015 with the aim of encouraging shareholders to grow their knowledge and governance experience. The position allows the Associate to attend all meetings with full speaking rights, but no voting rights, and is supported by a mentor from the MG Board. Our second associate director, Trudi Webb, completed the programme in the past year and, as noted earlier, has recently been appointed as a full MG Director.

In the coming year the Board also intends to use the JS Ewers Ltd Grower Internship Programme as a model for other parts of the produce industry. More on this will be communicated as we learn and modify its format.

Sustainability initiatives

Sustainability is many things to many people. There is, however, general alignment in the view that best practice is about the responsible use of resources today – be they environmental, financial or human - to ensure the ability of future generations to meet their own needs.

MG has a responsibility and opportunity to lead by example and set strategies to ensure that its commercial activities are conducted in a manner that is empathetic to the environment, and that reflects the values of our customers and growers.

In this context, the Company is working on sustainability initiatives that are anchored in the practical so that sustainability is truly something that can be achieved on a daily basis.

Whether it is through the drive to reduce waste, lower our carbon footprint, lower energy consumption, enhance staff well-being, or a myriad of other initiatives, MG is committed to financial stability, community good and valuing people and planet.

Our People

We pay keen attention to the health and wellbeing of our people, and nowhere is this more evident than in our use of Synergy Health's web-based Tracksuit Inc. The platform, which encourages healthy lifestyles through education, information and reward-based programmes, is a natural extension of our approach to maintaining a mentally and physically fit workforce.

Our branches actively encourage group participation in physical based activities (including various run / walk activities throughout the year), as well as providing access to fresh fruit and vegetables. As we do for sustainability, we are determined to make our actions of real consequence for our people.

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

Reducing Waste

Over the past two years we have worked hard to improve recycling within the branch network. In real terms, less waste is now going to landfill and more into recyclable streams. We are also working closely with our waste management partners to better provide more accurate and environmentally friendly collections.

Refrigeration

We have started to move to natural gas at some sites and over time facilities will be progressively changed over to environmentally sustainable solutions so that we can reduce our use of ozone depleting substances.

Packaging

Reducing, re-using and recycling is a top priority and we are constantly looking at ways to improve our packaging. We're also working on guidelines to assist our grower suppliers, and to provide packaging that is recyclable whenever packaging is necessary. It is not easy to find alternative options that comply with food safety regulations and are practical and cost effective. It is a complex discussion, influenced by strong consumer views and fulsome solutions, that will no doubt take time to find.

Energy

The efficiency of our energy-use is under constant examination. Lighting systems are changing around New Zealand and we look for improvements to our refrigeration plants whenever we upgrade facilities.

Together.
Stronger.

MARKET GARDENERS LIMITED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2019

The Directors are pleased to present the financial statements of Market Gardeners Limited for the year ended 30 June 2019.

For and on behalf of the Board of Directors:

B.R. Irvine Chairman	J.A. Lim Director
18 September 2019	18 September 2019

Statement of comprehensive income

For the year ended 30 June

	Note	Group 2019 $'000	2018 $'000
Revenue – sale of goods	11	582,187	525,054
Cost of sales		513,175	467,794
Gross profit		69,012	57,260
Other operating income	11	2,870	2,888
Administrative expenses	12	12,252	11,844
Other operating expenses		42,419	38,988
Results from operating activities before other income and other expenses		17,211	9,316
Other income – gain on acquisition	23	-	6,568
Other income – gain on sale of property	11	9,448	-
Other expenses – impairment	9	-	32,330
Results from operating activities		26,659	(16,446)
Finance income		290	83
Finance expense		2,855	2,973
Net finance costs		2,565	2,890
Profit/(loss) before equity earnings and income tax		24,094	(19,336)
Share of profit of equity accounted investees	21	655	673
Profit/(loss) before income tax		24,749	(18,663)
Income tax expense	15	7,583	839
Profit/(loss) for the year		17,166	(19,502)
Other comprehensive income			
Items to be reclassified to profit or loss in subsequent periods (net of tax):			
Change in fair value of land and buildings		13,616	-
Foreign currency translation differences for foreign operations		(2,018)	2,956
Net gain/loss on hedge of a net investment		858	(818)
Effective portion of changes in the fair value of cash flow hedges		(971)	7
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		11,485	2,145
Total comprehensive income/(loss) for the year		**28,651**	**(17,357)**
Profit attributable to:			
Owners of the Company		17,055	(14,121)
Non-controlling interest		111	(5,381)
Profit/(loss) for the year		**17,166**	**(19,502)**
Total comprehensive income/(loss) attributable to:			
Owners of the Company		29,083	(12,207)
Non-controlling interest		(432)	(5,150)
Total comprehensive income/(loss) for the year		**28,651**	**(17,357)**

The significant accounting policies and notes to the financial statements 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 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
Balance at 1 July 2018	29,498	34,132	(86)	(1,875)	32,171	35,451	10,027	107,147
Profit for the year	-	-	-	-	-	17,055	111	17,166
Other comprehensive income / (loss)	-	13,522	(971)	(617)	11,934	94	(543)	11,485
Total comprehensive income/(loss) for the year	-	13,522	(971)	(617)	11,934	17,149	(432)	28,651
Transactions with owners, recorded directly in equity								
Dividends	477	-	-	-	-	(1,293)	-	(816)
Shares issued	4,097	-	-	-	-	(4,084)	-	13
Shares surrendered	(1,048)	-	-	-	-	-	-	(1,048)
Balance at 30 June 2019	33,024	47,654	(1,057)	(2,492)	44,105	47,223	9,595	133,947

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

Statement of financial position

As at 30 June

	Note	Group 2019 $'000	Group 2018 $'000
EQUITY			
Share capital	6	33,024	29,498
Reserves		44,105	32,171
Retained earnings		47,223	35,451
Total equity attributable to equity holders of the Parent Company		124,352	97,120
Non-controlling interests		9,595	10,027
Total equity		133,947	107,147
NON-CURRENT ASSETS			
Property, plant and equipment	8	157,198	142,234
Intangible assets	9	26,281	26,530
Investments in equity accounted investees	21	8,434	8,006
Investments other	21	3,695	916
Trade and other receivables	5 (b)	-	37
Deferred tax assets	15	4,323	5,063
Total non-current assets		199,931	182,786
CURRENT ASSETS			
Inventories	10	9,425	9,766
Trade and other receivables	5 (b)	54,178	51,823
Cash and cash equivalents	5 (a)	15,498	9,253
Non-current assets held for sale		-	6,620
Total current assets		79,101	77,462
Total assets		279,032	260,248
NON-CURRENT LIABILITIES			
Borrowings	5 (c)	49,569	60,275
Trade and other payables	5 (c)	1,780	964
Deferred tax liabilities	15	8,665	8,771
Total non-current liabilities		60,014	70,010
CURRENT LIABILITIES			
Borrowings	5 (c)	6,886	10,737
Trade and other payables	5 (c)	73,775	71,030
Taxation payable		4,410	1,324
Total current liabilities		85,071	83,091
Total liabilities		145,085	153,101
NET ASSETS		133,947	107,147

The significant accounting policies and notes to the financial statements 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 2019 $'000	Group 2018 $'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash was provided from:		
Cash receipts from customers	582,813	549,953
Dividends received	667	705
Interest received	223	83
Cash was applied to:		
Cash paid to suppliers and employees	(559,363)	(528,800)
Interest paid	(2,623)	(2,803)
Income tax paid	(4,036)	(3,303)
Net cash from operating activities	17,681	15,835
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash was provided from:		
Proceeds from sale of property, plant and equipment	18,689	1,704
Proceeds from loans and advances	-	-
Cash was applied to:		
Acquisition of property, plant and equipment	(12,125)	(12,548)
Acquisition of investment / intangible assets	(2,450)	(5,245)
Acquisition of subsidiary, net of cash acquired	-	(4,500)
Net cash from / (used in) investing activities	4,114	(20,589)
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash was provided from:		
Proceeds from issue of share capital	13	1
Proceeds from bank and other borrowings	-	7,297
Proceeds from other receivables	822	670
Cash was applied to:		
Shares surrendered	(1,048)	(229)
Repayment of borrowings	(12,757)	(2,967)
Dividends paid	(816)	(1,338)
Loans and advances to other receivables	(1,286)	(3,221)
Net cash (used in) / from financing activities	(15,072)	213
Net increase / (decrease) in cash and cash equivalents	6,723	(4,541)
Cash and cash equivalents at 1 July	9,253	13,035
Effect of exchange rate fluctuations on cash held	(478)	759
Cash and cash equivalents at 30 June	15,498	9,253

The significant accounting policies and notes to the financial statements 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	
	2019 $'000	**2018 $'000**
Profit / (loss) for the year	17,166	(19,502)
Adjustments for:		
Depreciation	7,476	6,895
Change in derivatives recognised in hedging reserve	(1,351)	7
(Increase) in deferred tax on reserves	(94)	-
Decrease / (increase) in future taxation benefit	315	(2,502)
Profit share of equity accounted investees	12	32
(Gain) on disposals of property, plant and equipment	(9,565)	(115)
(Gain) on acquisition of a subsidiary	-	(6,568)
Impairment of intangible assets	-	32,330
Other	252	11
	14,211	30,090
Impact of changes in working capital items:		
Change in inventories	341	(2,440)
Change in trade and other receivables	(1,854)	17,798
Change in taxation receivable / payable	3,086	(272)
Change in trade and other payables	1,897	(9,839)
	3,470	5,247
Net cash from operating activities	17,681	15,835

The significant accounting policies and notes to the financial statements 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 is registered under the Companies Act 1993 and the Co-operative Companies Act 1996. The Company is an FMC Reporting 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 Limited's interests in associates and joint arrangements as at the and for the year ended 30 June 2019 (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 28 June 2019 (2018: 52-week period ending 29 June 2018). 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 2019 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 emission units 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.

For the year ended 30 June 2019 the Group applied NZ IFRS 15 and NZ IFRS 9 for the first time. The Group applied the standards retrospectively. There was no impact of adoption of the standards on the consolidated financial statements. The Group's accounting policies under NZ IFRS 15 and NZ IFRS 9 are disclosed in the relevant notes.

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.

Notes to the financial statements (continued)

1. Basis of consolidation and accounting for associates and joint arrangements (continued)

(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.

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.

Notes to the financial statements (continued)

4. Use of estimates and judgements (continued)

(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.

(iii) Recognition of deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. This requires management to assess the likelihood, timing and the level of future taxable profits.

The Group has $1,519,000 (2018: $2,393,000) of tax losses carried forward. These losses relate to LaManna Premier Group's Australian operations and do not expire. Based on the 5 year forecast of future taxable profits, the Group has determined that the deferred tax assets of $1,519,000 (2018: $2,393,000) can be recognized on the tax losses carried forward.

5. Working capital

Non-derivative financial instruments

Non-derivative financial assets and liabilities are recognised initially at fair value plus or minus any transaction costs directly attributable to their acquisition or issue. 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) Financial assets at amortised cost

Financial assets at amortised cost 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	
	2019	**2018**
	$'000	**$'000**
Non-current		
Other receivables	-	37
Total non-current other receivables	-	37
Current		
Trade receivables	42,483	42,141
Allowance for expected credit losses for trade receivables	(870)	(1,111)
Other receivables	12,565	10,793
Total current trade and other receivables	54,178	51,823
Total trade and other receivables	54,178	51,860

Individual debts that are known to be uncollectible are written off when identified. The Group applies a simplified approach in calculating expected credit losses (ECLs) for trade receivables, i.e. a loss allowance for trade receivables is based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. The provision rates are based on days due for grouping of various customer segments with similar loss patterns. The calculation reflects the probability weighted outcome, the time value of money and the reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

Notes to the financial statements (continued)

5. Working capital (continued)

The ageing of trade receivables is as follows:	Group 2019 Gross carrying amount $'000	2019 ECL $'000	2018 Gross carrying amount $'000	2018 ECL $'000
Not past due	38,317	(5)	39,202	(18)
Past due 1-30 days	1,819	(76)	1,705	(184)
Past due 31-60 days	960	(80)	280	(250)
Past due 61-90 days	736	(92)	506	(253)
Past due greater than 90 days	651	(617)	448	(406)
	42,483	(870)	42,141	(1,111)

(c) *Financial liability at amortised cost*

Financial liabilities at amortised cost consist of trade and other payables (excluding employee benefits) 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 2019 $'000	2018 $'000
Non-current		
Other payables	1,014	133
Employee benefits	766	831
Total non-current trade and other payables	1,780	964
Current		
Trade and other payables	62,444	60,621
Employee benefits	11,331	10,409
Total current trade and other payables	73,775	71,030
Total trade and other payables	75,555	71,994

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 $21,507,000 (2018: $21,733,000) of trade payables denominated in Australian dollars and $675,000 (2018: $1,276,000) 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 2019 the effective interest rate on bank balances for the Group was 3.18% (2018: 3.68%).

	Group 2019 $'000	2018 $'000
Non-current liabilities		
Secured bank loans and other liabilities	49,569	60,275
Current liabilities		
Current portion of secured bank loans and other liabilities	6,886	7,611
Redeemable "D" shares	-	3,126
	6,886	10,737
Total borrowings	56,455	71,012

The bank loans are secured over land and buildings with a carrying amount of $133,524,000 (2018: $121,180,000).

Notes to the financial statements (continued)

5. Working capital (continued)

The movement in the secured bank loans and other liabilities between years is the result of normal operating funding requirements.

The redeemable "D" shares were repaid on 29 March 2019 at which time a final dividend of 2 cents per "D" share, fully imputed, was declared and paid. "D" shares were originally issued under a prospectus dated 14 November 2013 and were classified as current liabilities on the basis that the Parent Company and Group had an obligation to pay a minimum fixed dividend and they may be redeemed for cash at the end of their term at the option of the shareholder. All "D" shares had a nominal value of $1.00 as permitted by the Co-operative Companies Act 1996 and carried the right to an annual dividend of 6% gross of imputation credits or the same dividend declared on "A" shares, whichever is the higher.

In addition to the 2019 final dividend detailed above, 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 dividend of 6 cents per "D" share (2017: 6 cents per "D" share) was also declared at that time. This special bonus issue and dividend were accounted for in the period they were declared, namely the 30 June 2019 financial statements. As "D" shares were classified as borrowings any dividend on them is reported as an interest expense.

No other dividend was declared on "D" shares in the year to 30 June 2019 (2018: $Nil).

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

Group 2019	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	56,455	59,836	1,082	7,589	50,490	675	-
Trade and other payables (1)	73,883	73,883	67,609	5,508	174	380	212
Total financial liabilities	130,338	133,719	68,691	13,097	50,664	1,055	212
Group 2018							
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

(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 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
Balance at 1 July 2018	20,261	8,351	886	29,498
Shares issued	1,466	1,666	1,442	4,574
Shares transferred	2,838	(1,510)	(1,328)	-
Shares surrendered	(919)	(128)	(1)	(1,048)
Balance at 30 June 2019	23,646	8,379	999	33,024

Notes to the financial statements (continued)

6. *Share capital (continued)*

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.

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 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 Parent 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 (2019)

On 7 August 2019 the Directors declared a fully imputed taxable special bonus issue of:

- 1 new "A" share for every 30 existing "A" shares;
- 2 new "B" shares for every 5 existing "B" shares;
- 2 new "C" shares for every 5 existing "C" shares;

for the year to 30 June 2019. The special bonus issue was accounted for in the period it was declared, namely the year ended 30 June 2020 and occurred prior to the distributions detailed below.

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.

Supplier shareholder rebate (2019)

On 7 August 2019, a taxable rebate of $250,000 was declared by the Directors for the year to 30 June 2019 (2018: $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 2019 Annual Meeting. The rebate was accounted for in the period it was declared, namely the year ended 30 June 2020.

Notes to the financial statements (continued)

6. ***Share capital (continued)***

Bonus issue on supplier shareholder rebate (2019)

On 7 August 2019, the directors declared a five for one (5 for 1) bonus issue on the above "supplier shareholder rebate (2019)". The bonus issue was accounted for in the period it was declared, namely the year ended 30 June 2020 (the bonus issue for the year ended 30 June 2018 was three for one (3 for 1)).

Final dividend (2019)

On 7 August 2019 the Directors declared a fully imputed taxable gross final dividend of 6 cents per "A" share (2018: 6 cents per "A" share). This final dividend will be issued from retained earnings upon completion at the 2019 Annual Meeting. This final dividend is accounted for in the period the dividend is actually declared, namely the 30 June 2020 financial statements. No interim dividend was declared in the year to 30 June 2019 (2018: $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.

Notes to the financial statements (continued)

8. Property, plant and equipment (continued)

(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.

(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.

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 2017	103,573	4,228	3,265	27,768	7,516	146,350
Additions	3,576	1,200	433	5,785	1,464	12,458
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	1,847	174,519
Balance at 1 July 2018	127,540	5,952	3,708	35,472	1,847	174,519
Additions	3,387	1,847	284	3,722	2,885	12,125
Disposals	(2,246)	(545)	(166)	(464)	-	(3,421)
Revaluation	7,946	-	-	-	-	7,946
Reclassification	932	20	4	329	(1,285)	-
Effect of movements in exchange rates	(971)	(80)	(84)	(1,162)	(26)	(2,323)
Balance at 30 June 2019	136,588	7,194	3,746	37,897	3,421	188,846
Accumulated depreciation						
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
Accumulated depreciation (continued)						
Balance at 1 July 2018	6,360	2,624	2,988	20,313	-	32,285
Depreciation for the year	3,108	1,245	388	2,735	-	7,476
Disposals	(185)	(420)	(153)	(253)	-	(1,011)
Revaluation	(6,026)	-	-	-	-	(6,026)
Effect of movements in exchange rates	(193)	(54)	(72)	(757)	-	(1,076)
Balance at 30 June 2019	3,064	3,395	3,151	22,038	-	31,648
Carrying amounts						
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	1,847	142,234
At 1 July 2018	121,180	3,327	720	15,159	1,847	142,234
At 30 June 2019	133,524	3,799	595	15,859	3,421	157,198

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 $2,512,000 (2018: $2,752,000).

Land and buildings

Land and buildings include leasehold improvements and leasehold entitlements. Land and buildings were revalued to fair value as at 30 June 2019 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. 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 4.5% to 9.7% (2018: 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.

If the land and buildings were measured using the cost model then the carrying value would be $82,236,000 (2018: $90,911,000) 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.

Notes to the financial statements (continued)

9. Intangible assets (continued)

(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.

(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 are subject to an annual impairment test.

(iv) Software

Software is initially measured at cost. The direct cost associated with the development of software is capitalised where project success is probable and capitalisation criteria are met. After initial recognition, software is stated at cost less amortisation and impairment losses. Software is amortised over the expected useful life of 7 to 10 years. During the period of development, the asset is tested for impairment.

(v) 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**	**Software and capital WIP $000**	**Total $'000**
Cost					
Balance at 1 July 2017	42,315	11,363	4,047	-	57,725
Additions	-	-	-	90	90
Disposed or surrendered	(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	90	58,869
Balance at 1 July 2018	42,869	11,863	4,047	90	58,869
Additions	-	-	-	751	751
Disposed or surrendered	-	-	-	-	-
Effect of movements in exchange rates	(1,000)	-	-	-	(1,000)
Balance at 30 June 2019	41,869	11,863	4,047	841	58,620
Accumulated amortisation and impairment losses					
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)
Balance at 1 July 2018	(20,467)	(11,863)	(9)	-	(32,339)
Impairment	-	-	-	-	-
Amortisation for the year	-	-	-	-	-
Balance at 30 June 2019	(20,467)	(11,863)	(9)	-	(32,339)

Notes to the financial statements (continued)

9. Intangible assets (continued)

Group	Goodwill $'000	Brand $'000	Other $'000	Software and capital WIP $000	Total $'000
Carrying amounts					
At 1 July 2017	42,315	11,363	4,038	-	57,716
At 30 June 2018	22,402	-	4,038	90	26,530
At 1 July 2018	22,402	-	4,038	90	26,530
At 30 June 2019	21,402	-	4,038	841	26,281

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 8.5% (2018: 9.8%) to arrive at the present value, or recoverable amount.

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

	2019	2018
Annual revenue growth rate	3.0%	2.5 – 4.0%
Post-tax discount rate	8.5%	9.8%
Terminal growth rate	2.0%	2.0%

2019 – As the recoverable amount of the CGU was determined to be higher than its carrying amount no impairment loss was recognised. A reduction in the annual revenue growth rate of 0.5% or an increase in the post-tax discount rate of 1.0% would result in the NZD$14.0 million headroom reducing to $2.3 million or $5.7 million. As the performance of the CGU was in line with its prior year forecasts there is currently insufficient evidence to support the reversal of the prior years brand impairment.

2018 – in the prior year, the recoverable amount of the CGU was determined to be lower than its carrying amount and an impairment loss of $32,330,000 was recognised.

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 agreements, which has been determined as its 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	
	2019 $'000	**2018 $'000**
Inventory	9,425	9,766
Inventory subject to contract	2,007	2,439
Amount due to supplier	(2,007)	(2,439)
	9,425	9,766

In 2019 inventories recognised as cost of sales amounted to $439,050,000 (2018: $395,029,000) for the Group.

Notes to the financial statements (continued)

11. Revenue and other operating income

(i) Revenue from contracts with customers– sale of goods

Revenue from contracts with customers is recognised when control of the goods or services is transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

The Group's operating revenue represents the value of traded product and the commission earned from sales made as agent.

Revenue from the sale of produce is recognised at the point in time when control of the asset is transferred to the customer. Transfers of control vary depending on the individual terms of the contract of sale. For sales of produce transfer usually occurs when the product is despatched or picked up by the customer. For each contract with the customer the Group considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated. In determining the transaction price for the sale of produce, the Group considers the effects of variable consideration (rights of return, trade discounts, volume rebates).

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. The revenue is recognised at the point of time, generally when the produce is despatched or picked up by the customer.

	Group	
Revenue:	**2019 $'000**	**2018 $'000**
Trade Sales – New Zealand	110,067	94,746
Trade Sales - Australia	431,912	389,823
Commission earned – New Zealand	37,686	37,588
Commission earned - Australia	2,522	2,897
	582,187	525,054

In 2019 gross sales under management, which represent the value of traded product and the gross value of sales made as agent, for the Group were $923,612,000 (2018: $862,391,000).

(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 2019 rental income for the Group was $2,483,000 (2018: $2,644,000).

In 2019 the gain on sale of plant and equipment was $117,000 (2018: $115,000).

2019, other income – gain on sale of property amounted to $9,448,000. In September 2018 the Group sold the property at 12 Carter St, Sydney, Australia. This property was reported in 2018 as a non-current asset held for sale with a net carrying amount of NZ$6,620,000.

12. Administrative expenses

Administrative expenses include auditor's remuneration which is required to be separately disclosed.

	Group	
Auditor's remuneration comprises:	**2019 $'000**	**2018 $'000**
For audit work:		
• to Market Gardeners Limited and subsidiaries (KPMG)	85	85
• to LaManna Premier Group Pty Limited and subsidiaries (Pitcher Partners)	181	215
For other services:		
• to Market Gardeners Limited and subsidiaries (KPMG)	10	2
• to Market Gardeners Limited (BDO)	6	6
• to LaManna Premier Group Pty Limited and subsidiaries (Pitcher Partners)	187	66
Total auditor's remuneration	461	374

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.

Notes to the financial statements (continued)

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.

(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	
	2019 $'000	**2018 $'000**
Wages and salaries	68,496	67,938
Contributions to defined contribution superannuation plans	3,986	3,846
Increase in liability for long-service leave	278	743
Total personnel expenses	72,760	72,527

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 2019 $8,625,000 (2018: $8,198,000) was recognised as an expense in profit or loss in respect of operating leases for the Group.

Non-cancellable operating lease rentals are payable as follows:

	Group	
	2019 $'000	**2018 $'000**
Less than one year	7,197	6,264
Between one and five years	11,484	12,135
More than five years	2,110	3,007
	20,791	21,406

(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 receipts under non-cancellable leases are as follows:

	Group	
	2019 $'000	**2018 $'000**
Less than one year	1,944	1,909
Between one and five years	4,724	1,652
More than five years	580	758
	7,248	4,319

Notes to the financial statements (continued)

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**	
	2019	**2018**
	$'000	**$'000**
Current tax expense	7,554	4,017
Prior period adjustment to current tax	(286)	(676)
	7,268	3,341
Deferred tax – origination and reversal of temporary differences	315	(2,502)
Tax expense / (credit)	315	(2,502)
Total income tax expense	7,583	839

Reconciliation of income tax expense	**Group**	
	2019 $'000	**2018 $'000**
Profit/(Loss) before tax	24,749	(18,663)
Income tax using the Parent Company's domestic tax rate (28%)	6,930	(5,226)
Add/(deduct) taxation effect of:		
Effect of tax rates in foreign jurisdictions	215	(396)
Tax impact of equity accounted investees	77	187
Non-deductible expenses	398	9,864
Tax exempt income	(394)	(2,720)
Group loss offset	-	-
Current year losses for which no deferred tax asset is recognised	-	-
Under/(over) provided in prior periods	357	(645)
Prior year losses for which no deferred tax was recognised	-	(225)
Total income tax expense	7,583	839

Notes to the financial statements (continued)

15. Income tax (continued)

Deferred tax assets and liabilities are attributable to the following:

New Zealand Group	**Assets**		**Liabilities**		**Net**	
	2019 $'000	**2018 $'000**	**2019 $'000**	**2018 $'000**	**2019 $'000**	**2018 $'000**
Property, plant and equipment	-	-	(9,742)	(9,430)	(9,742)	(9,430)
Provisions and other	2,456	2,129	(1,379)	(1,470)	1,077	659
Tax assets/(liabilities)	2,456	2,129	(11,121)	(10,900)	(8,665)	(8,771)

Australian Group	**Assets**		**Liabilities**		**Net**	
	2019 $'000	**2018 $'000**	**2019 $'000**	**2018 $'000**	**2019 $'000**	**2018 $'000**
Property, plant and equipment	-	-	(372)	(372)	(372)	(372)
Provisions and other	3,176	3,042	-	-	3,176	3,042
Tax losses	1,519	2,393	-	-	1,519	2,393
Tax assets/(liabilities)	4,695	5,435	(372)	(372)	4,323	5,063

Movement in temporary differences during the year:

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)

Group	**Balance 1 July 18 $'000**	**Recognised in Profit and Loss $'000**	**Recognised in equity $'000**	**Arising on acquisition $'000**	**Balance 30 June 19 $'000**
Property, plant and equipment	(9,801)	168	(481)	-	(10,114)
Provisions and other	3,700	301	252	-	4,253
Tax losses	2,393	(784)	(90)	-	1,519
	(3,708)	(315)	(319)	-	(4,342)

	Group	
	2019 $'000	**2018 $'000**
Imputation credits		
The imputation credits are available to shareholders of the Parent Company:		
Through the Parent Company	14,907	15,985
Through subsidiaries	1,643	307
Imputation credits at 30 June	16,550	16,292

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.

Notes to the financial statements (continued)

16. Financial risk management(continued)

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 interest rates. The group manages interest rate risk through policies determined by the board. The Group has entered into interest rate swaps as detailed below, which have maturity dates out to May 2024.

Group	**2019 Notional Value $'000**	**2019 Fair Value $'000**	**2018 Notional Value $'000**	**2018 Fair Value $'000**
NZD Interest rate swaps	21,100	435	16,100	134
AUD interest rate swaps (NZD equivalent)	33,083	1,206	39,777	222
Total	54,183	1,641	55,877	356

Interest rate swaps are designated as cashflow hedges and are recognised on balance sheet at fair value with changes in fair value recognised within equity (hedging reserve).

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:

	2019 AUD $'000	**2018 AUD $'000**
Investment foreign currency risk		
Net investment (including intangible assets that arise on consolidation) in Australian operations	33,067	25,934
Foreign currency denominated borrowings		
Secured bank borrowings	(17,714)	(17,714)
Net unhedged exposure	15,353	8,220

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 (2018: decreased) the Group's profit (2018: loss) before income tax by approximately $116,000 for the year ended 30 June 2019 (2018: $220,000). 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.

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.

Notes to the financial statements (continued)

16. Financial risk management (continued)

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 2019 the Group had total capital commitments of $6,600,000 made up of $2,900,000 in respect of protected cropping / glasshouse infrastructure, heating system, screens, vehicles, plant and equipment and $3,700,000 in respect of sprinklers (30 June 2018: $1,333,000 in respect of building fit-out in Palmerston North and plant and motor vehicles in Nelson).

18. Contingencies

The Group had the following contingencies.

Trade indemnities and guarantees issued by the Group amount to $5,050,000 for associate companies (2018: $4,197,000).

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 including sales and purchases of produce, property rentals, management fees and interest charges.

	Group	
	2019 $'000	**2018 $'000**
Transactions with associates and joint arrangements		
Sales of goods and services	7,516	6,282
Purchases of goods and services	29,031	24,556
Closing advances/receivables	3,848	2,038
Closing loans/payables	339	5

For the year ended 30 June 2019 there has been no expense recognised or any movement in provisions relating to outstanding balances with associates (2018: $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. All such funds 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:	2019 $'000	2018 $'000
Director's fees and remuneration	1,042	1,206
Short-term employee benefits	3,894	3,960

Other transactions with key management personnel	2019 $'000	2018 $'000
Gross value of Directors' sales	11,559	10,984
Commission charged on Directors' sales (as above)	1,387	1,318
Gross value of Directors' other transactions (prepacking services, sundry expense recharges and sundry other expenses)	70	59
Amounts owing to key management personnel as a result of the above transactions	188	155

20. Subsidiary with material non-controlling interest – LaManna Premier Group Pty Ltd

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

(a) Summarised statement of financial position	2019 $'000	2018 $'000
Total equity	31,254	32,663
Total non-current assets	53,702	56,415
Total current assets	39,011	34,937
Total assets	92,713	91,352
Total non-current liabilities	15,353	17,540
Total current liabilities	46,106	41,149
Total liabilities	61,459	58,689
NET ASSETS	31,254	32,663
(b) Summarised statement of comprehensive income		
Profit/(loss) for the year	362	(17,528)
Other comprehensive profit/(loss) for the year	(324)	(19)
Total comprehensive profit/(loss) for the year	38	(17,547)
(c) Summarised statement of cash flows		
Net cash from/(used in) by operating activities	451	(892)
Net cash (used in) investing activities	(4,103)	(4,729)
Net cash provided by financing activities	3,846	2,626
Net increase/(decrease) in cash held	194	(2,995)

Notes to the financial statements (continued)

21. Group entities

(i) Significant subsidiaries	**Country of incorporation and principal place of business**	**2019 %**	**2018 %**	**Balance date**	**Principal activity**
Hansons Lane International Holdings Ltd	New Zealand	100	100	30 June	Investment Holding
J. S. Ewers Ltd	New Zealand	100	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
Kaipaki Properties Ltd (formerly Market Gardeners Orders Wellington 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	Australia	69	69	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	33	22	31 Dec	Horticulture
First Fresh New Zealand Ltd (1)	New Zealand	30	30	31 March	Produce Marketing & export
Kaipaki Berryfruits Ltd (1)	New Zealand	50	-	30 June	Berryfruit production
Darwin Fruit Farms 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% (2018: 69%) owned subsidiary company, all of its subsidiaries are effectively 69% (2018: 69%) owned by the Group and its associate companies, Darwin Fruit Farms Pty Ltd, Col Johnson Pty Ltd and Innisfail Banana Farming Company Pty Ltd are effectively 35% (2018: 35%) owned by the Group.

The Group's share of profit in its equity accounted investees for the year was $655,000 (2018: $673,000).

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
2019	1,638	-	-	1,051	8,434
2018	914	-	-	656	8,006

(iii) Investments other	Group 2019 $'000	2018 $'000
Shares - Waimea Irrigators Limited	506	244
Redeemable notes – Century Water Limited	2,250	-
New Zealand Emission units	794	539
Shares - Other	145	133
	3,695	916

Included in investments other are shares in Waimea Irrigators Limited (carried at cost), redeemable notes in Century Water Limited (carried at cost) and New Zealand emission units (carried at fair value).

Waimea Irrigators Limited and Century Water Limited raised funds through the issue of water shares and redeemable notes in order to provide funding for the construction of a new dam for the Nelson region to bring security of water supply to irrigators / growers in the region. The dam is currently under construction.

New Zealand Emission units – through its JS Ewers Limited growing operations, the Group is entitled to New Zealand emission units (NZUs). NZUs are recognised when the Group controls the units, provided that is it probable that economic benefits will flow to the Group and fair value can be measured reliably. Control of NZUs arises when Group has an entitlement to the units. Government granted NZUs are initially recognised at fair value.

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 2019 and have not been applied in preparing these financial statements, are detailed below.

- NZ IFRS 16 Leases is effective for the periods beginning on or after 1 January 2019. This standard 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. Lessor accounting under NZ IFRS 16 is substantially unchanged from NZ IAS 17's accounting requirements. The application date for the Group is 1 July 2019 and the Group plans to adopt the standard at that date. The Group holds the finance and operating leases as a lessee as well as leases out some of its properties under the operating leases.

  In 2019 the Group performed a detailed impact assessment of NZ IFRS 16's impact on the operating leases that the Group holds as a lessee. The Group plans to adopt the standard applying the modified approach. The impact on the financial statements as at 1 July 2019 is expected as follows: Property, plant and equipment (right-of-use assets) and lease liabilities are estimated to increase by $18,002,436 with the net impact on equity of nil. Due to the adoption of NZ IFRS 16, the Group's results from operating activities before other income and other expenses will reduce by an estimated $265,000.

23. Business combination

On 1 December 2017 (included in the year to 30 June 2018) 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. This resulted in a gain on acquisition of $6,568,000 which was recognised in the profit and loss in the June 2018 year.

24. Subsequent events

As at 30 June 2019 there were no subsequent events requiring disclosure.

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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 18 to 42:

i. present fairly in all material respects the Group's financial position as at 30 June 2019 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 2019;

— 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 and data analytics. 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.

Materiality

The scope of our audit was influenced by our application of materiality. Materiality helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the consolidated financial statements as a whole. The materiality for the consolidated financial statements as a

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whole was set at $ 2,725,000 determined with reference to a benchmark of group Revenue. We chose the benchmark because, in our view, as a co-operative entity, this is a key measure of the group's performance.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements in the current period. We summarise below those matters and our key audit procedures to address those matters in order that the shareholders as a body may better understand the process by which we arrived at our audit opinion. Our procedures were undertaken in the context of and solely for the purpose of our statutory audit opinion on the consolidated financial statements as a whole and we do not express discrete opinions on separate elements of the consolidated financial statements

The key audit matter	How the matter was addressed in our audit
Carrying value of goodwill and brands with regard to LaManna Premier Group Pty Ltd (LaManna Premier) ($21.4m – refer note 9)	
The Group has significant operations in Australia following the historical acquisition of LaManna Bananas and merger with Premier Fruits Group in 2016 (together the LaManna Premier Group). The above acquisitions resulted in significant Goodwill and Brand intangible assets being recognised on balance sheet. During the prior year, the Group recognised an impairment of $20.5m for goodwill and $11.8m for brand intangible assets. The remaining goodwill asset of $21.4m is in respect of LaManna Premier. Future performance is used to consider any further impairment to the remaining goodwill, as well as any potential reversal of a previous brand impairment. The carrying value of goodwill and brand intangibles is considered a key audit matter due to the judgement in respect of future cash flows to support the carrying value.	The key procedures we performed included: — Challenging management's conclusion to consider the impairment assessment at the consolidated LaManna Premier level as being the lowest level which generates independent cash flows; — Assessing the mechanics of the value in use model for consistency with the requirements of the relevant accounting standards (NZ IAS 36); — Challenging the appropriateness of key assumptions within the value in use model including discount rates, future growth rates and forecasted cashflows; — Engaging our internal valuation specialists to evaluate the discount rates and mechanical accuracy of management's discounted cash flow model; — Agreeing inputs within management's model to Board approved budgets and comparing these with the actual result to 31 August 2019, including a retrospective review of prior year assumptions; — Comparing the calculated value in use against the associated carrying amount; and — Assessing the appropriateness, sufficiency, and clarity of intangible asset (goodwill and brands) related disclosures within the Group financial statements. Our audit procedures did not identify any material errors with regard the Groups assessment of the carrying value of intangible assets.
Presentation of sales revenue – trade sales vs commissions ($582.2m net revenue – refer note 11)	
The Group has different sales terms between New Zealand and Australia and within grower entities. These sales terms define the nature of the transactions, including the	The key procedures we performed included the following: — Assessing MG's revenue recognition policy for consistency with the requirements of accounting standards, including the adoption of NZ IFRS 15 Revenue from Contracts with Customers (i.e. NZ IFRS 15);

The key audit matter	How the matter was addressed in our audit
associated risks assumed and timing of those risks. Specifically revenue is either recognised on a Gross (i.e. Trade Sales) or Net (i.e. Commissions) basis. Due to the judgement involved we consider revenue recognition to be a key audit matter.	— We assessed the Group terms of trade and confirmed that revenue was correctly recognised on a Gross (i.e. Trade Sales) or Net (i.e. Commissions) basis; — Analytically assessing the commissions calculated with regard to agency sales including: o Comparing the commission applied against the standard grower terms and conditions; o Recalculating the agency commission and comparing this against the amount presented as commission income; o Assessing if the gross agency sales directly offset the purchase of agency related products. — Performing a reconciliation between the cash received within the relevant bank account and the sales recognised within the general ledger once adjusted for balance sheet movements. — Considering the appropriateness of the disclosures made by the Group concerning revenue recognition. Our audit procedures did not identify any material errors with regard the recognition and presentation of sales revenue.

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 Officer'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.

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 independent auditor's 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:

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—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:
http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1/

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
18 September 2019

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	12,250	1,815
L.T. Crozier	55,000	7,750	1,815
A.G. Fenton (Deputy Chairman)	68,750	9,750	1,815
A.G. Franklin (retired 21 November 2018) **	22,917	67,750	716
J.A. Lim (appointed 21 November 2018)	32,083	5,083	1,060
B.R. Irvine (Chairman)	111,000	13,000	1,815
M.J. Russell	55,000	7,500	1,815
A.D. Thompson (resigned 28 June 2019)	55,000	5,917	1,815
M.R. O'Connor	55,000	5,000	1,815
T. Webb (Intern) ***	-	13,500	-
	509,750	147,500	14,481

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	58,110	23,968	-
B.D. Gargiulo, MBE. (Chairman)	100,372	47,770	-
B.R. Irvine	58,110	17,630	-
P.S. Hendry	-	-	-
M. LoGiudice	58,110	6,403	-
	274,702	95,771	-

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 A.G. Franklin was unsuccessful in standing for re-election to the Board during the period (refer table above) and received a retirement allowance of $66,000 (included in special project and other fees).

*** Mrs T. Webb received fees whilst participating in the MG Growing You Director Internship Programme. This appointment ceased on 30 June 2019. As a result of a casual vacancy arising on the Board, Mrs. Webb was appointed to fill that vacancy with effect from 7 August 2019.

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.

Statistory 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 2019.

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 1 July 2019 that, in their opinion, the Parent Company had been a co-operative company throughout the period 1 July 2018 to 30 June 2019. 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	23	250,000 to 259,999	5
110,000 to 119,999	11	260,000 to 269,999	6
120,000 to 129,999	14	270,000 to 279,999	1
130,000 to 139,999	14	290,000 to 299,999	2
140,000 to 149,999	9	300,000 to 309,999	1
150,000 to 159,999	13	310,000 to 319,999	1
160,000 to 169,999	12	330,000 to 339,999	4
170,000 to 179,999	7	350,000 to 359,999	1
180,000 to 189,999	10	360,000 to 369,999	1
190,000 to 199,999	7	450,000 to 459,999	1
200,000 to 209,999	3	500,000 to 509,999	2
210,000 to 219,999	2	990,000 to 999,999	1
220,000 to 229,999	3	1,060,000 to 1,069,999	1
230,000 to 239,999	2		
240,000 to 249,999	3		

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 2019.

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		
B.R. Irvine	Director Deputy Chair	Kaipaki Berryfruit Ltd (resigned 1 July 2019) Gough Group Ltd
J.A. Lim	Co-trustee Joint shareholder Joint shareholder Director / joint shareholder Director / joint shareholder	Jade Garden Produce Island Horticulture Ltd Jade Garden Produce Ltd Jade Garden Investments Ltd Jade Garden Trustee Ltd
T. Webb	Director / shareholder Trustee Director	J R Webb & Sons Ltd JS & T Webb Family Trust Summerfruit NZ

As directors of the subsidiary company, LaManna Premier Group		
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 all director's reconfirmed their interests by virtue of being directly or indirectly shareholders in Market Gardeners Ltd and any changes in those shareholdings as detailed below.

Mrs. Trudi Webb was appointed as a Director of Market Gardeners Ltd on 7 August 2019 to fill a casual vacancy on the board. At that time Mrs. Webb declared an interest by virtue of a direct or indirect shareholding in Market Gardeners Ltd (as disclosed above) 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.

Statutory information (continued)

5. Interests register (continued)

(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.

(d) Share dealings

The following are the shareholdings of Directors of the Parent Company at 30 June 2019. 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 2019				30 June 2018			
	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	92,179	77,099	9,316	-	58,428	78,736	8,436	-
A.G. Fenton	-	-	-	-	-	-	-	-
Held by a company of which he is a shareholder & director	15,133	159	-	-	13,857	68	52	14,708
Mr B.R. Irvine as Director of MG Group Holdings Ltd and J S Ewers Ltd (100% subsidiary companies of Market Gardeners Ltd)	1,004,973	966,861	-	-	655,153	1,204,665	112,016	-
J. Lim (joint shareholding)	23,338	29,270	4,708	-	13,740	26,982	3,484	-
M.R. O'Connor	-	-	-	-	-	-	-	-
Held by a company of which he is a shareholder & director	348,853	227,081	26,968	-	261,321	210,509	25,272	-
M.J. Russell	-	-	-	-	-	-	-	-
Held by a company of which he is a shareholder & director	28,500	41,352	4,688	-	12,936	41,623	4,216	-

In addition to the above, up to his resignation on 28 June 2019 Mr. A. D. Thompson was a director of the Parent Company and held the following shareholdings in the Parent Company.

A.D. Thompson	-	-	-	-	-	-	-	-
Held by a company of which he is a shareholder & director	23,819	70,513	5,260	-	6,343	63,829	7,208	-

Statutory information (continued)

5. Interests register (continued)

As noted above, on 7 August 2019 Mrs. T. Webb was appointed as a director of the Parent Company to fill a casual vacancy and held the following shareholdings in the Parent Company.

T. Webb	-	-	-	-	-	-	-	-
Held by a company of which she is a shareholder & director	80,755	21,740	1,996	-	69,142	21,405	2,808	-

The above tables disclose 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 2019 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 $43,000 (2018: $42,000), the Group $62,000 (2018: $78,000).

8. Directors of subsidiaries

As at 30 June 2019:

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, Kaipaki Holdings Ltd (formerly Market Gardeners Orders (Christchurch) Ltd), Kaipaki Properties Ltd (formerly 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.J. Di Pietro and M. LoGiudice were the directors of LaManna Premier Group Pty Ltd.

Messrs B.D. Gargiulo (MBE) and A.J. Di Pietro were the directors of Australian Banana Company Pty Ltd, Carbis Bananas Pty Ltd, Fruitology Pty Ltd, LaManna Bananas Pty Ltd (formerly SureStak Pty Ltd), Fresh Choice W.A. 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, 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.

Messrs B.R. Irvine, P.S. Hendry, D.J. Pryor and A.J. Di Pietro were the directors of Lambell's Properties 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 (Andrew Fenton (Deputy Chairman), Lynn Crozier, Mike Russell, Mark O'Connor, Joanna Lim and Trudi Webb) and 2 Special Directors (Bruce Irvine (Chairman) and Trevor Burt).Alan Thompson was also a shareholder appointed director for the year but resigned on 28 June 2019. 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 - Bruce Irvine who has been on the MG board since December 1994 and was appointed Chairman in November 2017; and Trevor Burt who commenced as a director 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. However, 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 2019, 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 – they are Anthony Di Pietro and Mark LoGiudice.

MG's constitution (has specific procedures for the appointment and retirement of Directors, eligibility requirements for being nominated / appointed and automatic retirement rotations every three years. The MG Board met 11 times during the financial year (10 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.

Corporate governance statement (continued)

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 (Peter Hendry) together with the Company Secretary/Chief Financial Officer (Duncan Pryor) and International Business Manager (Kerry Wells) attend all MG Board meetings.

Similarly, LaManna Premier's Chief Executive (Anthony Di Pietro), Chief Operating Officer (Dean Gall), Chief Financial Officer (Mark Plymin), Chief Commercial Officer (Simon Hardie) 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 of the business including 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. The external advice obtained this year recommended an increase in the pool for Director's fees and shareholder approval by resolution is being sought at the 2019 Annual Meeting of Shareholders. For further details please refer to the notice of meeting.

As in prior years, 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 and the Company's shareholders, and act in the best interests of the Company.

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 (4 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 (Trevor Burt and Bruce Irvine) are special directors, with appropriate experience, accounting skills and knowledge. Joanna Lim and Lynn Crozier are the other two members of the committee. Trevor Burt is the chairman of the Audit Committee. The Committee's meetings are attended by MG's Chief Executive (Peter Hendry), Chief Financial Officer (Duncan Pryor), the Risk and Internal Audit Manager (Kimberly Chavez) and the Company's external auditors, KPMG, as required.

Corporate governance statement (continued)

As in prior years, a comprehensive risk based approach to the Company and Group's risk management and internal audit processes is undertaken. This approach is wider than the accuracy of external financial reporting / operational activities and extends into overall compliance requirements of the Group (for example 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 prior year's introduction of self-audit procedures and reporting. A progressive revision / update of MG's corporate policies is continuing to ensure that they appropriately cater for the current business.

The LaManna Premier Group also has an Audit Committee which is working with MG's Risk and Internal Audit Manager to develop a risk-based internal audit function and, supplemented as necessary with external resources, 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 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 / Directors 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 (Bruce Irvine), Deputy Chairman (Andrew Fenton who is Chairman of this committee) and one other director (Mike 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.

Constitution and Capital Structure Review Committee

This new sub-committee of the Board was formed in early 2019 and is chaired by Joanna Lim. Other members of the committee are Bruce Irvine, Trevor Burt, Mark O'Connor and Andrew Fenton. As discussed at the 2018 Palmerston North Annual Meeting of Shareholders, the Board had committed to undertaking a 2 year fit for purpose of the new constitution adopted in 2016. This committee has completed stage one of this review being technical changes identified during the two years of operation, and revisions to the constitution are being submitted to the 2019 Annual Meeting of Shareholders for their approval.

The second stream of work that this committee is undertaking is a review of the Capital Structure of the Group. This work is in its early stages as the focus was on the technical changes discussed above. The committee will undertake a full review which is intended to include shareholder consultation at an appropriate time. It is estimated that this is an 18 month to two year process, however an update will be provided to both the 2019 and the 2020 Annual Meeting of Shareholders.

Board charter, code of conduct and Director Capability framework

The Board adopted a Board Charter, Code of Conduct and a Director Capability Framework in 2017. These documents are reviewed at least annually and are 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.