Together.
Stronger.

MARKET GARDENERS LIMITED

ANNUAL REPORT

FOR THE YEAR ENDED

30 JUNE 2016

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Financial highlights

• **Group gross sales under management**	$588.762 million
• **Group profit before income tax**	$8.691 million
• **Group profit for the year (after income tax)**	$5.806 million
• **Group total equity**	$103.194 million
• **Group total assets**	$197.369 million

Shareholder distributions	**2016** $'000	**2015** $'000
• Special Bonus Issue (November 2016)		
• 1 for 20 on "A" shares (2015 : 1 for 10)	771	1,308
• 2 for 5 on "B" shares (2015 : 1 for 1)	2,150	2,417
• 2 for 5 on "C" shares (2015 : 1 for 1)	398	990
• 1 for 20 on "D" shares (2015 : 1 for 10)	132	233
• Supplier shareholder rebate (issued as 2016 "C" shares)	250	250
• Bonus issue on supplier shareholder rebate of 3 for 1 (2015 : 3 for 1)	750	750
• Final gross dividend on "A" shares : 6 cents per share (2015 : 6 cents per share)	925	785
• November 2016 - final gross dividend on "D" shares : 6 cents per share (November 2015 : 6 cents per "D" share)	158	140
Total shareholder distributions in relation to the year ended 30 June	5,534	6,873

Chairman's and Chief executive officer's review

Underpinned by a record year in New Zealand, Market Gardeners Limited, trading as MG Marketing (MG), has recorded a consolidated Group net profit before tax of $8.69 million.

This compares with $9.74 million for the previous year, the difference being primarily attributable to a challenging year for the Australian LaManna Group business primarily due to the depressed banana market. Group sales under management were down slightly at $588 million compared with $590 million for the previous year. The Financial Highlights section of this document provides a summary of MG's Group results.

MG's strong performance in the New Zealand market and the post balance date merger of LaManna Group and Premier Fruits Group in Australia has set the foundation for solid future growth and opportunities across the combined business.

For the second year in a row, the Board has declared a very significant special bonus issue (in addition to the normal distributions) amounting to $3.45 million (last year $4.94 million) – this is also detailed more fully below.

The New Zealand business has gone from strength to strength with strong sales and improved profits. Much of this success can be put down to the quality and experience of MG's people, combined with our "Together.Stronger." proposition, where MG is creating a more compelling offer for both growers and customers.

Our Co-operative has been, and will continue to be, focused on maximising and providing sustainable returns for our shareholders, suppliers and growers. Part of this is running a cost-effective and efficient vehicle to market.

We continue to work more with our growers and customers, forecasting each entity's requirements, allowing for better business planning and the matching of supply with consumer demand through the development of extensive sales and promotional programmes. This is of significant value to both growers and MG's broad customer base.

This year we extended our New Zealand branch network with the addition of MG Direct (North Island). This follows the success of MG Direct (South Island) which provides a direct distribution channel between growers and certain customers, with both receiving benefits which would not otherwise be achievable.

MG has recently purchased the T&G Global Hamilton facility. The organic growth in the Waikato/Bay of Plenty area and the confidence that MG has in the future opportunities in, and development of, this region were strong motivations for securing this purchase. This adds a valuable asset to an already significant property portfolio throughout New Zealand.

In contrast to New Zealand, Australia's result was impeded by a difficult year, primarily for bananas. Uncharacteristically low product values extended through much of the year, rather than just seasonal lows.

This has put a lot of pressure on the banana industry in terms of financial strain on growers and on the market system itself. Wholesale markets have had significant headwinds, trying to improve returns for growers in a market where values are at historical lows. While volumes were up market values were significantly down, resulting in less revenue and increased costs.

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

The recent merger of LaManna Group and Premier Fruits Group will be a game-changer for the Group in Australia. Not only will it lessen the influence of bananas on the sales mix of the Group considerably, it will also reduce the market and weather related risks associated with large product categories.

In Australia companies tend to specialise in product categories, which means expansion through organic growth is a slow and arduous process. This merger will dramatically accelerate our growth plans in Australia with combined sales elevating the business to what we believe is the second largest company in this sector in Australia, and the largest wholesaler in Australasia.

Another major milestone for the Group is that for the first time Group Equity has exceeded $100 million. This has been achieved through Group profitability supported by net property revaluations (which occur every three years) of $7.89 million, reflecting the importance of having good properties in good locations and the strength of the MG branch network in general.

The process to review the Constitution commenced in December 2014 under the guidance of an independent legal advisor and specialist in co-operatives, Mr. Alastair Hercus of Buddle Findlay, Wellington. During August & September 2016 the Board invited MG Shareholders to contribute to the process and comment on a draft of the proposed Constitution.

The review confirmed that MG's current Constitution no longer fully reflects how the business now operates and is therefore outdated. The best approach to address the numerous changes required was to prepare a new Constitution for MG's Shareholders to consider (instead of a piecemeal approach with numerous amendments to the existing constitution).

The new Constitution reflects a "standard" base Constitution appropriate for a company with a large number of shareholders which was then tailored for Co-operative and Company specific provisions. This approach has delivered a Constitution that the Board believes is a significant improvement on the existing Constitution by:

- Addressing how Shareholders and the Company operate in the current trading environment;
- Grouping provisions so that issues are addressed together and in a logical order;
- Removing repeated provisions and duplications;
- Simplifying the language where possible.

Shareholders, where eligible to vote, will be asked to vote on replacing the existing Constitution with a new Constitution at this year's AGM.

FINANCIAL PERFORMANCE

The year's trading is highlighted on page 2 of this Annual Report. As noted earlier the Market Gardeners Group consolidated result was made up by a strong performance in New Zealand and a weaker result in Australia, primarily due to the oversupplied market conditions previously discussed - the 2016 profit before income tax of $8.69 million compared to the $9.74 million reported in the prior year reflects this.

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

Such a strong financial performance has once again allowed MG to invest in infrastructure and initiatives that improve MG's and shareholders' businesses while distributing significant returns to shareholders (including another special bonus issue which are typically one-off in nature and will not occur every year).

Strong sales have continued, albeit impacted by the under-performance of the Australian market, with Group gross sales under management amounting to $588 million, which is similar to last year's $590 million.

Group profit after tax amounted to $5.80 million compared to the previous year's $7.28 million.

Total Group Equity exceeded $100 million for the first time and total assets are now more than $197 million. This is a particularly pleasing achievement and a far cry from the £1772 and £2660, respectively, reported in 1925 - the first financial year for the Co-operative.

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

DISTRIBUTIONS

Following another very strong year to 30 June 2016, the MG Board of Directors has resolved to return to its shareholders significant distributions totaling $5.53 million (2015: $6.87 million) by way of rebate shares, bonus issues and dividends.

Given the strength of the Group's performance and financial position, this is the second consecutive year that shareholders have received a special bonus issue. The one prior to that was in 2008.

On 7 July 2016 the Board declared the following distributions in relation to the year ended 30 June 2016:

* Special bonus issue – a fully imputed taxable special bonus issue of:
    * One new "A" share for every twenty existing "A" shares; and
    * One new "D" share for every twenty existing "D" 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 2016.

* Bonus issue – a three for one fully imputed taxable bonus issue on the "C" shares issued out of the above rebate. This amounts to $750,000 worth of "C" shares being issued (Shareholders that are Current Producers receive three further "C" shares for every one "C" share they receive from the above rebate). As imputation credits have been attached to the bonus issue shares they are mostly tax paid in the hands of the shareholder.

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

* Final dividend – a fully imputed taxable gross dividend of six cents on every "A" share and six cents on every "D" share. Once again imputation credits are attached to this dividend.

The above distributions will be made only to those shareholders entered on the share register with effect from 30 June 2016 who continue to hold, at the date of the 2016 Annual Meeting, the shares held at 30 June 2016.

The above special bonus issue, rebate, bonus issue and dividends represent $5.53 million being distributed back to MG's loyal and supportive shareholders.

The Board is very pleased to once again declare a special bonus issue. Not only is this a significant distribution of wealth to the shareholders it represents the growth and strength of the Co-operative.

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

DIRECTORATE AND MANAGEMENT

Just as the MG business is continually evolving, so is the MG Board. This year Rebecca Turley was appointed as the recipient of the inaugural MG Director Internship.

The Internship is part of the Growing You initiative and also forms part of the Board's strategy to broaden the knowledge and experience base of our shareholders and their families, giving those with an interest in governance an insight of what is involved.

While Rebecca does not hold voting rights, she has been able to fully participate in Board matters and gain experience in corporate governance through her attendance at all MG Board meetings.

In accordance with the Company's constitution, Mark O'Connor and John Clarke retire by rotation. After 18 years on the Board, John has elected not to stand again. John has been a significant contributor to the Board throughout this time and has seen the Company grow substantially.

John's business acumen and strong representation of the grower community is acknowledged. He will be a loss to the Board, however, we wish him well for his future endeavours.

Mark O'Connor has put himself forward for re-election, along with four other nominees (Diana Baird, Joanna Lim, Michael Russell and Alan Thompson) for the two vacant positions. Voting papers for the postal ballot will be sent to shareholders together with the notice of meeting.

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

MG PEOPLE

MG's people are its greatest asset and we place enormous value on ensuring they can perform to their full potential. We want our people to succeed in their professional and personal lives and therefore invest in equipping them with the skills that are of value to our growers and customers. After all, our people are our brand.

At MG we recognise that the safety of our staff, growers and customers is paramount. All employees are required to participate and comply with MG's health and safety programmes. Health and safety also featured prominently in our SupplyLine publication this year.

The increasing complexities of having to deal with, and administer, new health and safety and compliance regulations is a further obligation for growers and the industry in general. Notwithstanding this, health and safety is important to everyone. Not only do we want our staff to help growers expand their business, we want to ensure that they know about, understand and are compliant with these legislative changes. To assist in this process MG has included a number of relevant articles in SupplyLine and has partnered with a specialist provider of health and safety products.

A focus for the Procurement Team has been growers' sustainable long-term viability. We have empowered our staff to focus on understanding our growers' business, how we can help develop their business, and improve returns for them through industry knowledge and an understanding of the demands of the retail market.

One of the key issues the industry faces is the perennial problem of oversupply and the effect on returns. We have seen a very good example of that in Australia this year where the market has been grossly over-supplied with bananas, causing a great deal of financial strain on growing operations.

Our continued focus is on trying to match the supply with demand and we believe that your Co-operative is leading the way in this endeavour.

At a governance level, all Board members are offered the opportunity to attend training with the Institute of Directors and, from time to time, we invite advisors and experts from other industries to provide insight and advice.

Looking ahead, we are seeking ways to attract new people to the industry and the graduate programme is one example of how we are doing that (see Growing You later in this report). In 2017 we will also see the implementation of a sales academy programme designed to promote people within the business into sales roles. Retaining and further up-skilling our current team is an ongoing process critical to ensuring the service we provide to both growers and customers is exceptional.

On behalf of the Board and Management, we thank our staff for the hard work and loyal service that has been delivered to our growers, customers and our business.

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

NEW ZEALAND

The New Zealand market, which represents a significant part of MG’s business, had a record year, both in terms of gross sales under management and profit before tax, at $381 million and $10.73 million, respectively.

There was no single dominating factor in this success, but more the result of much hard work and planning in recent years. Other than some localised events, the weather has been more settled this year. A warmer than normal winter is expected to create some production gaps, the impact of which may be evident in the new financial year.

The New Zealand economy remains robust and the associated confidence is reflected in consumer spending.

Our strategic pillars, launched in 2014 with our “Together.Stronger.” proposition is bearing dividends, as it recognises the strength of the Co-operative derived through growers, shareholders and MG working together.

Following the success of MG Direct (South Island), we have now replicated this model in the North Island. We are continuously adapting to the changing market, with emphasis on streamlining supply chains, reducing costs and working with customers.

The other major investment in the North Island was the purchase of our own building in Hamilton. We continue to experience solid growth in the Waikato and surrounding regions and this investment underpins that confidence.

Growing our domestic business in New Zealand is a primary focus, and our procurement team has been very adept at matching supply with demand. This has involved a great deal of planning with the growing community around category management and promotional activity to assist with moving volume and maintaining values within the industry.

MG continues to place emphasis on the successful launch and marketing of new products and investment in the development of intellectual property (IP). We recently purchased marketing rights and trademarks from Fresh New Zealand for a range of fruit (Summerfruit and tree fruit) varieties. MG can now offer its growers the latest varieties from some of the best breeding programmes in the world. The growth in Summerfruit volumes from licensed varieties has led our marketing activity for both the category and your company. MG has a dedicated resource who looks after this specialised area, working directly with breeders and growers to identify and develop IP and varieties that produce greater yields or higher returns and generate new customer demand.

We are also working hard on expanding growing seasons. Berry fruit is one sector in particular where growers have extended their season well into winter by growing their fruit under plastic tunnel houses. It is this type of innovation that creates value, growth and satisfies the changing needs of the consumer.

Allied to this extension of growing seasons, the Procurement Team continues to work hard on ensuring that our geographically diversified growers can maintain continuity of supply for our customers.

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

INTERNATIONAL TRADING

Banana production and shipping issues continue to impact the business. Despite these challenges and with the support of our valued international trading partner, Dole, we maintained supply to our key customers throughout the year. Competition increased throughout the year and added new challenges to what is becoming a crowded market. Weaker market returns resulted in lower revenues, however, the banana category remains an integral component of the business and we will continue to work with Dole on maintaining our market leadership position.

We are fortunate to have such international brands as Dole and Sunkist in our stable, but there are many other longstanding suppliers who are of significant importance to our business. The growing strength of our international network replicates the way we build relationships with our domestic growers and shareholders, by working closely alongside them.

Weather variables and distance to market will always be an influencing factor in the demanding import sector. Providing quality product in a reliable manner to customers under these conditions is what we pride ourselves on and the business continues to grow as new products and extended seasons are brought to market.

The merger in Australia of LaManna Group and Premier Fruits offers new opportunities for trade between New Zealand and Australia, along with North America.

Te Mata Exports 2012 Ltd

MG's joint venture export partner, Te Mata Exports, continues to build on a strong foundation of quality suppliers and customers. Over the last two years, the business has diversified the product offering and leveraged off well-established relationships across all major trading regions.

The export diversification strategy continues to assist with top and bottom line growth, especially in summer fruit and citrus. Apples, which are the base business product, also enjoyed another strong year in both volume and sales. It is once again very pleasing to provide healthy returns to growers that have allowed them to further invest in their operations and infrastructure.

We are excited about the future for this business and will be increasing resource to deliver the strategic growth plans in place. The strategy of gaining supplier support through the delivery of strong market returns, is serving these growth prospects well.

AUSTRALIA

The 4 July 2016 merger of LaManna Group and Premier Fruits Group will future proof our Australian operation. In its first full year of trading (2016 / 2017 financial year) combined gross sales under management are expected to be over AU$500 million.

Premier Fruits Group's strength and its different offerings in the vegetable and fruit categories provides greater diversification which, when coupled with cost synergies and sheer scale, offers great prospects for the merged Group in the future.

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

Both companies have head offices close to each other in Melbourne and operations in all main centres throughout Australia so our immediate focus will be to consolidate the two businesses in order to realise the expected synergies the merger offers.

The Premier Fruits Group also brings additional strengths in the form of a quality management team. Their CEO, Mr. Anthony Di Pietro, has been appointed to the CEO role for the merged LaManna Premier Group. Anthony has extensive knowledge of the Australian market, having been in the industry all his working life. The Di Pietro family name is synonymous with the fruit and vegetable market in Australia.

Anthony's appointment will allow LaManna CEO, Glen Thompson, to follow his long-stated desire to step back from the top job. Glen will stay with the Group and assist Anthony in bedding down the merger.

As a result of the merger, Philip Holberton retired and Anthony Di Pietro and Mark LoGiudice were appointed as directors of LaManna Bananas Pty Ltd, the parent company of the LaManna Premier Group. Other changes to the LaManna board during the year saw Tom Treacy retire on 31 December 2015 and the appointment of MG's CEO Peter Hendry.

As noted last year, our Darwin Banana Farm was seriously impacted by the Banana Freckle outbreak in the Northern Territory; a serious fungal disease that affects the banana plants but not the fruit. This required the removal of all plants across significant areas of the Northern Territory and prevented our operation from producing bananas from April 2015. Replanting will commence once the region has been declared freckle free. In the meantime, however, the joint venture farming operation with Piñata Farms Pty Ltd is performing well and continues to use available land for a broader range of products.

Our operations in Melbourne have now enjoyed a full year in the new Epping market. Our locations, along with Premier's sites, are well positioned in the market and this is reflecting strong sales and good prospects for the merged business.

UNITED FLOWER GROWERS LTD (UFG)

MG's joint venture flower business had a record year in both sales and profitability.

We have a very loyal grower shareholder base that supports UFG, which is critical to the success of this business. Our focus is on building and expanding on this base to achieve greater efficiencies.

We continue to work on different initiatives for the business and are confident that the record figures set for the year will be a stepping-stone for future expansion both in reach and range of product.

This year the Christchurch branch has moved to a more centrally located facility. This move is expected to be temporary as the premises are not adequate for the current growth the Christchurch business is experiencing with significant increases in customer numbers and volumes sold.

The cloud auction - online auction portal - continues to gain momentum with both metro and regional customers taking advantage of this added service. It is initiatives like this that will drive further growth, efficiencies and profitability in the years to come.

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

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 Rutherford Hotel, 27 Nile Street, Nelson, on Wednesday 23 November 2016, commencing at 5.30pm. Shareholders are welcome to join MG directors, management and staff to formally or informally discuss topics of interest.

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

OUTLOOK

MG Marketing looks to the future with great confidence.

The merger of LaManna Group and Premier Fruits Group in Australia is a significant step for the combined Group and provides a great opportunity to deliver a much-improved financial performance and to further strengthen our balance sheet.

The benefits will not be restricted to Australia but spread across the Group with strong growth expected in trade between New Zealand, Australia and North America. Anticipated growth is based on additional sales channels, an increased range of products and a greater consistency of supply.

New Zealand is also in a strong position. Having achieved record sales and profits in the year under review, coupled with an increase in market share, the foundations of the business have never been stronger.

However, this is not a time for complacency. Rather it is a time for targeted and well-managed growth strategies. Your board and management have considered initiatives and have a path forward that is expected to reap further rewards for the business, building on MG's equity for the benefit of all shareholders.

Allied to the introduction of the Growing You programme and the desire to develop a closer working relationship with MG's grower shareholders, we continue to look for ways to add value. This looks beyond the day to day trading activity and comprises a range of support such as advice, industry knowledge, new product developments, branding and packaging.

Continuing to invest in our people will support this. Bringing new people into the business is critical for the longevity of the industry. Continuing to invest in grower workshops, the graduate programme, the director internship and the sales academy is essential if we want to be able to add true value to our grower shareholders.

Coupled with this investment in people is an investment in our culture. The "Together.Stronger." philosophy is now well embedded and we need to ensure that this becomes a foundation of the new merged business in Australia. An open environment with good communication will be critical.

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

For many years we have had a strong focus on developing our domestic business and, as shown by this year's performance, we have been very successful. We will continue to build on this strength and success through processes that will see MG partnering with its growers to ensure a secure supply base and to make it easier and more efficient for both customers and growers to transact that business. Better forecasting will assist in this process and ensure that growers have a sustainable future by better matching and linking supply with customer demand.

Technology will continue to drive our efficiencies and growth. The development of our Grower Delivery Advice (GDA) system, where we interface with growers online, is a good example of how we have modified our way of operating to offset operating costs that continue to emerge in the business. We now have over 200 growers completing consignments using our bespoke online system. MG will continue to innovate and bring different sales models into the market place, linking growers and customers more efficiently and effectively.

In the year ahead we will look to further streamline other processes while still embracing the importance of face-to-face contact and strong communication disciplines.

Retail customers will also see MG's continued focus on the domestic business through investment in resourcing and the depth of people we bring to the market place. Such investments will not only drive the customers' businesses but also those of the growers and MG.

Expansion of our export business is also important in providing sales channels for growth. This expansion includes diversification into new categories as well as the consolidation of existing lines. Exports are a significant opportunity for New Zealand as a whole and the produce industry is no exception. As we are with our domestic business we are looking to grow the export arm with investments in resources to procure and market New Zealand produce through an existing and expanding export supply chain. That said, we will continue to manage this process in order to have an appropriate level of return without undue risk.

We are extremely excited about the next financial year and once again thank our grower-shareholders for their ongoing support as we work together to grow our Co-operative for a stronger future.

Brian Gargiulo, MBE
Chairman

22 September 2016

Peter Hendry
CEO

22 September 2016

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

MG's SIX PILLARS

MG's core purpose is to grow the overall wealth and profitability of the Co-operative, its shareholders and growers through relevant initiatives while maintaining co-operative principles – Together.Stronger.

The characteristics of MG Marketing are represented by our six pillars:

Resilience
Show true leadership to grow the business and overcome challenges by making decisions that protect the future of our grower Co-operative and make sure the benefits are enjoyed by generations to come.

Partnerships
Expand the level of communication to keep our grower shareholders up-to-date and support a positive delivery of our shared vision, direction and values.

Value
Keep reviewing the benefits our grower shareholders receive while finding new and relevant ways to add value.

Growth
Diversify and expand produce lines locally as well as make our Co-operative attractive to off-shore markets so we can grow our export activity.

Capability
Continue to have the best people, doing the right job, with the right tools to support the wide range of needs of our grower network.

Co-operative behaviour
Work hard together to make sure the benefits of our Co-operative model drive growth, value, trust and a willingness to work closely alongside each other.

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

GROWING YOU

We are now into our second year of the Growing You programme and are already seeing tangible results.

The aim of the programme is to create a range of ways to develop a closer working relationship with MG’s grower shareholders and includes a series of professional development workshops for growers, the director internship and, going forward, the sales academy that will target people internally and also those who haven't attended university.

Graduate Programme & Sales Academy

The graduate programme is designed to attract the next generation of skilled employees to MG Marketing and encourage a new group of talent into the business.

Introduced this year, the programme has been extremely successful and we have learnt significantly from it and these learnings are being integrated into our future plans.

We will also build on the three graduates that were part of our programme this year with another three in the coming year. In addition, we will also be looking to bring three or four people into our Sales Academy.

Again, we have partnered closely with different educational providers, especially Lincoln University, to provide these high quality programmes.

Director Internship

Rebecca Turley joined MG Marketing in January 2016 as an Intern Director which has also been another successful initiative. The MG Director Internship is designed for those who aspire to director-level roles and have an interest in corporate governance. It allows an intern director to gain valuable experience by having a non-voting seat at the Board table for approximately 12 months.

Grower workshops

This year we undertook one very successful grower workshop. Such workshops are a tangible example of how we are developing closer working relationships with growers to improve productivity, efficiency and sustainability of their growing operation.

The workshops cover a range of relevant topics and include discussions about the opportunities and challenges facing our industry. These workshops will be on going and tailored separately for the specifics of fruit and vegetable categories where appropriate. We have learnt much from these workshops and are looking at fine tuning and enhancing them for the future.

Together.
Stronger.

MARKET GARDENERS LIMITED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2016

The Directors are pleased to present the financial statements of Market Gardeners Limited for the year ended 30 June 2016.

For and on behalf of the Board of Directors:

B.D. Gargiulo, MBE	L.T. Crozier
Chairman	Director
22 September 2016	22 September 2016

Statement of comprehensive income

For the year ended 30 June

	Note	Group 2016 $'000	Group 2015 $'000	Parent 2016 $'000	Parent 2015 $'000
Revenue – sale of goods	11	305,876	328,922	107,175	107,737
Cost of sales		266,045	290,104	81,469	84,984
Gross profit		39,831	38,818	25,706	22,753
Other operating income	11	1,873	1,859	870	907
Administrative expenses	12	8,563	8,285	6,207	5,908
Other expenses		24,783	23,315	10,258	10,141
Results from operating activities		8,358	9,077	10,111	7,611
Finance income		82	134	1,738	2,335
Finance expense		1,659	2,036	1,112	1,539
Net finance costs / (income)		1,577	1,902	(626)	(796)
Profit before equity earnings and income tax		6,781	7,175	10,737	8,407
Share of profit of equity accounted investees	21	1,910	2,565	-	-
Profit before income tax		8,691	9,740	10,737	8,407
Income tax expense	15	2,885	2,457	2,793	1,750
Profit for the year		5,806	7,283	7,944	6,657
Other comprehensive income					
Items to be reclassified to profit or loss in subsequent periods:					
Foreign currency translation differences for foreign operations		(2,617)	1,589	-	-
Change in fair value of land and buildings		12,773	-	4,903	-
Effective portion of changes in the fair value of cash flow hedges		(164)	(67)	(87)	160
Income tax effect on changes in the fair value of cash flow hedges and land and buildings	15	(4,095)	9	(1,915)	(45)
Other comprehensive income for the period, net of income tax		5,897	1,531	2,901	115
Total comprehensive income for the year		**11,703**	**8,814**	**10,845**	**6,772**
Profit attributable to:					
Owners of the Company		5,798	7,170	7,944	6,657
Non-controlling interest		8	113	-	-
Profit for the year		**5,806**	**7,283**	**7,944**	**6,657**
Total comprehensive income attributable to:					
Owners of the Company		11,695	8,701	10,845	6,772
Non-controlling interest		8	113	-	-
Total comprehensive income for the year		**11,703**	**8,814**	**10,845**	**6,772**

The significant accounting policies and notes to the financial statements on pages 22 to 43 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 2014	16,701	26,242	(259)	(2,875)	23,108	44,651	1,569	86,029
Profit for the year	-	-	-	-	-	7,170	113	7,283
Other comprehensive income/(expense)	-	-	(108)	1,639	1,531	-	-	1,531
Total comprehensive income for the year	-	-	(108)	1,639	1,531	7,170	113	8,814
Transactions with owners, recorded directly in equity								
Dividends	291	-	-	-	-	(652)	(38)	(399)
Shares issued	1,007	-	-	-	-	(1,000)	-	7
Shares surrendered	(1,314)	-	-	-	-	-	-	(1,314)
Balance at 30 June 2015	16,685	26,242	(367)	(1,236)	24,639	50,169	1,644	93,137
Balance at 1 July 2015	16,685	26,242	(367)	(1,236)	24,639	50,169	1,644	93,137
Profit for the year	-	-	-	-	-	5,798	8	5,806
Other comprehensive income/(expense)	-	7,890	39	(2,585)	5,344	553	-	5,897
Total comprehensive income for the year	-	7,890	39	(2,585)	5,344	6,351	8	11,703
Transactions with owners, recorded directly in equity								
Dividends	313	-	-	-	-	(1,428)	(55)	(1,170)
Shares issued	5,733	-	-	-	-	(5,703)	-	30
Shares issued to Minority Interest	-	-	-	-	-	-	423	423
Shares surrendered	(929)	-	-	-	-	-	-	(929)
Balance at 30 June 2016	21,802	34,132	(328)	(3,821)	29,983	49,389	2,020	103,194

The significant accounting policies and notes to the financial statements on pages 22 to 43 form part of and are to be read in conjunction with these financial statements.

Statement of changes in equity (continued)

For the year ended 30 June

Parent	**Share capital $'000**	**Revaluation reserve $'000**	**Hedging reserve $'000**	**Total reserves $'000**	**Retained earnings $'000**	**Total equity $'000**
Balance at 1 July 2014	16,701	14,673	(194)	14,479	36,947	68,127
Profit for the year	-	-	-	-	6,657	6,657
Other comprehensive income	-	-	115	115	-	115
Total comprehensive income for the year	-	-	115	115	6,657	6,772
Transactions with owners, recorded directly in equity						
Dividends	291	-	-	-	(652)	(361)
Shares issued	1,007	-	-	-	(1,000)	7
Shares surrendered	(1,314)	-	-	-	-	(1,314)
Balance at 30 June 2015	16,685	14,673	(79)	14,594	41,952	73,231
Balance at 1 July 2015	16,685	14,673	(79)	14,594	41,952	73,231
Profit for the year	-	-	-	-	7,944	7,944
Other comprehensive income	-	2,963	(62)	2,901	-	2,901
Total comprehensive income for the year	-	2,963	(62)	2,901	7,944	10,845
Transactions with owners, recorded directly in equity						
Dividends	313	-	-	-	(1,428)	(1,115)
Shares issued	5,733	-	-	-	(5,703)	30
Shares surrendered	(929)	-	-	-	-	(929)
Balance at 30 June 2016	21,802	17,636	(141)	17,495	42,765	82,062

The significant accounting policies and notes to the financial statements on pages 22 to 43 form part of and are to be read in conjunction with these financial statements.

Statement of financial position

As at 30 June

	Note	Group 2016 $'000	Group 2015 $'000	Parent 2016 $'000	Parent 2015 $'000
EQUITY					
Share capital	6	21,802	16,685	21,802	16,685
Reserves		29,983	24,639	17,495	14,594
Retained earnings		49,389	50,169	42,765	41,952
Total equity attributable to equity holders of the Parent Company		101,174	91,493	82,062	73,231
Non-controlling interest		2,020	1,644	-	-
Total equity		103,194	93,137	82,062	73,231
NON-CURRENT ASSETS					
Property, plant and equipment	8	99,190	79,018	40,178	36,388
Intangible assets	9	33,170	31,230	357	358
Investments in equity accounted investees	21	6,913	8,882	1,260	1,330
Investments in subsidiaries		-	-	1,231	1,231
Trade and other receivables	5 (b)	14,146	15,003	72,680	61,397
Deferred tax assets	15	3,436	3,143	1,736	1,588
Total non-current assets		156,855	137,276	117,442	102,292
CURRENT ASSETS					
Inventories	10	4,811	5,345	2,674	2,847
Trade and other receivables	5 (b)	32,227	29,560	20,775	19,372
Cash and cash equivalents	5 (a)	3,476	8,007	1,871	3,286
Total current assets		40,514	42,912	25,320	25,505
Total assets		197,369	180,188	142,762	127,797
NON-CURRENT LIABILITIES					
Borrowings	5 (c)	32,078	32,570	18,951	18,484
Trade and other payables	5 (c)	1,424	866	285	279
Deferred tax liabilities	15	7,616	3,787	3,337	1,520
Total non-current liabilities		41,118	37,223	22,573	20,283
CURRENT LIABILITIES					
Borrowings	5 (c)	31	97	-	-
Trade and other payables	5 (c)	52,333	49,564	36,907	34,214
Taxation payable		693	167	1,220	69
Total current liabilities		53,057	49,828	38,127	34,283
Total liabilities		94,175	87,051	60,700	54,566
NET ASSETS		103,194	93,137	82,062	73,231

The significant accounting policies and notes to the financial statements on pages 22 to 43 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		Parent	
	2016 $'000	**2015 $'000**	**2016 $'000**	**2015 $'000**
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash was provided from:				
Cash receipts from customers	306,841	335,201	107,593	111,917
Dividends received	1,946	689	-	-
Interest received	81	83	74	76
Cash was applied to:				
Cash paid to suppliers and employees	(294,239)	(314,316)	(93,036)	(97,438)
Interest paid	(1,490)	(2,137)	(867)	(1,648)
Income tax paid	(2,560)	(3,324)	(1,923)	(2,731)
Net cash from operating activities	10,579	16,196	11,841	10,176
CASH FLOWS FROM INVESTING ACTIVITIES				
Cash was provided from:				
Proceeds from sale of property, plant and equipment	21	30	-	-
Proceeds from loans and advances	424	539	985	9,185
Cash was applied to:				
Acquisition of property, plant and equipment	(12,042)	(2,866)	(450)	(1,334)
Acquisition of intangible assets	(2,040)	-	-	-
Loans and advances	-	-	(12,216)	(485)
Net cash (used in)/from investing activities	(13,637)	(2,297)	(11,681)	7,366
CASH FLOWS FROM FINANCING ACTIVITIES				
Cash was provided from:				
Proceeds from issue of share capital	453	7	30	7
Proceeds from bank and other borrowings	11,108	7,656	11,060	-
Proceeds from other receivables	790	566	790	566
Cash was applied to:				
Shares surrendered	(929)	(1,314)	(929)	(1,314)
Repayment of borrowings	(10,656)	(15,645)	(10,550)	(13,473)
Dividends paid	(936)	(399)	(881)	(361)
Loans and advances to other receivables	(1,189)	(349)	(1,095)	(349)
Net cash (used in) financing activities	(1,359)	(9,478)	(1,575)	(14,924)
Net (decrease)/increase in cash and cash equivalents	(4,417)	4,421	(1,415)	2,618
Cash and cash equivalents at 1 July	8,007	3,150	3,286	668
Effect of exchange rate fluctuations on cash held	(114)	436	-	-
Cash and cash equivalents at 30 June	3,476	8,007	1,871	3,286

The significant accounting policies and notes to the financial statements on pages 22 to 43 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		Parent	
	2016 $'000	**2015 $'000**	**2016 $'000**	**2015 $'000**
Profit for the year	5,806	7,283	7,944	6,657
Adjustments for:				
Advance to subsidiaries, equity accounted investees and other parties	(25)	(756)	11,603	(8,907)
Depreciation	3,548	3,371	1,472	1,531
Change in derivatives recognised in hedging reserve	(141)	(165)	(87)	160
(Increase) in deferred tax on reserves	(4,095)	9	(1,915)	(45)
(Increase) / decrease in future taxation benefit	3,536	(797)	1,669	(238)
Equity accounted earnings of equity accounted investees	463	(1,282)	-	-
Unrealised foreign currency translation of subsidiaries	(42)	111	-	-
Impairment of investment	-	876	-	-
Effect of movement in foreign exchange rate on investing / financing activities	-	-	(333)	692
Movement in equity accounted investee upon liquidation	844		69	-
Other	108	70	82	93
	4,196	8,720	12,560	(57)
Impact of changes in working capital items:				
Change in inventories	534	1,066	173	1,000
Change in trade and other receivables	(1,810)	5,269	(12,686)	8,931
Change in taxation receivable / payable	526	(814)	1,151	(658)
Change in trade and other payables	1,327	1,955	2,699	960
	577	7,476	(8,663)	10,233
Net cash from operating activities	10,579	16,196	11,841	10,176

The significant accounting policies and notes to the financial statements on pages 22 to 43 form part of and are to be read in conjunction with these financial statements.

Notes to the financial statements

REPORTING ENTITY

Market Gardeners Limited (the "Parent", "Company") is a co-operative company domiciled in New Zealand and registered under the Companies Act 1993 and the Co-operative Companies Act 1996. The Parent Company is an issuer for the purposes of the Financial Reporting Act 1993. The financial statements comply with the Financial Reporting Act 1993 in accordance with the transitional provisions under Section 55 of the Financial Reporting Act 2013 and schedule 4 of the Financial Markets Conduct Act 2013.

The consolidated financial statements as at and for the year ended 30 June 2016 comprise the Parent Company and its subsidiaries (collectively the "Group") and the Group's interest in associates and joint arrangements.

The Group and the Parent Company are primarily involved in growing, merchandising, wholesale, ripening, distribution, import and export operations of fresh fruit and produce. The Groups 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 1 July 2016 (2015: 52-week period ending 3 July 2015). 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 2016 year end.

STATEMENT OF COMPLIANCE

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

BASIS OF MEASUREMENT

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

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

SIGNIFICANT ACCOUNTING POLICIES

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

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

(i) Subsidiaries

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

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

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

(iii) Transactions eliminated on consolidation

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

(iv) Step acquisitions from significant influence to control

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

Notes to the financial statements (continued)

2. Foreign currency

(i) Foreign currency transactions

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

(ii) Foreign operations

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

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

(iii) Hedge of net investment in foreign operation

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

3. Fair Value hierarchy

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

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

4. Use of estimates and judgements

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

(i) Revaluation of land and buildings

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

(ii) Impairment of non-financial/intangible assets

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

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

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

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

Notes to the financial statements (continued)

5. Working capital

Non-derivative financial instruments

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

(a) Cash and cash equivalents

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

(b) Loan and receivables

Loan and receivables consist of trade and other receivables.

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

	Group		Parent	
	2016 $'000	**2015 $'000**	**2016 $'000**	**2015 $'000**
Non-current				
Receivable from subsidiaries	-	-	58,534	46,394
Other receivables	19,793	20,650	19,793	20,650
Provision for other receivables	(5,647)	(5,647)	(5,647)	(5,647)
Total non-current trade and other receivables	14,146	15,003	72,680	61,397
Current				
Trade receivables	25,653	25,860	16,618	15,489
Receivable from subsidiaries	-	-	31	780
Other receivables	6,574	3,700	4,126	3,103
Total current trade and other receivables	32,227	29,560	20,775	19,372
Total trade and other receivables	46,373	44,563	93,455	80,769

Certain receivables from subsidiaries have been classified as non-current in the above table to reflect the underlying time frames in which the receivables will be collected.

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

As detailed in the above table a provision was taken up in prior years against other receivables. When the receipt of other receivables, including any associate receivable, is deferred and / or interest is not paid, then a provision is raised to reflect the fair value discount against the carrying value of the receivable. The fair value discount provision balance as at 30 June 2016 was $1,500,000 (2015: $1,500,000).

The ageing of trade receivables is as follows:	Group		Parent	
	2016 $'000	**2015 $'000**	**2016 $'000**	**2015 $'000**
Not past due	24,497	25,073	17,017	16,169
Past due 1-30 days	1,107	1,287	37	93
Past due 31-60 days	443	177	48	12
Past due 61-90 days	275	238	13	34
Past due greater than 91 days	551	405	289	201
Total trade receivables (gross)	26,873	27,180	17,404	16,509
Provision for doubtful debts	(1,220)	(1,320)	(786)	(1,020)
Total trade receivables (net)	25,653	25,860	16,618	15,489

Notes to the financial statements (continued)

5. Working capital (continued)

(c) Financial liability at amortised cost

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

Trade and other payables

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

	Group		Parent	
	2016 $'000	**2015 $'000**	**2016 $'000**	**2015 $'000**
Non-current				
Other payables	1,107	506	106	99
Employee benefits	317	360	179	180
Total non-current trade and other payables	1,424	866	285	279
Current				
Trade and other payables	45,526	43,901	32,746	31,030
Employee benefits	6,807	5,663	4,161	3,184
Total current trade and other payables	52,333	49,564	36,907	34,214
Total trade and other payables	53,757	50,430	37,192	34,493

Payables denominated in currencies other than the functional currency comprise $13,834,000 (2015: $15,301,000) of trade payables denominated in Australian dollars and $1,774,000 (2015: $1,966,000) 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 2016 the effective interest rate on bank balances for the Group was 4.33% (2015: 5.42%) and Parent Company was 3.90% (2015: 6.27%).

	Group		Parent	
	2016 $'000	**2015 $'000**	**2016 $'000**	**2015 $'000**
Non-current liabilities				
Secured bank loans and other liabilities	29,436	30,218	16,309	16,132
Redeemable "D" shares	2,642	2,352	2,642	2,352
	32,078	32,570	18,951	18,484
Current liabilities				
Current portion of secured bank loans and other liabilities	31	97	-	-
	31	97	-	-
Total borrowings	32,109	32,667	18,951	18,484

The bank loans are secured over land and buildings with a carrying amount of $89,705,000 (2015: $69,446,000).

Notes to the financial statements (continued)

5. Working capital (continued)

"D" shares issued under a prospectus dated 14 November 2013 have been classified as non-current liabilities (2015: non-current liabilities) on the basis that the Parent Company and Group has an obligation to pay a minimum fixed dividend and may be redeemed for cash at the end of their term at the option of the shareholder. All shares have a nominal value of $1.00 as permitted by the Co-operative Companies Act 1996. "D" shares carry the right to an annual dividend of 6% gross of imputation credits or the same dividend declared on "A" shares, whichever is the higher. Dividends on "D" shares are accumulating in the event that there are insufficient profits to declare the required dividend and take priority to the dividends on "A" shares. Any outstanding payment for "D" share dividends shall rank ahead of all other payments to "A", "B" and "C" shareholders.

On 7 July 2016 the directors declared a fully taxable special bonus issue of 1 new "D" share for every existing 20 "D" shares (2015: 1 new "D" share for every 10 existing "D" shares). A final dividend of 6 cents per "D" share (2015: 6 cents per "D" share) was also declared. This special bonus issue and dividend will be accounted for in the period they were declared, namely the 30 June 2017 financial statements. This final dividend is to be issued from retained earnings upon completion at the 2016 Annual Meeting. No interim dividend was declared in the year to 30 June 2016 (2015: $Nil).

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

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

Group 2016	**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	32,109	35,357	721	720	1,465	32,451	-
Trade and other payables (1)	53,103	53,103	48,639	3,147	1,064	136	117
Total financial liabilities	85,212	88,460	49,360	3,867	2,529	32,587	117
Group 2015							
Borrowings	32,667	38,421	921	919	1,794	34,787	-
Trade and other payables (1)	49,806	49,806	46,550	2,896	81	154	125
Total financial liabilities	82,473	88,227	47,471	3,815	1,875	34,941	125

Parent 2016	**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	18,951	21,194	481	481	962	19,270	-
Trade and other payables (1)	36,994	36,994	34,991	1,824	29	67	83
Total financial liabilities	55,945	58,188	35,472	2,305	991	19,337	83
Parent 2015							
Borrowings	18,484	22,039	531	531	1,061	19,916	-
Trade and other payables (1)	34,276	34,276	32,439	1,657	36	64	80
Total financial liabilities	52,760	56,315	32,970	2,188	1,097	19,980	80

(1) = excluding derivative financial liabilities

Notes to the financial statements (continued)

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 2014	13,363	2,590	748	16,701
Shares issued	298	-	1,000	1,298
Shares transferred	867	(121)	(746)	-
Shares surrendered	(1,261)	(46)	(7)	(1,314)
Balance at 30 June 2015	13,267	2,423	995	16,685
Balance at 1 July 2015	13,267	2,423	995	16,685
Shares issued	1,638	2,417	1,991	6,046
Shares transferred	1,425	556	(1,981)	-
Shares surrendered	(904)	(19)	(6)	(929)
Balance at 30 June 2016	15,426	5,377	999	21,802

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

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

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 business (i.e. is not a Current Producer as defined in the Parent Company's constitution) with the Parent Company or a subsidiary for a period of two years until such time as the shareholder recommences transacting with the Parent Company or a subsidiary.

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

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

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

The full terms and conditions applicable to each class of shares are as detailed in the Company's constitution and the terms of offer under the relevant prospectus. 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 50,000 but less than 100,000 shares, the Board may limit the surrender of those shares to 20% of the holding in any one year. Where a shareholder holds over 100,000 shares, the Board may limit the surrender of those shares to 10% of the holding in any one year.

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.

Notes to the financial statements (continued)

6. *Share capital (continued)*

Special bonus issue (2016)

On 7 July 2016 the Directors declared a fully imputed taxable special bonus issue of;

- 1 new "A" share for every 20 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 2016. The special bonus issue will be accounted for in the period it is declared, namely the year ended 30 June 2017 and occurs prior to the distributions detailed below.

Special bonus issue (2015)

On 31 July 2015 the Directors declared a fully imputed taxable special bonus issue of;

- 1 new "A" share for every 10 existing "A" shares;
- 1 new "B" share for every 1 existing "B" share;
- 1 new "C" share for every 1 existing "C" share;

for the year to 30 June 2015. The special bonus issue was accounted for in the period it was declared, namely the year ended 30 June 2016.

Supplier shareholder rebate (2016)

On 7 July 2016, a taxable rebate of $250,000 was declared by the Directors for the year to 30 June 2016 (2015: $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 2016 Annual Meeting. The rebate will be accounted for in the period it is declared, namely the year ended 30 June 2017.

Bonus issue on supplier shareholder rebate (2016)

On 7 July 2016, the directors declared a three for one (3 for 1) bonus issue on the above "supplier shareholder rebate (2016)". The bonus issue will be accounted for in the period it is declared, namely the year ended 30 June 2017 (the bonus issue for the year ended 30 June 2015 was three for one (3 for 1)).

Final dividend (2016)

On 7 July 2016 the Directors declared a fully imputed taxable gross final dividend of 6 cents per "A" share (2015: 6 cents per "A" share). This final dividend is to be issued from retained earnings upon completion at the 2016 Annual Meeting. This final dividend will be accounted for in the period the dividend is actually declared, namely the 30 June 2017 financial statements. No interim dividend was declared in the year to 30 June 2016 (2015: $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.

Notes to the financial statements (continued)

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.

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

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. Upon revaluation all accumulated depreciation is netted against the cost of the land and buildings prior to determining the amount by which the land and buildings are to be revalued.

(ii) Subsequent costs

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

(iii) Depreciation

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

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

(iv) Capital work in progress

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

(v) Leased assets

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

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

(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.

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
Cost or valuation						
Balance at 1 July 2014	71,323	1,823	3,197	22,040	529	98,912
Additions	1,199	611	143	875	38	2,866
Disposals	(47)	(65)	(184)	(51)	(3)	(350)
Reclassification	469	-	-	-	(469)	-
Effect of movements in exchange rates	549	78	69	513	-	1,209
Balance at 30 June 2015	73,493	2,447	3,225	23,377	95	102,637
Balance at 1 July 2015	73,493	2,447	3,225	23,377	95	102,637
Additions	9,837	739	271	1,194	1	12,042
Disposals	(24)	(86)	(165)	(56)	(18)	(349)
Revaluations	7,913	-	-	-	-	7,913
Reclassification	272	-	(21)	(180)	(71)	-
Effect of movements in exchange rates	(808)	(119)	(68)	(914)	-	(1,909)
Balance at 30 June 2016	90,683	2,981	3,242	23,421	7	120,334
Accumulated depreciation						
Balance at 1 July 2014	2,156	1,344	2,838	13,670	-	20,008
Depreciation for the year	1,849	147	184	1,191	-	3,371
Disposals	(1)	(59)	(180)	(50)	-	(290)
Reclassification	-	-	-	-	-	-
Effect of movements in exchange rates	43	60	58	369	-	530
Balance at 30 June 2015	4,047	1,492	2,900	15,180	-	23,619
Balance at 1 July 2015	4,047	1,492	2,900	15,180	-	23,619
Depreciation for the year	1,881	337	180	1,150	-	3,548
Disposals	(20)	(61)	(161)	(33)	-	(275)
Revaluations	(4,882)	-	-	-	-	(4,882)
Effect of movements in exchange rates	(48)	(93)	(60)	(665)	-	(866)
Balance at 30 June 2016	978	1,675	2,859	15,632	-	21,144
Carrying amounts						
At 1 July 2014	69,167	479	359	8,370	529	78,904
At 30 June 2015	69,446	955	325	8,197	95	79,018
At 1 July 2015	69,446	955	325	8,197	95	79,018
At 30 June 2016	89,705	1,306	383	7,789	7	99,190

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 $765,000 (2015: $971,000).

Notes to the financial statements (continued)

8. Property, plant and equipment (continued)

Parent	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 2014	31,768	185	2,228	9,972	529	44,682
Additions	938	-	123	235	38	1,334
Disposals	(47)	-	(184)	(18)	(3)	(252)
Transfer to subsidiary	-	-	-	-	(10)	(10)
Reclassification	459	-	-	-	(459)	-
Balance at 30 June 2015	33,118	185	2,167	10,189	95	45,754
Balance at 1 July 2015	33,118	185	2,167	10,189	95	45,754
Additions	250	26	173	-	1	450
Disposals	-	-	(165)	(7)	(18)	(190)
Transfer to subsidiary	-	-	-	(320)		(320)
Revaluations	2,804	-	-	-	-	2,804
Reclassification	56	-	(21)	36	(71)	-
Balance at 30 June 2016	36,228	211	2,154	9,898	7	48,498
Accumulated depreciation						
Balance at 1 July 2014	898	76	1,992	5,067	-	8,033
Depreciation for the year	743	26	141	621	-	1,531
Disposals	(1)	-	(180)	(17)	-	(198)
Balance at 30 June 2015	1,640	102	1,953	5,671	-	9,366
Balance at 1 July 2015	1,640	102	1,953	5,671	-	9,366
Depreciation for the year	773	20	128	551	-	1472
Disposals	-	-	(161)	(6)	-	(167)
Transfer to subsidiary	-	-	-	(252)		(252)
Revaluations	(2,099)	-	-	-	-	(2,099)
Balance at 30 June 2016	314	122	1,920	5,964	-	8,320
Carrying amounts						
At 1 July 2014	30,870	109	236	4,905	529	36,649
At 30 June 2015	31,478	83	214	4,518	95	36,388
At 1 July 2015	31,478	83	214	4,518	95	36,388
At 30 June 2016	35,914	89	234	3,934	7	40,178

Land and buildings

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

Notes to the financial statements (continued)

8. Property, plant and equipment (continued)

Investment/Income Approach
This approach capitalises the actual contract and / or potential income at an appropriate market derived rate of return. Capitalisation rates applied range from 6.0% to 11.0% (2015: 8.0% to 11.0%). The valuations are sensitive to the capitalisation rate in that increases in the relative rates have the impact of decreasing the valuation and vice versa.

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

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

If the land and buildings were measured using the cost model then the carrying value would be $48,753,000 (2015: $42,003,000) for the Group and $15,542,000 (2015: $16,169,000) for the Parent Company.

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 bargain purchase gain is recognised immediately in profit or loss.

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

(ii) Brand

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

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

(iii) Other

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

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

Notes to the financial statements (continued)

9. Intangible assets (continued)

(iv) Impairment of intangible assets

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

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

Group	Goodwill $'000	Brand $'000	Other $'000	Total $'000
Cost				
Balance at 1 July 2014	18,214	11,627	9	29,850
Effect of movements in exchange rates	838	550	-	1,388
Balance at 30 June 2015	19,052	12,177	9	31,238
Balance at 1 July 2015	19,052	12,177	9	31,238
Acquisition of marketing agreements	-	-	4,038	4,038
Effect of movements in exchange rates	(1,265)	(832)	-	(2,105)
Balance at 30 June 2016	17,787	11,345	4,047	33,179
Accumulated amortisation and impairment losses				
Balance at 1 July 2014	-	-	7	7
Amortisation for the year	-	-	1	1
Balance at 30 June 2015	-	-	8	8
Balance at 1 July 2015	-	-	8	8
Amortisation for the year	-	-	1	1
Balance at 30 June 2016	-	-	9	9
Carrying amounts				
At 1 July 2014	18,214	11,627	2	29,843
At 30 June 2015	19,052	12,177	1	31,230
At 1 July 2015	19,052	12,177	1	31,230
At 30 June 2016	17,787	11,345	4,038	33,170

Notes to the financial statements (continued)

9. Intangible assets (continued)

Parent	Goodwill $'000	Other $'000	Total $'000
Cost			
Balance at 1 July 2014	357	9	366
Balance at 30 June 2015	357	9	366
Balance at 1 July 2015	357	9	366
Balance at 30 June 2016	357	9	366
Accumulated amortisation and impairment losses			
Balance at 1 July 2014	-	7	7
Amortisation for the year	-	1	1
Balance at 30 June 2015	-	8	8
Balance at 1 July 2015	-	8	8
Amortisation for the year	-	1	1
Balance at 30 June 2016	-	9	9
Carrying amounts			
At 1 July 2014	357	2	359
At 30 June 2015	357	1	358
At 1 July 2015	357	1	358
At 30 June 2016	357	0	357

With the exception of $357,000 of goodwill (in the Parent and Group), 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).

The recoverable amount of the Australian operation cash CGU is based on fair value less costs to sell. The fair value less costs to sell has been estimated using the methodology of capitalisation of maintainable earnings. This constitutes a level 3 measurement in the fair value hierarchy. The recoverable amount of the CGU was determined to be higher than its carrying amount and no impairment loss (2015:$Nil) was recognised.

The key assumptions used in the calculation of recoverable amounts are a normalised maintainable EBITDA, an EBITDA multiple and the determination of surplus assets. These assumptions are a normalised maintainable EBITDA before associates of AUD$4.1 million (2015: AUD$4.8 million), a mid-point EBITDA multiple of 7.0 times (2015: 7.0 times) and net surplus assets of AUD$12.8 million (2015: AUD$5.8 million). Normalised maintainable EBITDA is determined based on the historical average EBITDA of the Australian CGU adjusted for any one off or non-core business transactions, synergies and other benefits that may accrue on a willing buyer willing seller basis. The EBITDA of the Australian CGU before associates for the year ended 30 June 2016 was AUD$1.9 million (2015: AUD$4.0 million). Net surplus assets includes the recoverable value of Australian associates which is also estimated using the methodology of capitalisation of maintainable earnings.

EBITDA multiples observed in the market for comparable companies in the fresh produce, food and agribusiness sector and recent transactions that have occurred have been considered when the EBITDA multiple is determined and revised as detailed above. Other factors considered when determining the EBITDA multiple include the nature and size of the Australian CGU, the stability and quality of earnings, potential growth rate and risks inherent in the business.

The estimated recoverable amount of the Australian CGU using the mid-point EBITDA multiple is higher than its carrying amount by $4.4 million (2015 $1.9 million). A movement in the EBITDA multiple of minus 0.7 times (2015: minus 0.4 times) would result in the recoverable amount being equal to the carrying value. A movement in the normalised maintainable EBITDA of minus 16% (2015: minus 5%) would result in the recoverable amount being equal to the carrying value. A movement in the surplus asset valuation of minus $4.4 million (2015: minus $1.9 million) would result in the recoverable amount being equal to the carrying value.

The fair value less costs to sell of the marketing agreements has been estimated using a discounted cash flow methodology.

Notes to the financial statements (continued)

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		Parent	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Inventory	4,811	5,345	2,674	2,847
Inventory subject to contract	2,265	2,214	2,265	2,214
Amount due to supplier	(2,265)	(2,214)	(2,265)	(2,214)
	4,811	5,345	2,674	2,847

In 2016 inventories recognised as cost of sales amounted to $227,306,000 (2015: $253,776,000) for the Group and $65,611,000 (2015: $69,526,000) for the Parent Company.

11. Revenue and other operating income

(i) Revenue – sale of goods

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

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

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

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

In 2016 gross sales under management, which represent the value of traded product and the gross value of sales made as agent, for the Group were $588,762,000 (2015: $590,385,000) and for the Parent Company $381,248,000 (2015: $358,510,000).

(ii) Other operating income – rental income

Rental income from property is recognised in the profit or loss on a straight-line basis over the term of the lease. In 2016 rental income for the Group was $1,869,000 (2015: $1,839,000) and for the Parent Company $866,000 (2015: $906,000).

12. Auditor remuneration

	Group		Parent	
Auditor's remuneration comprises:	2016 $'000	2015 $'000	2016 $'000	2015 $'000
For audit work:				
• to Market Gardeners Limited and subsidiaries (KPMG)	72	66	72	66
• to LaManna Bananas Pty Limited and subsidiaries (Pitcher Partners)	85	85	-	-
For other services:				
• to Market Gardeners Limited and subsidiaries (KPMG)	2	2	2	2
• to Market Gardeners Limited (BDO)	6	6	6	6
• to LaManna Bananas Pty Limited and subsidiaries (Pitcher Partners)	45	29	-	-
Total auditor's remuneration	210	188	80	74

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. Any actuarial gains or losses are recognised in profit and loss or other comprehensive income in the period in which they arise. The calculation is performed using actuarial methodology.

(iii)*Short-term employee benefits*

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

	Group		Parent	
	2016 $'000	**2015 $'000**	**2016 $'000**	**2015 $'000**
Wages and salaries	44,189	41,854	19,855	19,266
Contributions to defined contribution superannuation plans	2,272	2,147	801	786
Increase/(decrease) in liability for long-service leave	131	247	12	34
Total personnel expenses	46,592	44,248	20,668	20,086

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 2016 $4,589,000 (2015: $4,970,000) was recognised as an expense in profit or loss in respect of operating leases for the Group and $1,665,000 (2015: $1,830,000) for the Parent Company.

Non-cancellable operating lease rentals are payable as follows:

	Group		Parent	
	2016 $'000	**2015 $'000**	**2016 $'000**	**2015 $'000**
Less than one year	3,435	4,131	1,185	1,948
Between one and five years	3,717	7,601	918	2,714
More than five years	561	920	561	633
	7,713	12,652	2,664	5,295

(ii) Group as a lessor

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

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

	Group		Parent	
	2016 $'000	**2015 $'000**	**2016 $'000**	**2015 $'000**
Less than one year	1,867	1,399	1,339	866
Between one and five years	2,685	3,001	1,642	1,469
More than five years	8	10	8	10
	4,560	4,410	2,989	2,345

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**		**Parent**	
	2016 $'000	**2015 $'000**	**2016 $'000**	**2015 $'000**
Current tax expense	3,425	3,163	2,914	1,807
Prior period adjustment to current tax	19	83	125	226
	3,444	3,246	3,039	2,033
Deferred tax – origination and reversal of temporary differences	(559)	(789)	(246)	(283)
Tax (credit)/expense	(559)	(789)	(246)	(283)
Total income tax expense	2,885	2,457	2,793	1,750

Reconciliation of income tax expense

	Group		**Parent**	
	2016 $'000	**2015 $'000**	**2016 $'000**	**2015 $'000**
Profit before tax	8,691	9,740	10,737	8,407
Income tax using the Parent Company's domestic tax rate	2,434	2,727	3,006	2,354
Add/(deduct) taxation effect of:				
Effect of tax rates in foreign jurisdictions	(5)	53	-	-
Tax impact of equity accounted investees	191	(2)	-	-
Non-deductible expenses	297	75	177	58
Tax exempt income	(70)	(303)	(78)	(83)
Group loss offset	-	-	(402)	(566)
Current year losses for which no deferred tax asset is recognised	82	80	-	-
Under/(over) provided in prior periods	(22)	(171)	90	(13)
Prior year losses for which no deferred tax was recognised	(21)	(2)	-	-
Total income tax expense	2,885	2,457	2,793	1,750

Deferred tax assets and liabilities are attributable to the following:

	Assets		**Liabilities**		**Net**	
Group	**2016 $'000**	**2015 $'000**	**2016 $'000**	**2015 $'000**	**2016 $'000**	**2015 $'000**
Property, plant and equipment	-	-	(6,877)	(2,927)	(6,877)	(2,927)
Provisions and other	3,436	3,143	(739)	(860)	2,697	2,283
Tax assets/(liabilities)	3,436	3,143	(7,616)	(3,787)	(4,180)	(644)

Notes to the financial statements (continued)

15. Income tax (continued)

Parent	Assets 2016 $'000	Assets 2015 $'000	Liabilities 2016 $'000	Liabilities 2015 $'000	Net 2016 $'000	Net 2015 $'000
Property, plant and equipment	-	-	(2,598)	(660)	(2,598)	(660)
Provisions and other	1,736	1,588	(739)	(860)	997	728
Tax assets/(liabilities)	1,736	1,588	(3,337)	(1,520)	(1,601)	68

Movement in temporary differences during the year

Group	Balance 1 July 14 $'000	Recognised in Profit and Loss $'000	Recognised in equity $'000	Balance 30 June 15 $'000
Property, plant and equipment	(3,005)	86	(7)	(2,927)
Provisions and other	1,564	703	16	2,283
	(1,441)	789	9	(644)

Group	Balance 1 July 15 $'000	Recognised in Profit and Loss $'000	Recognised in equity $'000	Balance 30 June 16 $'000
Property, plant and equipment	(2,927)	78	(4,028)	(6,877)
Provisions and other	2,283	481	(67)	2,697
	(644)	559	(4,095)	(4,180)

Parent Company	Balance 1 July 14 $'000	Recognised in Profit and Loss $'000	Recognised in equity $'000	Balance 30 June 15 $'000
Property, plant and equipment	(678)	18	-	(660)
Provisions and other	508	265	(45)	728
	(170)	283	(45)	68

Parent Company	Balance 1 July 15 $'000	Recognised in Profit and Loss $'000	Recognised in equity $'000	Balance 30 June 16 $'000
Property, plant and equipment	(660)	1	(1,939)	(2,598)
Provisions and other	728	245	24	997
	68	246	(1,915)	(1,601)

	Group 2016 $'000	Group 2015 $'000	Parent 2016 $'000	Parent 2015 $'000
Imputation credits				
The imputation credits are available to shareholders of the Parent Company:				
Through the Parent Company	11,424	10,843	11,424	10,843
Through subsidiaries	255	218	-	-
Imputation credits at 30 June	11,679	11,061	11,424	10,843

Notes to the financial statements (continued)

16. Financial risk management

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

Credit risk

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

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

Liquidity risk

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

Market risk

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

Interest rate risk

The group is exposed to interest rate risk on its bank borrowings, which are at floating rates. The group manages interest rate risk through policies determined by the board. The group has entered into interest rate swaps, denominated in Australian and New Zealand dollars, with a notional value of $17,097,000 (2015: $26,957,000) to achieve an appropriate mix of fixed and floating rates. The Group classifies interest rate swaps as cash flow hedges

Foreign currency risk

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

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

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

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

	2016 AUD $'000	2015 AUD $'000
Investment foreign currency risk		
Net investment (including intangible assets that arise on consolidation) in Australian operations	35,902	36,667
Foreign currency denominated borrowings		
Secured bank borrowings	(4,350)	(4,350)
Net unhedged exposure	31,552	32,317

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 increased (2015: decreased) the Group's profit before income tax by approximately $3,000 for the year ended 30 June 2016 (2015: $31,000). The Group policy of entering into forward exchange contracts has been allowed for in this calculation. The impact of such a foreign currency movement is generally mitigated by a similar movement in the pricing of the associated produce sold.

Notes to the financial statements (continued)

16. Financial risk management (continued)

Capital management

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

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

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

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

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

Hedging

Hedge of net investment in foreign operation

The Group hedges part of its net investment in Australian operations by borrowing in Australian dollars. The fair value of 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 2016 the Group had capital commitments of $Nil (30 June 2015: $Nil). The Parent Company had capital commitments of $Nil (30 June 2015: $Nil). Refer to note 23 for details of subsequent events which were being negotiated but were not capital commitments as at 30 June 2016.

18. Contingencies

The Group and Parent Company had the following contingencies.

The Parent Company guarantees the LaManna Group and associates borrowings of $13,071,000 (2015: $14,029,000).

Trade indemnities and guarantees issued $1,550,000 for associate companies (2015: $1,550,000 for associate companies).

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 Parent Company makes advances to associates and subsidiaries. Associate 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. Advances to subsidiary companies are not interest bearing with the exception of certain advances which are made to allow the subsidiary to acquire an investment.

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

Notes to the financial statements (continued)

19. Related parties (continued)

	Group 2016 $'000	Group 2015 $'000	Parent 2016 $'000	Parent 2015 $'000
Transactions with subsidiaries				
Sales of goods and services	-	-	5,074	5,856
Purchases of goods and services	-	-	5,861	6,990
Closing advances/receivables	-	-	58,565	47,174
Transactions with associates and joint arrangements				
Sales of goods and services	5,421	2,710	1,448	1,007
Purchases of goods and services	22,996	23,891	21,232	19,681
Closing advances/receivables	13,185	13,085	13,080	13,085
Closing loans/payables	1,812	908	1,812	810

For the year ended 30 June 2016 there has been no expense recognised or any movement in provisions relating to outstanding balances with subsidiaries or associates (2015: $Nil expense / movement).

The Parent Company is a participating employer in a defined contribution superannuation fund. During the year the Parent Company made employer contributions to the fund as disclosed in note 13. In addition, the Parent Company leased premises and motor vehicles on an operating lease basis from the superannuation fund for part of the financial year. These lease payments represented $109,000 and $52,000 of the Parent Company and Group lease costs respectively (2015: $188,000 and $706,000). The Parent Company does not guarantee the performance or value of the superannuation fund but does appoint the Trustees of the fund who at balance date were the Chairman Mr B.D. Gargiulo, MBE; a Director Mr A.G. Fenton; the Chief Executive Mr P.S. Hendry; the Company Secretary Mr D.J. Pryor and Mr D.J. Stock (Barrister and Solicitor). This superannuation fund ceased operating from 29 February 2016 at which time all members, assets and liabilities of the fund were compulsorily transferred to an independent master trust operated by SuperLife. The fund is in the process of being wound up and has not operated since 29 February 2016.

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 Parent Company and Group has frequent transactions with its grower Director's (sales to, agency sales for and purchases from Director's) in the ordinary course of business.

Key management personnel compensation comprised:	2016 $'000	2015 $'000
Director's fees and remuneration	1,227	1,317
Gross value of Director's sales	26,052	23,283
Commission charged on Director's sales (as above)	3,126	2,794
Gross value of Director's other transactions (prepacking services, sundry expense recharges and sundry other expenses)	14	161
Short-term employee benefits	2,347	2,277

Notes to the financial statements (continued)

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

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

(a) Summarised statement of financial position	**2016 $'000**	**2015 $'000**
Total equity	19,913	22,233
Total non-current assets	23,252	34,896
Total current assets	24,211	17,884
Total assets	47,463	52,780
Total non-current liabilities	13,266	14,672
Total current liabilities	14,284	15,875
Total liabilities	27,550	30,547
NET ASSETS	19,913	22,233
(b) Summarised statement of comprehensive income		
Profit for the year	195	2,835
Other comprehensive income for the year	(56)	(218)
Total comprehensive income for the year	139	2,617

21. Group entities

(i) Significant subsidiaries	**Country of incorporation and principle place of business**	**2016 %**	**2015 %**	**Balance date**	**Principal activity**
Hansons Lane International Holdings Ltd	New Zealand	100	100	30 June	Investment Holding
Blackbyre Horticulture Ltd	New Zealand	100	100	30 June	Property Holding
Market Fresh Wholesale Ltd	New Zealand	100	100	30 June	Property Holding
Phimai Holdings Ltd	New Zealand	100	100	30 June	Property Holding
Southland Produce Markets Ltd	New Zealand	100	100	30 June	Property Holding
MG Group Holdings Ltd	New Zealand	100	100	30 June	Asset Holding
Market Gardeners (USA) Inc.	USA	100	100	30 June	Produce Sourcing and Exporting
LaManna Bananas Pty Ltd	Australia	96	96	30 June	Produce Wholesale
Verona Fruit Pty Ltd	Australia	100	100	30 June	Produce Wholesale
LaManna Bananas (Adelaide) Pty Ltd	Australia	100	100	30 June	Produce Wholesale
Fruitology Pty Ltd	Australia	100	100	30 June	Produce Broker
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 Bananas Property One Pty Ltd	Australia	100	100	30 June	Property Holding
LaManna Bananas Property Two Pty Ltd	Australia	100	100	30 June	Property Holding
LaManna Group Holdings Three Pty Ltd	Australia	100	100	30 June	Investment Holding

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

Fresh Vegetable Packers Ltd (1)	New Zealand	-	36	30 June	Vegetable Packing
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
J. S. Ewers Ltd (1)	New Zealand	-	-	31 Mar	Produce Grower
Zee Sweet Limited (1)	New Zealand	33	-	31 Dec	Horticulture
New Zealand Fruit Tree Company Limited (1)	New Zealand	22	-	31 Dec	Horticulture
Fresh Choice W.A. Pty Ltd (2)	Australia	50	50	30 June	Produce Wholesale
Darwin Banana Farming Co. Pty Ltd (2)	Australia	50	50	30 June	Banana Production
Darwin Pineapple Farming Co. Pty Ltd (2)	Australia	50	50	30 June	Pineapple Production
Innisfail Banana Farming Co. Pty Ltd (2)	Australia	50	50	30 June	Banana Production

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

Notes to the financial statements (continued)

21. Group entities (continued)

Fresh Vegetable Packers Ltd was placed in to voluntary liquidation during the period. As a result the Group did not exercise significant influence at the year end.

The interests in the Australian incorporated companies detailed in the table above are the actual interests held by the Group. As LaManna Bananas Pty Ltd is a 96% (2015: 96%) owned subsidiary company, all of its subsidiaries (being the other Australian incorporated subsidiaries listed above) are effectively 96% (2015: 96%) owned by the Group and its associate companies, Fresh Choice W.A. Pty Ltd, Darwin Banana Farming Company Pty Ltd, and Innisfail Banana Farming Company Pty Ltd are effectively 48% (2015: 48%) owned by the Group. Darwin Pineapple Farming Company Pty Ltd is 50% (2015: 50%) owned by Darwin Banana Farming Company Pty Ltd and is therefore effectively 24% (2015: 24%) owned by the Group.

The Group's share of profit in its equity accounted investees for the year was $1,910,000 (2015: $2,565,000).

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

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
2016	5,563	-	-	4,324	6,913
2015	7,648	(667)	-	4,616	8,882

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 2016 and have not been applied in preparing these financial statements, are detailed below. At the time of the annual report the impact of each relevant standard had not yet been determined:

- NZ IFRS 9 (2014) *Financial instruments* addresses the classification, measurement and derecognition of financial assets, financial liabilities, impairment of financial assets and hedge accounting. The application date of standard is 1 January 2018. The application date for the Group is 1 July 2018.
- NZ IFRS 15 *Revenue from Contacts with Customers* replaces NZ IAS 11 *Construction Contracts*, NZ IAS 18 *Revenue* and related revenue interpretations. The core principle of NZ IFRS 15 is that an entity recognises revenue to reflect the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The application date of standard is 1 January 2018. The application date for the Group is 1 July 2018.
- *Equity Method in Separate Financial Statements (Amendments to NZ IAS 27)*. These amendments require an entity preparing separate financial statements to account for investments in subsidiaries, joint ventures and associates either at cost, in accordance with NZ IFRS 9 Financial Instruments, or using the equity method. The application date of the standard is 1 January 2016. The application date for the Parent is 1 July 2016.
- *Statement of Cash Flows (Amendments to NZ IAS 7)*.These amendments require an entity to provide disclosures that enable the users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The application date of the standard is 1 January 2017. The application date for the Group is 1 July 2017.
- NZ IFRS 16 Leases (will replace NZ IAS17 Leases, NZ IFRIC 4 Determining whether an Arrangement contains a Lease, NZ SIC 15 Operating Leases-Incentives and NZ SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease). NZ IFRS 16 requires lessees to account for all leases under a single on-balance sheet model (subject to certain exemptions) in a similar way to finance leases under NZ IAS 17. The application date of the standard is 1 January 2019. The application date for the Group is 1 July 2019.

23. Subsequent events

Subsequent to year end LaManna Bananas Pty Ltd acquired all of the paid up capital of Premier Fruits Group Ltd and controlled entities. The transaction was facilitated by issue of approximately 13.8 million shares in LaManna Bananas Pty Ltd and payment of AUD$10.0m to the shareholders of Premier Fruits Group Pty Ltd. The combined entity will continue to maintain separate trading businesses, while seeking to maximise efficiencies and grow market opportunities through the combined scale of operations. Turnover for the combined group is expected to be approximately AUD$500 million.

The initial accounting for the business combination has not yet been performed, therefore the acquisition fair value of the assets and liabilities, including goodwill, has not yet been determined.

KPMG

Independent Auditor's Report

To the Shareholders of Market Gardeners Limited

Report on the Company and Group Financial Statements

We have audited the accompanying financial statements of Market Gardeners Limited ("the company") and the group, comprising the company and its subsidiaries, on pages 16 to 43. The financial statements comprise the statements of financial position as at 30 June 2016, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, for both the company and the group.

This report is made solely to the shareholders as a body. Our audit work has been undertaken so that we might state to the company's shareholders those matters we are required to state to them in the auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company's shareholders as a body, for our audit work, this report or any of the opinions we have formed.

Directors' responsibility for the company and group financial statements

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

Auditor's responsibility

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

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

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

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

Opinion

In our opinion, the financial statements on pages 16 to 43 comply with generally accepted accounting practice in New Zealand and give a true and fair view of the financial position of company and the group as at 30 June 2016 and of the financial performance and cash flows of the company and the group for the year then ended.

Report on other legal and regulatory requirements

In accordance with the requirements of sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993, we report that we have obtained all the information and explanations that we have required and in our opinion, proper accounting records have been kept by Market Gardeners Limited as far a appears from our examination of those records.

KPMG

22 September 2016
Christchurch

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**
J.R. Clarke	55,000	6,000	1,480
L.T. Crozier	55,000	5,750	1,480
A.G. Fenton	55,000	13,250	1,480
A.G. Franklin	55,000	5,750	1,480
B.D. Gargiulo, MBE. (Chairman)	111,000	12,250	1,480
B.R. Irvine (Deputy Chairman)	58,437	9,500	1,480
T.M. Treacy	55,000	3,750	1,480
M.R. O'Connor	55,000	7,167	1,480
R. Turley (Intern – appointed 1 January 2016)	-	7,500	-
	499,437	70,917	11,840

Subsidiary Company The following people held office as Director of subsidiary company LaManna Bananas Pty Ltd and received the following remuneration and other benefits for acting as such:			
A.G. Fenton	59,308	56,692	-
B.D. Gargiulo, MBE. (Chairman)	102,440	175,661	-
P.C.L. Holberton (retired 4 July 2016)	59,308	14,350	-
B.R. Irvine	59,308	59,966	-
T.M. Treacy (retired 31 December 2015)	29,608	27,822	-
P.S. Hendry (appointed 1 January 2016)	-	-	-
	309,972	334,491	-

Other than for subsidiary company LaManna Bananas 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, Irvine and Treacy (up to 31 December 2015) as directors of LaManna Bananas Pty Ltd and Mr Gargiulo as Chairman of all LaManna Bananas 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. The Parent Company charges LaManna Bananas Pty Ltd a procurement fee to recover such payments.

During the course of the year, Mr B. Gargiulo attended 78 meetings (for the Parent Company, subsidiaries and associates) and the other directors attended up to 35 meetings in both Australia and New Zealand. Travel time and executive meetings were in addition to those meetings attended.

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

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 2016.

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 7 July 2016 that, in their opinion, the Parent Company had been a co-operative company throughout the period 1 July 2015 to 30 June 2016. 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.

Statistory information (continued)

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	13	230,000 to 239,999	1
110,000 to 119,999	14	240,000 to 249,999	2
120,000 to 129,999	12	250,000 to 259,999	2
130,000 to 139,999	6	260,000 to 269,999	1
140,000 to 149,999	10	270,000 to 279,999	1
150,000 to 159,999	7	290,000 to 299,999	1
160,000 to 169,999	6	400,000 to 409,999	1
170,000 to 179,999	7	410,000 to 419,999	1
180,000 to 189,999	4	420,000 to 429,999	1
190,000 to 199,999	5	440,000 to 449,999	1
200,000 to 209,999	5	650,000 to 659,999	1
210,000 to 219,999	1		

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 subsidiary company's employees, including those outside New Zealand, is included in the above table.

5. Interests register

The following entries were recorded in the interest's register of the Parent Company and its subsidiaries 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 2016.

The following are the new disclosures made in the general interests register of the Parent Company and its subsidiaries:

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		
A. G. Fenton	Director	NZ Horticulture Export Authority
T. M. Treacy	Director	NZ Heart Foundation
B. R. Irvine	Acting-Chairman	Development Christchurch Ltd
All Directors	Directors of Market Gardeners Ltd	NZ Fruit Tree Company Ltd Zee Sweet Ltd

Director	Nature of Interest	Company / Entity
As directors of the subsidiary company, LaManna Bananas Pty Ltd		
A. G. Fenton	Director	NZ Horticulture Export Authority
P. S. Hendry	CEO & Director	CEO of Market Gardeners Ltd and a director of certain subsidiaries and associate companies
B.D. Gargiulo, A.G. Fenton, B.R. Irvine P.S. Hendry	Directors of Market Gardeners Ltd CEO of Market Gardeners Ltd & representative Director	NZ Fruit Tree Company Ltd Zee Sweet Ltd

Statutory information (continued)

5. Interests register (continued)

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

No new interests were declared for entry into the particular disclosures section of the interests register.

(a) Share dealings

The following are 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.

	30 June 2016				30 June 2015			
	A Shares	B Shares	C Shares	D Shares	A Shares	B Shares	C Shares	D Shares
J.R. Clarke	897,560	350,042	60,804	-	709,430	155,858	62,072	-
Held by a company of which he is a shareholder and director	2,074	-	-	-	1,813	-	-	-
L. Crozier	-	-	-	-	-	-	-	-
Held by a company of which he is a shareholder and director	23,055	47,282	8,124	-	11,617	21,100	7,680	-
A.G. Fenton	-	-	-	-	-	-	-	-
Held by a company of which he is a shareholder and director	11,402	56	-	12,139	9,912	18	16	11,036
A.G. Franklin	107,377	27,164	4,940	122,631	89,622	11,245	4,752	107,175
B.D. Gargiulo, MBE. (Chairman)	452,203	226	28	21,184	394,824	308	24	18,515
Messrs Gargiulo and Irvine as Directors of MG Group Holdings Ltd (100% subsidiary company of Market Gardeners Ltd)	117,208	-	-	-	117,208	-	-	-
M.R. O'Connor	-	-	-	-	-	-	-	-
Held by a company of which he is a shareholder and director	161,920	108,228	23,916	-	116,746	47,371	20,912	-
T.M. Treacy	-	-	-	-	-	-	-	-
Held by a company of which he is a shareholder and director	7,269	-	-	252,817	6,354	-	-	220,952

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

Statutory information (continued)

5. Interests register (continued)

(b) Directors' & officers' indemnity and insurance

The Parent Company, its subsidiaries and associates have 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.

(c) Use of company information

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

(d) 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.

6. Changes in accounting policies

The attached financial statements to 30 June 2016 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 $5,000 (2015: $10,000), the Group $12,000 (2015: $17,000).

8. Directors of subsidiaries

As at 30 June 2016:

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

Messrs B.D. Gargiulo (MBE) and D. Trask were the directors of Market Gardeners (USA), Inc.

Messrs B.D. Gargiulo (MBE), A.G. Fenton, P.C.L. Holberton (retired 4 July 2016), B.R. Irvine and P.S. Hendry were the directors of LaManna Bananas Pty Ltd. Subsequent to balance dates Messrs A Di Pietro and M LoGiudice were appointed as directors of LaManna Bananas Pty Ltd (4 July 2016).

Messrs B.D. Gargiulo (MBE), G. Thompson and R. Borsato were the directors of Australian Banana Company Pty Ltd.

Messrs B.D. Gargiulo (MBE) and G. Thompson were the directors of Carbis Bananas Pty Ltd, Fruitology Pty Ltd, SureStak Pty Ltd, Gold Tyne Pty Ltd, LaManna Bananas (Adelaide) Pty Ltd, LaManna Group Pty Ltd, LaManna Fresh Pty Ltd, LaManna Fruit Pty Ltd, LaManna Bananas Property One Pty Ltd, LaManna Bananas Property Two Pty Ltd, LaManna Group Holdings Three Pty Ltd, LaManna Group Holdings Four Pty Ltd and LaManna Group Holdings Five Pty Ltd, Verona Fruit Pty Ltd.

Corporate governance statement

The Board of Market Gardeners Ltd (MG) is committed 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 special directors able to be appointed by the shareholder appointed grower directors. Under the Companies Act 1993 and the Co-operative Companies Act 1996 the Board has overall responsibility for the governance, management and supervision of the Company and wider Group.

Its 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 and update its policies and practices, and those of the Group, to keep pace with both domestic and international developments in this area. It is important to note that developments occur frequently and the Board continues to reaffirm its commitment to maintaining high quality policies, procedures and practices into the future, throughout the Group.

Board Operations and Membership
The Board is committed to the principle that there should be a balance of independence, skills, knowledge and experience among the directors. The current Board of Directors consists of 6 shareholder appointed Directors (Messrs Gargiulo, Clarke, Fenton, Franklin, Crozier and O'Connor) and 2 Special Directors (Messrs Irvine and Treacy). Notwithstanding normal business operations, none of the MG Directors are directly involved in the day-to-day management of the Company's operations. From time to time the board appoints Special Directors - Mr Irvine who has been on the MG board since December 1994 and Mr Treacy who was appointed in December 2011.

Like most co-operatives, 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 this annual report documents all disclosures made in the current year.

With regards to appointments of Directors for subsidiary and associate companies which form part of the Group, the MG Board considers and makes all appointments of the MG representative directors. As associate companies are only partly owned, MG only appoints certain representative directors to such entities. The remaining directors are appointed by the other shareholders in those companies. As LaManna Bananas Pty Ltd (LaManna), at balance date was a 96% subsidiary, has non-controlling interest shareholders, the independent director on the LaManna board, Mr Holberton, was nominated to specifically represent the minority shareholder interests in addition to normal Director duties and responsibilities. As detailed in the attached financial statements to 30 June 2016, on 4 July 2016 LaManna acquired 100% of the Premier Fruits Group Pty Ltd (Premier) in Australia. As a result of this acquisition: new minority interests were issued shares in LaManna (now a total of 32% resulting in LaManna being a 68% subsidiary of MG); Mr Holberton retired as a Director of LaManna, and two new Directors were appointed (representing the new Minority Interests) being Messrs Di Pietro and LoGiudice.

MG's current constitution has specific procedures for the appointment and retirement of MG Directors, eligibility requirements (such as active and minimum shareholdings) and automatic retirement rotations every three years. The MG Board met 13 times during the financial year (16 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 Bananas Pty Ltd and its subsidiaries and associates. MG is represented on the boards of the subsidiary and associate companies by members of the MG Board and / or senior management.

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

Corporate governance statement (continued)

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

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. No change is being sought in the current year.

For the year under review, no directors' fees were paid to MG Directors that are also MG representative directors of any subsidiary or associate companies except Fresh Vegetable Packers Ltd. 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 Independent Director on the LaManna board is remunerated directly by LaManna. These fees are also set by reference to the external professional advice referred to above and are disclosed in the schedule of statutory disclosures detailed in the attached annual report.

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

The Company encourages shareholder participation at the annual meeting. In addition to this, the Board has continued with the expanded 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:

- Determined the nature and extent of risk the Board is willing to take to meet the company's strategic objectives through an agreed risk framework;
- 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 it's behalf.

Board Committees

Audit Committee
This sub-committee of the MG Board met 4 times during the year (4 times last 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, one of whom (Mr Irvine) is a special director, with appropriate accounting skills and knowledge, who is the chairman of the committee. Its meetings are attended by MG's Chief Executive, Chief Financial Officer, Internal auditor and the Company's external auditors, KPMG, as required.

As in the past, the focus of this Committee was on the accuracy of external financial reporting and in ensuring that all branches and divisions of MG were subject to an internal audit together with considering the future direction of the internal audit function and its responsibilities / duties within the Group. The LaManna Group also has an Audit Committee and continues to develop the internal audit function – to date the LaManna Group has been subject to limited internal audit reviews which are undertaken on a targeted basis and has appointed an external provider to undertake internal audit visits.

The Audit Committee continues to monitor domestic and international developments in corporate governance best practices, procedures and policies, however this has not resulted in any significant modifications in the current year. The audit committee oversees the Internal Audit function.

In New Zealand, MG has an Internal Auditor who is responsible for checking all aspects of the New Zealand Company's operational and financial activities. All internal audit reports are presented to and considered by the Audit Committee. This function provides assistance to the Board and management in the discharge of their duties in ensuring that appropriate controls exist within the Group.

Corporate governance statement (continued)

Remuneration and Nomination Committee
The Remuneration and Nomination Committee consists of the MG Chairman, Deputy Chairman and one other director (Mr A.G. Fenton)(Chairman of this committee). 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..

Executive Committee
As a sub-committee of the MG Board, the Executive Committee comprises the Chairman and the Deputy Chairman (as required). Its role is to assist the MG Chief Executive in the discharge of his duties and meets as required prior to and between Board meetings.

Board charter and code of conduct
On 21 August 2015 the Board adopted a Charter and associated code of conduct. The Charter is published on MG's website and is subject to annual review. 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.

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