MARKET GARDENERS LIMITED

ANNUAL REPORT

FOR THE YEAR ENDED

30 JUNE 2020

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Financial highlights

• **Group gross sales under management**	$934.735 million
• **Group profit before income tax**	$12.898 million
• **Group profit for the year (after income tax)**	$11.370 million
• **Group total equity**	$143.800 million
• **Group total assets**	$362.693 million

Shareholder distributions	**2020** $'000	**2019** $'000
• Special Bonus Issue (November 2020)		
• 1 for 30 on "A" shares (2019 : 1 for 30)	941	772
• 2 for 5 on "B" shares (2019 : 2 for 5)	3,068	3,308
• 1 for 2 on "C" shares (2019 : 2 for 5)	741	399
• Supplier shareholder rebate (issued as 2020 "C" shares) (2019: issued as 2019 "C" shares)	250	250
• Bonus issue on supplier shareholder rebate of 3 for 1 (2019 : 5 for 1)	750	1,250
• Final gross dividend on "A" shares : 5 cents per share (2019 : 6 cents per share)	1,459	1,436
• "D" Shares – nil ("D" Shares – March 2019 – final gross dividend : 2 cents per "D" share)	-	66
• Imputation credits attaching to the above distributions	2,139	2,228
Total shareholder distributions in relation to the year ended 30 June	9,348	9,709

Chairman's and Chief Executive Officer's review

It is with great pleasure that we present the Annual Report for the Market Gardeners Group on behalf of the Board and Management.

Despite an uncertain and at times unpredictable environment, our story in 2020 was again one of strong returns, implementation of key strategic initiatives, and growing our relationships with our grower suppliers and our customers. We achieved our goal of steadily building on the momentum of previous years and ensured we have established ourselves on a firm financial footing. This is because our fundamentals remain strong and are grounded in a long history of adapting and delivering, which is evident in the underlying strength of our Co-operative.

Market Gardeners Ltd, trading as MG Marketing, delivered a very good financial result, underpinned by record domestic sales in New Zealand of $486.8m and a profit after tax for our New Zealand based businesses of $14.74m. A difficult year in Australia lead to a $3.37m loss after tax which offset some of the gains achieved by the Group, however, overall Group revenue increased by $22.2m and we delivered a consolidated Group net profit before tax of $12.8m. This is a particularly pleasing result, in what can be described as a turbulent year, against a backdrop of extreme external challenges.

Based on this result the Board declared a total distribution for the year of $9.3m. This underscores our commitment to ensure the benefits of the Co-operative's growth and success are enjoyed by our shareholders. A more detailed overview of our financials and distributions is outlined on page 2 of this report.

This year has again shown that we are in a good position to manage the inherent volatility of our sector by adapting to changing conditions. It also highlighted the advantages of our strategy to have diversity across our business offering. This includes imports, exports, growing operations, investment in IP as well as our core strength of marketing fresh produce on behalf of our family of growers in New Zealand and Australia. Having a variety of complementary subsidiary and associate businesses supports our robust business model through difficult conditions which are par-for-the-course in the horticulture sector.

While the Co-operative dealt with a myriad of issues throughout the year, including depressed New Zealand product pricing in the first quarter, a number of complex border issues for our imports business and a number of one-off events that adversely affected our Australian operation, undoubtedly the most significant challenge was the impact of COVID-19. Given the significance of the global outbreak, it is a theme throughout this review, as is the way our people responded.

Our navigation through the crisis highlighted that our Co-operative is as resilient as it is rich in history. Throughout our 97 years we have remained operational through wars, depressions, natural disasters and now a global pandemic. What has remained consistent is our ability to roll up our sleeves and get the job done. While the future remains uncertain, our simple strategy to remain focused on delivering excellent service, working hard to support our growers, maintain positive employee engagement and explore business opportunities that will contribute to the long-term success of our Co-operative, is unchanged. Our response to COVID-19 is covered in more detail later in this review.

The MG domestic business remains the cornerstone of our success and the most significant contributor to our result. While good values in the second half of the financial year had a positive effect, the overwhelming reason for our continued success is the ongoing support from our grower-suppliers and our ability to deliver a range of services to our customers that add value to their business.

We have advanced the planning for a new facility on our Auckland site, having committed $20m for the project which will provide a much needed additional 3600sqm of warehouse capacity and a further 450sqm of office space. The Auckland branch has experienced rapid growth across the past decade and the new building will help alleviate pressure on our existing warehouse while providing capacity for further growth. It has advanced to the detailed design and consenting stage with contractors expected to turn soil in November 2020.

We have a clear strategy to position the Co-operative for the long-term and continue to grow the overall profitability for the benefit of our shareholders. This year we have again focused our resources and expertise in areas we believe will strengthen our relevance to key retail customers and growers. We have made further investment in IP varieties that deliver superior taste, yield and shelf-life, including securing the rights to exclusively grow BerryWorld varieties in New Zealand. A key element to our growth strategy is securing supply in selected categories through investment in targeted growing operations. To this end there has been a direct connection between the volumes supplied by such operations, including JS Ewers and Kaipaki Berries, and the business MG is able to secure for all growers supplying into those categories.

In a diversified business like ours, some areas can be performing well while others face challenges.
After a positive financial result in 2019, LaManna Premier Group (LPG) was impacted by a number of issues, including difficult market conditions, weather events at farming operations, managing various compliance expectations, increased labour costs and the requirement to deal with the impact of COVID-19 for a sustained period.

What is clear is that to be successful in the challenging and fast-paced Australian market, LPG must be more efficient and innovative, continually reviewing the business while maintaining high standards to which they have long been committed.

While there will still be challenging times ahead in Australia, there will also be great opportunities and we are committed to making the appropriate decisions, at the right time, to improve LPG's performance. The LPG Board endorsed an operational review and the LPG management team has embarked on a considerable programme of work to modify the business. However, it is important to bear in mind that there is no short-term fix and the work underway will deliver incremental changes, with the full impact of the improvements not being realised immediately.

It is also important that the future for LPG is not to be clouded by a difficult year. Naturally, we are disappointed with the financial result, but we have confidence in the people leading the business and in the direction it is heading.

The MG Board has a shared desire to ensure the Co-operative's strategic business objectives are met at all times, while acting in the best interests of the shareholders as a whole. The Board has been focused on a number of projects aimed at creating greater value for shareholders.

The Board initiated the formation of the Co-operative Structure Working Group (CSWG) to reflect on the current structure of the Co-operative and drive an engagement programme with shareholders to determine if there was any appetite for change. This is not because the business is in any sort of difficulty – quite the opposite. The Board felt that now was the right time to take a step back and seek the view of our shareholders with regard to the dollar-in, dollar-out model, the current share value in relation to the equity value and ensure our structure is appropriate for the type of business MG is today. The initial phase of the project has been completed. This included the option for shareholders to submit their view via a structured feedback form and the promotion of dedicated communication channels for shareholders to contribute at any time. The information received has been extremely useful and helped guide the CSWG towards a set of recommendations. The next phase is currently being worked through for communication to shareholders and an update will be provided to the 2020 Annual Meeting of shareholders.

At the 2019 AGM, shareholders voted in favour of establishing the MG Marketing Charitable Trust as a philanthropic arm of the Co-operative that will focus on charitable good within the industry and community. Progress has been made getting the Trust established with the charitable status application having been submitted. Former Board member, and current grower-shareholder, John Clarke has been appointed as Chair of the Trust and a process is underway to finalise the final additional Trustees.

Looking ahead, shareholders can expect steady growth through continued diversification in New Zealand, and continued improvements in our Australian business. The 2021 financial year will no doubt provide more challenges and opportunities, but our business is strong and we have a clear strategy that will position us to continue to grow.

Across the Co-operative we continue to build on our already strong relationships with our growers and customers and thank them all for their support during the year.

We would like to commend the entire team across our Co-operative. The business showed tenacity and commitment to produce a positive set of results. We would also like to thank the Board for their strategic contributions during the year and unwavering commitment and dedication.

Within this review, you can read more about the different businesses that make up our Co-operative, and the initiatives that are taking place to support our growers, customers and the communities in which we operate, as well as more detail about our response to the COVID-19 pandemic.

Lastly, we would like to thank all of our shareholders for their ongoing support. Together, we are creating a better future for our Co-operative.

Together. Stronger. ©

Responding to COVID-19

The final months of the financial year were impacted by the serious health and economic consequences of COVID-19. Our Co-operative took swift action across our business in response to the unfolding crisis.

We introduced measures to ensure the safety of our people, support our growers, customers and communities, while also taking the necessary steps for the continuity of our operations. This included restricting access to our sites and implementing a large number of new operating procedures. We also invested in measures such as face masks, additional intensive cleaning and hand sanitiser stations to protect the health and safety of everyone who enters our facilities.

We are proud of the way in which our teams across our Co-operative flexed our operations to deal with dramatic market volatility while adapting to the new way of working.

We would like to make special mention of our people in operational roles who work at the coalface of our business. These are the men and women in branches who turned up day-in and day-out to make sure we were able to support our growers and our customers. They were flexible, often undertaking new tasks, working in different teams, all without interruption to their standard of work or level of service. The response from our growers and customers was equally as committed, and together we've all helped New Zealand through the crisis.

As an organisation, we worked hard on ensuring we communicated clearly and consistently with all of our stakeholders throughout this crisis and that we kept people connected.

Given it's a rapidly changing situation, we enhanced our Board and Management oversight during the crisis by meeting regularly using video conferencing technology.

In summary, our response was anchored by three priorities:

1. Protecting our teams
   Ensuring we communicated effectively and had the right safety measures in place to keep our people safe and healthy.

2. Playing an essential role
   Ensuring our Co-operative remained operational throughout this period so we could continue to support growers, customers and the communities in which we operate by ensuring there was a continual supply of fresh produce.

3. Supporting those affected
   Use our expertise and resources to provide guidance and support to growers and customers challenged by the pandemic, while also contributing to the communities and wider society.

MG and all of our subsidiary and associate businesses remain committed to support government and community efforts to limit the spread of COVID-19.

At the time of finalising this Annual Report, we are closely monitoring the status and impact of COVID-19 and remain focused on staying operational during this challenging time.

Lastly, our thoughts are with the individuals and families whose lives have been impacted by COVID-19. We would also wish to express our appreciation of the healthcare professionals who continue to work tirelessly to look after and protect people throughout this crisis.

Financial overview

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

For the year to 30 June 2020 Group Gross Sales under Management amounted to $934.7m.

For the same period net profit before tax amounted to $12.8m compared to $24.7m in 2019. The 2019 result included the $9.4m one-off sale of a Sydney warehouse property. This result is a reflection of the strength of our New Zealand operations and diversity of our business, offset by the challenges that were faced by our Australian business.

It is pleasing to note the growth in the Group's total equity which now stands at $143.8m compared to the prior year's $133.9m. Our total assets have now grown to over $362.6m, however this includes the new asset category of "right-of-use" assets relating to the new accounting treatment of leases which amounted to $46.4m at 30 June 2020. Similarly, Group liabilities have increased to $218.8m as a result of the new lease liability totalling $46.8m. The new lease accounting, as required by IFRS 16, is more fully explained in notes B1 and C6 of the full financial statements.

Cashflows from operations have remained strong and amounted to $22.6m for the year which allowed the Group to invest in the underlying assets which the Co-operative relies upon.

Distributions

Given the Co-operative's solid financial result, coupled with the goal to continue rewarding shareholders, the MG Board of Directors has resolved to return to its shareholders significant distributions totalling $9.3m (2019: $9.7m) by way of rebate shares, bonus issues and dividends. This is the sixth consecutive year that shareholders have received a special bonus issue.

On 5 August 2020 the Board declared the following distributions in relation to the year ended 30 June 2020:

- Special bonus issue – a fully imputed taxable special bonus issue of:
  - One new "A" share for every thirty existing "A" shares; and
  - Two new "B" shares for every five existing "B" shares; and
  - One new "C" share for every two existing "C" shares; and
- 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 2020.
- Bonus issue – a three for one fully imputed taxable bonus issue on the "C" shares issued out of the above rebate. This amounts to 750,000 worth of "C" shares being issued (Shareholders that are Current Producers receive three further "C" shares for every one "C" share they receive from the above rebate). As imputation credits have been attached to the bonus issue shares they are mostly tax paid in the hands of the shareholder.
- Final dividend – a fully imputed taxable gross dividend of five cents on every "A" share. Once again imputation credits are attached to this dividend.

The above distributions will be made only to those shareholders entered on the share register at 30 June 2020 who continue to hold, at the date of the 2020 Annual Meeting, the shares held at 30 June 2020.

The above special bonus issue, rebate, bonus issue and dividends represent $9.3m being distributed back to MG's loyal and supportive shareholders. Not only is this a significant distribution of wealth to the shareholders, it represents the strength of the Co-operative as a whole.

In addition, and as has occurred for many years now, we are pleased to note the support of the shareholders through their high level of reinvestment of their dividends back into more MG "A" shares.

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 Napier Conference Centre, 48 Marine Parade, on Tuesday 24 November 2020, commencing at 5.00pm. Shareholders are welcome to join MG directors, management and staff to formally or informally discuss topics of interest.
There will be a dinner following on from the meeting at approximately 7.30 pm and all shareholders and their partners are warmly welcome to attend – details are included in the notice of the meeting. RSVPs are required for catering purposes – please contact our Assistant Company Secretary Trudy Lewis (email: tlewis@mgmarketing.co.nz) by 9 November 2020.

If COVID-19 restricts our ability to proceed with the meeting as planned, we will advise of alternative arrangements closer to the time.

Directors and Management

The Board and Management remain focused on growing value for our shareholders, implementing our strategy and continuing to strengthen the loyalty of our shareholders by creating longer term shareholder value.

Our Management team has done a great job achieving a strong financial performance for the year and have also helped put the business on a firm footing to capitalise on the benefits that will come from future growth.

We continue to support the MG Associate Director programme which aims to improve the pipeline of talent coming into governance. The success of the initiative is highlighted by the appointment of Trudi Webb to the Board in 2019 following her successful internship. This year we welcome Robyn Wickenden to the role.

In accordance with the constitution, Mark O'Connor and Andrew Fenton retire by rotation. Mark O'Connor has put himself forward for re-election while Andrew Fenton is not seeking re-election. A further four nominees have put themselves forward for the two vacant positions. Voting instructions for the ballot will be sent by post in mid-October as well as electronically to those shareholders who have confirmed / provided their email addresses.

Andrew Fenton

Elected Director (retires on 24 November 2020)

We would like to take the opportunity to specifically acknowledge the significant contribution Andrew Fenton has made to the MG Board over the past 18 years. During his time, he has chaired our Remuneration Committee, held the role of Deputy Chairman, represented MG on the board of LaManna Premier and contributed his time to a number of other committees.

Andrew decided not to seek re-election at the end of his term and will retire on 24 November 2020 at the conclusion of the Annual Meeting.

He has spent a large part of his working life committed to different roles in the horticulture industry and provided the Board with unique knowledge and insights.

He has always been an outstanding advocate for the Co-operative and a tireless champion for the role the Board has in representing the interests of our shareholders. He has done an excellent job in his role as a Director and leaves the Co-operative in a significantly stronger position than when he started.

The Board and Management wish Andrew all the best in retirement.

Robyn Wickenden

Associate Director (appointed January 2020)

Robyn Wickenden joined as an Associate Director to the Board in January 2020. The MG Associate Director programme is designed for those who aspire to director-level roles and have an interest in corporate governance.

The role has a non-voting seat at the board table normally for approximately 12 months. Due to the COVID-19 disruption Robyn's appointment has been extended through to 30 June 2021.

Robyn is currently a co-director of Mya Enterprises Ltd, a Tamarillo orchard in Poroti, Northland, and is a supplier to MG Marketing. She brings specialist industry skills and networks from her experience as a grower as well as her role, initially as secretary and from March 2020, as Chairperson of the New Zealand Tamarillo Growers Association. Member of the IOD*.

A brief resume of each Board member is set out below.

Bruce Irvine, Chairman, Appointed Special Director.
Bruce joined the Board in 1994. He has an extensive business background and previously held the position of Managing Partner of the Christchurch office of Chartered Accountants, Deloitte, between 1995 and 2007; and is past Chairman of Christchurch City Holdings Limited. Bruce is currently Chairman of Heartland Bank, House of Travel Holdings, Rakon and Skope Industries and director of a number of other public and private companies. Bruce is MG's Chairman, Chair of the LaManna Premier Group's Audit Committee and a Director of LaManna Premier Group Pty Ltd. Bruce is also a member of MG's Remuneration & Nomination Committee, Audit Committee and Co-operative Structure Working Group.
Chartered Fellow of the IOD* and Accredited Fellow of the Chartered Accountants Australia and New Zealand.

Andrew Fenton, Deputy Chairman, Elected Director.
Andrew joined the Board in 2002. He has more than 35 years in the avocado and kiwifruit industries through the Bay of Plenty-based Phoenix Partnership and Beresford Orchards Ltd.
He has extensive commercial and governance experience in businesses and industry groups.
Andrew is currently a director of New Zealand Horticultural Export Authority and Kiwifruit New Zealand, President of the NZ Fruitgrowers' Federation, Chairman of the NZ Fruitgrowers' Charitable Trust, a Member of NZ Kiwifruit Growers Inc. and Chairman of Huddart Parker Building Co. Ltd.
MG Deputy Chairman, Chairman of the MG Remuneration & Nomination Committee, member of the Co-operative Structure Working Group and a Director of LaManna Premier Group Pty Ltd. Andrew was previously the President of Horticulture NZ and Chairman of Satara Co-operative Group Ltd.
Chartered Fellow of the IOD*.

Trevor Burt, Appointed Special Director.
Trevor has a high level of experience in the strategic leadership of large and complex corporate organisations, and a proven record of implementing change and achieving results. As an experienced professional director, Trevor has held a number of previous roles including Chair of Ngai Tahu Holdings Corporation Ltd and Lyttelton Port of Christchurch Ltd, and Deputy Chair of PGG Wrightson Ltd and a director of Silver Fern Farms Ltd. Trevor is currently Chair of the New Zealand Lamb Company Ltd, MHM Automation Ltd and Rua Bioscience Ltd and is a Director of Landpower NZ Ltd and Hossack Station Ltd. He is also a trustee of the Māia Health Foundation. Chairman of the MG Audit Committee and member of the Co-operative Structure Working Group.
Chartered fellow of the IOD*.

Lynn Crozier, Elected Director.

Lynn joined the Board in 2012. Today Lynn, through a family-owned and operated business since the 1960's, is a major grower of potatoes, onions and carrots in Central Canterbury.

Member of the MG Audit Committee.

Member of the IOD*.

Mike Russell, Elected Director.

Mike was appointed to the Board in November 2016.

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

Member of the MG Remuneration & Nomination Committee.

Member of the IOD*.

Mark O'Connor, Elected Director.

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

Member of the Co-operative Structure Working Group.

Member of the IOD*.

Joanna Lim, Elected Director.

Joanna (Jo) was elected to the Board in 2018. She and her husband have a market garden business (Jade Garden Produce) and a share in a cucumber glasshouse operation (Island Horticulture Limited), both in the Christchurch area. Jo is also a Senior Associate at national law firm Simpson Grierson and specialises in financial markets / services and corporate advice. She also has expertise in climate change issues and the New Zealand emissions trading scheme.

Chair of the Co-operative Structure Working Group and a member of MG's audit committee.

Member of the IOD*.

Trudi Webb, Elected Director.

Trudi is part of a fourth-generation family growing enterprise, Webb's Fruit, near Cromwell in Central Otago. Trudi holds a first-class honours Bachelor of Applied Science (Horticulture) degree and is Chairperson of the Central Otago Fruit Growers Association and director of Summerfruit NZ. Trudi completed the MG Director Internship programme (now Associate Director programme) in 2019 and became an elected director in the same year.

Member of the Remuneration & Nomination Committee.

Member of the IOD*.

* Institute of Directors in New Zealand

MG People

Thanks to the unique skills, knowledge and passion of our people, and our dedication to helping support growers and customers, MG continues to deliver a level of service unmatched in the market.

It is our belief that everyone working for the Co-operative has a role to play in delivering on our strategic pillars and makes a positive difference in our business.

Our culture is one of support, opportunity and on-going development, as well as providing a workplace that ensures our people go home safe and well each day. To that point, the well-being, health and safety of our people is front-of-mind at a Board, Management and operational level.

During the year, we introduced a number of safety initiatives through our Together. Safer.™ programme to educate our people about risks which exist and their responsibilities with regards to keeping themselves and their colleagues safe. Our online reporting system, Ecoportal, is now implemented and providing improved reporting for incidents and near misses. Our goals for the future are to increase engagement in safety and further develop the culture of shared responsibility across our entire workforce.

Our response to COVID-19, detailed earlier in this document, highlighted the benefits of our investment in our people, who showed adaptability and resilience as we navigated the impacts of the pandemic.

On behalf of the Board and Management, we would like to thank all of our employees for their tremendous efforts and contributions during a year with unexpected challenges. The results our Co-operative has been able to achieve, and continues to achieve, are testament to their energy, hard work and dedication to the business.
Once again, we acknowledge our people by publishing their names in the Annual Review.

Graduate programme

We are pleased to again build on our successful MG Graduate Programme which is now in its fifth year. The programme was introduced to attract and retain talented young people into the business. The graduates are not required to have any previous industry experience and are provided with an opportunity to learn about key areas of the business before launching their career with MG.

The success of the programme is highlighted by the number of employees who started as graduates and have progressed through the business to now hold key roles in various departments. After five years we have retained 95% of the graduates.

The 2021 programme will be extended to build depth in other areas of the business, including IT and finance, warehousing and logistics.

Sales Academy

The MG Sales Academy, launched in 2017, is a programme focused on training and mentoring current employees to strengthen their skills in sales roles. The programme forms part of the overall strategy which includes staff retention, increasing our depth in key roles and is part of our succession plan for the future, to retain, develop, and grow our people.

A further six employees benefited from the development opportunity by completing the Sales Academy programme this year.

NZ Operations

In a year of extraordinary global events, MG's domestic business has strengthened its commercial position. This has been achieved through a keen focus on fostering grower and customer relationships, together with a continued focus on managing costs.

Following a record financial result in 2019, our New Zealand operation grew its revenue a further $16.6m to $486.8m for the 2020 financial year. This is despite a year that started with a sustained period of depressed pricing that was initiated by soft consumer demand and further exacerbated by oversupply in a number of key categories. It was a challenging combination of trading conditions that continued through to December 2019.

Then the business was forced to navigate through the COVID-19 environment for the final months of the financial year. Our branch network suffered huge surges in demand which required our teams to deliver under enormous pressure, followed by dramatic dips, presenting the challenge of finding a home for stock-on-hand. This reflected the challenges faced by our key customers and the unpredictability of consumer habits during the crisis.

During the period of enforced lock-down we suffered a sudden drop in business from independent fruit and vegetable retailers, who were not deemed essential, and a sharp decline in demand from our customers who service the hospitality sector.

We quickly adapted to these changing circumstances by supporting our customers who were under enormous pressure. In some locations this included acting as the main distribution centre, storing fruit and vegetables on their behalf, and delivering directly to stores. In other locations we worked closely with retailers who modified their business to sell fruit and vegetable boxes by assisting with contactless supply and distribution and, in some instances, used our branches resources to pack on site. Our teams across the country had a shared goal to remain operational throughout the crisis to support New Zealand through the pandemic and continue to deliver exceptional service - we are proud to say this was achieved.

It is the diversity of our New Zealand operations and our branches ability to align with local markets, combined with our strategy to remain relevant to retail customers, that contributed to significant uplift in sales through the second half of the year.

We continue to run a lean operation of highly capable people whose focus is on great service. A great deal of our overall success can also be traced back to the work undertaken by our sales team who work tirelessly to align supply and demand, our procurement team, who collaborate with growers to support supply programmes, as well as our key accounts team who work closely with our customers to support category planning and promotions.

We have also continued to invest in the development of IP varieties. Our 33% shareholding in the New Zealand Fruit Tree Company and Zee Sweet Ltd is also an important investment in this area, as it gives MG's better access to high quality IP varieties that have enhanced consumer appeal.

The MG Direct model is now well established in the North and South Islands and has proven to be a valuable part of the business. It has delivered consistent year-on-year gains while not having a significant impact on branch sales. This growth has been primarily driven by increasing market share and delivering efficient service to growers and customers.

Our diversity strategy includes our investments in farming operations. JS Ewers again performed well, despite the period of low values at the start of the financial year. A significant achievement for JS Ewers was the completion of a project to modernise the glasshouse heating system to generate energy more efficiently while significantly reducing the impact on the environment. JS Ewers' commitment to sustainability was further highlighted by a major project to retrofit glasshouses with thermal screens to protect produce crops from overheating on hot days, to minimise heat loss during cold periods, and to trap heat in when temperatures drop significantly overnight. Work was also completed on the improved use of recycled water.

The greenfield investment in Kaipaki Berryfruits Ltd, in which MG owns 100% of the property & infrastructure company and 50% of the berry fruit growing operation, made a solid start to its first season. The Cambridge based operation started strawberry production in January 2020 and continued through to June. Further development is underway on the west-side of the berry farm and raspberries are being planted and expected to be harvested in February 2021. This is a long-term investment and it has made a very promising start, confirming it's the right approach to invest in industry best practice infrastructure.

As mentioned earlier, MG has also secured the exclusive growing and market rights for BerryWorld varieties, a significant global player in the breeding of berries which are widely acknowledged as some of the best in the world. This is an exciting opportunity to strengthen our position in the berry category by contracting Kaipaki Berryfruits and other growers to produce the new varieties that are renowned for their superior yield, taste and quality.

Alignment of interests is a longstanding feature of our New Zealand business, demonstrated by our willingness to both invest in growing operations that are of value to customers and also support growers in those same categories. This strategy has enabled MG to establish a leading position in key categories, which in-turn allows us to go to market with more influence and secure high-value programmes with key customers for our growers.

Originally planned for June 2020, our major project to roll-out a new IT system, M3, was delayed by COVID-19. This was mainly because resources were redeployed to support day-to-day operations during the lockdown period. The MG IT team are now refocused on delivering the project and have entered the testing and deployment phase. The new system will be implemented branch-by-branch, starting with Nelson towards the end of 2020. This is a significant investment and we are determined to take the time to get it right. This new system is essential for us to provide the tools to increase business productivity, provide greater efficiency and enhance our service levels.

We want to emphasise though, that while technology is becoming more and more important, the fundamentals of putting people first won't change. We remain absolutely committed to giving our growers and customers the best experience we can, both personally and through the use of new digital systems.

Australian operations – LaManna Premier Group Pty Ltd. (LPG)

While the 12 months reviewed have been a period of challenge for LPG, the company continues its business improvements and growth strategy to underpin the long-term future.

LPG's financial results are due to a mix of one-off costs incurred this year including additional provisions for doubtful debts (as a result of COVID-19), along with some significant farming challenges.

Following the ongoing review of facilities, the process to consolidate operations and rationalise the number of sites continues this year. This includes the permanent closure of four warehouses, and while this will greatly reduce the long-term operating costs, there is a requirement to incur immediate costs while LPG exits the facilities.

Being an integrated business has become a critical element to ensure LPG remains relevant to our key customers. However, being involved in horticultural farming, the business is always exposed to climatic conditions and other vagaries - this year was no exception.

A strategic decision was made to discontinue certain product lines in an associate's farming operations in order to best position the LPG Group for the future.

In addition to the one-off cost outlined above, a severe hailstorm and ongoing poor weather had a major impact on the outdoor tomato crop at the joint-venture farming operation, Mercuri Farms, in Victoria. The Innisfail Banana Farming Company endured a period of high-winds that damaged plants and impacted the quantity and quality of bananas available for harvest.

The future focus for growing is to mitigate the risks associated with variable weather and climatic conditions where possible. This strategy is reflected in the proposed expansion plans for the tomato growing operation in Lancaster, Victoria, where crops will grow in a controlled environment and be protected from the elements.

COVID-19 continues to have a significant impact on LPG's business operations. The benefit from the initial surge in demand for fresh produce was largely offset by the investment required in business continuity. This included further development of IT systems, establishing safe work practices and the need to run multiple shifts, all of which contributed to increased operating costs. COVID-19 is also significantly affecting service provider customers, reducing growers' ability to sell their full crop, which in-turn is depressing the overall category pricing. It has been a very difficult period for staff. The people across LPG have demonstrated commitment above and beyond all reasonable expectations in supporting the business through a turbulent period.

The wholesale business was steady and gained momentum throughout the year in an increasingly competitive Australian market. Customers are increasing their own service provision facilities, refining their supply chain, and focusing on wholesalers that provide genuine relevance to their business. LPG is ensuring it provides efficiencies and an integrated offering that is of real value to key retail partners.

LPG has established a direct-to-distribution-centre strategy, similar to the MG Direct model, that facilitates a closer working relationship with growers and adds value to the services provided to key customers. It has already started living up to its promise of driving efficiency into the sales and marketing process.

LPG's Board and its CEO have made significant decisions to better position the business for the future and are relentless in their ambition to drive LPG forward. This includes taking steps towards reducing operating costs through the consolidation of facilities in key cities, streamlining the business, improving productivity, and development of smart systems and technology to support the operations.

While work is underway internally to drive improvements throughout the business, there is also a focus on optimising the ability to grow revenue. LPG has directed key resources towards strengthening its core position across the banana, tomato, soft vegetable, melon and pumpkin categories.

These projects, and others in the journey towards reshaping the business, will require determination, focus, and capital investment to achieve the long-term financial rewards.

The year presented its share of good news stories, including winning the Metcash Produce Supplier of the Year for 2019 award at an annual event that acknowledges the best sales, support and innovation from Australian businesses in the produce sector.

The year also saw LPG further enhance its reputation as having some of the highest compliance standards, with industry leading systems related to responsible sourcing and food safety. Further investment in this area has provided LPG with a point-of-difference from other suppliers and has made the business more relevant to key supermarket customers.

There is still more work to be done over the next 12 months, and further into the future, on reducing LPG's costs through an ongoing programme of continuous improvement while maintaining prudent capital and financial management.

The 2021 year will be characterised by continued volatility and some uncertainty. LPG has a clear strategy to continue as a sustainable and successful business over the long-term with the infrastructure, the scale, the diversity of people and thinking available to do this.

International | Te Mata | UFG | First Fresh

International

The first six months were extremely strong in the international trading division of MG, with good values across a wide range of product lines, while the second half of the year was characterised by significant biosecurity issues and COVID-19.

MPI took the precautionary measure to suspend all cucurbit imports out of Queensland in December 2019 after the discovery of the Cucumber Green Mottle Mosaic Virus on melons, with no clear indication of when authorities will reopen the pathway. This was coupled with the introduction of new biosecurity regulations which restricted our ability to bring certain product lines to market. Airlines scheduling fewer passenger flights to New Zealand resulted in a lack of airspace for freight and restricted volume in the later part of the year. The loss of trade from these issues had an impact on the division's revenue.

The on-set of COVID-19 in the later part of the financial year resulted in prices falling for high value categories, such as grapes and pineapples. However, other categories remained steady, while demand for citrus was strong as consumers were drawn towards produce with high vitamin C. The influence of more home prepared meals also had a positive influence on sales with the likes of imported garlic and ginger enjoying strong growth this year.

The banana category remains highly competitive, but we have again continued to maintain the largest share in the New Zealand market. The volatility created by COVID-19 has meant we've come through the winter and start of the 2020 / 2021 financial year with depressed market conditions.

We would like to take the opportunity to thank our supply partners for their unwavering support in the face of this extraordinary global crisis. We import fresh fruit and vegetables from 17 countries, most of which were hit exceptionally hard by COVID-19. Our partners went above-and-beyond to manage logistics under exceptionally difficult operating conditions and ensured MG had a seamless supply of imported product.

We are very fortunate to be supported by long standing suppliers such as Dole, Sunkist, Mildura Fruit Co, Jasmine Vineyards, Mulgowie, GV Independent Packers, Fruitmaster and a large number or smaller family-owned businesses.

Despite a year significantly disrupted by biosecurity issues and COVID-19, our imports team delivered solid earnings growth, reflecting the strength of our diverse portfolio of products and the strong support of our supply partners.

Te Mata Exports 2012 Ltd (Te Mata)

Our export business, Te Mata, had another solid year of sales growth, however, there was a drop in profitability due to increased costs that were incurred to execute a growth strategy. Te Mata's financial year runs from January to December and it is pleasing to report that the business has made a strong start to their first six months of trading. This year saw MG acquire an additional 24% stake, boosting our overall ownership in Te Mata to 74%. Exporting produce is a key pillar of our overall growth strategy and this further investment highlights our commitment to enhancing our capability in this area of the business.

Te Mata also strengthened its capability by formalising a presence in the Australian market. While Te Mata already traded product from across the Tasman, it now has dedicated resources, including a team of experienced traders. This team will drive the fresh produce export business out of Australia and other countries. This required some upfront investment which will provide enhanced returns in the long-term.

The impact of COVID-19 created a number of logistical challenges which the team at Te Mata navigated reasonably well. Every export market is different with some pathways more accessible during the pandemic than others. The team was able to draw on their experience and leverage the strong relationships they have developed at either end of the supply-chain to successfully get product to markets that were available.

For Te Mata's new financial year commencing in January, the business experienced weak demand for grapes following the outbreak of COVID-19. Queensland citrus volume has been back on forecast and Central Otago also had a poor cherry season. The revenue growth has largely come from apples with increased volumes coupled with favourable pricing.

Te Mata is also undertaking a programme to introduce new IP apple varieties that will further bolster relevance in the market, especially in Asia where they're expected to have widespread consumer appeal.

While the macroeconomic impacts of the COVID-19 are difficult to predict for the export market, Te Mata's strong base, along with the new focus introduced by the Australian team, has the business well positioned for the future.

United Flower Growers Ltd (UFG)

While COVID-19 trading restrictions did not have a substantive impact on fresh produce sales, our joint-venture flower business was adversely affected by the lockdown.

UFG was not considered an essential business so had to remain closed throughout the period of enforced lockdown. The pre-COVID-19 flower market was tracking well against predicted sales, with high values compared to last year. The inability to host live auctions for buyers did result in a reduction of business, however, this was mitigated to a certain extent by the ability to hold online auctions using cloud-based technology. UFG was also able to access government support in the form of the wage subsidy and while this eased the financial burden, it did not cover the loss of income over the lockdown period.

Given flowers are a luxury item, it is encouraging to see consumer demand remain steady throughout the COVID-19 period but because there's considerable economic uncertainty, there still remains market volatility in this sector. The Board of UFG and the Management are working to ensure the long-term security of the business with a focus on reducing operating costs. There is a business continuity plan in place for managing through the remainder of the pandemic and a strategy to reposition UFG for the future. UFG is now leaner as a consequence, with an increased focus on efficiency and a plan to continue to grow the business.

The sales and marketing team across the country are focused on cementing existing business while establishing and growing new opportunities with supermarket customers. Further work has been completed to enhance the online auction system and there will be future investment in technology to improve efficiencies and lower costs. There has also been a change in management with Bruce O'Brien retiring and General Manager, Tony Hayes, being appointed to the CEO role.

Despite the significant impact of COVID-19, UFG still managed to make a modest profit for the year. The team's commitment to work innovatively and to manage the change in supply channels was a significant factor in keeping customers supplied throughout the pandemic.

First Fresh New Zealand Ltd (First Fresh)

MG owns 30% of First Fresh, a leading citrus and persimmon supplier for both domestic and export markets. The Gisborne-based business also supplies kiwifruit and sub-tropical lines.

First Fresh has delivered positive sales growth again this year, and under focussed leadership, continues to capitalise on market opportunities to position the business for future growth.

Citrus has a biennial cycle, and being an off-year, there were lower overall volumes but higher values. It was an excellent year for persimmons, with a record crop and strong off-shore demand.

COVID-19 presented a number of operational difficulties but the increase in consumer demand for citrus and other fruit had a positive bearing on domestic and international sales.

Off-shore trading through the COVID-19 outbreak was particularly complex due to market volatility. The experienced team at First Fresh have worked hard to redirect product toward markets that were performing well.

Last year we reported that First Fresh secured the exclusive rights to pack Sunkist branded citrus in New Zealand for receivers in Asia. First Fresh has now also secured the New Zealand rights to pack and market Sunkist branded citrus for the domestic market, starting with Navel oranges in September 2020. This ties in with the MG Marketing imports programme for Sunkist fruit from California and provides a year-round brand consistency for customers that is unmatched by competitors.

New Zealand Fruits, a post-harvest service provider which is partially owned by First Fresh, has completed its significant upgrade to modernise the facility which is delivering significant efficiencies.

Looking ahead, First Fresh has started its financial year, which starts in April, with strong sales. This is due to a high volume of early crops, but this is expected to balance out as the year progresses.

The business is focused on growth opportunities and is well-positioned to continue to improve performance in coming years.

Sustainability

We recognise that the focus on the environmental and societal impact of businesses and performance has increased in recent years, with growing interest from a wider range of stakeholders including shareholders, grower-suppliers, customers and policy-makers.

This has been a significant year for MG, with the appointment of a General Manager Communications and Sustainability who is charged with developing and leading a sustainability programme.

Subsequently, this year saw the launch of the inaugural Sustainability Roadmap. We have not adopted a one-size-fits-all approach, preferring to carefully consider what sustainability looks like for our Co-operative. We have also taken the time to look outward and ensure MG considers the interests of all its stakeholders. We understand that if we are alert and responsive, we will help create a healthier and more prosperous society and that will in-turn help our business to be successful.

The roadmap outlines MG's drive to create a better business by continually improving the way we support the environment, our people and the community. However, we must create a long-lasting, sustainable and profitable business if we are to have a positive impact in these areas, which is why economic resilience is a key part of our plan.

We also understand that there's competition for fresh produce and we never take our growers' or customers' loyalty for granted. Therefore, we also have a clear focus on partnerships which includes doing a better job of communicating the benefits of working alongside MG.

The next step in our journey is to embed the principles outlined in our roadmap and take every opportunity to integrate sustainable practices across our business.

Community

MG has continued its longstanding support of the non-profit sector during the year and contributes to the communities in which we operate.

Through our major partnership with the Māia Foundation, MG is contributing to a number of significant projects that make a difference to health care throughout the country. Māia recently helped fund a new helicopter pad at Christchurch Hospital and is embarking on a new project to help build a facility for youth mental health services. MG was a founding business partner in 2017 and earlier this year was pleased to extend the agreement by a further five years.

MG also sponsors the 5+ A Day Charitable Trust whose aim is to promote healthy lifestyles by encouraging people to eat five or more servings of fresh fruit and vegetables every day. The Trust uses the sponsorship contributions to help fund education material and curriculum-linked resources that are provided free to educators and health professionals.

MG continues to support the efforts of the Salvation Army and, along with Dole New Zealand Limited, is in the final stages of finalising a major national partnership to make a weekly contribution of bananas and other fresh produce to their network of food banks across New Zealand.

During COVID-19, MG worked alongside its grower-suppliers to channel fresh fruit and vegetables to food banks in order to support vulnerable communities during the COVID-19 pandemic. Food banks experienced a significant surge in demand due to the economic impact of the pandemic. With food service businesses and independent produce retailers unable to take their usual volumes during the crisis, growers had some excess produce on-hand. Rather than this end up being wasted or ploughed back into the ground, MG helped redirect over 25,000 kg of fresh fruit and vegetables to New Zealand's most vulnerable.

Our associate and subsidiary businesses also actively participate in a variety of initiatives to support local communities.

Bruce Irvine	Peter Hendry
Chairman	*CEO*

Together. Stronger.

MARKET GARDENERS LIMITED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2020

The Directors are pleased to present the financial statements of Market Gardeners Limited for the year ended 30 June 2020.

For and on behalf of the Board of Directors:

B.R. Irvine Chairman	T.J. Burt Director
21 September 2020	21 September 2020

Consolidated Statement of comprehensive income

For the year ended 30 June 2020

	Note	2020 $'000	2019 $'000
Revenue – sale of goods	A1.1	598,923	576,689
Cost of sales		532,398	507,677
Gross profit		66,525	69,012
Other operating income	A1.2	3,277	2,870
Administrative expenses		12,932	12,252
Other operating expenses		43,289	42,419
Results from operating activities before other income and other expenses		13,581	17,211
Other income – Gain on sale fixed assets	A1.3	1,103	9,448
Other income – Gain on acquisition		2,383	-
Results from operating activities		17,067	26,659
Finance income		166	290
Finance expense		4,051	2,855
Net finance costs		3,885	2,565
Share of (Loss)/profit of equity accounted investees	D2	(284)	655
Profit before income tax		**12,898**	**24,749**
Income tax expense	A3.1	1,528	7,583
Profit for the year		**11,370**	**17,166**
Other comprehensive income			
Non-controlling interest on acquisition	D1.2	572	-
Items to be reclassified to profit or loss in subsequent periods (net of tax):			
Change in fair value of land and buildings		(24)	13,616
Foreign currency translation differences for foreign operations		698	(2,018)
Net (loss)/gain on hedge of a net investment		(305)	858
Effective portion of changes in the fair value of cash flow hedges		26	(971)
Other comprehensive income net of tax		395	11,485
Total comprehensive income for the year		**12,337**	**28,651**
Profit attributable to:			
Owners of the Company		12,331	17,055
Non-controlling interest		(961)	111
Profit for the year		**11,370**	**17,166**
Total comprehensive income/(loss) attributable to:			
Owners of the Company		12,562	29,083
Non-controlling interest		(225)	(432)
Total comprehensive income for the year		**12,337**	**28,651**

The accounting policies and notes to the financial statements form an integral part of financial statements.

Consolidated Statement of changes in equity

For the year ended 30 June 2020

	Share capital	Reserves Revaluation	Hedging	Foreign currency translation	Total	Retained earnings	Non-controlling interest	Total equity
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Balance at 1 July 2018	29,498	34,132	(86)	(1,875)	32,171	35,451	10,027	107,147
Profit for the year	-	-	-	-	-	17,055	111	17,166
Other comprehensive income	-	13,522	(971)	(617)	11,934	94	(543)	11,485
Total comprehensive income / (loss) for the year	-	13,522	(971)	(617)	11,934	17,149	(432)	28,651
Transactions with owners, recorded directly in equity								
Dividends	477	-	-	-	-	(1,293)	-	(816)
Shares issued	4,097	-	-	-	-	(4,084)	-	13
Shares surrendered	(1,048)	-	-	-	-	-	-	(1,048)
Balance at 30 June 2019	**33,024**	**47,654**	**(1,057)**	**(2,492)**	**44,105**	**47,223**	**9,595**	**133,947**
Balance at 1 July 2019	33,024	47,654	(1,057)	(2,492)	44,105	47,223	9,595	133,947
Profit for the year	-	-	-	-	-	12,331	(961)	11,370
Non-controlling interest on acquisition	-	-	-	-	-	-	572	572
Other comprehensive income / (loss)	-	(10)	26	215	231	-	164	395
Total comprehensive income/(loss) for the year	-	(10)	26	215	231	12,331	(225)	12,337
Transactions with owners, recorded directly in equity								
Dividends	566	-	-	-	-	(1,620)	-	(1,054)
Shares issued	5,994	-	-	-	-	(5,980)	-	14
Shares surrendered	(1,444)	-	-	-	-	-	-	(1,444)
Balance at 30 June 2020	**38,140**	**47,644**	**(1,031)**	**(2,277)**	**44,336**	**51,954**	**9,370**	**143,800**

Explanation of Reserves

Revaluation reserve

The revaluation reserve relates to the revaluation of land and buildings in accordance with the polices stated in note B1.

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.

Foreign currency translation reserve

The translation reserve comprises the cumulative 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 the Australian operations.

The accounting policies and notes to the financial statements form an integral part of financial statements.

Consolidated Statement of financial position

As at 30 June 2020

	Note	2020 $'000	2019 $'000
EQUITY			
Share capital	C1	38,140	33,024
Reserves		44,336	44,105
Retained earnings		51,954	47,223
Total equity attributable to equity holders of the Parent Company		134,430	124,352
Non-controlling interests		9,370	9,595
Total equity		**143,800**	**133,947**
NON-CURRENT ASSETS			
Property, plant and equipment	B1	208,696	157,198
Intangible assets	B3	33,526	26,281
Investments in equity accounted investees	D2	5,787	7,745
Investments other	D3	4,767	4,384
Deferred tax assets	A3.2	5,932	4,323
Total non-current assets		258,708	199,931
CURRENT ASSETS			
Inventories	B2	9,874	9,425
Trade and other receivables	C3	69,705	54,178
Cash and cash equivalents	C2	23,216	15,498
Non-current assets held for sale		1,190	-
Total current assets		103,985	79,101
Total assets		362,693	279,032
NON-CURRENT LIABILITIES			
Borrowings	C5	54,923	49,569
Trade and other payables	C4	2,258	1,780
Deferred tax liabilities	A3.2	7,368	8,665
Lease liability	C6.2	39,501	-
Total non-current liabilities		104,050	60,014
CURRENT LIABILITIES			
Borrowings	C5	10,880	6,886
Trade and other payables	C4	91,861	73,775
Taxation payable		4,769	4,410
Lease liability	C6.2	7,333	-
Total current liabilities		114,843	85,071
Total liabilities		218,893	145,085
Net Assets		**143,800**	**133,947**

The accounting policies and notes to the financial statements form an integral part of financial statements.

Consolidated Statement of cash flows

For the year ended 30 June 2020

	2020 $'000	2019 $'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	587,123	582,813
Dividends received	746	667
Interest received	141	223
Cash paid to suppliers and employees	(557,306)	(559,363)
Interest paid	(4,053)	(2,623)
Income tax paid	(3,956)	(4,036)
Net cash from operating activities	22,695	17,681
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of property, plant and equipment	1,805	18,689
Acquisition of property, plant and equipment	(13,865)	(12,125)
Acquisition of investment / intangible assets	(2,397)	(2,450)
Acquisition of subsidiary, net of cash acquired	(1,400)	-
Net cash (used in) / from investing activities	(15,857)	4,114
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of share capital	14	13
Proceeds from bank and other borrowings	10,173	-
Proceeds from other receivables	1,772	822
Shares surrendered	(1,444)	(1,048)
Repayment of borrowings	(1,688)	(12,757)
Dividends paid	(1,054)	(816)
Principle portion of lease payments	(5,834)	-
Loans and advances to other receivables	(1,172)	(1,286)
Net cash from / (used in) financing activities	767	(15,072)
Net increase in cash and cash equivalents	7,605	6,723
Cash and cash equivalents at 1 July	15,498	9,253
Effect of exchange rate fluctuations on cash held	113	(478)
Cash and cash equivalents at 30 June	**23,216**	**15,498**

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

	2020 $'000	2019 $'000
Profit / (loss) for the year	11,370	17,166
Adjustments for:		
Depreciation	14,487	7,476
Change in derivatives recognised in hedging reserve	(321)	(1,351)
(Increase) in deferred tax on reserves	(14)	(94)
Decrease / (increase) in future taxation benefit	(2,906)	315
Profit share of equity accounted investees	1,030	12
(Gain) on disposals of property, plant and equipment	(879)	(9,565)
(Gain) on acquisition of a subsidiary	(2,383)	-
Other	-	252
	20,384	14,211
Impact of changes in working capital items:	2,311	3,470
Net cash from operating activities	22,695	17,681

The accounting policies and notes to the financial statements form an integral part of financial statements.

Notes to the financial statements

A. Financial Performance

In this section

This section explains the financial performance of Market Gardeners providing additional information about individual items in the income statement, including:

- accounting policies, judgements and estimates that are relevant for understanding items recognised in the income statement.
- analysis of Market Gardener's performance for the year by reference to key areas including: revenue, expenses and taxation.

A1.1 Revenue

Measurement and Recognition

Revenue is measured based upon the value the Group expects to receive, following completion of a customer's order or requested service.

In determining the price / value of a good or service the Group considers the risk of any events that could significantly reduce the value to be received (such as customer rights of return or rebates based upon actual or expected customer purchases).

Principal and agency arrangements

The Group makes sales under both principal and agency (on behalf of another party) arrangements.

The key considerations by the Group in determining if a sale is as principal or agent are who has:

- Primary responsibility for fulfilling and providing the produce to the customer.
- The risk that produce is unable to be sold or a deterioration of value occurs such as a drop in price or quality issues (inventory risk before goods are transferred to the end customer).
- The discretion to establish the price of produce being sold.

The Group recognises revenue from the following sources:

Trade Sales - Principal

Revenue from trade sales is recognised at the point of time at which control passes to the customer. This is dependent on individual contracts, however usually occurs on dispatch or pick up of the produce by the customer.

Commission / Agency Sales:

When the Group acts as an agent rather than principal, revenue is recognised at the net commission made by the Group. As with trade sales recognition of the commission usually occurs on dispatch or pick up of the produce by the customer.

Gross Sales	**2020 $'000**	**2019 $'000**
Trade Sales – New Zealand	134,504	108,795
Trade Sales - Australia	427,666	431,912
Sales as Agent – New Zealand	352,346	361,430
Sales as Agent – Australia	20,219	15,977
Total Gross Sales	**934,735**	**918,114**
Revenue		
Total Gross Sales	934,735	918,114
Add Commission earned – New Zealand	34,929	33,460
Add Commission earned – Australia	1,824	2,522
Less purchase of produce on-sold as agent (offsets the sales as agent incl. above)	(372,565)	(377,407)
Total Revenue - Sale of goods	**598,923**	**576,689**

A1.2 Other Operating Income

Other Operating Income:	**2020 $'000**	**2019 $'000**
Rental income	2,766	2,483
Sundry income	511	387
Total Other Operating Income	**3,277**	**2,870**

A1.3 Other income

During 2020, other income represented the gain of NZ$1,103,000 recorded following the sale of a leased warehouse at the Sydney markets (During 2019, other income represented the gain of NZ$9,448,000 recorded following the sale of the property at 12 Carter St, Sydney, Australia).

A2. Employee benefits

Measurement and recognition

Provision is made for benefits owing to employees in respect of wages and salaries, annual leave, long service leave and employee incentives for services rendered. Provisions are recognised when it is probable they will be settled and can be measured reliably.

Short-term employee benefits:

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related benefit is provided. These benefits are likely to be utilised by employees within the next 12 months.

Long-term employee benefits:

Long-term employee benefits relate to the amount of future benefits that employees have earned in return for their service in the current and prior periods. These benefits are discounted to determine their present value at year end.

Employee benefits are recognised both within cost of sales and administrative expenses based on the area / department the employee works within (refer to the table below for the classification).

	2020 $'000	2019 $'000
Wages and salaries	79,287	76,142
Contributions to defined contribution superannuation plans	4,309	4,138
Increase in liability for long-service leave	204	278
Total personnel expenses	**83,800**	**80,558**
Classification within the statement of comprehensive income		
Cost of sales	71,060	68,101
Administrative expenses	12,344	12,086
Other operating expenses	396	371
Total personnel expenses	**83,800**	**80,558**

A3. Taxation

Measurement and recognition

Income tax is determined based upon profit before tax and broadly classified as follows:

- Current tax expense: Current year profit the Group is required to pay tax on to the relevant authority.
- Deferred tax expense: Profit that is not taxable (based on tax laws) until a future income tax period.
- Profit that will never be taxable: Relates to non-deductible expenses and tax-exempt income.

A3.1 Income Tax

Tax recognised in the income statement	2020 $'000	2019 $'000
Current tax expense	4,886	7,554
Prior period adjustment to current tax	(477)	(286)
Deferred tax – origination and reversal of temporary differences	(2,881)	315
Total income tax expense	**1,528**	**7,583**
Reconciliation of income tax expense		
Profit/(Loss) before tax	12,898	24,749
Income tax using the Parent Company's domestic tax rate (28%)	3,611	6,930
Add/(deduct) taxation effect of:		
Effect of tax rates in foreign jurisdictions	(102)	215
Tax impact of equity accounted investees	133	77
Non-deductible expenses	137	398
Tax exempt income	(977)	(394)
Deferred tax: building depreciation due to NZ tax legislation change	(574)	-
(Over)/under provided in prior periods	(700)	357
Total income tax expense	**1,528**	**7,583**

Imputation credits

As at balance date imputation credits available to the shareholders for use in subsequent periods totalled $18.29 million (2019: $16.55 million).

A3.2 Deferred tax

Measurement and recognition

Tax laws set out how the Group calculates the tax payable to the relevant taxation authority. These rules however are different to the financial reporting rules which are the basis for preparing these financial statements. Where the two sets of rules result in a different pre-tax profit, a deferred tax asset or liability is recorded for the difference.

- Deferred tax asset: This represents tax deductions that have been recorded for accounting purposes, however not recognisable for income tax purposes until a future period. Effectively this is tax recorded in advance.
- Deferred tax liability: This is the opposite to deferred tax assets, effectively being tax paid in the current year that is not recordable for accounting purposes until future periods. The most common source for the Group is where assets are depreciated at a higher rate for tax purposes than for accounting purposes.

Deferred tax is recognised on all temporary differences, other than those arising from goodwill and the initial recognition of assets and liabilities in a transaction (other than in a business combination).

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 assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
New Zealand Group	**2020 $'000**	**2019 $'000**	**2020 $'000**	**2019 $'000**	**2020 $'000**	**2019 $'000**
Property, plant and equipment	234	-	(9,136)	(9,742)	(8,902)	(9,742)
Provisions and other	2,944	2,456	(1,410)	(1,379)	1,534	1,077
Tax assets/(liabilities)	**3,178**	**2,456**	**(10,546)**	**(11,121)**	**(7,368)**	**(8,665)**

	Assets		Liabilities		Net	
Australian Group	**2020 $'000**	**2019 $'000**	**2020 $'000**	**2019 $'000**	**2020 $'000**	**2019 $'000**
Property, plant and equipment	-	-	(372)	(372)	(372)	(372)
Provisions and other	4,219	3,176	-	-	4,219	3,176
Tax losses	2,085	1,519	-	-	2,085	1,519
Tax assets/(liabilities)	**6,304**	**4,695**	**(372)**	**(372)**	**5,932**	**4,323**

Movement in temporary differences during the year:

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

	Balance 1 July 19 $'000	**Recognised in income $'000**	**Recognised in equity $'000**	**Arising on acquisition $'000**	**Balance 30 June 20 $'000**
Property, plant and equipment	(10,114)	1,059	-	-	(9,055)
Provisions and other	4,253	1,513	(15)	-	5,751
Tax Losses	1,519	566	-	-	2,085
Net Movement	**(4,342)**	**3,138**	**(15)**	**-**	**(1,219)**

In response to the impact of COVID-19 the New Zealand Government has introduced tax legislation which allows entities to again depreciate buildings for tax purposes (during 2019 depreciation on buildings was not deductible for tax). This has reduced the difference between the accounting and tax treatment for building depreciation resulting in a reduction in the deferred tax liability of the New Zealand based entities of $574,000 during the year ended 30 June 2020.

B. Operating Assets

In this section

This section shows the assets Market Gardeners uses in delivering produce to the market in order to generate operating revenue. Key operating assets are:

- Property, plant and equipment
- Intangible assets
- Inventories

B1. Property, Plant and Equipment

Property, plant and equipment are physical assets or the right to use leased assets, which are utilised by the Group to carry out business activities and generate revenue and profits.

Measurement and recognition

Property, plant and equipment (except for land and buildings) is measured at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset.

Land and buildings are revalued every 3 years with changes in value recognised directly in equity, except if a decrease does not offset an existing valuation surplus for an individual asset in which case this is taken to the income statement.

Depreciation

Depreciation is recognised to allocate the cost or revalued amount of an asset, less any residual value over the estimated useful life. Leased assets are depreciated over the shorter of the lease term and their useful lives.

Impairment

The carrying amounts of property, plant and equipment are reviewed at each reporting date to determine whether there is any indication of impairment. If an indication exists, then the asset's recoverable amount is estimated. The recoverable amount is the higher of fair value less costs to sell and the present value of future cash flows.

An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. A prior impairment loss is reversed if there has been a change in estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent of the asset's carrying value had no impairment loss been recognised.

For information regarding leased (right-of-use) assets, see note C6.

Key Judgements

Depreciation rates:

The estimated useful lives for the current and comparative periods are as follows:

— buildings, leasehold improvements and entitlements	1 – 20% Diminishing value and Straight Line
— motor vehicles	20 – 25% Diminishing value and Straight Line
— plant and equipment	7 – 40% Diminishing value and Straight Line
— fixtures and fittings	5 – 60% Diminishing value and Straight Line

Valuation of Land and buildings:

Fair value is the estimated price the asset could be sold for in an orderly transaction, at arm's length between market participants at the valuation date.

Due to the level of judgement and adjustments required to the observable inputs, a level three classification is deemed appropriate for all property valuation for the Group. Fair value was determined by using the following methods:

Investment / Income approach

This approach capitalises the contracted and / or potential income at an appropriate market derived rate of return. Capitalisation rates applied range from 4.5% to 9.7%, an increase in rate would reduce the valuation

Sales / Market comparison approach

This approach determines a per square metre / hectare rate based on comparable sales, adjusted for differences in location, size and quality of the asset, together with an adjustment for market movements since the sales occurred.

Land and buildings were independently revalued as at 30 June 2019 by Duke and Cooke Ltd, Truebridge Partners, Chadderton Valuation, and Herron Todd White.

If land and buildings were measured using historical cost the carrying value would be $86.4 million (2019: $82.2 million).

	Land and buildings $'000	Motor Vehicles $'000	Fixtures & fittings $'000	Plant and equipment $'000	Work in progress $'000	Total $'000
Cost or valuation						
Balance at 1 July 2018	127,540	5,952	3,708	35,472	1,847	174,519
Additions	3,387	1,847	284	3,722	2,885	12,125
Disposals	(2,246)	(545)	(166)	(464)	-	(3,421)
Revaluation	7,946	-	-	-	-	7,946
Reclassification	932	20	4	329	(1,285)	-
Effect of movements in exchange rates	(971)	(80)	(84)	(1,162)	(26)	(2,323)
Balance at 30 June 2019 / 1 July 2019	136,588	7,194	3,746	37,897	3,421	188,846
Recognition of right-of-use asset on initial application of NZ IFRS 16	44,764	-	-	4,847	-	49,611
Adjusted balance at 1 July 2019	181,352	7,194	3,746	42,744	3,421	238,457
Additions	7,045	1,186	686	3,973	2,286	15,176
Additions on acquisition	1,994	65	22	25	-	2,106
Disposals	(1,803)	(726)	(143)	(2,045)	-	(4,717)
Transfer to non-current assets held for sale	(1,190)	-	-	-	-	(1,190)
Reclassification	1,366	-	87	1,909	(3,362)	-
Effect of movements in exchange rates	1,201	30	28	476	4	1,739
Balance at 30 June 2020	189,965	7,749	4,426	47,082	2,349	251,571
Accumulated depreciation						
Balance at 1 July 2018	6,360	2,624	2,988	20,313	-	32,285
Depreciation for the year	3,108	1,245	388	2,735	-	7,476
Disposals	(185)	(420)	(153)	(253)	-	(1,011)
Revaluation	(6,026)	-	-	-	-	(6,026)
Effect of movements in exchange rates	(193)	(54)	(72)	(757)	-	(1,076)
Balance at 30 June 2019 / 1 July 2019	3,064	3,395	3,151	22,038	-	31,648
Depreciation for the year	8,494	990	515	4,488	-	14,487
Disposals	(1,392)	(540)	(132)	(1,691)	-	(3,755)
Effect of movements in exchange rates	166	18	25	286	-	495
Balance at 30 June 2020	10,332	3,863	3,559	25,121	-	42,875
Carrying amounts						
At 1 July 2018	121,180	3,328	720	15,159	1,847	142,234
At 30 June 2019	133,524	3,799	595	15,859	3,421	157,198
At 30 June 2020	**179,633**	**3,886**	**867**	**21,961**	**2,349**	**208,696**
Right of use assets included above						
Carrying value at 1 July 2019	44,764	-	-	4,847	-	49,611
Additions	899	-	-	412	-	1,311
Transfer from property plant and equipment	719	49	-	711	-	1,479
Depreciation	(5,188)	(9)	-	(1,540)	-	(6,737)
Effect of movements in exchange rates	714	-	-	39	-	753
Carrying value at 30 June 2020	**41,908**	**40**	**-**	**4,469**	**-**	**46,417**

B2. Inventories

Measurement and recognition

Inventories are measured at the lower of cost and net realisable value. Cost is determined based on the first-in first-out principle and includes costs incurred in acquiring the inventories and in bringing them to their current 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.

In 2020 inventories recognised as cost of sales amounted to $462,944,000 (2019: $439,050,000) for the Group.

	2020 $'000	2019 $'000
Inventories	9,874	9,425
Total inventories	**9,874**	**9,425**

B3. Intangible assets

Measurement and recognition

Goodwill

Goodwill is determined at the date of acquisition and represents the excess of the cost of a business acquisition over the fair value of the Group's share of the assets, liabilities and contingent liabilities acquired. Where the fair value of net assets acquired is greater than the consideration paid, the excess is recognised immediately in profit or loss.

Goodwill is subsequently measured at cost less accumulated impairment losses. Impairment reviews are performed annually, at the level of the relevant cash generating unit ('CGU'). The smallest identifiable group of assets that generate independent cash inflows and the level at which strategic decisions is considered in identifying a CGU.

Any impairment loss in respect of goodwill is not reversed.

In respect of equity accounted investees, goodwill is included in the carrying amount of the investment.

Other intangible assets

Intangible assets, other than goodwill, are subsequently held at cost less accumulated amortisation and impairment.

Costs relating to the development of intangible assets, including computer software, are capitalised once all the development phase recognition criteria are met.

Software is amortised over the expected useful life of 7 to 10 years.

Where an intangible asset is considered to have an indefinite life, no amortisation is recognised. The asset is subject to an annual impairment test, any impairment loss is recognised within the income statement.

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, a loss is reversed only to the extent of the asset's carrying value had no impairment loss been recognised.

The recoverable amount of marketing agreements (included within other), is determined as the fair value less costs to sell. This has been estimated using a discounted cash flow methodology, which continues to show positive headroom.

Key Judgement

In arriving at the recoverable value for goodwill, key assumptions have been made regarding future projected cash flows, discount rates and terminal growth rates. These assumptions are considered further within note B3.1

	Goodwill $'000	Brand $'000	Other $'000	Software and WIP $'000	Total $'000
Cost					
Balance at 1 July 2018	42,869	11,863	4,047	90	58,869
Additions	-	-	-	751	751
Effect of movements in exchange rates	(1,000)	-	-	-	(1,000)
Balance at 30 June 2019 / 1 July 2019	41,869	11,863	4,047	841	58,620
Additions	-	-	-	733	733
Additions through acquisition	6,145	-	12		6,157
Effect of movements in exchange rates	355	-	-	-	355
Balance at 30 June 2020	48,369	11,863	4,059	1,574	65,865
Accumulated amortisation and impairment losses					
Balance at 1 July 2018	(20,467)	(11,863)	(9)	-	(32,339)
Amortisation for the year	-	-	-	-	-
Balance at 30 June 2019 / 1 July 2019	(20,467)	(11,863)	(9)	-	(32,339)
Impairment	-	-	-	-	-
Amortisation for the year	-	-	-	-	-
Balance at 30 June 2020	(20,467)	(11,863)	(9)	-	(32,339)
Carrying amounts					
At 1 July 2018	22,402	-	4,038	90	26,530
At 30 June 2019	21,402	-	4,038	841	26,281
At 30 June 2020	**27,902**	**-**	**4,050**	**1,574**	**33,526**

B3.1 Impairment testing of goodwill

Goodwill relates to:

- investments made by the Australian subsidiary of the Group, LaManna Premier Group ("LPG");
- the current period acquisition of a controlling shareholding in Te Mata Exports 2012 Ltd ("Te Mata") as detailed further within noted D1.2.

For impairment testing LPG and Te Mata are deemed to be separate cash generating units ("CGU's").

In determining the recoverable amount of each CGU, key assumptions have been made regarding future cash flows, discount rates and terminal growth rates.

Future cash flows are estimated over the next 5 years, the key input being the growth rate in revenue. Estimated cash flows are discounted using a weighted average cost of capital ("WACC"), representing the minimum return a business must earn on its asset base to satisfy providers of capital. This rate considers both internal and external risks associated with the CGU along with an assessment of the time value of money.

The key inputs and assumptions used in estimating the recoverable amount of the LPG Australia CGU were:

	2020	2019
Annual revenue growth rate	3.0-3.5%	3.0%
Post-tax discount rate	9.7%	8.5%
Terminal growth rate	2.0%	2.0%

Sensitivity to changes in key assumptions:

A sensitivity analysis has been performed on the key assumptions used.

Other than as disclosed below, management does not believe that a reasonably possible change in the key assumptions would result in the impairment of goodwill allocated to the LPG Australia CGU.

		Revenue Growth			
		2.0%	2.5%	3.0%	3.5%
Change in WACC	8.7%	- 9,948	- 232	9,617	19,600
	9.7%	- 14,535	- 6,231	2,185	10,715
	10.7%	- 18,059	- 10,838	- 3,520	3,896

The key inputs and assumptions used in estimating the recoverable amount of the Te Mata CGU were:

	2020	2019
Annual revenue growth rate (New Zealand / Australia)	2.0% / 10.0%	-
Post-tax discount rate	10.0%	-
Terminal growth rate	2.0%	-

Sensitivity to changes in key assumptions:

A sensitivity analysis has been performed on the key assumptions used. A movement of +/- 1.0% in the WACC and / or 0% revenue growth would not result in an impairment of the goodwill allocated to the Te Mata CGU.

C. Managing Funding

In this section
This section explains how Market Gardeners manages its capital structure and working capital along with the various funding sources.

Capital management

Capital includes share capital, reserves and retained earnings. The Board's policy is to maintain a strong capital base to allow for both future growth and to maximise the return to shareholders in the form of rebates or distributions. These requirements are balanced to protect from volatility and changes in capital and market conditions.

The process of allocating capital across the Group is undertaken and regularly considered and reviewed by the Parent Company Board. There have been no material changes to the Group's management of capital during the period.

C1. Share capital

Key Judgement

"A", "B" and "C" shares are defined as puttable equity instruments under NZ IAS 32, and are classified as equity. The key area of judgement in reaching this conclusion was that cash flows arising from rebates do not substantially restrict the returns to shareholders and that A, B and C Shares are materially the same financial instrument.

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 2018	20,261	8,351	886	29,498
Shares issued	1,466	1,666	1,442	4,574
Shares transferred	2,838	(1,510)	(1,328)	-
Shares surrendered	(919)	(128)	(1)	(1,048)
Balance at 30 June 2019 / 1 July 2019	**23,646**	**8,379**	**999**	**33,024**
Shares issued	1,353	3,308	1,899	6,560
Shares transferred	5,189	(3,791)	(1,398)	-
Shares surrendered	(1,284)	(156)	(4)	(1,444)
Balance at 30 June 2020	**28,904**	**7,740**	**1,496**	**38,140**

Shares are issued, redeemed and surrendered at $1.00 per share and in accordance with the requirements of the Co-operative Companies Act 1996 and the Company constitution. Applications are considered at least quarterly.

	Key features / rights of each class of share – refer to the constitution for full terms.
Voting Rights	Shareholders are entitled to one vote for each "A" share held up to a maximum of 1,000 votes. Voting rights are suspended if the shareholder has not transacted a minimum level of business being $10,000 of produce sales in any one year or on average over a rolling three-year period.
	"B" and "C" shares do not carry any voting rights.
Dividend Rights	All shares are rebate shares, carrying a right to dividends and rebates as determined by the Board.
Wind-up	All classes of share rank equally on wind-up with regard to the Parent Company's residual assets.
Conversion	"C" and "B" shares are able be converted to "B" and/or "A" shares at the Board's discretion.
Surrender of shares	All shares are surrendered at the lesser of $1.00 or the amount paid up on those shares.
	Holders of over 100,000 and up to 1,000,000 shares are required to surrender these in instalments of 100,000 shares, payable on each anniversary of approval until fully paid.
	Holders of over 1,000,000 shares are required to surrender these in 10 equal instalments payable on each anniversary of approval until fully paid.
	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 or amounts due to Group companies.

Post balance date issuance of shares, dividends and rebates to shareholders

	2020	2019
All matters below were declared and accounted for on	5 August 2020	7 August 2019
Special bonus issue of A Shares	1 for every 30 existing	1 for every 30 existing
Special bonus issue of B Shares	2 for every 5 existing	2 for every 5 existing
Special bonus issue of C Shares	1 for every 2 existing	2 for every 5 existing
Taxable supplier shareholder rebate – paid by issuing C Shares	$250,000	$250,000
Bonus issue on supplier shareholder rebate	3 for every 1 share issued above	5 for every share 1 issued above
Taxable and fully imputed Dividend to be issued from retained earnings at completion of the Annual Meeting.	Final – 5 cents per "A" share. No interim dividend declared	Final - 6 cents per "A" share. No interim dividend declared

C2. Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with a maturity of three months or less. Amounts held in a foreign currency are converted to NZD using the applicable exchange rate as at year end. Refer to the table below for the different currencies held by the Group.

	2020		2019	
	Foreign $ $'000	**NZD $'000**	**Foreign $'000**	**NZD $'000**
NZD	-	6,094	-	3,025
AUD	16,065	17,062	11,874	12,408
Other (USD, EUR)	39	60	43	65
Total cash and cash equivalents		**23,216**		**15,498**

C3. Trade and other receivables

Measurement and recognition

Trade and other receivables are initially measured at fair value and subsequently stated at their amortised cost.

A provision for the impairment of receivables is established using the expected credit losses ("ECL") model, which is both forward-looking and takes into account historical provision rates and the economic environment. The provision recorded is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted using the effective interest method. Debts that are known to be uncollectible are written off immediately.

Trade and other receivables	**2020 $'000**	**2019 $'000**
Not past due	52,278	38,317
Past due 1-30 days	1,727	1,819
Past due greater than 30 days	3,499	2,347
Less: provision for impairment / ECL's	(1,668)	(870)
Total trade receivables	**55,836**	**41,613**
Other receivables	13,869	12,565
Total trade and other receivables	**69,705**	**54,178**

C4. Trade and other payables

Measurement and recognition

Trade and other payables

Trade and other payables are recognised when Market Gardeners becomes obliged to make future payments resulting from the purchase of goods and services. Due to their short-term nature they are not discounted.

Refer to note A2 for the measurement and recognition of employee benefits, included within trade and other payables.

Trade and other payables	**2020 $'000**	**2019 $'000**
Non-current		
Other payables	1,360	1,014
Employee benefits	898	766
Total non-current trade and other payables	2,258	1,780
Current		
Trade and other payables	79,054	62,444
Employee benefits	12,807	11,331
Total current trade and other payables	91,861	73,775
Total trade and other payables	**94,119**	**75,555**

Included above are $20,986,000 (2019: $21,507,000) of trade payables denominated in Australian dollars and $356,000 (2019: $675,000) of trade payables denominated in US dollars.

C5. Interest-bearing borrowings

Measurement and recognition

Interest-bearing borrowings are recognised initially at fair value, net of transaction costs paid. Subsequent to this, borrowings are stated at amortised cost using the effective interest rate method. In 2020 the effective interest rate on bank balances for the Group was 1.93% (2019: 3.18%).

The bank loans are secured over land and buildings with a carrying amount of $137,725,000 (2019: $133,524,000).

Interest-bearing borrowings	2020 $'000	2019 $'000
Non-current secured bank loans	54,923	49,569
Current secured bank loans	10,880	6,886
Total interest-bearing borrowings	**65,803**	**56,455**

C6. Lease liability

Change in accounting policy – NZ IFRS 16 leases

The Group adopted NZ IFRS 16 Leases on the 1st of July 2019. All leases are now recognised within the statement of financial position. The present value of the lease liability is recognised and measured at amortised cost, along with the corresponding right-of-use asset being amortised / depreciated over the life of the lease.

Refer to note B1 for right-of-use assets recognised on adoption of NZ IFRS 16 on 1 July 2019, the total adjustment being $49,611,000, with a corresponding lease liability recognised on the same date. All practical expedients under NZ IFRS 16 C3 & C4 have been applied.

At the date of transition, leases previously classified as finance leases under NZ IAS 17 have been measured under NZ IFRS 16 principles. The impact of this change is recognised as an adjustment to opening retained earnings.

The weighted average incremental borrowing rate applicable to the lease liabilities on 1 July 2019 was 4.17%.

NZ IFRS 16 has had no significant impact on arrangements where the Group acts as a lessor.

Measurement and recognition

Leases are contracts that convey the right to use an asset for a period of time, in exchange for consideration. The majority of the Group's leases relate to properties. Property leases will often include extension and termination options, open market rent reviews, indexation uplifts or fixed uplifts.

Lease liability

The lease liability is initially measured at the present value of the lease payments still to be made, discounted using the Group's incremental borrowing rate, taking into account the duration of the lease.

The lease liability is subsequently measured at amortised cost using the effective interest method, with the finance cost charged to profit or loss on over the lease period.

The lease liability is remeasured where a lease is modified, such as a change in lease term or payments. A revised discount rate is applied to any modifications. This adjustment is also taken to the right-of-use asset.

Right-of-use asset

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to restore properties to their original condition, less any lease incentives received. The right-of-use asset is depreciated on a straight-line basis over the applicable lease term.

The movement of the right-of-use asset is disclosed in note B1.

Key judgements:

The key judgements in determining the lease liability are:

- Estimation of the lease renewals: Some property leases in the Group contain renewal options exercisable by the lessee before the end of the non-cancellable contract period. The period covered by renewal options is only included in the lease term if the lessee is reasonably certain to exercise the option.
- Calculation of the incremental borrowing rate applicable to the lease liability. The weighted average incremental borrowing rate as at 30 June 2020 was 3.55%.

C.6.1 Reconciliation of leases on transition to IFRS 16

The following reconciliation to the opening balance for the lease liabilities as at 1 July 2019 is based upon the operating lease obligations as at 30 June 2019.

	2019 $'000
Operating lease commitments at 30 June 2019 under NZ IAS 17	20,791
Add: lease rights of renewal that are reasonably certain to be exercised	38,013
Total undiscounted operating lease commitments	58,804
Less: Effect of discounting using the incremental borrowing rate at 1 July 2019	(9,193)
Lease liabilities recognised under NZ IFRS 16 at 1 July 2019	49,611

C.6.2 Lease liability	**2020 $'000**	**2019 $'000**
Opening lease liability	-	-
Adoption of NZ IFRS 16 leases on 1 July 2019	49,611	-
Additions	2,309	-
Interest on lease liabilities	1,432	-
Foreign exchange movement	748	-
Gross payments (cash outflows in relation to leases)	(7,266)	-
Lease liability as at 30 June 2020	**46,834**	**-**
Non-current lease liability	**39,501**	**-**
Current lease liability	**7,333**	**-**

C6.3 Lease expenses

The consolidated income statement includes expenses relating to short term leases of $4,000 and expenses relating to leases of low value assets of $2,000 for 2020. Interest on lease liabilities are within financial expenses.

C6.4 Group as a lessor

The Group leases out owned property for a period significantly less than its useful life, with the annual payments recorded within other income. The Company also acts as the lessor of packing equipment to certain suppliers.

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

	2020 $'000	**2019 $'000**
Less than one year	2,291	1,944
Between one and five years	4,781	4,724
More than five years	503	580
Future minimum lease receipts as at 30 June 2020	**7,575**	**7,248**

D. Group Structure

In this section
This section provides information to help readers understand Market Gardeners' group structure and how it affects the financial position and performance of the Group.

D1. Subsidiaries

Measurement and recognition

Subsidiaries are entities where the Group is exposed to variable returns from the entity and controls or directs the relevant activities of the subsidiary. Subsidiaries are consolidated until the date that control ceases.

Significant subsidiaries	Principal activity	Country of incorporation	2020 %	2019 %
Hansons Lane International Holdings Ltd	Investment Holding	New Zealand	100	100
J. S. Ewers Ltd	Produce Grower	New Zealand	100	100
Blackbyre Horticulture Ltd	Property Holding	New Zealand	100	100
Market Fresh Wholesale Ltd	Property Holding	New Zealand	100	100
Phimai Holdings Ltd	Property Holding	New Zealand	100	100
Southland Produce Markets Ltd	Property Holding	New Zealand	100	100
MG Group Holdings Ltd	Asset Holding	New Zealand	100	100
Kaipaki Properties Ltd	Asset Holding	New Zealand	100	100
Te Mata Exports 2012 Ltd	Produce Exporting	New Zealand	74	50
Market Gardeners (USA) Inc.	Produce Sourcing and Exporting	USA	100	100
LaManna Premier Group Pty Ltd	Produce Wholesale	Australia	69	69
LaManna Bananas (Adelaide) Pty Ltd	Produce Wholesale	Australia	100	100
Australian Banana Company Pty Ltd	Produce Packing & Wholesale	Australia	100	100
Carbis Bananas Pty Ltd	Investment Holding	Australia	100	100
LaManna Group Holdings Three Pty Ltd	Investment Holding	Australia	100	100
Lambells Properties Pty Ltd	Property Holding	Australia	100	100
Premier Fruits Group Pty Ltd	Produce Wholesale	Australia	100	100
GV Agri Services Pty Ltd	Asset Holding	Australia	100	100
Fresh Choice W.A. Pty Ltd	Produce Wholesale	Australia	100	100
Te Mata Exports Australia Pty Ltd	Produce Export	Australia	70	-

The interest in the subsidiaries above is the actual interest held by the Group. The Group's share of LaManna Premier Group Pty Ltd ("LPG") is 69% (2019:69%) and Te Mata Exports 2012 Ltd ("TMEL") is 74% (2019:50%), hence the Group's share in subsidiaries and associates of LPG and TMEL is 69% and 74% of the respective interest.

D1.1 Subsidiary with material non-controlling interest

LaManna Premier Group Pty Ltd ("LPG") has a material non-controlling interest of 31%. The table below presents in NZD the summary consolidated financial statements of LPG pre ownership adjustments.

	2020 $'000	2019 $'000
Summarised statement of financial position		
Total equity	**28,411**	**31,254**
Total non-current assets	92,772	53,702
Total current assets	38,825	39,011
Total assets	**131,597**	**92,713**
Total non-current liabilities	49,058	15,353
Total current liabilities	54,128	46,106
Total liabilities	**103,186**	**61,459**
Summarised statement of comprehensive income		
(Loss)/profit for the year	(3,374)	362
Other comprehensive (loss) for the year	(7)	(324)
Total comprehensive (loss) / profit for the year	**(3,381)**	**38**
Summarised statement of cash flows		
Net cash from operating activities	**9,925**	451
Net cash (used in) investing activities	**(25)**	(4,103)
Net cash (used in) / provided by financing activities	**(4,599)**	3,846
Net increase in cash held	**5,301**	**194**

D1.2 Business combination – Acquisition of Te Mata Exports

On 20 December 2019, the Group increased its shareholding in Te Mata Exports 2012 Limited ("Te Mata") from 50% to 74%. Prior to that date Te Mata was equity accounted (refer note D2) but has been accounted for as a subsidiary since that date. The accounting for the step acquisition of Te Mata is set out below:

	2020 $'000
Fair value of net assets of Te Mata	
Cash acquired	706
Current assets (excluding cash acquired)	784
Property, plant and equipment	2,106
Other non-current assets	12
Goodwill	2,155
Current liabilities	(1,667)
Non-current liabilities	(1,406)
Net assets acquired	**2,690**
Less, as at acquisition date	
Advances / shareholder loans to Te Mata	(491)
Non-controlling interest	(572)
Total identifiable net assets	**1,627**
Purchase consideration transferred	**2,106**
Fair value of previously held equity interest	**3,511**
Goodwill on acquisition	**3,990**
Goodwill included in Te Mata	2,155
Total Goodwill on acquisition	**6,145**

D2. Associates and joint arrangements (equity accounted investees)

Measurement and recognition

Associates and joint arrangements are entities where the Group has significant influence, but not control, over the activities of the entity. The Group's investment is initially recognised at cost plus the Group's share of any profit or loss up until the date at which that significant influence ceases. If the Group's share of losses exceeds its interest in the entity, the carrying amount 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.

Associates and joint arrangements	Principal activity	Country of incorporation	Year end	2020 %	2019 %
United Flower Growers Ltd (2)	Flower Wholesale	New Zealand	30 Jun	50	50
Zee Sweet Ltd (1)	Horticulture	New Zealand	31 Dec	33	33
New Zealand Fruit Tree Company Ltd (1)	Horticulture	New Zealand	31 Dec	33	33
First Fresh New Zealand Ltd (1)	Produce Marketing & export	New Zealand	31 Mar	30	30
Kaipaki Berryfruits Ltd (1)	Berryfruit production	New Zealand	30 Jun	50	50
Darwin Fruit Farms Pty Ltd (2)	Tropical fruit Production	Australia	30 Jun	50	50
Innisfail Banana Farming Co. Pty Ltd (2)	Banana Production	Australia	30 Jun	50	50
Col Johnson Pty Ltd (2)	Produce Wholesale	Australia	30 Jun	50	50

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

The interest in the Australian companies above is the actual interest held by LPG. The Group's share of LPG is 69% (2019: 69%), hence the Group's share in subsidiary and associate companies of LPG is 69% of the respective interest.

The Group's share of (loss)/profit in its equity accounted investees for the year was ($284,000) (2019: $655,000). The investees are not considered to be individually material. A summary of financial information for these entities is as follows:

	Profit/(loss) $'000	Comprehensive income $'000	Carrying amount $'000
2020	(470)	(470)	5,787
2019	1,051	1,051	7,745

D3. Other investments

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

	2020 $'000	2019 $'000
Waimea Irrigators Limited – Shares	1,195	1,195
Century Water Limited - Redeemable notes	2,250	2,250
Other	1,322	939
Total other investments	**4,767**	**4,384**

E. Financial Instruments Used to Manage Risk

In this section

This section explains the financial risks that Market Gardeners face and how these risks are managed.

Market Gardeners is exposed to a variety of risks associated with its operations and from its use of financial instruments. These can be broadly classified as: credit, liquidity, interest rate and foreign currency risks.

E1.1 Credit risk

Credit risk is the risk that those that owe money to the Group default on their obligations. The Group's exposure to credit risk is mainly through trade debtors that remain outstanding. Refer to note C3 for the status of debtors at year end.

The Group credit policy requires new customers to be assessed for credit worthiness. The carrying amount of financial assets represents the Group's maximum credit exposure. The Group has no undue concentrations of credit risk.

E1.2 Liquidity risk

Liquidity risk represents the Group's ability to meet its obligations. Liquidity requirements are evaluated on an ongoing basis. In general, sufficient operating cash flows are generated to meet obligations arising from its financial liabilities and there are credit lines in place to cover potential shortfalls.

The contractual maturities of financial liabilities (excluding derivatives) are analysed in the below table. The amounts will not necessarily reconcile to the statement of financial position as they are undiscounted cash flows and include interest.

2020	Balance sheet $'000	Contractual cash flow $'000	< 6 months $'000	6-12 months $'000	1-2 years $'000	2-5 years $'000	> 5 years $'000
Borrowings	65,803	67,266	3,700	8,380	55,186	-	-
Trade and other payables	92,113	92,113	85,124	6,091	214	434	250
Lease liability	46,834	55,880	4,221	4,221	5,855	14,681	26,902
Total financial liabilities	**204,750**	**215,259**	**93,045**	**18,692**	**61,255**	**15,115**	**27,152**
2019							
Borrowings	56,455	59,836	1,082	7,589	50,490	675	-
Trade and other payables	73,883	73,883	67,609	5,508	174	380	212
Lease liability	-	-	-	-	-	-	-
Total financial liabilities	**130,338**	**133,719**	**68,691**	**13,097**	**50,664**	**1,055**	**212**

E1.3 Interest rate risk

The Group is exposed to interest rate risk from the cashflows on floating rate borrowings. The Group uses interest rate swaps to achieve an appropriate mix of fixed and floating rate exposure, through policies established by the Board.

Interest rate swaps are designated as a cashflow hedge and allow a fixed interest rate to be obtained at a future date. They are recognised at fair value. To the extent the hedge is effective, any movements are recorded in equity. Any ineffectiveness is recognised in profit or loss. Fair values are obtained from market observable pricing information. The following table details the notional and fair value interest rate swaps as at 30 June.

	2020 Notional Value $'000	2020 Fair Value $'000	2019 Notional Value $'000	2019 Fair Value $'000
NZD Interest rate swaps	16,100	579	21,100	435
AUD interest rate swaps (NZD equivalent)	32,331	1,394	33,083	1,206
Total	**48,431**	**1,973**	**54,183**	**1,641**

E1.4 Foreign currency risk

The Group is exposed to foreign currency risk on sales and purchases, denominated in a currency other than the functional currency. The key foreign currencies transacted in are Australian dollars and US dollars. The Group use forward exchange contracts to manage the risk for significant transactions. It is estimated that a 1 percentage point change in the NZD against these currencies would change current year profit before tax by $51,000 (increase) (2019: $116,000(decrease))

The most significant exposure to the Group is exchange rate fluctuation on its investment in the Australian operations. The Group hedges part of its net investment in Australia by borrowing in Australian dollars; this is known as a net investment hedge. This allows the Group to take foreign currency translation gains to equity as opposed to profit or loss.

	2020 AUD $'000	2019 AUD $'000
Investment foreign currency risk		
Net investment in Australian operations	30,955	33,067
Foreign currency denominated borrowings		
Secured bank borrowings designated as a hedged item	(17,714)	(17,714)
Net unhedged exposure	**13,241**	**15,353**

F. Other

In this section
This section includes information required to comply with financial reporting standards that is not covered previously.

F1. Related parties

Related party transactions

These are transactions between the Group and related individuals or entities by nature of influence or control. The Group has such relationships with its key management personnel and equity accounted investments. The disclosure of transactions with these parties enables readers to form a view of the impact of related party relationships on the Group.

Transactions with associates and joint arrangements

The table below sets out the transactions with associates and joint arrangements. Advances to associates are interest bearing (at the parent company's average cost of borrowing) unless deemed part of the Group's investment.

	2020 $'000	2019 $'000
Sales of goods and services	5,537	7,516
Purchases of goods and services	30,051	29,031
Closing advances/receivables	3,472	3,848
Closing loans/payables	931	339

No expense or movement in provision on outstanding balances with associates was recorded during 2020 or 2019.

Key management personnel compensation

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

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

	2020 $'000	2019 $'000
Key management personnel compensation comprised:		
Director's fees and remuneration	968	1,042
Short-term employee benefits	3,953	3,894
Other transactions with key management personnel		
Gross value of Directors' sales	11,644	11,559
Commission charged on Directors' sales (as above)	1,398	1,387
Gross value of Directors' other transactions (prepacking services and sundry other expenses)	78	70
Amounts owing to key management personnel as a result of the above transactions	334	188

F2. Auditor's remuneration

	2020 $'000	2019 $'000
Audit services		
Market Gardeners Limited and subsidiaries (KPMG)	96	85
LaManna Premier Group Pty Limited and subsidiaries (Pitcher Partners)	190	181
Market Gardeners Limited Share register audit (KPMG)	1	1
Other services		
Market Gardeners Limited and subsidiaries (KPMG)	10	9
LaManna Premier Group Pty Limited and subsidiaries (Pitcher Partners)	209	187

Other services paid to KPMG relate to the preparation of data analytics reports for management's analysis.

Other services paid to Pitcher Partners relate to accounts preparation and taxation services.

Audit remuneration is included within administrative expenses in the statement of comprehensive income.

F3. Capital Commitments

At 30 June 2020 the Group had capital commitments of $3,170,000 (2019: $6,600,000). Capital commitments relate to investment in assets and infrastructure. Capital commitments are recognised after a formal capital review and approval process.

F4. Contingencies

Trade indemnities and guarantees issued by the Group amount to $2,924,000 for associate companies (2019: $5,050,000).

G. About this report

In this section

The notes to the consolidated financial statements include information which is considered relevant and material to assist the reader in understanding the financial performance and position of Market Gardeners.

Information is considered relevant and material if:

- the amount is significant because of its size and nature;
- it is important for understanding the results of Market Gardeners;
- it helps to explain changes in Market Gardener's business; or
- it relates to an aspect of Market Gardener's operations that is important to future performance.

Reporting entity

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

The 30 June 2020 consolidated financial statements are for Market Gardeners Limited and its subsidiaries (together referred to as "Market Gardeners" or "Group") and its interests in associates and joint arrangements as at year end.

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

Statement of compliance and basis of preparation

The financial statements have been prepared:

- in accordance with New Zealand Generally Accepted Accounting Practice ("NZ GAAP") and comply with New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") and with the International Financial Reporting Standards ("IFRS"), as appropriate for for-profit entities.
- for the 53-week period ending 3 July 2020 (2019: 52-week period ending 28 June). This ensures comparability given the Group weekly trading cycles. For simplicity the financial statements are referred to as 30 June.
- in New Zealand dollars rounded to the nearest thousand ($000), except when otherwise indicated.

In preparing the consolidated Group financial statements, intra-group balances and any unrealised income and expenses arising from intra-group transactions are eliminated. 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.

Impact of Covid-19

As the produce industry was classed as an essential service, the Group's operations continued relatively unaffected despite the worldwide disruptions caused by Covid-19 and the actions taken and restrictions put in place by Governments around the world.

Overall the Covid-19 pandemic has not had a significant impact on the Group and the estimates and assumptions used in the financial statements as at / for the year ended 30 June 2020. The business has continuity plans in place should a business unit be directly be impacted by a positive case of Covid-19 – to date there have been none.

Foreign currency

Foreign currencies transactions are translated at the exchange rates at the transaction date. Monetary assets and liabilities denominated in foreign currencies are retranslated at the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at fair value are retranslated using the exchange rate at the valuation date.

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 relevant transaction date. Foreign currency differences are recognised in the foreign currency translation reserve (FCTR).

Critical estimates and judgements

The preparation of the financial statements requires management to exercise judgement in applying Group accounting policies. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an on-going basis.

Key estimates in understanding the Group's position and performance are described below:

- Revaluation of land and buildings — Note B1
- Impairment assessment of intangible assets — Note B3

New accounting standards

NZ IFRS 16 leases has been applied for the first time in the current year. Refer to note C6 for details of the current period adoption of NZ IFRS 16.

Accounting standards issued but not yet effective

There are currently no standards issued but not yet effective that are expected to have a material effect on the Group.

Subsequent events

As at 30 June 2020 there were no subsequent events requiring disclosure.

KPMG

Independent Auditor's Report

To the shareholders of Market Gardeners Limited

Report on the audit of the consolidated financial statements

Opinion

In our opinion, the accompanying consolidated financial statements of Market Gardeners Limited (the 'company') and its subsidiaries (the 'Group') on pages 23 to 44:

i. present fairly in all material respects the Group's financial position as at 30 June 2020 and its financial performance and cash flows for the year ended on that date; and

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

We have audited the accompanying consolidated financial statements which comprise:

— the consolidated statement of financial position as at 30 June 2020;

— the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended; and

— notes, including a summary of significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ('ISAs (NZ)'). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Group in accordance with Professional and Ethical Standard 1 International Code of Ethics for Assurance Practitioners (Including International Independence Standards) (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) ('IESBA Code'), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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

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

Materiality

The scope of our audit was influenced by our application of materiality. Materiality helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the consolidated financial statements as a whole. The materiality for the consolidated financial statements as a whole was set at $2,640,000 determined with reference to a benchmark of Group Revenue. We chose the benchmark because, in our view, as a co-operative entity, this is a key measure of the group's performance.

KPMG

Key audit matters

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

The key audit matter	How the matter was addressed in our audit
Carrying value of goodwill and brands ($27.9m – refer note B3)	
The Group has significant operations in Australia following the historical acquisition of LaManna Bananas and subsequent merger with Premier Fruits Group (together the LaManna Premier Group). The above acquisitions resulted in significant Goodwill and Brand intangible assets being recognised on balance sheet. The Group have previously recognised an impairment of $20.5m for goodwill and $11.8m for brand intangible assets. The remaining goodwill asset of $21.4m is in respect of LaManna Premier. In the current year, the Group have acquired a controlling shareholding in Te Mata Exports 2012 Limited (Te Mata) in the current period and recognised $6.1m of Goodwill. The carrying value of goodwill and brand intangibles is considered a key audit matter, given the requirement to complete an annual impairment assessment which required judgement in respect of forecast performance.	The key procedures we performed included: *La Manna Premier* — Challenging management's conclusion to consider the impairment assessment at the consolidated LaManna Premier level as being the lowest level which generates independent cash flows; — Assessing the mechanics of the value in use model for consistency with the requirements of the relevant accounting standards; — Challenging the appropriateness of key assumptions within the value in use model including discount rates, future growth rates and forecasted cashflows; — Making specific enquiries in respect of the impact of COVID-19 on the impairment assessment of LaManna Premier. — Engaging internal valuation specialists to evaluate the discount rates and mechanical accuracy of management's discounted cash flow model; — Agreeing inputs within management's model to Board approved budgets and comparing these with the actual result to 31 August 2020, including a retrospective review of prior year assumptions; — Comparing the calculated value in use against the associated carrying amount; and — Assessing the appropriateness, sufficiency, and clarity of intangible asset (goodwill and brands) related disclosures within the Group financial statements. *Te Mata* — Challenging management's determination of the fair value of net assets acquired along with the Group's prior investment in Te Mata; — Assessing management's determination of Goodwill following the purchase of a controlling shareholding in Te Mata; and — Assessing the appropriateness of the financial statement disclosures made by the Group with regard the acquisition and resultant Goodwill in the Te Mata operations. Our audit procedures did not identify any material errors with regard the Groups assessment of the carrying value of Goodwill and Brands.

KPMG

The key audit matter	How the matter was addressed in our audit
Presentation of sales revenue – trade sales vs commissions ($598.9m net revenue – refer note A1.1)	
The Group has different sales terms between New Zealand and Australia and within grower entities. These sales terms define the nature of the transactions, including the associated risks assumed and timing of those risks. Specifically, revenue is either recognised on a Gross (i.e. Trade Sales) or Net (i.e. Commissions) basis. Due to the judgement involved we consider revenue recognition to be a key audit matter.	The key procedures we performed included the following: — Assessing the Group's revenue recognition policy for consistency with the requirements of NZ IFRS 15 Revenue from Contracts with Customers; — Analytically assessing the commissions calculated with regard to agency sales including: o Comparing the commission applied against the standard grower terms and conditions; o Recalculating the agency commission and comparing this against the amount presented as commission income; o Assessing if the gross agency sales directly offset the purchase of agency related products. — Performing a reconciliation between the cash received within the relevant bank account and the sales recognised within the general ledger once adjusted for balance sheet movements. — Considering the appropriateness of the disclosures made by the Group concerning revenue recognition. Our audit procedures did not identify any material errors with regard the recognition and presentation of sales revenue.

Other information

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

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

Use of this independent auditor's report

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

Responsibilities of the Directors for the consolidated financial statements

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

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

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

Our objective is:

- to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error; and
- to issue an independent auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ will always detect a material misstatement when it exists.

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

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

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

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

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

For and on behalf of

KPMG

KPMG
Christchurch

28 September 2020

Statutory information

1. Directors' fees & remuneration

Parent Company The following people held office as Director of the Parent Company during the year and received the following remuneration and other benefits for acting as such:	*** Directors' fees**	*** Special project and other fees**	**Other benefits**
T.J. Burt	60,000	11,500	2,098
L.T. Crozier	60,000	6,750	2,098
A.G. Fenton (Deputy Chairman)	75,000	9,375	2,098
J.A. Lim	60,000	10,000	2,624
B.R. Irvine (Chairman)	120,500	10,687	2,098
M.J. Russell	60,000	5,437	2,098
M.R. O'Connor	60,000	2,500	2,361
T. Webb	55,417	4,437	2,624
	550,917	60,686	18,099

Subsidiary Company The following people held office as Director of subsidiary company LaManna Premier Group Pty Ltd and received the following remuneration and other benefits for acting as such:			
A.J. Di Pietro	-	-	-
A.G. Fenton	57,951	9,462	-
B.D. Gargiulo, MBE. (Chairman)	100,096	45,856	-
B.R. Irvine	57,951	6,109	-
P.S. Hendry	-	-	-
M. LoGiudice	57,951	3,191	-
	273,949	64,618	-

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

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

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

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 F2 of the attached financial statements to 30 June 2020.

3. Co-operative Companies Act 1996 Declaration

In compliance with clause 10 of the Co-operative Companies Act 1996 the Board of Directors of Market Gardeners Limited unanimously resolved on 1 July 2020 that, in their opinion, the Parent Company had been a co-operative company throughout the period 1 July 2019 to 30 June 2020. This opinion was based on the fact that, more than 60% of the voting rights were held by transacting shareholders and that the Parent Company continued to carry on its principal co-operative activities as detailed in its constitution.

4. Executive employees' remuneration

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

Remuneration range	Number of employees	Remuneration range	Number of employees
100,000 to 109,999	30	260,000 to 269,999	3
110,000 to 119,999	15	270,000 to 279,999	3
120,000 to 129,999	16	280,000 to 289,999	2
130,000 to 139,999	7	290,000 to 299,999	2
140,000 to 149,999	12	300,000 to 309,999	1
150,000 to 159,999	10	310,000 to 319,999	1
160,000 to 169,999	8	320,000 to 329,999	1
170,000 to 179,999	10	330,000 to 339,999	1
180,000 to 189,999	12	350,000 to 359,999	2
190,000 to 199,999	4	370,000 to 379,999	1
200,000 to 209,999	3	380,000 to 389,999	1
210,000 to 219,999	4	450,000 to 459,999	1
220,000 to 229,999	5	510,000 to 519,999	2
230,000 to 239,999	2	990,000 to 999,000	1
240,000 to 249,999	5	1,080,000 to 1,089,999	1
250,000 to 259,999	6		

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

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

5. Interests register

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

General disclosures

Like most co-operative companies, Market Gardeners Limited has frequent transactions with its grower Directors (sales to, agency sales for and purchases from Directors) in the ordinary course of business. For additional information refer to note F1 of the attached financial statements to 30 June 2020.

5. Interests register (continued)

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

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

Director	Nature of Interest	Company / Entity
As directors of the Parent Company, Market Gardeners Ltd		
M.R. O'Connor	Director Board Member	Waimea Irrigators Ltd Vegetables NZ Inc
T.J. Burt	Chairman Chairman Trustee	Rua Bioscience Ltd MHM Automation Ltd (formerly Mercer Group Ltd) Māia Health Foundation
B.R. Irvine	Chairman	Original Foods Ltd

As director(s) of the subsidiary company, LaManna Premier Group Pty Ltd		
A. J. Di Pietro	Director Board member Director	Te Mata Exports Australia Pty Ltd Australian Fresh Produce Alliance Australian Banana Research Ltd
As director(s) of the subsidiary company, Te Mata Exports 2012 Ltd (TMEL)		
P. Lange	Director & indirect shareholder in TMEL Director	Lange Cornucopia Holdings Ltd Te Mata Exports Australia Pty Ltd
M. Tait	Director & indirect shareholder in TMEL	Tootaits Ltd

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

Particular disclosures

During the period all director's reconfirmed their interests by virtue of being directly or indirectly shareholders in Market Gardeners Ltd and any changes in those shareholdings as detailed below.

(a) Directors' & officers' indemnity and insurance

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

5. Interests register (continued)

(b) Use of company information

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

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

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

(d) Share dealings

The following are the shareholdings of Directors of the Parent Company at 30 June 2020. 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 2020			30 June 2019		
	A Shares	B Shares	C Shares	A Shares	B Shares	C Shares
L.T. Crozier	-	-	-	-	-	-
Held by a company of which he is a shareholder & director	147,595	72,818	12,498	92,179	77,099	9,316
A.G. Fenton	-	-	-	-	-	-
Held by a company of which he is a shareholder & director	16,361	125	-	15,133	159	-
B.R. Irvine as Director of MG Group Holdings Ltd and J S Ewers Ltd (100% subsidiary companies of Market Gardeners Ltd)	1,480,614	491,220	-	1,004,973	966,861	-
J.A. Lim (joint shareholding)	42,644	30,008	9,810	23,338	29,270	4,708
M.R. O'Connor	-	-	-	-	-	-
Held by a company of which he is a shareholder & director	506,129	224,510	35,130	348,853	227,081	26,968
M.J. Russell	-	-	-	-	-	-
Held by a company of which he is a shareholder & director	55,464	38,439	7,086	28,500	41,352	4,688
T. Webb	-	-	-	-	-	-
Held by a company of which she is a shareholder & director	95,812	20,862	4,176	80,755	21,740	1,996

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

6. Changes in accounting policies

The attached financial statements to 30 June 2020 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 $59,000 (2019: $43,000), the Group $89,000 (2019: $62,000).

8. Directors of subsidiaries

As at 30 June 2020:

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

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

Messrs K.J. Wells (International Business Manager), P.S. Hendry (CEO), M. Tait and P. Lange were the directors of Te Mata Exports 2012 Ltd and Te Mata Exports Ltd.

Messrs K.J. Wells (International Business Manager), P. Lange, S. McCormack and P. Scheffer were the directors of Te Mata Exports Australia Pty Ltd.

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

Messrs B.D. Gargiulo (MBE) and A.J. Di Pietro were the directors of Australian Banana Company Pty Ltd, Carbis Bananas Pty Ltd, Fruitology Pty Ltd, LaManna Bananas Pty Ltd (formerly SureStak Pty Ltd), Fresh Choice W.A. Pty Ltd, Gold Tyne Pty Ltd, G.V. Agri Services Pty Ltd, LaManna Bananas (Adelaide) Pty Ltd, LaManna Group Pty Ltd, LaManna Fresh Pty Ltd, LaManna Fruit Pty Ltd, LaManna Bananas Property One Pty Ltd, LaManna Bananas Property Two Pty Ltd, LaManna Group Holdings Three Pty Ltd, LaManna Group Holdings Four Pty Ltd and LaManna Group Holdings Five Pty Ltd, Verona Fruit Pty Ltd, Premier Fruits Group Pty Ltd, Premier Fruits International Pty Ltd, Premier Fruits NSW Pty Ltd, Premier Fruits Pty Ltd, Premier Fruits Brisbane Pty Ltd, Premier Farms Pty Ltd, Premier Fruits Adelaide Pty Ltd, Absolutely Fresh Prepacking Pty Ltd, Premier Fruits Lancaster (Vic) Farming Pty Ltd and Premier Fruits W.A. Pty Ltd.

Messrs B.R. Irvine, P.S. Hendry, D.J. Pryor and A.J. Di Pietro were the directors of Lambell's Properties Pty Ltd.

Corporate governance statement

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

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

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

The Board's responsibilities include general stewardship, working with management to set the Company and Group's strategic direction, providing leadership, monitoring management and financial performance, monitoring compliance and risk management and ensuring that there are effective policies, procedures and guidelines in place to ensure these responsibilities are performed to a high standard of accepted business practice and financial accountability. To this end the Board, primarily through the audit committee, continues a rigorous process of reviewing, adding to and updating 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 amongst the directors. The current Board of Directors consists of 6 shareholder elected Directors (Andrew Fenton (Deputy Chairman), Lynn Crozier, Mike Russell, Mark O'Connor, Joanna Lim and Trudi Webb) and 2 Special Directors (Bruce Irvine (Chairman) and Trevor Burt). None of the MG Directors are directly involved in the day-to-day management of the Company's operations. Bruce Irvine has been on the MG Board since December 1994 and was appointed Chairman in November 2017. Trevor Burt commenced as a director in January 2017.

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

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

As at 30 June 2020, LaManna Premier Group Pty Ltd (LaManna Premier) was a 69.3% (2019: 69.3%) subsidiary. MG has appointed four representative directors to the LaManna Premier Board (Brian Gargiulo (as Chair), Bruce Irvine, Andrew Fenton and Peter Hendry). The non-controlling interest shareholders have appointed two Directors to represent them on the LaManna Premier Board – they are Anthony Di Pietro and Mark LoGiudice.

MG's constitution has specific procedures for the appointment and retirement of Directors, eligibility requirements for being nominated / appointed and automatic retirement rotations every three years. The MG Board met 15 times during the financial year (11 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 – particularly the challenges brought about by Covid-19 and the initial lockdown period commencing on 25 March 2020. 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. During the periods of Covid-19 travel restrictions meetings were held by way of audio-visual conference calls.

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

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

Similarly, LaManna Premier's Chief Executive (Anthony Di Pietro), Chief Operating Officer (Dean Gall), Chief Financial Officer (Mark Plymin), Chief Commercial Officer (Simon Hardie) and certain other senior executives of LaManna Premier and MG attend all LaManna Premier Group board meetings.

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

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

Board Remuneration
MG obtains external professional advice on remuneration to be paid to Directors on a two to three yearly basis. The recommendations of the external advisor are, if required and after consideration by the Remuneration Committee and full Board, submitted as a resolution to shareholders at the Company's annual meeting. This last occurred at the November 2019 annual meeting. No change is being sought this year.

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

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

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

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

- Considering the nature and extent of risk the Board is willing to take to meet the company's strategic objectives and the associated risks;
- Set up internal control processes to ensure management efficiently manage resources in compliance with the risk framework;
- In conjunction with the CEO and management, reviewed the effectiveness of compliance with risk management policies and systems;
- Mandated (as part of its charter), the audit committee to monitor detailed risk management procedures on the Board's behalf; and
- Held frequent and regular audio-visual conference calls to obtain updates from management and provide oversight during periods when the Covid-19 alert levels are increased.

Board Committees

Audit Committee
This sub-committee of the MG Board met 4 times during the financial year (4 times last financial year) in its chartered role of reviewing all financial, management, auditing, compliance and risk factors affecting the Company and Group. As a sub-committee of the MG Board, it is made up of four Directors, two of whom (Trevor Burt and Bruce Irvine) are special directors, with appropriate experience, accounting skills and knowledge. Joanna Lim and Lynn Crozier are the other two members of the committee. Trevor Burt is the chairman of the Audit Committee. The Committee's meetings are attended by MG's Chief Executive (Peter Hendry), Chief Financial Officer (Duncan Pryor), the Risk and Internal Audit Manager (Kimberly Chavez) and the Company's external auditors, KPMG, as required.

As in prior years, a comprehensive risk based approach to the Company and Group's risk management and internal audit processes is undertaken. This approach is wider than the accuracy of external financial reporting / operational activities and extends into overall compliance requirements of the Group (for example Food Safety Act requirements). Whilst internal audit still ensures that all branches and divisions of MG are subject to regular internal audit visits (on a rotational basis), its procedures focus on making the overall process wider reaching and more regular, such as the introduction of self-audit procedures and reporting. A progressive revision / update of MG's corporate policies is continuing to ensure that they appropriately cater for the current business. This process is being further extended into those entities which are not 100% owned subsidiaries and associate companies.

The LaManna Premier Group also has an Audit Committee which is working with MG's Risk and Internal Audit Manager to develop a risk-based internal audit function and, supplemented as necessary with external resources, undertake focused internal audit visits on a targeted basis. This programme is designed to develop the internal audit testing programme in order to transition to an internal resource at an appropriate time. This process has been somewhat delayed this year as a result of the impact of Covid-19 and in particular the associated trans-Tasman travel restrictions.

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

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

Remuneration and Nomination Committee

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

Cooperative Structure Working Group (formerly the Constitution and Capital Structure Review Committee)

This sub-committee of the Board was formed in early 2019 and is chaired by Joanna Lim. Other members of the working group are Bruce Irvine, Trevor Burt, Mark O'Connor and Andrew Fenton. Peter Hendry, Duncan Pryor and Ellery Tappin represent senior management at the working group's meetings. This committee has completed stage one of this project, being technical changes and revisions to the constitution identified during the two years of operation, which were submitted to and adopted at the 2019 Annual Meeting of Shareholders.

The second stream of work that this committee is undertaking is a review of the capital structure of the Group. This work is continuing but has been delayed as a result of the impact of Covid-19. Initial shareholder consultation has been completed and reported back to shareholders. The next stage is currently being worked through for communication to shareholders and an update will be provided to the 2020 Annual Meeting of Shareholders.

Board charter, code of conduct and Director Capability framework

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

Annual Review

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