# 2018 — APATA GROUP LIMITED ANNUAL REPORT


Apata™ TOGETHER WE'RE BETTER

Apata™ TOGETHER WE'RE BETTER

# CONTENTS



# BOARD OF DIRECTORS

Apata Group Limited Board of Directors from left to right: Mark Mayston (Deputy Chairman), Stuart Weston (Managing Director), Graham Cathie (Chairman), Alan Birley and Sean Carnachan.

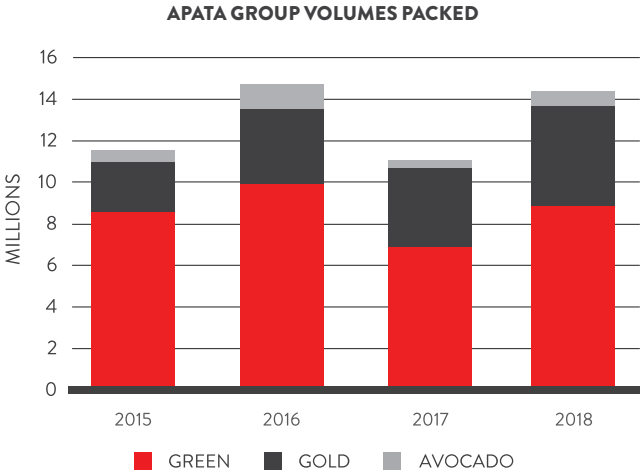
# THE YEAR IN REVIEW



AS REPORTED TO OUR SHAREHOLDERS IN JULY AND DECEMBER, THE 2018 YEAR HAS BEEN A SUCCESSFUL ONE. THIS VINDICATES OUR COMMITMENT TO INVESTMENT IN PEOPLE AND CAPACITY, AS APATA – ALONG WITH THE INDUSTRY – HARVESTED THE LARGEST KIWIFRUIT CROP IN OUR HISTORY.

Aside from delivering strong operational and financial results for our growers and shareholders, much of our time is spent planning for the future forecast volumes. This involves positioning our company to be configured and run as 'best in class', investigating various other strategic initiatives to fortify and spread our supply base, and ensuring we are agile enough to respond to this changing commercial environment.

Below are the volumes against the previous four years' activity:




NOTES:
- AVOCADO WINDOW STRADDLES YEARS. FOR THE PURPOSES OF ALIGNING VARIETIES, '2018 AVOCADO' IS THE 2018/19 SEASON
- VOLUMES INCLUDE EXPORT AND DOMESTIC PROGRAMMES

## DECEMBER 2018 FINANCIAL RESULT

The Directors are pleased to report an operating profit after tax of $5.37m on revenue of $65.14m, comparing favourably to our 2017 profit of $3.91m on revenue of $53.58m.

The Board has listened to shareholder feedback and is prioritising a reliable dividend stream. To that end, we confirm a fully imputed dividend of 25¢ per share to be paid in March 2019.

Other than maintaining the quality of our infrastructure, the only material capital expenditure has been the strategic purchase of 3.2ha of land adjoining our Turntable Hill Road site, and initial stages of packing automation (more on that in the 'looking ahead' section on page 8). Our previous strategic purchase of the Old Coach Road property remained static this year, but available to develop further coolstorage capacity to service our Te Puke operations as and when required.

Our challenge over the next few years is to further develop infrastructure to cater for expected volume increases, implement strategies to secure seasonal labour supply, and respond to ever-increasing standards of compliance.

## CAPITAL STRUCTURE

During 2018, we wrote to shareholders inviting expressions of interest in buying more shares. Running concurrently, we had a number of shares for sale, which largely matched the interest of buyers (circa 1.5 million shares). The Board resolved that willing buyers and willing sellers completing transfers would best satisfy the aspirations of both sides of the equation and reinforced a commitment to ensure as much liquidity as we can support. We continue to encourage new growers to apply for shares, as grower ownership is of paramount importance to us, although we will not compel growers to do so as a cooperative may do.

We now have a healthy shareholder register of investors who are aligned with us; however, the process did not raise further capital. Capital demands will be a key challenge over the next five years, so the Board continues to investigate options to raise additional capital. New funding must align with our fundamental desire to match commercial supply and shareholding as well as with the value of our business by way of improved returns and reduction in risk.


AEROCOOL 05
apata

# KIWIFRUIT 2018

## THE 'BOUNCE BACK' OF GREEN PRODUCTIVITY WAS WELCOME, COUPLED WITH THE CONTINUING GROWTH OF GOLD.

The Green conventional crop was slower to ship than in previous years, with quality issues arising towards the end of the season. This generated tens of millions of quality costs in the National pool, particularly in Europe. In part, this arose due to poor estimation by the industry. We are now involved with Zespri trialling some very exciting technology that will improve our estimates, although, so much of this still relies on elemental conditions between time of estimate and harvest. Of note was the heavy workload stemming from delayed shipping beyond September, which was as challenging as the harvest period. We are wiser from this experience, and will ensure resourcing is sufficient to that challenge as we anticipate this becoming the new norm.

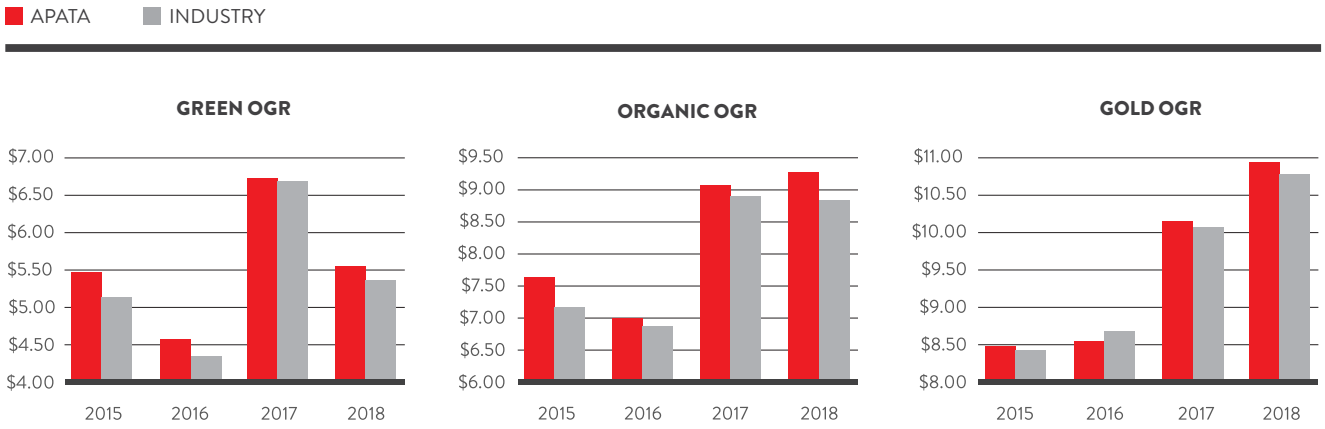
Seasonal labour shortages were well publicised throughout harvest, but the industry and Apata managed this very well during the period. However, the progressively heavier weighting towards Gold over the next few years challenges us to think outside the box for solutions.

Our fourth year of trials for Controlled Atmosphere (CA) storage of Gold was very successful indeed. We are adamant that CA represents an elegant solution to the otherwise impossible volume 'hump' that will emerge over the coming years, and we will be working with selected growers over 2019 to extend this trial to 'business as usual'.

Our varietal mix is more heavily weighted towards Green, compared to the industry, which we are very comfortable with. As the Gold volumes grow by up to 10-15 million trays annually, we are in a favourable position to service that growth and can enable even better asset utilisation. It is difficult to justify building packing capacity for Gold alone, given the tightly concentrated harvest window.

We remain confident we will see new business 'knocking on our door' in future seasons as the new volumes spread across the industry's post-harvest capacity. With approximately half of Gold licence issuance being via Green cut-over, our precious Green volumes are contracting. However, our expectation is that we will see improved Green returns in future, and are acutely aware of our privileged position in catering for the Green volume.

Once again, our grower returns have been excellent, as presented in the tables below.



# ORGANICS

## IT WAS VERY SATISFYING TO REPORT STRONG OGRS TO OUR GROWERS, WITH A GROUNDSWELL OF INTEREST BEING SHOWN BY EXISTING GROWERS AND NEWCOMERS.

As the largest packer of Organic kiwifruit, we are in an excellent position to engage with these growers; our team are actively doing this, including organising another successful annual Organic convention which was open to everyone. The fact that Zespri has an Organic-only tag to a subset of the annual tender of Gold licence attests to the confidence and hunger this marketer has for expanding the category, for which we are well placed to support.

# AVOCADOS

## THE AVERAGE EXPORT PACK OUT FOR THE YEAR WAS 55%. THIS WAS QUITE DISAPPOINTING GIVEN THE PREVIOUS 3-YEAR AVERAGE OF 67%. THE MAIN DEFECT WAS WIND RUB FOLLOWED BY INSECT DAMAGE.

| | |
|---|---|
| EXPORT | 443,265 |
| CLASS 2 | 193,605 |
| CLASS 3 | 85,581 |
| OIL/PROCESS | 123,733 |
| **TOTAL** | **846,184 TE'S** |

In spite of excellent operational execution, this season will not be remembered as a vintage year due to several factors. While estimated bin numbers were quite accurate, the lower conversion rate yielded much lowers export voloume than we had hoped for. Fruit quality was compromised and a contributing factor included the previous long and warm autumn, whiched caused the fruit to keep growing and maturing; therefore, we started the export season with advanced maturity (high dry matter). This was followed by a very wet period up until Christmas, which meant there were high levels of fungal inoculum (anthracnose) in the orchards.

Consequently, we ended up with some poor out-turns in the market and a significant level of product having to be repacked prior to release to the retail programme.

At the time of writing, we have not received indicative grower returns; however, these are likely to be modest compared to the stunning 2017/18 season.

The quality issues experienced this season cannot continue without eroding the value and standing of New Zealand avocados abroad. Industry and AVOCO are initiating a robust science-based review of the causes of these issues and, as Apata is the largest packer of avocados, we have an opportunity to be actively engaged in this. There is strong confidence that we will find the answers and it is critical that we do so to protect the future of this vibrant and growing sector.

A highlight for the year has been the establishment of a new growers' support group run by Apata. There has been tremendous interest and engagement in this initiative, and we are excited about the growth that lies ahead.

# BUSINESS OUTLOOK

## PEOPLE

Our objective is for our people to be genuinely connected to our business with a strong sense of belonging, loyalty, clarity and wellness. For that reason, we have initiated a comprehensive wellness programme for our staff encompassing physical, mental and social well-being. Staff feedback has been very positive so far.

We also support our people in a wide variety of vocational training initiatives and are a routine participant in the annual Young Fruit Grower of the Year competition (with more than our fair share of wins).

## SUSTAINABILITY

Increasing global concern and interest in sustainability by individuals, communities and governing authorities has created a global megatrend that requires us to review how we conduct our business. Many of our staff have independently expressed a passion for this area, such that we now have sustainability on our strategic agenda. Apata should be an industry leader in sustainability, embedding the principles throughout our business and showcasing our credentials to others. This is a journey, not an overnight phenomenon – to this end we have a team working through this across all departments of our business and have adopted the Enviro-Mark Standard, which is a widely recognised independent certification by Government and many businesses within New Zealand. We are currently working towards Bronze status, and thereafter through the levels of standards to achieve Gold status. We will keep you informed of our progress.

## BIOSECURITY

Biosecurity continues to be challenging and is a key strategic risk for New Zealand primary industry with 'the more you look, the more you find' being evident. While we are a long way from having a perfect system with such an insecure border, we are encouraged by Ministry for Primary Industries (MPI) increasingly proactive approach and their response to recent interceptions of the Queensland fruit fly. At the time of writing, Apata Quality staff are deployed in Auckland to assist with their efforts.

The Brown Marmorated Stink Bug continues to be intercepted. Beyond the scrutiny and turning away of vessels found to be harbouring this pest, initial permission to import the Samurai Wasp has been sought as a means of biological response if or when this pest establishes a breeding population.

## COMPLIANCE

The application of the Food Act is another impost of compliance, but one that fortunately dovetails into the quality and compliance work already carried out in both the kiwifruit and avocado industries. Customer and country requirements are ever increasing and diverse, with access to China for avocados being a major exercise in 2018 and going forward. The revised Health and Safety legislation is seeing several test cases through the courts and, despite a certain level of anxiety by businesses, our assessment is the courts are applying common sense and gradually a level of certainty around obligations. It is our strategy to have 'best in class' Health and Safety systems; Health and Safety is deeply embedded throughout our business, ably managed and driven by Kate Trufitt, Avocado Business Manager and Group Compliance and Safety Manager. Kate has taken a leading role in establishing cross-company Health and Safety guidelines, such that we are actively leading in this area.

## ASSOCIATE

Primor Produce Limited, our marketing associate based in Auckland, continues to perform exceptionally well in import, export and local sales of domestically grown produce. The dividend received for this period continues to be a star performer; however, we have provided for a significant reduction in the 2019 outlook, almost exclusively as a result of the quality issues arising from this past season's avocado programme.

## LOOKING AHEAD

The 2019 year will once again set a new industry record for kiwifruit volume. Extended dry weather post-Christmas may suppress Green's fruit size, and pollination was also not ideal for Green. Estimates so far show solid volume, but the 'scrappy' quality for Green presents more of a challenge with Class 1 conversion likely to be less than the stunning 2018 performance. Gold, by contrast, has fared much better with a solid, clean crop to look forward to. Albeit a bit further off, the avocado set looks promising to date, and our team are looking forward to a substantial programme, with new plantings gradually coming on line as well.

As mentioned earlier, our 'business as usual' environment is now under challenge as seasonal labour becomes scarce with the increasing peak Gold volumes exacerbating things further. Aside from the supply constraint and annual minimum wage rates increasing substantially, the market is moving quickly with wage rates exceeding the prescribed minimum levels. Of all the market spheres we operate in, the labour market has to be the most hotly contested, where non-financial elements are becoming as important as the headline pay rate.

With regards to labour accommodation, our government has made it clear that Kiwi houses are for Kiwis. If employers wish to house seasonal foreign staff, then accommodation must be built with employers being responsible for realising this. We expect significant investment in this area – in the short term,

likely to run into millions of dollars. Further beds are a key element of attractiveness to the crucial 'backpacker' flow that comes through the Bay of Plenty region.

Our relationship with the Ministry of Business Innovation and Enterprise (MBIE) is excellent, with Apata being considered an industry exemplar. As a result, we have enjoyed further allocation of Recognised Seasonal Employer (RSE) overseas workers.

We believe that automation is critical to alleviating the pending labour shortages. During kiwifruit harvest, approximately 70% of our total workforce is based in our packhouses, so we're installing beta-stage robotics in our Te Puke site on our MAF Roda, with a view to rolling out further automation as quickly as we can. While the key objective is to displace packhouse labour and maximise the capacity of our infrastructure assets, it is not envisaged that anyone looking for a job will ever be turned away; merely that a greater proportion will be directed towards harvesting. The order of magnitude of investment is a moving target as we trial various concepts, but it will certainly run into many millions of dollars.

With compliance and labour supply issues becoming even more challenging, there is a greater burden being felt by all growers and many are asking us to manage their orchards for them. Our Apata GROW Orchard Management division is seeing considerable growth and is going from strength to strength. This presents us with a genuine opportunity to invest in more management capacity and staff, which dovetails nicely into our existing post-harvest business.

As well as building RSE numbers, it is likely that our full-time staff complement will grow substantially as we evolve, to enable us to manage the seasonal peak activities in orchards outside of harvest.

All our shareholders and growers will have received an Information Memorandum (IM) on a Gisborne kiwifruit development that Apata has initiated. Kiwifruit asset values (orchards) have risen dramatically, fuelled by external interests wanting to come on board. Next-best alternative investments/ land-use options pale by comparison, with producing orchards now, in our view, fully priced. By way of contrast, land development will yield substantially better returns for those investors able to cope with deferred gratification. We believe that greater value will be captured by developing land outside the peak supply curve of main season Gold. Unsurprisingly, the response following the release of the IM has been excellent.

We anticipate a continuation of land development subject to Zespri's stated licence release programme. Last year we referred to Zespri's licence release plan, which is unchanged. Despite the daunting future picture, the upside is that volumes are relatively easy to forecast. This is a significant advantage compared to any other primary industry, and we continue to monitor the way in which the industry contends with the growth.

While we spend much of our time looking forward, there are many aspects of the commercial environment which will likely change, but we can only speculate how. One key advantage Apata has is the excellent working relationships with our kiwifruit and avocado grower representative committees – this vital area affords us agility to respond as the circumstances demand.

## ACKNOWLEDGEMENTS

Finally, we wish to acknowledge and thank our growers, shareholders and staff. Nothing good comes without great planning, goodwill and communication between all, and a lot of hard work. It is humbling to see the level of commitment coming through on a daily basis, the pride we all have in what we do and who we do it with, and the results that come from this.

## THANK YOU FOR YOUR SUPPORT.

**GRAHAM CATHIE**
Chairman

**STUART WESTON**
Managing Director

Apata TOGETHER WE'RE BETTER

# CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

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# STATUTORY INFORMATION

FOR THE YEAR ENDED 31 DECEMBER 2018

## 1. DIRECTORS' REMUNERATION

The Group's remuneration policy is to ensure the remuneration package properly reflects the person's duties and responsibilities and that remuneration is competitive in attracting, retaining and motivating people of the highest quality.

Details of the nature and the amount of each major element of emoluments of each Director of the company are:

| IN NEW ZEALAND DOLLARS | FEES | OTHER BENEFITS | TOTAL |
|---|---|---|---|
| C G CATHIE | 50,000 | 4,000 | 54,000 |
| A BIRLEY | 25,000 | - | 25,000 |
| C S CARNACHAN | 25,000 | - | 25,000 |
| M N MAYSTON | 25,000 | 4,000 | 29,000 |
| T H WILSON (RESIGNED 28 FEBRUARY 2018) | 4,167 | - | 4,167 |
| S B WESTON | - | - | - |

THE ABOVE PERSONS, EXCLUDING T H WILSON, WERE HOLDING OFFICE AS DIRECTORS OF THE COMPANY AS AT 31 DECEMBER 2018.

M N Mayston and C G Cathie receive director fees for services as directors of Primor Produce Ltd. These have been disclosed above as Other Benefits. S B Weston is an employee and a Director and is not remunerated separately for services as a Director.

## 2. ENTRIES RECORDED IN THE INTERESTS REGISTER

The following entries were recorded in the interest register of the Group during the period:

### DIRECTORS' INTERESTS IN TRANSACTIONS

During the period, the Group undertook transactions with the Directors as set out in Note 25 to the financial statements disclosing related party transactions.

### USE OF COMPANY INFORMATION

During the period, the Board received no notices from Directors requesting authority to use Group information which would not otherwise have been available to them.

### SHARE DEALINGS OF DIRECTORS

S B Weston purchased 118,828 shares from Apata Group ESI Trustee Limited and sold 280,000 shares to non-related shareholders during the year ended 31 December 2018 (2017: purchased 118,828 shares).

Bruntwood Investment Trust, of which M N Mayston is a beneficiary, purchased 59,000 shares during the year ended 31 December 2018 (2017: nil shares).

### DIRECTORS' SHAREHOLDINGS

Directors held the following shares at 31 December 2018:

| | | |
|---|---|---|
| ALAN BIRLEY | 570,334 | |
| ALAN BIRLEY | 533,296 | SHARES HELD BY ALAN BIRLEY TRUST OF WHICH ALAN BIRLEY IS A TRUSTEE AND BENEFICIARY |
| ALAN BIRLEY | 536,949 | SHARES HELD BY PAT BIRLEY TRUST OF WHICH ALAN BIRLEY IS A TRUSTEE AND BENEFICIARY |
| GRAHAM CATHIE | 95,109 | SHARES HELD BY KIWIFRUIT MANAGEMENT SERVICES LIMITED OF WHICH GRAHAM CATHIE IS A SHAREHOLDER AND DIRECTOR |
| MARK MAYSTON | 942,258 | SHARES HELD BY BRUNTWOOD INVESTMENT TRUST OF WHICH MARK MAYSTON IS A BENEFICIARY |
| STUART WESTON | 195,312 | |
| STUART WESTON | 20,000 | SHARES HELD BY WESTON INVESTMENT TRUST OF WHICH STUART WESTON IS A TRUSTEE AND BENEFICIARY |
| SEAN CARNACHAN | 58,333 | SHARES HELD BY WESTERN ORCHARDS LIMITED OF WHICH SEAN CARNACHAN IS A SHAREHOLDER AND DIRECTOR |

### LOANS TO DIRECTORS

There were no loans to Directors issued during the year ended 31 December 2018 nor any loans outstanding by Directors at 31 December 2018.

### DIRECTORS' INDEMNITY AND INSURANCE

The Group has insured all its Directors against liabilities to other parties (except the Group or a related party of the Group) that may arise from their positions as Directors. The insurance does not cover liabilities arising from criminal actions.

# STATUTORY INFORMATION CONTINUED

## 3. EMPLOYEES' REMUNERATION

During the period, the following number of employees received remuneration and benefits of at least $100,000:

| NUMBER OF EMPLOYEES | DEC 2018 | DEC 2017 |
|---|---|---|
| 100,000 - 109,999 | 1 | 0 |
| 110,000 – 119,999 | 3 | 2 |
| 120,000 – 129,999 | 2 | 3 |
| 130,000 – 139,999 | 0 | 1 |
| 140,000 – 149,999 | 1 | 4 |
| 150,000 – 159,999 | 2 | 0 |
| 170,000 – 179,999 | 1 | 0 |
| 190,000 – 199,999 | 1 | 0 |
| 220,000 – 229,999 | 0 | 1 |
| 300,000 – 309,999 | 0 | 1 |
| 320,000 – 329,999 | 1 | 0 |
| 540,000 – 549,999 | 0 | 1 |
| 560,000 – 569,999 | 1 | 0 |

BENEFITS INCLUDE THOSE TRANSFERRED UNDER THE EMPLOYEE SHARE SCHEME OPERATED BY THE GROUP.

## 4. AUDIT FEES

During the period, audit fees were paid as disclosed in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

## 5. DONATIONS

Donations of $12,943 were made during the period (2016: $15,020).

# DIRECTORS' DECLARATION

In the opinion of the Directors of Apata Group Limited, the consolidated financial statements and notes, on pages 13 to 38:

- comply with New Zealand generally accepted accounting practice and give a true and fair view of the consolidated financial position of the Group as at 31 December 2018 and the results of its operations and cash flows for the year ended on that date
- have been prepared using appropriate accounting policies, which have been consistently applied and supported by reasonable judgements and estimates.

The Directors believe that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the consolidated financial position of the Group and facilitate compliance of the consolidated financial statements with the Financial Markets Conduct Act 2013.

The Directors consider that they have taken adequate steps to safeguard the assets of the Group, and to prevent and detect fraud and other irregularities. Internal control procedures are also considered to be sufficient to provide a reasonable assurance as the integrity and reliability of the consolidated financial statements.

The Directors are pleased to present the consolidated financial statements of Apata Group Limited and its subsidiaries for the year ended 31 December 2018.

For and on behalf of the Board of Directors:

**C G CATHIE**
Director
*26 February 2019*

**C S CARNACHAN**
Director
*26 February 2019*

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

## AS AT 31 DECEMBER 2018

| | NOTE | 2018 ($'000) | 2017 ($'000) |
|---|---|---|---|
| **ASSETS** | | | |
| PROPERTY, PLANT AND EQUIPMENT | 8 | 60,778 | 60,615 |
| TERM RECEIVABLES | 9 | 263 | 350 |
| DEFERRED TAX ASSETS | 12 | - | - |
| INVESTMENT IN EQUITY ACCOUNTED ASSOCIATE | 11(a) | 1,557 | 1,786 |
| OTHER INVESTMENTS | 11 | 135 | 123 |
| **TOTAL NON-CURRENT ASSETS** | | **62,732** | **62,873** |
| | | | |
| INVENTORIES | 13 | 1,178 | 1,451 |
| BIOLOGICAL ASSETS | 10 | 136 | 142 |
| TRADE AND OTHER RECEIVABLES | 14 | 6,835 | 3,626 |
| CASH AND CASH EQUIVALENTS | 15 | 1,212 | 1,845 |
| **TOTAL CURRENT ASSETS** | | **9,362** | **7,063** |
| **TOTAL ASSETS** | | **72,094** | **69,937** |
| | | | |
| **EQUITY** | | | |
| SHARE CAPITAL | 16 | 11,457 | 11,277 |
| RESERVES | 16 | 1,787 | 1,479 |
| RETAINED EARNINGS | 16 | 23,898 | 20,462 |
| **TOTAL EQUITY** | | **37,142** | **33,218** |
| | | | |
| **LIABILITIES** | | | |
| LOANS AND BORROWINGS | 17, 20 | 22,515 | 27,000 |
| DEFERRED TAX LIABILITIES | 12 | 159 | 35 |
| **TOTAL NON-CURRENT LIABILITIES** | | **22,674** | **27,034** |
| | | | |
| LOANS AND BORROWINGS | 17, 20 | 3,880 | 3,880 |
| EMPLOYEE BENEFITS PAYABLE | 18 | 444 | 267 |
| CURRENT TAX LIABILITY | | 685 | 124 |
| TRADE AND OTHER PAYABLES, INCLUDING DERIVATIVES | 19 | 7,269 | 5,413 |
| **TOTAL CURRENT LIABILITIES** | | **12,277** | **9,684** |
| **TOTAL LIABILITIES** | | **34,952** | **36,718** |
| **TOTAL EQUITY AND LIABILITIES** | | **72,094** | **69,937** |

THE NOTES ON PAGES 17 TO 38 ARE AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS.

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

## FOR THE YEAR ENDED 31 DECEMBER 2018

| | NOTE | 2018 ($'000) | 2017 ($'000) |
|---|---|---|---|
| **REVENUE** | 5 | **65,136** | **53,576** |
| WAGES AND SALARIES | | 19,472 | 16,397 |
| PACKAGING MATERIALS | | 13,960 | 11,601 |
| PICKING & CARTAGE | | 2,984 | 2,922 |
| DEPRECIATION | 8 | 3,552 | 3,388 |
| ELECTRICITY | | 1,768 | 1,572 |
| REPAIRS & MAINTENANCE | | 1,410 | 1,313 |
| OPERATING LEASE EXPENSES | | 1,957 | 1,342 |
| FINANCE COSTS | 6 | 1,462 | 1,545 |
| GROWER PAYMENTS - CLASS 2 AND LOCAL MARKET | | 2,748 | 1,479 |
| ORCHARD GROWING EXPENSES | | 387 | 529 |
| LOSS ON DISPOSAL OF PROPERTY, PLANT AND EQUIPMENT | | 10 | 5 |
| DIRECTORS' FEES | | 137 | 180 |
| AUDITORS' REMUNERATION - AUDIT FEES | | 36 | 30 |
| AUDITORS' REMUNERATION - OTHER SERVICES | | - | 3 |
| OTHER EXPENSES | | 8,215 | 7,154 |
| | | **58,099** | **49,459** |
| | | | |
| SHARE OF PROFIT OF EQUITY ACCOUNTED INVESTEES, NET OF TAX | 11(a) | 581 | 979 |
| IMPAIRMENT OF AVAILABLE FOR SALE INVESTMENTS | 11 | - | (28) |
| NET CHANGE IN FAIR VALUE OF CASHFLOW HEDGE | 19 | (198) | 24 |
| | | | |
| **PROFIT/(LOSS) BEFORE INCOME TAX** | | **7,420** | **5,093** |
| | | | |
| INCOME TAX EXPENSE / (BENEFIT) | 7 | 2,047 | 1,182 |
| | | | |
| **PROFIT/(LOSS) FOR THE PERIOD** | | **5,373** | **3,910** |
| | | | |
| **OTHER COMPREHENSIVE INCOME** | | | |
| GAIN/(LOSS) ON REVALUATION OF LAND | 8 | 436 | (167) |
| **OTHER COMPREHENSIVE INCOME FOR THE PERIOD** | | **436** | **(167)** |
| | | | |
| **TOTAL COMPREHENSIVE INCOME FOR THE PERIOD** | 16 | **5,809** | **3,743** |

THE NOTES ON PAGES 17 TO 38 ARE AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

## FOR THE YEAR ENDED 31 DECEMBER 2017

| | NOTE | SHARE CAPITAL ($'000) | SHARE BASED PAYMENTS RESERVE ($'000) | REVALUATION RESERVE ($'000) | ASSOCIATE RESERVE ($'000) | RETAINED EARNINGS ($'000) | TOTAL EQUITY ($'000) |
|---|---|---|---|---|---|---|---|
| **OPENING BALANCE 1 JANUARY 2017** | | 15,610 | 211 | 1,494 | 24 | 17,022 | 34,361 |
| | | | | | | | |
| PROFIT/(LOSS) FOR THE PERIOD | | - | - | - | - | 3,910 | 3,910 |
| | | | | | | | |
| OTHER COMPREHENSIVE INCOME | | - | - | (167) | - | - | (167) |
| DIVIDEND PAID | | - | - | - | - | (553) | (553) |
| SHARE CAPITAL REPURCHASED | | (4,536) | - | - | - | - | (4,536) |
| EMPLOYEE SHARE SCHEME | | 203 | - | - | - | - | 203 |
| **CLOSING BALANCE AT 31 DECEMBER 2017** | | **11,277** | **211** | **1,327** | **24** | **20,379** | **33,218** |
| | | | | | | | |
| PROFIT/(LOSS) FOR THE PERIOD | - | - | - | - | 5,373 | 5,373 | 3,886,002 |
| | | | | | | | |
| OTHER COMPREHENSIVE INCOME | | - | - | 436 | - | - | 436 |
| DIVIDEND PAID | 16 | - | - | - | - | (1,853) | (1,853) |
| SHARE CAPITAL REPURCHASED | | - | - | - | - | - | - |
| EMPLOYEE SHARE SCHEME | | (32) | - | - | - | - | (32) |
| **CLOSING BALANCE AT 31 DECEMBER 2018** | **16** | **11,245** | **211** | **1,763** | **24** | **23,898** | **37,142** |

THE NOTES ON PAGES 17 TO 38 ARE AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS.

# CONSOLIDATED STATEMENT OF CASH FLOWS

## FOR THE YEAR ENDED 31 DECEMBER 2018

| | NOTE | 2018 ($'000) | 2017 ($'000) |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| CASH RECEIPTS FROM CUSTOMERS | | 68,673 | 59,715 |
| CASH PAID TO SUPPLIERS AND EMPLOYEES | | (56,659) | (51,548) |
| INTEREST PAID | | (1,497) | (1,307) |
| INCOME TAX RECEIVED (PAID) | | (1,363) | (1,692) |
| **NET CASH FROM (USED IN) OPERATING ACTIVITIES** | **24** | **9,154** | **5,167** |
| | | | |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| INTEREST RECEIVED | | 16 | 15 |
| DIVIDENDS RECEIVED | | 827 | 1,057 |
| PROCEEDS FROM SALE OF PROPERTY, PLANT AND EQUIPMENT | | 25 | 5 |
| ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT | | (4,485) | (8,683) |
| ACQUISITION OF OTHER INVESTMENTS | | (12) | (13) |
| **NET CASH FROM (USED IN) INVESTING ACTIVITIES** | | **(3,629)** | **(7,619)** |
| | | | |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| DRAWDOWN OF LOANS | | - | 41,845 |
| REPAYMENT OF LOANS | | (4,485) | (37,628) |
| RE-ISSUE OF SHARE CAPITAL | | 180 | 203 |
| RE-PURCHASE OF SHARE CAPITAL | | - | (4,536) |
| DIVIDENDS PAID | | (1,853) | (553) |
| **NET CASH FROM (USED IN) FINANCING ACTIVITIES** | | **(6,158)** | **(669)** |
| | | | |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | | (633) | (3,120) |
| CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD | | 1,845 | 4,965 |
| **CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD** | **15** | **1,212** | **1,845** |

THE NOTES ON PAGES 17 TO 38 ARE AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS



## 1 REPORTING ENTITY

Apata Group Limited (the "Company") is a company domiciled and incorporated in New Zealand, registered under the Companies Act 1993. The Company is a Financial Markets Conduct reporting entity under Part 7 of the Financial Markets Conduct Act 2013.

The financial statements presented are those of Apata Group Limited and its wholly owned subsidiaries, Apata Suppliers Limited and Apata Group ESI Trustee Limited (collectively "the Group") as at and for the year ended 31 December 2018.

The Group is primarily involved in the packing and coolstorage of kiwifruit and avocados.

## 2 BASIS OF PREPARATION

**(a) Statement of compliance**

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ("NZ GAAP").

The financial statements comply with New Zealand Equivalents to International Financial Reporting Standards ("NZ IFRS"), and with International Financial Reporting Standards ("IFRS"). The financial statements have also been prepared in accordance with the requirements of the Financial Markets Conduct Act 2013 and the Companies Act 1993. The Group is profit oriented.

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

The financial statements were approved by the Board of Directors on 26 February 2019.

**(b) Basis of measurement**

The financial statements have been prepared on the historical cost basis except for the following:

- derivative financial instruments are measured at fair value
- non-derivative financial instruments at fair value through profit or loss are measured at fair value
- biological assets are measured at fair value, approximated by cost
- land is measured at fair value

The methods used to measure fair values are discussed further in Note 4.

**(c) Functional and presentation currency**

These financial statements are presented in New Zealand dollars ($), which is the Group's functional currency. All financial information has been presented in thousands of dollars ($'000), unless otherwise stated.

**(d) Use of estimates and judgements**

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

- Note 8 – valuation of property
- Note 10 – valuation of biological assets
- Note 20 – valuation of financial instruments

## 3 SIGNIFICANT ACCOUNTING POLICIES

**(a) Basis of consolidation**

***(i) Subsidiaries***

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

***(ii) Associates***

Associates are entities over which the Group has significant influence but not control, generally evidenced by a holding of 20% to 50% of the voting rights or in combination with other forms of influence, such as representation on the Board of Directors. Investments in associates are accounted for in the consolidated financial statements using the equity method of accounting, after initially being recognised at cost. The Company's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associates' post acquisition profits or losses are recognised in the Statement of Profit or Loss, and its share of post acquisition movements in reserves are recognised in Other Comprehensive Income. The cumulative post acquisition movements are adjusted against the carrying value of the investment. Dividends received from associates in the consolidated financial statements reduce the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other secured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

***(iii) Transactions eliminated on consolidation***

Intra-group balances, transactions and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated to the extent of the Group's interest in the entity.

***(iv) Business combinations***

The acquisition method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given and shares issued at the date of exchange. Acquisition costs such as professional advisor fees are not included in the costs of acquisition but are recognised as an expense in the period in which they are incurred. Where equity instruments are issued in an acquisition, these are measured at the fair value.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the consideration at acquisition date over the fair value of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the identifiable net assets of the subsidiary acquired, the difference is recognised directly in the profit or loss.

**(b) Property, plant and equipment**

***(i) Recognition and measurement***

Except for land, items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Land is recorded at fair value.

*CONTINUES...*

Movements in fair value are recognised directly in equity to the extent that the reserve balance is positive. Any negative balance in the revaluation reserve is transferred to the Statement of Profit or Loss and Other Comprehensive Income.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

***(ii) Subsequent costs***
The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in the Statement of Profit or Loss and Other Comprehensive Income as incurred.

***(iii) Depreciation***
Depreciation is recognised in the Statement of Profit or Loss and Other Comprehensive Income on a diminishing value or straight-line basis over the estimated useful life. Land is not depreciated. The estimated useful lives for the current and comparative periods are as follows:

- buildings, 4 – 50 years
- vehicles and plant, 1 – 40 years
- office equipment, 3 – 8 years

Depreciation methods, useful lives and residual values are reassessed at each reporting date.

**(c) Biological assets**
Biological assets relate to the rights to kiwifruit grown under orchard lease arrangements and are measured at fair value. Any change in fair value is recognised in the Statement of Profit or Loss and Other Comprehensive Income. Due to the stage of growth at reporting date, the Group has determined that cost approximates fair value. Costs include labour, materials and other direct costs allocated to the asset.

**(d) Leased property development costs**
Where the Group enters into long term lease agreements of an orchard and part of the lease agreement is for the Group to develop the orchard, development costs incurred by the Group will be recognised as a long term receivable and will be recovered from crop proceeds over time.

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

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

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

The cost of items transferred from biological assets is their fair value less point-of-sale costs at the date of transfer.

**(g) Financial instruments**
***(i) Non-derivative financial instruments***
Non-derivative financial instruments comprise investments in equity securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e., the date that the Group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the Statement of Cash Flows.

Accounting for finance income and expense is discussed in Note 3(m).

Instruments at fair value through profit or loss
An instrument is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value. Upon initial recognition, attributable transaction costs are recognised in the Statement of Profit or Loss when incurred. Subsequent to initial recognition, financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in the Statement of Profit or Loss and Other Comprehensive Income.

Subsequent to initial recognition, other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

Trade and other receivables
Trade and other receivables are stated at their cost less impairment losses.

Loans and borrowings
Loans and borrowings are classified as other non-derivative financial instruments.

Trade and other payables
Trade and other payables are stated at cost.

***(ii) Derivative financial instruments***
The Group uses derivative financial instruments to hedge its exposure to interest rate risks arising from financing activities. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative financial instruments are recognised initially at fair value and transaction costs are expensed immediately. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on remeasurement to fair value is recognised immediately in the Statement of Profit or Loss and Other Comprehensive Income. However, where

derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the hedging relationship (see below).

***(iii) Cash flow hedges***
Changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognised in Other Comprehensive Income and presented in equity in the hedging reserve to the extent that the hedge is effective. To the extent that the hedge, or a portion of the hedge, is ineffective, changes in fair value are recognised in the Statement of Profit or Loss and Other Comprehensive Income. If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in equity remains there until the forecast transaction occurs. The amount recognised in equity is transferred to profit or loss in the same period that the hedged item affects profit or loss.

***(iv) Share capital***
Ordinary shares
Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity.

**(h) Impairment**
The carrying amounts of the Group's assets that are not recognised at fair value through profit or loss are reviewed at each reporting date to determine whether there is any objective evidence of impairment.

An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses directly reduce the carrying amount of assets and are recognised in the Statement of Profit or Loss and Other Comprehensive Income.

***(i) Impairment of equity instruments***
Equity instruments are deemed to be impaired whenever there is a significant or prolonged decline in fair value below the original purchase price. For this purpose, prolonged is regarded as any period longer than nine months and significant as more than 20% of the original purchase price of the equity instrument.

Any subsequent recovery of an impairment loss in respect of an investment in an equity instrument classified as available for sale is not reversed through the Statement of Profit or Loss and Other Comprehensive Income.

***(ii) Impairment of debt instruments and receivables***
Impairment losses on an individual basis are determined by an evaluation of the exposures on an instrument by instrument basis. All individual instruments that are considered significant are subject to this approach.

Receivables that are not individually significant and debt instruments for which, based on the individual assessment, it was determined that no objective evidence of impairment existed, are collectively assessed for impairment.

***(iii) Non-financial assets***
The carrying amounts of the Group's non-financial assets, other than biological assets, inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

**(i) Employee benefits**
Employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

***(i) Employee share scheme***
The Group operates a share based compensation plan. The fair value of the employee services received in exchange for the grant of options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, as determined by the directors.

The Group operates an Employee Share Scheme (ESS) under which shares are held by a trustee company which is a subsidiary of the Company. Certain employees have an option to subscribe to shares held by the trustee company and this benefit is recognised as a share based payment and recorded as an expense over the vesting period.

The total amount expensed is recognised over the period, which is the period over which all of the specified vesting conditions are to be satisfied. At each balance date, the Group revises its estimates of the number of options that are expected to vest based on the market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the Statement of Profit or Loss and Other Comprehensive Income.

The proceeds received net of any directly attributable transaction costs are credited to share capital when the options vest.

The scheme is a trust administered by a company established in 2014 and directors of the trustee company (Apata Group ESI Trustee Limited) also hold office as directors of Apata Group Limited.

Shares may be issued at the Directors' discretion at a price set by the Directors', except that the ESS cannot be issued with further shares if that issue would result in the ESS having an interest of more than 9% of the issued capital of the Company.

The ESS has a non-beneficial interest in all the shares allocated to employees. Annually the Company will review the scheme and decide upon any further allocation of shares to employees and the fair value of those shares. All shares allocated are fully paid up. The Trustees of the ESS are not appointed for any term and may be removed by the Company at any time.

The shares held by the ESS carry the same voting rights as other issued ordinary shares, however the Trust Deed prohibits the Trustees from exercising any votes on the shares. Further, the employees participating in the ESS are unable to exercise voting rights while monies are owed on the shares.

**(j) Provisions**
A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and the risks specific to the liability.

*CONTINUES...*

**(k) Revenue**

***(i) Services***

Revenue from services rendered is recognised in the accounting period in which the services are rendered.

***(ii) Commissions***

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

***(iii) Goods sold***

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

**(l) Lease payments**

Payments made under operating leases are recognised in the Statement of Profit or Loss and Other Comprehensive Income on a straight-line basis over the term of the lease.

Minimum lease payments made under finance leases would be apportioned between the finance expense and the reduction of the outstanding liability. The finance expense would be allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

**(m) Finance income and expenses**

Finance income comprises interest income on funds invested, dividend income, gains on the disposal of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss and gains on hedging instruments that are recognised in the Statement of Profit or Loss and Other Comprehensive Income. Interest income is recognised as it accrues, using the effective interest method. Dividend income is recognised on the date that the Group's right to receive payment is established.

Finance expenses comprise interest expense on borrowings, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognised on financial assets (except for trade receivables), losses on the disposal of available-for-sale financial assets, and losses on hedging instruments that are recognised in the Statement of Profit or Loss and Other Comprehensive Income. All borrowing costs are recognised in the Statement of Profit or Loss and Other Comprehensive Income using the effective interest method.

**(n) Income tax expense**

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the Statement of Profit or Loss and Other Comprehensive Income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

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

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit. 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.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

**(o) New standards adopted and interpretations not yet adopted**

***(i) Application of new and revised New Zealand International Financial Reporting Standards***

The following new standards were effective for the period ended 31 December 2018.

- NZ IFRS 9 Financial Instruments (effective for years beginning from 1 January 2018) – NZ IFRS 9 replaces IAS 39. The new standard impacts the following areas:
  - recognition, classification and measurement of financial assets and financial liabilities
  - derecognition of financial instruments
  - impairment of financial assets
  - hedge accounting.

Implementation of this standard has had no material impact on these consolidated financial statements for recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, or impairment of financial assets.

However, NZ IFRS 9 Financial Instruments has required a reassessment of the effectiveness of the cashflow hedges to the extent that the cashflow hedges held are no longer considered effective hedges. As such, the changes in fair value of the cashflow hedges are now recognised at fair value through profit and loss. Adoption of this standard at 1 January 2018 has required restatement of the comparative figures in these consolidated financial statements. The impact of adopting this standard on the consolidated financial statements is as follows:

| | IAS 39 BALANCE ($'000) | NZ IFRS 9 ADJUSTMENT ($'000) | NZ IFRS 9 BALANCE ($'000) |
|---|---|---|---|
| **AS AT 1 JANUARY 2017** | | | |
| HEDGING RESERVE | (108) | 108 | - |
| RETAINED EARNINGS | 17,129 | (108) | 17,022 |
| | | | |
| **FOR THE YEAR ENDING 31 DECEMBER 2017** | | | |
| NET CHANGE IN FAIR VALUE OF CASHFLOW HEDGE (PROFIT OR LOSS) | - | 24 | 24 |
| NET CHANGE IN FAIR VALUE OF CASHFLOW HEDGE (OTHER COMPREHENSIVE INCOME) | 24 | (24) | - |
| | | | |
| **AS AT 31 DECEMBER 2017 (INCORPORATING THE ABOVE CHANGES)** | | | |
| HEDGING RESERVE | (83) | 83 | - |
| RETAINED EARNINGS | 20,462 | (83) | 20,379 |
| | | | |
| **FOR THE YEAR ENDING 31 DECEMBER 2018** | | | |
| NET CHANGE IN FAIR VALUE OF CASHFLOW HEDGE (PROFIT OR LOSS) | - | (198) | (198) |
| NET CHANGE IN FAIR VALUE OF CASHFLOW HEDGE (OTHER COMPREHENSIVE INCOME) | (198) | 198 | - |
| | | | |
| **AS AT 31 DECEMBER 2018 (INCORPORATING ABOVE CHANGES)** | | | |
| HEDGING RESERVE | (281) | 281 | - |
| RETAINED EARNINGS | 24,179 | (281) | 23,898 |

CONTINUES...

- NZ IFRS 15 – Revenue from Contracts with Customers (effective date from 1 January 2018) – The new standard establishes principles for reporting about the nature, amount, timing and uncertainty of revenue arising from an entity's contracts with customers. It prescribes when an entity will recognise revenue, how much revenue to recognise, and what disclosures to make about revenue. Implementation of this standard has had no material impact on these financial statements.

***(ii) Standards and interpretations issued, not yet effective***
***Standards, amendments, and interpretations issued but not yet effective which are relevant to the Company are:***

- NZ IFRS 16 – Leases (effective date from 1 January 2019) – The new standard specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities on balance sheet for all leases, unless the lease term is 12 months or less or the underlying asset has a low value. Lessors will continue to classify leases as operating or finance, with the new standard's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. NZ IFRS 16 requires lessees to assess the reasonable certainty that leases may be renewed and therefore recognise leases as assets and liabilities at the net present value of future lease payments to the expiry date including reasonably certain renewals. This differs from IAS 17 which only required lessees to disclose non-cancellable lease payments at face value of the payment as a commitment in the notes to the financial statements (refer note 21). Management have determined to use the transition options C5(b), C8(a), C8(b)(ii) in adopting NZIFRS 16 in 2019. Management's assessment of the expected impact of the changes on the Group's financial statements is as follows.

| | ($'000) |
|---|---|
| **AS AT 1 JANUARY 2019** | |
| INCREASE IN TERM ASSETS | 7,969 |
| INCREASE IN CURRENT LIABILITIES | 1,643 |
| INCREASE IN TERM LIABILITIES | 6,326 |
| | |
| **FOR THE YEAR ENDING 31 DECEMBER 2019** | |
| INCREASE IN DEPRECIATION | 1,812 |
| INCREASE IN INTEREST EXPENSE | 289 |
| DECREASE IN LEASE EXPENSES | 1,916 |
| | |
| **AS AT 31 DECEMBER 2019** | |
| INCREASE IN TERM ASSETS | 6,157 |
| INCREASE IN CURRENT LIABILITIES | 1,376 |
| INCREASE IN TERM LIABILITIES | 4,966 |

## 4 DETERMINATION OF FAIR VALUES

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

**(a) Property, plant and equipment**
Land is recorded at fair value. The fair value of land is valued based on market value. The market value of land is based on Director's valuation. The fair value of property, plant and equipment recognised as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of items of plant, equipment, fixtures and fittings for disclosure purposes is based on the Director's valuation.

**(b) Biological assets**
Biological assets are the crops growing on kiwifruit vines on the Group's leased orchards. Kiwifruit on vine is valued at fair value at reporting date in accordance with NZ IAS 41 Agriculture. The method to determine fair value depends on the degree of biological transformation at balance date. When insufficient biological transformation has occurred, the fair value is the cost incurred at balance date to grow the crops, adjusted for any cost not deemed recoverable. When sufficient biological transformation has occurred, fair value is the estimated net market return less selling costs and costs to market. The estimated market return less selling costs is established byreference to current and expected sales returns when available. When market data is not available an assessment is made based on historical data.

**(c) Investments in equity securities**
The fair value of financial assets at fair value through profit or loss is determined by reference to their quoted bid price at the reporting date, if available, or otherwise by reference to other market information.

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

Collectability of trade receivables is reviewed on an ongoing basis including debts past due but not considered impaired. Debts which are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that the Group will not be able to collect all amounts due, and is recognised in the Statement of Profit or Loss and Other Comprehensive Income.

**(e) Derivatives**
The fair value of interest rate swaps is based on broker quotes. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date.

**(f) Non-derivative financial liabilities**
Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

## 5 REVENUE

| | 2018 ($'000) | 2017 ($'000) |
|---|---|---|
| SERVICES | 49,731 | 40,728 |
| SALES | 14,896 | 12,383 |
| COMMISSION | 476 | 427 |
| INTEREST & DIVIDEND | 33 | 38 |
| **TOTAL REVENUES** | **65,136** | **53,576** |

## 6 FINANCE INCOME AND EXPENSE

| | 2018 ($'000) | 2017 ($'000) |
|---|---|---|
| INTEREST INCOME | 16 | 15 |
| SHARES AND DIVIDEND INCOME | 17 | 22 |
| **FINANCE INCOME** | **33** | **38** |
| | | |
| INTEREST EXPENSE ON FINANCIAL LIABILITIES | 1,462 | 1,545 |
| **FINANCE EXPENSE** | **1,462** | **1,545** |
| | | |
| **NET FINANCE COSTS** | **1,429** | **1,508** |

## 7 INCOME TAX EXPENSE

| | 2018 ($'000) | 2017 ($'000) |
|---|---|---|
| **CURRENT TAX EXPENSE** | | |
| CURRENT PERIOD | 1,876 | 875 |
| | | |
| **DEFERRED TAX EXPENSE** | | |
| ORIGINATION AND REVERSAL OF TEMPORARY DIFFERENCES | 171 | 307 |
| | | |
| **TOTAL INCOME TAX EXPENSE / (BENEFIT)** | **2,047** | **1,182** |
| | | |
| **RECONCILIATION OF EFFECTIVE TAX RATE** | | |
| PROFIT BEFORE INCOME TAX | 7,420 | 5,068 |
| | | |
| IMPUTATION CREDITS ON DIVIDENDS RECEIVED | 6 | 6 |
| **TAXABLE INCOME** | **7,426** | **5,074** |
| | | |
| INCOME TAX USING THE GROUP'S DOMESTIC TAX RATE 28% (2017: 28%) | 2,079 | 1,421 |
| | | |
| NON-DEDUCTIBLE EXPENSES | 136 | 43 |
| IMPUTATION CREDITS RECEIVED | (6) | (6) |
| LESS TAX ON SHARE OF ASSOCIATES PROFIT RECORDED NET OF TAX | (163) | (274) |
| PRIOR PERIOD ADJUSTMENT | 1 | (1) |
| | **2,047** | **1,182** |
| | | |
| **IMPUTATION CREDITS** | | |
| IMPUTATION CREDITS AT THE BEGINNING OF THE PERIOD | 5,559 | 3,671 |
| TAX PAYMENTS, NET OF REFUNDS | 1,361 | 1,695 |
| IMPUTATION CREDITS ATTACHED TO DIVIDENDS RECEIVED | 321 | 409 |
| IMPUTATION CREDITS ATTACHED TO DIVIDENDS PAID | (721) | (215) |
| **IMPUTATION CREDITS AT THE END OF THE PERIOD** | **6,521** | **5,559** |

## 8 PROPERTY, PLANT AND EQUIPMENT

| | LAND ($'000) | LAND LEASED TO LESSEES ($'000) | BUILDINGS ($'000) | BUILDINGS LEASED TO LESSEES ($'000) | VEHICLES & PLANT ($'000) | VEHICLES & PLANT LEASED TO LESSEES ($'000) | OFFICE EQUIPMENT ($'000) | TOTAL ($'000) |
|---|---|---|---|---|---|---|---|---|
| **COST / VALUATION** | | | | | | | | |
| BALANCE AT 1 JANUARY 2018 | 5,523 | 1,132 | 46,857 | 2,199 | 18,908 | 56 | 1,649 | 76,324 |
| ADDITIONS | 1,173 | | 986 | - | 956 | - | 183 | 3,298 |
| DISPOSALS | - | | - | - | (154) | - | (1) | (155) |
| TRANSFERS | - | - | - | - | - | - | | - |
| INCREASE FROM REVALUATIONS | 436 | | - | - | - | - | - | 436 |
| **BALANCE AT 31 DECEMBER 2018** | **7,133** | **1,132** | **47,843** | **2,199** | **19,710** | **56** | **1,831** | **79,904** |
| | | | | | | | | |
| BALANCE AT 1 JANUARY 2017 | 5,284 | 1,452 | 43,878 | 2,199 | 14,207 | 56 | 1,306 | 68,382 |
| ADDITIONS | 86 | | 2,979 | - | 4,741 | - | 349 | 8,155 |
| DISPOSALS | - | | - | - | (40) | - | (6) | (45) |
| TRANSFERS | 320 | (320) | - | - | - | - | | - |
| INCREASE FROM REVALUATIONS | (167) | | - | - | - | - | - | (167) |
| **BALANCE AT 31 DECEMBER 2017** | **5,523** | **1,132** | **46,857** | **2,199** | **18,908** | **56** | **1,649** | **76,324** |
| | | | | | | | | |
| **DEPRECIATION AND IMPAIRMENT LOSSES** | | | | | | | | |
| BALANCE AT 1 JANUARY 2018 | - | - | 7,698 | 130 | 6,784 | 5 | 1,093 | 15,709 |
| DEPRECIATION FOR THE PERIOD | - | - | 1,788 | 53 | 1,465 | 3 | 243 | 3,552 |
| DISPOSALS | - | - | - | - | (135) | - | (1) | (136) |
| **BALANCE AT 31 DECEMBER 2018** | **-** | **-** | **9,485** | **183** | **8,114** | **8** | **1,335** | **19,126** |
| | | | | | | | | |
| BALANCE AT 1 JANUARY 2017 | - | - | 5,988 | 77 | 5,431 | 1 | 857 | 12,355 |
| DEPRECIATION FOR THE PERIOD | - | - | 1,710 | 53 | 1,385 | 3 | 238 | 3,388 |
| DISPOSALS | - | - | - | - | (32) | - | (2) | (33) |
| **BALANCE AT 31 DECEMBER 2017** | **-** | **-** | **7,698** | **130** | **6,784** | **5** | **1,093** | **15,709** |
| | | | | | | | | |
| **CARRYING AMOUNTS** | | | | | | | | |
| AT 31 DECEMBER 2018 | 7,133 | 1,132 | 38,358 | 2,017 | 11,596 | 48 | 496 | 60,778 |
| AT 31 DECEMBER 2017 | 5,523 | 1,132 | 39,159 | 2,069 | 12,124 | 51 | 556 | 60,615 |

**Security**
At 31 December 2018 land and buildings with a carrying amount of $48,638,924 (2017: $47,883,501) are subject to a registered debenture to secure bank loans (see Notes 17 and 20).

**Revaluation**
In December 2018 the Directors received information from Telfer Young that estimated that land prices for commercial and industrial land in Western Bay of Plenty had increased between 5% and 10% since 2017. The Directors have decided to use the bottom end of that range to reflect fair value for the Mends Lane, Te Puke site and the Turntable Hill Road, Apata site and accordingly have increased the value of land by 5% in 2018. As the Old Coach Road site was last valued independently in 2016 the Directors have increased the value of that land by 10%. The land at 1623 SH2, Apata, adjacent to the Turntable Hill Road site was purchased on 31 August 2018 at a value of $34.20 per square metre. The Directors consider this to be fair value for this land. The value is lower than land on the other sites as it requires contouring before being usable.

The land values for the Mends Lane, Te Puke facility and the Turntable Hill Road, Apata facility were assessed by Telfer Young (Tauranga) Limited (independent valuers, ANZIV) at 1 November 2017. Assessed values were a market value of $35.09 per square metre on 5.70ha or $2,000,000 for the Mends Lane, Te Puke facility (2016: $32.54 per square metre on 5.70ha or $1,855,000) and a market value of $26.38 per square metre on 9.80ha or $2,585,000 for the Turntable Hill Road, Apata facility (2015: $29.01 per square metre on 9.22ha or $2,675,000). The Old Coach Road, Te Puke facility was assessed by Property Solutions Limited (independent valuers, ANZIV) in December 2016, using a market value of $35.38 per square metre on 5.58ha or $2,070,000.

The revaluation at 31 December 2018 resulted in the recognition of other comprehensive income of $436,250. (2017: other comprehensive expense of $167,485).

The total cost of land at 31 December 2018 was $6,501,742. (2017: $5,328,284).

**Fully depreciated assets**
Assets with a cost of $1,537,811 (2017: $1,087,434) are fully depreciated.

**Fair values**
For property, plant and equipment that are carried at cost less accumulated depreciation and impairment losses, the Directors have determined that the fair value is not significantly different from the carrying amounts above.

**Lease payments received from lessees**
The Company leases land and buildings on its Old Coach Road, Te Puke site to an external lessee for a five year period to 31 March 2021, with a further right of renewal of five years in favour of the lessee. A residential dwelling and orchard land on the same property is leased to another external lessee for a five year period to 19 July 2020. During the year to 31 December 2018, $300,123 was received from lessees in relation to leased assets (2017: $299,791).

**MINIMUM FUTURE LEASE PAYMENTS RECEIVABLE ARE AS FOLLOWS:**

| | 2018 ($'000) | 2017 ($'000) |
|---|---|---|
| LESS THAN ONE YEAR | 300 | 300 |
| BETWEEN ONE AND FIVE YEARS | 356 | 656 |
| MORE THAN FIVE YEARS | - | - |
| **CLOSING BALANCE** | **656** | **956** |

## 9 TERM RECEIVABLES

| | 2018 ($'000) | 2017 ($'000) |
|---|---|---|
| PREPAID SUPPLY AGREEMENT | 263 | 350 |
| **CLOSING BALANCE** | **263** | **350** |

| **PREPAID SUPPLY AGREEMENT** | | |
|---|---|---|
| OPENING BALANCE | 350 | - |
| PREPAID SUPPLY AGREEMENT ENTERED INTO IN CURRENT YEAR | - | 438 |
| CURRENT PORTION OF PREPAID SUPPLY AGREEMENT | (88) | (88) |
| **CLOSING BALANCE** | **263** | **350** |

The prepaid supply agreement relates to an agreement entered into for the supply of 1.75m trays of Class 1 kiwifruit to the Group over a five year period from 2018 to 2022 inclusively. Should the supply of fruit occur earlier than the five years, the amortisation of the prepayment will adjust accordingly.

## 10 BIOLOGICAL ASSETS

| | 2018 ($'000) | 2017 ($'000) |
|---|---|---|
| OPENING BALANCE | 142 | 69 |
| INCREASE DUE TO EXPENDITURE ON THE VINES | 136 | 142 |
| HARVESTED KIWIFRUIT TRANSFERRED TO INVENTORIES | (142) | (69) |
| **CLOSING BALANCE** | **136** | **142** |

At 31 December 2018 biological assets consists of kiwifruit on leased vines. Leased orchards are expected to produce an estimated 51,400 tray equivalents from three orchards for the 2019 season crop (2018 season: 65,900 tray equivalents from four orchards). The orchards will be harvested between April and June 2019. Insufficient biological transformation has occurred at balance date. As such, the fair value of biological assets is the growing costs incurred at balance date. All biological assets are subject to a general security arrangement referred to in Note 17.

The Group is exposed to a number of risks related to the kiwifruit on vines:

***Supply and demand risk***
The Group is exposed to risks arising from fluctuations in the price and volume of kiwifruit produced and sale price obtained. Where possible the Group manages this risk by aligning its crop management practices to maximise returns. The price is determined by global markets.

***Climate and other risks***
The Group's kiwifruit on vine is exposed to the risk of damage from climatic changes, diseases, viruses such as Psa, and other natural forces. The Group has extensive processes in place aimed at monitoring and mitigating these risks, including regular inspections and preventative measures on the vines. The Group also insures itself against natural disasters.

## 11 OTHER INVESTMENTS

| | 2018 ($'000) | 2017 ($'000) |
|---|---|---|
| **AVAILABLE FOR SALE INVESTMENTS** | | |
| MG MARKETING LIMITED | 119 | 107 |
| UPNZ LIMITED | - | - |
| BALANCE AGRI-NUTRIENTS LIMITED | 13 | 13 |
| FARMLANDS | 3 | 3 |
| **TOTAL OTHER INVESTMENTS** | **135** | **123** |

| | 2018 ($'000) | 2017 ($'000) |
|---|---|---|
| **IMPACT OF IMPAIRMENT ON VALUE OF SHARES IN UPNZ LIMITED** | | |
| OPENING BALANCE | - | 28 |
| IMPAIRMENT OF INVESTMENT | - | (28) |
| **CLOSING VALUE** | **-** | **-** |

### SHARES HELD IN MG MARKETING LIMITED

Shares held in MG Marketing Limited are transactor shares with a face value of $1.00 per share. Should the Group cease to transact with MG Marketing the shares are able to be surrendered for $1.00 per share. Consequently, face value is assumed to be fair value.

The Group holds 118,839 shares at 31 December 2018 (2017: 106,843 shares held).

## 11 (a) INVESTMENT IN EQUITY ACCOUNTED ASSOCIATE

Investment in associate is accounted for using the equity method of accounting, after initially being recognised at cost.

| | | SHARE OF ISSUED CAPITAL AND VOTING RIGHTS | |
|---|---|---|---|
| **THE GROUP'S ASSOCIATES ARE:** | **BUSINESS ACTIVITY** | **2018** | **2017** |
| PRIMOR PRODUCE LIMITED | FRUIT MARKETING | 33% | 33% |

Primor Produce Limited is incorporated in New Zealand and has a 30th June balance date. The Group does not have significant influence over the management of the associate, but does have Board representation. There are no restrictions on the ability of Primor to distribute funds.

| | 2018 ($'000) | 2017 ($'000) |
|---|---|---|
| **RESULTS OF ASSOCIATE COMPANIES** | | |
| SHARE OF PROFIT BEFORE INCOME TAX | 954 | 1,181 |
| INCOME TAX | (373) | (202) |
| **NET PROFIT** | **581** | **979** |
| | | |
| **MOVEMENT IN CARRYING VALUE OF ASSOCIATES** | | |
| CARRYING VALUE AT BEGINNING OF PERIOD | 1,786 | 1,842 |
| NET EARNINGS | 581 | 979 |
| DIVIDENDS RECEIVED | (810) | (1,035) |
| REVALUATION TO FAIR VALUE | - | - |
| **BALANCE AT END OF PERIOD** | **1,557** | **1,786** |

### ASSOCIATES SUMMARY FINANCIAL INFORMATION

| OWNERSHIP | | | ASSETS 31 DECEMBER ($'000) | LIABILITIES 31 DECEMBER ($'000) | NET ASSETS 31 DECEMBER ($'000) | INCOME ($'000) | EXPENSES ($'000) | PROFIT (NET OF TAX) ($'000) | SHARE OF NET ASSETS 31 DECEMBER ($'000) | SHARE OF PROFIT (NET OF TAX) ($'000) |
|---|---|---|---|---|---|---|---|---|---|---|
| **AS AT 31 DECEMBER 2018** | | | | | | | | | | |
| PRIMOR PRODUCE LIMITED | 33% | TOTAL | 12,964 | 8,294 | 4,670 | 49,568 | 47,825 | 1,743 | 1,557 | 581 |
| | | CURRENT | 11,954 | 8,232 | | | | | | |

| OWNERSHIP | | | ASSETS 31 DECEMBER ($'000) | LIABILITIES 31 DECEMBER ($'000) | NET ASSETS 31 DECEMBER ($'000) | INCOME ($'000) | EXPENSES ($'000) | PROFIT (NET OF TAX) ($'000) | SHARE OF NET ASSETS 31 DECEMBER ($'000) | SHARE OF PROFIT (NET OF TAX) ($'000) |
|---|---|---|---|---|---|---|---|---|---|---|
| **AS AT 31 DECEMBER 2017** | | | | | | | | | | |
| PRIMOR PRODUCE LIMITED | 33% | TOTAL | 13,590 | 8,233 | 5,357 | 51,517 | 48,580 | 2,936 | 1,786 | 979 |
| | | CURRENT | 12,490 | 8,083 | | | | | | |

## 12 DEFERRED TAX ASSETS AND LIABILITIES

### RECOGNISED DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities are attributable to the following:

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | ASSETS ($'000) | LIABILITIES ($'000) | NET ($'000) | ASSETS ($'000) | LIABILITIES ($'000) | NET ($'000) |
| PROPERTY, PLANT AND EQUIPMENT | - | (313) | (313) | - | (128 | (128) |
| BIOLOGICAL ASSETS | - | (38) | (38) | - | (40) | (40) |
| OTHER ITEMS | 192 | - | 192 | 133 | - | 133 |
| **TAX ASSETS/(LIABILITIES)** | **192** | **(351)** | **(159)** | **133** | **(168)** | **(35)** |

| MOVEMENT IN TEMPORARY DIFFERENCES DURING THE PERIOD | BALANCE ($'000) | RECOGNISED IN PROFIT OR LOSS ($'000) | RECOGNISED IN EQUITY ($'000) | BALANCE ($'000) |
|---|---|---|---|---|
| | 1 JANUARY 2018 | | | 31 DECEMBER 2018 |
| **2018** | | | | |
| PROPERTY, PLANT AND EQUIPMENT | (128) | (185) | - | (313) |
| BIOLOGICAL ASSETS | (40) | 2 | - | (38) |
| OTHER ITEMS | 133 | 59 | - | 192 |
| | **(35)** | **(124)** | **-** | **(159)** |

| | 1 JANUARY 2017 | | | 31 DECEMBER 2017 |
|---|---|---|---|---|
| **2017** | | | | |
| PROPERTY, PLANT AND EQUIPMENT | (13) | (115) | - | (128) |
| BIOLOGICAL ASSETS | (19) | (20) | - | (40) |
| OTHER ITEMS | 305 | (172) | - | 133 |
| | **272** | **(307)** | **-** | **(35)** |

## 13 INVENTORIES

| | 2018 ($'000) | 2017 ($'000) |
|---|---|---|
| PACKAGING MATERIALS AT COST | 1,445 | 1,684 |
| LESS PROVISION FOR OBSOLESCENCE | (267) | (233) |
| **PACKAGING MATERIALS** | **1,178** | **1,451** |
| | | |
| OPENING PROVISION FOR OBSOLESCENCE | 233 | 271 |
| EXPENSED (RELEASED) TO STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME | 33 | (38) |
| **CLOSING PROVISION FOR OBSOLESCENCE** | **267** | **233** |

In 2018 raw materials, consumables and changes in inventory recognised as cost of sales amounted to $13,959,801 (2017: $11,601,068). In 2018 the write-down of inventories to net realisable value amounted to $266,623 (2017: $233,275). No inventories are subject to retention of title clauses (2017: nil). All inventories are subject to a general security arrangement referred to in Note 17.

## 14 TRADE AND OTHER RECEIVABLES

| | NOTE | 2018 ($'000) | 2017 ($'000) |
|---|---|---|---|
| TRADE AND OTHER RECEIVABLES DUE FROM RELATED PARTIES | 25 | 1,474 | 1,337 |
| TRADE RECEIVABLES FROM THIRD PARTIES | | 2,581 | 1,510 |
| PREPAYMENTS | | 2,260 | 233 |
| OTHER RECEIVABLES | | 520 | 547 |
| | | **6,835** | **3,626** |

All trade and other receivables are subject to a general security arrangement referred to in Note 17.

### PROVISION FOR DOUBTFUL DEBTS

| | 2018 ($'000) | 2017 ($'000) |
|---|---|---|
| OPENING PROVISION FOR DOUBTFUL DEBTS | - | 291 |
| EXPENSED (RELEASED) TO STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME | 43 | (291) |
| **CLOSING PROVISION FOR DOUBTFUL DEBTS** | **43** | **-** |

During the year, no trade receivables were written off as a bad debt (2017: $290,626). A provision of $42,721 was made at 31 December 2018 for receivables not considered fully receivable (2017: provision $nil). All other trade and other receivables are considered fully collectible.

## 15 CASH AND CASH EQUIVALENTS

| | 2018 ($'000) | 2017 ($'000) |
|---|---|---|
| BANK BALANCES | 171 | 311 |
| CALL DEPOSITS | 1,041 | 1,534 |
| **CASH AND CASH EQUIVALENTS IN THE STATEMENT OF CASH FLOWS** | **1,212** | **1,845** |

In 2017, the Group moved their banking facilites from ANZ Bank New Zealand Limited to Bank of New Zealand. The average effective interest rate on call deposits in 2018 was 0.1 percent (2017: 0.4 percent). All cash and cash equivalents are subject to a general security arrangement referred to in Note 17. In addition, all balances are subject to setoff against loans. The Group has available a $250,000 overdraft facility at 31 December 2018, which is unutilised at balance date. (2017: $250,000, which was unutilised).

## 16 CAPITAL AND RESERVES

### RECONCILIATION OF MOVEMENT IN CAPITAL AND RESERVES

| | SHARE CAPITAL ($'000) | TREASURY SHARE CAPITAL ($'000) | SHARE BASED PAYMENTS RESERVE ($'000) | REVALUATION RESERVE ($'000) | ASSOCIATES RESERVE ($'000) | RETAINED EARNINGS ($'000) | TOTAL EQUITY ($'000) |
|---|---|---|---|---|---|---|---|
| BALANCE AT 1 JANUARY 2018 | 11,601 | (324) | 211 | 1,327 | 24 | 20,379 | 33,218 |
| TOTAL COMPREHENSIVE INCOME | - | - | - | 436 | - | 5,373 | 5,809 |
| DIVIDEND PAID | - | - | - | - | - | (1,853) | (1,853) |
| SHARE CAPITAL REPURCHASED | - | - | - | - | - | - | - |
| EMPLOYEE SHARE SCHEME | 32 | 147 | (211) | - | - | - | (32) |
| **BALANCE AT 31 DECEMBER 2018** | **11,634** | **(177)** | **-** | **1,763** | **24** | **23,898** | **37,142** |
| | | | | | | | |
| BALANCE AT 1 JANUARY 2017 | 16,101 | (491) | 211 | 1,494 | 24 | 17,022 | 34,361 |
| TOTAL COMPREHENSIVE INCOME | - | - | - | (167) | - | 3,910 | 3,743 |
| DIVIDEND PAID | - | - | - | - | - | (553) | (553) |
| SHARE CAPITAL REPURCHASED | (4,536) | - | - | - | - | - | (4,536) |
| EMPLOYEE SHARE SCHEME | 37 | 167 | - | - | - | - | 203 |
| **BALANCE AT 31 DECEMBER 2017** | **11,601** | **(324)** | **211** | **1,327** | **24** | **20,379** | **33,218** |

### AUTHORISED AND ISSUED SHARE CAPITAL

| | 2018 ($'000) | 2017 ($'000) |
|---|---|---|
| **NUMBER OF SHARES** | | |
| ORDINARY SHARES | 9,224 | 9,012 |
| TREASURY SHARES | 211 | 423 |
| | **9,435** | **9,435** |
| | | |
| **ORDINARY SHARES** | | |
| OPENING BALANCE | 9,012 | 11,102 |
| SHARES REPURCHASED AND CANCELLED BY THE COMPANY | - | (2,301) |
| SHARES VESTED TO EMPLOYEES UNDER THE EMPLOYEE SHARE SCHEME | 211 | 211 |
| **CLOSING BALANCE** | **9,224** | **9,012** |

All authorised shares have been issued and all issued shares are fully paid. The shares have no par value. The holders of ordinary shares are entitled to receive dividends as declared from time to time, rank equally with regard to the Group's residual assets and are entitled to one vote per share at meetings of the Company. Treasury shares relate to the employee share scheme and are held in trust by Apata Group ESI Trustee Limited.

During 2017, Apata Group Limited repurchased 2,278,462 shares from John Anderson and 22,885 shares from The Aerocool Trust. The shares were subsequently cancelled by the Company.

| **TREASURY SHARES** | | |
|---|---|---|
| OPENING BALANCE | 423 | 634 |
| SHARES VESTED TO EMPLOYEES UNDER THE EMPLOYEE SHARE SCHEME | (211) | (211) |
| **CLOSING BALANCE** | **211** | **423** |

**Treasury shares and Share based payments reserve**
The Group operates an employee share scheme under which shares are held by a trustee company which is a subsidiary of the Company. The scheme came into operation in December 2014, at which time the employees were granted the shares. Those shares were held by the trustee company and the benefit is recognised as a share-based payment and recorded as an expense over the vesting period. The first vesting date was February 2015 with the last vesting date being February 2018.

At 31 December 2018 there were no shares that had been granted to employees but were remaining outstanding under the scheme (2017: 211,249 shares, representing 2.2% of the issued shares of the Company).

Shares granted under the scheme were granted at fair value as determined by the Directors of the Company. For the shares granted in December 2014, the Board assessed fair value to be $1.00 per share, which was based on the share buy-back value used in October 2014. Shares not yet granted under the scheme carry no voting rights. There are 211,254 shares not granted at balance date (2017: 211,254 shares not granted). Shares granted but not yet vested do carry a dividend, though the dividend is paid to, and held by, the trustee of the share scheme until the shares are vested, at which time the dividend is paid to the employee. During the year, shares to the value of $211,249 vested with employees (2017: $211,249).

**Revaluation reserve**
The revaluation reserve relates to the revaluation of land. Apata Group Limited is restricted in distributing this unrealised reserve.

### DIVIDENDS (COMPANY AND GROUP)

The following dividends were declared and paid by the Group for the year ended 31 December 2018:

| | 2018 ($'000) | 2017 ($'000) |
|---|---|---|
| **$0.2010 PER QUALIFYING ORDINARY SHARE (2017: $0.0600)** | **1,853** | **553** |

On the 27th February 2018 the Directors declared a gross dividend of $0.1736 or $0.1250 per share fully imputed, which was paid on 9th March 2018. On the 26th June 2018 the Directors declared a gross dividend of $0.1056 or $0.076 per share fully imputed, which was paid on 17th July 2018. (2017: On the 5th December 2017 the Directors declared a gross dividend of $0.0833 or $0.0600 per share fully imputed, which was paid on 14th December 2017).

## 17 LOANS AND BORROWINGS

This note provides information about the contractual terms of the Group's loans and borrowings. For more information about the Group's exposure to interest rate risk, see Note 20.

| | 2018 ($'000) | 2017 ($'000) |
|---|---|---|
| **NON-CURRENT LIABILITIES** | | |
| SECURED BANK LOANS | 22,515 | 27,000 |
| **CURRENT LIABILITIES** | | |
| SECURED BANK LOAN | 3,880 | 3,880 |

The Group's borrowings consist of a Customised Average Rate Term Loan (CARL) which matures in October 2020. The current portion represents required principal repayments due within twelve months from reporting date. The average interest rate at 31 December 2018 on the secured borrowings is 4.51% (December 2017: 4.45%). The bank loans are secured over land and buildings with a carrying amount of $48,638,924 (2017: $47,883,501). The bank has a first ranking general security arrangement over all present and acquired property. The carrying amount of loans is equivalent to the fair value.

## 18 EMPLOYEE BENEFITS PAYABLE

| | 2018 ($'000) | 2017 ($'000) |
|---|---|---|
| ANNUAL LEAVE | 444 | 267 |
| **TOTAL EMPLOYEE BENEFITS PAYABLE** | **444** | **267** |

## 19 TRADE AND OTHER PAYABLES

| | 2018 ($'000) | 2017 ($'000) |
|---|---|---|
| TRADE PAYABLES | 1,468 | 1,050 |
| PAYABLE TO INLAND REVENUE | 1,478 | 619 |
| PAYABLE TO APATA SUPPLIERS ENTITY LTD | 3,017 | 2,276 |
| PAYABLE TO OTHER RELATED PARTIES | 7 | - |
| DERIVATIVES | 281 | 83 |
| NON-TRADE PAYABLES AND ACCRUED EXPENSES | 1,017 | 1,385 |
| | **7,269** | **5,413** |

| DERIVATIVES | | |
|---|---|---|
| OPENING BALANCE | 83 | 108 |
| NET CHANGE IN FAIR VALUE OF CASHFLOW HEDGE | 198 | (24) |
| **CLOSING BALANCE** | **281** | **83** |

## 20 FINANCIAL INSTRUMENTS

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

**Credit risk**
In order to determine which customers are classified as having payment difficulties, the Group applies a mix of duration and frequency of default. The Group does not require collateral in respect of trade and other receivables. The Group's exposure to credit risk is mainly influenced by its customer base. The majority of revenue is generated from transactions with growers. However, payment for packing, packaging and coolstorage is received directly by the Group via third parties as a deduction from returns to growers.

**Liquidity risk**
Liquidity risk represents the Group's ability to meet its contractual obligations. The Group evaluates its liquidity requirements on an ongoing basis. In general, the Group generates sufficient cash flows from its operating activities to meet its obligations arising from its financial liabilities and has credit lines in place to cover potential shortfalls. Working capital is usually negative at balance date. However, this is a timing issue only, as most cash in the business is generated between April and December. The non-cash generating months of January to March are covered by available undrawn secured bank loans. At balance date there was $15,125,000 of secured bank loans undrawn (2017: $8,520,490 undrawn), of which $6,000,000 is specifically for the purchase of the property at 455 Tiniroto Road, Gisborne (refer Note 22). In addition, of the working capital position at balance date, the $3,880,000 repayment of secured debt is payable quarterly in amounts of $970,000 per quarter, meaning $1,940,000 of the repayment is payable in the second half of 2019 (2017: $1,940,000 payable in the second half of 2018) at which time sufficient cash from operating activities will have been generated to pay the amounts due.

**Interest rate risk**
The Group is exposed to interest rate risk primarily through its cash balances, bank overdrafts and borrowings. The Group enters into derivative arrangements in the ordinary course of business to manage these interest rate risks. The chief financial officer, managing director and Board of Directors are responsible for overseeing the management of interest rate risk, derivative activities, monitoring and reporting. Treasury policy requires the duration of interest rate derivatives to be staggered to provide risk mitigation on interest rate repricing. As such interest rate derivitaves are held for differing terms. This means that the interest rate derivatives will be classified as an ineffective cashflow hedge in accordance with NZ IFRS 9 Financial Instruments because the amounts and expiry dates do not align with the underlying term loan.

**Quantitative disclosures**
*Credit risk*
The carrying amount of financial assets represents the Group's maximum credit exposure. There is considered to be no impairment of financial assets at the reporting date, and therefore no impairment allowance has been recorded (2017: nil). Within trade receivables there is $183,641 of past due receivables between 30 and 120 days (2017: $223,292).

*Liquidity risk*
The Group's contractual cashflows for financial assets and liabilities excluding secured bank loans fall within 12 months. The following table sets out the contractual cash flows for secured bank loans as at the reporting date.

| | STATEMENT OF FINANCIAL POSITION ($'000) | CONTRACTUAL CASH FLOWS ($'000) | 6 MONTHS OR LESS ($'000) | 6-12 MONTHS ($'000) | 1-2 YEARS ($'000) | 2-5 YEARS ($'000) | MORE THAN 5 YEARS ($'000) |
|---|---|---|---|---|---|---|---|
| **DECEMBER 2018** | | | | | | | |
| SECURED BANK LOANS | 26,395 | 28,830 | 2,636 | 2,636 | 23,558 | - | - |
| TRADE AND OTHER PAYABLES | 7,269 | 7,269 | 7,269 | - | - | - | - |
| **TOTAL NON-DERIVATIVE LIABILITIES** | **33,664** | **36,098** | **9,904** | **2,636** | **23,558** | **-** | **-** |
| **DECEMBER 2017** | | | | | | | |
| SECURED BANK LOANS | 30,880 | 34,660 | 687 | 4,567 | 5,255 | 24,150 | - |
| TRADE AND OTHER PAYABLES | 5,413 | 5,413 | 5,413 | - | - | - | - |
| **TOTAL NON-DERIVATIVE LIABILITIES** | **36,292** | **40,073** | **6,100** | **4,567** | **5,255** | **24,150** | **-** |

*Interest rate risk – repricing analysis*
At 31 December 2018, the Group has interest rate swaps in place for $16,000,000, being:

- $2,000,000 with an effective interest rate of 4.56% which matures on 28th February 2020,
- $6,000,000 with an effective interest rate of 4.71% which matures on 5th October 2020,
- $2,000,000 with an effective interest rate of 4.93% which matures on 28th February 2022,
- $6,000,000 with an effective interest rate of 5.05% which matures on 5th October 2022.

At 31 December 2017, the Group had interest rate swaps in place for $12,000,000, being:

- $6,000,000 with an effective interest rate of 4.71% which matures on 5th October 2020,
- $6,000,000 with an effective interest rate of 5.05% which matures on 5th October 2022.

*Capital management*
The Group's capital includes share capital, reserves and retained earnings. The Group's policy is to maintain a strong capital base so as to maintain investor and creditor confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Group recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The Group is not subject to any externally imposed capital requirements. The Group's policies in respect to capital management and allocation are reviewed regularly by the Board of Directors. There have been no material changes in the Group's management of capital during the period.

*Sensitivity analysis*
In managing interest rate risks the Group aims to reduce the impact of short-term fluctuations on the Group's earnings. Over the longer-term, however, permanent changes in interest rates will have an impact on profit.

At 31 December 2018 it is estimated that a general increase of one percentage point in interest rates would decrease the Group's profit before income tax by approximately $149,000 (2017: $188,000).

*CONTINUES...*

## 20 FINANCIAL INSTRUMENTS *CONTINUED*

| CLASSIFICATION AND FAIR VALUES | NOTE | DESIGNATED AT FAIR VALUE ($'000) | AVAILABLE FOR SALE ($'000) | LOANS & RECEIVABLES ($'000) | OTHER AMORTISED COST ($'000) | TOTAL CARRYING AMOUNT ($'000) | FAIR VALUE ($'000) |
|---|---|---|---|---|---|---|---|
| **DECEMBER 2018** | | | | | | | |
| *ASSETS* | | | | | | | |
| INVESTMENTS | 11 | 1,557 | 135 | - | - | 1,691 | 1,691 |
| **TOTAL NON-CURRENT ASSETS** | | **1,557** | **135** | **-** | **-** | **1,691** | **1,691** |
| | | | | | | | |
| TRADE AND OTHER RECEIVABLES | 9 & 14 | - | - | 7,098 | - | 7,098 | 7,098 |
| CASH AND CASH EQUIVALENTS | 15 | - | - | - | 1,212 | 1,212 | 1,212 |
| **TOTAL CURRENT ASSETS** | | **-** | **-** | **7,098** | **1,212** | **8,310** | **8,310** |
| **TOTAL ASSETS** | | **1,557** | **135** | **7,098** | **1,212** | **10,001** | **10,001** |
| | | | | | | | |
| *LIABILITIES* | | | | | | | |
| LOANS AND BORROWINGS | 17 | - | - | - | 22,515 | 22,515 | 22,515 |
| **TOTAL NON-CURRENT LIABILITIES** | | **-** | **-** | **-** | **22,515** | **22,515** | **22,515** |
| | | | | | | | |
| LOANS AND BORROWINGS | 17 | - | - | - | 3,880 | 3,880 | 3,880 |
| DERIVATIVES | 19 | 281 | - | - | - | 281 | 281 |
| TRADE AND OTHER PAYABLES | 19 | - | - | - | 6,988 | 6,988 | 6,988 |
| **TOTAL CURRENT LIABILITIES** | | **281** | **-** | **-** | **10,868** | **11,149** | **11,149** |
| **TOTAL LIABILITIES** | | **281** | **-** | **-** | **33,383** | **33,664** | **33,664** |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **DECEMBER 2017** | | | | | | | |
| *ASSETS* | | | | | | | |
| INVESTMENTS | 11 | 1,786 | 123 | - | - | 1,908 | 1,908 |
| **TOTAL NON-CURRENT ASSETS** | | **1,786** | **123** | **-** | **-** | **1,908** | **1,908** |
| | | | | | | | |
| TRADE AND OTHER RECEIVABLES | 14 | - | - | 3,976 | - | 3,976 | 3,976 |
| CASH AND CASH EQUIVALENTS | 15 | - | - | - | 1,845 | 1,845 | 1,845 |
| **TOTAL CURRENT ASSETS** | | **-** | **-** | **3,976** | **1,845** | **5,821** | **5,821** |
| **TOTAL ASSETS** | | **1,786** | **123** | **3,976** | **1,845** | **7,729** | **7,729** |
| | | | | | | | |
| *LIABILITIES* | | | | | | | |
| LOANS AND BORROWINGS | 17 | - | - | - | 27,000 | 27,000 | 27,000 |
| **TOTAL NON-CURRENT LIABILITIES** | | **-** | **-** | **-** | **27,000** | **27,000** | **27,000** |
| | | | | | | | |
| LOANS AND BORROWINGS | 17 | - | - | - | 3,880 | 3,880 | 3,880 |
| DERIVATIVES | 19 | 83 | - | - | - | 83 | 83 |
| TRADE AND OTHER PAYABLES, INCLUDING DERIVATIVES | 19 | - | - | - | 5,330 | 5,330 | 5,330 |
| **TOTAL CURRENT LIABILITIES** | | **83** | **-** | **-** | **9,210** | **9,293** | **9,293** |
| **TOTAL LIABILITIES** | | **83** | **-** | **-** | **36,209** | **36,292** | **36,292** |

**Estimation of fair values**
The methods used in determining the fair values of financial instruments are discussed in Note 4.

**Fair value hierarchy**
The table below analyses, by valuation method, those financial instruments carried at fair value. The different levels have been defined as follows:

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

| | LEVEL 1 ($'000) | LEVEL 2 ($'000) | LEVEL 3 ($'000) | TOTAL ($'000) |
|---|---|---|---|---|
| **DECEMBER 2018** | | | | |
| FINANCIAL ASSETS CLASSIFIED AS AVAILABLE FOR SALE | - | 135 | - | 135 |
| FINANCIAL ASSETS IN ASSOCIATES | - | 1,557 | - | 1,557 |
| DERIVATIVE FINANCIAL LIABILITIES | - | (281) | - | (281) |
| | **-** | **1,410** | **-** | **1,410** |
| **DECEMBER 2017** | | | | |
| FINANCIAL ASSETS CLASSIFIED AS AVAILABLE FOR SALE | - | 123 | - | 123 |
| FINANCIAL ASSETS IN ASSOCIATES | - | 1,786 | - | 1,786 |
| DERIVATIVE FINANCIAL LIABILITIES | - | (83) | - | (83) |

## 21 OPERATING LEASES

### LEASES AS LESSEE

Non-cancellable operating lease rentals are payable as follows:

| | 2018 ($'000) | 2017 ($'000) |
|---|---|---|
| LESS THAN ONE YEAR | 1,899,648 | 994,475 |
| BETWEEN ONE AND FIVE YEARS | 3,112,396 | 2,423,476 |
| MORE THAN FIVE YEARS | 414,625 | 225,000 |
| | **5,426,669** | **3,642,951** |

Operating leases include orchards, coolstores, land and office leases, forklifts, vehicles and photocopiers.

The Group leases orchards to grow kiwifruit. The leases typically run for a period of 1-3 years, with an option to renew the lease after that date. The leases require that returns are shared with the owners once certain profit levels are attained. The amount of the liability can only be quantified when the amount of profits from the orchard have been determined.

Material leases include the following leases:

- Coolstore pallet space lease at Mt Maunganui from Woodland Management Limited. During the period ended 31 December 2018, payments amounting to $304,330 (2017: $nil) were made to the lessor. The lease is for two years and four months, covering three coolstorage seasons, and concluding 30th September 2020, with a further one year right of renewal in favour of the lessee.
- Site lease at Wairoa Road, from Whakapapa Coolstores Limited. During the period ended 31 December 2018, payments amounting to $250,000 (2017: $250,000) were made to the lessor. The lease is for five years concluding 29th February 2020, with a further five year right of renewal in favour of the lessee.
- Accommodation lease at Paengaroa, from IW & LF Weir. Per annum rental is $183,040. During the period ended 31 December 2018, payments amounting to $112,320 (2017: $nil) were made to the lessor. The lease commenced 1 June 2018 and is for five years concluding 31st May 2023, with a further five year right of renewal in favour of the lessee.
- Site lease at Maketu Road, from Jackall Holdings Coolstores Limited. During the period ended 31 December 2018, payments amounting to $169,000 (2017: $nil) were made to the lessor. The lease is for five years commencing 1 Jaunary 2018 and concluding on 31st December 2022 with a further five year right of renewal in favour of the lessee.

## 22 CAPITAL COMMITMENTS

Prior to 31 December 2018 the Group entered into capital contracts of which $9,585,433 (2017: $791,428) has yet to be completed by period-end. Outstanding contracts include:

- Purchase of property at 455 Tiniroto Road, Gisborne $7,647,500. The Group has entered into an unconditional sale and purchase agreement to purchase the aforementioned property and has paid a deposit prior to balance date, with the property settling on 1 April 2019. The Group's intention is to onsell the property as soon as practicable after settlement to a syndicate to develop the property into a kiwifruit orchard.
- Payment for kiwifruit plants $487,500. The Group has contracted to purchase 50,000 second year kiwifruit rootstock and has paid a deposit prior balance date, with residual payments being due in January and July of 2019.
- Operational plant and equipment at Mends Lane $1,450,433.

For 2017, outstanding contracts included residual payment for Mends Lane building modifications, stormwater and retaining wall at Mends Lane, and coolstore racking at Mends Lane.

## 23 CONTINGENCIES

There were no material contingent liabilities at balance date.

## 24 RECONCILIATION OF THE PROFIT FOR THE PERIOD WITH THE NET CASH FROM OPERATING ACTIVITIES

| | NOTE | 2018 ($'000) | 2017 ($'000) |
|---|---|---|---|
| PROFIT FOR THE PERIOD | PAGE 14 | 5,373 | 3,910 |
| *ADJUST FOR:* | | | |
| DEPRECIATION | | 3,552 | 3,388 |
| SHARE OF PROFIT OF EQUITY ACCOUNTED INVESTEES | | (581) | (979) |
| NET CHANGE IN FAIR VALUE OF CASHFLOW HEDGE | 19 | 198 | (24) |
| INCOME TAX EXPENSE | | 2,047 | 1,182 |
| INCOME TAX RECEIVED/(PAID) | | (1,363) | (1,692) |
| FINANCE INCOME SHOWN AS INVESTING ACTIVITY | | (33) | (38) |
| LOSS (GAIN) ON SALE OF PROPERTY, PLANT AND EQUIPMENT | | (6) | 7 |
| IMPAIRMENT OF INVESTMENT | | - | 28 |
| CHANGE IN INVENTORIES | | 272 | (90) |
| CHANGE IN CURRENT BIOLOGICAL ASSETS DUE TO ACQUISITIONS & SALES | | 6 | (73) |
| CHANGE IN TRADE AND OTHER RECEIVABLES RELATING TO OPERATING ACTIVITIES | | (1,736) | 1,832 |
| CHANGE IN PREPAYMENTS RELATING TO OPERATING ACTIVITIES | | (686) | (461) |
| CHANGE IN TRADE AND OTHER PAYABLES RELATING TO OPERATING ACTIVITIES | | 1,934 | (1,621) |
| CHANGE IN EMPLOYEE BENEFITS | 18 | 177 | (202) |
| **NET CASH FROM OPERATING ACTIVITIES** | **PAGE 16** | **9,154** | **5,167** |

## 25 RELATED PARTIES

**Transactions with Directors and key management personnel**

*Transactions with key management personnel*
Key management personnel are defined as all Directors and senior executives that set strategic direction and manage the Group. The Group undertakes transactions with these persons in the normal course of business on normal commercial terms. Included in expenses is an amount of $1,412,470 (2017: $1,784,843) for salaries, benefits and Directors fees and of this $nil (2017: $363,093) relates to share-based transfers under the employee share scheme. Short term benefits owing at 31 December 2018 are $nil (2017: $363,093).

*Loans to directors*
There were no loans to Directors issued during the year ended 31 December 2018 nor any loans outstanding by Directors at 31 December 2018 (2017: nil).

*Other transactions with directors and key management personnel*
Directors of the Group control 31.3 percent of the voting shares of the Group at 31 December 2018 (2017: 32.4 percent).

A number of key management personnel, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of these entities. A number of these entities transacted with the Group in the reporting period. The terms and conditions of the transactions with key management personnel and their related parties were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-key management personnel related entities on an arm's length basis.

The aggregate value of transactions and outstanding balances relating to Directors and key management personnel and entities over which they have control or significant influence were as follows:

| | | TRANSACTION VALUE FOR PERIOD ENDED | | BALANCE OUTSTANDING AS AT | |
|---|---|---|---|---|---|
| | NOTE | 2018 ($'000) | 2017 ($'000) | 2018 ($'000) | 2017 ($'000) |
| **INCOME AND RECEIVABLE TRANSACTIONS** | | | | | |
| **DIRECTORS** | | | | | |
| A BIRLEY | | | | | |
| PACKING & COOLSTORAGE AND ORCHARD SERVICES REVENUE | (I) | 1,708 | 1,469 | - | - |
| C S CARNACHAN | | | | | |
| AVOCADO HARVESTING SERVICES | (II) | 3 | 9 | - | 3 |
| SALE OF PACKAGING MATERIALS | (III) | 499 | 475 | 115 | 57 |
| M N MAYSTON | | | | | |
| PACKING & COOLSTORAGE AND ORCHARD SERVICES REVENUE | (IV) | 1,553 | 1,233 | - | - |
| C G CATHIE | | | | | |
| PACKING & COOLSTORAGE AND ORCHARD SERVICES REVENUE | (V) | 1,026 | 1,003 | - | - |
| S B WESTON | | | | | |
| ORCHARD SERVICES | (VI) | 7 | - | 2 | - |
| **SENIOR EXECUTIVES** | | | | | |
| E CROSBY | | | | | |
| PACKING & COOLSTORAGE AND ORCHARD SERVICES REVENUE | (VII) | 217 | 160 | 37 | 9 |
| E CROSBY & D YOUNG | | | | | |
| PACKING & COOLSTORAGE AND ORCHARD SERVICES REVENUE | (VIII) | 334 | 284 | - | - |
| J GIBBS | | | | | |
| PACKING & COOLSTORAGE AND ORCHARD SERVICES REVENUE | (IX) | 70 | - | - | - |
| **ASSOCIATES** | | | | | |
| PRIMOR PRODUCE LIMITED | (X) | 2,910 | 2,036 | 855 | 560 |
| **RELATED PARTIES** | | | | | |
| TEAM KIWI LIMITED | (XI) | 1,265 | 1,534 | 303 | 463 |
| NEW ZEALAND GOLDEN KIWIFRUIT COMPANY LIMITED | (XIII) | 361 | 566 | 162 | 244 |
| **TOTAL RECEIVABLES BALANCE OUTSTANDING** | | | | **1,474** | **1,337** |
| | | | | | |
| **EXPENSE AND PAYABLE TRANSACTIONS** | | | | | |
| **DIRECTORS** | | | | | |
| M N MAYSTON | | | | | |
| KIWIFRUIT HARVEST SERVICES | (XIV) | 32 | 41 | - | - |
| C G CATHIE | | | | | |
| COOLSTORE LEASE | (XV) | 100 | 100 | - | - |
| C S CARNACHAN | | | | | |
| POST HARVEST CHARGES | (XVI) | 108 | - | 7 | - |
| **TOTAL PAYABLES BALANCE OUTSTANDING** | | | | **7** | **-** |

**Notes to the financial statement**

(I) During the period, the Group provided packing, coolstorage and orchard services to Birley Family Trust, of which Alan Birley, Director of Apata Group Limited, is a trustee, at standard commercial terms and conditions.

(II) During the period, the Group provided packing and coolstorage services to Twin Kauri Trust, of which Sean Carnachan, Director of Apata Group Limited, is a trustee, at standard commercial terms and conditions.

(III) During the period, the Group sold packaging materials to Western Orchards Limited, of which Sean Carnachan, Director of Apata Group Limited, is a director, at standard commercial terms and conditions.

(IV) During the period, the Group provided packing, coolstorage and orchard services to Bruntwood Farms Limited, of which Mark Mayston, Director of Apata Group Limited, is a director, at standard commercial terms and conditions.

*CONTINUES...*

## 25 RELATED PARTIES *CONTINUED*

(V) During the period, the Group provided packing, coolstorage and orchard services to Lowland Greenstone Orchard Trust, of which Graham Cathie, Director of Apata Group Limited, is a trustee, at standard commercial terms and conditions.

(VI) During the period, the Group provided orchard services to Weston Investment Trust, of which Stuart Weston, Director of Apata Group Limited, is a trustee, at standard commercial terms and conditions.

(VII) During the period, the Group provided packing, coolstorage and orchard services to Race Limited, of which Eugene Crosby, senior executive of Apata Group Limited, is a director, at standard commercial terms and conditions.

(VIII) During the period, the Group provided packing, coolstorage and orchard services to KiwiBOP Limited, of which Eugene Crosby, senior executive of Apata Group Limited, and Damian Young, who was a senior executive of Apata Group Limited until 17th August 2018, are directors, at standard commercial terms and conditions.

(IX) During the period, the Group provided packing, coolstorage and orchard services to KCW Orchards Limited, of which Jason Gibbs, senior executive of Apata Group Limited, is a director, at standard commercial terms and conditions.

(X) During the period, the Group provided packing and coolstorage services to Primor Produce Ltd, of which the Group owns 33%, at standard commercial terms and conditions.

(XI) During the period, the Group provided Class 2 and local market kiwifruit for sale to Team Kiwi Limited at standard commercial terms and conditions. Team Kiwi Limited, of which Peter Carter, senior manager at Apata Group Limited is a director, markets Class 2 and local market fruit in the Australian and New Zealand markets. This entity does not form part of the Group.

(XII) During the period, the Group provided Gold local market kiwifruit for sale to New Zealand Golden Kiwifruit Company Limited at standard commercial terms and conditions. New Zealand Golden Kiwifruit Company Limited, of which Stuart Weston is a director, markets Gold local market kiwifruit into the New Zealand local market. This entity does not form part of the Group.

(XIII) During the period, the Group provided administration services to Apata Suppliers Limited, a wholly owned subsidiary of Apata Group Limited, at standard commercial terms and conditions.

(XIV) During the period, the Group received kiwifruit harvest services from Bruntwood Farms Limited, of which Mark Mayston is a director, at standard commercial terms and conditions.

(XV) The Group leases a coolstore from Omniscient Holdings Limited of which Graham Cathie, Director of Apata Group Limited, is a director, at standard commercial terms and conditions.

(XVI) During the period, the Group paid Post Harvest charges to Western Orchards Limited, of which Sean Carnachan, Director of Apata Group Limited, is a director, at standard commercial terms and conditions.

From time to time Directors and key management personnel of the Group, or their related entities, may purchase goods from the Group. These purchases are on the same terms and conditions as those entered into by other Group employees or customers and are trivial or domestic in nature.

**Apata Suppliers Entity Limited**

Apata Suppliers Entity Limited (ASEL) is a separate legal entity with directors elected by Apata Group growers and appointed by the Group and other independent coolstore facilities. This entity does not form part of the Group. During the year to 31 December 2018, the Group received $51,274,480 (2017: $39,335,472) from ASEL in respect of post-harvest services and fruit proceeds; the amount outstanding as at 31 December 2018 is $nil (2017: $105,854). During the year to 31 December 2018, payments were made to ASEL of $8,947,912 (2017: $4,353,055) in respect of post-harvest services; the amount outstanding at 31 December 2018 is $3,017,289 (2017: $2,275,249).

## 26 SUBSEQUENT EVENTS

On 26th February 2019 the Directors declared a dividend of $0.3472 per share gross or $0.2500 per share fully imputed.
(2017: On 27th February 2018 the Directors declared a dividend of $0.1736 per share gross or $0.1250 per share fully imputed).

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# INDEPENDENT AUDITORS' REPORT

**Apata Group Limited** | Independent auditor's report to the Shareholders

Report on the Audit of the Consolidated Financial Statements

**Opinion**

We have audited the consolidated financial statements of Apata Group Limited and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS).

**Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other than in our capacity as auditor we have no relationship with, or interests in, Apata Group Limited or any of its subsidiaries.

**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 of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

**Accounting for Investment in Associate**

| Area of focus | How our audit addressed it |
|---|---|
| The group owns 33% of Primor Produce Limited and records its share of its earning by equity accounting.<br><br>Management have increased the investment in associate at the reporting date by $581,000 which has been recognised in the Consolidated statement of profit or loss.<br><br>The carrying value of the investment in associate was reduced by $810,000 of dividends received in the year. | Our audit procedures included:<br>• we compared the carrying values of the Group's investment in associate to the financial statements of the entity to ensure these were accurately reflected, compared to 33% of the net asset value of Primor Produce Limited's book value.<br>• we completed limited review procedures on the material balances in the financial statements of Primor Produce at 31 December 2018; and<br>• The carrying value of the investment was then we ensured disclosures meet the requirements of NZ IFRS 12 Disclosure of Interests in Other Entities. |

**Information Other than the Consolidated Financial Statements and Auditor's Report Thereon**

The directors are responsible for the other information. The other information comprises The Year in Review, Kiwifruit 2018, Organics, Avocados, Business Outlook ad Company details, but does not include the consolidated financial statements and our auditor's report thereon. Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of audit opinion or 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 to be 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.

**Directors' Responsibilities**

The directors are responsible on behalf of the entity for the preparation of consolidated financial statements that give a true and fair view in accordance with New Zealand equivalents to International Financial Reporting Standards, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group 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 objectives are 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 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 and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

The engagement director on the audit resulting in this independent auditor's report is Darren Wright.

**Restriction on Distribution and Use**

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

William Buck

William Buck Audit (NZ) Limited
Tauranga
26 February 2019

## NOTES

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# COMPANY DETAILS

**COMPANY NAME**
Apata Group Limited

**COMPANY NUMBER**
1107843

**DATE OF INCORPORATION**
02 February 2001

**NATURE OF BUSINESS**
Packhouse and coolstore operators

**DIRECTORS OF APATA GROUP LIMITED AS AT 31 DECEMBER 2018**
Alan Birley
Colin Graham Cathie
Clinton Sean Carnachan
Mark Nolan Mayston
Stuart Barry Weston

**EXECUTIVE**
Stuart Weston, Managing Director
Eugene Crosby, CFO and Company Secretary
Hans van Leeuwen, GM Operations
Shaun Vickers, GM Business Development, Client Services and Orchards
Kate Trufitt, Avocado Business Manager and Group Compliance and Safety Manager
Jason Gibbs, Commercial Manager

**AUDITORS**
William Buck, Tauranga

**SOLICITORS**
Sharp Tudhope, Tauranga

**REGISTERED OFFICE**
9 Turntable Hill Road, RD 4, Katikati 3181

**NUMBER OF SHARES**
9,434,766

**DISTRIBUTION OF SHAREHOLDING – AS AT 26 FEBRUARY 2019**

| SHARE RANGE | NO. OF SHAREHOLDERS | % OF SHAREHOLDERS | SHARES HELD | % OF SHAREHOLDING | AVERAGE HOLDING |
|---|---|---|---|---|---|
| UP TO 1,999 SHARES | 10 | 4% | 15,179 | 0% | 1,518 |
| 2,000 TO 9,999 | 137 | 56% | 683,260 | 8% | 4,987 |
| 10,000 TO 24,999 | 50 | 20% | 778,662 | 8% | 15,573 |
| 25,000 TO 99,999 | 32 | 13% | 1,685,404 | 18% | 52,669 |
| 100,000 PLUS | 17 | 7% | 6,272,261 | 66% | 368,957 |
| **TOTALS** | **246** | **100%** | **9,434,766** | **100%** | **38,353** |


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