



GROWING TOGETHER

Annual Report
2018/19



SEASON OVERVIEW

A YEAR OF GROWTH IN VOLUME AND VALUE WITH INTERNATIONAL DEMAND CONTINUING TO SUPPORT STRONG RETURNS.

Zespri's returns to growers and the industry reached higher levels in 2018/19. This stemmed from strong growth in both volume and value, with total operating revenue from our global kiwifruit sales and licence release exceeding \$3 billion for the first time.

Total sales volumes reached 167.2 million trays in the 2018 season, a 21 percent increase on the 138.6 million trays sold in the previous season. Global revenue generated by fruit sales and our SunGold licence release also increased to \$3.1 billion, while Zespri's total fruit and service payments (including the loyalty premium) to New Zealand growers was up 24 percent to \$1.8 billion in 2018/19.

Growers have also seen an increase in 2018/19 average Orchard Gate Returns (OGR). This included a 6 percent increase in the average per-hectare return for Green to \$63,622, and a 28 percent increase in the average per-hectare return for SunGold to \$145,991. While SunGold also returned record levels on a per-tray basis, Green returns per tray were down due to higher-than-expected volumes and the associated extended sales window and greater fruit loss. Strong yields and a growing demand for organic kiwifruit saw average returns per hectare for Green Organic increase by 40 percent to \$73,350. The increased returns are expected to help growers meet the rising operational costs they face including labour.

Zespri's net profit after tax in 2018/19 was \$179.8 million, up from the \$101.8 million recorded last season. This reflected the strong season results and was further boosted by revenue from the ongoing SunGold licence release process and increased earnings from new cultivar royalties.

Gross revenue of \$192.6 million was generated by the 2018/19 round of SunGold licence release – the second in a five-year programme of annually releasing 700 hectares of conventional SunGold and 50 hectares of Organic SunGold licence to New Zealand growers (subject to annual review).

Zespri charges a royalty of 3 percent to licensed growers which is split between Zespri and Plant & Food Research. Zespri's share of those royalties was \$28.4 million in 2018/19, an increase of 37 percent from the previous year reflecting both higher volume and value earned on sales this season.

The total dividend per share in the 2018/19 financial year is expected to be \$0.92 versus the \$0.50 recorded in 2017/18. These dividend figures take into account the impacts of the targeted share issue and buy-back and three-for-two share split transactions during the financial year which were aimed to better align the ownership of shares with Zespri growers.

In 2018/19, the final element of the Kiwifruit Industry Strategy Project was completed. Producers voted overwhelmingly to support proposals for Zespri to continue with its 12-month supply strategy and maintain ownership of Plant Variety Rights (PVRs). Both these activities have underpinned our successful strategy of the past 20 years and helped us deliver a premium product to the market and positive returns for growers.

Overall, this has been another strong year for Zespri with continued growth in our largest markets including Japan, China and Spain, and in newer areas like the US. We remain committed to driving greater value through a continued focus on building our brand and supplying the world's best kiwifruit year-round.

ANNUAL MEETING



31 MARCH 2019
Financial year-end



18 JUNE 2019
Annual Report
circulated



**22 JULY 2019
– 1PM**
Deadline for receipt
of proxies for
Annual Meeting



24 JULY 2019
Annual Meeting



**DECEMBER
AND AUGUST**
Indicative dates for
dividend payments,
December (interim)
and August (final)

ANNUAL MEETING

The Annual Meeting of Shareholders of Zespri Group Limited will take place at 1pm on Wednesday 24 July 2019 at Trustpower Arena, 81 Truman Lane, Mount Maunganui.

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CORPORATE GOVERNANCE

At Zespri, we pride ourselves on providing a sustainable and safe business environment, which adheres to the applicable regulatory and legislative framework. Written policies and procedures clearly articulate a continued expectation of a high standard of integrity. In this section, we outline the main points of the corporate governance framework within which we operate.

ETHICAL STANDARDS

Acting and leading with integrity and maintaining a high standard of business ethics, are integral to the development and maintenance of corporate governance policies and processes. We expect all Directors, Officers and employees who represent and act for Zespri to do so with integrity and in compliance with applicable law and company policy. Zespri has a Code of Conduct and Directors Manual, which clearly articulate these expectations, and conducts trainings and presentations on a range of ethical issues throughout the Company.

Conflicts of interest: With five industry Directors on the Board, careful management of conflicts of interest is required. Zespri has comprehensive policies and practices in place to address existing and potential Board conflicts, which meet, and in some cases exceed, the requirements of the Companies Act 1993. All Directors are required to declare any actual or potential conflict of interest as soon as it arises, and Directors with relevant conflicts excuse themselves from meetings while issues which may present a significant conflict are discussed and decided. Where a conflict is considered unmanageable, a Director may have to choose whether to continue as a Zespri Director or pursue their other business interests. A Conflict of Interest Policy and associated record is also in place for employees.

COMPLIANCE

Zespri has policies and procedures in place to emphasise its commitment to legal compliance including, among others, policies regarding gifts, anti-corruption, bribery, privacy and anti-competitive behaviour. These policies are underpinned by audits and investigations conducted by an internal audit function, with exceptions being reported to the Audit and Risk Management Committee. Zespri has a dedicated Speak Up line for anyone to report unethical or illegal behaviour, which enables the identification and proactive investigation of alleged misconduct. Zespri's expectations of compliant behaviour are communicated to our customers and suppliers through the global customer and supplier codes of conduct. Zespri monitors such compliance for customers and suppliers through due diligence, and audits, on a risk basis, of compliance in target areas such as duty and customs declarations.

Confidentiality and privacy: Comprehensive policies support compliance for both Zespri Directors and employees with their legal obligations in the areas of confidentiality and privacy. Policies and procedures are periodically reviewed to ensure best practice, and training is provided to supplement

understanding and adherence to policy. Consistent with the high degree of industry engagement, Zespri's Constitution also contains provisions pertaining to confidentiality and shareholder democracy. As a global business, Zespri is subject to extensive privacy legislation from many jurisdictions, including the European Union General Data Protection Regulation. Zespri has undertaken a significant programme of work to prepare for and manage change associated with data privacy regulations and the collection, handling and processing of personal information.

BOARD COMPOSITION AND PERFORMANCE

Zespri's Board comprises eight members – five Directors elected from the kiwifruit industry, and three Independent Directors – as required by the Zespri Constitution. With this combination of members, Zespri benefits from a Board with a wide range of experience across key areas. Independent Directors are recommended by the Board for election by shareholders in line with the skills desired for Zespri's future strategic direction, through a formal independent recruitment and assessment process. The Board has adopted processes to consider the contribution of Independent Directors, the skills required going forward, and the desirability of rotation. The Chair is normally elected each year following the Annual Meeting, providing an opportunity for managing succession as required; in February 2019, Peter McBride stepped down as Chair. Bruce Cameron was elected as Chair, with Paul Jones elected as Deputy Chair. Profiles for each of the Directors are available on the Company's corporate website (www.zespri.com).

The Board provides strategic direction drawing upon Directors' extensive collective knowledge, which includes expertise in the kiwifruit industry, international business, agribusiness, marketing and finance. As part of a continuous improvement plan, the Board reviews its performance on an ongoing basis. From this process individual training requirements may be identified, which are progressed with a view to ensuring that the Board's skill set is robust and appropriate for the business. Induction processes are in place for new Directors, as well as for each subcommittee when subcommittee memberships change. The Board periodically receives training on topical issues, such as ethics, supply chain integrity, cyber security, and health and safety. In addition, the Board undertakes a series of market visits each year, outlined on page 47, to better understand market strategies and execution, and to evaluate the capabilities of the Company Executives and Zespri culture.

The Board has formally delegated decision-making to management through a comprehensive Global Delegated Authorities Manual, which sets out what decisions are reserved for the Board and committees, as well as a stepped qualitative and quantitative cascade of approval processes at different levels of management. Further policies pertaining to decisions made in the daily management of the business are also in place.

BOARD COMMITTEES

Board committees increase effectiveness in certain key areas, and include the Audit and Risk Management Committee, People and Culture Committee and Board Innovation Subcommittee.

Audit and Risk Management Committee: The Audit and Risk Management Committee reviews risk management strategies, internal controls and compliance processes with a view to monitoring Zespri's overall risk. It also reviews the Financial Statements with the assistance of management and the Company's external auditor, KPMG, and supports and oversees management in its evaluation of key accounting judgements. Jonathan Mason currently chairs the committee.

People and Culture Committee (formerly Organisation and Administration Committee): The People and Culture Committee is chaired by Paul Jones. It attends to strategic employment matters including general remuneration and incentive policy, employee engagement, organisational development strategy and the appointment and remuneration of senior executives.

Board Innovation Subcommittee: Innovation is a key enabler of Zespri's business strategy, requiring innovation programmes to be aligned to Zespri's long-term strategic objectives. The Board Innovation Subcommittee reviews and endorses Zespri's strategy for science and innovation and applies appropriate governance principles to optimise innovation performance, challenge and guide future innovation vision and work with management to mitigate innovation risk. The committee is currently chaired by Nathan Flowerday.

Each committee has terms of reference and all Directors receive copies of all committee papers and minutes. A verbal update on committee meetings is also provided at each Board meeting, providing opportunity for discussion. A table displaying meeting attendance by each Director is provided on page 47.

The Board also convenes smaller informal committees and steering groups from time to time to address particular issues as the need arises, such as oversight of Kiwifruit Industry Strategy Project (KISP) initiatives. Directors also represent Zespri in industry bodies such as Kiwifruit Vine Health Incorporated (KVH) and the Industry Advisory Council (IAC).

REPORTING AND DISCLOSURE

Zespri is subject to reporting and disclosure obligations within the Companies Act 1993, Financial Markets Conduct Act 2013 and other relevant legislation, which governs the duties of Directors including, but not limited to, financial reporting, securities, health and safety, environment and employment. The Board works with management to ensure that the Financial Statements are accurate and complete, including adoption of accounting policies and controls that mitigate against incorrect information or omissions. At the end of each financial year, the Chief Financial Officer and Chief Executive Officer ensures Zespri complies with accounting standards and controls.

In addition to normal corporate requirements of reporting and disclosure, the Kiwifruit Export Regulations 1999 (the Regulations) require Zespri to publicly disclose Financial Statements in accordance with the Kiwifruit Export Information Disclosure Handbook. The required disclosures are included within the New Zealand Industry Performance Section of the Annual Review, or within the Financial Statements of the Annual Report. Further disclosures are contained in the special purpose Financial Statements including the Audit Report from the auditors. The Regulations also require public disclosure of the terms of purchase of kiwifruit for each season. In addition to

the required disclosures identified in the Regulations, Kiwifruit New Zealand (KNZ) has discretion to compel Zespri to provide other information.

Zespri seeks to communicate proactively and transparently to its shareholders and other stakeholders, in a manner largely consistent with the continuous disclosure obligations on public companies. This communication not only extends to updates regarding current matters, but also to future plans such as five-year plans, outlook documents and regular roadshows, newsletters and updates.

REMUNERATION

The maximum amount of remuneration payable to Directors is set by shareholders as provided for in Zespri's Constitution. This is done on the recommendation of the Director Remuneration Committee, which typically has regard to independent benchmarking information provided by organisations such as the Institute of Directors. The details of remuneration paid to Directors during the financial year are available on page 47. The committee also considers governance succession within the New Zealand kiwifruit industry as a whole, and works with the Board in respect of industry initiatives such as the Industry Governance Development Programme. The committee comprises three elected shareholder members (presently John Cook, John Griffin and Michelle Dyer) and one independent member appointed by the Board (Warren Larsen). The committee's 2018/19 report is published within the Notice of Meeting booklet.

HEALTH AND SAFETY

Zespri recognises that its most important asset is its people. This means that ensuring the safety and wellbeing of both Zespri's employees and other workers is critical. The Company has a Board Charter on Health and Safety that is reviewed annually or as required by legislative or organisational requirements. The Board looks to fulfil its obligations by ensuring appropriate policies and procedures are adopted and implemented by reviewing and monitoring the identification, reporting and management of significant hazards and risks.

Directors receive targeted updates regarding health and safety matters at each Board meeting, and Zespri works with industry stakeholders to ensure the provision of safe workplaces. Directors also conduct health and safety visits to different working environments of Zespri. During the financial year, these visits included an orchard, the Tauranga Port and buffer store, a post-harvest operator and the new Zespri building.

In addition, the commitments made by Zespri pursuant to the enforceable undertaking entered into with WorkSafe continue to provide a platform to promote industry education, research and communication around health and safety.

RISK MANAGEMENT

Risk management forms an integral part of the Board's activities, with a view to ensuring that Zespri and its stakeholders are not exposed to undue risk as a result of business operations. Zespri has a comprehensive Risk Management Policy based on AS/NZS ISO 31000:2009 or the risk matrix developed by management and reviewed by the Board, together with processes to monitor and assess such risks on a continual basis throughout the year. The Board maintains an issues watch register, which identifies and updates the Board regularly on current risk items in the business. The Audit and Risk Management Committee and Board receive focused updates on internal audit matters, together with regular updates on risk areas such as health and safety, foreign exchange, cyber security and information systems stability.

The Board is committed to safeguarding the reputation and business of Zespri against instances of non-compliance by Zespri or its business partners. This initiative requires continuous improvement and monitoring of internal processes as well as a sound understanding of the legal obligations throughout the distribution chain. Taking these steps enables Zespri to mitigate opportunities for unlawful conduct by third parties, which may affect Zespri's business or operations.

Zespri continues to work on the final legal proceeding arising from historical matters in China prior to 2011, being the claim by the importers in relation to termination of the distribution relationship. As with any business, the Company does from time to time become involved in commercial disputes relating to its business and typically seeks to resolve such disputes through commercial discussions or alternative dispute resolution processes such as mediation or arbitration. Where disputes are anticipated to have a quantifiable financial exposure or progress to formal proceedings, provisions are made for the costs of defending or pursuing such claims.

The Board works to ensure management has appropriate governance and discipline regarding the procurement of financially or strategically important suppliers. This includes competitive tendering or benchmarking, where appropriate, particularly around the renewal or expansion of high-value and long-term contracts or relationships. A strong focus is placed on areas of significant expenditure such as professional services, marketing and logistics, with higher value and longer term contracts over defined thresholds requiring approval by the Board as part of the Global Delegated Authorities Manual. Particular strategic emphasis is placed on building strong supplier relationships that drive value and support the key initiatives of the business.

AUDITORS

The Board appoints the auditors for Zespri on an annual basis following approval from shareholders. KPMG have been Zespri's auditors since 2011 and operate a strict rotation of audit partners. Controls are in place to restrict what non-audit work may be provided by the auditor; in the 2018/19 financial year, non-audit work and fees paid to KPMG are shown on page 24. Representatives of the auditors attend meetings of the Audit and Risk Management Committee periodically to discuss the audit plans and outcomes, and attend the Board meetings if required to respond to particular matters or queries. The Board has not identified any issues that have compromised auditor independence.

SHAREHOLDER RELATIONS

Zespri shares are listed on the USX share trading platform, which allows for a higher degree of transparency of information regarding share trading. USX is a Financial Product Market operating under an exemption from subpart 7 of Part 5 of the Financial Markets Conduct Act 2013. Craigs Investment Partners has been acting as market maker for Zespri shares since November 2016, which has led to increased market liquidity and a greater degree of share price stability. In 2018, Zespri conducted a targeted share issue and buy-back which resulted in greater alignment between shareholders and producers. In addition, Zespri undertook a share split in March 2019 on a three-for-two basis with an associated increase in the share cap to 6:1 (six shares per tray of production), effectively increasing the number of shares on issue to support the ability for under-shared producers to purchase shares.

Zespri has extensive approval and disclosure policies for trading in Zespri shares by its Directors and employees. Zespri seeks to emulate best-practice standards required by public companies, and thus these policies are largely consistent with the obligations

for director trading adopted by public companies, including prior notice of intention to trade, approval by an Independent Director and transparency of Director trading activities through regular reporting to shareholders. The policies also impose trading halts when any material information is known to Directors and employees. Further, the Board considers at the end of each meeting whether any price-sensitive information should further preclude Directors or employees from trading Zespri shares. Details of share trading by Directors as well as their relevant interests are published on Zespri's corporate website (www.zespri.com) and on the grower website, the Canopy (<https://canopy.zespri.com>). The Board endeavours to operate a highly transparent disclosure programme to ensure that the market is as informed as possible, including a Chair's email following each Board meeting, regular updates of the USX platform (adhering to a market sensitive information policy) and publication of strategic information documents including a five-year outlook document.

The Board is focused on ensuring that shareholders can engage fully with Zespri and its Board. As part of its shareholder meetings, Zespri offers shareholders hybrid meeting options including online streaming and voting to ensure that all shareholders have the best ability to participate fully in the meetings and decisions arising from them.

OTHER STAKEHOLDER INTERESTS

Kiwifruit industry stakeholder engagement: The kiwifruit industry is a uniquely integrated sector that requires significant co-operation between all industry participants – growers, post-harvest operators, Zespri, and industry bodies (such as NZKGI and KVH) – together with the regulator KNZ and local and national Government. The Board is committed to working with all relevant stakeholders, within the regulatory framework, to achieve the best possible outcomes for shareholders, growers and the industry.

In March 2019, Zespri carried out a producer vote under Regulation 11 of the Regulations. Zespri asked producers to approve two activities, 12-month supply and PVR ownership, not expressly included in Zespri's definition of core business under the Regulations. Producers, by both numbers and weight of production, comprehensively voted to approve the two activities, providing long-term certainty for both shareholders and producers around Zespri's capacity to undertake these activities.

Labour compliance: Zespri seeks to ensure that all employees and workers within its supply chain are treated fairly and in accordance with applicable labour laws. The Board has committed to working with industry to protect workers' rights within the industry, including through adoption of the GRASP module of the Global GAP standard, focused on social responsibility.

Supply chain integrity: Zespri has global customer and supplier codes of conduct, which set expectations for supply chain participants, targeting a range of issues including legal and financial compliance, food safety and quality standards, fair competition, anti-bribery, anti-corruption, fair employment practices and labour standards, health and safety, and care for the environment. In addition, Zespri has published on its website specific supplier policies covering anti-bribery and anti-corruption, conflicts of interest, gifts, benefits and hospitality, IS devices and security and privacy.

ALTERNATIVE REVENUE STATEMENT

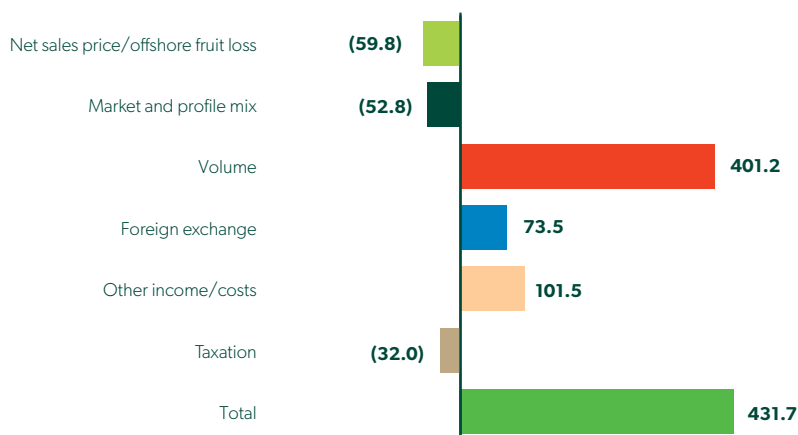
	2018/19	2017/18	2016/17
Zespri global kiwifruit sales – net (\$'000)	2,943,870	2,391,610	2,261,733
New Zealand grown kiwifruit tray equivalents supplied (millions)	154.1	124.4	145.9
Non-New Zealand grown kiwifruit tray equivalents supplied (millions)	18.5	15.5	16.8
NEW ZEALAND KIWIFRUIT SEGMENT	\$'000	\$'000	\$'000
Gross sales of New Zealand kiwifruit	2,839,871	2,298,990	2,149,786
Promotional rebates, claims and discounts	(230,270)	(188,080)	(122,595)
Net sales of New Zealand kiwifruit	2,609,601	2,110,910	2,027,191
Net fruit return through collaborative marketers	22,595	17,191	19,141
Other pool income	1,662	570	1,742
Revenue attributable to New Zealand pools¹	2,633,858	2,128,671	2,048,074
Less New Zealand pool costs:			
Freight	172,701	135,621	135,107
Insurance (onshore and offshore excluding hail)	3,591	3,534	3,159
Hail self-insurance	326	4,509	3,499
Duty and customs	94,776	78,563	80,168
Other direct pool costs – onshore ^{2&3&4&6}	78,613	62,618	61,592
Other direct pool costs – offshore	95,659	68,387	76,763
Promotion	161,180	134,090	149,597
Interest income ⁵	(1,022)	(2,364)	(810)
Total pool costs	605,824	484,958	509,075
Return from fruit sales	2,028,034	1,643,713	1,538,999
New Zealand fruit and service payments	1,775,408	1,433,956	1,343,983
Zespri margin⁷	252,626	209,757	195,016
Other non-pool revenue	2,579	3,245	2,385
Innovation funding ⁹	2,509	3,039	4,315
New Zealand kiwifruit corporate revenue	257,714	216,041	201,716
Less corporate overhead expenses:			
Innovation	15,762	12,344	11,651
Class 2 mainpack subsidy	–	96	10
Overhead costs – onshore	81,201	71,956	70,059
Overhead costs – offshore	76,950	70,742	61,781
Allocated excess taxation	2,636	1,832	–
New Zealand kiwifruit corporate overhead expense	176,549	156,970	143,501
Zespri EBIT and loyalty premium from New Zealand kiwifruit segment	81,165	59,071	58,215
Loyalty premium	46,347	34,101	36,047
Zespri EBIT from New Zealand kiwifruit	34,818	24,970	22,168
NON-NEW ZEALAND SUPPLY SEGMENT ⁸			
Net sales of non-New Zealand supply kiwifruit	311,674	263,509	215,401
Less non-New Zealand supply costs:			
Direct costs including fruit purchases	277,307	236,315	189,384
Overhead costs	25,823	18,160	15,296
Other expense/(income)	463	(175)	(1,132)
	303,593	254,300	203,549
EBIT from non-New Zealand supply segment	8,081	9,209	11,852

	2018/19	2017/18	2016/17
NEW CULTIVARS SEGMENT	\$'000	\$'000	\$'000
New cultivars licence revenue	194,420	101,746	67,178
New cultivars royalty income ²	28,400	20,723	16,673
New cultivars innovation funding ⁹	4,911	2,318	3,646
Revenue attributable to new cultivars	227,731	124,787	87,497
Less new cultivars costs:			
Amortisation of new cultivars	1,323	1,950	1,917
New cultivars costs ¹⁰	19,005	14,386	14,688
	20,328	16,336	16,605
EBIT from new cultivars segment	207,403	108,451	70,892
LAND AND BUILDINGS SEGMENT			
Income	525	556	705
Overhead costs	593	1,242	966
	593	1,242	966
EBIT from land and buildings segment	(68)	(686)	(261)
Zespri Group EBIT	250,234	141,944	104,651
Net interest income	2,764	1,934	2,424
Add back allocated excess taxation	2,636	1,832	–
Zespri Group profit before taxation	255,634	145,710	107,075
Taxation	75,828	43,868	33,374
Zespri Group profit after tax	179,806	101,842	73,701
Total fruit and service payments	1,775,408	1,433,956	1,343,983
Loyalty premium	46,347	34,101	36,047
Total fruit and service payments (including loyalty premium)	1,821,755	1,468,057	1,380,030

The Alternative Revenue Statement is used for management information and is the basis for the calculation of the fruit and service payments. Foreign exchange gains and losses are allocated differently from the way that they are treated in the Financial Statements in that they are apportioned to the relevant line items above. For more detail on segment EBITs, refer to Note 30 of the Financial Statements.

CAUSE OF CHANGE 2018/19 VS 2017/18

\$MILLIONS



The 'Cause of Change' chart outlines the increase in the return to the industry this season to \$2,002 million from \$1,570 million in 2017/18.

	\$'000
Total fruit and service payments 2017/18 (including loyalty premium)	1,468,057
Add Zespri net profit after tax 2017/18	101,842
Return to industry 2017/18	1,569,899
Movements due to change in:	
Net sales price/offshore fruit loss	(59,846)
Market and profile mix	(52,762)
Volume	401,244
Foreign exchange	73,525
Other income/costs	101,461
Taxation	(31,960)
Return to industry 2018/19	2,001,561
Total fruit and service payments 2018/19	1,775,408
Add Zespri loyalty premium 2018/19	46,347
Total including loyalty premium 2018/19	1,821,755
Add Zespri net profit after tax 2018/19	179,806
Return to industry 2018/19	2,001,561

NEW ZEALAND POOL COSTS AS A PERCENTAGE OF POOL REVENUE

	2018/19	2017/18	2016/17
Zespri margin (net of loyalty premium) ⁷	7.8%	8.2%	7.8%
Freight	6.6%	6.4%	6.6%
Insurance	0.1%	0.4%	0.3%
Duty and customs	3.6%	3.7%	3.9%
Other direct pool costs – onshore ²	3.0%	2.9%	3.0%
Other direct pool costs – offshore	3.6%	3.2%	3.7%
Promotion	6.1%	6.3%	7.3%
Interest income ⁵	(0.0%)	(0.1%)	0.0%
Total fruit and service payments (including loyalty premium)	69.2%	69.0%	67.4%
	100.0%	100.0%	100.0%
Revenue attributable to New Zealand pools (\$'000)¹	2,633,858	2,128,671	2,048,074

- 1 Net revenue attributable to the pools includes sales of New Zealand-grown kiwifruit, net income from New Zealand collaborative marketing programmes and other pool income as noted in the Alternative Revenue Statement.
- 2 Within 'Other direct pool costs – onshore' is the 3.0 percent royalty from new cultivars on net sales for Gold3 and Green14. This royalty is made up of two components: 1.35 percent of this royalty is paid to The New Zealand Institute for Plant & Food Research Limited and 1.65 percent royalty income from new cultivars in Zespri Group Limited.
- 3 Other direct pool costs – onshore include: KVH Funding, KNZ Fees and NZKGI funding.
- 4 Zespri Group Limited pays two different levies to Kiwifruit Vine Health Incorporated (KVH) on behalf of growers, for kiwifruit grown in New Zealand and exported to markets other than Australia: (1) a Psa levy of \$0.006 per tray and (2) a biosecurity levy of \$0.01 per tray.
- 5 Interest income is made up of the following: interest income of \$1.66 million, interest paid of \$0.49 million and an interest charge from Zespri corporate of \$0.15 million. This results in an overall interest income to the pools of \$1.02 million.
- 6 Zespri Group Limited is required, under Regulation 39 of the Kiwifruit Export Regulations 1999, to fund the statutory board Kiwifruit New Zealand. New Zealand Kiwifruit Growers Incorporated (NZKGI) is the kiwifruit grower representation body and Zespri Group Limited is required by The Commodity Levies (Kiwifruit) Order 2017 to pay a levy to NZKGI on behalf of growers. The rate for the 2018/19 year was \$0.01 per tray of kiwifruit grown in New Zealand and exported to markets other than Australia.
- 7 Zespri margin is calculated in accordance with the New Zealand Supply Agreement, being 5.0 percent of net sales (excluding collaborative marketing programmes) and 7.5 percent of fruit payments to suppliers.
- 8 Further analysis of non-New Zealand-grown supply is available within the segment reporting in Note 30 of the Financial Statements.
- 9 Innovation funding has been split between the New Zealand kiwifruit segment and the new cultivars segment based on the segment activity (refer to Note 2(b) and Note 30 of the Financial Statements).
- 10 New cultivars costs include overhead costs and innovation costs (refer to Note 30 of the Financial Statements).

FINANCIAL STATEMENTS AND STATUTORY INFORMATION

For the year ended 31 March 2019

Your Directors take pleasure in presenting the Financial Statements of the Company and its subsidiaries (collectively Zespri Group) and Statutory Information for the year ended 31 March 2019.

For and on behalf of the Directors



B L Cameron
Chair



J P Mason
Director



Independent Auditor's Report

To the Shareholders of Zespri Group Limited

Report on the consolidated financial statements

Opinion

In our opinion, the accompanying consolidated financial statements of Zespri Group Limited (the Company) and its subsidiaries (the Group) on pages 13 to 45:

- i. Present fairly in all material respects the Group's financial position as at 31 March 2019 and its financial performance and cash flows for the year ended on that date; and
- ii. Comply with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

We have audited the accompanying consolidated financial statements which comprise:

- The consolidated balance sheet as at 31 March 2019;
- The consolidated income statement, statement of comprehensive income, changes in equity and cash flows for the year then ended; and
- Notes, including a summary of significant accounting policies and other explanatory information.



Basis for opinion

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

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

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

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



Materiality

The scope of our audit was influenced by our application of materiality. Materiality helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the consolidated financial statements as a whole. The materiality for the consolidated financial statements as a whole was set at \$6 million determined with reference to a benchmark of Group Net Profit before Tax. We chose the benchmark because, in our view, this is a key measure of the Group's performance.



Key audit matter

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

The key audit matter

How the matter was addressed in our audit

Operating Revenue (\$3.1 billion)

Refer to Note 2(a) to the Financial Report.

Key operating revenue streams include sales of kiwifruit (\$2.91 billion) and sales of Zespri Plant Variety Right Licences (\$192.71 million).

The Group recognises revenue from sales of kiwifruit and licences when control has transferred, being when the goods are delivered to the customer. Sales revenue is recorded at the invoiced price of the kiwifruit less volume discounts provided to a customer.

Sales revenue is generated from customers in many markets. There is a risk that revenue may be recognised or measured incorrectly due to the complexities of selling under a range of different commercial terms, currencies and shipping arrangements.

Plant Variety Licences are allocated to growers who submit the highest bids in a tender process run by the Group. There is risk that licence revenue is incorrectly recognised as judgement is required to determine the point at which control of the license transfer to the successful growers.

Our audit procedures included:

- Reviewing processes and controls for New Zealand sourced sales operations and Zespri Global Supply activities, including customer acceptance processes;
- Assessing the recognition criteria against applicable accounting standards;
- Verifying accuracy of sales data by vouching to cash receipts on a sample basis;
- Using Data & Analytics tools to analyse kiwifruit sales revenue including rebates and discounts per tray by variety and customer to identify unusual transactions to challenge;
- Testing cut off around balance date to ensure sales are recognised in the correct period;
- Reviewing the license tender process to understand and challenge the determination of the point at which control of the license transfers: and
- Testing a sample of license sales by agreeing them to bid documentation and confirming payment has been received.

We did not identify any material misstatements in relation to operating revenue.



Other information

The Directors, on behalf of the Group, are responsible for the other information included in the entity's Annual Report. Other information includes the Corporate Governance, Alternative Revenue Statement, Cause of Change, Pool Cost Analysis, Statutory Information and the Annual Review. Our opinion on the consolidated financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

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



Use of this independent auditor's report

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



Responsibilities of the Directors for the consolidated financial statements

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

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



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

Our objective is:

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

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

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

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

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

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

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

For and on behalf of



Auckland

22 May 2019

INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME

Income Statement	Notes	2019 \$'000	2018 \$'000
Operating revenue	2(a)	3,104,453	2,418,499
Other revenue	2(b)	37,558	29,204
Operating expenses	3	(2,919,058)	(2,364,738)
Other net gains	5	28,479	57,389
Operating profit before taxation		251,432	140,354
Finance revenue	6(a)	6,028	6,592
Finance expense	6(b)	(1,826)	(1,236)
Net profit before taxation		255,634	145,710
Taxation expense	7(a)	(75,828)	(43,868)
Net profit after taxation		179,806	101,842
Earnings per share: basic	8	\$0.99	\$0.56

Statement of Comprehensive Income	2019 \$'000	2018 \$'000
Profit for the year	179,806	101,842
Total comprehensive income for the year	179,806	101,842

The above Income Statement and Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

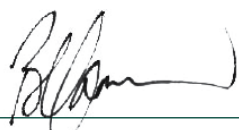
BALANCE SHEET

Balance Sheet at 31 March	Notes	2019 \$'000	2018 \$'000
Current assets			
Cash and cash equivalents	14(a)	192,612	153,714
Accounts receivable	12	100,813	73,586
Income tax receivable		3,540	4,335
Other financial assets	14(a)	47,809	51,588
Prepayments	13	51,739	36,118
Inventories	15	90,103	46,808
		486,616	366,149
Non-current assets			
Accounts receivable	12	16,368	33,662
Other financial assets	14(a)	70,437	57,473
Property, plant and equipment	16	57,067	27,216
Intangibles	17	37,142	33,615
Deferred tax assets	7(b)	4,360	2,834
Prepayments	13	4,711	6,666
		190,085	161,466
Total assets		676,701	527,615
Current liabilities			
Accounts payable and accruals	19	288,840	194,301
Income tax payable		13,533	9,062
Provisions and insurance liabilities	20	37,938	42,422
Other financial liabilities	14(b)	47,809	51,588
		388,120	297,373
Non-current liabilities			
Accounts payable and accruals	19	1,924	1,913
Provisions and insurance liabilities	20	–	149
Deferred tax liabilities	7(b)	2,328	2,367
Other financial liabilities	14(b)	70,437	57,473
		74,689	61,902
Equity			
Share capital	10	26,539	3,160
Retained earnings	9	187,353	165,180
		213,892	168,340
Total liabilities and equity		676,701	527,615

The above Balance Sheet should be read in conjunction with the accompanying notes.

The Financial Statements were authorised for issue by the Directors of Zespri Group Limited on 22 May 2019.

Authorised for, and on behalf of, the Board:



B L Cameron
Chair



J P Mason
Director

STATEMENT OF CHANGES IN EQUITY

Statement of Changes in Equity	Notes	Share capital \$'000	Retained earnings \$'000	Total \$'000
Attributable to shareholders:				
Balance as at 1 April 2018		3,160	165,180	168,340
Comprehensive income:				
Net profit after taxation		–	179,806	179,806
Total comprehensive income for the year		–	179,806	179,806
Transactions with owners:				
Share capital raised through targeted share issue	10(b)	81,928	–	81,928
Treasury stock issued through targeted share issue	10(c)	14,246	–	14,246
Purchase of shares through targeted share buy-back	10(b)	(70,322)	–	(70,322)
Targeted share issue and buy-back expenses	10(b)	(2,473)	–	(2,473)
Dividends paid during the year	11	–	(157,633)	(157,633)
Total transactions with owners in their capacity as owners		23,379	(157,633)	(134,254)
Balance at 31 March 2019		26,539	187,353	213,892
Balance as at 1 April 2017		18,017	153,956	171,973
Comprehensive income:				
Net profit after taxation		–	101,842	101,842
Total comprehensive income for the year		–	101,842	101,842
Transactions with owners:				
Purchase of treasury shares	10(c)	(14,857)	–	(14,857)
Dividends paid during the year	11	–	(90,618)	(90,618)
Total transactions with owners in their capacity as owners		(14,857)	(90,618)	(105,475)
Balance at 31 March 2018		3,160	165,180	168,340

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

STATEMENT OF CASH FLOWS

Statement of Cash Flows	Notes	2019 \$'000	2018 \$'000
Cash flows from operating activities			
Cash was provided from:			
Receipts from sales of kiwifruit		2,912,020	2,299,538
Receipts from sales of Zespri licences		211,708	106,035
Receipts from research co-funding		7,076	6,361
Other sundry items		–	6,676
Insurance receipts – reinsurance assets		247	106
Proceeds from derivatives		22,963	58,780
Taxation refunded		5,204	9,353
		3,159,218	2,486,849
Cash was applied to:			
Payments to contracted suppliers – New Zealand-grown fruit		1,825,316	1,493,282
Payments to contracted suppliers – non-New Zealand-grown fruit		227,608	203,582
Payments to other suppliers and employees		808,926	639,827
Insurance claims – reinsurance liabilities		2,166	6,285
Other sundry items		1,942	–
Taxation paid		77,347	59,855
		2,943,305	2,402,831
Net cash provided from operating activities	22	215,913	84,018
Cash flows from investing activities			
Cash was provided from:			
Proceeds from sale of property, plant and equipment, and intangibles		26	169
		26	169
Cash was applied to:			
Purchase of property, plant and equipment		32,649	12,571
Purchase of intangible assets		14,576	13,545
		47,225	26,116
Net cash used in investing activities		(47,199)	(25,947)
Cash flows from financing activities			
Cash was provided from:			
Interest received		4,316	4,582
Share issue		93,701	–
		98,017	4,582
Cash was applied to:			
Interest paid		530	124
Share buy-back		70,322	–
Minority buy-out		–	14,857
Dividend payments	11	157,633	90,618
		228,485	105,599
Net cash used in financing activities		(130,468)	(101,017)
Net increase/(decrease) in cash held		38,246	(42,946)
Effects of exchange rate changes on foreign currency cash balances		652	9,650
Add opening cash brought forward		153,714	187,010
Ending cash carried forward		192,612	153,714
Represented by:			
Cash and cash equivalents	14(a)	192,612	153,714
		192,612	153,714

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS

1. Summary of significant accounting policies

Statement of compliance

The Financial Statements are a consolidation of Zespri Group Limited ('the Company') and its subsidiaries (collectively 'Zespri Group'). The Company is domiciled in New Zealand and is a profit-oriented entity incorporated under the Companies Act 1993 of New Zealand. Zespri Group's primary activity is the purchase, export and marketing of fresh kiwifruit.

The Financial Statements of the Group have been prepared in accordance with the Financial Markets Conduct Act 2013 and Financial Reporting Act 2013.

The Financial Statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP). They comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and with International Financial Reporting Standards (IFRS).

The Financial Statements and Notes to the Financial Statements are presented in New Zealand Dollars (NZD), the functional and presentational currency of the Group.

Basis of preparation

The following accounting principles have been followed in the preparation of the consolidated Financial Statements:

- historical cost basis, modified by the revaluation of certain items as identified in the specific accounting policies below; and
- accrual accounting.

The Directors' and management have reviewed the Zespri Group current business plans, financial forecasts and related assumptions for the next 12 months and beyond, and are satisfied that it is appropriate for reliance to be placed on the fact that Zespri Group is a going concern.

Use of estimates and judgements

The preparation of Financial Statements and related disclosures that conform with NZ IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Financial Statements. Judgement is applied in determining estimates and the application of accounting standards.

Critical accounting estimates in applying significant accounting policies

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom exactly equal the related actual results.

Judgements and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Because judgement is applied, actual results could differ from estimates made. Estimates and assumptions are reviewed periodically and the effects of any changes are reflected immediately in the Income Statement.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are in accounting for new variety licence revenue, taxation, accounts receivable, accounts payable and accruals, provisions, derivatives and contingent liabilities. Assumptions applied, methods used and uncertainties pertaining to these areas are discussed in the related specific accounting policies below, and in Notes 2: Revenue, 7: Taxation, 12: Accounts receivable, 14: Financial assets and liabilities, 17: Intangibles, 19: Accounts payable and accruals, 20: Provisions and insurance liabilities, 23: Financial instruments, and 24: Guarantees and contingent liabilities.

Specific accounting policies

The principal accounting policies adopted in the preparation of the Financial Statements are set out below:

(a) Basis of consolidation

The consolidated Financial Statements include the results and balances of all entities over which the Company and its subsidiary companies (refer Note 18) have control. All companies in Zespri Group are wholly owned by companies within the Group and, therefore, are ultimately fully controlled by the Company.

All subsidiaries have been incorporated and consolidated at inception by Zespri Group companies. No subsidiaries have been obtained by acquisition. The results and balances of subsidiaries are included in the consolidated Financial Statements of Zespri Group from the date of inception.

All inter-company transactions are eliminated on consolidation.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Company.

(b) Indirect tax

The Income Statement, Statement of Comprehensive Income, Statement of Cash Flows, Statement of Changes in Equity and Balance Sheet have been presented so that all components are stated net of indirect tax (such as Goods and Services Tax (GST) and Value Added Tax (VAT)) where such taxes can be reclaimed from the relevant authorities with the exception of receivables and payables, which include indirect tax invoiced.

(c) Revenue recognition

Revenue is recognised as follows:

(i) Sale of kiwifruit

Sales of kiwifruit are recognised when control of the goods has transferred, being when the goods are delivered to the distributor or retailer. Delivery occurs when the goods have been shipped to the specific location and (if relevant) have received the relevant food safety approvals in the country of destination, the risks of loss have been transferred to the distributor, and the distributor has accepted the goods. Kiwifruit is often sold with volume incentives based on aggregate sales over a 12 month period. Revenue from these sales is recognised net of estimated volume discounts. Historical experience is used to estimate and provide for these incentives, using the expected value method, and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur.

NOTES TO THE FINANCIAL STATEMENTS [CONTINUED]

1. Summary of significant accounting policies (continued)

(c) Revenue recognition (continued)

(ii) Collaborative marketing (CM) sales:

Revenue from the sale of kiwifruit under collaborative marketing agreements are recognised when the goods are delivered to the agreed destination and the risks of loss have been transferred to the collaborative marketer.

(iii) Licence and royalty sales:

Revenue from sales of Zespri PVR licences is recognised by Zespri at the point the performance obligation is fulfilled, which is considered to be when a licence application has been accepted. Royalty income is recognised when the sales of licenced PVR kiwifruit occurs.

(iv) Interest:

Interest income is recognised on a time-proportion basis using the effective interest method.

(d) Co-funding

Co-funding is recognised as follows:

(i) Research co-funding, including research co-funding from government grants, relating to research and development costs is recognised over the period necessary to match it with the costs that it is intended to compensate.

Where research and development expenditure is expensed in the Income Statement, co-funding income to which it relates is shown separately as income. Where research and development costs are capitalised as intangible assets, co-funding income is netted off the expenses being capitalised.

(ii) Co-funding income is recognised only when there is reasonable assurance that any conditions attached to the co-funding have been complied with, and that the co-funding will be received.

(e) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to prepare for the intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognised in the Income Statement in the period in which they have been incurred.

(f) Earnings per share

Basic earnings per share are calculated by dividing net profit after tax by the weighted average number of shares outstanding during the year.

(g) Taxation

(i) Current tax payable or receivable:

Current tax is calculated by reference to the amount of income taxes payable or receivable in respect of the taxable profit or tax loss for the period in the tax jurisdictions in which Zespri Group's companies operate. It is calculated using tax rates and laws that have been enacted or substantively enacted by the reporting date.

Current tax for the current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Income taxes payable or receivable are shown net where there is a legal right of offset for balances recognised in the same tax jurisdiction.

(ii) Deferred tax:

Deferred income tax is provided in full using the balance sheet method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by balance date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Deferred income tax assets or liabilities are shown net where there is a legal right of offset for balances recognised in the same tax jurisdiction.

(iii) Current and deferred tax for the period:

Current and deferred tax is recognised as an expense or income in the Income Statement, except when it relates to items credited or debited directly to equity, in which case the related tax is also recognised directly in equity.

(h) Foreign currency translation

(i) Functional and presentation currency:

Transactions in each of Zespri Group's companies are measured using the currency of the primary economic environment in which the entity operates. The functional currency of foreign operations is also considered in light of its dependence on the Company. All Zespri Group companies are currently deemed to have New Zealand Dollars as both their functional and presentational currencies.

(ii) Transactions and balances in functional currency:

Foreign currency transactions are translated into the functional currency of each entity using the exchange rates prevailing at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of transactions during the year and from the translation of monetary assets and liabilities at balance date are recognised in the Income Statement.

Non-monetary items held at historical cost are translated using the historical exchange rate at the date of the transaction.

(i) Share capital

On the issue of shares, the value of the shares issued at the issue price is recognised in shareholders' equity.

Costs associated with the issue of shares are recognised (net of any tax deduction) as a deduction from the amount collected from the share issue.

NOTES TO THE FINANCIAL STATEMENTS [CONTINUED]

1. Summary of significant accounting policies (continued)

(j) Dividends

Dividends are reported as a movement in shareholders' equity in the period in which they are declared by the Board of Directors.

(k) Other reserves

Retained earnings are set aside in other reserves where the Board of Directors resolves to separate certain funds from those able to be distributed from retained earnings.

(l) Cash and cash equivalents

Cash and cash equivalents include cash on hand and demand deposits, and short-term investments that are readily convertible to known amounts of cash.

Bank overdrafts are shown within borrowings in current liabilities.

(m) Accounts receivable and payable

Accounts receivable are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for doubtful debts.

Collectability of accounts receivable is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off.

The movement in the provision is recognised in the Income Statement. When a receivable is uncollectable, it is written off against the provision. Subsequent recoveries of amounts previously written off are credited against other expenses in the Income Statement.

Accounts payable are initially measured at fair value and subsequently measured at amortised cost.

(n) Inventories

Inventories are valued at the lower of cost or net realisable value. Costs incurred in bringing inventory to its present location and condition are accounted for at purchased cost on a first-in first-out basis. Borrowing costs are excluded.

(o) Derivatives

Zespri Group may reduce its exposure to fluctuations in foreign currency exchange rates and commodity prices affecting operating costs, through the use of derivatives. Derivatives are not entered into for speculative purposes.

Derivatives able to be utilised under the Treasury Management Policy include interest rate swaps, oil swaps, foreign exchange options and forward contracts.

Zespri Group's policy is to manage risk from an economic perspective. As a result, Zespri Group manages the risks of net positions subject to market risks. Hedge accounting has not been applied. As a result, all derivatives are required to be classified as 'held for trading', and are measured at fair value with changes recognised through the Income Statement.

The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedging derivative is for more than 12 months, and as a current asset or liability when the remaining maturity of the hedging derivative is for less than 12 months.

(i) Recognition and derecognition:

Derivatives are recognised initially and subsequently at fair value, with changes in fair value of derivatives recognised in the Income Statement. The fair value of all financial instruments is recorded in the Balance Sheet. Derivatives are derecognised when the contractual rights or obligations relating to the cash flow expire.

(ii) Embedded derivatives:

Embedded derivatives are derivatives that are included within the terms of a non-derivative host contract. They affect the cash flows of the combined instrument in a way similar to a stand-alone derivative. An embedded derivative causes some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified index, price, rate or other variable.

Companies within Zespri Group enter into contracts in the normal course of their operations. Within some of these contracts are embedded derivatives (hybrid contracts). Where the embedded derivatives are contained in a hybrid contract which is a financial asset they are not valued or recognised separately from the accounting required for the host contract in the Financial Statements. Embedded derivatives contained in hybrid contracts which are attached to a host that is not a financial asset they are accounted for as if they were stand-alone derivatives.

(iii) Fair value estimation:

The fair value of derivatives traded in an active market is based on a price within the bid-ask spread that is most representative of fair value (refer Note 14).

The fair value of forward foreign exchange contracts is determined using quoted forward foreign exchange rates, option volatilities and interest rate yield curves at balance date.

The fair value of derivatives that are not traded in an active market is determined by using valuation techniques as specified at Note 23, adjusted for credit risk of the counter-party.

(p) Property, plant and equipment

The cost of purchased property, plant and equipment is the value of the consideration given to acquire the assets and the value of other directly attributable costs which have been incurred in bringing the assets to the location and condition necessary for their intended use.

The cost of assets constructed by Zespri Group includes the cost of all materials used in construction and direct labour on the project, and financing costs that are directly attributable to the project. Costs cease to be capitalised as soon as the asset is ready for productive use.

The major asset classes are land and improvements, buildings, leasehold improvements, plant and equipment, motor vehicles and work in progress.

NOTES TO THE FINANCIAL STATEMENTS [CONTINUED]

1. Summary of significant accounting policies (continued)

(q) Depreciation

Depreciation is provided on a straight-line basis at rates calculated to allocate the cost of assets over their estimated useful lives. Work in progress is not depreciated until the work is complete and the asset is fit for its intended use. The estimated useful lives used for depreciation purposes are as follows:

Buildings	Lower of 50 years or useful life of the building
Leasehold improvements	Lower of 10 years or unexpired portion of lease
Plant and equipment	2–10 years
Motor vehicles	5 years

The useful life and residual value of property, plant and equipment are reviewed annually. Any change required as a result in the change of these estimates is recognised in the Income Statement during the period.

(r) Intangibles

(i) Research and development costs:

Research expenditure is expensed in the period incurred. Development costs are capitalised as internally generated intangible assets where future benefits are expected to exceed those costs; otherwise, development costs are expensed in the period incurred.

Development costs include costs relating to the development and production for Zespri-developed cultivars. Costs capitalised include those of budwood, legal fees and costs of obtaining Plant Variety Rights less any research co-funding received in respect of this expenditure. Development costs capitalised as an internally generated intangible asset have finite useful lives and are carried at cost less accumulated amortisation.

Amortisation is calculated using the straight-line method to allocate the cost over the estimated useful life of five years.

(ii) Computer software:

Zespri Group purchases and develops software for use in its own business only. Because the software is without physical substance and is not linked to a producing asset with substance, it is classified as an intangible asset.

The cost of computer software acquired is the value of the purchase price to acquire the assets, and the value of other directly attributable costs which have been incurred in bringing the assets to the location and condition necessary for their intended use.

The cost of software developed by, and for the use of, Zespri Group includes the cost of all materials used to develop the software, direct labour on the project and financing costs that are directly attributable to the project. Computer software has a finite useful life and is carried at cost less accumulated amortisation.

Amortisation is calculated using the straight-line method to allocate the cost over the estimated useful life of three to five years.

(iii) Intangibles work in progress:

Intangibles work in progress is not amortised until work is complete and the asset is fit for its intended use.

The useful life and residual value of intangibles are reviewed annually. Any change required as a result in the change of these estimates is recognised in the Income Statement during the period.

(s) Impairment of non-financial assets

Non-financial assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable.

An impairment loss is recognised when an asset's carrying amount exceeds its recoverable amount. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

(t) Employee benefits

Employee entitlements to salaries and wages, bonuses, annual leave, contributions to defined-contribution pension schemes and other accumulating benefits are recognised when they accrue to employees. Liabilities for employee benefits are carried at the value of the estimated future cash flows required to settle the obligation arising from services rendered by employees up until balance date.

Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminate the employment of current employees, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy.

NOTES TO THE FINANCIAL STATEMENTS [CONTINUED]

1. Summary of significant accounting policies (continued)

(u) Provisions and insurance cover offered

Provisions

Zespri Group records provisions when: it has a legal or constructive obligation to satisfy a claim as the result of a past event; it is more likely than not that an outflow of resources will be required to satisfy the obligation; and a reliable estimate of the amount can be made. The amount recognised as a provision is the net present value of the best estimate of the outflows required to settle the obligation.

Insurance cover offered

(i) Marine cargo insurance:

The Company insures New Zealand contractors to the New Zealand Supply Agreement for loss of kiwifruit resulting from specific risks between picking and 'Free on board stowed' (FOBS). The annual period of cover is from 1 April to 31 March the following year. Zespri Group purchases marine cargo insurance as reinsurance of this risk. The terms of cover are contained in the annual New Zealand Supply Agreement issued every year to New Zealand contracted suppliers.

An insurance liability is recognised to the extent of the estimated future cash flows that may be required to settle claims from New Zealand-contracted suppliers and related costs. An expense is recognised for known liabilities under the terms of insurance, and estimated for claims made but not yet settled. Claims are expected to be settled within one year. There is no discounting or inflation adjustment in measuring the liability because of the short settlement period.

An insurance asset and resultant revenue, relating to claims made pre-FOBS, are recognised to the extent of the estimated future cash flows that may be receivable from Zespri Group's insurer as a result of known claims made against the Reinsurance Policy.

(ii) Hail insurance:

The Company insures New Zealand contractors to the New Zealand Supply Agreement annually for kiwifruit lost as a result of hail during the New Zealand growing period. The period of cover is from 1 August to 31 July the following year. The terms of cover are contained in the annual New Zealand Supply Agreement.

An insurance liability is recognised to the extent of the estimated future cash flows that may be required to settle claims and related costs. An expense is recognised for known liabilities under the terms of insurance, and estimated for claims made but not yet settled. Claims are settled at the end of the insurance period. There is no discounting or inflation adjustment in measuring the liability because of the short settlement period.

(v) Leases

Zespri Group leases premises, certain plant and equipment, and motor vehicles. Operating lease payments, where the lessor effectively retains substantially all the risks and benefits of ownership of the leased item, are included in the Income Statement in equal instalments over the lease term. Lease payments are shown net of any receipts earned from the subleases of these assets.

The cost of improvements to leasehold property is capitalised, disclosed as leasehold improvements and depreciated over the unexpired period of the lease or the estimated useful life of the improvements, whichever is the shorter.

(w) Statement of Cash Flows

The following definitions are the terms used in the Statement of Cash Flows:

- (i) Cash and cash equivalents are considered to be cash on hand, current accounts and short-term money market deposits in banks, net of bank overdrafts.
- (ii) Investing activities are those activities relating to the acquisition, holding and disposal of property, plant and equipment, intangibles and investments. Investments can include securities not falling within the definition of cash.
- (iii) Financing activities are those activities which result in changes in the size and composition of the capital structure of Zespri Group. This includes both equity and debt not falling within the definition of cash. Dividends paid in relation to the capital structure are included in financing activities.
- (iv) Operating activities include all transactions and other events that are not investing or financing activities.

(x) Segment reporting

Zespri Group determines its reportable segments by reference to the internal reporting of the activities of the Group to the Board of Directors, the chief operating decision-maker, as defined in NZ IFRS 8 (Operating Segments). Reportable segments have been determined to follow the strategic business lines of the Group, which also reflect groups of similar products and services. Zespri Group has four reportable segments:

- (i) New Zealand kiwifruit: all activities related to the production and sale of New Zealand-grown kiwifruit varieties, other than activities included in the new cultivar segment. Activities include but are not limited to innovation, procurement, transport, marketing, selling and administration overheads.
- (ii) Non-New Zealand supply: all activities related to the production and sale of non-New Zealand-grown kiwifruit varieties, other than activities included in the new cultivar segment. Activities include but are not limited to innovation, production, procurement, transport, marketing, selling and administration overheads.
- (iii) New cultivars: all pre-commercialised activities related to any Zespri PVR kiwifruit. Activities include but are not limited to innovation, production, procurement, transport, marketing, selling and administration overheads. This segment also covers activities related to the selling and administration of PVR licences, and the associated ongoing royalty income.
- (iv) All other segments: all other segments not covered above including ownership of land and buildings.

NOTES TO THE FINANCIAL STATEMENTS [CONTINUED]

1. Summary of significant accounting policies (continued)

(y) Changes in accounting policies

The following sets out the new accounting standards and amendments to standards that were applicable to the Group from 1 April 2018.

NZ IFRS 9 (Financial Instruments) – effective from 1 April 2018

NZ IFRS 9 Financial Instruments replaces the provisions of NZ IAS 39 Financial Instrument: Recognition and Measurement that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. The impact of adopting NZ IFRS 9 is summarised below:

- NZ IFRS 9 introduces new classification and measurement requirements for financial assets and liabilities that are within the scope of NZ IAS 39. There have been no changes to the classification or carrying amounts of financial assets and financial liabilities in the statement of financial position under NZ IFRS 9.
- The new hedge accounting rules in NZ IFRS 9 had no impact as the Company does not currently apply hedge accounting.
- The NZ IFRS 9 impairment requirements are based on an expected credit loss model, replacing the incurred loss methodology under NZ IAS 39. The Group has applied the simplified approach for trade and other receivables, with the impact of NZ IFRS 9 being immaterial.

IFRS 15 (Revenue from contracts with customers) – effective from 1 April 2018

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces IAS 18 revenue, IAS 11 construction contracts and related interpretations. Under IFRS 15, revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control – at a point or over time – requires judgement.

The Group has adopted IFRS 15 using the cumulated effect method with practical expedients, with the effect of initially applying this standard recognised at the end of initial application. Accordingly, the comparative information has not been restated.

The Group considers the sale of kiwifruit, collaborative marketing sales, licence revenue and royalty income to be revenue from contracts with customers. IFRS 15 has not had a significant impact on the timing or measurement of the Group's recognition of these revenue streams.

The following standards are not yet effective and have not been early adopted by the Group, but will be applicable to the Group:

NZ IFRS 16 (Leases) – effective on or after 1 April 2019.

Nature of the change

This standard fundamentally changes the accounting treatment of leases by lessees as it eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. Therefore, lessees will appear to become more asset-rich, but also more heavily indebted, and lessor accounting remains similar to current practice with lessors continuing to classify leases as finance and operating leases. There are also changes in accounting over the life of the lease.

Transition

The Group is required to adopt NZ IFRS 16 Leases from 1 April 2019. A project team was formed in February 2018 to undertake the implementation of the new lease standard and the Group is well placed to apply the new standard from the mandatory adoption date.

The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. All right-of-use assets will be measured at the amount of the lease liability on adoption. Zespri will implement the following practical expedients upon transition:

- apply a single discount rate to a portfolio of leases with reasonably similar characteristics; and
- account for leases for which the lease term ends within 12 months of the date of initial application as short-term leases.

Zespri will take advantage of the following permitted exemptions and will not account for the following leases under NZ IFRS 16:

- leases with a lease term of 12 months or less;
- leases for which the underlying asset is of low value when it is new; and
- exclude initial direct costs from the measurement of the right-of-use asset at the date of initial application.

Application of the new standard will require the use of judgements and estimates when determining whether a contract contains a lease, the lease term, calculation of the discount rate and separating non-lease components.

Impact

Leases in which the Group is a lessee:

Based on the information currently available, the Group estimates that it will recognise additional lease liabilities of \$14.6 million on 1 April 2019 and right-of-use assets of \$14.6 million.

The Group expects that the net profit after tax will decrease by approximately \$0.2 million.

- the Group has not finalised the testing and assessment of controls over its new IT systems; and
- the new accounting policies are subject to change until the Group presents its first financial statements that include the date of initial application, as the Group may enter into or exit leasing arrangements during the financial year.

Leases in which the Group is a lessor:

No significant impact is expected for leases where the Group is a lessor.

NOTES TO THE FINANCIAL STATEMENTS [CONTINUED]

2. Revenue

(a) Operating revenue	2019 \$'000	2018 \$'000
Sale of kiwifruit (at spot foreign exchange rates):		
New Zealand-grown kiwifruit	2,576,045	2,037,532
Non-New Zealand-grown kiwifruit	311,875	263,881
Collaborative marketing	22,851	17,191
Total revenue from kiwifruit product sales	2,910,771	2,318,604
Sale of Zespri Plant Variety Right licences	192,707	99,580
Revenue from branding royalties	251	52
Insurance revenue ¹	724	263
	3,104,453	2,418,499

¹ Insurance revenue includes revenue received or receivable on policies taken out for pre-FOBS and post-FOBS kiwifruit losses.

(b) Other revenue	2019 \$'000	2018 \$'000
Gain on sale of assets	11	17
Zespri Plant Variety Right royalty income	28,149	20,723
Co-funding from Callaghan Innovation for research and development ¹	5,000	5,007
Co-funding for other projects	584	350
Other income	3,814	3,107
	37,558	29,204

¹ On 19 October 2015, Zespri Group Limited entered into a co-funding research and development agreement with Callaghan Innovation. The agreement had an initial term of three years and a Callaghan Innovation contribution value of up to \$15,000,000 (excluding GST) over the three years. On 12 February 2018, Zespri Group Limited entered into a two year extension with an additional Callaghan Innovation contribution value of up to \$10,000,000 (excluding GST) over a further two years. This provides a maximum contribution value of up to \$25,000,000 (excluding GST) over five years. Zespri Group Limited recognises Callaghan Innovation contributions as co-funding revenue in the year the associated research and development is incurred.

3. Operating expenses

	Notes	2019 \$'000	2018 \$'000
Zespri Group's operating expenses include the following (at spot foreign exchange rates):			
Bad debts written off/movement in provision for doubtful debts		56	–
Commissions		21,382	17,878
Directors' fees		856	821
Employee remuneration and benefits ²		82,031	69,792
Employee remuneration and benefits – defined contribution plan		1,426	1,287
Fruit and service payments – New Zealand-grown kiwifruit ¹		1,775,663	1,433,956
Fruit purchases – non-New Zealand-grown kiwifruit		230,911	203,475
Loss on sale of assets		106	894
Loyalty Premium – New Zealand-grown kiwifruit	20	46,347	34,101
Promotion		167,424	134,957

¹ Contracted-supplier fruit returns by means of fruit and service payments reflect the value of sales from New Zealand-grown kiwifruit after deducting those expenses defined under the annual New Zealand Supply Agreement, including derivative gains and losses.

² Employee's remuneration and benefits have increased in 2019 due to the increase in employee numbers to support Zespri's growth plan.

NOTES TO THE FINANCIAL STATEMENTS [CONTINUED]

4. Fees to auditors

Fees are paid to the auditors of the Company and its subsidiaries for the audit of the Financial Statements and for other services. The auditors of the Group are KPMG.

	2019 \$'000	2018 \$'000
Audit services:		
Audit of the Financial Statements of the Group – KPMG NZ	230	209
Audit of the Financial Statements of the Group's subsidiaries – KPMG network firms	151	140
Total audit fees	381	349
Audit-related services:		
Other assurance services ¹	76	52
Total audit fees and audit-related services	457	401
Non-audit-related services:		
Taxation consulting and compliance services	9	13
Report to PWC on IT general controls (for PWC pool audit)	–	3
Share trading	5	–
Total non-audit-related services	14	16
Total fees paid to the Company's auditors	471	417

¹ Other assurance services include a review engagement related to Callaghan Innovation Growth grant, agreed upon procedures related to the Unlisted submission and margin statements and 2018 Annual Meeting, and an assurance engagement in relation to overhead allocations between segments.

Other audit fees of \$32,401 (2018: \$31,257) have been paid to other auditors to meet local audit requirements.

5. Other net gains

	2019 \$'000	2018 \$'000
Net gains from derivatives	23,024	49,174
Net foreign exchange gains/(losses) from non-derivatives	5,455	8,215
Total other net gains	28,479	57,389

6. Finance revenue and expense

(a) Finance revenue	2019 \$'000	2018 \$'000
Interest revenue ¹	6,028	6,592
Total finance revenue	6,028	6,592

(b) Finance expense	2019 \$'000	2018 \$'000
Interest expense	530	124
Fee expense	1,296	1,112
Total finance expense	1,826	1,236

¹ Interest revenue includes short-term deposits of \$4,315,781 (2018: \$4,425,908) and implied interest of deferred licence revenue \$1,712,527 (2018: \$2,165,690).

NOTES TO THE FINANCIAL STATEMENTS [CONTINUED]

7. Taxation

(a) Taxation expense	2019 \$'000	2018 \$'000
Net profit before taxation	255,634	145,710
Taxation at 28%	71,578	40,799
Tax effect of:		
Non-deductible or non-assessable items	1,816	417
Translation differences on foreign tax	4	(349)
Tax under-provided in prior year	980	1,328
Foreign income at different tax rates	230	923
Movement in distribution of accumulated retained earnings of subsidiaries	1,220	750
Taxation expense	75,828	43,868
Effective tax rate	29.7%	30.1%
Taxation expense is represented by:		
Current taxation expense:		
Current income tax charge	76,381	39,808
Adjustments of prior years	980	1,328
Deferred taxation expense:		
Origination/(reversal) of temporary differences	(1,533)	2,732
Taxation expense	75,828	43,868

The 28 percent tax rate used above is the corporate tax rate payable by New Zealand corporate entities on taxable profit under New Zealand tax law.

(b) Components of deferred taxation	2019 \$'000	2018 \$'000
Property, plant and equipment, and intangibles	(1,986)	(2,750)
Inventories and receivables	(1,160)	(215)
Retained earnings in subsidiaries	(1,661)	(1,416)
Provisions and accruals	4,795	4,531
Other financial assets and liabilities	(1,572)	(1,090)
Employee entitlements	3,616	1,407
Net deferred assets	2,032	467
Deferred tax assets	4,360	2,834
Deferred tax liabilities	(2,328)	(2,367)
Net deferred assets	2,032	467

(c) Net change in deferred tax balances	2019 \$'000	2018 \$'000
Net deferred assets at 1 April	467	3,131
Charged to Income Statement	1,533	(2,732)
Exchange differences and other	32	68
Net deferred assets at 31 March	2,032	467

All movements have been charged to the Income Statement. No movements have been recorded directly within equity.

NOTES TO THE FINANCIAL STATEMENTS [CONTINUED]

7. Taxation (continued)

(d) Tax credits available to shareholders	2019 \$'000	2018 \$'000
New Zealand imputation credit account		
Balance as at 1 April credit	1,334	11,204
Income tax payments made to New Zealand tax authorities during the year	61,313	25,255
Imputation credits attached to dividends paid	(61,140)	(35,125)
Total tax credits available for use at 31 March	1,507	1,334

On 22 May 2019 the Board of Directors announced an intention to declare a dividend of 17.0 cents per share which will not be recognised in the Financial Statements until July 2019, when it is declared. It is intended that the dividend will be fully imputed and imputation credits of \$12,115,009 will be required to fully impute the dividend.

The imputation credits required for the 2018/19 final dividend will be available due to tax payments made during the 2019/20 financial year.

8. Earnings per share

	2019	2018
Net profit after taxation attributable to shareholders (\$'000)	179,806	101,842
Weighted average shares ('000)	182,382	181,803
Basic average per share (\$)	0.99	0.56

On 15 March 2019, a three-for-two share split was carried out. As a result, the weighted average number of shares is 182,382,806. 2017/18 share and per share amounts have been restated to reflect the three-for-two share split completed on 15 March 2019. Prior to restatement, the 2017/18 weighted average shares were 120,717,335 and average earnings per share was \$0.84.

9. Reconciliation of movements in retained earnings

Retained earnings	Notes	2019 \$'000	2018 \$'000
Balance as at 1 April		165,180	153,956
Dividends paid during the year	11	(157,633)	(90,618)
Net profit after taxation attributable to shareholders		179,806	101,842
Balance as at 31 March		187,353	165,180

10. Share capital

(a) Number of shares issued	2019 No. of shares	2018 No. of shares
Number of ordinary shares issued (fully paid) at 31 March, shown by:		
Number of ordinary shares issued at 1 April	118,936,547	120,717,335
Number of new shares issued through targeted share issue	10,240,934	–
Number of shares purchased through targeted share buy-back	(8,790,211)	–
Number of shares transferred to treasury stock	–	(1,780,788)
Number of treasury stock shares reissued through targeted share issue	1,780,788	–
Additional shares issued under three-for-two share split	61,084,182	–
Number of ordinary shares issued at 31 March	183,252,240	118,936,547
Number of shares held as treasury stock at 1 April	1,780,788	–
Treasury stock purchased through minority buy-out right	–	1,780,788
Number of treasury stock shares reissued through targeted share issue	(1,780,788)	–
Number of shares held as treasury stock at 31 March	–	1,780,788
Total shares as at 31 March	183,252,240	120,717,335
(b) Share capital value	2019 \$'000	2018 \$'000
Share Capital at 1 April	18,017	18,017
Share Capital raised through targeted share issue	81,928	–
Purchase of shares through targeted share buy-back	(70,322)	–
Targeted share issue and buy-back expenses	(2,473)	–
Treasury Stock reissued at below purchase value	(611)	–
Balance at 31 March	26,539	18,017

NOTES TO THE FINANCIAL STATEMENTS [CONTINUED]

10. Share capital (continued)

(c) Treasury Stock	2019 \$'000	2018 \$'000
Treasury Stock at 1 April	(14,857)	–
Treasury Stock purchased through minority buy-out right	–	(14,857)
Treasury Stock issued through targeted share issue	14,246	–
Treasury Stock reissued at below purchase value	611	–
Balance at 31 March	–	(14,857)

Ordinary shares: All ordinary shares rank equally subject to the voting cap and are classified as equity. Each shareholder is entitled to one vote per ordinary share up to a maximum that is calculated by reference to that shareholder's share of total New Zealand production supplied to Zespri Group Limited. Incremental costs of \$2,472,783 that are directly attributable to the targeted share issue and buy-back, are shown as a deduction in equity. Treasury Stock was purchased through a minority buy-out right in 2018 for \$14,857,486 and reissued in 2019 for \$14,246,304 as part of the targeted share issue. The difference of \$611,182 is a cost deducted from equity.

Where the Group purchases its own equity share capital (treasury stock), the consideration paid (which includes any directly attributable incremental costs) is deducted from equity attributable to the shareholders until the shares are cancelled or reissued. Where such shares are reissued, any consideration that is received, net of directly attributable incremental costs, is included in equity attributable to shareholders.

As at 31 March 2019, Zespri Group Limited holds no ordinary shares as treasury stock (2018: 1,780,788).

(d) Capital management

The Company's activities are restricted under the Kiwifruit Export Regulations 1999 in order to protect shareholders and contracted suppliers.

Because Zespri Group is a short-term borrower, capital management is restricted to the management of authorised and issued share capital, retained earnings and other reserves.

Under its Constitution, the Company may issue, buy back, consolidate or subdivide shares. Since incorporation in 2000, the Company has:

- issued shares under the Kiwifruit Industry Restructuring Act 1999 in line with the production of New Zealand kiwifruit vines existing at the time;
- issued shares in a pro-rata offer in 2001 to obtain equity required to support activities stemming from increases in new plantings in New Zealand;
- issued shares in 2005 in a targeted offer to growers to realign shareholdings with levels of production of growers, while offering a voluntary share buy-back to dry shareholders or growers holding more shares than their proportion of production;
- transferred retained earnings to other reserves to separate funds from those available for distribution to shareholders;
- performed a share split in September 2010 to achieve a better alignment between trays supplied and total shares;
- transferred other reserves to retained earnings to cover Psa-related funding;
- purchased shares as Treasury Stock from shareholders that triggered their Companies Act 1993 minority buy-out right following a Special Meeting approving changes to the Zespri Constitution in March 2018;
- issued shares in a targeted share offer in November 2018, and bought back shares in a targeted buy-back offer, following a Special Meeting approving changes to the Zespri Constitution in March 2018; and
- performed a share split in March 2019 to achieve a better alignment between trays supplied and total shares.

Share capital

The Regulations do not restrict the levels of share capital able to be authorised for issue by the Company. The Company's Constitution provides some restriction over the scale of individual offers for shares. To date, in line with the Kiwifruit Export Regulations 1999, shares have been issued by the Company to producing New Zealand kiwifruit growers.

As noted in (d) above, voting rights of shareholders are capped by reference to the individual shareholder's share of total New Zealand production supplied to the Company during the year. Divergence between shareholdings and production can occur through the production impact of new plantings and as growers enter or exit the industry in New Zealand. This divergence is monitored by the Company at least annually, through the process of determining the voting caps of shareholders prior to the Annual Meeting of the Company.

To achieve a closer alignment between production levels and shareholdings of shareholders, a targeted share issue and buy-back was carried out with 12,021,722 shares issued (inclusive of treasury stock) and 8,790,211 shares bought back, resulting in a net increase of 1,450,723 shares to a total of 122,168,058 shares as 5 November 2018. On 15 March 2019 a share split was carried out with three shares provided for every two shares on issue. This resulted in an increase in total shares on issue to 183,252,240 shares. At the same time, an automatic increase in the shareholder entitlement to hold shares increased to six shares per tray of New Zealand production.

Payment of dividends

Capital levels are monitored as part of the solvency tests required under the Companies Act 1993 to approve the payment of dividends to shareholders. Capital retained in the Company is measured for solvency purposes, and to determine whether the minimum level of equity retained in Zespri Group, as agreed by the Board of Directors, is maintained.

Following the approval of an updated Constitution in March 2018, dividends will not be paid to non-producer shareholders from March 2025 on shares held as at 14 March 2018. A shareholder who becomes a non-producer subsequent to this date will not receive dividends from three years following becoming a non-producer.

NOTES TO THE FINANCIAL STATEMENTS [CONTINUED]

11. Dividends paid

	2019 \$'000	2018 \$'000
Ordinary dividends:		
On ordinary shares – final (prior year)	21,408	20,522
On ordinary shares – interim (current year)	136,108	70,013
Supplementary dividends (to non-residents)	117	83
Total dividends paid	157,633	90,618

During the year, the 2018 final dividend declared on 22 May 2018 of 18 cents per share (12 cents restated¹), the 2019 interim dividend declared on 31 October 2018 of 16 cents per share (11 cents restated¹) and the additional interim dividend declared on 25 July 2018 of 98 cents per share (64 cents restated¹) were paid and recognised in the Financial Statements. All these dividends were fully imputed. Supplementary dividends of \$116,607 (2018: \$83,470) were paid to shareholders not tax resident of New Zealand, for which Zespri Group received a foreign investor tax credit entitlement.

On 22 May 2019, the Board of Directors announced an intention to pay a fully imputed final dividend of 17 cents per share (2018: 18 cents per share (12 cents restated¹)), totalling \$31,152,880 (2018: \$21,408,578). This dividend will be paid in August 2019 subject to meeting solvency test requirements under the Companies Act 1993. Because the intention was announced after balance date, the financial effect has not been recognised in the Financial Statements.

¹ Dividends have been restated for the three-for-two share split and the targeted share issue and buy-back.

12. Accounts receivable

	2019 \$'000	2018 \$'000
Current:		
Trade receivables	43,378	42,413
Other receivables ¹	16,461	7,296
Less: Expected credit loss provision	–	–
	59,839	49,709
Indirect taxation	40,974	23,877
Total current receivables	100,813	73,586
Non-current:		
Trade receivables ²	16,368	33,662
Total non-current receivables	16,368	33,662
Total gross receivables	117,181	107,248
Less: Total expected credit loss provision	–	–
Total receivables	117,181	107,248

¹ Other receivables include an amount of \$2,670,221 (2018: \$Nil) of 'hail' receivable against the New Zealand pool to offset the insurance provision. The majority of the hail events occurred during November and December 2018. Also included is research and development co-funding of \$640,239 receivable from Callaghan Innovation (2018: \$1,680,254).

² Non-current receivables include licence revenue receivables which have deferred payment terms with payment due over the next two years. In June 2016, 400 hectares of Gold3 (SunGold) licence was released with an option to apply for deferred payment terms.

The carrying value of the items above has been determined by the Board of Directors as representative of the fair value of the assets.

The fair value of licence revenue receivables has been determined on a discounted cash flow basis.

Amounts receivable from related parties are disclosed at Note 27.

Accounts receivable past due but not impaired	2019 \$'000	2018 \$'000
Less than 3 months overdue	3,861	1,536
Between 3 and 6 months overdue	2	155
Between 6 and 12 months overdue	109	15
More than 12 months overdue	–	18
Accounts receivable past due but not impaired at 31 March	3,972	1,724

In certain regions a portion of accounts receivable amounts are secured by bank guarantees, trade credit insurance or other collateral, with all others being unsecured.

NOTES TO THE FINANCIAL STATEMENTS [CONTINUED]

13. Prepayments

	2019 \$'000	2018 \$'000
Current:		
Prepaid submit payments for next season's fruit not recorded in inventory ¹	34,738	17,988
Insurance	4,580	4,130
Option premiums	5,650	6,657
Other	6,771	7,343
Total current prepayments	51,739	36,118
Non-current:		
Option premiums	4,428	6,172
Other	283	494
Total non-current prepayments	4,711	6,666
Total prepayments	56,450	42,784

¹ Prepaid submit payments for next season's fruit not recorded in inventory has increased in 2019 due to the earlier season resulting in a significant increase in the number of trays submitted.

14. Financial assets and liabilities

(a) Financial assets per Balance Sheet	Notes	Loans and receivables		Assets designated at fair value through the Income Statement		Total	
		2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Derivatives – held for trading		–	–	118,246	109,061	118,246	109,061
Accounts receivable	12	117,181	107,248	–	–	117,181	107,248
Cash and cash equivalents	23(b)	192,612	153,714	–	–	192,612	153,714
Total other financial assets		309,793	260,962	118,246	109,061	428,039	370,023
Represented by:							
Current		293,425	227,300	47,809	51,588	341,234	278,888
Non-current		16,368	33,662	70,437	57,473	86,805	91,135
Total other financial assets		309,793	260,962	118,246	109,061	428,039	370,023

(b) Financial liabilities per Balance Sheet	Notes	Liabilities at amortised cost		Liabilities designated at fair value through the Income Statement		Total	
		2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Derivatives – held for trading		–	–	14,914	35,142	14,914	35,142
Contracted future suppliers		–	–	103,332	73,919	103,332	73,919
Accounts payable and accruals	19	290,764	196,214	–	–	290,764	196,214
Total other financial liabilities		290,764	196,214	118,246	109,061	409,010	305,275
Represented by:							
Current	19	288,840	194,301	47,809	51,588	336,649	245,889
Non-current	19	1,924	1,913	70,437	57,473	72,361	59,386
Total other financial liabilities		290,764	196,214	118,246	109,061	409,010	305,275

NOTES TO THE FINANCIAL STATEMENTS [CONTINUED]

14. Financial assets and liabilities (continued)

Financial assets and financial liabilities, except for derivatives, are measured initially at fair value plus directly attributable transaction costs. The consolidated entity has determined that the business model within which debt instruments are held has the objective to collect contractual cash flows, and those contractual cash flows are solely payments of principal and interest. Therefore, debt instruments such as trade receivables and amounts receivable from related parties are subsequently measured at amortised cost and subject to regular review for impairment. The entity has applied the practical expedient permitted and used the simplified approach for establishing the expected credit loss on financial assets carried at amortised cost with a maturity of twelve months or less.

Fair value of financial assets and liabilities

The fair value of financial instruments is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity-specific estimates. Where necessary, estimated future cash flows are calculated using forward prices and interest rate yield curves. Forward prices and interest rate yields are sourced from relevant published market-observable exchange rates and interest rates applicable to the remaining life of the instrument, at the valuation date. The calculation of the fair value of financial instruments reflects the impact of credit risk where applicable.

The derivative financial instruments below have been valued using a discounted cash flow valuation methodology.

The table below presents assets and liabilities that are measured at fair value by the following fair value measurement hierarchy:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 – Inputs for the asset or liability that are not based on market-observable data (i.e. unobservable inputs).

Fair value of financial assets and liabilities valuation hierarchy	Level 2		Total	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Assets				
Derivatives – held for trading	118,246	109,061	118,246	109,061
	118,246	109,061	118,246	109,061
Liabilities				
Derivatives – held for trading	14,914	35,142	14,914	35,142
Contracted future suppliers	103,332	73,919	103,332	73,919
	118,246	109,061	118,246	109,061

15. Inventories

	2019 \$'000	2018 \$'000
New Zealand-grown kiwifruit inventory – next season ¹	75,580	27,411
Non-New Zealand-grown kiwifruit inventory	2,588	7,819
Packaging materials	11,464	10,940
Other	471	638
Total inventories	90,103	46,808

¹ New Zealand-grown kiwifruit inventory – next season has increased in 2019 due to the earlier season resulting in a significant increase in the number of trays shipped.

Security pledged

Refer to Note 25 for details of security pledged by Zespri Group.

NOTES TO THE FINANCIAL STATEMENTS [CONTINUED]

16. Property, plant and equipment

	Land and improvements	Leasehold improvements	Buildings	Plant and equipment	Motor vehicles	Work in progress	Total
2019	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Net book value as at 1 April 2018	9,568	1,231	323	2,394	466	13,234	27,216
Depreciation expense	(20)	(865)	(323)	(1,298)	(146)	–	(2,652)
Additions	–	1,109	–	3,941	26	27,664	32,740
Disposals (net)	–	–	–	(84)	(153)	–	(237)
Transfers (net)	–	–	–	201	–	(201)	–
Net book value as at 31 March 2019	9,548	1,475	–	5,154	193	40,697	57,067
Cost as at 31 March 2019	9,610	4,402	2,771	12,298	416	40,697	70,194
Accumulated depreciation	(62)	(2,927)	(2,771)	(7,144)	(223)	–	(13,127)
Net book value as at 31 March 2019	9,548	1,475	–	5,154	193	40,697	57,067
2018							
Net book value as at 1 April 2017	9,587	1,379	1,680	2,556	547	2,514	18,263
Depreciation expense	(19)	(816)	(585)	(1,197)	(159)	–	(2,776)
Additions	–	672	–	1,058	78	10,763	12,571
Disposals (net)	–	(4)	(772)	(66)	–	–	(842)
Transfers (net)	–	–	–	43	–	(43)	–
Net book value as at 31 March 2018	9,568	1,231	323	2,394	466	13,234	27,216
Cost as at 31 March 2018	9,610	3,293	2,771	8,902	852	13,234	38,662
Accumulated depreciation	(42)	(2,062)	(2,448)	(6,508)	(386)	–	(11,446)
Net book value as at 31 March 2018	9,568	1,231	323	2,394	466	13,234	27,216

The work in progress balance as at 31 March 2019 relates to building Zespri's new head office at 400 – 410 Maunganui Road.

Security pledged

Refer to Note 25 for information on non-current assets pledged as security by Zespri Group.

NOTES TO THE FINANCIAL STATEMENTS [CONTINUED]

17. Intangibles

	Development costs	Computer software	Work in progress	Total
	\$'000	\$'000	\$'000	\$'000
2019				
Net book value as at 1 April 2018	3,173	20,712	9,730	33,615
Amortisation expense	(1,323)	(9,696)	–	(11,019)
Additions	1,474	2,019	11,100	14,593
Disposals (net)	(19)	(28)	–	(47)
Transfers	–	2,296	(2,296)	–
Net book value as at 31 March 2019	3,305	15,303	18,534	37,142
Cost as at 31 March 2019	19,699	58,626	18,534	96,859
Accumulated amortisation	(16,394)	(43,323)	–	(59,717)
Net book value as at 31 March 2019	3,305	15,303	18,534	37,142
2018				
Net book value as at 1 April 2017	4,243	24,096	2,936	31,275
Amortisation expense	(1,943)	(9,016)	–	(10,959)
Additions	848	2,967	9,730	13,545
Disposals (net)	–	(246)	–	(246)
Transfers	25	2,911	(2,936)	–
Net book value as at 31 March 2018	3,173	20,712	9,730	33,615
Cost as at 31 March 2018	18,243	54,496	9,730	82,469
Accumulated amortisation	(15,070)	(33,784)	–	(48,854)
Net book value as at 31 March 2018	3,173	20,712	9,730	33,615

Development costs

The development costs of commercialised varieties have been capitalised since commercialisation and are amortised at a rate of 20 percent per annum. The development costs include, but are not limited to, legal fees, PVR application fees, budwood collection and GPS mapping. The Company was granted PVRs for the Hort16A variety, effective 1 April 2004, Gold3 and Green14 varieties, effective 9 September 2016. The Gold3 and Green14 varieties were commercialised for production in mid-2010. The PVR establishes exclusive intellectual property rights in the jurisdictions where they apply. On all post-commercialisation sales of the new cultivars a royalty is payable to the New Zealand Institute for Plant & Food Research Limited (Plant & Food Research).

As collateral for these future royalty payments, Plant & Food Research holds a security interest in all assigned varieties PVR, and all assigned varieties intellectual property. In addition, the assignment of all PVRs and its associated rights and obligations outside Zespri Group Limited requires the consent of Plant & Food Research.

In New Zealand, the Company holds the exclusive right to propagate and distribute plant material, and market and sell the following commercialised varieties of kiwifruit, known in New Zealand as:

- Gold3 (SunGold), until 6 September 2039; and
- Green14 (Sweet Green), until 6 September 2039.

Intangibles work in progress

As at 31 March 2019, 100 percent (2018: 100 percent) of the Group intangibles work in progress relates to ongoing computer software projects.

Security pledged

In addition to Plant & Food Research security interests mentioned above, refer to Note 25 for additional detail of security pledged by Zespri Group.

NOTES TO THE FINANCIAL STATEMENTS [CONTINUED]

18. Investment in subsidiary companies

Zespri Group Limited is the ultimate holding company for the Zespri Group of companies. All subsidiaries have a 31 March balance date with the exception of Shaanxi Zespri Fresh Produce Company Limited, Zespri Jia Pei Fruit (Shanghai) Co. Limited, Zespri Fruit (Shanghai) Co. Limited and Zespri Fruit Consultoria (Brasil) Ltda which all have a 31 December balance date due to local requirements. The results of the operations of the following wholly owned subsidiaries for the year ending 31 March 2019 have been included in the consolidated Financial Statements.

Subsidiary	Incorporated	Nature of activities
Zespri International Limited	New Zealand	Management of the export, sale and marketing of New Zealand-grown kiwifruit and management of the sale and marketing of non-New Zealand-grown kiwifruit
Aragorn Limited	New Zealand	Non-trading company
Zespri Global Supply Holding Company Limited	New Zealand	Holding company of Zespri Global Supply entities
Zespri Innovation Company Limited	New Zealand	Research
Zespri International (Asia) Limited	New Zealand	Marketing and promotion services, includes Taiwan Branch
Zespri International (Japan) Limited	New Zealand	Non-trading company
Zespri International Trading Limited	New Zealand	Investment company, includes South African Branch
Zespri New Zealand Limited	New Zealand	Investment company
Zespri International (Australia) Pty Limited	Australia	Management of the growing, sourcing and sale of Zespri Gold Kiwifruit grown in Australia and in-market support and marketing services
Zespri International (Europe) N.V.	Belgium	Management of sales and marketing in Europe of all New Zealand-grown kiwifruit and non-New Zealand-grown Zespri Gold Kiwifruit. Management of trading in non-New Zealand-grown Zespri Green Kiwifruit produced in Europe
Zespri Service Centre N.V.	Belgium	Service provision to Zespri Group companies
Zespri Fruit Consultoria (Brasil) Ltda	Brazil	In-market support and marketing services
Shaanxi Zespri Fresh Produce Company Limited	China	Management of the growing and sourcing of kiwifruit grown in China
Zespri Jia Pei Fruit (Shanghai) Co. Limited	China	Non-trading company
Zespri Fruit (Shanghai) Co. Limited	China	Management of the sale of New Zealand-grown kiwifruit and non-New Zealand-grown kiwifruit
Zespri Fresh Produce France S.A.R.L.	France	Management of the growing and sourcing of Zespri Gold3 Kiwifruit grown in France
Zespri International France E.U.R.L.	France	In-market support of Belgian companies
Zespri International Germany GmbH	Germany	In-market support of Belgian companies
Zespri International (India) Pvt Ltd	India	In-market support and marketing services
Zespri Fresh Produce Italy S.r.l.	Italy	Management of the growing and sourcing of Zespri Gold3 Kiwifruit and management of the growing, sourcing and sale of Zespri Kiwifruit grown in Italy
Zespri International Italy S.r.l.	Italy	In-market support of Belgian companies
Zespri International (Japan) K.K.	Japan	Management of the sale of Japan-grown kiwifruit and New Zealand-grown kiwifruit
Zespri Fresh Produce (Japan) K.K. (incorporated August 2018)	Japan	Management of the growing and sourcing of Japan-grown kiwifruit
Zespri International (Korea) Co. Limited	South Korea	Management of the sale of South Korean-grown kiwifruit and New Zealand-grown kiwifruit
Zespri Fresh Produce (Korea) Co. Limited (incorporated June 2018)	South Korea	Management of the growing and sourcing of South Korean-grown kiwifruit
Zespri International (Singapore) Pte Limited	Singapore	Global sales and marketing strategy services
Zespri International Iberica SL	Spain	In-market support of Belgian companies
Zespri International Nordic AB	Sweden	In-market support of Belgian companies
Zespri Fruit (Middle East) DMCC	United Arab Emirates	In-market support and marketing services
Zespri International (United Kingdom) Limited	United Kingdom	In-market support of Belgian companies
Zespri Fresh Produce North America Inc.	United States of America	Non-trading company
New Zealand Kiwi Holdings Inc.	United States of America	Management of the growing, sourcing and sale of Zespri Gold Kiwifruit grown in the USA, and management of the sale of New Zealand-grown kiwifruit
New Zealand Kiwi Corporation Inc.	United States of America	Non-trading company

NOTES TO THE FINANCIAL STATEMENTS [CONTINUED]

19. Accounts payable and accruals

	2019 \$'000	2018 \$'000
Current:		
Trade creditors	53,271	44,880
Accrued expenses	91,959	61,502
New Zealand fruit and service payments accrued – current season ¹	43,886	35,718
New Zealand fruit and service payments accrued – next season ²	79,977	35,226
Income in advance	814	–
Payroll tax deductions payable	2,045	1,824
Employee entitlements	16,888	15,151
Total current accounts payable and accruals	288,840	194,301
Non-current:		
Employee entitlements	1,924	1,913
Total non-current accounts payable and accruals	1,924	1,913
Total accounts payable and accruals	290,764	196,214

¹ Relates to contracted suppliers of New Zealand-grown kiwifruit. As at 31 March 2019, 98 percent (2018: 98 percent) of fruit and service payments had been made.

² New Zealand fruit and service payments accrued – next season has increased in 2019 due to the earlier season resulting in a significant increase in the accrued fruit and service payments balance.

The carrying value of the items above has been determined by the Board of Directors as representative of the fair value of the liabilities. Amounts payable to, or accrued to, related parties are disclosed in Note 27.

20. Provisions and insurance liabilities

	Loyalty premium \$'000	Insurance liabilities \$'000	Other provisions \$'000	Total \$'000
2019				
Value as at 1 April 2018	21,983	–	20,588	42,571
Amounts charged	(37,134)	–	(17,708)	(54,842)
Reversal of provision	–	–	(355)	(355)
Additional provision	46,347	2,670	1,550	50,567
Exchange differences	–	–	(3)	(3)
Value as at 31 March 2019	31,196	2,670	4,072	37,938
Represented by:				
Current	31,196	2,670	4,072	37,938
Non-current	–	–	–	–
	31,196	2,670	4,072	37,938
2018				
Value as at 1 April 2017	21,707	3,959	5,853	31,519
Amounts charged	(33,825)	(3,997)	(3,537)	(41,359)
Reversal of provision	–	–	(751)	(751)
Additional provision	34,101	38	19,015	53,154
Exchange differences	–	–	8	8
Value as at 31 March 2018	21,983	–	20,588	42,571
Represented by:				
Current	21,983	–	20,439	42,422
Non-current	–	–	149	149
	21,983	–	20,588	42,571

NOTES TO THE FINANCIAL STATEMENTS [CONTINUED]

20. Provisions and insurance liabilities (continued)

Loyalty premium

A loyalty premium is paid to New Zealand growers who have signed a three-year rolling grower contract and met the conditions of that contract. The loyalty premium is 31.0 cents (2018: 28.0 cents) per tray equivalent of New Zealand Class 1 kiwifruit supplied to the Company. The premium is paid in two instalments. The first instalment of 10.0 cents per Class 1 tray equivalent was paid on 18 January 2019 (2018: 19 January 2018). The remaining 21.0 cents (2018: 18.0 cents) of loyalty premium per Class 1 tray equivalent will be paid on 14 June 2019 (2018: 15 June 2018).

Other provisions

Other provisions include: legal costs relating to ongoing proceedings in the High Court of New Zealand, restructure costs, costs relating to the enforceable undertaking entered into with WorkSafe and future obligations specified in the sale and purchase agreement for the purchase of land at 400-410 Maunganui Road, Mount Maunganui, New Zealand.

Insurance liabilities

During the year, a number of orchards were affected by hail events around New Zealand. An amount of \$2.7 million (2018: \$Nil) has been recognised as an insurance liability in the Zespri Group Limited accounts as at 31 March 2019.

21. Operating leases and other commitments

Operating lease commitments	2019 \$'000	2018 \$'000
Non-cancellable operating lease payments:		
Payable within one year	4,595	4,182
Payable between one and five years	5,436	4,369
Payable after five years	921	–
	10,952	8,551
Total future non-cancellable operating lease receipts	(1,217)	(14)
	(1,217)	(14)
Lease expense recognised in the Income Statement under operating expenses:		
Minimum lease payments	5,098	4,132
Sublease and lease receipts	(20)	(20)
	5,078	4,112

Zespri Group leases premises, motor vehicles and office equipment under operating leases, and sublets excess office capacity. Operating leases for premises give Zespri Group companies, in most cases, the right to renew the lease subject to a redetermination of the lease rental by the lessor. There are no options to purchase any of the leased assets at the expiry of the lease period.

22. Reconciliation of net profit after taxation with net cash from operating activities

	2019 \$'000	2018 \$'000
Net profit after taxation	179,806	101,842
Non-cash items:		
Net loss on sale of property, plant and equipment, and intangibles	148	919
Net (gain)/loss on foreign currency cash balances	(652)	(9,650)
Depreciation of property, plant and equipment	2,652	2,776
Amortisation of intangibles	11,019	10,959
Movement in deferred taxation	(1,565)	2,664
	11,602	7,668
Movement in working capital:		
Increase in receivables and prepayments	(20,345)	(10,823)
(Decrease)/increase in net current income tax	5,247	(9,299)
(Increase)/decrease in other financial assets	(9,185)	(12,735)
Decrease/(increase) in inventories	(43,293)	9,024
Increase/(decrease) in payables to contracted suppliers ¹	62,027	(7,433)
Increase in other financial liabilities	9,185	12,788
(Decrease)/increase in accounts payable, accruals, provisions and employee entitlements	24,655	(2,556)
	28,291	(21,034)
Items classified as financing activities	(3,786)	(4,458)
Net cash available from operating activities	215,913	84,018

¹ Group totals include amounts payable to contracted suppliers of non-New Zealand-grown kiwifruit.

NOTES TO THE FINANCIAL STATEMENTS [CONTINUED]

23. Financial instruments

Zespri Group is subject to a number of financial risks that arise as a result of its operational activities. To manage and limit the effect of these financial risks, the Board of Directors has approved policy guidelines and authorised the use of various financial instruments. The policies and financial instruments permitted are documented in the Treasury Management Policy which is reviewed and approved annually. The policies and financial instruments being utilised at balance date are discussed under the sections Liquidity risk, Credit risk and Market risk below.

(a) Liquidity risk

The liquidity risk to which Zespri Group is exposed is managed under the Treasury Management Policy. The objective is to ensure that cash is available to pay obligations as they fall due. There are three forms of liquidity management recognised: day-to-day cash management to ensure funds are available for short-term requirements; long-term going-concern liquidity management to ensure facilities are in place to meet future requirements; and short-term liquidity crisis management to cover unforeseen crisis events.

Contractual maturities as at 31 March	Notes	< 1 year \$'000	1–2 years \$'000	2–5 years \$'000	Total \$'000
2019					
Non-derivatives:					
Trade creditors	19	53,271	–	–	53,271
Accruals and other payables	19	235,569	–	1,924	237,493
		288,840	–	1,924	290,764
Derivatives:					
Derivatives – held for trading	14(b)	5,117	7,203	2,594	14,914
Contracted future suppliers	14(b)	42,692	30,997	29,643	103,332
		47,809	38,200	32,237	118,246
Total contractual maturities		336,649	38,200	34,161	409,010
2018					
Non-derivatives:					
Trade creditors	19	44,880	–	–	44,880
Accruals and other payables	19	149,421	–	1,913	151,334
		194,301	–	1,913	196,214
Derivatives:					
Derivatives – held for trading	14(b)	14,903	8,626	11,613	35,142
Contracted future suppliers	14(b)	36,685	28,095	9,139	73,919
		51,588	36,721	20,752	109,061
Total contractual maturities		245,889	36,721	22,665	305,275

NOTES TO THE FINANCIAL STATEMENTS [CONTINUED]

23. Financial instruments (continued)

(b) Credit risk

Zespri Group is exposed to credit risk from transactions with trade debtors and financial institutions in the normal course of business.

Zespri Group has a credit approval policy which restricts the exposure to individual debtors and the Board of Directors review exposures to trade debtors on a regular basis. In certain regions a portion of amounts owed by trade debtors is secured by way of bank guarantees or other collateral, with all others being unsecured. Zespri Group does not require any collateral or security from financial institutions to support its transactions with those institutions. The counter-parties used for banking and finance activities are financial institutions with credit ratings ranging from A to AA-.

(i) Credit risk counter-parties:

Financial instruments to which Zespri Group is exposed for credit risk consist principally of bank balances, short-term deposits, accounts receivable and foreign exchange contracts with banks. Zespri Group does not consider balances owed by government tax authorities to be credit risks.

In assessing credit losses for trade receivables, the Group applies the simplified approach and records lifetime expected credit losses ("ECLs") on trade receivables. Lifetime ECLs result from all possible default events over the expected life of a trade receivable. The Group considers the probability of default upon initial recognition of the trade receivable, based on reasonable and available information on the customers.

In assessing ECLs on trade receivables the Group considers both quantitative and qualitative inputs. Quantitative data includes past collection rates, industry statistics, ageing of receivables, and trading outlook. Qualitative inputs include past trading history with the Group.

Zespri Group continuously monitors the credit quality of the counter-parties to its financial instruments. Zespri Group does not anticipate non-performance by any of its counter-parties, except where already provided for in provision for doubtful debts.

(ii) Maximum exposures to credit risk at 31 March:

Maximum exposures to credit risk	Notes	2019 \$'000	2018 \$'000
Bank balances		88,371	49,623
Short-term deposits		104,241	104,091
Cash and cash equivalents	14(a)	192,612	153,714
Accounts receivable	12	76,207	83,371
Derivatives – held for trading	14(a)	118,246	109,061
Total maximum exposures to credit risk		387,065	346,146

The amounts above have been determined by the Board of Directors to be the fair value of these classes of financial instruments. Exposure risk on guarantees pledged is further disclosed in Note 24.

Refer to Note 12 for further information on credit risk of accounts receivable.

(iii) Concentration of credit risk:

Concentration of credit risk by geographical location is indicated below.

Location of counter-party	Europe \$'000	Japan \$'000	China \$'000	South Korea \$'000	Other Asia \$'000	New Zealand \$'000	Other \$'000	Total \$'000
2019								
Bank balances	8,904	1,278	29,961	9,391	3,633	31,364	3,841	88,372
Short-term deposits	–	–	–	–	–	104,240	–	104,240
Cash and cash equivalents	8,904	1,278	29,961	9,391	3,633	135,604	3,841	192,612
Accounts receivable	13,976	189	104	172	4,845	53,090	3,831	76,207
Derivatives – held for trading	20,584	–	–	–	–	93,250	4,412	118,246
Total location of counter-party	43,464	1,467	30,065	9,563	8,478	281,944	12,084	387,065
2018								
Bank balances	7,156	332	21,807	13,631	1,816	2,116	2,765	49,623
Short-term deposits	–	–	–	–	–	104,091	–	104,091
Cash and cash equivalents	7,156	332	21,807	13,631	1,816	106,207	2,765	153,714
Accounts receivable	21,488	106	932	72	1,644	58,178	951	83,371
Derivatives – held for trading	22,005	–	–	–	–	83,058	3,998	109,061
Total location of counter-party	50,649	438	22,739	13,703	3,460	247,443	7,714	346,146

NOTES TO THE FINANCIAL STATEMENTS [CONTINUED]

23. Financial instruments (continued)

(c) Market risk

Zespri Group is subject to market risks that arise as a result of its operational activities. The types of market risk to which Zespri Group is exposed include interest rate risk and currency risk.

(i) Interest rate risk:

Zespri Group's policy relating to interest rate risk management aims to achieve the lowest cost of funds while meeting seasonal funding needs.

Zespri Group may put in place seasonal funding facilities if required (refer Note 25). Zespri Group is primarily a short-term borrower and investor and generally carries any interest rate risk itself. Investments consist of on-call funds and short-term deposits. Interest rate derivative instruments may be used at Zespri Group's discretion within the confines of the Treasury Management Policy. No interest rate derivative contracts were entered into during the year (2018: Nil contracts).

(ii) Currency risk:

During the course of business, Zespri Group procures and exports fruit, incurs selling, marketing and administrative costs, and carries cash denominated in foreign currencies. As a result of these transactions, exposures to fluctuations in foreign currency exchange rates occur. The foreign currencies in which Zespri Group primarily deals are Euro (EUR), Japanese Yen (JPY), United States Dollars (USD), Chinese Renminbi (CNY) and Korean Won (KRW).

Zespri Group's primary objective in managing foreign exchange risk is to mitigate excess volatility in the New Zealand Dollar return to shareholders and the New Zealand kiwifruit industry arising from foreign currency movements.

Net exposures of expected foreign currency income and expenditure are estimated. The Treasury Management Policy provides guidelines within which Zespri Group enters into contracts to manage the expected net exposures. Based on these guidelines, contracts are taken out up to 36 months in advance. With express Board approval, the Company can take out contracts that are in excess of 36 months in advance. The Treasury Management Policy is reviewed by the Board of Directors and is approved annually.

Foreign exchange contracts

As part of the foreign currency hedging strategy, Zespri Group has entered into forward foreign exchange contracts and options. The value of these contracts held at balance date were:

	Notional value		Fair value gain/(loss)	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
At fair value through the Income Statement – held for trading				
Sell forward exchange contracts	2,759,461	1,423,017	81,489	50,260
Currency option contracts	992,128	1,251,002	21,843	23,659
	3,751,589	2,674,019	103,332	73,919
Represented by:				
Other financial assets			118,246	109,061
Other financial liabilities			(14,914)	(35,142)
			103,332	73,919
By currency:				
EUR/NZD	771,614	676,096	44,880	1,868
JPY/NZD	819,253	533,676	27,524	14,557
USD/NZD	1,211,313	1,064,666	13,453	64,493
USD/KRW	280,976	55,537	8,681	(1,688)
USD/CNY	668,433	344,044	8,794	(5,311)
	3,751,589	2,674,019	103,332	73,919

	Notional value		Fair value gain	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Maturity of foreign exchange contracts				
Less than one year	1,800,383	1,564,238	42,692	36,685
Within one to two years	1,138,773	726,647	30,997	28,095
More than two years	812,433	383,134	29,643	9,139
	3,751,589	2,674,019	103,332	73,919

NOTES TO THE FINANCIAL STATEMENTS [CONTINUED]

23. Financial instruments (continued)

(d) Market risk sensitivity as at 31 March

Zespri Group is exposed to various market risks in relation to balances held as at 31 March.

As a result of the seasonal nature of the business, the impact on the Income Statement and equity resulting from movements in foreign exchange rates and interest rates that could have occurred at 31 March is unrepresentative of the exposure during the year and is immaterial to the results for the year ended 31 March 2019.

Management has considered the seasonal risk to the business and the sensitivity using average balances held during the year.

Under the terms of the New Zealand Supply Agreement, the supplier assumes the risk of foreign exchange, and any change in foreign currency rates on average balances would not be material to the pre-tax profit of the Group. The effect of exchange rate movements is managed by the use of forward contracts and options to mitigate excess volatility.

Under the terms of the New Zealand Supply Agreement, interest costs incurred on the funding facility and interest income earned on short-term deposits are largely assumed by the supplier. A change in interest rates using average funding facility and short-term deposit balances for the year would not be material to the pre-tax profit of the Group.

(e) Embedded derivatives

Zespri International Limited acts as treasury agent for Zespri Group. The Company is responsible for paying New Zealand-contracted suppliers based on the net results earned by Zespri Group.

The Company has entered into back-to-back arrangements with New Zealand-contracted suppliers (supply entities which have signed the New Zealand Supply Agreement) and Zespri International Limited, primarily reflecting the results of any derivatives taken out for the purposes of managing risk to the New Zealand fruit return.

	Notional value		Fair value gain/(loss)	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Contracted future suppliers	3,751,589	2,674,019	(103,332)	(73,919)

NOTES TO THE FINANCIAL STATEMENTS [CONTINUED]

24. Guarantees and contingent liabilities

(a) Guarantees	2019 \$'000	2018 \$'000
The Bank of New Zealand, on behalf of Zespri Group Limited, has provided a guarantee to Vero Insurance Limited in relation to insurance excesses payable for marine cargo insurance.	3,500	3,500
Zespri International Limited has guaranteed, by way of a standby letter of credit issued by Bank of China (New Zealand) Limited, a credit facility between Zespri Fruit Shanghai and Bank of China (Shanghai) Co. Limited. The maximum exposure level is \$5,000,000 (2018: \$5,000,000).	5,000	5,000
Zespri International Limited has guaranteed, by way of bank guarantees, a credit card facility for Zespri Fruit (Shanghai) Co. Limited and Zespri International (Singapore) Pte Limited.	574	566
Zespri International Limited in 2018 guaranteed, by way of bank guarantee, an Italian VAT recovery.	–	503
Zespri International Limited has secured, by way of a letter of intent, a credit facility with Belfius Bank for Zespri Service Centre N.V. The maximum exposure level is \$329,870 (2018: \$340,194). Under this letter of intent, Zespri Service Centre N.V. has provided a guarantee in favour of N.V. Mercator Verzekeringen for a lease guarantee on an office building. The guarantee was in favour of Confinimmo N.V. in the prior year.	152	157
	9,226	9,726

No settlement relating to any of the above guarantees has occurred since their inception. The likelihood and value of any future outflow resulting from these guarantees is uncertain.

(b) Contingent liabilities

New cultivars

A contingent liability exists for conventionally grown licences issued under the various PVR licence agreements signed by Zespri and the growers in 2018/19, 2017/18, 2016/17, 2015/16 and 2014/15. During this financial year, Zespri issued in total 735 hectares (2018: 439 hectares) of Gold3 licences. The PVR licence agreement commits Zespri to a possible obligation under two different scenarios, these being as follows:

Zespri Group chooses to decommercialise a variety

Under the various PVR licence agreements, should the Company decide to withdraw any variety for any reason, the Company is required to reimburse the licence holder a calculated rate of \$5,000 (including GST) per hectare, provided that no more than four whole years have elapsed. In addition, the Company is required to refund a percentage of the original licence price. As at 31 March 2019, the maximum exposure under the decommercialisation scenario is \$322,248,302 (2018: \$175,262,301).

New variety succumbs to Psa

For licences granted in 2015/16 in the event that a new variety has, in the opinion of the Company, succumbed to Psa within four years of allocation, the licence applicant may elect to surrender the licence and the Company will refund 80 percent of the purchase price of the licence. As at 31 March 2019, the maximum exposure under this scenario is \$1,649,080 (2018: \$4,449,543).

The maximum new cultivar contingent liability under the two scenarios as at 31 March 2019 is \$322,248,302 (2018: \$175,262,301).

Other

In the normal course of business, Zespri Group is party to various lawsuits and claims, both as a plaintiff and as a defendant.

It is not possible to predict with certainty whether Zespri Group will ultimately be successful in defending lawsuits and claims taken against it or, if not, what the impact might ultimately be. Provisions are made in accordance with accounting policy and disclosed in Note 20.

25. Funding facilities

Funding arrangements for Zespri Group Limited are made when required following the assessment of cash requirements for the season.

The security for the day-to-day operational treasury activities and the funding facilities is a first-ranking general security deed dated 30 April 2007 in favour of Bank of New Zealand (as security representative for Zespri bankers, Bank of New Zealand has been security representative since 2016) entered into by the Zespri Group of companies that form a Guaranteeing Group. Pursuant to the general security deed the collateral at risk is all property for those entities within the Guaranteeing Group, other than assets over which another creditor has a higher ranking claim. The registered security interests include a priority security interest in favour of The New Zealand Institute for Plant & Food Research Limited in relation to all assigned varieties PVR, and assigned varieties intellectual property. Property within the definition of collateral includes (but is not limited to) cash balances, inventory, accounts receivable, other financial assets, intangible assets, and property, plant and equipment.

As at 31 March 2019, the members of the Guaranteeing Group are:

- Zespri Group Limited;
- Aragorn Limited (non-trading, refer Note 18);
- Zespri Innovation Company Limited;
- Zespri International Limited;
- Zespri International (Asia) Limited;
- Zespri International (Japan) Limited (non-trading, refer Note 18);
- Zespri International Trading Limited; and
- Zespri New Zealand Limited.

As at 31 March 2019 the outstanding borrowing under the funding facility is \$Nil (2018: \$Nil). The banks associated with the funding facility are ANZ, BNZ, Citibank and Rabobank. The facility has an expiry date of 31 October 2019, unless cancelled earlier. The maximum exposure relating to the operational treasury activities as at 31 March 2019 is \$14,914,324 (2018: \$35,142,138). This exposure relates entirely to the unrealised mark-to-market losses on derivatives as at 31 March 2019.

NOTES TO THE FINANCIAL STATEMENTS [CONTINUED]

26. Capital commitments

(a) Property, plant and equipment commitments

As at 31 March 2019 there are outstanding capital commitments totalling \$7,890,894 for property, plant and equipment (2018: \$24,399,818). The 2019 commitments relate to building contracts for Zespri's new head office at 400-410 Maunganui Road, Mount Maunganui, New Zealand, and an office renovation to leased premises in Shanghai.

(b) Intangibles commitments

As at 31 March 2019 there are outstanding capital commitments totalling \$1,098,429 for intangible assets (2018: \$3,295,027).

27. Related party transactions

(a) Key management personnel

Zespri Group's key management personnel include:

- Directors of the Company; and
- members of the senior executive of Zespri Group.

During the year, key management personnel received the following compensation:

	2019 \$'000	2018 \$'000
Short-term key employee benefits (for key management personnel and Directors)	8,231	8,768
Short-term key employee benefits outstanding as at 31 March (for key management personnel and Directors)	2,102	2,258

The company has not provided post-employment benefits or other long-term benefits.

(b) External related parties through common directorship, control or significant influence by key management personnel

Directors are required to record all interests in the Company's Interests Register.

During the year ended 31 March 2019, Zespri Group conducted transactions with the following entities in the normal course of business:

DMS Progrowers Supply Entity Limited, DMS Progrowers Limited, Eastern Gold Limited, EastPack Limited, Ellett Beach Farms Joint Venture, Fraser Road Orchard Limited Partnership, Golf Course Orchard Limited Partnership, High Fives Orchard Limited, Kiwifruit Vine Health Incorporated, Mangatarata Orchards Limited, Opotiki Packing and Coolstorage Limited, OPAC Growers Limited, OPAC Growers Supply Limited, Planttech Research Institute Limited, South-East Hort Limited, TKL Logistics Limited and Trinity Lands Limited.

(2018: Cameron Orchards Limited, DMS Progrowers Supply Entity Limited, DMS Progrowers Limited, Fraser Road Orchard Limited Partnership, Fruit Force Partnership, Golf Course Orchard Limited Partnership, High Fives Orchard Limited, Kiwifruit Vine Health Incorporated, Kiwifruit Vine Health Foundation Incorporation, Mangatarata Orchards Limited, Montrose Partnership, Opotiki Packing and Coolstorage Limited, OPAC Growers Limited, OPAC Growers Supply Limited, Patricia Jones Family Trust, Port of Tauranga Limited, Progeny Kiwifruit Limited, Progeny Kiwifruit Partnership, Rivas Orchard Limited, South-East Hort Limited and Trinity Lands Limited.)

These entities are, or were, related to the Company by virtue of shareholding, control, significant influence or common directorship.

(i) Types of transactions with external related parties include the following:

- The Company pays fruit and service payments under the terms of the New Zealand Supply Agreement.
- The entities are charged penalties and other charges under the terms of the New Zealand Supply Agreement and the Quality Manual. There are standard dispute procedures which may be enacted if the entities receiving the charges do not agree with these charges.
- Under the terms of the New Zealand Supply Agreement, growers and contracted suppliers are able to make insurance claims to the Company for specific risks. In certain cases, the Company pays out insurance for losses under these claims.
- The Company may, at its discretion, sell licences for kiwifruit varieties for which it controls the PVRs.

All of the transactions above, including any disputes, were entered into under the same contracted and commercial terms as for all other growers and contracted suppliers in New Zealand.

NOTES TO THE FINANCIAL STATEMENTS [CONTINUED]

27. Related party transactions (continued)

(b) External related parties through common directorship, control or significant influence by key management personnel (continued)

(ii) Transactions during the year and balances outstanding as at 31 March with external related parties. All related party disclosures are GST exclusive.

	2019 \$'000	2018 \$'000
Revenue/(expenses):		
Sale of Zespri PVR licences ¹	25,914	7,163
Income received from KVH	92	1
Sundry income	624	531
Fruit and service payments	(244,073)	(188,324)
Loyalty premium	(5,637)	(3,668)
Expenses paid to KVH	(2,382)	(1,993)
Other expenses	(7,091)	(7,972)
Balances receivable/(payable):		
Sundry income	3	21
Fruit and service payments outstanding	(5,921)	(5,022)
Loyalty premium	(3,795)	(2,201)
Other expenses	(274)	–

¹ In 2018/19, interests directly associated with Directors purchased 98.46 hectares of new variety licences (2018: 29.55 hectares). Licence fee revenue of \$25,914,473 (2018: \$7,163,548) has been recognised. As at 31 March 2019 \$799,186 of licence fee revenue is due in future years (2018: \$1,216,729).

In 2018/19, interests directly associated with Directors, conducted new variety block trials on 1.35 hectares (2018: 1.10 hectares) of orchards. Payments are made to trialists when crops are producing. Pre-commercial trial orchards are generally eligible at no cost to obtain a licence to cultivate an existing or new commercial Zespri variety upon commercialisation of a trial cultivar, or an existing variety upon trial completion/termination. Demonstration trial orchards are generally eligible after each year of the trial or completion/termination.

In 2018/19, interests directly associated with Directors participated in the targeted share buy-back which resulted in Zespri reacquiring 1,528,993 shares (\$12,231,944) from these interests.

28. Events occurring after balance date

On 22 May 2019, the Board of Directors of Zespri Group Limited announced its intention to pay a fully imputed final dividend of 17 cents per fully paid ordinary share (2018: 12 cents restated) to be paid in August 2019 subject to meeting solvency test requirements under the Companies Act 1993. As the intention was announced after balance date, the financial effect has not been recognised in the Financial Statements.

In April 2019, 750 hectares of Gold3 and Gold3 Organic licences were released. The total revenue (excluding GST) was \$211,865,381. Full settlement of the related licence receivables is due by 19 July 2019.

Subsequent to 31 March 2019, no other events have occurred which require adjustment or disclosure in the Financial Statements.

29. Statutory board and grower representation funding

The Company is required, under Regulation 39 of the Kiwifruit Export Regulations 1999, to fund the statutory board Kiwifruit New Zealand.

New Zealand Kiwifruit Growers Incorporated (NZKGI) is the kiwifruit grower representation body and Zespri Group Limited is required by The Commodity Levies (Kiwifruit) Order 2017 to pay a levy to NZKGI on behalf of growers. The rate for the 2019 year was \$0.01 per tray of kiwifruit grown in New Zealand and exported to markets other than Australia (2018: \$0.01 per tray).

Zespri Group Limited pays two different levies to Kiwifruit Vine Health Incorporated (KVH) on behalf of growers for kiwifruit grown in New Zealand and exported to markets other than Australia: (1) a Psa levy of \$0.006 per tray and (2) a biosecurity levy of \$0.01 per tray.

	2019 \$'000	2018 \$'000
Kiwifruit New Zealand	571	598
New Zealand Kiwifruit Growers Incorporated	1,498	1,228
Kiwifruit Vine Health Incorporated	2,367	1,965

NOTES TO THE FINANCIAL STATEMENTS [CONTINUED]

30. Group segment results

Revenues, direct costs, promotion and overheads are identified and recognised for each business unit under the application of NZ IFRS. In 2017 Zespri undertook a review of its business units and reassessed its key business units as New Zealand kiwifruit, non-New Zealand supply, new cultivars, and land and buildings. Land and buildings has been recorded within the segment "all other segments." The revenue and costs associated with the removed segments, Research and Development (R&D) and Corporate, are split between the available segments.

The internal management information on which segment results are based uses a different method for allocating realised gains and losses on treasury activities. For internal management reporting, realised gains and losses from the management of foreign exchange risk are allocated to the business unit's individual revenue and expense lines based on the underlying currencies of the transactions to effect what would be a 'hedged' rate on the cumulative transactions. For financial reporting purposes, these net realised foreign exchange gains/(losses) on derivatives are disclosed separately from the operating revenue and operating expense within other net gains/(losses) (refer Note 5).

	New Zealand kiwifruit	Non-New Zealand supply	New cultivars	All other segments	Eliminations	Total
2019	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Total sales revenue – external customers	2,632,451	311,674	–	–	–	2,944,125
Inter-segment revenue	252	–	28,400	3,161	(31,813)	–
Interest revenue	–	–	–	3,786	–	3,786
Licence income	–	–	194,420	–	–	194,420
Other revenue	6,498	882	4,911	–	–	12,291
Total revenue	2,639,201	312,556	227,731	6,947	(31,813)	3,154,622
Freight	172,701	12,199	–	–	–	184,900
Insurance (onshore and offshore)	3,917	–	–	–	–	3,917
Duty and customs	94,776	7,472	–	–	–	102,248
Promotion	161,180	9,159	–	–	–	170,339
Other direct costs – onshore	53,577	–	–	–	–	53,577
Other direct costs – offshore	95,659	14,202	–	–	–	109,861
Fruit and service payments	1,775,663	230,911	–	–	–	2,006,574
Loyalty premium	46,347	–	–	–	–	46,347
Innovation	15,729	927	15,263	–	–	31,919
Depreciation and amortisation	11,868	159	1,323	321	–	13,671
Inter-segment expense	28,197	3,364	252	–	(31,813)	–
Inter-segment interest (income)/expense	(1,022)	–	–	1,022	–	–
Other onshore overhead costs	70,347	7,981	3,490	272	–	82,090
Other offshore overhead costs	75,444	16,756	–	–	–	92,200
Other expenses	–	1,345	–	–	–	1,345
Total expense	2,604,383	304,475	20,328	1,615	(31,813)	2,898,988
Segment profit before taxation	34,818	8,081	207,403	5,332	–	255,634

NOTES TO THE FINANCIAL STATEMENTS [CONTINUED]

30. Group segment results (continued)

2018	New Zealand kiwifruit \$'000	Non- New Zealand kiwifruit \$'000	New cultivars \$'000	All other segments \$'000	Eliminations \$'000	Total \$'000
Total sales revenue – external customers	2,128,101	263,274	–	–	–	2,391,375
Inter-segment revenue	178	–	20,723	2,387	(23,288)	–
Interest revenue	–	–	–	4,299	–	4,299
Licence income	–	–	101,746	–	–	101,746
Other revenue	6,676	414	2,318	–	–	9,408
Total revenue	2,134,955	263,688	124,787	6,686	(23,288)	2,506,828
Freight	135,621	8,682	–	–	–	144,303
Insurance (onshore and offshore)	8,043	–	–	–	–	8,043
Duty and customs	78,563	5,921	–	–	–	84,484
Promotion	134,090	6,283	–	–	–	140,373
Other direct costs – onshore	43,895	–	–	–	–	43,895
Other direct costs – offshore	68,387	9,958	–	–	–	78,345
Fruit and service payments	1,433,956	203,475	–	–	–	1,637,431
Loyalty premium	34,101	–	–	–	–	34,101
Innovation	12,344	635	12,789	–	–	25,768
New cultivar amortisation	–	–	1,950	–	–	1,950
Inter-segment expense	21,110	2,000	178	–	(23,288)	–
Inter-segment interest (income)/expense	(2,364)	–	–	2,364	–	–
Other onshore overhead costs	71,401	7,918	1,419	1,242	–	81,980
Other offshore overhead costs	70,742	9,607	–	–	–	80,349
Class 2 mainpack subsidy	96	–	–	–	–	96
Total expense	2,109,985	254,479	16,336	3,606	(23,288)	2,361,118
Segment profit before taxation	24,970	9,209	108,451	3,080	–	145,710

Methods and assumptions

Zespri Group allocates assets, and any related depreciation and amortisation, on a basis which reflects where the assets are generated or utilised.

Zespri Group employs a central treasury function and does not allocate cash between the segments because it is managed centrally. Interest revenue and expense have been allocated on the basis of where funds are being utilised.

Inter-company debtor and creditor accounts are settled through the central treasury function. Any other outstanding balances created between companies as part of this settlement process, or any other intra-group borrowing or lending transactions, are not allocated to any segment, but form part of the centrally managed funding of Zespri Group.

Zespri Group does not allocate income tax to reportable segments.

NOTES TO THE FINANCIAL STATEMENTS [CONTINUED]

30. Group segment results (continued)

Group sales revenue – by location of external customers		2019 Local currency '000		2018 Local currency '000	2019 \$'000	2018 \$'000
China	CNY	2,871,351	CNY	2,340,012	649,109	504,600
Japan	JPY	46,225,438	JPY	38,414,544	615,617	500,379
Spain	EUR	158,912	EUR	148,494	274,004	245,797
Germany	EUR	117,707	EUR	76,127	203,844	125,731
South Korea	KRW	124,339,581	KRW	96,328,677	167,100	123,272
Taiwan	USD	102,814	USD	105,705	153,592	156,294
France	EUR	83,816	EUR	68,449	145,006	113,170
Italy	EUR	65,114	EUR	67,869	112,286	112,213
Netherlands	EUR	59,846	EUR	58,156	103,187	96,275
USA	USD	66,563	USD	44,844	99,438	66,444
Belgium	EUR	47,939	EUR	46,740	82,637	77,376
Hong Kong	USD	26,715	USD	23,814	39,909	35,173
Canada	USD	23,821	USD	15,308	35,480	22,489
Australia	AUD	29,333	AUD	18,191	31,740	19,741
Singapore	SGD	25,638	SGD	21,137	27,686	22,790
New Zealand	NZD	4,943	NZD	2,417	4,943	2,417
Other	Various	–	Various	–	198,547	167,214
Total revenue from product sales to external customers					2,944,125	2,391,375

Individual customers which account for at least 10 percent of sales across the Group are:

		2019 Local currency '000		2018 Local currency '000	2019 \$'000	2018 \$'000
Joy Wing Mau formerly traded as Golden Wing Mau Agricultural Produce Company (China)	CNY	1,342,352	CNY	1,271,383	303,438	274,028

Non-current assets – by location of asset		2019 \$'000	2018 \$'000
New Zealand		109,346	97,961
Belgium		2,490	841
China		724	542
South Korea		629	466
Italy		585	459
Other		1,514	890
		115,288	101,159
Other non-current assets (no assigned location):			
Deferred tax		4,360	2,834
Non-current other financial assets		70,437	57,473
Total non-current assets		190,085	161,466

STATUTORY INFORMATION

Shareholder information

Top 20 shareholders as at 31 March 2019	Number of shares	%
Trinity Lands Limited	3,366,450	1.84
Mark Lionel William Gardiner & Robyn Anne Gardiner	2,958,488	1.61
Liberty Foundation 1977 Limited	2,451,968	1.34
Mangatarata Farms Limited	2,036,976	1.11
Kiwi Green New Zealand Limited	2,036,205	1.11
Mangatarata Orchards Limited	1,627,965	0.89
Ngai Tukairangi No. 2 Trust	1,545,855	0.84
South-East Hort Limited	1,290,249	0.70
Montrose Partnership	1,275,000	0.70
Progeny Kiwifruit Limited	1,206,413	0.66
Birdhurst Limited	1,135,118	0.62
Fruit Force Partnership	1,075,476	0.59
Golf Course Orchard Limited Partnership	1,065,000	0.58
Strathboss Kiwifruit Limited	994,695	0.54
Cameron Orchards Limited	976,029	0.53
High Fives Orchard Limited	970,773	0.53
Farmgold Limited	959,937	0.52
Aerocool Developments Limited	908,205	0.50
The Wotton Trust	900,135	0.49
D M & B A Reid Family Trust	894,675	0.49
	29,675,612	16.19

Zespri Group Limited no longer holds non-voting Treasury Stock as at 31 March 2019. In November 2018 Zespri Group Limited conducted a Share Issue and 1,780,788 Treasury Stock shares were issued to purchasing shareholders.

Distribution of ordinary shares and registered shareholders as at 31 March 2019

Size of holding	Number of shareholders	%	Number of shares	Size of holding %
1 – 10,000	246	13.02	1,179,295	0.64
10,001 – 75,000	1,000	52.90	36,356,197	19.85
75,001 – 200,000	454	24.02	54,654,747	29.82
200,001 – 300,000	74	3.92	17,830,706	9.73
Over 300,000	116	6.14	73,231,295	39.96
Total	1,890	100.00	183,252,240	100.00

Shareholder statistics	2019	2018
Number of shares	183,252	120,717
Interim and final dividend (per share) – fully imputed	\$0.92	\$0.76
Interim and final dividend (per share) – fully imputed – restated for 3:2 share split	–	\$0.50
Share price at year-end	\$6.00	\$7.55
Share price at year-end – restated for 3:2 share split	–	\$5.01
Earnings per share	\$0.99	\$0.84
Earnings per share – restated for 3:2 share split	–	\$0.56
Net dividend yield	15.33%	10.07%
Gross dividend yield at 28% tax rate	21.30%	13.98%
Share trading*		
Number of shares sold and or transferred: on-market trades – restated for 3:2 share split	4,097,409	5,857,205
Number of shares sold and or transferred: off-market trades – restated for 3:2 share split	12,982,744	15,851,083
Equity Ratio	31.61%	31.91%
Net tangible assets value per share	\$0.96	\$1.12
Net tangible assets value per share – restated for 3:2 share split	–	\$0.74

* On/off market trading reported is exclusive of any shares traded as part of the targeted share issue and buy-back and minority buy-out. The shares involved in these transactions are disclosed in Note 10: Share capital on page 26.

STATUTORY INFORMATION [CONTINUED]

Directors' disclosures

Directors' meeting attendances and business travel overseas

	B L Cameron – Chair	J P Mason	N W Flowerday	P R Jones	P J McBride	P M Springford	T Ciprian	A E de Farias (ceased 26 July 2018)	A J Hawken (appointed 26 July 2018)
Zespri Group Limited Board ¹	14	14	13	14	14	14	13	6	7
Audit and Risk Management Committee	1	7	7	–	7	7	1	–	–
People and Culture Committee	5	4	2	1	2	–	4	–	2
Industry Advisory Council	4	–	2	4	–	–	–	–	2
Board Innovation Subcommittee	2	–	6	6	3	1	5	–	2
Kiwifruit Industry Strategy Project	5	5	–	3	2	–	–	1	–
Share Valuation Committee	–	6	–	–	6	6	–	–	–
Due Diligence Committee	–	14	–	–	12	14	1	–	–
Number of business trips overseas	3	1	3	4	5	–	2	1	2
Market regions visited	Greater China, SEAA ² and Europe	Americas	Japan and Greater China	Americas, Greater China and SEAA	Greater China, SEAA, Japan and Europe	–	Korea and Greater China	Japan	Europe and SEAA

¹ In addition to the scheduled Board meetings, on 26 April 2018 and 14 August 2018 there were special-purpose Board meetings convened at short notice as a consequence of industry-wide events that required immediate consideration by the Board. All Directors have a standing invitation to attend meetings of all committees, irrespective of whether or not they are a member of that committee. In addition to the meetings detailed above, Directors' attendances included planning meetings, Directors' conferences, grower meetings and Special and Annual Meetings.

² South East Asia and Australia (SEAA)

Committee members – Directors

Audit and Risk Management Committee

J P Mason (Chair)	P M Springford
N W Flowerday	

People and Culture Committee

P R Jones (Chair) (appointed 20 February 2019)	J P Mason
T Ciprian	B L Cameron (ceased 20 February 2019)

Industry Advisory Council

A J Hawken (Chair) (appointed 26 July 2018)	P R Jones
B L Cameron	A E de Farias (ceased 26 July 2018)

Board Innovation Subcommittee

N W Flowerday (Chair)	P R Jones
T Ciprian	

The Organisation and Administration Committee was renamed to People and Culture Committee in February 2019.

A J Hawken was appointed to the Industry Advisory Council on 26 July 2018, becoming Chair on 20 February 2019.

Remuneration of Directors	2019 \$	2018 \$
B L Cameron	119,988	106,947
T Ciprian	84,405	81,447
A E de Farias (ceased 26 July 2018)	27,493	81,447
N W Flowerday	89,405	86,447
A J Hawken (appointed 26 July 2018)	56,911	–
P R Jones	91,601	86,447
J P Mason	99,905	96,947
P J McBride	192,009	199,447
D A Pilkington (ceased 1 May 2017)	–	6,667
P M Springford	94,405	74,780
Total	856,122	820,576

The Chair of each committee receives \$5,000 of remuneration per annum, except for the Chair of the Audit and Risk Management Committee who receives \$15,500 remuneration per annum and the Chair of the Due Diligence Committee who received \$10,000 of remuneration.

STATUTORY INFORMATION [CONTINUED]

Directors' disclosures (continued)

Directors' interests – shareholdings

The following table sets out the shareholdings in Zespri Group Limited held by each Director or related entity as at 31 March 2019.

	Shareholding as at 31 March 2018	Date of transaction	Share price \$	Number purchased/ transferred	Number sold	Interest commenced/ (ceased)	Shareholdings pre-share split	Shareholding as at 31 March 2019
B L Cameron	341,619	5/11/18	8.00	309,067	–	–	–	–
	–	5/11/18	8.00	200,933	–	–	851,619	1,277,429
T Ciprian	–		–	–	–	–	–	–
N W Flowerday	644,835	5/11/18	8.00	69,702	–	–	–	–
	–	5/11/18	8.00	6,119	–	–	720,656	1,080,984
A J Hawken	–	5/11/18	8.00	25,000	–	–	–	–
(appointed 26 July 2018)	–	21/11/18	6.73	25,000	–	–	50,000	75,000
P R Jones ¹	6,995,591	5/11/18	8.00	25,000	–	–	–	–
	–	5/11/18	8.00	94,737	–	–	–	–
	–	5/11/18	8.00	79,674	–	–	–	–
	–	5/11/18	8.00	–	678,993	–	–	–
	–	5/11/18	8.00	–	850,000	–	–	–
	–	21/11/18	6.73	25,000	–	–	5,691,009	8,536,515
J P Mason	–		–	–	–	–	–	–
P J McBride ²	3,354,466	5/11/18	8.00	500,000	–	–	–	–
	–	31/01/19	8.25	20,000	–	–	–	–
	–	31/01/19	8.25	20,000	–	–	–	–
	–	13/03/19	9.00	38,120	–	–	–	–
	–	13/03/19	9.00	21,880	–	–	3,954,466	5,931,699
P M Springford	–		–	–	–	–	–	–

¹ The holding of P R Jones as at 31 March 2018 differs from last year's final reported position as it includes an entity which became a relevant interest as a result of increased shareholding by another related interest.

² An interest exists of 3,366,450 (2018: 2,144,330) for P J McBride which relates to his position as Chief Executive Officer of Trinity Lands Limited; however, he has no beneficial interest in the shares of this entity.

Shares above are held personally by Directors or are held by way of relevant interest. Interests in the above table are only those entities which Directors are able to influence the share trading activity through directorships, ownership control or management positions. A full list of Directors' interests is included below.

Directors' interests – Directors in office as at 31 March 2019

B L Cameron

Director and Chair of, and shareholder in, Zespri Group Limited (commenced as Chair February 2019)

Director of Zespri International Limited

Chairman of Waipuna Hospice Foundation Board

Director of Eves Realty Group Ltd (interest commenced October 2018)

Director and Chairman of Realty Service Holdings Limited (formerly Realty Services Limited)

Director of, and shareholder in, Cameron Dairy Farms Limited

Director of, and shareholder in, Cameron Farms Limited

Director of, and shareholder in, Cameron Orchards Limited

Director of, and shareholder in, Gilston Mains Limited and subsidiary

Director of, and shareholder in, Strathlea Holdings Limited

Trustee of B L and G M Cameron Family Trust

Trustee of Rawenga Trust

T Ciprian

Director of Zespri Group Limited

Director of Zespri International Limited

Director of Aspeq Limited and subsidiaries

Director of Firstlight Foods Limited

Director of Food Standards Australia New Zealand

Director of Prolife Foods Limited

Director of Superthriller Jet Sprint Limited

Director of Zenoch Management Limited

STATUTORY INFORMATION [CONTINUED]

Directors' disclosures (continued)

Directors' interests – Directors in office as at 31 March 2019 (continued)

N W Flowerday

Director of, and shareholder in, Zespri Group Limited
Director of Zespri International Limited
Beneficiary of Milan Trust (interest ceased May 2018)
Director of Kiwifruit Vine Health Foundation Incorporated (interest ceased August 2018)
Director of Kiwifruit Vine Health Incorporated
Director of, and shareholder in, High Fives Orchard Limited
Director of, and shareholder in, NWF Holdings Limited
Director of, and shareholder in, Pro Kiwi Limited
Consultant to Riverlock Orchard Pack & Coolstore Limited (interest ceased May 2018)

A J Hawken

Director and shareholder of Zespri Group Limited (interest commenced July 2018)
Director of Zespri International Limited (interest commenced July 2018)
Independent Chairman of Tapawera Hops Limited Partnership
Director and Chairman of Korokipo Apple GP Limited
Director and Chairman of Rakete Orchards GP Limited
Director of, and shareholder in, Eastern Gold Limited
Director of, and shareholder in, Hawken Farm Limited
Director of, and shareholder in, Pipt Limited
Director of, and shareholder in, Rochford Farms Limited
Shareholder in EastPack Limited
Shareholder in Ryan Hawken Enterprises Limited
Trustee of Kenmore Trust
Advisory Board Member of Intent Ltd (interest ceased February 2019)
Advisor of AS Wilcox Limited
Business Development Manager at Trinity Lands Limited

P R Jones

Director of, and shareholder in, Zespri Group Limited
Director of Zespri International Limited
Director of DMS Group Limited and subsidiaries
Director of DMS Pro growers Supply Entity Limited
Director of Mangatarata Orchards Limited and Mangatarata Orchard Partnership
Director of New Zealand Avocado Marketing Limited
Director of Tane-Mahuta Orchard Developments Ltd (interest commenced July 2018)
Director of Tinopai Orchards Limited and Tinopai Orchard Partnership (interest ceased December 2018)
Director of, and shareholder in, Willow Rd Gold Limited
Director of, and shareholder in, Direct Management Services Limited
Director of, and shareholder in, DMS Pro growers Limited
Director of, and shareholder in, Eastern Gold Limited
Director of, and shareholder in, Elizabeth Heights Limited
Director of, and shareholder in, Fraser Rd Orchard GP Limited and Limited Partnership
Director of, and shareholder in, Fruit Force Partnership
Director of, and shareholder in, Golf Course Orchard GP Limited and Limited Partnership
Director of, and shareholder in, OTK Orchards Limited
Director of, and shareholder in, TKG Agent Limited and TKG Partnership
Shareholder in Hopai Holdings Limited
Shareholder in Mangatarata Farms Limited
Shareholder in Progeny Kiwifruit Limited
Trustee of, and beneficiary of, the P R Jones Family Trust
Trustee of, and beneficiary of, the Patricia Jones Trust

STATUTORY INFORMATION [CONTINUED]

Directors' disclosures (continued)

Directors' interests – Directors in office as at 31 March 2019 (continued)

J P Mason

Director of Zespri Group Limited
Director of Zespri International Limited
Director of Air New Zealand Limited
Director of Allagash Limited
Director of New Zealand Assets Management Limited
Director of Vector Limited
Director of Westpac New Zealand Limited
Member of the Board of Directors of the American Chamber of Commerce
Trustee of University of Auckland Endowment Fund
Trustee of Beloit College (USA)
Trustee of Dilworth School (interest commenced March 2019)
Board member (trustee) of World Wildlife Fund for Nature (NZ) (interest commenced August 2018)

P J McBride

Director of, and shareholder in, Zespri Group Limited (ceased to be Chair February 2019)
Director of Zespri International Limited and a number of other Zespri subsidiaries
Chief Executive Officer of Trinity Lands Limited
Director of Fonterra Co-operative Group Limited (interest commenced November 2018)
Managing Director of Ellett Beach Farms J.V.
Managing Director of Montrose Partnership
Managing Director of, and shareholder in, South-East Hort Limited and subsidiaries (related party interests in various orchards)
Trustee of P J and L R McBride Family Trust
Trustee of Somerset Trust (contingent interest)

P M Springford

Director of Zespri Group Limited
Director of Zespri International Limited
Director of Aussie Frost Fans 2012 Limited
Director of Infratil Limited
Director of Loncel Technologies 2014 Limited
Director of Mondiale Technologies Limited
Director of New Zealand Frost Fans Limited
Director of New Zealand Wood Products Limited
Director of Omahu Ventures Limited
Director of Springford and Newick Limited
Trustee of Medicine Mondiale
Trustee of The Dunstan Trust
Trustee of The Springford Family Trust

STATUTORY INFORMATION [CONTINUED]

Employee remuneration

For the year ended 31 March 2019, the number of employees whose total remuneration and value of any benefits received or receivable exceeded \$100,000 between the following bands was:

Number of non-New Zealand-based employees	Number of New Zealand-based employees	Total remuneration and benefits (\$)
17	7	\$100,000 to \$109,999
17	14	\$110,000 to \$119,999
6	12	\$120,000 to \$129,999
10	8	\$130,000 to \$139,999
7	8	\$140,000 to \$149,999
9	8	\$150,000 to \$159,999
5	4	\$160,000 to \$169,999
8	5	\$170,000 to \$179,999
2	7	\$180,000 to \$189,999
6	5	\$190,000 to \$199,999
2	3	\$200,000 to \$209,999
3	1	\$210,000 to \$219,999
3	3	\$220,000 to \$229,999
1	0	\$230,000 to \$239,999
2	1	\$240,000 to \$249,999
1	1	\$250,000 to \$259,999
0	1	\$260,000 to \$269,999
4	2	\$270,000 to \$279,999
2	0	\$280,000 to \$289,999
3	0	\$290,000 to \$299,999
1	1	\$300,000 to \$309,999
2	0	\$310,000 to \$319,999
2	0	\$320,000 to \$329,999
1	1*	\$330,000 to \$339,999
1	0	\$340,000 to \$349,999
1	0	\$360,000 to \$369,999
2	0	\$370,000 to \$379,999
1	0	\$400,000 to \$409,999
1	0	\$410,000 to \$419,999
1	2*	\$450,000 to \$459,999
0	1	\$460,000 to \$469,999
0	1*	\$470,000 to \$479,999
1	0	\$480,000 to \$489,999
1	0	\$510,000 to \$519,999
1	0	\$530,000 to \$539,999
0	1	\$550,000 to \$559,999
1	0	\$640,000 to \$649,999
1	0	\$680,000 to \$689,999
1	0	\$700,000 to \$709,999
1	0	\$760,000 to \$769,999
1	0	\$780,000 to \$789,999
0	1*	\$840,000 to \$849,999
0	1*	\$1,000,000 to \$1,009,999
1	0	\$1,660,000 to \$1,669,999

* Where applicable, remuneration for former employees includes base salary, bonus payments earned in 2017/18 and 2018/19, where paid in 2018/19, as well as accrued annual leave and other entitlements in accordance with their contract of employment.

Note: These bands are in New Zealand Dollar equivalents and reflect foreign exchange fluctuations.





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