Turners & Growers

Half Year Report
June 2004

Results in Brief

	***June* 2004 6 Months $000**	*June* 2003 6 Months $000
SURPLUS BEFORE INTEREST, TAX DEPRECIATION & AMORTISATION (EBITDA)	**21,690**	23,275
SURPLUS BEFORE INTEREST & TAX (EBIT)	**10,850**	8,830
NET SURPLUS AFTER TAX	**4,631**	3,427
SHAREHOLDERS' EQUITY	**177,198**	169,719
NUMBER OF SHARES ISSUED (WEIGHTED AVERAGE)	**71,201**	70,373
EARNINGS PER SHARE – CENTS	**7**	5

Report of Directors

The group profit before tax for the half year to June 2004 was $7.5 million, up on the first half result for $2003 of $5.5 million.

FRESH DOMESTIC SECTOR

Cost savings from the merger with Enza have assisted the Domestic division to return a more appropriate result, currently a little ahead of budget. This is especially pleasing in the light of a very competitive industry environment and has been enhanced by improved performance in the support operations, prepack, transport and hire containers, and notably in the Floramax flower auction unit.

After hitting a peak around March (partly as a result of the floods in Horowhenua/Manawatu impacting supply), the fruit and produce retail index sank in the 2nd quarter below its equivalent position twelve months ago. In general terms it is now positioned below the total foods index. This implies the industry is not keeping abreast of general food prices and has implications for producers and for revenues achieved by the group.

Winter is the traditional quiet period and it is normally difficult to cover infrastructure overhead costs at this time. However we have been able to make financial gains as a result of facilities and staff sharing between the two main divisions in the group.

The last couple of months have seen a very competitive market in bananas with consumers enjoying prices at ten year lows. This has been the result of a fierce market share battle between the major banana suppliers, and has had an impact on profitability throughout the whole banana supply chain, including of course, Turners & Growers Ltd. It is to be hoped this oversupply will not prevail too far into the future.

The flower operation is now on track again after producing a worthwhile contribution in the first half. This indicates improving industry wide outcomes and is assisted currently by orderly production of the early spring flower lines coming on stream without large overlaps and spikes in supply and price.

Generally the Board is happy with the overall progress and improvement in the domestic sector.

ENZA INTERNATIONAL

The season to date has seen some weakening of offshore selling prices overall, more pronounced in some varieties than others. The Royal Gala and Braeburn varieties have come under pressure in some markets but present weekly sales volume targets continue to be met. Our overall returns to growers look to be down somewhat on last year but should remain competitive across the industry as a whole. The season has still some way to go and can be influenced, either way, by external factors including exchange rate movements.

Enza's overall volume is likely to be around the 7 million carton mark, slightly down on last year. Part of this has to do with the browning disorder in some Braeburn supplies resulting in a higher reject rate. The company maintains the high standing of the Enza brand by ensuring appropriate grading standards, even where this results in loss of export volume as against other exporter product.

The Board is also very happy with the first season outcome of the new apple packhouse joint venture, Latitude 41 Limited, at Nelson. The units packed exceeded year 1 budget by over 60% and the professionalism of the venture has attracted much favourable comment and augers well for next season.

ENZAFOODS

The 2004 season has been marked by an increase in production volumes of reject apples for Apple Juice Concentrate to around 100,000 tonnes. The year end profit forecast remains slightly up on budget reflecting also some increases in selling prices and cost reduction initiatives. Possible downsides in the second half are unfavourable exchange rates and an expected reduction in carrot volumes. Other manufactured items are generally performing within predictable ranges.

Report of Directors (*continued*)

PRODUCTION AND PACKING SECTOR

The Status Produce glasshouse tomato business has had a good six month production season. Product quality generally has been excellent and reflected in strong prices, although volumes have been somewhat under budget overall. The company continues to invest in infrastructure to achieve maximum productivity from all three glasshouse sites. The associated packhouse operation has now been fully relocated to Mangere and is currently undergoing an expansion programme with a view to increasing efficiency, profitability and operational flexibility.

PROPERTY PORTFOLIO

The company has fully realised five strategic objectives over the first two quarters; the relocation of the Dunedin Market and distribution centre into the new purpose built premises on the Enza site in Fryatt Street; the opening of an adjoining warehouse, leased to Cadbury's; the move of the Nelson Domestic operation onto the Enza site at Nayland Road; the commissioning of the new Latitude 41 Packhouse Facility, also at Nayland Road, Nelson; and the re-letting of the entire former Enza Head Office building in Wellington.

Currently in the third quarter the company has opened the new major market facility in Dakota Place, Christchurch – the most modern and high-tech market in New Zealand – followed by a relocation of the Domestic operation in Whangarei to a smaller, more suitable venue. Also underway is an extension programme for the glasshouses at Tuakau and the tomato packing facility at Mangere.

Finally, we are pleased to have concluded the divestment of the unrequired market land in Raiha Street Porirua.

DIVIDEND

The group currently has an ambitious capital works programme in execution. With this and with seasonality considerations in mind the board will be considering the matter of a dividend at the end of the year.

OUTLOOK

Two major initiatives affecting shareholders are currently under way.

The first is the recently announced "compliance listing" on the New Zealand Stock exchange. Subject to shareholders adopting a new constitution and the completion of other legal and regulatory requirements the board hopes to see the company's shares trading on the NZX by mid-September.

In due course it is the intention to separately undertake a capital raising programme with the intention of funding various future initiatives.

The second initiative is the potential future separation from the group of ENZAFoods Limited, our manufacturing arm, which lies outside our fresh produce operation, and which we believe will benefit from autonomous governance and access to capital for an expending international business.

The board is confident that these projects, along with the improvement in core operations, will strengthen Turners & Growers and deliver stable long-term value to its shareholders.

A.I. (Tony) Gibbs,
CHAIRMAN

M.R. Dossor,
MANAGING DIRECTOR

Statement of Financial Performance

For the 6 months ended 30 June 2004 (Unaudited)

December 2003 12 Months $000		***June*** **2004 6 Months $000**	*June* 2003 6 Months $000
599,213	Operating revenue	**285,084**	323,476
(584,906)	Operating expenses	**(277,536)**	(318,004)
14,307	**Operating surplus before income tax**	**7,548**	5,472
(2,471)	Income tax	**(2,825)**	(2,101)
11,836	**Operating surplus after income tax**	**4,723**	3,371
(109)	Minority interests in (surpluses) / deficits of subsidiaries	**(92)**	56
11,727	**Net surplus**	**4,631**	3,427
	Comprising:		
11,727	Operating surplus from continuing activities	**4,631**	3,427
11,727		**4,631**	3,427

Statement of Movements in Equity

For the 6 months ended 30 June 2004 (Unaudited)

December 2003 12 Months $000		***June* 2004 6 Months $000**	*June* 2003 6 Months $000
164,613	**Equity at beginning of period**	**181,074**	164,613
11,727	Net surplus from parent and subsidiaries	**4,631**	3,427
4,524	Revaluation of assets	**–**	–
(1,209)	Foreign currency translation reserve movement	**265**	419
15,042	Total recognised revenues and expenses	**4,896**	3,846
(956)	Movement in minority interest	**92**	(1,020)
2,375	Contributions from owners	**1,128**	2,375
–	Distributions to owners	**(9,741)**	–
1,419		**(8,521)**	1,355
181,074	**Equity at end of period**	**177,449**	169,814

Statement of Financial Position

As at 30 June 2004 (Unaudited)

December 2003 12 Months $000		***June*** **2004 6 Months $000**	*June* 2003 6 Months $000
	EQUITY		
131,368	Share capital	**132,496**	131,368
9,796	Reserves	**10,061**	6,900
39,751	Retained earnings	**34,641**	31,451
180,915	**Shareholders' equity**	**177,198**	169,719
159	Minority interest	**251**	95
181,074	**Total equity**	**177,449**	169,814
	LIABILITIES		
	Non-current liabilities		
2,121	Payables and accruals	**190**	967
42,305	Borrowings	**45,000**	41,418
44,426	**Total non-current liabilities**	**45,190**	42,385
	Current liabilities		
–	Bank overdraft and current facilities	**–**	2,313
49,573	Payables and accruals	**138,221**	127,363
–	Borrowings	**107,000**	92,330
49,573	**Total current liabilities**	**245,221**	222,006
93,999	**Total liabilities**	**290,411**	264,391
275,073	**TOTAL EQUITY AND LIABILITIES**	**467,860**	434,205
	ASSETS		
	Non-current assets		
3,490	Investments in associates	**3,447**	3,650
1,609	Other investments	**1,429**	1,445
–	Accounts receivable	**819**	284
174,433	Property, plant and equipment	**183,956**	163,535
515	Property held for sale	**509**	518
3,382	Deferred tax	**2,836**	2,533
5,892	Intangible assets	**6,118**	6,204
189,321	**Total non-current assets**	**199,114**	178,169
	Current assets		
11,290	Cash and bank balances	**16,295**	22,981
46,808	Accounts receivable	**132,491**	131,254
1,481	Property held for sale	**749**	1,488
26,173	Inventories	**119,211**	100,313
85,752	**Total current assets**	**268,746**	256,036
275,073	**TOTAL ASSETS**	**467,860**	434,205

Statement of Cash Flows

For the 6 months ended 30 June 2004 (Unaudited)

December 2003 12 Months $000		***June*** **2004 6 Months $000**	*June* 2003 6 Months $000
	Operating activities		
	Cash was provided from:		
969,680	Receipts from customers	**342,996**	409,817
202	Dividends received	**1,585**	24
853	Interest received	**338**	440
970,735		**344,919**	410,281
	Cash was disbursed to:		
(942,007)	Payments to suppliers and employees	**(416,176)**	(480,141)
(6,098)	Interest paid	**(1,802)**	(3,973)
(4,659)	Income tax paid	**(3,112)**	(2,297)
(952,764)		**(421,090)**	(486,411)
17,971	**Net cash (outflows) / inflows from operating activities**	**(76,171)**	(76,130)
	Investment activities		
	Cash was provided from:		
2,107	Proceeds from sale of property, plant and equipment	**1,173**	284
1	Proceeds from sale of investments	**–**	–
2,108		**1,173**	284
	Cash was disbursed to:		
(20,558)	Purchase of property, plant and equipment	**(20,619)**	(7,506)
(7)	Purchase of investments	**(500)**	(132)
(132)	Capital injection in subsidiary	**–**	–
(20,697)		**(21,119)**	(7,638)
(18,589)	**Net cash (outflows) / inflows from investing activities**	**(19,946)**	(7,354)
	Financing activities		
	Cash was provided from:		
–	Proceeds from bank loans	**152,000**	104,000
90	Principal repayments from external loans and advances	**–**	93
1,531	Issue of ordinary shares	**–**	1,531
1,621		**152,000**	105,624
	Cash was disbursed to:		
–	Dividends paid to parent shareholders	**(7,912)**	–
(217)	Dividends paid to minority shareholders	**(701)**	(58)
(6,108)	Bank commercial bill facility & term loan repayments	**(42,305)**	(18,665)
–	External loans	**–**	(100)
(6,325)		**(50,918)**	(18,823)
(4,704)	**Net cash inflows / (outflows) from financing activities**	**101,082**	86,801
(5,322)	**Net increase in cash held**	**4,965**	3,317
(320)	Foreign currency translation adjustment	**40**	419
16,932	Cash at beginning of period	**11,290**	16,932
11,290	**Cash at end of period**	**16,295**	20,668
	Composed of:		
11,290	Bank deposits and cash	**16,295**	22,981
–	Bank facilities	**–**	(2,313)
11,290		**16,295**	20,668

Statement of Cash Flows (*continued*)

For the 6 months ended 30 June 2004 (Unaudited)

Reconciliation with operating surplus

December 2003 12 Months $000		***June* 2004 6 Months $000**	*June* 2003 6 Months $000
11,727	**Reported surplus after tax**	**4,631**	3,427
(293)	Associate entity surpluses	**706**	(56)
109	Minority interest share of surpluses	**92**	(175)
11,543		**5,429**	3,196
	Items not involving cash flows		
19,898	Depreciation expense	**10,406**	14,000
50	Amortisation of leasehold property	**48**	25
–	Property devaluations / (revaluations)	**–**	300
153	Investment devaluations	**–**	132
(1,486)	Increase / (decrease) in provision for doubtful debts	**52**	(465)
816	Amortisation of goodwill & brands	**386**	445
(327)	Deferred taxation	**546**	522
19,104		**11,438**	14,959
	Impact of changes in working capital items		
(1,703)	(Increase) in income tax receivable	**(625)**	(798)
3,612	(Increase) / decrease in debtors and prepayments	**(86,374)**	(83,065)
(7,491)	Increase / (decrease) in creditors and provisions	**87,406**	70,130
(6,236)	(Increase) in inventories	**(93,038)**	(80,376)
11,818		**(92,631)**	(94,109)
	Items classified as investing activities		
1	Net (gain) / loss on sale of properties	**(407)**	–
(858)	Net gain on sale of plant and equipment	**–**	(176)
(1)	Net gain on sale of investments	**–**	–
(858)		**(407)**	(176)
17,971	**Net cash flow from operating activities**	**(76,171)**	(76,130)

Notes to the Financial Statements

This financial report should be read in conjunction with the previous financial year report.

1. STATEMENT OF ACCOUNTING POLICIES

The accounting policies used in the preparation of these half yearly financial statements are consistent with those used in the December 2003 financial report.

On an annual basis depreciation of buildings and plant and machinery used in the coolstore operations is calculated on a straight line basis so as to depreciate the cost of the assets over their useful lives. Due to the seasonal nature of the coolstore operations depreciation within a financial year is calculated to reflect the expected consumption of economic benefits by reference to the pattern of usage over the year. This results in an additional $1.2m of annual depreciation charge being recognised as an expense in the six month period to 30 June 2004.

December 2003 12 Months $000		***June*** **2004 6 Months $000**	*June* 2003 6 Months $000
	2. CAPITAL EXPENDITURE COMMITMENTS		
10,896	Amount committed to Capital Expenditure	**9,423**	8,289
	3. CONTINGENT GAINS & LOSSES		
	The following matters have not been recognised in the financial statements because of the uncertainty associated with their outcomes.		
	Contingent losses		
331	Bonds & sundry facilities	**334**	331
539	Conduit tax relief regime	**539**	–
3,435	Guarantees of bank facilities for an associated company	**3,539**	3,856
3,851	Guarantees of bank facilities for subsidiary companies	**2,747**	2,856
–	Guarantees of letters of credit for a subsidiary company	**–**	103
1,471	Guarantees in respect of VAT liabilities for subsidiary companies	**1,473**	1,504

Turners & Growers Ltd continues to guarantee certain lease agreements on premises occupied by Turners Auctions Limited.

Turners & Growers Ltd also holds an indemnity from Turners Auctions Limited in respect of these exposures.

Directory

DIRECTORS
A.I. Gibbs, *Chairman*
M.R. Dossor, *Managing Director*
J.A. Hambling, *Company Secretary*
R.A. Burney, *Non-executive Director*
B.M. D'Ath, *Non-executive Director*
W.J.E. Lynch, *Non-executive Director*
L.A. Noboa III, *Non-executive Director*
M.G. Tregidga, Non-executive Director

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