



## **Report of Directors**

### **Turners and Growers Limited and Subsidiary Companies**

The Group profit before tax (unaudited) for the half year to 30 June 2006 was \$7.2 million compared with \$5.9 million for the first half of 2005, (a 22% increase).

The improvement is principally due to improved trading conditions for pipfruit, increased demand for crate hire, transport services and stronger foreign exchange rates.

The first quarter of the year was marked by stronger competition and larger volumes supplied to the local fresh vegetable market. This forced down prices for tomatoes and a wide range of locally grown green vegetables. During the second quarter, as we moved into the winter period, production has shrunk and prices have improved.

Capital expenditure for the half year was modest amounting to \$6.9 million.

### **Enza International**

With the improving foreign currency situation, a smaller export crop and an earlier harvest, the pipfruit sector enjoyed strong performance. Prices have generally improved this year generating forecasts of a profitable year for growers.

Enza has completed the construction and operation of a new packhouse at the Whakatu site in Hawkes Bay. The Whakatu packhouse has successfully processed in excess of 22,000 bins in its first year. The packhouse has performed ahead of expectations and grower feedback suggests that this operation has been well received. Additionally, the Latitude 41 Joint Venture which was a 50/50 venture with a group of South Island growers has been completely acquired by Enza, and will operate in conjunction with the South Island activities. These two packhouse operations allow Enza a greater degree of independence and autonomy in the packing operations, and will be a valuable procurement tool in the future.

Coolstore revenue is down for the year to date as a result of the smaller export crop and an earlier harvest.

### **Jazz Apples**

Jazz (featuring on the cover of this half year report) is an exciting new apple variety, which the Board is confident will make a large sustainable contribution to the Group income in the future.

Production of Jazz continues to grow and is expected to double each year in production for the next four years culminating in a sustained 3.0 million TCE annual production from 2011 onward. When in full production we envisage Jazz to contribute revenues of approximately \$20 million per annum.

### **Domestic Sector**

Following a difficult start, to the year brought about by high production and low prices, the onset of winter has seen product supply reduce and prices strengthen. The South Island traditionally has been a smaller contributor to the sales in this sector and at present we are moving to improve the market penetration.

The Fruit Case Company, our reusable container hire operation, continues to perform well in a competitive market. Profits for the year to date are ahead of budget principally as a result of the increased production in the fresh sector and we anticipate a year end result ahead of budget.

Turners Transport, like most road transport operators, has incurred large fuel increases, and has been forced to pass on these charges. However, a number of new vehicles have been added to the fleet, generating additional revenue growth.

Current indications are that this operation will be ahead of budget by year end.

### **Enzafoods**

Apple juice production for the year is likely to be down on the back of reduced volume of apples available this year. Although, the impact will be minimal as a result of improved selling prices, and more favorable exchange rates.

Enzafoods is expected to be ahead of budget for the year, and should return an excellent result.

### **Status Tomatoes**

The year to date for tomatoes has been marked by large volumes of product available resulting in a weak market which has forced prices down. Prices have however improved during May and have continued to trend upwards.

The importation of tomatoes from Australia has commenced, and could see the category under pressure for the rest of the year.

Packhouse activities have performed very well and have been a significant contributor to the performance of Status.

Exports have remained sound and this business continues to grow. Overall we expect the tomato category to return a profit comparable to the previous year.

## **Property**

The sale of the Williams Street coolstore complex and Enza offices has been completed for a selling price in excess of \$12.0 million.

The Group has entered into a number of leases for varying terms. However it is the long term plan for our North Island pipfruit activities to be based predominantly at our Whakatu site.

## **Outlook**

Pipfruit production has reduced substantially this year partially as a result of tree removal programmes and partly as a result of less than optimal growing conditions. Therefore, whilst sales value has improved overall production has reduced. This in turn has placed pressure on the various infrastructure assets the Group operates, and reduced coolstore revenue for the year.

The domestic sector has had a difficult start to the year with oversupply in some categories negatively impacting on overall prices. However, during the winter, prices have improved and all indications suggest that the domestic sector will be ahead of budget by year end.

Overall we estimate our result will be ahead of last year depending upon climatic factors and market conditions prevailing for the remainder of the year. We have previously observed that the Groups fortunes are assisted by the diverse base upon which our business is built, and this diversity has assisted us in riding out difficult times.

Overall our group is well placed and the outlook is positive for the future.

**A.I. (Tony) Gibbs**  
Chairman

**J.M. Wesley**  
Managing Director