

**Costa Group Holdings Pty Ltd
and controlled entities
ABN 68 151 363 129**

Consolidated Interim Financial Report
For the half year ended 28 December 2014

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COSTA GROUP HOLDINGS PTY LTD AND CONTROLLED ENTITIES
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DIRECTORS' REPORT

The directors of Costa Group Holdings Pty Ltd and controlled entities ("the Group") present their report together with the consolidated interim financial report of the Group, being the company and its controlled entities, for the half year ended 28 December 2014 and auditor's report thereon.

Directors' names

The names of the Directors in office at any time during or since the end of the half-year are:

Mr Harry Debney

Mr Robert Costa

Mr Frank Costa

Mr Angelos Dassios

Mr Kevin Schwartz

Mr Neil Chatfield

Mr Greg Hunt

Mr Bruno Ferrari Garcia de Alba

The Directors have been in office since the start of the half-year to the date of this report unless otherwise stated.

Results

The loss for the Group for the half year after providing for income tax amounted to \$5,799,340 (2013: Profit \$3,640,204).

Review of operations

The Group had strong results from the Berry category (as a result of raspberry production benefiting from higher volumes and prices and an early start to the strawberry crop) and Costa Farms (due to a combination of high volume, good quality fruit, strong prices in bananas sales and additional volumes from the Mushroom category provided to the business unit due to lower external demand).

The results were adversely impacted by the Tomato category (due to reduced production volumes affected by poor light conditions in Guyra), Mushrooms (lower production volumes in Queensland and lower retail demand), Vitor (impacted by difficult market conditions with heavy price discounting for grapes, leading to the closure of two grape farms subsequent to half year end) and Logistics (increased costs in implementing the Ferrero project and additional labour costs).

Significant changes in state of affairs

There were no significant changes in the Group's state of affairs that occurred during the half year, other than those referred to elsewhere in this report.

Principal activities

The principal activities of the Group during the half-year were:

- The growing of bananas, mushrooms, blueberries, raspberries, strawberries, avocados, grapes, citrus and tomatoes within Australia;
- The packing, marketing and distribution of fruit and vegetables within Australia and to export markets; and
- A provider of chilled logistics warehousing and distribution services within Australia.

No significant change in the nature of these activities occurred during the half-year.

After balance date events

Significant events after balance date were as follows:

(a) Grape Farm Closures

In January 2015, management decided to exit the Menindee, NSW and St. George, Western Queensland grape farms. Property, plant and equipment, intangibles and biological assets attributed to these sites have been impaired or transferred to other sites of the business. (Refer to Note 4 of the Consolidated Interim Financial Report for further detail.)

(b) Costa state of affairs

In the second half of Financial year 2015, the Directors engaged Goldman Sachs and UBS to investigate options for the future direction of the Company. As at the date of this report, no decision has been made and no changes to the state of affairs has taken place.

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DIRECTORS' REPORT

Likely developments

The Company will continue to explore opportunities that meet the Group's long term growth and development goals. The goal is to provide a superior sustainable increase in profits. In the opinion of the directors, disclosure of any further information would likely result in unreasonable prejudice to the consolidated entity.

Environmental regulation

Costa Group Holdings Pty Ltd and controlled entities are committed to conducting business activities and having due respect for the environment while continuing to meet expectations of shareholders, employees, customers and suppliers.

The Group is subject to environmental regulations under various federal, state and local laws relating predominately to air, noise and water emission levels.

The Group is committed to achieving a level of environmental performance that meets or exceeds federal, state and local requirements, and improves its use of natural resources and minimises waste.

Dividends paid, recommended and declared

No dividends were paid or declared since the start of the half-year. No recommendation for payment of dividends has been made.

Indemnification of officers

Under the Company's constitution, every person who is or has been a director or other officer of the Company is to be indemnified, to the maximum extent permitted by law, out of the property of the company against:

- costs and expenses incurred by the person in defending any proceedings (whether civil or criminal) relating to that person's position with the Company in which judgement is given in that person's favour or in which that person is acquitted or which are withdrawn before judgement;
- costs and expenses incurred by the person in connection with any administrative proceedings relating to that person's position with the Company, except proceedings which give rise to the proceedings (whether civil or criminal) against that person in which judgement is not given in that person's favour or in which that person is not acquitted or which arise out of conduct involving a lack of good faith;
- costs and expenses incurred by the person in connection with any application in relation to proceedings (whether civil or criminal) relating to that person's position with the company in which relief is granted to that person under the Corporations Act by the court; and
- any liabilities to another person (other than to the Company and its related bodies corporate) as such an officer unless the liabilities arise out of conduct involving a lack of good faith.

During the financial half-year, the Group paid premiums to insure all Directors and Officers against certain liabilities as contemplated under the Company's constitution. Disclosure of the total amount of the premiums paid under this renewed insurance policy is not permitted under the provisions of the insurance contract.

Further disclosure required under section 300(9) of the corporations law is prohibited under the terms of the contract.

Indemnification of auditors

No indemnities have been given or insurance premiums paid, during or since the end of the half-year, for any person who is or has been an auditor of the Group.

Auditor's independence declaration

A copy of the auditor's independence declaration in relation to the review for the financial period is provided with this report.

Proceedings on behalf of the Group

No person has applied for leave of Court to bring proceedings on behalf of the Group or intervene in any proceedings to which the Group is a party for the purpose of taking responsibility on behalf of the Group for all or any part of those proceedings.

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DIRECTORS' REPORT

This report is made in accordance with a resolution of the Board of Directors.

Director:



Mr Harry Debney

Director:



Mr Robert Costa

Dated this 14 day of May 2015.



Lead Auditor's Independence Declaration

To: the Directors of Costa Group Holdings Pty Ltd

I declare that, to the best of my knowledge and belief, in relation to the review for the half-year ended 28 December 2014 there have been no contraventions of any applicable code of professional conduct in relation to the review.

KPMG
KPMG

Paul J McDonald
Paul J McDonald
Partner

Melbourne

14 May 2015

COSTA GROUP HOLDINGS PTY LTD AND CONTROLLED ENTITIES
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STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE HALF YEAR ENDED 28 DECEMBER 2014

	Note	28-Dec-14 \$	29-Dec-13 \$
Revenue			
Sales revenue	3	359,178,047	361,489,674
Other revenue	3	3,461,120	2,664,582
	3	<u>362,639,167</u>	<u>364,154,256</u>
Less: expenses			
Raw materials, consumables and third party purchases		(128,547,227)	(117,512,247)
Depreciation and amortisation expenses		(9,026,514)	(7,697,546)
Employee benefits expenses	4	(118,437,571)	(126,251,703)
Occupancy expenses		(32,732,771)	(31,434,750)
Finance costs	4	(10,531,934)	(11,497,705)
Profit on sale of assets		162,970	197,708
Bad and doubtful debts		7,861	87,703
Impairment losses	4	(15,708,190)	(9,979,000)
Leasing expenses		(4,017,308)	(3,545,978)
Gain on fair value adjustments - biological assets		720,086	1,107,154
(Loss) / gain on fair value of derivatives		(295,884)	1,080,207
Other expenses	4	<u>(52,747,807)</u>	<u>(51,848,933)</u>
		<u>(371,154,289)</u>	<u>(357,295,090)</u>
Share of net profits and net losses of associates and joint ventures accounted for using the equity method		1,343,075	2,192,668
(Loss) / profit before income tax expense		<u>(7,172,047)</u>	<u>9,051,834</u>
Income tax benefit / (expense)	13	1,372,707	(5,411,630)
Net (loss) / profit from operations		<u>(5,799,340)</u>	<u>3,640,204</u>
Other comprehensive income			
<i>Items that will not be reclassified to profit and loss</i>			
Options granted during the half year		275,977	219,861
Other comprehensive income for the half year		<u>275,977</u>	<u>219,861</u>
Total comprehensive (loss) / income for the half year		<u>(5,523,363)</u>	<u>3,860,065</u>

The accompanying notes form part of the financial statements.

COSTA GROUP HOLDINGS PTY LTD AND CONTROLLED ENTITIES
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STATEMENT OF FINANCIAL POSITION
AS AT 28 DECEMBER 2014

	Note	28-Dec-14 \$	29-Jun-14 \$
ASSETS			
Current assets			
Cash and cash equivalents	5	20,695,884	26,231,258
Receivables	6	63,850,993	70,732,154
Inventories	7	17,504,459	13,946,570
Biological assets	9	28,905,433	28,053,937
Other assets	10	4,138,741	2,898,338
		<u>135,095,510</u>	<u>141,862,257</u>
Assets classified as held for sale	23	2,648,500	4,203,700
Total current assets		<u>137,744,010</u>	<u>146,065,957</u>
Non-current assets			
Receivables	6	1,805,619	1,855,617
Biological assets	9	5,877,878	6,009,289
Other financial assets	8	406,898	541,682
Equity accounted investments	25	20,803,037	24,171,366
Intangible assets	12	143,472,965	149,808,519
Deferred tax assets	13	5,909,216	4,617,649
Property, plant and equipment	11	179,985,844	165,201,604
		<u>358,261,457</u>	<u>352,205,726</u>
Total non-current assets		<u>496,005,467</u>	<u>498,271,683</u>
Total assets			
LIABILITIES			
Current liabilities			
Payables	14	70,162,317	72,127,725
Borrowings	15	2,887,408	6,439
Provisions	17	12,244,985	12,916,934
Derivative financial liabilities	16	24,790	315,089
Current tax payable	13	167,935	2,100,581
Total current liabilities		<u>85,487,435</u>	<u>87,466,768</u>
Non-current liabilities			
Derivative financial liabilities	16	3,671,638	3,220,239
Borrowings	15	215,945,379	209,770,819
Redeemable convertible preference shares	15	1,077,448	1,036,000
Provisions	17	3,532,888	4,963,815
		<u>224,227,353</u>	<u>218,990,873</u>
Total non-current liabilities		<u>309,714,788</u>	<u>306,457,641</u>
Total liabilities			
		<u>186,290,679</u>	<u>191,814,042</u>
NET ASSETS			
EQUITY			
Share capital	18	238,564,012	238,564,012
Share based payment reserve	24	724,680	448,703
Accumulated losses	19	(52,998,013)	(47,198,673)
Total equity		<u>186,290,679</u>	<u>191,814,042</u>

The accompanying notes form part of the financial statements.

COSTA GROUP HOLDINGS PTY LTD AND CONTROLLED ENTITIES
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STATEMENT OF CHANGES IN EQUITY
FOR THE HALF YEAR ENDED 28 DECEMBER 2014

	Contributed equity	Share based payment reserve	Accumulated losses	Total equity
	\$	\$	\$	\$
Balance as at 30 June 2014	238,564,012	448,703	(47,198,673)	191,814,042
Loss for the period	-	-	(5,799,340)	(5,799,340)
Options granted during the half-year	-	275,977	-	275,977
Total comprehensive loss for the half-year	-	275,977	(5,799,340)	(5,523,363)
Balance as at 28 December 2014	238,564,012	724,680	(52,998,013)	186,290,679
Balance as at 1 July 2013	194,600,012	38,055	(49,914,861)	144,723,206
Profit for the period	-	-	3,640,204	3,640,204
Options granted during the half-year	-	219,861	-	219,861
Total comprehensive income for the half-year	-	219,861	3,640,204	3,860,065
Balance as at 29 December 2013	194,600,012	257,916	(46,274,657)	148,583,271

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STATEMENT OF CASH FLOWS
FOR THE HALF YEAR ENDED 28 DECEMBER 2014

	28-Dec-14	29-Dec-13
	\$	\$
Cash flow from operating activities		
Receipts from customers	373,363,841	421,089,071
Payments to suppliers and employees	(352,725,612)	(399,487,749)
Dividends received	6,000	-
Interest received	97,325	45,888
Interest paid	(4,688,621)	(8,478,404)
Income taxes paid	(1,851,506)	-
Net cash provided by operating activities	14,201,427	13,168,806
Cash flow from investing activities		
Payments for property, plant and equipment	(35,132,344)	(8,483,575)
Proceeds from sale of property, plant and equipment	189,638	2,617,374
Payment for intangible assets	(1,056,160)	(1,156,675)
Proceeds from sale of intangible assets	3,580,464	-
Dividends from equity accounted investments	4,684,482	1,921,578
Net cash used in investing activities	(27,733,920)	(5,101,298)
Cash flow from financing activities		
Proceeds / (repayments) of borrowings	7,997,119	(1,197,567)
Repayments from associates	-	65,032
Net cash provided by / (used in) financing activities	7,997,119	(1,132,535)
Reconciliation of cash		
Cash at beginning of the half-year	26,231,258	9,511,607
Net (decrease) / increase in cash held	(5,535,374)	6,934,973
Cash at end of period	20,695,884	16,446,580

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NOTES TO THE CONSOLIDATED INTERIM FINANCIAL REPORT
FOR THE HALF YEAR ENDED 28 DECEMBER 2014

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated interim financial report is for Costa Group Holdings Pty Ltd and its consolidated entities (the "Group"). Costa Group Holdings Pty Ltd is a company limited by shares, incorporated and domiciled in Australia. Costa Group Holdings Pty Ltd is a for profit entity for the purpose of preparing the financial statements.

In the opinion of the Directors, Costa Group Holdings Pty Ltd is not publicly accountable. This set of condensed interim financial reports have been prepared in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting*. The most recent annual financial report for the financial year ended 29 June 2014 complies with Australian Accounting Standards - Reduced Disclosure Requirements.

The consolidated interim financial report does not include all of the information required for a full annual financial statement and should be read in conjunction with the Financial Report of the Group for the year ended 29 June 2014.

The consolidated interim financial report was approved by the directors as at the date of the directors' report.

The following is a summary of the material accounting policies adopted by the group in the preparation and presentation of the consolidated interim financial report. The accounting policies have been consistently applied (as compared to the most recent annual financial report), unless otherwise stated.

(a) Basis of preparation of the financial report

Historical Cost Convention

The consolidated interim financial report has been prepared under the historical cost convention, except for revaluations to fair value for certain classes of assets and liabilities (derivatives) as described in the accounting policies.

(b) Going concern

The consolidated interim financial report has been prepared on a going concern basis.

(c) Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated interim financial report from the date that control commences until the date that control ceases.

Investments in associates and joint ventures (equity accounted investments)

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity. Joint ventures are those entities over whose activities the Group has joint control established by contractual agreement and requiring unanimous consent for strategic financial and operating activities.

Investments in associates and joint ventures are accounted for under the equity method and are initially recognised at cost. The cost of the investment includes transaction costs.

The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of equity accounted investments after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

Transactions eliminated on consolidation

Intercompany balances and transactions, and any unrealised income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investments are eliminated against the investment to the extent of the Group's interest in the investments. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(d) Foreign currency translations and balances

Functional and presentation currency

The financial statements of each entity within the Group's is measured using the currency of the primary economic environment in which that entity operates (the functional currency). The consolidated financial statements are presented in Australian dollars which is the Group's functional and presentation currency.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL REPORT
FOR THE HALF YEAR ENDED 28 DECEMBER 2014

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Foreign currency translations and balances (Continued)

Transactions and Balances

Transactions in foreign currencies of entities within the consolidated group are translated into functional currency at the rate of exchange ruling at the date of the transaction.

Foreign currency monetary items that are outstanding at the reporting date (other than monetary items arising under foreign currency contracts where the exchange rate for that monetary item is fixed in the contract) are translated using the spot rate at the end of the financial year.

Except for certain foreign currency hedges, all resulting exchange differences arising on settlement or restatement are recognised as revenues and expenses for the financial year.

Entities that have a functional currency different from the presentation currency are translated as follows:

- Assets and liabilities are translated at year-end exchange rates prevailing at that reporting date;
- Income and expenses are translated at actual exchange rates or average exchange rates for the period, where appropriate; and
- All resulting exchange differences are recognised as a separate component of equity.

(e) Revenue

Sale of goods

Revenue from sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Risks and rewards of ownership are considered passed to the buyer at the time of delivery of the goods to the customer.

Rendering of services

Revenue from the rendering of services is recognised upon the delivery of the service to the customers.

Dividends

Dividend revenue is recognised when the right to receive a dividend has been established. Dividends received from associates and joint ventures are accounted for in accordance with the equity method of accounting.

Interest revenue

Interest revenue is recognised when it becomes receivable on a proportional basis taking in to account the interest rates applicable to the financial assets.

Rental income

Rent revenue is recognised on a straight line basis over the rental term.

Royalty income

Royalty revenue is recognised by the Group in relation to rights provided to entities external to the Group to sell plants and produce that arise from the Group's operations.

Commission income

Commission revenue is recognised by the Group for sales of goods undertaken by the Group in its capacity as an agent of the transaction.

All revenue is stated net of the amount of goods and services tax (GST).

(f) Income tax

Current income tax expense or benefit is the tax payable or receivable on the current period's taxable income based on the applicable income tax rate adjusted by changes in deferred tax assets and liabilities.

Deferred tax assets and liabilities are recognised for temporary differences at the applicable tax rates when the assets are expected to be recovered or liabilities are settled. No deferred tax asset or liability is recognised in relation to temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

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NOTES TO THE CONSOLIDATED INTERIM FINANCIAL REPORT
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NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Income tax (Continued)

Tax Consolidation

The parent entity Costa Group Holdings Pty Ltd and its subsidiaries have implemented the tax consolidation legislation and have formed a tax consolidated group from 1 July 2011. The parent entity and subsidiaries in the tax consolidated group have entered into a tax funding agreement such that each entity in the tax consolidated group recognises the assets, liabilities, expenses and revenues in relation to its own transactions, events and balances only. This means that:

- the parent entity recognises all current and deferred tax amounts relating to its own transactions, events and balances only;
- the subsidiaries recognise current or deferred tax amounts arising in respect of their own transactions, events and balances; and
- current tax liabilities and deferred tax assets arising in respect of tax losses, are transferred from the subsidiary to the head entity as inter-company payables or receivables.

The tax consolidated group also has a tax sharing agreement in place to limit the liability of subsidiaries in the tax consolidated group arising under the joint and several liability requirements of the tax consolidation system, in the event of default by the parent entity to meet its payment obligations.

(g) Borrowing costs

Borrowing costs can include interest, amortisation of discounts or premiums relating to borrowings, ancillary costs incurred in connection with arrangement of borrowings and foreign exchange losses net of hedged amounts on borrowings.

Borrowing costs are expensed as incurred, except for borrowing costs incurred as part of the cost of the construction of a qualifying asset are capitalised until the asset is ready for its intended use or sale.

Loan establishment costs have been capitalised and amortised over the life of the loan facility. Borrowing costs relating to loans extinguished during the year have been expensed.

(h) Research and development expenditure

Expenditure on research activities is recognised as an expense when incurred.

Expenditure on development activities is capitalised only when technical feasibility studies demonstrate that the project will deliver future economic benefits and these benefits can be measured reliably. Capitalised development expenditure is stated at cost less accumulated amortisation. Amortisation is calculated using the straight line method to allocate the cost of its estimated useful life commencing when the intangible asset is available for use.

Other development expenditure is recognised as an expense when incurred.

(i) Inventories

Inventories are measured at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition are accounted for as follows:

- Raw materials and consumables: purchase cost on a first in, first out basis and weighted average; and
- Finished goods and work in progress: cost of direct material and labour and a proportion of manufacturing overheads based on normal operating capacity.

Raw materials and consumables include packaging, supplies and other materials not consumed in the production or growing processes. Work in progress represents partially completed project works. Finished goods include agricultural produce purchased and own farm fruit held for sale and other stock held for sale.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of production and the estimated costs necessary to complete the sale.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL REPORT
FOR THE HALF YEAR ENDED 28 DECEMBER 2014

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Biological assets

Biological assets are measured at their fair value less costs to sell at each reporting date. The fair value is determined as the net present value of cash flows expected to be generated by these crops (discounted at a risk adjusted interest rate). Where fair value cannot be measured reliably, biological assets are measured at cost.

Net increments and decrements in the fair value of the growing assets are recognised as income or expense in the profit or loss, determined as:

- The difference between the total fair value of the biological assets recognised at the beginning of the financial period and the total fair value of the biological assets recognised at reporting date.
- Costs incurred in maintaining or enhancing the biological assets recognised at the beginning of the financial period and the total fair value of the biological assets recognised at the reporting date.
- The market value of the produce picked during the financial period is measured at their fair value less estimated point of sale costs at the time of picking. Market price is determined based on underlying market prices of the product.

Short lived biological assets such as citrus and raspberries are measured at their fair value less incremental costs to sell whilst mushrooms are measured at cost. These are disclosed as current biological assets.

Non current biological assets, which are bearer plants, have been determined in accordance with Directors' valuation at each reporting date for mature bearer plants. For immature bearer plants, the Directors' have determined that these assets should be measured at cost. In determining the fair value, the following factors have been taken into account:

- (i) The productive life of the asset
- (ii) The period over which the asset will mature
- (iii) The expected future sales price
- (iv) The cost expected to arise throughout the life of the asset
- (v) Net cash flows are discounted at a pre tax average real rate of 13% to 20% per annum (depending on agricultural risk) and it is assumed that inflation will continue at the current rate.

Expected future sale prices for all biological assets, are based on average current prices increased for inflation. Costs expected to arise throughout the life of the biological assets, are based on average costs throughout the period, increased for inflation.

(k) Financial instruments

Classification

The group classifies its financial assets into the following categories: financial assets at fair value through profit and loss, loans and receivables and available for sale financial assets. The classification depends on the purpose for which the instruments were acquired. Management determines the classification of its financial instruments at initial recognition.

Derivative financial instruments

Derivatives are recognised initially at fair value; any directly attributable transaction costs are recognised in profit or loss as they are incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are generally recognised in profit or loss.

(i) Interest rate swaps

The Group holds derivative interest rate swaps as part of its compliance with certain covenants attached to its borrowings.

(ii) Foreign Exchange Contracts

The Group enters into foreign exchange contracts to hedge its exposure against foreign currency risk in line with the entity's risk management strategy.

Non-derivative financial instruments

Non derivative financial instruments consist of investments in equity securities, trade and other receivables, cash and cash equivalents, borrowings, and trade and other payables.

Non derivative financial instruments are initially recognised at fair value, plus directly attributable transaction costs (if any). After initial recognition, non derivative financial instruments are measured as described below.

Loans and receivables

Loans and receivables are measured at fair value at inception and subsequently at amortised cost using the effective interest rate method. Loan and receivables include trade receivables.

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NOTES TO THE CONSOLIDATED INTERIM FINANCIAL REPORT
FOR THE HALF YEAR ENDED 28 DECEMBER 2014

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Financial Instruments (Continued)

Available-for-sale

Available for sale financial assets include any financial assets not included in the above categories and are measured at fair value. Unrealised gains and losses arising from changes in fair value, other than impairment losses, are recognised in other comprehensive income and presented in equity. The cumulative gain or loss is held in equity until the financial asset is de recognised, at which time the cumulative gain or loss held in equity is recognised in profit and loss.

Financial liabilities

Financial liabilities include trade payables, other creditors and loans from third parties and loans from or other amounts due to director related entities.

Non derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

Financial liabilities are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least twelve months after the reporting period.

(l) Property, plant and equipment

Each class of property, plant and equipment is carried at cost less, where applicable, any accumulated depreciation and any accumulated impairment losses.

Land and Buildings

Land and buildings are measured on a cost basis.

Plant and equipment

Plant and equipment is measured on a cost basis.

Improvements

Improvements are measured on a cost basis.

Depreciation

The depreciable amount of all fixed assets is depreciated over their estimated useful lives commencing from the time the asset is held ready for use. Land owned by the Group is freehold land and accordingly is not depreciated.

Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

Class of fixed asset	Depreciation rates	Depreciation basis
Land and buildings at cost	3% - 10%	Straight line
Plant and equipment at cost	5% - 33%	Straight line
Leased plant and equipment at cost	10% - 20%	Straight line
Improvements at cost	5% - 20%	Straight line

Assets under construction are measured at cost and not depreciated until the assets are ready for use.

(m) Assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held-for-sale or held-for-distribution if it is highly probable that they will be recovered primarily through sale rather than through continuing use.

Immediately before classification as held-for-sale, the assets, or components of a disposal group, are remeasured in accordance with the Group's accounting policies. Thereafter, the assets, or disposal group, are measured at the lower of their carrying amount and fair value less costs to sell. Impairment losses on initial classification as held-for-sale and subsequent gains or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

Once classified as held-for-sale or held-for-distribution, intangible assets and property, plant and equipment are no longer amortised or depreciated, and any equity accounted investments are no longer equity accounted.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL REPORT
FOR THE HALF YEAR ENDED 28 DECEMBER 2014

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Impairment

Non-derivative financial assets

Financial assets measured at amortised cost

The Group considers evidence of impairment for financial assets measured at amortised cost (loans and receivables) at both a specific asset and collective level. All individually significant assets are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

In assessing collective impairment, the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or lesser than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables. Interest on the impaired asset continues to be recognised. When an event occurring after the impairment was recognised causing the amount of the impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognised by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss recognised previously in profit or loss. Changes in cumulative impairment losses attributable to application of the effective interest method are reflected as a component of interest income. If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

Equity accounted investments

An impairment loss in respect of an equity accounted investments is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with the policy set out below in non-financial assets. An impairment loss is recognised in profit or loss. An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

Non-financial assets

The carrying amounts of the Group's non-financial assets, other than biological assets, equity accounted investments, inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill and indefinite life intangible assets are tested annually for impairment. An impairment loss is recognised if the carrying amount of an asset or cash-generating unit (CGU) exceeds its recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows or other assets or CGUs. Subject to an operating segment ceiling test, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss has been recognised.

(o) Intangibles

Goodwill

Goodwill is recognised initially at the excess over the aggregate of the consideration transferred, the fair value of the non controlling interest, and the acquisition date fair value of the acquirer's previously held equity interest (in case of step acquisition), less the fair value of the identifiable assets acquired and liabilities assumed.

Goodwill is not amortised, but is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses.

Brand names

Brand names are measured initially at their cost of acquisition. Brand names are an indefinite useful life intangible asset as there is no expiry date associated with the underlying assets in terms of its generation of future economic benefits to the Group, and are therefore tested for impairment annually. The carrying amount of brand names is supported by a value in use calculation.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL REPORT
FOR THE HALF YEAR ENDED 28 DECEMBER 2014

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Intangibles (Continued)

Lease Premiums

The value of market lease premiums is recorded in the financial statements at cost. Market lease premiums are an indefinite life intangible asset as there is no expiry date associated with the underlying assets in terms of its generation of future economic benefits to the Group, and are therefore tested for impairment annually. The carrying amount of market lease premiums is supported by a value in use calculation.

Water rights

Water rights are measured initially at their cost of acquisition. Water rights are an indefinite life intangible asset as there is no expiry date associated with the underlying assets in terms of its generation of future economic benefits to the Group, and are therefore tested for impairment annually. The carrying amount of water rights is supported by a value in use calculation.

Software

Software is measured initially at the cost of acquisition and amortised over the useful life of the software. Expenditure on software development activities is capitalised only when it is expected that future benefits will exceed the deferred costs, and these benefits can be reliably measured. Capitalised development expenditure is stated at cost less accumulated amortisation. Amortisation is calculated using the straight line method to allocate the cost of the intangible asset over its estimated useful life (not exceeding seven years) commencing when the intangible asset is available for use. Other development expenditure is recognised as an expense when incurred.

Acquired both separately and from a business combination

Intangible assets acquired separately are capitalised at cost and from a business combination are capitalised at fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

Internally generated intangible assets are capitalised when the Group is certain that there are future economic benefits that will arise from these assets. Other internally generated intangible assets that do not fit this recognition criteria is charged against profit or loss in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, which is a change in accounting estimate. The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the nature of the intangible asset.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash generating unit level. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed each reporting period to determine whether indefinite life assessment continues to be supportable. If not, the change in useful life assessment from indefinite to finite is accounted for as a change in an accounting estimate and is thus accounted for on a prospective basis.

(p) Provisions

Provisions are recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

(q) Leases

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

Finance Leases

Leases of fixed assets, where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership, are transferred to the Group are classified as finance leases. Finance leases are capitalised, recording an asset and a liability equal to the present value of the minimum lease payments, including any guaranteed residual values. The interest expense is calculated using the interest rate implicit in the lease and is included in finance costs in the statement of profit or loss and other comprehensive income. Leased assets are depreciated on a straight line basis over their estimated useful lives where it is likely that the group will obtain ownership of the asset, or over the term of the lease. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Operating Leases

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are recognised as an expense on a straight line basis over the term of the lease.

Lease incentives received under operating leases are recognised as a liability and amortised on a straight line basis over the life of the lease term.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL REPORT
FOR THE HALF YEAR ENDED 28 DECEMBER 2014

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) Employee benefits

Short-term employee benefit obligations

Liabilities arising in respect of wages and salaries, annual leave, long service leave and any other employee benefits expected to be settled within twelve months of the reporting date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled. The expected cost of short term employee benefits in the form of compensated absences such as annual leave is recognised in the provision for employee benefits. All other short term employee benefit obligations are presented as payables.

Long-term employee benefit obligations

Liabilities arising in respect of long service leave and annual leave which is not expected to be settled within twelve months of the reporting date are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date.

Employee benefit obligations are presented as current liabilities in the Statement of Financial Position if the entity does not have an unconditional right to defer settlement for at least twelve months after the reporting date, regardless of when the actual settlement is expected to occur.

Bonus plan

The Group recognises a provision when a bonus is payable in accordance with the employee's contract of employment, and the amount can be reliably measured.

Termination benefits

Termination benefits are payable when employment of an employee or group of employees is terminated before the normal retirement date, or when the Group provides termination benefits as a result of an offer made and accepted in order to encourage voluntary redundancy. The Group recognises a provision for termination benefits when the entity can no longer withdraw the offer of those benefits, or if earlier, when the termination benefits are included in a formal restructuring plan that has been announced to those affected by it.

(s) Goods and services tax (GST)

Revenues, expenses, liabilities and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

Cash flows are presented in the statement of cash flows on a gross basis.

(t) Share Capital

Ordinary Shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

Redeemable Convertible Preference Shares

Redeemable convertible preference shares are classified as equity if it is non-redeemable, or redeemable only at the Company's option, and any dividends are discretionary. Discretionary dividends thereon are recognised as distributions within equity upon approval by the Company's shareholders.

Redeemable convertible preference shares are classified as a financial liability if it is redeemable on a specific date or at the option of the shareholders, or if dividend payments are not discretionary. Non-discretionary dividends thereon are recognised as interest expense in profit or loss as accrued.

(u) Share based payments

The Group provides benefits to its employees and directors in the form of share-based payment transactions, whereby employees render services in exchange for shares or options ("equity-settled transactions").

The fair value of options and performance rights is recognised as an expense with the corresponding increase in equity (share-based payments reserve). The fair value is measured at grant date and recognised over the period during which the holder becomes unconditionally entitled to the options.

(v) Cash and cash equivalents

Cash comprises cash on hand and demand deposits. Cash equivalents comprise short-term and highly liquid cash deposits that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. For the purposes of the Statement of Cash Flows, cash includes cash on hand, demand deposits and cash equivalents.

COSTA GROUP HOLDINGS PTY LTD AND CONTROLLED ENTITIES
ABN 68 151 363 129

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL REPORT
FOR THE HALF YEAR ENDED 28 DECEMBER 2014

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(w) Government grants

Government grants are initially recognised as deferred income at fair value when there is recoverable assurance that they will be received and that the Group will comply with the conditions associated with the grant. Subsequently, they are recognised in profit or loss to offset the applicable expenses incurred by the Group as stated in the provisions of the government grants.

(x) Comparatives

Where necessary, comparative information has been reclassified and restated for consistency with current year disclosures.

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NOTES TO THE CONSOLIDATED INTERIM FINANCIAL REPORT
FOR THE HALF YEAR ENDED 28 DECEMBER 2014

NOTE 2: CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the consolidated interim financial report in conformity with AASB requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. There are no changes in critical accounting estimates and judgements in this financial period as compared to the previous reporting period.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year include:

(a) Recoverability of goodwill

Goodwill is allocated to cash generating units (CGU's) according to applicable business operations. The recoverable amount of a CGU is based on value in use calculations. These calculations are based on projected cash flows approved by management covering a period of 3 years. Management's determination of cash flow projections and gross margins are based on past performance and its expectation for the future. The present value of future cash flows has been calculated using an average growth rate of 3% (2014: 3%) for cash flows post financial year 2018, a terminal value growth rate of 3.0% (2014: 3.0%) and a pre-tax discount rate of 15.1% (2014: 15.1%) to determine value in use.

(b) Recoverability of non-financial assets other than goodwill

All assets are assessed for impairment at each reporting date by evaluating whether indicators of impairment exist in relation to the continued use of the asset by the consolidated entity. Impairment triggers include declining product or manufacturing performance, technology changes, adverse changes in the economic or political environment or future product expectations. If an indicator of impairment exists the recoverable amount of the asset is determined.

(c) Income tax

Income tax benefits are based on the assumption that no adverse change will occur in the income tax legislation and the anticipation that the group will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

Deferred tax assets are recognised for deductible temporary differences as management considers that it is probable that future taxable profits will be available to utilise those temporary differences.

(d) Valuation of biological assets

The valuation takes into account expected sales prices, yields, growth profile, picked fruit quality and expected incremental-cost related to the sale of the assets and management must make a judgement as to the trend in these factors.

(e) Revenue recognition (agency commissions)

Certain sales undertaken by the Group are performed in their capacity as an agent, and not merchant relationship. The Group identifies these agency relationships when the Group pays the grower any proceeds that are received for the sale of the produce, after deduction of the commission and expenses applicable to the produce sold (and, if elected by the Group, after deducting any amounts owing by the grower under any other agreement.) The Group acknowledges that the deduction of commission or expenses constitutes payment of these amounts by the grower.

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NOTES TO THE CONSOLIDATED INTERIM FINANCIAL REPORT
FOR THE HALF YEAR ENDED 28 DECEMBER 2014

	28-Dec-14 \$	29-Dec-13 \$
NOTE 3: REVENUE		
<i>Sales revenue</i>		
Sale of goods	343,074,181	329,096,314
Rendering of services	16,103,866	32,393,360
	<u>359,178,047</u>	<u>361,489,674</u>
<i>Other revenue</i>		
Dividend income	6,000	35,300
Interest income	97,325	45,888
Rental income	1,133,214	171,321
Other revenue	2,224,581	2,412,073
	<u>3,461,120</u>	<u>2,664,582</u>
	<u>362,639,167</u>	<u>364,154,256</u>

Seasonality of interim operations

The company has strategies in place relating to the sourcing of produce that mitigate the effects of seasonality or cyclical of interim results and the comparability of the interim financial reporting period with the second half of the financial year.

NOTE 4: EXPENSES

<i>Finance costs</i>		
Bank charges	32,854	77,899
Interest expense on redeemable preferences shares	41,448	1,814,795
Interest expense on bank loans	9,229,473	9,605,011
Borrowing costs	1,228,159	-
	<u>10,531,934</u>	<u>11,497,705</u>
<i>Impairment losses</i>		
Property, Plant and Equipment	(a) 8,759,163	-
Goodwill	(b) 6,949,027	9,979,000
	<u>15,708,190</u>	<u>9,979,000</u>

(a) Impairment of Property, Plant and Equipment

The above impairment loss is attributed to the closure of various sites including Mushroom sites; Mittagong and Huon Valley, and Grape sites; St. George and Menindee.

(b) Impairment of goodwill

Write-off remaining carrying value of goodwill relating to the Grapes Marketing business due to the closure of the St. George and Menindee grape farms.

<i>Employee benefits expenses</i>		
- Salaries, contractors and wages (including on-costs)	105,790,314	113,528,006
- Superannuation costs	6,283,520	6,172,843
- Annual leave, sick leave, RDO and long service leave	4,085,566	4,232,480
- Share-based payments expense	275,977	219,861
- Other employee expenses	2,002,194	2,098,513
	<u>118,437,571</u>	<u>126,251,703</u>

Other expenses consist primarily of repairs and maintenance, travel, legal costs and consulting, restructuring costs and local freight expenditure.

	28-Dec-14 \$	29-Jun-14 \$
NOTE 5: CASH AND CASH EQUIVALENTS		
Cash on hand	26,986	26,934
Cash at bank	20,668,898	21,149,737
Cash on deposit	-	5,054,587
	<u>20,695,884</u>	<u>26,231,258</u>

COSTA GROUP HOLDINGS PTY LTD AND CONTROLLED ENTITIES
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NOTES TO THE CONSOLIDATED INTERIM FINANCIAL REPORT
FOR THE HALF YEAR ENDED 28 DECEMBER 2014

	28-Dec-14 \$	29-Jun-14 \$
NOTE 6: RECEIVABLES		
CURRENT		
Trade debtors	55,673,088	56,359,911
Less: Allowance for impairment of trade debtors	(1,015,051)	(1,082,582)
	54,658,037	55,277,329
Other receivables	9,192,956	15,454,825
	63,850,993	70,732,154
NON CURRENT		
Other receivables	175,034	225,032
Loans to related party associates	1,630,585	1,630,585
	1,805,619	1,855,617
NOTE 7: INVENTORIES		
CURRENT		
At cost		
Raw materials	9,183,809	6,906,090
Work in progress	-	305,132
Finished goods	8,320,650	6,735,348
	17,504,459	13,946,570
NOTE 8: OTHER FINANCIAL ASSETS		
NON CURRENT		
Interest rate swap-option	13,224	148,008
Available for sale financial assets		
Shares in other corporations	393,674	393,674
	406,898	541,682
NOTE 9: BIOLOGICAL ASSETS		
CURRENT		
Fruit and vegetables - at fair value	22,270,184	21,241,947
Vegetables - at cost	6,635,249	6,811,990
	28,905,433	28,053,937
NON CURRENT		
Plants - at cost	1,562,009	-
Plants - at fair value	4,315,869	6,009,289
	5,877,878	6,009,289
Total biological assets	34,783,311	34,063,226
NOTE 10: OTHER ASSETS		
CURRENT		
Prepayments	4,138,741	2,743,228
Other current assets	-	155,110
	4,138,741	2,898,338

COSTA GROUP HOLDINGS PTY LTD AND CONTROLLED ENTITIES
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NOTES TO THE CONSOLIDATED INTERIM FINANCIAL REPORT
FOR THE HALF YEAR ENDED 28 DECEMBER 2014

	28-Dec-14 \$	29-Jun-14 \$
NOTE 11: PROPERTY, PLANT AND EQUIPMENT		
Land and buildings	73,429,165	83,099,695
Assets under construction	30,811,989	13,007,924
Plant and equipment	70,054,280	63,607,518
Leased plant and equipment	47,627	136,831
Leasehold Improvements	5,642,783	5,349,636
Total property, plant and equipment	<u>179,985,844</u>	<u>165,201,604</u>

Additions of property, plant and equipment for the half-year ended 28 December 2014 amounted to \$35,132,344.

As at 28 December 2014, the Group has capital commitments amounting to \$41,682,831 in relation to the purchase of property, plant and equipment, which are contracted but not provided for.

NOTE 12: INTANGIBLE ASSETS

Goodwill at cost	131,309,002	138,258,029
Capitalised software costs	6,235,949	5,622,476
Brandnames at cost	1,730,000	1,730,000
Lease premiums	1,022,014	1,022,014
Water rights at cost	3,176,000	3,176,000
Total intangible assets	<u>143,472,965</u>	<u>149,808,519</u>

NOTE 13: INCOME TAXES

Deferred tax assets	<u>5,909,216</u>	<u>4,617,649</u>
Current tax payable	<u>167,935</u>	<u>2,100,581</u>
Income tax benefit / (expense)	(a) <u>1,372,707</u>	<u>(5,411,630)</u>

(a) Effective tax rate

The effective tax rate has decreased substantially due in part to an overprovision of income tax in prior years which principally relates to Research and Development ("R&D") tax credits of \$1.8 million for FY13 and FY14. These were not allowed for at 29 June 2014 as the scope of the R&D claim had not been finalised. The decline can also be attributed to \$2.1 million in non-deductible goodwill impairment losses.

NOTE 14: PAYABLES

CURRENT

Unsecured liabilities

Trade creditors	34,132,148	35,326,789
Sundry creditors and accruals	36,030,169	36,800,936
	<u>70,162,317</u>	<u>72,127,725</u>

NOTE 15: BORROWINGS AND REDEEMABLE CONVERTIBLE PREFERENCE SHARES

CURRENT

Secured liabilities

Bank loans	2,883,628	
Hire purchase liability	3,780	6,439
	<u>2,887,408</u>	<u>6,439</u>

NON CURRENT

Secured liabilities

Bank loans	215,945,379	209,770,819
Redeemable convertible preference shares	1,077,448	1,036,000
	<u>217,022,827</u>	<u>210,806,819</u>

COSTA GROUP HOLDINGS PTY LTD AND CONTROLLED ENTITIES
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NOTES TO THE CONSOLIDATED INTERIM FINANCIAL REPORT
FOR THE HALF YEAR ENDED 28 DECEMBER 2014

NOTE 15: BORROWINGS (CONTINUED)

(a) Terms and conditions and assets pledging as security relating to the above financial instruments

- 1) Secured lease and hire purchase liabilities are secured by a charge over the assets.
- 2) Details of the key terms and conditions of the bank facilities are as follows:
 - The term of the bank facility is five years from 30 April 2014.
 - Lending covenants include Interest Cover Ratio, Total Gearing Ratio, Debt Service Cover Ratio and maximum limit for capital expenditure incurred in a 12 month period.
 - A requirement to hold interest rate swap facilities to fix interest rates on a minimum of 75% of drawn-down debt (Facility A and B) at each reporting period until 30 April 2017 and 50% for the remainder of the facility. Total bank facilities with interest rate swaps at 28 December 2014 is \$165,000,000.
- 3) The facility stipulates minimum loan repayments in each financial year, with a minimum debt repayment of \$5 million for the period ending 27 December 2015.
- 4) The bank facilities are secured by cross deeds of covenant between mortgage debentures over all assets of Costa Group Holdings Pty Ltd and its subsidiaries.

(b) Redeemable convertible preference shares

Redeemable convertible preference shares are subject to the conditions described below:

- Redeemable convertible preference shares do not entitle the holder to vote at a general meeting of the company. Voting rights on conversion to ordinary shares are restricted until an insolvency event occurs.
- Redeemable convertible preference shares allow the holder to receive cumulate fixed dividends, where the fixed dividend rate is 8.0% per annum, accruing daily and compounding quarterly. They are also entitled to non-fixed dividends that rank equally with Ordinary shares with reference to the equivalent dividends declared with respect to ordinary shares.
- Payment of any dividend is subject to the Directors declaring or resolving to pay a dividend, so long as the payment does not breach the Corporations Act provision, the payment is permitted by the Group Finance Facilities and the company is not insolvent immediately before or after the payment.
- The convertible preference shares rank junior to all secured and unsecured debt of the Company but have priority over ordinary shares.

Redemption terms are as follows:

Prior to the maturity date, a holder of redeemable convertible preference shares ("CPS50") may elect for the Group to redeem some or all of its CPS50 by providing notice to the Group where an exit event is reasonably anticipated. On and from the redemption date, all rights and restrictions attaching to the CPS50 redeemed will no longer have effect, upon payment in full of the redemption amount. The redemption amount for each CPS50 is the sum of:

- (a) the greater of the outstanding amount for that CPS50 and the notional conversion amount for that CPS50 as at the redemption date; and
- (b) the unpaid dividend amount for that CPS50, as at (and excluding) the redemption date.

Conversion terms are as follows:

A holder of CPS50 may convert any of its CPS50 ordinary shares at any time, including on an exit event or insolvency event, or maturity by providing notice to the Group at least 5 business days before the conversion date. Upon conversion, each CPS50 will automatically cease to have the rights attaching to a CPS50 and will have the rights and entitlements of an ordinary share of the relevant class for that holder. CPS50 ordinary shares will be converted at a 1:1 ratio with the Group's ordinary shares.

	28-Dec-14 \$	29-Jun-14 \$
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NOTE 16: DERIVATIVE FINANCIAL LIABILITIES

CURRENT

Forward foreign currency contracts	24,790	315,089
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NON CURRENT

Interest rate swaps	3,671,638	3,220,239
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Measurement of fair values

The fair value of the financial assets and financial liabilities is the amount at which the asset could be sold or the liability transferred in a current transaction between market participants, other than in a forced or liquidation sale. The financial liabilities above and the interest rate swap option disclosed in Note 8 are the only financial assets and liabilities of the Group that are measured at fair value. The carrying amounts of financial assets and financial liabilities not measured at fair value are a reasonable approximation of fair value.

Fair value hierarchy

When measuring the fair values of financial assets and financial liabilities, the Group uses market observable data for identical assets or liabilities, which are Level 2 with reference to the AASB 13 fair value hierarchy.

NOTE 17: PROVISIONS

CURRENT

Employee benefits	12,119,477	10,840,434
Restructuring and other	125,508	2,076,500
	12,244,985	12,916,934

NON CURRENT

Employee benefits	(a) 3,532,888	4,963,815
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(a) Aggregate employee benefits liability

These consist of provisions for annual leave and long service leave.

(b) Restructuring and other

During the prior period, a provision of \$2,076,500 was made to cover the costs associated with the closure of various sites within the entity. Estimated restructuring costs mainly include employee termination benefits.

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	28-Dec-14 \$	29-Jun-14 \$
NOTE 18: SHARE CAPITAL		
Issued and paid-up capital	194,600,012	194,600,012
194,600,012 \$1 ordinary shares	43,964,000	43,964,000
Redeemable convertible preference shares	<u>238,564,012</u>	<u>238,564,012</u>

NOTE 19: ACCUMULATED LOSSES		
Accumulated losses at beginning of year	(47,198,673)	(49,914,861)
Forgiveness of debt	-	4,606,027
Loss for the half year	<u>(5,799,340)</u>	<u>(1,889,839)</u>
	<u>(52,998,013)</u>	<u>(47,198,673)</u>

NOTE 20: CAPITAL AND LEASING COMMITMENTS

There has been no significant changes in commitments since the most recent annual financial report.

NOTE 21: CONTINGENT LIABILITIES

There has been no significant changes in contingent liabilities since the most recent annual financial report apart from an additional guarantee given by the Group (solely in its capacity as partner in the Driscoll's Australia Partnership) with its liability limited to \$1.03m.

NOTE 22: EVENTS SUBSEQUENT TO REPORTING DATE

(a) Grape Farm Closures

In January 2015, management decided to exit the Menindee, NSW and St. George, Western Queensland grape farms. Property, plant and equipment, intangibles and biological assets attributed to these sites have been impaired or transferred to other sites of the business. (Refer to note 4 for further detail.)

(b) Costa state of affairs

In the second half of Financial year 2015, the Directors engaged Goldman Sachs and UBS to investigate options for the future direction of the Company. As at reporting date, no decision has been made and no changes to the state of affairs has taken place.

There has been no other matter or circumstance, which has arisen since 28 December 2014 that has significantly affected or may significantly affect:

- (a) the operations, in financial periods subsequent to 28 December 2014, of the Group, or
- (b) the results of those operations, or
- (c) the state of affairs, in financial periods subsequent to 28 December 2014, of the Group.

	28-Dec-14 \$	29-Jun-14 \$
NOTE 23: ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE		
(a) Carrying amounts of assets classified as held for sale		
Water licences	722,500	4,203,700
Property, plant and equipment	<u>1,926,000</u>	<u>-</u>
	<u>2,648,500</u>	<u>4,203,700</u>

NOTE 24: RESERVES

Share-based payments reserve	<u>724,680</u>	<u>448,703</u>
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The share-based payments reserve is used to record the fair value of shares or equity settled share-based payment options issued to employees and directors.

NOTE 25: EQUITY ACCOUNTED INVESTMENTS

		28-Dec-14 Ownership Interest %	29-Jun-14 Ownership Interest \$	28-Dec-14 \$	29-Jun-14 \$
Associate					
Africa Blue SARL	Ordinary shares	49	49	6,105,760	9,414,758
Polar Fresh Partnership	Ordinary shares	50	50	8,123,549	8,288,372
Joint Venture					
Driscolls Australia Partnership	Ordinary shares	50	50	<u>6,573,728</u>	<u>6,468,236</u>
				<u>20,803,037</u>	<u>24,171,366</u>

NOTE 26: RELATED PARTY TRANSACTIONS

There has been no significant changes to the nature of the related party transactions of the Group since the end of the previous financial year ended 29 June 2014.

COSTA GROUP HOLDINGS PTY LTD AND CONTROLLED ENTITIES
ABN 68 151 363 129

DIRECTORS' DECLARATION

The Directors of the Company declare that:

1. The consolidated interim financial report and notes, as set out on pages 5 - 23
 - presents fairly the financial position of the consolidated entity as at 28 December 2014 and its performance for the 6 month period ended on that date.
 - complies with AASB 134 *Interim Financial Reporting*
2. In the Directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.

Director:



Mr Harry Debney

Director:



Mr Robert Costa

Dated this 14 day of May 2015.



Independent auditor's review report to the members of Costa Group Holdings Pty Ltd

We have reviewed the accompanying consolidated interim financial report of Costa Group Holdings Pty Ltd ("the Company") which comprises the statement of financial position as at 28 December 2014 and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month interim period ended on that date, notes 1 to 26 comprising a summary of significant accounting policies and other explanatory information, and the Directors' declaration of the Group comprising the Company and the entities it controlled at the period's end or from time to time during the period.

Directors' Responsibility for the Consolidated Interim Financial Report

The Directors of the Company are responsible for the preparation and fair presentation of the consolidated interim financial report in accordance with AASB 134 *Interim Financial Reporting*. The Directors' responsibility also includes such internal control as the Directors determine is necessary to enable the preparation and fair presentation of the consolidated interim financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the consolidated interim financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the interim financial report is not presented fairly, in all material respects, in accordance with AASB 134 *Interim Financial Reporting* so as to present a view which is consistent with our understanding of the Company's financial position, and of its performance and cash flows. As the auditor of the Company, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of the consolidated interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the Accounting Professional and Ethical Standards Board.



Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that causes us to believe that the consolidated interim financial report of Costa Group Holdings Pty Ltd does not present fairly, in all material respects, the financial position of the Group as at 28 December 2014 and of its financial performance and its cash flows for the six month interim period ended on that date, in accordance with AASB 134 *Interim Financial Reporting*.

KPMG
KPMG

A handwritten signature in black ink, appearing to read 'Paul J McDonald'.

Paul J McDonald

Partner

Melbourne

14 May 2015