Ministry for Primary Industries
Manatū Ahu Matua

Kiwifruit Export Information Disclosure Handbook

Third Edition

Handbook for Complying with the Information Disclosure requirements of the Kiwifruit Export Regulations 1999

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1 Introduction

The Kiwifruit Export Information Disclosure Handbook 2018 (the Handbook) has been prepared in accordance with the powers provided in regulation 13 of the Kiwifruit Export Regulations 1999 (the Regulations). The Handbook replaces the Kiwifruit Export Information Disclosure Handbook published in May 2004. (It should be noted that the Handbook does not employ all of the empowering provisions in regulation 13.)

1.1 PURPOSE OF THE INFORMATION DISCLOSURE REQUIREMENTS

The Handbook contains rules for the financial separation of Zespri Group Limited's (ZGL's) "core" and "other" business. The purpose of these rules is to ensure public transparency of ZGL's business activities in accordance with Part 3 of the Regulations.

1.2 SUMMARY OF THIS HANDBOOK

The Handbook comprises the following mandatory requirements:

1.2.1 Methodology for Preparing Separate Financial Statements: Chapter 2 sets out the "avoidable cost" allocation methodology (ACAM) for allocation of expenses, revenues, assets and liabilities between the ZGL's "core" and "other" business. The items required to be separately disclosed in the financial statements are also set out in that Chapter.

1.2.2 Table 1: Specific Allocations & Disclosures in Chapter 2 sets out the specific allocation and disclosure requirements for ZGL.

1.2.3 Disclosure of Transfer Payments: Chapter 3 sets out the disclosure requirements for transactions between ZGL's "core" and "other" business.

1.3 EMPOWERING PROVISIONS OF THE KIWIFRUIT EXPORT REGULATIONS 1999

Regulation 12 Financial statement disclosure

1.3.1 Within 4 months after the end of each financial year (beginning with the 2000/01 financial year), ZGL must publicly disclose financial statements for that financial year in respect of each of the business activities defined in the Handbook.

1.3.2 Those financial statements must:

(a) be prepared in accordance with generally accepted accounting practice and the allocation methodology in the Handbook; and

(b) disclose the information specified in the Handbook.

2 Business Accounting Separation and Allocation Methodology

2.1 INFORMATION DISCLOSURE REQUIREMENTS OF THE REGULATIONS

2.1.1 In accordance with regulations 12 and 13 of the Regulations, ZGL must provide separate audited financial statements for its “core” and “other” business. These business categories are defined as follows:

2.1.1.1 “core business”

- means the purchase of New Zealand-grown kiwifruit for export where the point of acquisition of title to fruit is at FOBS and the export of that fruit;
- includes the following activities:
  - the marketing of New Zealand-grown kiwifruit;
  - market development for New Zealand-grown kiwifruit; and
  - research and development relating to kiwifruit; and
- excludes:
  - the export at FOBS of kiwifruit for consumption in Australia; and
  - the sale of kiwifruit in New Zealand;

2.1.1.2 “FOBS” means stowed on board the ship or aircraft on which the kiwifruit is exported; and

2.1.1.3 “other business” consists of any activities not covered by the “core business”, as defined above. For the avoidance of doubt, “other business” includes (but is not limited to) activities that support “core business”, in accordance with regulation 10A, activities captured by the non-diversification rule under regulation 11, and those activities provided for under the transitional provisions in schedule 1.

2.1.2 ZGL must prepare these financial statements on the basis of the business accounting separation and allocation methodology specified in this Chapter.

2.1.3 A table of items (“Mandatory Specific Allocations & Disclosures”) for allocation and disclosure is set out at the end of this Chapter.

2.2 MANDATORY AVOIDABLE COST ALLOCATION METHODOLOGY

2.2.1 The avoidable cost allocation methodology (ACAM) defines the “core” business as the “stand-alone” business and makes an assessment of the expenses, revenues, assets and liabilities (“items”) that would be avoided by ZGL if it did not operate its “incremental” (“other”) business. The components of the items that would not be avoided are allocated to “core” business, and the components that would be avoided are allocated to the “other” business.

Explanatory note: Under ACAM, ZGL is delineated as represented by the following diagram.

“Core” Business	Common Costs	“Other” Business (incremental cost)

2.2.2 It is mandatory for ZGL to apply ACAM in preparing the separate financial statements for its “core” and “other” business. ACAM consists of two mandatory principles:

Principle I

2.2.3 The “core” and “other” business are to be defined in such a way that:

(a) The “core business” is confined to activities required for the operation of ZGL’s export authorisation, along with marketing of New Zealand-grown kiwifruit, market development for New Zealand-grown kiwifruit, and research and development relating to kiwifruit, as set out in the “core business” definition under the Regulations; and

(b) All other activities are provided by the “other” business.

Explanatory *note: Defining the “core” and “other” business in this way may mean they provide each other with goods and services. Transfer payments are to be disclosed for any goods and services between the “core” and the “other” business (refer to Chapter 3).*

Principle II

2.2.4 The expenses, revenues, assets, and liabilities (“items”) are allocated to the “core” and “other” business in such a way that:[1]

(a) Those items (and components of the items) that would not be avoided if ZGL did not operate the “other” business are allocated to the “core” business; and

[1] Conceptually there are two approaches to ACAM: (a) a "bottom-up" approach which asks what would the ZGL’s financial statements look like if it only operated the “core” business; and (b) a "top-down" approach which asks what ZGL’s financial statements would look like if it ceased operating the “other” business (assuming away transitional factors, such as redundancy expenses and down-sizing of fixed assets). With the bracketed assumption in (b), the bottom-up and top-down approaches should provide identical financial statements.

(b) Those items (and components of the items) that would be avoided are allocated to the "other" business.

Explanatory note: Items that are directly attributable to one of the "core" and the "other" business are allocated to that business. Items that are shared by the "core" and "other" business are allocated amongst those businesses, by:

i. Direct allocation of any components of these items which are directly attributable to one of the businesses; and

ii. For any components that are not directly attributable:

- *Assessing the proportions of these components which are avoidable and non-avoidable; and*
- *Allocating these components between the businesses on the basis of those proportions (in a manner consistent with (a) and (b) above).*

2.3 EXEMPTION

2.3.1 If all of the "other" business activities added together equates to less than 5 per cent of the value of both ZGL's "core" business assets and revenues in a particular financial year, then those activities may be accounted for in the "core" business or separately at ZGL's discretion for that financial year. In years where ZGL accounts for its "other" business in its "core" business in accordance with this exemption, ZGL's financial statements must state words to the effect that all of ZGL's other business activities added together accounts for less than 5 percent of both its "core" business assets and revenues, and therefore complies with the exemption from separated accounting under this section of the Handbook.

Explanatory note: Inclusion of "other" activities in these circumstances will have an insignificant impact on ZGL's "core" business financial statements. However, the required statement is to explain the lack of complete comparability between years where the exemption applies and years where it does not apply.

2.4 MANDATORY ALLOCATION OF SPECIFIED ITEMS

2.4.1 The table "Mandatory Specific Allocations & Disclosures" specifies a list of items (which is not exhaustive) to be allocated between the "core" and "other" business. The table is to be interpreted in the following manner:

Rule (i) It is mandatory to allocate the specified items only to the business (or businesses) that has (have) a tick in the relevant column; and

Explanatory note: Where only one column is ticked with respect to a particular item, the item is to be entirely allocated to the business to which the column applies. For these items this requirement will satisfy ACAM.

Rule (ii) It is mandatory to individually disclose all those items in the Table.

2.4.2 ZGL should allocate debt and equity items between the “core” and “other” business using the principles and rules of ACAM. Specifically, the allocation must reflect the commercial reality of that business. ZGL will be expected to apply an allocation basis that is consistent from one year to the next. Any changes in the basis of allocation will require justification and explanation.

2.5 FINANCIAL STATEMENTS

2.5.1 It is mandatory that reporting entities apply the same allocation method, prescribed under ACAM, consistently across the statements of financial performance, financial position, cash flows and movements in equity.

2.6 COMPARATIVES

2.6.1 For the disclosure of prior year figures in relation to the preparation of financial statements ZGL should use those comparatives relating to each business disclosed in the preceding two years’ financial statements, except where previously exempted from disclosing in respect of each business in those preceding years under section 2.3 of the Handbook.

TABLE 1: Mandatory Specific Allocations & Disclosures

ITEM	Allocation	
	Core Business	Other Business
Current assets:		
Bank, cash, short-term investments	√	√
Trade debtors	√	√
Other debtors	√	√
Inventory/stock	√	√
Prepayments	√	√
Total current assets	√	√
Fixed assets:		
Information system assets	√	√
Motor vehicles	√	√
Office equipment	√	√
Land	√	√
Buildings	√	√
Total fixed assets	√	√
Long-term investments (excluding ownership of the “core” business)		√
Total tangible assets	√	√
Goodwill	√	√
Other intangibles	√	√
Total intangible assets	√	√
Total assets	√	√
Current liabilities:		
Accounts payable	√	√
Accrued payroll	√	√
Other accruals	√	√
Dividend provision	√	√
Provisions	√	√
Total current liabilities	√	√
Funding:		
Long-term debt	√	√
Equity	√	√
Total funding	√	√
Total equity and liabilities	√	√
Revenue:		
Revenue from sale of NZ kiwifruit (broken down by main types)	√	√
Revenue from sale of non-NZ kiwifruit (broken down by main types)		√
Revenue from sale of other produce (broken down by main types)		√

Transfer payment from statutory monopsony (excluding transfer payments specified elsewhere)		√
Transfer payment from other (excluding transfer payments specified elsewhere)	√	
Rental income		√
Income from interest on short-term investments	√	√
Income from interest on long-term investments (excluding ownership in the “core” business)		√
Dividend income (excluding ownership in the “core” business)		√
Gain (loss) on investments		√
Any other revenue not listed above that is:		
- directly related to statutory monopsony activities	√	
- not directly related to statutory monopsony activities		√
Total revenue	√	√
<u>Expenditure:</u>		
Payments for purchase of NZ kiwifruit (broken down by main types)	√	√
Payments for purchase of non-NZ kiwifruit (broken down by main types)		√
Payments for purchase of other produce (broken down by main types)		√
Transfer payment(s) from statutory monopsony (excluding transfer payments specified elsewhere)	√	
Transfer payment(s) from other (excluding transfer payments specified elsewhere)		√
Information system expenses	√	√
Depreciation	√	√
Corporate and administration expenses	√	√
Land and building expenses	√	√
Motor vehicle expenses	√	√
Office equipment maintenance expenses	√	√
Human resource expenses (including employees’ salaries and redundancies)	√	√
Marketing/advertising expenses	√	√
Bad debts and collection expenses	√	√
Merger and acquisition expenses	√	√
Research and development expenses	√	√
Consultancy and legal expenses	√	√
Amortised goodwill	√	√
Subvention payments	√	√
Total expenditure	√	√
Earnings before interest and tax	√	√
Interest expense	√	√
Taxation expense	√	√
Net profit after tax	√	√
<u>Other:</u> Financial hedges	√	√

3 Disclosure of Transfer Payments

3.1 In accordance with regulation 13(e), ZGL is required to disclose information relating to transfer payments (both income and expenditure including capital expenditure) made between the “core” and “other” business.

3.2 Disclosure is required of the following information relating to material transactions, both revenue and expenditure including certain capital expenditure, between related parties:

- The identity of each related party involved and the nature of the relationships;
- A detailed description of the good or service provided;
- The quantity and recorded income and expenditure values as appropriate, of the transactions with each related party expressed in dollar terms for each type of good or service;
- The period during which the good or service was supplied;
- The total outstanding balances arising from related party transactions for each related party together with an indication of the terms of settlement for these balances;
- Total debts with each related party that have been written off or forgiven during the financial year; and
- Where transactions take place at nil or nominal value, a brief description of such transactions and the fact that no charge has been made, or if made at nominal value, details of that nominal value.

3.3 If ZGL uses the exemption regarding disclosure of the “other” business within the 5% threshold (section 2.3, Chapter 2) it must eliminate from those financial statements any transfer payments that were made during the financial year so as to reflect that no transfer payments took place. No disclosure of transfer payments would be required.

4 Financial Performance Measures

4.1 In addition to financial statements, each year ZGL must disclose an alternative revenue statement, indicators, and a cause of changes report.

4.2 The alternative revenue statement is to disclose ZGL’s ‘fruit and service payments’ and ‘tax paid profit’ together with the key revenues and expenses that result in these two items.

4.3 The revenues and expenses that result in the fruit and service payments that ZGL must disclose in an alternative revenue statement are:

Revenues	Expenses
Sales of New Zealand derived kiwifruit, other than through collaborative marketers; Sales of New Zealand derived kiwifruit through collaborative marketers; and Other pool income.	Freight; Insurance (onshore, offshore, and crop); Promotion; Duty/Customs; Other direct pool costs – offshore; Other direct pool costs – onshore; and ZGL's margin.

4.4 The revenues and expenses that result in ZGL's tax paid profit that ZGL must disclose in an alternative revenue statement are:

Revenues	Expenses
ZGL's margin, including how ZGL's margin is calculated; Non-New Zealand derived kiwifruit; Other non-pool revenue; and Interest income.	Onshore costs; Offshore costs; and Taxation.

4.5 The indicators that ZGL must disclose each year are:

- The costs of earning the net revenue attributable to the Pools expressed as percentages; and
- 'Equity ratio', 'net tangible assets per share', 'earnings per share', 'net dividend yield' and 'gross dividend yield'.

4.6 For the disclosure of comparisons in relation to the alternative revenue statement and the indicators, the following rules should be observed:

- First time disclosures in accordance with this section of the Handbook may, at ZGL's discretion, contain no previous year's alternative revenue statement or indicators; and
- Second time disclosures in accordance with this section of the Handbook must contain the previous year's alternative revenue statement and indicators as comparisons; and
- Thereafter, disclosures in accordance with this section of the Handbook must contain the previous two years' alternative revenue statement and indicators as comparisons.

4.7 The cause of change report that ZGL must disclose each year must show the causes of changes in its total annual return (i.e. the sum of fruit and service payments made by ZGL and ZGL's profit). This report should show the impacts on ZGL's total annual return from year to year caused by changes in volume, price, reallocation of fruit to better returning markets, foreign exchange, other income movements, other cost movements, and change in tax expense.