

Kiwifruit Export Information Disclosure Handbook

Second Edition

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

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1 Introduction

- 1.1 This Handbook has been prepared in accordance with the powers provided in Regulation 13 of the Kiwifruit Export Regulations 1999. This Handbook replaces the Kiwifruit Information Disclosure Handbook published in November 1999. (It should be noted that this Handbook does not employ all of the empowering provisions in Regulation 13.)

Purpose of the Information Disclosure requirements of the Kiwifruit Export Regulations 1999

- 1.2 This Handbook contains rules for the financial separation of Zespri Group Limited's (ZGL's) core and "other" businesses. The purpose of this requirement is to make transparent the compliance of ZGL with Part III of the Kiwifruit Export Regulations

Summary of this Handbook

- 1.3 This Handbook comprises the following:
- 1.3.1 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" businesses. The items required to be separately disclosed in the financial statements are also set out in that Chapter. These requirements are mandatory.
 - 1.3.2 Table 1: Specific Allocations & Disclosures in Chapter 2 sets out the specific allocation and disclosure requirements for ZGL.
 - 1.3.3 Disclosure of Transfer Payments: Chapter 3 sets out the disclosure requirements for transactions between ZGL's core and "other" businesses. This is a mandatory requirement.

Empowering Provisions of the Kiwifruit Export Regulations 1999

- 1.4 **Regulation 12 Financial statement disclosure**
- (1) Within 4 months after the end of each financial year (beginning with the 2000/2001 financial year), ZGL must publicly disclose financial statements for that financial year in respect of each of the business activities defined in the Handbook.
 - (2) Those financial statements must:
 - (a) be prepared in accordance with the allocation methodology in the Handbook; and
 - (b) disclose the information specified in that Handbook.

1.5 Regulation 13 Kiwifruit Information Disclosure Handbook

The responsible chief executive may from time to time publish a Handbook which may provide for all or any of the following:

- (a) the definition of ZGL's business activities;
- (b) the allocation methodology that must be used for preparing the financial statements and allocating the expenses, revenues, assets and liabilities amongst ZGL's business activities;
- (c) the disclosure of the manner in which the allocation methodology has been applied;
- (d) the information that must be specified in the financial statements disclosed under Regulation 12;
- (e) the disclosure of transfer payments (whether actual or notional) amongst the business activities;
- (f) the disclosure of financial performance measures, or information from which financial performance measures may be derived, or both;
- (g) the form of the disclosures (including requirements as to separate, consolidated, and reconciliation information);
- (h) the audit and certification of disclosed information; and
- (i) the retention of data on which disclosed information is based and associated documentation.

1.6 Regulation 18 Information required to be certified by auditor

- (1) An independent auditor must provide a signed auditor's report with respect to the financial statements required by regulation 12 to be publicly disclosed.
- (2) The auditor must give a qualified audit report if, in the auditor's opinion, the financial statements:
 - (a) fail to comply with these regulations or generally accepted accounting practice; or
 - (b) fail to give a true and fair view on the matters to which they relate (having regard to any information or explanations that may have been added by the directors of ZGL, as the case may be, under section 11 (2) or section 14 (2) of the Financial Reporting Act 1993):

and the qualified audit report must explain the respects in which the statements so fail.

- (3) An independent auditor must certify the financial performance measures specified in the Handbook in accordance with regulation 13 (f).

2 Business Accounting Separation and Allocation Methodology

Information disclosure requirements of the Kiwifruit Export Regulations 1999

- 2.1 In accordance with Regulations 12 and 13(a) of the Kiwifruit Export Regulations 1999, ZGL must provide separate audited financial statements for its “core” and “other” businesses. These business activities are defined as follows:
- “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:
 - (a) excludes the export at FOBS of kiwifruit for consumption in Australia; and
 - (b) excludes the sale of kiwifruit in New Zealand.
 - “FOBS” means stowed on board the ship or aircraft on which the kiwifruit is exported.
 - “other” activities consist of any activities not covered by the core business activities.
- 2.1.1 ZGL must prepare these financial statements on the basis of the business accounting separation and allocation methodology specified in this Chapter.
- 2.1.2 A table of items (“Mandatory Specific Allocations & Disclosures”) for allocation and disclosure is set out at the end of this Chapter.

Mandatory avoidable cost allocation methodology for the Preferred Marketer

- 2.2 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 (incremental cost) | Common Costs | Other Business (incremental cost) |
|--|--------------|---|

- 2.3 It is *mandatory* for ZGL to apply ACAM in preparing the separate financial statements for its statutory monopsony and “other” business. ACAM consists of two mandatory principles:

Principle I

- 2.4 The core and “other” businesses are to be defined in such a way that:

- (a) The core business is confined solely to activities required for operation of ZGL’s export authorisation under Part 2 of the Kiwifruit Export Regulations 1999; and
- (b) All other activities are provided by the “other” businesses.

Explanatory note: Defining the core and “other” businesses 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

- 2.5 The expenses, revenues, assets, and liabilities (“items”) are allocated to the core and “other” businesses 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” businesses are allocated to the core business; and
- (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).*

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.

Exemption

- 2.6 If the “other” business accounts for less than 5 per cent of both ZGL’s core business assets and its revenues in a particular financial year, that business 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 ZGL’s other business 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.

Mandatory allocation of specified items

- 2.7 The table “Mandatory Specific Allocations & Disclosures” specifies a list of items (which is not exhaustive) to be allocated between the core and “other” businesses. 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.

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.

- 2.8 ZGL should allocate debt and equity items between the core and “other” businesses 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.

Financial Statements

- 2.9 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.

Comparatives

- 2.10 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 year’s financial statements, except where previously exempted from disclosing in respect of each business in those preceding years under section 2.6 of this Handbook.

TABLE 1: Mandatory Specific Allocations & Disclosures

| ITEM | ALLOCATIONS | |
|--|---------------|----------------|
| | Core Business | Other Business |
| <u>Current assets:</u> | | |
| Bank, cash, short-term investments | ✓ | ✓ |
| Trade debtors | ✓ | ✓ |
| Other debtors | ✓ | ✓ |
| Inventory/stock | ✓ | ✓ |
| Prepayments | ✓ | ✓ |
| Total current assets | ✓ | ✓ |
| <u>Fixed assets:</u> | | |
| 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 | ✓ | ✓ |
| <u>Current liabilities:</u> | | |
| Accounts payable | ✓ | ✓ |
| Accrued payroll | ✓ | ✓ |
| Other accruals | ✓ | ✓ |
| Dividend provision | ✓ | ✓ |
| Provisions | ✓ | ✓ |
| Total current liabilities | ✓ | ✓ |
| <u>Funding:</u> | | |
| Long-term debt | ✓ | ✓ |
| Equity | ✓ | ✓ |
| Total funding | ✓ | ✓ |
| Total equity and liabilities | ✓ | ✓ |

| | | |
|--|---|---|
| <u>Revenue:</u> | | |
| Revenue from sale of New Zealand kiwifruit (broken down by main types) | ✓ | ✓ |
| Revenue from sale of non-New Zealand 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 New Zealand kiwifruit (broken down by main types) | ✓ | ✓ |
| Payments for purchase of non-New Zealand 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” businesses.
- 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” businesses within the 5% threshold (paragraph 2.6, 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.