PIPFRUIT NEW ZEALAND INCORPORATED

Annual Report 2014

OFFICERS

as at 31 March 2014

Board of Directors

Grower Directors

Andrew Common, Hawkes Bay
Peter Beaven Hawkes Bay
Stephen Anderson, Hawkes Bay
Stephen Darling, Central Otago

Post Harvest Directors

Nadine Tunley, Freshmax NZ Ltd (Chairman)
Andy Borland, Scales Corporation Ltd
Michael (Snow) Hardy, Freshmax NZ Ltd

Senior Management

Chief Executive: Alan Pollard
Technical Manager-Market Access and Regulatory Affairs: Dr Mike Butcher
Technical Manager-Crop Protection: Tim Herman
Business Development Manager: Gary Jones
Finance & Administration Manager: Peter Bull

FOREWORD

It is our pleasure to present the annual report for the year ended 31 March 2014.The report covers the 2013 selling season and the 2013/14 growing season to the start of harvest.

This has been a busy year for Pipfruit NZ. Having launched our strategic plan at the 2013 pipfruit conference in Havelock North, the Board and the Pipfruit NZ team have set about the implementation of our four areas of excellence, five areas of operational efficiencies and eight strategic priorities. Some of those are well advanced, while others are just commencing. This implementation is occurring within the context of also ensuring that normal operational matters continue to be addressed, and any urgent matters that arise are dealt with in an efficient and timely way. This can often add pressure to our small team.

Market access continues to be our priority activity, and of course it is often our greatest risk. The suspension of trade with China in the latter part of last year showed just how vulnerable our markets can be, particularly in Asia. But this issue also showed the value that a fully engaged industry and government can add in a true partnership, and it demonstrated how far we have come in improving our relationship and engagement with MPI and other government agencies.

We are always mindful of the need to ensure a strong level of communication and engagement with industry, but it remains a challenge when growers are so geographically dispersed. The Board and management are currently working on ways to improve engagement and to motivate members to fully engage. We, along with the other Board members and Pipfruit NZ staff, travel to regions as often as we can, and we will continue to give all our members the opportunities to engage directly with us.

During the year Andrew van Workum retired from the Board having served the maximum five consecutive terms. We are very grateful for the huge contribution that Andrew made to the Board and to the industry during this time. Andy Borland, Managing Director of Scales Corporation was elected to the Board. Snow Hardy is retiring at this upcoming AGM and we would like to thank him and acknowledge his contribution to the Board; he will be missed.

Each year we call for nominations for our Board, yet struggle to get sufficient people putting themselves forward. We don't believe this is due to a lack of interest so much as folk feeling they don't want to put themselves forward in the event that they are not successful. To ensure that a good robust election process takes place, and in the interests of the industry, it would be beneficial if members could reconsider their positions on this. Another reason often given for a reluctance to stand for office is a perception that involvement in the Board means becoming immersed in industry politics; this couldn't be further from the truth. The Board is fully focussed on the implementation of the Pipfruit NZ strategic plan, and on taking a broad industry good approach to the discharge of its obligations on behalf of the industry.

We have thoroughly enjoyed our roles this past 12 months and it is a privilege to serve the industry. We have achieved a lot this past year, but there remains much to do. The Board and team at Pipfruit NZ will continue to work hard to achieve what must be our ultimate aim - increasing and sustaining the long term returns for our growers.

ANNUAL REPORT

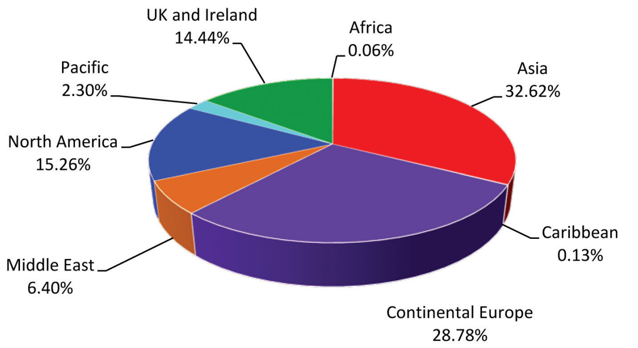
We are pleased to be able to report on the year ended 31 March 2014.

The 2013/14 season has again been a good one. In our view this is not due to any one variable, but is the culmination of years of sound investment by the industry, good decisions around research and varieties, and obliging weather conditions throughout the season.

NATIONAL EXPORT PRODUCTION (TONNES) BY REGION AND VARIETY 2013

Variety	Hawke's Bay	Nelson	Otago	Rest of NZ	TOTAL	% Mix
Braeburn	38,753	24,784	1,373	2,610	67,520	20.8%
Cox	82	4,109	911	105	5,207	1.6%
Cripps Pink	10,397	6,990		1,098	18,485	5.7%
Fuji	23,463	4,363	1,046	654	29,526	9.1%
Granny Smith	6,603	1,088	416	453	8,560	2.6%
Jazz™	14,989	19,268	1,187	133	35,577	11.0%
Pacific Beauty™	2,628	50		114	2,792	0.9%
Pacific Queen™	9,426	138	285	220	10,069	3.1%
Pacific Rose™	7,809	180	330	391	8,710	2.7%
Royal Gala	81,912	22,343	2,782	4,374	111,411	34.3%
Other Apples	7,511	11,266	2,435	897	22,109	6.8%
Pears	1,217	3,339	11	153	4,720	1.5%
Total	204,790	97,918	10,776	11,202	324,686	

EXPORT PRODUCTION BY DESTINATION REGION 2013



RESEARCH PROGRAMME

Investment: approximately $1,670,000 was invested in the 2013-14 year. This included contributory funding, technology transfer and related salaries and administration costs.

Industry funding and in-kind effort was leveraged for $575,700 of funding from the Sustainable Farming Fund, Ministry for Science and Innovation. We have seen increasing international emphasis being placed on food safety and PNZI has commenced greater clarification of the efforts made in New Zealand.

SOME KEY PROJECTS:

- Market access is one of PNZI's strategic priorities and a significant level of funding continues to be invested to resolve phytosanitary issues both on-orchard and post-harvest ($539,000). The markets we export to, continue to tighten entry criteria and we continue to respond by conducting research on-orchard to develop systems-based management programmes. The first season of the European canker Sustainable Farming Fund (SFF) project was successful in advancing our scientific understanding of the pathogen. We are using this knowledge to work at removing this disease from our orchards. The apple leaf-curling midge SFF project ended this season having developed and tested a monitoring programme to enable applications of a selective insecticide to be timed for when it would be most effective. We have made significant advances towards an integrated programme to control this insect pest. Mastrus ridens, a parasitoid of codling moth, was successfully released at 11 sites in 3 regions. Recoveries from sentinel codling moth larvae at 8 sites provides optimism that it will establish.
- Disinfesting pipfruit of quarantine organisms (pest and non-pest invertebrates and diseases) is a key plank of our efforts to meet the phytosanitary requirements of our export markets ($285,000).
- Black Spot fungicide resistance studies continued this season ($105,000) and have shown that there are significant but variable levels of resistance to individual DMI fungicides, national resistance to strobilurins and regional differences in the levels of resistance to AP fungicides. The on-going support of the agrichemical companies underlines their good product stewardship.
- Our investment in organic production ($157,000) continued through existing research projects into the management of Elsinoe piri and bronze beetle as well as a review of the performance of sprayers used in organic orchards.

Integrated Fruit Production Programme

Documents for the Integrated Fruit Production (IFP) programme were updated after a review of the previous season's performance and associated research projects. Updated documents were published to the secure section of the PNZI website. The web-based database of international market MRL and PHI requirements was successfully launched this year and has completely replaced the old wall charts.

PIPFRUIT NZ STRATEGIC PRIORITIES

During 2013 Pipfruit NZ released its strategic plan, identifying eight key strategic priorities on which the organisation will focus its efforts and investment. Implementation of these priorities began in the year subject to this report, and continues beyond balance date.

1. Market Access-General

Market access is very clearly our number one priority. Our aim is to ensure that New Zealand has the highest quality commercially viable market access of any exporting country.

There were two significant developments with respect to market access during the year.

The first is as an agreement between Pipfruit NZ and the Ministry for Primary Industries (MPI) to implement a strategic market access partnership –what we have called market access framework. This has involved the formation of a governance group comprising three industry representatives (Nadine Tunley, Chair, Andy Borland Director, and Alan Pollard, CEO) and three senior MPI representatives. The role of this governance group is to establish and agree priority markets, determine the work plan in each market, allocate resources (people and finance), and manage an accountability process to ensure that expected outcomes are achieved. We are confident that we will achieve better market access outcomes as a result of this new framework.

The second development is the creation by the Pipfruit NZ team of a market prioritisation model. Clearly as an industry we have limited resources available to spread across our export markets. The prioritisation model requires us to make an assessment for each market on the positive attributes (growth opportunities, opportunities to maximise returns, New Zealand's reputation for example) against negative attributes (for example compliance costs, political challenges, phytosanitary issues) resulting in a score. Which markets we invest in is determined by the relativity of each score for each market.

One of our commitments in our strategic plan is to ensure greater transparency and clarity in our decision making, and this model enables us to demonstrate to our industry why certain markets have been prioritised over others.

Market Access Investment: Approximately $114,000

In addition to the sum indicated above expended by PNZI, exporters pay an additional $560,000 that are direct fees for the operation of the Apples to Australia, Taiwan, Japan, China and USDA programmes. These exporter fees cover the directly incurred costs of MPI and IVA involvement in the programme.

As explained elsewhere PNZI management developed a Market Prioritisation model that has enabled PNZI to identify markets where priority expenditure will bring a substantial return to the sector within and beyond a 10 year time frame. These markets are:

Non-Asian Markets

Australia:

For MPI to sign off on the outcome of the WTO case, industry needs to be able to say that meaningful access has been obtained. At this time PNZI cannot commit to this as clearly, meaningful access to Australia has not been achieved. The protocol is complicated with excessive phytosanitary inspection. PNZI is in discussion with MPI to remove or reduce some of the burden imposed by MPI's additional inspection requirements.

Russia:

Apple trade with Russia has increased steadily over the last five years. The lack of Russian recognition of New Zealand food safety systems remains a concern and this is largely due to the NZ meat industry not agreeing to the requirements – the plants sector has no issues with what is required. However MPI is reluctant to negotiate an agreement specifically for plant products, preferring to take a New Zealand Inc. approach.

United Arab Emirates:

The Middle East region is a growing market, largely into the UAE with Chile and South Africa dominating in Saudi Arabia. Apart from a few companies specialising in the region it appears little is understood by the sector, but it is a market with high GDP that demands high quality so a significant opportunity awaits.

United Kingdom / European Union:

This remains the sector's largest individual market. The impact and influence of commercial standards above regulatory requirements is unfortunate but a 'part of doing business' with this market. Achievement is only possible because phytosanitary concerns are minimal – many of our pests and diseases originated in this region. There is significant competition from other southern hemisphere producers and it is unlikely New Zealand's market share can grow significantly.

North America

NAM remains a significant market for New Zealand, with a US specific variety now resulting in extensive development opportunity in the South Island.

The market is stable with a major requirement for a pre-clearance programme. This is expensive for the sector to maintain and options are being discussed with USDA and MPI. To this end PNZI has developed a central database for USDA pre-clearance and is trialling it in the 2014 export season. It is expected all pre-clearance participants will work through the database in 2015 to assist building USDA confidence in the system.

2. Market Access-Asia

In the 2012/13 export year, Asia (collectively) became our largest export destination.

There has been an inevitable shift from West to East. Our traditional markets of Europe, the United Kingdom, and the United States, while continuing to be very important to us, have suffered considerably in the Global Financial Crisis. Stagnating population growth and declining fresh produce consumption means that we are unlikely to see significant growth in these markets.

Asia on the other hand has emerged from the Global Financial Crisis well. Huge markets such as India and China are experiencing significant economic and population growth. The massive shift from low to middle class introduces a large number of consumers with significant disposable income. They are discerning consumers who want fresh, high quality, tasty and safe fruit. New Zealand is best placed to meet these emerging expectations.

Asia introduces new challenges for exporters. Culturally, doing business in Asia is very different than with the West. We must adapt our practices and expectations to meet this challenge. Phytosanitary issues (with political undertones) dominate the market access space.

Pipfruit NZ is working hard to help growers and exporters better prepare for doing business in Asia.

China:

The China market developed very rapidly over the 2011-12 and 2012-13 seasons with a big move away from Hong Kong based exports (halved in 2012-13) in favour of direct entry to mainland China.

The issue of a post-harvest rot being detected in apples from New Zealand by China's CIQ following its detection in fruit exported to China by Chile caused a voluntary closure of the market by the sector. MPI, MFAT, NZT&E and PNZI collectively worked to re-instate exports and have pragmatic steps put in place to ensure trade could continue.

PNZI hosted a group of Exporters to the China Fruit and Vegetable Trade Show in Beijing in November 2013 to maintain a presence for NZ apples in the market and also to enable PNZI through the New Zealand Embassy, to meet with the Director, AQSIQ and the Deputy Director, CIQ (the Chinese Inspection Service). A follow up meeting was held between MPI, PNZI and the embassy in February 2014 that ensured reinstatement of access.

India:

The NZ Government continues to negotiate a Free Trade Agreement with India. Apple trade with India has increased substantially over the last 5 years. PNZI is working with MFAT to ensure a favourable outcome. The issue of the 50% tariff, confusing new labelling requirements and the regulation requiring fumigation of all apples exported to India are key points to be resolved. As yet India has not implemented the fumigation requirement. Discussions between MPI and their Indian counterparts indicate the meeting PNZI had with the Director of the Indian Department of Agriculture was very well received and is remembered. The impact of a change of government in the recent Indian election remains to be understood.

Indonesia:

The preferential port access granted by Indonesia following recognition of NZ food safety systems has continued to maintain this market for New Zealand apple growers. The Food Safety recognition agreement is to be reviewed in 2014 and with this the continuation of preferential port access.

This market has high potential that appears to be impacted by over-regulation creating additional (cost) burdens on packers and exporters; it does however, remain an important, relatively close market.

Japan:

Japan is seen as an important and developing premium market. The continued reliance by Japan MAFF-PPD on fumigation as their phytosanitary safety line is disappointing and it is hoped that efforts relating to Japan-MAFF acceptance of a systems approach to phytosanitary management can be encouraged. There is significant opportunity in this market for premium product and further business development is warranted. Cost of entry to this market remains high.

Japan is one of the countries negotiating the Trans Pacific Partnership and trade in apples is part of those discussions.

PNZI with Crasborn Group hosted a visit by the Aomori Apple Growers Association early in 2014 which resulted in a reciprocal offer to host New Zealand growers being issued. PNZI hope to be able to undertake this with some growers to foster good relationships and assist the adoption of systems approaches.

Republic of Korea (South Korea):

The Korean government has commenced an Import Risk Assessment of NZ apples. New Zealand is also negotiating a Free Trade Agreement (FTA) with the Republic of Korea. Unfortunately, Korea insist on keeping the two matters separate and will not include apples in the FTA discussions. PNZI is disappointed and is seeking to have this put back on the agenda.

We have been advised access negotiations are likely to take time.

Taiwan:

The sector has a long history of trade with Taiwan and a programme that is now well embedded in industry organisations. The somewhat fluid nature of the (largely) Taipei market and competition with Chile in particular means volumes into this market vary annually but it remains the main market for Fuji and its sports. The removal of the 20% tariff provides a great opportunity for further market development in Taiwan and PNZI is in discussion with NZT&E to help with this.

Thailand:

The Thai market is currently our largest single Asian market. We have an opportunity to develop the market further and cement market share especially with currently an almost exclusive southern hemisphere access profile. The Thai regulators have reviewed the import risk for NZ apples recently and will be auditing the sector in May 2014.

3. Improved Relationships with MPI, MFAT, and Hort NZ

Considerable progress has been made improving these relationships. We have already mentioned our relationship with MPI and we are heartened by the effort and commitment from both industry and MPI to improve outcomes for both of us.

Similarly, we have improved the extent of engagement with MFAT. Pipfruit NZ is involved in briefing negotiators to better inform the negotiations that take place with Free Trade Agreement negotiations. The team regularly briefs High Commissioners and other trade representatives on what is happening in our industry and what our plans are for each priority market.

Our relationship with Horticulture NZ has improved, but there is much to do. Nadine and I have been working with Julian Raine and Peter Silcock to ensure that we work together in the best interests of our growers and that we remove duplication that has historically resulted in a less than coordinated approach. We have worked together on such issues as biosecurity, resource management, seasonal labour and industry capability development.

4. Defining and telling the Apple story.

We are mindful that at balance date there is very little tangible output to support this strategic priority. Consultancy contracts to help develop the story have been let in mid-2014.

However in every presentation that our team give we focus on the attributes of the apple story to support international competitive advantage and differentiation, industry success and attractiveness and the huge contribution that our industry makes to provincial New Zealand's economic well being.

5. Grow and improve the way Pipfruit NZ generate and provides information to industry.

To implement this strategic priority we have initially focussed on trying to improve communication and engagement with industry. This has so far been via Pipfruit Newz and weekly emails, and by regional meetings. But we are aware that much more is needed.

In mid-2014 a consultancy contract has been awarded to completely review our information assets, how they are stored and how they are disseminated to our industry. This project includes reviewing our website offering, how we get real time information to orchards, and what gaps there may be in the information we provide.

This is a very big project, but will move our thinking from information management to knowledge management.

6. Recognised Seasonal Employer (RSE) scheme

There is no doubt that the RSE scheme has been one of the factors that has transformed our industry. But it is constantly challenged by government officials responsible for managing New Zealand's unemployed.

The reality is that employers in our industry are highly responsible, employing New Zealanders first and providing them with training and support that we hope will lead to a career in the industry. We complement this with RSE workers who will do the work that many of the available New Zealanders cannot or will not do.

We are continually endeavouring to engage with MSD to get more New Zealanders into work, but can only do so on a level playing field and in a true partnership.

For our industry to have any chance of meeting the Governments Growth agenda, as well as our own, we need to continue to work on securing the future of this vitally important scheme. You can be assured the team treats this with the utmost priority.

Gary Jones chairs the Hawkes Bay Regional Labour Governance Group, and in doing so is actively engaged with key officials and industry to ensure that sensible outcomes are achieved.

7. Attract, grow and retain talent

Providing for succession and attracting and retaining talent in the industry is very important if we are to achieve our long term goals.

The apple story is designed on the one hand to promote the industry as a viable career opportunity. On the other we need to ensure that secondary schools and tertiary educators are producing graduates with the skills and competencies that our industry will need.

Pipfruit NZ has formed an Industry Partnership Group under the Primary Industry Training Organisation (Prito), chaired by Gary Jones. The group comprises members from across our growing regions, and will ensure that industry training is focused on delivering the courses and the outcomes that our industry needs.

In addition Gary is leading an initiative to provide schools and tertiary education providers with the resources they need to prepare students for a career in our industry. This will complement the excellent work that industry organisations already do with schools.

8. Access to new varieties

The review of Prevar that we commissioned in 2013 was completed prior to balance date.

We appreciate that Prevar has been a contentious issue for the industry for a long time. Opinions were divided on what the fate of Prevar should be. In the end our assessment and advice concluded that it was too risky to contemplate an exit from Prevar at this time.

We have agreed with the other shareholders (APAL and PFR) that shareholder contributions will reduce from $1,150,000 per annum to $900,000 per annum for the next 3 years (previous funding cycles have been 5 years).In addition we have expressed our expectation that both Prevar and PFR will demonstrate improved commercial rigour, greater transparency, greater accountability and improved communication.

Growers told us that they favour a domestic based breeding programme offering preferential benefits for New Zealand growers. As long as that is Prevar we need to ensure that our expectations as a 45% shareholder are met.

We are currently reviewing our PNZ director representation and are optimistic the industry will engage and support this process.

PIPFRUIT NZ OPERATIONAL MATTERS

Office

Pipfruit NZ's offices are located at 507 Eastbourne Street West, Hastings. During the year the society took over the lease for a small amount of space adjacent to the main office.

Prevar leases an office within the premises, and Pipfruit NZ provides services to Prevar in return for a fee for service.

During the year a single office was leased to Freshco for a period of 5 years. At balance date the former premises owned and occupied by Pipfruit NZ remained unsold. Engineering reports have confirmed that the building is so far below earthquake code that it cannot be cost effectively saved. This means the best we can expect on sale is land value.

Society Governance

The Pipfruit NZ Board comprises four grower directors and three post-harvest directors.

The annual general meeting in August 2013 approved the creation of an independent director position. At balance date the Board had elected not to make an appointment to this position.

The Board elected at the 2013 Annual General Meeting was:

Nadine Tunley, Post- Harvest, Nelson (Chairman)
Stephen Anderson, Grower, Hawkes Bay
Peter Beaven, Grower, Hawkes Bay
Andy Borland, Post-Harvest, Christchurch
Andrew Common, Grower, Hawkes Bay
Stephen Darling, Grower, Central Otago
Michael (Snow) Hardy, Post-Harvest, Auckland.

Industry committees

The board delegates some industry responsibilities to three committees.

1. Research Consultative Group

The Research Consultative Group (RCG) is constituted under our rules and is responsible for reviewing the relevance of research proposed and undertaken on behalf of members. RCG reports to the Board via the Technical Manager – Crop Protection.

The RCG meet annually to review research funded during the previous season and determine research priorities for the coming season. The 2013-14 RCG comprised: David Easton, Wayne Hall, Richard Hill, Stella McLeod, and Heidi Stiefel.

PNZI representatives: Dr. Mike Butcher, Tim Herman (Chair), Gary Jones

PNZ Board Representative: Stephen Anderson

Both Richard Hill and Dr Mike Butcher retired from the RCG during the year and were replaced by Stella McLeod and Tim Herman, respectively. Stephen Anderson, a member of the PNZI Board was appointed to the RCG to help facilitate the implementation of Board strategies.

Richard Hill and Dr Mike Butcher have been key members of the RCG since deregulation in 2001 and we would like to acknowledge the huge effort that they have put into the RCG over these years.

2. Market Panel

Exporters continue to share export information in order to make informed export decisions. This group represents a majority of all Pipfruit exports from New Zealand.

3. Market access Committee

Once again the sector has been served well by the Market Access Committee elected at the Market Access Group AGM in November.

The current Committee members are:

Duncan Park, Turners & Growers; Hans Doevendans, Qmac Systems/Crasborn's; Simon Thursfield, Apollo Apples; Pernell Hartley, Mr Apple (resigned March 2014).

With the Market Access focus of the PNZI strategy released August 2013 it is likely this group will need to be expanded with some specific additional expertise needing to be incorporated.

Communication

Pipfruit Newz, along with the Society's website, www.pipfruitnz.co.nz, and grower workshops and seminars have been the main communication methods with the industry. Pipfruit Newz is published monthly except for January. The industry also has an annual conference held in early August.

Many workshops, training programmes, technical field days and seminars are held for growers and packers in all major districts to up skill and discuss various topics such as market access programmes, pest and disease management, research and development, seasonal labour and orchard management.

Industry communication is currently under review as part of our strategic priority “grow and improve the way PNZ generates and provides information of value to the industry”.

Finance

The financial result for the year was a surplus of $906,000, after allowing $ $777,000 for PNZ’s net capital contribution to Prevar Limited. Under equity accounting rules, the actual contribution of $1,150,000 is adjusted to recognise Pipfruit New Zealand’s share of the Prevar loss for the corresponding financial year. The carrying value of the Prevar investment was also reduced by a further $140,000.

The operating surplus is slightly more than 2013. Revenue and expenditure are both higher than in 2013. The crop was larger than the previous year resulting in an increase in levy income. The levy rate was reduced to 1 cent per kilo from 1st November 2013 but this will impact more on the income for 2014/15 financial year. Random residue testing income is up on last year as is interest income. The increase in expenditure was mostly on research, domestic/industry liaison and promotion. Administration costs are higher due to fees associated with the strategic plan and the Prevar review.

Members’ equity increased to $5.12m as at 31 March 2014.

At the AGM in August 2013, we discussed that it was not acceptable for PNZI to continue to accumulate significant surpluses. At that meeting, the annual levy rate was reduced from 1.25c per kilo to 1.0c per kilo. However, given that changes in the commodity levy cannot become effective until 1 November in any given year, the full impact of that reduction will not be seen until the 2014/15 financial year.

PNZI has now restructured its budget in accordance with its strategic plan. Significant additional planned investment in research and science, market access and biosecurity means that PNZI is likely to run reasonable budget deficits for the short term, drawing on reserves in the process

The PNZI team and Board are acutely aware of their fiduciary duties to manage the Society’s finances prudently and effectively. This responsibility is greatly supported by PNZI’s strategic plan and the associated budgetary process.

Staff

During the year Dr Mike Butcher advised his intention to retire at the end of 2014. Mike’s role has now been split into two positions.

Tim Herman was appointed to the role of Technical Manager-Crop Protection in late 2013.The position of Technical Manager Market Access remained vacant at balance date, with Mike Butcher filling this position in the interim.

At balance date Pipfruit NZ members of staff were:

Alan Pollard	Chief Executive
Gary Jones	Business Development Manager
Mike Butcher	Technical Manager-Market Access and Regulatory Affairs
Tim Herman	Technical Manager-Crop Protection
Peter Bull	Finance and Administration Manager
Catherine Scott	Operations Coordinator
Christine McRae	Information Coordinator
Jill Morley	Administration

....

Nadine Tunley
Chairman

....

Alan Pollard
Chief Executive

FINANCIAL REPORT
Year ended 31 March 2014

STATEMENT OF FINANCIAL PERFORMANCE

for the year ended 31 March 2014

	Note	2014	2013
Operating revenue	(1)	**$5,340,978**	$4,719,004
Operating expenses	(2)	**($3,485,984)**	($3,119,159)
Operating surplus/(deficit)		**$1,854,994**	**$1,599,845**
Share of deficit/impairment in associate	(7)	($916,714)	($868,348)
Surplus/(deficit) before income tax		**$938,280**	**$731,497**
Income tax (expense)/credit	(3)	($32,309)	($28,637)
Surplus/(deficit) for the year		**$905,971**	**$702,861**

STATEMENT OF MOVEMENTS IN EQUITY

for the year ended 31 March 2014

	2014	2013
Equity at beginning of period	$4,218,560	$3,515,699
Surplus/(deficit) for the period	$905,971	$702,861
Total recognised revenue and expenditure for the period	$905,971	$702,861
Equity at end of period	**$5,124,531**	**$4,218,560**

The Statement of Accounting Policies and the accompanying notes form part of the financial statements

SR

STATEMENT OF FINANCIAL POSITION

as at 31 March 2014

	Note	2014	2013
EQUITY			
Net Equity		**$5,124,531**	**$4,218,560**
This equity is represented by:			
CURRENT ASSETS			
Cash and Deposits	(4)	$3,269,283	$2,201,615
Accounts Receivable		$74,129	$150,644
Accrued Revenue	(5)	$374,392	$306,420
Income Tax Refundable	(3)	$2,013	($1,900)
GST Receivable		$53,323	$35,189
Prepayments	(6)	$42,229	$24,086
Property Intended for Sale	(18)	$120,000	$180,000
Total Current Assets		**$3,935,370**	**$2,896,054**
NON-CURRENT ASSETS			
Contingency Reserve Fund Investment	(4)	$600,000	$600,000
Investment in Prevar Ltd	(7)	$1,461,984	$1,228,698
Fixed Assets	(8)	$89,991	$84,368
Total Non-Current Assets		**$2,151,975**	**$1,913,066**
TOTAL ASSETS		**$6,087,344**	**$4,809,120**
Less			
CURRENT LIABILITIES			
Accounts Payable		$437,318	$300,104
Sundry Creditors and Accruals	(9)	$525,496	$290,456
Total Current Liabilities		**$962,813**	**$590,560**
TOTAL LIABILITIES		**$962,813**	**$590,560**
TOTAL ASSETS LESS TOTAL LIABILITIES		**$5,124,531**	**$4,218,560**

Nadine Tunley, Chairman
25 June 2014

Director
25 June 2014

The Statement of Accounting Policies and the accompanying notes form part of the financial statements

SR

PIPFRUIT NEW ZEALAND INCORPORATED
STATEMENT OF ACCOUNTING POLICIES
for the year ended 31 March 2014

BASIS OF PREPARATION

Reporting Entity

Pipfruit New Zealand Incorporated (PNZI) is an Incorporated Society registered under the Incorporated Societies Act 1908. It is the national body representing the New Zealand pipfruit industry.

These financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice and in accordance with Clause 25 of the Commodity Levies Act 1990.

Reporting Period

The reporting period is the financial year ended 31 March 2014

Measurement Base

The accounting principles recognised as appropriate for the measurement and reporting of financial performance and the financial position on a historical basis are followed by the Society.

PNZI qualifies for differential reporting as it is not publicly accountable and is not large. All differential reporting exemptions have been applied except for FRS-19-Accounting for Goods and Services Tax.

Accounting Policies

The following specific accounting policies that materially affect the measurement of financial performance and the financial position are applied.

Accrued Revenue and Expenses: Financial benefits and obligations that relate to the period ended 31 March but not invoiced at balance date, are recognised as accrued revenue and accrued expenses.

Commodity levies: Income includes levies from Pipfruit sales up to 31 March that are included in commodity levy returns to April 30 each year. Late levy returns filed after 30 April are reported as income in the following year.

Research: The society contracts external firms to undertake research on behalf of the pipfruit industry. These costs are expensed as incurred as there is no direct economic benefit to the society. Invoiced but unpaid research costs are recorded as a payable at balance date. An accrual is made at year end for estimated research work that has been performed but not yet reported on or invoiced at balance date.

Accounts Receivable: Accounts receivable are valued at estimated net realisable value. Bad debts are written off as and when incurred.

Goods and Services Tax: These financial statements have been prepared on a GST exclusive basis except for accounts payable and accounts receivable.

Fixed Assets: Fixed assets are valued at cost less accumulated depreciation.

Straight line rates based on the estimated useful life of the asset have been adopted.
The estimated useful lives of fixed assets are as follows:

Buildings and Fitout	10 to 40 years
Motor Vehicles	4 to 6 years
Computer Equipment	3 to 5 years
Furniture and Fittings	10 to 15 years
Library	20 years
Office Equipment	3 to 5 years
Software Development & Website	4 years

Leased Assets: Payments made under operating leases are recognised in the Statement of Financial Performance. No finance leases are in existence.

Accounting for Associate: Prevar Limited,with the principal activity of development and commercialisation of innovative apple and pear products,falls within the definition of an associate entity under FRS-38, Accounting for Investments in Associates and as a consequence equity accounting has been adopted.

Taxation: PNZI is not liable for income tax relating to members' activities. Income tax is payable on interest revenue and revenue from non-member activities. Provision for taxation is based on the taxable profit and not the accounting profit, with no provision being made for deferred taxation.

SR

PIPFRUIT NEW ZEALAND INCORPORATED
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 March 2014

Changes in Accounting Policies
There have been no changes in accounting policies. All policies have been applied on a consistent basis throughout the period

1	**Operating Revenue**	**2014**	**2013**
	Operating revenue comprises:		
	Commodity Levy (a)	$4,595,032	$4,099,159
	Interest	$126,621	$109,229
	Shared Research	$291,075	$197,080
	Conference/Seminar Sponsorships		$2,009
	Residue Testing	$119,765	$88,601
	Orchard /IFP Registration Fees	$25,110	$31,811
	Post-Harvest & Associate Membership Fees	$33,186	$32,500
	Conference/Seminar Registration Fees	$60,015	$57,848
	Rent & Administration Services	$58,952	$44,000
	Miscellaneous	$31,222	$56,769
		$5,340,978	$4,719,004

(a) Net income from commodity levies of $4,388,860 was received after allowing for commission, collection costs and bad or doubtful debts.Commodity levy income has been applied to advancing various industry interests and the administrative support of PNZI as detailed in (2)

2	**Operating Expenditure**	*Note*	**2014**	**2013**
	Operating expenses comprise:			
	Commodity Levy Collection Fees & Expenses		203,937	$162,756
	New Levy Order			$11,469
	Research Contracts		$1,460,511	$1,202,589
	Technology Transfer		$156,833	$209,591
	Leadership & Training		$18,033	$30,733
	Market Access		$114,234	$114,731
	Domestic/Industry Liaison		$51,063	$35,273
	International Liaison		$63,701	$71,838
	Promotion		$95,350	$55,150
	Consultation & Communication		$46,182	$54,420
	AGM & Conference		$56,122	$56,785
	Executive / Board Expenses		$9,600	$9,550
	Executive / Director Honoraria		$151,302	$151,625
	Administration		$317,692	$246,339
	Salaries/consultants		$634,595	$601,319
	Auditor's Remuneration			
	- Auditing financial statements		$9,382	$8,190
	- Other services		$2,000	$2,000
	Depreciation	(8)	$43,741	$43,546
	Impairment of Assets	(18)	$51,705	$51,255
			$3,485,984	$3,119,159

3	**Income Tax**	**2014**	**2013**
	Taxable Income	$185,976	$159,753
	Less Deductible expenses	($70,585)	($57,477)
	Taxable profit for year	$115,391	$102,276
	Tax payable @ 28%	$32,309	$28,637
	Tax expense as per Statement of Financial Performance	$32,309	$28,637

SR

PIPFRUIT NEW ZEALAND INCORPORATED
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 March 2014

3 Income Tax cont'd

Prior year refund outstanding	$1,900	($3,523)
Current year tax payable	$32,309	$28,637
Resident withholding tax deductions	($35,598)	($26,256)
Imputation credits held	($188)	($121)
Refunds Received		$3,523
Tax payable/(refundable) on behalf of Administered funds	($437)	($360)
Tax payable/(refundable) as per Statement of Financial Position	($2,013)	$1,900

4 Bank Balances

	2014	2013
Current Assets (a)	$3,269,283	$2,201,615
Contingency Reserve Fund Investment (b)	$600,000	$600,000
	$3,869,283	$2,801,615

(a) Current assets held in the form of current accounts, call accounts and short-term bank deposits to meet on-going funding requirements. The bank balances do not include funds administered on behalf of industry groups.

(b) The reserve fund was created between 2002 and 2005 to provide for a shortfall in Commodity Levy income which may seriously impact on the ability of PNZI to meet its objectives and obligations. In 2010, Directors decided to increase the fund to $600,000 over the next 5 years with $40,000 allocated in 2011. A further $160,000 was allocated in 2012 which now brings the fund to $600,000.

5 Accrued Revenue

Revenue accrued	2014	2013
Commodity Levy	$254,542	$273,619
Other accruals	$95,675	$10,661
Accrued Interest	$24,175	$22,140
	$374,392	$306,420

6 Prepayments

Prepayments comprise	2014	2013
Insurance	$15,253	$14,206
Research Prepaid	$24,396	
Expenses to be recovered (net)	$2,579	$9,880
	$42,229	$24,086

7 Investment in Prevar Limited

	2014	2013
Equity Accounted Investment at cost	$10,250,000	$9,100,000
Accumulated Share of deficit	($8,019,066)	($7,242,352)
Accumulated Impairments	($768,950)	($628,950)
Net carrying value	$1,461,984	$1,228,698
Movements in carrying amounts		
Carrying value at the begining of the period	$1,228,698	$947,046
Share capital introduced during the year	$1,150,000	$1,150,000
Share of (deficit)/profit for the year	($776,714)	($868,348)
Impairment for the year	($140,000)	
	($916,714)	($868,348)
Carrying value at the end of the period	$1,461,984	$1,228,698

Prevar Limited balances on 31 May 2014. Equity accounting has been adopted on the basis of management reports to 31 March 2014 and the share of the deficit reflects the Society's 45% shareholding.

PIPFRUIT NEW ZEALAND INCORPORATED
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 March 2014

8 Fixed Assets

2014	Annual Depreciation	Cost	Accumulated Depreciation	Book Value
Motor Vehicles	$10,864	$68,996	$53,968	$15,028
Computer Equipment	$16,728	$168,429	$145,305	$23,124
Furniture and Fittings	$3,208	$41,494	$24,910	$16,584
Office Equipment	$4,647	$37,907	$26,733	$11,174
USDA database software development		$24,081		$24,081
	$35,446	$340,906	$250,915	$89,991

2013	Annual Depreciation	Cost	Accumulated Depreciation	Book Value
Motor Vehicles	$14,489	$68,996	$43,104	$25,892
Computer Equipment	$22,069	$154,312	$128,577	$25,735
Furniture and Fittings	$2,740	$41,494	$21,702	$19,792
Office Equipment	$4,248	$35,035	$22,086	$12,949
	$43,546	$299,837	$215,469	$84,368

9 Sundry Creditors and Accruals

Sundry creditors and accruals comprises	2014	2013
PAYE/WT & Kiwisaver	$18,219	$12,036
Staff leave	$45,852	$43,275
Research contracts	$321,914	$123,006
General	$60,990	$47,139
Income received in advance	$78,520	$65,000
	$525,496	$290,456

10 Related Party Transactions

Pipfruit New Zealand has a 45% shareholding in Prevar Limited the joint venture company formed to undertake the development of new varieties. The Society appoints two Directors to the Board of Prevar, one of whom, Peter Beaven, was Chief Executive of the Society.Directors of PNZI are owners or employees of member entities which pay levies to PNZI as part of normal business activities.

11 Lease and Rental Obligations

PNZI has obligations payable after balance date for office rental and its photocopier	2014	2013
No later than one year		
-Photocopier-Fuji-Xerox	$10,410	$10,410
-Hansen Property Trust	$58,315	$53,205
Later than one year and not later than two years		
-Photocopier-Fuji-Xerox	$10,410	$10,410
-Hansen Property Trust	$58,315	$53,205
Later than two years and not later than five years		
-Photocopier-Fuji-Xerox	$2,603	$27,761
-Hansen Property Trust	$126,350	$159,615
	$266,403	$314,606

12 Capital Expenditure Commitments

There are no capital expenditure commitments outstanding as at 31 March 2014. (2013: $nil).

13 Investment Commitments

In January 2014 the society completed agreements confirming an ongoing investment in Prevar of $900,000 per annum for a further 3 years from 1 June 2014.

SR

PIPFRUIT NEW ZEALAND INCORPORATED
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 March 2014

14 Research Commitments

At 31 March 2014, PNZI had ongoing research commitments of $634,275 (2013: $295,749)

15 Contingent Liabilities

There are no known contingent liabilities at 31 March 2014. (2013: $nil).

17 Subsequent Events

There have been no events subsequent to 31 March 2014 that materially affect these financial statements. (2013: $nil).

18 Property Intended for sale

The building which PNZI owned in St Auybn Street has been sold after balance date.
The property has been reclassified from Fixed assets to Property Intended for sale and written down to the price realised in May 2014.
The net financial adjustment is summarised below.

Land and buildings

Cost	$370,152
Accumulated depreciation	$107,192
	$262,960
Impairment	$142,960
	$120,000

SR

staplesrodway
CHARTERED ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Members of Pipfruit New Zealand Incorporated

Report on the Financial Statements

We have audited the financial statements of Pipfruit New Zealand Incorporated on pages 9 to 15, which comprise the statement of financial position as at 31 March 2014, and the statement of financial performance and statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' Responsibility for the Financial Statements
The Board of Directors is responsible for the preparation and fair presentation of these financial statements in accordance with generally accepted accounting practice in New Zealand and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Our firm has, using staff independent of the audit engagement team, provided taxation administration and advisory services during the year. Other than this and our role as auditors, we have no relationship with, or interests in Pipfruit New Zealand Incorporated.

Opinion
In our opinion, the financial statements on pages 9 to 15 present fairly, in all material aspects, the financial position of Pipfruit New Zealand Incorporated as at 31 March 2014 and its financial performance for the year then ended in accordance with generally accepted accounting practice in New Zealand.

Staples Rodway Hawkes Bay Partnership
25 June 2014
[illegible] New Zealand

SR

DIRECTORY

Registered Office
507 Eastbourne Street West
Hastings, 4122

Contact Details
P O Box 11094
Hastings, 4158
Phone: 06 873 7080
Facsimile: 06 873 7089

Auditors
Staples Rodway
P O Box 46
Hastings, 4156

Solicitors
Crengle Shreves & Ratner
P O Box 10236
Wellington, 6143

Bankers
Bank of New Zealand
117 Heretaunga Street West
Hastings, 4122