NEW ZEALAND APPLES & PEARS INCORPORATED

Annual Report 2019

New Zealand Apples & Pears®

Contents

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Chairman's Introduction

New Zealand Apples & Pears Incorporated (NZAPI) is the representative organisation for the New Zealand apple, pear and nashi industry. Our objectives are to provide New Zealand growers with technical, economic, and market information and resources to enable them to be the world's best producers; and to represent New Zealand growers nationally and internationally, to ensure they maintain a competitive advantage in all markets. This annual report is for the year ended 31 March 2019. It covers the 2018 selling season and the 2018/19 growing season to the start of harvest.

Gross production for the 2018 year was 589,940 MT, some 7% more than in 2017. Export production of 377,189 MT was 9% above 2017, with domestic production 3% up and processed fruit 29% above 2017 levels.

Our largest individual markets in order of size were Germany, United Kingdom and United States.

Industry export returns reached $775 million due to favourable market conditions and a 9% larger export crop than 2017.

NZAPI exists for our growers. Our purpose is to invest grower levies in the activities defined in our Rules, which are focussed on helping growers to achieve increasing and sustainable long-term returns. During the year, the renewal of our Commodity Levy was approved by growers, with 97.56% by number and 99.15% by volume voting in favour of its renewal. The new Commodity Levy (Apples and Pears) Order now includes Nashi who voted to join with apples and pears rather than have a separate Order.

NZAPI is focussed on its 9 core strategic priorities. Of those 9, the three key (sovereign) priorities are trade/market access, biosecurity and access to labour/careers and capability (including RSE).

2019 has seen a continuation of the undermining of the global rules-based system of trade. Trade wars, retaliatory actions, and non-tariff barriers are becoming the norm. NZAPI continues to work with industry and government to challenge unreasonable and unjustified access conditions and to break down these barriers. Our programmes of cooperation and leveraging our world leading knowledge, expertise and intellectual property are one mechanism to do this.

The industry has been steadily growing its export returns since 2012, when exports amounted to $360 million. In 2018, exports amounted to over $775 million. Significant investment in new plantings and post-harvest infrastructure continue, reflecting a sustained confidence in the future of the industry.

NZAPI's primary role is to support trade and market access to ensure a fair commercially viable export environment and strong commercial returns for growers.

Importantly, our role is increasingly to protect the industry from risk. The two most significant risks that the industry faces are biosecurity and access to a motivated, skilled and capable labour force.

NZAPI has recognised the importance of biosecurity with the appointment of a dedicated Manager Biosecurity. A fruit fly incursion in Auckland and increased detections of Brown Marmorated Stink Bug (BMSB) at or post-border shows the importance of NZAPI working with other GIA partners to do what we can to mitigate risk. It also shows just how increasingly vulnerable we are to the threat of unwanted organisms.

Labour has again been challenging. NZAPI has contributed to a number of reviews that are under way by government in the education and training areas, including the review of vocational education. The declaration of regional seasonal labour shortages, while welcome, are not the answer to our labour issues. We can no longer take an annual approach to addressing these issues; rather NZAPI is working with government on a long-term workforce development strategy which will include obligations for effective engagement (with an agreed definition) on industry and government agencies. It will also address creating opportunities for New Zealanders, the future enhancement of the RSE scheme, programmes including supporting day release prisoners and back packers, and robotics and automation.

It is a privilege to serve the industry and our members. We represent our levy payers, and everything that we do is focused on adding value to our grower's businesses, minimising their risks and maximising their returns.

In 2013 we set a target of being a billion-dollar industry by 2022 – we are well on the way to achieving that. We look forward to supporting your continued success.

Richard Punter
Chairman

Executive report

We are pleased to be able to report on the year ended 31 March 2019.

The 2018 national crop estimate forecast a national export crop of 21.2m TCE's or 380,850 metric tonnes.

The actual export crop came in less than 1% below forecast. The final gross crop of 589,940 MT was 2.4% above the forecast.

Weather conditions preceding the 2018 harvest were optimum for fruit growth. Good rainfall in the winter and spring meant that irrigation was unrestricted. Growing degree days were well above average across the country due to almost tropical like temperatures in December and January.

The average fruit size was the largest it has been in years resulting in some issues with Gala and Fuji. As a result, pack outs were down by 3-5% overall. An issue with a spray applied in the Spring led to some crop losses in Nelson and to a lesser extent in Hawke's Bay.

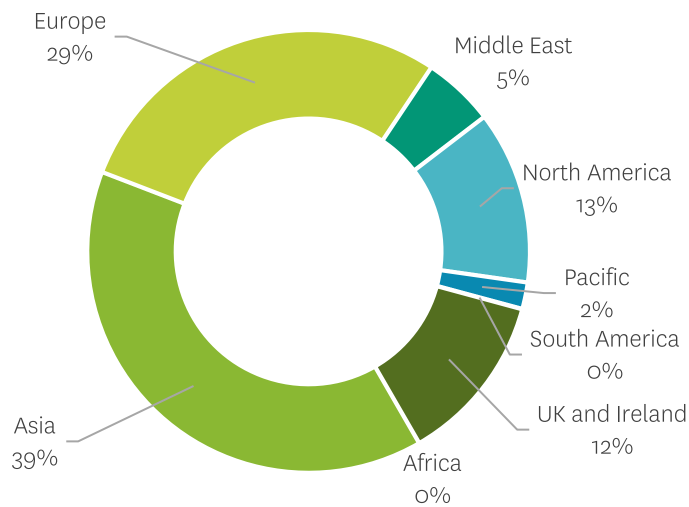
Despite these issues, 2018 was an excellent year in production volumes, with a 7% increase in gross and 9% increase in export production compared to the previous season, although we must be mindful that the 2017 was an unusually poor year. Irrespective of this, the industry has witnessed a 3-4% increase in planted area annually for the last four years. We have also seen an 11% increase in yield per hectare from last season, resulting in the largest export crop to date.

As a result, final export production figures for the 2018 season were as follows:

National export production (tonnes) by region and variety 2018

Variety	Hawke's Bay	Nelson	Otago	Gisborne	Rest of NZ	TOTAL	% Mix
Braeburn	34,533	25,867	1,379	-	2,420	64,199	17%
Cox	-	2,728	1,248	-	-	3,976	1%
Cripps Pink	17,347	10,166	12	-	726	28,251	7%
Envy™	10,273	12,085	-	1,840	-	24,198	6%
Fuji	25,239	3,437	2,256	162	352	31,446	8%
Granny Smith	6,427	1,050	828	-	250	8,555	2%
Honeycrisp	-	-	207	-	1,761	1,968	1%
Jazz™	19,382	16,155	2,088	260	-	37,885	10%
KORU®	1,003	2,221	201	-	94	3,519	1%
Pacific Beauty™	1,419	37	-	-	-	1,456	0%
Pacific Queen™	23,179	666	1,264	93	30	25,232	7%
Pacific Rose™	4,249	11	482	-	262	5,004	1%
Royal Gala	89,905	14,759	5,060	2,119	2,686	114,529	30%
Other Apples	10,888	7,467	2,990	-	809	22,154	6%
Pears	3,022	1,661	-	90	43	4,816	1%
TOTAL	**246,866**	**98,310**	**18,015**	**4,564**	**9,433**	**377,189**	**100%**

Export Production by Destination Region 2018



Asia/Middle East continues to receive an increasing share of our exports. This is not surprising given proximity to market, strong economic growth, and the continued shift from low to middle income. At 44% of total exports, this will continue to grow.

NZAPI strategic priorities

NZAPI's strategic plan identifies nine key strategic priorities on which the organisation is to focus its efforts and investment.

1. **Trade and Market Access General**

Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)

Negotiations were concluded in January 2018, and on 31 October 2018 Australia became the sixth signatory to ratify the agreement. This meant the agreement came into effect 60 days later on the 30 December 2018. Tariff reductions for 2018 were effective immediately and on 1 January 2019 the second tranche of reductions took place for all members except Japan whose second year of reduction took place on 1 April 2019.

The following tables show the tariff reductions for New Zealand apple and pear imports for CPTPP signatories.

Japan

Start	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
17.0%	12.7%	11.4%	10.2%	8.9%	7.6%	6.3%	5.1%	3.8%	2.5%	1.2%	0.0%

Mexico

Start	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
20.0%	16.0%	14.4%	12.8%	11.2%	9.8%	8.0%	6.4%	4.8%	3.2%	1.6%	0.0%

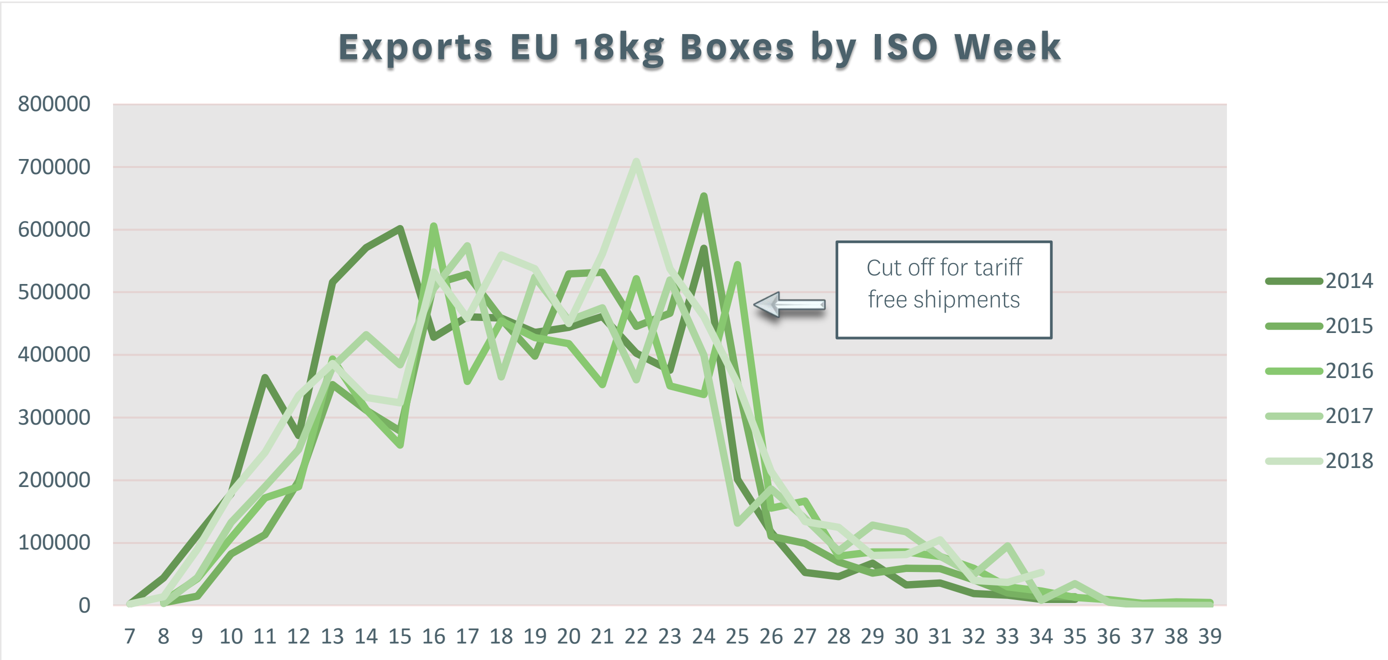
Peru

Start	2018	2019	2020	2021	2022	2023
9.0%	7.5%	6.0%	4.5%	3.0%	1.5%	0.0%

Europe Fair Trade Agreement (EU-NZ FTA)

Negotiations for an EU-NZ FTA have progressed well, and we are hopeful that our negotiators can reach substantial conclusion in 2019 as announced by EU Commission President Juncker during Prime Minister Ardern's visit to Brussels in January 2019.

New Zealand apple and pear exporters are impacted by a modest import tax for product landing in the EU after 1 August each year. Our aim is to have these tariffs removed and eliminate the distortion they create. See graph below.



Regional Comprehensive Economic Partnership (RCEP)

The RCEP is a proposed free trade agreement (FTA) between 16 countries including the ten member states of the Association of Southeast Asian Nations (ASEAN) and New Zealand, Australia, China, Japan, South Korea and India.

Launched in 2012, and expected to be concluded later in 2019, RCEP will be the biggest agreement New Zealand has entered into. The RCEP will be the biggest economic trading block in the world covering 3.5 billion people, nearly a third of global GDP, and 30 percent of global trade. In 2018 RCEP countries took 56% of New Zealand trade, 60% of goods exports, 50% of services exports, and together this was worth $45 billion. Key areas for our industry will be what happens with the India and South Korea apple and pear tariffs.

2. Market Access

Russia: The introduction of an Official Assurance Programme for Russia was slightly delayed due to its complexity. Exports were relatively trouble free once operational. Industry has asked for a review with MPI and this is likely to take place during 2019.

European Union: The EU initiated a review of their certification systems which raised some significant concerns regarding access. It was with some relief that as the process unfolded the key pests and diseases of concern are not present in New Zealand. The EU also initiated a review of the methodology used by exporting countries to provide phytosanitary certificates.

Japan: NZAPI worked with MPI on exploring a systems-based approach for Japan. The current treatment programme is no longer sustainable and may need to finish by October 2020. A joint industry/MPI working group has come together to address this.

Australia: Has implemented a Compliance Based Inspection System that will replace the pre-clearance programme for 2019-20. Apples will be inspected for compliance on arrival in Australia.

3. Improved Relationships with Government and other industry sectors

NZAPI works closely with a number of key Ministers and Officials, including those from MPI, MFAT, NZTE, MBIE, and MSD. We are strengthening our position and profile in Wellington to facilitate this. We are grateful for the access that we have to those Ministers and Officials and for their interest in our industry.

NZAPI also works very closely with a number of industries including kiwifruit, avocados, vegetables and wine, and with other industry bodies including Horticulture NZ.

The Horticulture Capability Group is a good example of pan-sector cooperation and collaboration, focused on recommending and influencing government policy on careers, skills, the structure of education and training services and the like.

4. Defining and telling the Apple story.

The New Zealand apple story is used as the foundation for promoting careers in the industry.

In addition, we use the apple story to support our international market access work, differentiating New Zealand from any other exporting country, and New Zealand apples and pears from any other competing product.

NZAPI supports trade shows in China, Hong Kong and Berlin where the NZ apple story is promoted.

In addition, NZAPI maintains Facebook, Instagram and Twitter accounts, updated regularly with relevant news and stories.

5. Grow and improve the way NZAPI generates and provides information to industry.

A core role for NZAPI is to ensure that the right information gets to the right person in the right way and at the right time to make the right decisions.

During the year, a significant upgrade was made to NZAPI's database management system that provided a new streamlined online registration system for all members. This includes new capability for members to manage information topics they receive, and registration content accessed by member's staff and external providers. Members were also provided with the option to register for the new Food Act requirement.

The remaining NZAPI knowledge assets migrated to a cloud-based platform providing NZAPI with more flexibility and functionality for undertaking and modernising organisational operations.

During the year, progress was made towards developing a new website with a prototype designed and tested through member consultation. This project will continue and be completed in the coming year.

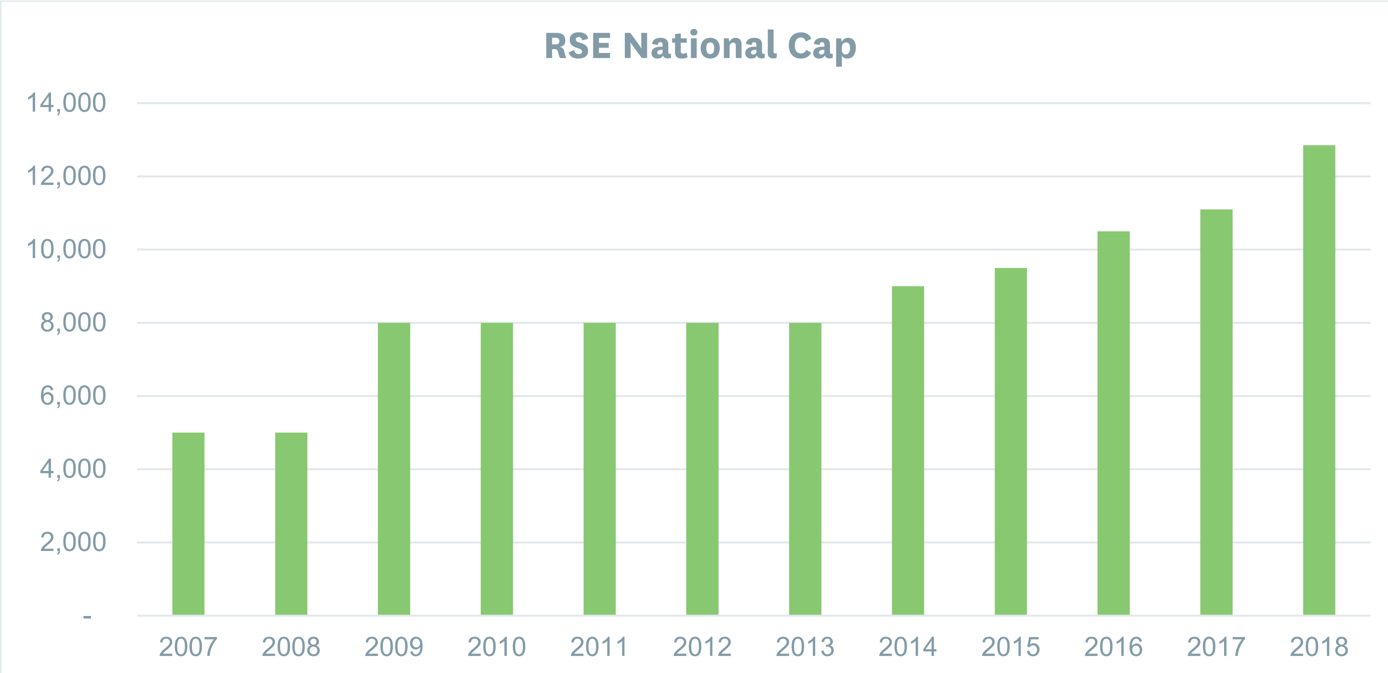
For the first time, NZAPI successfully implemented an Education Day field day format across the regions targeted at orchard workers, to extend practical skills and knowledge within the industry. The concept was well received and will be rolled out as a series of Education Days in 2019.

6. Recognised Seasonal Employer (RSE) scheme

Seasonal Labour is the most challenging since the RSE scheme was enacted. Low unemployment, education visas and numbers of Working Holiday Scheme (WHS) workers arriving in the regions has led to low labour supply. Higher gross crops in apples and kiwifruit combined with likely increased hand harvesting in grapes raises demand.

RSE supply has been constrained well below employer demand. The independent New Zealand Institute Economic Research report published in June 2018 showed that the labour shortage for the 2019 harvest was up to 5,880 across all crops.

The RSE national cap was increased by 1,750 to 12,850 in November 2018.



Despite this increase NZAPI RSE members indicated that they wanted significantly more RSE workers. Government will need to send a clear signal that they support growth in the plants industry through RSE supply or risk a loss of business confidence.

7. Attract, grow and retain talent

This year has been a very busy one for attracting, retaining and developing industry talent. Our work is focussed in two key areas:

- addressing the challenge of ensuring that the industry has access to a skilled and motivated work force for the future; and
- responding to a busy government agenda in the areas of training and education.

Some highlights for the year have included:

- Massey University's BHort degree developed in conjunction with NZAPI, and in conjunction with the Massey School of Business looking at a master's programme
- Revamp of EIT's Post-Harvest Diploma programme, to be made available to other regional polytechnics in the Bay of Plenty, Nelson/Marlborough, and Otago. These Polytechnics will be able to work together to offer the Diploma in Fruit Production, Post-Harvest, Nursery Production and Agri Business.
- A successful Provincial Growth Fund application, in partnership with the Horticulture Capability Group (HCG), to fund five regional education coordinators in Nelson, Hawkes Bay, Bay of Plenty, Otago and Massey University, to connect students with industry.
- A pilot with a group of Havelock North schools using a STEAM (Science, Technology, Engineering, Arts and Mathematics) based curriculum to better understand Horticulture and change the perception of Horticulture as a career.
- Supporting the Young Grower Competitions nationally, Mystery Creek Field Days, Hawkes Bay Horticultural Field days and Horticultural and Agricultural Teachers Association (HATA) conference.
- Several reviews including the Review of Vocational Education (RoVE), role of the Primary ITO, Tomorrow's Schools, MPI Skills Working group, regional skills delivery structures, TEC funding and the like.
- MPI/MFAT trade and education mission to South Korea, to support the KNZFTA (Korea New Zealand Free Trade Agreement).
- Grower visits and workshops.

8. Access to new varieties

NZAPI's investment in Prevar Limited is the key driver in addressing this priority.

Prevar's objectives have been to:

- Provide NZ and Australian apple and pear growers with the opportunity to have first access to new varieties; and
- Achieve a competitive advantage for the apple and pear growing industries in NZ and Australia and enable them to develop and expand to obtain a greater share of the global apple and pear fresh fruit markets.

NZAPI has historically been a 45% shareholder in Prevar, with Australian Apples & Pears (APAL) also 45% and Plant & Food Research (PFR) 10%.

Given the MBIE and APAL decisions to no longer contribute further capital to the programme, the shareholders negotiated and agreed a new shareholding structure and funding arrangement for Prevar which came into effect in February 2019.

Under the new agreement, NZAPI now holds a majority of 55% of the shares, PFR 29% and APAL 16%. APAL no longer has a Director nor do they participate in Board decisions. The increase in PFR shareholding reflects that over the next 3 years they will contribute a further $3.8m toward the programme, while NZAPI will contribute $2.8m.

9. Biosecurity

NZAPI has recognised the increasing importance of biosecurity by creating our own Manager Biosecurity role. Nicola Robertson works closely with other sectors under the Government Industry Agreement (GIA) framework to ensure that the risks of a biosecurity incursion or the procedures followed in the event of a biosecurity response are well managed on behalf of our industry.

During the year, a fruit fly incursion in Auckland has resulted in multiple male fruit flies being trapped, but no larvae found. That response continues post-balance date. Again, this year there has been a significant increase in the number of BMSB interceptions both at and post-border.

NZAPI participated in a pan-sector submission and presentation to the Environment Protection Agency (EPA) in support of an application to import the Samurai Wasp in the event of a BMSB incursion. This application was approved with conditions.

During the year, significant progress was made in addressing the final issues that need to be resolved before industry cost sharing will commence under the GIA. It is therefore likely that industry will be required to contribute to the costs of the fruit fly response currently under way in Auckland, and any further GIA managed responses.

NZAPI was also actively engaged in the issue that arose with respect to the importation of plant material from the US. Our submissions, along with those from other impacted parties, resulted in most of the malus material being saved. We continue to lead the discussion on the review of the malus Import Health Standard.

Alan Pollard is a member of the GIA Deed Governance Group responsible for oversight of the GIA framework. Nicola Robertson represents the industry on the Fruit Fly Council, Brown Marmorated Stink Bug Council, and Germac.

Research programme

Investment: $2.5 million was invested during the year ended 31 March 2019.

Industry funding and in-kind effort was leveraged to gain $1.2 million of funding from the Sustainable Farming Fund, Ministry of Primary Industries (MPI) and the Ministry of Business, Innovation and Employment (MBIE).

Some Key Project Highlights:

- The Apple Futures II programme ($1.24 million p.a.) is focused on risk reduction on-orchard and during packing. On-orchard entomology research undertaken during the year focused on optimising lure efficacy for codling moth, developing lure and kill technology for apple leaf curling midge and control options for woolly apple aphid. For pathogen on-orchard research, new knowledge on the disease cycle and control options for Neofrabaea alba were significantly advanced. Risk factors for brown rot were identified leading to improved understanding of market access risk for this pathogen. Postharvest research during the year has seen the implementation of a semi-commercial trial for hot water treatment of rots, new knowledge on the response of apple fruit quality and apple leaf curling midge to x-ray treatment has been gained and research has begun on understanding contamination sources and seasonal impacts of packhouse microbial food safety pathogens.
- The Sustainable Farming Fund (SFF) project on Fruit Rots Risk Reduction ended in 2018 with a range of resources being made available to industry including apple rot symptom poster and booklet, identification training video and a best practice guide for orchard management. Future work will focus on implementing good practice and rot identification skills for packhouses and on-orchard through extension.
- The implementation of best practice for European canker management across all our growing regions through SFF funding continued during the year with benchmarking surveys demonstrating that growers are implementing strategies to reduce and effectively manage this disease.
- Two new projects funded through SFF started during the year. Fire Blight for Intensive Orchards aims to find new integrated management strategies for highly susceptible rootstocks and varieties. Smart Tools for Orchard Drainage will integrate new technologies and tools to create drainage solutions for established orchards.

In addition to NZAPI led projects, the industry also provides support through cash and in-kind contributions to external projects focused on apple and pear outcomes. During the year this included cash support for the MBIE funded Future Orchard Production Systems project and three PhD projects on food safety, phytophthora and European canker. In-kind support was provided for MBIE funded Human Assist and MBIE funded Healthy Trees Healthy Futures projects.

Summary of research projects:

Benefit or problem	Investment $	Objectives	Measures of success
Apple Futures II – Driving access to Asia			
Underpins growth strategy to achieve $1 billion p.a. by 2022. Enables meaningful access into high value, risk adverse Asian markets. Reduces risk of market closure. By 2023 the programme will add $223m pa to sector growth and protect and grow access to Asian markets representing 32% of export production.	2014 – 2021 (7 years) Total $8.7m $4.35m NZAPI $4.35m MBIE	Reduce risk along the entire production pathway. Develop new knowledge of sanitary and phytosanitary pests and pathogens and new control measures, integrating these into a systems-based risk management programme that will eliminate technical barriers.	· No apple leaf curling midge intercepts by 2022 · No rot intercepts in market by 2022 · Continued access to existing markets · $1 billion p.a. by 2022 · Asian market exports exceed 49% of production by 2022

Benefit or problem	Investment $	Objectives	Measures of success
Fruit rots risk management			
Expansion into Asian markets is threatened by new fruit rot phytosanitary measures. Market closure of China in 2013 valued at $21m due to Bull's Eye Rot. At least four fruit rot pathogens previously considered unimportant now threaten to trigger further market closures. To achieve meaningful trade and realise export growth opportunities in Asia, new knowledge of rot pathogens associated with apple production and new mitigation measures from the orchard to packed export cartons is required.	2015 – 2018 (3 years) Total $958k $359k NZAPI $599k MPI	New information on rots and best practice management strategies to ensure that rot organisms do not limit or restrict market opportunities for NZ apples in high value Asian markets.	· No market closures from rot intercepts · Standardised packhouse and postharvest rot protocols available · Improved fungicide programmes to manage rot pathogen risk · Best practice guidelines available for growers
European canker best practice			
Costs $7m pa in Nelson alone in management costs and lost production. By the end of the project growers will know how to effectively manage and reduce European canker incidence and severity in their orchards. Growers will understand the economics of canker control.	2016 – 2019 (3 years) Total $752k $256k NZAPI $496k MPI	Demonstrate through research and extension that the disease can be controlled even in high risk areas on susceptible varieties.	· National reduction in European canker incidence and severity · Cost of canker calculator available · Disease forecast model available · Best practice guidelines updated
Bronze beetle for organic production			
Currently costs organic producers $13,500/ha resulting in >$6m p.a. in losses to the organic industry. The single highest cost to an organic producer.	2016 – 2021 (6 years) Total $240k All NZAPI	Develop a more sustainable and cost-effective control option for organic control of bronze beetle.	· An alternative control option to cultivation for organic control of bronze beetle available · Reduced costs for bronze beetle control
Crop load management			
It is estimated to add $8,000/ha in value to the grower by optimising crop load early in the growing season reducing variability that impacts on fruit size and quality at harvest. Costs are also minimised through more efficient use of chemical thinners or less hand thinning.	2016 – 2022 (6 years) Total $1.1m $300k NZAPI $793k MPI	Develop a decision-based platform that enables growers to optimise crop load more efficiently to achieve target yields, size classes and quality.	· Improved productivity measured by packouts and achieved yield targets. · Decision support platform available. · Automated machine vision counting technology validated for commercial implementation.

Benefit or problem	Investment $	Objectives	Measures of success
Fire blight for intensive orchards			
Costs $9m p.a. in Hawke's Bay and with the loss of streptomycin would increase to $16m p.a. By the end of the project growers will have more tools to effectively manage fire blight and future proof against the loss of streptomycin.	2018 – 2021 (3 years) Total $904k $361k NZAPI $543k MPI	Develop effective control strategies for highly susceptible varieties and rootstocks on high density planting systems	· Alternative control options and strategies to streptomycin are available to growers. · An improved decision support tool is available. · Integrated fire blight management platform available.
Smart tools for orchard drainage			
Infrastructure factors are limiting surface drainage on at least 25% of orchards. Poor surface drainage impacts tractor access during harvest and for spraying, increases health and safety risk, slows or halts operations, increases disease spread and affects tree health. By the end of this project growers will have increased awareness of the associated costs of poor drainage and new tools to improve drainage in established orchards.	2018 – 2021 (3 years) Total $283k $102k NZAPI $181k MPI	To improve traffic and worker access, reducing disease spread and increasing orchard health by adapting precision technologies and demonstrating their implementation to address inadequate drainage.	· New precision technologies for improving orchard drainage. · Best practice guidelines for inter-row orchard drainage. · Improved orchard health and less rots.

NZAPI operational matters

Office: NZAPI's offices are located at 507 Eastbourne Street West, Hastings.

Society Governance

The NZAPI Board comprises four grower directors, three post-harvest directors and an independent Director.

The Board elected at the 2018 Annual General Meeting was:

- Richard Punter, Independent, Hawke's Bay (Chairman)
- Bruce Beaton, Post-Harvest, Hawke's Bay
- Peter Beaven, Grower, Hawke's Bay
- Andy Borland, Post-Harvest, Christchurch
- Evan Heywood, Grower, Nelson
- Matthew Hoddy, Grower, Nelson
- Cameron Taylor, Grower, Hawke's Bay
- Jackie van der Voort, Post-Harvest, Central Otago

In April 2019, Andy Borland retired as a Director. In accordance with Rule 8.4 of the Rules of New Zealand Apples & Pears Incorporated, Karen Morrish (Mr Apple) was appointed to the vacant position.

Director Board Meeting Attendance

Board Meetings Held during the year: 7

Director	Attended
Richard Punter	7
Nadine Tunley (resigned April 2018)	1
Bruce Beaton	6
Peter Beaven	6
Andy Borland	6
Evan Heywood	7
Matthew Hoddy	6
Cameron Taylor	6
Jackie van der Voort (appointed April 2018)	6

Industry committees

The Board delegates some industry responsibilities to Board appointed committees. There were 7 Board committees in existence during the year ended 31 March 2019:

1. Market Access Governance Group

The Market Access Governance Group is an industry/MPI partnership that determines and agrees priority export markets, approves the work plan for each of these markets, allocates resources to implement the work plan, and ensures that the work programme is achieved.

Members of the Market Access Governance Group are Richard Punter, Cameron Taylor and Alan Pollard from NZAPI; and Tim Knox, Peter Thompson, and Allan Kinsella from MPI.

2. Market Access Advisory Group

The Market Access Advisory Group provides the important technical link between the Market Access Governance Group and our member businesses.

At balance date, the members of the Market Access Advisory group, with industry representatives elected at the market panel AGM in November 2018, are:

Roger Gilbertson (Chair), Hans Doevendans (independent), Karen Morrish (Mr Apple), Duncan Park (T & G Global), Simon Thursfield (Freshco), Lehi Miller (Freshco), Kelvin Le Comte (Heartland Group) and Stephen Butcher (MPI)

The Group considers and advises on proposed changes to export protocols and official assurance programmes, phytosanitary issues that periodically arise, and any other matters to do with market access.

3. Market Panel

Exporters continue to share export market information in order to make informed export decisions. This group represents a majority by volume of all apple and pear exports from New Zealand.

4. Research Consultative Group

The Research Consultative Group (RCG) is constituted under the NZAPI Rules and is responsible for recommending the research programme each year for Board approval, and for reviewing the progress of research undertaken on behalf of members. RCG reports to the Board via the Technical Manager – Crop Protection and Nutrition and the Board appointed member.

The RCG is constituted to meet at least quarterly to review research progress. The 2018/19 RCG comprised:

Industry representatives: Stella McLeod (Chair – Hawke's Bay from December 2018), Morgan Rogers (Hawke's Bay), Heidi Stiefel (Hawke's Bay), and Kevin Withington (Nelson)

NZAPI representatives: Tim Herman (Chair until December 2018), Roger Gilbertson, Rachel Kilmister, Gary Jones (ex officio)

NZAPI Board Representative: Stephen Anderson (Hawkes Bay)

5. Prevar Advisory Group

The Prevar Advisory Group was established to provide advice to the NZAPI Board on a range of matters that affect the NZ shareholding in Prevar. They act as a sounding board for the NZAPI Board to test ideas and look at the practical implications of Prevar activities.

The current members of the Prevar Advisory Committee are Tim Goodacre (Chair - Australia), Paul Paynter (Hawkes Bay), Lesley Wilson (Hawkes Bay), Morgan Rogers (Hawkes Bay) and Evan Heywood (Nelson).

The Group did not meet during the year ended 31 March 2019.

6. Board Governance Committee

The Board Governance Committee is responsible for audit and risk; remuneration and administration; and Director nominations, competencies and succession.

The Committee comprises Richard Punter (Chair), Bruce Beaton, Cameron Taylor and Jackie van der Voort.

7. Biosecurity Governance and Response Committee

The Biosecurity Advisory and Response Group was in the process of being formed at balance date. Its role is to provide advice on biosecurity matters and governance in the event of an industry biosecurity response.

The Committee will comprise two current NZAPI Board members (including the Chair), up to four other members appointed by the Board, and NZAPI Manager Biosecurity (Nicola Robertson).

Staff

At balance date NZAPI members of staff were:

Alan Pollard	Chief Executive
Jess Cranswick	Manager Finance and Accounting
Roger Gilbertson	Technical Manager (Market Access and Regulatory Affairs)
Sandra Hughes	Executive Assistant
Gary Jones	Manager Trade Policy and Strategy
Rachel Kilmister	Manager Research and Development and Extension Services
Jill Morley	Administration
Nicola Robertson	Manager Biosecurity
Emma Sherwood	Business Analyst
Erin Simpson	Manager Capability Development
Vacancy	Technical Manager (Crop Protection)

During the year, Tim Herman resigned from his position as Technical Manager (Crop Protection). The position remained vacant at balance date.

Subsequent to balance date, Roger Gilbertson's contract role has ended. Two new staff members - Pip McVeagh (Manager Plant Protection and Nutrition) and Danielle Adsett (Manager Market Access) have joined the NZAPI team.

Communication

The main communication methods with the industry are Pipfruit Newz, weekly emails, the Society's website (www.applesandpears.nz), and grower workshops and seminars.

Pipfruit Newz is published monthly except for January and is now an electronic publication.

A joint, all-of-horticulture conference was held in Christchurch in July 2018. It is envisaged that such a joint conference will be held every three or so years.

NZAPI also hosts a number of workshops, training programmes, technical field days and seminars for growers and post-harvest members across our regions to upskill members, transfer outcomes from our research programme, and to discuss various topics including market access programmes, pest and disease management, research and development, climate change, seasonal labour and orchard management.

Finance

The financial result for NZAPI for the year ended 31 March 2019 was a surplus of $2.0 million after allowing for a share of the deficit in Prevar of $0.9 million and reversal of previous impairment losses in Prevar of $1.3 million. The change in shareholding in Prevar has also resulted in an increase in the value of the investment to $3.7 million and a combined liability of $2.2 million, which represents NZAPI's future funding payments to Prevar. During the year funding of $225,000 was paid to Prevar. While the value of the investment has been assessed following accounting principles, separately a market value (fair value) has been calculated with NZAPI's share being $6.8 million, refer to Note 13 within the financial statements.

The operating surplus is $1.5 million higher than in 2018, with revenue being $1.2 million higher than in 2018. Levy income was higher by $1.3 million and shared research income down slightly in 2019 compared to 2018. Annual conference income was nil due to having a combined conference with Horticulture New Zealand during the year ended 31 March 2019.

Total spending decreased by $0.4 million during the year. As NZAPI continues to implement its strategic priorities, spending can change between the key priority areas year on year as projects get completed and new ones start.

Members' net assets increased by $2.0 million to $3.5 million at 31 March 2019, with the cash position increasing to $1.4 million.

The NZAPI 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 NZAPI's strategic plan and the associated budgetary process.

Alan Pollard
Chief Executive

Financial Statements

For the year ended 31 March 2019

Crowe Horwath
New Zealand Audit Partnership
Member Crowe Horwath International

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INDEPENDENT AUDITOR'S REPORT

To the Members of New Zealand Apples and Pears Incorporated

Opinion

We have audited the financial statements of New Zealand Apples and Pears Incorporated (the "Society") on pages 22 to 39, which comprise the statement of financial position as at 31 March 2019, and the statement of comprehensive revenue and expense, statement of changes in net assets/equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Society as at 31 March 2019, and its financial performance and its cash flows for the year then ended in accordance with Public Benefit Entity Standards Reduced Disclosure Regime issued by the New Zealand Accounting Standards Board.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Society in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other than in our capacity as auditor, we have no relationship with, or interests in, the Society.

Information Other Than the Financial Statements and Auditor's Report

The Directors are responsible for the other information. Our opinion on the financial statements does not cover the other information included in the annual report and we do not, and will not, express any form of assurance conclusion on the other information. At the time of our audit, there was no other information available to us.

In connection with our audit of the financial statements, if other information is included in the annual report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of our auditors' report, we concluded that there is a material misstatement of this other information, we are required to report that fact.

Responsibilities of the Directors for the Financial Statements

The Directors are responsible on behalf of the entity for the preparation and fair presentation of the financial statements in accordance with Public Benefit Entity Standards Reduced Disclosure Regime issued by the New Zealand Accounting Standards Board, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Society's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless those charged with governance either intend to liquidate the Society or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (NZ) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (NZ), we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Society's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of the use of the going concern basis of accounting by the Directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Society's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Society to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Crowe Horwath
PART OF FINDEX

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Crowe Horwath

Crowe Horwath New Zealand Audit Partnership
CHARTERED ACCOUNTANTS

20 June 2019

New Zealand Apples and Pears Incorporated

Statement of Comprehensive Revenue and Expense

For the year ended 31 March 2019

in NZD	*Note*	*2019*	*2018*
Revenue	7	6,686,394	5,520,095
Operating Expenses	8	5,197,268	5,570,823
Operating surplus/(deficit) for the year		**1,489,126**	**(50,728)**
Share of Prevar's surplus/(deficit) for the year	13	(809,872)	(996,028)
Reversal of Prevar's previous impairment losses	13	1,316,005	-
Total surplus/(deficit) before income tax		**1,995,259**	**(1,046,756)**
Income tax expense	9	2,028	(1,735)
Total surplus/(deficit) after income tax		**1,993,231**	**(1,045,021)**
Other comprehensive revenue and expense		-	-
Total comprehensive revenue and expense for the year		**1,993,231**	**(1,045,021)**

Statement of Changes in Equity

For the year ended 31 March 2019

in NZD	**Retained Earnings**	**Total Equity**
2018		
Balance at 1 April 2017	2,527,283	2,527,283
Total comprehensive income for the year	(1,045,021)	(1,045,021)
Balance at 31 March 2018	1,482,262	1,482,262
2019		
Balance at 1 April 2018	1,482,262	1,482,262
Total comprehensive income for the year	1,993,231	1,993,231
Balance at 31 March 2019	3,475,493	3,475,493

The accompanying notes are an integral part of these financial statements.

New Zealand Apples and Pears Incorporated

Statement of Financial Position

As at 31 March 2019

in NZD	*Note*	*2019*	*2018*
Current Assets			
Cash and cash equivalents	10	1,443,252	554,758
Trade and other receivables	11	575,286	541,402
Prepayments and other assets		174,976	62,874
Income tax refund due	9	20,803	12,694
Other investments	12	1,000,000	1,000,000
Total Current Assets		**3,214,317**	**2,171,728**
Non-Current Assets			
Investment in Prevar	13	3,735,045	772,157
Plant and equipment		45,199	58,420
Intangible assets		16,114	18,512
Total Non-Current Assets		**3,796,358**	**849,089**
Total Assets		**7,010,675**	**3,020,817**
Current Liabilities			
Trade and other payables	14	1,246,696	1,502,443
Employee entitlements		52,319	36,112
Capital payable	13	839,940	-
Total Current Liabilities		**2,138,955**	**1,538,555**
Non-Current Liabilities			
Capital payable	13	1,396,227	-
Total Liabilities		**3,535,182**	**1,538,555**
Equity			
Accumulated comprehensive revenue and expense		3,475,493	1,482,262
Total Equity	18	**3,475,493**	**1,482,262**
Total Equity and Liabilities		**7,010,675**	**3,020,817**

These financial statements have been authorised for issue by the Directors on 19 June 2019.

Richard Punter, Chairman

Cameron Taylor, Director

The accompanying notes are an integral part of these financial statements.

New Zealand Apples and Pears Incorporated

Cash Flow Statement

For the year ended 31 March 2019

in NZD	***Note***	***2019***	***2018***
Cash flow from operating activities			
Receipts			
Receipts from commodity levies		5,345,656	3,890,633
Receipts from other non exchange transactions		1,130,830	1,311,169
Receipts from other exchange transactions		152,911	190,769
Interest received		26,842	27,095
Goods and Services Tax (Net)		-	42,046
		6,656,239	5,461,712
Payments			
Payments to employees & directors		1,149,684	1,067,093
Payments to suppliers		4,266,961	4,419,772
Goods and Services Tax (Net)		78,877	-
Income Tax		10,137	9,444
		5,505,659	5,496,309
Net cash inflow/(outflow) from operating activities		**1,150,580**	**(34,597)**
Cash flow from investing activities			
Payments			
Capital payment to Prevar		225,000	-
Purchase of plant and equipment		22,901	13,799
Purchase of intangibles		14,185	(1,685)
		262,086	12,114
Net cash inflow/(outflow) from investing activities		**(262,086)**	**(12,114)**
Net increase/(decrease) in cash and cash equivalents		888,494	(46,711)
Add opening cash and cash equivalents		554,758	601,469
Closing cash and cash equivalents	4	**1,443,252**	**554,758**

The accompanying notes are an integral part of these financial statements.

New Zealand Apples and Pears Incorporated

Notes to the Financial Statements

1. *Reporting Entity*

New Zealand Apples and Pears Incorporated (the 'Society') is an incorporated society and is domiciled in New Zealand. The Society is registered under the Incorporated Societies Act 1908.

The Society is the national body that promotes and represents the New Zealand pipfruit (apple, pear and nashi) industry – growers, packers, and marketers of apples, pears and nashis in domestic and export markets.

2. *Basis of Preparation*

These financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ("NZ GAAP"). They comply with the PBE Accounting Standards Reduced Disclosure Regime as appropriate for Tier 2 not-for profit public benefit entities. The Society is a Tier 2 reporting entity on the basis it does not have public accountability and is not large.

The financial statements have been prepared on a going concern basis, and the accounting policies have been applied consistently throughout the period.

3. *Function and Presentation Currency*

These financial statements are presented in NZD, which is the Society's functional currency. All amounts have been rounded to the nearest dollar, unless otherwise indicated.

4. *Basis of measurement*

The financial statements have been prepared on the historical cost basis except for the following disclosure item, which is measured on an alternative basis on each reporting date.

Item	Measurement bases
Disclosure of fair value of equity accounted investment	Fair value

5. *Use of Judgements and Estimates*

In preparing these financial statements, management has made judgements, estimates and assumptions that affect the application of the Society's accounting policies and the reported amounts of assets, liabilities, revenue, expenses, and the accompanying disclosures. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised in the current year.

A. Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the consolidated financial statements is included in the following notes:

- Note 7 – Commodity levy revenue: the period to which the revenue relates;
- Note 9 – Recognition of deferred taxes; and
- Note 13 – Impairment of Investment in Prevar.

B. Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ending 31 March 2019 are included in the following notes:

- Note 7 – estimation of research accrual; and
- Note 13 – equity accounted investment, impairment test and fair value disclosure.

i. Measurement of fair values

A number of the Society's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities. When measuring the fair value of an asset or a liability, the Society uses observable market data as far as possible, or for non-cash-generating assets, depreciated replacement cost.

6. Summary of Significant Accounting Policies

Significant accounting policies are included in the notes to which they relate. Significant accounting policies that do not relate to a specific note are outlined below.

A. Impairment of Non-Financial Assets

The classification of assets as non-cash generating assets is a highly judgmental matter. PBE IPSAS 21.16 clarifies that cash-generating assets are those assets that are held with the primary objective of generating a commercial return. Therefore, non-cash generating assets would be those assets from which the Society does not intend (as its primary objective) to realise a commercial return. The Society's plant and equipment, and intangible assets are deemed to be non-cash generating assets as they are held for administrative purposes.

i. Impairment of non-cash-generating assets

The Society assesses at each reporting date whether there is an indication that a non-cash generating asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Society estimates the asset's recoverable service amount. An asset's recoverable service amount is the higher of the non-cash generating asset's fair value less costs to sell and its value in use. Where the carrying amount of an asset exceeds its recoverable service amount, the asset is considered impaired and is written down to its recoverable service amount.

For each asset, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment deficits may no longer exist or may have decreased. If such indication exists, the Society estimates the asset's recoverable service amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable service amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable service amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in surplus or deficit.

ii. Impairment of cash-generating assets

At each reporting date, the Society reviews the carrying amounts of its non-financial assets to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment.

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 of other assets or Cash Generating Units (CGUs). Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of combination.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, 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.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

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

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only if there has been a change in the estimates used to determine the assets recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount or the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

B. Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currencies of the Society entities at the exchange rate at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Foreign currency differences are generally recognised in surplus or deficit.

7. Revenue

in NZD	***2019***	***2018***
Revenue from non-exchange transactions		
Commodity levy (A)	5,336,268	4,045,900
Shared research	1,152,754	1,208,241
Total revenue from non-exchange transactions	6,489,022	5,254,141
Revenue from exchange transactions		
Interest	37,503	36,256
Residue testing	60,810	56,100
Membership fees	32,925	33,600
Annual conference	-	108,099
Rent & administration services	21,887	26,000
Miscellaneous	44,247	5,899
Total revenue from exchange transactions	197,372	265,954
Total revenue	6,686,394	5,520,095

(A) Net income from commodity levies of $5,146,404 (2018: $3,880,875) 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 the Society as detailed in Note 8.

Accounting Policies

A. Revenue from non-exchange transactions

Non-exchange transactions are those where the Society receives value from another entity (e.g. cash or other assets) without giving approximately equal value in exchange. Inflows of resources from non-exchange transactions, other than services in-kind, that meet the definition of an asset are recognised as an asset only when:

- It is probable that the Society will receive an inflow of economic benefits or service potential; and
- The fair value can be measured reliably.

Inflows of resources from non-exchange transactions that are recognised as assets are recognised as non-exchange revenue, to the extent that a liability is not recognised in respect to the same inflow. Liabilities are recognised in relation to inflows of resources from non-exchange transactions when there is a resulting present obligation as a result of the non-exchange transactions, where both:

- It is probable that an outflow of resources embodying future economic benefit or service potential will be required to settle the obligation, and
- The amount of the obligation can be estimated reliably.

The following are the specific recognition criteria in relation to the Society's non-exchange transactions:

i. Commodity levy

Commodity levy is a levy imposed on all pipfruit grown and sold/exported by growers in New Zealand under the Commodity Levies (Apples and Pears) Order 2018 (previously Commodity Levies (Pipfruit) Order 2012 and Commodity Levies (Nashi Pears) Order 2012). Commodity levy revenue include levies from Pipfruit sales up to 31 March that are included in commodity levy returns received by the Society up to 31 May. Levy returns received after this date are reported as revenue in the following year.

ii. Shared research

Shared research revenue includes grants given by government or other organisations for conducting research relating to or affecting the pipfruit industry. Shared research revenue is recognised when the conditions or restrictions attached to the grant have been complied with. Where there are unfulfilled conditions attaching to the grant, the amount relating to the unfulfilled condition is recognised as a liability and released to revenue as the conditions are fulfilled.

B. Revenue from exchange transactions

i. Rendering of services

The Society is involved in providing services, including organising events for members. If the services under a single arrangement are rendered in different reporting periods, then the consideration is allocated on a relative fair value basis between the different services. The Society recognises revenue from rendering of services in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed based on percentage of work performed.

ii. Membership fees

Revenue is recognised over the period of the membership (usually 12 months). Amounts received in advance for memberships relating to future periods are recognised as a liability until such time that period covering the membership occurs.

iii. Interest income

Interest income is earned for the use of cash and cash equivalents and term deposits. Interest income is recognised in the statement of comprehensive revenue and expense as it is earned. Interest income is accrued using the effective interest rate method. The effective interest rate exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. The method applies this rate to the principal outstanding to determine interest revenue each period.

8. *Expenses*

in NZD	***2019***	***2018***
Research expenses	2,469,690	2,862,339
Market access	156,529	132,625
Relationships	97,610	178,222
Representation	87,155	87,780
Biosecurity	60,836	30,688
Apple Story	-	20,187
Knowledge management & communications	299,795	395,895
Capability development	140,954	119,486
RSE scheme	24,712	25,885
New varieties	36,078	12,808
Employee related costs	1,157,993	1,048,100
Commodity Levy collection fees & expenses	189,864	165,585
Depreciation & amortisation	52,705	56,876
Premises & office costs	423,347	434,347
Total operating expenses	5,197,268	5,570,823

Accounting Policies

A. Research expenses

The Society contracts external firms to undertake research on behalf of the pipfruit industry. These costs are expensed as incurred. 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.

During the year ended 31 March 2019, the Society has changed the estimation method for the research accrual. Previously the accrual was based on the full period of the research project, this has been changed to the time between the milestone prior to year end and milestone after year end. The effect of the change for the year ended 31 March 2019 for the Society is $263,000 less being recorded in research expenses and the accrual for research contracts (see Note 14).

B. Employee benefit expense

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Society has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

9. *Taxes*

The Society is a non-profit body and therefore is only liable for income tax on non-member related income.

in NZD	*2019*	*2018*
Amounts recognised in profit or loss		
Current tax expense	2,028	(1,735)
Tax expense /(benefit)	2,028	(1,735)
Reconciliation of effective tax rate		
Net profit/(loss) before tax	1,995,259	(1,046,756)
Income tax at 28%	558,673	(293,495)
Tax effect of taxation adjustments:		
Exempted income	(1,859,443)	(1,530,112)
Exempted expenses	1,444,235	1,542,704
Equity accounted investee	(141,717)	278,888
Non-profit organisation deduction	280	280
Tax expense	2,028	(1,735)
Income tax refund due		
Prior year refund outstanding	(12,694)	(1,515)
Current year tax expense/(benefit)	2,028	(1,735)
Resident withholding tax deductions	(10,534)	(9,727)
Imputation credits held	(92)	(84)
Refunds Received	1,149	804
Tax losses utilised	1,694	-
Adjustment to prior year	(2,063)	-
Tax payable/(refundable) on behalf of Administered funds	(291)	(437)
Tax payable/(refundable)	(20,803)	(12,694)

Accounting Policies

A. Income tax expense

Income tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'Surplus before tax' as reported in the statement of comprehensive revenue and expenses because the Society is exempt from income tax relating to member's activities. Taxable profit includes the Society's interest income and non-member activity income during the year. Current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

B. Deferred taxes

PBE IAS 12 Income taxes requires that the Society recognise a deferred tax liability (or asset) for any assessable (or deductible) temporary differences in the carrying amount of the Society's assets and liabilities recognised on the balance sheet. The majority of the Society's assets and liabilities are derived from member activity and management have determined that no assessable (or deductible) temporary differences exist. As a result, no deferred tax liabilities (or assets) have been recognised.

10. Cash and Cash Equivalents

in NZD	*2019*	*2018*
Cash and cash equivalents	1,443,252	554,758

Cash and cash equivalents do not include funds administered by the Society on behalf of industry groups. At balance date these totalled $223,766 (2018: $198,934). The Society has an overdraft facility of $500,000 (2018: $500,000), the security for the facility is the Reserve fund, which is invested in term deposits (refer note 12). Subsequent to balance date the overdraft facility limit was reduced to $100,000.

Accounting Policies

Cash and cash equivalents comprise cash on hand and cash at bank, deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value.

11. Trade and Other Receivables

See accounting policy in Note 7 Revenue and Note 15 Financial instruments.

in NZD	*2019*	*2018*
Receivables from non-exchange transactions		
Commodity levy	410,904	397,455
Other	76,484	134,787
Total receivables from non-exchange transactions	487,388	532,242
Receivables from exchange transactions		
Other	87,898	9,160
Total receivables from exchange transactions	87,898	9,160
Total Trade and other receivables	**575,286**	**541,402**

12. Other Investments

See accounting policies in Notes 15 Financial instruments

in NZD	*2019*	*2018*
Term deposits	1,000,000	1,000,000

The Society's term deposits are set aside under two funds, $600,000 for the reserve fund (2018: $600,000) and $400,000 for the Government Industry Agreement (GIA) fund (2018: $400,000).

The Reserve fund was created to provide for a shortfall in Commodity Levy income which may seriously impact on the ability of the Society to meet its objectives and obligations.

The GIA fund was created after the Society signed the GIA for Biosecurity Readiness and Response Agreement. The agreement details the cost sharing mechanism between industry and the government. The Pipfruit Industry could be liable for a share of these costs. The Society may put further funds into this reserve as required. Subsequent to balance date the Board has approved as additional $200,000 be added to the reserve.

13. *Equity-Accounted Investee (Prevar)*

in NZD	**2019**	**2018**
Net carrying value		
Equity accounted investment at cost	15,406,755	12,950,000
Accumulated share of deficit	(11,671,710)	(10,861,838)
Accumulated impairment losses	-	(1,316,005)
Net carrying value	3,735,045	772,157
Movements in carrying amounts		
Carrying value at the beginning of the year	772,157	1,768,185
Share of (deficit)/profit for the year	(809,872)	(996,028)
Reversal of accumulated impairment losses	1,316,005	-
Share capital introduced during the year	2,456,755	-
Carrying value at the end of the period	3,735,045	772,157

A. Change in shareholding:

On 28 February 2019, the Society's equity interest in material associate, Prevar, increased from 45% to 55%, changing the investment from an associate to a joint venture. The change has not changed the accounting treatment of the investment and the Society continues to be accounted for its investment as an equity accounted investee, (2018: no change, Prevar was an equity accounted associate).

The increase in shareholding occurred due to the signing of the deed of variation to shareholder agreement, in which the Society has also agreed to acquire and Prevar has agreed to issue 71,250 shares for $2,800,000 over a three-year period. The fair value of the amount agree is $2,456,754 and has been recorded as a liability for the Society. Previous impairment losses recorded have been reversed in the current period, as the estimates used to determine the assets recoverable amount have changed. The changes include increased certainty, timing and quantum of cash flows expected to be generated by Prevar.

Prevar is not publicly listed. The following table summarises the fair value of Prevar at 28 February 2019:

in NZD	**28-Feb-19**
Current assets	5,528,851
Non-current assets	14,517,985
Current liabilities	(2,908,909)
Non-current liabilities	-
Net assets (100%)	17,137,927
Net assets (Society's share)	6,776,904

The difference between the Prevar's fair value and carrying value at 28 February 2019 is the value of Prevar's plant variety rights and associated trademarks (PVR's). The fair value of the PVR's has been estimated using discounted cash flows. Key assumptions used in the estimation of the value were as follows:

in percent	**28-Feb-19**
Discount rate	26%
Terminal value growth rate	(10%)
Operating expense growth rate	2%

The discount rate was a post-tax measure assessed by reference to typical venture capital required returns on early stage investments as provided by independent advisors. The cash flow projections include specific estimates for 12 years and a terminal growth rate thereafter, based on estimated revenue and expenses for agreements in place as at the date of the assessment as well as projected operating expenses. A significant judgement factor is the determination of cash flows, being based on estimated future plantings of existing PVRs, estimated crop yields and resulting revenue generated by the licensees to determine the future cash flows receivable by Prevar under the PVRs.

B. Prevar's summarised financial statements

Prevar has a balance date of 31 March, (2018: Prevar's balance date was 31 May, equity accounting was adopted on the basis of management reports to 31 March). The following table summarises the financial information of Prevar as included in its own financial statements adjusted for differences in accounting policies:

in NZD	***2019* *10 months***	***2018* *12 months***
Current assets	4,659,577	2,311,462
Non-current assets	4,158,245	350,263
Current liabilities	(2,123,858)	(764,837)
Non-current liabilities	-	-
Net assets (100%)	6,693,964	1,896,888
Revenue	2,003,737	1,934,412
Expenses	3,534,908	4,347,078
Total comprehensive income (100%)	(1,531,171)	(2,412,666)
Total comprehensive income (Society's share)	(809,872)	(996,028)

There were no contingent liabilities or assets relating to the Society's interest in Prevar (2018: nil).

Accounting Policies

The Society's interests in equity-accounted investees comprise interests in an associate and then a joint venture. Prevar Limited ("Prevar") was an associate prior to the change in shareholding in February 2019, after the change in shareholding the investment is a jointly-controlled entity, referred to as a joint venture within these financial statements.

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

Joint Venture – The Society has presented the summarised financial information of the joint venture based on the joint venture's own financial statements, prepared in accordance with PBE Standards. This is consistent with PBE IPSAS 8.63, (refer note 13).

Interests in the associate and the joint venture are accounted for using the equity method. They are initially recognised at cost, which includes transaction costs. Subsequent to initial recognition, the financial statements include the Society's share of the surplus or deficit and other comprehensive revenue and expense of equity-accounted investees, until the date on which significant influence or joint control ceases.

14. *Trade and Other Payables*

See accounting policy in Note 8 Expenses and Note 15 Financial instruments.

in NZD	*2019*	*2018*
Trade creditors	170,927	444,434
Research contracts	1,008,560	811,025
Accruals	45,396	217,273
PAYE/Kiwisaver payable	21,813	29,711
Total Trade and other payables	1,246,696	1,502,443

15. *Financial Instruments*

Accounting classifications and fair values:

in NZD	*2019*	*2018*
Financial assets - Loans and receivables		
Cash and cash equivalents	1,443,252	563,918
Trade and other receivables	140,466	227,461
Other investments	1,000,000	1,000,000
Total Financial assets	2,583,718	1,791,379
Financial liabilities - Other financial liabilities		
Trade and other payables	900,531	474,145
Employee entitlements	52,319	36,112
Capital payable	2,236,167	-
Total Financial liabilities	3,189,017	510,257

Accounting Policies

The Society classified non-derivative financial assets into the following categories: loans and receivables.

The Society classifies non-derivative financial liabilities into the following categories: other financial liabilities category.

A. Non-derivative financial assets and financial liabilities - recognition and derecognition

The Society initially recognises loans and receivables on the date that they are originated.

The Society derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in such derecognised financial assets that is created or retained by the Society is recognised as a separate asset or liability.

The Society derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Society currently has a legally enforceable right to offset the amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

B. Non-derivative financial assets - measurement

Loans and receivables - These assets are initially measured at fair value plus any directly attributable transaction cost. Subsequent to initial recognition, they are measured at amortised costs using the effective interest method.

C. Non-derivative financial liabilities – measurement

Other non-derivative financial liabilities are initially measured at fair value less any directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial liabilities are measured at amortised cost, and changes therein are generally recognised in surplus or deficit.

D. Impairment

Financial assets not classified as at fair value through surplus or deficit, including an interest in an equity-accounted investee, are assessed at each reporting date to determine whether there is objective evidence of impairment.

Objective evidence that the financial assets are impaired includes:

- Default or delinquency by a debtor;
- Restructuring of an amount due to the Society on terms that the Society would not consider otherwise;
- Indications that a debtor or issuer will enter bankruptcy;
- Adverse changes in the payment status of borrowers or issuers;
- The disappearance of an active market for a security because of financial difficulties; or
- Observable data indicating that there is a measurable decrease in the expected cash flows from a group of financial assets.

i. Financial assets measured at amortised cost

The Society considers evidence of impairment for these assets at both an individual asset and a collective level. All individual significant assets are individually assessed for impairment. Those found not to be impaired are then collectively assessed for any impairment that has been incurred but not yet individually identified. Assets that are not individually significant are collectively assessed for impairment. Collective assessment is carried out by grouping together assets with similar risk characteristics.

In assessing collective impairment, the Society uses historical information on the timing of recoveries and the amount of loss incurred and makes an adjustment if current economic and credit conditions are such that the actual losses are likely to be greater or lesser than suggested historical trends.

An impairment loss is calculated as the difference between an asset's 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 surplus or deficit and reflected in an allowance account. When the Society considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss is reversed through surplus or deficit.

ii. Equity-accounted investees

An impairment loss in respect of an equity-accounted investee is measured by comparing the recoverable amount of the investment with its carrying amount. An impairment loss is recognised in profit or loss and is reversed if there has been a favourable change in the estimates used to determine the recoverable amount, (refer Note 13).

16. *Commitments*

A. Operating leases

in NZD	***2019***	***2018***
Less than one year	9,168	26,145
Between one and five years	20,628	36,672
More than five years	-	-
Total Operating lease commitments	29,796	62,817

Operating lease commitments include a photocopier. Subsequent to balance date the Society has renewed the lease for office space at 507 Eastbourne Street West, Hastings. The operating lease commitment for the renewed lease is:

in NZD	***2019***
Less than one year	63,210
Between one and five years	303,408
More than five years	88,494
Total Operating lease commitments	455,112

Accounting Policies

i. Determining whether an arrangement contains a lease

At inception of an arrangement, the Society determines whether the arrangement is or contains a lease.

At inception or on reassessment of an arrangement that contains a lease, the Society separates payments and other consideration required by the arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Society concludes for a finance lease that it is impracticable to separate the payments reliably that an asset and a liability are recognised at an amount equal to the fair value of the underlying asset; subsequently, the liability is reduced as payments are made and an imputed finance cost on the liability is recognised using the Society's incremental borrowing rate.

ii. Leased assets

Leases of property, plant and equipment that transfer to the Society substantially all of the risks and rewards of ownership are classified as finance leases. The leased assets are measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the assets are accounted for in accordance with the accounting policy applicable to that asset.

iii. Lease payments

Payments made under operating leases are recognised in surplus or deficit on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

B. Research and development

in NZD	***2019***	***2018***
Less than one year	821,338	1,008,669
Between one and five years	1,438,611	2,259,949
More than five years	-	-
Total Research and development commitments	2,259,949	3,268,618

The amounts shown are net of grants receivable for contracted projects. The Society's significant research contracts contain clauses whereby if the Society does not collect sufficient commodity levy income due to an adverse event the contracts may be cancelled.

17. *Contingent liabilities*

The GIA for Biosecurity Readiness and Response agreement (the "agreement") was signed in 2014. Cost sharing anticipated under this agreement is yet to commence due to a number of matters still being negotiated. However, during the year ended 31 March 2019 a fruit fly event occurred for which the Society has agreed, subject to the matters being negotiated being resolved, to contribute per the cost sharing mechanism of the agreement. As at 31 March 2019 the estimated contribution is $353,000 (2018: nil), subsequent to balance date, due to finding further fruit flies, further work has been required and the estimated cost sharing contribution revised to $696,000. The amounts will be funded from the GIA fund (refer note 12) and cash surpluses.

Accounting Policies

The Society does not recognise contingent liabilities but discloses details of any contingencies in the notes to the financial statements, unless the possibility of an outflow of resources embodying economic benefits or service potential is remote.

18. *Equity and Reserves*

Capital management

The Society's capital is its Equity, which comprises accumulated comprehensive revenue and expense. Equity is represented by net assets.

The Society manages its Equity prudently as part of the process of effectively managing its revenues, expenditure, assets, liabilities and all related financial affairs. In order to ensure that the Society achieves all its objectives and purpose, the Society has a Board of Directors that actively controls and monitors progress of plans and activities against financial and other performance indicators.

The Society is not currently subject to any externally imposed capital requirements.

19. *Related Parties*

A. Associate/Joint Venture

Investee name	***Principal place of business***	***Ownership interest 2019***	***Ownership interest 2018***
Prevar Limited	New Zealand	55%	45%

The Society received income from providing administration support and for cost recoveries during the period. Refer to Note 13, for details of share capital provided to Prevar.

	Sales made		Amount receivable	
in NZD	2019	2018	2019	2018
Prevar Limited	8,647	9,577	2,163	2,507

B. Transactions with key management personnel

i. Key management personnel compensation

Key management personnel includes the Directors and Senior management. Senior management consist of the Chief Executive Office, Manager Trade Policy and Strategy, Manager Biosecurity (new in 2019), Manager Projects and Extension Services, Manager Capability Development, Manager Finance and Accounting, Technical Manager Market Access and Regulatory Affairs, and Technical Manager Crop Protection.

The aggregate level of remuneration paid and number of persons (measure in "full-time-equivalents" (FTEs) for senior management) in each class of key management personnel is presented below:

	2019		2018	
in NZD	Remuneration	Number	Remuneration	Number
Board members	171,000	8	172,292	8
Senior Management	869,720	7	716,932	6
Total	1,040,720	15	889,224	14

ii. Key management personnel transactions

Evan Heywood is a Director of the Society and also a Director of Heywood Orchard Ltd, Golden Bay Fruit Ltd, Golden Bay Fruit 2008 Ltd, Next Generation Apples Ltd and has been appointed by the Society to the Prevar Board of Directors. The Society received levies, residue testing fees, and other minor revenue from Heywood Orchard Ltd and Golden Bay Fruit Ltd during the period. Golden Bay Fruit 2008 Ltd and Next Generation Apples Ltd have entered into commercial agreements with Prevar. Prevar received commercial income from Golden Bay Fruit 2008 Ltd and Next Generation Apples Ltd during the period.

Cameron Taylor is a Director of the Society and also a key management personnel of Taylor Corporation Ltd. The Society received levies, residue testing fees and other minor revenue from the Company during the period. Taylor Corporation Ltd and Golden Del Orchard Ltd are closely related entities. Golden Del Orchard Limited is a shareholder in Next Generation Apples Limited who have entered into commercial agreements with Prevar. Prevar has received commercial income from Next Generation Apples Ltd during the period.

Matthew Hoddy is a Director of the Society and also a Director of Vailima Orchard Ltd, Heartland Fruit New Zealand Ltd (from 1 February 2018). The Society received levies, residue testing fees and other minor revenue from these companies during the period. Companies in which Heartland Fruit New Zealand Ltd are a shareholder, have entered into commercial agreements with Prevar and Prevar has received commercial income from these Companies during the period.

Bruce Beaton is a Director of the Society and was a director of ENZA Fruit New Zealand International Ltd (ceased 29 March 2019) and is also General Manager of T&G Pipfruit NZ. The Society received sponsorship and levies from these companies during the period. ENZA Fruit New Zealand International Ltd and companies in which they have a shareholding have entered into commercial agreements with Prevar. Prevar has received commercial income from these Companies during the period.

Jackie van der Voort is a Director of the Society and also a key management personnel of CAJ Van der Voort. The Society received levies and other minor revenue from the Company during the period.

Karen Morrish is a Director of the Society (appointed March 2019) and also a key management personnel of Scales Corporation Ltd, who owns Mr Apple New Zealand Ltd. The Society received sponsorship, levies, residue testing fees and other minor revenue from these companies during the period. Companies in which Mr Apple New Zealand Ltd are a shareholder have entered into commercial agreements with Prevar and Prevar has received commercial income from these Companies during the period.

Andrew Borland is a former Director of the Society (resigned March 2019) and also a Director of Mr Apple New Zealand Ltd, Fern Ridge Produce Ltd and Scales Corporation Ltd. The Society received sponsorship, levies, residue testing fees and other minor revenue from the Company during the period. Companies in which Mr Apple New Zealand Ltd are a shareholder have entered into commercial agreements with Prevar and Prevar has received commercial income from these Companies during the period.

Nadine Tunley was the Chairperson of the Society (resigned April 2018) and was a key management personnel of Freshmax NZ Ltd during 2017. The Society received levies and other minor revenue from these companies during the previous period.

The aggregate value of transactions and outstanding balances related to key management personnel and entities over which they have control or significant influence were as follows.

	Sales made		***Amount receivable***	
in NZD	***2019***	***2018***	***2019***	***2018***
Mr Apple New Zealand Limited	1,077,320	822,240	-	-
Fern Ridge Produce Limited	171,517	134,291	-	-
Taylor Corporation Limited	129,192	98,070	-	-
Heartland Fruit New Zealand Limited	198,815	-	-	-
T&G Pipfruit Limited (and related entities)	7,140	18,969	-	2,691
ENZA Fruit New Zealand International Limited	1,229,344	702,812	-	-
Golden Bay Fruit Limited	261,418	-	-	-

Accounting Policies

The Society regards a related party as a person or an entity with the ability to exert control individually or jointly, or to exercise significant influence over the Society, or vice versa. Members of key management are regarded as related parties and comprise the directors and senior management of the Society.

20. Subsequent Events

Other than the matters in the following notes there are no material subsequent events:

- Decrease in overdraft limit (Note 10);
- Increase in GIA fund (Note 12);
- New operating lease agreements (Note 16); and
- Revision of contingent liability (Note 17),

(2018: Due to funding changes for Prevar, the shareholders were in discussion regarding the future ownership and capital of Prevar).

21. Comparatives

There have been a number of prior period comparatives which have been reclassified to make disclosure consistent with the current year.

New Zealand
Apples & Pears