

19 December 2016

Dear Shareholder,

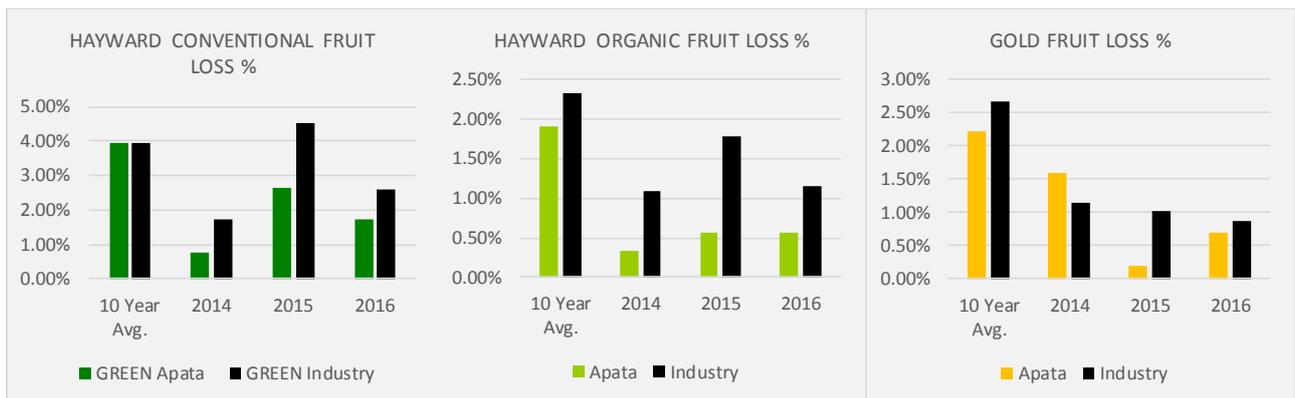
With Christmas upon us the kiwifruit industry has only in the last couple of weeks completed the 2016 loadout program. In contrast avocados remain in full swing so we thought it an opportune time for the Apata Board to update shareholders on the last few month’s operational activity and our future plans.

2016 Kiwifruit Harvest

When we last wrote to you in July we reported a record kiwifruit harvest across the industry of 147.5M trays, up from 122.3M trays the year before. The harvest had been the longest on record commencing in March and stretching right through to the end of June. It will come as no surprise to hear the loadout program was equally long with large quantities of fruit required to be held late to accommodate the offshore sales run rates.

I’m pleased to report that in spite of the volume of fruit and the late loadout program the results achieved for our growers were nothing short of spectacular.

Looking at some of the key performance indicators we have in the kiwifruit industry we can analyse this comment further. Apata’s onshore fruit loss continued the trend of good results since the amalgamation of Aerocool and Apata in 2013:

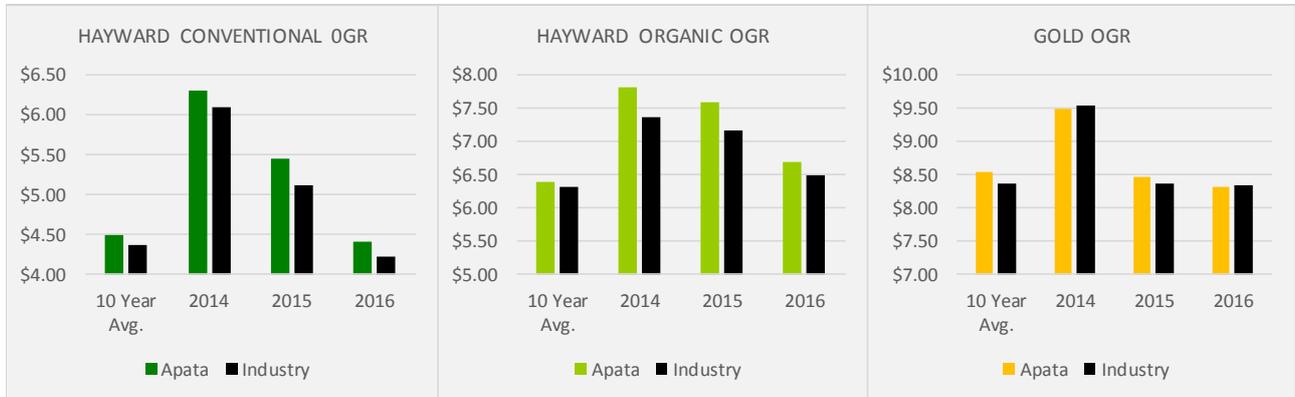


Over the last few years the industry has sought to reward suppliers for good quality fruit in the market and penalise suppliers for poor quality fruit presented to the market. The supplier accountability program has accordingly been expanded over that period to incorporate additional markets and additional varieties. We at Apata fully support these measures as Zespri’s brand is everything and the market must be supplied good quality Zespri fruit at all times of the year. Apata Group’s offshore accountability earnings for 2016 are 14.6c per tray shipped vs the industry 7.8c. We note that a premium is not guaranteed. For example in the 2015 season the

industry finished with a net penalty per tray of **-0.2c** per tray supplied while Apata earned 10.6 per tray.

As an industry therefore we have some very good measures of fruit quality performance onshore with fruit loss, and offshore with supplier accountability and intercheck.

The key performance measure however is how much have our growers received in their bank accounts or the Orchard Gate Returns. Again I'm pleased to report another good year and a pleasing trend line, a summary of which is below:



*Note 2016 numbers above are December 2016 forecast

On behalf of the Apata Group board I would like to acknowledge the continued hard work and dedication of our staff over what has been a long and trying season, the results are testament to this effort.

2016/17 Avocado Season

The export season commenced early this season in August with a record or near record crop expected to be harvested. The program into both Australia and Asia started well with final OGR's expected to be over \$20/tray for export representing an excellent result given the size of the crop and further evidence of the continued success of the Avoco marketing program spearheaded by Primor Produce and Southern Produce.

The Western Australian producers have again disappointed the market and completed supply programs so the market is New Zealand's to fill for the next couple of months. If we can continue to supply good quality fruit in an orderly fashion our growers will see fantastic returns over the coming month or so.

A word of caution however. In the last few days the industry is dealing with some poor outturn results in Australia with unsavoury spots appearing on the ends of the fruit. Apata's outturns have actually been very good but nevertheless we are working with our marketers to ensure our fruit quality is not compromised over the remainder of the season. We are approximately 60% through our export program for 2016/17 at the time of writing.

Site Development

Given the scale of the works required we had to commit some time ago to the re development of our Mends Lane Te Puke site. The re development includes the installation of a new 8 lane MAF Roda packing line, a new loadout store and container loading ramp, reconfiguration of the site roading, a new effluent disposal system, new canopies and strengthening and reinforcing of the existing super structure.

The re development allows us sufficient packing capacity to handle the anticipated volumes to be supplied from our grower clients in coming seasons and we have the land available at our Old Coach Road Te Puke site to right size our cool storage over that period as required.

The total development budget for Mends Lane is just under \$13M and we had to commit to aspects of this several months ago given lead times and scale of works required. It was a difficult decision to make as we have had three consecutive years of record yields in the Hayward variety so we had to prudently plan for yields in line with 2015 and 2016. If those yields came to pass again in conjunction with the projected increase in Gold we simply would not have had the productive capacity to handle the crop from our existing growers if we did nothing.

The Gold volumes are still projected to increase. The Hayward yields, however, look like being significantly down on the last couple of years. The first official industry crop estimate has Hayward 30% down on last year and this mirrors the counts and estimates we are seeing on Apata orchards. The reduction in yield will mean we could pack 3M less trays of Hayward year on year with a direct impact of several million dollars on our profitability and cash flow for 2017. We have been able to scale back the works program by withdrawing coolstore builds planned for Old Coach Road but as noted above were committed to the bulk of the works at Mends Lane.

2016 Financial Position

The 2016 year has been a good one financially. Record crop numbers, an efficient operation and a late loadout program have contributed to a solid year. We still have an unresolved material issue being an open claim against us for costs associated with 3rd party pocket packs but that aside we would expect a pre-tax profit of greater than \$8M. Given the scale of the development undertaken in the last two summers and still to complete over the balance of this summer the business needs the cash flow associated with this profitability.

Looking ahead however, as noted above, we can expect 2017 to be significantly different with lower crop numbers, an earlier loadout program and the cost of the Te Puke re development (mainly interest and depreciation) weighing heavily on our forward projections. It is too early to make an assessment of the impact of these factors on our ability to pay a dividend in March 2017 but suffice to say this drop in Hayward yields is a material issue for our business in 2017. We will have more information to hand once the next round of Hayward counts are completed in early 2017.

We see the reduction in Hayward yields as a correction, not a long term trend and we are encouraged to see Zespri's long term planning using yields somewhat higher than the expected 2017 numbers. Therefore we still expect the capacity being made available to be the right move for our business long term and that maximising the use of Apata's available land as industry volumes continue to grow to be the right thing to do for shareholders.

We continue to meet the targets provided to our financiers and are not forecasting any breaches of banking covenants.

In Closing

On a sad note we are saddened to hear about the recent passing of Roly Earp. Roly was a true pioneer having been involved in the industry for many decades. More importantly Roly was always a gentleman and he was well liked and respected throughout the industry. Our thoughts are with the Earp family at this time.

The Apata Group board would like to thank our shareholders for their continued support as we build on the solid foundation established over 2014-2016 in the coming years.

We wish everyone the best for the upcoming holiday's and trust that you will get some time to take a break with your loved ones and enjoy the festive season. For those travelling stay safe and we look forward to catching up with you all in 2017.

Best regards,

A handwritten signature in black ink, appearing to read 'Graham Cathie', with a stylized flourish at the end.

Graham Cathie
Chairman, Apata Group Limited

