3 July 2017

Dear Shareholder,

The kiwifruit industry has recently completed the 2017 harvest so this is an appropriate time to update our shareholders on the season and the progress of Apata Group.

2017 Kiwifruit Harvest
As indicated back in December, the Hayward yield is confirmed now as 30% down on last season. This is a material and disappointing impact for all participants in the Industry. The Gold volumes also falling well short of potential (best guess is 5m trays) albeit much less affected than Hayward.

Variety	Industry 2017	Apata Group 2017	Industry 2016	Apata Group 2016
Hayward Conventional	65.85	5.32	93.02	7.85
Hayward Organic	2.79	0.89	3.98	1.19
Gold	53.03	3.97	48.96	3.45
SweetGreen	1.22	0.24	1.55	0.34
TOTAL	122.9M	10.4M	147.5M	12.8M

Notwithstanding the low and variable flowering, by early February, indications were for a vintage tasting year for the fruit hanging in the canopy. However early Autumn conditions were unusually warm and wet, with lower than average sunshine hours. This had the effect of continuing fruit growth, but retarded dry matter accumulation. Adding to this challenge, we endured no less than three tropical cyclones over harvest, three heavy frosts in May, and generally a higher level of market actionable pests in the crops. Class 1 recovery rates were consequently down, most profoundly in Gold where the taste rating and clearance to pick are now micro-managed by size. Growers throughout the Industry forfeited millions of trays of smaller fruit in favour of harvesting the majority larger sizes. Another key feature of 2017 Gold was the incidence of overripe fruit. While this was an infinitesimal percentage of the crop, it had a profound impact on the economic processing of the crops. Review work is now underway to establish whether this correlates to the metre of autumn rain we experienced, or whether there is an inherent vice in the variety that will need more active management on orchard.

Like last year, harvest was late and exacerbated by the increasing proportion of Grower earnings hinging on the Zespri's key taste metric - TZG. We certainly saw suboptimal decisions made as Growers near-exclusive focus was on maximising TZG, with pack houses sitting idle in what is normally a busy period, pushing the harvest window much later.

Aside from the trials and tribulations of this harvest, Growers, Harvest Contractors and our Pack houses navigated through very well, with the resulting fruit sold, in transit or sitting in our cool stores in good shape.

Early sales are looking very encouraging throughout the markets, with a good level of confidence in fruit quality being exported right through to November. Zespri has indicated a range below of OGR forecasts by pool, but early progress suggests to us that Growers will be at the upper end of those bands.

POOLS	2017/18 Indicative Range - June forecast
Zespri Green	$5.65 – $6.15 per tray
Zespri Organic Green	$7.65 – $8.15 per tray
Zespri Gold	$8.75 – $9.25 per tray
Zespri Green14	$4.20 – $5.20 per tray

Site Development

Development and establishment of a new MAF Roda packing line at our Mends Lane site surpassed our expectations and was a great success. The Near Infra-Red Grading equipment proved invaluable as we recovered tens of thousands of trays of Sun Gold that would otherwise have been rejected for low dry matter.

Unseasonably wet weather toward the end of the development program hampered the completion of earthworks and septic system, which will now be completed this spring. However the incomplete works did not limit our ability to operate this season.

Recognising that the timing of a new packing line coincided with a seasonal contraction, we have at least bedded in the processes necessary to accommodate 2 machines on the site such that when the volumes rebound, we are confident in the site’s capacity to cope with the future demands.

The Cool store development at Old Coach Road was halted late last year remains in that state. We will review again this spring once we have a better indication of crop loads for 2018.

Avocados

A valued component of our business is Avocados which naturally complement Kiwifruit in using Apata’s world class facilities, people and systems. Since our inception we have seen the power of disciplined supply of consistent quality fruit to market. The advent of Avoco, a collaboration between Primor and Southern Produce has been a quantum step in the right direction, but could only be truly tested under pressure. The 2016/17 season was a bumper crop, the second largest on record, and the perfect opportunity to really test the system. From harvest to customer delivery, the process was seamless, with the market responding well and remaining strong throughout.

In April 2017 the Avoco marketers finalised the export returns for a bumper 2016/17 season, which in our view are testament to the marketing initiatives put in place. By way of contrast the last ‘big’ season was in 2014/15 and returns were around $15/tray

Size groupings	**14,16,18,20**	**23,24,25**	**28,30,32**
OGR / tray	**$26.47**	**$26.27**	**21.71**

Our Growers’ returns are between $2-$4 better than those using alternative marketers, and we’re already seeing a wave of new Growers signing up for this this new year.

Volumes for this coming season are forecast to be less than half of previous year. In being exposed to two strong products, we hope that peaks and troughs may counter each other, but ironically last season had both as bumper crops, and this season both being down.

Early maturity monitoring is showing a likely early start to the season. However there will be tension between very high 'bird in the hand' values now versus the even higher 'two in the bush' after Christmas where NZ enjoys an uncontested sales window in Australia.

It is anybody's guess just what sort of value will be returned for this season, within a backdrop of severe supply shortage and a seemingly insatiable appetite for this super food, either side of the Tasman, and through Asia. This will make for an entertaining program.

Apata Group Shares

We have well configured high-quality assets, a capable management team, an excellent brand, and formidable performance results, but the projected growth will continue to place a heavy burden on capital to cater for our clients.

Last month I wrote to you, confirming our 5-year planning process, and specifically a detailed 5 -stage proposal. The first stage was to acquire and cancel 2,301,347 shares held by John Anderson at a value of $1.95 in exchange for interest bearing debt repayable in 2 years.
Thank you to those who gave the Board feedback on that proposal. In light of that feedback, and on the basis that the unrelated Directors view this to be within the interests of remaining shareholders, we have executed stage 1, and confirm John Anderson has retired as a Director.

I would like to take this time to acknowledge and thank John for not only his time and effort within this merged company, but the long involvement he has had within the NZ Kiwifruit Industry dating back to 1973. We wish John well for the various endeavours he will be pouring his energy into for the future. The remaining Board members have appointed Paul Elliott as a commercial Director to join us in this next stage of development.

Your Board and Management are now working on the next stages of our recapitalisation program. I articulated the benefits of this recapitalisation program in last month's letter, but would like to be clear that we will not be rushed, and each step will be assessed on the basis of cost / benefit and equity to existing shareholders. Further, any candidates for a new cornerstone shareholder will need to bring significant synergy to our business and shareholder wealth.

2017 Financial Position

This season we packed 94% of budgeted kiwifruit volume. Full year profitability will now be challenging, but still within our power to achieve. Management have reset the operation to reflect the tighter circumstances, and remain confident in achieving budgeted profit and cash position. Our bank, ANZ is well aware of the wider industry experience and the longer term forecasted volumes, and are quite comfortable with where we currently sit.

The $1M contaminated packaging claim pertaining to 2016 remains in mediation, with an appropriate provision made in the 2016 accounts. We remain of the view that resolution will not have any profit impact in this current year.

At our AGM in March we discussed dividends, and I reiterate this is a high priority for our Board. Our revised forecast makes some reasonable assumptions based on historical performance and shipping timeframes, which in coming to pass, will give us flexibility to restart our dividend regime. However, as confident as we are with our Post-Harvest business, things are tight, and our results are inextricably linked to the performance of fruit delivered to market for the full season, therefore we will defer our decision on dividend until later in the year when the performance is much closer to completion and we will also have a good indication of 2018 volume.

Notwithstanding a challenging year arising from a seasonal 'blip' in the numbers, the 5-year plan remains unchanged, and we remain resolute to position Apata in the strongest way possible to endure and grow for the benefit of Growers and Shareholders.

I will write to you prior to Christmas to confirm our position on Dividends and our progress on the recapitalisation projects.

I thank our loyal shareholders and growers for their continued support as we continue to build on the solid foundation we have established over the last few years.

Best regards,

Graham Cathie
Chairman, Apata Group Limited