

15 December 2020

Dear Shareholder,

Conditions have been stable for the balance of this year, with kiwifruit quality on and offshore performing exceptionally well. Having navigated through the Covid-19 turmoil over harvest, we've continued on exporting the largest crop ever, and fair to say we have a team very much looking forward to some time off over Christmas.

Zespri's November forecast heralded further improvement in Grower returns for the 2020 harvested crop, reflecting even stronger market conditions and better than expected fruit quality performance in the latter half of the season. At the same time Zespri released to growers its 5 year outlook which saw an increase in Green returns of 20% and Gold returns of 17% forecast over this period. Whilst these are provided by Zespri as guidance only they are extremely encouraging forward indicators for the kiwifruit industry. We've just completed our second trial season with blueberries and continue to learn and improve in this category.

By Christmas we will be approximately 80% through our Avocado harvest. Harvest has been executed well to date, with excellent fruit quality albeit much smaller than normal and a revised export forecast down by 6%, which isn't material for us. We're enjoying strong performance in Australia with a light domestic crop, and despite a new supply channel from Chile the market has not been materially impacted this season. Disruption in international shipping has been a challenge to date, but so far so good. Last month we marked the 30th year anniversary of servicing the Avocado sector, sharing some time with our marketing partners and Growers. Notably there were a number there who can recall right back to day 1; good to reflect on the excellent relationships we have forged and maintained over 3 decades.

Following my update in August, our Syndicated Orchard Development in Edgecumbe has progressed well with the last of the land parcels now under contract. Since we're awaiting issue of revised title boundaries, the land will remain on our balance sheet at year end, but we expect the transactions to be settled in the middle of 2021. I note there is continuing interest for land conversion to kiwifruit, and our development team have a full program ahead for 2021.

Our investment in processing automation continues per plan. Despite potential delays of some componentry from overseas we remain confident with the implementation designed to allow operational continuity if we do suffer a delay in supply.

Concrete is now being poured for a 1.5million tray Coolstore complex marking the first stage of significant development ahead for our Old Coach Road site. Steel is now being delivered, and we'll see structures begin to be erected prior to Christmas.

Outlook

Zespri's initial December forecast below

	<i>millions of trays</i>	2020	Dec forecast for 2021	Change
HW1CK	Hayward Conventional	67.94	73.74	5.80
HW1OB	Hayward Organic	2.77	3.14	0.37
HE1CK	Sweet Green	0.27	0.22	-0.05
GA1CK	SunGold Conventional	86.32	96.97	10.65
GA1OB	SunGold Organic	1.47	2	0.53
		158.77	176.07	17.30

The SunGold growth is per expectation and a very likely volume, however the Hayward volume will rely heavily on summer conditions, particularly rainfall. I note the actual Hayward volume for 2020 was 12% down on the December estimate, in large part due to the extraordinarily dry conditions last summer.

Pollination and early growing conditions have been excellent to date, and with a forecasted La Nina weather pattern over this summer we remain hopeful for a vastly better growing season for this important variety.

Avocado pollination also has gone well, with the fruit set indicating a similar volume to that of this season.

Labour supply remains the wild card for the 2021 kiwifruit harvest with much coverage in the media, particularly for Horticultural crops becoming ready for harvest prior to kiwifruit.

The Government announcement of 2,000 RSE workers for the New Year with strict quarantine protocols and a substantially increased wage rate heralds a stepped change in our cost structure which will ultimately be borne by Growers. This pill would be easier to swallow if it solved our labour supply needs, but it does not. Since key infrastructure decisions to cater for harvest are made around August / September in the prior year, there is no opportunity to change our automation plan for 2021. We will certainly contemplate an acceleration of our future plans depending on how 2021 shapes up, however I note this is not a simple solution given the considerable practical implementation issues and substantial capital required.

In the meantime, we will be focused on attracting the remaining backpackers and New Zealand citizens for this coming harvest.

On top of an increasing cost structure, the compliance element just grows and grows both for Orchards and Post-harvest. Sustainability standards for orchards looms on the horizon, however remains opaque to date. That said, the profitability of Horticulture remains sound as evidenced by the strong values evident from orchard sales in recent times.

Our bank remains very supportive of our plan for growth, and we have recently secured sufficient funding for the next three years. Amidst the difficult global trading conditions, our Industry has bucked the trend with a relatively stable outlook; a fortunate position to be in.

I have decided this will be the last year on the Apata Board, our March AGM being my final duty to conduct. Reflecting on the last 8 years as Chairman, we've certainly seen some challenges as we navigated through PSA recovery only then to embark on a high growth trajectory courtesy of the SunGold Licence release program. The amalgamation with Aerocool in 2013 provided a key part of the platform for Apata to cater for this growth.

We have an engaged Board, strong management, good quality assets, excellent culture and an enviable reputation in the Industry. I'm satisfied I'm leaving the Company with a clear strategy and capable hands to execute.

Over the next few months, the Board will consider suitable candidates for the Board vacancy, as well as the next Chair to navigate us through this next phase of growth.

Finally, I thank you for your support, and wish you all the best over Christmas. I look forward to seeing you in 2021.

Best regards



Graham Cathie
Chairman, Apata Group Limited
