



The New Zealand Kiwifruit Board

2005 / 2006

Annual Report

The New Zealand Kiwifruit Board was established by Regulation 32 of the Kiwifruit Export Regulations 1999 and is known as **Kiwifruit New Zealand**

Kiwifruit New Zealand's Annual Report

1 April 2005 to 31 March 2006

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References to "the Regulations" or "the Kiwifruit Export Regulations" in this report are references to the Kiwifruit Export Regulations 1999

References to "Zespri" in this report include Zespri Group Limited and Zespri International Limited

References to "Zespri's Export Authorisation" in this report are references to the Authorisation to Export Kiwifruit Granted to Zespri Group Limited by Kiwifruit New Zealand

References to "the Single Desk" or the "Single Point of Entry" are referring to Zespri having an exclusive right to export kiwifruit to all countries except Australia.

Kiwifruit New Zealand's Year

During the year ended 31 March 2006 Kiwifruit New Zealand:

Separated the activities of **KNZ** from KGI

Introduced a **new regime** for collaborative marketing

Kept in **contact with the Markets, Zespri Marketing Managers, Collaborative Marketers, Product Groups, Growers and Suppliers**

Monitored the **flow of information** from Zespri

Monitored Zespri's **non core business assessments**, including for 12 month supply

Dealt with **complaints, enquiries and appeals**

Ensured **collaborative marketing returns** maintained at an acceptable level

Monitored Zespri's compliance with the **Kiwifruit Export Regulations**

Separation of Activities of KNZ and KGI

- *Common KNZ and KGI office discontinued*
- *Part time Chief Executive appointed*

Introduction of new Collaborative Marketing Regime

- *Wide consultation with industry and collaborative marketers*
- *New regime applied for the 2006-07 with success*

Contact with Markets, Zespri Marketing Managers, Collaborative Marketers, Product Groups, Growers and Suppliers

- *Visits were made to two markets*
- *Meetings were held with the Zespri Marketing Managers*
- *Meetings were held with Collaborative Marketers*
- *Meetings were held with Product Groups, Growers and Suppliers during the year.*
- *Hui were held with Te Awanui Huka Pak's growers.*
- *Regular reports were made to NZKGI's Forum.*

Information Disclosure

- *Zespri's disclosure of information was monitored to ensure compliance with the Kiwifruit Export Regulations.*
- *Details of collaborative marketing for last season published by the Board to industry groups, including financial information as to the performance of the collaborative marketers*

Non Diversification

- *Zespri's assessment of its activities and ownership / operation of assets was monitored and then reviewed by Kiwifruit New Zealand's Board. As a result of this review Zespri's resolution seeking shareholder approval for its diversified (non core activities) was altered from previous years.*
- *Zespri Fresh Produce NV activities were monitored by Kiwifruit New Zealand.*

Complaints and Inquiries

- *No complaints were received, or inquiries conducted during the year.*
- *A number of informal enquiries resolved, one postponed, and others in progress.*

Collaborative Marketing Results

- *Grower return for the 2005-06 season was down on the previous season's return , consistent with fruit returns generally. There were some quality issues in two collaborative marketing programmes. On the basis of returns one programme (following appeal) will not continue into the 2006-07 season.*

Collaborative marketing volumes and returns since 2000 are as follows:

Season	Volume (millions of trays)	Market Return* (NZD millions)	Fruit Return ** (NZD millions)
2000	1.1	7.2	5.8
2001	1.8	12.2	9.9
2002	1.6	14.5	10.8
2003	1.6	16.8	12.2
2004	1.7	14.1	9.7
2005	1.7	10.8	7.9

* "Market Return" is what is returned to the Grower Pools after all costs, freight, insurance, promotions, but before commissions, service costs and fruit incentives

** "Fruit Return" (also Pool Return) is the Market Return less commission, service costs and fruit incentives.

- *Each year a benchmarking exercise is also carried out between the collaborative marketing programmes and similar Zespri programmes by region, country, market and where appropriate fruit sizes. The results of the benchmarking averaged across classes and sizes of fruit are:*

Season	Collaborative Marketing Return per TE	Zespri Return per TE
2000	5.26	5.13
2001	5.32	6.06
2002	6.48	6.07
2003	7.56	7.10
2004	5.57	5.56
2005	4.79	4.82

- *Kiwifruit New Zealand is working with Zespri both to lift collaborative marketing's performance and to ensure that collaborative marketing is contributing to the global marketing of NZ kiwifruit.*

Monitoring

- *Regular meetings held with Zespri at Board and Senior Executive level and Zespri's activities were monitored as required by the Kiwifruit Export Regulations.*
- *Market visits to Asia and India were undertaken to provide the context for consideration of collaborative marketing applications and monitor Zespri's and collaborative marketers' activities.*

Zespri Export Authorisation Re-issued

- Zespri Export Authorisation was modified and re-issued

Kiwifruit New Zealand's Role

The Kiwifruit Industry Restructuring Act 1999 and Kiwifruit Export Regulations 1999 established on 1 April 2000 a new regulatory board, Kiwifruit New Zealand, and charged it with ensuring Zespri Group Limited and its subsidiaries comply with the single desk regulatory regime.

In undertaking its regulatory role, KNZ carries out the following activities:

- Authorises the export of kiwifruit by Zespri (except to Australia which from 2004 is regulated by the Horticultural Export Authority).
- May allocate part of the kiwifruit crop for collaborative marketing, approves collaborative marketing programmes and assesses the performance of each collaborative marketing programme in comparison with similar Zespri programmes.
- Monitors Zespri's compliance with the Regulations and its Export Authorisation.
- Investigates any allegations of breaches of the Regulations and Zespri's Export Authorisation.
- Monitors Zespri's compliance with the non diversification rule which requires Zespri to seek shareholders (or the providers of capital) approval before expanding its activities beyond the purchase and export of New Zealand grown kiwifruit.
- Investigates allegations made against Zespri that it has unjustifiably discriminated between suppliers where the discrimination cannot be justified on commercial grounds.
- Implementing an enforcement regime where if it is found that Zespri has discriminated between suppliers or has not complied with the Regulations by directing Zespri to remedy the breach, pay compensation or requiring Zespri to pay a financial penalty.
- Ensures that Zespri is disclosing information about its activities as required by the Regulations.
- May exempt Zespri from any requirement to publicly disclose certain commercially sensitive information.
- On complaint made to it or on its own initiative inquire into complaints about the application of the non-discrimination rule, the non-diversification rule, the information disclosure regime and collaborative marketing requirements.

KNZ has no commercial role.

Chairman's Report

KNZ has completed a demanding yet significant year during which much has changed and its future direction determined.

The most significant change related to the decision to disengage from a joint sharing with KGI, the services of a common chief executive and office. The demands on a single chief executive were expanding and the roles of the two organisations were entirely distinct and potentially incompatible. Whereas KGI had an advocacy role on behalf of kiwifruit growers, KNZ had a statutory regulatory role, which required it to act independently. KNZ did all it could to facilitate the disengagement in a cost effective manner. This was achieved. Mike Chapman was appointed as chief executive of KGI on a fulltime basis and KNZ moved out of its office to make it available to KGI.

KNZ appointed a part-time chief executive, Richard Procter and entered into arrangements to occupy a separate office in the Zespri Complex. KNZ is now focused solely on its statutory responsibilities under the Kiwifruit Export Regulations 1999. Consistent with those responsibilities KNZ is functioning in a low key manner so that affected parties can have confidence that issues within its jurisdiction will be processed and considered in an impartial and fair manner.

Early in the next financial year KNZ will publish a Procedures Manual which will set out its approach to the matters for which it is responsible. This should facilitate those having business with KNZ to better understand how issues are to be addressed and what is required when making complaints which growers wish to have investigated. There should be no surprises associated with the work of KNZ.

Perhaps the greatest long term change which KNZ has put in place relates to the future of collaborative marketing. Collaborative marketing is an important tool to assist the exporting of kiwifruit which has only slowly been adopted. In part this is because its purpose and scope may not have been fully appreciated. In part it tended to be seen as potentially in conflict with Zespri's own market strategy. KNZ consulted widely with the industry and collaborative marketers before implementing changes to the regime. The new regime was applied to the 2006-07 season and some new programmes have been approved. Zespri is co-operating in extending the use of the collaborative marketing approach to the export of kiwifruit and that is to be welcomed. The new collaborative marketing regime will be reviewed again in time for the 2007-08 season to encourage more collaborative marketing applications. The key is, as required by the Regulations, collaboration with Zespri, with the aim of increasing the overall wealth of New Zealand kiwifruit growers. Zespri have dedicated staff working on collaborative marketing opportunities and they are increasing their communication with collaborative marketers and those who have proposals they wish to have considered. The full potential of collaborative marketing is yet to be achieved.

KNZ exists to help the kiwifruit industry with its single point of entry to world markets outside of Australia. Make good use of it.

Sir Brian Elwood
Chairman

Kiwifruit New Zealand's Regulatory Performance 1 April 2005 to 31 March 2006

KNZ Function	Relevant Regulation	Performance
To authorise the export of kiwifruit by Zespri (except to Australia).	Regulations 4, 5, 6, 7 and 33(1)(a)	Monitored during 2005/06
To monitor and enforce the point of acquisition of title to kiwifruit which currently is at FOBS	Regulations 5(c) and 33(1)(b)	Compliance monitored during 2005/06.
To monitor and enforce the terms and conditions of Zespri's export authorisation.	Regulation 33(1)(b)	Monthly reports from and meetings with Zespri Group Limited plus the provision of relevant information
To monitor and enforce the non-discrimination rule	Regulations 9 and 33(1)(b)	Compliance monitored during 2005/06.
To monitor and enforce the non-diversification rule	Regulations 11 and 33(1)(b)	Chief Executive monitored Zespri making its assessments and Zespri presented its assessments to KNZ's Board prior to seeking its shareholders agreement at Zespri's AGM
To monitor and enforce the information disclosure requirements	Regulations 12 to 14 and 33(1)(b)	Monitored Zespri's compliance
To determine collaborative marketing applications	Regulations 24 to 31 and 33(1)(c)	For the 2005-06 season, 24 collaborative marketing programmes operated into 14 countries. The 13 collaborative marketers sold 1.7 million trays of kiwifruit. For the 2006-2007 season, 26 collaborative marketing programmes were authorised into 16 countries, involving 14 collaborative marketers. One collaborative marketing appeal was determined.
As a consequence KNZ will inquire into complaints about the application of the non-discrimination rule, the non-diversification rule, the information disclosure regime and collaborative marketing requirements	Regulation 33(1)(b)	A number of informal complaints were received. A number of these enquiries were resolved. One informal enquiry is on hold, and the remaining are being progressed.

Copies of the Zespri Group Limited Export Authorisation and the Report on Collaborative Marketing Results for the 2005-06 season are available from Kiwifruit New Zealand on request.

Financial Summary 1 April 2005 to 31 March 2006

	2005-06	2004-05	2003-04
	\$NZ	\$NZ	\$NZ
<u>Income</u>			
<i>Regulation 39(a) from Zespri International Ltd</i>	349,013 ⁽¹⁾	315,000	477,420
<i>Regulation 39(b) from Collaborative Marketing</i>	83,444	149,279 ⁽⁴⁾	48,169
<i>Interest and Miscellaneous Income</i>	1,687 ⁽²⁾	7,363	-
Total Income	434,144	471,642	525,589
<u>Expenditure</u>			
<i>Kiwifruit New Zealand Board</i>	158,586	165,916	182,414
<i>Kiwifruit New Zealand Executive</i>	102,919	166,632	195,074
<i>Collaborative Marketing (exclg overheads)</i>	62,733	100,937	55,013
<i>Operations</i>	33,590	14,873	52,842
<i>Administration and Overheads</i>	40,750	33,425	40,734
Total Expenses	398,578	481,783	526,078
Net Surplus to Accumulated Funds <i>(After tax, prior period adjustment and Non-deductible expenses deducted)</i>	35,566	(10,141)	(489)
<u>Accumulated Funds</u>			
<i>Opening Funds</i>	4,740	14,881	15,370
<i>Net Surplus for Year</i>	35,566	(10,141)	(489)
Total Funds as at Year's End	40,306	4,740	14,881
Reconciliation of Zespri Funding with Zespri accounts and actual KNZ expenses:			
	2005-06	2004-05	2003-04
	NZ\$000	NZ\$000	NZ\$000
<i>Funding as reported in Zespri Accounts</i>	380	315	464
<i>Refunded to Zespri after year end</i>	(31)	-	14
<i>Regulation 39(a) funding from Zespri as per KNZ accounts</i>	349	315	478
<i>General funding transferred from one year to another by KNZ (net (surplus)/deficit)</i>	(23) ⁽¹⁾	10	-
<i>Actual funding by Zespri used each year</i>	326	325	478
<i>Collaborative marketing funding and interest</i>	73 ⁽³⁾	15 ⁽⁴⁾	48
<i>KNZ actual costs (including collaborative marketing)</i>	399	482	526

- Notes:**
- (1) \$23,000 funding carried forward to 2006-07
 - (2) Net of \$339 income tax
 - (3) Net of \$12,000 collaborative marketing funding carried forward to 2006-07
 - (4) Includes \$55,000 carried over from the 2003-04 (previous) financial year

A copy of Kiwifruit New Zealand's audited accounts is available on request.

Chief Executive's Report

After my first 6 months in the kiwifruit industry, there are a number of things to reflect on. There are many issues, but importantly they occur within the all important context of the Kiwifruit Export Regulations 1999. The industry is not without its challenges, but that reflects the dynamic environment within which it operates. Like the industry, Kiwifruit New Zealand must also strive to ensure it meets the needs of industry participants within the parameters of the Regulations.

KNZ is accountable for two main areas of activity. Firstly, KNZ authorises Zespri to export New Zealand grown kiwifruit worldwide other than to Australia and to monitor and enforce the non discrimination rule, the non diversification rule, and the information disclosure requirements applicable to ZGL as provided for by the Regulations. Secondly, Kiwifruit New Zealand determines collaborative marketing applications in accordance with the provisions of the Regulations.

Monitoring and Enforcement

During the year, Kiwifruit New Zealand monitored Zespri's compliance with the non discrimination, the non diversification and information disclosure rules. In parallel with the discontinuation of the ZIL underwrite of 12 month supply, all potential diversification activities were evaluated and reviewed by the Kiwifruit New Zealand Board. As a result further changes will be made to the non diversification resolutions Zespri will put to its shareholders at its Annual General Meeting in July 2006.

No complaints were received during the year from growers and suppliers. However, consistent with KNZ's objective of dealing with concerns as expeditiously and informally as possible, a number informally approach the Chief Executive with their concerns, not necessarily related directly to KNZ's jurisdiction, to see whether they can be resolved without entering into the formal complaints process. As a result, a number of concerns were satisfied, one concern has been postponed, and several are ongoing.

Collaborative Marketing

A new collaborative marketing regime was implemented during the year. Closer collaboration between collaborative marketers and Zespri is being encouraged wherever possible. There is further opportunity to make collaborative marketing more effective, and this will be addressed in the next year.

Fruit returns from collaborative marketing were down in the 2005-06 season by NZ\$1.8M. Compared to Zespri, the result per tray sold was similar for both years. Kiwifruit New Zealand constantly monitors collaborative marketing to ensure that it is making a positive contribution to the kiwifruit Industry. Some programmes were more successful than others. Focus in the next season will be on encouraging a performance lift in the less successful.

Finance

This was a year in which Kiwifruit New Zealand separated from KGI. Overall costs declined by \$83,000. As required by the Regulations, the cost of collaborative

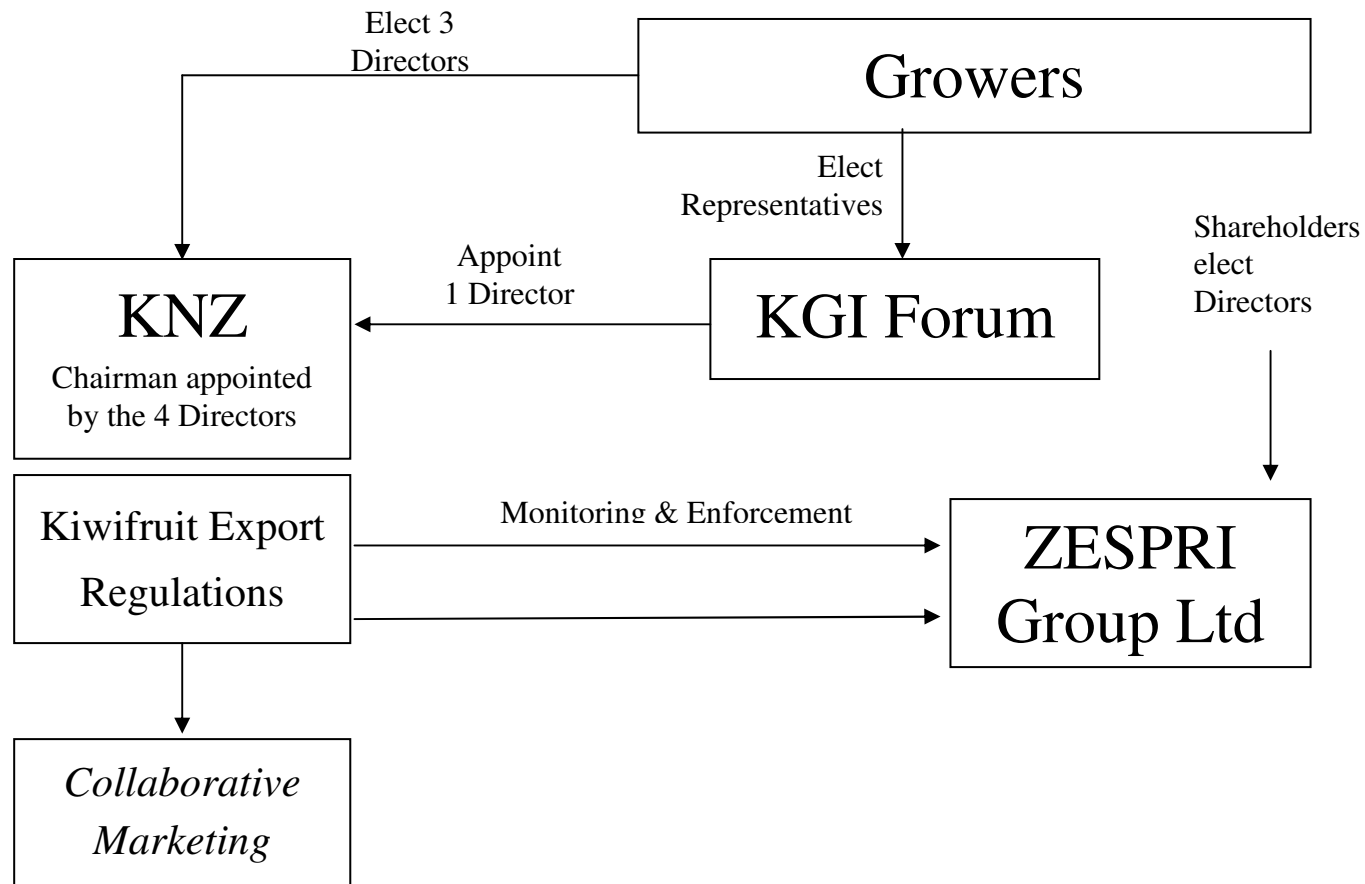
marketing was met by the fees to collaborative marketers, which declined by \$66,000 to \$83,000.

The cost of Kiwifruit New Zealand general operations to the grower Pools in 2005-06 increased NZ\$34,000 to \$349,000 (\$23,000 has been carried forward to the next financial year to met the remaining costs of setting up the separate KNZ office). Some costs were not incurred this financial year, but will be in 2006-07.

Finally, I would like to thank all in the industry for the help and cooperation that I have received over the last few months. Zespri and others have gone out of their way to be cooperative and helpful.

Richard Procter
Chief Executive

Regulatory Structure



List of Members and Staff

Kiwifruit New Zealand is comprised of the Chairman and four grower elected members who serve for three year terms. Growers elect three of the members, and the fourth grower elected member is appointed by the New Zealand Kiwifruit Growers Incorporated. The four members appoint the Chairman. The Kiwifruit Export Regulations 1999 require the Chairman to be fully independent of the kiwifruit industry.

Kiwifruit New Zealand:

Chairperson	Sir Brian Elwood	(Term expires in July 2007)
Deputy Chairperson	Hendrik Pieters	(Term as member expires in September 2006)
Members	Mark Bayly	(Term expires in September 2008)
	Ian Greaves	(Term expires in September 2007)
NZKGI Appointed Member	Ruth Lee	(Term expires in June 2008)

Kiwifruit New Zealand Executive:

Chief Executive	Richard Procter
Administration Assistant	Jo Cunningham

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Procedures Manual

The procedures manual is under development. The manual is designed to provide general advice and guidance on the role and function of Kiwifruit New Zealand Board and its application of the Kiwifruit Export Regulations 1999. It will be updated and revised from time to time. The procedures manual includes KNZ's Code of Conduct for the Conflicts of Interest, and Code of Conduct for trades in Kiwifruit Company Securities. When it is complete, copies of the Procedures Manual will be available from the KNZ Office on request.