



ZESPRI

*Producer
Vote*

2021

AT A GLANCE

SUPPORTING A ONE-SEASON TRIAL OF
CHINESE-GROWN GOLD3 KIWIFRUIT

OUR BUSINESS IS STRONG IN CHINA

Over the last two decades we've built a strong business in China. It's our second-largest sales market and highest OGR per tray for Zespri SunGold™ Kiwifruit, accounting for 26 percent of the global SunGold sales by volume sold. We believe there is still room for growth, with strong demand for our fruit driven by our brand strength. But we're anticipating significant pressure from the increase of Chinese-grown Gold3.

UNAUTHORISED GOLD3 IN CHINA IS INCREASING

Unauthorised plantings of Gold3 in China continue to spread rapidly. We estimate there are now around 5,400ha in the ground in China compared with 8,249ha licensed in New Zealand.

Taking into account a range of growth estimates, and quality and yield predictions, there could be between 30 and 90 million trays of unauthorised Gold3 Class 1 fruit produced annually in China within the next five years.

UNCHECKED THIS WILL IMPACT OUR BUSINESS

We're also seeing increasing on-orchard investment, emergence of Chinese-grown Gold3 brands and some high-quality fruit being produced off increasingly modern orchards. That fruit is already starting to appear in our supply channels – some as counterfeit Zespri kiwifruit.

We believe the plantings will continue to increase, putting greater pressure on price, sales channels and our market position. Over time this could impact the value we have created. Left unchecked, Zespri's high-level modelling using a mid-range impact scenario forecasts a negative impact of up to \$1.60 per tray on overall global Gold3 OGR by 2030¹.

WE ENCOURAGE YOUR SUPPORT

Zespri is seeking your support – via a Producer Vote of all New Zealand growers – to carry out a one-season trial. This would test whether a commercial partnership with Chinese growers could help establish a 12-month supply presence.

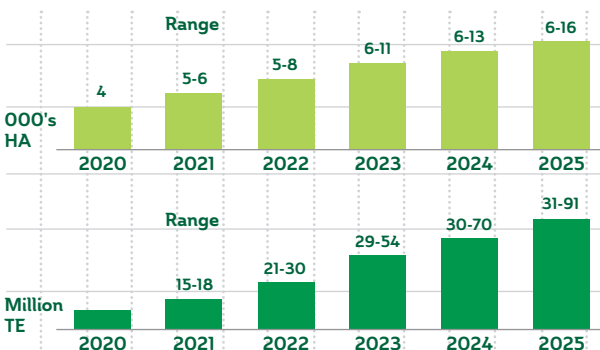
¹ Refer to Page 12 of the *Zespri Producer Vote 2021* brochure.

A ONE-SEASON COMMERCIAL TRIAL

Importantly, in this Producer Vote we are seeking support for a one-season trial only, so we can better understand the potential of a commercial partnership.

It does not commit us to a commercial partnership. That is a decision the industry would make based on the success or otherwise of the trial.

HOW BIG ARE THE UNAUTHORISED GOLD3 PLANTINGS LIKELY TO GET?



Unauthorised growing forecast to surpass Zespri exports into China by 2023

Source: Zespri International Limited modelling.

WHAT IMPACT COULD THE UNAUTHORISED PLANTINGS HAVE ON ZESPRI SALES?

- Drop in demand due to increased competition with unauthorised Gold3, including in our own distribution channels.
- More competition for shelf space with local suppliers securing retail position during the Northern Hemisphere supply season.
- Pressure on pricing and value due to an oversupply of variable quality Gold3, likely at lower price points, and the potential absence of a Zespri premium option for consumers during some months of the year.

WHAT WE PROPOSE

Resolution 1: The proposed commercial trial

That the producers agree to Zespri conducting an orchard monitoring, procurement and sales and marketing trial over one season to 31 March 2022, involving the sale of up to 200,000 trays of Chinese-grown Gold3 kiwifruit which meet Zespri's Class 1 standards.

As part of this we would:

- Evaluate orchard performance and fruit quality
- Evaluate if, how and when we could get the fruit procured from trial growers
- Assess the commercial and strategic outcomes for all parties
- Evaluate consumer perception and sentiment towards local Gold3.

The proposed trial would also include:

- Sourcing fruit from about 50ha of local vines
- Assessing on-orchard practices against Zespri growing systems
- Procuring each crop at 'orchard gate' with Zespri oversight
- Ensuring the fruit sold meets Zespri's quality standards
- Testing the brand positioning with customers and consumers
- Selling and controlling fruit directly through a dedicated key account channel
- Trial costs met by Zespri.

Resolution 2: Using the Zespri brand on trial fruit in the sales programme

That the producers agree that a Zespri label, which identifies the fruit as Chinese-origin, can be used as part of the sales trial, in order to understand consumer response.*

**The label would use the Zespri brand and logo.*

As part of this we would:

- Work with a dedicated retail channel in a single province to evaluate the sales performance of Chinese Gold3 when marketed under the Zespri SunGold™ Kiwifruit brand
- Evaluate the relative price-point and premium of local Chinese Zespri SunGold versus non-Zespri Chinese-grown Gold3
- Validate consumer sensory and sentiment research to test consumer support for Chinese-grown Zespri SunGold Kiwifruit with commercial sales data.

WHY RUN A TRIAL?

We've progressed a range of legal, regulatory, political and commercial initiatives in China as we have sought to find a way to address the unauthorised plantings as well as to help to protect sales of Zespri-branded fruit. This has included market monitoring and enforcement against counterfeits.

But none of these options on their own will help us address the issue. We see a pragmatic approach as the most effective way forward. It also means if we get it right, we could strengthen our position, growing our brand and sales in China. A production base there could see us obtain genuine 12-month supply, helping us secure shelf space, protect our channels and deliver returns to our industry. It could also help us to build a stronger relationship with Chinese authorities and consumers, who are becoming increasingly favourable towards locally-grown produce.

We're asking growers to approve the first season of what could be a three-year trial, with another Producer Vote to be held in March 2022 if the results of this season's trial are favourable.

WHY ARE WE GOING TO A PRODUCER VOTE?

Zespri acknowledges that some of the activities in the proposed trial do not support core business (as defined by the Regulations), and in particular that they pose more than a low risk to the interests of producers. Therefore, are seeking grower approval for these activities in this Producer Vote under Regulation 11.

WHY IS CHINA IMPORTANT?

China is an important market for Zespri. We sold around 28 million trays of New Zealand fruit in China last season. Our total sales in China contributed over \$736 million to returns in 2019/20. China returns our highest OGR for Zespri SunGold and we think there is still significant room for growth, with planning underway to more than double our sales there over the next four years.

The Zespri Board reviews and approves the New Zealand season allocation plan before the start of each season. The final amount of fruit allocated to mainland China can vary from year-to-year depending on total volume, market conditions and allocations through the season. Under the current supply-constrained Zespri five-year plan, we are planning to allocate no more than 31 percent of Zespri SunGold™ volume to mainland China between now and 2025.

RISKS AND MITIGATIONS

Potential risks to undertaking the trial, which were identified by the industry regulator Kiwifruit New Zealand (KNZ) include:

- Impact on the brand and customer perception in case of any food safety or quality issues
- Hastening the leakage of on-orchard and post-harvest expertise by working with Chinese growers
- Damage to the relationship with the Chinese government if the trial does not proceed to commercialisation

Zespri's view is these trial risks are manageable and that the potential benefits to New Zealand producers more than outweigh these concerns.

Zespri has adopted a robust planning process for the trial with mitigations to minimise foreseen risks.

Please refer to Pages 32 and 33 of the *Zespri Producer Vote 2021* brochure for more information on risks and mitigations.

WHAT IS THE ALTERNATIVE?

Should growers not approve the trial then we would continue to protect our brand and market position as vigorously as we are able. This would include reviewing our sales footprint, condensing the New Zealand sales window to sell Zespri fruit faster and full or partial re-allocation of fruit during the Chinese selling window to other markets. We would also continue to increase our investment in anti-counterfeit and market monitoring and enforce our IP through legal channels where possible. Zespri's view is this would give us very limited ability to influence the growth in Gold3 plantings and the expansion of Chinese Gold3 brands. Not doing the trial presents a significant opportunity cost, both financial and in the context of building relationships.

NEXT STEPS AND MORE INFORMATION

More information on the voting process will be sent separately as part of the voting packs.

The Producer Vote window will open at midnight on **31 May 2021** and close at noon on **25 June 2021**.

Additional information can be found on a dedicated Producer Vote website zespriproducervote.zespri.com as well as on the Canopy website.

You can vote in one of two ways:

1. Internet voting

Vote on: www.electionz.com/zespri21

Follow the link to the voting site. You will be asked to enter a PIN and password. Your unique PIN and password will be sent to you as part of the voting pack.

2. Postal voting

Before voting, read the Explanatory Notes document, which will be sent as part of the voting pack.

To vote, place a tick in the circle under the option you prefer for each resolution.

The Zespri Board of Directors encourages you to vote FOR both resolutions.

VOTING PERIOD

Opens: midnight 31 May 2021

Closes: noon 25 June 2021



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