



The New Zealand Kiwifruit Board

2004 / 2005

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 Year

For the year ended 31 March 2005 Kiwifruit New Zealand:

Kept in **contact with Growers and Suppliers**

Improved the **flow of information** from Zespri

Monitored Zespri's **non core business assessments** for 2004 / 05

Dealt with **complaints and inquiries** without delay

Maintained **collaborative marketing returns** at an acceptable level

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

Contact with Growers and Suppliers

- ***Growers meetings*** were held through out the growing districts, ***newsletters were produced for growers*** and articles were written for the ***Kiwifruit Journal*** explaining what Kiwifruit New Zealand was doing and dealing with collaborative marketing issues.
- Meetings were held with the ***majority of Suppliers*** during the year.
- ***Regular Hui were held*** with Te Awanui Huka Pak's growers.
- ***Regular reports were made to NZKGI's Forum.***

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 substantially altered from previous years.
- ***Zespri Fresh Produce NV*** activities were monitored by Kiwifruit New Zealand.

Information Disclosure

- At Kiwifruit New Zealand's request MAF ***updated the Information Disclosure Handbook***. This Book sets out what Zespri must disclose to growers and shareholders each year normally in Zespri's Annual Report.
- Zespri's ***disclosure of information was monitored*** to ensure compliance with the Kiwifruit Export Regulations.

Complaints and Inquiries

- **No complaints** were received during the year.
- **Five inquiries** received and resolved during the year.

Collaborative Marketing

- **Grower return for the 2004 season was down on the 2003 season's return** due largely to quality and supply issues. This broke the trend of increasing market and Pool return coming from collaborative marketing for the last few seasons.

Season	Volume	Market Return	Pool Return *
2000	1.1M	\$7.2M	\$5.8M
2001	1.8M	\$12.2M	\$9.9M
2002	1.6M	\$14.5M	\$10.8M
2003	1.6M	\$16.8M	\$12.2M
2004	1.7M	\$14.1M	\$9.7M

* "Pool Return" is what is returned to the Grower Pools after all costs, freight, insurance, promotions, commissions (both Zespri's and the Collaborative Marketer's), supply payments and Kiwifruit New Zealand's fees have been deducted.

- Each year a **benchmarking exercise** is also carried out between the collaborative marketing programmes and similar Zespri programmes by region, country, market and 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

The comparison is only relevant to Green conventional and organic kiwifruit as Gold fruit is not part of the collaborative marketing programmes.

- Kiwifruit New Zealand has put in place **measures to prevent a re-occurrence of the supply and quality problems.**
- 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** with Zespri at Board and Senior Executive level were held and Zespri's activities were monitored as required by the Kiwifruit Export Regulations.
- **Market visits** to Europe, South East Asia and the United States were undertaken to monitor Zespri's and collaborative marketers' activities.

Kiwifruit New Zealand's Annual Report

1 April 2004 to 31 March 2005

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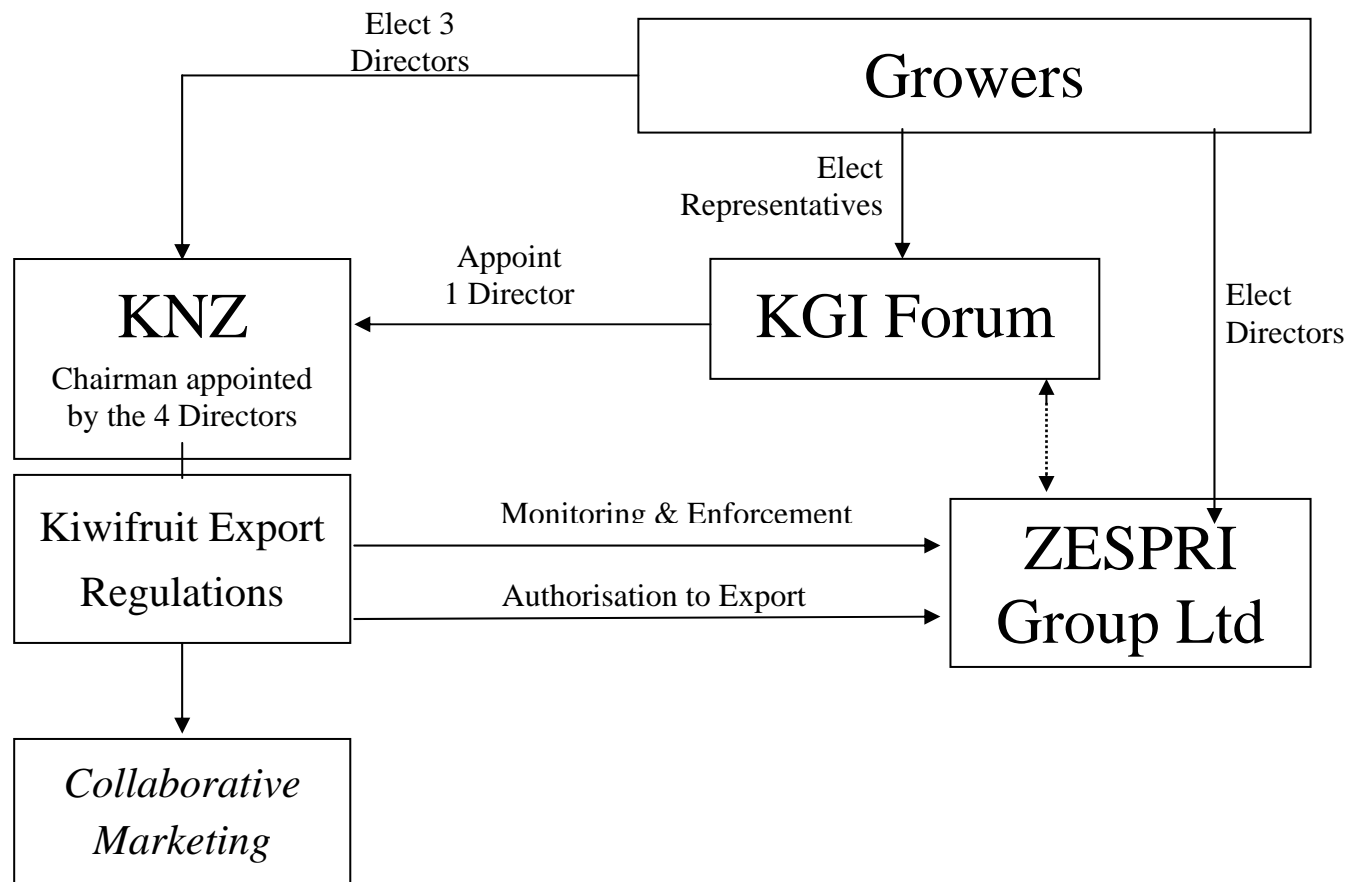
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References to "the Regulations" or "the Kiwifruit Export Regulations" in this report are references to the Kiwifruit Export Regulations 1999

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

Regulatory Structure



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.

Kiwifruit New Zealand's Regulatory role is to:

- Approve Zespri's Export Authorisation and collaborative marketing applications.
- Monitor and enforce the Kiwifruit Export Regulations which:
 - Prohibits discrimination except on commercial grounds by Zespri when purchasing kiwifruit – called the non discrimination rule.
 - Establishes a regime for Zespri to follow if it extends its activities or ownership / operation of assets beyond its core business of purchasing and exporting NZ grown kiwifruit – called the non diversification rule.
 - Requires Zespri to disclose information about its activities to allow growers and suppliers to assess Zespri's performance.

Kiwifruit New Zealand, which has no commercial role, has the following functions:

- Authorising the export of kiwifruit by Zespri (except to Australia which from 2004 is regulated by the Horticultural Export Authority).
- Allocating part of the crop for collaborative marketing, approving collaborative marketing programmes and assessing the performance of each collaborative marketing programmes in comparison with similar Zespri programmes.
- Monitoring Zespri's compliance with the Regulations and its Export Authorisation.
- Investigating any allegations of breaches of the Regulations and Zespri's Export Authorisation by Zespri.
- Monitoring 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 NZ grown kiwifruit.
- Investigating any allegation made against Zespri that it has unjustifiably discriminated between suppliers where the discrimination cannot be justified on commercial grounds.
- Actioning an agreed enforcement regime where if is found that Zespri has discriminated between suppliers or has not complied with the Regulations directing Zespri to remedy the breach, pay compensation or requiring Zespri to pay a financial penalty.
- Ensuring that Zespri is disclosing information about its activities as required by the Regulations.
- Exempting Zespri from requirements to publicly disclose certain commercially sensitive information.
- For Kiwifruit New Zealand on its own initiative to inquire into complaints about the application of the non-discrimination rule, the non-diversification rule, the information disclosure requirements and collaborative marketing.

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.

Chairman's Report

The year under review has been an eventful one for Kiwifruit New Zealand.

The Board's first chairman, Judge Peter Trapski, retired in July 2004 and I was appointed by the Board to replace him. The Kiwifruit Regulations 1999 require that the chairman be fully independent of the kiwifruit industry. Whilst meeting those criteria, I have had a long term general interest in the development of the industry and its varying fortunes. There is no doubt that the industry has matured considerably since its restructuring in 1999 to the benefit of industry participants and the wellbeing of the New Zealand economy.

Kiwifruit New Zealand importantly underpins the single point of entry status of Zespri Group Limited. It does this in two ways. First, as a "referee" to ensure that Zespri:

- complies with its export authorisation;
- does not discriminate unjustifiably among suppliers and potential suppliers; and
- does not carry out activities or own or operate assets that are not necessary for its core business.

Secondly, to require Zespri to enter into collaborative marketing arrangements for the purpose of increasing the overall wealth of New Zealand kiwifruit suppliers.

Although these are two distinct and separate statutory obligations, they both require that the Kiwifruit New Zealand Board act independently and in accord with the principles of natural justice. The functions involve the consideration of competing and diverse interests. Kiwifruit New Zealand cannot represent any one of those interests and therefore needs to be seen to be treating any of the parties that come before it in an independent and fair manner free of predetermination or bias.

The Board has therefore endeavoured to reinforce its obligations in this regard with a view to those having business with Kiwifruit New Zealand being confident that the issues for consideration will be dealt with fairly and independently.

The Board has entered into discussions with the Executive Committee of NZ Kiwifruit Growers Incorporated with a view to more clearly identify the differing roles of Kiwifruit New Zealand and NZ Kiwifruit Growers Incorporated. Kiwifruit New Zealand is a statutory regulatory authority. NZ Kiwifruit Growers Incorporated is an important advocacy grouping on behalf of growers. The banking and accounting services of both organisations will be separated as from 1 April 2005. NZ Kiwifruit Growers Incorporated has advised Kiwifruit New Zealand that it intends to appoint its own Chief Executive Officer. When that occurs the Kiwifruit New Zealand's Chief Executive Officer will not need to provide office and administrative support to NZ Kiwifruit Growers Incorporated.

The Board believes that the full potential of collaborative marketing of kiwifruit has not been realised and has decided to actively pursue a review of the operation of the collaborative marketing regime. The Board will be undertaking discussions with Zespri and the wider industry before finalising its future policies in this important area.

Sir Brian Elwood
Chairman

Kiwifruit New Zealand's
Regulatory Performance 1 April 2004 to 31 March 2005

Activity	Kiwifruit Export Regulation	Performance
To authorise the export of kiwifruit by Zespri (except to Australia).	Regulations 4 and 33(1)(a)	Compliance monitored during 2004/05
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 2004/05
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)	Approved 24 programmes marketing 1.7M trays of kiwifruit that earned a market return of NZ\$14.1M
To inquire into complaints about the application of the non-discrimination rule, the non-diversification rule, the information disclosure requirements and collaborative marketing	Regulation 33(1)(b)	One complaint withdrawn during the financial year and no further complaints received Five inquiries received and resolved during the year

Copies of:

- Zespri Group Limited Export Authorisation
- Report on Collaborative Marketing Results for the 2004 season

are available from Kiwifruit New Zealand on request.

Financial Summary 1 April 2004 to 31 March 2005

	2004/05	2003/04	2002/03
	\$	\$	\$
<u>Income</u>			
<i>Regulation 39(a) from Zespri International Ltd</i>	315,000	477,420	341,928
<i>Regulation 39(b) from Collaborative Marketing</i>	149,279*	48,169	43,772
<i>Interest and Miscellaneous Income</i>	7,363	-	605
Total Income	471,642	525,589	386,305
<u>Expenditure</u>			
<i>Kiwifruit New Zealand Board</i>	165,916	182,414	116,798
<i>Kiwifruit New Zealand Executive</i>	166,632	195,074	174,459
<i>Collaborative Marketing</i>	100,937	55,013	44,770
<i>Operations</i>	14,873	52,842	-
<i>Administration and Overheads</i>	33,425	40,734	35,835
Total Expenses	481,783	526,078	371,862
Net Surplus to Accumulated Funds	(10,141)	(489)	13,142
<i>(After tax, prior period adjustment and Non-deductible expenses deducted)</i>			
<u>Accumulated Funds</u>			
<i>Opening Funds</i>	14,881	15,370	2,228
<i>Net Surplus for Year</i>	(10,141)	(489)	13,142
Total Funds as at Year's End	4,740	14,881	15,370

* includes \$55,000 carried over from the previous financial year

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

Chief Executive's Report

Regulatory Functions

Kiwifruit New Zealand's monitoring function over Zespri's compliance with the **information disclosure and the non diversification regimes** was proficiently performed based on the processes established in previous years with Zespri. These monitoring functions are carried out by the Chief Executive with the results then reported to Kiwifruit New Zealand's Board for review.

Zespri's assessment and subsequent presentation of its **non diversification assessments** to the Kiwifruit New Zealand Board resulted in a series of significant changes being made to the non diversification resolutions it put before its shareholders at its Annual General Meeting in July 2004.

Kiwifruit New Zealand was also successful with its submission seeking amendments to the **Information Disclosure Handbook**. The result of these amendments was a greatly increased disclosure of information by Zespri in its 2004 Annual Report – see pages 28 to 35 of that report.

No complaints were received during the year from growers and suppliers and the one complaint that was carried over from the previous year was withdrawn by the complainant before Kiwifruit New Zealand commenced an investigation into the issue complained about. **Five inquiries** were however dealt with during the year with all issues being resolved.

Collaborative Marketing

The returns from collaborative marketing were down in the 2004 season by NZ\$2.5M. The reduction in return was due to increased competition from Chilean and Australian kiwifruit, supply difficulties and quality issues. Zespri in comparison to collaborative marketing was able to largely maintain in market returns by effectively dealing with quality issues by repacking kiwifruit in market and by using its single point of entry / exclusive supply position to maintain price with its customers.

Kiwifruit New Zealand constantly monitors collaborative marketing to ensure that it is making a positive contribution to the kiwifruit Industry. In the 2004/05 season collaborative marketing:

- Made a positive return to the Pools while encouraging the development of fringe markets.
- Permitted Zespri to market kiwifruit in the high performing markets as the sole exporter of NZ kiwifruit – e.g. Japan – and allowed Zespri as the sole exporter to develop markets with significant potential – e.g. Korea and China.
- Allowed the NZ based kiwifruit industry a chance to market fruit outside Australia
- As part of the Industry's Regulatory Structure underpinned the retention of the Single Point of Entry.

Highlights from the 2004 season included:

- Establishment work being completed for the running of generic promotional programmes in Malaysia and Singapore by Zespri and the collaborative marketers in the 2005 season as a prototype for other collaborative marketing markets in the world.
- The start of market development through promotion in Thailand and the Pacific Islands.
- The establishment of a successful fresh cut programme in the United Kingdom.

Finance

Kiwifruit New Zealand cost the grower Pools NZ\$162,420 less to operate in 2004/05 than in the previous year. This was in part due to a significant amount of collaborative marketing fees – NZ\$55,000 – being carried over from the previous financial year and a portion of Kiwifruit New Zealand's fees, salaries and expenses being met for the first time from collaborative marketing fees. Actual expenditure was also down by NZ\$42,295 on the previous year as 2004/05 was not a year where there were significant regulatory issues.

Mike Chapman
Chief Executive

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, one is appointed by the New Zealand Kiwifruit Growers Incorporated and 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:

Chairman	Sir Brian Elwood	(Term expires in July 2007)
Deputy Chairman	Hendrik Pieters	(Term as member expires in September 2006 and term as Deputy Chairman in May 2005)
Members	Brian Calcinai	(Term expires in September 2005)
	Ian Greaves	(Term expires in September 2007)
NZKGI Appointed Member	Ruth Lee	(Term expires in April 2005)

Kiwifruit New Zealand Executive:

Chief Executive	Mike Chapman
Executive Assistant	Valda Money

Kiwifruit New Zealand offices are at:

25 Miro Street
Mount Maunganui

Phone 07 574 7139

Fax 07 574 7149

Postal Address:

PO Box 4246
Mount Maunganui South

Directory of Policies

- Code of Conduct: Conflicts of Interest and Confidential Information
- Securities Code of Conduct
- Programme for the Disclosure of Kiwifruit Purchase Conditions
- Requests for Confidentiality under Regulation 21

Copies of the Policies are available from Kiwifruit New Zealand on request