

A.

#1 AT A GLANCE

WHAT SHAREHOLDERS WILL BE ASKED

The recommended changes to the Zespri Constitution aim to stabilise and then reverse non-alignment between shareholding and production over time.

Zespri will ask shareholders to vote at a Special Meeting on 14 March 2018 on specific measures, including:

- A maximum shareholding of four shares for each tray of production. A producer would not be able to acquire more shares if they are overshared or if the acquisition would make them overshared. (See *Rules Explained on Share Cap, page nine for further information*).
- Dividend restrictions on shareholders who are no longer producing growers. A dividend would not be paid to a shareholder that is not a producer as at the record date for that dividend. This would only apply after a transition period. (See *Rules Explained on Dividend Restrictions, page 11 for further information*).
- A change to voting entitlements. This would

be based on one voting share for each tray of production or the number of shares the producer holds – whichever is the lower. (See *Rules Explained on Voting Cap, page 13 for further information*).

HOW SHAREHOLDERS WILL BE ASKED TO VOTE

The diagrams on pages 19 and 20 provide a highly simplified view of the voting process, based on different options that shareholders may choose to support or not.

There is a required vote under the terms of the current Constitution and a required vote under the Kiwifruit Export Regulations.

The process also recognises two interest groups: producers and non-producers. They each vote on specific interest group resolutions.

A detailed explanation is provided in *Explanatory Notes – Interest Groups and the Voting Process*.

A.

#2 CURRENT SHARE STATISTICS

ZESPRI'S CURRENT SHAREHOLDING

Zespri was corporatised in 2000 and came about as a result of the cooperative ethos in the New Zealand kiwifruit industry to collectively generate sustainable wealth for all kiwifruit growers.

When Zespri was first corporatised, all growers had a share in Zespri and could benefit both in terms of grower returns and from the value created by their marketer. However, over time this position has eroded. A growing number of New Zealand orchard owners do not own Zespri shares, and over 18 million shares are held by people who have left the kiwifruit industry.

The chart overpage shows how Zespri's total number of shares on issue are held.

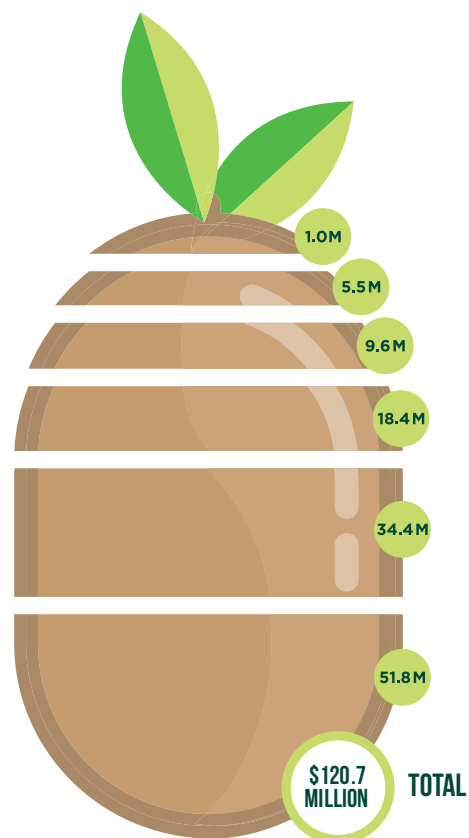
CURRENT SHARE STATISTICS

ZESPRI'S CURRENT SHARE STATISTICS

- There are currently 120,717,335 shares on issue in Zespri Group Limited.
- Of this total, around 15 percent of the shares are held by people who are no longer connected with the industry.
- Around five percent of the total shareholding is what we term 'misaligned'. The shares are held in the name of a different entity to the entity that produces fruit for supply to Zespri (but the two entities are related). These misaligned shareholders are considered to be dry shareholders or non-producers.
- Eight percent of shares held by producers who are over the four-to-one share cap that Zespri is proposing in its amended Constitution. These shares are what we term 'overshared'.
- 29 percent of shares are owned by producers are below the one-to-one ratio of shares to production, which we term 'undershared'.
- 43 percent of shares are owned by producers above the one-to-one ratio of shares to production but below the share cap of four-to-one, which we term 'aligned'.
- An average of 46 million trays were produced for supply to Zespri over the last few seasons (being 32 percent of total trays produced for supply in 2016/17) by growers who do not currently own shares in the company.

*A relatively small amount of shares (in addition to non-producers' shares), less than one percent, do not have votes associated with them. This may include cases where the owner of the shares has orchard/s that are not yet producing, or where the shares belong to a lessee but the corresponding production is assigned to the entity who owns the land.

TOTAL SHARES ON ISSUE



- 1.0 *Other: may include shares belonging to lessees, or owners of non-producing orchards
- 5.5 Number of shares held in a different (but related) legal entity from the orchard ('misaligned')
- 9.6 Number of shares held by producers over the four-to-one share cap
- 18.4 Number of shares held by people no longer in the industry
- 34.4 Number of shares held under one-to-one
- 51.8 Number of shares held by producers whose total shareholding is between one-to-one and four-to-one.

#3 GUIDE TO THE PROPOSED AMENDED CONSTITUTION

SUMMARY

At the Special Meeting on 14 March 2018, Zespri will ask for shareholder approval of an amended Constitution. This short guide outlines the key changes that will be proposed.

This is a simplified guide and does not cover all aspects of the recommended changes, which are not yet finalised. If there are any subsequent material changes, the guide will be updated on: www.kisp.co.nz

A. DEFINITION OF PRODUCER

The definition of producer is changed by virtue of an update to the Kiwifruit Export Regulations. A 'producer' is 'an owner, or lessee under a lease of at least one year's duration, of land in New Zealand on which kiwifruit is produced for supply to Zespri Group Limited.'

B. ENTITLEMENT OF OWNERS AND LESSEES OF KPINS

(See Explanatory Note nine for further information, page 21).

The entitlement to buy shares and to vote is still held by producers alone. The shares must be owned by the same legal entity which either owns or leases a producing orchard.

A grower can be misaligned if they own an orchard in the name of one legal entity, call it 'Family Trust A', but they own shares in the name of a different legal entity, call it 'Orchard Partnership B'.

The result is that the different entity called 'Orchard Partnership B' would be considered 'dry' (a non-producer) unless it leases the orchard and has a lease of at least one year's duration (or owns the orchard in place of Family Trust A). If shares are not owned by the exact same legal entity which owns the orchard and there is no lease, the shares are considered dry.

As a result of the change to lessee entitlements, Zespri requires a copy of the lease documents to verify the agreement. Note: this rule currently applies.

GUIDE TO THE PROPOSED AMENDED CONSTITUTION

The grower cannot vote the shares held by Orchard Partnership B, because voting entitlement is held by the legal entity which either owns or leases the orchard(s). Under the amended Constitution, the grower could lose dividends on those misaligned shares following a transition period.

C. SHARE CAP

(See 'Rules Explained' page nine for detailed information).

The amended Constitution proposes a cap of **four shares per tray** for producer shareholders.

Trays are calculated on an average of the best two years of production out of the last five years of supply for a particular KPIN.

If a producer is or becomes **overshared**, they will be prohibited from buying any additional shares. The producer will not be able to buy shares in excess of the four-to-one share cap.

The Board of Zespri has the ability to require a compulsory sale of shares held over the cap based on two conditions:

- **Seven years:** there is a transition period of seven years for producers already overshared at the time the new Constitution rules are introduced.
- **Three years:** there is a period of three years for those who become overshared after the new Constitution rules are introduced.

At the end of these time periods, the Board can undertake a compulsory sale of the number of shares over the share cap.

D. EXCEPTION FOR NEW ENTRANTS

The amended Constitution proposes to allow

new entrants to the industry to have the entitlement to buy shares up to one share per tray. This is if they own or lease a site on which there is no history of production in the last three years (a 'greenfield'), and if they obtain a KPIN in order to start an orchard.

The number of trays used for the calculation is the average number of trays produced in the relevant region ('Deemed Production').

The shares cannot be voted until the new entrant achieves actual production. This entitlement to hold one share per tray of deemed production lasts for up to three years from the date the KPIN is allocated, after which the standard share cap applies.

New entrants must have no other sites where they are producing kiwifruit as an owner or lessee to be entitled to this benefit.

If after two years, upon inspection by Zespri, no suitable progress at the KPIN is shown, Zespri may require that the new entrant sell their shares within six months.

E. DIVIDEND RESTRICTIONS ON SHAREHOLDERS WHO ARE NO LONGER PRODUCING GROWERS

(See 'Rules Explained' page 11 for detailed information).

The amended Constitution proposes the removal of rights to dividends for non-producer shareholders ('dry' shareholders) based on two conditions:

- **Seven years:** there is a transition period of seven years for shareholders already 'dry' at the time the new Constitution rules are introduced. Dividends would then cease once this transition period has lapsed.

- **Three years:** there is a period of three years for shareholders who become dry after the changes to the Constitution are introduced. Dividends would cease three years after they cease producing for supply to Zespri.

F. VOTING CAP

(See 'Rules Explained' page 13 for detailed information).

The new Constitution proposes that voting entitlement be based on which ever is the lower from (1) one share per tray of that property's production, or (2) the number of shares the producer holds.

Voting rights would be shared between the owner and lessee according to the landowner priority rule. If both landowner and lessee hold shares, the landowner takes priority to use the votes attached to the shares as a result of production, unless that lessee has an existing long term lease or a Glasgow lease.

G. KPIN-BASED FORMULA

Where a producer owns or leases more than one KPIN, their total entitlement to own shares and to vote is the sum of its entitlements from each KPIN owned or leased.

The ownership or control of the legal entity that owns or leases a KPIN is irrelevant in determining entitlement to production from a KPIN.

H. MEASUREMENT DATE

Zespri will advise each shareholder of their status on an annual measurement date. The calculation will be based on:

- Production from a KPIN, calculated following the end of a season.
- The KPINs owned or leased by the shareholder on the measurement date.
- The number of shares held by the shareholder on the measurement date.

However, a shareholder's status can change at any time during the year due to:

- Orchard ownership or lease transactions;
- Share trading by the shareholder, or by the owner of an orchard leased by the shareholder.

Any such changes will be recorded and used to recalculate entitlements as the changes occur.

For the purpose of voting at the Annual Meeting, the measurement date for determining who can vote and their number of votes is calculated before the meeting.

For the purpose of calculating dividend payments, the measurement date on which Zespri determines who is entitled to a dividend, and their number of shares, is set by the Board in accordance with the Companies Act. Zespri uses shareholding figures on the date decided by the Board close to when the distribution of dividend is actually made, which is called the 'record date' (which date is published in the monthly Kiwiflier newsletter).

I. LANDOWNER PRIORITY RULE

(See Explanatory Note #7 page 15 for detailed information).

A lessee has an entitlement to take up the balance of shares, below the share cap not taken up by the landowner producer. The lessee can also take up the 'headroom' votes under the voting cap not used by the landowner. If the combined shareholding of the owner and lessee exceeds the shareholding cap, then (subject to specific exceptions for Glasgow or existing longterm leases) the lessee must dispose of their shares before the landowner is required to do so.

#4 RULES EXPLAINED

SHARE CAP

THE SHARE CAP IS A KEY MEASURE TO IMPROVE ALIGNMENT BETWEEN PRODUCTION AND SHAREHOLDING OVER THE LONG TERM.

If approved, there will be a maximum shareholding of four shares for each tray of production. A producer would not be able to acquire more shares if they are overshadowed or if the acquisition would make them overshadowed. This would be introduced through a change to the Constitution.

The new regulations permit the Board of Zespri to introduce this change to the Constitution. The proposed Constitution will provide Zespri with the ability to require a compulsory sale of shares held in excess of the cap based on two conditions:

- **Seven years:** there is a transition period of seven years for producers already overshadowed when the sanctions under the new Constitution rules apply. During this period there is no compulsory sale for the number of overshadowed shares held on the day the rules are approved or, if the grower becomes less overshadowed

during the seven year period, that lower number (a 'sinking lid' exemption).

- **Three years:** there is a period of three years for producers who become overshadowed after the new Constitution rules are introduced.

SINKING LID

Zespri proposes to apply a 'sinking lid' rule during the seven year transitional period for producers who are overshadowed when the rules are introduced.

For example, if a shareholder in the transitional period is overshadowed by 500 shares at the introduction of the new rules, then reduces their overshadowed amount to 300 shares, but later becomes overshadowed by 500 shares again, that increase of 200 shares is subject to the new three year rule (i.e 200 shares must be sold within three years).

SCENARIOS

I am a grower with 20,000 shares and 10,000 trays of production. I own KPIN one which has a historical production of 6,000 trays and KPIN two which has a historical production of 4,000 trays. What is my share entitlement?

Grower A		
Owns	Production	Shares owned
KPIN 1	6,000	
KPIN 2	4,000	
	10,000	20,000
Share Entitlement (share cap):	40,000	(4 x 10,000 trays)
Headroom:	20,000	(40,000 entitlement less 20,000 current shareholding)

I sell KPIN one after the new rules are introduced. My production therefore drops to 4,000 trays (which is the historical production of KPIN two). What is my new share entitlement?

Grower A		
<i>Grower A sells KPIN 1</i>		
Owns	Production	Shares owned
KPIN 2	4,000	
	4,000	20,000
Share Entitlement (share cap):	16,000	(4 x 4,000 trays)
Headroom:	-4,000	(the current shareholding of 20,000 shares exceeds the share cap of 16,000)
Overshared amount:	4,000	(difference between the current shareholding and the share cap)

COMMON QUESTIONS



Q How will Zespri enforce the four-to-one share cap rule?

A Under the amended Constitution, the Board is entitled to sell the over-shared portion of the shares on the producer's behalf, if the producer does not sell them within the required period.

Q How will Zespri decide on a price for the shares it sells on behalf of the overshared producer?

A The shares would be sold at the best price that is reasonably obtainable at the time of the sale.

Q Will undershared growers be required to purchase Zespri shares?

A No, undershared growers won't be compelled. However, we hope to make it easier for growers who are either undershared or own no shares to become shareholders. A future targeted share buyback and issue programme is intended as part of this process.

Q How does the rule deal with dry shareholders (non-producers) who get back into production i.e they buy or lease an orchard?

A A dry shareholder who later becomes a producer again will have to sell their over-shared shares if they are above the four-to-one cap within a three year time period of becoming a producer.

#5 RULES EXPLAINED

DIVIDEND RESTRICTIONS

A recent change to the Kiwifruit Export Regulations gives Zespri the ability to put in place dividend restrictions on shareholders who are no longer producers (referred to as dry shareholders or non-producers). This would be introduced through a change to the Constitution. Both producer and non-producer shareholders will have the ability to vote on this proposal.

Zespri will propose that a dividend will not be paid to a shareholder that is not a producer as at the record date for that dividend and has not supplied Zespri for three years.

However, for those who are not producers at the time of the change in the Constitution, dividends would not cease until seven years after the change. This is unless the shareholder became a producer again, then returns to being a non-producer, in which case the three year rule would apply. Note: on becoming a producer, any shares held over the share cap are subject to the rules for overshared producers.

The amended regulations do not permit a requirement that dry shareholders (non-producers) sell their shares. However, as applies under the current rules when dry shareholders do sell, their shares can only be sold to producers, or back to Zespri if Zespri has a buy-back offer in place at the time.

SCENARIOS

I sold my only orchard a few years ago but retained my shares. What are my options and what is the timeframe?

Your orchard has been sold and you do not own or lease any other orchards. Therefore you have no production and you are considered to be a non-producer or dry shareholder. As a dry shareholder at the date the new rules came into effect, you will have seven years before you will stop receiving dividend payments on your shares. If you wish to dispose of your shares, you may sell your shares to a current producer, or back to Zespri if Zespri has a buy-back offer in place at the time.

Options for selling shares

1. Off-Market

An off-market transfer is for privately transferring shares between two parties without using the services of a share broking firm. It is an off-market transfer because the shares are not transferred via the share market. Shares can be traded off-market as part of the sale of an orchard, or at any time where a shareholder is looking to sell and can find a producer who is looking to buy.

2. On-Market

An on-market trade requires the services of a share broking firm. The shares are being publicly traded on the share market. Zespri shares trade on the Unlisted/USX* platform. Unlisted have six approved brokers, one of which who shareholders will need to sign up with in order to trade Zespri shares on-market.

For more information, refer to the Canopy website or call Zespri's Grower Support Services on 0800 155 355.

* Unlisted/USX is not a Licensed Financial Product Market under the Financial Markets Conduct Act 2013. Efficient Market Services Limited, which operates Unlisted, accepts no responsibility for any statement in this document.

COMMON QUESTIONS



Q Will dry shareholders be forced to sell their shares under the amended Constitution?

A No. The amended regulations do not permit a requirement that dry shareholders sell their shares.

Q Why is the grandfathering rule of seven years before a current dry shareholder loses dividends so long?

A This is a concession made at the time of the KISP consultation process. The seven years provides a substantial period of time for dry shareholders to continue receiving dividends before the measure takes effect.

Q Why isn't Zespri proposing a dividend cap on producers who exceed the four-to-one share cap?

A KISP proposed a dividend cap for all shareholders, however the new Kiwifruit Export Regulations allow a dividend cap to be introduced for non-producers only. Regardless, the requirement on producers to sell shares over the four-to-one cap means that dividends on the over-shared portion cease anyway after the transition period of seven or three years has passed.

#6 RULES EXPLAINED

VOTING CAP

If the new Constitution rules are passed, shareholder voting entitlements under the Zespri Constitution at Annual Meetings and Special Meetings will be based on one voting share for each tray of production, or the number of shares the producer holds - whichever is the lower number.

Voting rights would be shared between the owner and lessee (if both are shareholders) according to the landowner priority rule. If both landowner and lessee hold shares, the landowner takes priority to use the votes attached to the shares as a result of production subject to specific exceptions for Glasgow leases and existing long term leases.

Note: any interest group votes will continue to be conducted in accordance with the Companies Act and Constitution.

SCENARIOS

I am a grower. I own two orchards (KPIN one and KPIN two). KPIN one has a historical average of 10,000 trays and KPIN two of 15,000 trays. I currently hold 50,000 shares. What are my voting rights?

As the owner of KPIN one and KPIN two, you are entitled to all of the production from those KPINs. Your historical production is therefore 25,000.

Your voting entitlement is the lower of either your number of shares (50,000), or your historical production on a one voting share per tray basis (25,000). In this case, your production is lower, so you are entitled to 25,000 votes in accordance with the Constitution.

COMMON QUESTIONS



Q How does the proposed entitlement differ from current voting?

A Currently voting entitlements are worked out by calculating a shareholder's production as a proportion of total industry production and total shares on issue. However, if the resulting number is greater than the number of shares held by the shareholder, then the voting entitlement will be the number of shares held.

The future voting entitlement will not be dependent on the proportion of a shareholder's production to the total industry production, but just based on their own production. A ratio of one voting share per tray produced voting entitlement applies, unless the shareholder holds a lesser number of shares, in which case the lesser number of shares can be voted.

#7

EXPLANATORY
NOTE

THE LANDOWNER PRIORITY RULE

In the KISP referendum, growers backed measures to allow lessees of orchards to own shares and vote. Under the new Constitution rules, this would be up to a maximum of the four-to-one share cap per KPIN, and a maximum of the one-to-one voting cap per KPIN.

The lessee's share entitlement is for any balance of shares under the maximum share entitlement not taken up by the owner. The lessee can take up the 'headroom' under the share cap and voting cap not used by the landowner.

If both the lessee and the landowner own shares and the combined shareholding exceeds the shareholding cap, then the lessee must dispose of their shares exceeding the cap (within the three-year period before sanctions apply, not immediately) before the landowner is required to do so. This is the Landowner Priority Rule, which was also recommended as part of the original KISP proposals.

A lessee's right to production for share cap or voting entitlement purposes will not require agreement from the owner. It is an automatic right if the landowner does not take up their full share entitlement).

EXCEPTIONS TO THE LANDOWNER PRIORITY
RULE

1. If there is an existing 20 or more-year lease in place at the time of the introduction of the new rules, then the share cap and voting cap priority entitlements will be split 50/50 i.e a share cap of two shares to one tray for both the landowner and the lessee).
2. If there is a 'Glasgow' lease in place at any time, then the lessee has priority over both shares and votes rather than the landowner.

SCENARIOS

If a property has 100 trays of production, the owner and the lessee (if any) can between them hold up to 400 shares. If the owner and the lessee each have 200 shares and the owner buys 100 more shares, the lessee becomes overshared by 100 shares and has to sell its excess shares within three years. (Note: any entity overshared at the date the new rules take effect, will have a transition period of seven years within which to sell excess shares).

Voting

For 100 trays of production there is an entitlement to vote 100 shares. Based on the example above, the owner can vote all of them. However, if the owner only owned 50 shares then the owner can only vote 50 shares and the lessee could vote the other 50 if it had the shares to match.

COMMON QUESTIONS



Q Why should lessees have rights to shares?

A Growers who lease land to produce kiwifruit have an important stake in the industry and, through the KISP consultation process, it was recognised that lessees should have a right to take up shares available under the cap but subsidiary to the rights of the landowner.

Q I am a grower who leases an orchard from another landowner. The historical production of the orchard is 10,000 trays. The landowner of the orchard is not a shareholder. Can I purchase shares?

A Due to the landowner not being a shareholder, you are entitled to the full share entitlement for this orchard, being 40,000 shares (4 x 10,000 trays).

Q You will be able to vote up to 10,000 shares if you buy them. How will a lessee know what shares are available within the cap?

A Lessees can contact Zespri at any time to ascertain the headroom available to them. This information will also be available on the Industry Portal website in the future.

Q How are shares allocated across orchards to identify 'headroom' at each KPIN for the lessee to use?

A Zespri's share system will have a method of allocating share entitlement by default, first to the KPINs that a producer owns and any balance to those KPINs that the producer leases (if there is room available under the share cap for that KPIN once the landowner's holding has been taken into account).

Q How are my shares allocated if I own more than one property?

A Shares are allocated to each property in proportion to the production attributed to that property.

#8

EXPLANATORY
NOTE

INTEREST GROUPS AND THE VOTING PROCESS

To approve the proposed Constitution changes, certain votes will be required of shareholders at the Special Meeting.

CONSTITUTION VOTE

The Companies Act and Zespri's current Constitution require that amendments to the Constitution must be approved by a special resolution of shareholders (75 percent approval of those who vote) in accordance with the current production-based voting cap.

REGULATORY VOTE

The Kiwifruit Export Regulations require changes to the Zespri Constitution to introduce the share cap and dividend cap to also be approved by 75 percent of those who vote. All shareholders (producers and non-producers) vote on a one-vote-per share basis.

INTEREST GROUP VOTE

Under The Companies Act, shareholder interest groups also have a separate vote. The resolution must achieve 75 percent support among those who vote on a one-vote-per-share basis.

The definition of an interest group is based on a legal test. It applies if there is a group of shareholders to which a proposal for an amendment to the Constitution has a unique effect on the rights attached to their shares.

Zespri has received independent legal advice that the proposed changes to Zespri's Constitution create two interest groups. These groups are:

- 1. Producer shareholders** – whose voting entitlements and share entitlements will be affected.
- 2. Non-producer shareholders** – whose rights to dividends will be affected.

The key reason is, in summary, that the Regulations allow different changes to be made applying to each group – share cap and voting cap changes for producers only, and dividend cap changes for non-producers only.

PRODUCER VOLUNTARY VOTE

Zespri's Board has decided to offer producers a voluntary vote on the dividend cap on a one-vote-per-share basis.

VOTING PROCESS

Three alternative Constitution models will be presented at the Special Meeting of shareholders:

1. A new Constitution reflecting the entire package of proposed amendments. The share cap, voting entitlements and other associated measures, plus the inclusion of dividend restrictions. The Board recommends that the full set of changes be approved by shareholders.
2. A new Constitution reflecting the entire package, minus the dividend restrictions on current dry shareholders.
3. A new Constitution reflecting the entire package, minus the dividend restrictions on future dry shareholders.

These models will be shown in a colour-coded version of the new proposed Constitution, which will be distributed to shareholders ahead of the Special Meeting.

The Special Meeting of shareholders will recognise two shareholder interest groups in the vote on Zespri's proposed amended Constitution.

Producers will have an interest group vote on the share cap and the changes to voting rights.

Producers do not have an interest group vote on dividend restrictions for 'dry' non-producer shareholders. However, the Board has decided to ask producers, by way of an additional vote, to agree to dividend restrictions for future non-producers.

Non-producers will have two interest group votes on the dividend cap: one on a cap applying to current dry shareholders and one on a cap applying to future dry shareholders.

In summary, there will be six resolutions put forward at the Special Meeting:

Resolution 1: Constitution vote for or against the three proposed Constitution options. The voting cap applies.

Resolution 2: Regulatory vote for or against the three proposed Constitution options. One vote per share.

Resolution 3: Producer interest group vote on the share cap and changes to voting rights. One vote per share.

Resolution 4: Non-producer interest group vote on the dividend cap for future dry shareholders (after three years). One vote per share.

Resolution 5: Producer voluntary vote on the dividend cap for future dry shareholders (after three years). One vote per share.

Resolution 6: Non-producer interest group vote on the dividend cap for current dry shareholders (after seven years). One vote per share.

Resolution 7: Vote of all shareholders to approve share issue, buy-back and distribution as a 'major transaction' (current voting cap applies).

Note: the advice above is based on the information available at the time of publication and is subject to change. Details are still being finalised and could potentially change. Comprehensive information will be provided in advance of the Special Meeting and in the Notice of Meeting.

UPDATED JANUARY 2018

COMMON QUESTIONS



Q Why are producers and non-producers recognised as interest groups?

A The key reason is that the Regulations specifically recognise and treat differently producers and non-producers. Zespri can impose a share cap and voting changes for producers only, and can impose a dividend cap on non-producers only.

Q Does Zespri have a reasonable expectation that non-producers will vote on a Constitution that removes their dividends?

A Zespri is recommending this measure because it is the right thing to do, within the scope of the Kiwifruit Export Regulations, to promote greater alignment between production and shareholding. We hope non-producers will support it.

Q Why should non-producers be entitled to vote on a measure to remove dividends from producers who might become dry in future?

A Under the Companies Act, an interest group vote by current members of an interest group will affect existing and future members of the interest group. The position is the same for producers: current producers will vote on changes that will also affect future producers. The Board has decided to also offer the vote on removal of dividends to producers.

Q What consequences are there for an interest group member if they vote all of their shares against the proposal but over 75 percent of the interest group that votes supports the proposal and so it passes?

A If this scenario eventuates, then those members of the interest group who voted all of their shares against the proposal have a minority buy-out right, which means the right to have Zespri buy back their shares. This would be at a fair and reasonable price approved by the Board, which will obtain and take into account an independent valuation when setting the price.

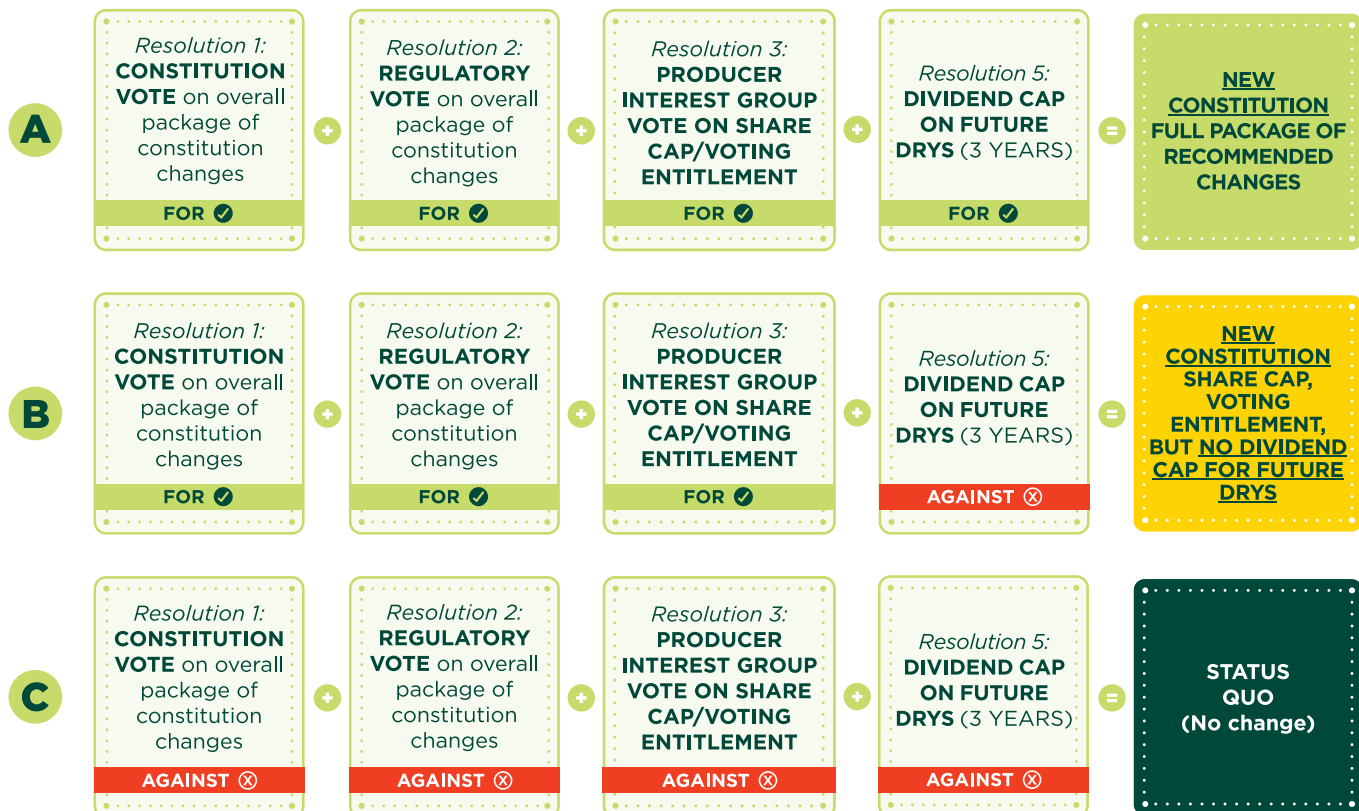
VOTING PROCESS AT A GLANCE FOR CONSTITUTIONAL CHANGES

UPDATED JANUARY 2018



PRODUCER

The voting options below show how you as an individual producer might vote, based on which particular outcome you wish to support. For example, if you wish to support the full package of recommended changes to the Constitution which are consistent with the proposals voted for in the KISP referendum, (as permitted under the Regulations) including the share cap, voting entitlement and dividend cap, you would vote in favour of resolutions one, two, three and five. There are basically three options.



VOTING PROCESS AT A GLANCE FOR CONSTITUTIONAL CHANGES

UPDATED JANUARY 2018



NON-PRODUCER

The voting options below show how you as an individual non-producer might vote, based on which particular outcome you wish to support. For example, if you wish to support the full package of recommended changes to the Constitution, including the share cap, voting entitlement and dividend cap for both current and future non-producers, you would vote for resolutions two, four and six. If you support the share cap and voting entitlement for producers but not the proposed dividend restrictions then you would vote for resolution two but against resolutions four and six. There are basically four options.



#9 EXPLANATORY NOTE

ENTITLEMENTS OF OWNERS AND LESSEES OF KPINS

Under the proposed Constitution changes, the rules apply on a strict legal entity basis. Therefore, a grower can be misaligned if they own an orchard in the name of one legal entity, call it 'Family Trust A', but they own shares in the name of a different legal entity, call it 'Orchard Partnership B'.

The result is that, under the amended Constitution, the different entity called 'Orchard Partnership B' is a non-producer, or more commonly referred to as being a 'dry shareholder'. This is because there is no production attributed to this entity. If shares are not owned in the exact same legal entity as owns or leases the orchard, the shares are considered dry.

The result of this status is that the grower cannot vote the shares held by Orchard Partnership B, because voting entitlement is based on which entity owns or leases the

orchard **and** has shares. Furthermore, under the amended Constitution, the grower could lose dividends on those misaligned shares after three years (or after seven years if the shareholder is dry when the rules take effect).

If a property is owned by a trust then the trustees of the trust will be listed on the Certificate of Title. If shares owned by the trustees differ from what is on the Title as legal owner then this is considered misaligned. Because of this, the shareholder would be considered 'dry'.

MISALIGNED DEFINITION:

Owns shares under one legal entity but owns an orchard under another related party entity, not the exact same entity (and there is no lease in place). Therefore ownership of the shares and ownership of the orchard and fruit are not aligned.

SOLUTION

There are simple ways to address this form of misalignment.

The grower can align shares with their production through a transfer of shares from Orchard Partnership B to the entity that owns the orchard, Family Trust A, or if Orchard Partnership B actually operates the orchard they can put a lease in place between them. Alternatively, a more complex solution would be to transfer the orchard into the share entity 'Orchard Partnership B'.

The first option can be done anytime through an off-market transfer, which is a private transfer of shares between two parties that doesn't require share broker services. The form and relevant instructions are available on:

- Canopy>Growing Kiwifruit>Shares>Ways to trade shares
- Or request a copy by emailing: shares@zespri.com

Before taking any action in respect of shares or orchards, growers should consult with their professional advisers.

TRUSTS AND TRUSTEES

Approximately 35 percent of Zespri shares are currently held by trustees.

For the purposes of share ownership under the Companies Act, trustees are deemed as joint owners of shares – not the trust itself.

One consequence is that trustees need to make sure that there is alignment between their joint ownership of shares and their joint ownership of an orchard.

If there is a change in an individual trustee, for example because the trustee has retired, then a share transfer is required. The shares need to be transferred from one set of trustees jointly to the new set of trustees. This will only be permitted if the new trustees are producers, that is, own or lease an orchard.

This can be done through an off-market share transfer.

COMMON QUESTIONS



Q Why is it necessary to have absolute alignment between the registered owners of shares and the registered owners of orchards?

A This simplifies Zespri's rules. The alternative would require very detailed and complex rules to be developed to define 'common ownership' of related entities, and the consequences of common ownership for calculating the position of each shareholder under the new rules.

Q How can I transfer shares if I have lost my share certificate?

A You will need to complete a 'Statutory Declaration and Indemnity for Lost Certificates' form which is available from Computershare or Zespri. Essentially, this declaration confirms that the certificate has been lost or misplaced and allows Computershare to cancel the certificate in their records.

The form needs to be signed by all joint holders and witnessed by a solicitor, a Justice of the Peace, or a Notary and returned to Computershare. A \$25.00 fee is payable directly to Computershare.

#10 KEY TERMS AND DEFINITIONS

Deemed production	Applies to the calculation of production for Greenfield sites. The calculation is based on the area of the Greenfield and the average production per hectare for the region, as determined by Zespri.
Dry shareholder	A shareholder who does not own or lease a New Zealand kiwifruit orchard. A shareholder who does not own or lease a New Zealand kiwifruit orchard in the same legal entity name as they own their shares. Also known as a non-producer. Please also refer to the definition for misaligned.
Glasgow lease	There is no statutory definition of a Glasgow lease. For Constitutional purposes, we are defining it as a lease with a term of 21 years or more, perpetually renewable at the option of the lessee, where all improvements on the land are owned by the lessee.
Greenfield	A site on which there is no history of production in the last five years and which was allocated a KPIN less than three years ago.
Headroom	The balance available between the total shares owned by a producer and the maximum share entitlement (four-to-one share cap), when the total shares owned is less than the maximum share entitlement.

KEY TERMS AND DEFINITIONS

Historical production	Historical production is used for the purpose of calculating share and voting entitlements. It is the average of the highest number of trays supplied to Zespri at FOBS (shipped) in any two of the five seasons preceding the measurement date. It also includes fruit which may not be supplied to FOBS, such as crop managed fruit, fruit sold on the domestic market and fruit which forms part of an insurance claim.
KPIN	Kiwifruit Property Identification Number – a four-digit number assigned to each property on which kiwifruit is or was produced. Share entitlement is always calculated on the basis of production from KPINs.
Legal entity	For these purposes, a company, trustees holding shares jointly, partnership, or other organisation that is legally constituted and recognised under the Companies Act 1993 and Zespri’s Constitution. It has legal personality separate from its shareholders or partners. The ownership or control of the legal entity that owns or leases a KPIN is irrelevant in determining entitlement to production from a KPIN.
Misaligned	Owns shares under one legal entity but owns an orchard under another related party entity, not the exact same entity (and there is no lease in place). Therefore ownership of the shares and ownership of the orchard and fruit are not aligned.
New entrant	An entity that has not previously owned or leased an orchard and owns or leases a site on which there has been no history of production in the last five years i.e Greenfield and who obtains a KPIN in order to start an orchard.
Non-producer	A shareholder who does not own or lease a New Zealand kiwifruit orchard. A shareholder who does not own or lease a New Zealand kiwifruit orchard in the same legal entity name as they own their shares. Also known as a dry shareholder. Please also refer to the definition for misaligned.
Overshared	A producer whose shareholding exceeds the four-to-one share cap.
Producer	An owner of land in New Zealand on which kiwifruit is produced for supply to Zespri; a lessee with a lease of at least one year’s duration of land in New Zealand on which kiwifruit is produced for supply to Zespri; and/or a person determined by Zespri to be a producer for the purpose of tradeability of shares.
Record date	Zespri’s Board of Directors determines when dividends are payable. Zespri relies on shareholding figures at a time close to when the distribution of dividends will actually be made, which is called the dividend record date.
Share cap	A maximum shareholding ratio of four shares per tray for producer shareholders.
Transition period	A period of time following the introduction of changes to Zespri’s Constitution before which the rules on maximum shareholding and cap on dividends apply to those who exceed the cap or are dry shareholders when the new rules are introduced.
Voting cap	Each producer shareholder is entitled to the lesser of: (1) one vote per tray of production; and (2) one vote per share held.

VOTING PROCESS AT A GLANCE TO APPROVE SHARE ISSUE, BUY-BACK AND DISTRIBUTION AS A MAJOR TRANSACTION

UPDATED JANUARY 2018



PRODUCER

Resolution seven is to obtain shareholder approval of the Board's proposed share issuances to producers that have no shares or are undershared (have less than one share per tray of actual or deemed production), buy-backs from shareholders that have no production, are overshared (have more than four shares per tray of actual production) and/or have shares above one share per tray of actual production, and distribution of any excess capital resulting subject to the needs of the business at the time. The Board has not yet finalised the details of the transaction, but in the event that the value of the transaction reaches the major transaction threshold under the Companies Act 1993, it requires shareholder approval. The voting options below show how you as an individual producer might vote, based on which particular outcome you wish to support.

