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27 September 2010

Dear Shareholder

TAKEOVER OFFER BY NEW PLYMOUTH DISTRICT COUNCIL

Enclosed with this letter are the:

- (a) Tasman Farms' Target Company Statement; and
- (b) Independent Adviser's Report prepared by Grant Samuel & Associates Limited,

both of which are being provided to you as required by the Takeovers Code to assist you in considering NPDC's offer for your shares in Tasman Farms.

You are encouraged to read the enclosed documents carefully.

The independent directors have not formed a clear view on the value of the Company's shares. However, taking into account a number of other matters as set out below, the independent directors have resolved to recommend that shareholders ACCEPT the offer from NPDC.

On receiving notice of NPDC's offer, a committee comprising two of the independent directors of Tasman Farms, John Watson and Dr Robin Pratt was formed to take the lead in reporting to shareholders on the offer.

The committee appointed Grant Samuel & Associates Limited to prepare an independent report on the merits of the offer and Harnos Horton Lusk Limited to provide it with legal advice on the offer. The committee has consulted with the other two independent directors of Tasman Farms, Miles Hampton and Trevor Westacott, and has been assisted by our chief executive, Nicola Morris. Director John Andrews is not a member of the committee because of his professional associations with a number of parties, including Douglas Family interests and First Eagle Investment Management, LLC, an entity that has held 7.68% of Tasman Farms, and that committed to accept NPDC's offer in advance of it being made.

Grant Samuel values the Company's shares in the range of \$0.72 to \$0.96 per share. This reflects an amalgam of valuation approaches, including an assessment of realisable asset values. Grant Samuel has provided its views on the merits of the NPDC offer (refer pages 8 to 12 of the enclosed report).

Directors accept that a valuation exercise in these circumstances is not straightforward. In common with a number of farming ventures, the Company does not generate high levels of free cash flow, does not pay dividends and is relatively capital hungry. Although the Company appears asset rich, it is not the board's intention (nor does it appear to be the intention of the controlling shareholder) to realise the asset portfolio. In any case, there would be substantial costs and uncertainties in doing so. As a result, the net asset value of the Company does not represent a presently attainable sum for shareholders.

Directors note that the Company's shares have not traded at or around the offer price since the beginning of March 2010, and for those shareholders who took up new shares at \$0.75 per share

under the rights issue made in June this year, the offer price provides an attractive return on that cost.

The decision whether or not to accept the takeover offer is one for individual shareholders. However, for the reasons noted below, rejection of the offer, and retention of a shareholding in Tasman Farms, would carry risks and have a number of potential consequences for shareholders, which the four independent directors consider are undesirable. Accordingly, and on balance, the four independent directors recommend that:

- shareholders who are not willing to accept those risks and potential consequences accept the offer;
- shareholders who wish to retain their shareholding in Tasman Farms do so fully aware of the risks and potential consequences outlined below.

In forming this judgment, the independent directors have had regard to the following:

- (a) NPDC's offer price is above the top-end of the Grant Samuel valuation range.
- (b) With the Company's shares having ceased to be quoted on the "Unlisted" share trading facility, the liquidity (the ability to readily buy and sell) of the Company's shares will reduce further, especially if a number of shareholders accept the offer. This may make it harder in the future for shareholders to sell their shares at a fair price. At the date of this letter, we understand approximately 46 shareholders, holding 8.12% of the Company, have accepted the NPDC offer.
- (c) NPDC has indicated that it intends to exercise greater control over the governance and direction of the Tasman Farms business, and to ensure the required skill sets are in place at governance and management levels to implement its planned changes. NPDC currently is in a position to control entirely the composition of the board, and it is possible that the number and influence of independent directors on the board will reduce after completion of the offer.
- (d) NPDC has indicated that it has further development plans for Tasman Farms, some of which are likely to require the Company to secure further debt and equity funding. The terms of any additional equity financing cannot be determined at this time. The right to participate in any capital raising may or may not be offered to existing shareholders and, if offered, may or may not be offered on pricing terms which are attractive. There is a risk that shareholders' percentage holdings may be diluted. The last rights issue undertaken by the Company was on a "non-renounceable basis" which meant that shareholders were unable to capture any value attributable to their entitlement to new shares by selling these entitlements to third parties.
- (e) NPDC controls more than 85% of the Company's issued shares and there is very little possibility of a competing takeover offer being made.
- (f) It is unclear at this time whether NPDC will obtain sufficient acceptances to proceed to compulsory acquisition. If the Douglas Family, with its holding of 10.33% elects not to accept the offer, NPDC will not achieve the 90% threshold required to proceed to compulsory acquisition. In these circumstances, shareholders who do not accept the offer may be "locked in", with all the risks associated with that as discussed in the Grant Samuel report.
- (g) Although the appraised value of the Company's assets exceeds the offer price, there is no intention to sell or otherwise realise the value of these assets and indeed minority

shareholders and any remaining independent directors will have a limited ability to influence such an outcome. Asset sales and distributions of proceeds would be likely to have tax consequences for the Company and shareholders.

- (h) Given NPDC's stated plans, shareholders should have no expectations of any dividend flow in the short to medium term. In view of the availability of other investments with greater levels of transparency, income return and expectation of ultimate capital gain, the independent directors recommend shareholders think carefully before retaining their shares and rejecting the offer.
- (i) Grant Samuel's discussion of the merits of the offer as set out on pages 8 to 12 of its report.

Finally, the NPDC offer closes on 14 October 2010. If you are going to accept the offer, you need to make sure your acceptance is received by NPDC by that date.

Yours sincerely

A handwritten signature in black ink, appearing to read "John B. Watson". The signature is written in a cursive style with a large initial "J".

John Watson
Chairman
Tasman Farms Limited

TASMAN FARMS LIMITED

Target Company Statement

27 September 2010

This document includes Tasman Farms Limited's independent directors' recommendation and the Independent Adviser's Report in response to New Plymouth District Council's takeover offer.

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Letter from the Chairman
Information prescribed by the Takeovers Code
Independent Adviser's Report

TARGET COMPANY STATEMENT

This Target Company Statement has been prepared by Tasman Farms Limited pursuant to rule 46 of the Takeovers Code in relation to the full takeover offer by New Plymouth District Council.

1. DATE

1.1 This Target Company Statement ("**Statement**") is dated 27 September 2010.

2. OFFER

2.1 This Statement relates to a full takeover offer ("**Offer**") by New Plymouth District Council ("**NPDC**") to purchase all of the fully paid ordinary shares in Tasman Farms Limited ("**TFL**") not already held by NPDC as at the date of the Offer for a purchase price of \$1.00 per share payable in cash. The Offer remains open (subject to any extension in accordance with the Takeovers Code) until 14 October 2010.

2.2 The full terms of the Offer are set out in the offer document dated 14 September 2010 ("**Offer Document**").

3. TARGET COMPANY

3.1 The name of the target company is Tasman Farms Limited.

4. DIRECTORS OF TFL

4.1 The directors of TFL are:

- (a) John Terence Andrews
- (b) Miles Lawrence Hampton
- (c) Dr. Robin Pratt
- (d) John Charles Watson (Chairman)
- (e) Trevor Westacott

5. OWNERSHIP OF EQUITY SECURITIES OF TFL

5.1 The only classes of equity securities of TFL on issue are ordinary shares and convertible redeemable notes. NPDC is an associate of Mr John Andrews (refer to paragraph 13.2 for details of this association). 6,182,762 convertible redeemable notes were issued to NPDC on 26 May 2010 pursuant to a subscription agreement entered into on that date. On 30 June 2010, NPDC converted 6,000,000 of those notes into 8,000,000 ordinary shares in TFL at an issue price of \$0.75 per ordinary share. There are 182,762 convertible redeemable notes remaining on issue, all of which (100%) are held by NPDC.

5.2 Table A in Schedule One to this Statement sets out the number and percentage of ordinary shares of TFL held or controlled by:

- (a) each director or senior officer of TFL and their associates; and
- (b) any other person who, to the knowledge of TFL, holds or controls 5% or more of the ordinary shares.

- 5.3 Table B in Schedule One to this Statement sets out the number of ordinary shares of TFL that have been issued to the directors or senior officers of TFL or their associates, and the price at which the shares were issued or provided in the two year period ending on the date of this Statement.
- 5.4 None of the directors or senior officers of TFL or their associates has obtained a beneficial interest in any equity securities under any employee share scheme or other remuneration arrangement in the two year period ending on the date of this Statement.
- 5.5 The constitution of TFL's subsidiary, The Van Diemen's Land Company, includes a shareholding qualification for appointment as a director. Each of the directors of TFL is a director of The Van Diemen's Land Company and each of them holds one share in The Van Diemen's Land Company (other than John Watson who holds two shares). When a director ceases to hold office, he or she will transfer their shares in The Van Diemen's Land Company at the direction of that company's board (signed but undated share transfer forms are held in respect of all the shares held by directors).

6. TRADING IN TFL EQUITY SECURITIES

- 6.1 On 26 May 2010, TFL issued 6,182,762 convertible redeemable notes to NPDC at an issue price of \$1.00 per note. On 30 June 2010, NPDC exercised its conversion rights in respect of 6,000,000 of those notes and was issued with 8,000,000 ordinary shares in TFL, issued at a price of \$0.75 per ordinary share.
- 6.2 Schedule Two to this Statement sets out the details of ordinary shares of TFL that have, during the six month period ending on 24 September 2010 (being the latest practicable date before the date of this Statement), been acquired or disposed of by persons who are associates of a director of TFL (Mr John Andrews) and by any other person who, to the knowledge of TFL, holds or controls 5% or more of any class of equity securities of TFL, other than as set out in paragraph 6.1. No directors or senior officers of TFL have themselves so acquired or disposed of any ordinary shares or other equity securities.

7. ACCEPTANCE OF OFFER

- 7.1 Mr John Andrews and First Eagle Management, LLC ("**First Eagle**") have a business relationship by virtue of the provision by Mr Andrews of investment advice and services to First Eagle. First Eagle has entered into an agreement with NPDC under which First Eagle agreed to accept the Offer in respect of 6,593,750 ordinary shares, being all of the shares in TFL that it holds, for a consideration of \$1.00 per share. TFL has been advised by NPDC that First Eagle accepted the offer on 21 September 2010.

8. OWNERSHIP OF EQUITY SECURITIES OF NPDC

- 8.1 NPDC is not a company and does not have any equity securities on issue. Accordingly, none of TFL or any director or senior officer of TFL or any of their associates hold or control any equity securities of NPDC.

9. TRADING IN EQUITY SECURITIES OF NPDC

- 9.1 For the reason specified in paragraph 8.1 above, none of TFL or any director or senior officer of TFL or any of their associates has acquired or disposed of any equity securities of NPDC during the six month period before 24 September 2010, being the latest practicable date before the date of this Statement.

10. ARRANGEMENTS BETWEEN NPDC AND TFL

- 10.1 For the purposes of Schedule 2 of the Takeovers Code, NPDC is a related company of TFL. NPDC and First Eagle are associates by virtue of the pre-bid agreement entered into between NPDC and First Eagle referred to in paragraph 7.1. Accordingly the pre-bid agreement is an agreement between a related company of TFL and an associate of NPDC entered into in connection with the Offer.
- 10.2 Taranaki Investment Management Limited (“TIML”) is wholly owned by NPDC and is contracted by NPDC to provide it with investment management services. The directors of TFL understand that TIML has been providing NPDC with advice in relation to NPDC’s offer for TFL, but are not aware of the terms of any arrangements between TIML and NPDC in respect of the Offer. TFL has requested NPDC to provide any disclosures required for the purposes of paragraph 10 of Schedule 2 of the Code. NPDC has not provided any information for the purposes of any such disclosure.
- 10.3 NPDC and TFL are parties to a loan agreement dated 26 May 2010 pursuant to which NPDC was issued convertible redeemable notes. Pursuant to the terms of that agreement, TFL is required to provide monthly accounts to NPDC. NPDC and TFL were also parties to an underwriting agreement in respect of the rights issue undertaken by TFL in June 2010. These agreements were not entered into in connection with, in anticipation of, or in response to the Offer.

11. RELATIONSHIP BETWEEN NPDC AND DIRECTORS AND SENIOR OFFICERS OF TFL

- 11.1 In 2008, Dr Robin Pratt provided consultancy services to NPDC in respect of a takeover offer by NPDC for TFL. Dr Pratt has not provided any services to NPDC since that engagement in 2008.
- 11.2 Mr Andrews is an employee of Forsyth Barr. NPDC is paying a broker handling fee to any Trading Participant whose stamp appears on an acceptance form for the Offer. The broker handling fee is paid at the rate of 0.75% of the cash consideration payable in respect of each stamped acceptance form. Forsyth Barr will be entitled to be paid such brokerage in respect of any acceptance form that it stamps. Forsyth Barr stamped the First Eagle acceptance form and will therefore be entitled to receive a brokerage fee of \$49,453.13 in respect of that acceptance.
- 11.3 None of the directors or senior officers of TFL are directors or senior officers of NPDC (or any related company of NPDC).

12. AGREEMENT BETWEEN TFL AND DIRECTORS AND OFFICERS

- 12.1 There are no agreements or arrangements (whether legally enforceable or not) which have been made, or which are proposed to be made, between TFL or any related company of TFL, and any of the directors or senior officers of TFL or their associates (or any of the directors or senior officers of any related company of TFL) under which a payment or other benefit may be made or given by way of compensation for loss of office, or as to their remaining in or retiring from office in connection with, in anticipation of, or in response to, the Offer.

13. INTERESTS OF DIRECTORS AND OFFICERS AND SUBSTANTIAL SECURITY HOLDERS OF TFL IN CONTRACTS OF NPDC OR NPDC’S RELATED COMPANIES

- 13.1 Mr Andrews and First Eagle have a business relationship by virtue of the provision by Mr Andrews of investment advice and services to First Eagle. Accordingly, First Eagle is an associate of Mr Andrews. Prior to its acceptance of the Offer, First Eagle held or

controlled 5% or more of the ordinary shares in TFL. First Eagle has an interest in the agreement with NPDC described in paragraph 7.1, as the counterparty to that agreement.

13.2 Mr Andrews and NPDC have a business relationship by virtue of the provision by Mr Andrews of investment advice and services to NPDC. Accordingly, NPDC is an associate of Mr Andrews. NPDC, being a person who holds or controls 5% or more of the ordinary shares and convertible redeemable notes on issue in TFL, has an interest in every material contract to which it is a party. TFL has requested NPDC to provide any disclosures required for the purposes of paragraphs 13 and 13A of Schedule 2 of the Code. NPDC has not provided any information for the purposes of any such disclosure.

13.3 Mr Andrews has an interest in the agreement between NPDC and First Eagle described in paragraph 7.1 because of his association with each of First Eagle and NPDC. In addition, Mr Andrews is an employee of Forsyth Barr and therefore has an interest in the broking arrangements that NPDC has with Forsyth Barr described in paragraph 11.2.

14. ADDITIONAL INFORMATION

14.1 In the opinion of the directors of TFL, there is no information in the Offer Document that is incorrect or misleading, and there is no additional information within the knowledge of TFL that is required to be included in or with the Offer Document to make the information in the Offer Document correct or not misleading.

15. RECOMMENDATION

15.1 The Independent Directors recommend shareholders accept the Offer.

15.2 The factors taken into consideration in making the recommendation are set out in full in the letter from the Chairman attached to this Statement.

15.3 John Andrews abstains from making a recommendation because of his business relationship with NPDC and First Eagle and his involvement in the negotiation of the pre-bid agreement between NPDC and First Eagle referred to in paragraph 7.1 above.

16. ACTIONS OF TFL

16.1 There are no material agreements or arrangements (whether legally enforceable or not) of TFL and its related companies entered into as a consequence of, in response to, or in connection with, the Offer other than the pre-bid agreement between NPDC (a related company of TFL) and First Eagle referred to in paragraph 7.1.

16.2 There are no negotiations underway as a consequence of, in response to, or in connection with, the Offer that relate to or could result in:

- (a) an extraordinary transaction, such as a merger, amalgamation, or reorganisation, involving TFL or any of its related companies;
- (b) the acquisition or disposition of material assets by TFL or any of its related companies;
- (c) an acquisition of equity securities by, or of, TFL or any related company of TFL; or

- (d) any material change in the equity securities on issue, or policy relating to distributions, of TFL.

17. EQUITY SECURITIES OF TFL

17.1 TFL has 85,826,440 ordinary shares on issue. These ordinary shares are all fully paid. The rights of the holders of ordinary shares in respect of capital, distributions and voting are, subject to the constitution of TFL:

- (a) the right to an equal share in dividends authorised by the board of directors of TFL;
- (b) the right to an equal share in the distribution of surplus assets of TFL; and
- (c) the right to cast one vote on a show of hands or the right to cast one vote on a poll (for each share held) on any resolution, including any resolution to:
 - (i) appoint or remove a director or auditor;
 - (ii) alter TFL's constitution;
 - (iii) approve a major transaction;
 - (iv) approve an amalgamation involving TFL (other than an amalgamation of a wholly owned subsidiary or company wholly owned by the same person); or
 - (v) put TFL into liquidation.

17.2 In addition to the equity securities described in paragraph 17.1, there are also 182,762 convertible redeemable notes on issue held by NPDC. The notes were issued pursuant to a subscription agreement dated 26 May 2010. The notes are convertible at the option of NPDC at a rate of $1\frac{1}{3}$ ordinary shares per note. A fixed interest rate of 12% per annum is payable on the notes. The subscription agreement also required TFL to cease quotation of its ordinary shares on Unlisted by no later than 14 September 2010.

18. FINANCIAL INFORMATION

18.1 Every person to whom the Offer is made is entitled to obtain from TFL a copy of TFL's most recent annual report (being the annual report for the year ended 31 May 2010) by making a written request to:

Nicola Morris
Tasman Farms Limited
C/- Staples Rodway
P O Box 146
Taranaki Mail Centre
New Plymouth 4340
New Zealand

OR

Jon Walker
Tasman Farms Limited
C/- Staples Rodway
PO Box 146
Taranaki Mail Centre
New Plymouth 4340
New Zealand

Email: nmorris@vdlfarms.com.au

Email: jwalker@vdlfarms.com.au

18.2 There are no known material changes to the financial or trading position or prospects of TFL since the annual report for the year ended 31 May 2010.

18.3 There is no other information about the assets, liabilities, profitability and financial affairs of TFL that could reasonably be expected to be material to the making of a decision by the shareholders of TFL to accept or reject the Offer.

19. INDEPENDENT ADVICE ON MERITS OF OFFER

- 19.1 Grant Samuel & Associates Limited, as independent adviser, has prepared a report on the merits of the Offer under rule 21 of the Takeovers Code. A copy of this report is attached to this Statement.

20. ASSET VALUATION

- 20.1 The Independent Adviser's Report refers to a number of valuations in regard to the farm land and stock held by TFL. The date of valuation, the identity of the valuer and a summary of the valuations (disclosing the basis of computation and key assumptions) are set out in the Independent Adviser's Report on pages 21 to 22.

- 20.2 Copies of the valuations described in paragraph 20.1 are available for inspection at:

Staples Rodway Taranaki Limited
109-113 Powderham Street
New Plymouth

- 20.3 Copies of the valuations will be sent on request to any person to whom the Offer is made. Such a request should be made in writing to:

Nicola Morris
Tasman Farms Limited
C/- Staples Rodway
P O Box 146
Taranaki Mail Centre
New Plymouth 4340
New Zealand

OR

Jon Walker
Tasman Farms Limited
C/- Staples Rodway
PO Box 146
Taranaki Mail Centre
New Plymouth 4340
New Zealand

Email: nmorris@vdlfarms.com.au

Email: jwalker@vdlfarms.com.au

21. PROSPECTIVE FINANCIAL INFORMATION

- 21.1 The Independent Adviser's Report refers to prospective financial information in relation to TFL, being Grant Samuel's budget forecasts for TFL for the next ten years. The principal assumptions on which the prospective financial information is based are set out in section 7.3 of the Independent Adviser's Report on pages 33 to 35.

22. SALES OF UNQUOTED EQUITY SECURITIES UNDER THE OFFER

- 22.1 The ordinary shares in TFL which are the subject of the Offer were, until 14 September 2010, quoted on Unlisted, an internet-based securities trading and communication facility at www.unlisted.co.nz ("Unlisted"). Ordinary shares in TFL are now quoted on the Sharesmart NZ Limited web based platform (www.sharemart.co.nz), although this is not considered a stock exchange for the purposes of Schedule 2 of the Takeovers Code.

- 22.2 Schedule Three sets out all the information that TFL has as to the number of ordinary shares in TFL that have been disposed of in the period from 14 September 2010 to 24 September 2010 (being the latest practicable date before the date on which this Statement is sent by TFL) and the consideration for those dispositions.

23. MARKET PRICES OF QUOTED EQUITY SECURITIES UNDER THE OFFER

- 23.1 TFL ceased quotation of its ordinary shares on Unlisted on 14 September 2010. TFL regards Unlisted as a stock exchange for the purposes of Schedule 2 of the Takeovers

Code. The information provided in this section 23 relates to information on Unlisted prior to 14 September 2010.

- 23.2 The closing price on Unlisted of the ordinary shares in TFL on 13 September 2010, being the last day before the date on which quotation of its ordinary shares ceased on Unlisted, was \$0.71.
- 23.3 The closing price on Unlisted of the ordinary shares in TFL on 31 August 2010, being the last day on which Unlisted was open for business before the date on which TFL received the takeover notice, was \$0.71 per share.
- 23.4 The highest and lowest closing market prices on Unlisted during the 6 months before the date on which TFL received the takeover notice from NPDC are:
- (a) Highest price – \$1.00 per share (on 1 to 5 March 2010 and 8 March 2010).
 - (b) Lowest price – \$0.65 per share (on 31 May to 4 June 2010 and 8 to 10 June 2010).
- 23.5 A rights issue was undertaken by TFL in June 2010 (closing on 30 June 2010) which is during the 6 month period referred to above. Shares were issued under the rights issue at a price of \$0.75 per share. The rights issue and the issue of convertible redeemable notes to NPDC (and their subsequent conversion into ordinary shares in TFL) could have affected the market price of TFL's shares but the Independent Directors do not consider that any of these matters have materially affected the market price. The reason for this view is that the market price for TFL shares on the issue dates was not materially different to the relevant issue prices.
- 23.6 The market for TFL shares is illiquid and this illiquidity could impact on the market price of the shares in TFL. There is no other information about the market price of the securities of TFL that would reasonably be expected to be material to the making of a decision by the shareholders of TFL to accept or reject the Offer.

24. OTHER INFORMATION

- 24.1 There is no other information not required to be disclosed elsewhere in this Statement by Schedule 2 of the Takeovers Code that could reasonably be expected to be material to the making of a decision by the shareholders of TFL to accept or reject the Offer.

25. APPROVAL OF TFL STATEMENT

- 25.1 This Statement has been approved by the board of directors of TFL.

26. CERTIFICATE

- 26.1 To the best of our knowledge and belief, after making proper enquiry, the information contained in or accompanying this Statement is, in all material respects, true and correct and not misleading, whether by omission of any information or otherwise, and includes all the information required to be disclosed by TFL under the Takeovers Code.

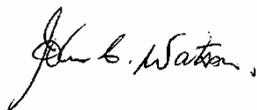
SIGNED BY:



N Morris
Chief Executive Officer



J Walker
Financial Controller



J C Watson
Chairman



R Pratt
Director

SCHEDULE ONE

Table A - Ownership of ordinary shares of TFL

(Paragraph 5.2)

Name	Description	Number of ordinary shares	Percentage of class¹
New Plymouth District Council	Associate of a director ² Person holding or controlling 5% or more	73,368,581	85.48%
Held as follows:			
New Plymouth District Council		62,866,488	73.24%
New Zealand Central Securities Depository Limited (as nominee for TEA Custodians Limited (as custodian for New Plymouth District Council))		10,502,093	12.24%
Douglas Family	Associates of a director ³ Persons holding or controlling 5% or more	8,867,125	10.33%
Held as follows:			
Kevin Glen Douglas and Michelle McKenney Douglas		4,584,469	5.34%
Kevin Douglas and Michelle Douglas		2,142,639	2.50%
James Douglas and Jean Ann Douglas		2,140,017	2.49%

¹ Based on 85,826,440 ordinary shares on issue.

² NPDC is an associate of Mr John Andrews, a director of TFL. Refer to paragraph 13.2 for further details of this association.

³ Mr Andrews and interests associated with the Douglas family have a business relationship by virtue of the provision by Mr Andrews of investment advice and services to the Douglas family. Accordingly, Mr Andrews is an associate of the Douglas family and vice versa.

Table B - Issuances of ordinary shares in the previous two years

(Paragraph 5.3)

Name	Date of transaction	Nature of transaction	Number of ordinary shares issued	Price at which ordinary shares were issued / provided
New Plymouth District Council⁴ Issued as follows:				
New Plymouth District Council	30 June 2010	Rights issue	6,237,758	\$0.75
New Zealand Central Securities Depository Limited	30 October 2009	Placement	1,750,000	\$1.00
(as nominee for TEA Custodians Limited (as custodian for New Plymouth District Council))	30 June 2010	Rights issue	247,263	\$0.75
	30 June 2010	Partial underwrite of rights issue	276,727	\$0.75
	30 June 2010	Conversion of convertible redeemable notes	8,000,000	\$0.75

⁴ NPDC is an associate of Mr John Andrews.

Name	Date of transaction	Nature of transaction	Number of ordinary shares issued	Price at which ordinary shares were issued / provided
First Eagle Investment Management, LLC⁵ Issued as follows:				
New Zealand Central Securities Depository Limited (as nominee for HSBC Nominees (New Zealand) Limited A/C State Street (as custodian for First Eagle Investment Management LLC))	30 June 2010	Rights issue	718,750	\$0.75
New Zealand Central Securities Depository Limited (as nominee for HSBC Nominees (New Zealand) Limited (as custodian for First Eagle Investment Management LLC))	30 June 2010	Rights issue	125,000	\$0.75

⁵ First Eagle Investment Management, LLC is an associate of Mr Andrews. Refer to paragraph 7.1 for further details of this association

Name	Date of transaction	Nature of transaction	Number of ordinary shares issued	Price at which ordinary shares were issued / provided
Douglas Family⁶ Issued as follows: Forsyth Barr Custodians Limited (as custodian for the Douglas Family)	30 October 2009 30 June 2010 30 June 2010	Placement Rights issue Partial underwrite of rights issue	250,000 870,000 37,125	\$1.00 \$0.75 \$0.75

⁶ The Douglas Family are associates of Mr Andrews.

SCHEDULE TWO

Trading in TFL Ordinary Shares in the previous six months

(Paragraph 6.2)

Name	Date of Transaction	Acquisition / Disposition	Number of ordinary shares acquired / disposed of	Consideration per ordinary share
New Plymouth District Council		Total acquired during previous 6 months	21,488,421	
		Total disposed of during previous 6 months	Nil	
Traded as follows:				
New Plymouth District Council	30 June 2010	Acquisition	6,237,758	\$0.75
	24 September 2010	Acquisition ⁷	6,726,673	\$1.00
New Zealand Central Securities Depository Limited (as nominee for TEA Custodians Limited (as custodian for New Plymouth District Council))	30 June 2010	Acquisition	247,263	\$0.75
	30 June 2010	Acquisition	276,727	\$0.75
	30 June 2010	Acquisition	8,000,000	\$0.75

⁷ Pursuant to settled acceptances under the Offer.

Name	Date of Transaction	Acquisition / Disposition	Number of ordinary shares acquired / disposed of	Consideration per ordinary share
First Eagle Investment Management, LLC		Total acquired during previous 6 months	843,750	
		Total disposed of during previous 6 months	7,593,750	
Traded as follows:				
New Zealand Central Securities Depository Limited (as nominee for HSBC Nominees (New Zealand) Limited A/C State Street (as custodian for First Eagle Investment Management LLC))	30 June 2010	Acquisition	718,750	\$0.75
	24 September 2010	Disposition ⁸	6,468,750	\$1.00
New Zealand Central Securities Depository Limited (as nominee for HSBC Nominees (New Zealand) Limited (as custodian for First Eagle Investment Management LLC))	30 June 2010	Acquisition	125,000	\$0.75
	30 June 2010	Disposition	1,000,000	\$0.75
	24 September 2010	Disposition ⁵	125,000	\$1.00

⁸ Pursuant to settled acceptances under the Offer.

Name	Date of Transaction	Acquisition / Disposition	Number of ordinary shares acquired / disposed of	Consideration per ordinary share
Douglas Family		Total acquired during previous 6 months	17,734,250⁶	
		Total disposed of during previous 6 months	15,827,125⁶	
Traded as follows:				
Kevin Glen Douglas and Michelle McKenney Douglas	27 May 2010 ⁹	Disposition	3,614,139	N/A
	20 July 2010 ⁶	Acquisition	4,584,469	N/A
Kevin Douglas and Michelle Douglas	27 May 2010 ⁶	Disposition	1,674,096	N/A
	20 July 2010 ⁶	Acquisition	2,142,639	N/A
James Douglas and Jean Ann Douglas	27 May 2010 ⁶	Disposition	1,671,765	N/A
	20 July 2010 ⁶	Acquisition	2,140,017	N/A
Forsyth Barr Custodians Limited (as custodian for the Douglas Family)	27 May 2010 ⁶	Acquisition	6,960,000	N/A
	30 June 2010	Acquisition	870,000	\$0.75
	30 June 2010	Acquisition	37,125	\$0.75
	30 June 2010	Acquisition	1,000,000	\$0.75
	20 July 2010 ⁶	Disposition	8,867,125	N/A

⁹ On 27 May 2010, all of the shares in TFL held by the Douglas family were transferred to Forsyth Barr Custodians Limited, to hold as custodian. On 20 July 2010 Forsyth Barr Custodians Limited transferred the shares in TFL that it was holding as custodian for the Douglas family, back to the relevant persons within the Douglas family. Accordingly, the transactions on these dates do not represent a change in the beneficial ownership of the shares, only the legal ownership.

SCHEDULE THREE**Sales of Unquoted TFL Ordinary Shares**

(Paragraph 22.1)

Date of disposition	Number of ordinary shares disposed of	Nature of transaction	Consideration per ordinary share
24 September 2010	6,726,673	Settled acceptances under the Offer	\$1.00

Tasman Farms Limited

Independent Adviser's Report

In relation to the full takeover offer from New Plymouth District Council



GRANT SAMUEL



September 2010

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Appendix A – Comparable Listed Companies

Appendix B – Qualifications, Declarations and Consents

Glossary

Glossary	
Term	Definition
Bonlac	Bonlac Supply Company
Cadbury	Cadbury Schweppes
CCO	Council Controlled Organisation
Dairy Holdings	Dairy Holdings Limited
First Eagle	First Eagle Investment Management LLC
First Eagle Lock-up Agreement	First Eagle's acceptance of NPDC's offer
Fonterra	Fonterra's Bonlac Foods Limited
FY2008	Financial year ending 31 May 2008
FY2009	Financial year ending 31 May 2009
FY2010	Financial year ending 31 May 2010
gDT	Global Dairy Trade
The Group	Tasman Farms and its subsidiaries
Milk Price	The farmgate milk price per kilogram of milk solids
MS	Milk solids
NPDC	New Plymouth District Council
NPDC Debt	\$182,762 in debt owed by Tasman Farms to NPDC
NPDC Offer or the Offer	New Plymouth District Council takeover offer of Tasman Farms for \$1.00 cash per share
NTA	Net tangible assets
PIF	Perpetual Investment Fund
The Rights Issue	A one for eight pro rata non-renounceable rights issue that, in June 2010, resulted in the issue of 8.7 million new shares and raised NZ\$6.5 million
Tasman Farms	Tasman Farms Limited
Tasman Farms Shares	Tasman Farms shares not already owned by NPDC
TIAR	Tasmanian Institute of Agricultural Research
TIML	Taranaki Investment Management Limited
VDL	Van Diemen's Land Company
WMP	Whole Milk Powder
\$/kg	Price per kilogram

1. Terms of the NPDC Offer

1.1 Overview of the NPDC Offer

On 1 September 2010 New Plymouth District Council (**NPDC**) gave notice to Tasman Farms Limited (**Tasman Farms or the Company**) of its intention to make a full takeover offer under the Takeovers Code, and sent notice of dispatch of this offer on 17 September 2010, (the **NPDC Offer or the Offer**). Under the Offer, NPDC offers to acquire all of the equity securities in Tasman Farms it does not already hold (the **Tasman Farms Shares**) for \$1.00 in cash per share.

NPDC is the beneficial owner of 66.6 million shares or 77.65% of Tasman Farms. In addition to its shareholding it holds debt with a face value of \$182,762 (the **NPDC Debt**) that may be converted into Tasman Farms ordinary shares at NPDC's election. If converted, this would result in the issue of an additional 243,682 shares (or an additional 0.06% of the expanded share capital of Tasman Farms).

In addition to the above holdings NPDC has also entered into an agreement with First Eagle Investment Management, LLC (**First Eagle**) under which First Eagle has agreed to accept the NPDC Offer on the day First Eagle receives the Offer, for its 6.6 million shares (or 7.68%) in Tasman Farms (the **Lock-up Agreement**). First Eagle has now accepted the NPDC Offer and NPDC now has effective control over 85% of the Tasman Farms shares.

1.2 Details of the NPDC Offer

NPDC is offering to acquire the Tasman Farms Shares for \$1.00 in cash per share. The NPDC Offer is open for acceptance until 14 October 2010.

The NPDC Offer is unconditional. NPDC has reserved the right to change the price if Tasman Farms pays a dividend or distribution of any nature. If such a dividend or distribution is made then either:

- each shareholder that accepts their shares into the NPDC Offer will be required to pay an amount equivalent to such a dividend or distribution to NPDC; or
- NPDC will reduce the consideration that would otherwise have been paid to the accepting shareholder by an amount equivalent to such a dividend or distribution.

Similarly, if Tasman Farms authorises, declares, or makes any issue of shares, convertible securities or other securities of any nature or issues ordinary shares to any person other than by way of a bonus issue or alters the number of shares on issue by way of a consolidation or subdivision of shares, then adjustment mechanisms to the NPDC Offer will apply to the effect that such securities are included in the Offer and the consideration payable reduced or increased to reflect the same underlying value of the company.

NPDC will pay a broker-handling fee to brokers who advise their clients to accept the NPDC Offer. The broker-handling fee will be calculated at 0.75% of the cash consideration paid by NPDC to the relevant broker's accepting shareholder clients whose acceptance forms have been stamped by the relevant broker, upon the NPDC Offer being declared unconditional.

The NPDC Offer will be open until 14 October 2010, but can be extended. The Offer states that the price will not be increased. This will be considered by the Takeover's Panel to be a last and final statement and NPDC will not be permitted to increase the offer. The only change that can be made is to extend the offer period.

1.3 Background to the NPDC Offer

In late 2007 NPDC launched a full takeover bid for Tasman Farms at \$1.10 for all of the fully paid ordinary shares in the Company it did not already hold, subject to it receiving sufficient acceptances to take its shareholding in Tasman Farms to more than 50%. As a result of the offer NPDC acquired 74.32% of the shares in Tasman Farms.

The change in control of Tasman Farms also resulted in changes to the governance and management of the Company and its subsidiary Van Diemen's Land Company (**VDL**). A number of directors of Tasman Farms and VDL resigned and new directors were appointed.

The 2007 takeover resulted in a change in the way in which Tasman Farms is managed. The Timaru office from which Tasman Farms had previously been managed was closed in July 2008 and a new management team was appointed, based out of Smithton in North Western Tasmania. The new management team is focussing on restoring the productivity of Tasman Farms by implementing basic farm management techniques with emphasis on pasture quality, animal health and genetics.

Over the past 12 months Tasman Farms has undertaken a number of capital raising initiatives, which have resulted in NZ\$12.7 million of new capital being injected into the business. In November 2009 the Company issued an additional 2 million shares raising NZ\$2 million (of which NPDC took up 1.75 million shares). In addition to this new issue Tasman Farms undertook a 1 for 8 non-renounceable rights issue in June 2010 that resulted in the issue of 8.7 million new shares and raised NZ\$6.5 million (**the Rights Issue**). Tasman Farms also entered into a Subscription Agreement with NPDC to issue NZ\$6.2 million in convertible redeemable notes at a fixed interest rate of 12% per annum and convertible at the option of NPDC at a rate of 1 and one-third shares per note. On 30 June 2010 NPDC converted 6 million notes and was issued 8 million new shares in Tasman Farms. NPDC still holds convertible redeemable notes with a face value of \$182,762, which can be converted into 243,682 new shares in Tasman Farms at NPDC's election. As a result of these capital raisings NPDC has increased its shareholding percentage to 77.65% and 85.33% following the receipt of the First Eagle shares under the Offer.

1.4 Requirements of the Takeovers Code

The Takeovers Code came into effect on 1 July 2001, replacing the New Zealand Stock Exchange Listing Rules and the Companies Amendment Act 1963 requirements governing the conduct of company takeover activity in New Zealand. The Takeovers Code seeks to ensure that all shareholders are treated equally and on the basis of proper disclosure are able to make informed decisions on shareholding transactions that may impact on their own holdings.

Tasman Farms is a **code company** for the purposes of the Takeovers Code. Rule 6 of the Takeovers Code, the fundamental rule, states that a person (along with its associates) who holds or controls:

- no voting rights, or less than 20% of the voting rights, in a code company may not become the holder or controller of an increased percentage of the voting rights in the code company unless, after that event, that person and that person's associates hold or control in total not more than 20% of the voting rights in the code company;
- 20% or more of the voting rights in a code company may not become the holder or controller of an increased percentage of the voting rights in the code company.

Rule 7 of the Takeovers Code sets out the **exceptions** to the fundamental rule. Rule 7 states that a person may become the holder or controller of an increased percentage of the voting rights in a code company under the following circumstances:

- (a) by an acquisition under a full offer;
- (b) by an acquisition under a partial offer;

- (c) by an acquisition by the person of voting securities in the code company or in any other body corporate from one or more other persons if the acquisition has been approved by an ordinary resolution of the code company in accordance with the code;
- (d) by an allotment to the person of voting securities in the code company or in any other body corporate if the allotment has been approved by an ordinary resolution of the code company in accordance with the code;
- (e) if: (i) the person holds or controls more than 50%, but less than 90%, of the voting rights in the code company; and
 - (ii) the resulting percentage held by the person does not exceed by more than 5 the lowest percentage of the total voting rights in the code company held or controlled by the person in the 12-month period ending on, and inclusive of, the date of the increase;
- (f) if the person already holds or controls 90% or more of the voting rights in the code company.

The Takeovers Code specifies the responsibilities and obligations for both NPDC and Tasman Farms as **bidder** and **target** respectively. Tasman Farms' response to the NPDC Offer, known as a **target company statement**, must contain the information prescribed in the Second Schedule of the Takeovers Code, and is to include or be accompanied by an Independent Adviser's Report (or summary thereof).

2. Scope of the Report

2.1 Purpose of the Report

The Independent Directors of Tasman Farms have engaged Grant Samuel & Associates Limited (**Grant Samuel**) to prepare an Independent Adviser's Report to comply with the Takeovers Code in respect of the NPDC Offer. Grant Samuel is independent of Tasman Farms and NPDC and has no involvement with, or interest in, the outcome of the NPDC Offer.

Rule 21 of the Takeovers Code requires the Independent Adviser to report on **the merits of an offer**. The term "merits" has no definition either in the Takeovers Code itself or in any statute dealing with securities or commercial law in New Zealand. While the Takeovers Code does not prescribe a meaning of the term "merit", it suggests that "merits" include both positives and negatives in respect of a transaction.

A copy of this report will accompany the Target Company statement to be sent to all Tasman Farms shareholders. This report is for the benefit of the shareholders of Tasman Farms other than NPDC. The report should not be used for any purpose other than as an expression of Grant Samuel's opinion as to the merits of the NPDC Offer.

2.2 Basis of Evaluation

Grant Samuel has evaluated the NPDC Offer by reviewing the following factors:

- the estimated value range of Tasman Farms and the price of the NPDC Offer when compared to that estimated value range;
- the likelihood of an alternative offer and alternative transactions that could realise fair value;
- the likely market price and liquidity of Tasman Farms shares in the absence of the NPDC Offer;
- any advantages or disadvantages for Tasman Farms shareholders of accepting or rejecting the NPDC Offer;
- the current trading conditions for Tasman Farms;
- the timing and circumstances surrounding the NPDC Offer;
- the attractions of the Tasman Farms business; and
- the risks of the Tasman Farms business.

Grant Samuel's opinion is to be considered as a whole. Selecting portions of the analyses or factors considered by it, without considering all the factors and analyses together, could create a misleading view of the process underlying the opinion. The preparation of an opinion is a complex process and is not necessarily susceptible to partial analysis or summary.

3. Merits

3.1 Summary

In summary the merits of the NPDC Offer include:

- **the success of the NPDC Offer will be determined by interests associated with the Douglas family who hold or control 10.33% of Tasman Farms' voting securities.** The compulsory acquisition provisions of the Takeovers Code come into effect when the dominant owner reaches ownership or control of 90%. As a result of a Lock-up Agreement between NPDC and First Eagle, NPDC now holds 85.33% of Tasman. NPDC requires a further 4.67% of the shares held by other Tasman Farms shareholders for the compulsory acquisition threshold of 90.0% to be reached and for the compulsory acquisition provisions to come into effect. However, the Douglas family's holding of 10.33% is sufficient to prevent NPDC from reaching the threshold. That is, if all of the remaining shareholders in Tasman Farms, other than those associated with the Douglas family, accept their shares into the offer then NPDC will control 89.67% of Tasman Farms. If the Douglas family accepts the NPDC Offer for all of their shares, NPDC will be able to acquire any remaining minority shares by way of compulsory acquisition. The Douglas family may not accept the Offer but instead seek to negotiate a higher price when the NPDC Offer lapses. Once the NPDC Offer lapses, NPDC can make a new offer at a different price. The Douglas family's acceptance or rejection of the NPDC Offer will determine whether NPDC is successful in acquiring 100% of Tasman Farms. As the NPDC Offer is unconditional any shares accepted into the Offer will be acquired by NPDC;
- **shareholders who do not accept the NPDC Offer will remain Tasman Farms shareholders and Tasman Farms will remain a New Zealand registered company with all of its operating assets in Australia controlled by NPDC.** There will likely be changes at board level but otherwise the management of the company would be expected to remain the same; and
- **after its current offer closes NPDC could subsequently decide to make a new takeover offer at a higher price.** This has happened in past takeover transactions. However, there is nothing to indicate that any new higher offer will be forthcoming. Indeed the only circumstance in which a new higher offer will be made is if interests associated with the Douglas family do not accept the NPDC Offer. Otherwise, the Douglas family's acceptance of the Offer will trigger the compulsory acquisition provisions of the Takeovers Code and the remaining shares in Tasman Farms will be acquired at the current offer price of \$1.00 per share.

3.2 The Value of the NPDC Offer

The NPDC Offer price of \$1.00 per share can be compared against the following value indicators:

- **Grant Samuel's assessment of the full underlying value of the shares.** In Grant Samuel's opinion the full underlying value of Tasman Farms shares is in the range of NZ\$0.72 – NZ\$0.96 per share. The full underlying value is the price at which Grant Samuel would expect a willing buyer to pay to acquire a controlling interest in or 100% of Tasman Farms. It therefore includes a premium for control. The Offer of \$1.00 per share is above Grant Samuel's value range;
- **the premium implied by the Offer.** The NPDC Offer represents a premium of 40.8% to Tasman Farms' closing share price of \$0.71 on 30 August 2010, the last day on which Tasman Farms' shares were traded prior to receipt of the notice of intention to make a full takeover offer from NPDC, and a 33.6% premium to the volume weighted average share price in the 6 months prior to the receipt of the notice of intention. This premium is at the higher end of premiums for control observed in successful takeovers of other listed companies in New Zealand and Australia. Grant Samuel believes that this is in part because Tasman Farms shares are very thinly traded and do not have broker research coverage; and

- **comparable company and comparable transaction data.** The NPDC Offer implies a multiple at the midpoint of 114.4 times EBITDA for the year ended 31 May 2010 and 19.8 times the budgeted EBITDA for the year ending 31 May 2011. Grant Samuel has considered other market evidence (refer section 7 of this report) and concluded that these multiples are high relative to multiples implied by the share prices of comparable listed companies. The very high implied multiples are a function of the Tasman Farms low but improving earnings and the high prices paid for agricultural land over recent years, which has inflated carrying values.

3.3 Other Merits of the NPDC Offer

Grant Samuel considered the following factors in assessing the other merits of the NPDC Offer:

Factors that will affect the outcome of the Offer

- NPDC and First Eagle have entered into a Lock-up Agreement, pursuant to which First Eagle has accepted the NPDC Offer in respect of the 7.68% of Tasman Farms' voting securities it holds. This has taken NPDC's shareholding in Tasman Farms to above 85.33%, below the level NPDC requires to be able to enforce compulsory acquisition;
- Importantly, however, interests associated with the Douglas family (based in the USA) currently hold or control 10.33% of the shares in Tasman Farms. In the event that the Douglas family wishes to retain an interest in Tasman Farms, this level of shareholding is sufficient to block NPDC from reaching the compulsory acquisition threshold. It is unclear whether the Douglas family intends to:
 - retain their shareholding in Tasman Farms;
 - accept their shareholding into the NPDC offer; or
 - withhold its acceptance and attempt to force NPDC to increase its offer price in a subsequent new offer.
- The Douglas' support for the NPDC Offer or otherwise will be instrumental in determining whether NPDC is successful in achieving a full ownership of Tasman Farms; and
- NPDC's control over 85.33% of all Tasman Farms shares is a significant impediment to a competing offer being made. In order for a competing offer to be successful, NPDC would need to accept its shares into the offer. In Grant Samuel's opinion it is therefore highly unlikely that another potential bid for 100% ownership of Tasman Farms will be forthcoming.

Potential outcomes

- In the event that NPDC achieves acceptances that take its effective shareholding to 90.0%, then the compulsory acquisition provisions of the Takeovers Code will come into effect. The compulsory acquisition provisions give NPDC the right to compulsorily acquire the remaining Tasman Farms shares on issue. The remaining Tasman Farms shareholders also have the right to sell their shares to NPDC, in which case NPDC must purchase those shares. The price will be \$1.00 per share if NPDC receives acceptances for more than 50% of the outstanding shares, or sufficient shares to get to 92.67%. This can only happen if the Douglas Family accept some or all of their 10.33% shareholding in Tasman Farms into the NPDC Offer;
- If NPDC does not reach the compulsory acquisition threshold then NPDC will only acquire the shares accepted into the NPDC Offer. In this circumstance Tasman Farms will, depending upon the level of acceptances from the minority shareholders, continue to be a company controlled by NPDC;
- In circumstances where NPDC acquired less than 90.0% of Tasman Farms shares on issue under its current offer, it would then only be able to increase its shareholding in Tasman Farms by making a new takeover offer or by waiting 12 months after its current offer expires and using the "creep" provisions of the Takeovers Code. The creep provisions would permit NPDC to increase its shareholding by 5% over any 12 month period ending on, and inclusive of, the date of the increase.

The price at which NPDC is able to “creep” is likely to be significantly below its \$1.00 per share offer price as Tasman Farms no longer trades on the Unlisted exchange and a significant marketability discount will likely apply to small parcels of shares in the company.

Rationale for NPDC’s Offer

- NPDC is likely to want to implement a bolder long-term strategy for Tasman Farms that will require further capital. NPDC currently feels constrained by the governance structure. The Takeovers Code has been designed to ensure that minority shareholders are treated fairly in such a situation when the majority shareholders aspire to have absolute control;
- NPDC’s investment in Tasman Farms is managed by Taranaki Investment Management Limited (**TIML**), a 100% Council Controlled Organisation (**CCO**) operated as a Perpetual Investment Fund (**PIF**) with the intention of at least maintaining the original capital of the fund as a sustainable, perpetual fund. The purpose of the PIF is to provide the Council with regular investment income that is directly applied to the reduction of rates payments. The original capital of TIML was provided by the sale of NPDC’s shares in Powerco Limited. The capital has been invested in a range of liquid assets (approximately 30-40% of the fund) and alternative assets including NPDC’s investment in Tasman Farms, and investments in private equity funds including Barings and Direct Capital (approximately 60% of the funds). TIML states that its rationale for investing in Tasman Farms is “to access the global growth in demand for milk products, in particular from Asia and emerging economies as GDP increases and the population demands greater protein and choice of food”;
- NPDC has advised that Tasmania was chosen as an investment location in preference to Taranaki or New Zealand generally because NPDC could purchase more land and production per dollar in Tasmania than in New Zealand. NPDC’s estimate of the cost of converting cheaper Tasmanian land to dairy is approximately \$20 – \$30 per kg / milk solids (**MS**), compared with the cost of converting more expensive land in Taranaki which they estimate at around \$30 – \$40 per kg/MS;
- NPDC has stated that it has plans for the further development of Tasman Farms in the event its Offer is successful. These plans, as stated by NPDC, include the simplification of the company structure, and possible expansion of dairy interests through further farm conversions and acquisitions which are “likely to require the company to secure further debt and equity funding”;
- NPDC has also expressed confidence that, with its continued investment in Tasman Farms, the company has the potential for significant productivity gains, and NPDC believes the outlook in terms of international demand for milk and milk products is favourable. Its long-term expectation is that Tasman Farms will generate a 15% per annum return on its investment, outperforming listed equities, bonds and cash. Based on current earnings forecasts, a return of 15% p.a. will require significant annual upwards property revaluations which may be a bold assumption; and
- NPDC wishes to exercise greater control over the governance and direction of Tasman Farms. Specifically ensuring the required skill sets are in place at governance and management levels to implement the planned changes.

Arrangement with First Eagle

- Lock-up arrangements have become an increasingly common feature in New Zealand takeovers. In Grant Samuel’s opinion the arrangement with First Eagle does not confer any additional benefits to First Eagle as shareholders of Tasman Farms than available to other Tasman Farms shareholders;
- The NPDC Offer price was established by arms length negotiations between First Eagle and NPDC; and
- It is possible that the NPDC Offer would not have been made without the assurance that one or both of the major shareholders would accept the Offer.

An Investment in Tasman Farms

As with any equity investment there are risks and opportunities associated with the markets in which the company operates. The risks and opportunities associated with an investment in Tasman Farms include:

- Tasman Farms' greatest business exposure is to the milk price determined by Fonterra. The Tasmanian milk price is set with reference to the average Victorian price, which is influenced to a significant degree by the prevailing international dairy commodity prices. Fluctuations in the milk price significantly impact the profitability or otherwise of Tasman Farms. The outlook for the dairy industry in both New Zealand and Australia is positive on the back of increasing demand from Asia and an increasing demand for high quality food generally;
- The Company is also exposed to fluctuations in commodity prices for meat from its sheep and beef farms. Over time these operations may be substantially reduced as the existing sheep and beef land is converted to dairying;
- The World Bank's World Development Report 2010 noted the rapid increase in the acquisition of farmland by sovereign wealth funds from the Middle East, as well as state entities from China seeking to secure sources of the world's future food supply. The Development Report stated that food production will need to increase by 70% by 2050 to meet three competing demands:
 - population growth;
 - rising use of grains for animal feed as Asia increasingly turns to meat-based diets; and
 - biofuels.
- Tasmania is the only part of Australia in which the World Bank is forecasting increased agricultural production. Over the period to 2025 agricultural production in the rest of Australia is forecast to decline. Tasmanian agricultural land with access to water will become increasingly attractive and Tasman Farms is well placed to increase its agricultural land holding at attractive prices;
- Tasman Farms was removed from quotation on the Unlisted exchange with effect from 14 September 2010. The delisting was a condition of the Convertible Debt Facility provided to Tasman Farms by NPDC. This is a most unusual condition to include in such a facility. A new share trading facility has been established through ShareMart NZ Limited (**Sharemart**) operated by the share registry company Computershare;
- Tasman Farms' operations are subject to the vagaries of climatic conditions. Fluctuations in weather patterns can significantly impact on the volume of milk solids produced. The Tasmanian climate is considered by Tasman Farms management to be more stable than most parts of mainland Australia. Adverse weather conditions were experienced during the winter of 2009 and can be expected to occur again at some time in the future;
- Tasman Farms purchased its interest in Van Diemen's Land Company (**VDL**) out of voluntary liquidation in 2001. Since 2005 VDL's performance has remained relatively constant and with little growth. The operations of Tasman Farms have historically suffered from being remotely and poorly managed out of Timaru. Over the past two years the new management team has worked to rectify this problem by focusing on the restoration of basic farm management practices. The benefits of this focus are just beginning to bear fruit. Further work is required to bring the farms up to average productivity, and a turnaround in performance is expected over the coming two or three years. Even in the event that management successfully implements its aspirational growth plan, Tasman farms is still unlikely to produce an economic return on the current values of its assets;
- Tasman Farms has sufficient cash on hand to undertake its planned capital expenditure targeted at improving farm productivity. However, it is unlikely that any dividends will be paid by Tasman Farms in the medium term;
- NPDC's plans include the possible conversion of land currently owned by Tasman Farms from bush land to dairy pastureland. In order to undertake the conversion Tasman Farms will need to seek

special dispensation from the local Tasmanian authorities to do so, as the current environmental regulations do not permit such a conversion unless it can be demonstrated that it would result in significant economic benefit to the community. The conversion is likely to be a costly process which Grant Samuel understands must be completed by the end of 2013. In Grant Samuel's opinion the majority if not all of the expenditure on the possible conversion of this land into pasture would need to be funded by new equity;

- Dairying operations are environmentally sensitive and have been a point of contention in both New Zealand and Australia when considering the requirements for meeting agreed carbon emission reduction targets. Environmental regulation laws are subject to change and may, over the longer term impact the way in which the Tasman Farms business is operated;
- Tasman Farms has significant exposure to movements in the AUD:NZD exchange rate as all of its assets, liabilities and earnings are based in Australia. Whilst earnings remain in Australia this does not present a problem. Any funds remitted to New Zealand will be exposed to the exchange rate conditions at the time of remittance. The current structure with a widely held company registered in New Zealand with all of its assets in Australia is inefficient from both a cost and tax perspective;
- Tasman Farms was established as a corporate farmer. Corporate farming businesses have significantly higher overheads than standard farms (A\$3 million for Tasman). The higher costs of corporate farmers are expected to be more than offset by higher production efficiencies. Until very recently Tasman Farms was poorly managed with few benefits being derived from its scale. The proposed development of the Woolnorth block has the potential to generate significant economies of scale and an uplift in earnings. The increased size will provide flexibility and the ability to manage the existing eleven farms and approximately ten new farms as a single unit;
- Consistent with any public company, corporate farming businesses must generate cash returns to pay dividends. Historically, investors in farms in Australia have relied upon realised capital appreciation to generate returns on assets of approximately 6%-8%. However, unrealised capital gains do not provide cash flow and Tasman Farms is unlikely to be in a position to pay dividends in the short and medium term. Grant Samuel forecasts based on discussions with Tasman management show that after five years, when the farms are likely to be operating to the true potential, Tasman Farms may achieve an EBITDA (before unrealised gains and livestock revaluations) return of 4% on the book value of its investment. In Grant Samuel's opinion this is not an attractive investment for a minority shareholder when considering the range of alternatives available. Subsequent to the Offer, the liquidity of a minority's investment in Tasman Farms will be limited and when considering the forecast cash flow return to shareholders over the next five years minority shareholders may be better off to accept the offer and invest the proceeds elsewhere; and
- There are limited other investment alternatives available to shareholders which provide exposure to the Australasian dairy production sector. It is possible that investors may be able to access an investment in Fonterra Cooperative Group Limited over the short to medium term, however, Fonterra is a processor rather than a producer of milk solids and the investments are not comparable on this basis.

3.4 Acceptance or Rejection of the NPDC Offer

Acceptance or rejection of the NPDC Offer is a matter for individual shareholders based on their own views as to value and future market conditions, risk profile, liquidity preference, portfolio strategy, tax position and other factors. In particular, taxation consequences will vary widely across shareholders. Shareholders will need to consider these consequences and, if appropriate, consult their own professional adviser.

4. The Tasmanian Dairy Industry

4.1 Background

The Tasmanian dairy industry produces 7% of Australia's milk and it is considered an important part of Australia's dairy industry. The Tasmanian dairy sector has the following characteristics:

- an inherent cost advantage over Australia's mainland due to reliable rain fed pasture (complimented with irrigation) and relatively reliable seasonal climate;
- less prone to drought than dairy areas in mainland Australia;
- increased demand for milk supply from Fonterra and other Australian milk processors to meet global market demand driven by China and South East Asia's demand for whole milk powder (**WMP**) and the Middle East's demand for cheese and other dairy products; and
- land values still providing a good opportunity for expansion.

Tasmania's total annual milk production is more than 700 million litres across around 450 dairy farms – located mainly across the north of the State. Tasmania's dairy industry is pasture-based and is extremely important to the Tasmanian economy. In 2009/2010 the estimated value of farm milk production from the State was approximately \$211 million and the dairy industry employed 1,900 people in the farming sector and 800 people across the processing sector (out of a total population of 500,000). As in Victoria, the majority of Tasmanian milk supply is used in the manufacture of dairy products and approximately 30% of Tasmania's milk production is exported to the Australian mainland to supplement production in other Australian states. As a result the farm gate milk prices received are closely aligned to returns from exported products.

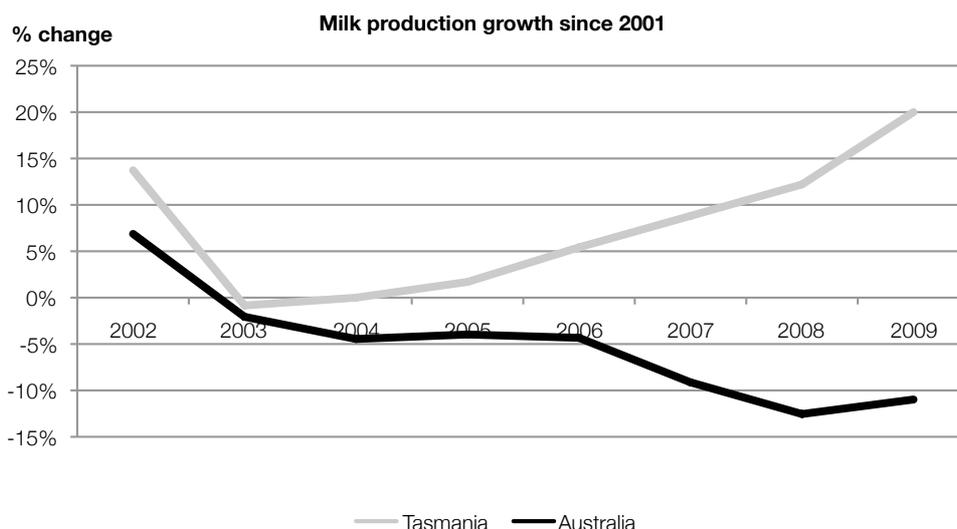
To achieve production growth the Tasmanian dairy industry needs to address a number of challenges including:

- the cost of grain and fodder (e.g. hay straw and silage);
- the cost and availability of irrigation water;
- rising land prices and competition from alternative land uses;
- limitations on additional feed supply from both a price and logistical perspective due to its isolation from Australia's mainland; and
- labour shortages due to competition from Tasmanian and mainland agriculture and resource based sectors.

The dairy industry in Tasmania is of major significance to both the agricultural and manufacturing sectors of the State as well as being an export industry. The dairy industry represents 24% of the value of farm production and underpins significant down stream processing (e.g. cheese, WMP and confectionary ingredients).

4.2 Milk Production

Milk production is concentrated in south-eastern Australia, with Victoria, Tasmania and South Australia accounting for 80% of the national output. As shown in the graph below, since 2001 Australia's total milk production fell 11% while Tasmania's milk production increased 20% over the same period. There have been marginal milk solid yield improvements over this period. The key driver to milk production growth in Tasmania has been an increase in litres per cow. From 2003 to 2009 Tasmania increased its litres per cow by 23% through a rapid uptake of new technology (such as rotary dairies and centre pivot irrigation), the use of fertiliser, grain feeding and larger farms. In 2010 milk production in Tasmania fell 7% as a result of difficult seasonal conditions in winter and spring.



Source: Dairy Manufacturers Australia

Australian milk production remains strongly seasonal in the key south-eastern dairying regions, reflecting the pasture-based nature of the industry. Milk production peaks in October and tapers off in the cooler months from April. The production of long shelf-life manufactured products in these parts of the country has enabled maximum milk utilisation within the seasonal cycle. The seasonality of milk output in Queensland, New South Wales and Western Australia is much less pronounced, due to a greater focus on drinking milk and fresh products in these states.

The milk production outlook for Tasmania in 2011 is positive. According to a Dairy Australia survey:

- production in Tasmania is expected to grow 3.5%;
- 66% of farmers anticipate an increase in milk production while only 4% expect a reduction;
- heifer replacements will comprise 22% of herds by the end of the year; and
- 54% of farms expect to be producing more milk in three years time, while 35% expect production to remain relatively stable.

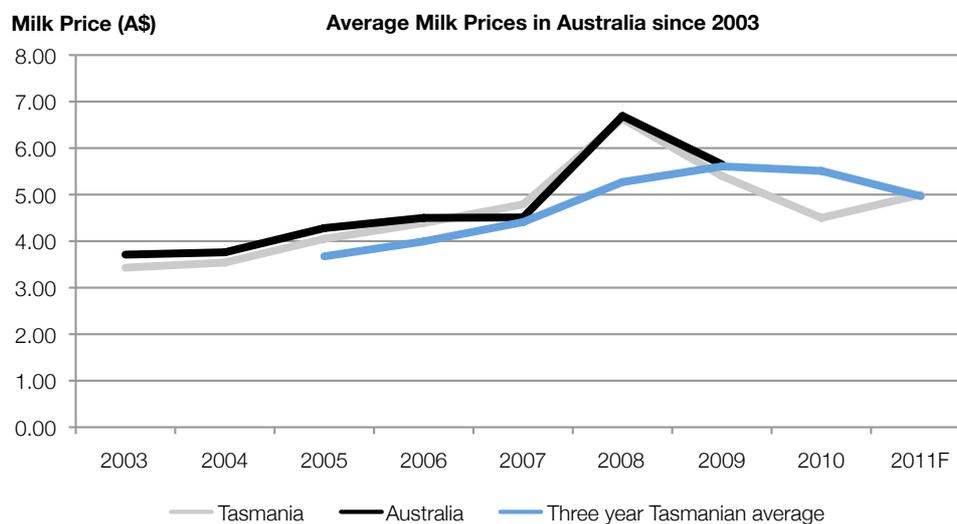
4.3 Milk Price

There is no legislative control over the price that milk processing companies pay farmers for their milk in Tasmania. The farm gate milk price per kilogram of milk solids (the **Milk Price**) varies across Australia due to a range of factors including the milk processor's product and market mix, strategy, processing efficiencies, supply agreements and the farm location. Farms operating in the northern dairy regions often receive a premium for their milk because fresh drinking milk accounts for a larger proportion of the production mix in that region. The ownership structure of the processor also has an impact, and traditionally the co-operative structure has played an important role in establishing the Milk Price.

Fonterra's Bonlac Foods Limited (**Fonterra**) is the major milk processor in Tasmania collecting approximately 60% of Tasmania's milk production through Bonlac Supply Company Limited (**Bonlac**). Milk prices offered by a number of other regional processors of cheese and fresh dairy products are driven by the price offered by Fonterra. Fonterra is committed under its original supply agreement to collect milk from parties to the agreement, regardless of volume. However, the agreement expires in 2014. Due to a limited number of alternative milk processors, significant disruption would be caused to Tasman Farms if it were unable to renew the supply agreement with Fonterra. The key terms under Fonterra's Milk Price structure include:

- the price paid must be no less than the Milk Price paid by the largest milk processor in Victoria (by volume);
- payment is based on the per kilogram price (**\$/kg**) of fat plus protein, less a volume charge on a cents per litre basis;
- payment can be subject to a capacity adjustment based on milk supply during the peak period;
- the price paid is based on daily production and paid the following month;
- a focus on milk quality;
- production incentives for size based on yearly volumes (up to an extra 5% above the base Milk Price for large suppliers); and
- growth incentives (suppliers receive an extra payment for any milk collected above the average production level of the previous two seasons).

As shown in the graph below, the Milk Price has been very volatile over the last three years as a result of the boom in commodity prices in 2007/2008 and the global financial crisis.



Source: Dairy Manufacturers Australia (2003 – 2009), Fonterra and Tasman Farms¹

There is a correlation between the Milk Prices paid in Australia and New Zealand but there are noticeable differences. These differences are caused by a range of factors including product mix, the percentage of domestic consumption, the management of currency exposures, business models, profit retention and the level of competition for milk supply.

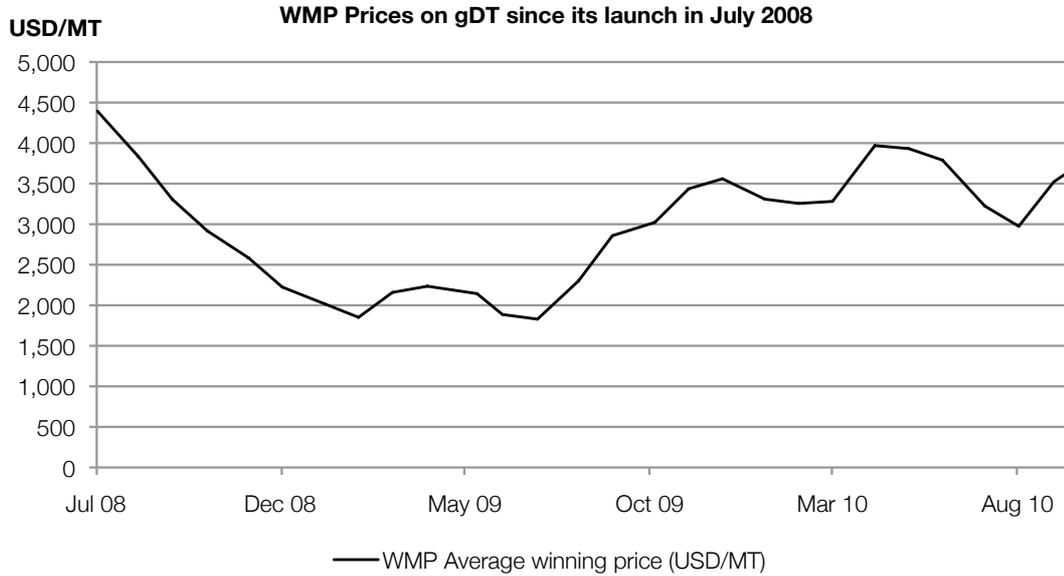
Dairy Manufacturers Australia expects the 2011 Milk Price in southern regions such as Tasmania to be between A\$5.00 and A\$5.40. This forecast is based on the assumption that:

- there will be limited production growth;
- the Australian dollar is valued between US\$0.90 and US\$0.95; and
- all major dairy commodities trade in the range of US\$3,500 and US\$4,000 per tonne.

Fonterra's auction platform – Global Dairy Trade (gDT), which launched in July 2008, has become a key driver and indicator of world dairy commodity prices. The latest gDT auction on 16 September 2010 implied a milk price of approximately A\$5.76. As shown in the graph below, since the auction's inception

¹ 2010 and 2011 Milk Prices are based Tasman Farms' actual and forecast Milk Price from Fonterra

WMP prices on gDT have been very volatile. The Milk Price volatility experienced over the last three years could continue if the global economic situation remains uncertain causing dramatic rises and falls in major commodity prices.



Source: Fonterra's gDT

4.4 Tasmanian Dairy Industry Relative Performance

Tasmania is one of the best performing dairy regions in Australia. Tasmania's costs of production was the second lowest among Australian states and the value of dairy assets per farm (land, stock, and machinery) is also below the Australian average.

The performance of farms across Tasmania is variable due to a range of factors including farm management, location, the percentage of land under irrigation, feed strategies and weather. The Tasmanian Institute of Agricultural Research (**TIAR**) Dairy Business of the Year Awards provide a benchmark for top performing farms in Tasmania. The following table provides a high level summary of the average statistics from the Award participants since 2006:

Tasmanian Dairy Benchmarking Figures				
	2006	2007	2008	2009
Return on assets	5.7%	4.6%	7.9%	6.1%
EBIT (A\$000)	174.6	163.2	385.0	271.9
Dairy Assets (A\$000)	2,675	3,471	4,811	5,040
Irrigation % area irrigated	24%	29%	32%	34%
kg/MS per hectare	1,018	1,050	1,073	1,131
kg/MS per cow	392	386	373	400

Source: TIAR Dairy Business of the Year Award

4.5 Tasmanian Milk Processors

The Tasmanian dairy industry has three major milk processors. The milk is mainly used in cheese and powder production for export, as well as fresh dairy products. The following table provides an overview of the three major milk processors:

Tasmanian Milk Processors	
Fonterra	<p>In Tasmania, Fonterra has approximately 370 suppliers and processes over 60% of Tasmania's milk supply with two milk processing sites based in Wynyard and Devonport. Fonterra manufactures a range of products for food manufacturers, food and beverage companies, pharmaceutical companies and FMCG companies. These products include milk powder, butter, liquid milk, cheese, casein, cream, prepared edible fat, buttermilk powder, anhydrous milk fat and other milk products. Fonterra produces dairy products under leading brands such as Western Star, Perfect Italiano, Mainland and Connoisseur.</p>
National Foods	<p>National Foods is a wholly owned subsidiary of San Miguel Corporation and is one of Australia's largest food companies. With the recent acquisition of Lactos and King Island Dairy Products, it now processes approximately 20% of total Tasmanian milk production from around 160 suppliers.</p> <p>The Burnie (ex Lactos) factory has approximately 95 suppliers and produces soft cheeses, gouda, cheddar, gruyere and cream cheese. King Island Dairies has approximately 25 suppliers and produces cheddar, soft cheeses, blue cheeses, yogurt and cream. King Island Dairies anticipates that it will need to increase production by up to 10 per cent per annum to meet market demand over the next few years.</p> <p>The National Foods liquid milk processing plant is in Hobart where it also produces yoghurt and cream.</p>
Cadbury Schweppes	<p>Cadbury Schweppes (Cadbury) has approximately 60 suppliers and processes approximately 12 per cent of Tasmania's total milk supply. The milk is collected and taken to Cadbury's Burnie depot for processing prior to concentration and then transported to its Hobart factory. Cadbury produces a wide variety of chocolate products. Cadbury is seeking controlled growth in milk throughput of 1 – 2% per annum. Cadbury holds negotiable contracts with its suppliers that specify a total production level per annum.</p>

Source: Dairy Tasmania 2010

5. Profile of Tasman Farms

5.1 History

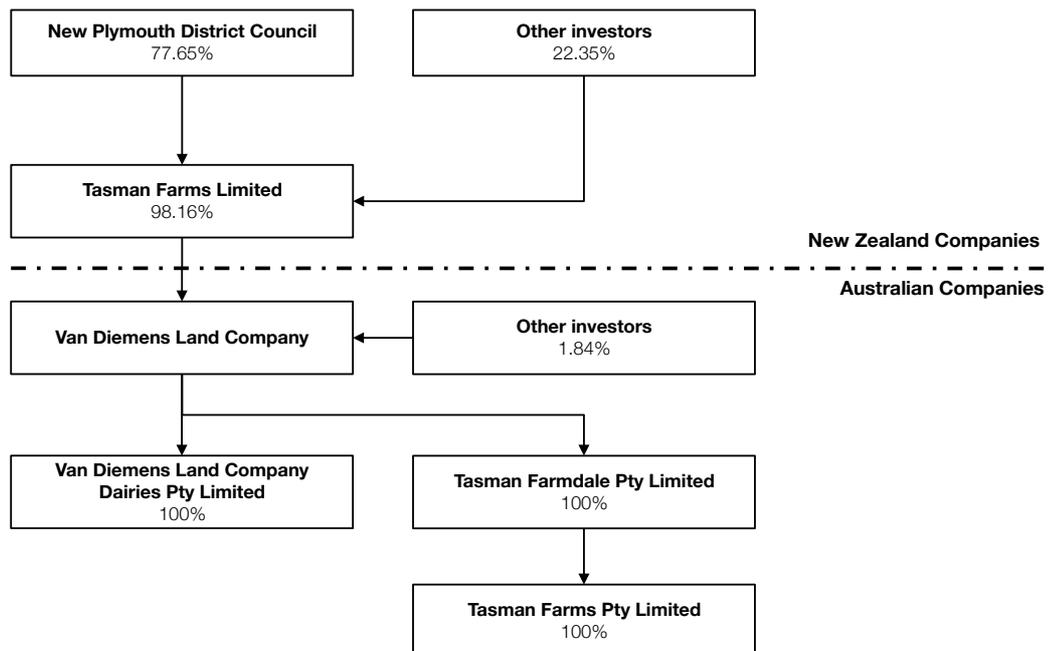
VDL was established in 1824 and received a Royal Charter in 1825. At this time the company was granted approximately 100,000 hectares of land in the far northwest Tasmania by the Crown. Over the course of the company's history sections of the original land grant have been sold, and the remainder of the original allocation (approximately 13,600 hectares) is now operated by VDL as the "Woolnorth" farms. VDL has also acquired various additional farmland "outside the gate" of Woolnorth (approximately 1,800 hectares) that is operated by its wholly owned subsidiary, Tasman Farmdale.

In 2001 Tasman Farms acquired the majority of VDL when its former parent company entered into voluntary liquidation. At that time Tasman Farms was controlled by Dairy Holdings Limited (**Dairy Holdings**), a Timaru-based company associated with Alan Hubbard. Over the next seven years VDL was managed by Dairy Holdings under a management agreement out of Timaru. The operations of the company suffered from this absentee management and both reputational and environmental damage to the company ensued. In 2004 Tasman Farms' shares were quoted on the "Unlisted" trading platform.

In 2007 NPDC launched a full takeover offer for Tasman Farms, conditional on receiving acceptances for at least 50% of the shares in Tasman Farms, and was successful in achieving a shareholding of 74.32%. NPDC commenced the implementation of a change in Tasman Farms' governance and strategy that saw a large number of changes to the board of Directors of both Tasman Farms and VDL and the relocation of the head office and management of the company from Timaru to Smithton in Tasmania, very close to the Company's farming operations. A new Chief Executive Officer, Nicola Morris, was appointed in 2008 and has focussed on restoring the productivity of the farms and implementing basic farm management practices.

5.2 Group Structure

Tasman Farms' only asset is a 98.16% shareholding in VDL. The group's structure is outlined in the diagram below.



5.3 Overview

Tasman Farms and its subsidiaries (the **Group**) now operates 23 dairy farms, specialising in pastoral dairy farming, milking approximately 16,000 dairy cows on more than 6,000 grazing hectares. Over the last five years, as highlighted in the table below, output from the dairy farms has remained steady with limited growth in milk solids per cow and milk solids per hectare. Milk production peaked in 2009 due to favourable weather conditions and focussed investment in genetics, animal health and the raising of young milking stock in 2008.

The key variable impacting the Group's financial performance is the Milk Price. The Group's Milk Price is determined by Fonterra. Over the last five years the Milk Price has been very volatile, resulting in fluctuating earnings at both the revenue level and due to livestock revaluations.

The Group's farm operating statistics for the years ended 31 May 2006, 2007, 2008, 2009 and 2010 together with the budget for the year ending 31 May 2011 are outlined in the table below:

Tasman Farms – Farm Operating Statistics						
Year end 31 May	2006	2007	2008	2009	2010	2011B
Dairy operations						
Number of farms	23	23	23	23	23	23
Effective hectares	5,965	5,956	6,092	6,092	6,092	6,067
Milking cows	15,808	16,121	16,743	13,143	15,589	15,828
Production kgs of MS (000's)	3,782	3,500	3,400	4,162	4,023	5,036
MS per hectare	634	588	558	683	660	830
Kg/MS per milking cow	239	217	203	317	258	318
Milk Price per kg of MS (A\$)	4.22	4.11	6.46	5.33	4.25	5.00
Non Dairy Operations						
Number of cattle	11,372	13,113	12,284	8,010	5,235	4,803
Number of sheep	8,304	4,896	1,562	1,099	1,574	1,671
Non-dairy hectares	5,418	5,466	5,406	5,406	5,406	5,406

The Group also has an extensive beef farming and heifer business. Over the last two years, the Group's cattle rearing operations have been refocused from finishing bulls for slaughter to more profitable trading operations including the grazing of beef cattle for local meat processors, the growing of beef animals for the lucrative Cape Grim beef brand, and working with existing dairy businesses to offer grazing and supplements.

5.4 Operations

The Group manages its farms through three different operating structures:

- **managed farms.** The manager is employed by the Group and the Group bears all of the costs of the farming operation, including livestock, animal health and breeding expenses. The manager may, in some cases, provide plant and machinery;
- **variable order share farms.** Share farmers are independent contractors to the Group with the Group supplying land, buildings and livestock while the share farmer provides labour, plant and machinery and pays a fixed percentage of feed costs. The share farmer is also paid a fixed percentage of the value of milk solids produced. The Group receives the proceeds from cull cows sold while the share farmer receives any revenue from any calves in excess of the replacement number of calves;
- **50:50 share farms.** This model is similar to the variable order model above except that the share farmer provides all of the livestock and a number of farm inputs. Milk sale revenues are split equally between the Group and the share farmer.

The following table highlights that the Group is moving away from the variable order share farm model in favour of the managed farm model:

Tasman Farms – Dairy farms by operating structure				
Year end 31 May	2007	2008	2009	2010
Managed farms	1	1	2	5
Variable order share farms	20	19	17	14
50:50 share farms	2	3	4	4
Total	23	23	23	23

The non-dairy farms are internally managed.

5.5 Strategic Initiatives and Planned Capital Expenditure

The Group's focus is on increasing productivity and it has three key strategic initiatives underway, including:

- shifting seven split calving farms to full autumn calving;
- improving heifer replacements through better breeding, targeted animal health initiatives and a greater focus on feeding and meeting target weights; and
- a complete review of the beef operation and its role within the Group's overall business.

There is significant potential to convert some of the Group's extensive land holding into dairy farms, either by converting existing beef farms, or by converting bush covered land. The company is currently working towards obtaining the required environmental consents to convert its bush land holdings.

The Group's planned short term capital expenditure, which will be funded by recent capital raisings, is focused on increasing dairy farm production. The planned capital expenditure is outlined in the table below:

Tasman Farms - Planned Capital Expenditure (A\$ millions)		
Capital programmes	\$A(m)	Strategic Focus
Wallaby fencing	2.0	Pasture growth and protection
Capital fertiliser	1.9	Pasture growth and quality
Pasture renewal and farm operational maintenance	0.4	Pasture growth and operational efficiency
Water reticulation systems	0.8	Milk quality
Milk shed technologies	0.5	Operational efficiency
Building maintenance	1.4	Maintain asset values
Essential capital expenditure	1.1	Maintain existing production and operations
Total	8.1	

As a result of the strategic initiatives above and the planned capital expenditure, management anticipates significant gains in production, livestock numbers and earnings.

5.6 Property Portfolio

The valuation of the Group's property portfolio as at 31 May 2009 and 2010, is shown in the table below:

Tasman Farms - Property Portfolio at 31 May 2010							
Property name	Market Value (\$ millions)			Effective Area (hectares) ²	Market Value per hectare (\$)	Kg/MS (000's)	MS per hectare
	31 May 2009	31 May 2010	% change				
Amaroo	2.3	2.2	-4.2%	114	19,167	76.8	674
Bass View	2.4	2.3	-4.2%	105	21,905	63.4	604
Blackwood	3.0	2.9	-3.8%	139	21,043	179.4	1,290
Farnham	2.4	2.4	-1.2%	115	20,870	175.5	1,526
Mawbush	3.0	2.9	-5.0%	137	20,803	84.9	620
Meadowbank	2.8	2.7	-4.5%	150	17,700	112.5	750
Mistvale	3.5	3.5	-1.4%	176	19,773	131.6	748
Poillinna	3.9	3.7	-5.0%	210	17,643	92.5	440
Ransons Park	2.5	2.4	-3.9%	110	21,545	87.9	799
Talawa	3.9	3.7	-4.6%	190	19,711	23.3	123
The Glen	4.9	4.6	-4.7%	210	22,048	154.1	734
The Park	2.7	2.5	-4.5%	115	22,087	101.6	883
Farmdale properties total	37.3	35.8	-4.0%	1,771	20,206	1,283.6	725
Harcus	11.4	10.8	-4.9%	757	14,301	229.7	303
Cygnets	5.8	5.5	-4.5%	370	14,938	262.8	710
Milky Plains	5.7	5.5	-4.6%	358	15,282	286.8	801
Pinegrove	5.7	6.0	4.3%	360	16,618	298.8	830
Cloverlea	5.1	4.7	-7.1%	300	15,803	294.8	983
The Gums	5.9	5.6	-4.6%	371	15,094	255.2	688
Riverdowns	6.2	5.9	-4.6%	390	15,151	285.6	732
Denium	6.0	5.7	-4.5%	370	15,515	157.8	427
Robbins Dairy	4.8	4.6	-4.6%	320	14,424	170.9	534
Swan Creek	6.1	5.8	-4.6%	390	14,955	302.7	776
Island View	6.3	5.9	-6.2%	400	14,813	194.1	485
Woolnorth properties total	69.1	66.2	-4.2%	4,386	15,087	2,739.3	625
Dairy land total	106.4	102.0	-4.1%	6,157	16,559	4,022.8	653
Average per farm	4.6	4.4	-4.1%	268	16,559	174.9	716
Developed pasture	56.8	52.4	-7.7%	4,656	11,265		
Heath Land				1,664			
Native Forest				2,429			
Plantations				461			
Total Sheep & Beef Unit	56.8	52.4	-7.7%	9,210	5,695		
Total Tasman Farms	163.2	154.4	-5.4%	15,367	10,048		

The Group commissioned an independent valuation of its farmland, buildings and improvements as at 31 May 2010. The valuation was dated 29 June 2010 and was prepared by Esk Property Group of Tasmania.

² The effective land area has been calculated using GPS systems and are therefore marginally different than figures presented in the annual report.

The basis of the valuations is set out below:

In determining the Market Value of the properties, consideration has been had to the International Valuation Standards 1 (IVS1) and the concept of Market Value Basis of Valuation. IVS requires that the properties under consideration be viewed as if for sale on the (open) market, in contrast to being evaluated as part of a going concern or for some other purpose. Market Value is defined as:

“The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s length transaction after proper marketing wherein both parties had acted knowledgeably, prudently and without compulsion”

The Market Value has considered the highest and best use of the property as improved. Highest and Best Use is defined as:

“The most probable use of a property which is physically possible, appropriately justified, legally permissible, financially feasible, and which results in the highest value of the property being valued”.

Overall the value of the Group’s dairy and non dairy farms fell 4.1% and 7.7% from the 31 May 2009 valuation to \$102 million and \$52.4 million respectively. As outlined in Esk Property Tasmania’s independent valuation the key reasons for the decline were:

- limited demand for both beef and dairying properties, primarily due to the significant fall in Milk Prices paid since 2008;
- dairy production achieved in the 2010 financial year was lower than anticipated;
- despite the decline in Milk Prices, production costs have remained relatively stable which has impacted farm profitably;
- the global financial crisis and the resulting economic impact has continued to effect the market for dairy farms; and
- the majority of dairy or beef properties that have been sold recently have been distressed sales and properties that have been sold under relatively normal scenarios also provide evidence of easing property values.

Tasman Farms’ management have advised that there are only a very small number of dairy farms being transacted in Tasmania. This is consistent with New Zealand where only three dairy farms were sold in August 2010, and the average price per farm per kilogram of milk solids has declined from \$45 in May 2010 to \$33 in August 2010.

5.7 Financial Performance

The financial performance of Tasman Farms for the years ended 31 May 2008 (**FY2008**), 2009 (**FY2009**) and 2010 (**FY2010**) is shown in the table below:

Tasman Farms - Financial Performance (NZ\$ millions)			
Year end 31 May	2008	2009	2010
Sales	33.9	36.4	26.5
Cost of sales	(1.6)	(1.6)	(2.0)
Gross margin	32.3	34.8	24.5
<i>Gross margin %</i>	95%	96%	92%
Other income	-	-	-
Farm working expenses	(22.3)	(27.4)	(21.5)
Administration expenses	(1.8)	(2.6)	(2.5)
Employee benefit expense	(2.0)	(2.1)	(2.5)
EBITDA before livestock revaluations	6.2	2.7	(2.0)
Net increase (decrease) in value of livestock	(1.2)	(8.5)	9.2
EBITDA	5.0	(5.8)	7.2
Depreciation and amortisation	(0.5)	(0.5)	(0.6)
EBIT	4.5	(6.3)	6.6
Financial revenue	0.2	0.2	1.3
Financial expenses	(3.6)	(4.9)	(3.8)
Tax expense	1.0	2.8	(3.6)
Profit after tax	2.1	(8.2)	0.5
Minority interests	-	0.2	-
Profit attributable to Tasman Farms' shareholders	2.1	(8.0)	0.5

The following points should be taken into consideration when reviewing the table above:

- in FY2008, despite a fall in production, the Group achieved 31% revenue growth as the Milk Price increased from A\$4.11 to A\$6.46 per kg/MS;
- the Group achieved record revenues in FY2009 due to a 22.4% increase in production as a result favourable weather conditions and previous initiatives. The increase in production prevented a decline in revenue as Milk Prices fell from A\$6.46 to A\$5.33 per kg/MS;
- in FY2010 revenue fell from \$36.4 million to \$26.5 million primarily due to a reduction in the average Milk Price from A\$5.33 to A\$4.25 per kg/MS and a decrease in milk production which was down 3.3% from the previous year due to severe weather conditions in the north-west of Tasmania. The revenue decline resulted in EBITDA before livestock revaluations falling well below the previous two years;
- farm working expenses include costs such as feed (agistment and grain), fertiliser, farm wages, vehicles and equipment, animal health and breeding. These costs increased significantly in FY2009 as management focused and invested in increasing productivity due to investment in farm productivity;
- livestock revaluations are a requirement of the IFRS accounting standards and significantly distort reported earnings. In FY2010 the Group recorded a \$9.2 million increase in livestock values which increased as a result of improved forecast dairy prices;
- minority interests relate to the 1.84% shareholding in VDL not held by Tasman Farms; and

- in FY2010 the company recorded \$1.2 million in financial revenue relating to an interest rate break benefit associated with its \$53.5 million Rabobank debt facility. Rabobank's policy is to pass on any benefit or cost associated with the termination of a fixed rate prior to the scheduled expiry date. The current value of the benefit or cost is carried in the accounts as an asset or liability and the movements over time are also accounted for in the income statement accordingly.

5.8 Financial Position

The financial position of Tasman Farms as at 31 May 2008, 2009 and 2010 is outlined in the table below:

Tasman Farms – Balance Sheet (NZ\$ million)			
	Year ended 31 May		
	2008	2009	2010
Cash	0.2	1.5	0.2
Trade and other receivables	2.5	1.9	1.9
Livestock and inventories	6.8	6.1	6.5
Other	0.1	-	-
Total current assets	9.6	9.5	8.6
Financial assets	2.2	2.2	3.4
Livestock and inventories	24.0	17.4	26.9
Property, plant and equipment	215.0	206.7	194.6
Memorabilia	2.1	2.2	1.8
Total non current assets	243.3	228.5	226.7
Total assets	252.9	238.0	235.3
Payables	(2.0)	(3.0)	(4.3)
Interest bearing liabilities	(0.2)	(0.2)	(0.3)
Provisions	(0.1)	(0.1)	(0.2)
Total current liabilities	(2.3)	(3.3)	(4.8)
Interest bearing liabilities	(50.4)	(55.1)	(59.8)
Deferred tax liability	(47.9)	(42.0)	(41.2)
Total non current liabilities	(98.3)	(97.1)	(101.0)
Total liabilities	(100.6)	(100.4)	(105.8)
Net assets	152.3	137.6	129.5
<i>Represented by:</i>			
Minority interests	(2.9)	(2.6)	(2.4)
Shareholders funds attributable to Tasman Farms shareholders	149.4	135.0	127.1
Total liabilities/total assets	40%	43%	45%
Net debt/total assets	20%	24%	26%

The following points are relevant when considering the above table:

- livestock and inventories increased in FY2010 largely due to a significant uplift in the value of dairy livestock as a result of increasing dairy prices and to the improvement in quality through feeding, breeding and general management;
- as outlined in section 5.6 the value of property, plant and equipment decreased in FY2010;
- Memorabilia relates to various historical documents, records and other materials acquired by VDL in 1993 dating back the establishment of the company in 1825;

- the increase in financial assets in FY2010 includes \$1.2 million relating to the interest rate break benefit associated with the company's Rabobank debt facility, as outlined in section 5.7 above;
- in FY2010 interest bearing liabilities include a \$53.5 million revolving credit facility with Rabobank which expires on 30 November 2020 and \$6.2 million in convertible redeemable notes held by NPDC. NPDC converted \$6 million of these notes on 30 June 2010 and was issued with 8 million ordinary shares at \$0.75 per share; and
- the deferred tax liability is primarily attributable to capital gains tax payable on the revaluation of land, livestock and memorabilia.

5.9 Cash Flow

The cash flows for Tasman Farms for the years ended 31 May 2008, 2009 and 2010 are shown in the table below:

Tasman Farms – Statement of Cash Flows (NZ\$ millions)			
Year end 31 May	2008	2009	2010
Receipts from customers	33.3	34.8	24.2
Payments to suppliers and employees	(28.6)	(32.0)	(26.4)
Dairy stock sales	1.0	1.3	0.3
Finance costs	(3.6)	(4.8)	(3.7)
Other	0.1	0.3	0.1
Operating cash flows	2.2	(0.4)	(5.5)
Proceeds from property, plant and equipment	0.1	-	-
Purchases of property, plant and equipment	(1.7)	(1.4)	(3.5)
Acquisition of additional shares in subsidiary	(0.2)	-	-
Repayment from non related parties	0.2	(0.5)	0.3
Investing cash flows	(1.6)	(1.9)	(3.2)
Equipment financing	-	0.5	(0.1)
External financing	(0.6)	3.4	(0.8)
Shares issued	-	-	2.0
Convertible notes issued	-	-	6.2
Financing cash flows	(0.6)	3.9	7.3
Net cashflow	0.1	1.6	(1.4)

In reviewing the above table the following should be considered:

- over the last two years the Group has experienced negative operating cash flows due to a declining Milk Price and an increased investment in farm working expenses;
- in November 2009 the Group issued 2 million shares to at \$1.00 per share. NPDC acquired 1.75 million of these shares;
- in May 2010 the Group raised \$6.2 million through the issue of convertible redeemable notes to NPDC; and
- in May 2010, Tasman Farms announced a one for eight pro rata non-renounceable rights issue the proceeds of which are to be used to implement the proposed capital development programme. In June 2010, subsequent to the cash flow statement above, Tasman Farms successfully completed the Rights Issue raising \$6.5 million in cash.

5.10 Capital Structure and Ownership

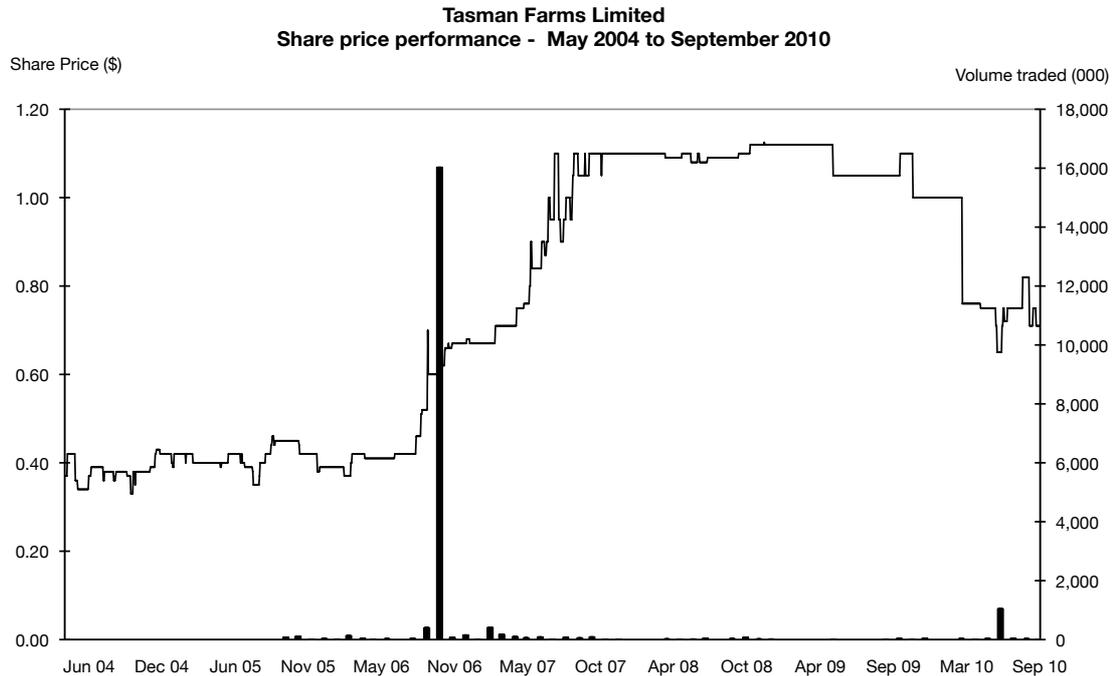
As at 7 September 2010 Tasman Farms had 85,826,440 shares on issue held by approximately 424 shareholders. The Company's top 20 shareholders as at 7 September 2010 are shown in the table below:

Tasman Farms – Top 20 Shareholders as at 7 September 2010		
Shareholder	Shares (000s)	%
New Plymouth District Council	66,642	77.6%
Douglas Family related entities	8,867	10.3%
First Eagle Management	6,594	7.7%
Custodial Services Limited	200	0.2%
Lynne Marx-Sheather, Walter Sheather, Patricia Sheather and Simon Palmer	186	0.2%
Claire Cocks	128	0.1%
Joan Cann & Stuart Raymond Cann	103	0.1%
Leveraged Equities Finance Limited	96	0.1%
William Marvin Griffin	80	0.1%
Sean Anthony Dennehy	66	0.1%
Thomas Alan Pegler (Snr)	65	0.1%
Joanna Edith Sinclair	62	0.1%
David Alexander Ballantyne & Robyn Louise Ballantyne	60	0.1%
Graeme Leslie Tee & Joanne Maree Steens & Alfred Phillip Dreifuss	59	0.1%
Ronald Ivor Shewan	52	0.1%
Gurbaksh Singh Belling	50	0.1%
Forsyth Barr Custodians Limited	48	0.1%
John Walter Linton & Nancy Mary Linton	47	0.1%
Nicholas Anthony Fletcher & Heather Shepherd	45	0.1%
Dennis George Row & Joan Dofan Row & SW Trust Services Limited	45	0.1%
Top 20 Shareholders	83,496	97.3%
Other Shareholders	2,330	2.7%
Total	85,826	100.0%

Tasman Farms is a closely held company with the top 3 shareholders holding 95.7%. NPDC holds a 77.65% shareholding in Tasman Farms and as a result of the First Eagle Lock-up Agreement, regardless of acceptances from minority shareholders NPDC's shareholding will increase to at least 85.3% when the Offer closes. The Douglas family holds 10.33% of Tasman Farms across three separate shareholdings.

5.11 Share Price Performance

The share price and trading volume history of Tasman Farms shares is depicted graphically below.



Tasman Farms' shares commenced quotation on New Zealand's unregulated trading platform "Unlisted" in November 2001. As Tasman Farms is a closely held company its shares are relatively illiquid and since 2001, trading in Tasman Farms shares has been limited. The major events since the company's quotation include:

- in October 2006, Hirequip Limited sold its 22% shareholding in Tasman Farms at \$0.66 per share;
- on 9 November 2007, NPDC made a full takeover offer for Tasman Farms at \$1.10 per share, conditional on obtaining acceptances in respect of at least 50% Tasman Farms' shares on issue. As part of the takeover offer NPDC negotiated a lock up agreement with Dairy Holdings securing 41.5% of Tasman Farms' shares. The takeover offer became unconditional on 31 January 2008 and closed on 25 February 2008 with NPDC holding 74.32% of the shares on issue; and
- in May 2010 Tasman Farms announced a 1 for 8 Rights Issue to existing shareholders, which it successfully completed in June 2010, raising \$6.5 million. The Rights Issue was fully underwritten by NPDC who, together with Douglas Telecommunications Inc as sub-underwriter, was required to subscribe for 313,852 shares due to very limited support for the rights issue from minority shareholders.

On 14 September 2010 the Company ceased quotation on the Unlisted platform.

6. Profile of NPDC

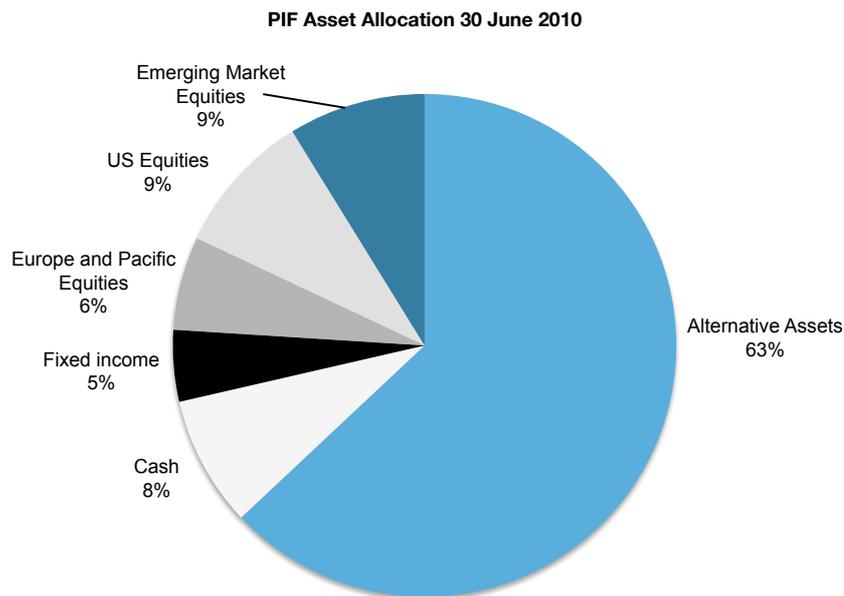
6.1 Background

NPDC's shares in Tasman Farms are managed by its investment management arm, Taranaki Investment Management Limited (**TIML**). TIML is contractually mandated to manage the PIF on NPDC's behalf. Since 2005, \$119.1 million has been distributed to NPDC by way of release payments.

6.2 Fund Performance and Asset Profile

As at 30 June 2010 NPDC managed a total of \$251.4 million of assets, a reduction of 3% from the previous year. The decline was primarily due to \$22.0 million in release payments to NPDC, \$1.6 million of management costs, a 10% decline in equity markets and a reduction in the valuation of the farm land and buildings of Tasman.

During the 2010 financial year NPDC has adjusted its portfolio of assets to meet its new strategic asset allocation. This resulted in a reduction in equity holdings to 24% and the successful exit from NPDC's remaining investment in SPARCS (a debt instrument related to the sale of Powerco by NPDC). The following graph provides an overview of NPDC's asset allocation as at 30 June 2010. As shown below, 63% of PIF's assets are alternative assets. NPDC aims to increase its alternative asset exposure to 70%. The alternative assets portfolio includes investments in Tasman Farms, Barings Funds III and IV (which invest in Asia), and Direct Capital Funds III and IV (which invest in Australasia).



7. Valuation of Tasman Farms

7.1 Summary

Grant Samuel's valuation of the equity in Tasman Farms is \$0.72 - \$0.96 per share as summarised below:

Tasman Farms – Valuation Summary		
A\$ million except where otherwise stated	Low	High
Enterprise value	86.0	102.1
Net debt for valuation purposes	(40.0)	(40.0)
Other assets	1.4	1.4
Equity value	47.4	63.5
Shares on issue (millions)	85.8	85.8
Value per share A\$	0.55	0.74
Exchange rate (NZD: AUD)	0.77	0.77
Per share NZ\$	0.72	0.96

A value range of \$86.0 million - \$102.1 million has been attributed to Tasman Farms' business operations. This valuation range is an overall judgement having regard to:

- the net present value (NPV) outcomes from discounted cash flow (DCF) analysis;
- the net realisable value of the assets of Tasman Farms; and
- the multiples of EBITDA and EBIT implied by the trading prices of listed primary sector companies.

For the purposes of the valuation, Grant Samuel used the value derived by the DCF for the Low point of the valuation range and the Realisation of Assets methodology for the High point of the valuation range. The NTA per share of Tasman following the recent rights issue is \$1.62. This number is largely a function of the value attributed to the individual farms and the undeveloped land. The property valuations are based on recent sales of farms in the North West of Tasmania. This value cannot be received by the shareholders of Tasman because:

- the realisation of a very large number of farms and bare land in this region would almost certainly be at a discount to current book values;
- capital gains tax would be payable. This has been provided for in deriving the net assets of Tasman by way of a deferred tax provision;
- the distribution of the proceeds from VDL to Tasman to individual shareholders will be subject to taxation in the hands of shareholders; and
- the sale process is likely to take a number of years during which time the cash flow and earnings of Tasman would suffer.

Grant Samuel's valuation represents the estimated full underlying value of Tasman Farms assuming 100% of the Company was available to be acquired and includes a premium for control. The value exceeds the price at which, based on current market conditions, Grant Samuel would expect Tasman Farms shares to trade in the absence of a takeover offer or proposal similar in nature to the NPDC Offer.

The valuation reflects the strengths and weaknesses of Tasman Farms and takes into account the following factors:

- the Company's poor trading history;

- management's focus on re-establishing basic farm management practices;
- the current performance and future strategic direction of the business;
- the likely market trading conditions for the Tasmanian dairy industry and the impact of dairy commodity prices on the future performance of the business; and
- the location, size and scale of the Tasman Farms operation.

Net debt for valuation purposes

Grant Samuel has adopted VDL's net debt position of A\$50 million as at 31 July 2010, less cash balances of A\$10 million held by Tasman Farms Limited. The company does not prepare monthly consolidated balance sheets for the Tasman Farms Group.

Other assets

VDL was established under Royal Charter in 1825 and holds a range of memorabilia in relation to the company's early history. The memorabilia consists of various documents and papers and are in the books at A\$1.4 million. Grant Samuel has adopted this value for the purposes of its analysis.

Tasman Farms holds 7,700 hectares of unfarmed land. It is estimated that 3,000-4,000 hectares could be converted into pasture. Included in the 7,700 hectares is approximately 2,500 hectares of native bushland for which it could gain approval to clear and convert into pasture. The Company will almost certainly need to undertake further capital raisings to fund this development if it were to proceed as it is unclear what returns will be generated on the converted pastureland. There is also no certainty that the State government will grant permission for the conversion. Grant Samuel has attributed no value to this bushland in its valuation.

Exchange rate

Grant Samuel has adopted the current NZD / AUD exchange rate as at 17 September 2010 when translating its valuation into a New Zealand dollar per share.

7.2 Methodology

Overview

Grant Samuel's valuation of Tasman Farms has been estimated on the basis of fair market value as a going concern, defined as the estimated price that could be realised in an open market over a reasonable period of time assuming that potential buyers have full information. The valuation of Tasman Farms is appropriate for the acquisition of the Company as a whole and accordingly incorporates a premium for control. The value is in excess of the level at which, under current market conditions, shares in Tasman Farms could be expected to trade on a sharemarket. Shares in a listed company normally trade at a discount of 15% - 25% to the underlying value of the company as a whole, but the extent of the discount (if any) depends on the specific circumstances of each company.

The most reliable evidence as to the value of a business is the price at which the business or a comparable business has been bought and sold in an arm's length transaction. In the absence of direct market evidence of value, estimates of value are made using methodologies that infer value from other available evidence. There are four primary valuation methodologies commonly used for valuing businesses:

- capitalisation of earnings or cash flows;
- discounting of projected cash flows;
- industry rules of thumb; and
- estimation of the aggregate proceeds from an orderly realisation of assets.

Each of these valuation methodologies has application in different circumstances. The primary criterion for determining which methodology is appropriate is the actual practice adopted by purchasers of the type of business involved.

Capitalisation of Earnings

Capitalisation of earnings or cash flows is most appropriate for businesses with a substantial operating history and a consistent earnings trend that is sufficiently stable to be indicative of ongoing earnings potential. This methodology is not particularly suitable for start-up businesses, businesses with an erratic earnings pattern or businesses that have unusual expenditure requirements. This methodology involves capitalising the earnings or cash flows of a business at a multiple that reflects the risks of the business and the stream of income that it generates. These multiples can be applied to a number of different earnings or cash flow measures including EBITDA, EBITA, EBIT or net profit after tax. These are referred to respectively as EBITDA multiples, EBITA multiples, EBIT multiples and price earnings multiples. Price earnings multiples are commonly used in the context of the sharemarket. EBITDA, EBITA and EBIT multiples are more commonly used in valuing whole businesses for acquisition purposes where gearing is in the control of the acquirer.

Where an ongoing business with relatively stable and predictable earnings is being valued Grant Samuel uses capitalised earnings or operating cash flows as a primary reference point. Application of this valuation methodology involves:

- estimation of earnings or cashflow levels that a purchaser would utilise for valuation purposes having regard to historical and forecast operating results, non-recurring items of income and expenditure and known factors likely to impact on operating performance; and
- consideration of an appropriate capitalisation multiple having regard to the market rating of comparable businesses, the extent and nature of competition, the time period of earnings used, the quality of earnings, growth prospects and relative business risk.

The choice between the parameters is usually not critical and should give a similar result. All are commonly used in the valuation of businesses. EBITDA can be preferable if depreciation or non-cash charges distort earnings or make comparisons between companies difficult but care needs to be exercised to ensure that proper account is taken of factors such as the level of capital expenditure needed for the business and whether or not any amortisation costs also relate to ongoing cash costs. EBITA avoids the distortions of goodwill amortisation. EBIT can better to adjust for differences in relative capital intensity.

Determination of the appropriate earnings multiple is usually the most judgemental element of a valuation. Definitive or even indicative offers for a particular asset or business can provide the most reliable support for selection of an appropriate earnings multiple. In the absence of meaningful offers, it is necessary to infer the appropriate multiple from other evidence.

The usual approach is to determine the multiple that other buyers have been prepared to pay for similar businesses in the recent past. However, each transaction will be the product of a unique combination of factors. A pattern may emerge from transactions involving similar businesses with sales typically taking place at prices corresponding to earnings multiples within a particular range. This range will generally reflect the growth prospects and risks of those businesses. Mature, low growth businesses will, in the absence of other factors, attract lower multiples than those businesses with potential for significant growth in earnings.

An alternative approach used in valuing businesses is to review the multiples at which shares in listed companies in the same industry sector trade on the sharemarket. This gives an indication of the price

levels at which portfolio investors are prepared to invest in these businesses. Share prices reflect trades in small parcels of shares (portfolio interests) rather than whole companies and it is necessary to adjust for this factor.

The analysis of comparable transactions and sharemarket prices for comparable companies will not always lead to an obvious conclusion as to which multiple or range of multiples will apply. There will often be a wide spread of multiples and the application of judgement becomes critical. Moreover, it is necessary to consider the particular attributes of the business being valued and decide whether it warrants a higher or lower multiple than the comparable companies. This assessment is essentially a judgement.

Discounted Cash flow

Discounting of projected cash flows has a strong theoretical basis. It is the most commonly used method for valuation in a number of industries, and for the valuation of start-up projects where earnings during the first few years can be negative. DCF valuations involve calculating the net present value of projected cash flows. This methodology is able to explicitly capture the effect of a turnaround in the business, the ramp up to maturity or significant changes expected in capital expenditure patterns. The cash flows are discounted using a discount rate, which reflects the risk associated with the cash flow stream. Considerable judgement is required in estimating future cash flows and it is generally necessary to place great reliance on medium to long-term projections prepared by management. The discount rate is also not an observable number and must be inferred from other data (usually only historical). None of this data is particularly reliable so estimates of the discount rate necessarily involve a substantial element of judgment. In addition, even where cash flow forecasts are available the terminal or continuing value is usually a high proportion of value. Accordingly, the multiple used in assessing this terminal value becomes the critical determinant in the valuation (i.e. it is a “de facto” cash flow capitalisation valuation). The net present value is typically extremely sensitive to relatively small changes in underlying assumptions, few of which are capable of being predicted with accuracy, particularly beyond the first two or three years. The arbitrary assumptions that need to be made and the width of any value range mean the results are often not meaningful or reliable. Notwithstanding these limitations, DCF valuations are commonly used and can at least play a role in providing a check on alternative methodologies, not least because explicit and relatively detailed assumptions need to be made as to the expected future performance of the business operations.

Realisation of Assets

Valuations based on an estimate of the aggregate proceeds from an orderly realisation of assets are commonly applied to businesses that are not going concerns. They effectively reflect liquidation values and typically attribute no value to any goodwill associated with ongoing trading. Such an approach is appropriate in Tasman Farms’ case.

Industry Rules of Thumb

Industry rules of thumb are commonly used in some industries. These are generally used by a valuer as a “cross check” of the result determined by a capitalised earnings valuation or by discounting cash flows, but in some industries rules of thumb can be the primary basis on which buyers determine prices. Grant Samuel is not aware of any commonly used rules of thumb that would be appropriate to value Tasman Farms. In any event, it should be recognised that rules of thumb are usually relatively crude and prone to misinterpretation.

Preferred Approach

Establishing a fair market value for Tasman Farms is challenging. Tasman Farms’ historical earnings have been both erratic and poor. However, the appointment of a new management team in 2008 and the implementation of a strategic focus on productivity gains and basic farm practices are starting to yield results. Management is confident that a turnaround in operating performance will be the culmination of

this strategic focus and that further investment in productivity initiatives will likely result in a further significant uplift in earnings. In light of these factors the capitalisation of earnings methodology is not appropriate in the case of Tasman Farms and accordingly, Grant Samuel has valued Tasman Farms using both DCF analysis and a realisation of assets methodology.

The DCF approach is the most appropriate methodology for the valuation of Tasman Farms. Adopting this approach has in this instance been problematic due to the lack of company forecasts. Management has established a detailed budget for the 2011 financial year but no forecasts beyond this period are available. Accordingly, Grant Samuel has established, in conjunction with Tasman Farms' management, earnings forecasts over a 10 year period to 2020 for the purposes of establishing a value for Tasman Farms under the DCF methodology. The assumptions adopted in the DCF analysis are set out in section 7.3. Tasman Farms does not have any long term forecasts and the assumptions provided by management have not been received or approved by the Directors of the Company. Forecasts are inherently uncertain and future performance may be more or less favourable than forecast.

As a cross check to the DCF valuation Grant Samuel has also had regard to the realisation of assets methodology. In addition, Grant Samuel has undertaken an analysis of the relevant multiples of comparable listed entities in Australia and New Zealand as a basis for comparison with the valuation range established.

7.3 DCF analysis

Grant Samuel's DCF analysis was undertaken based on the following assumptions outlined below.

Overview

The land holdings of Tasman can be divided into three blocks:

- **Farmdale** – the Farmdale farms comprise 1,796 hectares and 12 established dairy farms with an average size of approximately 150 hectares per farm. These farms are dispersed separately around the same region of Tasmania as Tasman Farms' other land holdings, with the most remote farm being 95km from the Woolnorth block;
- **Woolnorth dairies** – the Woolnorth block comprises 4,385 hectares and 11 farms with an average size of approximately 400 hectares. Woolnorth has a lower stocking rate than the Farmdale block and presently has poor quality drinking water available to the stock. The latter is a major focus of attention and if a recently identified possible source of high quality water proves viable should see an increase in production per hectare and per cow; and
- **Other Woolnorth land** – the Woolnorth Sheep and Beef Unit comprises 9,210 hectares of which half is in pasture, 2,429 hectares in undeveloped native bush, 461 hectares in plantation and 1,664 hectares in heath land with no identifiable commercial use.

Production assumptions

- **Farmdale** – Production from the Farmdale farms was 725 kg/MS per hectare in FY2010 with considerable variances between farms. The 2011 budget shows significant improvement with average production rising to 930 kg/MS per hectare. Management believes the remaining farms will, over eight years, yield production of approximately 1,250 kg/MS per hectare (or approximately 425 kg / MS per cow); and
- **Woolnorth dairies** – Production at Woolnorth in FY2010 was only 625 kg/MS per hectare and is budgeted to increase to 767 kg/MS per hectare in 2011. Management believes the Woolnorth farms will yield 1,000 kg/MS per hectare (or approximately 370 kg/MS per cow by 2014).

Capital expenditure, land sales and conversions

Tasman Farms expects to spend approximately A\$8 million over the next twelve months on projects identified at the time of the Rights Issue. These include wallaby fencing, fertiliser programmes, pasture renewal and water reticulation initiatives. Annual maintenance capital expenditure has been estimated by management at approximately A\$750,000 per annum.

- **Farmdale** – Management plans to sell five of the more distantly located Farmdale farms over the next two to three years, partly because of the difficulty in managing remote farms but also due to a belief by Tasman Farms management that they would be more productive under owner operators and the money invested could be put to better use in the Woolnorth block. The identified farms comprise more than 700 hectares and have a current market value of almost A\$14 million. The remaining Farmdale properties have an effective area of just over 1,000 hectares;
- **Other Woolnorth land (pasture)** – the company plans to convert approximately 3,000 hectares of the developed beef and sheep pasture into ten dairy farms. The estimated cost of the conversions is A\$1.5 million per farm plus approximately A\$1 million per farm for livestock. Currently the land to be converted has been independently valued at \$5,695 per hectare. After conversion expenditure of \$5,000 per hectare the value could rise to \$20,000 per hectare; and
- **Other Woolnorth land (bushland)** – the undeveloped land in native bush has the potential to be converted into dairy farms albeit at a high cost of conversion per hectare. It is possible (albeit difficult) to gain consent to clear the native bush provided there are significant economic benefits to the community arising from the conversion. A consent application is currently being prepared and must be lodged before the end of 2010. For the purposes of the valuation Grant Samuel has placed no value on this land, which is consistent with the independent valuation, due to the uncertainty surrounding gaining consent and the timing and cost of conversions.

Weighted Average Cost of Capital (WACC)

The WACC of 11.5% for Tasman has been derived using the following assumptions:

Risk Free rate	6%
Equity Beta	1.25
Market Rate Premium	7%
Cost of Debt	8%
Tax rate	30%

Non-dairy operations

Tasman Farms' non-dairy operations are starting to become profitable. Despite the plans for conversion management estimates that the remaining beef and sheep operations will continue to be profitable for the foreseeable future.

Benchmarking Tasman Farms' operations

Tasman Farms' current operations fall significantly short of the Tasmanian "average" and "Top 10" benchmarks published by Into Dairy Tasmania. The table below outlines the Into Dairy Tasmania benchmarks for the 2008/2009 season compared with the actual results achieved by Tasman Farms in FY2010 and budgeted to be achieved in FY2011:

Tasman Farms – Benchmarking				
Measure	Tasmania Benchmark		Tasman Farms	
	Average	Top 10%	2010	2011B
Return on Assets (%)	6.0	16.0	1.7	3.5
Total MS per farm (kgs)	187,359	126,533	174,906	218,946
MS / ha (kgs)	1,131	1,030	660	815
MS / cow (kgs)	400	394	249	319

Source: *Into Dairy Tasmania – Benchmarking results 2008/9*

7.4 Realisation of assets valuation

Grant Samuel undertook a realisation of assets valuation in relation to Tasman Farms. The net assets of Tasman Farms as at 31 July 2010 were A\$113.2 million including A\$10 million of cash as a result of the Rights Issue and NPDC convertible note. Grant Samuel has adjusted the net assets for an estimated discount applicable on the sale of the sizable land holdings of VDL of 5%-10%. The realisation process has been estimated to take three years and the proceeds have been discounted back to a present value using a discount rate of 11.5%. Management has indicated that it would require a substantial period of time, possibly longer than three years to fully dispose of the VDL's land holdings.

Tasman Farms also has a deferred tax liability and tax losses which would result in a net payment of A\$29 million in a realisation of assets scenario. Following a full realisation of the assets of VDL, the realised funds would need to be distributed by way of a dividend to Tasman Farms. Grant Samuel understands no further tax would be payable in New Zealand at this time. In the event Tasman Farms wishes to distribute these funds, additional tax at a shareholder level would become payable. For the purposes of the valuation an average tax rate of 30% has been assumed. In reality it would be the marginal tax rate of each shareholder that would apply.

It is unlikely VDL itself would be liquidated given its status as one of the only (if not the only) remaining Royal Charter companies in Australia. Tasman Farms could likely dispose of VDL and the VDL memorabilia in the event of a realisation of assets.

7.5 Earnings Multiples Analysis

Grant Samuel estimates the value of Tasman Farms on an un-g geared basis to be in the range of A\$86.0 – A\$102.1 million. This range implies the following earnings multiples:

Tasman Farms - Implied Multiples		
	Valuation Range	
	Low	High
Multiple of EBITDA – year ended 31 May 2010	104.6	124.2
Multiple of EBITDA – year ended 31 May 2011	18.1	21.5
Multiple of EBIT – year ended 31 May 2010	266.1	316.2
Multiple of EBIT – year ended 31 May 2011	22.3	26.5

The implied multiples are high when compared with the multiples implied by the share prices of comparable listed companies. The average historical and forecast implied EBITDA multiples of listed companies operating in the Australasian Agriculture sector are 7.2 times and 8.9 times respectively.

The very high implied multiples are a function of the Tasman Farms' low but improving earnings and the high prices paid for agricultural land over recent years, which has inflated carrying values. A significant and possibly the largest component of the return from an investment in farming has been the capital appreciation of farm land. It is arguable that the current level of dairy farm values is unsustainable. Land values have been driven up recently, by the ready availability of cheap debt and an expectation of increasing commodity prices. As a result, land values are well ahead of the earnings capability of the land. There are early signs of some adjustments to farm values but with increasing interest from overseas investors acquiring productive agricultural land the adjustment maybe relatively small. Tasman Farms will continue to increase its earnings for the foreseeable future. The DCF valuation forecasts an EBITDA return on total assets of approximately 4% per annum. This is a very low rate of return and suggests that the farm values which are derived from actual sales evidence reflect the willingness of investors in farms to accept very low earnings in the expectation of capital gains and/or for lifestyle reasons.

Interpretation of Multiples

Earnings multiples are normally benchmarked against two primary sets of reference points:

- the multiples implied by the share prices of listed peer group companies; and
- the multiples implied by the prices paid in acquisitions of other companies in the same industry.

In interpreting and evaluating such data it is necessary to recognise that:

- multiples based on listed company share prices do not include a premium for control and are therefore often (but not always) less than multiples that would apply to acquisitions of controlling the interests in similar companies. However, while the premium paid to obtain control in takeovers is observable it is inappropriate to simply add a premium to listed multiples. The premium for control is an outcome of the valuation process, not a determinant of value. Premiums are paid for reasons that vary from case to case and may be substantial due to synergy or other benefits available to the acquirer. In other situations premiums may be minimal or even zero. There are transactions where no corporate buyer is prepared to pay a price in excess of the prices paid by sharemarket investors;
- acquisition multiples from comparable transactions are therefore usually seen as a better guide when valuing 100% of a business but the data tends to be less transparent and information on forecast earnings is often unavailable;
- the analysis will give a range of outcomes from which averages or medians can be determined but it is not appropriate to simply apply such measures to the company being valued. The most important part of valuation is to evaluate the attributes of the specific company being valued and to distinguish it from its peers so as to form a judgement as to where on the spectrum it belongs;
- acquisition multiples are a product of the economic and other circumstances at the time of the transaction. However, each transaction will be the product of a unique combination of factors, including:
 - economic factors (e.g. economic growth, inflation, interest rates) affecting the markets in which the company operates;
 - strategic attractions of the business – its particular strengths and weaknesses, market position of the business, strength of competition and barriers to entry;
 - the company's own performance and growth trajectory;
 - rationalisation or synergy benefits available to the acquirer;
 - the structural and regulatory framework;
 - investment and sharemarket conditions at the time, and
 - the number of competing buyers for a business;

- acquisitions and listed companies in different countries can be analysed for comparative purposes, but it is necessary to give consideration to differences in overall sharemarket levels and rating between countries, economic factors (economic growth, inflation, interest rates), market structure (competition etc) and the regulatory framework. It is not appropriate to adjust multiples in a mechanistic way for differences in interest rates or sharemarket levels;
- acquisition multiples are based on the target's earnings but the price paid normally reflects the fact that there were cost reduction opportunities or synergies available to the acquirer (at least if the acquirer is a "trade buyer" with existing businesses in the same or a related industry). If the target's earnings were adjusted for these cost reductions and/or synergies the effective multiple paid by the acquirer would be lower than that calculated on the target's earnings;
- while EBITDA multiples are commonly used benchmarks they are an incomplete measure of cash flow. The appropriate multiple is affected by, among other things, the level of capital expenditure (and working capital investment) relative to EBITDA. In this respect:
 - EBIT multiples can in some circumstances be a better guide because (assuming depreciation is a reasonable proxy for capital expenditure) they effectively adjust for relative capital intensity and present a better approximation of free cash flow. However, capital expenditure is lumpy and depreciation expense may not be a reliable guide. In addition, there can be differences between companies in the basis of calculation of depreciation; and
 - businesses that generate higher EBITDA margins than their peer group companies will, all other things being equal, warrant higher EBITDA multiples because free cash flow will, in relative terms, be higher (as capital expenditure is a smaller proportion of earnings).

7.6 Assessment of Implied Multiples

Sharemarket Evidence

The valuation of Tasman Farms has been considered in the context of the sharemarket ratings of listed Australian and New Zealand companies with operations in Agriculture. While none of these companies is precisely comparable to Tasman Farms, the sharemarket data provides some framework within which to assess the valuation of Tasman Farms.

Sharemarket Ratings of Selected Listed Companies ³					
Company	Market Capitalisation (\$NZ millions)	EBITDA Multiple ⁴ (times)		EBIT Multiple ⁵ (times)	Price to NTA
		Historic	Forecast	Historic	
New Zealand / Australia					
AFFCO Holdings Ltd	187.0	7.0	na	10.5	0.5
Australian Agricultural Co. Ltd	562.9	na	13.7	na	0.7
NZ Farming Systems Uruguay Limited	168.5	na	na	na	0.8
PGG Wrightson Limited	447.5	7.9	7.8	8.9	1.5
PrimeAg Australia Limited	249.2	na	14.0	na	1.0
Ridley Corp. Ltd	516.6	8.2	7.2	10.5	1.6
Select Harvests Ltd	227.1	5.7	4.6	6.9	1.4
Turners & Growers Ltd	158.2	6.9	6.1	13.8	0.6
Average		7.2	8.9	10.1	1.0
Median		7.0	7.5	10.5	0.9

Source: Grant Samuel analysis⁶, Capital IQ

A description of each of the companies above is set out in Appendix A. When observing the table above the following points should be noted:

- the multiples are based on closing share prices as at 16 September 2010. The share prices, and therefore the multiples, do not include a premium for control. Shares in a listed company normally trade at a discount to the underlying value of the company as a whole;
- despite being located in Uruguay, New Zealand Farming Systems Uruguay is the most direct comparable with Tasman Farms because its earnings are primarily generated through milk production (i.e. it does not have down stream assets) and are significantly impacted by the company's ability to produce milk and dairy product prices on gDT. However, due to poor historical and forecast earnings EBITDA multiples are not available and the implied price to net tangible assets (NTA) of 0.8 times reflects a control premium paid under the recent takeover offer from Olam;
- there are considerable differences between the operations and scale of the comparable companies when compared with Tasman Farms. In addition, care needs to be exercised when comparing multiples of New Zealand companies with internationally listed companies. Differences in regulatory

³ The companies selected have a variety of year ends. The information presented historical column corresponds to the most recent annual result or adjusted annual result utilising the information presented in interim and annual reports and the estimated enterprise value based on the latest available debt position and share price at 16 September 2010.

⁴ Represents gross capitalisation (that is, the sum of the market capitalisation adjusted for minorities, plus borrowings less cash as at the latest balance date) divided by EBITDA. EBITDA is earnings before net interest, tax, depreciation, amortisation, investment income, impairment adjustments and significant items.

⁵ Represents gross capitalisation divided by EBIT. EBIT is earnings before net interest, tax, investment income, impairment adjustments and significant items.

⁶ Grant Samuel analysis based on company announcements and, in the absence of company published financial forecasts, brokers' reports. Where company financial forecasts are not available, the median of the financial forecasts prepared by a range of brokers has generally been used to derive relevant forecast value parameters. The source, date and number of broker reports utilised for each company depends on analyst coverage, availability and recent corporate activity.

environments, sharemarket and broader economic conditions, taxation systems and accounting standards hinder comparisons.

GRANT SAMUEL & ASSOCIATES LIMITED

29 September 2010

Grant Samuel + Associates

Appendix A

Comparable Listed Companies

A brief description of each of the companies listed in Section 7.6 is outlined below:

AFFCO Holdings Limited

AFFCO Holdings, through its subsidiaries, engages in the procurement, processing, and marketing of meat and associated products primarily in New Zealand. AFFCO Meats/ Land Meats extensive product range covers quality chilled and frozen beef, lamb, mutton, goat and pork cuts for sale to leading retailers and supermarket groups in New Zealand as well as a key supplier of bulk items either in cartons or bins to food manufacturing, grinding and small goods businesses. AFFCO's Allied Products operation produces premium hides and pelts, calf skins, high quality protein meals, tallow, casings, slipe wool and pharmaceutical blood serums and rennet. The company was founded in 1904 and is headquartered in Hamilton, New Zealand. AFFCO Holdings Limited is currently the subject of a Takeover Offer from Talleys Group Limited at 37 cents per share. Prior to the Offer being made Talley's held 52.8% of the shares in AFFCO. As at 20 September Talleys had received acceptances taking its shareholding to 84.6%.

Australian Agricultural Co. Limited

Australian Agricultural Company (**AAC**) was founded in 1824 and is based in Milton, Australia. AAC primarily engages in the operation of grazing and farming properties. The company operates 19 cattle stations, two feedlots, and three farms and is the custodian of 7.2 million hectares (about 1.1% of Australia's land mass). AAC sells its products to the restaurants and supermarkets in Australia and internationally. AAC is the largest beef cattle company in Australia with over 500 staff and approximately 485,000 beef cattle.

NZ Farming Systems Uruguay Limited

NZ Farming Systems Uruguay Limited (**NZFS**) was established in late 2006 with the objective of applying New Zealand's expertise in pastoral dairy farming to high quality, low cost and under-utilised farmland in Uruguay. NZFS is currently milking approximately 17,000 cows and is the largest single producer of milk in Uruguay, accounting for approximately 4% of national production. The company's medium term plans project it to be milking 44,000 cows and producing approximately 16% of milk in Uruguay by the 2012/13 season. Despite its establishment in 2006, due to a range of factors including capital constraints, poor weather and investment in land rather than infrastructure and production has resulted in poor earnings performance.

PrimeAg Australia Limited

Recently established in 2007, PrimeAg Australia Limited (**PrimeAg**) specialises in investing in Australian rural properties, some with attached water entitlements, to take advantage of the increasing global demand for soft commodities, such as wheat, chickpeas, sorghum and cotton, as well as for livestock products. PrimeAg's strategy is to achieve a diversified commodity exposure by establishing farming "hubs" across a number of different geographic regions in Northern NSW and Queensland. The company is planning 12,500 ha of summer crop compared with the 10,200 ha planted last year. Cotton will be the primary summer crop with 6,000 ha irrigated and 5,500 ha dryland production planned.

Ridely Corporation Limited

Ridley Corporation has two major subsidiaries, Ridley AgriProducts and Cheetham Salt. Ridley AgriProducts is Australia's largest commercial provider of high performance animal nutrition solutions. Ridley AgriProducts supplies major food producers in the beef, dairy, poultry, pig, sheep, aquaculture industries, laboratory animals and the equine and canines in the recreational sector. Cheetham Salt is Australia's largest producer and refiner of value added solar salt for the water treatment, food manufacturing and pool sectors.

Select Harvests Limited

Select Harvests Limited, Australia's largest almond grower, manages 60% of Australia's almond orchards, and is one of the largest almond growers globally. The almond operation manages 38,368 acres of almond orchards processing approximately 12,000 metric tonnes. It is also Australia's leading manufacturer, processor and marketer of a range of nuts, fruit based, and associated products to the Australian retail and industrial markets, and exports almonds to several countries in Asia, Europe and the Middle East.

Turners & Growers Limited

Turners & Growers Limited (**T&G**), through its subsidiaries, operates as a distributor, marketer, and exporter of fresh produce in New Zealand and internationally. T&G's major divisions are: Turners and Growers Fresh Ltd - fruit & produce & flower wholesalers, auctioneers and distributors, importers, exporters, transport operators, prepackers and produce container hirers; Status Produce Ltd - glasshouse tomato production and other covered crops; packhouse operators; and ENZA Ltd - world-wide pipfruit exporters and coolstore operators.

Appendix B

Qualifications, Declarations & Consents

a. Qualifications

The Grant Samuel group of companies provides corporate advisory services (in relation to mergers and acquisitions, capital raisings, corporate restructuring and financial matters generally), property advisory services and manages private equity and property development funds. One of the primary activities of Grant Samuel is the preparation of corporate and business valuations and the provision of independent advice and expert's reports in connection with mergers and acquisitions, takeovers and capital reconstructions. Since inception in 1988, Grant Samuel and its related companies have prepared more than 400 public expert and appraisal reports.

The persons responsible for preparing this report on behalf of Grant Samuel are Michael Lorimer, BCA, Alexa Preston, BBus, CA and Christopher Smith, BCom, PGDipFin, DipAppFin. Each has a significant number of years of experience in relevant corporate advisory matters.

b. Limitations and Reliance on Information

Grant Samuel's opinion is based on economic, market and other conditions prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time. The report is based upon financial and other information provided by the directors, management and advisers of Tasman Farms. Grant Samuel has considered and relied upon this information. Grant Samuel believes that the information provided was reliable, complete and not misleading and has no reason to believe that any material facts have been withheld.

The information provided has been evaluated through analysis, enquiry, and review for the purposes of forming an opinion as to the underlying value of Tasman Farms. However in such assignments time is limited and Grant Samuel does not warrant that these inquiries have identified or verified all of the matters which an audit, extensive examination or "due diligence" investigation might disclose.

The time constraints imposed by the Takeovers Code are tight. This timeframe restricts the ability to undertake a detailed investigation of Tasman Farms. In any event, an analysis of the merits of the offer is in the nature of an overall opinion rather than an audit or detailed investigation. Grant Samuel has not undertaken a due diligence investigation of Tasman Farms. In addition, preparation of

this report does not imply that Grant Samuel has audited in any way the management accounts or other records of Tasman Farms. It is understood that, where appropriate, the accounting information provided to Grant Samuel was prepared in accordance with generally accepted accounting practice and in a manner consistent with methods of accounting used in previous years.

An important part of the information base used in forming an opinion of the kind expressed in this report is the opinions and judgement of the management of the relevant enterprise. That information was also evaluated through analysis, enquiry and review to the extent practicable. However, it must be recognised that such information is not always capable of external verification or validation.

The information provided to Grant Samuel included projections of future revenues, expenditures, profits and cashflows of Tasman Farms prepared by the management of Tasman Farms. Grant Samuel has used these projections for the purpose of its analysis. Grant Samuel has assumed that these projections were prepared accurately, fairly and honestly based on information available to management at the time and within the practical constraints and limitations of such projections. It is assumed that the projections do not reflect any material bias, either positive or negative. Grant Samuel has no reason to believe otherwise.

However, Grant Samuel in no way guarantees or otherwise warrants the achievability of the projections of future profits and cashflows for Tasman Farms. Projections are inherently uncertain. Projections are predictions of future events that cannot be assured and are necessarily based on assumptions, many of which are beyond the control of management. The actual future results may be significantly more or less favourable.

To the extent that there are legal issues relating to assets, properties, or business interests or issues relating to compliance with applicable laws, regulations, and policies, Grant Samuel assumes no responsibility and offers no legal opinion or interpretation on any issue. In forming its opinion, Grant Samuel has assumed, except as specifically advised to it, that:

- the title to all such assets, properties, or business interests purportedly owned by Tasman Farms is good and marketable in all material respects, and there are no

material adverse interests, encumbrances, engineering, environmental, zoning, planning or related issues associated with these interests, and that the subject assets, properties, or business interests are free and clear of any and all material liens, encumbrances or encroachments;

- there is compliance in all material respects with all applicable national and local regulations and laws, as well as the policies of all applicable regulators other than as publicly disclosed, and that all required licences, rights, consents, or legislative or administrative authorities from any government, private entity, regulatory agency or organisation have been or can be obtained or renewed for the operation of the business of Tasman Farms, other than as publicly disclosed;
- various contracts in place and their respective contractual terms will continue and will not be materially and adversely influenced by potential changes in control; and
- there are no material legal proceedings regarding the business, assets or affairs of Tasman Farms, other than as publicly disclosed.

c. Disclaimers

It is not intended that this report should be used or relied upon for any purpose other than as an expression of Grant Samuel's opinion as to the merits of the NPDC Offer. Grant Samuel expressly disclaims any liability to any Tasman Farms security holder who relies or purports to rely on the report for any other purpose and to any other party who relies or purports to rely on the report for any purpose whatsoever.

This report has been prepared by Grant Samuel with care and diligence and the statements and opinions given by Grant Samuel in this report are given in good faith and in the belief on reasonable grounds that such statements and opinions are correct and not misleading. However, no responsibility is accepted by Grant Samuel or any of its officers or employees for errors or omissions however arising in the preparation of this report, provided that this shall not absolve Grant Samuel from liability arising from an opinion expressed recklessly or in bad faith.

Grant Samuel has had no involvement in the preparation of the Target Company Statement issued by Tasman Farms and has not verified or approved any of the contents of the Target Company Statement. Grant Samuel does not accept any responsibility for the contents of the Target Company Statement (except for this report).

d. Independence

Grant Samuel and its related entities do not have any shareholding in or other relationship or conflict of interest with Tasman Farms or NPDC that could affect its ability to provide an unbiased opinion in relation to the NPDC Offer. Grant Samuel had no part in the formulation of the NPDC Offer. Its only role has been the preparation of this report. Grant Samuel will receive a fixed fee for the preparation of this report. This fee is not contingent on the outcome of the NPDC Offer. Grant Samuel will receive no other benefit for the preparation of this report. Grant Samuel considers itself to be independent for the purposes of the Takeovers Code.

e. Declarations

Tasman Farms has agreed that it will indemnify Grant Samuel and its employees and officers in respect of any liability suffered or incurred as a result of or in connection with the preparation of the report. This indemnity will not apply in respect of the proportion of any liability found by a Court to be primarily caused by any conduct involving gross negligence or wilful misconduct by Grant Samuel. Tasman Farms has also agreed to indemnify Grant Samuel and its employees and officers for time spent and reasonable legal costs and expenses incurred in relation to any inquiry or proceeding initiated by any person. Where Grant Samuel or its employees and officers are found to have been grossly negligent or engaged in wilful misconduct Grant Samuel shall bear the proportion of such costs caused by its action. Any claims by Tasman Farms are limited to an amount equal to the fees paid to Grant Samuel.

Advance drafts of this report were provided to the directors and executive management of Tasman Farms. Certain changes were made to the drafting of the report as a result of the circulation of the draft report. There was no alteration to the methodology, evaluation or conclusions as a result of issuing the drafts.

f. Consents

Grant Samuel consents to the issuing of this report in the form and context in which it is to be included in the Target Company Statement to be sent to security holders of Tasman Farms. Neither the whole nor any part of this report nor any reference thereto may be included in any other document without the prior written consent of Grant Samuel as to the form and context in which it appears.

Appendix C Information

Grant Samuel has obtained all the information that it believes is desirable for the purposes of preparing this report, including all relevant information which is or should have been known to any Director of Tasman Farms and made available to the Directors. Grant Samuel confirms that in its opinion the information provided by Tasman Farms and contained within this report is sufficient to enable Tasman Farms security holders to understand all relevant factors and make an informed decision in respect of the NPDC Offer. The following information was used and relied upon in preparing this report:

Publicly Available Information

- Tasman Farms Annual Reports for the years ended 31 March 2007, 2008, 2009 and 2010;
- Short Form Registered Prospectus and Investment Statement dated 26 May 2010;
- Dairy Australia – Dairy 2010 Situation and Outlook;
- The Tasmanian Dairy Industry – Department of Primary Industries and Water – January 2009;
- Fonterra Global Dairy Trade website;
- Tasmanian Dairy Business of the Year Awards – Tasmanian Institute of Agricultural Research;
- TIML – questions and answers dated September 2010;
- TIML Perpetual Investment Fund Report dated 30 June 2010;
- Australian Dairy - Financial performance of Australian dairy farms 2007-08 to 2009-10;
- Tasmanian Dairy Industry 2010, Situation and Outlook;
- Dairy Australia – Industry Statistics 2008/2009; and
- other information on the Australian dairy industry and publicly listed companies with operations broadly comparable to Tasman Farms including annual reports, interim financial results, press reports, industry studies and information regarding the prospective financial performance of such companies.

Non Public Information

- VDL farm valuations as at 31 May 2010;
- E-mails from Fonterra to VDL providing Milk Price commentary;
- VDL management accounts as at 30 June 2010;
- VDL's strategic plan dated April 2009;
- VDL's budget 2011;
- Milk production information by farm;
- Financial models that support the FY2011 budget;
- Memorabilia valuation as at 31 May 2010;
- Livestock appraisal reports as at 31 May 2010; and
- Shareholder register as at 7 September 2010.