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Independent Adviser's Report In Respect of the Takeover Offer by Lowe Corporation Limited for Blue Sky Meats (NZ) Limited

21 October 2002

POLSON HIGGS & CO

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CONTENTS

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GLOSSARY

AFFCO	AFFCO Holdings Limited
Alliance	Alliance Group Limited
BSM	Blue Sky Meats (NZ) Limited
EBIT	Earnings before Interest and Tax
EBITDA	Earnings before Interest, Tax, Depreciation and Amortisation
EU	Economic Union
Horizon	Horizon Meats New Zealand Limited
Lowe	Lowe Corporation Limited
M	Millions
MAF	Ministry of Agriculture and Forestry
NPAT	Net Profit after Tax
NPV	Net Present Value
NTA	Net Tangible Assets
NZSE	New Zealand Stock Exchange
pa	Per Annum
Panel	Takeovers Panel
PPCS	Primary Producers Co-op Society Limited
Report	Independent Adviser's Report
Richmond	Richmond Limited
TCS	Target Company Statement
UK	United Kingdom
YTD	Year to Date

All dollar amounts are in New Zealand Dollars unless otherwise indicated

1. INTRODUCTION

1.1 Background

On 24 September 2002 Blue Sky Meats (NZ) Limited ("BSM" or "the Company") received a Takeover Notice under the Takeovers Code ("the Code") from Lowe Corporation Limited ("Lowe"), advising of Lowe's intention to make a full takeover offer for all the fully paid ordinary shares in BSM.

The Lowe Takeover Offer was sent to all BSM shareholders on 9 October 2002 and the key terms of the offer are as follows:

- Consideration of $4.50 per share in BSM.
- Conditional on receipt of acceptances for shares which take the Lowe voting rights to more than 90% of the voting rights in BSM, however Lowe may waive this condition.
- As required by the Takeovers Code the offer is conditional upon Lowe receiving acceptances sufficient to take its total voting rights in BSM to greater than 50%.
- Various other conditions relating to the ongoing conduct of BSM pending satisfaction of the minimum acceptance condition (reference section 4.2 of the Takeover Offer).
- Offer closes 5.00 pm on 8 November 2002 (unless extended).
- Payment will be made no later than seven days from the closing date.

Horizon Meats New Zealand Limited (Horizon), which is a 37% shareholder in BSM, has entered into an agreement with Lowe to accept the offer, subject to the offer becoming unconditional.

BSM is an unlisted company and is a "Code Company" by virtue of having more than 50 shareholders and more than $20M of assets. Accordingly, any offer that would result in the acquirer (Lowe) owning or controlling more than 20% of BSM's voting capital must comply with the Code.

Lowe presently has no shareholding in BSM, and BSM has no shareholding in Lowe.

1.2 Requirements of the Takeovers Code

The requirements of the Takeovers Code, which came into effect on 1 July 2001, govern the process and timetable for the making of a full takeover offer for BSM. The Code prescribes the responsibilities and obligations of Lowe (as the "offeror") and BSM (as the "target") in respect of submitting a formal takeover offer, and the subsequent response to that offer by BSM, by way of a "target company statement" ("TCS"). The TCS must be accompanied by an independent adviser's Report (or a summary thereof) prepared pursuant to Rule 21 of the Code. Where only a summary Report accompanies the TCS, the full Report must be available for inspection. The information to be included within the TCS is set out in the Second Schedule of the Code.

Under the Code, BSM is required to dispatch its TCS and the accompanying Report to shareholders within 14 days after it receives the Takeover Notice, or within 14 days after it receives the Dispatch Notice confirming that the formal offer document has been sent to all shareholders. In this instance it is intended that BSM send its TCS and a summary of the Report to its shareholders within 14 days of receiving the Dispatch Notice.

1.3 Purpose of the Report

The Lowe Offer constitutes a full takeover offer under Rule 8 of the Takeovers Code. Accordingly, the directors of BSM have engaged Polson Higgs & Co to prepare the Independent Adviser's Report required under Rule 21 of the Takeovers Code setting out an assessment of the merits of the Lowe offer to assist BSM shareholders in forming an opinion on the Lowe offer.

We note that each shareholder's circumstances and investment objectives will be different. It is therefore not possible to prescribe or advise what action an individual shareholder should take in response to the Lowe offer. Our advice will necessarily be general in nature and is intended to assist each shareholder to form their own opinion as to what action they should take in the circumstances.

The Takeovers Panel ("the Panel") confirmed the appointment of Polson Higgs & Co as independent adviser to assess the merits of the Lowe offer on 9 October 2002.

This is an Independent Valuation Report and has been completed in accordance with professional standards of the Institute of Chartered Accountants of New Zealand.

We refer readers to important declarations at Section 8 of this Report.

1.4 Basis of Assessment

Rule 21 of the Code requires the Independent Adviser to assess "*the merits of the offer*". The word "merits" is not defined either in the Code or in any securities or commercial law legislation in New Zealand. Further the Panel has not issued guidelines as to the interpretation of the word "merits" and accordingly we believe that an offer must be assessed in light of its own features and the prevailing circumstances surrounding the offer and the target company's situation.

We have therefore undertaken our assessment in two stages. Firstly, we have considered whether the offer price stipulated in the Lowe offer is "fair", and secondly we have evaluated other considerations relevant to the shareholder's assessment of the Lowe offer.

Our analysis of the fairness of the offer price has been undertaken by comparing our assessment of the current "fair market value" of the BSM shares against the consideration stipulated in the Lowe offer.

The Lowe offer is for all the shares in BSM and accordingly is a full takeover offer. In our opinion the price to be paid under a full takeover should reflect the full underlying value of the company. The resulting value exceeds the price at which we expect a portfolio interest in BSM would trade.

Our evaluation of the "other considerations" relevant to the Lowe offer includes:

- the prospects of an alternative offer;
- the prospects of the Lowe offer becoming unconditional;
- the likely market value of BSM shares if the offer does not proceed;
- benefits to acquirers; and
- the Horizon Agreement

1.5 Sources of Information

The following information was used and relied upon in preparing this Report:

- Notice of Takeover Offer issued by Lowe
- Last four years' audited Annual Reports for BSM
- Unaudited management accounts for BSM for the five month period ended 31 August 2002 and forecasts for the year ended 31 March 2003
- BSM Constitution
- BSM shareholder statistics
- Annual Reports, sharemarket data and other publicly available information for AFFCO Holdings Limited and Richmond Limited
- Industry forecasts and other information from Meat New Zealand Limited and MAF
- Other publicly available information

2. PROFILE OF THE NEW ZEALAND MEAT INDUSTRY

2.1 Industry Background

The farming sector plays an important role in the New Zealand economy. Meat, wool and other products derived from the farming sector are worth around $5 billion annually, and make up approximately 25 percent of New Zealand's exports of goods.

Sheep farming is reducing with land being used for alternative farming practices. Flock numbers at 30 September 2001 showed an almost 4% decrease on previous years. Breeding ewe numbers, however, were less affected and in fact made up a slightly higher percentage of the total flock. The number of lambs tailed also increased due to efficient farming practices.

Cattle numbers on the other hand were up on the previous year, reflecting the move towards dairying in the southern regions. Beef cattle numbers also increased, but still fell well short of levels reached in 1995.

In terms of livestock processed during the year ended 30 September 2001, sheep slaughterings were up approximately 20% and lamb slaughtering showed a very slight increase despite reduced flock size. Cattle slaughterings were also up, resulting in a 7% increase in beef production available for export.

The meat processing industry is strongly competitive as it includes 17 processors, ten processors who process only for export and 21 major exporters who do not process meat. In addition there are a number of other companies processing for the local market only, and several smaller exporters.

Four companies, however, dominate the processing sector controlling about 80 percent of output. These are the AFFCO Holdings Limited, Alliance Group Limited, Primary Producers Co-op Society Limited and Richmond Limited and each of these have multiple plants. Many of the remaining processors are private companies.

BSM operates mainly in the catchment south of Dunedin. In this area there are the following industry participants:

Dunedin

- PPCS Burnside – operates a packing house for export
- ANZCO Green Island – operates a packing house for export
- Defiance Processors – operates a packing house for export
- PPCS Silverstream – operates a packing house for export

Invercargill

- Alliance Lorneville – processes meat for export (sheep)
- Prime Range Meats – processes meat for the local and export market (sheep)

Mataura

- Alliance Mataura – processes meat for export (beef and sheep)

Gore

- PPCS Waitane – processes meat for export (sheep, bobby calves and goats)
- Clover Export – processes meat for export (beef and horse)

Balclutha

- PPCS – Finegand – processes meat for export (beef and sheep)

In terms of sales, over 80% of NZ lamb is exported. This represents only about 5 percent of world production, but 75 percent of world trade. Accordingly the New Zealand meat industry is very dependent on international meat prices and market access.

In order to remain competitive in the international market, sheep meat processors and marketing companies have responded to changes in the market place, both in consumer requirements and competition from other meats and protein sources. Processors have moved from exporting frozen whole carcasses to further processing into chilled prepacked cuts and boneless products. As a result, sales of chilled meat have continued to grow, and now make up 18 percent of all sheep meat exports. Advances in hygiene, packaging, presentation, handling instructions and distribution have all made lamb a premium product in the higher priced end of the market. Real returns from lamb meat have consequently improved.

Beef exports are still dominated by frozen manufacturing beef exports to North America, but other markets are growing in importance. Asian markets, in particular, are looking for young, tender, grass fed beef. Over 80% of NZ production is exported, representing over 10 percent of the world trade in beef.

Many nations impose import restrictions on New Zealand meat products through the use of tariffs imposed on imports over a predetermined quota level. In terms of the European Union, as a result of the GATT Uruguay Round, 226,700 tonnes (carcass weight equivalent) of New Zealand sheep meat and goat meat may be exported to the European Union annually at zero duty. Tariffs are imposed on products imported over these limits.

The New Zealand Meat Board administer this quota, and allocate it to processors based on a three year rolling average determined by production.

Once companies have reached their quota level they are forced to either pay tariffs on the excess, look for alternative markets, or purchase quota from other processors.

Now that the restrictions on the foot and mouth crisis in Europe have been lifted there is the chance that demand for New Zealand lamb will decline. However it is expected that UK farmers will continue to hold onto livestock to rebuild flocks.

In regard to the beef industry, and the US market in particular, on 2 August 2002 the passage through the US senate of a bill containing trade promotion authority gives great encouragement to New Zealand beef producers to further build upon their $1 billion US beef market.

2.2 Nature of the Industry

There are two areas which are critical to the performance of the meat industry in New Zealand, risk of reduction in supply and external risks in terms of market demand and market prices.

Supply Risks

- Domestic Competition – Other Industry Participants

In the meat processing industry there remains intense competition to secure livestock. There is a risk that margins need to be reduced in order to attract sufficient quantities of livestock.

- Changing Farming Patterns

There has been a trend away from sheep and beef cattle farming towards dairy conversions and timber plantings. If these trends continue the total livestock numbers will be reduced. The trend towards dairy conversions seems to be levelling off.

- Climatic Conditions

The availability of livestock is dependent on prevailing climatic conditions, with farmers typically retaining livestock when conditions are conducive to doing so. This tends to be more of an issue in the North Island. Seasons in the South Island tend to be far more predictable with limited grass growth in the months of July, August, and September forcing farmers to dispose of unwanted stock prior to this.

Market Risks

- Commodity Prices and Volumes

Commodity prices for products, particularly beef, react to the prevailing macro-economic conditions in the relevant export destinations, market forces of supply and demand and other factors outside the control of the supplier.

According to MAF research, lamb prices are predicted to decline by approximately 9% in the 30 September 2003 year and then remain fairly stable over the next four years. Beef is expected to decline approximately 15% in the 30 September 2003 year, stabilise and then further decline.*

Nearly all the expected decline in lamb prices in the 2002/2003 financial year is due to the strengthening of the New Zealand dollar. In regard to the decline in beef prices approximately one quarter relates to a decline in commodity prices and the remaining three quarters due to the strengthening New Zealand dollar.*

** Source: MAF Policy Price Forecasts*

- Market Access

New Zealand meat exporters are restricted by product sales quotas in key overseas markets. This means that suppliers can maximise only returns within volume constraints and then must diversify and sell product into potentially less profitable markets.

- Foreign Exchange Fluctuations

As stated above, the majority of sales of meat products are to overseas markets. Much of the income for the meat processor is denominated in foreign currencies and hence the processor faces large foreign currency risks.

3. BSM BUSINESS OVERVIEW

3.1 BSM Background

BSM is a unlisted meat processing company based at Morton Mains near Invercargill in the South Island. BSM was formed in 1987 as an alternative for farmers.

The group consists of Blue Sky Meats (NZ) Limited and its subsidiaries, Blue Sky Marketing Limited and Blue Sky Meats (UK) Limited.

The company's main activity is the processing of lamb, mutton, bobby calves and goats.

Due to the demand by overseas agencies and in particular the USA, the company implemented a HACCP (Hazard Analysis Critical Control Points) programme. This has meant that the company is now considered a "Food Factory" rather than a "Freezing Works or Abattoir".

Blue Sky Marketing Limited is responsible for marketing finished products. The product range exported includes processed frozen and chilled lamb and mutton cuts, boneless mutton as well as bobby veal products. Blue Sky Marketing Limited contracts Horizon New Zealand Limited as its selling agent for which they pay a commission.

Blue Sky Meats (UK) Limited was formed in 2001 and is responsible for marketing finished products in the European Union countries.

3.2 Legal Structure and Ownership

3.2.1 BSM Structure

The Company structure of BSM may be summarised as follows:

Blue Sky Meats (NZ) Limited
Responsible for stock procurement and processing

Blue Sky Marketing Limited
Responsible for marketing finished products
100% Owned Subsidiary

Blue Sky Meats (UK) Limited
Responsible for marketing finished product in European Union countries
100% Owned Subsidiary

3.2.2 BSM Capital Structure, Constitution and Shareholders

BSM has 7,320,924 ordinary shares on issue at 10 October 2002, all ranking equally in regard to the rights attached to these shares.

The Constitution of BSM provides for one class of shares. There is no restriction on the right to transfer equity securities to which this offer relates.

A listing of the top 10 shareholders and the distribution of BSM's shareholder base as at 10 October 2002 are summarised in the tables below:

Ten Largest Shareholdings	Number of Shares	% of Shares on Issue
Horizon Meats New Zealand Limited	2,709,594	37.01
Waikiwi Casing Co Limited	1,099,436	15.02
G J & J C Cooney as Trustees	495,000	6.76
M H Piper & M I Rankin	450,000	6.15
A M Greiving Limited	129,236	1.77
P C & K E Gow	67 600	0.92
Prime Range Livestock Limited	67,500	0.92
Macpherson Family Trust	41,513	0.56
C G Ward & Sons	36,688	0.50
R J & J M Dillon	31,136	0.43
Total Top 10	5,127,703	70.04
Balance	2,193,221	29.96
TOTAL	**7,320,924**	**100.00**

Source: McCulloch & Partners, Share Register BSM

Number of Shares Held	As at 10 October 2002		
	Number of Shareholders	% of Shares	% of Total Shareholding
1 – 5,000	187	52.82	8.40
5,001 – 10,000	106	29.94	10.30
10,001 – 15,000	32	9.04	5.38
15,001 – 20,000	3	0.85	0.74
20,001 – 25,000	12	3.39	3.67
25,001 – 30,000	4	1.14	1.46
30,001 – 35,000	1	0.28	0.43
35,001 – 40,000	1	0.28	0.50
40,001 – 45,000	1	0.28	0.57
45,001 – 50,000	0	0.00	0.00
50,001 – onwards	7	1.98	68.55
TOTAL	**354**	**100.00**	**100.00**

Source: McCulloch & Partners, Share Register BSM

3.2.3 Governance and Management of BSM

The Board of BSM and senior management are listed below:

Board	
B C Thomas (Chairman)	
J P Houlker	
M J McMillan	
P J Carnahan	
G J Cooney	
Senior Management	
M J McMillan	General Manager
I E McCreath	Plant Manager
G J Cooney	Procurement Manager
K Fowler	Production Manager – Further Processing
J M Rule	Administration Manager
M J Harrison	Chief Engineer

M J McMillan and G J Cooney have been employed by the Company since its inception and are also directors of BSM. There is a significant amount of reliance on the senior management team due to their considerable industry and BSM specific knowledge.

BSM currently employs approximately 320 staff.

3.2.4 BSM Share Trading Data

BSM is an unlisted company trading on the secondary board. The unlisted market is operated by sharebrokers for companies that do not meet requirements for full listing on the New Zealand Stock Exchange. Unlisted companies are not subject to the same rules and regulations as listed companies. Shares may be bought and sold through a sharebroker in the same manner as any share listed on the stock exchange. The difference is that, as the shares are unlisted, there is a smaller market and consequently a lower liquidity, with normally a longer time taken for orders to be fulfilled.

Summary of Shares Traded

Period	Number	Range	Number of Transactions
Year Ended 31 March 2002	171,006	$1.86 - $3.40	44
Period 1 April to 10 October 2002	81,560	$2.70 - $3.40	30

Source: *McCulloch & Partners*

3.3 Scope of BSM Operations

3.3.1 BSM Production

BSM management has provided annual kill records by livestock categories, which they requested not to be included in this Report due to their commercial sensitivity.

Livestock is sourced mainly from the catchment area South of Dunedin, however some bobby calves come from the mid-Canterbury area.

BSM has a consistent policy of basing stock procurement on forward contracts. At any one time at least 90% of daily requirements will be contracted. The contract includes the date of slaughter, the number of animals to be slaughtered, the specifications of animals to be provided and the premium to be received by the farmer for entering into the contract.

Stock procurement in the area of lamb and mutton is becoming more difficult with farms converting to dairying. This has had a detrimental effect on the traditional business, however it has been offset by the increase in the bobby calf kill numbers. Stock procurement is also becoming more difficult with farming being replaced by forestry.

BSM has managed to maintain relatively stable stock numbers, as they have experienced growth in the number of bobby calves killed. BSM believe they are the only plant to heavily focus on calves in Southland.

3.3.2 BSM Plant

The slaughter board works 20 hours a day, 5 days per week and 10 hours per day on the other two days. The boning and cutting room operates 20 hours per day, 7 days per week. All product is further processed. The plant has a single chain inverted dressing system. The plant is EU and USDA approved and meets the tightest hygiene requirements.

A new boning room was commissioned in 1998 which took the place of the original facility built in 1987. It contains the most up to date machinery available.

The Company is expanding its operations with the decision to build a protein extraction (rendering) plant on site at Morton Mains. The driving force behind this is one of risk management, to allow the Company more control over an essential element of running such a food operation.

This expansion is dependent on resource management consent. A hearing is to take place 21 October 2002. It is not anticipated that the plant will be operational until at least the middle of 2003.

3.3.3 BSM's Competitive Positioning

In reviewing BSM's competitive positioning within the industry, we have concentrated on three main areas, being plant capacity, supply risks and market risks.

Plant Capacity

Using a single chain operation the plant is operating near capacity during peak killing periods.

Expansion could occur by killing on Saturday and Sunday night or alternatively kill numbers could be increased. This may require further capital expenditure. Other limiting factors include union agreements and availability of staff. Stock numbers for additional production would only be readily available between the peak months of December to May inclusive.

Further expansion could occur in the area of bobby calves as they are killed outside the traditional killing season and are therefore increasing plant utilisation.

Traditionally farmers were paid a premium for stock processed during the quiet periods of August, September and October. Calves are now replacing this traditional kill and it is considered that there is additional capacity available.

Supply Risk

- Domestic Competition from other industry participants

BSM has maintained its stock procurement numbers through long term relationships with suppliers in the catchment south of Dunedin. The company has a consistent policy of basing procurement on forward contracts. At any one time at least 90% of daily requirements will be contracted. This gives the farmer the ability to plan ahead through price signals. It allows the company to highlight possible highs and lows in stock availability which in turns allows procurement planning.

Farmers are paid 14 days after slaughter and no money is retained for any purpose. Many of BSM's competitors operate a retention system, where 90% of the agreed schedule price is paid when stock is sent for processing and the remaining 10% is paid after year end. A surplus pool payment based on profits is also paid.

There are limited contracts in place at present as the company is between seasons. Applications from farmers for the killing season ended 30 June 2003, close approximately 18 October and the information for the forthcoming season is available early November 2002. The early indications from BSM management are that numbers are looking as expected.

- Changing Farming Patterns

Despite the continuing trend of sheep farm conversions to dairying and timber plantations, BSM has maintained its kill numbers for the 2002 year. The reduction in traditional sheep kill has been replaced by bobby calves and there is room to increase production further in this area.

- Climatic Conditions

Drought conditions mean stock is often killed earlier than expected. During these conditions the company has the same difficulties as all other participants as no system can satisfy the demand for killing space during these peak periods. However the company believes its contract system works considerably better than other alternatives.

BSM has good industrial relations with workers. During the peak killing season, when other processing plants are full, BSM is able to increase shift hours without undue union issues. After this high killing period the company faces the risk of low stock numbers, however during these periods killing shifts may be reduced.

Market Risks

- Commodity Prices and Volumes

BSM like other participants in the industry has no control over market forces of supply and demand

- Foreign Exchange Fluctuations

BSM operate a treasury policy to mitigate foreign currency risk, which includes hedging foreign currency at the time of execution of a customer contract.

- Market Access

BSM's access to markets is limited by tariffs imposed by many countries. There is always the risk that these tariffs will be increased, further restricting the levels of exports. BSM monitors its quota restrictions on a routine basis. While the European Union countries are the largest market (with quota systems), the diversification of product sales outside quota markets mitigates the impact of quotas. BSM has strong marketing relationship with Kanematsu in the Japanese market, and is increasing sales to North Asian countries (China, Taiwan and Korea), Mexico, Eastern European countries and West and South African countries.

Listed below is an analysis of product sales percentages (based on weight) for BSM for the kill year ended 30 September 2001 and 2002:

Destination for the Year Ended 30 September		
	2002 Percentage	2001 Percentage
European Union	50.02	45.42
China	9.65	7.25
Japan	7.22	8.07
United States	6.69	9.73
Taiwan	6.07	6.93
South Africa	5.01	5.31
Domestic – New Zealand	2.24	1.47
Other	13.10	15.82
Total	**100.00**	**100.00**

Other Areas

Competitive advantages of BSM include:

- Its small size allows it to react to changes in the internal and external business environment
- Senior management who have been with the Company since its inception
- An efficient overhead structure
- Good cash reserves and positive working capital
- The flexibility to change livestock categories. Many competitors concentrate solely on lamb kill during the peak seasons
- The ability to increased its kill of bobby calves where processing occurs outside peak processing periods.
- The South Island has reasonably consistent stock procurement as compared with North Island operations. The climatic conditions in the Southland area tend to ensure that stock is killed within specified periods.

Risks associated with BSM include:

- The Company relies on several key personnel.
- BSM as a result of its size is to some extent still a market taker, not a market leader in the industry. There is a risk to BSM of actions taken by the larger processors.

3.4 BSM Summary of Historical Earnings

Blue Sky Meats (NZ) Limited Consolidated Statement of Financial Performance For the Year Ended 31 March	Audited 2002 $000	Audited 2001 $000	Audited 2000 $000	Audited 1999 $000
Continuing Operations				
Operating Revenue	95,511	82,858	59,607	59,704
	-	-	-	-
Less Expenses	-	-	-	-
Operating Expenses	88,378	75,880	55,678	56,471
Depreciation	477	511	566	527
	88,855	76,391	56,244	56,998
Earnings Before Interest and Tax	6,656	6,467	3,363	2,706
Interest Expense	64	138	99	201
Operating Surplus before Taxation from continuing operations	6,592	6,329	3,264	2,505
Surplus Discontinued Operations	-	-	109	488
Profit on Sale of Shares	-	-	2,946	-
Total Surplus before Taxation	6,592	6,329	6,319	2,993
Provision For Taxation	2,166	2,090	1,114	990
Operating Surplus after Taxation	4,426	4,239	5,205	2,003

Source: *BSM Annual Reports*

3.4.1 Summary of Trends for the Years 1999 – 2002

1999 Year profit was up from previous years. The 1998/1999 year was a difficult year due to drought conditions. Both turnover and operating costs were down from the previous year. Profitability was stronger in the beginning of the financial year than towards the end when depressed market prices and the impact of the drought were much more prominent. Continuing efficiencies and low overhead structure were important in maintaining profitability.

2000 Year profit was up from the previous year mainly due to an extraordinary profit from the sale of Skin Processors (Otago) Limited. Total revenue was down due to the previous drought conditions and no contribution from Skin Processors (Otago) Limited. A decrease in interest expense as a result of the sale of Skin Processors (Otago) Limited helped to improve profitability. Better climatic conditions meant good lambing percentages and well presented stock which had a major contribution to the good result.

2001 Year showed a substantial increase in revenue, which was up 37%. The improved results were due to a good climatic season, relatively low NZ dollar, and strong international markets.

2002 Year showed again increased revenue, up by 15%. The improved results were due to another good climatic season and stable currency allowing the Company to supply a wide range of product to the international markets at good prices.

3.4.2 Future Outlook

We have had access to the BSM unaudited management accounts for the five months period to 31 August 2002 and the full year budget to 31 March 2003. BSM have provided this information on the express stipulation that it may not be disclosed publicly, given its commercial sensitivity.

BSM have forecast a decrease in revenue for the year ended 31 March 2003 due to a forecast reduction in commodity prices and exchange fluctuations.

BSM management accounts for the five months period to 31 August 2002 show an EBIT result above budget and management are confident that the budget for the rest of the year to 31 March 2003 will be achieved.

Forecasts for the year ended 31 March 2004 and beyond have not yet been prepared by BSM.

3.5 BSM Summary of Financial Position

3.5.1 Summary

Blue Sky Meats (NZ) Limited Consolidated Statement of Financial Position As at 31 March	Audited 2002 $'000	Audited 2001 $'000	Audited 2000 $'000	Audited 1999 $'000
Equity				
Share Capital	6,543	5,928	5,928	4,124
Share Premium Reserve	-	615	615	615
Retained Earnings	13,501	9,074	6,445	6,626
Total Equity	20,044	15,617	12,988	11,366
Represented by:				
Assets				
Non Current Assets				
Property Plant and Equipment	5,748	5,704	5,813	7,261
Future Tax Benefits	205	187	183	376
Total Non Current Assets	5,953	5,891	5,996	7,637
Current Assets				
Cash and Short Term Deposits	53	50	1	1
Bank Accounts	1,955	2,709	-	-
Accounts Receivable	9,050	6,998	4,662	3,799
Inventories	11,346	8,852	7,992	5,989
Taxation Receivable	16	-	199	49
Total Current Assets	22,421	18,609	12,854	9,838
Total Assets	28,374	24,500	18,850	17,475
Liabilities				
Current Liabilities				
Bank Overdraft	-	-	5	356
Accounts Payable and Provisions	8,330	6,994	5,125	4,940
Taxation Payable	-	278	-	-
Dividend Provision	-	1,611	732	813
Total Current Liabilities	8,330	8,883	5,862	6,109
Total Liabilities	8,330	8,883	5,862	6,109
Net Assets	20,044	15,617	12,988	11,366

3.5.2 Fixed Assets

BSM's fixed assets as at 31 March 2002 were as follows:

Blue Sky Meats (NZ) Limited Fixed Assets For the Year Ended 31 March 2002	Cost $000	Accum Depn $000	Book Value $000
Freehold Land	464	17	447
Buildings	5,923	2,360	3,563
Plant and Equipment	3,966	2,407	1,559
Furniture	26	24	2
Vehicles	339	162	177
Total	**10,718**	**4,970**	**5,748**

The BSM accounting policy for property plant and equipment is as follows:

"Freehold land is recorded at cost. All other property, plant and equipment including some improvements shown under freehold land are recorded at cost less accumulated depreciation."

3.5.3 Working Capital and Cash Position

BSM has a strong working capital position with a ratio achieved of over 2:1 since the year ended 31 March 2000. This is due to the profit retention policy and minimum capital expenditure requirements in recent years.

The management accounts as at 31 August 2002 show that the company has cash reserves. These will be partially utilised for the protein extraction plant that the Company is intending to build. Resource consent hearings will begin in October 2002 with the timing of this capital expenditure being dependent on the outcome of these hearings. The building costs are forecasted to amount to $2M with $0.5M of this already consumed and the residual forecasted during the middle of 2003.

BSM management have advised that the residual cash funds are part of the required working capital and are normal for this time of the year. Hence we do not believe that BSM has any significant surplus cash.

3.5.4 External Debt

There are no long term external liabilities forecasted.

3.5.5 Quota Allocations

BSM have quota allocations which are administered by the New Zealand Meat Board. These do have a traded value which obviously varies according to time of season.

4. LOWE CORPORATION LIMITED

Lowe Corporation is owned by Graeme Lowe Finance & Investments Limited and Graeme Lowe.

Lowe Corporation was formed after the sale of the meat processing interest of Lowe Walker Limited to Richmond Limited in 1998 and undertakes bovine skin processing and exporting along with a number of related operations.

In 2001 Lowe Corporation acquired Colyer Mair from a Richina Pacific subsidiary.

This operation collects and processes approximately 600,000 cattle hides per annum in New Zealand, mainly to wet blue and some to wet salted condition, and markets these internationally. The company also operates four fellmongeries in New Zealand, processing approximately five million sheep and lambskins to pickled pelts annually, again mainly marketed internationally. In addition a quantity of lamb pelts are processed to the wet blue semi processed stage.

Graeme Lowe Otago is positioned in Green Island, a suburb of Dunedin City. Here pelts are pickled, graded and packed. Wool-on skins which are drum salted are also produced. Main markets are Korea, China, India, Italy, France and Turkey. Pelts from BSM are sent to this plant for processing.

5. HORIZON MEATS LIMITED

5.1 Background

Horizon Meats New Zealand Limited is a specialist meat marketing company established in 1987 and has been an agent for BSM from its inception.

The shares in Horizon are owned by The Straits of Malacca Investments Limited. Directors are J G Mathias, J R Upton and G H Burrett.

Horizon has a shareholding in and marketing contract with BSM and all meat production from the plant is packed under the **Horizon** brand.

The Horizon team comprises marketing, production and logistics personnel. They handle stock control, sales and marketing, shipping, foreign exchange and documentation. Horizon's marketing strategy is based around extensive market coverage that assures the best returns for suppliers' products from a select range of reliable customers including HRI distributors, manufacturers, supermarkets and caterers.

In terms of their relationship with BSM, Horizon are the selling agent taking a commission from sales. They also administer Blue Sky Marketing. Their role is not only the selling of meat but also to finalise shipping arrangements and organise foreign exchange contracts under a policy developed by the BSM Board.

The marketing contract expires January 2005. There is no right of renewal provision and BSM has not given consideration to what future arrangements they might make.

5.2 The Horizon Lock-up Agreement

BSM has been advised by Horizon and Lowe that, if the takeover offer becomes unconditional, they will terminate the current marketing contract between Blue Sky Marketing Limited, Blue Sky Meats, Horizon Meats Limited and others dated 21 October 1995 and transfer to Blue Sky Marketing Limited exclusive ownership of and right, title and interest in the brand name **Horizon** and all trade marks, insignia, designs, logos associated with that brand name, for an aggregate payment of $2.7M to be made by Blue Sky Marketing Limited.

The payment to be made to Horizon was arrived at by negotiations between Horizon and Lowe. The Directors of BSM have advised that they have not been a party to these negotiations or to any element of this transaction.

The Directors of Horizon have advised the payment of $2.7M is to compensate Horizon for loss of profits, termination costs and any other costs that may be incurred, as well as to purchase all intellectual property associated with the brands.

In our view it is not unreasonable to expect a payment to be made to Horizon to buy out this contract. However we do not have access to any further information to verify this and therefore we cannot make any determination as to whether $2.7M is a fair value for this transaction.

If the contract is terminated, BSM have the options of either taking direct responsibility for the activities or contracting out again to a third party. In the former option BSM will need to acquire the resources and expertise to carry out the activities effectively. BSM will also incur the full risks associated with the activities including an interest cost on the payout.

Lowe has advised that the initiative to cancel to cancel the contract came from Horizon and therefore the precise nature of future arrangements is still being developed. Lowe also advises the offer to terminate contemplates a transitional period whereby Horizon will support the integration of the marketing and administrative systems into Lowe's existing marketing and administration teams. This will include the use of current Horizon personnel, access to Blue Sky Marketing's historical records (currently held by Horizon), continued access to existing marketing channels and the ongoing use of the Horizon brand. They do not believe there will be any real change either in the marketing process or the earnings. In the longer term, the marketing will be fully integrated with Lowe's existing marketing activities in Hastings to achieve economies of scale.

We have assessed the possible benefits and risks from cancelling this contract as part of our overall determination of the valuation in section 6 of this Report.

6. VALUATION OF BSM

6.1 Valuation Methodologies Overview

There are a number of methodologies that can be considered when assessing the value of a trading enterprise. The most common of these are:

- discounted cash flow analysis ("DCF");
- capitalisation of earnings;
- industry guidelines or rules of thumb; and
- estimation of the aggregate proceeds from the orderly realisation of assets.

Each of these valuation methodologies has an application in different circumstances. A key factor in determining which methodology is most appropriate in any particular instance is the actual practice adopted by purchasers of the type of business involved. We comment on each of these methodologies below:

6.1.1 Discounted Cashflow

The DCF approach is based on the fundamental concept that the value of a company is determined as the net present value ("NPV") of its future cashflows discounted at an appropriate rate, being the company's weighted average cost of capital ("WACC").

The DCF approach is particularly suitable where the future performance of a company is likely to be significantly different from its past performances, or where cash flows are expected to fluctuate substantially over time, due to major capital expenditure or for other reasons. It requires the estimation of:

- Gross cash flows from operating activities across the explicit forecast period;
- Capital expenditure across the explicit forecast period;
- Non-operating cash flows across the explicit forecast period;
- The company's WACC; and
- A terminal growth rate assumption.

The key issues in using this methodology are the difficulty in accurately forecasting future cash flows and the sensitivity of the DCF value to small changes in the many assumptions underlying the forecasts.

6.1.2 Capitalisation of Earnings

Capitalisation of earnings or cash flows is the most commonly used method for valuation of industrial businesses. This methodology is most appropriate for industrial 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 profits 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 cash flows is being valued, Capitalised Earnings can be used as a primary reference point. Application of this valuation methodology involves:

- estimation of earnings or cash flow 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 EBITDA, EBITA or EBIT is usually not critical and should give a similar result. All are commonly used in the valuation of industrial businesses. EBITDA can be preferable if depreciation or non-cash charges distort earnings or make comparisons between companies difficult, while EBIT removes the distortion of gearing

6.1.3 Industry Guidelines or 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. While they are only used as a "cross check" in most cases, industry rules of thumb can be the primary basis on which buyers determine prices in some industries. In an event, it must be recognised that rules of thumb need to be used in context and can be prone to misinterpretation.

6.1.4 Estimation of Aggregate Proceeds

In the event that a company has a poor earnings record or faces an uncertain future earnings outlook, its value may have to be established by assessing the results of a notional winding up. The notional realisation assumes an orderly realisation process, or the sale of the business as a going concern.

The method would typically be used if an earnings based valuation would give a lesser total value, implying that a rational owner or controlling shareholder would liquidate in order to maximise value. This approach can also be used to complement the primary valuation approach for the purposes of providing an assessment of minimum value.

This method involves valuing self sufficient businesses on a going concern basis, with remaining assets and liabilities valued at their net realisable value. Potential liquidation costs, timing issues and tax consequences are taken into account.

6.2 Approach to Valuation

We considered the application of a DCF valuation approach to the company, however there were no cashflow forecasts available past the completion of the current year. We could have chosen to construct a suitable 5 –10 year forecast directly, however operational earnings and cash flows for BSM are very sensitive to processing volumes and prices (both on the procurement and selling side). In our experience purchasers of primary sector business generally determine purchase prices using a capitalisation of current or forecast earnings. Because of this, we do not consider a DCF valuation of BSM to be appropriate in this instance.

Following discussions with BSM management we have elected to use Capitalisation of Earnings as our primary valuation method as BSM has a substantial operating history and a consistent earnings trend that is sufficiently stable to be indicative of ongoing earnings potential.

We have selected EBIT as the appropriate measure of earnings based on the understanding that over the medium to long term the company's pattern of capital expenditure will approximate its average annual depreciation allowance, meaning that average long-run EBIT should correlate to net operating cash flow before debt servicing. Capitalisation of EBIT rather than NPAT avoids the risk of distortions, due to differing gearing levels or assumptions regarding the tax-paying profile of the company.

When valuing the shares in BSM we have taken the following into account:

- BSM is not a listed company and therefore its shareholders have more limited trading liquidity should they wish to sell their shares.
- Investments in listed companies typically (but not always) have less risk attached to them than unlisted companies in the same industry.
- An appropriate allowance needs to be made for the premium attributable to a controlling or 100% shareholding.

As a cross check on our earnings-based valuation methodology, we have evaluated the net tangible asset ("NTA") value for BSM, and compared this to the results of our earnings based valuation. We also considered the dividend yield implied by our earnings based valuation of BSM's shares.

6.3 Selection of Earnings Multiples

Selection of the appropriate earnings multiple is usually the most judgmental element of a valuation.

The primary approach used by valuers is to determine the multiple that other buyers have been prepared to pay for similar businesses in the recent past.

An alternative approach used by valuers 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. To convert sharemarket data to meaningful information on the valuation of companies as a whole, it is market practice to add a "premium of control" to allow for the premium which is normally paid to obtain control through a takeover offer. This premium in terms of equity values (ie share prices) is typically in the range 20% - 35%

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.

We have undertaken a comparable company analysis to assist us determine an appropriate EBIT multiple with which to capitalise our estimate of future maintainable earnings for BSM as part of our valuation of the company.

Comparable company analysis is only possible in respect of listed companies, given the need for public data on market value and earnings. Our available comparisons are therefore limited to the two publicly listed New Zealand meat processing companies, AFFCO Holdings Limited ("AFFCO") and Richmond Limited ("Richmond"). Both of these meat processors are considerably larger and more diversified in terms of their scope of operations and total turnover relative to BSM, and operate predominantly in the North Island.

We decided not to use AFFCO as a suitable comparable company because AFFCO is currently unprofitable and we believe its share price is being driven by corporate issues.

We have reviewed the share purchasing activity by PPCS of Richmond (some via Hawkes Bay Meat Limited). These transactions occurred over a year ago but they do indicate the market price PPCS was willing to pay to obtain control. We believe the average price for these transactions was approximately $3.40 including the option to purchase the balance of Hawkes Bay Meat Limited. In calculating an implied prospective EBIT multiple which would have been relevant to the purchaser at the time, we have used the EBIT forecast from the Richmond Capital Notes Prospectus dated 7 February 2001.

We have also considered the historical EBIT multiple for Richmond. Further, as our estimated future maintainable earnings for BSM is a prospective figure, it is appropriate to apply a prospective EBIT multiple, so we have considered the prospective EBIT multiple for Richmond.

A summary of the various EBIT multiples for Richmond is as follows:

	Richmond
Historical EBIT Multiple	5.8*
Prospective EBIT Multiple	8.2**
PPCS/Richmond transactions – implied prospective multiple	5.9

* *Annual Report for the year ended 30 September 2001 and market capitalisation 17 October 2002*

** *Forsyth Barr Research dated 29/5/2002*

Richmond has recently announced that their full year forecast result for the year ended 30 September 2002 has been revised down, with a result around the breakeven position anticipated (NZSE).

Over the last year Richmond established a pharmaceutical division and has launched a range of low fat convenience foods. Both of these initiatives highlight their strategy of attempting to move further up the value chain. The current share price would seem to allow for the potential future returns from these investments, hence we do not believe the prospective multiple based on the 2002 year is a reasonable comparable.

The above comparison relates to a listed company. These companies tend to be larger and more diversified. In general these factors mean that investments in listed companies typically (but not always) have less risk attached to them than unlisted companies in the same industry, so it is appropriate to discount the EBIT multiples to reflect these factors. Given the nature of the meat industry and our understanding of the range of industry participants, we have applied a lesser discount than might otherwise be expected.

Shares in listed companies are also freely negotiable, although the benefit of such negotiability is greater with small parcels of shares than with large blocks. BSM are on the Secondary Board which does provide some liquidity. However, there is a smaller market and consequently a lower liquidity, with normally less trading of shares taking place

The Richmond EBIT multiples are extracted from sharemarket transactions involving relatively small parcels of shares, except for the PPCS transaction. An appropriate allowance therefore needs to be made for the premium attributable to a controlling or 100% shareholding. Such a shareholding is worth more on a per share basis than a minority holding as it can control the appointment of directors, management policy and shareholder benefits, amongst other things. There is also the opportunity for cost savings and synergies. Lowe could obtain synergies and savings through sharing some BSM overheads with its other operations and also by integrating marketing with its existing activities. Due to the low overhead structure and operational efficiencies which are highlighted in BSM's EBIT % as Revenue, we would not foresee any significant overhead savings. If the Lowe offer becomes unconditional we have been advised that Lowe, after a transitional period, will perform the marketing function by integrating it with their existing marketing activities, which will create some synergies and savings.

In summary, in determining appropriate EBIT multiples for BSM, we have had regard to the following factors:

- Historical EBIT multiple for Richmond as set out above;

- Implied EBIT multiple for the PPCS/Richmond transactions;

- Our knowledge of multiples which other buyers have been prepared to pay for similar businesses in the past (some of which are confidential or incapable of being directly referenced in this Report);

- The nature and range of BSM's activities (including the Horizon contract) and the specific risks surrounding their respective business;

- Strategic attractions of the business – its particular strengths and weaknesses, market position of the business, strength of competition and barriers to entry;

- The stability and quality of BSM's earnings;

- Rationalisation or synergy benefits available to the acquirer;

- Control premium and appropriate discounts for lack of size and lack of negotiability.

Taking all of these factors into account, we consider that an appropriate multiple with which to capitalise estimated future maintainable EBIT for BSM is between 5.5 and 6.0.

6.4 Future Maintainable Earnings

Future maintainable earnings can be defined as the level of earnings which (on average) a business expects to maintain in real terms, notwithstanding the vagaries of economic cycles that will inevitable cause earnings to fluctuate from year to year.

BSM has not been able to provide us with prospective information extending past 31 March 2003, as a budget has not yet been prepared.

Therefore we have relied upon our review of historical earnings, together with management's earnings projection for the year ended 31 March 2003 and discussions with senior management in order to assess the level of future maintainable earnings for BSM.

In determining the future maintainable EBIT for BSM we have made adjustments to the reported net surplus/(deficit) in respect of the following:

- In the 1999 year, income from Skin Processors (Otago) Limited has been eliminated from these calculations as the shares in this operation were sold in the 2000 year.
- In the 2000 year, the surplus on sale of shares in Skin Processors (Otago) Limited has been eliminated.

The following factors were considered when determining the future maintainable earnings:

- Despite the continuing trend of sheep farm conversions to alternative farming practices, BSM has maintained its kill numbers and management expect to achieve budget kill numbers for the coming season.
- BSM have a strong EBIT percentage as compared with larger competitors such as Richmond, AFFCO, Alliance and PPCS.
- The commodity prices in NZ Dollars for the year ended 30 September 2002 decreased and are forecasted to decrease again for the year ended 30 September 2003 and then remain relatively stable for the following year.
- BSM make efficient use of their capacity

Having reviewed BSM's historical financial performance, after discussing current trading performance and the outlook for the current year with the Company's management, and in the absence of a detailed forecast for the 2004 year, we have adopted $5,500,000 as an estimate of future maintainable earnings (EBIT) for BSM, for the purpose of our valuation.

6.5 BSM Valuation

The following table summaries our valuation of BSM:

	Low	High
Estimated Future Maintainable EBIT	5,500,000	5,500,000
EBIT Multiple	5.5	6.0
Enterprise Value	30,250,000	33,000,000
Less Net Projected Debt	Nil	Nil
Total Equity Value	30,250,000	33,000,000
Issued Capital	7,320,924	7,320,924
Share Value	4.13	4.51

6.6 Valuation Sensitivities

Our earnings-based valuation of the shares in BSM is sensitive to a number of key variables, which will generally affect the earnings and therefore values. These variables include:

- Plant Capacity
- Supply Risk
  - Domestic competition
  - Changing farming trends
  - Climatic conditions
- Market risks
  - Commodity prices an volumes
  - Foreign exchange fluctuation
  - Market access

The following table demonstrates the sensitivity of our overall valuation of BSM shares to changes in the future maintainable EBIT.

BSM					
Value Per Share By Capitalisation of Future Maintainable EBIT					
EBIT Multiple	Future Maintainable EBIT				
	4,000,000	4,500,000	5,000,000	5,500,000	6,000,000
5.5	3.01	3.38	3.76	4.13	4.51
6.0	3.28	3.69	4.10	4.51	4.92

While we believe that our estimated future maintainable earnings capture the sensitivity of earnings to the key variables, the operating earnings are highly sensitive to changes in these variables. Rapid erosion of earnings can occur, especially when there is a combination of adverse movements in key business drivers (eg reduced overseas demand combined with falling export prices and a rising exchange rate). While in time meat processing companies are able to pass many of these effects through to their suppliers (farmers) in the form of lower procurement prices, there is likely to be some lag with a consequent squeeze on short term earnings.

6.7 Other Valuation Considerations

6.7.1 Dividends

The weighted average net dividend yield for NZSE listed companies in the agricultural sectors is approximately 5.75% currently. We believe an investor would require a higher dividend yield in respect of BSM, probably 7.0% at a minimum, to compensate for the lack of liquidity.

BSM shareholder distribution of the three years ended 31 March 2002 may be summarised as follows:

Year	Total Reported Dividend ($'000)	Number of shares dividend paid on ('000)	Dividend Per Share (cps)
1999	813	3,254	25
2000	1,318	7,321	18
2001	1,611	7,321	22
2002	1,977*	7,321	27

Source: Annual Reports

* Dividend not provided for in 2002 Accounts but proposed by Directors at the Annual General Meeting

A 7.0% dividend yield would imply a value per share of approximately $3.85, assuming the 2002 year dividend level is maintained. This implied valuation is below our value range and is significantly below Lowe's offer.

BSM's history of paying dividends underpins its share price for investors, given the expectation of ongoing cash returns. We conclude that a dividend yield valuation approach applied to BSM will not result in a value per share approaching the consideration being offered to BSM shareholders under the Lowe offer.

6.7.2 Asset Backing

Net tangible assets in BSM have an aggregate book value of $20.044m at 31 March 2002.

It should be noted that in the time frame allowed it has not been possible to obtain market valuations for BSM's fixed assets, but it would seem from their accounting policies that both AFFCO and Richmond's fixed asset accounting policies are similar to BSM's.

It can be usual in the meat industry for companies to sell or trade around or below their Net Tangible Asset Value. Both Richmond and AFFCO are currently trading close to 50% of their NTA.

Our valuation of BSM reflects a substantial (over 50%) premium on the 31 March 2002 year end NTA. The substantial NTA premium reflects the efficiency of BSM's operations (significantly higher EBIT to Revenue % than competitors) and the efficient utilisation of its existing plant, associated with a high rate of return on capital.

Key Figures	Audited 2002
Number of Shares	7,320,924
Net Tangible Assets	$20,044,000
Net Tangible Asset Backing per ordinary share	$2.74

Hence, we would conclude an industry NTA Ratio applied to BSM would not result in a value per share approaching the consideration being offered to BSM shareholders under the Lowe offer.

7. EVALUATION OF THE MERITS OF THE OFFER

7.1 Prospects of an Alternative Offer for BSM

In the past, prospective purchasers have conducted due diligence on BSM. They, along with other interested parties, will be aware of Lowe's offer, and therefore could have submitted competing proposals if they wished. They may still do so.

Consequently, while the prospect of an alternative offer cannot be discounted, we believe this is unlikely.

7.2 Prospects of Lowe Takeover Offer Becoming Unconditional

In order for Lowe's takeover offer to become unconditional the critical condition in all likelihood will be achieving 90% acceptance by BSM shareholders. BSM has approximately 354 shareholders, with its top ten shareholders accounting for 70% of the company's issued capital. The Company's capital base is therefore closely held amongst a relatively small number of shareholders.

Lowe has reserved the right to accept less than 90% which, if exercised, may impact on the future value of minority shareholdings.

7.3 Market Value of BSM Shares if Lowe Offer Lapses

Prior to the Lowe takeover offer, BSM shares were traded at \$3.40 on the secondary board. In our opinion, the price to be paid under a full takeover offer should reflect the full underlying value of the company. Hence the resulting value exceeds the price at which we expect portfolio interests in BSM to trade.

BSM shares are obviously not as liquid as those in a listed company. In our view, shareholders in BSM would have difficulty finding private buyers for their shares at a price approaching the total consideration being offered by Lowe, in the event that the Lowe offer lapses.

Of course, it is possible that a revised, and possibly improved, offer may be forthcoming from Lowe at a future date. However, there is absolutely no certainty that this would occur. Any such offer would reflect trading conditions and financial performance at that time. Given the volatility within the meat industry, it would be presumptive to assume any future offer would necessarily match or better the current Lowe takeover offer terms.

7.4 Benefits to Acquirers

Lowe owns through its subsidiary, a fellmongery in Otago. This factory is the main customer for BSM pelts.

If the Lowe offer becomes unconditional we have been advised that initially there will be a transitional period whereby Horizon will continue to support the marketing function. In the longer term Lowe plan to fully integrate the marketing function with their existing marketing activities in Hastings to achieve economies of scale.

Lowe may be able to obtain some synergies and cost savings in these areas.

In a takeover situation we would normally expect the bid price to reflect some sharing of the potential cost savings and synergy benefits.

However it must be taken into account that the benefits are unproven, may take time to realise and that the risk rests entirely with Lowe as the future owner of BSM. Therefore we would expect only part of the value gain to be shared with the target.

We have already allowed for a control premium, which includes for a sharing of synergies and cost savings, in our earnings multiple and hence our valuation.

We therefore conclude that, in our view, the Lowe offer appears to include for a fair sharing of potential cost savings and any synergies with BSM shareholders.

7.5 The Offer Compared to the Valuation Range

The offer from Lowe of $4.50 per share is at the top of the valuation range.

In our opinion, the consideration of the offer is fair to the shareholders of BSM. We have estimated the fair market value of BSM in the range of $30.3M - $33.0M, which equates to $4.13 to $4.51 per share. The fair market value was calculated by capitalising the earnings (EBIT) of BSM at a multiple that reflects the risk of the business.

7.6 The Horizon Lock-up Agreement

Lowe and Horizon have agreed that the current marketing contract (refer section 5 of this Report) will be terminated if the offer becomes unconditional with a payment made to Horizon of $2.7M. Horizon is a 37% shareholder in BSM. Rule 20 of the Takeovers Code stipulates that "An offer must be made on the same terms and provide the same consideration for all securities belonging to the same class of equity securities under offer."

The Directors of BSM have advised us that they have not been a party to the negotiations in respect to this transaction.

We have stated (refer section 5) that we consider a payment to Horizon for buying out this contract would seem not unreasonable. However, we do not have sufficient information to determine if the quantum is fair.

The effect of any overcompensation for terminating this contract could result in additional consideration being received by Horizon. Notwithstanding this, the offer for the shares to Horizon and all other shareholders is the same, ie $4.50, and considered by us to be fair.

We have considered the effects on BSM of terminating the contract as part of our overall valuation in section 6 of this Report.

7.7 Acceptance or Rejection of the Lowe Offer

Acceptance or rejection of the Lowe offer is a matter for individual shareholders. This will be based on their own view as to the value of the shares, risk profile, liquidity preference, tax position and other factors. Shareholders will need to consider these consequences and, if appropriate, consult their own professional adviser.

8. DECLARATIONS

This Report dated 21 October 2002 has been prepared by Polson Higgs & Co at the request of the Directors of BSM to fulfil the reporting requirements under the Takeovers Code (Rule 21) in relation to a Notice of Takeover issued by Lowe on 24 September 2002. This Report should not be used for any other purpose.

This Report is provided for the benefit of the shareholders of BSM and Polson Higgs & Co consents to the distribution of this Report to the shareholders of BSM.

8.1 Qualifications

Polson Higgs & Co provides a full range of chartered accountancy and business advisory services.

The partners responsible for this Report are Ray Polson and Stephen Higgs. Each has considerable experience in corporate advisory matters and has a clear understanding of the appropriate valuation methodologies.

8.2 Independence

Polson Higgs & Co does not have at the date of this Report, and has not had previously, any shareholding in, conflict of interest, or other relationship with BSM, that could reasonably be regarded as capable of affecting its ability to provide an unbiased Report. Polson Higgs & Co had no part in the formulation of the proposed transaction. Its only role has been the preparation of this Report and its summary.

Polson Higgs & Co will receive a fixed fee for the preparation of this Report. This fee is not contingent on the outcome of the proposed transaction. Polson Higgs & Co considers itself to be independent for the purposes of the Takeovers Code.

8.3 Indemnity

BSM has agreed that, to the extent permitted by law, it will indemnify Polson Higgs & Co and its partners, employees and consultants 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 any negligence, wilful misconduct or breach of law. BSM has also agreed to indemnify Polson Higgs & Co and its partners and employees for time incurred and any cost in relation to any inquiry or proceeding initiated by any person. Where Polson Higgs & Co or its employees and officers are found liable for or guilty of negligence, wilful misconduct or breach of law or terms of reference, Polson Higgs & Co shall reimburse such costs.

8.4 Disclaimer and Restrictions on the Scope of our Work

It is not intended that this Report should be used or relied upon for any purpose other than as an expression of Polson Higgs & Co's opinion on the fairness of the proposed transaction. Polson Higgs & Co expressly disclaims any liability to any BSM shareholder that relies or purports to rely on this Report for any other purpose and to any other party who relies or purports to rely on this Report for any purpose.

The statements and opinions expressed in this Report are based on information available as at the date of the Report. In forming our opinion, we have relied on forecasts and assumptions prepared by BSM management, about future events which, by their nature, are not able to be independently verified. Inevitably, some assumptions may not materialise and unanticipated events and circumstances are likely to occur. Therefore, actual results in the future will vary from the forecasts upon which we have relied. These variations may be material.

The statements and opinions expressed in this Report have been made in good faith and on the basis that all relevant information for the purpose of preparing this Report has been provided by BSM management and that all such information is true and accurate in all material aspects and not misleading by reason of omission or otherwise. Accordingly, neither Polson Higgs & Co nor its partners, employees or agents, accept any responsibility or liability for any such information being inaccurate, incomplete, unreliable or not soundly based or for any errors in the analysis, statements and opinions provided in this Report resulting directly or indirectly from any such circumstances or from any assumptions upon which this Report is based proving unjustified.

The time constraints imposed by the Takeovers Code are tight. This timeframe restricts the ability to undertake a detailed investigation of BSM. 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. Polson Higgs & Co has not undertaken a due diligence investigation of BSM. In addition, preparation of this Report does not imply that Polson Higgs & Co has audited in any way the management accounts or other records of BSM. It is understood that, where appropriate, the accounting information provided to Polson Higgs & Co 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 are the opinions and judgement of the management of the relevant enterprise. Polson Higgs & Co held discussions with the management of BSM and that information was also evaluated through analysis, enquiry and review to the extent practical. However it must be recognised that such information is not always capable of external verification or validation.

Our opinion has been arrived at based on economic, market and other conditions prevailing at the date of this Report. Such conditions may change significantly over relatively short periods of time.

We reserve the right, but will be under no obligation, to review or amend our Report, if any additional information, which was in existence on the date of this Report was not brought to our attention, or subsequently comes to light.

Advance drafts of this Report were provided to management at BSM, solely for the purpose of verifying factual matters contained in the Report. Minor changes were made to the drafting of the Report as a result of the circulation of the draft Report. However, there was no alteration to any part of the substance of this Report, including the methodology, valuations or conclusions as a result of issuing these drafts.

Yours faithfully
POLSON HIGGS & CO

RAY POLSON
PARTNER

STEPHEN HIGGS
PARTNER

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