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Independent Adviser's Report and Appraisal Report

In Respect of the Rights Issue by AFFCO Holdings Limited

August 2002

Deloitte Corporate Finance

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List of Abbreviations and Definitions

AFFCO	AFFCO Holdings Limited
Code	The Takeovers Code
EBIT	Earnings Before Interest and Tax
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortisation of Intangible Assets
Dairy Meats	Dairy Meats NZ Limited
Dairy Meats Transaction	the allotment of 18,992,371 ordinary shares to Talley's and 6,330,790 ordinary shares to Toocooya as a result of the acquisition by Talley's and Toocooya of 75% and 25% respectively of Dairy Meats' entitlements under the Rights Issue at an acquisition price of $0.03 per right
HGI	Hugh Green Investments Limited
IBD	Interest Bearing Debt
Independent Directors	the Directors of AFFCO not associated with Talley's, Toocooya or Dairy Meats
KFL	Kilmacrennan Farm Limited
Non-associated Shareholders	The AFFCO shareholders entitled to vote on the resolutions, being the AFFCO shareholders other than Talley's, Toocooya, Dairy Meats and their associates
NPAT	Net Profit After Tax
NPBT	Net Profit Before Tax
NTA	Net Tangible Assets
NZSE	New Zealand Stock Exchange
Record Date	30 August 2002
Rights Issue	The proposed issue of rights to new ordinary shares on the basis of one new ordinary share for one existing ordinary share at a subscription price of $0.10 per share
Talley's	Talley's Fisheries Limited
Theoretical Ex-rights Share Price	The theoretical price of AFFCO's shares after the Rights Issue
Toocooya	Toocooya Nominees Limited
Underwriting Arrangements	The underwriting arrangements between AFFCO and Talley's and Toocooya in respect of the Rights Issue

1. Introduction

1.1 Background

AFFCO Holdings Limited ("AFFCO") is a company listed on the New Zealand Stock Exchange ("NZSE") with a market capitalisation of $43 million as at 13 August 2002 and audited group shareholders' funds as at 30 September 2001 of $116 million.

On 1 July 2002, AFFCO announced its intention to undertake a Rights Issue to raise additional capital to enable the company to complete its operational and financial restructuring program, including upgrades at its North Island plants. Details of the Rights Issue were announced on 12 July 2002.

AFFCO's major shareholders, Talley's Fisheries Limited ("Talley's") and Toocooya Nominees Limited ("Toocooya") announced that they would fully subscribe for their individual entitlements in the Rights Issue and also participate in partially underwriting the issue. Talley's and Toocooya currently hold 19.9% and 18.7% respectively of the ordinary shares in AFFCO.

1.2 Terms of the Rights Issue

The principal terms of the Rights Issue are:

- the rights to subscribe for new ordinary shares on the basis of one new ordinary share for every one existing ordinary share held as at 5.00pm on 30 August 2002 (the "Record Date");
- shareholders on the Record Date will be entitled to the rights at no cost;
- the rights are renounceable (which means shareholders may sell or transfer some or all of their rights);
- AFFCO has applied for the rights to be quoted and tradeable on the NZSE from 2 September 2002 to 25 September 2002. Rights trading will be undertaken on a conditional basis until the trading day following the shareholders' meeting;
- the new ordinary shares will be issued at a price of $0.10 each;
- the closing date for applying for the new ordinary shares is 5:00pm on 27 September 2002. It is intended that the new ordinary shares will be allotted by 30 September 2002;
- the new ordinary shares will rank equally in all respects with the existing ordinary shares; and
- the Rights Issue will be partially underwritten by Talley's and Toocooya (the "Underwriting Arrangements").

AFFCO currently has approximately 270.8 million ordinary shares on issue. Assuming the full entitlement to new ordinary shares is taken up under the Rights Issue, AFFCO will issue approximately 270.8 million new ordinary shares and will receive additional capital of approximately $26.9 million ($27.1 million less issue expenses of approximately $0.2 million) if the Rights Issue is approved.

1.3 Terms of the Underwriting Arrangements

The principal terms of the Underwriting Arrangements between AFFCO and Talley's and Toocooya are outlined below:

- Talley's and Toocooya will subscribe for all of their pro rata entitlements under the Rights Issue;
- Talley's will subscribe for up to 75% of any shortfall on the Rights Issue for no underwriting fee, subject to:
  - Talley's resulting shareholding not exceeding 35% of all of the ordinary shares after the allotment of new ordinary shares under the Rights Issue; and
  - if Toocooya reaches its maximum post issue shareholding of 25% (see below) and Talley's has not reached its maximum post issue shareholding of 35%, then Talley's will take the balance of the shortfall up to a maximum shareholding of 35% of the total post Rights Issue ordinary shares;
- Toocooya will subscribe for up to 25% of any shortfall on the Rights Issue for no underwriting fee, subject to:
  - Toocooya's resulting shareholding not exceeding 25% of all of the ordinary shares after the allotment of new ordinary shares under the Rights Issue; and
  - if Talley's reaches its maximum post issue shareholding of 35% and Toocooya has not reached its maximum post issue shareholding of 25%, then Toocooya will take the balance of the shortfall up to a maximum shareholding of 25% of the total post Rights Issue ordinary shares;
- the Underwriting Arrangements are conditional on:
  - both Talley's and Toocooya agreeing to underwrite the Rights Issue on the basis described above;
  - shareholder approval;
  - the NZSE accepting the rights for quotation;
  - the Rights Issue proceeding substantially on the terms and timetable described to Talley's and Toocooya by AFFCO; and
  - Talley's and Toocooya being satisfied that there has not been a material adverse event between the date of the underwriting agreements and the closing date of the issue.

The respective underwriting agreements are separate and independent of each other.

1.4 Intentions of Other Major Shareholders

In addition to the Underwriting Arrangements, AFFCO's third largest shareholder, Hugh Green Investments Limited ("HGI"), has indicated its support for the Rights Issue. HGI currently holds 10.0% of the ordinary shares in AFFCO. Accordingly, three shareholders holding a combined 48.5% of AFFCO's ordinary shares have indicated their support for the Rights Issue.

Dairy Meats NZ Limited ("Dairy Meats") currently holds 9.35% of the ordinary shares in AFFCO. Dairy Meats has indicated that it will renounce its entitlement under the Rights Issue. Talley's and Toocooya have agreed with Dairy Meats to acquire 75% and 25% respectively of Dairy Meats' entitlements under the Rights Issue at an acquisition price of $0.03 per right (the "Dairy Meats Transaction").

2. Scope of the Report

2.1 Regulatory Requirements

Elements of the Rights Issue are subject to the approval of AFFCO shareholders under Rule 16 of the Takeovers Code (the "Code") and under NZSE Listing Rules 7.5 and 9.2.

Takeovers Code Requirements

Rule 6 of the Code prohibits a shareholder who holds or controls less than 20% of the voting rights in a code company from increasing its shareholding above 20% of the voting rights unless it complies with exceptions to this fundamental rule.

One of the exceptions is set out in Rule 7(d) of the Code. This enables a shareholder to increase its shareholding beyond 20% of the voting rights by an allotment of shares if the allotment is approved by an ordinary resolution of the code company.

The Underwriting Arrangements and the Dairy Meat Transaction may increase Talley's and Toocooya's shareholdings in AFFCO beyond 20%. Accordingly, AFFCO is holding a special meeting of shareholders on 3 September 2002 to vote on two resolutions in respect of:

- the Rights Issue and Underwriting Arrangements (resolution 1); and
- the Dairy Meats Transaction (resolution 2).

Although resolution 2 is conditional on resolution 1 being approved, the two resolutions are independent of each other, such that if resolution 1 is approved but resolution 2 is not, the underwriting of the Rights Issue would still proceed but Talley's and Toocooya could not complete the Dairy Meats Transaction.

Rule 16(h) of the Code requires that the notice of meeting must include or be accompanied by an Independent Adviser's Report.

NZSE Listing Rules Requirements

NZSE Listing Rule 7.5 requires that an issue of securities that will materially increase the effective control of any person in a company requires shareholder approval. Under Listing Rule 6.6.2(a) an Appraisal Report is required to accompany the notice of meeting seeking that approval. In addition, Talley's and Toocooya are Related Parties of AFFCO as they are substantial security holders and the Underwriting Arrangements will constitute a Material Transaction if AFFCO receives an amount in excess of 5% of the lesser of its shareholders' funds or its average market capitalisation from Talley's or Toocooya under their respective underwriting agreements. Under Listing Rule 9.2.5 a Material Transaction with a Related Party requires an Appraisal Report to accompany the notice of meeting for shareholders to consider the resolution related to the transaction.

The Directors of AFFCO not associated with Talley's, Toocooya or Dairy Meats (the "Independent Directors") have requested Deloitte Corporate Finance prepare an Independent Adviser's Report evaluating the merits of the proposed allotment of ordinary shares to Talley's and Toocooya, having regard to the interests of the AFFCO shareholders not associated with Talley's, Toocooya or Dairy Meats (the "Non-associated Shareholders") pursuant to Rule 18 of the Code.

The Independent Directors have also requested Deloitte Corporate Finance to prepare an Appraisal Report stating whether the likely increase in effective control by Talley's and Toocooya in AFFCO and the terms and conditions of the Underwriting Arrangements are fair to the Non-associated Shareholders pursuant to the NZSE Listing Rules.

For the purposes of the notice of meeting to consider the Rights Issue and Underwriting Arrangements, Deloitte Corporate Finance has incorporated the specific reporting requirements of the Takeovers Code and NZSE Listing Rules into one document.

Deloitte Corporate Finance has been approved by the Takeovers Panel to prepare the Independent Adviser's Report and has been approved by the Market Surveillance Panel of the NZSE to prepare the Appraisal Report.

2.2 Purpose of the Report

Deloitte Corporate Finance issues this Independent Adviser's Report and Appraisal Report to the Independent Directors of AFFCO to assist them to make a recommendation to the Non-associated Shareholders under Rule 19 of the Code and NZSE Listing Rules 6.2.2 and 9.2.5.

This combined report has been prepared by Deloitte Corporate Finance to assist the Independent Directors in advising the Non-associated Shareholders in relation to the proposed Rights Issue, including the Dairy Meats Transaction. The report is addressed to the Independent Directors and is for the benefit of the Non-associated Shareholders and no other party. It should not be used for any other purpose other than as an expression of Deloitte Corporate Finance's opinion as to:

- the merits of the proposed allotment to Talley's and Toocooya of ordinary shares in AFFCO; and
- whether the possible increase in effective control by Talley's or Toocooya in AFFCO and the terms of the Underwriting Arrangements are fair to the Non-associated Shareholders.

Deloitte Corporate Finance's opinion should not be construed as a recommendation as to whether or not shareholders should approve the resolutions. Approval or rejection of the resolutions is a matter for individual shareholders based on their own circumstances. Deloitte Corporate Finance makes no express or implied opinion, representation or warranty as to:

- the appropriateness of the Rights Issue;
- whether the current AFFCO share price is appropriate having regard to the prospects and financial position of AFFCO;

- whether shareholders should take up their entitlements;
- whether the funds raised will be adequate to satisfy AFFCO's funding requirements; and
- the future performance or viability of AFFCO.

2.3 Basis of Evaluation

Merits

Pursuant to Rule 18 of the Code, the Independent Adviser's Report must report on the merits of the Rights Issue, including the Dairy Meats Transaction, having regard to the interests of the Non-associated Shareholders.

However, the Code does not define the term "merits". The Takeovers Panel has not issued guidelines as to the interpretations of the term "merits". Furthermore, Deloitte Corporate Finance cannot find any direct precedent in common law jurisdictions which have Takeovers Codes intended to be similar in effect to the New Zealand Code.

In the absence of an explicit definition of "merits", guidance can be taken from:

- definitions designed to address similar issues within New Zealand regulations which are relevant to the proposed transaction;
- overseas precedents; and
- the ordinary meaning of the term "merits".

The New Zealand regulations[1] and overseas regulations[2] [3] focus primarily on fairness and reasonableness rather than "merits" and as such are of limited assistance.

The New Collins Concise Dictionary of the English Language defines the term "merit" as "the actual and intrinsic rights and wrongs of an issue, especially in a law case". Black's Law Dictionary defines merit as "the substance, elements or grounds of a cause of action or defence." These definitions imply that the essential elements of an issue should be considered as well as the issue itself, and an assessment is then made of the associated advantages and disadvantages of the issue in relation to the relevant party.

Fairness

NZSE Listing Rule 1.2 requires an Appraisal Report to consider the "fairness" of the transaction. The term "fair" has no legal definition in New Zealand either in the NZSE Listing Rules or in any statute dealing with securities or commercial law, although over time a commonly accepted meaning has evolved. In the context of a takeover, an offer is considered to be fair if the price fully reflects the value of a company's underlying business and assets.

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1 *NZSE Listing Rules and Guidance Note No. 10 issued by the Institute of Chartered Accountants of New Zealand ("Guideline on Independent Chartered Accountants Reporting as Experts to Shareholders")*

2 *Policy Statements 74 and 75 and Practice Note 43 issued by the Australian Securities and Investment Commission*

3 *Rule 3 of the City Code (City of London)*

Some guidance can be found in Australia[4] where the phrase "fair and reasonable" appears in legislation and the Australian Stock Exchange Listing Rules as a basis for assessing takeover and similar transactions. The terms "fair" and "fair and reasonable" are both widely used tests or frameworks for analysing corporate transactions. However, there is very little useful legal or regulatory guidance as to the meaning of these terms.

The Australian approach draws a distinction between "fair" and "reasonable" in relation to takeover offers. Fairness relates to price, whereas reasonableness includes the consideration of factors other than price. A fair offer is one that reflects the full market value of a company's businesses and assets. A takeover offer that is in excess of the pre-bid market prices but less than full value will not be "fair" but may be "reasonable" if shareholders are, for example, unlikely in the foreseeable future to realise an amount for their shares in excess of the bid price. A fair offer will always be reasonable but a reasonable offer will not necessarily be fair.

Approach Adopted

Deloitte Corporate Finance is of the opinion that an assessment of the merits of a transaction is a broader test than "fair and reasonable" and encompasses a wider range of issues associated with the transaction. The assessment of the merits of the proposed allotment of ordinary shares to Talley's and Toocooya must consider the fairness of the likely increase in effective control by Talley's and Toocooya in AFFCO as well as the fairness of the terms of the Underwriting Arrangements and the fairness of the terms of the Dairy Meats Transaction.

Deloitte Corporate Finance has assessed the merits of the proposed allotment after taking into consideration the following factors:

- the requirement for the Rights Issue;
- the prospects for AFFCO without the Rights Issue;
- the alternatives to the Rights Issue;
- the likely increase in control by Talley's and Toocooya;
- other benefits and disadvantages to Talley's and Toocooya of the Rights Issue and the Underwriting Arrangements, as well as the Dairy Meats Transaction; and
- the benefits and disadvantages for the Non-associated Shareholders of the Rights Issue and the Underwriting Arrangements, as well as the Dairy Meats Transaction.

Deloitte Corporate Finance's opinion should be considered as a whole. Selecting portions of the evaluation without considering all the factors and analyses together could create a misleading view of the process underlying the opinion.

[4] *Policy Statements 74 and 75 and Practice Note 43 issued by the Australian Securities and Investment Commission*

3. Profile of AFFCO

3.1 Background

AFFCO was incorporated on 30 March 1994 and has been the holding company of the AFFCO Group since July 1994. It listed on the NZSE in May 1995.

The AFFCO Group carries on the business of processing and marketing beef, lamb, sheep, hides and pelts. Predecessors of the AFFCO Group have been in the business of meat processing since 1904. AFFCO employs over 2,500 people and is represented on seven continents.

3.2 Nature of Operations

AFFCO processes and exports more than 150,000 tonnes of meat products each year to over 100 countries throughout the world. The company also supplies the New Zealand domestic market.

The company operates eight processing sites throughout the North Island and processes annually between 10% and 12% of New Zealand's national lamb and beef herd. The table below summarises the operations of the eight sites.

AFFCO's Eight Processing Sites

Processing Site	Operations
Moerewa	Beef, Lamb, Calves, Sheep
Wiri	Pelts
Horotiu	Beef, Calves
Rangiuru	Lamb, Sheep, Beef, Calves
Wairoa	Lamb, Sheep, Beef, Calves
Napier	Wet Blue and Wet Salted Hides
Imlay	Lamb, Sheep, Beef, Calves
Manawatu	Beef

Certain lamb and beef suppliers are key account suppliers and obtain the ability to earn premiums paid on a "week by week" basis to meet the demand of AFFCO's export customers. The company also operates a Spot Market Supply option where farmer suppliers can obtain the spot price per kilogram on the day of supply. Livestock is also secured via saleyards.

The majority of AFFCO's export sales are to North America, Asia and Europe. Key customers include major UK supermarket outlets such as Marks and Spencer, Sainsbury and Waitrose and Sam's Club and Safeway outlets in the US. Major retail chains in Europe are also customers.

AFFCO operates two specialist plants in Napier and Wiri producing premium hides and pelts respectively. The company also produces protein meals, tallow, casings, slipe wool and pharmaceutical blood serums.

3.3 Key Issues Affecting AFFCO

The main industry and specific trade factors and risks that AFFCO faces are detailed on page 3 of the draft Registered Prospectus for the Rights Issue. The key issues are summarised below:

- domestic competition - competition for the procurement of livestock in the North Island is intense and may negatively impact on margins;
- weather – the availability of livestock is dependent on prevailing climatic conditions;
- industrial action – prolonged industrial action from either AFFCO's workforce or essential services may impact materially on AFFCO's results;
- food safety – AFFCO is exposed to hygiene and food safety risks given the nature of its processing business;
- animal health – food processors such as AFFCO are at risk from specie-specific exotic diseases;
- commodity prices and volumes – commodity prices for products such as beef react to macro-economic conditions in the relevant export destinations and market forces of supply and demand;
- market access – New Zealand meat exporters, including AFFCO, are restricted by product sales quotas in their key overseas markets; and
- foreign exchange fluctuations - over 90% of AFFCO's forecast revenues are denominated in foreign currencies.

The company is focussed on the following six key objectives to improve revenue and profitability and reduce working capital:

- increasing stock kill;
- optimising plant through-put;
- selling product as quickly as possible;
- reducing costs;
- preserving and increasing job opportunities locally; and
- maximising margins.

3.4 Financial Performance

A summary of AFFCO's recent historical financial performance is set out below.

Summary of AFFCO Financial Performance	Year Sept 1999 (audited) NZ$m	Year Sept 2000 (audited) NZ$m	Year Sept 2001 (audited) NZ$m	6 Months Mar 2002 (unaudited) NZ$m
Operating Revenue	837	993	1,202	497
EBITDA	25	35	24	(4)
EBIT	13	23	12	(11)
NPBT	5	13	0	(14)
NPAT	3	12	(2)	(15)
Dividends	-	-	-	-
Revenue Growth p.a.	(12%)	19%	22%	(11%)
EBITDA Margin	3%	4%	2%	(1%)
EBIT Margin	2%	2%	1%	(2%)
NPAT Margin	0%	1%	(0%)	(3%)
Dividend Payout Ratio	N/a	N/a	N/a	N/a

Source: AFFCO Annual Reports and 2002 Half Year Review

EBITDA: Earnings Before Interest, Taxation, Depreciation and Amortisation of Intangible Assets
EBIT: Earnings Before Interest and Taxation
NPBT: Net Profit Before Tax
NPAT: Net Profit After Tax
N/a: Not applicable

AFFCO has recorded significant revenue growth in the last two financial years. This growth has been a result of both increasing prices for lamb and beef and the lower value of the New Zealand dollar.

Revenue for the six months to 31 March 2002 of $497 million was significantly below the result for the six months to 31 March 2001 of $559 million. This was mainly as a result of unseasonally wet weather resulting in lower stock numbers being available. The intense competition for stock resulted in reduced margins.

In the last two years AFFCO has focused on reducing its costs at both the corporate overhead level and at its processing plants. Head office costs have been reduced by $9 million per annum and salaried staff numbers company-wide have decreased from 650 to 250 since March 2001. Although the cost reduction measures contributed to a increased profit in the 2000 year, the 2001 result was adversely affected by a number of factors including the MAF veterinarians' strike, issues with the US beef quota and the wet summer.

3.5 Financial Position

A summary of AFFCO's recent financial position is set out below.

Summary of AFFCO Financial Performance

	Sept 1999 (audited) NZ$m	Sept 2000 (audited) NZ$m	Sept 2001 (audited) NZ$m	Mar 2002 (unaudited) NZ$m
Current Assets				
Inventory	36	47	41	109
Receivables	59	62	47	86
	95	109	88	195
Current Liabilities				
Payables	(63)	(71)	(72)	(97)
Operating Working Capital	32	38	16	98
Non Current Assets				
Fixed Assets	105	107	116	116
Investments	19	33	31	30
Other	3	3	7	6
	127	143	154	152
Net Operating Assets	**159**	**181**	**170**	**250**
Net Interest Bearing Debt				
Cash and Bank	(5)	(5)	(11)	(10)
Current Borrowings	41	46	2	123
Term Borrowings	26	26	63	19
	62	67	54	132
Share Capital	103	103	103	120
Reserves	(7)	10	9	(6)
Shareholders' Equity	96	113	112	114
Minority Interests	1	1	4	4
Total Equity	**97**	**114**	**116**	**118**
Leverage (Net IBD/Net Operating Assets)	39%	37%	32%	53%
NTA per share	$0.47	$0.55	$0.54	$0.42

IBD: Interest Bearing Debt
NTA: Net Tangible Assets

Source: AFFCO Annual Reports and 2002 Half Year Review

In the year to September 2001, the company initiated the Stock 35 Project to enhance the management of working capital. This is forecast to improve AFFCO's working capital position by over $20 million.

With the decrease in profitability in the last 18 months and the costing cutting initiatives, capital expenditure has been reduced to or below AFFCO's depreciation change. Recent capital expenditure has been focussed on operational projects that provide the best rates of return for the company.

During this period, AFFCO sold its meat trading and marketing subsidiary (Mathias Meats) and closed its North American representative office.

AFFCO rearranged its debt funding in the year to 30 September 2001 with a large tranche of current loans being renegotiated with a syndicate of banks. AFFCO's funding arrangements are on a year by year basis.

Share capital increased in the six months to March 2002 as a result of a placement of 20,458,548 shares to Talley's at $0.2955 per share which raised $6 million and the one for five rights issue in December 2001 which raised $11.4 million.

The balance sheet as at March 2002 reflects the seasonality of the company. As a comparison, current assets are $30 million less as at 31 March 2002 than as at 31 March 2001 while total liabilities are $27 million less than as at March 2001.

3.6 Cash Flows

A summary of AFFCO's recent cash flows is set out below.

Summary of AFFCO Cash Flows

	Year Sept 1999 (audited) NZ$m	Year Sept 2000 (audited) NZ$m	Year Sept 2001 (audited) NZ$m	6 Months Mar 2002 (unaudited) NZ$m
Net Cash From / (Used in) Operating Activities	(1)	2	23	(89)
Net Cash From / (Used in) Investing Activities	(5)	(7)	(11)	(5)
Net Cash From / (Used in) Financing Activities	6	(2)	-	93
Net Increase / (Decrease) in Cash	0	(7)	12	(1)
Opening Cash Balance	4	4	(3)	9
Closing Cash Balance	4	(3)	9	8

Source: AFFCO Annual Reports and 2002 Half Year Review

Whilst the company's revenues have been substantial, AFFCO has generated a significant operating cash flow surplus in only one of the last three financial years. With low operating cash flow surpluses, the company has had little funds to invest in capital expenditure or acquisitions. AFFCO has also had very little change in its net financing cash flows in the past three full financial years.

The operating cash flow to 31 March 2002 is a reflection of industry seasonality. The results for the six months to 31 March 2001 showed negative operating cash flow of $84 million. The $5 million decrease reflects AFFCO's difficult operating condition during the most recent six month period.

The net cash from financing activities for the six months to 31 March 2002 included $17 million raised from the December 2001 rights issue and Talley's placement and a net increase of $76 million in bank borrowings.

3.7 Shareholding Structure

AFFCO had 270,794,552 million ordinary shares on issue as at 19 July 2002. The top ten shareholders as at 13 July 2002 are set out below.

Top 10 Shareholders

Shareholder	No of Shares	% Of Total Shares
Talley's Fisheries Limited	53,794,129	19.9%
Toocooya Nominees Limited	50,505,123	18.7%
Hugh Green Investments Limited	27,061,523	10.0%
Dairy Meats NZ Limited	25,323,161	9.4%
National Nominees New Zealand Limited	17,838,662	6.6%
Hendry Nominees Limited (Account 6)	3,741,696	1.4%
NZ Guardian Trust Company Limited	3,309,000	1.2%
Hendry Nominees Limited (Account 5)	3,000,000	1.0%
Citibank Nominees (New Zealand) Limited	2,281,535	0.8%
Joe Brown Farms Limited	2,133,534	0.8%
Sub Total	188,988,363	69.8%
Other	81,806,189	30.2%
Total	270,794,552	100.0%

Source: Computershare Investor Services Limited

The top ten shareholders control approximately 70% of AFFCO's shares. The remaining 30% of the shares are held by approximately 6,400 shareholders, many of whom are farmers who supply stock to AFFCO. Over 99% of AFFCO's shareholders are domiciled in New Zealand.

3.8 Share Price History

Set out below is a summary of AFFCO's share price history from 3 January 2001 to 9 August 2002.

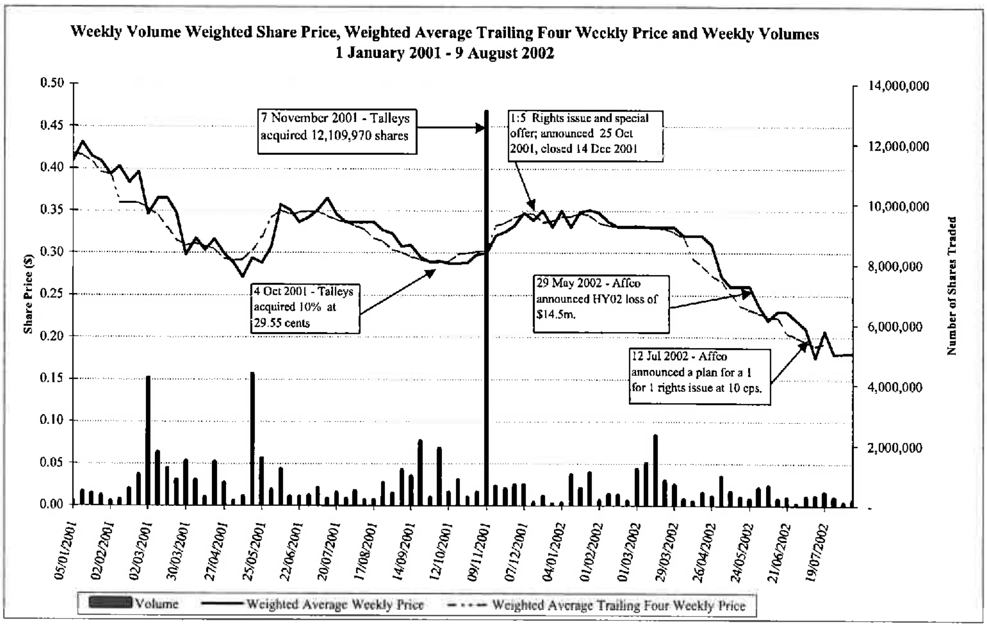
Share Price Movements

Month	Low (Cents)	High (Cents)	Close (Cents)	Volume (000)
January 2001	39.3	43.2	39.3	1,444
February	34.5	40.3	34.5	5,476
March	30.7	36.5	30.7	5,972
April	29.7	32.6	29.7	3,356
May	26.9	30.7	29.7	6,711
June	30.7	36.5	33.6	2,351
July	33.6	36.5	34.5	1,761
August	31.7	34.5	32.6	1,763
September	28.8	31.7	28.8	4,604
October	27.8	34.5	28.8	3,807
November*	28.8	34.0	33.0	15,090
December	33.0	35.0	34.0	1,203
January 2002	33.0	37.0	34.0	2,985
February	32.0	35.0	34.0	2,085
March	32.0	34.0	33.0	5,387
April	29.0	33.0	29.0	1,584
May	24.0	29.0	24.0	2,119
June	22.0	23.0	22.0	1,196
July	17.0	22.0	18.0	1,353
August **	18.0	19.0	18.0	239

* The majority of shares traded in November 2001 related to the acquisition of shares by Talley's
** Includes prices and volume up to 9 August 2002

Source: Bloomberg; Substantial security holder notice, [Computershare]

A graph of the weighted average weekly share price, the weighted average trailing four weekly price and the weekly volumes of shares traded is set out below.



A major influence on AFFCO's share price in the last twelve months has been the entry of Talley's onto the share registry.

On 4 October 2001 Talley's acquired a 10% shareholding via a placement of approximately 20 million shares at $0.2955 cents per share. Talley's increased its interest to approximately 16.7% by 7 November 2001 through on-market purchases of approximately 12 million shares.

On 25 October 2001 AFFCO announced a one for five renounceable rights issue and a special offer to shareholders with under 1,000 shares at a price of $0.25 per share. These offers closed on 14 December 2001.

Following the closing of the rights issue, AFFCO's shares traded in the range of $0.32 to $0.37 per share.

On 4 March 2002 Talley's announced it had entered into a conditional agreement to acquire HGI's 27,061,523 ordinary shares (10.0%) in AFFCO and Kilmacrennan Farm Limited's ("KFL") 1,463,100 shares (0.5%). The price offered for these shares was $0.38 per share. The transaction was subject to shareholder approval under Rule 7(c) of the Code. The resolution in respect of the transaction was not approved by AFFCO's shareholders.

AFFCO's share price has since drifted downwards, trading in the range of $0.32 to $0.21 per share on very low volumes of less than 1% of total shares per month.

The company's closing share price on 11 July 2002, being the day before the announcement of the details of the Rights Issue, was $0.21. Since then, AFFCO's shares have traded in the range of $0.17 to $0.21 on very light volumes averaging less than 0.1% of AFFCO's total shares each day.

4. Evaluation of the Rights Issue and Underwriting Arrangements

4.1 Summary of the Merits and Fairness of the Potential Allotment of Shares to Talley's and Toocooya

Issues Considered

In evaluating the Rights Issue and Underwriting Arrangements, Deloitte Corporate Finance has considered the following issues:

- AFFCO requires the cash to satisfy its forecast cash outgoings. The most significant items are:
  - the requirement to reduce its long term (non-seasonal) debt by at least $15 million;
  - capital expenditure requirements of $6 million; and
  - the need to provide more flexibility around working capital requirements.
- without the capital raising, AFFCO's program of improving efficiency (via selected capital expenditure projects) and returning the company to profitability is likely to be stalled. AFFCO will also come under increasing pressure from its debt providers to decrease its non-seasonal debt.
- the level of AFFCO's financial leverage is such that raising further debt is not feasible. Accordingly a range of alternative forms of equity raising were considered by the Board of AFFCO and Deloitte Corporate Finance has been advised that none of these would result in a better outcome than the proposed Rights Issue.
- the Rights Issue has been structured as a heavily discounted one for one rights issue at $0.10 that is partially underwritten by Talley's and Toocooya for no underwriting fee. Deloitte Corporate Finance is of the view that AFFCO would bear some risk of not raising the expected level of capital if the Rights Issue was not underwritten. Furthermore, Deloitte Corporate Finance does not consider it likely that AFFCO could arrange underwriting at nil cost for a rights issue with a leaner discount (eg a two for three rights issue at $0.15).
- the likely increase in control of AFFCO by Talley's and Toocooya is dependent on the level at which the Non-associated Shareholders take up their entitlements and whether the Non-associated Shareholders approve the Dairy Meats Transaction. In the event that the Dairy Meats Transaction is not approved and all the rights holders take up their entitlements, there will be no change in relative shareholdings and therefore no change in control. If the Dairy Meats Transaction is approved and all the Non-associated Shareholders take up their entitlements, then Talley's and Toocooya will increase their shareholdings to 23.4% and 19.8% respectively through the acquisition of Dairy Meats' rights. However, if the holders of less than 20% of the shares held by the Non-associated Shareholders take up their entitlements, Talley's and Toocooya will increase their shareholdings from 19.9% and 18.7% respectively to the maximum permitted levels of 35% and 25% respectively. At these shareholding levels, either shareholder could effectively block special resolutions single handedly. The two shareholders would control 60% of the shares in AFFCO between them.

Talley's and Toocooya have declared that they have no agreements or arrangements to act in concert. However, it is possible that they may independently reach the same decision and in such circumstances the two shareholders can pass ordinary resolutions between them.

- other benefits of the Rights Issue and Underwriting Arrangements to Talley's and Toocooya are:

  - the Rights Issue is heavily discounted. Accordingly, Talley's and Toocooya have the opportunity to increase their shareholdings (and control) at a discounted price but only if Non-associated Shareholders elect not to take up their entitlements. Furthermore, any rights that are not exercised or traded will result in a value transfer from the shareholders not exercising their rights to those shareholders that have exercised or traded their rights. The latter shareholders include Talley's and Toocooya.

- the disadvantages to Talley's and Toocooya of the Rights Issue and Underwriting Arrangements are:

  - they will receive no fees for providing services under the Underwriting Arrangements;

  - by increasing their shareholdings in AFFCO, Talley's and Toocooya are further exposed to the risks which AFFCO faces; and

  - Talley's and Toocooya are making further financial commitments to AFFCO. Assuming the two shareholders are required to subscribe for additional shares up to their maximum allowable levels under the Underwriting Arrangements, Talley's will be required to invest a further \$8.2 million in AFFCO while Toocooya will be required to invest a further \$3.4 million in addition to their subscriptions of \$5.4 million and \$5.1 million respectively for their entitlements under the Rights Issue.

Merits of the Rights Issue and Underwriting Arrangements

Deloitte Corporate Finance has considered the merits of the potential allotment of further shares to Talley's and Toocooya under the terms of the Underwriting Arrangements having regard to the interests of the Non-associated Shareholders.

The benefits to the Non-associated Shareholders of the Rights Issue are:

- all shareholders have the opportunity to participate in the Rights Issue. They can choose to take up their entitlements or elect to sell their rights during the trading period. By electing to take up their entitlements the Non-associated Shareholders can prevent Talley's and Toocooya from increasing their effective control over the company at a discounted price.

- Non-associated Shareholders who choose to take up their entitlements will benefit from the discounted subscription price for the shares.

- heavily discounted Rights Issues are more affordable for Non-associated Shareholders to take up their entitlements.

- Non-associated Shareholders will have the option of selling their rights and these rights may be of value.

- the Non-associated Shareholders have the opportunity to vote on the resolution relating to the Rights Issue.
- Talley's and Toocooya are not charging AFFCO an underwriting fee.
- Non-associated Shareholders will continue to benefit from the support that Talley's and Toocooya have already provided to AFFCO since their introduction as major shareholders.

The Non-associated Shareholders are also exposed to the disadvantages of the Rights Issue:

- shareholders choosing not to take up their entitlements will have their current shareholding diluted and the value of their shares is likely to fall from the levels preceding the announcement of the Rights Issue.
- shareholders not wishing to take up their entitlements may not be able to sell their rights at the theoretical rights price.

Fairness of the Underwriting Arrangements

In Deloitte Corporate Finance's opinion, the possible increase in effective control by Talley's and Toocooya in AFFCO and the terms of the Underwriting Arrangements are fair to the Non-associated Shareholders.

4.2 Requirement for the Rights Issue

The Rights Issue will raise up to $27.1 million of fresh equity for AFFCO, less costs of approximately $0.2 million. Given that the Rights Issue is partially underwritten, the minimum amount that will be raised is $21.3 million less the $0.2 million of costs.

The purpose of the Rights Issue is to raise funds to enable AFFCO to complete its operational and financial restructuring program. Two key applications of the new capital will be:

- a $15 million reduction in AFFCO's long term (non-seasonal) debt; and
- the completion of capital upgrades at the Moerewa, Wairoa and Manawatu plants at a forecast cost of approximately $6 million.

The remaining funds will provide greater flexibility to AFFCO to manage its working capital.

4.3 The Prospects for AFFCO without the Rights Issue

AFFCO has gone through significant changes in the last few years with the aim of positioning itself for growth into the future. The Independent Directors have advised Deloitte Corporate Finance that without additional funding, AFFCO's future development will be stalled and more importantly it will come under increasing pressure from its debt providers to reduce its levels of IBD.

4.4 Alternatives to the Rights Issue

AFFCO could pursue alternative forms of raising capital including:

- seeking further debt funding;
- make a series of share placements; or
- seek another strategic investor;

Deloitte Corporate Finance has discussed the alternative sources of capital raising with AFFCO's Executive Chairman.

Given the volatility of the industry in which AFFCO operates and the requirement for seasonal debt funding, any significant increase in IBD would be expensive, assuming the company was in fact able to find financiers willing to lend the level of funds required given the company's recent trading results. This is especially so given that a proportion of the funds will be applied to reduce other lenders' exposure.

Deloitte Corporate Finance is advised that AFFCO could not easily obtain further debt funding without obtaining guarantees from its major shareholders. Given the current debt funding level, it is unlikely that any shareholder would be willing to provide such a guarantee.

Deloitte Corporate Finance is of the view that further debt funding is not a viable source of additional capital for AFFCO at the present time.

The Board has looked at making equity placements such as the company did last year. However, the Board believes that both Talley's and Toocooya are the most likely purchasers of new equity. Any placements that would increase Talley's or Toocooya's shareholding beyond 20% would require shareholder approval in line with the requirements of the Code. In discussions with both Talley's and Toocooya, they indicated that they favoured a rights issue as this gave the Non-associated Shareholders the opportunity to participate in the capital raising and retain their relative shareholdings in AFFCO.

In Deloitte Corporate Finance's opinion, the alternative funding sources are neither realistic alternatives at this time nor provide any additional benefits over those of the proposed Rights Issue.

4.5 Structure of the Rights Issue

The Rights Issue has been structured as a heavily discounted one for one rights issue at $0.10 that is partially underwritten by Talley's and Toocooya for no underwriting fee.

Underwriting Options

On the basis that a Rights Issue is the most appropriate method at the present time for AFFCO to raise additional capital, AFFCO does have the following options regarding the underwriting of the Rights Issue:

- the Underwriting Arrangements; or

- it could seek an alternative underwriter; or
- it could undertake a non-underwritten issue.

No Underwriting Fees are Being Charged Under the Underwriting Arrangements

Neither Talley's nor Toocooya are charging an underwriting fee in this instance. In addition, both companies have committed to subscribing for their full entitlements in the Rights Issue.

It is common practice in New Zealand for underwriters to charge a fee for their underwriting commitments to reflect the risks they bear. Such underwriting fees tend to be in the range of 1.5% to 5.0%. By not charging any fee, Talley's and Toocooya are preserving approximately $0.4 million to $1.4 million of shareholder value and this represents a benefit to all of AFFCO's shareholders.

Alternative Underwriter

Deloitte Corporate Finance is of the opinion that it is unlikely that any party other than a major shareholder would be willing to underwrite the proposed Rights Issue without charging an underwriting fee.

When AFFCO undertook its one for five rights issue in October 2001, the AFFCO Board held discussions with potential third party underwriters of the issue. No external party was finally willing to underwrite the issue under terms acceptable to the Board so the company's four major shareholdings (including Talley's and Toocooya) severally underwrote the offer for a fee of approximately $0.2 million. This represented approximately 1.2% of the gross capital raised.

In the current situation, the Board has looked at underwriting alternatives. However, given the time involved in obtaining a suitable underwriter and the likely cost of obtaining such services, it believes that it is in the best interests of the company to engage Talley's and Toocooya to underwrite the Rights Issue, especially given that they will not be charging an underwriting fee.

No Underwriter

An alternative option to seeking a different underwriter would be for AFFCO to undertake the Rights Issue without it being underwritten. In general terms, the greater the discount of the subscription price for the new shares under a rights issue to the current share price, the lower the risk of the rights issue being under subscribed.

The proposed Rights Issue is at a heavy discount to the prevailing share price prior to the announcement of the details of the Rights Issue on 12 July 2002. The subscription price of $0.10 is a 52% discount to the share price of $0.21 on 11 July 2002. Deloitte Corporate Finance has reviewed comparable rights issues in New Zealand in the last three years. The majority of rights issues have been at discounts to the pre-announcement share prices. The average discount was 24%.

Deloitte Corporate Finance understands that the subscription price of $0.10 was struck to provide an affordable price for those Non-associated Shareholders who wish to participate in the Rights Issue and also to provide an attractive market for the trading of the rights so that those shareholders that do not take up their rights will be able to sell them on market.

AFFCO's share price on 13 August 2002 was $0.16. Based on a one for one rights issue at a subscription price of $0.10 per share, the theoretical price of the shares after the Rights Issue (the "Theoretical Ex-rights Share Price") is $0.13 ([$0.16 + $0.10] ÷ 2).

A heavily discounted subscription price does not necessarily guarantee the full take-up of a rights issue. Other factors that impact on the likely level of subscription under a rights issue include the demand for the shares (i.e. liquidity and spread of shareholders), the quantum of the required investments (in this case the average required investment is approximately $1,300 per Non-associated Shareholder (excluding HGI)) and the general state of the equity markets.

While the proposed Rights Issue is heavily discounted and the average level of investment for the Non-associated Shareholders is relatively low, the demand for AFFCO shares is low (based on volumes traded) and there is currently a degree of pessimism in the equity markets. As discussed above, AFFCO's need for the funds is relatively urgent and therefore the Board felt it is in the best interests of the company for the issue to be underwritten.

Deloitte Corporate Finance is of the view that AFFCO could bear some risk of not raising the expected level of capital of $27.1 million (before costs) if it did not arrange for the Rights Issue to be underwritten.

Furthermore, based on discussions with Talley's, Toocooya and AFFCO's Executive Chairman, Deloitte Corporate Finance does not consider it likely that AFFCO would be able to arrange underwriting at nil cost for a rights issue with a leaner discount (e.g. a two for three rights issue at $0.15).

4.6 Likely Increase in Control of AFFCO by Talley's and Toocooya

Potential Shareholding Levels

Depending on the uptake by the Non-associated Shareholders of their entitlements, Talley's and Toocooya are likely to increase their shareholdings in AFFCO without having to make a formal offer to all shareholders in accordance with Rules 7(a) or 7(b) of the Code. This is the principal reason why the Non-Associated Shareholders have the opportunity to vote for or against the proposed allotment of shares to Talley's and Toocooya under the terms of the Underwriting Arrangements and the Dairy Meats Transaction.

The number of new ordinary shares that Talley's and Toocooya will subscribe for through the Rights Issue will vary according to the level of shortfall in acceptances by the Non-associated Shareholders to their entitlements. If the Non-associated Shareholders do not approve the Dairy Meats Transaction and they all take up their rights, then Talley's and Toocooya will retain their existing shareholding levels of 19.9% and 18.7% respectively. In such circumstances, the pricing of a rights issue is irrelevant to a company's existing shareholders as their relative interests in the company remain the same.

If the Non-associated Shareholders approve the Dairy Meats Transaction and they all take up their rights, then Talley's and Toocooya will increase their shareholding levels to 23.4% and 19.8% respectively through the acquisition of Dairy Meats' rights. The merits of the Dairy Meats Transaction is discussed in more detail in section 5.

The table below shows the expected shareholding levels for Talley's and Toocooya depending upon the levels of take-up by the Non-associated Shareholders of their entitlements. This table takes into account that HGI has indicated its support for the Rights Issue and therefore assumes that it will take up its full pro rata entitlements equating to 10.0% of the shares. It also assumes that the Dairy Meats Transaction is approved by the Non-associated Shareholders. The table also shows the total capital raised.

Relative Shareholdings of Talley's and Toocooya

	Talley's	Toocooya	Combined	Amount Raised $m
Current Shareholding	19.9%	18.7%	38.5%*	
Shareholding After Rights Issue				
% of Entitlements Taken-up by Non-associated Shareholders (excluding HGI)				
0%	35.0%	25.0%	60.0%	21.3
20%	35.0%	25.0%	60.0%	27.1
40%	32.9%	23.0%	55.8%*	27.1
60%	29.7%	21.9%	51.6%	27.1
80%	26.5%	20.9%	47.4%	27.1
100%	23.4%	19.8%	43.2%	27.1

* *Difference is due to rounding*

There are a wide range of possible outcomes with respect to Talley's and Toocooya's eventual shareholdings in AFFCO. However, it is likely that they will increase their shareholdings above their current levels of 19.9% and 18.7% respectively, irrespective of whether the Dairy Meats Transaction is approved. The cap in the Underwriting Arrangements ensures that they cannot increase their shareholdings beyond 35% and 25% respectively.

The combined shareholding of both Talley's and Toocooya after the Right Issue will be somewhere between their current combined level of 38.5% and the maximum (capped) level of 60% of the total shares of AFFCO.

Levels of Control

A shareholding in excess of 25% is sufficient to stop the passing of a special resolution (ie a resolution that requires the approval of 75% of the shareholders). Section 106 of the Companies Act states that special resolutions are required to:

- adopt, alter or revoke a company's constitution;
- approve a major transaction;
- approve an amalgamation; or
- put the company into liquidation.

If the Dairy Meats Transaction is not approved and the Non-associated Shareholders take up 73% or less of their entitlements, Talley's will obtain a shareholding of over 25% and thus will single handedly be able to stop the passing of any special resolution. Alternatively, if the Dairy Meats Transaction is approved, then Talley's will obtain a shareholding of over 25% if the Non-associated Shareholders take up less than 89% of their entitlements.

The maximum shareholding that Toocooya can achieve under the Underwriting Arrangements is 25%. Technically, this is not sufficient to block a special resolution on its own. However, in reality, a 25% interest in a listed company with more than 6,400 shareholders (as AFFCO has) can block a special resolution as a number of shareholders tend not to vote on resolutions and hence the relative weight of the 25% interest increases.

In accordance with Rule 16(g) of the Code, AFFCO has been advised by both Talley's and Toocooya that, apart from the Underwriting Agreements, no agreements or arrangements have been or are intended to be entered into between either Talley's or Toocooya and any other person relating to:

- the allotment, holding or control of the ordinary shares to be allotted to Talley's and Toocooya; or
- the exercise of voting rights in AFFCO.

Deloitte Corporate Finance has held discussions with the AFFCO directors representing Talley's and Toocooya regarding their intentions for AFFCO. Talley's currently has two board members and has indicated that it does not intend to seek any increase in its board representation. Toocooya has also indicated that it will not seek additional board representation. Directors representing both Talley's and Toocooya on the AFFCO Board advise that the entire Board is united in its aim to improve the efficiency of AFFCO's operations with the intention of returning AFFCO to profitability and providing a sufficient return for all AFFCO's investors. Deloitte Corporate Finance is advised by both Talley's and Toocooya that they see themselves as long term investors in AFFCO.

Although Talley's and Toocooya have declared that will not operate in concert with each other, they may independently reach the same decision, in which case their combined shareholding will have significant control over the operations of AFFCO. If the Dairy Meats Transaction is not approved and less than 56% of the Non-associated Shareholders take up their entitlements, the effect of the Underwriting Arrangements is that the combined shareholding of Talley's and Toocooya will exceed 50%. Alternatively, if the Dairy Meats Transaction is approved, the combined shareholding of Talley's and Toocooya will exceed 50% if less than 68% of the Non-associated Shareholders take up their entitlements

A shareholding of greater than 50% enables the holder to pass ordinary resolutions including the appointment of directors. As such it gives a significant level of control including the ability to:

- select and decide on levels of compensation for directors, officers and employees;
- decide with whom to do business and enter into binding contracts, including contracts with related parties;
- decide whether to pay dividends and, if so, how much;
- repurchase outstanding shares or issue new shares;
- make acquisitions or divest subsidiaries or divisions;
- determine capital expenditures;

- change the capital structure;
- determine policy, including changing the direction of the business; and
- block any of the above.

The ability for shareholders to influence the above may be reduced by external factors such as the company's constitution, the Companies Act and the NZSE Listing Rules.

Deloitte Corporate Finance notes that in a listed company where there is a large number of shareholders, a shareholding of 25% to 35% is generally considered to provide a significant level of control. However, the level of control is potentially negated to some degree if there are two or more shareholdings of this size. Alternatively, the level of control is heightened if the shareholdings independently act in a similar manner.

4.7 Other Benefits to Talley's and Toocooya

Discounted Subscription Price

The subscription price of $0.10 per share is at a heavy discount to the pre-announcement share price of $0.21 and the share price of $0.16 as at 13 August 2002.

Accordingly, the Underwriting Arrangements provide Talley's and Toocooya with the opportunity to increase their shareholdings (and control) in AFFCO at a discounted price. However, this will only occur if the Dairy Meats Transaction is approved and / or some Non-associated Shareholders do not take up their entitlements.

4.8 Disadvantages to Talley's and Toocooya

Increased Exposure to the Risks of AFFCO

The key issues and risks that are likely to impact upon the business operations of AFFCO are outlined in section 3.3. As Talley's and Toocooya's ownership in AFFCO increases, so does their exposure to those risks. The range of outcomes of ownership for Talley's and Toocooya range from their existing 19.9% and 18.7% respectively to possible shareholdings of 35% and 25% respectively. Talley's and Toocooya have little control over the uptake of the Rights Issue and their ultimate shareholding in AFFCO.

Further Financial Commitments

Talley's and Toocooya have committed to taking up their entitlements under the Rights Issue. This will require the two shareholders to invest $5.4 million and $5.1 million respectively in AFFCO. If they are required to subscribe for additional shares up to their maximum allowable levels under the Underwriting Arrangements, they will be required to invest a further $8.2 million and $3.4 million respectively in AFFCO. Accordingly, Talley's may be required to invest up to $13.6 million in AFFCO under the Underwriting Arrangements and Toocooya may be required to invest up to $8.5 million. This compares with the market value of their current investments of $8.6 million and $8.1 million respectively as at 13 August 2002.

4.9 Benefits for the Non-Associated Shareholders

All Shareholders Participate in the Rights Issue

The Rights Issue is pro rata and fully renounceable. All Non-associated Shareholders have the opportunity to either take up their entitlements to acquire ordinary shares or sell their rights. If all Non-associated Shareholders take up their entitlements or sell their rights to other than Talley's and Toocooya, then Talley's and Toocooya will not increase their entitlements beyond their current shareholdings, unless the Dairy Meats Transaction is approved.

Discounted Subscription Price

All shareholders who take up their entitlements will benefit from the discounted subscription price.

The discounted subscription price makes it easier for Non-associated Shareholders to take up their entitlements due to the lower level of investment required.

The cost for the average holding for Non-associated Shareholders to fully exercise their rights and retain their relative shareholdings will be in the vicinity of $1,300. For the large number of shareholders that own the minimum parcel of 1,000 shares, the cost to exercise their rights will be $100.

The Rights May be of Value

Non-associated Shareholders will have the option of selling their rights. However, the price, if any, at which the rights will trade is very difficult to predict.

The Theoretical Ex-rights Share Price is $0.13 (based on the $0.16 share price as at 13 August 2002). This suggests a theoretical rights price of $0.03, calculated as follows:

Theoretical rights price = *Theoretical Ex-rights Share Price – Subscription price*
= *$0.13 - $0.10*
= *$0.03*

The theoretical rights price is in line with the acquisition price for Dairy Meats' rights in the Dairy Meats Transaction. However, Deloitte Corporate Finance stresses that the above theoretical rights price is indicative only. The actual value at which the rights will trade will be a function of supply and demand and the prevailing share price at the trading dates.

Benefits to AFFCO of Talley's and Toocooya

The major benefit to AFFCO of the current arrangement is that the company will obtain the funds it requires with relatively low transaction costs.

Talley's and Toocooya are known to AFFCO and advise that they are both long term investors in the company. This provides some stability to the AFFCO shareholding although the effect of the Code is such that a parcel over 20% could not be sold to a single party without either the same offer being made to all shareholders or shareholders approving the transaction.

Shareholder Approval is Required

The Non-associated Shareholders will vote on two resolutions, the first of which relates to the Rights Issue that takes into account the following:

- that pursuant to Listing Rule 9.2 the shareholders approve by ordinary resolution the Underwriting Arrangements which represent Material Transactions with Related Parties;
- that pursuant to Listing Rule 7.5 the shareholders approve by ordinary resolution the Underwriting Arrangements where there is a significantly likelihood that Talley's and Toocooya will materially increase their effective control of AFFCO; and
- that pursuant to Rule 7(d) of the Code the shareholders approve by ordinary resolution the Underwriting Arrangements that will likely result in Talley's and/or Toocooya increasing their holding above 20% of the voting rights in AFFCO.

The proposed Rights Issue will not proceed unless the Non-associated Shareholders approve the resolution.

4.10 Disadvantages to the Non-associated Shareholders

Non-associated Shareholders Not Taking up Their Entitlements will be Diluted

Non-associated Shareholders who choose not to take up their rights will ultimately be diluted by those shareholders, including Talley's and Toocooya, who subscribe for new ordinary shares. They are likely to see the value of their shares, as measured by the share price in the market, decline.

If Non-associated Shareholders choose to either do nothing (ie neither take up their entitlements nor sell their rights), they will potentially suffer a loss of approximately 19% in the value of their existing shareholdings (based on a share price of $0.16 as at 13 August 2002 and a Theoretical Ex-rights Share Price of $0.13). The value will be transferred to Talley's and Toocooya as underwriters and all other shareholders that choose to take up their entitlements.

5. Evaluation of the Dairy Meats Transaction

5.1 Overview of the Dairy Meats Transaction

Dairy Meats has indicated that it will renounce its entitlement under the Rights Issue. Talley's and Toocooya have agreed with Dairy Meats to acquire 75% and 25% respectively of Dairy Meats' entitlements under the Rights Issue at an acquisition price of $0.03 per right.

If the Non-associated Shareholders approve the resolution in respect of the Dairy Meats Transaction, this will result in the allotment of 18,992,371 new ordinary shares to Talley's and 6,330,790 new ordinary shares to Toocooya.

The Dairy Meats Transaction resolution is conditional on the Rights Issue and Underwriting Arrangements resolution being approved.

5.2 Issues Considered

Impact on Control

The Dairy Meats Transaction can only proceed if the Rights Issue and Underwriting Arrangements resolution is approved. Therefore, the implications of the impact on control arising from the Dairy Meats Transaction is a subset of the likely change in control of AFFCO by Talley's and Toocooya from the Underwriting Arrangements. These are discussed in detail in section 4.6.

If the Rights Issue and Underwriting Arrangements resolution is approved, then Talley's and Toocooya are likely to increase their respective shareholdings in AFFCO beyond 20% through their underwriting of the Rights Issue. This is irrespective of whether the Dairy Meats Transaction is approved or not. The degree to which Talley's and Toocooya increase their shareholdings is dependent upon the level of entitlements taken up by the Non-associated Shareholders. However, the maximum shareholdings for Talley's and Toocooya are capped under the Underwriting Arrangements at 35% and 25% respectively.

The importance of the Dairy Meats Transaction is that it guarantees that Talley's and Toocooya will increase their respective shareholdings in AFFCO by at least 3.5% and 1.1%. If the Dairy Meats Transaction is approved and the Non-associated Shareholders take up all their rights, then Talley's and Toocooya will increase their shareholding levels to 23.4% and 19.8% respectively through the acquisition of Dairy Meats' rights.

If the Dairy Meats Transaction is not approved and the Non-associated Shareholders take up all their rights, then Talley's and Toocooya will retain their existing shareholding levels of 19.9% and 18.7% respectively. However, as stated above, Talley's and Toocooya's shareholdings are likely to increase through their underwriting of the Rights Issue.

If the Dairy Meats Transaction is approved, Dairy Meats' shareholding in AFFCO will be diluted to between 4.7% and 5.2% (depending on the number of rights exercised by the Non-associated Shareholders). This will be approximately half the shareholding level that Dairy Meats currently has. Accordingly, the impact of how Dairy Meats votes relative to how Talley's and / or Toocooya vote will be lessened.

Dairy Meats currently has one representative on the AFFCO Board. Assuming there is no change to the number of Directors on the Board, Dairy Meats' proportionate representation on the Board will be maintained at one of nine (11%).

Acquisition Price for the Rights

Talley's and Toocooya have agreed to acquire Dairy Meats' rights at $0.03 per right. This value equates to the theoretical rights price assessed at section 4.9.

Deloitte Corporate Finance considers the acquisition price to be fair between Talley's and Toocooya and Dairy Meats and as such is unlikely to have any negative impact on the potential trading value of the rights when they list on the NZSE.

Certainty of Sale Price for Dairy Meats

As stated above, the Dairy Meats Transaction guarantees that Talley's and Toocooya will increase their shareholdings in AFFCO to at least 23.4% and 19.8% respectively. The transaction also provides certainty to Dairy Meats that it will sell its rights for $0.03 per right. This eliminates the uncertainty that Dairy Meats would face if it chose to sell its rights on the NZSE.

Given that the rights have not been listed on the NZSE, it is uncertain as to whether there will be a demand for the rights and if so, at what price. Non-associated Shareholders who wish to sell their rights will face this uncertainty.

5.3 Merits of the Dairy Meats Transaction

Deloitte Corporate Finance has considered the merits of the potential allotment of further shares to Talley's and Toocooya under the terms of the Dairy Meat Transaction having regard to the interests of the Non-associated Shareholders.

Impact on Rights Trading

The Dairy Meats Transaction will remove a large block of rights from the market which may otherwise be available for sale and which could potentially depress the price which Non-associated Shareholders may receive for any rights they sought to trade on the NZSE.

As stated above, the acquisition price for the Dairy Meats rights equates to the theoretical rights price and as such may help to provide a guideline to the market as to the value of the rights.

Notwithstanding the above, it is important to note that the value at which the rights trade will ultimately be a function of supply and demand and the prevailing share price at the trading dates.

Shareholder Approval is Required

The Non-associated Shareholders will vote on the resolution in respect of the Dairy Meats Transaction. The transaction will not proceed unless the Non-associated Shareholders approve the resolution. However, Non-associated Shareholders in favour of the Rights Issue have the flexibility to vote for the first resolution and vote either for or against the Dairy Meats Transaction resolution.

6. Sources of Information, Reliance on Information, Disclaimer and Indemnity

6.1 Sources of Information

The statements and opinions expressed in this report are based on the following main sources of information:

- the AFFCO draft notice of meeting;
- the draft Underwriting Arrangements between AFFCO and Talley's and Toocooya;
- the draft Investment Statement and Prospectus in respect of the proposed Rights Issue;
- the AFFCO annual reports for 1999, 2000 and 2001 and the 2002 half year review;
- Computershare Investor Services Limited; and
- publicly available information on AFFCO and other companies listed on the NZSE.

During the course of preparing this report, Deloitte Corporate Finance has had discussions with and/or received information from the management and directors of AFFCO, including directors representing the Independent Directors and directors representing the interests of Talley's and Toocooya.

The Independent Directors of AFFCO have confirmed that Deloitte Corporate Finance has been provided for the purpose of this Independent Adviser's Report and Appraisal Report with all information relevant to the Rights Issue and Underwriting Arrangements that is known or should have been known to them and that all the information is true and accurate in all material aspects and is not misleading by reason of omission or otherwise.

Including this confirmation, Deloitte Corporate Finance has obtained all the information that it believes necessary for the purpose of preparing this Independent Adviser's Report and Appraisal Report.

In Deloitte Corporate Finance's opinion, the information set out in this Independent Adviser's Report and Appraisal Report is sufficient to enable the Independent Directors of AFFCO and AFFCO's Non-associated Shareholders to understand all the relevant factors and to make an informed decision in respect of the Rights Issue and Underwriting Arrangements.

6.2 Reliance on Information

In preparing this report Deloitte Corporate Finance has relied upon and assumed, without independent verification, the accuracy and completeness of all information that was available from public sources and all information that was furnished to it by AFFCO and its advisers.

Deloitte Corporate Finance has evaluated that information through analysis, enquiry and examination for the purposes of preparing this report but Deloitte Corporate Finance has not verified the accuracy or completeness of any such information or conducted an appraisal of any assets. Deloitte Corporate Finance has not carried out any form of due diligence or audit on the accounting or other records of AFFCO. Deloitte Corporate Finance does not warrant that its enquiries would reveal any matter which an audit, due diligence review or extensive examination might disclose.

6.3 Disclaimer

Deloitte Corporate Finance has prepared this report with care and diligence and the statements in the report are given in good faith and in the belief, on reasonable grounds, that such statements are not false or misleading.

Deloitte Corporate Finance assumes no responsibility arising in any way whatever for errors or omissions (including responsibility to any person for negligence) for the preparation of the report to the extent that such errors or omissions result from Deloitte Corporate Finance's reasonable reliance on information provided by others or assumptions disclosed in the report or assumptions reasonably taken as implicit.

Deloitte Corporate Finance's evaluation has been arrived at based on economic, exchange rate, market and other conditions prevailing at the date of this report. Such conditions may change significantly over relatively short periods of time. Deloitte Corporate Finance has no obligation or undertaking to advise any person of any change in circumstances which comes to its attention after the date of this report or to review, revise or update its report.

6.4 Indemnity

AFFCO has agreed that to the extent permitted by law, it will indemnify Deloitte Touche Tohmatsu 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 does not apply in respect of any negligence, wilful misconduct or breach of law. AFFCO has also agreed to indemnify Deloitte Touche Tohmatsu and its partners, employees and consultants for time incurred and any costs in relation to any inquiry or proceeding initiated by any person. Where Deloitte Touche Tohmatsu or its employees and officers are found liable for or guilty of negligence, wilful misconduct or breach of law or term of reference, Deloitte Touche Tohmatsu shall reimburse such costs.

7. Qualifications and Expertise, Independence, Declarations and Consents

7.1 Qualifications and Expertise

Deloitte Touche Tohmatsu is one of the world's leading professional services firms. Deloitte Corporate Finance is the corporate finance practice of Deloitte Touche Tohmatsu, providing corporate advisory, mergers and acquisitions, valuations and transaction services.

The persons in the firm responsible for issuing this report are Peter A Simmons, B.Com, DipBus (Finance), CA(PP) and Andrew R Liddell, B.Com, LLB, CA(PP).

Mr Simmons is the partner in charge of the Deloitte Corporate Finance practice in New Zealand. Mr Liddell is a Deloitte Corporate Finance partner. They specialise in providing corporate finance advice on acquisitions and divestments and advising on the value of shares, businesses and intangible assets.

Deloitte Corporate Finance, Mr Simmons and Mr Liddell have significant experience in the independent investigation of transactions and issuing opinions on the merits and fairness of the terms and conditions of the transactions.

7.2 Independence

Deloitte Touche Tohmatsu is not the auditor of AFFCO, Talley's , Toocooya or Dairy Meats.

Deloitte Corporate Finance has not had any part in the formulation of the Rights Issue, Underwriting Arrangements or Dairy Meats Transaction or any aspects thereof. Deloitte Corporate Finance's sole involvement has been the preparation of this report.

Deloitte Corporate Finance prepared an Independent Adviser's Report for AFFCO in March 2002 in respect of the proposed purchase by Talley's of the 10.5% shareholding in AFFCO controlled by Mr Hugh Green (i.e. the HGI and KFL shareholdings).

Deloitte Corporate Finance will receive a fee for the preparation of this report. This fee is not contingent on the conclusions of this report or the approval of the resolution. Deloitte Corporate Finance will receive no other benefit from the preparation of this report. Deloitte Corporate Finance does not have any pecuniary or other interests that could reasonably be regarded as capable of affecting its ability to provide an unbiased analysis of the proposed Rights Issue and Underwriting Arrangements.

7.3 Declarations

An advance draft of this report was provided to AFFCO's Independent Directors, 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 material alteration to any part of the substance of this report, including the methodology or conclusions as a result of issuing the draft.

Deloitte Corporate Finance's terms of reference for this engagement did not contain any term which materially restricted the scope of the report.

7.4 Consents

Deloitte Corporate Finance consents to the issuing of this report in the form and context in which it is to be included in the information to be sent to AFFCO's Non-associated Shareholders. 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 Deloitte Corporate Finance as to the form and context in which it appears.

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