Comvita Limited

Independent Adviser's Report

On the Full Takeover Offer from Cerebos New Zealand Limited

GRANT SAMUEL

November 2011

Table of Contents

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Glossary

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Term	**Definition**
Cerebos	Cerebos New Zealand Limited, a wholly owned subsidiary of Cerebos Pacific Limited
Cerebos Offer	The full takeover offer from Cerebos for all of the shares in Comvita at a price of $2.50 per share
Cerebos Pacific	Ultimate shareholder of Cerebos, listed on the Singapore Stock Exchange
Comvita	Comvita Limited
Derma Sciences	Derma Sciences Incorporated, a US listed company
EBITDAF	Earnings Before Interest, Tax, Depreciation, Amortisation, Fair Value Adjustments and Impairments
FDA	US Food and Drug Administration
FY	Financial Year
FY2009	Year ended 31 March 2009
FY2010	Year ended 31 March 2010
FY2011	Year ended 31 March 2011
FY2012	Year ending 31 March 2012
NZSX	New Zealand Stock Exchange
Olive Products	Olive Products Australia, acquired by Comvita in 2007
Ordinary Shares	Comvita's ordinary shares listed on the NZSX
Redeemable Shares	Unlisted partly paid redeemable ordinary shares issued to certain Comvita executives under an executive share scheme called the Comvita Limited Partly Paid Share Scheme
S$	Singapore dollar
UMF	Unique Manuka Factor, referring to the antibacterial property
UMF Rating	A numeric number – typically in the range 5-20 reflecting the strength of the UMF property in the honey
Varroa Mite	Varroa is an external parasite of honeybees. Varroa is widely distributed in NZ and cannot be eradicated. Infested hives will exhibit lower bee numbers.
VWAP	Volume Weighted Average Price

1. Terms of the Cerebos Offer

1.1 Background

On 14 October 2011 Cerebos New Zealand Limited (**Cerebos**), a wholly-owned subsidiary of Cerebos Pacific Limited (a company listed on the Singapore Stock Exchange), announced that it would make a full offer under the Takeovers Code for all of the equity securities in Comvita Limited (**Comvita**) at a price of $2.50 per share (the **Cerebos Offer**). The Cerebos Offer was made to Comvita shareholders on 8 November 2011 and remains open for acceptance until 22 December 2011, unless extended.

Comvita is a New Zealand Stock Exchange (**NZSX**) listed company. Comvita produces a range of natural health and skin care products based on natural ingredients including Manuka honey, propolis, broccoli extract, olive leaf extract and Omega 3. Comvita's equity securities comprise ordinary shares listed on the NZSX (**Ordinary Shares**) and unlisted partly paid redeemable ordinary shares issued to certain Comvita executives under an executive share scheme called the Comvita Limited Partly Paid Share Scheme (**Redeemable Shares**).

Cerebos has advised the market that it currently does not own any shares in Comvita.

1.2 Details of the Cerebos Offer

The Cerebos Offer is for all of the Ordinary Shares in Comvita and all of the Redeemable Shares. The consideration offered for each Ordinary Share is $2.50 in cash. The consideration offered for each Redeemable Share depends on the date upon which the Redeemable Share was issued, as summarised in the table below:

Cerebos Offer price for Redeemable Shares		
Cash offer price ($) per Redeemable Share	**Issue date**	**Final maturity date**
0.39	4 July 2008	4 July 2013
0.39	1 August 2008	1 August 2013
1.33	1 September 2009	1 September 2013
1.33	1 September 2009	1 September 2013
0.98	3 March 2011	3 March 2015

The Cerebos Offer is conditional upon a range of conditions including:

- acceptances received for the Cerebos Offer meet or exceed 90% of the issued shares in Comvita (representing the sum of all the Ordinary and Redeemable Shares in Comvita);
- no dividends, bonus issues or other payments or distributions have been declared or paid while the Offer is open;
- the business is carried on in a normal and ordinary course consistent with past practices while the Offer is open;
- no event or circumstance as or could reasonably be expected to have a material adverse effect on the financial position, trading operations or prospects or assets of Comvita as compared with the position immediately prior to the date of notice of intention to make an offer (being 14 October 2011);
- Comvita does not make an announcement or profit warning to the effect that its normalised net profit after tax for the twelve month period ending 31 March 2012 will or may be more than 10% less than $7.3 million, being the bottom of the range of current guidance given by Comvita on 14

September 2011 for net profit after tax (or if such announcement or profit warning provides a range for such forecast, the bottom of that range is not more than 10% less than $7.3 million);

- there being no decline in either the NZSX50 or the S&P/ASX50 equivalent of 10% or more, measured by reference to the level of the relevant index at 5.00pm on the trading day immediately prior to the notice of intention to make a takeover offer, which decline is maintained for the trading period of NZSX or ASX (as relevant) of two consecutive trading days or, if it occurs less than 48 hours before 5.00pm on the Closing Date, is maintained continuously during the subsequent trading periods of the NZSX or ASX (as relevant) until 5.00pm on the Closing Date; and

- The Offer, and any contract arising from it, is further conditional upon Cerebos obtaining all consents required under the Overseas Investment Act 2005 and Overseas Investment Regulations 2005 for Cerebos to complete acquisition of Comvita shares in accordance with the Offer.

Other than the conditions relating to consent from the Overseas Investment Office (**OIO**), any conditions of the Cerebos Offer may be waived by Cerebos, at its discretion. As would be expected, most of the conditions are included to protect Cerebos against any substantial change in the form and operations of Comvita or the markets it operates in while the Offer is open for acceptance.

1.3 Requirements of the Takeovers Code

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

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

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

(b) 20% or more of the voting rights in a code company may not become the holder or controller of an increased percentage of the voting rights in the code company.

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

(a) ***by an acquisition under a full offer;***

(b) by an acquisition under a partial offer;

(c) by an acquisition by the person of voting securities in the code company or in any other body corporate from one or more other persons if the acquisition has been approved by an ordinary resolution of the code company in accordance with the code;

(d) by an allotment to the person of voting securities in the code company or in any other body corporate if the allotment has been approved by an ordinary resolution of the code company in accordance with the code;

(e) if: (i) the person holds or controls more than 50%, but less than 90%, of the voting rights in the code company; and

(ii) the resulting percentage held by the person does not exceed by more than 5 the lowest percentage of the total voting rights in the code company held or controlled by the person in the 12-month period ending on, and inclusive of, the date of the increase;

(f) if the person already holds or controls 90% or more of the voting rights in the code company.

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

1.4 Overview of Cerebos

Cerebos Pacific Limited (**Cerebos Pacific**) is a major food and health supplements business headquartered in Singapore and listed on the Singapore Stock Exchange. As at 16 November 2011, the market capitalisation of Cerebos Pacific was approximately NZ$1.5 billion. Cerebos New Zealand Limited, the vehicle being used for the purposes of the takeover offer, is a wholly owned subsidiary of Cerebos Pacific.

The highest profile Cerebos Pacific product is "*BRAND'S Essence of Chicken*", a cooking supplement. Cerebos Pacific's other products include gravies, sauces, coffee and cooking aids marketed under the brands *Fountain*, *Gravox*, *Robert Harris* and *Toby's Estate*. Suntory, a Japanese global food and beverage group, became the majority shareholder of Cerebos Pacific in 1990.

Cerebos Pacific's assets in Australia and New Zealand are owned by Cerebos Australia and New Zealand, comprising Cerebos (Australia) Limited and Cerebos Gregg's Limited respectively. In New Zealand, Cerebos Gregg's was formed in 1984 and today owns a range of consumer brands and products including *Robert Harris, Bruno Rossi, Atomic* and *Caffe L'Affare* (coffees), *Raro* and *Refresh* (powdered drinks), *Cerebos Salt, Bisto* and *Whitelocks* (condiments and sauces), and *Gregg's* (deserts). Cerebos Gregg's expanded through the acquisition of Robert Harris in 1990, and more recently through the acquisition of Atomic Coffee Roasters and Caffe L'Affare.

Cerebos Pacific reported global sales of S$460 million in the half year to 30 June 2011, and a net profit of S$45 million in the same period. A brief financial summary of Cerebos Pacific is outlined below:

Cerebos Pacific - Financial Summary (S$M)			
	2008	2009	2010[1]
Year end	**30 September**	**30 September**	**31 December**
Revenue	774	775	1,195
Gross profit	389	385	576
EBITDA	**137**	**139**	**226**
EBIT	**119**	**119**	**194**
EBITDA margin	*18%*	*18%*	*19%*
Net operating profit after tax	88	91	157
Operating cash flow	80	106	198
Total assets	631	660	757
Total liabilities	269	280	299
Net assets	362	380	458

Source: Cerebos Pacific Financial Reports.

[1] Cerebos changed its financial year in FY2010 from 30 September to 31 December. The financial information for FY2010 is for 15 months.

2. Scope of the Report

2.1 Purpose of the Report

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

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

A copy of this report will accompany the Target Company statement to be sent to all Comvita shareholders. This report is for the benefit of the shareholders of Comvita. The report should not be used for any purpose other than as an expression of Grant Samuel's opinion as to the merits of the Cerebos Offer. This report should be read in conjunction with the Qualifications, Declarations and Consents outlined in Appendix E.

2.2 Basis of Evaluation

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

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

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

2.3 Approach to Valuation

Grant Samuel has estimated the value range of Comvita with reference to its full underlying value. In Grant Samuel's opinion the price to be paid under a full takeover should reflect the full underlying value of the company. The support for this opinion is two fold:

- the Takeovers Code's compulsory acquisition provisions apply when the threshold of 90% of voting rights has been reached. In this instance, the Takeovers Code seeks to avoid issues of premiums or discounts for minority holdings by providing that a class of shares is to be valued as a whole with each share then being valued on a pro rata basis. In other words, a minority shareholder is to receive its share of the full underlying value. Grant Samuel believes that the appropriate test for fairness under a full or partial takeover offer where the offeror will gain control is the full underlying value, prorated across all shares. The rationale for this opinion is that it would be inconsistent for one group of minority shareholders, those selling under compulsory acquisition, to receive a different price under the same offer from those who accepted the offer earlier; and

- under the Takeovers Code the acquisition of more than 20% of voting rights in a "code" company can only be made under an offer to all shareholders unless the shareholders otherwise give approval. As a result, a controlling shareholding (generally accepted to be no less than 40% of the voting rights) cannot be transferred without the acquirer making an offer on the same terms and conditions to all shareholders (unless shareholders consent). Prior to the introduction of the Takeovers Code some market commentators held the view that where a major shareholder had a controlling shareholding, any control premium attached only to that shareholding. One of the core foundations of the Takeovers Code is that all shareholders be treated equally. In this context, any control premium is now available to all shareholders under a takeover offer (in a scenario where an offeror will gain control), regardless of the size of their shareholding or the size of the offeror's shareholding at the time the offer is made.

Accordingly, Grant Samuel is of the opinion that not only because shares acquired under a compulsory acquisition scenario will receive a price equivalent to full underlying value, but because the control premium is now available to all shareholders, the offer price under either a full or partial takeover offer where the offeror will gain control should be within, or exceed, the prorated full underlying valuation range of the company.

Comvita has been valued at fair market value, which is defined as the estimated price that could be realised in an open market over a reasonable period of time assuming that potential buyers have full information.

3. Profile of Comvita

3.1 Background

Comvita is an international natural health and beauty products company with a strong focus on developing innovative products backed by scientific research. Comvita was established by Claude Stratford in 1974 with a mission to *"produce natural products that work, and acting in a way that preserves the environment for generations to come"*. Two years later Claude Stratford partnered with Alan Bougen to research and produce honey and bee based therapeutic products. Interests associated with Alan Bougen continue to hold 10.8% of Comvita today. The company steadily increased its product range and brand presence, undertaking its first export shipment in 1988. Comvita was listed on the NZAX in 2003, and moved to the NZSX in 2006. The following table provides a timeline of the key events in Comvita's history over the last ten years:

Key Events in Comvita's Recent History

Year	Key Event
2001	▪ Comvita opened its first store in Hong Kong.
2003	▪ Comvita's shares began trading on the NZAX. ▪ Acquired the remaining 50% of Apimed Medical Honey Limited, a NZ based medical honey company specialising in honey-based would dressings.
2004	▪ Comvita distributor opens its first store in China.
2005	▪ Comvita signed an agreement with Brightwake (a UK wound dressing manufacturer) to produce a range of new wound dressings. ▪ Acquired its UK distributor, NZ Natural Foods, for an undisclosed sum.
2006	▪ Comvita signed a long-term exclusive licensing deal with US-based manufacturer and supplier of wound care products, Derma Sciences Inc (**Derma Sciences**). Under the agreement, Derma Sciences received exclusive manufacturing and marketing rights to Comvita's woundcare products throughout the Americas. ▪ Comvita acquired New Zealand based natural health products company NZ Vitalife for $0.3 million in cash and shares. ▪ Comvita's shares began trading on the NZSX.
2007	▪ Acquired woundcare and skincare products company Medihoney, based in Australia, for A$6 million in cash and shares. ▪ Comvita's patented advanced wound care dressing receives clearance from the US Food and Drug Administration (**FDA**). ▪ Acquired its Hong Kong distributor GreenLife Group for $9 million in cash and shares. ▪ Acquired Olive Products Australia (**Olive Products**) for A$20 million in cash and shares.
2008	▪ Acquired Kiwi Bee, which specialises in the production of medical grade Manuka honey, for $2.1 million in cash and shares. At the time of the acquisition the company had 3,000 beehives located on 150 Manuka sites, as well as a state-of-the-art medical grade honey extraction facility, land and buildings.
2010	▪ Comvita reaches an agreement with Derma Sciences covering the worldwide licensing rights for Medihoney professional woundcare and skincare products. Under the terms of the agreement Derma Sciences paid Comvita US$5.2 million in cash, shares and warrants.
2011	▪ The patent dispute with Brightwake is resolved. Brightwake is granted a sub-licence to manufacture, distribute and sell its products in territories where Comvita has relevant patent protection such as the UK, Europe, New Zealand, Australia, South Africa, Singapore and Japan, but not including the United States or Canada. ▪ Comvita acquired Waikato Honey Products, strengthening its high quality Manuka honey supply. ▪ Full Takeover offer made by Cerebos.

The defining features of the past 10 years for Comvita have been:

- the progressive product diversification to now extend beyond the core Manuka honey based products;
- a shift from third party distribution to wholly owned distribution in most geographic territories;
- a sustained investment in raw material supply; and
- the entry into a commercial relationship with Derma Sciences (detailed further in Section 3.5).

Today, Comvita owns and promotes a range of healthcare products under its banner Comvita brand. Comvita employs approximately 340 staff in New Zealand, Hong Kong, Australia, Japan, Taiwan, South Korea and the United Kingdom. The head office is located in Paengaroa, near Tauranga, New Zealand.

3.2 Products

Comvita pioneered Manuka honey as a healthy food and progressively expanded its product range to honey based products and more recently into olive leaf and Omega 3 products.

Omega-3
Maintaining optimal health. support brain function, maintain the heart, support bones, joints and the body's natural immune defence.

Broccoli
An antioxidant booster which helps to protect against cellular damage.

Propolis
A natural antioxidant produced by trees, Propolis acts as nature's best defence to protect and heal.

COMVITA

UMF Manuka Honey
Unique Manuka Factor (**UMF**) is a measure of antibacterial activity which is naturally present at varying levels in honey made from the nectar of the Manuka bush, native to New Zealand. Comvita's HUNI XA, developed from UMF honey is also used in skincare to slow signs of aging.

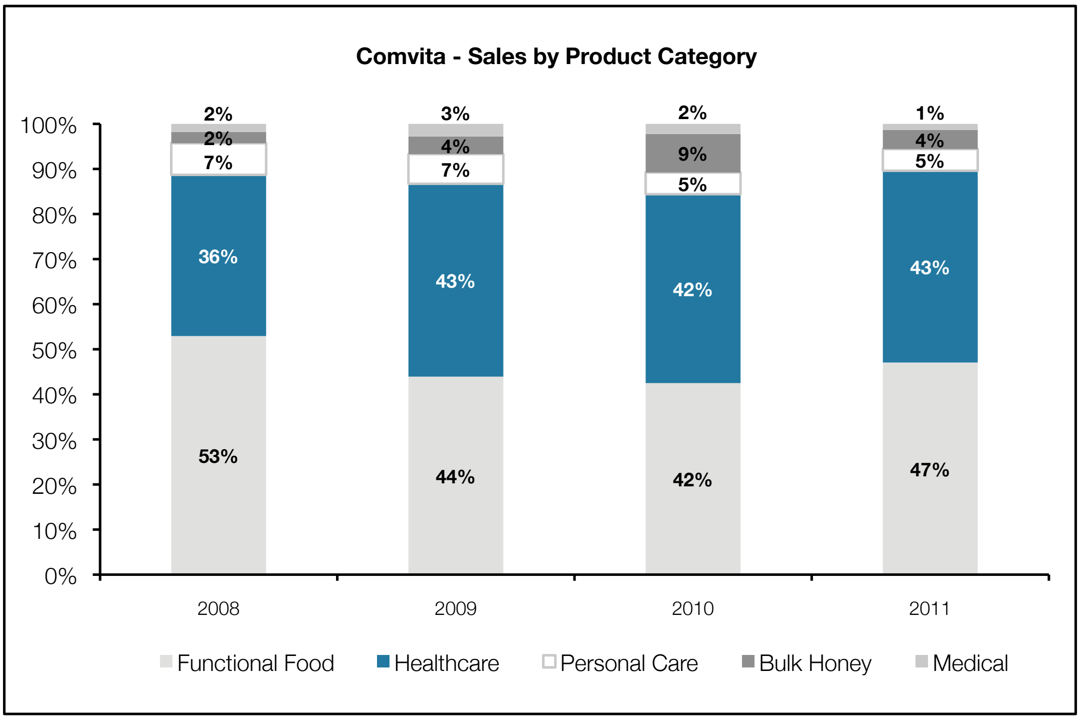
Olive Leaf
Comvita's olive leaf extract 'made from fresh leaves' contains 30 times more antioxidants than the equivalent amount of the best virgin olive oils. Comita's SYNERGY 12, an extract from Olive Leaf, is also used for skin brightening in skin care

Today, Comvita's product range can be categorised into four distinct groups:

Comvita – Product Groups	
Product Group	**Description**
Functional Foods	Comvita's functional foods comprises the manufacture and sale of Manuka Honey, Apple Cider Vinegar, Manuka Honey Bars and other honey varieties.
Healthcare	Comvita's healthcare range includes Olive Leaf Complex, Omega 3, Colostrum, Winter Wellness solutions (elixirs and lozenges etc), Bee Pollen, Antioxidants, Propolis, Royal Jelly and Oral care.
Medical	Comvita's medical range comprises medical creams, antibacterial medical honey and antibacterial wound gel. In 2006 Comvita signed a long-term exclusive licensing agreement with US based manufacturer and supplier of wound care products, Derma Sciences, to supply honey to that company for impregnation in Derma Sciences woundcare products.
Personal Care	Personal Care products include moisturisers, lotions, exfoliants, eye gels, toners and masks as well as Medihoney home based wound care.

The core raw material used in the Comvita product range is Manuka Honey. Manuka Honey is widely recognised as containing strong health and antibacterial properties, measured in the industry and consumer market by reference to a UMF rating. Comvita has been successful in progressively extracting higher value from its honey raw material, by incorporating it as an ingredient in higher value products, such as medical and personal care products. The introduction and success of these higher value added products to the Comvita range has contributed to Comvita steadily improving its overall gross margin percentage.

Comvita's sales by product category for the last four years are summarised in the chart below:



Source: Comvita Management Accounts

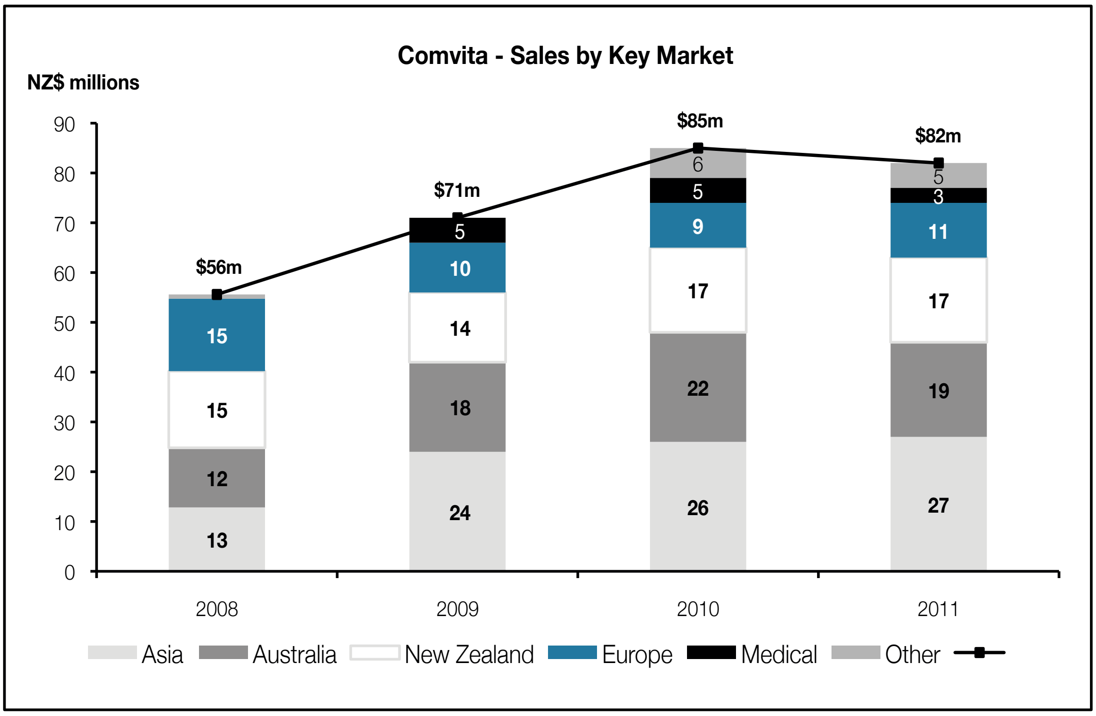
Approximately 60% of group sales are now derived from products other than raw honey. Comvita's strategy is to diversify the product mix with a focus on progressively shifting the mix to more "value added" products, thereby increasing margins and profitability. At present the highest margin personal care and medical products are in total only 6% of sales.

3.3 Markets

Comvita undertook its first export shipment in 1988 to the UK, and subsequently extended operations to Hong Kong, China, Australia, USA, Taiwan and Korea. The international expansion has occurred though acquisition, partnership, and new store openings, in each case tailored to best meet the market demand of each particular geography. The following table provides an overview of Comvita's operations in each of its key geographic markets:

Comvita – Key Segmental Markets	
Market	**Description of operations**
New Zealand	▪ Manufacturing, distribution centre and corporate head office in Paengaroa. ▪ Kiwi Bee Medical, the Kerikeri based producer of medical honey. ▪ Kiwi Extracts, a 100% owned specialist bio-actives extraction facility based in Nelson. ▪ The Comvita product range is distributed to the domestic market through health stores, pharmacies, supermarkets, tourism outlets, directly via an online shop and through a store at the head office in Paengaroa.
Australia	▪ A 157 hectare olive leaf plantation, extraction and manufacturing facility. ▪ Sales and distribution national head office based in Brisbane. ▪ Product distribution in Australia is primarily through third party health stores, pharmacies, tourism outlets and directly via the online shop.
Asia	▪ Comvita's operations in Asia are primarily sales and marketing focused. ▪ Sales in China and Singapore are undertaken by third party distributors. ▪ The distribution channel includes nearly 470 branded retail outlets, including 54 in Hong Kong, 12 in Taiwan, 6 in Korea and more than 400 in 40 cities throughout mainland China.
Europe	▪ Comvita's European operations are primarily focussed on the UK. ▪ Product distribution is primarily through major health stores and retail chains in the UK and Germany, such as Holland & Barrett, Sainsburys, Boots and Tesco. ▪ Comvita owns its own concept store in Portobello Road, Notting Hill, London.
Medical	▪ Medical segment revenue and earnings are primarily generated by deferred revenue and royalty payments received from Derma Sciences.

The following graph provides an overview of revenue by key market since 2008[2]:



Source: Comvita

[2] In 2008 Comvita changed its financial year end to 31 March. The FY2008 figures in the chart below have been estimated using FY2008 management accounts to provide a meaningful comparison with FY2009.

The following comments are relevant to an analysis of the chart above:

- Asia has underpinned Comvita's growth in recent years and in FY2011 sales to this region represented approximately one third of total revenue. Comvita's extensive distribution partnership network established in Asia ensures that approximately 90% of total sales are made direct to consumers;
- overall group sales declined in FY2011 due to the weakness of the GBP and USD currencies (in each case relative to the NZ$) which account for approximately 22% of Comvita's sales, a $5 million reduction in the sale of bulk honey, and a cessation of ethical medical sales following the sale of exclusive Medihoney licencing rights to Derma Sciences. In local currency terms core product sales were up 8% in FY2011 compared with the prior year; and
- medical revenue and earnings are primarily generated by royalty and capital payments from Derma Sciences.

3.4 Operations

Comvita's primary manufacturing, production and administration facility is located in Paengaroa. Honey processing, formulation, research and development and the packaging of various healthcare supplements is undertaken at the Paengaroa facility. All other product categories (medical, personal care and some functional food products) are manufactured through contract manufacturers. Production is supplied to each geographical market where local Comvita staff manage the relationship with distribution partners (China), or undertake the distribution directly (UK, Australia, Korea, Hong Kong, NZ, Taiwan and Japan).

Supply

Comvita's business model is dependent on the continued supply of increasing volumes of Manuka Honey and Olive Leaf extracts. In the year to 31 March 2011, Comvita sourced approximately 1,500 tonnes of honey from all over the North Island and upper South Island. Comvita's supply chain initiatives include:

- the acquisition of Kiwi Bee in 2008, which included 3000 beehives and a medical grade honey extraction facility;
- the acquisition of Waikato Honey Products in October 2011, which included 3,500 beehives located throughout the Waikato and central North Island;
- securing the production from over 50,000 beehives under contract or direct control. A large proportion of the production from these beehives is contracted to Comvita for set production periods;
- investing in the development of elite Manuka strains for reforestation of marginal land; and
- planting of Manuka in several land development projects owned by third parties.

Manuka honey is a stable product with a long shelf life of many years under controlled storage conditions. This product feature allows Comvita to manage its inventory and supply demands with some confidence. Comvita management has expressed strong confidence that raw material supply is secure and planned forward for a number of seasons. Where appropriate, Comvita enters into long term purchasing contracts with its suppliers for periods of up to 3 years. These supply contracts throughout New Zealand assist in mitigating supply risk. Nevertheless, raw honey prices have exhibited some volatility due to climate conditions and fluctuating supply and demand. Honey prices have been relatively stable over the last two years.

Through the acquisition of Olive Products in 2007 Comvita secured its supply chain for olive leaf raw material. The Olive Products facility has approximately 560,000 olive trees on a 157ha plantation. Comvita management considers that this plantation could provide product for Comvita's entire olive leaf range, even if demand increased. Additional plantings are currently being made.

Distribution

Comvita has tailored its channels to market by geography. The key aspects of Comvita's channels by geography include:

- the Asian market is largely direct to consumers. Comvita product is sold through nearly 400 branded retail outlets supplied by Comvita's distribution partner in China. Approximately 72 further stores are owned and operated by Comvita in Taiwan, Korea and Hong Kong. The retail market for global dietary supplements in Hong Kong and China remains strong;
- in the UK, Australia and New Zealand, the channel to market is primarily through health food stores, pharmacies and grocery retailers;
- the Medical products range is exclusively distributed globally by Derma Sciences, except for the over the counter market. Derma Sciences has 28 sales representatives in the US, a sales office in the UK and distributors in several European countries, the Middle East, Australia and South Korea; and
- Comvita promotes its internet platform that supports direct selling in New Zealand, Australia, UK, Germany, Hong Kong, Taiwan, Japan and the US. To date, internet sales to China and Korea have been limited.

Research and Development

Over the last three years Comvita's investment in research and development has averaged approximately $2 million per annum. To enhance its in-house capability, Comvita has established collaborative research projects with universities in New Zealand, Australia and Europe. Such collaboration has assisted Comvita in developing the following products:

- ***Apinate***: Honey impregnated into alginate fibre;
- ***Manusorb***: Three layered dressing honey gel sheet impregnated into alginate fibre;
- ***Plant Breeding Plant Variety Rights***: Influencing plants to maximise the plant nectar composition;
- ***Honey Mode Of Action***: Tailored dressings to control mode of action, important for managing a variety of wound types; and
- ***Honey Eye, Ear And Nose***: Ophthalmic application.

During FY2011, Comvita's technology leadership in Manuka honey has also been recognised in two scientific publications and it has been awarded three further research and development grants.

3.5 Derma Sciences

Founded in 1984, Derma Sciences is a fully integrated manufacturer, marketer and supplier of products predominantly for wound care. The company undertook its initial public offering in 1994 and is currently listed on the NASDAQ (ticker symbol DSCI). Derma Sciences has approximately 10.5 million shares on issue, which have traded between US$4.55 and US$12.60 over the past twelve months.

Operations

Derma Sciences' customers consist of health care agencies and institutions such as wound care centres, long-term care facilities, hospitals, home healthcare agencies and doctors' surgeries. Derma Sciences' products are also sold through retail channels including pharmacies, other retail outlets and first-aid kit manufacturers. Derma Sciences focuses on three primary areas including Advanced Wound Care, Basic Wound Care, and Drug Development. Each of these areas is described below:

Advanced Wound Care

Derma Sciences' Advanced Wound Care business consists of a full range of products for chronic wounds and burns, including proprietary dressings. Derma Sciences' proprietary Advanced Wound Care products include Medihoney products, Xtrasorb, Bioguard and Algicell. Although the Advanced Wound Care category currently comprises less than 20% of the company's turnover, this is the key growth and high margin product group for Derma Sciences.

Basic Wound Care

The Basic Wound Care business includes both branded and private-label bandages, gauze-based dressings, wound closure strips, and first aid products. Derma Sciences undertakes the manufacture of private label products at its manufacturing operations in Toronto and China for some of the largest distributors and wound/skin care product providers in the world. The recent addition of its first aid line has provided strong growth, as well as the ability to distribute other Derma Sciences' basic wound care products through the retail channel. The Basic Wound Care division comprises approximately 80% of Derma Sciences' total revenue.

Drug Development

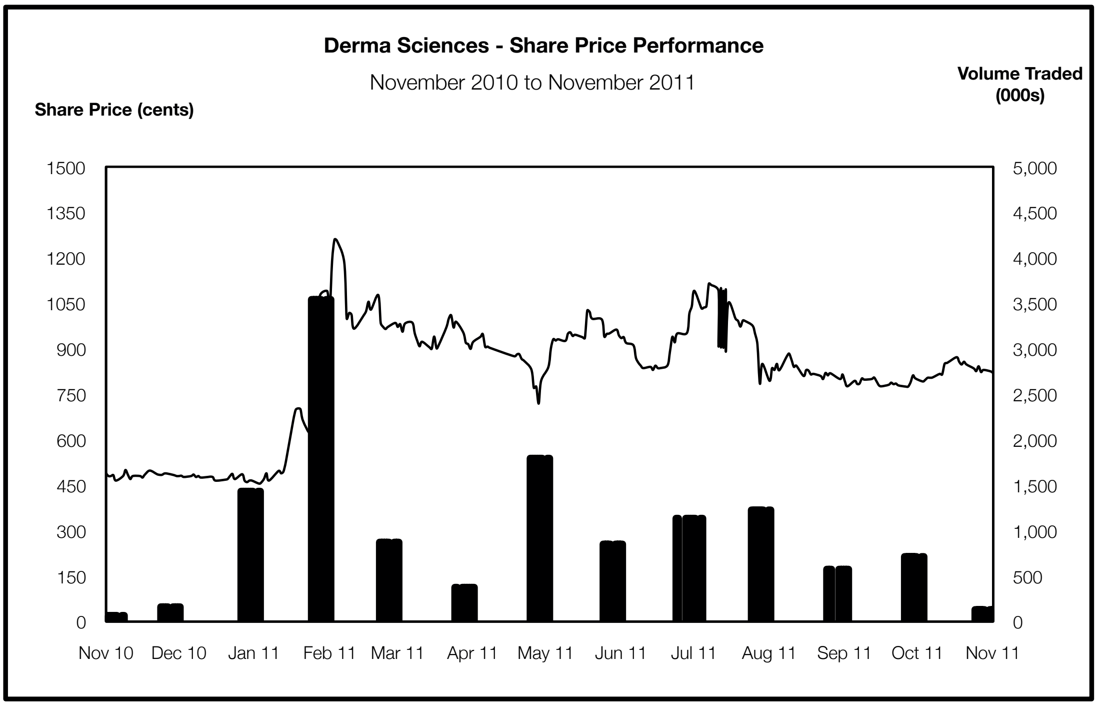
Derma Sciences is currently in the process of developing a product for the treatment of diabetic ulcers. Phase II clinical trials in the US were recently completed and the company is in the process of initiating Phase III trials. The company believes this product has significant potential with applications in the chronic wound market (such as diabetic ulcers), scar prevention/reduction, burns, radiation and other wound markets. The cost of the Phase III trial and, if successful, ultimately bringing the product to market has been estimated by Derma Sciences at approximately US$30 million.

Financial Overview

A financial overview of Derma Sciences is outlined in the table below:

Derma Sciences Financial Summary (US$ millions)			
Year end 31 December	**2009**	**2010**	**Half Year 30 June 2011**
Revenue	48.5	56.5	30.3
Gross profit	*15.1*	*16.5*	*9.1*
Operating loss	(0.5)	(1.7)	(0.9)
Operating Cash Flow	2.7	(0.3)	1.1
Free Cash Flow	2.4	(2.9)	0.4
Total Tangible Assets	22.2	22.9	50.9
Intangible Assets	11.1	14.1	13.2
Total Liabilities	12.1	10.3	10.9
Net Assets	21.2	26.7	53.2

Derma Sciences is yet to make a net profit. The company has not yet paid a dividend, has a limited free float on the NASDAQ and therefore limited liquidity and a volatile share price. As at 30 June 2011 Derma Sciences held approximately US$24.6 million in cash (net of debt). The share price performance of Derma Sciences over the past 12 months is shown in the chart below:



Investment by Comvita

In February 2006 Comvita announced that it had entered into a licensing agreement with Derma Sciences under which Derma Sciences received the exclusive manufacturing and marketing rights to Comvita's woundcare products throughout North, Central and South America. As part of the agreement Comvita was issued with shares and warrants in Derma Sciences. By early 2010, following the acquisition of further shares and the exercise of certain warrants, Comvita had taken its total investment in Derma Sciences to US$2.5 million.

In late February 2010 Comvita extended its relationship with Derma Sciences by selling it the exclusive international rights to manufacture and sell the Medihoney woundcare and skincare products to the professional and medical market worldwide (previously only the Americas), with Comvita retaining the exclusive worldwide rights to sell the same products to the "over-the-counter" market. In return Comvita received compensation of a cash payment of US$2.25 million, US$2 million of shares in Derma Sciences (400,000 shares issued at US$5 each), 133,333 warrants exercisable at US$5.50 on or before February 2015 and 100,000 warrants exercisable at US$6.25 on or before February 2015. Comvita also sells honey raw material to Derma Sciences and receives royalty payments on all sales as well as capital payments when certain revenue thresholds are met. Importantly, as part of that transaction, Comvita was offered a seat on the Derma Sciences board. That position is held by Comvita CEO Brett Hewlett.

Comvita's current shareholding in Derma Sciences is 10.43% including warrants, or 7.28% on a fully diluted basis. Comvita's investment in Derma Sciences is comprised as follows:

Comvita's shareholding in Derma Sciences			
Instrument	**Number**	**Exercise price**	**Exercise date**
Shares	864,880	na	na
Warrants	100,000	US$6.25	24 February 2015
Warrants	133,333	US$5.50	24 February 2015

3.6 Financial Performance

The financial performance of Comvita for the years ended 31 March 2009 (**FY2009**), 2010 (**FY2010**) and 2011 (**FY2011**), together with the forecast for the year ending 31 March 2012 (**FY2012**), are shown in the table below:

Comvita Financial Performance (NZ$ million)				
Year end 31 March	**2009**	**2010**	**2011**	**2012F**
Sales	71.4	84.9	82.0	91.9
Cost of sales	(33.9)	(41.3)	(36.1)	(39.2)
Gross profit	**37.5**	**43.6**	**45.9**	**52.7**
Gross margin	*52%*	*51%*	*56%*	*57%*
Selling and marketing	(18.4)	(18.9)	(21.9)	(23.1)
Distribution	(3.0)	(3.2)	(4.2)	(4.3)
Research and development	(2.1)	(1.8)	(2.6)	(2.6)
Administration expenses	(7.9)	(8.2)	(8.3)	(8.0)
Other	-	0.5	0.6	(0.3)
Normalised EBITDAF	**6.1**	**12.0**	**9.5**	**14.4**
Normalised EBITDAF margin	*9%*	*14%*	*12%*	*16%*
Litigation expenses	-	(1.0)	(3.5)	0.3
Waikato link settlement	-	-	0.7	-
Reported EBITDAF	**6.1**	**11.0**	**6.7**	**14.7**
Impairment of intangible assets	-	(0.1)	(1.1)	-
Change in fair value of biological assets	0.2	0.1	-	0.3
Net finance costs - other fair value movements	0.1	-	-	-
Net finance costs - Derma Sciences	(1.0)	0.2	0.7	(0.6)
EBITDA	**5.4**	**11.2**	**6.3**	**14.4**
Depreciation and amortisation	(2.0)	(2.2)	(2.4)	(2.4)
EBIT	**3.4**	**9.0**	**3.9**	**12.0**
Interest expense	(2.7)	(1.8)	(1.4)	(1.3)
Tax expense	0.1	(2.2)	(2.0)	(3.3)
Profit after tax	**0.8**	**5.0**	**0.5**	**7.4**

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

- gross margins increased to 56% in FY2011, compared with 51% in the prior year. Comvita management attribute this improvement to a combination of price increases, cost reductions, gains in operating efficiencies, a higher proportion of sales of premium priced products and a continuation of vertical integration (and capture of value) in the core ingredient platforms of Manuka honey, fresh olive leaf extracts and propolis;
- despite the increase in gross profit in FY2011, Reported EBITDAF fell almost 40%. There were a series of one off legal costs of $3.5 million in 2011 and $1 million in 2010. On a normalised basis EBITDAF declined more than 20% between FY2010 and FY2011 due to higher operating expenses arising from a move to the internalised distribution model and an increase in research and development costs;
- profit after tax fell in FY2011 to $0.5 million, due to a number of abnormal expenses which included a $1.1 million non cash tax expense to account for the change in New Zealand's tax depreciation laws, and a write down of $1.1 million in intangible assets relating to WaikatoLink IP court proceedings, which was partially offset by the $0.8 million in settlement income;

- approximately 80% of group sales in the year to 31 March 2011 were to international markets. Management expect that proportion to rise as the key Asian markets continue to grow. Comvita has employed a treasury policy that seeks to mitigate the effects of any sudden currency movements. Historically Comvita has hedged approximately 60% of export revenue receivables. The primary traded currencies are USD (representing approximately 8% of turnover), AUD (representing approximately 20% of turnover), GBP (representing approximately 13% of turnover) and HKD (representing approximately 20% of turnover). Comvita uses a mixture of contracts, collars and options to hedge its currency risk;
- in FY2011, $0.8 million of sales related to deferred revenue as a result of the payment by Derma Sciences for the worldwide licensing rights for Medihoney. The total value of this payment is being amortised over 10 years;
- the forecast earnings for FY2012 shown in the table above is managements' latest full year projection, including actual results for the 6 months to 30 September 2011. In its earnings upgrade on 14 September 2011 Comvita stated that it expected full year sales to be in the range $91 - $95 million. The increased forecast reflects, in part, strong actual result in the first six months. In New Zealand Dollar terms, sales have risen by 14% over the previous corresponding six month period ended 30 September 2010. In particular, Hong Kong and Australia have exceeded sales expectations. The recently implemented direct sales model in Australia has been successful and the company anticipates further growth from this region. The forecast EBITDAF improvement on the year before is a function of a higher level of sales, and consistent gross margin. Gross margin is forecast to be maintained as a consequence of a price increases, ongoing improvements in product mix (i.e. movement to higher margin products) and the change from an agent distributor sales model to a direct sales model in Comvita's Australian operations;
- of importance to shareholders of Comvita is the very steady transformation of the business, which is not immediately apparent from the reported earnings. The transformation has involved:
  - expanding the product range into the higher margin personal care and medical markets;
  - entering into the profitable long-term distribution agreement with Derma Sciences, which has the potential to generate significant cash flows. Comvita supplies the raw materials to Derma Sciences but will generate the majority of its earnings from the relationship with Derma Sciences from royalties based on sales. The royalty rate steps up as prescribed sale value thresholds are reached;
  - acquisition of distributors or opening up of sales offices in key markets including Hong Kong, Japan, Taiwan, Australia and Korea increasing margins and revenues. Five years ago 90% of sales were through third parties whereas today 90% are through Comvita-owned channels;
  - investing in honey production and Manuka plantings to secure access to a group supply of the requisite honey to markets demand; and
  - acquiring Olive Products and expanding the healthcare range.

3.7 Financial Position

The financial position of Comvita as at 31 March 2010 and 2011 (audited) and 30 September 2011 (unaudited) is outlined in the table below:

Comvita – Balance Sheet (NZ$ millions)			
	31 March 2010	**31 March 2011**	**30 Sept 2011**
Cash and cash equivalents	8.5	2.4	3.1
Trade receivables	12.9	13.6	11.5
Inventories	13.7	18.5	21.6
Sundry receivables and other	4.6	4.3	3.8
Current Assets	**39.7**	**38.8**	**40.0**
Property, plant and equipment	11.6	13.0	13.7
Intangibles	42.7	43.4	41.5
Biological assets	4.8	5.1	5.2
Investments	6.7	11.0	8.8
Other	1.7	0.8	1.1
Non-current assets	**67.5**	**73.3**	**70.3**
Total assets	**107.2**	**112.1**	**110.3**
Loans and borrowings	1.6	6.1	6.3
Trade and other payables	11.3	8.9	11.6
Employee benefits	2.2	2.1	1.4
Other	0.9	0.9	1.0
Current liabilities	**16.0**	**18.0**	**20.3**
Loans and borrowings	18.5	15.3	14.0
Deferred revenue	6.7	5.9	6.6
Other	0.1	0.6	0.4
Non-current liabilities	**25.3**	**21.8**	**21.0**
Total liabilities	**41.3**	**39.8**	**41.3**
Net assets	**65.9**	**72.3**	**69.0**
Shareholder equity ratio	*61.5%*	*64.5%*	*62.6%*
Debt to equity ratio	*17.5%*	*26.2%*	*24.9%*

The following points are relevant when considering the above table:

- from 31 March 2010 to 31 March 2011 net debt increased from $11.6 million to $19 million reflecting in part, an active step up and investment in working capital levels mainly to fund honey stocks that were previously considered too low;
- property, plant and equipment increased in FY2011 due to a $0.9 million investment in a medical grade honey processing facility in Kerikeri;
- biological assets comprise approximately 550,000 hedge row olive trees and 7,300 grove olive trees in Queensland;
- investments primarily relate to Comvita's investment in shares in Derma Sciences;
- intangible assets include $38.5 million of goodwill primarily relating to prior acquisitions including Olive Products, Medihoney and GreenLife (Hong Kong). The remainder of the intangible assets relate to brands, patents and trademarks. Since FY2008, patents have incurred a $3.1 million impairment as a result of court action against WaikatoLink for misrepresentation. As at 31 March 2011, the value of this patent was written off;
- sundry receivables include the Derma Sciences warrants, valued using the Black Scholes methodology ($2.3 million at 31 March 2011 and $1.5 million at 30 September 2011);

- Deferred revenue relates to capital payments (non taxable) received from Derma Sciences under the licencing agreement, as capitalised and amortised over a ten year period.

3.8 Cash Flow

The cash flows for Comvita for the years ended 31 March 2009, 2010, and 2011 are shown in the table below:

Comvita – Statement of Cash Flows (NZ$ millions)			
Year end 31 March	**2009**	**2010**	**2011**
Receipt from customers	69.1	87.3	80.6
Payment to suppliers and employees	(62.7)	(64.3)	(80.8)
Other	(5.6)	(2.9)	(2.8)
Cash from operations	**0.8**	**20.1**	**(3.0)**
Payment for property, plant and equipment	(0.9)	(1.2)	(2.5)
Payment for intangibles	(1.0)	(1.6)	(1.6)
Cash from Derma Sciences	-	3.3	-
Other	(1.7)	(0.2)	(0.2)
Cash from investing activities	**(3.6)**	**0.3**	**(4.3)**
Proceeds from the issue of share capital	-	0.1	2.0
Proceeds from loans and borrowings	2.3	(10.4)	1.0
Payment of dividends	-	(0.5)	(1.7)
Cash from financing activities	**2.3**	**(10.8)**	**1.3**
Net cash flow	**(0.5)**	**9.6**	**(6.0)**

In reviewing the above table the following should be considered:

- the large movements in operating cash relate to the changes in working capital, in particular the large movements in inventory;
- the tightening of inventory in FY2010 contributed to the repayment of loans and borrowings in FY2010. Management considers that the inventory was arguably “over-tightened” in that period as a reaction to the global financial crisis. Inventories have subsequently increased by approximately $5 million;
- the $3.3 million in cash from Derma Sciences is the cash component of the NZ$7.5 million (US$4.5 million) licencing agreement transaction in FY2010, the balance was paid in shares and warrants; and
- in FY2011 Comvita raised $2.0 million through the issue of 500,000 shares at $2.00 per share to two strategic Asian partners in China and Korea. Both these shareholders remain on the Comvita share register.

3.9 Capital Structure and Ownership

As of 31 October 2011 Comvita had 28.2 million shares on issue held by approximately 1,470 shareholders. The Company's top 20 shareholders as at 31 October 2011 are shown in the table below:

Comvita – Top 20 Shareholders as at 31 October 2011

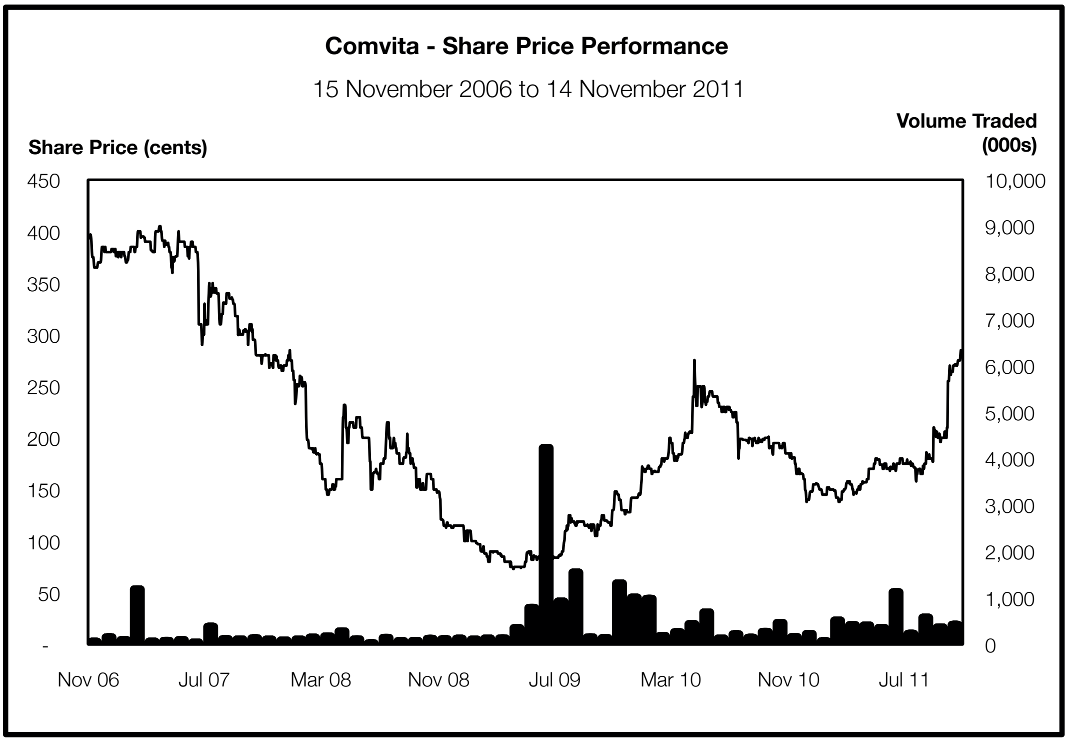
Shareholder	Shares (000s)	%
Alan Bougen, Lynda Bougen & Graeme Elvin	3,037	10.8%
Kauri NZ Investments Limited	1,900	6.7%
Custodial Services Limited	1,767	6.3%
New Zealand Central Securities Depository Limited	1,714	6.1%
Kam Butt	1,024	3.6%
Stapway Nominees Limited	1,020	3.6%
Development Enterprises Limited	1,002	3.6%
Maori Investments Limited	938	3.3%
Olives Australia Pty Limited	756	2.7%
Robert Tait & Jane Tait & Ian Craig	729	2.6%
Custodial Services Limited	713	2.5%
Kezza Properties Limited	650	2.3%
Li Wang	500	1.8%
Asia Pharm Ind Company Limited	500	1.8%
Custodial Services Limited	471	1.7%
Fung Ling	377	1.3%
Li Wang	326	1.2%
Kwong Butt	261	0.9%
Waipaoa Station Limited	213	0.8%
Custodial Services Limited	212	0.8%
Top 20 Shareholders	**18,110**	**64.2%**
Other Shareholders	**10,103**	**35.8%**
Total	**28,213**	**100.0%**

Source: NZX Company Research

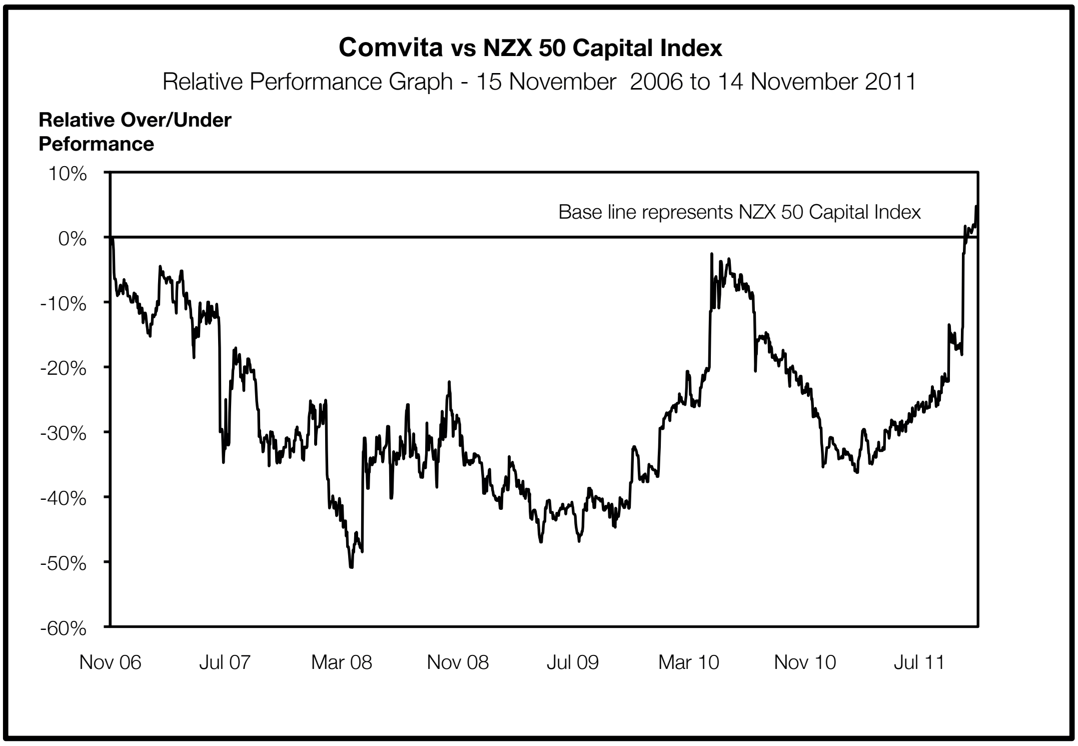
The Bougen family is the largest shareholder in Comvita with 10.8% of the shares. The Directors of Comvita own, or control, approximately 18% of the issued shares in Comvita.

3.10 Share Price Performance

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



Comvita's share price against the NZX50 index is shown in the graph below:



The Comvita share price has increased substantially in the last six months. Factors that may have contributed to the share price increase include:

- on 9 August 2011 Comvita announced that Derma Sciences had reached a key milestone for sales of Medihoney, representing annualised sales of approximately US$7.0 million and triggering a capital payment of US$1 million to Comvita on 1 September 2011;
- on 14 September 2011 Comvita announced that as a consequence of strong first half sales, it was issuing a profit guidance note. The guidance for the full year to 31 March 2012 was for revenue of $91 to $95 million and normalised net profit after tax of $7.3 to $8.2 million;
- on 14 October 2011 Cerebos announced that it was making a takeover offer for 100% of the shares in Comvita at a price of $2.50 per share; and
- on 3 November 2011 Comvita announced that it had acquired Waikato Honey Products to strengthen its continued supply of Manuka Honey.

Comvita shares have traded at prices higher than the Cerebos offer price since the announcement of the Offer, between $2.55 - $2.88 for the period from14 October to 14 November 2011.

4. Valuation of Comvita

4.1 Summary

Grant Samuel has estimated the equity value of Comvita to be in the range $100.5 million to $118.0 million or $3.40 – $4.00 per share. The values represent Grant Samuel's assessment of the full underlying value of Comvita and include a premium for control. The valuation is summarised below.

Comvita – Valuation Summary		
$ million except where otherwise stated	**Low**	**High**
Core Business Value	88.6	101.3
Derma License Agreement	22.5	27.4
Enterprise Value	**111.1**	**128.7**
Derma Investment	10.7	10.7
Capital Expenditure Adjustment	(5.1)	(5.1)
Net Debt for Valuation Purposes	(16.3)	(16.3)
Equity value	**100.5**	**118.0**
Fully diluted shares on issue including Redeemable Shares (million)	29.5	29.5
Value per share	**$3.40**	**$4.00**

This valuation range is an overall judgement having regard to recent market evidence, current equity market multiples and economic conditions and certain specific attributes of Comvita. The valuation represents the estimated full underlying value of Comvita assuming 100% of the company was available to be acquired and includes a premium for control. The value exceeds the price at which, based on current market conditions, Grant Samuel would expect Comvita shares to trade on the NZX in the absence of a takeover offer or proposal similar in nature to the Cerebos Offer.

Grant Samuel makes the following comments in respect of the valuation above:

Earnings

Grant Samuel has reviewed the FY2012 budget and discussed the assumptions underpinning it with management. The FY2012 budget represents a quantum improvement over the results for the year ended 31 March 2011:

- Comvita has traded ahead of budget for the 7 months to 31 October 2011;
- the assumptions supporting the revenue and cost forecasts for the remaining 5 months of the financial year are considered robust;
- forward orders for Comvita products remain strong; and
- Grant Samuel considers the revised FY2012 forecast released in summary to the market on 14 September 2011 to be representative of the sustainable earnings of the company for the purposes of valuing Comvita. The royalty and capital payment earnings streams relating to the Derma Sciences arrangement have been valued separately.

Number of shares on issue

Comvita has 1.332 million Redeemable Shares on issue under the Comvita Employee Share Scheme. The Redeemable Shares have been issued in various tranches, each with differing exercise prices and share price hurdles that need to be met before an exercise can occur. However, if the Offer is successful all of the outstanding Redeemable Shares can be exercised, regardless of the required share price hurdle.

As all of the exercise price thresholds are below the Cerebos Offer price of $2.50 per share, it is in theory logical to assume that if the offer was successful, all of the Redeemable Shares would be exercised by holders of those shares. Accordingly, Grant Samuel has increased the number of shares on issue for valuation purposes by 1.332 million, and applied the notional proceeds for the exercise of those Redeemable Shares to net debt. The table below sets out this calculation:

Comvita – Redeemable Shares			
	Number on issue	**Exercise Price**	**Total Exercise Cost**
Tranche A	645,000	$2.12	$1.367 m
Tranche B	527,000	$1.18	$0.623 m
Tranche C	160,000	$1.53	$0.245 m
Total	**1,332,000**		**$2.235 m**

Net debt for valuation purposes

The net debt for valuation purposes as at 31 October 2011 was $16.2 million. Net debt excludes the purchase price of Waikato Honey Products (settled that month), as the projected earnings from that business have not been included in the FY12 budget. For consistency, the value of this asset has also been ignored. Included in net debt has been notional cash proceeds from exercise of the Redeemable Shares, as described above.

Capital Expenditure Adjustment

Grant Samuel has reviewed Comvita's capital expenditure programme for the next three years. Capital expenditure across that period is forecast to significantly exceed depreciation. As substantially all of the capital expenditure is considered necessary for the maintenance of the current level of growth of the business. Grant Samuel considers it appropriate to incorporate a one-off capital expenditure adjustment to the valuation of Comvita. A component of the forecast capital expenditure relates to new projects, which will result in increased earnings in the future. The capital expenditure adjustment reflects the present value of the amount by which capital expenditure exceeds depreciation, excluding the amounts relating to new projects referred to above.

Derma Sciences Licence Agreement

Comvita receives royalties from Derma Sciences on the worldwide sale of its Medihoney wound dressings. The royalty percentage increases as net sales reach key milestones and thresholds. In addition, when sales of Medihoney product reach certain milestones an additional capital payment is made. Based on Derma Sciences' forecast the royalty payments will increase significantly. The projected royalty payments have been removed from Comvita's forecast earnings for valuation purposes and a 10 year discounted cash flow prepared to value the projected royalty stream and capital payments.

Valuation of Comvita's investment in Derma Sciences

Shares

Comvita holds 864,880 shares in Derma Sciences. There is an active open market for these shares. In the absence of non-public information in relation to the operations and future financial performance of Derma Sciences, the traded share price is considered the best measure of the value of Comvita's shareholding in Derma Sciences. Grant Samuel has determined the value of Comvita's shareholding in Derma Sciences at NZ$9.2 million based on the current share price of US$8.19 per share as at 17 November 2011 and by applying the NZD/USD exchange rate of 0.765 on that date. Although it may be difficult to sell such a large shareholding in one block at market value, the shareholding could be exited over time.

Warrants

There is no active market for Derma Sciences warrants. In the absence of such a market Grant Samuel has valued the 233,333 warrants held by Comvita using the Black Scholes option pricing model. This is the same basis upon which Comvita values these warrants for the purposes of inclusion in its financial statements. Based on a NZD/USD exchange rate of 0.765 as at 17 November 2011 Grant Samuel's valuation of the Derma Sciences warrants held by Comvita is NZ$1.5 million.

Redeemable Shares

Prior to making the Offer Cerebos obtained an independent adviser's report on the fairness of the Offer as between the holders of Ordinary Shares and Redeemable Shares. This report quite properly did not address the fairness of the Cerebos Offer only the consideration being offered to each class of security holder. The report writer concluded "*that in our opinion the consideration and terms offered for each class of voting securities is fair and reasonable as between the classes of voting securities*". A copy of this report accompanied the Offer document. Grant Samuel concurs with that conclusion and accordingly in Grant Samuel's opinion, as there is no compelling reason to accept the Offer of $2.50 for the Ordinary Shares there is also no compelling reason for holders of the Redeemable Shares to accept the Offer.

4.2 Methodology

Overview

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

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

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

Each of these valuation methodologies has application in different circumstances. The primary criterion for determining which methodology is appropriate is the actual practice adopted by purchasers of the type of business involved. A detailed description of each of these methodologies is outlined at Appendix C.

Preferred Approach

Grant Samuel's valuation of Comvita represents an overall judgement having considered the value outcomes for different components of the business using different valuation methodologies. The capitalisation of earnings methodology has been employed to value the core trading operations, given the earnings history of Comvita. Management is confident of meeting or exceeding the FY2012 forecast.

Beyond FY2012 however, a number of variables are expected to have a significant impact on the longer term earnings of the company. These (somewhat interrelated) variables include:

- the ability to continue to source appropriate quantities of Manuka honey;
- the continued uptake (or otherwise) of key product lines including Medihoney and the skincare range;
- the state of the key retail markets (Asia and Australia) that Comvita sells its product range into; and
- the actual capital expenditure required at Paengaroa to maintain and keep up with product demand.

The shares in Derma Sciences owned by Comvita have been valued at the market price of Derma Sciences shares. The Derma warrants have been valued using the Black Scholes methodology. The Derma Sciences licencing agreement provides for a payment of royalties (at increasing levels) and capital payments to Comvita when certain revenue thresholds are met. Grant Samuel has valued this projected revenue and capital payment stream separately using the discounted cash flow methodology.

4.3 Assessment of Implied Multiples

Grant Samuel estimates the value of Comvita on an ungeared basis to be in the range of $111.1 million – $128.7 million. This range implies the following multiples:

Comvita - Implied Multiples		
	Valuation Range	
	Low	High
Multiple of EBITDA		
Normalised year ending 31 March 2012F	7.7	9.0
Normalised year ended 31 March 2011A	11.7	13.5
Reported year ended 31 March 2011A	16.6	19.2
Multiple of EBIT		
Normalised year ending 31 March 2012F	9.3	10.8
Normalised year ended 31 March 2011A	15.7	18.1
Reported year ended 31 March 2011A	28.5	33.0
Multiple of PE		
Normalised year ending 31 March 2012F	13.4	15.8
Normalised year ended 31 March 2011A	27.9	32.8
Multiple of net assets as at 30 September 2011	1.6	1.9

An explanation regarding interpreting the above multiples is included at Appendix D.

4.4 Market Evidence

Comparable Transactions

The valuation of Comvita has been considered having regard to the earnings multiples implied by the price at which broadly comparable companies and businesses have changed hands. A selection of relevant transactions is set out below:

Recent Transaction Evidence

Date	Target	Acquirer	Implied Enterprise Value (NZ$ millions)	EBITDA Multiple (times)		EBIT Multiple (times)	
				Historical	Forecast	Historical	Forecast
Sep 11	DXN Holdings Bhd	Temasek Sejati	157.0	6.2	-	7.0	-
Jan 11	Bio-Engineered Supplements & Nutrition	Glanbia	184.5	8.3	-	8.8	-
Dec 10	Martek Biosciences Corp	Royal DSM	1,312.2	8.3	7.9	11.7	11.2
Sep 10	NeutraHealth PLC	Elder International	35.0	10.4	6.6	19.5	9.6
Sep 10	EPAX A.S.	Trygg Pharma	196.6	9.7	-	13.0	-
Jul 10	NBTY	The Carlyle Group	4,849.4	7.9	8.3	9.2	9.9
Jan 10	Amerifit Brands	Martek Biosciences	257.2	9.0	8.2	10.2	10.0
Dec 09	Chattem	Sanofi-Aventis	2,785.4	13.4	12.3	13.8	13.2
Sep 09	Garden of Life	Atrium Innovations	48.1	6.5	-	-	-
Aug 08	Optimum Nutrition	Glanbia	403.6	8.0	-	9.8	-
Oct 07	Burt's Bees	The Clorox Company	1,534.7	27.1	23.5	30.8	-
Jul 07	Mucos Emulsions	Atrium Innovations	229.2	6.6	-	-	-
Minimum				***6.2***	***6.6***	***7.0***	***9.6***
Maximum				***27.1***	***23.5***	***30.8***	***13.2***
Average				***9.9***	***11.1***	***12.9***	***10.8***
Median				***8.3***	***8.3***	***10.2***	***10.0***

Source: Media reports, company announcements, annual reports and presentations.

Brief descriptions of the transactions included above are provided in Appendix A. Each transaction has its own unique set of circumstances.

Share Market Evidence

The valuation of Comvita has also been considered in the context of the share market ratings of listed Australasian and international companies with operations in the healthcare products sector. While none of these companies is directly comparable to Comvita, the share market data provides some empirical information with which to reference the valuation of Comvita.

Company	Market Capitalisation (NZ$ millions)	EBITDA Multiple[4] (times)		EBIT Multiple[5] (times)	
		Historic	Forecast	Historic	Forecast
Comvita (pre-offer price)	**59.2**	**7.6**	**5.1**	**10.2**	**6.1**
Comvita (Cerebos Offer price)	**70.5**	**8.9**	**5.9**	**11.9**	**7.1**
New Zealand/Australia					
Blackmores	646.5	11.2	10.5	12.5	11.5
Healthzone	53.3	8.9	-	10.4	-
New Image Group	56.4	5.5	-	6.0	-
Asia					
Cerebos Pacific	1,513.8	8.1	8.5	9.5	10.1
DXN Holdings	158.5	6.1	-	6.9	-
North America/Europe					
Atrium Innovations	529.5	8.0	7.1	8.7	7.8
Herbalife	8,662.0	14.4	10.7	16.8	12.1
Nature's Sunshine Products	306.2	10.6	-	14.0	-
Nu Skin Enterprises	3,297.5	11.8	9.9	13.4	11.3
Nutraceutical International	171.7	4.5	-	5.8	-
Schiff Nutrition International	450.0	13.8	10.1	16.2	12.0
USANA Health Sciences	666.9	6.1	5.6	6.8	6.2
Vitamin Shoppe	1,449.9	13.3	11.2	17.9	14.3
Minimum		***4.5***	***5.6***	***5.8***	***6.2***
Maximum		***14.4***	***11.2***	***17.9***	***14.3***
Average		***8.9***	***10.0***	***10.4***	***11.4***
Median		***9.4***	***9.2***	***11.1***	***10.7***

Source: Grant Samuel analysis[6], Capital IQ

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

- the multiples are based on closing share prices as at 14 November 2011. The share prices, and therefore the multiples, do not include a premium for control. Shares in a listed company normally trade at a discount to the underlying value of the company as a whole;
- the companies selected have varying financial year ends. The data presented above is the most recent annual historical result plus the subsequent forecast year; and
- there are considerable differences between the operations and scale of the comparable companies when compared with Comvita. In addition, care needs to be exercised when comparing multiples of New Zealand companies with internationally listed companies. Differences in regulatory environments, share market and broader economic conditions, taxation systems and accounting standards hinder comparisons.

3 The companies selected have a variety of year ends. The financial information presented in the Historic column corresponds to the most recent actual annual result. The forecast column corresponds to the forecast for the subsequent year.

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

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

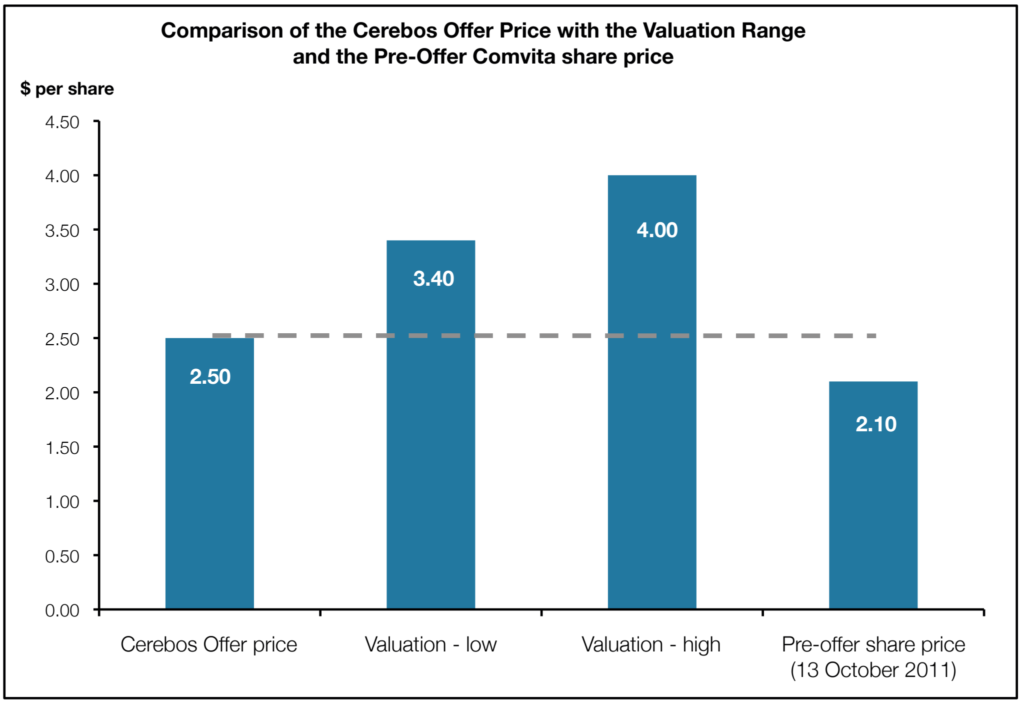
6 Grant Samuel analysis based on company announcements and, in the absence of company published financial forecasts, brokers' reports. Where company financial forecasts are not available, the median of the financial forecasts prepared by a range of brokers has generally been used to derive relevant forecast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

5. Merits of the Cerebos Offer

5.1 The Value of the Cerebos Offer

The value of the Cerebos Offer can be assessed with reference to a number of factors:

- ***Grant Samuel's assessment of the value of Comvita.*** In Grant Samuel's opinion the full underlying value of Comvita shares is in the range of $3.40 to $4.00 per share as set out in Section 4. This full underlying value represents the value of acquiring 100% of the equity in Comvita and therefore includes a premium for control. In Grant Samuel's opinion the offer price under a takeover offer where the offeror will gain control should be within, or exceed, the pro-rated full underlying valuation range of the company. **As the Cerebos Offer of $2.50 per share is below Grant Samuel's assessed value range for Comvita shares there is no compelling reason to accept the Offer.** The diagram below compares the Cerebos Offer price with Grant Samuel's assessed value range and the Comvita share price immediately prior to the announcement of the Cerebos Offer:



- ***the premium implied by the Cerebos Offer.*** The Cerebos Offer represents a premium of 19% relative to the closing price of $2.10 per share on 13 October 2011, being the last trading day prior to the announcement of the Cerebos Offer. The Cerebos Offer represents a premium of 23% relative to the 1 month volume weighted average price (**VWAP**) for the month to 13 October 2011. The premium for control is slightly lower than the premiums for control generally observed in successful takeovers of other listed companies. However, Grant Samuel observes that the Comvita share price increased shortly after the announcement of the Cerebos Offer, to a level higher than the Cerebos Offer price of $2.50 per share. Part of the increase is likely to be attributable to the earnings guidance upgrade issued by Comvita on 14 September 2011. Importantly, since the announcement of the Cerebos Offer of $2.50 per share, Comvita shares have traded in the range of $2.55 to $2.88; and

- ***comparable company and comparable transaction data.*** The Cerebos Offer implies multiples of 8.9 times historical normalised EBITDA for FY2011 and 5.9 times forecast EBITDA for FY2012. Grant Samuel's analysis suggests the historical EBITDA multiple implied by the Cerebos Offer is in line with historical multiples paid for controlling shareholdings in comparable companies but well below multiples paid for comparable companies on a forecast earnings basis. It is important to note that prior to making its Offer, after an initial approach from Cerebos, Comvita permitted Cerebos a limited period of time within which to undertake due diligence on the company, including providing it access to Comvita management's forecast FY2012 earnings.

5.2 The timing and circumstances surrounding the Cerebos Offer

- Following an initial approach from Cerebos, Comvita considered that a potential takeover offer was possible and wished to allow Cerebos access to more detail on the business prior to a potential offer being made in order to maximise the Cerebos offer price for Comvita shareholders. The Cerebos Offer has therefore been made on an informed basis. Notwithstanding that Comvita allowed Cerebos to undertake limited due diligence on the business, the announcement of the takeover offer appears to have come as a surprise to the board of Comvita;
- in many takeover transactions the offeror builds up a shareholding in the target before launching its offer. In this instance, Cerebos did not acquire any shares in Comvita prior to launching its takeover offer and owns no shares in the company. In the absence of acquiring a cornerstone shareholding, bidders often elect to secure a portion of the shares on issue by entering into lock-up arrangements with key shareholders (typically larger or influential shareholders) whereby the "locked-in shareholders" agree to accept the takeover offer for their shares when the offer is made. A current example of such a lock-up arrangement is the BayWa takeover offer for NZSX listed company Turners & Growers Limited, where GPG has agreed to sell its 63% shareholding into the BayWa offer when it is made. The existence of lock-up arrangements can give a takeover offer a degree of certainty and momentum as it conveys to the market a degree of validation of the offer concept and offer price. Cerebos has not entered into any lock-up agreements with key shareholders of Comvita prior to launching its Offer; and
- Cerebos has not set out its detailed plans for Comvita, and nor does it have to, if the Cerebos Offer is successful, other than indicating that it will continue to operate Comvita as a largely stand-alone business. Both Cerebos and Comvita own strong brands in their respective market categories – Cerebos in health supplements, food and coffee and Comvita in a range of Manuka honey products and a range of olive leaf extract products. It may be that there is an opportunity for Cerebos to promote Comvita products through its established sales channels in a wider set of geographical markets.

5.3 Possible outcomes of the Cerebos Offer

Cerebos is successful in reaching the 90% compulsory acquisition threshold

Cerebos is seeking to acquire 100% of the Comvita shares on issue. The Cerebos Offer is conditional upon Cerebos receiving acceptances to take its total shareholding in Comvita to 90%, the compulsory acquisition threshold which would enable Cerebos to acquire 100% of Comvita. If Cerebos receives acceptances to take its shareholding in Comvita to 90% or more, the Comvita Offer will become unconditional and:

- Cerebos has stated that it intends to acquire the remaining shares in Comvita using the compulsory acquisition provisions of the Takeovers Code. The compulsory acquisition provisions give Cerebos the right to compulsorily acquire the remaining Comvita shares on issue upon the 90% acceptance threshold being reached; and
- Comvita will be delisted from the NZSX and become a wholly owned subsidiary of Cerebos.

Cerebos receives acceptances of more than 50% but less than 90%

If Cerebos receives acceptances for more than 50% but does not receive sufficient acceptances to take its shareholding in Comvita to 90% by the date on which the Cerebos Offer closes (22 December 2011 or as extended) then:

- if Cerebos chooses not to waive the 90% minimum acceptance condition, Cerebos will not acquire any shares in Comvita and Comvita will remain a public company listed on the NZSX;
- if Cerebos chooses to waive the 90% minimum acceptance condition and declares the Offer unconditional then all shares accepted into the Offer will be acquired. In these circumstances:
  - Comvita will continue to be listed in the NZSX with Cerebos as a cornerstone majority shareholder with a shareholding greater than 50% but less than 90%;
  - Cerebos will have effective control over the day-to-day operations of Comvita. Cerebos has indicated that it intends to "*operate the Comvita business as a largely stand-alone business*" and that it would "*be focused on developing Comvita's prospects for the long term*";
  - Cerebos will be entitled to appoint new directors to the board of Comvita (and has indicated it would seek to do so), and by virtue of its majority shareholding, would control the outcome of any ordinary resolution put to shareholders;
  - the liquidity of Comvita shares is likely to be adversely affected **and the Comvita share price is likely to trade below the current share price**. Trading in Comvita shares is currently limited. A cornerstone shareholding of greater than 50% but less than 90% would likely reduce the liquidity of Comvita shares even further. The closer Cerebos gets to a 90% shareholding, the lower the liquidity of Comvita shares will be;
  - if Cerebos gains a shareholding of 75% or above it will be able to pass special resolutions such as those required to change the constitution or approve a major transaction; and
  - if Cerebos declares the Offer unconditional at a level greater than 50% but less than 90% it will be permitted to "creep" towards the 90% threshold over time by buying a further 5% per annum commencing 12 months after the current offer closes. It does not however have to wait 12 months to make another partial or full offer after the current offer closes.

Cerebos has not provided any indication, and nor does it have to, as to whether or not it is likely to waive its 90% threshold. Cerebos does not have to wait for the offer to close to waive this condition.

Cerebos does not receive acceptances of more than 50%

If Cerebos receives acceptances of less than 50% of the shares in Comvita the offer will lapse and no shares will be acquired by Cerebos.

5.4 Factors that may affect the outcome of the Cerebos Offer

- Approximately 64% of the issued shares in Comvita are owned by the top 20 shareholders or custodians. The support or otherwise of the larger shareholders in relation to the Cerebos Offer will be material in determining whether or not Cerebos achieves the 90% acceptance threshold (or, if waived, the lower threshold of more than 50%);
- the Comvita share price has traded above the Cerebos Offer price since the Offer was announced. This could be attributed to either or both of the following reasons:
  - the market reacting to Comvita's earnings upgrade announced on 14 September 2011 and the emergence of the Cerebos Offer and re-rating the prospects for the company; and
  - the market believing there is a possibility of a higher offer.
- While the Comvita share price remains above the Cerebos Offer price, it is unlikely that any shareholder will accept the Cerebos Offer as they could sell their shares on-market for a higher price. In some takeovers there are factors that suggest that even if an offer is below the assessed value range shareholders should consider accepting the offer. In this instance there does not appear to be any compelling reason for shareholders to accept a takeover offer that is below full underlying value;

- There are only two permissible variations to the Cerebos Offer:
  - Cerebos may choose to extend its Offer period. The Cerebos Offer is due to close on 22 December 2011. Under the rules of the Takeovers Code the latest date to which the Cerebos Offer may be extended is 90 days after the date on which the Offer opens, in this case 7 February 2012. However, if it chooses to waive its 90% minimum acceptance condition the Offer is able to be extended for a further 60 days to 7 April 2012 under rule 24B of the Takeovers Code. After closing, the Comvita Offer can remain unconditional for up to a further 30 days if OIO consent is still outstanding (this additional time frame does not apply to offers that have been extended under rule 24B);
  - Cerebos may choose to increase its Offer price. If Cerebos chooses to increase its Offer price while its current Offer is still open the increased price will be available to all Comvita shareholders even if they have already accepted the $2.50 per share offer. This will not apply if Cerebos makes a further takeover offer at a higher price after the current Offer has closed, in which case the higher price would not be available to shareholders that accepted the current Cerebos Offer;
- In Grant Samuel's opinion it is possible that, depending on the reaction of Comvita shareholders to the current Cerebos Offer price, Cerebos may consider increasing its Offer price in order to secure a shareholding of more than 50% of the Comvita shares on issue, however, this is by no means certain;
- there is no need for shareholders to accept the Offer early. The closing date for the Offer is 22 December 2011. This date can be extended by Cerebos by giving no less than 14 days notice of such an extension. Not accepting the Cerebos Offer or holding out until near the time the Cerebos Offer closes may cause the Offer price to be increased. However there is no certainty that the Offer price will be increased; and
- Comvita shareholders who choose not to accept the Offer have either decided they want to retain their investment in Comvita for the longer term, or are expecting that Cerebos will make another offer at a higher price. There is no certainty regarding the ongoing performance of Comvita or that a subsequent offer from Cerebos will be forthcoming if it does not acquire 100% of Comvita. The risks and benefits associated with an investment in Comvita are outlined at Section 5.6 below.

5.5 Likelihood of alternative offers

- The Cerebos Offer was announced on 14 October 2011. To date no alternative offers have been forthcoming;
- other than interests associated with Alan Bougen (the co-founder of Comvita) which hold 10.8% of the shares in Comvita, there are no substantial shareholders that would create an impediment to an alternate offer being made by another party; and
- if Cerebos does not reach its 90% minimum acceptance thresholds but declares its Offer unconditional at a shareholding of more than 50% but less than 90%, the likelihood of a takeover offer from another party substantially reduces. In these circumstances any alternative partial offer for over 20% of Comvita (should one be forthcoming) would require the approval of Comvita shareholders by way of an ordinary resolution which would require the support of Cerebos. Any subsequent takeover offer for 100% of Comvita would require Cerebos to sell its shareholding in Comvita to the new offeror for full takeover offer to be successful.

5.6 An investment in Comvita

As with any equity investment there are risks associated with the market in which the company operates. The risks associated with an investment in Comvita include:

- ***Honey Supply.*** As set out in Section 3, a sustained and increasing supply of quality honey is fundamental to Comvita achieving its growth targets. Comvita has entered into a range of supply agreements with growers, owns important components of its supply line and is actively promoting and investing in additional Manuka honey supply capacity. There is a risk that ultimately supply does not match demand. External factors such as weather, crop failure and pests can all affect honey supply which in turn impacts on Comvita's earnings potential;

- ***Fixed Cost Base.*** Comvita has invested in establishing a business base that it considers can sustain a significantly higher level of revenue without material cost increases. For this reason, earnings are sensitive to small changes in revenue (either positive or negative). If the market contracted or Comvita's sales reduced for any reason, Comvita management may not to be able to reduce the fixed cost base of the business rapidly, which could result in material earnings reductions. Conversely increases in revenue will have a positive impact;
- ***Exchange Rate.*** Approximately 80% of Comvita's revenue is earned in international markets. Comvita seeks to mitigate the foreign exchange risk through treasury instruments, it is not practical or economic to protect entirely against exchange rate risk; and
- ***Derma Sciences.*** Derma Sciences is a listed company and is enjoying an increasing share price. It is conceivable that the company may become the subject of a takeover offer. For a full offer to be successful it would likely require Comvita to sell its shareholding in Derma Sciences to the offeror. A takeover of Derma Sciences could be a risk or benefit to Comvita depending on whether the acquirer wished to continue to grow the Medihoney product offering or not.

The benefits and opportunities associated with an investment in Comvita include:

- certain Comvita business units, in particular Medihoney and skincare, have demonstrated strong growth, albeit from a low base, even under challenging global retail conditions. The personal care range has achieved encouraging market penetration and further growth in the sales of Medihoney products is expected as Derma Sciences continues to promote this product strongly. The growth and market acceptance of these products reflects the quality of the product offering, but also the increasing credibility of the "Comvita" and "Medihoney" brands. Comvita management has observed that the take up of new products in the Comvita range is becoming easier and faster;
- The global dietary supplements market and skin care and personal care markets globally, continue to exhibit strong growth, particularly in Asia. Comvita is well placed to take advantage of this development;
- In recent years, Comvita has undertaken a number of key development steps that position the business well for the next phase of its growth:
  - the Hong Kong and UK distributors have been acquired, giving Comvita a direct route to market in key geographies, as well as providing greater control of its margins;
  - established a sales and marketing office and function in Australia;
  - the product base has been actively diversified away from raw honey products to now include Olive Leaf and Omega3 based products;
  - the core honey raw material has been successfully deployed in higher added value products such as the medical, healthcare and personal care ranges;
  - the distractions associated with intellectual property disputes have been largely resolved;
  - substantial product supply in the key honey and olive leaf markets is now owned or controlled; and
  - revenues are increasing with only minor increases in fixed costs, resulting in forecast earnings beyond FY12 potentially increasing rapidly.

Despite challenging retail conditions, the combination of the above factors is being reflected in the earnings of the company. In the 7 months to 31 October 2011 Comvita is ahead of budget and expects to report a full year EBITDA of $14.7 million, more than double that reported in FY2011. In Grant Samuel's opinion, the step up in earnings is sustainable beyond FY2012;

- it could be that by waiting for some period, a better price could be achieved for Comvita shares if the projected increased earnings are confirmed by actual earnings and/or growth initiatives continue to deliver strong results.

For those shareholders wishing to have an equity investment in the food and healthcare sector there are no comparable listed investment opportunities in New Zealand.

5.7 Acceptance or Rejection of the Cerebos Offer

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

GRANT SAMUEL & ASSOCIATES LIMITED
17 November 2011

Grant Samuel + Associates

Appendix A
Recent Transaction Evidence

A brief description of each of the transactions listed in Section 4.4 is outlined below:

DXN Holdings / Temasek Sejati

Temasek Sejati (**Temasek**) made a conditional take-over offer to acquire the remaining 33.4% stake in DXN Holdings (**DXN**) for approximately MYR130 million (MYR1.75 per share) on 5 September 2011. The offer was conditional on 90% acceptance, to ensure 100% of the company can be acquired. The offer was extended on 31 October 2011 and on 11 November the offer became unconditional. The offer represented 6.2 and 7.0 times historical EBITDA and EBIT respectively. Temasek's shareholders include Dr. Lim Siow Jin the founder of DXN. A brief overview of DXN is outlined in Appendix B.

Bio-Engineered Supplements & Nutrition / Glanbia

Glanbia acquired Bio-Engineered Supplements & Nutrition (**BSN**) for approximately US$144 million on 19 January 2011. In 2009, BSN had adjusted EBITDA and EBIT of US$17.4 million and US$16.3 million respectively. BSN is a performance nutrition company with a range of multi-functional products for health and fitness, training, physique development and performance. BSN was acquired by Glanbia as a complementary business that extends Glanbia's existing performance nutrition portfolio and creates a scale position in a fast growing, high margin sector.

Martek Biosciences / Royal DSM

Royal DSM acquired Martek Biosciences in February 2011 for US$1.0 billion. Under the terms of the transaction, Royal DSM paid US$31.50 per share to acquire the outstanding common shares and restricted stock units. Martek Biosciences develops nutritional products. Martek has developed and patented two fermentable strains of microalgae and is considered a specialist in this area, this was the focus of Royal DSM's acquisition. Royal DSM plans to use Martek Biosciences' technology to develop a new growth platform for healthy and natural food ingredients for infant formula and other food and beverage applications.

NeutraHealth / Elder International

On 16 November 2010 Elder International acquired the remaining 78.92% holding NeutraHealth for £9.0 million. The transaction implied an Enterprise Value of £17.2 million and forecast EBITDA and EBIT multiples of 6.6 and 9.6 times respectively. NeutraHealth manufactures and distributes private label vitamins and supplements primarily in Europe. Elder's Directors believed that the acquisition would assist Elder Pharmaceuticals in entering into new European markets and the integration of NeutraHealth's products into Elder's existing distribution would lead to increased margins.

EPAX/ Trygg Pharma

On 17 November 2010 Trygg Pharma acquired EPAX from Austevoll Seafood for approximately NOK880 million in cash. In 2009, EPAX had EBITDA and EBIT of NOK90.16 million and NOK67.48 million respectively. EPAX is a leading bulk supplier of ultra-pure, highly concentrated, marine-based Omega-3 EPA/DHA fatty acids. As part of the agreement between Trygg Pharma and Austevoll Seafood, EPAX has entered into a long-term supply agreement with Austevoll Seafood. The agreement secured supply of the highest quality crude fish oil, which is a prerequisite to manufacture Epax's premium quality omega-3 supplements.

NBTY/ The Carlyle Group

On 1 October 2010 The Carlyle Group completed the acquisition of NBTY for US$3.5 billion in cash, representing an enterprise value of US$3.8 billion. The Carlyle Group is an investment firm specialising in direct and fund of fund investments. NBTY is a global manufacturer, marketer and distributor of value priced nutritional supplements in the US and throughout the world. Under a number of NBTY and third party brands, the company offers over 25,000 products.

Amerifit Brands/ Martek Biosciences

Martek Biosciences acquired Amerifit Brands for an implied Enterprise value of US$200 million on 12 February 2010. Amerifit Brands develops, markets, and distributes natural and over-the-counter consumer health and wellness products. The company markets its products through mass, club, drug, grocery, and specialty stores. Martek acquired Amerifit Brands primarily for its marketing capabilities and leading consumer brands, complementing Martek's R&D capabilities. The transaction implied historical and forecast EBITDA multiples of 9.0 and 8.0 – 8.3 times respectively.

Chattem / Sanofi-Aventis

On 10 March 2010 Sanofi-Aventis completed the acquisition of Chattem for US$1.8 billion in cash, implying an enterprise value of US$2.2 billion. Chattem manufactures over-the-counter health care products. It offers pain relief, skin and haircare, and health and wellness products. The company sells its products through retailers and distributors worldwide, as well as online. The Chattem acquisition was attractive to Sanofi-Aventis as it provided a platform to convert of some of Sanofi-Aventis' prescription medicines to over-the-counter products and provided growth and geographic expansion is some key markets. The transaction created the world's fifth-largest consumer healthcare company measured by product revenues by combining Chattem's position as a leading U.S. consumer healthcare company with Sanofi-Aventis' strong international presence in the sector.

Garden of Life / Atrium Innovations

Atrium Innovations acquired Garden of Life for US$37.5 million on 21 September 2009. The initial purchase price was based upon an EBITDA multiple of 6.5 times. Earn-out payments were also structured based upon a percentage of incremental EBITDA in 2010 and 2011. Garden of Life manufactures and distributes digestive health, foundational nutrition, immunity support and optimal wellness supplements. The company also provides weight management and living food products, as well as offers personal care hygiene systems and food-created nutrients. The company markets its products through health retailers in the United States and internationally.

Optimum Nutrition / Glanbia

On 22 August 2008 Glanbia completed the acquisition of Optimum Nutrition for US$315 million in cash. Optimum Nutrition is a sports nutrition company that manufactures and sells nutritional supplements. The company offers nutritional bars, protein powders, ready-to-drink sports beverages, vitamins, essential minerals and herbs. It sells its products through online retailers, as well as health food stores, specialty stores and gyms throughout the world. Its two largest customers are nutritional retailers, GNC and Vitamin Shoppe. The acquisition of Optimum Nutrition provided Glanbia with scale in a fast growing segment of the nutrition market. Optimum Nutrition is also a large purchaser of specialised whey, which Glanbia is a supplier.

Burt's Bees / The Clorox Company

The Clorox Company completed the acquisition of Burt's Bees from AEA Investors for US$900 billion on 30 November 2007. The transaction implied an enterprise value of US$1.2 billion. Burt's Bees manufactures natural personal care products. It offers lip care, face care and body care products. It offers products through retail outlets, including grocery and store chains in the US, the UK, Ireland, Canada, Hong Kong and Taiwan. The transaction implied significantly high historical EBITDA and EBIT multiples of 27.1 and 30.8 times respectively. The high multiple was paid primarily due to the strong growth forecast in the US natural personal care market and Burt's Bees brand recognition for being natural and sustainable. In FY2011 the company recognised that it overpaid for the company, despite Burt's Bees being Clorox's fastest-growing business since the transaction, by writing down US$258 million relating to the acquisition.

Mucos Emulsions / Atrium Innovations

On 12 July 2007 Atrium Innovations completed the acquisition of Mucos Emulsions for US$180 million in cash. Mucos specialises in enzyme-based products. Mucos' lead product, Wobenzym, is one of Germany's most popular natural anti-inflammatory product. Mucos' products are mainly sold in Germany and Eastern Europe, but are also sold in Asia, Latin America and North America. By acquiring Mucos, Atrium established its Health & Nutrition Division in Europe with a leading brand and gained access to the German market, the largest European market for dietary supplements.

Appendix B
Comparable Listed Companies

A brief description of each of the companies listed in Section 4.4 is outlined below:

Atrium Innovations

Atrium Innovations develops, manufactures and distributes natural health products including orthomolecular products, nutritional and herbal supplements, vitamins, antioxidants, probiotics, fatty and amino acids, dietary and digestives aids, energizers and food supplements. Atrium Innovations distributes products in the healthcare practitioner and health food store channels, with a primary focus in North America and Europe, which represents 68% and 32% of total sales respectively. Atrium Innovations' revenues and EBITDA have grown significantly over last five years and this is forecast to continue. Revenue is forecast to increase by approximately 5% per annum over the next three years, with EBITDA growing at a slightly faster rate due to expected margin improvements.

Blackmores

Blackmores manufactures and distributes vitamin herbal and mineral supplements. Approximately 85% of the Blackmores' sales are from the Australian business, with the international business increasing annually largely due to the growth from Asia. The company's products are primarily through independent distributors, as well as online. With the exception of FY2009, Blackmores' revenue and EBITDA have shown strong year on year growth. In FY2011, Blackmores reported record profits primarily due to growth in Asia, despite challenging Australian retail conditions and a strong Australian dollar. Blackmores' revenue and EBITDA are forecast, on average, to increase by approximately 8% and 10% respectively per annum over the next three years.

Cerebos Pacific

Cerebos Pacific is a food and health supplements business headquartered in Singapore and listed on the Singapore Stock Exchange. Its main markets are Thailand, Taiwan, Singapore, Malaysia, Hong Kong and China. The highest profile Cerebos Pacific product is "BRAND'S Essence of Chicken", a cooking supplement. Cerebos Pacific's other products include gravies, sauces, coffee, drinks, deserts and cooking aids marketed under the brands Fountain, Gravox, Robert Harris, Raro, Refresh, Greggs' and Toby's Estate. Suntory, a Japanese global food and beverage group, became the majority shareholder of Cerebos Pacific in 1990. On 14 October 2011, Cerebos New Zealand Limited, a subsidiary of Cerbos Pacific made a takeover offer for Comvita. Cerebos Pacific's EBITDA is forecast to fall by approximately 5% in FY2011 and before increasing by 26% in FY2012.

DXN Holdings

DXN's core business activities include cultivation, manufacturing and marketing of the health food supplements and it is recognised as the world leader in Ganoderma products (mushrooms used in traditional Chinese medicine). The company's product lines include dietary supplements, food and beverages, personal care products, skin care and comestic, household products and water treatment system. Based in Malaysia the company also has operations in the Philippines, North America, Africa, Australasia and the Middle East. DXN's primary distribution model is via direct selling, where it has over four million registered distributors worldwide. Direct selling, once scale has been achieved, enables a company to grow without significant investment due to the distributors bearing most of the marketing related expenses. The company has reported strong growth in revenues and EBITDA over the last five years. DXN is currently under a takeover offer from Temasek.

Healthzone

Healthzone operates as a distributor, producer, franchisor and retailer of health and beauty products primarily in Australia and China. The company produces a wide range of health and beauty products including, supplements, functional foods, teas, cleaning products, natural body care and hair care products. The core brands for Healthzone's products include Natural Alternative, Healthy Lifestyle, Healthy Life Food, bod and Aurinda. The company's franchise Healthy Life has over 130 stores across Australia and it has opened its first store in Shanghai. The company's distribution delivers product to more than 5,000 wholesale customers including 3,000 and 1,600 retail outlets in Australian and China respectively. The remaining wholesale customers are located in North America, Europe, New Zealand and Asia (excluding China). Since its listing on the ASX in 2006 the company's revenue and EBITDA have grown significantly. However, in FY2011 revenue and EBITDA declined, primarily due to difficult market conditions in Australia and costs associated with a strategic business restructure.

Herbalife

Herbalife is a global nutrition and direct selling company. The company's products include protein shakes, protein snacks, nutrition, energy and fitness supplements and personal care products. The company sells its products through a network of over 1.9 million independent distributors across 70 countries. In FY2010, the US, Mexico and China represented 41% of total sales. In FY2010 Herbalife's sales increased by 18% with strong growth recorded across all regions and sales in FY2011 are forecast to grow a further 25%. The strong growth is as a result of the company's strong distributor engagement and a growing demand for weight management products to combat obesity.

Nature's Sunshine Products

Nature's Sunshine Products manufactures and markets tablets and encapsulated herbal products, high-quality natural vitamins, food supplements, skin care and other complementary products. The company's primary method of distribution is through its direct selling network. The company has operations in the North America, South America, Asia, Europe and the Middle East. In FY2010 the US, Russia and Japan contributed 45%, 9% and 7% to total sales respectively. Over the last five years, sales and EBITDA have remained relatively flat. As of 31 December 2010, the company had approximately 685,100 active distributors worldwide, which included approximately 240,600 distributors in the United States. The company also operates the Synergy Worldwide brand, which was acquired in 2000.

New Image Group

New Image Group manufactures and distributes health and nutritional products. The company primarily offers nutritional supplements, early childhood nutrition, weight management, skin and hair care, and home care products (e.g. laundry powders). New Image Group's primary focus is developing innovative health products through developing the applications for colostrum. The company is headquartered in New Zealand and over 90% of total sales are generated through exports to foreign countries. The company's primary distribution channel is via its direct selling channel and through selected retail outlets throughout Asia, Australia and New Zealand. In FY2011 sales declined by 7%, largely due to poor performance in Malaysia, which has declined 60% over the last two years. Malaysia and Taiwan represent 74% of total revenues. In October 2010 the company acquired 50.1% in Living Nature a New Zealand natural skin care company. The details of the transaction were not announced.

Nu Skin Enterprises

Nu Skin Enterprises (**Nu Skin**) is a direct selling company that distributes more than 200 premium-quality anti-aging products in both the personal care and nutritional supplement categories. Nu Skin operates in 52 international markets across the Americas, Asia Pacific, Europe, Africa and the Middle East with more than 825,000 active independent distributors. The company sells its personal care products under the Nu Skin brand and nutritional supplements under the Pharmanex brand. Nu Skin's revenue and EBITDA growth have been consistently strong over the last five years. Asia is core market for Nu Skin, representing 62% of total sales. In FY2011 the company's revenue and EBITDA are forecast to grow 12% and 19% respectively and similar levels of growth are forecast for FY2012 due to new product launches and strong growth in Asia.

Nutraceutical International

Nutraceutical is a manufacturer and marketer of branded nutritional supplements sold to health and natural food stores largely in the United States. The company also distributes its products through distributors and retailers internationally. In addition to its branded products, Nutraceutical manufactures premium bulk formulations for use in its own products and for sale to other manufacturers. A core component of Nutraceutical's growth strategy has been acquisitions. Since its first acquisition in 1993 the company has completed 30 acquisitions and grown adjusted EBITDA from less than $2 million to over $34 million. The recent transactions have been small in nature and the details have not been disclosed.

Schiff Nutrition International

Schiff Nutrition International develops, manufactures, markets and distributes branded and private label vitamins, nutritional supplements and nutrition bars primarily in the United States, which represents 94% of total sales. The company offers a broad range of capsules, tablets and nutrition bars under recognised brands, including Schiff and Tiger's Milk. The products are marketed primarily through the mass market and, to a lesser extent, health food store distribution channels. In FY2010 TPG Capital acquired a 25% shareholding in Schiff Nutrition, which represented forecast EBITDA and EBIT multiples of 5.5 and 6.2 times respectively. Despite an increase in revenue in FY2011, EBITDA declined 25% largely due to tighter margins as a result of increased competition and structural changes due to a new CEO and changes in incentive programmes. Schiff Nutrition's revenue and EBITDA are forecast to rebound to historical levels in FY2012.

USANA Health Sciences

USANA Health Sciences (**USANA**) develops and manufactures nutritional, diet, energy and personal care products that are sold through USANA's direct selling network in the US, Canada, Australia, New Zealand, Hong Kong, Japan, Taiwan, South Korea, Singapore, Malaysia, Mexico, Philippines and the UK. The company's sales are split relatively evenly across North America and Asia/Pacific. As at 1 January 2011, the company had approximately 305,000 active sellers worldwide. After two years of relatively flat sales, sales and EBITDA increased by 19% and 32% respectively in FY2010 with China contributing to a large portion of this growth. Only small increases in revenue and EBITDA for FY2011 and FY2012 are forecast. In FY2010 USANA acquired direct selling infant nutrition company BabyCare Ltd for US$62.2 million in cash and stock representing a revenue multiple of 4.1 times.

Vitamin Shoppe

Vitamin Shoppe is a specialty retailer and direct marketer (through the internet) of nutritional products ranging from vitamins and minerals to nutritional supplements, herbs, sports nutrition formulas, homeopathic remedies and beauty aids. For each of the past six years, Vitamin Shoppe has been the fastest growing national Vitamin, Mineral and Supplement (**VMS**) specialty retailer in the US and it is the second largest in retail sales in the US VMS industry. At 4 March 2011 the company operated 493 stores. Over the last five financial years Vitamin Shoppe's sales have consistently grown at double digit growth and with an exception of FY2007 EBITDA has also grown significantly (i.e. up 30% in FY2011). The historical growth trend is forecast to continue over the next three years.

Appendix C
Valuation Methodology Descriptions

Capitalisation of Earnings

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

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

- estimation of earnings or 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 the parameters 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 but care needs to be exercised to ensure that proper account is taken of factors such as the level of capital expenditure needed for the business and whether or not any amortisation costs also relate to ongoing cash costs. EBITA avoids the distortions of goodwill amortisation. EBIT can better adjust for differences in relative capital intensity.

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

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

An alternative approach used in valuing businesses is to review the multiples at which shares in listed companies in the same industry sector trade on the share market. This gives an indication of the price levels at which portfolio investors are prepared to invest in these businesses. Share prices reflect trades in small parcels of shares (portfolio interests) rather than whole companies and it is necessary to adjust for this factor.

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

Discounted Cash Flow

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

Realisation of Assets

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

Industry Rules of Thumb

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

Appendix D
Interpretation of Multiples

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

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

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

- multiples based on listed company share prices do not include a premium for control and are therefore often (but not always) less than multiples that would apply to acquisitions of controlling the interests in similar companies. However, while the premium paid to obtain control in takeovers is observable (typically in the range 20-35%) it is inappropriate to simply add a premium to listed multiples. The premium for control is an outcome of the valuation process, not a determinant of value. Premiums are paid for reasons that vary from case to case and may be substantial due to synergy or other benefits available to the acquirer. In other situations premiums may be minimal or even zero. There are transactions where no corporate buyer is prepared to pay a price in excess of the prices paid by share market investors;
- acquisition multiples from comparable transactions are therefore usually seen as a better guide when valuing 100% of a business but the data tends to be less transparent and information on forecast earnings is often unavailable;
- the analysis will give a range of outcomes from which averages or medians can be determined but it is not appropriate to simply apply such measures to the company being valued. The most important part of valuation is to evaluate the attributes of the specific company being valued and to distinguish it from its peers so as to form a judgement as to where on the spectrum it belongs;
- acquisition multiples are a product of the economic and other circumstances at the time of the transaction. However, each transaction will be the product of a unique combination of factors, including:
  - economic factors (e.g. economic growth, inflation, interest rates) affecting the markets in which the company operates;
  - strategic attractions of the business – its particular strengths and weaknesses, market position of the business, strength of competition and barriers to entry;
  - the company's own performance and growth trajectory;
  - rationalisation or synergy benefits available to the acquirer;
  - the structural and regulatory framework;
  - investment and share market conditions at the time, and
  - the number of competing buyers for a business;
- acquisitions and listed companies in different countries can be analysed for comparative purposes, but it is necessary to give consideration to differences in overall share market levels and rating between countries, economic factors (economic growth, inflation, interest rates), market structure (competition etc) and the regulatory framework. It is not appropriate to adjust multiples in a mechanistic way for differences in interest rates or share market levels;
- acquisition multiples are based on the target's earnings but the price paid normally reflects the fact that there were cost reduction opportunities or synergies available to the acquirer (at least if the acquirer is a "trade buyer" with existing businesses in the same or a related industry). If the target's earnings were adjusted for these cost reductions and/or synergies the effective multiple paid by the acquirer would be lower than that calculated on the target's earnings;

- while EBITDA multiples are commonly used benchmarks they are an incomplete measure of cash flow. The appropriate multiple is affected by, among other things, the level of capital expenditure (and working capital investment) relative to EBITDA. In this respect:
  - EBIT multiples can in some circumstances be a better guide because (assuming depreciation is a reasonable proxy for capital expenditure) they effectively adjust for relative capital intensity and present a better approximation of free cash flow. However, capital expenditure is lumpy and depreciation expense may not be a reliable guide. In addition, there can be differences between companies in the basis of calculation of depreciation; and
  - businesses that generate higher EBITDA margins than their peer group companies will, all other things being equal, warrant higher EBITDA multiples because free cash flow will, in relative terms, be higher (as capital expenditure is a smaller proportion of earnings).

Appendix E
Qualifications, Declarations and Consents

Qualifications

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

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

Limitations and Reliance on Information

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

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

The time constraints imposed by the Takeovers Code are tight. This timeframe restricts the ability to undertake a detailed investigation of Comvita. In any event, an analysis of the merits of the offer is in the nature of an overall opinion rather than an audit or detailed investigation. Grant Samuel has not undertaken a due diligence investigation of Comvita. In addition, preparation of this report does not imply that Grant Samuel has audited in any way the management accounts or other records of Comvita. It is understood that, where appropriate, the accounting information provided to Grant Samuel was prepared in accordance with generally accepted accounting practice and in a manner consistent with methods of accounting used in previous years.

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

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

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

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

- the title to all such assets, properties, or business interests purportedly owned by Comvita is good and marketable in all material respects, and there are no material adverse interests, encumbrances, engineering, environmental, zoning, planning or related issues associated with these interests, and that the subject assets, properties, or business interests are free and clear of any and all material liens, encumbrances or encroachments;
- there is compliance in all material respects with all applicable national and local regulations and laws, as well as the policies of all applicable regulators other than as publicly disclosed, and that all required licences, rights, consents, or legislative or administrative authorities from any government, private entity, regulatory agency or organisation have been or can be obtained or renewed for the operation of the business of Comvita, other than as publicly disclosed;
- various contracts in place and their respective contractual terms will continue and will not be materially and adversely influenced by potential changes in control; and
- there are no material legal proceedings regarding the business, assets or affairs of Comvita, other than as publicly disclosed.

Disclaimers

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

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

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

Independence

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

Information

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

Publicly Available Information

- Annual reports for Comvita for the years ended 31 March 2008, 2009, 2010 and 2011;
- Comvita investor presentation, October 2011;
- Results for the 6 months to 30 September 2009, 2010 and 2011;
- Half year results announcement for the period to 30 September 2011; and
- Other information on the healthcare supplements sector and publicly listed companies with operations broadly comparable to Comvita including annual reports, interim financial results, press reports, industry studies and information regarding the prospective financial performance of those companies.

Non Public Information

- Management accounts for the 6 months to 30 September 2011;
- Business Plan and budget for the year to 31 March 2012;
- Forecasts for the 5 years to 31 March 2017;
- Capital Expenditure summary for the year to 31 March 2012;
- Capital Expenditure plans for the years to 31 March 2015;
- Summary of Distribution;
- Derma Sciences Medihoney licensing agreements; and
- Property valuation reports for Paengaroa and Coominya.

Grant Samuel has also had discussions with and obtained information from the senior management of Comvita.

Declarations

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

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

Consents

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

Independent Adviser's Report

Prepared Pursuant to Rule 22 of the New Zealand Takeovers Code in Relation to a Full Takeover Offer for Comvita Limited

Prepared for:

Cerebos New Zealand Limited

October 2011

Purpose of the Report

- This report is **not** a report on the merits of the offer.
- This report has been obtained by the offeror.
- The purpose of this report is solely to compare the consideration and terms offered for the different classes of securities, and to certify as to the fairness and reasonableness of that consideration and terms as between the different classes.
- A separate independent adviser's report on the merits of the offer, commissioned by the directors of Comvita Limited, must accompany Comvita Limited's target company statement.
- The offer should be read in conjunction with this report and the separate independent adviser's report on the merits of the offer.

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Table of Contents

ABBREVIATIONS AND DEFINITIONS

Abbreviations used in this report are as follows:

Cerebos	Cerebos New Zealand Limited, a company registered in New Zealand
Code	The Takeovers Code
Comvita or Company	Comvita Limited
Earliest Transfer Date	The third anniversary of the issue date of the Redeemable Shares in the case of Tranches 1-3, and the second anniversary of the issue date of the Redeemable Shares in the case of Tranches 4-6
Executive Share Scheme	Comvita's Executive Employee Share Scheme
Executives	Comvita's Chief Executive Officer and other senior executives
Exercise Dates	The dates upon which a prescribed proportion of the Redeemable Shares issued under a particular Tranche are released from transfer restrictions and are capable of vesting with the Executive
Exercise Price	The exercise price for a particular Tranche of Redeemable Shares, being equal to the weighted average price of the Company's Ordinary Shares over the 10 trading days prior to the issue date of the Redeemable Shares
Final Forfeiture Date	The date being four months after the 5th anniversary of the issue date (in the case of Tranches 1-3) and four months after the 4th anniversary of the issue date (in the case of Tranches 4-6)
Final Maturity Date	The fifth anniversary of the issue date of the Redeemable Shares in the case of Tranches 1-3, and the fourth anniversary of the issue date of the Redeemable Shares in the case of Tranches 4-6
Hurdle Price	For each Tranche, a specified share price level which Comvita's Ordinary Shares must have attained before an Executive can exercise the right to convert Redeemable Shares under that Tranche into Ordinary Shares
NZSX	The main board equity security market operated by NZX
NZX	NZX Limited
Northington Partners	Northington Partners Limited
Offer	The full takeover offer that Cerebos intends to make on or about 14 October 2011 for all of the equity securities on issue in Comvita
Ordinary Shares	The 28,212,371 ordinary shares of Comvita on issue and which are tradeable on the NZX
Panel	The Takeovers Panel
Redeemable Shares	The 1,333,000 redeemable ordinary shares of Comvita currently issued to the Executives under Comvita's Executive Share Scheme
Tranche	Each of the six tranches of Redeemable Shares issued by Comvita
Trustee	Comvita Share Scheme Trustee Limited

1.0 INTRODUCTION AND SUMMARY OF OUR ASSESSMENT

1.1 INTRODUCTION

Cerebos New Zealand Limited ("**Cerebos**"), a company registered in New Zealand, intends to issue a Takeover Notice to Comvita Limited ("**Comvita**") on or about 14 October 2011 indicating its intention to make a full takeover offer ("**Offer**") for all the equity securities on issue in Comvita.

Under New Zealand company law, Comvita has two classes of equity securities:

- 28,212,371 issued ordinary shares ("**Ordinary Shares**") which are tradeable on the New Zealand Stock Exchange, the main board equity security market operated by NZX Limited ("**NZX**"); and
- 1,333,000 redeemable ordinary shares ("**Redeemable Shares**") which (as summarised in Table 1 below) have been issued in six tranches (each a "**Tranche**")[1] under Comvita's Partly Paid Share Scheme ("**Executive Share Scheme**") to the Chief Executive Officer and other senior executives of the Company ("**Executives**").

The Ordinary Shares and each Tranche of Redeemable Shares constitutes a separate class of voting security for the purposes of the Takeovers Code ("**Code**").

Table 1: Summary of Redeemable Shares on Issue (as at 7 October 2011)

Tranche	Issue Date	Final Maturity Date	Shares Outstanding	Exercise Price
1	31 May 2006	31 May 2011	0	$2.87
2	4 July 2008	4 July 2013	100,000	$2.12
3	1 August 2008	1 August 2013	545,000	$2.12
4	1 September 2009	1 September 2013	315,000	$1.18
5	1 September 2009	1 September 2013	213,000	$1.18
6	3 March 2011	3 March 2015	160,000	$1.53
			1,333,000	

Source: Comvita

We note that the Redeemable Shares issued in Tranche 4 and Tranche 5 reached the second anniversary of their issue date on 1 September 2011. Pursuant to the rules of the Executive Share Scheme, the Executives are entitled to provide notice requiring the conversion of a portion of these Redeemable Shares into Ordinary Shares conditional on the share price for Comvita's ordinary shares exceeding a specified level ("**Hurdle Price**"). Executives can provide notice to this effect within three months of the anniversary date. We understand that the relevant Hurdle Price for these shares was met and that notice has been given for all but 10,000 of the Redeemable Shares eligible for conversion (out of a total of 273,500 eligible shares). However, as at the date of this report, payment has only been received for 19,000 Redeemable Shares.

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[1] Tranche 4 relates to a previous tranche which was cancelled and reissued on the same date and on the same terms as Tranche 5. Thus, although these two Tranches could technically be aggregated, the Company records them separately so that the number of Tranches correlates with its Board minutes. For the purposes of this report, we have also treated both Tranches separately so as to maintain alignment with the treatment adopted by the Company.

Because payment of the outstanding amount for each Redeemable Share is required before the conversion into Ordinary Shares, our calculation of the number of Redeemable Shares outstanding for Tranche 4 and Tranche 5 only accounts for the 19,000 shares that have been fully paid up. This number may change prior to the commencement of the Offer to the extent that further payments are made for Redeemable Shares for which transfer notices have been issued.

Key terms and conditions of the Offer are as follows:

- **Offer Price for Ordinary Shares ("Ordinary Offer Price"):** A cash payment of $2.50 per Ordinary Share.
- **Offer Price for Redeemable Shares ("Redeemable Offer Price"):** The cash payment offered per share varies across each Tranche of Redeemable Shares remaining on issue, as set out in Table 2 below.

Table 2: Offer Price for Redeemable Shares

Tranche	Offer Price for each Redeemable Share
1	n/a
2	$0.39
3	$0.39
4	$1.33
5	$1.33
6	$0.98

Source: Cerebos Takeover Notice

- **Minimum Acceptance Condition:** The Offer is conditional upon Cerebos receiving acceptances that would confer on it 90% or more of all voting rights in Comvita (or, if Cerebos in its absolute discretion elects to waive the 90% minimum acceptance condition, greater than 50% of the voting rights in Comvita).
- **Other Conditions:** The Offer is also conditional on a number of other conditions that are standard for an offer of this type.

Rule 8(3) of the Code requires that if there is more than one class of voting securities included in a full offer, the consideration and terms offered for each class of voting securities must be fair and reasonable as between the classes of voting securities. The implementation of the Executive Share Scheme by Comvita has essentially given rise to additional classes of voting securities, and thus Cerebos (as the offeror) must obtain a report pursuant to Rule 22 of the Code from an independent adviser which certifies that, in the adviser's opinion, the offer complies with Rule 8(3) and thus is fair and reasonable as between the classes of voting securities. For the purposes of the Code, Comvita's Ordinary shares are regarded as one class of shares and each Tranche of the Redeemable Shares is regarded as a separate class of shares given the different features of each Tranche. This report has been prepared to meet the requirements of Rule 22 of the Code.

With the approval of Comvita, Cerebos has undertaken limited due diligence on the Company and has obtained access to information in relation to the Executive Share Scheme. This report has been prepared based on information provided to us by Cerebos and Comvita.

1.2 SUMMARY OF OUR ASSESSMENT

A Rule 22 report is not required to consider the merits of the Offer for the Ordinary Shares, and we offer no opinion on whether the offer price of $2.50 per Ordinary Share is fair and reasonable. Rather, we have interpreted our role as one of determining whether the Redeemable Offer Price offered for each Tranche is fair and reasonable in comparison to the amount offered for each Tranche and the Offer for the Ordinary Shares.

Our assessment is based on the following framework:

- The total consideration of $2.50 per share for the Ordinary Shares provides the benchmark for our assessment. Although we make no attempt to determine whether the Ordinary Offer Price is itself fair and reasonable, the Offer price for the Ordinary Shares is the starting point from which we determine the relative fairness of the Offer for each class (i.e. Tranche) of Redeemable Shares.
- That is, we need to determine the underlying fair value of the Redeemable Shares issued under each Tranche, assuming an initial fair value for the Ordinary Shares of $2.50. Our assessment also takes into account the current rules that govern the Executive Share Scheme, with particular emphasis on the rules that are relevant in the event of a successful takeover offer for Comvita.
- The assessment then rests on a comparison of the consideration offered for the Redeemable Shares in each Tranche to the underlying fair value of the Redeemable Shares of that Tranche.

Although each Tranche of Redeemable Shares was issued at varying dates and exercise prices (see Table 1 above), all of the Redeemable Shares have been paid up to $0.01 per share. As discussed in more detail in Section 3.2.2, the key rules governing the Executive Share Scheme are as follows:

(i) Executives can effectively convert the Redeemable Shares into Ordinary Shares beginning either two or three years after the issue date (depending on the particular Tranche) upon payment of the outstanding balance per share and subject to the share price for Comvita's Ordinary Shares having reached the specified Hurdle Price. Because the conversion is at the discretion of the Executive (and there is no obligation to convert), the Redeemable Shares can be viewed analogously to a type of call option on the Ordinary Shares of Comvita.

(ii) In the event that a party acquires more than 50% of the Ordinary Shares in Comvita, the Executives have the ability (but not the obligation) to exercise their rights in respect of all the Redeemable Shares on issue without reference to the vesting conditions and the Hurdle Price that would otherwise apply. That means that all Redeemable Shares can be immediately converted into Ordinary Shares at a cost equal to the prescribed exercise price for each Tranche.

We suggest that the most relevant context for our assessment is based on a scenario under which Cerebos receives acceptances for more than 50% of the outstanding shares in Comvita and therefore proceeds with the takeover[2]. This valuation context is most appropriate because the price offered for the Redeemable Shares will only be available to the Executives if the Offer is successful. Under this scenario, Executives may either:

(a) Exercise their right to convert the Redeemable Shares into Ordinary Shares within three months of the successful completion of the Offer ("**Conversion Option**"); or

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[2] Although the Offer stipulates a minimum acceptance level of 90% of the outstanding shares, Cerebos retains the ability to lower the acceptance threshold to 50%. From our point of view, it is difficult to consider a sensible assessment of a fair value range for the Redeemable Shares in the context of a compulsory acquisition process (as would likely take place if Cerebos received acceptances for 90% or more of the shares outstanding).

(b) Retain their Redeemable Shares under the same terms and conditions as currently exist ("**Status Quo Option**").

Given these alternative courses of action, the current values for each Tranche of Redeemable Shares has been set equal to the value that could be realised from pursuing the optimal strategy; that is, from choosing the course of action that delivers the highest payoff. These payoffs are assessed as follows:

(i) **Conversion Option:** If the Executives convert the Redeemable Shares to Ordinary Shares, the payoff is simply equal to the difference between the prevailing value of the Ordinary Shares after the Offer has been completed and the exercise price of the Redeemable Shares. Although it is not possible to accurately predict the likely trading value of Comvita's Ordinary Shares after a successful offer has been completed, we assume the post-Offer share price remains at the Ordinary Offer Price of $2.50 per share; and

(ii) **Status Quo Option:** If the Executives continue to hold the Redeemable Shares, the effective payoff is measured by the current fair value of the shares. These values are in turn estimated using standard option pricing techniques, modified to reflect the key terms and conditions of the Redeemable Shares.

Our estimate of the current fair value range per share for each Tranche of Redeemable Shares is set out in Table 3 below. Given the features of the Redeemable Shares and the relativity between the Ordinary Offer Price, the exercise price and the Hurdle Price for each Tranche of Redeemable Shares, the realisable value from the Conversion Option is always greater than the assessed value of the Redeemable Shares under the Status-Quo Option. We therefore conclude that the fair value of the Redeemable Shares in the context of the Offer is equal to the assumed post-Offer value of the ordinary shares ($2.50 per share) less the prescribed exercise price for each Tranche of Redeemable Shares.

Table 3: Redeemable Shares Valuation Summary

Tranche	Shares Outstanding	Assessed Value per Share	Total Tranche Value
1	0	n/a	n/a
2	100,000	$0.39	$39,000
3	545,000	$0.39	$212,550
4	315,000	$1.33	$418,950
5	213,000	$1.33	$283,290
6	160,000	$0.98	$156,800
	1,333,000		**$1,110,590**

Source: Northington Partners Analysis

The Redeemable Offer Prices (as set out in Table 2) have been set equal to our assessed value for each Tranche of Redeemable Shares (as set out in Table 3). As such, we believe that the Executives should realise the same value for the Redeemable Shares from either accepting the Offer or retaining the Redeemable Shares and pursuing the best strategy available under the rules of the Trust Deed governing the Redeemable Shares. On this basis, we conclude that the Redeemable Offer Price for each class (i.e. Tranche) of the Redeemable Shares is fair.

Both the ordinary shareholders and the Executives will be paid cash if they accept the Offer, and the Offer to each group is effectively conditional on the same set of general conditions. On this basis, we conclude that the terms of the Offer for the Ordinary Shares and each class (i.e. Tranche) of the Redeemable Shares are equivalent.

We therefore certify that in our opinion the consideration and terms offered for each class of voting securities is fair and reasonable as between the classes of voting securities.

2.0 SCOPE OF THIS REPORT

2.1 BACKGROUND

Cerebos intends to issue a Takeover Notice to Comvita on or about 14 October 2011 indicating its intention to make a full takeover offer for all of the equity securities on issue in Comvita.

Under New Zealand company law, Comvita has two classes of voting securities. There are 28,212,371 Ordinary Shares on issue which are tradeable on the NZX, and 1,333,000 Redeemable Shares currently on issue under Comvita's Executive Share Scheme.

The Redeemable Shares were issued in six tranches between May 2006 and March 2011 to the Executives at an issue price (also being the exercise price) equal to the weighted average price of the Company's Ordinary Shares over the 10 trading days prior to the issue date of the Redeemable Shares ("**Exercise Price**"). The Exercise Prices range from $1.18 to $2.87[3].

Under each Tranche, the Redeemable Shares were paid up on issue to $0.01. The Redeemable Shares are currently being held in trust for the Executives by Comvita Share Scheme Trustee Limited ("**Trustee**") and can be paid up by the Executives after a minimum of either two or three years (depending on the particular Tranche). Each Tranche can be exercised at certain specified proportions of the total share entitlement over a three year period.

Further details of the terms and conditions of the Executive Share Scheme are included in Section 3.2.

2.2 REQUIREMENTS OF TAKEOVERS CODE

Comvita is a publicly listed company and is a "Code Company" as defined by Rule 3 of the Code. The takeover process initiated by Cerebos must therefore comply with the provisions set out in the Code relating to the offer procedure.

Pursuant to Rule 8(2) of the Code, a full offer must include offers in respect of all the securities in each class of equity securities of the target company (other than those that are already held by the offeror). Furthermore, Rule 8(3) of the Code requires that if there is more than one class of voting security included in a full offer, the consideration and terms offered for each class of voting securities must be fair and reasonable as between the classes of voting securities.

The implementation of the Executive Share Scheme by Comvita has essentially given rise to additional classes of voting securities, and Cerebos as offeror must therefore obtain a report pursuant to Rule 22 of the Code from an independent adviser which certifies that, in the adviser's opinion, the offer complies with Rule 8(3) and thus is fair and reasonable as between the classes of voting securities. For the purposes of the Code, Comvita's Ordinary Shares are regarded as one class of shares and each Tranche of the Redeemable Shares is regarded as a separate class of shares given the different features of each Tranche.

[3] We note that the $2.87 Exercise Price related to shares issued under Tranche 1, all of which have now been forfeited and no shares issued under this Tranche remain outstanding.

This report has been prepared to meet the requirements of Rule 22 of the Code. The appointment of Northington Partners Limited ("**Northington Partners**") to prepare the Rule 22 report was approved by the Takeovers Panel ("**Panel**") on 4 October 2011.

2.3 ASSESSMENT APPROACH

Rule 22 of the Code requires that the independent adviser's report certifies that the consideration and terms of an offer are fair and reasonable as between the classes of voting securities. The exact meaning of the words "*fair*" and "*reasonable*" is not prescribed in the Code and there is no well accepted, authoritative New Zealand reference that clearly establishes what should be considered for an assessment of this nature.

Statutory requirements within the Australian market are defined in somewhat more detail. The Australian Securities and Investments Commission has issued a policy statement regarding "Independent Expert Reports to Shareholders", which sets out some fundamental requirements for a report that is completed in similar circumstances to those relating to this Offer.

According to the policy statement, an offer is "fair" if the value of the consideration to be paid under the offer is equal to or greater than the value of the securities that are subject to the offer. An offer is deemed to be "reasonable" if it is fair. An offer may also be reasonable if it is unfair but where other significant factors mean that the shareholders should accept the offer in the absence of any higher bid before the close of the offer.

We believe that these definitions provide a useful starting point for assessing the fairness and reasonableness of the consideration offered for each class of voting securities. Fairness is determined largely from the results of a comparative valuation exercise, while the reasonableness of the Offer is related to a general assessment of a range of other non-price terms that may be relevant in this case.

For this particular assessment, we have adopted the following framework to determine whether the consideration offered per share for each Tranche of Redeemable Shares is fair and reasonable in comparison to the offer price per share for the Ordinary Shares:

(i) Comparison of the gross consideration offered for all of the voting securities is examined on a before investor tax basis.

(ii) The Offer of $2.50 per share for the Ordinary Shares provides the benchmark for our assessment in relation to the Redeemable Shares. Although we make no attempt to determine whether this Offer is itself fair and reasonable, the Offer price for the Ordinary Shares is the starting point from which we determine the relative fairness of the Offer for each class (i.e. Tranche) of Redeemable Shares.

(iii) That is, we need to determine the underlying fair value of each Tranche of Redeemable Shares, assuming an initial fair value for the Ordinary Shares of $2.50. Our assessment also takes into account the current rules that govern the Executive Share Scheme, with particular emphasis on the rules that are relevant in the event of a successful takeover offer for Comvita.

(iv) The assessment then rests on a comparison of the net consideration offered for each Tranche of Redeemable Shares to the underlying fair value of each Tranche of Redeemable Shares.

We believe that the assessment of the Offer terms relating to the Ordinary Shares in comparison to the Offer terms relating to each Tranche of Redeemable Shares is inconsequential in this case. Both the ordinary shareholders and the Executives will receive cash consideration if the Offer is accepted, and the

Offer to each group of stakeholders is effectively contingent on the same set of conditions. On this basis, we conclude that the terms of the Offer are equivalent as between the classes of voting securities.

Our overall assessment therefore concentrates on a comparison of the consideration that will be offered for each class of security, based on an examination of the following factors:

- The consideration offered for the Ordinary Shares and each Tranche of Redeemable Shares;
- The differential between the Exercise Price for each Tranche of Redeemable Shares and the Offer price for the Ordinary Shares;
- The ability of the Executives to request an early transfer of the Redeemable Shares under a takeover offer for Comvita;
- The current rights of the Executives in relation to the Redeemable Shares, specifically with regard to the circumstances and timing of the conversion into Ordinary Shares; and
- The circumstances under which an Executive's rights to the Redeemable Shares are relinquished.

We again note that we have not attempted to assess the underlying value of the Ordinary Shares, but have used the Offer price as the benchmark for our assessment of the relativities between the offers for the different classes of securities.

2.4 PRIMARY SOURCES OF INFORMATION

The sources of information that we have relied on in preparing this report are set out in Appendix I.

2.5 LIMITATIONS AND RELIANCE OF INFORMATION

This report is subject to all of the limitations and restrictions set out in Section 5.0. In particular, in preparing this report, Northington Partners has relied on information supplied by Cerebos and Comvita and has assumed the honesty and accuracy of this information. Northington Partners accepts no responsibility for inaccurate information supplied by Cerebos or Comvita, or for any failure by Cerebos or Comvita to provide relevant information.

Our assessment is reliant on a number of key assumptions that have been outlined in this report. Should any of these assumptions not be accurate, then the valuation assessment and our conclusions could be materially affected.

Subject to this limitation, we have obtained all of the information that we consider is necessary for preparing the report.

3.0 COMVITA VOTING SECURITIES

3.1 BACKGROUND TO OFFER PARTICIPANTS

Cerebos is a New Zealand incorporated company which is 100% owned by Cerebos Pacific Limited, a company registered in Singapore and listed on the Singapore Stock Exchange. Cerebos Pacific Limited is 83% owned by Suntory Beverage and Food Limited of Japan.

Comvita was founded in 1974 with the vision of improving people's health and wellbeing by using the power of nature, and was listed on the New Zealand Stock Exchange in 2003. Today, the Company employs approximately 330 staff and operates globally in the natural health sector, providing products in the categories of health care, personal care (skincare and wound care) and functional foods (health foods). Comvita is also the world's largest manufacturer and marketer of Manuka honey.

3.2 TERMS OF COMVITA EQUITY SECURITIES

3.2.1 Ordinary Shares

There are currently 28,212,371 Ordinary Shares on issue in Comvita. Each Ordinary Share confers on the holder:

(i) The right on a poll at a meeting of shareholders to one vote on each resolution;

(ii) The right to an equal share in dividends authorised by the Board; and

(iii) The right to an equal share in the distribution of the surplus assets of the Company.

3.2.2 Redeemable Shares

Over the life of the Executive Share Scheme, Comvita has authorised the issue of 1,967,000 Redeemable Shares in six tranches between May 2006 and March 2011. A total of 615,000 shares have subsequently been forfeited in line with the scheme rules and 19,000 shares have been converted to Ordinary Shares, leaving a total of 1,333,000 Redeemable Shares outstanding as at 7 October 2011.

The key terms and conditions of the Redeemable Shares are as follows:

- Each Tranche has an issue price (which also constitutes the Exercise Price) that was set at the time of issue and which range from $1.18 to $2.87.
- Under each Tranche, the Redeemable Shares were paid up on issue to $0.01. The unpaid balance of the issue price is not required to be paid up until the holder of the Redeemable Shares elects to pay up the balance pursuant to a request for transfer of the shares (which is subject to the vesting and Hurdle Price rules of the Executive Share Scheme having been satisfied, as set out below).
- The Exercise Price for each Tranche represents the total amount that must be paid under the Executive Share Scheme to enable the conversion of the Redeemable Shares into Ordinary Shares.
- Until such time as Redeemable Shares convert into Ordinary Shares, they carry entitlements to voting rights, dividend rights and rights to share in the surplus assets of the Company to the extent they are paid up as if they were Ordinary Shares. This means, for example, that if a dividend is declared on the Ordinary Shares of Comvita, the dividend payable on Tranche 2 of the Redeemable Shares will be 1/212th of the ordinary dividend (as $2.12 is the issue price under Tranche 2).

- Each Redeemable Share is redeemable at the option of the Trustee by giving notice to the Company. The amount payable on redemption of a Redeemable Share is the amount paid up on that Redeemable Share at the date of redemption. The redemption option applies only for so long as the Trustee is the holder of the Redeemable Share, and does not apply if any person other than the Trustee is the holder of the Redeemable Share.
- As from the date on which a Redeemable Share is both fully paid and transferred by the Trustee to a person other than the Trustee, that Redeemable Share shall convert into an Ordinary Share and shall rank in all respects equally with the Ordinary Shares, other than in respect of any distribution or other benefit declared prior to the conversion, and shall be of the same class as Ordinary Shares.
- An Executive forfeits any rights or entitlements to Redeemable Shares that have not been (or are not in the process of being) transferred to the Executive prior to:

  (a) The Executive ceasing to be an employee of Comvita (other than in limited circumstances which may be permitted at the discretion of the Company's Board of Directors); and

  (b) Four months after the 5th anniversary of the issue date (in the case of Tranches 1-3) and four months after the 4th anniversary of the issue date (in the case of Tranches 4-6) (in each case the "**Final Forfeiture Date**").

Key points to note with regard to the transfer of the Redeemable Shares from the Trustee to the Executives are as follows:

- An Executive may not request a transfer before the third anniversary of the issue date in the case of Tranches 1-3 and before the second anniversary of the issue date in the case of Tranches 4-6 (in each case the "**Earliest Transfer Date**").
- A proportion of the Redeemable Shares is released from transfer restrictions on certain anniversary dates following the issue date of a particular Tranche (each an "**Exercise Date**") in the following manner:

  (a) In the case of Tranches 1-3:

    (i) On the 3rd anniversary of the issue date – 60% are released

    (ii) On the 4th anniversary of the issue date – 20% are released

    (iii) On the 5th anniversary of the issue date – 20% are released

  (b) In the case of Tranches 4-6:

    (i) On the 2nd anniversary of the issue date – 50% are released

    (ii) On the 3rd anniversary of the issue date – 25% are released

    (iii) On the 4th anniversary of the issue date – 25% are released

- At each Exercise Date (as noted above), an Executive may request a transfer of the relevant proportion of shares released from the transfer restriction within three months of the date the Company provides notice to the Executive that the price of Comvita's Ordinary Shares exceeds the relevant Hurdle Price applicable to that Exercise Date[4]. The Hurdle Prices applicable to the Exercise

[4] For Tranches 1-3, if the Hurdle Price is not met at a relevant Exercise Date, the proportion of Redeemable Shares that were otherwise capable of transfer at the Exercise Date can be "rolled over" until the next Exercise Date. This "roll over" option does not exist for Tranches 4-6 (i.e. if the Hurdle Price is not met at a particular Exercise Date, the proportion of Redeemable Shares otherwise released from transfer restriction on that date is forfeited).

Dates for the various Tranches of Redeemable Shares are set out in Table 4 below. Note that shaded areas for Tranche 1 represent shares that have been forfeited on the basis that the Final Forfeiture Date for that Tranche was reached prior to any shares converting into Ordinary Shares.

Table 4: Hurdle Prices Applicable to Particular Tranches of Redeemable Shares

	Tranche 1	Tranche 2	Tranche 3	Tranche 4	Tranche 5	Tranche 6
Exercise Price	**$2.87**	**$2.12**	**$2.12**	**$1.18**	**$1.18**	**$1.53**
2nd Anniversary Date	n/a	n/a	n/a	1/09/11	1/09/11	3/03/13
Hurdle Price	n/a	n/a	n/a	$1.49	$1.49	$1.94
% of Shares That Can Vest	n/a	n/a	n/a	50%	50%	50%
3rd Anniversary Date	31/5/09	4/7/11	1/8/11	1/09/12	1/09/12	3/03/14
Hurdle Price	$4.14	$3.03	$3.03	$1.68	$1.68	$2.18
% of Shares That Can Vest	60%	60%	60%	25%	25%	25%
4th Anniversary Date	31/5/10	4/7/12	1/8/12	1/09/13	1/09/13	3/03/15
Hurdle Price	$4.66	$3.41	$3.41	$1.89	$1.89	$2.45
% of Shares That Can Vest	20%	20%	20%	25%	25%	25%
5th Anniversary Date	31/5/11	4/7/13	1/8/13	n/a	n/a	n/a
Hurdle Price	$5.24	$3.84	$3.84	n/a	n/a	n/a
% of Shares That Can Vest	20%	20%	20%	n/a	n/a	n/a

Source: Comvita

We note that the Trust Deed governing the Executive Share Scheme specifically contemplates the situation of a takeover offer for Comvita and states that where:

> *"a person or group of persons acting in concert acquires more than 50% of the ordinary shares in the Company on issue prior to the [Final Forfeiture Date], an [Executive] may give notice ... within 3 months of such event that the [Executive] wishes to have all or any [Redeemable Shares] held in respect of the [Executive] transferred from the Trustee to the [Executive] ... and the condition [relating to certain Hurdle Prices having been met] shall not apply."*

Thus, the Executive Share Scheme contemplates an Executive being able to participate in a successful takeover by permitting the Executive to request a transfer of their Redeemable Shares earlier than may otherwise have been permitted and without reference to the Hurdle Price that would otherwise apply. An Executive will rationally only choose to convert Redeemable Shares of a particular Tranche into Ordinary Shares under this mechanism if the Offer price for the Ordinary Shares exceeds the Exercise Price of that Tranche. Based on the Ordinary Offer Price, this condition is met for all of the Redeemable Shares which remain outstanding.

4.0 VALUATION OF THE REDEEMABLE SHARES

As discussed in Section 1.2, our valuation assessment of the Redeemable Shares is based on an estimate of the maximum payoff from following two potential courses of action. The valuation approach adopted for each scenario is summarised below.

4.1 CONVERSION OPTION

Under this scenario, the Executives choose to immediately convert all of their Redeemable Shares into Ordinary Shares under the provisions of the Trust Deed relating to change of control events. The payoff from exercising this option is simply measured as the difference between the expected value of the Ordinary Shares in Comvita that will be received from the conversion process and the outstanding payment required for each Tranche[5]. Because the Executives are not compelled to convert the Redeemable Shares, they will only do so if the value of the Ordinary Shares is greater than the relevant Exercise Price; the minimum payoff under this scenario is therefore zero.

We assume that the value of the Comvita Ordinary Shares after the completion of the Offer remains at the Ordinary Offer Price of $2.50 per share. If Cerebos receives acceptances for more than 50% but less than 90% of the shares on issue, we expect that Comvita will continue as a listed entity with the Ordinary Shares trading on the NZX. Given the relatively large difference between the pre-Offer trading prices and the Ordinary Offer Price, there is a good chance that the market prices for the Comvita shares will fall back below the Ordinary Offer Price after the Offer has closed. However, we are not in a position to reliably forecast the post-Offer trading range and suggest that our analysis is most appropriately based on the assumption that the value of the Ordinary Shares remains at the Ordinary Offer Price of $2.50.

Our estimate of the net conversion payoffs are set out in Table 5 for each Tranche of Redeemable Shares with shares outstanding.

Table 5: Payoffs to Redeemable Shares Assuming Immediate Conversion

Tranche	Shares Outstanding	Exercise Price	Exercise Payoff per Share
2	100,000	$2.12	$0.39
3	545,000	$2.12	$0.39
4	315,000	$1.18	$1.33
5	213,000	$1.18	$1.33
6	160,000	$1.53	$0.98
	1,333,000		

Source: Northington Partners Analysis

4.2 STATUS-QUO OPTION

Each of the Redeemable Shares on issue effectively provides an Executive with the right to purchase an Ordinary Share at some time in the future at a fixed price. Because an Executive is not obligated to eventually make the purchase unless it is in their best interest to do so, the Redeemable Shares can be

[5] The outstanding payment required is equal to the prescribed Exercise Price for each Tranche less the $0.01 per share already paid-up.

viewed as a variant of a standard call option[6]. An Executive will rationally only choose to convert Redeemable Shares of a particular Tranche into Ordinary Shares if the market price of the Ordinary Shares exceeds the Exercise Price of that Tranche. Under that particular outcome, the Executive will be better off by enforcing the transfer provisions of the Executive Share Scheme and making the outstanding payment per share. If the market price is lower than the Exercise Price of a particular Tranche, the Executive will require the Trustee to redeem the shares for the $0.01 per share that was initially paid-up on the issue date of the Redeemable Shares.

When the Redeemable Shares are viewed as a call option on the Ordinary Shares, the Executive Share Scheme features can be interpreted as follows:

- All shares allocated to the Executives have an exercise price that is fixed throughout the term of the Executive Share Scheme.
- The shares can be fully paid and transferred to the Executives after the Earliest Transfer Date in annual instalments of 60%/20%/20% of the total shares issued (in respect of Tranches 1-3) or in annual instalments of 50%/25%/25% (in respect of Tranches 4–6).
- Any shares that have not been fully paid up on or before the Final Forfeiture Date relating to a particular Tranche can no longer be transferred to the Executive. In option pricing terms, this means that all of the options expire within a two to five year window from their issue date.
- In this case, the Redeemable Shares also have a “barrier” condition which requires that the Comvita share price exceeds the Hurdle Price on each of the potential exercise dates. For Tranches 4-6, if this Hurdle Price target is not met, the relevant portion of the Redeemable Shares expires and the Executive does not have the ability to convert the Redeemable Shares into Ordinary Shares at any point in the future. As previously discussed, Tranches 1-3 have a roll-over provision which means that all of the Redeemable Shares in these Tranches can be converted up to the Final Forfeiture Date.

Because the rights attached to the Redeemable Shares will only have value in the future if the Comvita share price exceeds both the Hurdle Price and the Exercise Price of a particular Tranche before the relevant Exercise Dates, current value is related to an assessment of the likelihood that the share price will exceed both price levels before the Final Forfeiture Date of a particular Tranche. There are a number of mathematical models with which to determine the probability that the options will have a positive payoff in the future, and which ‘translate’ that probability into an option value today. We use some standard models as the basis for our assessment, on the assumption that the underlying Comvita shares will continue to trade on the NZX for the remaining life of the Executive Share Scheme[7].

Unfortunately, although the analogy between the rights attached to the Redeemable Shares and a modified version of a call option is reasonably strong, the Executive Share Scheme also has some features that are commonly attached to more complex employee share option schemes. The most important of these features are as follows:

- The rights attached to the Redeemable Shares are not tradeable; and

[6] A call option provides the holder with the right, but not the obligation, to purchase an asset at a fixed price either during, or at the termination of, a specified future period.

[7] We value the Redeemable Shares as a combination of a long position in an Asset-or-Nothing binary option and a short position in a Cash-or-Nothing binary option. In both cases, the Exercise Price is set equal to the Hurdle Price for each Tranche, and therefore incorporates the barrier condition that the Ordinary Share price exceeds the Hurdle Price on the relevant Exercise Date.

- The rights attached to the Redeemable Shares lapse if the Executive ceases to be an employee of Comvita.

Option features of this type are more difficult to value than standard equity options for a number of reasons, and mean that standard option pricing formulas (based on variants of the Black-Scholes framework) are inappropriate. Although there are a range of alternative models available that attempt to incorporate the impact of the features of employee share options, implementation is difficult because all alternative models require an extra set of parameters. Unfortunately, appropriate values for the additional parameters cannot be directly observed and there is usually no useful data that can be used to estimate the values.

The usual approach to deal with these issues is to use a standard option pricing model to estimate some benchmark values, initially ignoring the value impacts of the employee option features. Appropriate value discounts to reflect factors such as non-tradability and the potential for forfeiture can then be derived from available empirical studies.

Table 6 presents the most important parameters for the benchmark valuation model, along with the selected values.

Table 6: Key Parameters for Benchmark Valuation Model

Parameter	Discussion	Chosen Value
Initial Share Value	Given the purpose of our assessment for the Rule 22 report, we believe that the Ordinary Offer Price is the appropriate input for this valuation.	$2.50
Volatility	This parameter determines the likelihood that the share price will exceed the Exercise Price and Hurdle Price prior to expiration of the option. The higher the volatility, the greater the probability that the option will finish in-the-money, and the greater the current option value. This parameter cannot be directly observed, and we have based our range on the recent market volatility of Comvita share prices. These values are consistent with standard benchmarks for share price volatilities.	35% - 45%
Expected Dividends	The dividend parameter in our models is expressed as a dividend yield, and we have used an estimate that is higher than Comvita's historical yields but in line with standard targets for New Zealand listed entities.	5.0%
Maturity Dates and Exercise Feature	Each of the three allotments of Redeemable Shares within each Tranche has a maturity date 2-5 years after issue. Allotments for Tranches 1 to 3 can be rolled forward at any Exercise Date if the relevant Hurdle Price has not been met at that point in time. This option does not apply to allotments for Tranches 4 to 6: if the Hurdle Price at any Exercise Date is not met, the relevant number of Redeemable Shares expires.	See Table 4

Source: Northington Partners Analysis

The mid-point of the hypothetical current value range for each Tranche of Redeemable Shares is set out in Table 7, prior to any allowance for factors such as lack of marketability and the inability to transfer the rights attached to the Redeemable Shares. The presented values therefore represent an absolute upper limit for the actual fair value of each Tranche of Redeemable Shares.

Table 7: Upper Limit for Value of Redeemable Shares

	Tranche 2	Tranche 3	Tranche 4	Tranche 5	Tranche 6
Exercise Price	**$2.12**	**$2.12**	**$1.18**	**$1.18**	**$1.53**
2nd Anniversary Date	n/a	n/a	n/a	n/a	3/03/13
Hurdle Price	n/a	n/a	n/a	n/a	$1.94
% of Shares That Can Vest	n/a	n/a	n/a	n/a	50%
Assessed Value					**$0.90**
3rd Anniversary Date	4/07/11	1/08/11	1/09/12	1/09/12	3/03/14
Hurdle Price	$3.03	$3.03	$1.68	$1.68	$2.18
% of Shares That Can Vest	60%	60%	25%	25%	25%
Assessed Value	**$0.37**[1]	**$0.38**[1]	**$1.20**	**$1.20**	**$0.88**
4th Anniversary Date	4/7/12	1/8/12	1/09/13	1/09/13	3/03/15
Hurdle Price	$3.41	$3.41	$1.89	$1.89	$2.45
% of Shares That Can Vest	20%	20%	25%	25%	25%
Assessed Value	**$0.37**[1]	**$0.38**[1]	**$1.10**	**$1.10**	**$0.85**
5th Anniversary Date	4/7/13	1/8/13	n/a	n/a	n/a
Hurdle Price	$3.84	$3.84	n/a	n/a	n/a
% of Shares That Can Vest	20%	20%	n/a	n/a	n/a
Assessed Value	**$0.37**	**$0.38**			

Source: Northington Partners Analysis

[1] These Tranches of Redeemable Shares do not automatically expire on the 3rd and 4th Anniversary Dates if the Hurdle Price is not met on those dates. Rather, the Executive retains the ability to convert to Ordinary Shares up to the 5th Anniversary dates. Because the Redeemable Share value for these Tranches is a positive function of time to maturity, the Executive is best suited to delay conversion for as long as possible; the current fair value of the portion of the Redeemable Shares which could potentially vest on the 3rd and 4th Anniversary Date is therefore set equal to the value of the Redeemable Shares that potentially vest on the 5th Anniversary Date.

Market evidence in relation to valuation discounts for the employee option features of the Redeemable Shares is relatively limited. While there are a number of model adjustments that can be implemented to estimate the impact of vesting requirements, forfeiture provisions, and non-transferability, it is usually not possible to test the validity of the additional assumptions needed to parameterise the models simply because traded prices for this type of option are not available.

Because most of these factors will usually lead the Executives to exercise their rights to take up the shares earlier than appears to be optimal, the simplest adjustment to the standard pricing model involves a reduction in the assumed time to maturity. For standard options, a reduction in the assumed life of the option leads to a decrease in the assessed current value of the option. While this approach is intuitively appealing, there is again no market data from which to determine what the most appropriate reduction in the option term may be in any particular case.

The appropriate valuation discount to apply to the theoretical model prices therefore remains largely a matter of judgement. Although market rules of thumb suggest discounts between 20% and 50% from the values derived from an appropriate theoretical model, our analysis suggests that the appropriate discount in this case should be towards the lower end of the range. This conclusion reflects that the provisions governing the application of the Executive Share Scheme provide for some leniency in circumstances where an Executive ceases employment with Comvita. While leaving the Company would normally result in a forfeiture of rights under the Executive Share Scheme, the Comvita Board does have the discretion to permit an Executive to remain in the Executive Share Scheme in circumstances such as retirement, redundancy, illness or death.

On this basis, we have adopted a valuation discount range of between 20% and 30% for the Redeemable Shares. The resulting mid-point of the value range for each Tranche is presented in Table 8 below.

Table 8: Estimated Fair Value Range for Redeemable Shares

	Tranche 2	Tranche 3	Tranche 4	Tranche 5	Tranche 6
Exercise Price	**$2.12**	**$2.12**	**$1.18**	**$1.18**	**$1.53**
2nd Anniversary Date	n/a	n/a	n/a	n/a	3/03/13
Hurdle Price	n/a	n/a	n/a	n/a	$1.94
% of Shares That Can Vest	n/a	n/a	n/a	n/a	50%
Assessed Value					**$0.68**
3rd Anniversary Date	4/07/11	1/08/11	1/09/12	1/09/12	3/03/14
Hurdle Price	$3.03	$3.03	$1.68	$1.68	$2.18
% of Shares That Can Vest	60%	60%	25%	25%	25%
Assessed Value	**$0.27**	**$0.28**	**$0.90**	**$0.90**	**$0.66**
4th Anniversary Date	4/7/12	1/8/12	1/09/13	1/09/13	3/03/15
Hurdle Price	$3.41	$3.41	$1.89	$1.89	$2.45
% of Shares That Can Vest	20%	20%	25%	25%	25%
Assessed Value	**$0.27**	**$0.28**	**$0.83**	**$0.83**	**$0.64**
5th Anniversary Date	4/7/13	1/8/13	n/a	n/a	n/a
Hurdle Price	$3.84	$3.84	n/a	n/a	n/a
% of Shares That Can Vest	20%	20%	n/a	n/a	n/a
Assessed Value	**$0.27**	**$0.28**			

Source: Northington Partners Analysis

4.3 ASSESSMENT CONCLUSION

The fair value of the Redeemable Shares is assessed as the maximum of the payoffs from the Conversion Option (as set out in Table 5) and the Status-Quo Option (as set out in Table 8). These values are set out in Table 9 below.

Table 9: Assessed Values of Redeemable Shares

Tranche	Shares Outstanding	Assessed Value per Share	Total Tranche Value
1	0	n/a	n/a
2	100,000	$0.39	$39,000
3	545,000	$0.39	$212,550
4	315,000	$1.33	$418,950
5	213,000	$1.33	$283,290
6	160,000	$0.98	$156,800
	1,333,000		**$1,110,590**

Source: Northington Partners Analysis

In all cases, the assessed value of the Redeemable Shares is set equal to the estimated payoff from the Conversion Option because these values are uniformly higher than the current fair value of the shares under the Status Quo Option. This outcome is largely a reflection of the fact that:

(i) Implementation of the Conversion Option ignores the impact of the Hurdle Price and allows the Executives to exercise their rights to all Redeemable Shares immediately; and

(ii) The Ordinary Offer Price is significantly higher than the Exercise Price for each Tranche of Redeemable Shares, meaning that all of the Redeemable Shares are “in-the-money”.

Even without the imposition of the 20% discount to account for non-marketability issues, the assessed fair values of the Redeemable Shares under the Status Quo Option are always lower than the proceeds from immediate exercise because of the impact of the Hurdle Price. While delaying the possible conversion of the Redeemable Shares allows for the possibility that the value of the ordinary shares will be higher at a future Exercise Date, it is also possible that the ordinary share price will be lower than the Hurdle Price at the Exercise Dates. If the Hurdle Price is not met, the Redeemable Shares expire worthless. In this particular case, the value detriment from the risk of not meeting the Hurdle Price is greater than the value upside of a potentially higher payoff.

5.0 QUALIFICATIONS, DECLARATIONS AND CONSENTS

5.1 DECLARATIONS

This report is dated 10 October 2011 and has been prepared by Northington Partners at the request of Cerebos to fulfil the reporting requirements pursuant to Rule 22 of the Code. This report, or any part of it, should not be reproduced or used for any other purpose. Northington Partners specifically disclaims any obligation or liability to any party whatsoever in the event that this report is supplied or applied for any purpose other than that for which it is intended.

Prior drafts of this report were provided to Cerebos for review and discussion. Although minor factual changes to the report were made after the release of the first draft, there were no changes to our methodology, analysis, or conclusions.

This report is provided for the benefit of all of the security holders of Comvita that are subject to the Offer, and Northington Partners consents to the distribution of this report to those people. The engagement terms did not contain any term which materially restricted the scope of our work.

5.2 QUALIFICATIONS

Northington Partners provides an independent corporate advisory service to companies operating throughout New Zealand. The company specialises in mergers and acquisitions, capital raising support, expert opinions, financial instrument valuations, and business and share valuations. Northington Partners is retained by a mix of publicly listed companies, substantial privately held companies, and state owned enterprises.

The individuals responsible for preparing this report are Greg Anderson B.Com, M.Com (Hons), Ph.D, and Steven Grant B.Com, LLB (Hons). Each individual has a wealth of experience in providing independent advice to clients relating to the value of business assets and equity instruments, as well as the choice of appropriate financial structures and governance issues. Greg Anderson also has a high level of expertise and extensive experience in valuing complex financial instruments including options, swaps, and hybrid debt and equity securities.

Northington Partners has been responsible for the preparation of numerous Independent Reports in relation to takeovers, mergers, and a range of other transactions subject to the Code and NZX Listing Rules.

5.3 INDEPENDENCE

Northington Partners has not been previously engaged on any matter by Cerebos or Comvita or (to the best of our knowledge) by any other party to the proposed transaction. None of the Directors or employees of Northington Partners have any other relationship with any of the Directors or substantial security holders of the parties involved in the proposed Offer.

The preparation of this Rule 22 report will be Northington Partners' only involvement in relation to the proposed transaction. Northington Partners will be paid a fixed fee for its services which is in no way contingent on the outcome of our analysis or the content of our report.

Northington Partners does not have any conflict of interest that could affect its ability to provide an unbiased report.

5.4 DISCLAIMER AND RESTRICTIONS ON THE SCOPE OF OUR WORK

In preparing this report, Northington Partners has relied on information provided by Cerebos and Comvita. Northington Partners has not performed anything in the nature of an audit of that information, and does not express any opinion on the reliability, accuracy, or completeness of the information provided to us and upon which we have relied.

Northington Partners has used the provided information on the basis that it is true and accurate in material respects and not misleading by reason of omission or otherwise. Accordingly, neither Northington Partners nor its Directors, 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.

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.

5.5 INDEMNITY

Cerebos has agreed to indemnify Northington Partners (to the maximum extent permitted by law) for all claims, proceedings, damages, losses (including consequential losses), fines, penalties, costs, charges and expenses (including legal fees and disbursements) suffered or incurred by Northington Partners in relation to the preparation of this report; except to the extent resulting from any act or omission of Northington Partners finally determined by a New Zealand Court of competent jurisdiction to constitute negligence or bad faith by Northington Partners.

Cerebos has also agreed to promptly fund Northington Partners for its reasonable costs and expenses (including legal fees and expenses) in dealing with such claims or proceedings upon presentation by Northington Partners of the relevant invoices.

Northington Partners Limited

G Anderson

Greg Anderson
Director

www.northington.co.nz

Appendix I - Sources of Information Used in This Report

Other than the information sources referenced directly in the body of the report, this assessment is also reliant on the following sources of information:

- Trust Deed dated 26 May 2006 between Comvita Limited and Comvita Share Scheme Trustee Limited relating to Comvita's Executive Share Scheme, together with a Deed of Amendment dated 31 August 2009;
- Comvita Limited Annual Report 2011;
- Various emails from Comvita management relating to the Executive Share Scheme, including details on the number of Redeemable Shares currently on issue and the number that have been forfeited and/or converted to Ordinary Shares under the rules of the scheme; and
- Copies of the draft Takeover Notice, with the latest version provided on 4 October 2011.