

15 August 2002

The Independent Directors
AFFCO Holdings Limited
P O Box 90
AUCKLAND

SUMMARY OF INDEPENDENT ADVISER'S REPORT AND APPRAISAL REPORT IN RESPECT OF THE PROPOSED RIGHTS ISSUE BY AFFCO HOLDINGS LIMITED

Introduction

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

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

The principal terms of the Rights Issue are:

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

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

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

- Talley's and Toocooya will subscribe for all of their pro rata entitlements under the Rights Issue;

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

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

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

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

Scope of the Report

Elements of the Rights Issue are subject to the approval of AFFCO shareholders under Rule 7(d) of the Takeovers Code (the "Code") and under NZSE Listing Rules 7.5 and 9.2 as:

- Talley's and Toocooya's may increase their respective shareholdings in AFFCO beyond 20%; and
- the Underwriting Arrangements constitute Material Transactions with Related Parties.

Accordingly, AFFCO is holding a special meeting of shareholders on 3 September 2002 to vote on two resolutions in respect of:

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

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

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

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

Evaluation of the Rights Issue and Underwriting Arrangements

Issues Considered

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

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

they may independently reach the same decision and in such circumstances the two shareholders can pass ordinary resolutions between them.

- other benefits of the Rights Issue and Underwriting Arrangements to Talley's and Toocooya are:
 - the Rights Issue is heavily discounted. Accordingly, Talley's and Toocooya have the opportunity to increase their shareholdings (and control) at a discounted price but only if Non-associated Shareholders elect not to take up their entitlements. Furthermore, any rights that are not exercised or traded will result in a value transfer from the shareholders not exercising their rights to those shareholders that have exercised or traded their rights. The latter shareholders include Talley's and Toocooya.
- the disadvantages to Talley's and Toocooya of the Rights Issue and Underwriting Arrangements are:
 - they will receive no fees for providing services under the Underwriting Arrangements;
 - by increasing their shareholdings in AFFCO, Talley's and Toocooya are further exposed to the risks which AFFCO faces; and
 - Talley's and Toocooya are making further financial commitments to AFFCO. Assuming the two shareholders are required to subscribe for additional shares up to their maximum allowable levels under the Underwriting Arrangements, Talley's will be required to invest a further \$8.2 million in AFFCO while Toocooya will be required to invest a further \$3.4 million in addition to their subscriptions of \$5.4 million and \$5.1 million respectively for their entitlements under the Rights Issue.

Summary of Merits of the Proposed Allotment Under the Underwriting Arrangements

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

- the benefits to the Non-associated Shareholders of the Rights Issue are:
 - all shareholders have the opportunity to participate in the Rights Issue. They can choose to take up their entitlements or elect to sell their rights during the trading period. By electing to take up their entitlements the Non-associated Shareholders can prevent Talley's and Toocooya from increasing their effective control over the company at a discounted price;
 - Non-associated Shareholders who choose to take up their entitlements will benefit from the discounted subscription price for the shares;
 - heavily discounted Rights Issues are more affordable for Non-associated Shareholders to take up their entitlements;
 - Non-associated Shareholders will have the option of selling their rights and these rights may be of value;
 - the Non-associated Shareholders have the opportunity to vote on the resolution relating to the Rights Issue;
 - Talley's and Toocooya are not charging AFFCO an underwriting fee; and
 - Non-associated Shareholders will continue to benefit from the support that Talley's and Toocooya have already provided to AFFCO since their introduction as major shareholders.
- the Non-associated Shareholders are also exposed to the disadvantages of the Rights Issue:
 - shareholders choosing not to take up their entitlements will have their current shareholding diluted and the value of their shares is likely to fall from the levels preceding the announcement of the Rights Issue; and
 - shareholders not wishing to take up their entitlements may not be able to sell their rights at the theoretical rights price.

Fairness of the Underwriting Arrangements

Deloitte Corporate Finance has also considered whether the likely increase in control by Talley's and Toocooya in AFFCO and the terms and conditions of the Underwriting Arrangements are fair to the Non-associated Shareholders.

Based upon the factors listed above, Deloitte Corporate Finance is of the opinion that the possible increase in effective control by Talley's and Toocooya in AFFCO and the terms of the Underwriting Arrangements are fair to the Non-associated Shareholders.

Evaluation of the Dairy Meats Transaction

Issues Considered

In evaluating the Dairy Meats Transaction, Deloitte Corporate Finance has considered the following factors:

- the Dairy Meats Transaction can only proceed if the Rights Issue and Underwriting Arrangements resolution is approved. Therefore the implications of the impact on control arising from the Dairy Meats Transaction is a subset of the likely change in control of AFFCO arising from the Underwriting Arrangements.
- if the Rights Issue and Underwriting Arrangements resolution is approved, then Talley's and Toocooya are likely to increase their respective shareholdings in AFFCO beyond 20% through their underwriting of the Rights Issue. This is irrespective of whether the Dairy Meats Transaction is approved or not. The degree to which Talley's and Toocooya increase their shareholdings is dependent upon the level of entitlements taken up by the Non-associated Shareholders. However, the maximum shareholdings for Talley's and Toocooya are capped under the Underwriting Arrangements at 35% and 25% respectively.
- if the Dairy Meats Transaction is approved and the Non-associated Shareholders take up all their rights, then Talley's and Toocooya are guaranteed to increase their shareholding levels to 23.4% and 19.8% respectively through the acquisition of Dairy Meats' rights. If the Dairy Meats Transaction is not approved and the Non-associated Shareholders take up all their rights, then Talley's and Toocooya will retain their existing shareholding levels of 19.9% and 18.7% respectively. However, as stated above, Talley's and Toocooya's shareholdings are likely to increase through their underwriting of the Rights Issue.
- if the Dairy Meats Transaction is approved, Dairy Meats' shareholding in AFFCO will be diluted to between 4.7% and 5.2% (depending on the number of rights exercised by the Non-associated Shareholders). Accordingly, the impact of how Dairy Meats votes relative to how Talley's and / or Toocooya vote will be lessened.
- Dairy Meats currently has one representative on the AFFCO Board. Assuming there is no change to the number of Directors, Dairy Meats' proportionate representation on the Board will be maintained.
- Talley's and Toocooya have agreed to acquire Dairy Meats' rights at \$0.03 per right. This value equates to the theoretical rights price assessed by Deloitte Corporate Finance. The acquisition price for Dairy Meats' rights is considered to be fair and as such is unlikely to have any negative impact on the potential trading value of the rights when they list on the NZSE.
- Dairy Meats will be guaranteed a payment of \$0.03 per right under the transaction. This eliminates the uncertainty (and possible upside) that it would face if it were to sell its rights on the NZSE.

Summary of Merits of the Proposed Allotment Under the Dairy Meats Transaction

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

- the Dairy Meats Transaction will remove a large block of rights from the market which may otherwise be available for sale and which could potentially depress the price which Non-associated Shareholders may receive for any rights they sought to trade on the NZSE.
- the acquisition price for the Dairy Meats rights equates to the theoretical rights price and as such may help to provide a guideline to the market as to the value of the rights.
- the Non-associated Shareholders will vote on the resolution in respect of the Dairy Meats Transaction. The transaction will not proceed unless the Non-associated Shareholders approve the resolution. However, Non-associated Shareholders in favour of the Rights Issue have the flexibility to vote for the first resolution and vote either for or against the Dairy Meats Transaction resolution.
- the certainty of the sale price of \$0.03 per right is available only to Dairy Meats. Non-associated Shareholders who wish to sell their rights will have to do so on the NZSE. Accordingly, they will bear the uncertainty of whether there will be buyers for their rights and if so, at what price.

Limitations

Deloitte Corporate Finance's evaluation has been arrived at based on economic, exchange rate, market and other conditions prevailing at the date of this report.

This summary report has been prepared by Deloitte Corporate Finance to assist the Independent Directors in advising the Non-associated Shareholders in relation to the proposed Rights Issue. The report is addressed to the Independent Directors and is for the benefit of the Non-associated Shareholders and no other party. It should not be used for any other purpose other than as an expression of Deloitte Corporate Finance's opinion as to the merits of the proposed allotment to Talley's and Toocooya of ordinary shares in AFFCO under the Underwriting Arrangements and the Dairy Meats Transaction and whether the possible increase in effective control by Talley's or Toocooya in AFFCO and the terms of the Underwriting Arrangements are fair to the Non-associated Shareholders.

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

- the appropriateness of the Rights Issue;
- whether the current AFFCO share price is appropriate having regard to the prospects and financial position of AFFCO;
- whether shareholders should take up their entitlements;
- whether the funds raised will be adequate to satisfy AFFCO's funding requirements; and
- the future performance or viability of AFFCO.

Qualifications and Expertise

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

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

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

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

Independence

Deloitte Touche Tohmatsu is not the auditor of AFFCO, Talleys , Toocooya or Dairy Meats.

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

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

Summary Report

This letter is a fair summary of Deloitte Corporate Finance's detailed report and is not misleading.

This summary is subject to the restrictions and caveats set out in the detailed report.

The detailed report from which this summary has been extracted is available for inspection at the registered office of AFFCO and on its website (www.affco.co.nz).

A copy of the detailed report will be sent by AFFCO to any Non-associated Shareholder on request.

Yours faithfully

DELOITTE CORPORATE FINANCE



Peter A Simmons



Andrew R Liddell