SYNLAIT FARMS LIMITED

TARGET COMPANY STATEMENT

IN RESPONSE TO SFL HOLDINGS LIMITED'S FULL TAKEOVER OFFER FOR SYNLAIT FARMS LIMITED

1 NOVEMBER 2013

This is an important document and requires your urgent attention. If you have any questions in respect of this document or the offer, you should seek advice from your financial or legal adviser.

CONTENTS

1 November 2013

Dear Synlait Farms Shareholder

TAKEOVER OFFER FOR SYNLAIT FARMS LIMITED

In May 2013 the Board of Synlait Farms Limited ("**Synlait Farms**") commenced a capital raising process with the goal of providing funds for future growth while offering shareholders an opportunity to sell some or all of their Synlait Farms shares at their full value.

As a result of this process SFL Holdings Limited ("**SFL Holdings**") has made a takeover offer to purchase 100% of the shares in Synlait Farms (the "**Offer**"). SFL Holdings involves three parties – New Zealand Standard Farm Limited (a subsidiary of Chinese company Shanghai Pengxin Group Co. Ltd), Juliet Maclean (current Managing Director and CEO of Synlait Farms) and John Penno (current Director of Synlait Farms). The Offer has been made with the knowledge and approval of the Synlait Farms Board of Directors.

Given the conflict of interest created by two Synlait Farms Directors being involved with SFL Holdings, your Board has formed a Committee of Independent Directors, comprising Stephen Howse (Chairman) and Barry Brook (the "**Committee**"), to consider and respond to the Offer.

Synlait Farms is subject to the provisions of the Takeovers Code. Accordingly, the Committee has prepared the information required under the Takeovers Code to enable shareholders to assess the merits of the Offer. This information includes:

- A **Target Company Statement**, of which this letter and the Recommendation forms a part. In this document, Synlait Farms provides a range of information about the Offer, including a recommendation from the Committee on how to respond to it.

- An **Independent Adviser's Report**, included as the Appendix to this Target Company Statement, which the Committee commissioned Grant Samuel & Associates Limited to prepare. This report provides an independent and expert view on the merits of the Offer.

Despite any recommendations made to shareholders in these documents, or in any meetings associated with the Offer, <u>the decision about whether to accept the Offer is for each shareholder to make</u>. Shareholders should read the Offer Document, Target Company Statement, Recommendation and Independent Adviser's Report carefully and in full, and seek financial or legal advice if necessary, when considering whether they wish to accept the Offer.

Committee's Recommendation

The Committee's Recommendation is set out in the "Recommendation" section of this Target Company Statement, which follows immediately after this letter. In summary, <u>**the Committee recommends that shareholders should accept the Offer for all of their shares in Synlait Farms**</u>.

Key features of the Offer

The full terms of the Offer are set out in the Offer Document from SFL Holdings which this Target Company Statement responds to. A summary of the key features of the Offer are as follows:

- SFL Holdings is offering to buy 100% of the shares in Synlait Farms.

- The Offer price is $2.10 in cash per share. If you accept the Offer to sell some or all of your shares, you will be paid within 7 days of when your acceptance form is received, when the offer is declared unconditional or the end of the Offer period (whichever comes later).

- If the Offer is not declared unconditional by 31 December 2013, then the Offer price will increase at a rate of $0.001957 per share per calendar day from 1 January 2014 until the Offer is declared unconditional. This will only come into effect if SFL Holdings has not received approval from the New Zealand Overseas Investment Office or from certain Chinese provincial authorities by 31 December 2013.

- Shareholders have until 11.59pm on Friday, 6 December 2013 to accept the Offer, unless it is extended by SFL Holdings in accordance with the Takeovers Code.

- The Offer is conditional on SFL Holdings receiving acceptances for a minimum of 90% of Synlait Farms shares, on Synlait Farms continuing to be operated in the ordinary course of business, and on Synlait Farms not entering into certain material transactions. However, if it wishes to, <u>SFL Holdings can waive these conditions</u>.

- The Offer is also conditional on SFL Holdings obtaining regulatory approvals in New Zealand (from the Overseas Investment Office) and in the People's Republic of China (from three separate provincial authorities). <u>These conditions cannot be waived by SFL Holdings</u>.

Pre-acceptances of the Offer

As is often seen in offers of this nature, SFL Holdings has entered into lock-up agreements with major shareholders of Synlait Farms before making this Offer. Juliet Maclean, John Penno and Ben Dingle (who between them hold 50.18% of the shares in Synlait Farms) have committed to accept the Offer when it is made and, as a result, SFL Holdings expects to receive acceptances in respect of at least 50.18% of the shares immediately once it has made the Offer.

The Committee has seen these lock-up agreements and is comfortable that they are on terms which are no more favourable than the Offer being made to all other shareholders. The Independent Advisers also commented on this in the Independent Adviser's Report and reached the same conclusion.

Acceptance of the Offer

If you wish to accept the Offer, use the acceptance form in the Offer Document from SFL Holdings. You should complete and return your acceptance form in accordance with the instructions set out on that form.

<u>Acceptances, once given, cannot be withdrawn.</u>

If you decide not to accept the Offer, you do not need to take any further action.

Timing

The Offer will close at 11.59pm on Friday, 6 December 2013. It can be extended by SFL Holdings in accordance with the Takeovers Code. You have until the end of the Offer period to decide whether to accept the Offer.

SFL Holdings must pay you within seven days of your acceptance, the date on which it declares the Offer unconditional or the end of the Offer period (whichever comes later).

Conclusion

The Board of Synlait Farms is pleased to be able to present an offer to shareholders that meets its capital raising objectives of providing funds for growth and offering shareholders an opportunity to sell their shares at their full value.

Please read the Offer Document, the Target Company Statement, the Recommendation and the Independent Adviser's Report carefully and in full. Consider your own individual circumstances, liquidity preferences, views on value and the merits of the Offer and investment time horizons before making your own decision on whether to accept the Offer. We also encourage you to seek independent financial and legal advice.

Yours faithfully
Synlait Farms Limited

Stephen Howse
Chairman of the Committee
of Independent Directors

Barry Brook
Independent Chairman of the Board of
Directors

RECOMMENDATION

The Committee of Independent Directors, comprising Stephen Howse and Barry Brook, has provided this recommendation, having fully considered the range of information and expert advice available to it. Juliet Maclean and John Penno have a conflict of interest arising from their involvement in SFL Holdings and their agreement to accept the Offer by signing the lock-up agreements and, in light of this, have abstained from providing a recommendation.

THE COMMITTEE'S UNANIMOUS RECOMMENDATION IS THAT SHAREHOLDERS ACCEPT THE OFFER FROM SFL HOLDINGS FOR ALL OF THEIR SHARES IN SYNLAIT FARMS.

In reaching this recommendation, the Committee has taken account of the following matters:

1. The Offer price represents full value for shares in Synlait Farms. The valuation range determined by the Independent Adviser was $1.86 - $2.02 per share and the Offer is a 4% premium to the top end of that range. In the 2013 audited accounts of Synlait Farms, the equity value of the company translated to $1.94 per share (prior to any transaction costs), and the Offer is an 8% premium to this.

2. The Offer price is in line with the value assessed by the Independent Directors, which:
   - includes water assets, such as surplus water consents and options to participate in the Central Plains Water (CPW) irrigation scheme, which offer future growth potential for the business;
   - includes additional identified growth options that can be executed by existing management and systems with little additional overhead cost; and
   - was derived using a lower discount rate than that employed by the Independent Adviser. Section 5.3 of the Independent Adviser's Report illustrates the sensitivity of the Independent Adviser's valuation to changes to the discount rate.

3. The Offer price is at a premium to recent trading in Synlait Farms shares on the Unlisted share trading platform. The most recent trade prior to SFL Holdings' notice of intention to make a takeover offer (on 17 October 2013) was on 1 October 2013 at a value of $1.60 per share. Trading in the 3 months prior to 17 October 2013 was in the range of $1.25 - $1.65 per share with a volume weighted average price (VWAP) of $1.45 per share.

4. The Offer allows shareholders to sell all of their shares in Synlait Farms, achieving full liquidity for their investment. Synlait Farms has been trading on the Unlisted share trading platform since 26 March 2013, and in that time a total of only 502,875 shares (1.23% of Synlait Farms shares on issue) have changed hands. The Offer provides an opportunity for shareholders to sell their shares in Synlait Farms in quantities that would otherwise be difficult given the relative illiquidity in the market for Synlait Farms shares.

5. SFL Holdings has acceptances in respect of at least 50.18% of shares due to lock-up agreements with Juliet Maclean, John Penno and Ben Dingle, the three largest shareholders in Synlait Farms. Accordingly, while the Offer has a condition of receiving acceptances in respect of 90% or more of shares, under the Takeovers Code this condition can be waived at any time by SFL Holdings if they choose to proceed with acceptances in respect of more than 50% but less than 90% of the shares in Synlait Farms. In this event, there can be no guarantee to minority shareholders of the future governance, share trading, liquidity or provision of company information.

6. The ongoing involvement of Juliet Maclean and John Penno in SFL Holdings has provided confidence to SFL Holdings about the future performance of Synlait Farms and this has had a favourable impact on the terms of the Offer.

FREQUENTLY ASKED QUESTIONS

Who is making the Offer?

The company making the Offer for your shares in Synlait Farms Limited is SFL Holdings Limited.

SFL Holdings is jointly owned by New Zealand Standard Farm Limited ("**NZSF**") and by Directors and shareholders in Synlait Farms, Juliet Maclean and John Penno.

Juliet Maclean and John Penno are also directors of SFL Holdings.

Who is NZSF?

NZSF is an indirect wholly owned subsidiary of Shanghai Pengxin Group Co. Ltd ("**Shanghai Pengxin**"). Shanghai Pengxin is a privately owned real estate and agriculture investor headquartered in Shanghai, China. Shanghai Pengxin, through its indirect wholly owned subsidiary Milk New Zealand Holdings Limited, owns a large portfolio of dairy farms in the central North Island of New Zealand.

Why are Juliet Maclean and John Penno shareholders in SFL Holdings?

Shanghai Pengxin requested the continued involvement of Juliet Maclean and John Penno to provide management and governance assistance to transition Synlait Farms to new ownership and to assist the business to execute its strategic plan.

Was Synlait Farms aware that an Offer was going to be made?

Yes. In May 2013 the Board of Synlait Farms commenced a process in order to raise capital to fund growth, reduce debt and achieve a value-maximising liquidity event for shareholders. Interested parties were invited to submit proposals to acquire a majority ownership stake, including up to 100% of Synlait Farms' business. SFL Holdings' proposal was assessed by the Board as being the most attractive and highest value proposal received. On that basis, the Board invited SFL Holdings to make the Offer.

Other proposals received included:

- The issue of new equity capital, with resultant ownership of up to 50% and limited purchase of shares from shareholders.

- The purchase of 100% of the shares of Synlait Farms at lower values than that presented in the Offer, and subject to financing risk (in addition to other conditions).

What is a lock-up agreement and why is it important?

As is common in transactions of this nature, prior to making the Offer, SFL Holdings entered into lock-up agreements with each of Juliet Maclean, Ben Dingle and John Penno, being the three largest shareholders holding in aggregate 50.18% of the shares in Synlait Farms. In the lock-up agreements each of Juliet Maclean, Ben Dingle and John Penno agreed to accept the Offer for 100% of their shares within two days of SFL Holdings making the Offer.

By entering into the lock-up agreements SFL Holdings has ensured, provided it makes the Offer on the terms set out in the lock-up agreements, that it will receive acceptances in respect of not less than 50.18% of the shares in Synlait Farms within two days of receipt of the Offer Document by each of Juliet Maclean, Ben Dingle and John Penno.

Do the Synlait Farms Directors that own Synlait Farms shares intend to accept the Offer?

Directors John Penno, Juliet Maclean and Stephen Howse each hold shares.

Juliet Maclean and John Penno, as parties to lock-up agreements, have agreed to accept the Offer in relation to 100% of their shares.

Stephen Howse has advised that he intends to accept the Offer in respect of 100% of his Shares.

What is the Offer Price?

The Offer price is **$2.10** per Synlait Farms share ("**Offer Price**").

If the Offer is not unconditional by 31 December 2013 due only to SFL Holdings not receiving Overseas Investment Office ("**OIO**") approval and/or the consents required from the three Chinese provincial authorities, then SFL Holdings will increase the Offer Price from and including 1 January 2014 at a rate of $0.001957 per Synlait Farms share per calendar day until and including the calendar day on which the Offer is declared unconditional.

How does the Offer Price compare to the Independent Adviser's view on value?

The Independent Adviser appointed by Synlait Farms, through the Committee of Independent Directors ("**Committee**"), to prepare a report on the merits of the Offer has assessed the value of Synlait Farms' shares to be in the range of $1.86 to $2.02 per share with a mid-point of $1.94 per share.

The Offer Price is 16 cents above the mid-point of the Independent Adviser's assessed value range.

The Independent Directors have assessed value more in line with the Offer Price, and have also attributed value to:

- water assets, such as surplus water consents and options to participate in the Central Plains Water (CPW) irrigation scheme, which offer future growth potential for the business; and

- additional identified growth options that can be executed with the existing senior management capacity and the processes and information systems of the company, with little additional overhead cost.

How does the Offer Price compare to Synlait Farms' share price on Unlisted?

The Offer Price of $2.10 per share represents a 31% premium to the value of the last trade on Unlisted in Synlait Farms' shares of $1.60 per share on 1 October 2013 (being the last day on which Synlait Farms shares traded prior to the date of SFL Holdings' Takeover Notice).

How does the Offer Price compare to book value per share for Synlait Farms?

The book value per share for Synlait Farms was $1.94 per share (prior to any transaction costs) as at 31 May 2013 based on the audited financial statements of the Synlait Farms Group. The Offer Price of $2.10 per share is an 8% premium to that book value.

Is the Offer Price attractive?

An assessment of the merits of the Offer will depend on, among other things, your individual circumstances, views on value, transaction structure, your liquidity preferences, and investment time horizon.

The Board considers that the value implied by the Offer Price has been thoroughly market-tested through an extensive process conducted by investment bank Cameron Partners Limited. The Board assessed SFL Holdings' Offer as being the most attractive and highest value proposal received.

Other external benchmarks of value, namely the Independent Adviser's assessment of value, the share price on Unlisted and the book value of Synlait Farms' assets for accounting purposes, suggest that the Offer Price is attractive.

What is the Board's recommendation?

The Committee's recommendation and the reasons for it are set out in the Recommendation section at the front of this Target Company Statement.

In summary, **the unanimous recommendation of the Committee is that shareholders should accept the Offer for all of their shares in Synlait Farms**.

The remaining Directors of Synlait Farms, Juliet Maclean and John Penno, have a conflict of interest arising from their involvement in SFL Holdings and their agreement to accept the Offer by signing the lock-up agreements and, in light of this, have abstained from providing a recommendation.

What happens if OIO approval and/or approvals from Chinese provincial authorities are not granted or are granted after 31 December 2013?

SFL Holdings submitted an application for OIO approval to acquire 100% of the shares in Synlait Farms on 22 October 2013. There is no statutory timeframe within which the OIO must give its decision. However, the OIO has set its own general internal timeframe target of 50 working days from the date of receipt of an application, but can take longer.

SFL Holdings has also submitted an application with the Municipal Development and Reform Commission, being the first of three Chinese provincial authorities that must approve aspects of the Offer. Once approval is obtained from that provincial authority then SFL Holdings will submit further applications to two further Chinese provincial authorities namely the Foreign Trade & Economic Relations Commission and the State of Administration of Foreign Currency. Shanghai Pengxin has advised that it does not see any impediment to being granted these approvals.

If OIO approval and/or approval from any one or more of the three Chinese provincial authorities are not granted by 31 December 2013, but are ultimately granted, SFL Holdings will increase the Offer Price payable to shareholders after the Offer is unconditional from and including 1 January 2014, at a rate of $0.001957 per Synlait Farms share per calendar day until and including the calendar day on which the Offer is declared unconditional.

If OIO approval and/or the approval of each of the three Chinese provincial authorities are not granted, the Offer will not become unconditional and will be unable to proceed.

What happens to the Offer Price if the current season's milk price changes during the Offer period?

The Offer Price reflects an assumption about the milk price for the current season and into the future. Therefore, the Offer Price will not be revised in the event of a change in the current milk price during the Offer period.

Can the Offer Price be increased in future?

The Independent Adviser comments on this point in section 6.4 of its report.

SFL Holdings may choose to increase its Offer price during the Offer period.

If SFL Holdings chooses to increase the Offer price while the current Offer is still open, the increased price will be available to all Synlait Farms shareholders even if they have already accepted the $2.10 per share offer. In that circumstance, the higher offer price would also be available to John Penno, Juliet Maclean and Ben Dingle.

SFL Holdings has stated that it will not make another takeover offer within the 12 month period from the date of the Offer except for a takeover offer at the same or a lower price than the Offer Price.

Accordingly, within the 12 month period from the date of the Offer the offer price in respect of any further takeover offer could only be at a lower or the same price as the Offer Price. After the 12 month period from the date of the Offer the offer price of any further takeover offer could be higher, lower or at the same price as the Offer Price.

Shareholders who accept the Offer (including Juliet Maclean, John Penno and Ben Dingle by way of the lock-up agreements) will not be eligible to receive any offer price under a further takeover offer, even if it is higher than the Offer Price.

How long will the Offer be open?

The Offer will remain open until 11.59pm on Friday, 6 December 2013. SFL Holdings may elect to extend the Offer pursuant to the Takeovers Code.

What happens if I don't accept the Offer?

There are three possible outcomes if you do not accept the Offer:

- The first possible outcome is that SFL Holdings achieves acceptances for the Offer in respect of at least 90% of the shares. In this instance, SFL Holdings may compulsorily acquire any remaining shares (including your shareholding) at the Offer Price, and has said in the Offer Document that it will do so, and any remaining shareholder can require SFL Holdings to acquire its shares, in accordance with the Takeovers Code.

- The second possible outcome is that SFL Holdings does **not** achieve acceptances for the Offer in respect of at least 90% of the shares **and** does not waive the 90% minimum acceptance condition. Under this scenario, the Offer would not complete and you would remain a shareholder of Synlait Farms and there would be no change in ownership or control of Synlait Farms.

- The third possible outcome is that SFL Holdings does **not** achieve acceptances for the Offer in respect of at least 90% of the shares **but waives** the 90% minimum acceptance condition based on whatever level of acceptance it has then received. As Juliet Maclean, Ben Dingle and John Penno have agreed by way of the lock-up agreements to accept the Offer, SFL Holdings would then hold between 50.18% and 89.9% of the shares. Under this scenario you would remain a minority shareholder alongside SFL Holdings as the majority shareholder. It is important to note that under this outcome the following are possible (but outcomes are unknown at this time):

  - Synlait Farms may cease to be a code company for the purposes of the Takeovers Code.

  - Synlait Farms may cease to be listed on the Unlisted stock exchange.

- Synlait Farms may not pay a dividend in the future.
- Synlait Farms may reduce the amount of information available to shareholders to the minimum regulatory requirement.
- The likelihood of another change of control event in future may be reduced.
- The ability to buy and sell shares is likely to be reduced; particularly if Synlait Farms' shares are no longer quoted on Unlisted.
- There is a risk that the share price may decrease or trade at a value below the Offer Price, which may reflect an illiquidity discount and/or the absence of a control premium.

When do I need to make a decision on the Offer?

The Offer will remain open until 11.59pm (New Zealand time) on Friday, 6 December 2013. If you wish to accept the Offer, you should do so as soon as possible, but in any event, prior to that time, by following the instructions in the acceptance form that accompanies the Offer Document.

SFL Holdings may extend the closing date for the Offer in accordance with the Takeovers Code. If it does so, it must give notice of the extended date to Synlait Farms.

How do I accept the Offer?

If you wish to accept the Offer, you should follow the acceptance instructions in SFL Holdings' Offer Document and the acceptance form that accompanies the Offer Document.

If you have any questions as to whether or not to accept the Offer, or the process for acceptances, you should seek professional advice (e.g. from your financial or legal adviser).

What should I do if I do not want to accept the Offer?

If you do not wish to accept the Offer you do not need to take any action.

If I accept the Offer, can I withdraw my acceptance?

No. Acceptances, once given to SFL Holdings, are irrevocable and cannot be withdrawn unless the Offer lapses or SFL Holdings fails to pay you for your shares within the timeframe required by the Takeovers Code.

When will I be paid if I accept the Offer?

SFL Holdings must pay you for your shares no later than seven days after the later of:

- The date on which the Offer becomes unconditional.
- The date on which your acceptance is received.
- The end of the Offer period.

SFL Holdings must, subject to certain limited exceptions, declare the Offer unconditional and provide written notice that the Offer is unconditional immediately following the conditions regarding receipt of acceptances in respect of 90% or more of the shares in Synlait Farms and receipt of OIO and Chinese provincial authority approvals, being satisfied or waived (to the extent that this is possible).

Do I need to accept the Offer for all of my shares?

No. You can accept the Offer for all of your shares, or for some of them. If you wish to accept the Offer for only some of your shares, you should follow the instructions in the Offer Document and the acceptance form that accompanies the Offer Document.

If I do not accept the Offer, can I be forced to sell my shares?

You are not required to accept the Offer.

However, if SFL Holdings receives acceptances to the Offer in respect of 90% or more of the shares, it is entitled under the Takeovers Code to compulsorily acquire the remaining shares from shareholders who did not accept the Offer. SFL Holdings has stated in the Offer Document that it intends to exercise this right if it becomes entitled to do so.

Is the level of acceptances to the Offer important?

Yes, for three key reasons:

- The Offer is conditional on receiving acceptances in respect of 90% or more of the shares. SFL Holdings can waive this condition.

- As noted above, if SFL Holdings receives acceptances to the Offer in respect of 90% or more of the shares, it is entitled under the Takeovers Code to compulsorily acquire the remaining shares. SFL Holdings has stated that it intends to exercise these rights if it becomes entitled to do so.

- The level of acceptances to the Offer will likely influence your ability to buy and sell shares in Synlait Farms (share trading liquidity), assuming that Synlait Farms continues to be quoted on the Unlisted trading platform. That is, each share acquired by SFL Holdings is a share that will not be available for trading through the Unlisted trading platform.

Will the Offer have implications for future control transactions?

Yes. On completion of the Offer, and if SFL Holdings waives the 90% minimum acceptance condition, SFL Holdings will become the owner of at least 50.18% of the shares (the shares that Juliet Maclean, John Penno and Ben Dingle have agreed by way of lock-up agreements to sell to SFL Holdings) together with any shares that other shareholders agree to sell to SFL Holdings by accepting the Offer.

As Synlait Farms' majority shareholder, SFL Holdings will determine the future control of Synlait Farms. No change of control transaction (such as a full takeover offer from a third party) could succeed unless the transaction was supported by SFL Holdings.

Will Synlait Farms remain listed on the Unlisted trading platform?

This will be a decision for the Board of Synlait Farms, but there can be no certainty that shares in Synlait Farms will remain quoted on Unlisted if the Offer is declared unconditional.

As noted above, if SFL Holdings receives acceptances to the Offer in respect of 90% or more of the shares, it has stated in the Offer Document that it intends to compulsorily acquire the remaining shares. If this occurs, Synlait Farms will cease to be quoted on the Unlisted trading platform.

TARGET COMPANY STATEMENT (TAKEOVERS CODE DISCLOSURES)

This Target Company Statement has been prepared by Synlait Farms Limited ("**Synlait Farms**") pursuant to Rule 46 and Schedule 2 of the Takeovers Code in relation to a full takeover offer made by SFL Holdings Limited ("**SFL Holdings**").

1. DATE

1.1 This Target Company Statement ("**Statement**") is dated 1 November 2013.

2. OFFER

2.1 This Statement relates to a full takeover offer by SFL Holdings to purchase all of the fully paid ordinary shares ("**Shares**") in Synlait Farms, for a cash purchase price of $2.10 per Share (the "**Offer**"), subject to adjustment upwards in accordance with the terms of the Offer.

2.2 The terms of the Offer are set out in SFL Holdings' Offer document dated 1 November 2013 which this Statement accompanies ("**Offer Document**").

3. TARGET COMPANY

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

4. DIRECTORS OF SYNLAIT FARMS LIMITED

4.1 The names of the Directors of Synlait Farms are as follows:

(a) Barry Alexander Brook (Independent Chairman);

(b) Stephen William Howse (Independent Director);

(c) Juliet Ann Maclean (Managing Director); and

(d) John William Penno (Director).

5. OWNERSHIP OF SYNLAIT FARMS SHARES

5.1 The number and the percentage of Shares held or controlled by each Director or Senior Officer[1] of Synlait Farms, or their associates, is set out in the following table:

Director, Senior Officer or associate	Description	Number of Shares held or controlled by Director, Senior Officer or associate	Designation of Shares	Percentage of total number of Shares
Juliet Ann Maclean	Legally and beneficially held	7,160,770	Ordinary	17.55%
John William Penno	Legally and beneficially held	6,222,325	Ordinary	15.25%
Stephen William Howse[2]	Legally and beneficially held	104,481	Ordinary	0.26%

[1] For the purposes of this Statement, the Board has determined that the Senior Officers of Synlait Farms are Josie MacKenzie, Brett Walter, Brenda Morton, David Attewell, Lucy Johnson and Andy Millar.

[2] These Shares are held jointly by Stephen William Howse and Louise Jane Howse.

5.2 Except as set out paragraph 5.1 of this Statement, no Director or Senior Officer of Synlait Farms, or their associates, holds or controls any Shares.

5.3 The number and the percentage of Shares held or controlled by the persons known by Synlait Farms to hold or control 5% or more of the Shares is set out in the following table:

Holder or controller of 5% or more of the Shares	Ownership interest	Number of Shares held or controlled	Designation of Shares	Percentage of total number of Shares
Juliet Ann Maclean	Legally and beneficially held	7,160,770	Ordinary	17.55%
Ben Macfarlane Dingle	Legally and beneficially held	7,090,894	Ordinary	17.38%
John William Penno	Legally and beneficially held	6,222,325	Ordinary	15.25%

5.4 Except as set out in paragraph 5.3 of this Statement, no other person is known by Synlait Farms to hold or control 5% or more of the Shares.

5.5 On 28 February 2013, Synlait Limited (the previous holding company of Synlait Farms) undertook a transaction to separate Synlait Milk Limited from Synlait Farms, each held by Synlait Limited as to 49% and 100% respectively (the "**Separation**"). The Separation involved each shareholder in Synlait Limited exercising redeemable preference shares in Synlait Limited for either $0.6267 in cash or 1 Share in Synlait Farms Limited.

5.6 The number and the issue price of Shares issued to Directors or Senior Officers of Synlait Farms, or their associates, as a result of the Separation are set out in the following table:

Director, Senior Officer or associate	Number of Shares issued to the Director, Senior Officer or associate by way of the Separation	Issue price for the Shares
Juliet Ann Maclean	7,100,770	7,100,770 redeemable preference shares in Synlait Farms
John William Penno	6,222,325	6,222,325 redeemable preference shares in Synlait Farms
Stephen William Howse[3]	104,481	104,481 redeemable preference shares in Synlait Farms

5.7 Except as set out in paragraph 5.6, no Director or Senior Officer of Synlait Farms, or their associates, have, in the two year period ending on the date of this Statement:

(a) been issued with any Shares; or

(b) obtained a beneficial interest in any Shares under any Synlait Farms employee share scheme or other remuneration arrangement.

6. TRADING IN SYNLAIT FARMS SHARES

6.1 On 30 April 2013, Juliet Maclean acquired 60,000 Shares for $1.00 per Share ($60,000 in aggregate).

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[3] See footnote 2.

6.2 Except as set out in paragraph 6.1, no Director or Senior Officer of Synlait Farms, or any of their associates, has during the six month period before 29 October 2013 (being the latest practicable date before the date of this Statement) acquired or disposed of Shares.

6.3 Except as set out in paragraph 6.1, no person known by Synlait Farms to hold or control 5% or more of the Shares has during the six month period before 29 October 2013 (being the latest practicable date before the date of this Statement) acquired or disposed of Shares.

7. ACCEPTANCE OF OFFER

7.1 Each of the Directors and Senior Officers of Synlait Farms, and their associates, who hold or control Shares and who have accepted, or intend to accept, the Offer and the number of Shares in respect of which that person has accepted, or intend to accept, the Offer, are set out in the following table:

Director, Senior Officer or associate who has accepted, or intends to accept, the Offer	Number of Shares held or controlled by the Director, Senior Officer or associate in respect of which the Director, Senior Officer or associate has accepted, or intends to accept, the Offer
Juliet Ann Maclean[4]	7,160,770
John William Penno[5]	6,222,325
Stephen William Howse[6]	104,481

8. OWNERSHIP OF EQUITY SECURITIES OF SFL HOLDINGS

8.1 Synlait Farms does not hold or control any class of equity security of SFL Holdings (“**SFL Holdings Shares**”).

8.2 The number and the percentage of SFL Holdings Shares held or controlled by each Director or Senior Officer of Synlait Farms, or their associates, is set out in the following table:

Director, Senior Officer or associate	Description	Number of Shares held or controlled by Director, Senior Officer or associate	Designation of Shares	Percentage of total number of Shares
Juliet Ann Maclean	Legally and beneficially held	17,000,000	Ordinary	16.1%
John William Penno	Legally and beneficially held	10,568,700	Ordinary	10%
New Zealand Standard Farm Limited[7]	Legally and beneficially held	78,117,426	Ordinary	73.9%

8.3 Except as set out in paragraph 8.2, no Director or Senior Officer of Synlait Farms, or their associates, holds or controls any SFL Holdings Shares.

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[4] Juliet Maclean has agreed to accept the Offer by way of a lock-up agreement. See paragraph 11.1 for more information about the lock-up agreement.

[5] John Penno has agreed to accept the Offer by way of a lock-up agreement. See paragraph 11.1 for more information about the lock-up agreement.

[6] See footnote 2.

[7] By way of a shareholders’ agreement in respect of SFL Holdings Limited entered into between those parties, New Zealand Standard Farm Limited, Juliet Maclean and John Penno are associates. See paragraph 11.2 for more information about the shareholders’ agreement.

9. TRADING IN EQUITY SECURITIES OF SFL HOLDINGS

9.1 Synlait Farms has neither acquired nor disposed of any SFL Holdings Shares during the six month period before 29 October 2013 (being the latest practicable date before the date of this Statement).

9.2 The number and the percentage of SFL Holdings Shares acquired or disposed of by each Director or Senior Officer of Synlait Farms, or their associates, is set out in the following table:

Director, Senior Officer or associate	Acquired or disposed of	Date of acquisition or disposal	Number of Shares held or controlled by Director, Senior Officer or associate	Designation of Shares	Consideration
Juliet Ann Maclean	Issued on incorporation	17 October 2013	17,000,000	Ordinary	$17,000,000[8]
John William Penno	Issued on incorporation	17 October 2013	10,568,700	Ordinary	$10,568,700[9]
New Zealand Standard Farm Limited[10]	Issued on incorporation	17 October 2013	78,117,426	Ordinary	$78,117,426[11]

9.3 Except as set out in paragraph 9.2, no Director or Senior Officer of Synlait Farms, or any of their associates, has acquired or disposed of any SFL Holdings Shares during the six month period before 29 October 2013 (being the latest practicable date before the date of this Statement).

10. ARRANGEMENTS BETWEEN SFL HOLDINGS OR ITS ASSOCIATES AND SYNLAIT FARMS

10.1 SFL Holdings has advised Synlait Farms of its intentions to ensure business continuity for Synlait Farms to support the direction of Synlait Farms' existing business strategy and to ensure the continuity of New Zealand management of the farms and to retain the New Zealand based senior management team of Synlait Farms.

10.2 Pengxin New Zealand Farm Group Limited ("**Pengxin NZ**") and Synlait Farms entered into a confidentiality agreement dated 3 July 2013, under which Pengxin NZ agreed to keep confidential certain information disclosed to it by Synlait Farms in connection with its proposal to make a takeover offer for Synlait Farms and to use that information solely for that purpose.

10.3 Pengxin NZ, has been participating in a competitive capital raising/sales process organised by Synlait Farms, for the purpose of a party or parties making takeover offers for 100% of the Shares in Synlait Farms. This process has involved:

(a) Pengxin NZ entering into a confidentiality agreement in relation to the process, and the provision of information to it and SFL Holdings, to facilitate due diligence of Synlait Farms.

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[8] This is the subscription price payable by Juliet Maclean for the shares in SFL Holdings issued to her on its incorporation pursuant to the shareholders' agreement. See paragraph 11.2 for more information about the shareholders' agreement.

[9] This is the subscription price payable by John Penno for the shares in SFL Holdings issued to him on its incorporation pursuant to the shareholders' agreement. See paragraph 11.2 for more information about the shareholders' agreement.

[10] See footnote 7.

[11] This is the subscription price payable by NZSF for the shares in SFL Holdings issued to it on its incorporation pursuant to the shareholders' agreement. See paragraph 11.2 for more information about the shareholders' agreement.

(b) Pengxin NZ, with the agreement of Synlait Farms, entering into discussions with Juliet Maclean, John Penno and Ben Dingle regarding the negotiation of the lock-up agreements referred to in paragraph 11.1.

(c) Pengxin NZ entering into discussions with Juliet Maclean and John Penno, with the agreement of Synlait Farms, for the negotiation of a shareholders' agreement as to the basis upon which Juliet Maclean and John Penno would invest alongside New Zealand Standard Farm Limited ("**NZSF**") in SFL Holdings. Further details of that agreement are set out in paragraph 11.2.

10.4 As at the date of this Statement, except as set out in paragraphs 10.1 to 10.3, no agreement or arrangement (whether legally enforceable or not) has been made, or is proposed to be made, between SFL Holdings or any of its associates and Synlait Farms or any related company of Synlait Farms, in connection with, in anticipation of, or in response to, the Offer.

11. RELATIONSHIP BETWEEN SFL HOLDINGS, AND DIRECTORS AND SENIOR OFFICERS OF SYNLAIT FARMS

Arrangements

11.1 SFL Holdings has entered into separate lock-up agreements in respect of the Offer with each of Juliet Maclean, John Penno and Ben Dingle. The material terms of those lock-up agreements are as follows:

(a) SFL Holdings agrees to send a notice of takeover offer relating to the Offer in accordance with Rule 41 of the Takeovers Code to Synlait Farms;

(b) SFL Holdings agrees to send the Offer to Shareholders as soon as is permitted by the Takeovers Code;

(c) SFL Holdings and each of Juliet Maclean, John Penno and Ben Dingle agrees that the Offer will be made on the terms set out in the Offer Document attached as a schedule to the lock-up agreement, including at an Offer price of $2.10 per Share and subject to the conditions set out in that Offer Document;

(d) each of Juliet Maclean, John Penno and Ben Dingle agrees to accept the Offer in respect of 100% of her or his Shares on or before the later of the date which is two business days after the date of despatch of the Offer and the business day after Juliet Maclean, John Penno or Ben Dingle receives the Offer;

(e) SFL Holdings agrees that if it waives the 90% minimum acceptance condition and declares the Offer unconditional that it will not, without the prior written approval of each of Juliet Maclean, John Penno and Ben Dingle, make another offer for shares in Synlait Farms within the period of 12 months from the date of the Offer at a price that is higher than the Offer Price;

(f) each of Juliet Maclean, John Penno and Ben Dingle agrees, unless the lock-up agreement is terminated or the Offer lapses or is withdrawn, not to dispose of, encumber, or deal in any way with any of her or his Shares, except to accept the Offeror; and

(g) each of Juliet Maclean, John Penno and Ben Dingle are permitted to terminate the lock-up agreement by written notice to SFL Holdings, if SFL Holdings does not make the Offer to Shareholders in compliance with the Takeovers Code and within the timeframe set out in the lock-up agreement.

11.2 Each of Juliet Maclean and John Penno have negotiated with NZSF for the three parties to incorporate and invest in SFL Holdings, make the Offer and if the Offer is successful, govern and manage Synlait Farms. The terms of these arrangements are recorded in a shareholders' agreement dated 17 October 2013 and the key terms are as follows:

(a) Juliet Maclean and John Penno have subscribed for 16.1% and 10.0% of the ordinary shares in SFL Holdings respectively. The remaining shares in SFL Holdings are held by NZSF, and all ordinary shares have the same rights.

(b) Juliet Maclean and John Penno are both directors of SFL Holdings and have the right to appoint 1 director each. NZSF has the right to appoint up to 3 directors. The parties have agreed to use best endeavours, if the Offer is successful, to appoint a suitably qualified independent chairperson.

(c) The business plans and budgets for SFL Holdings and any material changes from those plans and budgets must be approved unanimously by all directors, thereby giving John Penno and Juliet Maclean significant influence over the ongoing operations of Synlait Farms. There are a range of other matters relating to the business and operations of SFL Holdings and Synlait Farms for which the approval of John Penno and Juliet Maclean is required, including as to changes in capital structure, material investments and acquisitions, key personnel appointments, changes in business direction and management of the takeover process and the OIO application process.

(d) The initial share capital of SFL Holdings consists of 78,117,426 ordinary shares held by NZSF, 17,000,000 ordinary shares held by Juliet Maclean and 10,568,700 ordinary shares held by John Penno, all with an issue price of $1.00 and having identical rights. Each of Juliet Maclean and John Penno must contribute their full funding commitment immediately following the Offer becoming unconditional, and NZSF shall contribute its funds on an installment basis as and where necessary to provide SFL Holding with sufficient funds to pay acceptors under the Offer.

(e) NZSF is to pay for all due diligence costs and SFL Holdings' advisers costs in relation to the Offer as required by the Takeovers Code.

(f) If John Penno and/or Juliet Maclean resign as directors or Chief Executive, as applicable, of SFL Holdings, NZSF must purchase or procure the purchase of their shares in SFL Holdings at a value approximating net asset value. If there is a fundamental dispute between the parties relating to the operation and strategy of Synlait Farms, then NZSF may acquire or procure the acquisition of John Penno and/or Juliet Maclean's shares in SFL Holdings at a value approximating net asset value.

(g) Juliet Maclean will remain Managing Director and CEO of Synlait Farms.

(h) The parties have agreed that consistent with good corporate remuneration practice, the parties will look to introduce a long term incentive plan enabling key New Zealand resident employees the opportunity to obtain an equity interest in Synlait Farms.

11.3 Except as set out in paragraphs 11.1 and 11.2, there are no agreements or arrangements (whether legally enforceable or not) that have been made, or are proposed to be made, between SFL Holdings, or its associates, and any of the Directors or Senior Officers of Synlait Farms or of any related company of Synlait Farms (including in respect of any payment or other benefit proposed to be made or given by way of compensation for loss of office, or as to their remaining in or retiring from office), in connection with, in anticipation of, or in response to, the Offer.

Relationship with SFL Holdings

11.4 Directors Juliet Maclean and John Penno are also directors of SFL Holdings.

11.5 Except as set out in paragraph 11.4, no Director or Senior Officer of Synlait Farms is also a Director or Senior Officer of SFL Holdings, or any related company of SFL Holdings.

12. AGREEMENT BETWEEN SYNLAIT FARMS, AND DIRECTORS AND OFFICERS OF SYNLAIT FARMS

12.1 No agreement or arrangement (whether legally enforceable or not) has been made, or is proposed to be made between Synlait Farms, or any related company of Synlait Farms, and any of the Directors or Senior Officers of Synlait Farms, or their associates, or its related companies, under which a payment or other benefit may be made or given by way of compensation for loss of office, or as to their remaining in or retiring from office in connection with, in anticipation of, or in response to, the Offer.

13. INTERESTS OF DIRECTORS AND OFFICERS OF SYNLAIT FARMS IN CONTRACTS OF SFL HOLDINGS (OR A RELATED COMPANY OF SFL HOLDINGS)

13.1 Directors or Senior Officers of Synlait Farms, or their associates, who have an interest in any material contract to which SFL Holdings, or any related company of SFL Holdings, is a party, and the nature, extent and monetary value of that interest, are set out in the following table:

Party to the material contract to which SFL Holdings or a related company of SFL Holdings is a party	Particulars of the nature and extent of the interest	Monetary value of the interest (if quantifiable)
Juliet Ann Maclean	Lock-up agreement	$15,037,617.00[12]
Juliet Ann Maclean	Shareholders’ agreement	$17,000,000.00[13]
John William Penno	Lock-up agreement	$13,066,882.50[14]
John William Penno	Shareholders’ agreement	$10,568,700.00[15]

13.2 Except as set out in paragraph 13.1, no Director or Senior Officer of Synlait Farms, or their associates, has an interest in any contract to which SFL Holdings, or any related company of SFL Holdings, is a party.

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[12] This is the consideration payable in respect of the Shares held by Juliet Maclean if the Offer is successful, assuming that there is no increase in the Offer price pursuant to the terms of the Offer. See paragraph 11.1 for more information about the lock-up agreement.

[13] This is the subscription price payable by Juliet Maclean for the shares in SFL Holdings issued to her on its incorporation pursuant to the shareholders’ agreement. See paragraph 11.2 for more information about the shareholders’ agreement.

[14] This is the consideration payable in respect of the Shares held by John Penno if the Offer is successful, assuming that there is no increase in the Offer price pursuant to the terms of the Offer. See paragraph 11.1 for more information about the lock-up agreement.

[15] This is the subscription price payable by John Penno for the shares in SFL Holdings issued to him on its incorporation pursuant to the shareholders’ agreement. See paragraph 11.2 for more information about the shareholders’ agreement.

13A INTERESTS OF SYNLAIT FARMS' SUBSTANTIAL SECURITY HOLDER IN MATERIAL CONTRACTS OF SFL HOLDINGS (OR A RELATED COMPANY OF SFL HOLDINGS)

13A.1 The persons, who, to the knowledge of the Directors or the Senior Officers of Synlait Farms, hold or control 5% or more of the Shares and who have an interest in any material contract to which SFL Holdings, or any related company of SFL Holdings, is a party, and the nature, extent and monetary value of that interest, are set out in the following table:

Party to the material contract to which SFL Holdings or a related company of SFL Holdings is a party	Particulars of the nature and extent of the interest	Monetary value of the interest (if quantifiable)
Juliet Ann Maclean	Lock-up agreement (see paragraph 11.1)	$15,037,617.00
Juliet Ann Maclean	Shareholders' agreement (see paragraph 11.2)	$17,000,000.00
John William Penno	Lock-up agreement (see paragraph 11.1)	$13,066,882.50
John William Penno	Shareholders' agreement (see paragraph 11.2)	$10,568,700.00
Ben Macfarlane Dingle	Lock-up agreement (see paragraph 11.1)	$ 14,890,877.40[16]

13A.2 Except as set out in paragraph 13A.1 above, no person, who, to the knowledge of the Directors or the Senior Officers of Synlait Farms, holds or controls 5% or more of Shares, has an interest in any material contract to which SFL Holdings, or any related company of SFL Holdings, is a party.

14. ADDITIONAL INFORMATION

14.1 In the opinion of the Directors of Synlait Farms, there is no additional information, within the knowledge of the Directors of Synlait Farms, which is required to ensure that information in the Offer Document is correct or not misleading.

15. RECOMMENDATION

Committee of Independent Directors

15.1 The Synlait Farms Board formed a Committee of Independent Directors to consider, and oversee the response to, any takeover offer that resulted from the process. The members of the Committee are Stephen Howse (Chairman of the Committee) and Barry Brook (Independent Chairman of the Board).

Unanimous recommendation

15.2 The Committee's recommendation and factors relevant to that recommendation are set out in the Recommendation section at the front of this Statement. In summary, **the Committee unanimously recommends that Shareholders should accept the Offer for all of their Shares in Synlait Farms**.

15.3 Shareholders should, when deciding whether to accept the Offer, consider their own individual circumstances, views on value and the merits of the Offer, and investment time horizons. Shareholders are encouraged to consider taking their own separate

[16] This is the consideration payable in respect of the Shares held by Ben Dingle if the Offer is successful, assuming that there is no increase in the Offer price pursuant to the terms of the Offer. See paragraph 11.1 for more information about the lock-up agreement.

professional advice (e.g. from a financial or legal adviser) tailored to their circumstances.

Abstention

15.4 Juliet Maclean and John Penno are directors and shareholders of SFL Holdings, being the entity that is making the Offer. As a result of this conflict of interests, they have elected to abstain from making a recommendation in respect of the Offer.

16. ACTIONS OF SYNLAIT FARMS

No material arrangements

16.1 Except for the arrangements summarised in paragraph 10, there are no material agreements or arrangements (whether legally enforceable or not) of Synlait Farms or its related companies, entered into as a consequence of, in response to, or in connection with, the Offer.

No material negotiations

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

(a) an extraordinary transaction (such as a merger, amalgamation, or reorganisation) involving Synlait Farms or any of its related companies; or

(b) the acquisition or disposition of material assets by Synlait Farms or any of its related companies; or

(c) an acquisition of equity securities by, or of, Synlait Farms or any related company of Synlait Farms; or

(d) a material change in equity securities on issue, or policy related to distributions, of Synlait Farms.

17. SYNLAIT FARMS SHARES

17.1 There are currently 40,802,871 Shares on issue. These are fully paid ordinary shares. Synlait Farms Shareholders have in respect of each Share, subject to Synlait Farms' constitution:

(a) the right to an equal share in dividends authorised by the Board;

(b) the right to an equal share in the distribution of surplus assets of Synlait Farms; and

(c) the right to cast one vote on a show of hands or the right to cast one vote on a poll (for each Share held) on any resolution, including a resolution to:

(i) appoint or remove a Director or the auditor;

(ii) alter Synlait Farms' constitution;

(iii) approve a major transaction by Synlait Farms;

(iv) approve an amalgamation involving Synlait Farms (other than an amalgamation of a wholly owned subsidiary); and

(v) put Synlait Farms into liquidation.

18. FINANCIAL INFORMATION

2013 Annual Report

18.1 Every person to whom the Offer is made is entitled to obtain from Synlait Farms a copy of Synlait Farms' most recent audited annual report (being the report for the 12 month period ended 31 May 2013) from Synlait Farms' website at: www.synlaitfarms.co.nz or by making a written request to Synlait Farms at:

Synlait Farms Limited
1028 Heslerton Road
RD13
Rakaia 7783
Canterbury
New Zealand

Email: enquiries@synlaitfarms.co.nz

18.2 No half-yearly or interim report has been issued by Synlait Farms since the issue of the annual report referred to in paragraph 18.1 above.

Changes in the financial position, trading position or prospects of Synlait Farms since the 2013 Annual Report

18.3 The sole matter which may constitute a material change in the financial or trading position or prospects of Synlait Farms since the annual report referred to in paragraph 18.1, is that in September 2013 Synlait Milk announced an increase in its forecast milk price for the 2014 financial year from $7.00 to $8.00 per kilogram of milk solids and there is some evidence that there may be further increases during the season based on current market conditions.

18.4 Other than as set out in this Statement and the Independent Adviser's Report, there is no other information about the assets, liabilities, profitability and financial affairs of Synlait Farms that could reasonably be expected to be material to the making of a decision by Shareholders to accept or reject the Offer.

19. INDEPENDENT ADVICE ON MERITS OF THE OFFER

19.1 Grant Samuel & Associates Limited, as Independent Adviser, has prepared a report on the merits of the Offer under Rule 21 of the Takeovers Code ("**Independent Adviser's Report**").

19.2 A full copy of the Independent Adviser's Report is set out in the Appendix to this statement.

20. ASSET VALUATION

20.1 The Independent Adviser's Report included in the Appendix to this Statement refers to the following valuations of assets:

(a) Synlait Farms Limited 2013 Property Portfolio Asset Valuation dated 31 May 2013 conducted by Greg Petersen (B.ComAg(VFM), MPINZ, Registered Valuer) of Crighton Anderson Property & Infrastructure Limited; and

(b) Synlait Farms Limited 2012 Property Portfolio Asset Valuation dated 17 February 2012 conducted by Greg Petersen (B.ComAg(VFM), MPINZ, Registered Valuer) and Tim Gifford (B.ComAg(VFM), MPINZ, MNZIPIM, Registered Valuer) of Crighton Anderson Property & Infrastructure Limited.

A summary of each of these valuations, setting out the basis of computation and key assumptions on which those valuations are based, is set out in the Schedule to this Statement.

20.2 Copies of the valuations referred to in paragraph 20.2 of this Statement are available for inspection at the registered office of Synlait Farms at 1028 Heslerton Road, Rd 13, Rakaia 7783, Canterbury during usual business hours. Synlait Farms will send a copy of either or both of the valuations referred to in paragraph 20.2 to a Shareholder following written request from that Shareholder.

20.3 The Independent Adviser's Report included in the Appendix to this Statement includes a valuation of Synlait Farms. The basis of computation and key assumptions on which that valuation is based is set out in that report.

20.4 Except as set out in paragraphs 20.1 and 20.3 of this Statement, no information provided in this Statement refers to a valuation of any asset of Synlait Farms.

21. PROSPECTIVE FINANCIAL INFORMATION

21.1 Except as set out in paragraph 21.2 of this statement, this Statement does not contain any prospective financial information in relation to Synlait Farms.

21.2 The Independent Adviser's Report contains prospective financial information in relation to Synlait Farms and the key assumptions on which the prospective financial information is based.

22. SALES OF UNQUOTED EQUITY SECURITIES UNDER THE OFFER

22.1 The ordinary shares in Synlait Farms which are the subject of the Offer are quoted on Unlisted, an internet-based securities trading and communication facility at www.unlisted.co.nz ("**Unlisted**"). Unlisted is not a registered stock exchange for the purposes of the Securities Markets Act 1988, however, the Takeovers Panel has advised Synait Farms that it considers Unlisted a stock exchange for the purposes of Schedule 2 to the Takeovers Code.

23. MARKET PRICES OF QUOTED EQUITY SECURITIES UNDER OFFER

23.1 The closing price on Unlisted of Shares on:

(a) 29 October 2013, being the latest practicable working day before the date on which this Statement is sent to Shareholders, was $1.60 per Share, although, as noted below, trading has been suspended since 8 October 2013; and

(b) 1 October 2013, being the last day on which trading on Unlisted took place before the date on which Synlait Farms received SFL Holdings' Takeover Notice in respect of the Offer, was $1.60 per Share. Synlait Farms placed a trading halt on its Share trading on Unlisted on 8 October 2013 and at the date of this Statement that trading halt remains in place.

23.2 The highest and lowest closing market price of Shares on Unlisted (and the relevant dates) during the 6 month period before the date on which Synlait Farms received SFL Holdings' Takeover Notice (17 October 2013) were as follows:

(a) the highest closing market price was $1.65 per Share on 11 September 2013; and

(b) the lowest closing market price was $0.95 per Share on 3 May and 7 May 2013.

23.3 There were, in the six month period prior to the date of this Statement, no issues of equity securities of Synlait Farms, changes in the equity securities on issue or distributions that could have affected the market prices referred to in this paragraph 23.

24. OTHER INFORMATION

Matters relevant to acceptance of the Offer

24.1 Synlait Farms Shareholders, when making decisions as to whether to accept or reject the Offer, and at what point any acceptance should be given, should be aware of the following:

(a) An acceptance of the Offer is irrevocable and may not be withdrawn unless the Offer lapses in accordance with its terms or is withdrawn by SFL Holdings with the consent of the Takeovers Panel or if SFL Holdings fails to pay Shareholders who accept the Offer within the timeframe required by the Takeovers Code.

(b) The terms of the Offer state that SFL Holdings will pay accepting Shareholders no later than seven days after the later of:

(i) the date on which the Shareholder's acceptance form is received by SFL Holdings;

(ii) the date on which the Offer becomes unconditional; or

(iii) the end of the Offer period.

Reliance on information

24.2 In preparing this Statement, Synlait Farms has relied on the completeness and accuracy of information provided to it by or on behalf of various persons, including SFL Holdings and its advisers.

25. APPROVAL OF SYNLAIT FARMS STATEMENT

25.1 Except as set out in paragraphs 25.2 and 25.3, this Statement has been unanimously approved by the Synlait Farms Board.

25.2 Juliet Maclean and John Penno are not members of the Committee (see paragraph 15), and abstained from approving the Chairman's Letter, Recommendation and Frequently Asked Questions sections of this Target Company Statement and the Independent Adviser's Report (the "**CID Material**"), but approved the remainder of this Statement.

25.3 The CID Material has been unanimously approved by the Committee, under an authority delegated to the Committee by the Board of Synlait Farms.

26. CERTIFICATE

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

SIGNED BY:

Stephen Howse
Independent Director

Juliet Maclean
Managing Director

Barry Brook
Independent Chairman

John Penno
Director

SCHEDULE: ASSET VALUATIONS

2013 PROPERTY PORTFOLIO ASSET VALUATION

Valuer: Greg Petersen (B.ComAg(VFM), MPINZ, Registered Valuer) of Crighton Anderson Property & Infrastructure Limited.

Summary of valuation
The Valuer assessed the market value for the Synlait Farms Limited property portfolio (including chattels) as at 31 May 2013 to be $176,650,000 (plus GST, if any).

The valuation excludes the added value of any dairy company shares, livestock, woodlots or farm machinery.

The value of the various properties was assessed as follows:

Property	Market Value (incl Chattels)	Chattels and Irrigation	Market Value (excl Chattels)	Value of Improvements	Land Value (LV)
B24	$8,070,000	$563,000	$7,505,000	$1,175,000	$6,330,000
Beacon	$14,150,000	$514,000	$13,633,000	$1,713,000	$11,920,000
Collosseum	$10,860,000	$581,000	$10,276,000	$1,188,000	$9,088,000
Delaborin	$10,690,000	$191,000	$10,503,000	$1,125,000	$9,378,000
Dunsandel Dairies One	$12,710,000	$880,000	$11,827,000	$1,587,000	$10,240,000
Dunsandel Dairies Two	$12,810,000	$660,000	$12,151,000	$1,619,000	$10,532,000
Lighthouse	$9,840,000	$862,000	$8,978,000	$1,588,000	$7,390,000
Morton Marsh	$12,280,000	$422,000	$11,858,000	$1,679,000	$10,179,000
Riverlands	$22,090,000	$1,418,000	$20,669,000	$2,744,000	$17,925,000
Robindale	$23,700,000	$1,212,000	$22,485,000	$2,935,000	$19,550,000
Tapatoru	$14,270,000	$688,000	$13,584,000	$2,135,000	$11,449,000
Treevale	$10,530,000	$540,000	$9,986,000	$1,342,000	$8,644,000
Waitai	$14,650,000	$844,000	$13,801,000	$1,851,000	$11,950,000
Total	**$176,650,000**	**$9,375,000**	**$167,256,000**	**$22,681,000**	**$144,575,000**

Basis of computation
The valuation was completed in accordance with International Valuation Standards IVS 1 – Market Value Basis of Valuation, Property Institute of New Zealand Valuation Guidance Note 1 – Valuation Procedures for Real Property and Guidance Note 10 – Valuation of Agricultural Properties.

Market value is defined by the International Valuation Standards Committee (IVSC) as:

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

To determine 'Market Value', the Valuer considered the 'highest and best use' of the property. 'Highest and best use' is described as:

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

To determine ‘Market Value’, the Valuer considered the ‘highest and best use’ of the properties. ‘Highest and best use’ involved the consideration of the following:

- to establish whether a use is possible, regard will be had to what would be considered reasonable by market participants;
- to reflect the requirement to be legally permissible, any legal restrictions on the use of the asset, e.g. zoning designations, need to be taken into account;
- the requirement that the use be financially feasible takes into account whether an alternative use that is physically possible and legally permissible will generate sufficient return to a typical market participant, after taking into account the cost of conversion to their use, over and above the return on the existing use.

The Valuer determined that the highest and best use of the subject properties was dairying.

Key assumptions
The Valuer listed the assumptions of the 2013 Property Portfolio Asset Valuation as follows:

- The valuation assessments were carried out on a comparable sales basis.
- The valuation assessments were undertaken and completed on the basis of information provided by Synlait Farms Limited and a variety of other property information resources.
- The Valuer assumed water consents held by Synlait Farms Limited were suitable for their dairy farming operations, and assume there was an ability to transfer water rights between properties that had been developed simultaneously.
- The Valuer assumed that each property also held appropriate effluent discharge consents to allow for dairying to continue on the land.
- The valuation methodology adopted was consistent with the Property Institute of New Zealand (PINZ) standards.
- The properties were valued as at 31 May 2013.
- The Valuer’s last physical inspection of the properties was in February 2012 and the valuation was done on the basis that the buildings were in the same condition as they were in as at the date of the last inspection of the properties.
- Each property was assessed on a highest and best use basis. The Valuer assumed that each property would be sold (if sold) as a single entity, and as such that individual titles would be issued prior to sale together with separate irrigation water consents and individual farm water systems.
- Each property was valued inclusive of chattels, plant and equipment, with information to the value of these chattels, plant and equipment being sourced externally.

2012 PROPERTY PORTFOLIO ASSET VALUATION

Valuer: Greg Petersen (B.ComAg(VFM), MPINZ, Registered Valuer) and Tim Gifford (B.ComAg(VFM), MPINZ, MNZIPIM, Registered Valuer) of Crighton Anderson Property & Infrastructure Limited.

Summary of valuation
The Valuer assessed the market value for the Synlait Farms Limited property portfolio (including chattels) as at 17 February 2012 to be $161,805,000 (plus GST, if any).

The value of the various properties was assessed as follows:

Property Name	Effective Area	Production kgMS	Imp Value	Land Value	Capital Value	Plant & Equip	Market Value
B24	174	226,200	$1,156,000	$5,721,000	$6,877,000	$563,000	$7,440,000
Beacon	325	474,000	$1,675,000	$10,756,000	$12,431,000	$514,000	$12,945,000
Collosseum	268	340,000	$1,161,000	$8,148,000	$9,309,000	$581,000	$9,890,000
Delaborin	158	197,500	$1,117,000	$8,572,000	$9,689,000	$191,000	$9,880,000

Dunsandel Dairies One	270	364,500	$1,510,000	$9,300,000	$10,810,000	$880,000	$11,690,000
Dunsandel Dairies Two	285	384,750	$1,590,000	$9,535,000	$11,125,000	$660,000	$11,785,000
Lighthouse	207	269,100	$1,585,000	$6,653,000	$8,238,000	$862,000	$9,100,000
Morton Marsh	287	358,750	$1,648,000	$9,175,000	$10,823,000	$422,000	$11,245,000
Riverlands	530	575,000	$2,680,000	$15,902,000	$18,582,000	$1,418,000	$20,000,000
Robindale	578	750,000	$2,877,000	$17,521,000	$20,398,000	$1,212,000	$21,610,000
Tapatoru	305	396,500	$2,135,000	$10,382,000	$12,517,000	$688,000	$13,205,000
Treevale	240	312,000	$1,316,000	$7,804,000	$9,120,000	$540,000	$9,660,000
Waitai	314	440,000	$1,817,000	$10,694,000	$12,511,000	$844,000	$13,355,000
Total	**3,941**	**5,088,300**	**$22,267,000**	**$130,163,000**	**$152,430,000**	**$9,375,000**	**$161,805,000**

Basis of computation
The valuation was completed in accordance with International Valuation Standards IVS 1 – Market Value Basis of Valuation, Property Institute of New Zealand Valuation Guidance Note 1 – Valuation Procedures for Real Property and Guidance Note 10 – Valuation of Agricultural Properties.

Market value is defined by the International Valuation Standards Committee (IVSC) as:

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

To determine ‘Market Value’, the Valuer considered the ‘highest and best use’ of the property. ‘Highest and best use’ is described as:

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

The Valuer determined that the highest and best use of the properties was dairying.

Key assumptions
The Valuer listed the assumptions of the 2012 Property Portfolio Asset Valuation as follows:

- The valuation assessments were carried out on a comparable sales basis.
- The valuation assessments were undertaken and completed on the basis of information provided by Synlait Farms Limited and a variety of other property information resources.
- The Valuer assumed water consents held by Synlait Farms Limited were suitable for their dairy farming operations, and assumed there was an ability to transfer water rights between properties that had been developed simultaneously.
- The valuation methodology adopted was consistent with the Property Institute of New Zealand (PINZ) standards.
- The properties were valued as at 17 February 2012.
- Each property was assessed on a highest and best use basis. The Valuer assumed that each property would be sold (if sold) as a single entity, and as such that individual titles would be issued prior to sale.
- Each property was valued inclusive of chattels, plant and equipment, with information to the value of these chattels, plant and equipment being sourced externally.

APPENDIX: INDEPENDENT ADVISER'S REPORT

GRANT SAMUEL

Synlait Farms Limited

Independent Adviser's Report on the full takeover offer from SFL Holdings Limited

October 2013

STATEMENT OF INDEPENDENCE

Grant Samuel & Associates Limited confirms that it:

(a) has no conflict of interest that could affect its ability to provide an unbiased report; and

(b) has no direct or indirect pecuniary or other interest in the proposed transaction considered in this report, including any success or contingency fee or remuneration, other than to receive the cash fee for providing this report.

Grant Samuel & Associates Limited has satisfied the Takeovers Panel, on the basis of the material provided to the Panel, that it is independent under the Takeovers Code for the purposes of preparing this report.

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Table of Contents

Glossary

Term	Definition
AMF	Anhydrous Milkfat
BMP	Butter Milk Powder
CAPM	Capital asset pricing model
CPW	Central Plains Water Limited
DIRA	Dairy Industry Restructuring Act 2001
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
FAPRI	Food and Agricultural Research Institute
GDT	Global Dairy Trade platform
Grant Samuel	Grant Samuel & Associates Limited, the Independent Adviser to Synlait Farms shareholders
kgMS	Kilograms of milk solids
Milk NZ	Milk New Zealand Holding Limited
NZSF	New Zealand Standard Farm Limited
OIO	Overseas Investment Office
SFL	SFL Holdings Limited
Shanghai Pengxin	Shanghai Pengxin Group Co.Limited
SMP	Skim Milk Powder
Synlait	Synlait Limited
Synlait Farms	Synlait Farms Limited
Synlait Milk	Synlait Milk Limited
VWAP	Volume weighted average share price
WCB	Warrnambool Cheese and Butter Factory Limited
WMP	Whole Milk Powder

1. Terms of the Proposed Transaction

1.1 Background

Synlait Farms Limited (**Synlait Farms**) is a corporate owner and manager of substantial dairy assets in Canterbury, New Zealand. At the beginning of the 2012/13 season Synlait Farms was a subsidiary of Synlait Limited (**Synlait**). In February 2013 Synlait Limited was separated into two standalone entities - Synlait Farms and Synlait Milk Limited (**Synlait Milk**). Synlait shareholders were issued shares in Synlait Farms as part of the separation.

Following the separation the Board of Synlait Farms resolved to undertake a capital raising process with the objectives of:

- reducing debt;
- providing funds for future growth; and
- creating a liquidity event for shareholders.

In June 2013 a process was commenced seeking investors to acquire all or a portion of the shares, assets or business of Synlait Farms. More than 100 prospective purchasers from 23 countries were approached. Of these 15 indicated an interest and received an Information Pack which resulted in a number of indicative non-binding offers being received. Shanghai Pengxin Group Co. Limited (**Shanghai Pengxin**) was selected as the preferred bidder to undertake due diligence and submit a Notice of Intention to make an offer for all of the shares in Synlait Farms.

1.2 Details of the Proposed Transaction

On 17 October 2013, SFL Holdings Limited (**SFL**) gave formal Notice of Intention to make an offer to acquire all of the shares in Synlait Farms for $2.10 per share (**the Offer**). SFL is owned by Shanghai Pengxin through its wholly owned subsidiary New Zealand Standard Farm Limited (**NZSF**) (73.9%), Juliet Maclean (16.1%) and John Penno (10.0%). Juliet Maclean is the Chief Executive of Synlait Farms and John Penno is the Managing Director of Synlait Milk. Both are also Directors of Synlait Farms. Juliet Maclean, Ben Dingle and John Penno collectively hold 50.18% of the shares in Synlait Farms and have entered into lock-up agreements with SFL to accept the Offer if made in respect of their entire shareholdings.

The Offer is conditional upon:

- SFL receiving acceptances for 90% or more of the voting rights in Synlait Farms;
- SFL receiving approval from the OIO to acquire a controlling interest in Synlait Farms;
- Shanghai Pengxin obtaining all approvals, consents or orders necessary from the relevant Chinese authorities (the Municipal Development of Reform Commission, the Foreign Trade & Economic Relations Commission and the State Administration of Foreign Currency);
- Synlait Farms shareholders approving changes to the Constitution of Synlait Farms to remove restrictions to allow:
  - shareholders holding 10% or more of the shares in the company to participate in a transaction without having to comply with the pre-emptive rights contained in the constitution of Synlait Farms, provided the transaction is undertaken in compliance with the Takeovers Code; and
  - an overseas person (as defined in the Overseas Investment Act 2005) to hold shares, provided that such shareholding is obtained as a result of a takeover offer under the Takeovers Code.
- the usual conditions applying to full takeover offers as to restrictions or prevention of dividends, the issue of new shares and major transactions while the Offer is live.

Two unique conditions state that the Offer can be withdrawn if:

- any of China, Australia, United States of America, Japan or India impose any bans on the importation of all milk powder or other dairy products from New Zealand where the ban can be reasonably expected to be other than of a short duration and has had, or could reasonably be expected to have, a material adverse effect on the financial position and trading operations of Synlait Farms, taken as a whole; and

- there is notification of a disease in New Zealand potentially materially adversely affecting the livestock of the New Zealand dairy industry which can be reasonably expected to be other than of a short duration and has had, or could reasonably be expected to have, a material adverse effect on the financial position and trading operations of Synlait Farms, taken as a whole.

These conditions are not unexpected given the nature of the operations of Synlait Farms.

The Offer will close on 6 December 2013 unless extended. The Offer may be extended until the 29 January 2014. The Offer maybe extended beyond that date, provided all other conditions have been satisfied or waived by SFL only in circumstances set out in the Takeovers Code.

SFL may waive the minimum acceptance condition of 90% at its discretion. In clause 11.2 of Schedule A of the Takeover Offer SFL has contemplated such an outcome:

> *If SFL Holdings does not receive sufficient acceptances under this offer to enable it to invoke the compulsory acquisition provisions of the Takeovers Code, but nevertheless declares this offer unconditional, SFL Holdings will seek appropriate board representation on the Synlait board and will participate in decisions relating to Synlait Farms and its future.*

The Offer price of $2.10 cash per share will be increased if by 31 December 2013 the only conditions remaining to be satisfied are the approvals from the Overseas Investment Office (**OIO**) and Chinese regulatory authorities. The Offer price in these circumstances is increased by $0.001957 per share for each calendar day from and including 1 January 2014 until the OIO and Chinese regulatory approvals have been received and the Offer declared unconditional.

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.

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

(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; and

(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 SFL and Synlait Farms as bidder and target respectively. Synlait Farms' response to the Proposed Transaction, 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 Profile of Shanghai Pengxin

Based in Shanghai, China, Shanghai Pengxin is a private conglomerate with diversified operations in real estate development, minerals, agriculture and equity investment:

- ***Real Estate*** – Shanghai Pengxin has developed high-end, high-quality residential dwellings, hotels and commercial property throughout China;
- ***Minerals*** – Shanghai Pengxin undertakes exploration, smelting and deep processing of non-ferrous and precious metals. In 2012 it launched a copper project in the Democratic Republic of Congo and is currently investigating opportunities in South America and Africa;
- ***Agriculture*** – Shanghai Pengxin owns a number of agriculture assets including farms in China, Bolivia and New Zealand. Shanghai Pengxin operates a 12,000 hectare farm in Bolivia, 16 farms in New Zealand and two large sheep farms in China. The farms located in New Zealand are operated by Milk New Zealand Holding Limited (**Milk NZ**), a wholly owned subsidiary of Shanghai Pengxin; and
- ***Infrastructure and Financing*** – Shanghai Pengxin is involved in urban infrastructure construction (including the building and construction of State and Provincial highways, stadia, long distance bus terminals, trade centres and waste water processing centres). Shanghai Pengxin is also involved with Sailing Capital (a financial institution strategically held and relatively controlled by Shanghai International Group), which actively pursues direct investments offshore.

Shanghai Pengxin's total assets are valued at approximately US$2 billion and the company employs over 4,000 people.

Milk NZ

Milk NZ was established by Shanghai Pengxin in 2011 to invest in farming and food production assets in New Zealand. In November 2012, Milk NZ purchased 16 dairy farms in the North Island of New Zealand from the Receiver of the Crafar Farms for approximately NZ$200 million. The 16 farms total nearly 8,000 hectares of land and farm approximately 16,000 cows.

Three of the farms are being used as dry stock grazing units and the remainder are operating dairy farms. The annual production capability of the farms is approximately five million kgMS per annum. All of the milk is currently supplied to Fonterra. After the acquisition a new company was formed to manage the farms and this company is 50% owned by Landcorp (a NZ Government owned company).

At the time of acquisition Milk NZ committed to investing $15.7 million over the following three years to upgrade the properties and increase milk production. The broader objective of Milk NZ is to convert the milk produced off these farms into retail products for export to China. NZSF is a wholly owned subsidiary of Milk NZ.

2. Scope of the Report

2.1 Purpose of the Report

The Independent Directors of Synlait Farms have engaged Grant Samuel & Associates Limited (**Grant Samuel**) to prepare an Independent Adviser's Report to comply with the Takeovers Code in respect of the Offer. Grant Samuel is independent of SFL, Synlait Farms, Shanghai Pengxin (and its subsidiaries NZSF and Milk NZ), Juliet Maclean, John Penno, and has no involvement with, or interest in, the outcome of the Offer.

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

A copy of this report will accompany the Target Company Statement to be sent to all Synlait Farms shareholders. This report is for the benefit of all shareholders of Synlait Farms. 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 Offer. This report should be read in conjunction with the Qualifications, Declarations and Consents outlined at Appendix B.

2.2 Basis of Evaluation

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

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

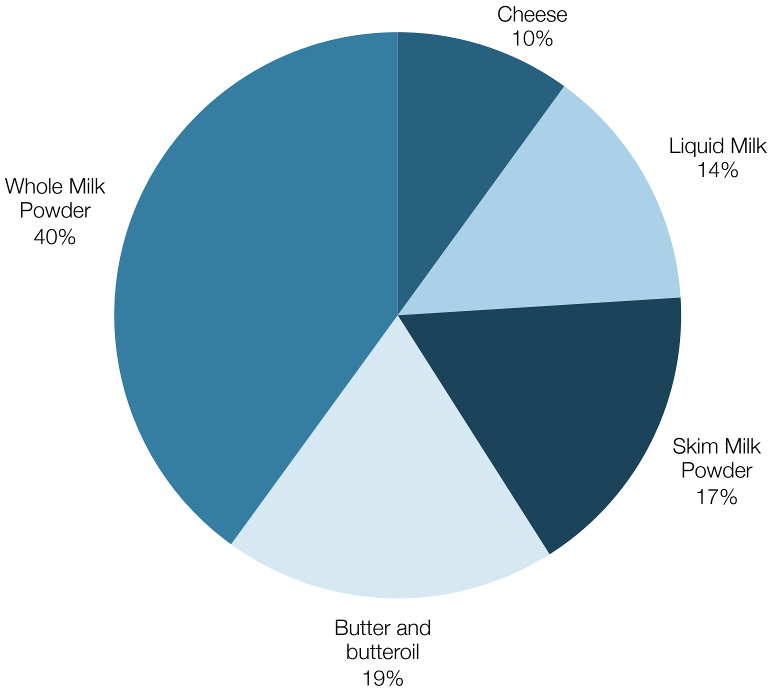
3. Overview of the NZ & Global Dairy Industry

3.1 Background

The dairy industry is an important element of the New Zealand economy, accounting for approximately $11.6 billion of New Zealand's total exports of $46.7 billion in 2012[1]. In 2012, New Zealand produced approximately 19.1 billion litres of raw milk equivalent to approximately 1.69 billion kilograms of milk solids. Fonterra collects approximately 88%[2] of New Zealand's raw milk, with the balance being processed by Synlait Milk, Miraka, Open Country Dairy, Tatua and Westland.

New Zealand is the largest exporter of dairy products[3] in the world, accounting for approximately 26%[4] of global dairy trade, including approximately 43% of the world's Whole Milk Powder (**WMP**) products. New Zealand is primarily focused on the production of milk powders, with WMP and Skim Milk Powder (**SMP**) representing approximately 57% of all dairy production, with butter (a by-product of the powder process) representing 19%. The following graph summarises New Zealand dairy production:

New Zealand Dairy Production



Source: Bulletin of International Dairy Federation: The World Dairy Situation

3.2 Milk Price Determination

Fonterra was formed by the merger of The New Zealand Dairy Board, The New Zealand Co-operative Dairy Company Limited and Kiwi Co-operative Dairies Limited in 2001. The Dairy Industry Restructuring Act 2001 (**DIRA**) was put in place at the same time to provide for the restructuring and regulation of dairy markets. DIRA was amended by the Dairy Industry Restructuring Amendment Act 2012 which included improving the transparency and therefore confidence in Fonterra's Farmgate Milk Price setting.

Fonterra's Farmgate Milk Price is considered to be the benchmark for the price of raw milk as it not only sets the milk price for 88% of the milk collected in New Zealand, it also sets the price in which Fonterra has to supply milk to independent processors. Under DIRA, Fonterra is required to supply up to 0.8 billion litres of raw milk annually to

[1] Statistics New Zealand

[2] Fonterra Milk Price Statement 2013

[3] On a milk equivalents basis

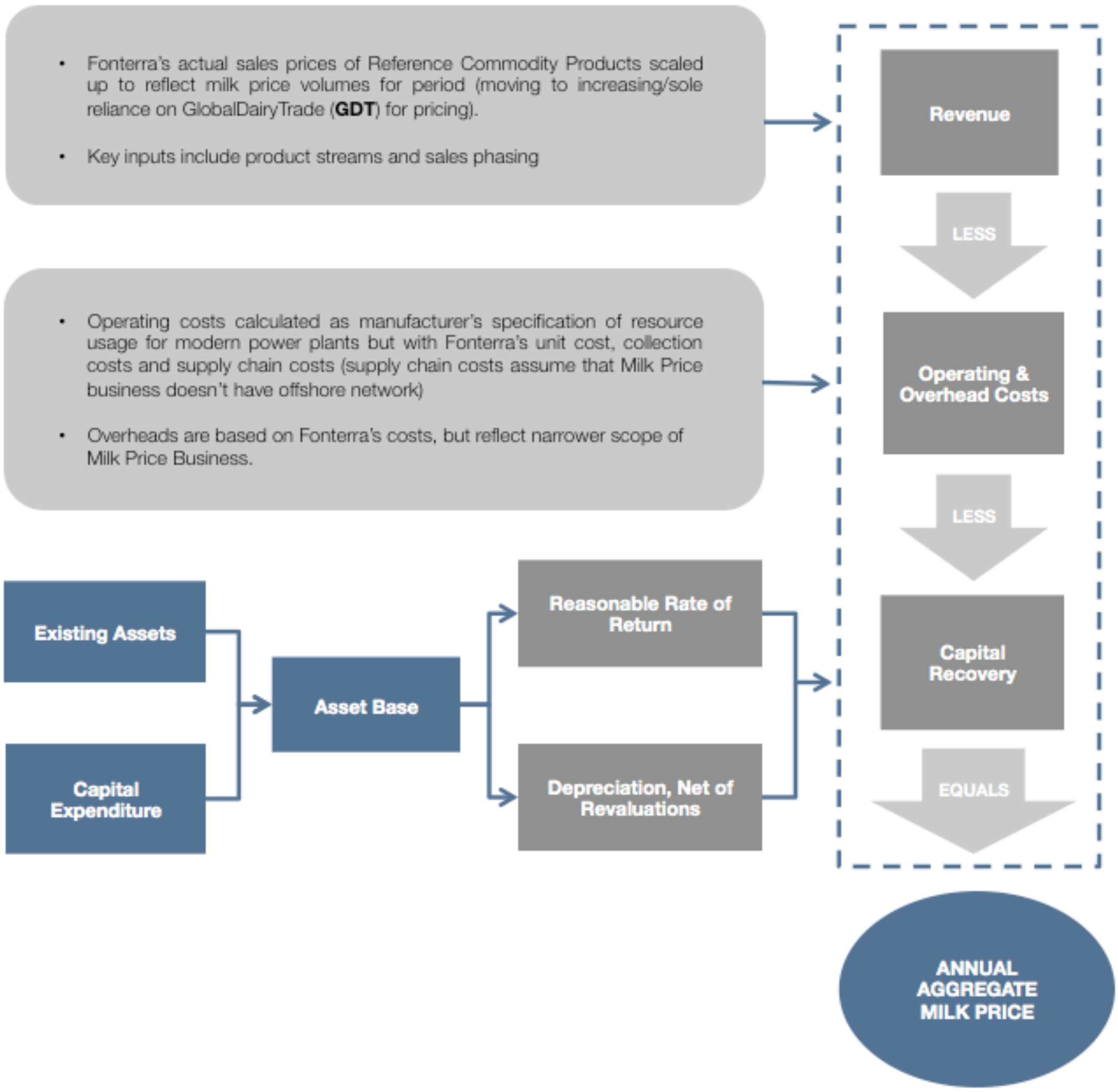
[4] OECD / FAO (2012), OECD-FAO Agricultural Outlook 2012-2021

processors that request it. The majority of independent processors, such as Synlait Milk, set the price they pay to suppliers using the Fonterra Farmgate Milk Price as a benchmark.

Since mid 2009, Fonterra's Farmgate Milk Price has been calculated in accordance with a framework defined in the Milk Price Manual and governed by the Milk Price Panel and the Milk Price Group. The milk price is calculated using a construct which determines the theoretical price of raw milk that would be paid by an efficient processor that only produced standard WMP and SMP and their by-products Butter, Anhydrous Milkfat (**AMF**) and Butter Milk Power (**BMP**), and has the same milk supply of Fonterra. This limited product set was selected because the returns from non-powder commodities, such as cheese and casein, have largely been irrelevant in driving investment in the dairy industry over the last 10 years. The majority of new processors have invested in powder plants.

The following diagram provides a summary of Fonterra's Farmgate Milk Price methodology:

Fonterra Farm Gate Milk Price Methodology



Source: Fonterra

The following table provides a summary of the Farm Gate Milk Price for the 2011, 2012 and 2013 seasons:

Fonterra Farm Gate Milk Price

	2013		2012		2011	
	NZ$b	**$kg/MS**	**NZ$b**	**$kg/MS**	**NZ$b**	**$kg/MS**
Revenue	12.1	8.24	12.4	8.29	13.1	9.76
Lactose	(0.8)	(0.52)	(0.6)	(0.42)	(0.3)	(0.25)
Net Revenue	**11.3**	**7.72**	**11.7**	**7.87**	**12.8**	**9.51**
Cash Costs	(1.7)	(1.18)	(1.6)	(1.10)	(1.5)	(1.13)
Capital Costs	(1.0)	(0.69)	(1.0)	(0.68)	(1.1)	(0.78)
Total Costs	**(2.7)**	**(1.88)**	**(2.7)**	**(1.78)**	**(2.6)**	**(1.91)**
Farmgate Milk Price	**8.5**	**$5.84**	**9.1**	**$6.08**	**10.2**	**$7.60**

Source: Fonterra Milk Price Statement

The changes in the Farmgate Milk Price over the last three seasons has been influenced primarily by changes in commodity prices and foreign exchange rates.

The commodity prices referenced in the calculation of the Farmgate Milk Price are heavily reliant upon the commodity prices achieved on the Global Dairy Trade Platform (**GDT**). Established by Fonterra in 2008, GDT is an auction platform for internationally traded commodity dairy products. GDT has become a leading global price reference indicator for the products traded around the world. GDT's platform is primarily used by Fonterra, with some participation from other global dairy vendors, including DairyAmerica, Murray Goulburn (an established Australian dairy co-operative) and Arla Foods.

3.3 The New Zealand Farming System

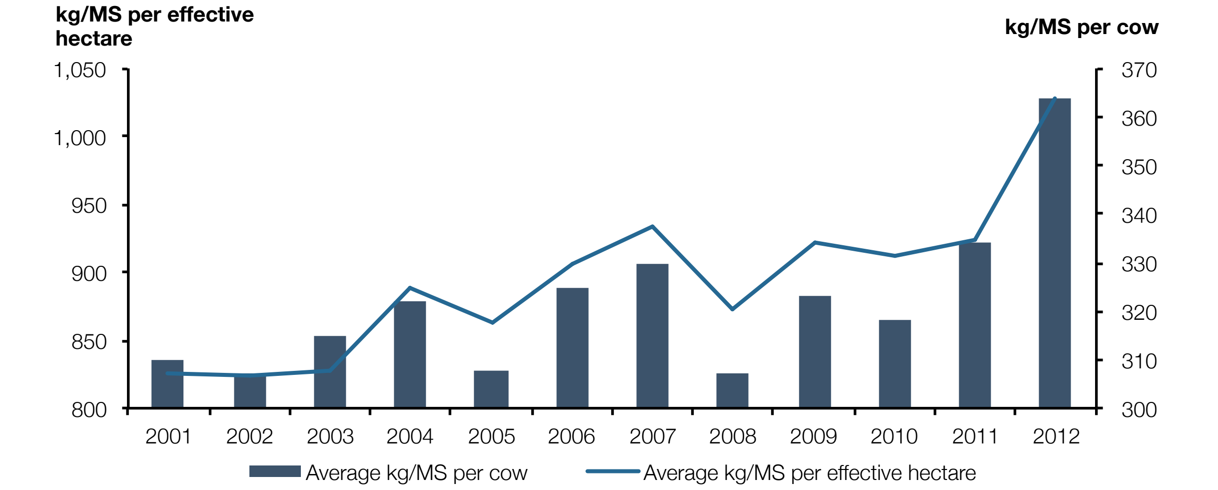
The New Zealand dairy industry is a competitive producer of milk due to being predominately pasture based with an abundant supply of water and favourable climate that maintains adequate feed all year around. The New Zealand dairy industry is also renowned for its farming innovation, which has resulted in continued improvement in on farm production.

New Zealand's milk production is influenced by a range of factors, including:

- the climate in the various milk producing regions across the country;
- the economic conditions and farmers expectations of any changes in economic conditions;
- the projected payout by processors and consequential changes in the level of farm investment in milk production;
- whether farmers elect to spend on products that can influence milk production such as fertiliser and supplementary feeds and genetics; and
- importantly, a range of biological factors that impact on a cow's ability to produce milk.

New Zealand's on-farm production efficiency has increased since 2001, as summarised in the graph below:

New Zealand Production Efficiency since 2001



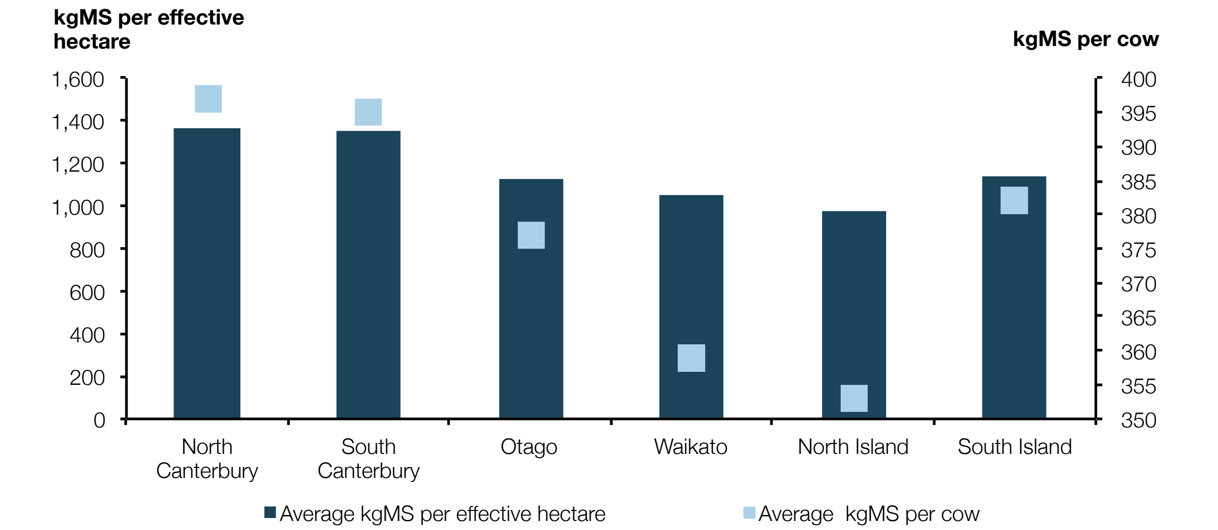
Source: DairyNZ Dairy Statistics

New Zealand's record milk production in 2012 was due to a favourable climate across most of the country following of a strong 2011 season which led to the cows being well conditioned leading into the 2012 season.

Total New Zealand milk production has risen from 1.1 billion kg/MS in 2001 to approximately 1.7 billion kg/MS in 2012. This significant increase is primarily due to dairy farm conversions, higher stocking rates and increased performance per cow. The North Island accounts for approximately 61%[5] of milk solids produced, but further growth in the North Island will be limited by land availability in the principal dairy regions. Future growth is more likely to come from the South Island, which has a large availability of pastoral land suitable for dairy conversion[6].

The South Island's production efficiency is also superior to the North Island with the top two regions being located in Canterbury:

Production Efficiency by Region



Source: DairyNZ Dairy Statistics

[5] NZ Dairy Statistics

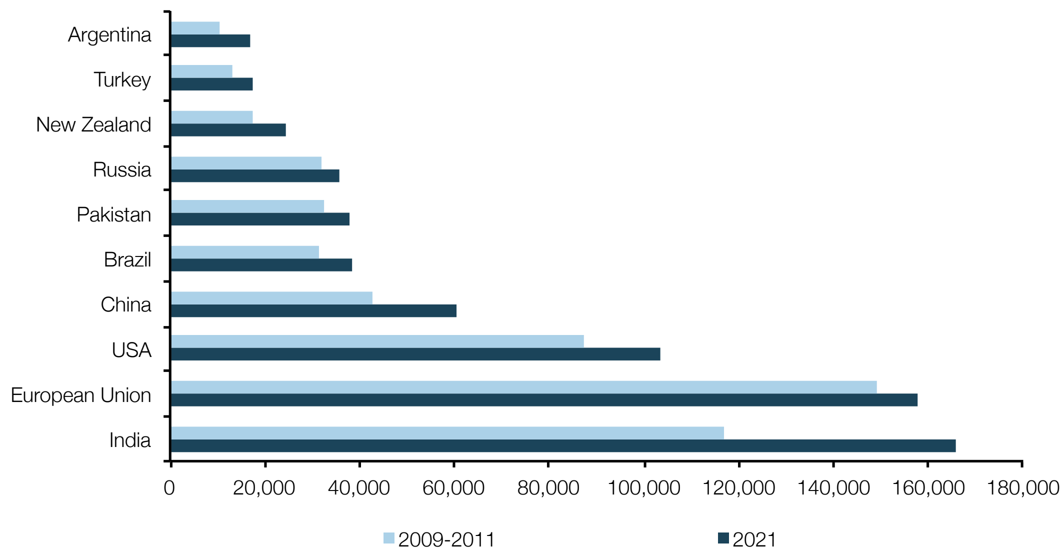
[6] Agri Specialist NZ – Milk Production Trends January 2013

The Canterbury region accounts for 17.7%[7] of New Zealand's milk solids and it has been one of the fastest growing regions with 11% annual growth over the last 12 seasons through the conversion of sheep and cropping land to primarily irrigated dairy enterprises. Canterbury's farms are also the most cost effective, but its future profitability is highly dependent on the reliability of water supply and additional environment and irrigation compliance costs[8].

3.4 Global Dairy Trade

New Zealand is the eighth largest dairy producing country but its production capacity is relatively small when compared to the top three regions. For example, US farmers currently produce five times more milk than New Zealand. The graph below shows the top ten milk producing regions in the world and their forecast production in 2021:

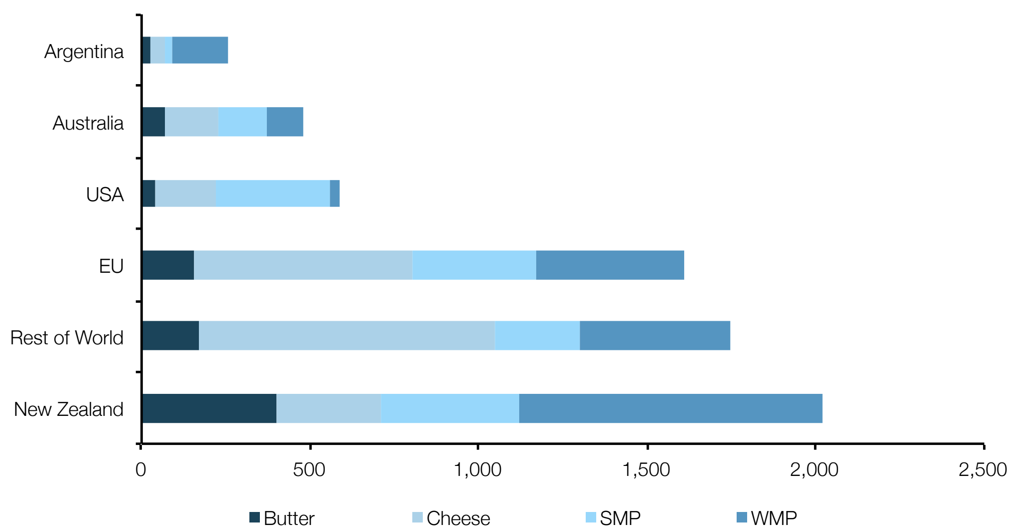
Top 10 Milk Producing Regions (million tonnes)



Source: GOT and Oceania Prices

Despite its relatively small production, New Zealand is the single largest dairy exporter in the world. The following graph illustrates New Zealand's importance in the global dairy trade industry:

Major dairy production exporters (thousand tonnes)



Source: OECD-FAO Agricultural Outlook 2012

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[7] NZ Dairy Statistics

[8] Agri Specialist NZ – Milk Production Trends January 2013

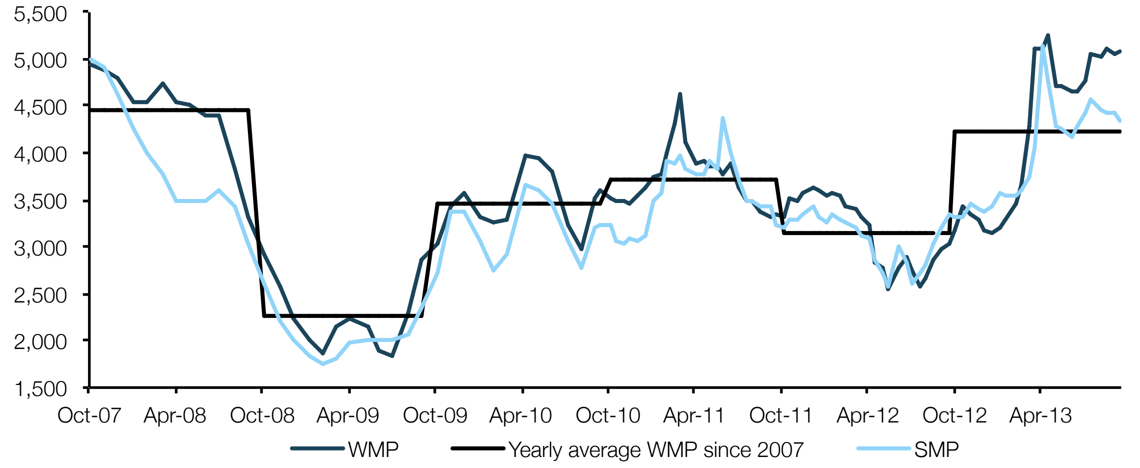
3.5 Commodity Prices and Outlook

Since the GFC, when international dairy prices fell dramatically, dairy commodity prices have become increasingly more volatile. Overall there has been a steady increase in dairy prices in recent years due to a range of factors, including:

- global population growth;
- rapid emergence in demand from China and other Asian markets;
- rising incomes in developing countries;
- improved consumer access to dairy products through retail chains; and
- increased demand for dairy products.

The following graph shows the WMP and SMP prices over the last six years in US dollars:

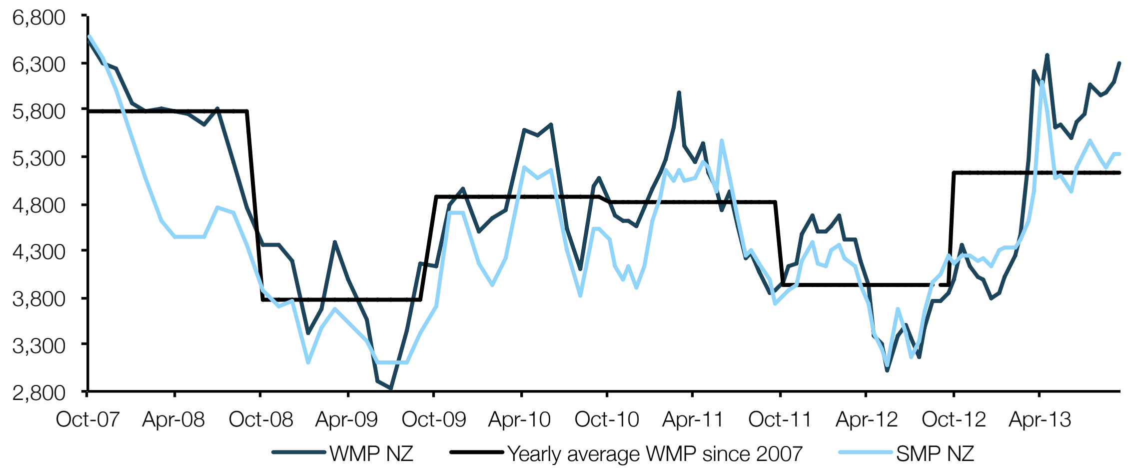
WMP and SMP Prices over the last six years (USD MT)



Source: GDT and Oceania Prices

The following graph shows the WMP and SMP prices over the last six years in NZ dollars:

WMP and SMP Prices over the last six years (NZD MT)



Source: GDT and Oceania Prices

In Grant Samuel's opinion, dairy commodity price volatility is likely to continue due to the dynamic nature of supply and demand, caused by:

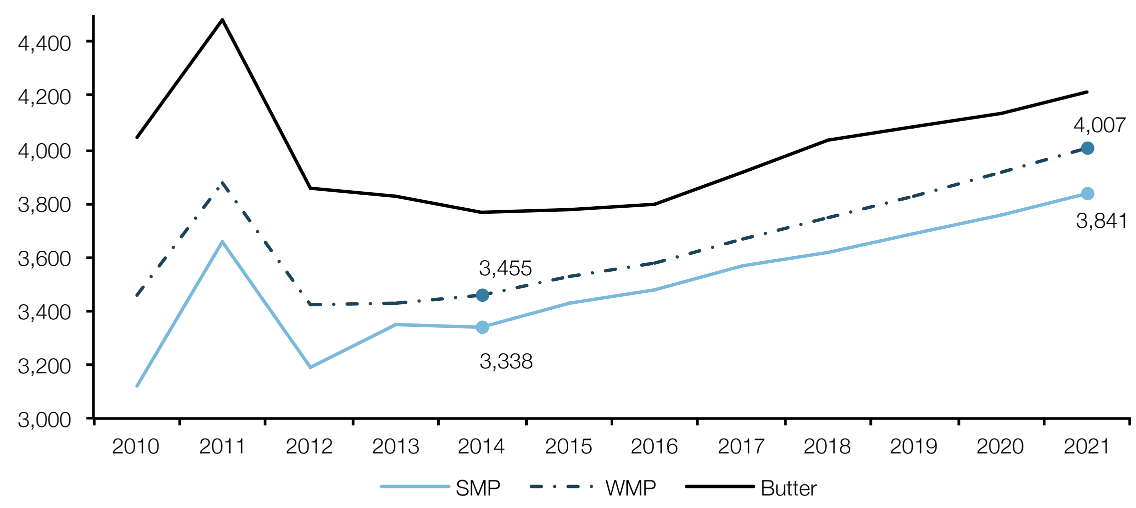
- increased demand;
- milk supply being impacted by economic and local weather conditions within the major dairy production countries;
- the price of feed costs (grain) influencing the milk supply and exports of the US and EU;
- the political situation and economic conditions of developing nations;
- world trade agreements, determining the level of import tariffs and export subsidies;
- product substitution; and
- the reaction to high commodity prices by major dairy production countries (e.g. increased milk supply to chase high returns).

There is a difference between the price paid for SMP produced in New Zealand and the US. On average New Zealand SMP trades at a premium of at least 10% to US SMP. This is due to a number of reasons including:

- differences between the costs of inland transport;
- functional differences between Oceania and US SMP, notably moisture content;
- contract tenor and certainty of supply; and
- traceability of New Zealand product in favour of product bought in bulk though trading houses in the US.

There are relatively few long-term dairy commodity price forecasts (i.e. greater than 24 months). The following table provides a graph of a forecast for SMP and WMP from the Food and Agriculture Research Institute (**FAPRI**) published in 2012. Although the analysis below is slightly out of date, what it does reflect is FAPRI's view that prices will, on average, remain relatively flat over the long term, with annual increases due to inflation (i.e. increased production costs):

FAPRI Commodity Forecast (USD per metric tonne)



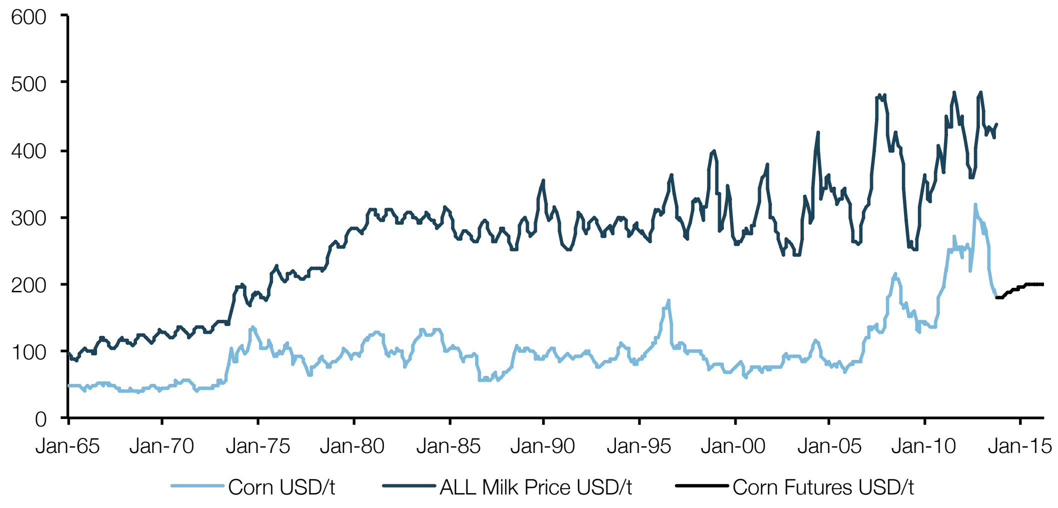
Source: OECD-FAO Agricultural Outlook 2012

In Grant Samuel's opinion, long-term prices will ultimately be driven by internal prices for milk in either the US or EU, depending upon which market is the most competitive. A relatively small change in export levels from either of these markets has a material impact on worldwide supply as they are in effect the 'top up tanks' for world markets. It is also assumed that these markets will export SMP given that both the US and EU have balanced fat portfolios.

Historically, the US has been the lowest cost producer of milk (relative to the EU) but it is observed that this trend is being challenged by rising feed costs in the US which have to date been offset by a weakening US dollar.

The graph below illustrates the correlation between the corn price and US All Milk Price since 1965 and shows the rapid increase in the price of corn in recent years largely driven by the US policy on ethanol, inflation concerns and food demand. The average All Milk Price over the last 24 months has been 41 cents per litre versus the average over the last ten years of 36 cents per litre[9]. The higher price has been necessary to cover the increased feed (corn price). There are various economic models that attempt to estimate the milk price based on corn prices. The outputs of these models have a wide margin of error.

Price of Corn and All Milk (USD per tonne)



Source: Capital IQ

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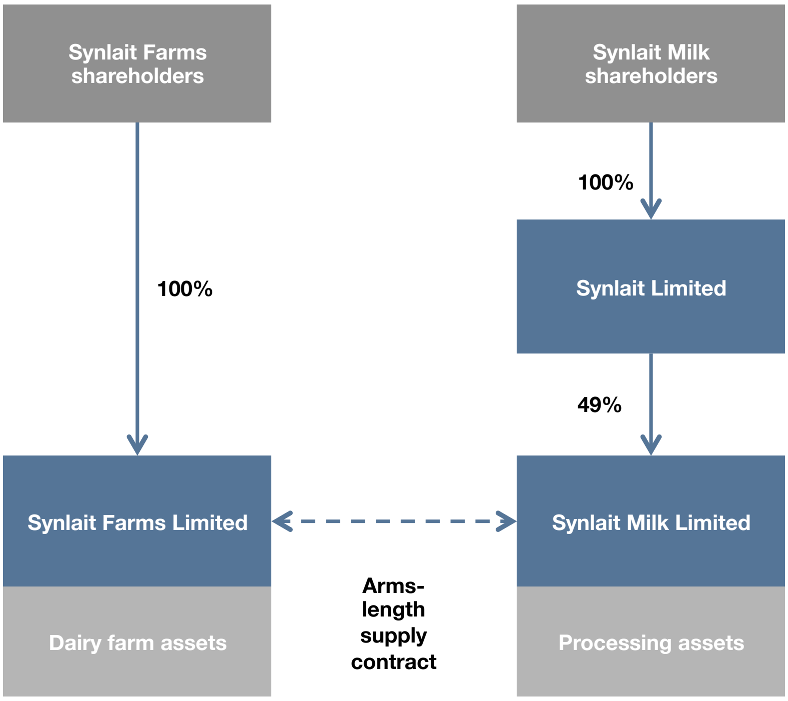
[9] The price paid for US Milk depends on its end use. Class IV milk, which is used to produce SMP, WMP and Butter typically trades 10% lower than the average price for all classes (i.e. the All Milk Price).

4. Profile of Synlait Farms

4.1 Background

Synlait was established in 2000 with a vision to develop a large-scale integrated dairy production and processing business in Canterbury. Since that date, 4,800 hectares of rural land in Canterbury have been acquired comprising [4,000] hectares of cropping/drystock farms and [800] hectares of existing dairy farms. In 2008, the construction of a milk processing plant at Dunsandel was completed. In 2013, the processing and farm assets of Synlait were separated into Synlait Milk and Synlait Farms. Synlait Milk was floated on the NZX in 2013.

Shareholding Structure Post Separation



At that time of separation, an arms length exclusive milk supply contract[10] between Synlait Milk and Synlait Farms was put in place. As a minimum, this contract provides that the milk price paid by Synlait Milk to Synlait Farms must exceed the sum of the Fonterra milk price less 25 cents per kilogram of milk solids. In addition to the supply of standard milk, Synlait Farms also produces speciality milks including A2 and other hyper immune milks.

Synlait Farms has developed a sizable farm business. The growth has largely been funded through bank debt with accumulated losses having outstripped the initial equity subscribed, with the current shareholders funds balance being a result of unrealised property revaluations. The current strategy is to focus on improving returns from the existing farm portfolio and to pursue growth opportunities by leveraging access to increased water supply to increase the effective area being farmed and, where appropriate, to undertake further farm conversions.

[10] The contract is open-ended but may be terminated by providing written notice to the other party. The final date of termination is 24 months from the written notice.

4.2 Synlait Farms Overview

Synlait Farms comprises 13 farms located in Ashburton (Canterbury), one of the most productive dairying areas in New Zealand. The farms have total area of 4,561 ha (effective area of 3,942 ha), populated by approximately 13,600 cows producing approximately 5.3 million kgMS p.a. With the exception of Waitai, all of the farms are located within a 20km radius of each other, and the average distance from the farm to the processing plant is 15km. The close proximity of the farms allows for more efficient farm management and lower operating costs. The following table provides a summary of Synlait Farms' portfolio:

Synlait Farms Farm Portfolio

Farm	Area (ha)	Cows Owned	Cows Leased	Book Value ($m) as at 31 May 2013	2013 Production kgMS (000)
B24	186	595	-	8.1	231.1
Beacon	311	932	-	14.2	340.6
Colosseum	274	761	-	10.9	319.4
Delaborin	375	625	-	10.7	197.6
Dunsandel 1 & 2	614	2,060	124	25.5	850.1
Lighthouse	317	1,037	-	9.8	434.0
Morton Marsh	308	952	-	12.3	354.6
Riverlands	640	400	1,200	22.1	581.3
Robindale	620	1,547	500	23.7	894.7
Tapatoru	321	1,000	-	14.3	419.5
Treevale	252	761	-	10.5	292.0
Waitai	343	1,097	-	14.6	394.4
Total	**4,561**	**11,767**	**1,824**	**176.7**	**5,309.3**

All the farms have extensive irrigation that primarily use ground water and have sufficient water available under current irrigation consents to adequately irrigate all of the existing farms. The water consents range in tenure from 10 to 35 years. All but three of the farms lie in the initial area to be developed by Central Plains Water Limited (**CPW**), an irrigation scheme to be funded predominantly by local farmers to initially irrigate 20,000 ha of the Canterbury plains. Synlait Farms has an agreement to receive 1,500 litres/second from CPW in the Te Pirita area (**the TIPL scheme**). CPW has received all necessary consents and has commenced fund raising for the first stage. Synlait Farms has not decided whether it will join the CPW scheme which will involve a payment of $1,750 per hectare of land supplied and entering into a take or pay agreement that has the potential to increase operating costs. It may choose to join the CPW scheme for only certain farms and continue to rely on its existing ground water consents for the time being. A decision on the level of subscription that Synlait Farms will make is required before the end of October 2013. Therefore, the decision will be made prior the completion of the SFL takeover offer.

4.3 Relative Performance

Milk production has been comparatively steady over the last three years at approximately 5.3 million kgMS per annum, in part reflecting the excellent grass growing conditions in Canterbury supported by extensive irrigation in the dry summer months. Synlait Farms is forecasting increasing production over the next four seasons to an annual production of 6.0 million kgMS, through a combination of increased productivity per cow and an increased number of cows. North Canterbury enjoys some of the highest milk production per cow in New Zealand and Synlait Farms has the necessary experience and expertise to take advantage of the growing conditions. The current level of performance of the farms relative to the district averages suggest that the forecast improvements in productivity are reasonable, particularly when considering the historical trends in improved milk production since 2001 (see Section 3.3).

The following table provides a comparison of Synlait Farms' key operating metrics against the average performance of farms across New Zealand and Ashburton (North Canterbury):

Synlait Farms Benchmarking of Key Metrics

	NZ	Ashburton	Synlait 2012	Synlait 2013	Synlait 2014F	Synlait 2017F
Average kgMS per ha	1,028	1,436	1,267	1,347	1,413	1,525
Average kgMS per cow	364	406	408	411	417	430
Average cows per ha	2.8	3.5	3.1	3.3	3.4	3.6

Source: New Zealand Dairy Statistics 2011-2012 and Synlait Management Accounts and Forecast

4.4 Key Operating Statistics

The key operating statistics for the 10 months ended 31 May 2011, the years ended 31 May 2012 and 2013, and the forecast for the year ending 31 May 2014 are shown in the table below:

Key Operating Statistics

	FY11A[11]	FY12A	FY13A	FY14F
Profitability				
Synlait Milk's milk price ($/kgMS)	7.50	6.10	5.80	9.00
Average milk price ($/kgMS)	7.41	5.98	5.63	8.64
EBITDA ($000)	23,800	13,868	10,670	26,427
EBITDA margin	54.9%	39.8%	32.8%	54.9%
Costs				
On farm costs to Milk Revenue	48.4%	58.9%	64.3%	43.8%
On farm costs per kgMS ($)	3.40	3.52	3.62	3.77
On farm costs per Cow ($)	1,357	1,436	1,485	1.587
Cost of production ($kgMS)	$3.28	$3.96	$3.94	$3.90
Productivity				
Milk production (kgMS, million)	5,372	5,285	5,309	5,571
Peak cows (October)	13,472	12,968	12,926	13,363
Effective hectares	4,161	4,171	3,942	3,942
Stocking rate (Cows/ha)	3.2	3.1	3.3	3.4
Production per hectare (kgMS/ha)	1,291	1,267	1,347	1,413
Production per cow (kgMS/cow)	399	408	411	417

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

- the average milk price is lower than Synlait Milk's price as it takes into account the percentage of the milk price that is shared with Synlait Farms sharemilkers;
- the milk price has been very volatile due to the movement in global commodity prices (see Section 3.5);
- the EBITDA margin is primarily a function of the milk price and the cost of production. As the milk price rises the cost of production also tends to rise, but there is often a lag between rising milk prices and the costs of production. When the milk price is volatile it can lead to swings in profitability as Synlait Farms benefits when the milk price in the previous year is low and vice versa;
- cost of production per kg/MS has remained stable at approximately $3.95 over the last two years;
- the forecast milk price of $9.00 per kgMS is only an indicative price provided by Synlait Milk. Based on the volume of milk powder that has already traded at high prices, it is reasonable to expect that this price will be achieved; and

11 *FY11 – 10 months ended 31 May 2011 (Where required operating statistics have been annualised).*

- the production per cow (kgMS) is forecast to increase to 417 in FY14, which represents an average 1.5% per annum improvement since FY11.

4.5 Financial Performance

The financial performance for Synlait for the 10 months ended 31 May 2011, years ended 31 May 2012 and 2013 and forecast for the year ending 31 May 2014 are shown in the table below:

Synlait Farms Financial Performance ($000)

	2011	2012	2013	2014F
Synlait Milk's Milk Price	*$7.50*	*$6.10*	*$5.80*	*$9.00*
Milk	37,765	31,615	29,872	48,140
Livestock	3,685	559	701	(470)
Feed	381	757	175	48
Other	1,552	1,886	1,777	443
Total Revenue	**43,383**	**34,817**	**32,525**	**48,161**
Feed/Grazing	(3,570)	(5,481)	(6,720)	(5,858)
Fertiliser	(2,987)	(2,394)	(2,457)	(2,884)
Irrigation	(2,112)	(1,944)	(2,025)	(2,311)
Other	(6,560)	(8,807)	(7,995)	(10,046)
Administration	(2,683)	(2,323)	(2,666)	(635)
Total Expenses	**(17,912)**	**(20,949)**	**(21,863)**	**(21,734)**
EBITDA	**25,471**	**13,868**	**10,662**	**26,427**
Depreciation & Amortisation	(3,076)	(2,958)	(2,728)	(2,998)
EBIT	**22,395**	**10,910**	**7,934**	**23,429**
Net finance costs	(9,758)	(7,292)	(7,505)	(11,450)
NPBT	**12,637**	**3,618**	**429**	**11,979**
Taxation	-	(492)	(984)	-
Net Profit	**12,637**	**3,126**	**(555)**	**-**

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

- the earnings for the 10 months ended 31 May 2011 were high due to a very high milk price ($7.50/kgMS) and due to the fact that the financial period commenced on 1 August when the season started. Typically the months of June and July are loss making as there is no revenue;
- the earnings of Synlait are, understandably, primarily a function of the milk price which has been relatively volatile over the last three seasons;
- on farm costs as a percentage of milk solids and per cow have risen over the period under review;
- other revenue comprises reimbursements from sharemilkers, dividends and supplier rebates;
- as at 31 August 2013, Synlait Farms had incurred a substantial loss of $9.3 million which was approximately $4.0 million over budget. The first three months of the year are traditionally the worst performing months due to the season only beginning in August. The major reason for the increase in the loss was the decision to terminate the interest rate swaps earlier than the original expiry dates. The loss on the closing out of the interest rate hedges of $3.7 million combined with a delay in putting in place the new banking facility comprised the majority of the forecast increase in finance costs in 2014; and
- no taxation has been provided as Synlait Farms has significant tax losses to cover the forecast tax liability. In the event the Offer is successful, the tax losses will be foregone and tax will be payable in respect of the year ending 31 May 2014.

4.6 Financial Position

The financial position of Synlait at 31 May 2012, 2013 and forecast at 31 December 2013 is set out below:

Synlait Farms Financial Position ($000)

	31 May 2012[12]	31 May 2013[12]	31 Dec 2013F[13]
Land	130,196	150,574	150,574
Buildings	18,844	19,510	19,510
Plant and equipment	10,427	8,604	7,557
Total property and plant	**159,467**	**178,688**	**177,641**
Intangible assets	-	2,916	2,932
Livestock	21,348	20,381	20,736
Investments	1,219	2,288	2,369
Other assets	5,102	4,202	-
Total term assets	**187,136**	**208,475**	**203,678**
Inventories and feed	1,756	1,098	783
Receivables	2,365	2,790	4,050
Prepayments and accruals	7,298	5,307	12,093
Advance to Synlait	12,908	-	-
Total current assets	**24,327**	**9,195**	**16,926**
Total assets	**211,463**	**217,670**	**220,604**
Net Debt	111,721	123,369	127,548
Deferred tax	7,205	7,785	4,206
Interest rate hedges	6,399	4,142	461
Trade and other payables	2,153	3,064	3,064
Total liabilities	**127,478**	**138,360**	**135,279**
Net assets	**83,985**	**79,310**	**85,325**
NTA per share	*$2.06*	*$1.87*	*$2.02*

The following points should be noted when reviewing the above table:

- the movement in net assets between 31 May 2012 and 31 May 2013 is summarised below;

Synlait Farms Movement in Net Assets ($000)

Balance at 31 May 2012	**83,985**
Dividends paid	(26,926)
Revaluation of property and plant	21,181
Movement in hedging revenue	1,625
Loss for the year	(555)
Balance at 31 May 2013	**79,310**

- the farm properties and chattels are valued annually and the change in value is taken up in the accounts with the revaluation gain or loss reflected in the revaluation reserve. The revaluation reserve is $86.0 million as at 31 May and December 2013;
- prepayments and accruals primarily relate to the outstanding income owed by Synlait Milk to Synlait Farms for the milk provided during the financial year. At the end of each financial year, there is approximately 20% of the revenue owed, and this is paid over a four month period post the end of the financial year;
- investments include Synlait Farms' shares in CPW, Balance Agri-Nutrients Limited and water rights;

[12] Audited Annual Accounts

[13] Synlait Farms Management Forecasts

- intangible assets increased in FY13 due to a $2.9 million investment relating to the company's water rights and conversion into future irrigation schemes (i.e. CPW);
- the primary reason for the increase in net debt in 2013 was the payment of dividends made as part of the separation from Synlait Milk; and
- during the period the number of livestock decreased from 14,020 to 12,745. There was no change in the value ascribed to each unit of livestock in the period.

4.7 Cash Flows

The cash flows for Synlait Farms for the years ended 31 May 2012, 2013 and the forecast for the year ending 31 May 2014 are shown below:

Synlait Farms Cash Flows ($000)

For year ended 31 May	2012	2013	2014F
EBITDA	13,868	10,662	26,427
Tax	(492)	(984)	-
Interest paid[14]	(7,792)	(7,505)	(11,636)
Movement in livestock and feed values	(559)	4,212	-
Other non-cash items	(390)	1,264	-
Movement in working capital	1,252	(110)	(9,768)
Net cash from operations	**6,387**	**7,539**	**5,023**
Purchase of plant and equipment	(917)	(1,068)	(1,307)
Sale of plant and equipment	1,259	272	685
Net cash invested	**342**	**(796)**	**(622)**
Cost of capital raising		(57)	-
Dividends paid		(26,926)	-
Proceeds from borrowings/(repayments)	5,685	13,386	(8,684)
Loans from/(to) Synlait	(12,209)	8,974	-
Net cash flow from financing	**(6,524)**	**(4,623)**	(8,684)
Net increase/(decrease) in cash	**205**	**2,120**	**(4,283)**

4.8 Capital Expenditure

Due to Synlait Farms' previous investment in farm conversions the business is projecting a comparatively low level of capital expenditure on the existing farms for the foreseeable future. Synlait Farms is forecasting average capital expenditure of approximately $1.7 million p.a. over the next 10 years. Average annual depreciation is running at approximately $2.1 million p.a.

[14] Included in interest paid in the forecast to 31 May 2014 is the cost of interest rate swaps, including the close out of historical swaps, totalling $4.2 million.

4.9 Capital Structure and Ownership

As at September 2013 Synlait had 106 shareholders holding 40,802,872 shares. The top 10 shareholders are shown in the table below:

Synlait Farms – Top 10 Shareholders as at September 2013

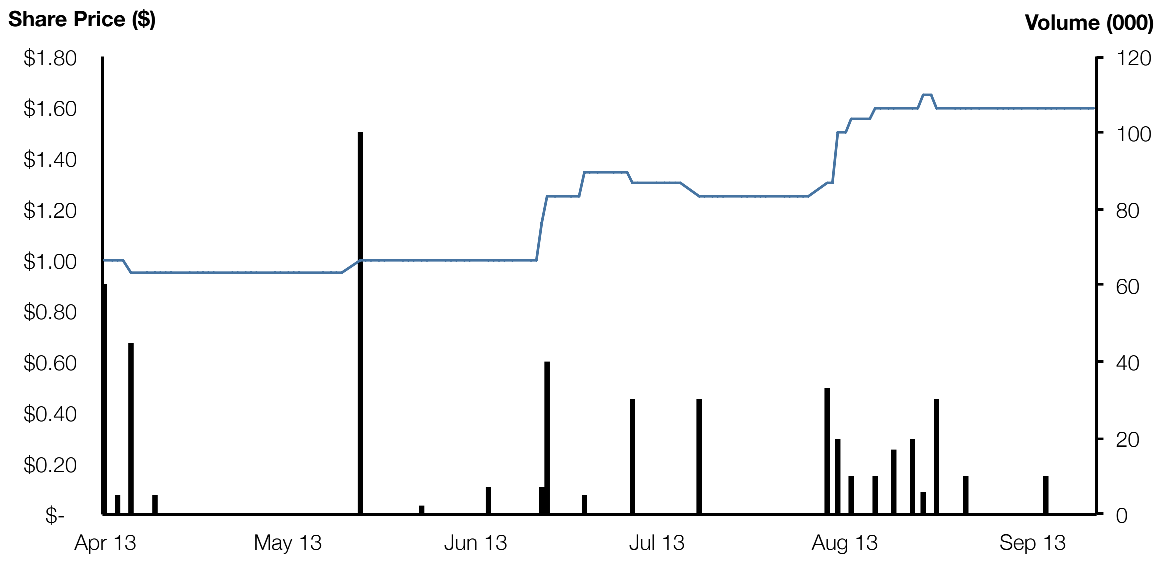
Shareholder	Shares	%
Juliet Maclean	7,100,771	17.4%
Ben Dingle	7,090,894	17.4%
John Penno	6,222,325	15.2%
Brian and Maureen Kensington	1,647,339	4.0%
Horo Holdings Ltd	1,351,968	3.3%
Falcon Rural Investments Ltd	1,237,500	3.0%
Carr Group Investments Ltd	1,237,500	3.0%
Douglas, Clorine and Jozette Thode, and Clorine Brown	1,139,436	2.8%
Paul and Bronwyn Lancaster	1,121,454	2.7%
Therese Roche	1,035,888	2.5%
Other Shareholders	**11,617,797**	**28.5%**
Total	**40,802,872**	**100.0%**

The founders of Synlait Farms, Juliet Maclean, John Penno and Ben Dingle together hold 50.03% of the shares on issue. The remaining shareholdings are held by minority shareholders. There is no cross shareholding between Synlait Milk and Synlait Farms. A number of Synlait Farms' shareholders are also shareholders of Synlait Milk.

4.10 Share Price Performance

Synlait Farms listed on Unlisted trading platform on 26 March 2013 and since that time the share price has steadily increased from $1.00 to $1.60 on relatively small volumes of trades:

Share Price and Trading Volumes since April 2013



5. Valuation of Synlait Farms

5.1 Summary

Grant Samuel's valuation of the equity in Synlait Farms as at 31 December 2013 is between $76.0 million and $82.3 million or $1.86 - $2.02 per share, as summarised below:

Synlait Farms – Valuation Summary

$ million except where otherwise stated	Low	High
Enterprise value	204.0	210.3
Net debt for valuation purposes	(128.0)	(128.0)
Equity value	**76.0**	**82.3**
Fully diluted shares on issue (million)	40.8	40.8
Value per share ($/share)	**$1.86**	**$2.02**

The valuation represents the estimated full underlying value of Synlait Farms assuming 100% of the company was available to be acquired and includes a premium for control. The value exceeds the price at which, based on current market conditions, Grant Samuel would expect Synlait Farms to trade on Unlisted in the absence of a takeover offer.

This valuation range is an overall judgement having regard to:

- the forecast cash flow of Synlait Farms;
- the global dairy market and the outlook for commodity prices; and
- the implied multiples from the DCF valuation.

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

- Synlait Farms' farms are predominately dry land conversions with efficient layouts and modern infrastructure, resulting in a competitive cost structure;
- Synlait Farms has secure access to cost effective ground water and substantial irrigation infrastructure ensuring pasture growth throughout the season;
- Synlait Farms is a price taker and has no influence over the price received for its milk, which is a primary function of the international price for milk powders and the NZ dollar / US dollar exchange rate;
- Synlait Farms supplies Synlait Milk, which is an efficient producer of milk powders with a modern plant located in close proximity to the majority of Synlait Farms' farms;
- Synlait Farms has scope to grow through dry land farm conversions. In Grant Samuel's opinion its current level of debt is too high and the company will need a substantial equity injection if it is to acquire and convert further land;
- Synlait Farms is well managed and has a relatively stable work force;
- due to the historical losses incurred by Synlait Farms, the company has carried forward $18.1 million of tax losses. Grant Samuel has assumed for the purpose of the valuation that these tax losses are available to offset against future tax liabilities. If the Offer is successful the tax losses will be lost; and
- net debt for valuation purposes has been calculated using forecast net debt at 31 December 2013 of $128.0 million. This compares with actual net debt at 31 August 2013 of $130.5 million.

5.2 Preferred Methodology

Overview

Grant Samuel's valuation of Synlait Farms has been estimated on the basis of fair market value as a going concern, defined as the estimated price that could be realised in an open market over a reasonable period of time assuming that potential buyers have full information. The valuation of Synlait Farms is appropriate for the acquisition of the company as a whole and accordingly incorporates a premium for control. The value is in excess of the level at which, under current market conditions, shares in Synlait Farms 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 A.

Preferred Approach

Grant Samuel has adopted a discounted cash flow valuation as its preferred approach as Synlait Farms has a detailed financial model and a range of assumptions that can be referenced against industry data. The discounted cash flow valuation also allows Grant Samuel to adjust the cash flow forecast to reflect the expected decline in the milk price, which is partially offset by milk production cost efficiencies and increases in production. Synlait Farms' high level of debt and relatively fixed cost structure means that relatively small changes in the milk price result in large changes in the value per share.

5.3 Discounted cash flow analysis

Grant Samuel was provided with a financial model, which was used for the planned capital raising and ultimately the sale process. Grant Samuel has used the financial model to derive a discounted cash flow valuation based on the next ten years of cash flow. Over the last four financial years, Synlait Farms' asset base and operations has been relatively stable, with the majority of major capital expenditure being incurred prior to 2011. Synlait Farms' historical operational and financial performance over the last four financial years provides a useful comparison when assessing the future cash flows of Synlait Farms. The following points provide an overview of the key considerations and adjustments made by Grant Samuel to derive the Synlait Farms valuation:

Milk Price

The most sensitive assumption in the valuation is the milk price received by Synlait Farms. The milk price has been very volatile over the last few years as global demand has increased and international milk supply has changed due to weather patterns, feed costs, abnormal events and price signals. Grant Samuel has applied a price of $9.00 per kgMS for the current season to be paid by Synlait Milk[15] which is considered abnormally high, due to record WMP and SMP prices. The high powder prices are due to a range of factors including a decline in New Zealand milk production due to the drought in the 2012/2013 season and low milk production in China due to a harsh winter and

[15] The forecast milk price of $9.00 per kgMS is only an indicative price by Synlait Milk whose current forecast is set at $8.00 per kgMS. However, based on the volume that has already traded at high prices and the current prices, there is reasonable expectation that this price will be achieved. If $8.00 per kgMS had been used as the milk price for the current season the valuation would decrease by approximately 5 cents per share.

a severe outbreak of foot and mouth disease in 2012. The high commodity prices combined with falling feed prices in the US will likely lead to a rapid increase in milk supply from major exporting countries. There is an expectation that commodity prices will decline but still remain relatively high in historic terms as a result of increasing demand from China and the developing nations. For the purposes of this valuation, Grant Samuel has assumed that milk prices will decline from the indicative level of $9.00 per kgMS to a long term milk price in FY16 ranging from $6.80 to $6.90 per kgMS, and rising by 2% per annum thereafter to reflect increased demand and production costs. The $6.80 to $6.90 per kgMS milk price assumes a WMP per tonne price of US$3,750 and US$3,800 and a NZD:USD exchange rate of $0.80. At the GDT trading event on 15 October 2013, the average WMP price per tonne was US$5,058. The assumed future prices above are a lot lower, reflecting a more sustainable trading range.

The following table provides a range assessed of share values based on changes to the long-term milk price assumptions, illustrating the sensitivity of the valuation to the milk price received by Synlait Farms:

Valuation – Milk Price Sensitivity

Milk Price (kgMS) FY16	Milk Price (kgMS) FY24	Value per share ($)
$6.50	$7.62	$1.40
$6.60	$7.73	$1.55
$6.70	$7.85	$1.71
$6.80	$7.97	$1.86
$6.90	$8.08	$2.02
$7.00	$8.20	$2.17
$7.50	$8.79	$2.95

Milk Production

Milk production is an important driver of value. Grant Samuel has compared the forecast performance metrics of Synlait Farms with historical trends over the last four years and productivity gains achieved across New Zealand since 2001. Based on this comparison, Synlait Farms' milk production forecast seems reasonable, especially when considering the forecast growth in the cost of production, the anticipated benefits in pasture growth in FY15 due to pasture regeneration work currently underway and the continued investment in irrigation:

Milk Production Performance Metrics

	Synlait Farms						New Zealand
	2012	2013	2014F	2017F	2024F	Forecast 10 year CAGR[16]	CAGR from 2001 to 2012[17]
Average kgMS per ha	1,267	1,347	1,413	1,525	1,682	1.8%	2.0%
Average kgMS per cow	403	410	417	430	448	0.7%	1.5%
Average cows per ha	3.1	3.3	3.4	3.5	3.8	1.1%	0.7%

Sustainable EBITDA margins

Grant Samuel has reviewed the historical EBITDA margins of Synlait Farms and the Canterbury Dairy model published by the Ministry for Primary Industries. The Canterbury Dairy model's aim is to model an average dairy farm for Canterbury and is a useful reference point, despite Synlait Farms operating under a different business model as a corporate dairy farm (e.g. the average dairy farm does not have the cost of a management structure and corporate governance and benefits of scale and expertise).

16 Compound Average Growth Rate (**CAGR**)

17 DairyNZ New Zealand Dairy Statistics. This figure is slightly inflated due to the favourable weather conditions in 2012.

Comparison of historical and forecast financial performance

	Canterbury Dairy Model				Synlait Farms					
	2009	2010	2011	2012	2011	2012	2013	2014F	2017F	2024F
EBITDA margin	28%	45%	47%	43%	55%	40%	33%	55%	42%	44%
Average kgMS per ha	1,334	1,388	1,348	1,405	1,291	1,267	1,347	1,413	1,525	1,682
Average kgMS per cow	397	410	398	415	399	403	410	417	430	448
Cost of production ($kgMS)	4.05	3.63	4.15	4.14	3.28[18]	3.96	3.94	3.90	4.01	4.46

Source: Farm Monitoring 2012 – Ministry for Primary Industries

When undertaking a discounted cash flow valuation methodology, sustainable EBITDA margins are a key consideration. When determining a sustainable EBITDA margin it is important to consider this volatility and determine what an average financial performance may be over a long period taking into consideration both good and bad seasons. The EBITDA margin over the long term is a primarily a function of production, milk price and cost of production, and the movement of these key inputs are often interrelated. For example, as the milk price increases the cost of production also increases and vice versa (albeit with a lag) mainly due to changes in feed and fertiliser costs. Grant Samuel has assumed that EBITDA margins will gradually increase to 44% by 2024.

Capital Expenditure

Synlait Farms does not anticipate significant levels of capital expenditure over the next ten years due to the considerable investment in acquiring and converting farms during the establishment phase (from 2002 to 2010). The valuation assumes that there are no further farm acquisitions and only maintenance capital expenditure is required. From FY15, Synlait Farms is forecast to invest, on average, $1.7 million per year, which is consistent with the depreciation over the same period.

Discount rate

Selection of the appropriate discount rate to apply to forecast cash flows of any business enterprise is fundamentally a matter of judgement. The capital asset pricing model (**CAPM**) is probably the most widely accepted and used methodology for determining the cost of equity capital. While the theory underlying CAPM is rigorous, the practical application is subject to substantial shortcomings and limitations. There is a tendency to regard the discount rates calculated using CAPM as inviolate, however, a mechanistic application of formulae derived from the theory can obscure the reality that there is no "correct" discount rate. Valuation is an estimate of what real world buyers and sellers of assets would pay and must therefore reflect criteria that will be applied in practice. For the purposes of valuing Synlait Farms Grant Samuel has utilised CAPM and has applied a discount rate of 8.7%.

The following table provides a range of share prices derived using different discount rates:

Valuation – Discount Rate Sensitivity

	Valuation Range	
Discount Rate %	Low	High
8.4%	$2.09	$2.25
8.5%	$2.01	$2.17
8.6%	$1.94	$2.09
8.7%	$1.86	$2.02
8.8%	$1.79	$1.95
8.9%	$1.73	$1.87
9.0%	$1.66	$1.81

[18] The 2011 cost per kgMS of production per kgMS for Synlait Farms for the 10 months ended 31 May 2011 is low due to the wintering over costs incurred in June and July not being included.

Implied Multiples

Grant Samuel estimates the value of Synlait Farms on an un-geared basis to be in the range of $204.0 to $210.3 million. This range implies the following multiples:

Synlait Farms - Implied Multiples

	Valuation Range	
	Low	**High**
Value per share	**$1.86**	**$2.02**
Multiple of EBITDA – year ended 31 May 2014	7.7	8.0
Multiple of EBITDA – year ended 31 May 2015	10.4	10.7
Multiple of EBIT – year ended 31 May 2014	8.7	9.0
Multiple of EBIT – year ended 31 May 2015	12.6	13.0
% of NTA as at 31 December 2013	92%	100%

In Grant Samuel's opinion there is limited transaction evidence to assess the multiples above. Grant Samuel has compared the implied multiples with multiples implied by the share prices of companies operating in the New Zealand and Australian dairy sector.

Share Market Ratings of Selected Listed Companies[19]

	Market Cap	EBITDA Multiple[20]			EBIT Multiple[21]		
	(NZ$m)	2014	2015	2016	2014	2015	2016
Fonterra	10,993	10.1	8.1	7.3	14.9	11.7	10.3
Synlait Milk	527	13.3	11.4	8.7	17.6	15.5	11.6
Warrnambool Cheese & Butter Factory	475	10.5	11.4	8.9	16.2	16.3	11.7

Source: Capital IQ

Direct comparison with Synlait Farms is difficult due to differences in the operations and scale. The significant differences between the EBITDA and EBIT multiples illustrates the capital intensity of the above processing businesses when compared with Synlait Farms. On 11 September 2013, Bega Cheese made a takeover offer for Warrnambool Cheese and Butter (**WCB**). A competing offer was made for WCB by Saputo on 8 October 2013, followed by another offer by Murray Goulburn on 18 October 2013. The WCB multiples above reflect a takeover premium as the prices offered are at a premium to WCB's recent trading share price. Based on these reference points Grant Samuel is comfortable with the implied multiples by its valuation of Synlait Farms.

As at 31 December 2013, Synlait Farms is forecast to have NTA per share of $2.02 per share. A significant component of the NTA relates to the value of the land and improvements. The book value of Synlait Farms' farm portfolio is determined annually by an independent property valuer. Recent sales of farms in the Canterbury region were used as comparable evidence by the property valuer to assess the value of the individual farms in Synlait Farms' portfolio. An individual dairy farmer is likely to have different price parameters than an acquirer of a corporate dairy farm, such as Synlait Farms. The discount to NTA implied by the mid point of Grant Samuel's value range ($1.94) is reasonable when considering the single farm valuations do not incorporate costs associated with the realisation of these assets (e.g. sales commissions) and the time that would be taken to realise a large portfolio of dairy farms.

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

[19] The companies selected have a variety of year ends and the multiples are based on closing share prices as at 24 October 2013.

[20] Represents implied enterprise value divided by EBITDA.

[21] Represents implied enterprise value divided by EBIT.

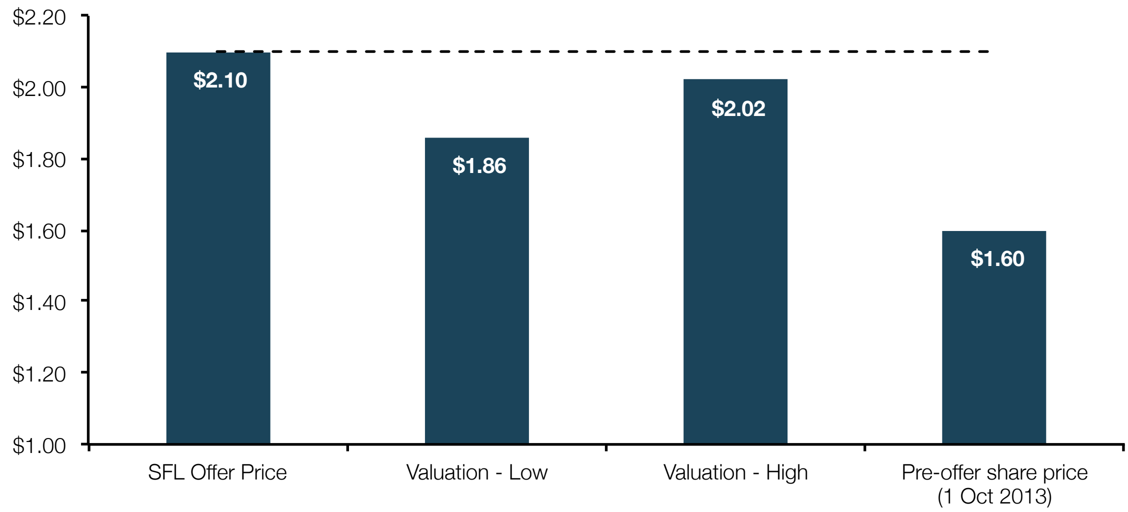
6. Merits

6.1 The Value of the Offer

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

- ***Grant Samuel's assessment of the value of Synlait Farms.*** In Grant Samuel's opinion the full underlying value of Synlait Farms shares is in the range of $1.86 to $2.02 per share as set out in Section 6. The full underlying value represents the value of acquiring 100% of the equity in Synlait Farms 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 value of the company. **The Offer of $2.10 is above Grant Samuel's assessed value for Synlait Farms shares**. The diagram below compares the Offer price with Grant Samuel's value range and the Synlait Farms share price immediately prior to the announcement of the Offer;

Comparison of the Offer price with the valuation range and the pre-offer Synlait Farms share price



- ***the premium implied by the Offer.*** The Offer represents a premium of 31% to the last trading price of Synlait Farms prior to the offer being announced and 32% over the volume weighted average share price (**VWAP**) over the 30 trading days prior to the announcement. The premium for control is consistent with the premiums for control generally observed in successful takeovers of other listed companies. The observed premium implied by the Offer may, in part, be a reflection of the low volume of trading in Synlait Farms shares. Since listing on the Unlisted share trading platform at the end of March 2013, only 1.2% of the shares in Synlait have been traded reflecting the small number of shareholders (106) and the very low liquidity with the top 20% shareholders holding 86% of the shares on issue. It is possible that the share price of Synlait Farms is distorted or influenced by this low level of liquidity;

- ***the net tangible assets per share***. Synlait Farms NTA per share is forecast to be $2.02 at 31 December 2013. The Offer represents a premium of 8.0% to NTA. The NTA in the accounts of Synlait Farms is primarily a function of the individual farm valuations prepared as at 31 May 2013; and

- ***the valuation of Synlait Farms reflects a forecast milk price of $9.00/kgMS for the 2013/14 season which would be record high***. The price for the 2012/13 season was $5.80/kgMS. The milk price is volatile as are milk volumes, albeit to a much lower extent. The Offer price reflects an ongoing milk price above the average of the last three seasons.

6.2 The timing and circumstances surrounding the Offer

Shanghai Pengxin is an agriculture asset investor with farms located in Bolivia, China and New Zealand. Shanghai Pengxin has acquired farming and food production assets in New Zealand with the objective of converting the milk produced off these farms into retail products for the China market. The proposed acquisition of Synlait Farms is a continuation of this objective.

6.3 Possible Outcomes of the Offer

SFL is successful in reaching the compulsory acquisition threshold

- SFL has entered into lock-up agreements to accept its offer, which if made, will give it control of 50.18% of the shares on issue. SFL will need to secure a further 39.82% of the total shares on issue of Synlait Farms to be able to utilise the compulsory acquisition provisions of the Takeovers Code. No single minority shareholder is in a position to prevent SFL from reaching the 90% acceptance level;
- the compulsory acquisition provisions of the Takeovers Code come into effect when a shareholder reaches ownership control of 90% of all the voting securities on issue. If SFL receives sufficient acceptances to its Offer to increase its shareholding to 90% or more, it has stated in clause 11.1 of Schedule A of its Offer, that it will compulsorily acquire all outstanding shares in Synlait Farms. Holders of any remaining shares will not have the option to retain their shares and will receive the same consideration as shareholders who accepted the Offer;
- if SFL acquires 100% of the shares in Synlait Farms, Synlait Farms will be delisted from Unlisted; and
- if the Offer is successful, SFL has indicated that the current management team of Synlait Farms will remain in place, albeit under the direction of a new Board (with a majority of Shanghai Pengxin appointed Directors).

SFL does not reach 90% compulsory acquisition threshold

- if SFL is not successful in reaching the 90% compulsory acquisition threshold, it can elect to withdraw the Offer and acquire no shares in Synlait Farms, or it can elect to declare the Offer unconditional and take up all the acceptances received. Given the high level of shareholding committed to the lock up, SFL can be expected to declare the offer unconditional regardless of whether it reaches the 90% compulsory acquisition threshold. SFL has stated that if it does not secure sufficient acceptances to be able to invoke the compulsory acquisition provisions, but nevertheless declares the Offer unconditional, it will seek appropriate Board representation. It will at the very least hold more than 50% of the shares on issue by virtue of the lock-up agreements. Any other acceptances into the Offer will result in SFL owning a higher percentage of Synlait Farms;
- in Clause 6.2 (c) of Schedule A of the Offer, SFL has stated that should it acquire less than 90% of the shares in Synlait Farms under the Offer, it will not make a further offer for 12 months after the Offer is declared unconditional, other than another takeover offer at the <u>same</u> or a <u>lower</u> price. The Takeovers Code prohibits SFL from acquiring any shares once the Offer has been declared unconditional for a period of 12 months except under another takeover offer or with shareholders approval;
- remaining shareholders in Synlait Farms will continue to hold a relatively minor stake in a company ultimately controlled by Shanghai Pengxin, via SFL. SFL will control the board and day to day operations of Synlait Farms, as well as set the strategic direction of the company;
- if SFL has control over the company it may consider delisting the shares from Unlisted making it more difficult for the remaining shareholders to buy and sell shares in Synlait Farms. The closing share price of Synlait Farms before the Offer was made as $1.60. It is difficult to anticipate at this time the price the shares will trade at if SFL does not acquire 100% of Synlait Farms and the company remains listed on Unlisted. Shares in a listed company normally trade at a discount to the underlying value of the company as a whole;
- if SFL proposed to divest its investment in Synlait Farms to a third party, that third party would have to make a full takeover offer for Synlait Farms or alternatively minority shareholders would need to pass a resolution approving the acquisition. Divestment by SFL in the short term seems a very unlikely prospect;
- if, SFL declares its offer unconditional without acquiring 100% of the shares and the number of remaining shareholders is greater than 50, Synlait Farms would remain effectively a Code company under the terms of

its constitution. If, after the Offer closes, SFL pursues to increase its shareholding it could either make a new offer at a different price (at the same price or lower with 12 months of the Offer becoming unconditional), or after 12 months from declaring the Offer unconditional acquire a maximum of 5% of the issued capital of Synlait Farms each year without making a formal offer;

- if, as a result of the Offer the number of shareholders including SFL falls below 50 and SFL does not reach 90% acceptances, Synlait Farms will cease to be a Code company. The Constitution of Synlait Farms provides that in the event the number of shareholders falls below 50, Synlait Farms will be subject to the constitutional provisions equivalent to the Takeovers Code and the directors shall refuse any transfer of shares and shall not permit any issue of shares which would be in breach those provisions;
- if, SFL is successful in acquiring 75% of Synlait farms it will have the ability to pass a special resolution to approve a rights issue. Any rights issue would need to be followed in accordance with Clause 16 "*Notice of Meeting: Allotment of Securities*" of the Takeovers Code. SFL would not be permitted to increase its percentage ownership under the rights issue unless the remaining minority shareholders give their approval by way of an ordinary resolution, which requires a 50% shareholder approval; and
- if SFL declares its offer unconditional at a shareholding of 75% or more but less than 90%, it will have the ability to pass any shareholder resolutions, other than those for which it is prohibited from voting (for example, resolutions involving increasing its shareholding in Synlait Farms).

6.4 Factors that may affect the outcome of the Offer

- approximately 16.2% of the issued shares in Synlait Farms (other than the shares subject to the lock-up agreements) are owned by the next 3 largest shareholders. The support or otherwise of the majority of these shareholders in relation to the Offer will be material in determining whether or not SFL achieves the 90% shareholding threshold;
- there are only two permissible variations to the Offer:
  - the Offer is intended to close on 6 December 2013 unless extended. The Offer may be extended to 29 January 2014. The Offer may be extended beyond that date provided all other conditions have been satisfied or waived by SFL only in circumstances set out in the Takeovers Code; and
  - SFL may choose to increase its Offer price. If SFL chooses to increase its Offer price while its current Offer is still open the increased price will be available to all Synlait Farms shareholders even if they have already accepted the $2.10 per share offer. In that circumstance, the higher offer would also be available to Penno, Maclean and Dingle. This will not apply if SFL 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 offer. However, as noted above, if the Offer closes and SFL holds less than 90% it will not make another offer within twelve months at a higher price;
- in Grant Samuel's opinion, it is possible that, depending on the reaction of Synlait Farms' shareholders to the current Offer price, SFL may consider increasing its Offer price in order to secure a shareholding of more than 90% of the Synlait Farms shares on issue. However, this is by no means certain; and
- the lock-up agreements do not confer any additional benefits on the locked-up shareholders than are available to all other Synlait Farms shareholders. In fact lock-up agreements have the effect of reducing the flexibility available to locked-up shareholders who have only limited ability to terminate the lock-up agreements, such as in the event SFL does not make its Offer. The locked-up shareholders (Penno, Maclean and Dingle) do not have the ability to accept alternative proposals (unless the Offer lapses) or to retain their respective shareholdings in Synlait Farms (unless the Offer lapses).

6.5 Likelihood of alternative offers

- the takeover offer from SFL was announced to the market on 18 October 2013 and the notice of intention to make a takeover offer was issued 17 October 2013. To date, no alternative takeover offers have been forthcoming and no potential acquirers have emerged as the holder of a substantial security interest (5% or greater) in Synlait Farms;
- the Offer has been received as a result of the capital raising process that commenced in June 2013. More than 100 parties were approached and a number of parties placed indicative bids. The Offer was selected by the Board as the best option for shareholders and Shanghai Pengxin was invited to undertake due diligence. It is highly unlikely that alternative offers will be made as a large number of prospective purchasers have already had the option to do so;
- for any other full takeover to be successful SFL would need to withdraw its Offer and release the shares subject to the lock up, or alternatively, declare the Offer unconditional and then sell all accepted shares into a new offer. Given SFL has signalled it wishes to acquire 100% of Synlait Farms, this would be an unlikely change of heart; and
- if SFL declares the Offer unconditional at a shareholding of more than 50% but less than 90%, the likelihood of a takeover offer from another party substantially reduces.

6.6 An investment in Synlait Farms

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

Opportunities

- Synlait Farms was established in Canterbury in 2000 after extensive research to identify locations with the correct growing conditions with the availability of, at that time, reasonably priced land for conversion to dairying. The availability of ample water, with the possibility for increased supply from CPW, has meant that the area of Canterbury where Synlait Farms is located has become one of the most productive dairying areas in New Zealand with the potential for expansion through further farm conversions;
- Synlait Farms and Synlait Milk are now two standalone companies. There is a strong relationship between the two companies, which extends beyond an evergreen exclusive supply agreement to a collaboration agreement to explore the development of speciality milk products. Synlait Milk operates in a competitive market for milk supply and needs to offer suppliers terms that are competitive with Fonterra and Westland to receive milk supply. Synlait Farms provides 11% of Synlait Milk's annual intake. Synlait Milk is looking to expand its production through the construction of a third dryer and can be expected to have the capacity to take all of Synlait Farms' increased production for the foreseeable future;
- over the last 13 years, the majority of farms acquired have been converted from cropping/dry stock to dairying. This has involved substantial capital expenditure and as a result all of the 13 farms are of a high standard in terms of pasture milking facilities and irrigation systems. Capital expenditure on these farms will be low for quite some time and largely restricted to maintenance capital expenditure;
- Synlait Farms has a comprehensive management and governance structure and since its establishment it has developed robust systems and processes to ensure timely and effective decision-making. The company believes that the current overhead structure can support and manage to a high standard, further farm acquisitions with only a minimal increase in overheads;
- Synlait Farms has surplus water consents available that may be used in future conversions or to improve irrigation on existing farms; and
- Synlait Farms has been evaluating whether to participate in the offer made by CPW to subscribe for Stage 1 Construction Shares and Stage 2+ Pre-Construction shares in CPW. The likely outcome is that the Company will elect to take up to between 220 ha and 900 ha worth of shares, with an estimated investment cost of between $385,000 and $1.58 million. Management's current assessment is that any investment in CPW is likely to be value neutral. The CPW offer closes on 31 October 2013. The Company anticipates that a decision will be made before the closing date and assesses that the decision will not have a material impact

on the value under determination in the current Takeover Offer. Synlait Farms has a loan to CPW of $800,000. If the CPW capital raising is successful this amount can be offset against the cost of any investment by Synlait Farms in CPW. If the CPW capital raising is not successful, the loan is unlikely to be recovered.

Risks

- Synlait Farms' earnings and cash flows are dependent upon the price achieved for its supply of milk and the volume of milk produced. The latter is to a large extent a function of on-farm management but is impacted by climate throughout the year. The milk price, as noted elsewhere in this report, is volatile and is subject to a number of influences, the majority of which are largely beyond the control of the New Zealand milk processors whose markets are either all offshore or predominantly offshore. The critical factors influencing the wholesale milk prices are:
  - global demand;
  - the relative value of the New Zealand dollar;
  - supply from Europe and the US;
  - price of feed supplements in Europe and US; and
  - price of alternative sources of fat and protein.

  The outlook for the current season (2013-2014) is for a very high milk price. Based on recent historical trends, it would be unwise to expect a price of $9.00 kgMS to be maintained. Synlait Farms has a relatively fixed cost structure which is not impacted to any meaningful extent by annual variations in the volume of milk produced which exacerbates the variation in earnings caused by changes in the milk price, both positively and negatively; and
- as noted above, in Grant Samuel's opinion, Synlait Farms' current level of debt is too high when considering the variability of its earnings. If Synlait Farms' level of gearing remains unchanged, and milk prices fall and interest rates increase, existing shareholders may have to undertake a capital restructure via a capital raising or divestment of assets.

6.7 Other Merits

- shareholders holding currently 32.8% of the Synlait Farms shares will, if the Offer is successful, become 26.1% shareholders in SFL by virtue of the shareholders (Juliet Maclean and John Penno) reinvesting some or all the proceeds of the sale of Synlait Farms shares into SFL;
- Synlait Farms undertook a capital raising process following its separation from Synlait Milk. The capital raising process was commenced primarily to reduce Synlait Farms' high level of debt and to provide capital for ongoing expansion. The Offer is in response to the capital raising process;
- Synlait Farms is highly unlikely to be the target of another takeover offer by a third party as SFL has effectively secured 50.18% of the shares on issue and will have control of Synlait Farms if it choses to declare the Offer unconditional, even if no other shareholders accept the Offer. Neither SFL, nor its major shareholders are likely to see such an outcome as optimal. However, Shanghai Pengxin has invited Juliet Maclean and John Penno to be shareholders in SFL which suggests that it is comfortable not owning 100% of the business;
- a key condition of the Offer is SFL receiving OIO approval. If the Offer conditions are satisfied, with the exception of OIO approval and/or Chinese regulatory approvals, the Offer Price will increase from and including 1 January 2014, at a rate of $0.001957 per share per calendar day until and including the calendar day on which the Offer is declared unconditional. This daily increase protects Synlait Farms shareholders that accept the Offer from losing value that may be created from 1 January 2014 until settlement;
- SFL has stated its intention to accelerate the expansion of Synlait Farms and invest $20 million into Synlait Farms to pay down debt. In Grant Samuel's opinion, the current level of debt, whilst manageable in the current low interest rate environment, is too high when interest rates move higher and the milk price lower. In the event SFL does not acquire 100% of Synlait Farms its strategy to accelerate the expansion of Synlait Farms is unlikely to change. The expansion of Synlait Farms and regearing of the business would require an

equity injection from the remaining shareholders. In Grant Samuel's opinion, it is likely that SFL will cause Synlait Farms to undertake a rights issue. It will have control in determining the amount to be raised and price of which the new shares are to be issued. As noted above, SFL cannot undertake a rights issue and increase its voting rights in Synlait Farms without approval of the minority shareholders by way of an ordinary resolution;

- SFL has not provided guidance on the dividend policy if it is successful in acquiring a controlling shareholding in Synlait Farms, but considering the likely capital requirements, dividend payments in the next two to four years seem unlikely; and
- Synlait Farms shareholders have until 6 December 2013 to accept the Offer if it is extended in accordance with the Takeovers Code. There is no reason to accept the Offer early as shareholders accepting the Offer will not receive the proceeds from the transaction until the Offer becomes unconditional. Due to the approvals required by OIO and Chinese regulatory authorities the settlement date might not occur until early 2014.

6.8 Rule 20 of the Takeovers Code

Rule 20 is a critical aspect of the Takeovers Code which requires that all shareholders receive the same terms and the same consideration. Juliet Maclean, John Penno and Ben Dingle have entered into lock-up agreements, which commits them to accepting the Offer for all of their shares once the Offer is made. A lock-up agreement is commonly used where there is a "friendly" takeover. Grant Samuel has reviewed the lock-up agreements and is of the opinion that they provide no additional benefit to the three shareholders that is not available to all minority shareholders.

Separately, Juliet Maclean and John Penno have entered into Shareholders Agreement with NZSF. These three shareholders will together hold all the shares in SFL. The shareholders agreement is a relatively standard agreement. The agreement provides among other things:

- for Juliet Maclean's remuneration as Chief Executive and Managing Director to be set in consultation with an Independent remuneration consultant;
- for Juliet Maclean and/or John Penno, if they choose to do so, to each sell shares up to 4% of the total shares in SFL on issue, each year, to NZSF at fair value;
- if Juliet Maclean resigns as Chief Executive and Managing Director and/or John Penno resigns as a Director, all of their shares in SFL will be purchased be NZSF at fair value; and
- fair value is to be the net asset value per share of SFL. The value of Synlait Farms in the accounts of SFL is to be the net of asset value of Synlait Farms as shown in the latest audited annual accounts, with the value of farms and plant and machinery determined by an independent valuer. By way of example, if the annual accounts for the year ended 31 May 2013 were used, the purchase price of the SFL shares would be $1.94 per share. This can be directly compared with the Offer price for the share in Synlait Farms of $2.10 per share.

Grant Samuel is of the opinion that the Shareholders Agreement does not provide any additional benefits to Juliet Maclean or John Penno which would create a breach of Rule 20 of the Takeovers Code.

6.9 Acceptance or Rejection of the Offer

Acceptance or rejection of the Offer is a matter for individual shareholders based on their own view 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(s).

GRANT SAMUEL & ASSOCIATES LIMITED

[DATE]

Appendix A – Valuation Methodology Overview

1. 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.

2. 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.

3. 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 / is not] appropriate in Synlait Farms's case.

4. 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 / is not] aware of any commonly used rules of thumb that would be appropriate to value Synlait Farms. In any event, it should be recognised that rules of thumb are usually relatively crude and prone to misinterpretation.

Appendix B – Qualifications, Declarations and Consents

1. 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. 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, and Christopher Smith, BCom, PGDipFin, MAppFin. Each has a significant number of years of experience in relevant corporate advisory matters.

2. 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 Synlait Farms. Grant Samuel has considered and relied upon this information. Grant Samuel believes that the information provided was reliable, complete and not misleading and has no reason to believe that any material facts have been withheld.

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

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

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

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

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

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

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

3. 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 Offer. Grant Samuel expressly disclaims any liability to any Synlait Farms security holder who relies or purports to rely on the report for any other purpose and to any other party who relies or purports to rely on the report for any purpose whatsoever.

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

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

4. Independence

Grant Samuel and its related entities do not have any shareholding in or other relationship or conflict of interest with Synlait Farms or Shanghai Pengxin that could affect its ability to provide an unbiased opinion in relation to the Offer. Grant Samuel had no part in the formulation of the 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 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.

5. 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 Synlait Farms and made available to the Directors. Grant Samuel confirms that in its opinion the information provided by Synlait Farms and contained within this report is sufficient to enable Synlait Farms security holders to understand all relevant factors and make an informed decision in respect of the Offer. The following information was used and relied upon in preparing this report:

5.1 Publicly Available Information

- New Zealand Dairy Statistics 2011-12;
- Canterbury Dairy - Farm Monitoring 2012 Ministry for Primary Industries;
- Global Dairy Trade – Historical Commodity Price Information;
- Fonterra Milk Price Statement 2013;
- OECD – FAO Agricultural Outlook 2012-2021;
- Bulletin of International Dairy Federation: The World Dairy Situation;
- Fonterra website;
- Commodity Trading Data from Capital IQ;
- Agri Specialist NZ – Milk Production Trends January 2013;
- The Takeover Offer from SFL;
- Trading Information from Unlisted;
- Synlait Milk Investment Statement & Prospectus; and
- Synlait Milk Synergy Newsletter October 2013.

5.2 Non Public Information

- Synlait Farms' Financial Accounts for the years ending 31 May 2011, 2012 and 2013;
- Synlait Farms' Management Accounts for the financial years ending 31 May 2011, 2012, 2013, and year to date (August 2013);
- Synlait Farms' Forecast for the financial year 2014;
- Shareholders' Agreement between SFL, Juliet Maclean and John Penno;
- Lock-up Agreements between SFL and each of Juliet Maclean, John Penno and Ben Dingle;
- Board Minutes from 5 April 2013 to 6 September 2013;
- Information Memorandum for Synlait Farms;
- Synlait Farms Portfolio Valuation for the financial years ending 2012 and 2013;
- Synlait Farms Forecast Financial Model; and
- Synlait Farms Milk Supply Contract.

6. Declarations

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

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

7. 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 Synlait Farms. Neither the whole nor any part of this report nor any reference thereto may be included in any other document without the prior written consent of Grant Samuel as to the form and context in which it appears.

GLOSSARY

Board	The board of Directors of Synlait Farms Limited
Committee	Committee of Independent Directors of Synlait Farms Limited, comprised of Stephen Howse and Barry Brook
Director	A Director of Synlait Farms Limited
Independent Adviser	Grant Samuel & Associates Limited
Independent Adviser's Report	The report prepared by Grant Samuel & Associates Limited, as Independent Adviser, under Rule 21 of the Takeovers Code and set out in the Appendix to this Target Company Statement
NZSF	New Zealand Standard Farm Limited
Offer	SFL Holdings Limited's full takeover offer for 100% of the Shares in Synlait Farms Limited
Offer Document	The offer document setting out the terms of SFL Holdings Limited's Offer dated 1 November 2013, accompanying this Target Company statement
OIO	Overseas Investment Office
Offer Price	$2.10 per Share unless adjusted upwards in accordance with the terms of the Offer set out in the Offer Document
Pengxin NZ	Pengxin New Zealand Farm Group Limited
SFL Holdings	SFL Holdings Limited
SFL Holdings Shares	Any class of equity security of SFL Holdings Limited
Share	A fully paid ordinary share in Synlait Farms Limited
Shareholder	A Shareholder of Synlait Farms Limited
Shanghai Pengxin	Shanghai Pengxin Group Co. Ltd
Statement	This Target Company Statement dated 1 November 2013
Synlait Farms	Synlait Farms Limited
Takeovers Code	Takeovers Code Approval Order 2000
Takeover Notice	SFL Holding Limited's notice of intention to make the Offer dated 17 October 2013

DIRECTORY

Synlait Farms Limited - Board of Directors	Barry Alexander Brook (Independent Chairman) Stephen William Howse (Independent Director) Juliet Ann Maclean (Managing Director) John William Penno (Director)
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Financial Advisers	Empire Management Limited Cameron Partners Limited
Legal Adviser	Harmos Horton Lusk Limited
Share Registrar	Link Market Services Limited PO Box 91976 Auckland 1142 Ph: +64 9 375 5998 Fax: + 64 9 375 5990