DAIRY INVESTMENT
FUND LIMITED

GT & CO

NZ DAIRY FARM VALUATIONS

Research Note Update May 2011

Dairy Investment Fund Limited (DIFL) is a specialised long-term private equity investor in the de-regulating New Zealand dairy sector.

The Grate Kiwi Cheese Company

NEW ZEALAND MADE KAIMAI fresh milk cheeses

Te Mata Cheese Company

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NZ Dairy Farm Valuations

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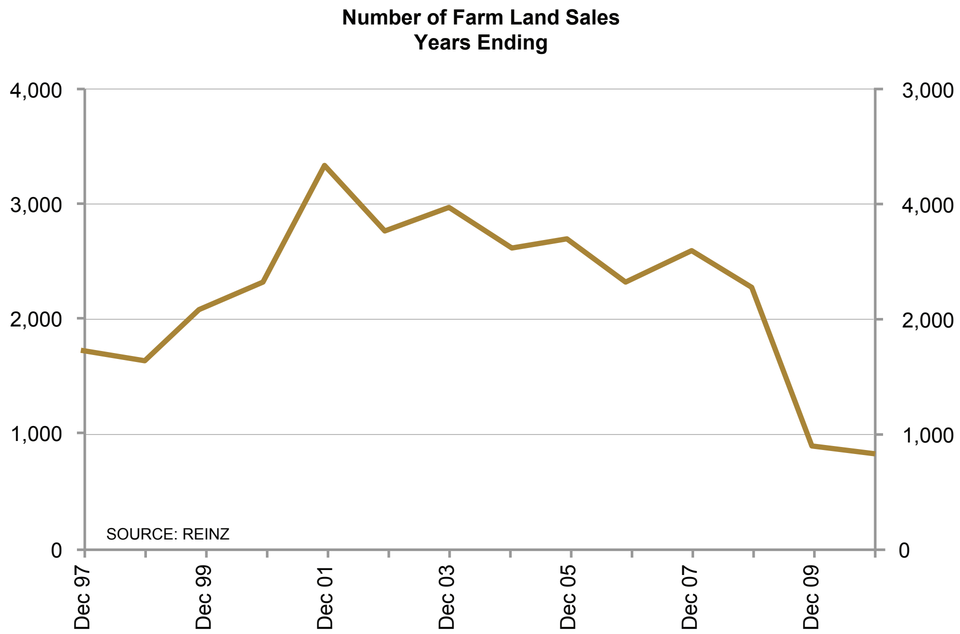
We are all aware that NZ dairy farms have fallen in value from their ($40,000 per ha) peaks of 2009. However, any new observations of official data are murky. Volumes are low, farm sizes are small, and generally distorted by averages.

In our research paper "financial performance of dairy farms by region" in November 2010, we highlighted the unusual environment of significant improvement in dairy farmers pre interest profits while farm values continued to slide. We gave the case for farms continuing to fall for a longer period and "fair dcf value" for an off farm investor of approximately $23,000 per Ha excluding shares and cows.

We give this update because a large farm has just sold for less than our "dcf fair value of $23 – $25,000 per ha.

Turnover of farms (including dairy) remains VERY low.



While promoters and some industry data suggest a lift in turnover and value, we don't buy into any of it. The analysis focuses on averages per hectare which are skewed (because of low volumes) towards small farms close to urban centres and purchases by syndicators that are on-selling to mums and dads at forecasts that are unacceptably high to farmers and /or larger off farm investors. The graph on page 3 shows dairy farm activity that we see as relevant.

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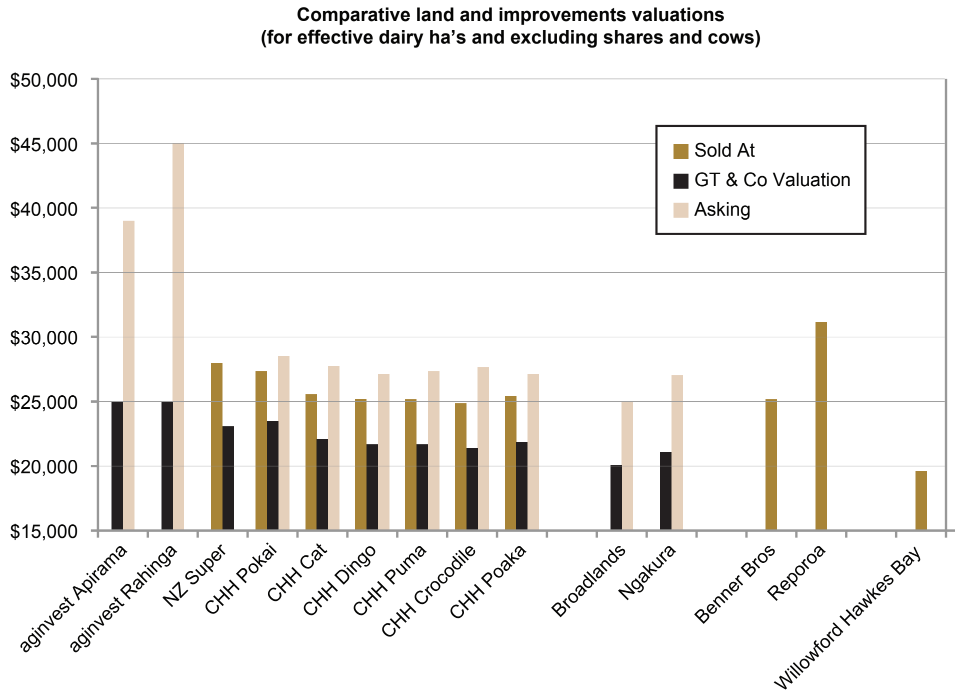

We have done due diligence on a number of farms in the last 6 months...

Broadlands farm is the first to sell for less than our valuation!

It sold at auction for approx 16k per Ha... equivalent to $20k for effective dairy ha's.

As the slide highlights, the recent sale of a large dairy farm (500 Ha's) for less than $20,000 per Ha looks to us like a milestone. It sold at a receivers auction, was marketed extensively, and had "lively" bidding interest from a room full of bidders. There were a number of risk factors that suggested the farm could be discounted, including:

1. The farm has been operated poorly for the last two years and needs about $2,000 per ha of capex to bring the farm back to normal production levels
2. It neighbours a large Crafar farm
3. Settlement is late June for a new dairy year beginning July, so sourcing cows and management are uncertainties.

Other features of the graph are:

1. 6 CHH farms sold (as yet unreported) for approx $25,000 per Ha but are still some years away from full production (with 23 remaining for sale)
2. The first NZ Super purchase of a well developed stand alone Southland dairy for approx $28,000 Ha.
3. Farms being syndicated through "Myfarm" are being distributed at materially higher prices than what we see as the underlying wholesale market.

Conclusion

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When the sale data is released for q2 2011 it will show (again) low volumes and, after a reported recovery in prices in q1, lower prices. The selling prices of the large farms (Dairy Holdings Limited and CHH Farms) will have a large bearing on sales volumes and "wholesale" prices. This leaves significant event risk for a new purchaser, but on balance we still think that higher turnovers will be established through "clearing" prices of approximately $25,000 per ha excluding shares and cows. This valuation guidance is for average pastoral based farms and as we commented in our valuation paper in Nov 2010 prices will remain higher for irrigated properties in Canterbury.

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