MSF Sugar

13 December 2011

The Manager
Company Announcements Office
ASX Limited
Riverside Centre, Level 5
123 Eagle Street
BRISBANE QLD 4000

Dear Sir or Madam

Takeover bid by Mitr Siam International Pte. Ltd (a wholly-owned subsidiary of Mitr Phol Sugar Corp., Ltd) – Independent Expert's Report – Full Version

Further to the earlier release of the Target's Statement of MSF Sugar Limited in response to the takeover offer ("**Offer**") by Mitr Phol Sugar Corp., Ltd (through its wholly-owned subsidiary Mitr Siam International Pte. Ltd), please find enclosed a full version of the Independent Expert's Report prepared by Lonergan Edwards & Associates Limited in relation to the Offer (a concise version of which is included as Annexure A to the Target's Statement).

Yours sincerely

Chris Lobb
Company Secretary

MSF Sugar Limited ABN 11 009 658 708
47 Gordon Street Gordonvale Queensland 4865 Australia
PO Box 130 Gordonvale Queensland 4865 Australia
www.msfsugar.com.au

Telephone +61 7 4043 3333
Facsimile +61 7 4043 3300
Email msf@msfsugar.com.au

LONERGAN EDWARDS
& ASSOCIATES LIMITED

ABN 53 095 445 560
AFS Licence No 246532
Level 27, 363 George Street
Sydney NSW 2000 Australia
GPO Box 1640, Sydney NSW 2001

Telephone: [61 2] 8235 7500
Facsimile: [61 2] 8235 7550
www.lonerganedwards.com.au

The Directors
MSF Sugar Limited
47 Gordon Street
Gordonvale Qld 4865

13 December 2011

Subject: Takeover offer for MSF Sugar Limited

Dear Directors

Introduction

1 On 9 November 2011 MSF Sugar Limited (MSF) announced that it had entered into a Takeover Implementation Agreement dated 9 November 2011 (the Agreement) with its major shareholder Mitr Phol Sugar Corp., Ltd (Mitr Phol)[1] under which Mitr Phol, subject to the satisfactory completion of limited due diligence, would make a takeover offer for all the ordinary shares in MSF not held by Mitr Phol at an offer price of A$4.45 cash per share (the Offer). Subsequently, on 16 November 2011, Mitr Phol formally announced completion of its limited due diligence and its intention to make the Offer.

2 The Offer values the total equity in MSF at approximately A$313 million and is subject to a number of conditions which are outlined in Section I.

MSF Sugar Limited

3 MSF is an integrated sugar company based in Queensland, Australia. It has approximately 4.7 million tonnes (Mt) of cane crushing capacity, 0.55Mt of sugar production capacity, 0.14Mt of molasses production capacity, independent marketing capabilities and a significant stake in strategic sugar industry terminal infrastructure through Sugar Terminals Limited (STL). It listed on the Australian Stock Exchange in 1956 and is the only listed sugar miller on the ASX.

Mitr Phol Sugar Corp., Ltd

4 Mitr Phol has six principal lines of business – sugar production and sales in Thailand, China and ASEAN, ethanol, energy, logistics and particle board operations. It is one of the world's largest sugar producers, with a history dating back over 70 years starting as a sugar grower. The company holds significant market shares in Thailand and China. Current sugar production capacity in Thailand and China is approximately 1.5 million tonnes per annum (Mtpa) and 1.0Mtpa respectively.

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1 At the date of announcement of the Agreement Mitr Phol held a 22.01% interest in MSF.

5 While there is no statutory requirement for MSF to obtain an independent expert's report (IER) in relation to the Offer, the recommendation of the MSF Directors to accept the Offer is subject to no superior proposal emerging and an independent expert determining that the Offer is fair and reasonable. Accordingly, the MSF Directors have requested that Lonergan Edwards & Associates Limited (LEA) prepare an IER stating whether, in LEA's opinion, the Offer is fair and reasonable.

6 LEA is independent of MSF and Mitr Phol and has no other involvement or interest in the outcome of the Offer, other than the preparation of this report.

Summary of opinion

7 LEA has concluded that the Offer is fair and reasonable. We have arrived at this conclusion for the reasons set out below.

Valuation of MSF

8 LEA has valued 100% of the ordinary shares in MSF at between A$4.22 and A$4.67 per share, as summarised below:

Valuation of MSF	Low A$m	High A$m
Enterprise value of milling operations	256.5	283.5
Value of cane farms and water rights	47.5	52.7
Value of other properties	13.2	15.0
Value of STL shares	43.2	43.2
Other assets[1]	9.7	11.7
Cash from exercise of options	1.9	1.9
Enterprise value	372.0	408.0
Less net debt	75.0	80.0
Value of equity	297.0	328.0
Fully diluted shares on issue (million)	70.3	70.3
Value per MSF share	A$4.22	A$4.67

Note:

1 Includes our assessed value of tax losses held by MSF that arose out of the acquisition and subsequent operation of the Northern Milling Joint Venture (NMJV) assets, together with hedging losses when marked to market based on our midpoint sugar prices.

Assessment of fairness

9 Pursuant to Australian Securities & Investments Commission (ASIC) Regulatory Guideline 111 *Content of expert reports* (RG 111), an offer is "fair" if:

"The value of the offer price or consideration is equal to or greater than the value of the securities the subject of the offer."

10 This comparison is shown below:

	Low A$ per share	High A$ per share	Mid-point A$ per share
Value of Offer consideration	4.45	4.45	4.45
Value of 100% of ordinary shares in MSF	4.22	4.67	4.45
Extent to which the Offer consideration exceeds (or is less than) the value of the ordinary shares in MSF	0.23	(0.22)	-

11 As the consideration offered by Mitr Phol is consistent with our assessed value of 100% of the ordinary shares in MSF, in our opinion, the Offer is fair.

Assessment of reasonableness

12 Pursuant to RG 111, an offer is reasonable if it is fair. Consequently we have concluded that the Offer is both fair and reasonable.

13 In concluding that the Offer is fair and reasonable we have also had regard to the following factors:

(a) the Offer consideration represents a significant premium to the recent market prices of MSF shares prior to the announcement of the intention to make the Offer on 9 November 2011 (subject to completion of satisfactory due diligence)

(b) furthermore, the premium exceeds observed premiums generally paid to target company shareholders in comparable circumstances

(c) if the Offer is unsuccessful, and in the absence of an alternative offer or proposal, the price of MSF shares is likely to trade at a significant discount to our valuation and the Offer consideration (consistent with the portfolio nature of individual shareholdings).

Recent share prices subsequent to the Offer

14 MSF shares have traded on the ASX in the range of A$4.34 to A$4.52 per share since the intention to make the Offer was announced up to 9 December 2011. The volume weighted average price (VWAP) for the period was A$4.42 per share, and on 9 December 2011 MSF shares last traded at A$4.47 per share.

15 MSF shareholders should note that MSF shares have, on occasion, traded marginally above the Offer price. In our view this suggests that:

(a) in the absence of a superior proposal the consensus market view is that the Offer is likely to be successful

(b) some investors believe that there is some prospect of a higher offer given the recent level of corporate activity in the Australian sugar industry.

16 We have been advised by the Directors of MSF that no formal alternative offers have been received subsequent to the announcement of the intention to make the Offer on 9 November 2011.

17 Further, as Mitr Phol already owns 22.01% of MSF shares, Mitr Phol would need to agree to sell its shareholding in order for an alternative offeror to acquire 100% control of MSF.

General

18 In preparing this report we have considered the interests of MSF shareholders as a whole. Accordingly, this report only contains general financial advice and does not consider the personal objectives, financial situations or requirements of individual shareholders.

19 The taxation consequences of accepting the Offer depend on the individual circumstances of each investor. Shareholders should read the taxation advice set out in the Bidder's Statement and Target's Statement and should consult their own professional adviser if in doubt as to the taxation consequences of the Offer.

20 The ultimate decision whether to accept the Offer should be based on each shareholder's assessment of their own circumstances, including their risk profile, liquidity preference, tax position and expectations as to value and future market conditions. If shareholders are in doubt about the action they should take in relation to the Offer or matters dealt with in this report, shareholders should seek independent professional advice.

21 For our full opinion on the Offer, and the reasoning behind our opinion, we recommend that MSF shareholders read the remainder of our report.

Yours faithfully

Craig Edwards
Authorised Representative

Martin Holt
Authorised Representative

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I Outline of the Offer

22 On 9 November 2011 MSF Sugar Limited (MSF) announced that it had entered into a Takeover Implementation Agreement dated 9 November 2011 (the Agreement) with its major shareholder Mitr Phol Sugar Corp., Ltd (Mitr Phol)[2] under which Mitr Phol, subject to the satisfactory completion of limited due diligence, would make a takeover offer for all the ordinary shares in MSF not held by Mitr Phol at an offer price of A$4.45 cash per share (the Offer). Subsequently, on 16 November 2011, Mitr Phol formally announced completion of its limited due diligence and its intention to make the Offer.

23 The Offer values the total equity in MSF at approximately A$313 million and is subject to a number of conditions which are outlined below.

Conditions

24 The Offer is subject to the following conditions (more detail on the below conditions is set out in the Bidder's Statement dated 7 December 2011):

(a) achieving a level of acceptances sufficient to give Mitr Phol a relevant interest in at least 50.1% of all MSF shares on issue

(b) Mitr Phol receiving approval of the Foreign Investment Review Board (FIRB)

(c) Mitr Phol receiving all required regulatory approvals (including the approval of the Bank of Thailand in respect of the Offer and its financing)

(d) no "Material Adverse Change" in respect of MSF (as defined in the Agreement / Bidder's Statement)

(e) no material breach by MSF of the "prohibited actions" clause (as defined in the Agreement / Bidder's Statement)

(f) no prescribed occurrence, being an occurrence listed in Annexure 3 of the Bidder's Statement

(g) no temporary restraining order, preliminary or permanent injunction or other order is sought by a regulatory authority or issued by any court of competent jurisdiction, or other legal restraint or prohibition preventing the transaction, is in effect at the end of the Offer period

(h) no incorrect or misleading statements are contained in or material omissions are made from any documents filed by MSF with ASX or ASIC

(i) except as fairly disclosed or otherwise known to Mitr Phol, no exercise of any change of control right (as a consequence of the Offer) that might have a material adverse affect on the business, assets, financial condition, operations, reputation or prospects of MSF.

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2 At the date of announcement of the Agreement Mitr Phol held a 22.01% interest in MSF.

25 Subject to paragraph 26 MSF has agreed that up until 30 April 2012 it will not:

(a) solicit, invite, encourage or initiate any competing transaction

(b) participate in any discussions or negotiations which may reasonably be expected to lead to a competing transaction

(c) enter into any agreement, arrangement or understanding in relation to a competing transaction or any agreement, arrangement or understanding which may reasonably be expected to lead to the completion of a competing transaction

(d) provide any information to a third party for the purposes of enabling that party to table a competing transaction.

26 The exclusivity obligations do not apply to the extent that they restrict MSF or the MSF Board from taking or refusing to take any action with respect to a bona fide competing transaction, provided that the MSF Board has determined, in good faith that:

(a) after consultation with its legal and financial advisers, such a bona fide competing transaction could reasonably be considered to become a superior proposal[3]

(b) after receiving advice from its legal advisers, and if appropriate, from its financial advisers, that failing to respond to such a bona fide competing transaction, or notification of such bona fide competing transaction (as applicable), would be reasonably likely to constitute a breach of the MSF Board's fiduciary or statutory obligations.

27 A break fee of A$3.1 million is payable by MSF to Mitr Phol in certain circumstances as specified in the Agreement.

3 Subject to any potential breach of fiduciary or statutory obligations, MSF must notify Mitr Phol if it receives a superior competing proposal and give Mitr Phol three business days to match that competing proposal.

II Scope of our report

Purpose

28 While there is no statutory requirement for MSF to obtain an IER in relation to the Offer, the recommendation of the MSF Directors to accept the Offer is subject to no superior proposal emerging and an independent expert determining that the Offer is fair and reasonable. Accordingly, the MSF Directors have requested that LEA prepare an IER stating whether, in LEA's opinion, the Offer is fair and reasonable.

29 This report has been prepared to assist the Directors of MSF in making their recommendation to MSF shareholders in relation to the Offer and to assist the shareholders of MSF assess the merits of the Offer. The sole purpose of this report is to set out LEA's opinion as to whether the Offer is fair and reasonable. This report should not be used for any other purpose.

30 The ultimate decision whether to accept the Offer should be based on each shareholder's assessment of their own circumstances, including their risk profile, liquidity preference, tax position and expectations as to value and future market conditions. If in doubt about the Offer or matters dealt with in this report, shareholders should seek independent professional advice specific to their circumstances.

Basis of assessment

31 Our report has been prepared as if it was required under s640 of the *Corporations Act 2001 (Cth)* (Corporations Act). Consequently, in preparing our report we have given due consideration to the Regulatory Guides issued by ASIC, particularly RG 111.

32 RG 111 distinguishes "fair" from "reasonable" and considers:

(a) an offer to be "fair" if the value of the offer price or consideration is equal to or greater than the value of the securities that are the subject of the offer. A comparison must be made assuming 100% ownership of the target company

(b) an offer to be "reasonable" if it is fair. An offer may also be "reasonable" if, despite not being "fair" but after considering other significant factors, shareholders should accept the offer in the absence of any higher bid before the close of the offer.

33 Our report has therefore considered:

Fairness

(a) the market value of 100% of the shares in MSF

(b) the value of the consideration under the Offer (i.e. A$4.45 per MSF share)

(c) the extent to which (a) and (b) differ (in order to assess whether the Offer is fair under RG 111)

Reasonableness

(d) the extent to which a control premium is being paid to MSF shareholders

(e) the extent to which a share of the synergies likely to arise upon an acquisition of MSF by Mitr Phol are being shared with MSF shareholders

(f) the listed market price of MSF shares both prior to the announcement of the intention to make the Offer and subsequent to the announcement of the Offer

(g) the likely market price of MSF shares if the Offer is not successful

(h) the position of MSF shareholders if Mitr Phol acquires 50.1% but less than 100% of the MSF shares on issue

(i) Mitr Phol's current shareholding in MSF

(j) the value of MSF to an alternative offeror and the likelihood of an alternative offer emerging, either prior to the close of the Offer, or sometime in the future

(k) other risks, advantages and disadvantages.

Limitations and reliance on information

34 Our opinions are based on the economic, sharemarket, financial and other conditions and expectations prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time and have been particularly volatile in recent times.

35 Our report is also based upon financial and other information provided by MSF and its advisers. We understand the accounting and other financial information that was provided to us has been prepared in accordance with the Australian equivalents to International Financial Reporting Standards (AIFRS). We have considered and relied upon this information and believe that the information provided is reliable, complete and not misleading and we have no reason to believe that material facts have been withheld.

36 The information provided was evaluated through analysis, enquiry and review to the extent considered appropriate for the purpose of forming an opinion on the Offer from the perspective of MSF securityholders. However, we do not warrant that our enquiries have identified or verified all of the matters which an audit, extensive examination or "due diligence" investigation might disclose. Whilst LEA has made what it considers to be appropriate enquiries for the purpose of forming its opinion, "due diligence" of the type undertaken by companies and their advisers in relation to (for example) prospectuses or profit forecasts is beyond the scope of an IER.

37 Accordingly, this report and the opinions expressed therein should be considered more in the nature of an overall review of the anticipated commercial and financial implications of the proposed transaction, rather than a comprehensive audit or investigation of detailed matters.

38 An important part of the information base used in forming an opinion of the kind expressed in this report is comprised of the opinions and judgement of management. This type of information has also been evaluated through analysis, enquiry and review to the extent practical. However, it must be recognised that such information is not always capable of external verification or validation.

39 We in no way guarantee the achievability of budgets or forecasts of future profits. Budgets and forecasts are inherently uncertain. They are predictions by management of future events which cannot be assured and are necessarily based on assumptions of future events, many of which are beyond the control of management. Actual results may vary significantly from forecasts and budgets with consequential valuation impacts.

40 We have assumed that the forecasts have been prepared fairly and honestly, based on reasonable grounds and the information available to management at the time and within the practical constraints and limitations of such forecasts. We have assumed that management have reasonable grounds for the forecasts and the forecasts do not reflect any material bias. We have no reason to believe that these assumptions are inappropriate.

III Profile of MSF

Overview

41 MSF is an integrated Queensland based sugar company, which in recent periods has grown through acquisition to become the third largest sugar milling company in Australia. The company owns four sugar mills with cane transport line infrastructure attached to two of them, a significant land portfolio with attaching water rights, as well as a 13.3% direct shareholding in Sugar Terminals Limited (STL), the owner of six major port bulk sugar terminals located along the coast of Queensland.

History

42 The history of MSF dates back to 1886 when The Maryborough Sugar Factory began operations as a juice mill in the Maryborough region, one of Australia's earliest sugar growing and processing areas. The company listed on the ASX in 1956 and was known as The Maryborough Sugar Factory Limited up to 2011. The name change in May 2011 to MSF Sugar Limited reflected the expansion and geographic shift in the company's asset base and operations to Far North Queensland that has occurred since 2008.

43 Expansion activities have concentrated on Far North Queensland, due to the favourable regional climate for cane growing, including higher rainfall levels in coastal regions, less competition for land from other primary produce and established road, rail and port infrastructure.

44 In July 2008 MSF acquired The Mulgrave Central Mill Company Ltd, with installed cane crushing capacity of 1.5Mt, as well as related land assets and 9.5 million miller (M) class shares in STL.

45 A further 19.2 million grower (G) class shares in STL, as well as a 60 hectare cane farm with attaching water allocations, had been acquired earlier in 2008 via the purchase of Anthoan Pty Ltd which supplied cane to the Isis Central Sugar Mill Co. Ltd in central Queensland.

46 The company's focus on Far North Queensland gained impetus in April 2010 with the creation of the Northern Milling Joint Venture (NMJV) in partnership with Bundaberg Sugar Ltd (Bundaberg Sugar). Under the NMJV, MSF contributed its Mulgrave Mill and associated infrastructure. It also made an equalisation payment of A$20 million for an entitlement to 50% of the future sugar production from the joint venture post the 2010 season, together with a call option to acquire the remaining 50% of the joint venture. Bundaberg Sugar contributed its South Johnstone, Babinda[4] and Tableland Mills and associated infrastructure. The call option was subsequently exercised by MSF in February 2011 and settled in April 2011, increasing its sugar milling capacity considerably and thereby creating the third largest producer of raw sugar in Australia.

Current operations

47 MSF is an integrated grower, processor, marketer and exporter of raw sugar. The company's corporate office is based in Gordonvale, approximately 25 kilometres south of Cairns in north

4 The Babinda mill was subsequently closed in February 2011 due to the loss of large cane growing areas in the region. MSF invested additional capital in the South Johnstone and Mulgrave Mills to enable previous Babinda cane deliveries to be directed to these mills.

Queensland, with all its mills except the Maryborough Mill[5] located in this region. MSF's major assets comprise its four sugar mills and associated infrastructure (located at Gordonvale, South Johnstone, Atherton Tableland and Maryborough), agricultural property and water rights to support its cane growing activities in the Maryborough region and its shares in STL. Employee numbers approximate 600 during the cane crushing season, predominantly engaged in the milling facilities.

48 Revenue is primarily derived from the production and sale of raw sugar from its milling operations. Other revenues are also derived from sugar by-products such as molasses and bagasse[6].

49 MSF exports all its raw sugar, and due to a combination of the depreciated cost base of its fixed assets and the close proximity of its mill operations to cane farms and export facilities is a low cost sugar producer on a comparable global scale. Proximity to key Asian markets and major customers also provides MSF with relatively lower shipping costs than major international sugar suppliers such as Brazil.

Milling operations

50 Sugar cane is primarily sourced from approximately 660 independent growers (some of whom lease land from MSF), as well as company owned property holdings. In the crushing season (typically from June to November each year) milling operations generally operate 24 hours per day, seven days per week. Sugar is transported by road to the respective bulk sugar terminals located at port facilities and owned by STL, where it is stored for subsequent shipment to the customer. Mud from the milling process is combined with ash from the mill boilers and transported back to the cane fields to be utilised as fertiliser.

51 A summary of the key operating statistics for the four operating mills currently owned by MSF is set out below. With cane crushing capacity significantly higher than the other MSF mills, the Mulgrave and South Johnstone Mills are the most significant drivers of earnings for the company.

MSF – milling information

	Maryborough	Mulgrave	Tableland	South Johnstone
Installed mill cane crushing capacity (Mt)	1.00	1.50	0.65	1.55
Average throughput capacity (Mt)(1)	0.70	1.06	0.65	1.21
Average historical utilisation (%)	70%	71%	100%	81%
Harvest area (000 Ha)(1)	9.9	12.9	7.1	21.6(2)
Average raw sugar production (000t)(1)	93	145	89	146
Average molasses produced (000t)	29.0	35.0	n/a	33.5
Average syrup produced (000t)	n/a	n/a	150.3	n/a
Electricity generating capacity (MW)	7.5	10.2	7.0	17.0
Electricity export capacity (MW)	3.5	2.0	5.0	10.5
Cane transport	Road	Cane rail	Road	Cane rail
Export sugar terminal	Bundaberg	Cairns	Mourilyan / Cairns	Mourilyan

5 The Maryborough Mill is located in the Fraser Coast region of south east Queensland.

6 Molasses are a major input in the production of ethanol and can be sold as an animal feedstock. Bagasse provides fuel for cogeneration power facilities.

Note:
1 Average for the 2006 to 2010 years.
2 Includes areas previously serviced by the now closed Babinda Mill.

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52 The impact of Cyclone Yasi in February 2011, very high rainfall levels during the 2010 crushing season and relatively low levels of sunshine reduced available cane feedstock for the Mulgrave and South Johnstone Mills for the 2011 harvest. As a result, milling operations were reduced to a five and six day per week basis at the Mulgrave and South Johnstone Mills and plant utilisation was low. In comparison, the Maryborough and Tableland[7] cane growing areas were not materially impacted by weather related factors. These areas rely on a combination of rainfall and irrigation, as rainfall levels in these areas are lower than for the Mulgrave and South Johnstone Mill cane growing areas (which do not require irrigation).

53 Sugar cane fibre from the milling process is used as feedstock for the mill boilers, which provide steam electricity generation to power the mills during the crushing season. Approximately 41.7 megawatt per hour of electricity is generated, which is used to power all of MSF's mills. Surplus power is sold to the Queensland electricity power grid. With the exception of the Mulgrave Mill, all the mills currently derive surplus electricity and renewable energy certificates (RECs), which are sold together with the surplus electricity. The Mulgrave Mill is expected to generate REC's once it crushes in excess of 1.3Mt of cane in a season.

54 In February 2011 MSF closed the Babinda Mill due to insufficient availability of cane in the South Johnstone and Babinda regions. Some A$4 million in additional capital has since been invested in MSF's other Far North Queensland mills to allow Babinda area cane deliveries to be directed to available excess milling capacity. As a result of exercising the NMJV option and closure of Babinda Mill, MSF's current milling capacity is 4.7Mtpa. Associated asset capacity utilisation improvements of approximately 0.2Mtpa are expected as a result of diverting traditional Babinda Mill region cane to the Mulgrave Mill with a 0.1Mtpa improvement at the South Johnstone Mill[8].

55 In an effort to increase the area dedicated to cane growing, and hence increase mill utilisation levels, MSF has recently introduced a number of initiatives to support cane growers in the Innisfail / South Johnstone / Babinda region. These include:

(a) a short-term loan scheme to existing growers based on hectares (Ha) of planted cane at the onset of the cane growing season; and

(b) a land assistance plan and loan to enable existing banana growers, cattle farmers and management investment scheme properties to transition to cane farming.

The collective success of these schemes is expected to increase cane areas under plantation by over 5,000Ha, mainly in the South Johnstone / Babinda areas over the next three to four years.

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7 Tableland is further inland than the Mulgrave and South Johnstone Mills.

8 Prior to its closure Babinda was crushing around 0.6Mtpa of cane. This tonnage is to be diverted to MSF's other nearby mills.

Maryborough Mill

56 Sugar has been manufactured in Maryborough since 1864 and at the current site since 1895. The Maryborough Mill has an operating capacity of 310 tonnes of cane per hour, with an annual processing capability of up to 1Mt of sugar cane. All the sugar cane to be crushed is delivered to the mill by road transport. The Maryborough Mill is able to produce all the different qualities of raw sugar, from the low quality JA Brand for Japanese customers, the standard Brand 1 for traditional export customers, and IHP or QHP for high quality raw sugar customers in Malaysia, New Zealand or Australia. Around 30,000 tonnes of molasses is produced from the process and sold as stockfeed. The mill has in excess of 10,000 tonnes of molasses storage.

Mulgrave Mill

57 The Mulgrave Mill is situated 25 kilometre (km) south of Cairns and has been producing raw sugar since 1896. The Mulgrave Mill operations are currently the most efficient at extracting sugar from cane in the MSF mill portfolio, with cane crushed at a rate of 450 tonnes per hour and annual processing capacity of 1.5Mt. The mill operations include the ownership and maintenance of a 232km cane railway system, which allows for cane to be hauled to the mill without impacting on local road transport.

South Johnstone Mill

58 Operations at the South Johnstone Mill commenced in 1915 under Government ownership. Control passed to local farmers in 1927 and eventually to Bundaberg Sugar in 2001. The South Johnstone Mill is the largest milling operation in the MSF portfolio with cane crushing capacity of 1.55Mt. The mill is serviced by a cane rail network, with farms not serviced by the railway transporting cane by B-double vehicles.

Tableland Mill

59 The Tableland Mill is located on the Atherton Tableland, North Queensland and commenced operations in 1998. As the mill currently does not have a sugar crystalliser on site, output comprises sugar syrup which is transported by road to the South Johnstone and Mulgrave Mills for additional processing into raw sugar.

60 MSF recently approved an expansion to mill capacity of 50,000 tonnes per annum (tpa) at a projected capital cost of A$2 million. Possible further expansion plans include an additional 150,000 tonnes of cane crushing capacity, as well as a sugar backend to allow for the crystallisation of sugar. This will permit the mill to materially reduce its dependence on the South Johnstone and Mulgrave Mills. Initial estimates of the capital cost of the further expansion are around A$30 million.

Sugar marketing

61 MSF is the only Australian milling company with in-house raw sugar marketing and logistics capabilities[9], including access to STL owned storage facilities with capacity of 409,000 tonnes located at the Cairns and Mourilyan ports. MSF is Australia's second largest sugar exporter and maintains relationships with shipping companies and key sugar trading and refining companies in Asia.

62 MSF markets and sells sugar from its Maryborough and Mulgrave Mills, while output from the South Johnstone and Tableland Mills is currently sold through Queensland Sugar Limited (QSL). On 28 June 2011 MSF announced that it will not be renewing its sugar marketing services with QSL upon expiry of the existing legacy contract in June 2014[10] and intends to market all its sugar post this period using MSF's in-house raw sugar marketing capability.

63 As a part of its sugar marketing operations MSF provides raw sugar hedging services to manage its own sugar price and currency exposures, and for the management of cane payments to cane farmers who provide cane feedstock for MSF's milling operations. The base raw sugar price determined from the grower's raw sugar hedging is used to determine the price of cane paid by MSF to the cane farmers.

Land and water rights

64 The property portfolio of predominantly cane growing land comprises around 5,824Ha, with 5,449Ha in the Maryborough district, 60Ha in the Isis district and 315Ha in Far North Queensland. Included in the portfolio is land upon which the mills and related infrastructure integral to the milling operations are situated, including cane railways and mill residential housing. MSF also owns water rights totalling 7,233 mega litres (Ml) in the Lower Mary Irrigation Scheme, 142Ml in the Bundaberg Water Supply Scheme[11] and 100Ml in the Tableland Region. The book value of all these assets as at 30 June 2011 was A$76.8 million, with the majority attributable to cane farms that provide sugar cane to the Maryborough Mill.

65 The book value of land also includes A$2.3 million in respect of the Mary Harbour residential development project, which envisages the construction of 1,315 residential dwellings on a 174Ha tract of current cane land adjacent to the Mary River[12]. MSF does not intend to develop the land itself, and envisages a sale / joint venture with a residential developer at an appropriate time during the development approval process.

9 Other Australian sugar companies are reliant on the services of QSL to market their respective export raw sugar production, which reflects the single desk system for sugar sales in place pre-deregulation.

10 This contract was in place at the time of formation of the NMJV.

11 These assets are currently reported under intangible assets.

12 The book value reflects an agricultural land zoning. The land has recently been included in the Wide Bay regional plan as urban land.

Investment in STL

66 MSF holds a minority investment in STL. STL owns the bulk sugar terminal export facilities in Queensland which are leased and operated by QSL. Under a commercial leasing arrangement that commenced on 1 January 2009 for a five year term, QSL leases the STL terminals for an annual rental of A$42 million, subject to adjustment for capital expenditure. STL operations are located at the Queensland regional ports of Cairns, Mourilyan, Lucinda, Townsville, Mackay and Bundaberg. The terminals have a combined storage capacity of 2.4Mt of bulk raw sugar destined for export.

67 Ownership of the terminals was originally vested in the Queensland Government through the respective port authorities. However, under the *Sugar Industry Act 1999*, ownership was transferred in August 2000 to growers and millers through a share allocation. STL has a restrictive constitution which limits its shareholder base to industry participants such as active growers (G class shares) or active millers (M class shares). The current STL share structure, and MSF's respective share ownership is set out below:

STL – shares on issue and MSF ownership

	Total 000	MSF 000	MSF %
G class shares	229,348	34,663	15.1
M class shares	130,652	13,346	10.2
Total	360,000	48,009	13.3

68 MSF is the second largest shareholder in STL[13]. In addition to the above MSF is currently a party to a conditional Share Sale and Purchase Agreement expiring on 24 December 2011, completion of which would result in MSF acquiring an additional 15.3 million M class shares in STL from Bundaberg Sugar at a price of A$0.90 per share, less any ordinary dividend declared during a specified period. The Share Sale and Purchase Agreement is subject to MSF obtaining finance to fund the share purchase on terms satisfactory to MSF. If MSF does not obtain satisfactory finance prior to 24 December 2011, such that it is able to complete the acquisition, the Share Sale and Purchase Agreement will terminate.

69 The rights and restrictions of the G and M class shares are largely consistent apart from the following:

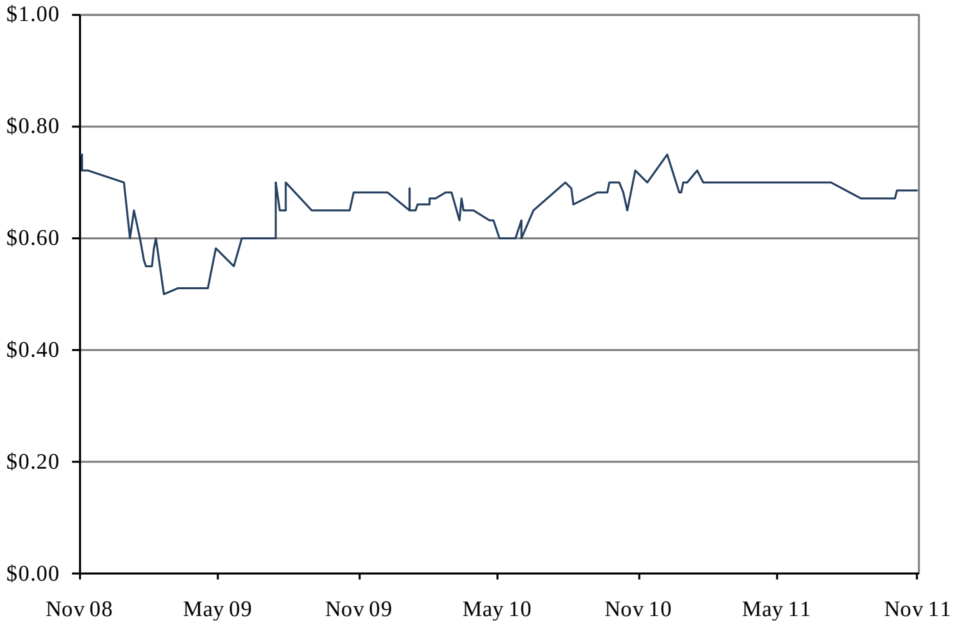
(a) G class shares – can only be issued and held by active growers and no member of G class shares may vote more than the number of votes equal to 5% of the total number of G class shares on issue

(b) M class shares – can only be issued and held by active millers.

70 The G class shares are listed on the National Stock Exchange of Australia (NSX). The M class shares are not listed on any stock exchange. Liquidity of the G class shares is low, with around 2% of this share class traded in recent years. The share price of the G class shares over the three years to 30 November 2011 is set out below:

13 Sucrogen holds a higher proportion of the combined share classes.

STL – share price on NSX
30 November 2008 to 30 November 2011



Source: Bloomberg.

71 STL's stated policy is to pay as high a dividend as possible, having regard to its financial position and obligations under the Corporations Act. Dividends are usually paid bi-annually in March and September. A summary of the financial results of STL for the three years to 30 June 2011 is shown below:

STL – historical financial information

	30 Jun 09 A$m	30 Jun 10 A$m	30 Jun 11 A$m
Revenue from continuing operations(1)	47.4	43.0	43.3
Profit after tax	24.8	41.5(2)	18.8
Normalised profit after tax	24.8	20.6	18.8
Normalised earnings per share (A$)	0.069	0.057	0.052
Ordinary dividends paid (A$)	0.069	0.057	0.058
Special dividends / capital returns paid (A$)	-	0.093(3)	-
Total assets	354.3	341.0	356.5
Total liabilities	(12.4)	(13.0)	(30.2)
Net assets	341.9	328.0	326.3

Note:
1 The lower revenue from the year to 30 June 2010 onwards reflects the revised lease terms with QSL applicable from 1 January 2009.
2 2010 includes the sale of the Brisbane terminal for a profit of A$20.9 million.
3 Includes a special dividend and capital return from the sale of the Brisbane terminal and related assets.
Source: STL annual reports.

Financial performance

72 The financial performance of MSF for the two years ended 30 June 2010, as well as the six month period to 31 December 2010 and 30 June 2011[14], as reported in the respective financial statements of the company, is set out below:

MSF – financial performance

	Year to 30 Jun 09 A$m	Year to 30 Jun 10 A$m	HY to 31 Dec 10 A$m	HY to 30 Jun 11 A$m
Proceeds from sugar sales	123.6	168.0	77.9	45.8
Proceeds from molasses sales	6.1	7.5	4.5	2.4
Other operating revenue[(1)]	0.8	(24.6)	9.3	(5.6)
Operating revenue	130.5	150.9	91.7	42.6
Dividends received from STL	3.5	5.5	1.3	1.4
Other income	2.7	2.2	1.4	19.3[(3)]
Total income	136.7	158.6	94.4	63.2
Cost of cane and other materials used[(2)]	(82.4)	(101.4)	(46.5)	(41.9)
Movement in biological assets	2.2	0.9	(2.2)	3.4
Employee benefits expense	(22.3)	(22.4)	(15.2)	(22.7)
Distribution costs	(26.3)	(14.0)	(11.5)	(5.4)
Administrative costs	(6.5)	(7.1)	(5.8)	(5.3)
Other expenses	(1.4)	(1.4)	(0.8)	(3.8)
Total expenses	(136.7)	(145.4)	(82.0)	(75.7)
EBITDA	-	13.2	12.4	(12.5)
Depreciation and amortisation	(3.0)	(2.9)	(2.3)	(0.9)
EBIT	(3.0)	10.2	10.1	(13.4)
Interest income / (expense)	(2.2)	(1.5)	(1.7)	(2.1)
Net profit before tax	(5.2)	8.7	8.4	(15.5)
Income tax expense	4.4	(1.7)	(1.6)	9.4
Net profit after tax	(0.8)	7.0	6.8	(6.1)

Note:
1 Other operating revenue primarily relates to hedging and commodity risk management activities.
2 Includes changes in inventories of finished goods.
3 Includes A$16.2 million discount on the acquisition of the NMJV.
Rounding differences may exist.

Review of financial performance

73 As noted above MSF has recently been through a transformational stage, increasing investment in milling capacity through acquisitions whilst restructuring operations to operate more efficiently (for example the recent closure of the Babinda Mill). Additionally, the above results were negatively impacted by significant adverse weather related events, most recently Cyclone Yasi. In our view therefore the reported historical financial results are not necessarily indicative of the future earnings capacity of the company. Accordingly, in considering the valuation of MSF (in particular the value of the milling operations) we have had greater regard to the historical performance of the four mills currently operated by MSF,

14 During 2010 MSF changed its reporting period to a calendar year end to correspond with the company's crop year and related harvesting period.

together with the cost structure and related business infrastructure under which MSF now operates.

Revenues derived and sugar and foreign exchange hedging activities

74 MSF derives the majority of its revenue from the sale of raw sugar produced from the milling of sugar cane. Under current arrangements the proceeds from the sale of sugar are shared between the cane farmers and MSF, calculated under a mathematical formula that rewards the cane farmers for a high sugar yield and content and rewards MSF for milling efficiency. The overall revenue split equates to around two-thirds to the cane farmers and one-third to MSF. Accordingly, MSF is exposed to both sugar price risks, and given sugar is priced in United States dollars (US$) globally, foreign exchange risk.

75 MSF's internal risk management policies aim to hedge both fluctuations in future sugar prices and foreign exchange rate movements between Australian dollars (A$) and US$. The company seeks to minimise potential adverse effects on its financial performance and secures pricing around a framework based on targeted pricing and production risk.

76 MSF uses commodity swaps to produce a predetermined price for the company's production[15], hedging forecast production assessed as highly probable for ensuing financial years. The proportion of any gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity. When the related cash flows occur, MSF adjusts the initial measurement of the component recognised in equity to the statement of financial performance. In addition the company enters into option strategies related to its hedging contracts with a view to participating in upward movements in the sugar price.

Management outlook

77 In the 2011 half year results presentation MSF management stated that 2011 would be a difficult year financially and operationally in Far North Queensland, with heavy rainfall and the impact of Cyclone Yasi reducing production levels by around 25%, resulting in under utilisation of capacity at both the Mulgrave and South Johnstone Mills. Management at that time forecast financial year 2011 normalised earnings before interest, tax, depreciation and amortisation (EBITDA) of A$7 million to A$11 million, based on cane crushing estimates of 2.9Mt[16]. The following EBITDA sensitivities were also provided:

(a) A$10 per tonne movement in the average sugar price having an approximate EBITDA impact of A$0.3 million; and

(b) 0.1Mt movement in crop crushing having an approximate EBITDA impact of A$1.8 million.

78 The 2011 half year results presentation also stated that cane milling for the 2012 crop season was expected to recover to average production levels, and that MSF management were focusing on improving mill efficiencies and reliability, as well as targeting increased cane supply through a number of cane growing initiatives.

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15 It also provides similar services to cane farmers for their proportion of sugar milled at its operations.

16 Disclosure in the Target's Statement indicates that MSF management are expecting normalised EBITDA in the range of A$7 million to A$8 million (in part because MSF has achieved a cane crush for the relevant period of 2.735 Mt).

Financial position

79 The financial position of MSF as at 30 June 2010, 31 December 2010 and 30 June 2011 is set out below:

MSF – financial position	Audited 30 Jun 10 A$m	Audited 31 Dec 10 A$m	Reviewed 30 Jun 11 A$m
Cash and cash equivalents	22.7	24.3	5.2
Trade and other receivables	4.0	16.9	10.1
Inventories	15.3	29.2	6.1
Derivative financial instruments	6.7	13.1	9.0
Other financial assets	-	7.7	-
Biological assets[(1)]	4.3	2.1	5.4
Income tax receivable	-	-	0.1
Total current assets	53.0	93.3	35.9
Trade and other receivables	-	0.1	-
Inventories	1.3	1.2	3.4
Investment in STL	36.4	37.8	38.1
Property, plant and equipment	114.5	113.8	208.6
Intangible assets[(2)]	3.5	3.5	3.5
Derivative financial instruments	2.4	0.2	-
Other non-current assets	0.2	0.1	0.2
Total non-current assets	158.3	156.7	253.8
Total assets	211.2	250.0	289.7
Trade and other payables	10.0	26.5	17.3
Interest bearing liabilities	4.2	3.1	14.5
Current tax liabilities	1.0	-	-
Provisions	2.1	2.2	4.8
Derivative financial instruments	5.1	24.2	12.1
Total current liabilities	22.3	56.0	48.7
Trade and other payables	2.3	2.2	2.2
Interest bearing liabilities	29.7	36.9	69.7
Derivative financial instruments	1.1	4.3	3.8
Deferred tax liabilities	5.9	2.5	0.7
Provisions	0.3	0.4	0.6
Total non-current liabilities	39.3	46.3	77.1
Total liabilities	61.6	102.3	125.7
Net assets	149.6	147.7	164.0

Note:
1 Standing crops of sugar cane.
2 Includes to A$2.1 million in water rights.
Rounding differences may exist.

Derivative financial instruments

80 Net derivative financial instruments held by MSF in respect of sugar price and exchange rate hedging activities undertaken for both MSF and cane farmers are shown below:

MSF – derivative financial instruments	Audited 30 Jun 10 A$m	Audited 31 Dec 10 A$m	Reviewed 30 Jun 11 A$m
Current assets	6.7	13.1	9.0
Non-current assets	2.4	0.2	-
Current liabilities	(5.1)	(24.2)	(12.1)
Non-current liabilities	(1.1)	(4.3)	(3.8)
Total	2.9	(15.2)	(7.0)

Note:
Rounding differences may exist.

81 In addition, included in the cash flow hedge reserve[17] at the various dates were assets or liabilities in respect of cash settled hedges of A$10.1 million (assets at 30 June 2010), A$9.7 million (liability at 31 December 2010) and A$14.0 million (liability at 30 June 2011).

Property, plant and equipment

82 A summary of MSF's property, plant and equipment is shown below. The significant increase in plant and equipment in the half year to 30 June 2011 reflects the acquisition of the South Johnstone and Tableland Mills pursuant to exercising the NMJV option:

MSF – property, plant and equipment	Audited 30 Jun 10 A$m	Audited 31 Dec 10 A$m	Reviewed 30 Jun 11 A$m
Industrial land	8.3	8.3	14.9
Other freehold land	58.4	58.6	59.0
Buildings	7.9	7.8	12.3
Plant and equipment	35.9	35.4	114.5
Mobile equipment	4.0	3.7	7.9
	114.5	113.8	208.6

83 The majority of the assets relate to industrial land, buildings and depreciated plant and equipment integral to the four operating mills and associated infrastructure. Other major assets include the cane farm land at Maryborough (refer to paragraphs 64 and 65 for further information), together with the Mary Harbour development project.

Net interest bearing debt

84 The increase in total debt levels in recent years is largely attributable to the acquisition of assets pursuant to the establishment of, and subsequent move to 100% control of the NMJV, together with the acquisition of additional shares in STL. A summary of outstanding borrowings over the reported periods is set out below:

17 The cash flow hedge reserve forms part of the shareholders' funds of MSF.

MSF – net interest bearing debt	Audited 30 Jun 10 A$m	Audited 31 Dec 10 A$m	Reviewed 30 Jun 11 A$m
Cash and cash equivalents	(22.7)	(24.3)	(5.3)
Current interest bearing debt	4.2	3.1	14.5
Non-current interest bearing debt	29.7	36.9	69.7
	11.2	15.7	78.9

85 MSF's total borrowing requirements fluctuate over the year, with peak seasonal borrowings traditionally in July at the start of the harvesting season (when sugar has yet to be delivered against forward sales but payments to farmers for sugar cane have commenced).

Share capital and performance

86 As at 23 September 2011 MSF had 69.2 million fully paid ordinary shares on issue. In addition the company had 0.8 million options on issue at exercise prices of between A$2.00 to A$2.70 per share and 0.3 million performance rights on issue with a nil exercise price.

Significant shareholders

87 Mitr Phol is currently MSF's largest shareholder and controls 22.01% of MSF shares.

Share price performance

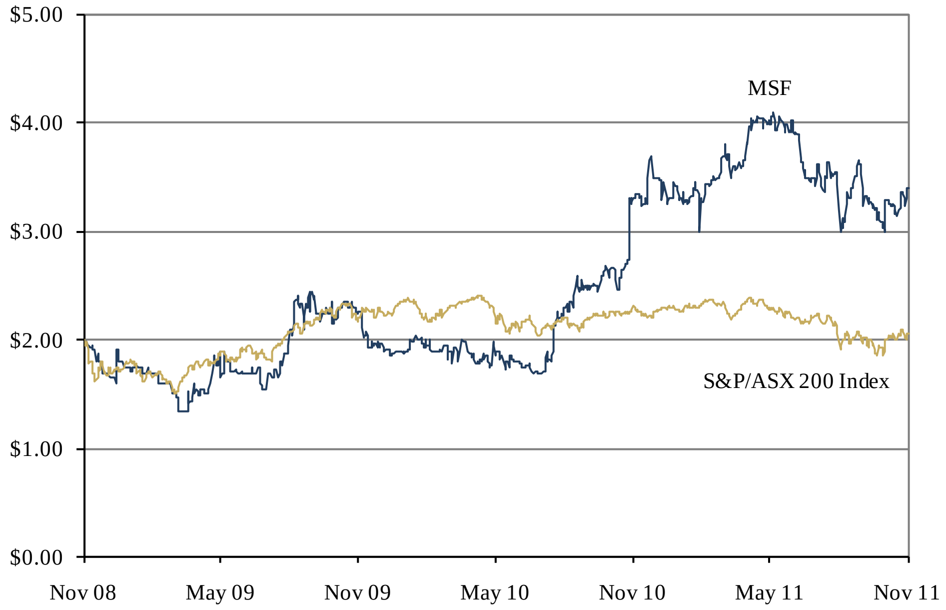
88 The price of MSF shares from 1 January 2009 to 4 November 2011 (the last day of trading prior to MSF entering into the trading halt which preceded the announcement of the intention to make the Offer) is summarised below:

MSF – share price performance	High A$	Low A$	Close A$	Monthly Volume[1] 000
Quarter ended				
March 2009	1.80	1.35	1.60	424
June 2009	1.94	1.49	1.58	571
September 2009	2.50	1.55	2.25	499
December 2009	2.38	1.82	1.90	480
March 2010	2.05	1.79	1.90	553
June 2010	1.98	1.70	1.72	321
September 2010	2.70	1.69	2.68	1,230
December 2010	3.75	2.46	3.41	1,583
Month ended				
January 2011	3.45	3.20	3.35	3,144
February 2011	3.55	2.94	3.51	5,381
March 2011	3.88	3.32	3.61	3,908
April 2011	4.10	3.60	4.02	3,589
May 2011	4.11	3.80	3.92	2,674
June 2011	4.02	3.33	3.49	2,182
July 2011	3.73	3.21	3.52	1,524
August 2011	3.60	2.83	3.60	1,779
September 2011	3.70	3.05	3.08	1,643
October 2011	3.45	2.97	3.34	1,441
November 2011[2]	3.49	3.24	3.40	280

Note:
1 Monthly volumes for the quarter ended represent average monthly volumes.
2 Up to 4 November 2011.
Source: Bloomberg.

89 The following graph illustrates the movement in the MSF share price compared to the S&P/ASX 200 Index for the three years to 4 November 2011:

MSF – share price history
Three years to 4 November 2011



Source: Bloomberg.

90 The MSF share price was broadly consistent with the S&P/ASX 200 Index prior to the announcement on 1 November 2010 that Mitr Phol had entered into an agreement to acquire up to a 19.9% interest in MSF from Guinness Peat Group plc (GPG). The MSF share price responded positively to this announcement, prima facie, reflecting the possibility of corporate activity from Mitr Phol being factored in.

Liquidity in MSF shares

91 The liquidity in MSF shares based on trading on the ASX over the 12 month period preceding the trading halt prior to the announcement of the intention to make the Offer is set out below:

MSF – share price history

	Start date	End date	Value A$000	Volume 000	As a % of issued capital	WANOS[1] 000
1 month	5 Oct 11	4 Nov 11	5,177	1,604	2.3	69,248
3 months	5 Aug11	4 Nov 11	15,676	4,837	7.0	69,201
6 months	5 May 11	4 Nov 11	39,924	11,277	16.3	69,183
1 year	5 Nov 10	4 Nov 11	109,951	31,108	46.8	66,415

Note:
1 WANOS – weighted average number of shares on issue.
Source: Bloomberg, LEA analysis.

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92 As noted above Mitr Phol held an approximate 20% shareholding in MSF for a majority of the above period, having acquired this shareholding from GPG. Accordingly the free float of the company was effectively restricted to approximately 80% of the issued capital. In the 12 month period prior to the announcement of the intention to make the Offer total share turnover equalled 46.8% of the issued capital, indicating a reasonable level of liquidity in MSF shares.

IV Industry outlook

Overview

93 World sugar production is primarily derived from sugar cane (70%) with the remainder from sugar beets (30%)[18]. Sugar cane is a hot climate plant, with large growing areas in South Asia, Brazil, the Caribbean and the southern US. By contrast, sugar beets are grown in cool temperate zones such as North America, Germany and France. Both sugar cane and sugar beets are processed into raw sugar as the plants are harvested, while sugar content is high. The majority of sugar produced is consumed in the country of production, with approximately 33% of sugar production traded annually.

94 All Australian sugar output is derived from sugar cane, with an overview of the sugar production process shown below:

Sugar production process

Source: Canegrowers, *Sugar cane – Paddock to Plate*.

95 MSF operates as a grower, miller, marketer and exporter of raw sugar (although it is primarily a sugar milling company). As such, with the exception of refining the raw sugar into products such as white sugar and golden syrup, MSF operates across the entire sugar production process. This section therefore focuses on the sugar cane growing, sugar milling[19] and sugar exporting industries from a global and Australian perspective.

The global sugar industry

96 World sugar production and consumption levels have steadily risen over the past two decades from 110Mtpa to around 160Mtpa, as shown in the chart below:

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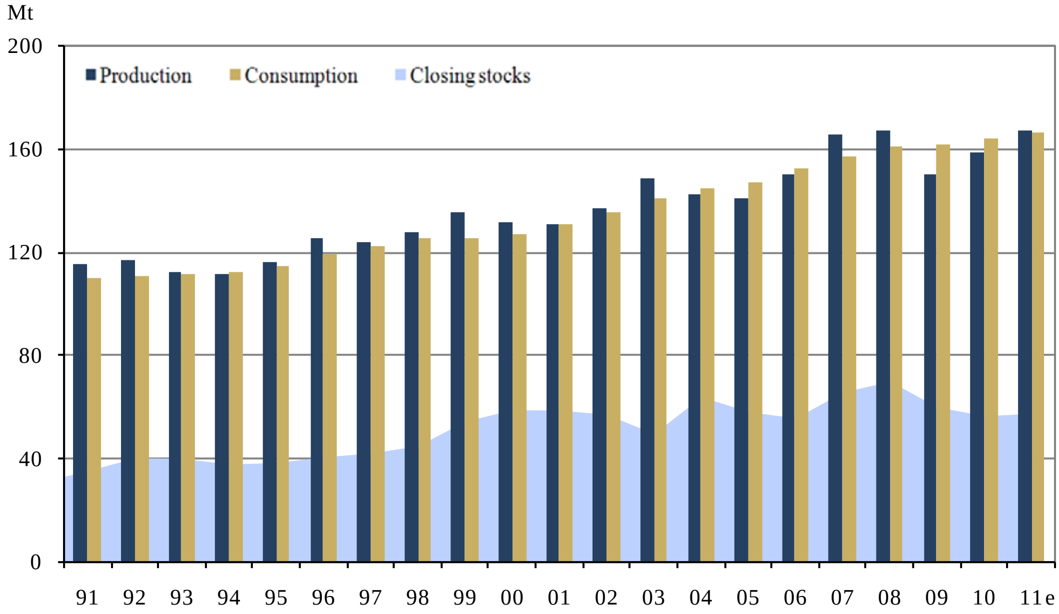
[18] Source: ICE Futures US *Sugar No. 11 and Sugar No. 16*.

[19] For the purpose of this report, sugar milling involves the processing of sugar cane to create raw or refined sugar, or molasses.

World sugar production, consumption and closing stocks
1991 to 2010 (years ended 30 September)



Source: ABARES (2010) *Australian Commodity Statistics*.

97 While consumption levels have increased consistently since 1991, production levels have exhibited greater volatility as weather and other factors have impacted output. For example production declined in eight of the periods shown above, the largest of which was in 2009 when sugar output declined by 10%, attributable to a combination of unfavourable weather conditions in major sugar producing countries in Asia as well as changes in government sugar policies[20]. Notably, sugar production in India, China and Pakistan fell by a combined 17.7Mt (35%) between 2008 and 2009[21], contributing to a 22% reduction in sugar stocks and a corresponding increase in the sugar price.

Demand

98 Global sugar demand emanates from downstream food products where sugar is a primary ingredient, such as chocolate, confectionary and soft drinks. In addition, consumer health awareness, population demographics, price and the demand for substitute sweeteners (including honey, high fructose corn syrup (HFCS) and artificial sweeteners) all influence the demand for sugar.

99 The following chart provides a summary of per capita consumption of sugar by country:

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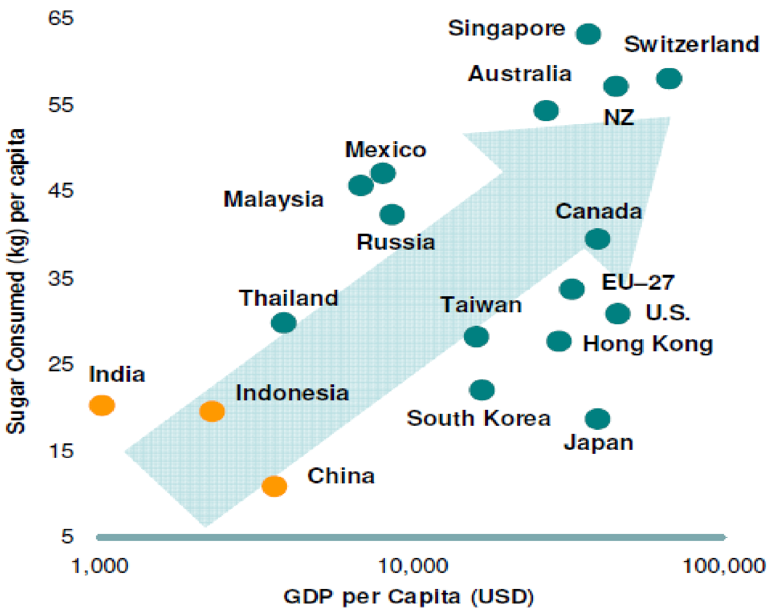
20 By way of example, in India, price setting policies for sugar cane and refined sugar often create conflicting incentives for India's sugar cane producers and sugar mills.

21 China, India and Pakistan had a combined sugar production of 50.1Mt in 2007-08 compared with 32.4Mt in 2008-09, years ended 30 September. Source: ABARES (2010) *Australian Commodity Statistics*.

Per capita consumption of sugar



Source: Wilmar International Ltd (Wilmar), presentation dated 6 July 2010.

100 In the USA HFCS is also consumed as a sweetener in addition to sugar, with HFCS accounting for roughly 37% of all caloric (nutritive) sweeteners consumed[22]. By contrast, the global average consumption of HFCS represents 8% of caloric (nutritive) sweetener consumption[23].

101 MSF's key sugar export markets lie in Asia, where gross domestic production per capita is relatively low, as is sugar consumption[24]. Given there is a positive correlation between rising income levels and higher sugar consumption levels (as shown above), if developing countries in Asia continue to grow strongly future growth in demand for sugar is also likely to be strong.

Supply

102 Sugar supply is directly related to the amount of land devoted to sugar cane and sugar beet farming, as well as the level of investment in sugar processing facilities. Environmental factors including unfavourable weather events such as flooding and cyclones also affect harvest size and hence sugar output. The oil price[25] and changes to government policies affecting the subsidies received by sugar cane farmers also impact the supply of sugar.

22 The higher consumption of HFCS in the USA can be attributed to the fact that the corn growing industry in the USA is highly subsidised.

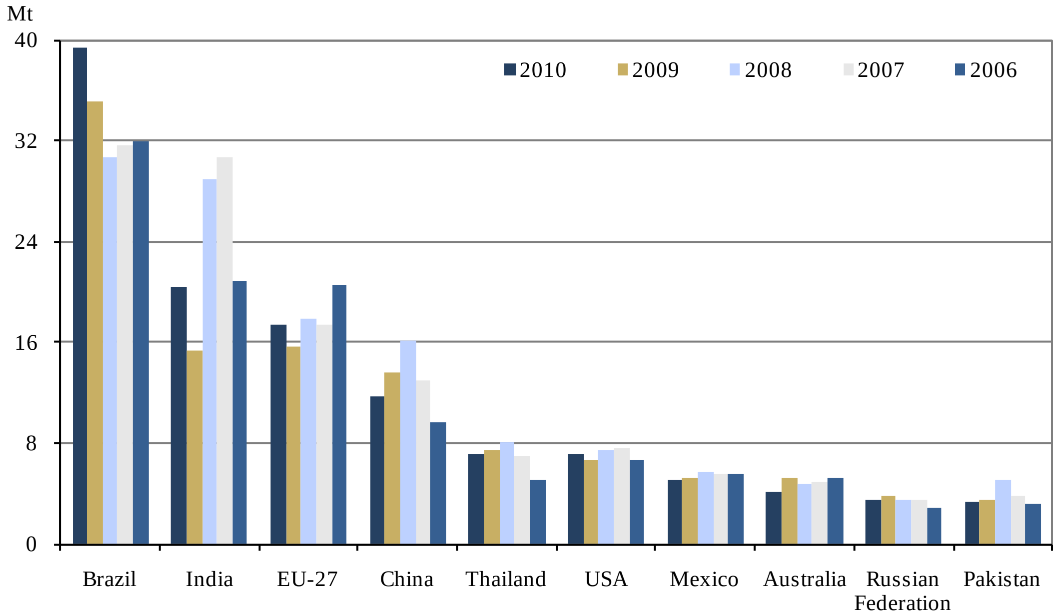
23 Source: SweetSurprise.com *The Facts About High Fructose Corn Syrup*.

24 At present sugar consumption outstrips supply by some 3Mtpa to 6Mtpa in Asia and is forecast to increase due to increasing consumption. Note, Australia is typically classified as a supplier as Asia is the natural export market.

25 The oil price impacts sugar supply via the link to bio-fuel and the relative price of oil to ethanol.

103 The following table provides a summary of the largest producing countries of raw sugar equivalent over the five years to 2010, and illustrates the recent reduction in sugar production in India, China and Pakistan:

Production of sugar (raw sugar equivalent) by country
Years ended 30 September, 2006 to 2010



Source: ABARES (2010) *Australian Commodity Statistics*.

104 Many of the major sugar producing countries (including India, China and the US) use virtually their entire sugar production for domestic consumption and also import additional quantities. The European Union, whilst a large producer, also has a structural sugar deficit. By contrast much of the world's exports are sourced from a few key countries (such as Brazil, Australia and Thailand), who export a significant component of their global sugar production. Therefore, any unexpected variations in annual production levels in these countries (both positive and adverse) can have a significant impact on prices (particularly in relation to Brazil, the major global supplier).

Global sugar trade

105 As indicated below[26], Brazil as the world's largest exporter of sugar has become an increasingly important participant in the global sugar industry, currently accounting for around 43% of global sugar exports in 2010, up from 27% in 2003[27].

26 Including both raw and refined sugar.

27 Source: ABARES (2010) *Australian Commodity Statistics*.

Sugar exports (raw and refined)								
Year ended 30 September	**2003 Mt**	**2004 Mt**	**2005 Mt**	**2006 Mt**	**2007 Mt**	**2008 Mt**	**2009 Mt**	**2010 Mt**
Brazil	13.2	16.0	19.2	16.9	21.5	18.9	24.0	25.6
European Union-27	9.3	8.0	9.5	12.5	6.2	6.9	6.6	8.2
Thailand	5.0	5.1	3.4	2.1	4.6	4.9	5.0	5.4
Australia	3.8	3.9	4.3	3.9	3.8	3.3	3.3	3.4
Guatemala	1.3	1.5	1.1	1.6	1.3	1.2	1.5	2.0
Colombia	1.3	1.3	1.2	0.9	1.0	0.6	0.7	0.9
South Africa	1.0	1.0	1.1	1.1	0.7	0.9	0.9	0.7
Cuba	1.8	1.9	0.8	0.7	0.8	0.9	0.8	0.7
Swaziland	0.6	0.6	0.7	0.6	0.6	0.6	0.6	0.6
Mauritius	0.5	0.6	0.6	0.5	0.5	0.5	0.5	0.6
Other countries	12.0	12.5	12.3	15.2	15.7	18.0	13.1	12.0
Total	49.8	52.4	54.0	56.1	56.6	56.7	56.9	60.0

Source: ABARES (2010) *Australian Commodity Statistics*.

106 The following table provides an overview of the world's largest sugar importers:

Sugar imports (raw and refined)								
Year ended 30 September	**2003 Mt**	**2004 Mt**	**2005 Mt**	**2006 Mt**	**2007 Mt**	**2008 Mt**	**2009 Mt**	**2010 Mt**
European Union-27	7.1	7.5	7.5	9.5	8.0	8.2	9.0	9.0
USA	1.6	1.5	1.8	3.2	1.9	2.4	2.8	2.5
Russian Federation	5.2	4.1	3.8	3.4	3.2	2.8	1.9	2.3
Indonesia	2.1	2.3	1.9	1.6	2.8	1.9	1.9	1.9
South Korea	1.5	1.6	1.6	1.6	1.5	1.6	1.7	1.6
Malaysia	1.4	1.5	1.5	1.4	1.8	1.4	1.5	1.5
Nigeria	1.5	1.4	1.4	1.4	1.3	1.5	1.4	1.5
Japan	1.6	1.4	1.3	1.4	1.4	1.4	1.3	1.4
Algeria	1.1	1.0	1.1	1.1	1.1	1.1	1.2	1.4
Saudi Arabia	1.0	1.1	1.2	1.3	1.3	1.6	1.4	1.3
Other countries	24.6	25.7	27.9	28.4	27.2	26.8	28.6	33.9
Total	48.6	49.3	51.1	54.2	51.4	50.7	52.6	58.4

Source: ABARES (2010) *Australian Commodity Statistics*.

107 The European Union is the largest importer of sugar, however, it is also a significant exporter[28]. In 2007, the European Union shifted from a net exporter to a net importer of sugar following sugar reforms in 2005 and 2006 aimed at increasing the competitiveness of its sugar producers and encouraging inefficient sugar producers to exit the industry[29].

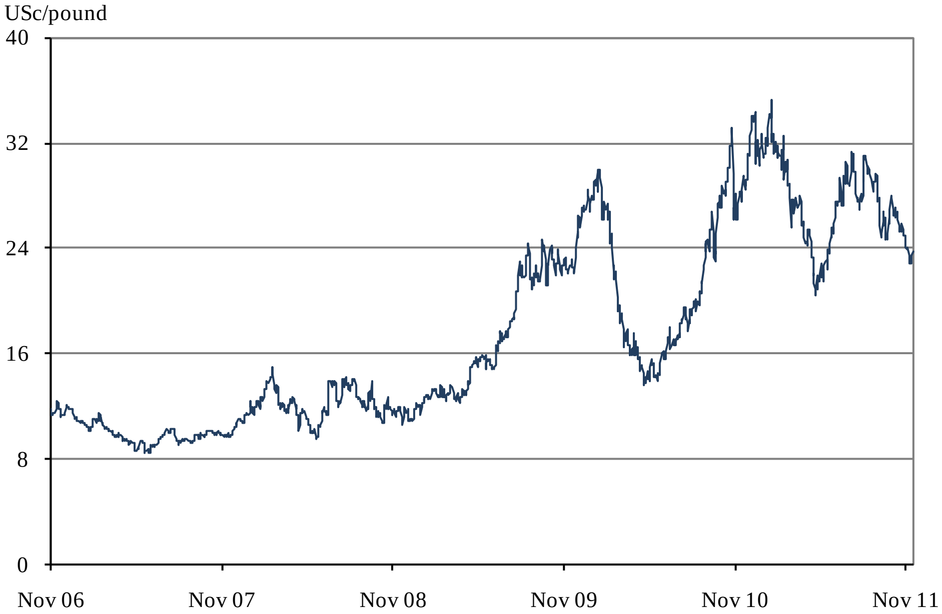
28 This situation arises due to long standing raw sugar import licences given to ex-European colonies, which are in surplus to the actual supply / demand with the European Union. The raw sugar imports are required to meet demand by European Union based raw sugar refiners. Under its international trade obligations the European Union is allowed to export the surplus caused by the raw sugar imports. The sanctioned exports are 1.3Mt.

29 Source: IBISWorld (July 2011) *Sugar manufacturing in Australia*.

Sugar pricing

108 The world sugar indicator price for raw sugar is represented by the ICE Sugar No.11 futures contract (No.11 sugar contract), which is set out below for the five years to 30 November 2011.

No.11 sugar contract
Five years to 30 November 2011



Source: Bloomberg.

109 During the period between 2000 and 2010 the sugar price had periods below the cost of production, particularly in the five years to 2005 reflecting a large production expansion in Brazil. As indicated, over the last three years sugar prices, whilst trending upwards, have exhibited periods of significant volatility. Sugar prices rose strongly in the second half of 2010 in response to low world stocks and concerns about the adverse effects of unfavourable seasonal conditions on sugar production in Brazil, Australia and India[30]. The subsequent price decline over the January to April 2011 period followed an unexpected high level of sugar production in Thailand. Between April and August 2011, sugar prices were buoyed by weakening production prospects for the 2010-11 Brazilian sugar cane harvest[30].

110 Rising sugar prices and increased volatility can be attributed to a number of factors, including increasing production costs, the growing use of ethanol in Brazil, supply shortfalls tied to changing economic incentives, weather disruptions and policy factors across various producing countries[31].

111 Further, the size of the Brazil sugar industry and the related level of exports make it an important consideration in the establishment of global sugar prices. Brazil's cost of production is thought to be around US$400 per tonne and hence provides some support for sugar prices in the longer term.

30 Source: ABARES (December quarter 2010) *Australian Commodities*.

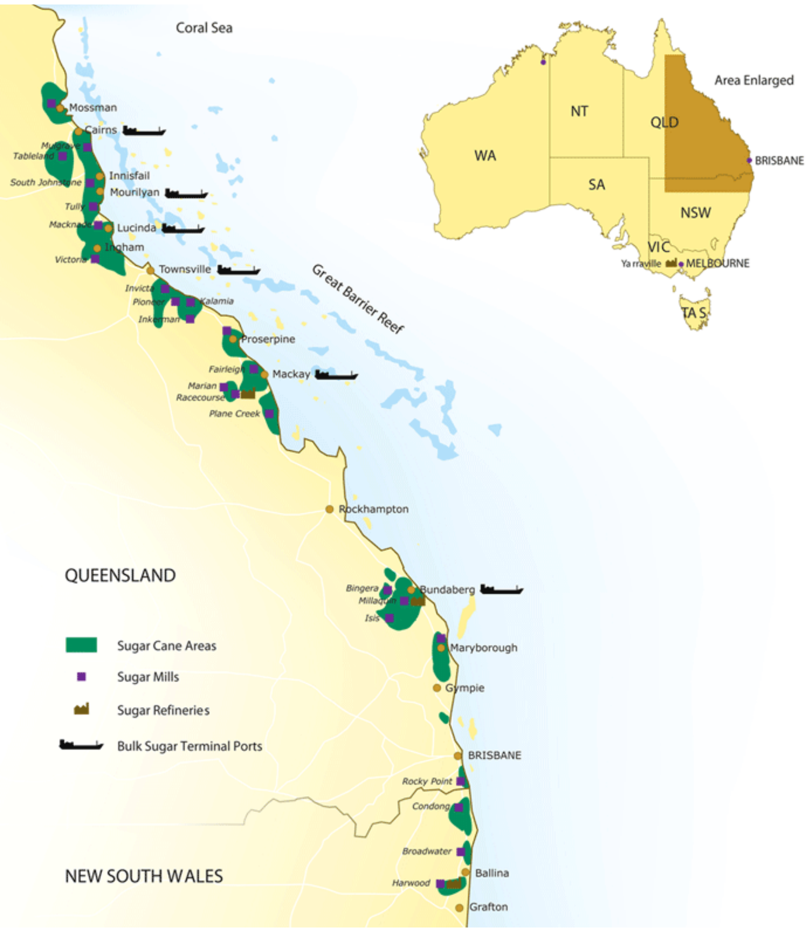
31 Source: The Bioenergy Site (September 2010) *World Sugar Price Volatility Intensified*.

112 In addition, global sugar prices are denominated in US$ and hence fluctuations in the Brazilian real compared with the US$ can also impact sugar prices. Furthermore, recent policy support for ethanol production in Brazil (which accounts for 55% to 60% of total Brazilian sugar cane production) has stimulated significant growth in the use of sugar cane for ethanol[31]. In the 10 years to 2009, Brazilian ethanol production nearly doubled[32]. The level of Brazilian production of ethanol also links the oil and gasoline markets to the sugar and sugar cane markets, and during periods of strong oil prices this becomes an important determinant in the trade-off in Brazil between sugar and ethanol production[33].

The Australian sugar industry

113 The Australian sugar industry produces raw and refined sugar from sugar cane. The following map provides an overview of Australia's primary sugar cane growing regions, including the locations of sugar mills and bulk sugar terminal ports:

Map of sugar cane operations in Australia



Source: Canegrowers.

32 The growth in use of sugar cane for ethanol production originated in 1975 when the Brazilian Government established a national program to regulate alcohol levels in fuel to mitigate the impacts of oil price shocks. At the time, Brazil imported over 80% of its oil. Source: The Bioenergy Site (September 2010) *World Sugar Price Volatility Intensified*.

33 Source: The Bioenergy Site (September 2010) *World Sugar Price Volatility Intensified*.

114 Around 95% of Australia's sugar cane is grown in Queensland and the remainder in northern NSW[34]. There are approximately 3,800 sugar farms, with the average farm size being 100Ha, although some of the larger farms exceed 1,000Ha. Continuing consolidation in the cane growing industry has seen the average farm size increase from 5,000 tonnes of cane production in 2000 to around 9,000 tonnes in 2010[35]. On average the Australian sugar cane industry produces 32Mt to 35Mt of cane per year, which when processed, equates to around 4.5Mt to 5Mt of sugar[36].

115 Around 80% of Australia's sugar output is exported as bulk raw sugar, making Australia one of the largest exporters in the world. In recent years, Asia has become a major market focus with key export markets including South Korea, Indonesia, Japan and Malaysia[37]. The remaining 20% of output is refined into other products, including white sugar, Golden Syrup, treacle, coffee sugar and cube sugar. Due to the high proportion of exports, international competitiveness in the industry is paramount as there are no domestic support prices or subsidies.

116 Irrigated sugarcane yields are higher and more consistent that cane farmland is totally reliant on rainfall. Irrigation also allows for profitable cane production on some marginal soils. Costs for irrigated cane farms are however more expensive[38]. Planting is the most costly part of the sugar cane growing cycle. However cane re-grows (ratoons) again after harvest for up to four years. Allowing for one year of fallow in the crop cycle, usually only about 20% of a cane farm is planted each year.

Historical performance

117 The following chart illustrates Australia's sugar production (split between exports and domestic use) over the past 20 years:

34 A sugar industry was established in Western Australia in the Ord River Irrigation Area in the mid 1990s but ceased operations in 2007.

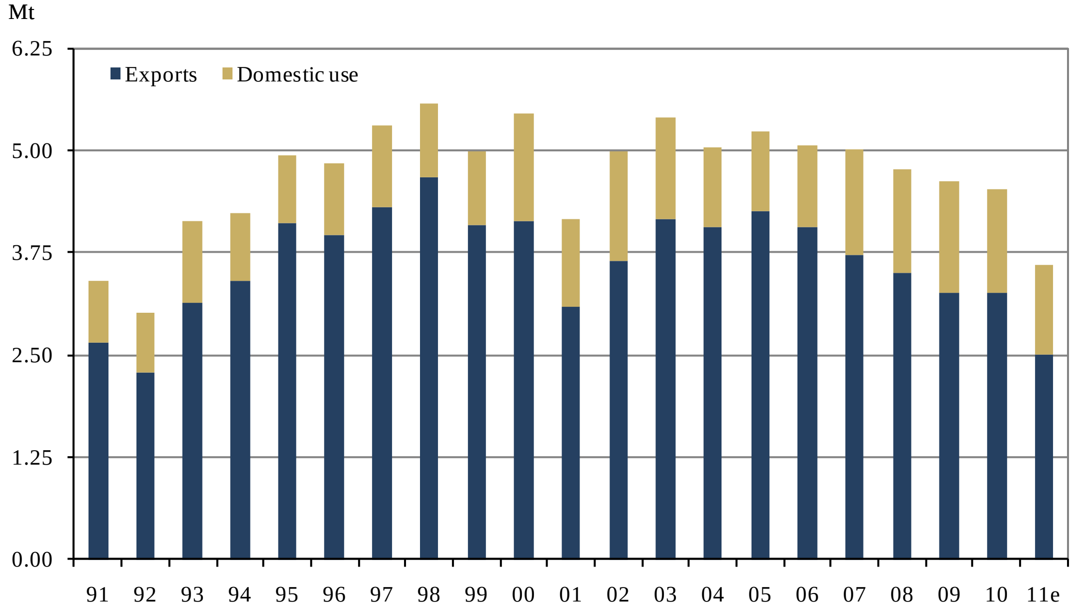
35 This consolidation is made possible by advances in technology and a Federal Government restructure scheme that allowed growers to exit this industry, with about one-third of growers exiting the industry in the four years to 2007.

36 Source: Canegrowers.

37 Source: ABARES (2010) *Australian Commodity Statistics*.

38 MSF Tablelands and Maryborough cane growing regions are irrigated.

Australian production of raw sugar
1991 to 2010 (years ended 30 June)



Source: ABARES (2010) *Australian Commodity Statistics* and ABARES (September quarter 2011) *Agricultural commodities*.

118 Since 2005 Australia's sugar production has been in decline due to a number of factors. Competition for cane land from banana growers, cattle farming and managed investment plantations has lowered the land available for cane farming. In addition, sugar cane yields have been negatively impacted by unfavourable weather conditions and disease, including:

(a) in 2006, Cyclone Larry and the fungal disease smut during periodic drought conditions, followed by strong rains and frosts[39]

(b) more recently, adverse effects from above average rainfall and the impacts of Cyclone Yasi, which have been estimated to have reduced production for 2011 by some 20%.

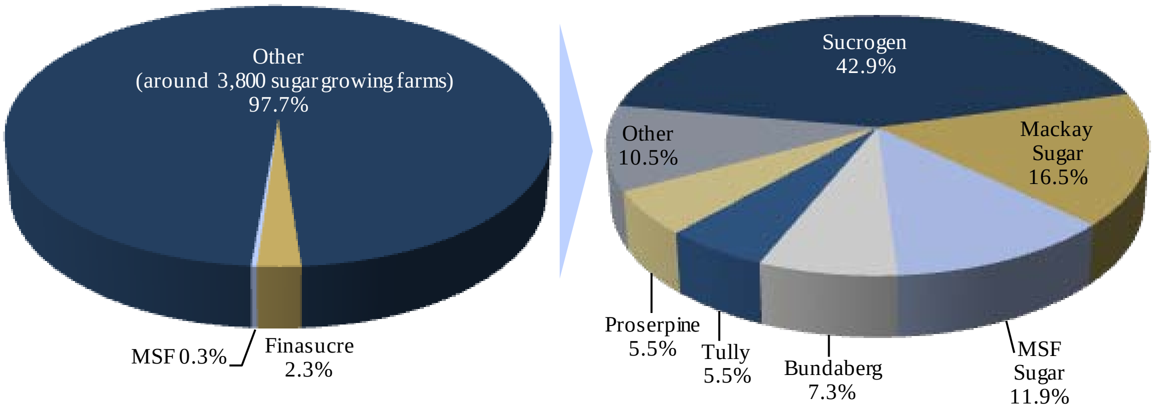
Competition

119 The sugar cane growing industry is highly fragmented with some 3,800 growers. By contrast, concentration in the sugar milling industry is high, with the top four participants accounting for some 91% of industry revenue. Sucrogen is the largest Australian sugar manufacturer and accounts for 59% of total sugar milling revenue. A break-down of the market shares of participants in the Australian sugar cane growing and milling industries is set out below:

39 Source: IBISWorld (July 2011) *Sugar manufacturing in Australia*.

Market share (2010)

Sugar cane growing | **Sugar milling**



Source: IBISWorld (October 2011), *Sugar cane growing in Australia* and MSF.

120 The Australian sugar milling industry has recently undergone a period of consolidation. In 1980, 19 companies were operating 33 mills. Currently there are 10 companies operating 24 mills (the most recent closure being MSF's Babinda Mill during 2011). Further, a range of overseas (primarily Asian) companies have recently made a number of acquisitions in Australia, with the result that a majority of milling assets are now foreign owned. Industry consolidation has been driven by the pressure to reduce costs through economies of scale and increased efficiency, in addition to the need to ensure supply of sugar cane through greater geographic spread and to reduce exposure to local weather extremes[40].

121 The following table provides an overview of this industry consolidation in the period from 2007 to 2010:

	2007	2008	2009	2010
Mills	27	26	25	25
Milling companies	12	11	10	10
Growers	4,300	4,000	3,800	3,800
Hectares harvested (000)	390	368	360	306

Source: Australian Sugar Milling Council.

122 The 10 sugar milling companies operating in Australia, the number of mills they operate and the respective approximate sugar production levels are as follows:

40 Source: IBISWorld (July 2011) *Sugar manufacturing in Australia*.

Australian milling companies		
Milling company	**Number of mills**	**Sugar production Mtpa**
Sucrogen	7	1.95
Mackay Sugar	3	0.75
MSF Sugar	4	0.54
Bundaberg Sugar	2	0.33
Tully Sugar	1	0.25
Proserpine Co-operative Milling	1	0.25
NSW Sugar Milling Co-operative	3	0.22
ISIS Central Sugar Mill Company	1	0.15
Mossman Central Mill Company	1	0.07
Heck Group	1	0.04
Total	24	4.57

Source: Australian Sugar Milling Council, Annual Review 2010 and MSF.

Regulation in Australia

123 Completion of deregulation of the Queensland sugar industry became effective on 1 January 2006. Prior to that date sugar sales were made through a single desk system operated by Queensland Sugar. Since deregulation Queensland Sugar has entered into voluntary agreements with the majority of Queensland mills to market their export raw sugar and is responsible for more than 90% of all raw sugar exported from Australia.

124 Queensland Sugar undertakes export sales direct to raw sugar refiners in a number of countries. Proceeds are pooled for payment purposes and distributed back to mills and growers after being adjusted for marketing costs incurred by Queensland Sugar. With the pooling of sales proceeds, producers receive an average of prices based on sales during the course of the year. In NSW, white and raw sugar is largely sold directly onto the domestic market by the NSW Sugar Milling Co-operative[41].

125 Returns to producers are determined primarily by the world futures price for sugar, but are also influenced by the level of the A$, regional sugar premiums and the costs of marketing and transporting the product[42].

Outlook

126 ABARES forecasts that world sugar production will increase by 8.6Mt in 2011-12 to a record 175.6Mt (representing an increase of around 5% on 2010-11 production)[43] and anticipates production increases for all major sugar producing countries (with the exception of Mexico), with closing stocks forecast to rise by 11%. ABARES forecasts also assume that Brazilian sugar producers will increase the proportion of sugar cane allocated to ethanol production in response to a higher world oil price and lower world sugar prices.

41 Source: Department of Agriculture, Fisheries and Forestry.

42 Source: Department of Agriculture, Fisheries and Forestry.

43 Years ended 30 September. Source: ABARES (September quarter 2011) *Agricultural commodities*.

127 Furthermore ABARES expects world sugar exports to decline by 1.8Mt in 2011-12 driven by lower import demand in Eastern Europe and India. India reimposed an import tariff of 60% on raw sugar in April 2011, after having lowered the tariff to zero in early 2009 to contain increases in domestic sugar prices[44].

128 Recently India has decided to allow the export of 1Mt of sugar at the beginning of the Indian sugar season (and possibly a first instalment). This is at a time when the expected sugar surplus for 2011-12 is 6.5Mt and there has recently been a broad based commodity sell off in the global markets which has exerted downward pressure on prices including sugar.

129 The following table summarises ABARES sugar outlook:

Sugar outlook

		2010	2011e	2012f	% change 2011-12
World – year ended / ending 30 September					
Production	Mt	158.8	167.0	175.6	5.1
- Brazil	Mt	40.9	38.7	41.0	5.9
Consumption	Mt	163.8	166.1	169.3	1.9
Exports	Mt	52.9	51.8	50.0	(3.5)
Closing stocks	Mt	56.4	57.3	63.6	11.0
Australia – year ended / ending 30 June					
Area	000 Ha	389.0	334.0	376.0	12.6
Production(1)	Mt	4.5	3.6	4.2	16.4
Exports	Mt	3.5	2.5	2.8	10.4
Value	A$m	1,887.0	1,492.0	1,491.0	(0.1)

Note:
1 Raw actual tonnes.
Source: ABARES (September quarter 2011) *Agricultural commodities*.

Sugar price

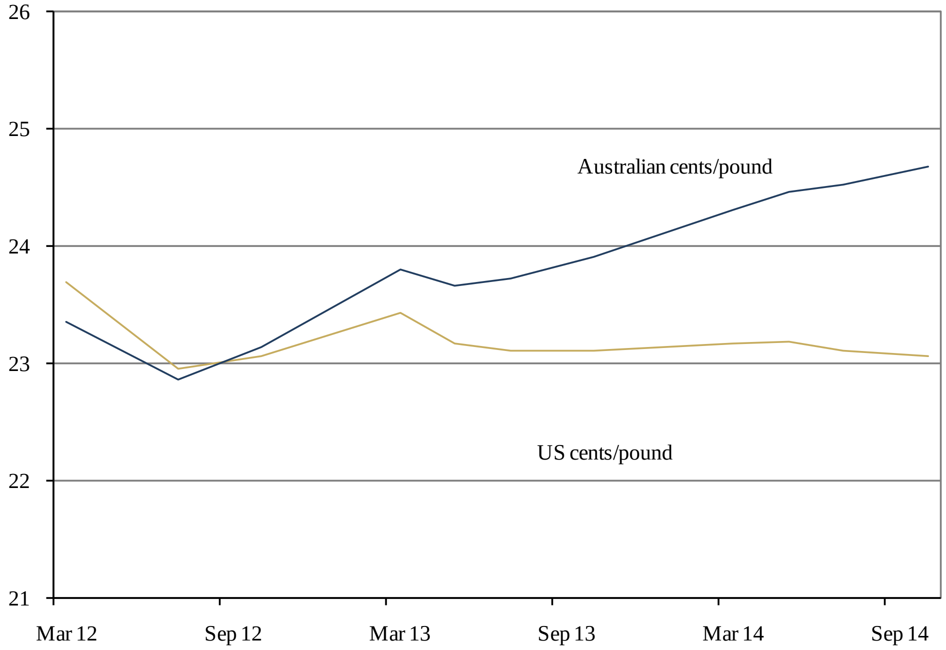
130 ABARES forecasts that sugar prices (No.11 sugar contract) will decline by around 14% over 2011-12 (year ended 30 September) in response to the expectation that record sugar production will outweigh a forecast increase in consumption, increasing world sugar stocks for the second successive year and placing downward pressure on prices[45].

131 The No.11 sugar contract forward curve also forecasts a decline in the US$ sugar price. However A$ sugar prices (using the A$ to US$ forward curve) are expected to rise, as shown below:

44 Source: ABARES (September quarter 2011) *Agricultural commodities*.

45 Source: ABARES (September quarter 2011) *Agricultural commodities*.

No.11 sugar contract forward curve
As at 30 November 2011



Note:
1 The Australian equivalent prices are derived using the A$:US$ forward exchange rates as at 30 November 2011.
Source: Bloomberg.

132 Brazil has been the key to sugar supply growth over the last 10 years, however production expansion in Brazil has slowed with construction of new sugar mills peaking in 2008-09 at 30, and reducing to around 10 in 2010-11. At the same time new mills have been increasingly diverted to ethanol production.

133 In the medium and long-term sugar prices are expected to be driven by Brazil production levels, with market observers suggesting that long-term prices in the range of US$0.22 to US$0.25 per pound are required to encourage construction in Brazil of new sugar mills. Potentially therefore this price range may represent a "floor" sugar price.

V Valuation approach

134 ASIC Regulatory Guideline 111 *Content of expert reports* (RG 111) outlines the appropriate methodologies that a valuer should consider when valuing assets or securities for the purposes of, amongst other things, share buy-backs, selective capital reductions, schemes of arrangement, takeovers and prospectuses. These include:

(a) the discounted cash flow (DCF) methodology

(b) the application of earnings multiples appropriate to the businesses or industries in which the company or its profit centres are engaged, to the estimated future maintainable earnings or cash flows of the company, added to the estimated realisable value of any surplus assets

(c) the amount that would be available for distribution to shareholders in an orderly realisation of assets

(d) the quoted price of listed securities, when there is a liquid and active market and allowing for the fact that the quoted market price may not reflect their value on a 100% controlling interest basis

(e) any recent genuine offers received by the target for any business units or assets as a basis for valuation of those business units or assets.

135 Under the DCF methodology the value of the business is equal to the net present value (NPV) of the estimated future cash flows including a terminal value. In order to arrive at the NPV the future cash flows are discounted using a discount rate which reflects the risks associated with the cash flow stream.

136 Methodologies using capitalisation multiples of earnings or cash flows are commonly applied when valuing businesses where a future "maintainable" earnings stream can be established with a degree of confidence. Generally, this applies in circumstances where the business is relatively mature, has a proven track record and expectations of future profitability and has relatively steady growth prospects. Such a methodology is generally not applicable where a business is in start-up phase, has a finite life, or is likely to experience a significant change in growth prospects and risks in the future.

137 Capitalisation multiples can be applied to either estimates of future maintainable operating cash flow, earnings before interest, tax, depreciation and amortisation (EBITDA), earnings before interest, tax and amortisation (EBITA), earnings before interest and tax (EBIT) or net profit after tax. The appropriate multiple to be applied to such earnings is usually derived from stock market trading in shares in comparable companies which provide some guidance as to value and from precedent transactions within the industry. The multiples derived from these sources need to be reviewed in the context of the differing profiles and growth prospects between the company being valued and those considered comparable. When valuing controlling interests in a business an adjustment is also required to incorporate a premium for control. The earnings from any non-trading or surplus assets are excluded from the estimate of the maintainable earnings and the value of such assets is separately added to the value of the business in order to derive the total value of the company.

138 An asset based methodology is applicable in circumstances where neither a capitalisation of earnings nor a DCF methodology is appropriate. It can also be applied where a business is no longer a going concern or where an orderly realisation of assets and distribution of the proceeds is proposed. Using this methodology, the value of the net assets of the company are adjusted for the time, cost and taxation consequences of realising the company's assets.

Methodology selected

139 The market value of MSF has been assessed by aggregating the market value of the business operations, together with the realisable value of any surplus assets and deducting net borrowings. The valuation of MSF has been made on the basis of market value as a going concern and has been determined as detailed below.

Milling operations

140 The milling operations have been valued using a capitalisation of EBITDA method. Under this methodology the value of the business is represented by its underlying maintainable EBITDA capitalised at a rate (or EBITDA multiple) reflecting the risk inherent in those earnings. The value of the equity in MSF has then been determined by adding the realisable value of surplus and other assets and deducting net borrowings and other liabilities. The capitalisation of EBITDA methodology has been adopted because:

(a) transaction evidence in the sector is generally expressed in terms of EBITDA multiples; and

(b) EBITDA is not impacted by differences between the depreciation rates or methods used by MSF and comparable companies, or by differences in the level of gearing (provided gearing levels are not excessive).

141 The Australian sugar industry has been subject to a number of recent transactions, involving changes in control and/or ownership. While the circumstances in each transaction differ, we have considered the implied value per tonne of cane crushing utilisation as a useful metric to cross check our assessed value of the milling operations.

Other assets

142 In addition to the milling operations, MSF owns a number of other sugar related assets such as:

(a) sugar cane farms which act as a source of supply of sugar cane to the Maryborough Mill and related water entitlements for farmland irrigation purposes

(b) other properties no longer integral to the sugar cane and milling activities undertaken; and

(c) a minority 13.3% interest in STL.

143 The values of the land and related water entitlements have been based on independent valuations undertaken for financial reporting purposes as at 31 December 2010. The valuation of the minority interest in STL has been based on comparable transactions, with appropriate implied value cross-checks.

Cross-check to alternative valuation criteria

144 While we consider the above approaches to be the most appropriate valuation methodologies in the circumstances, it is important to cross-check the assessed MSF equity valuation against other valuation methodologies used in equity markets to assess the price that might be paid for 100% of MSF. Accordingly, we have also considered the value of MSF by reference to the listed market price of MSF shares prior to 4 November 2011, being the last day of trading prior to MSF entering into the trading halt which preceded the announcement of the intention to make the Offer from Mitr Phol, adjusted for an appropriate takeover premium.

VI Valuation of 100% of MSF

Methodology

145 As discussed in Section V, the valuation of MSF is the aggregation of the various operations and assets of MSF, which include the:

(a) milling operations

(b) sugar cane farms, which act as a source of supply of sugar cane to the Maryborough Mill and related water entitlements for farmland irrigation purposes

(c) other properties no longer integral to the sugar cane and milling activities undertaken; and

(d) a minority 13.3% interest in STL.

Milling operations

146 We have adopted the EBITDA methodology as the principal method to value the milling operations of MSF, with a cross-check to the implied value per tonne of cane crushing utilisation. Under the capitalisation of EBITDA approach the underlying maintainable EBITDA is capitalised at an appropriate EBITDA multiple to derive the value of the business on an ungeared basis (i.e. enterprise value).

147 MSF has recently been through a transformational stage, increasing investment in milling capacity through acquisitions whilst restructuring operations to operate more efficiently. Additionally, its recent operating performance has been negatively impacted by significant adverse weather related events, most recently Cyclone Yasi. In our view therefore the reported historical financial results are not indicative of the future earnings capacity of the company. Accordingly, in considering the valuation of the MSF milling operations we have estimated EBITDA based on average seasonal conditions and hence average cane crushing utilisation (and average sugar production) for the four mills currently operated by MSF, together with the cost structure and related business infrastructure under which MSF now operates.

Assessment of maintainable EBITDA

148 In assessing underlying maintainable EBITDA we have adopted a number of assumptions, details of which are provided below. The two primary assumptions are cane crushing levels (a significant determinant of the quantum of sugar produced) and sugar prices.

Cane crushing levels

149 Sugar production is derived from cane crushing levels, which are a function of the number of hectares dedicated by farmers to cane growing and average sugar cane yields per hectare. The level of cane crushed by MSF's milling facilities over the period from 2006 to 2010, as well as management estimates for 2011 and 2012 are shown below:

MSF – cane crushing mill information	Maryborough 000 tonnes	Mulgrave 000 tonnes	Tableland 000 tonnes	South Johnstone 000 tonnes	Total 000 tonnes
2006 – actual	985	960	621	1,507[1]	4,073
2007 – actual	644	1,067	684	1,609[1]	4,004
2008 – actual	615	1,068	690	1,624[1]	3,997
2009 – actual	687	1,079	595	1,397[1]	3,758
2010 – actual	575	1,116	652	1,635[1]	3,978
2011 – actual	645	741	679	670	2,735[2]
2012 – estimate	730	1,100	680	1,500	4,010
2006 to 2010 – average	701	1,058	649	1,554	3,962

Note:

1 Includes cane grown for the Babinda Mill (which has now closed), excluding cane grown in the areas recently lost to the Tully Sugar mill. From the 2011 crop year this cane will be redirected to the South Johnstone and Mulgrave Mills.

2 Considered an outlier due to the impact of Cyclone Yasi and other particularly adverse weather conditions in the South Johnstone and Mulgrave Mills growing areas.

150 Based on the above we have assumed an average sugar cane crop to which MSF has milling entitlements of 4Mtpa.

Sugar pricing assumptions

151 Sugar prices adopted for valuation purposes are based on a blend of US$ forward prices, the A$:US$ exchange rates assumed, analyst views on sugar prices, as well as industry factors based on both discussions with MSF management and independent research. A summary of these factors is as follows:

(a) the US$ forward prices for the No. 11 sugar contract (as set out in Section IV) are consistent over one to three year periods, with prices of around US$0.23 per pound

(b) the A$ forward prices for the No. 11 sugar contract, when determined using the forward A$:US$ exchange rates (as set out in Section IV), indicate higher A$ equivalent prices due to expectations for lower A$ exchange rates. The respective one to three year forward prices are A$0.23, A$0.24 and A$0.25 per pound. However, in real (i.e. inflation adjusted) A$ terms these forward prices are towards the lower end of this range

(c) analyst long-term forward price estimates for sugar prices are around US$0.25 per pound

(d) we are advised that the current costs for production in Brazil are around US$0.18 per pound; and

(e) we understand industry consensus is that the long-term prices required to encourage additional investment in new sugar mill processing facilities in Brazil are in the range of US$0.22 to US$0.25 per pound, which may represent a “floor” sugar price in the medium to long-term.

152 Based on the above we have adopted a sugar price for valuation purposes of A$0.23 to A$0.24 per pound. This provides the following equivalent A$ per tonne prices for MSF sugar production:

MSF – sugar price adopted for valuation purposes	Low	High
Price per pound (A$)	0.23	0.24
Pounds per tonne	2,204.6	2,204.6
Price per tonne (A$)	507.06	529.10
Price adjustment(1)	(15.00)	(15.00)
Price for MSF sugar (A$ per tonne)	492.06	514.10

Note:
1 MSF incurs net costs of A$15 per tonne (adjusted against the sugar price received) in respect of terminal storage and shipping costs, offset by regional premium, freight adjustments and quality adjustments and adjusted for International Pol Scale (IPS).

Other assumptions

153 Other assumptions reflected in our assessment of maintainable EBITDA are as follows:

(a) in addition to the average annual cane crop, in determining the production of sugar from crushing of the sugar cane, we have had regard to the historical efficiency performance of the four mills currently operated by MSF, together with CCS[46] factors in the range of 12.5 to 13.5[47]

(b) a cost to MSF (price paid to cane growers) for the cane crushed that incorporates our sugar price assumptions, together with the CCS factors and mill efficiency assumptions included above

(c) revenue from the sale of molasses, based on production tonnes at a rate of 3% of the sugar cane crushed and an adopted molasses price of A$100 per tonne

(d) revenue from the sale of surplus power and RECs to the Queensland electricity power grid of A$3.5 million per annum

(e) cane transport and operating expenses consistent with an assumed annual sugar cane crop of 4Mt

(f) maintenance, employee and other operating expenses based on the current cost structure of the MSF milling operations

(g) corporate costs at an ongoing level of A$5.0 million per annum.

46 A measure of the recoverable sugar in the cane.

47 Given a constant sugar price and assumed consistent level of mill efficiency, changes to the CCS factor do not materially impact the profitability of the mill operations (although they are a key factor in the payments for sugar cane made to cane growers).

Conclusion on maintainable EBITDA

154 Based on the above, the EBITDA of MSF's milling operations ranges from A$24.7 million to A$29.3 million. This range is primarily attributable to the range of sugar prices adopted. For valuation purposes we have adopted the mid-point of this range of A$27.0 million as our estimate of the maintainable EBITDA of the milling operations.

EBITDA multiple

155 The selection of the appropriate EBITDA multiple to apply is a matter of judgement but normally involves consideration of a number of factors including, but not limited to:

(a) the stability and quality of earnings and management

(b) the nature and size of the business

(c) the spread and financial standing of customers

(d) the financial structure of the company and gearing level

(e) the asset backing of the underlying business of the company

(f) expected changes in interest rates

(g) whether the assessment is consistent with historical and prospective earnings

(h) relevant sugar industry factors include future growth potential, the strength of competitors and suppliers, the level of cyclicality of the sector and industry barriers to entry.

156 Consideration has also been given to the recent transaction evidence in the Australian sugar and agricultural industries, together with the share market multiples of listed companies operating in these sectors. As MSF is the only ASX listed sugar company, we have also had regard to other ASX listed agricultural companies.

157 Whilst there are a large number of companies operating in the global sugar industry, we have limited our analysis to sugar cane milling companies without other operations that would adversely impact comparability. In this regard, we have excluded companies with material other operations such as power generation[48], downstream manufacturing and sugar beet manufacturing companies.

158 Due to the high level of earnings volatility, earnings multiples for companies operating in the agricultural sector can vary significantly depending on a range of factors including current and expected seasonal conditions and the extent to which each company is exposed to agricultural risk. In particular, it should be noted that:

(a) the historical (or forecast) earnings multiples for companies whose historical (or forecast) earnings have been adversely impacted by poor seasonal or climatic conditions tend to be high, but are generally much lower when calculated as a multiple of earnings derived under normal (average) seasonal conditions

[48] Over and above that produced in the sugar milling process.

(b) forecast earnings beyond the current year generally reflect an assumption that seasonal and climatic conditions will revert to more normal (average) conditions due to the inability to reliably forecast future weather patterns

(c) companies with larger more geographically diverse operations are generally less impacted by adverse climatic conditions in a specific region, and therefore generally trade on more consistent multiples.

Recent transactions in the Australian sugar milling sector

159 We consider the most relevant indications of comparative value for MSF to have been the recent transactions in the Australian sugar industry. A detailed summary of the operations of the relevant target companies is set out in Appendix C. We have had regard to the implied EBITDA multiples as well as the implied value per tonne of cane crushing utilisations (by way of a value cross-check).

160 Due to the limited information available and a lack of access to management of the target companies, we have based our multiple analysis on the average earnings and average cane crushing utilisation for historical periods, to provide a reasonable estimate of average seasonal conditions and output. Where possible we have also made appropriate adjustments in respect of surplus assets and income attributable to these assets (e.g. shares in STL, cane land / agricultural land, investment properties and other surplus assets) to derive multiples associated with the milling operations only.

Transaction evidence for Australian milling assets

Date	Target	Acquirer	Total consideration A$m	Consideration for milling assets A$m	EBITDA(1) x	Implied value / tonne of cane crushing utilisation(1) x	Average cane crushed Mtpa
Nov 11	Proserpine Sugar	COFCO	128.0	108.1	10.9(2)	65.8	1.6
May 11	Tully Sugar	COFCO	136.0	103.0	10.3	57.3	1.8
Jul 10	Sucrogen	Wilmar	1,750.0	1,059.0	11.0	76.1	13.9
Oct 07	Mulgrave	MSF	60.0	40.0	9.6(3)	35.1	1.1

Note:
1 Based on average years.
2 Adopting the independent expert's maintainable EBITDA results in an EBITDA multiple of 10.3.
3 Adopting the independent expert's maintainable EBITDA results in an EBITDA multiple of 13.7.
Source: LEA analysis using data from ASX announcements, analyst reports and company annual reports.

161 In relation to the above we note that:

(a) Proserpine Co-operative Sugar Milling Association Ltd (Proserpine Sugar) – the average EBITDA for Proserpine Sugar excludes the loss incurred in 2011 (largely due to significant losses on forward sugar prices) and is based on the historical years 2008 to 2010, as well as the forecasts (set out in the expert report) for 2012 and 2013[49]. The cane crushing utilisation analysis is based on the historical period 2006 to 2010. The

49 If this was assessed with historical data only, i.e. from 2008 to 2010 the EBITDA multiple would be 12.3.

implied value for the milling business was also adjusted in respect of the value placed on the ProSoil and Furfural businesses, which were assessed at a mid-point value of A$24.8 million[50] and considered surplus to the milling operations

(b) Tully Sugar – the average EBITDA and cane crushing utilisation analysis is based on the historical years 2007 to 2010

(c) Sucrogen – the average EBITDA and cane crushing utilisation analysis is based on the historical years 2006 to 2010[51]. As Sucrogen's earnings also include significant sugar refining assets we have attempted to allocate an appropriate proportion of earnings to the sugar milling business based on the information available (which was for 2010 only)

(d) Mulgrave – the average EBITDA and cane crushing utilisation analysis are based on the historical years 2003 to 2007.

162 In considering the above multiples we have had regard to, inter alia:

(a) the size of the milling assets in relation to MSF's milling operations (Sucrogen is a significantly larger operation than MSF, while the remaining milling companies are significantly smaller)

(b) the diversification of MSF's four milling assets compared to the single mill operations of Proserpine Sugar, Tully Sugar and Mulgrave

(c) the fact that the Mulgrave transaction was completed in 2007, prior to recent acquisitions from overseas buyers which have paid significantly higher amounts per tonne of cane crushing utilisation.

Australian agricultural transaction multiples

163 The EBITDA multiples implied by recent transactions in the Australian agricultural sector are set out in Appendix C and summarised below:

EV / EBITDA multiples	Historical	Forecast
Range	6.9 – 15.7	7.9 – 13.9
Median	11.7	8.9
Average	11.8	9.5

164 In relation to these transaction multiples we note:

(a) none of the businesses acquired had sugar operations and none were directly comparable to MSF. However, the earnings of a number of the acquired businesses were derived from the transport of grain and other commodities and as such were volume driven

50 Values assessed by the independent expert.

51 Sucrogen's cane land holdings and shares in STL (which derive dividend income) have not been adjusted for, due to a lack of detailed information.

(b) recently there have been a number of large transactions in the agricultural sector in Australia (which has highlighted the high level of foreign investment demand for Australian agricultural companies)

(c) a number of the transactions occurred prior to the on-set of the global financial crisis (GFC)

(d) forecast earnings beyond the current year generally reflect an assumption that seasonal and climatic conditions will revert to more normal (average) conditions due to the inability to reliably forecast future weather patterns.

Listed company multiples

165 The EBITDA multiples for listed companies operating in the Australian agricultural sector and international sugar cane and milling sectors are set out in Appendix D and summarised below:

Listed company EBITDA multiples (including a premium for control[1])	Historical 2010/11	Forecast 2011/12	Forecast 2012/13
Australian listed agricultural companies			
Range	7.1 – 13.6	5.9 – 9.0	7.0 – 8.7
Median	9.5	8.1	7.6
Average	9.8	7.9	7.8
International listed sugar companies			
Range	5.4 – 12.3	5.7 – 11.3	5.8 – 9.5
Median	6.8	6.5	8.2
Average	7.6	7.5	7.7

Note:

1 As we are valuing a 100% controlling interest in MSF we have adjusted the listed company multiples to reflect a premium for control. Empirical evidence undertaken by LEA indicates that the average premium paid above the listed market price in successful takeovers in Australia ranges between 30% and 35% (assuming the pre-bid market price does not reflect any speculation of the takeover). This broadly translates to a premium of 20% to 25% at the EBITDA multiple or enterprise value level, although this varies depending on the level of debt funding employed in each company.

Conclusion on EBITDA multiple

166 Based on the above, in our opinion, an EBITDA multiple range of 9.5 to 10.5 is appropriate when applied to the level of maintainable operating EBITDA adopted for valuation purposes. This range includes a premium for control and reflects in particular:

(a) expected future growth in the harvest size (and hence cane crushed and sugar produced) due to additional farming areas dedicated to sugar cane growing

(b) inherent spare production capacity at (three of) the mills, which given the fixed cost nature of milling operations, would be expected to significantly enhance future profitability

(c) the high depreciated replacement costs of the MSF mills

(d) the effective geographic monopoly status enjoyed by sugar mills generally (due to the high transport costs associated with sugar cane harvests)

(e) the prevailing significant overseas interest in Australian agricultural assets, in particular, in the sugar industry sector.

Enterprise value of MSF's milling operations

167 We have therefore assessed the value of MSF's sugar milling operations (on an ungeared basis) as follows:

MSF – value of milling operations	Low A$m	High A$m
Maintainable EBITDA	27.0	27.0
EBITDA multiple	9.5	10.5
Enterprise value	256.5	283.5

168 The sensitivity of our assessed valuation range to movements in A$ sugar prices and volumes of sugar cane crushed (and implicitly sugar production) is set out below:

Milling operation value sensitivities

Cane Crushed 000 tpa	Sugar production 000 tpa	A$ sugar prices / pound 0.215 A$m	0.225 A$m	0.230 A$m	0.235[1] A$m	0.240 A$m	0.245 A$m	0.255 A$m
3,600	482	109	151	171	192	215	238	283
3,800	509	143	187	209	231	255	279	327
4,000	536	177	223	247	270	295	320	371
4,200	563	211	260	284	309	335	362	415
4,400	590	245	296	322	347	375	403	459

Note:
1 Mid-point of A$ per pound prices for MSF sugar production.

169 The table above highlights that movements in A$ sugar price forecasts and cane crushing levels (and hence sugar production) have the ability to significantly impact the value of MSF's milling operations, both positively and negatively.

Cross-check to implied cane crushing utilisation

170 Our assessed valuation of the MSF milling operations implies the following value per tonne of cane crushed:

Cross-check to implied value per tonne of cane crushed	Low	High
Value of milling operations (A$m)	256.5	283.5
Maintainable crushing utilisation (Mtpa)	4.0	4.0
Value per tonne of cane crushed (A$m)	64.1	70.9

171 The mid-point of the implied value is A$67.50 per tonne of cane crushed. We consider this implied value appropriate having regard to the transaction evidence set out in paragraph 160 above. In particular we note that the implied MSF value is:

(a) consistent with the value implied for Proserpine Sugar

(b) lower than the value implied for the significantly larger Sucrogen business; and

(c) higher than values implied for Tully Sugar (which is a significantly smaller operation than MSF).

Sugar cane farms

172 As noted in Section III, MSF owns several sugar cane farming properties in the Maryborough region, which act as a source of supply of sugar cane to the Maryborough Mill[52]. For the purpose of our report we have adopted a valuation of these properties based on an independent assessment thereof by Wide Bay Property Valuations (Wide Bay) in Maryborough. The primary basis of valuation comprised a rate (A$) per hectare of cleared and cultivated land, having regard to improvements thereon and comparable sales of land in the region. Where appropriate the valuations incorporated an allowance for sugar cane stools standing on the properties.

173 The independent valuations were undertaken for financial reporting purposes as at 31 December 2010. We have been advised by MSF management that based on discussions with Wide Bay, they are not aware of any movement in the market value of the sugar cane properties subsequent to December 2010 likely to have any material impact on the value of the MSF land portfolio. In the circumstances, for the purpose of our valuation, we have adopted a range of values for these properties that reflects a potential movement in market value of plus and minus 5%.

174 In addition to the cane farm properties, MSF also owns entitlements to 7,504Ml of water for farmland irrigation purposes from the Lower Mary River Irrigation Scheme. The majority of the cane farm properties owned by MSF are irrigated from this source. These water entitlements have been valued by Wide Bay having regard to trading in water entitlements in comparable schemes in the region[53].

175 Based on the above we have adopted a combined value range of A$47.5 million to A$52.7 million for the sugar cane farming properties owned by MSF[54], together with the value of related water rights, as follows:

52 Collectively these properties represent approximately a quarter of the hectares in the Maryborough region dedicated to the growing of sugar cane for supply to the Maryborough Mill.

53 We have been advised that separate water entitlements under the Lower Mary River Irrigation Scheme have only recently been established and that accordingly any related market for the trading of these water entitlements is in its infancy.

54 This value implicitly includes the value of sugar cane currently standing on the properties.

MSF – value of sugar cane farms / water rights[1]		
	Low A$m	**High A$m**
Sugar cane farms	43.8	48.1
Water entitlements	3.7	4.6
	47.5	52.7

Note:

1 Our assessed values also reflect an adjustment for the potential tax liability that would arise on a disposal of the cane farms and related water entitlements. For valuation purposes we have discounted the potential tax liability.

Other properties

176 MSF owns other properties no longer integral to the sugar cane growing and milling activities undertaken. These include the proposed Mary Harbour residential development and the former sugar mills at Babinda and Mourilyan. For the purpose of our report we have adopted the following valuations of these properties:

MSF – other properties		
	Low A$m	**High A$m**
Mary Harbour residential project[1]	7.0	8.8
Babinda and Mourilyan mills[2]	2.3	2.3
Other properties	3.9	3.9
	13.2	15.0

Note:

1 Value reflects re-zoning of land from rural to urban use in September 2011, net of applicable deferred tax liability.

2 Stated net of related land remediation costs.

Investment in STL

177 As noted in Section III, MSF holds a minority 13.3% interest in STL, which owns the bulk sugar export facilities in Queensland. STL is operated by QSL under a leasing arrangement. The MSF shareholding comprises a combination of G class and M class shares. The G class shares are listed on the NSX, although associated liquidity is very low. The M class shares are not listed on any stock exchange.

178 In addition, MSF is party to an agreement[55] which enables MSF to acquire an additional 15.3 million M class shares in STL (representing 4.2% of the total issued capital) from Bundaberg Sugar at a price of A$0.90 per share.

55 The Share Sale and Purchase Agreement expires on 24 December 2011. The Share Sale and Purchase Agreement is subject to MSF obtaining finance to fund the share purchase on terms satisfactory to MSF. If MSF does not obtain satisfactory finance prior to 24 December 2011, such that it is able to complete the acquisition, the Share Sale and Purchase Agreement will terminate.

179 Given the minority interest nature of this share parcel and the concurrent nature of the potential transaction, we have adopted the price of A$0.90 per share as agreed between the parties for the purpose of our report.

180 The option relates to M class shares in STL. However, as the rights and restrictions attaching to the M class and G class shares are largely consistent, we have adopted the price of A$0.90 per share in respect of both the M class and G class shares in STL held by MSF.

181 Based on the above we have assessed the value of the investment in STL at A$43.2 million, as follows[56]:

Shares in STL held by MSF	
	Million
G class shares	34.7
M class shares	13.3
	48.0
Adopted value per share	A$0.90
Value of investment (A$m)	A$43.2

182 We also consider our adopted value of the MSF investment in STL to be reasonable having regard to the implied fully franked dividend yield of 6.4%, based on dividends distributed by STL in FY11[57].

Net debt

183 MSF's borrowing comprise a mixture of seasonal debt and core debt. The seasonal borrowings fluctuate over the year, with peak seasonal borrowings traditionally in July at the start of the harvesting season. For valuation purposes therefore we are of the opinion that it is appropriate to consider the average net borrowings throughout the year (rather than the net borrowings at a point in time) when determining the value of the equity in MSF.

184 On this basis, and having regard to current cash and debt levels and the forecast average net debt expected for 2012 (previous years' debt levels are less relevant for assessing average net debt given recent acquisitions by MSF and the related subsequent increase in debt levels), we have adopted net borrowings of A$75 million to A$80 million for valuation purposes.

Shares on issue

185 MSF currently has 69.2 million shares on issue. In addition the company has:

(a) 0.9 million options on issue, which will raise A$1.9 million upon exercise

(b) performance rights outstanding which will result in the issue of 0.3 million new shares if performance hurdles are achieved. However, in the event of a takeover or other change in control event the MSF Board can waive the respective performance hurdles to

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56 No tax liability has been assumed for the STL shares as the company has no plans to dispose of these shares and based on the tax cost base any potential liability would not be material at the assessed value of $0.90 per share.

57 STL has a stated policy to pay as high a dividend as possible, having regard to its financial position and obligations under the Corporations Act.

allow the performance rights to become immediately exercisable. Accordingly, when valuing 100% of the shares in MSF, in our opinion, it is appropriate to assume these additional shares will be issued.

186 For valuation purposes therefore we have assumed 70.3 million fully diluted shares on issue.

Value of MSF

187 On this basis, the value of MSF shares on a 100% controlling interest basis is as follows:

Valuation of MSF	Low A$m	High A$m
Enterprise value of milling operations	256.5	283.5
Value of cane farms and water rights	47.5	52.7
Value of other properties	13.2	15.0
Value of STL shares	43.2	43.2
Other assets(1)	9.7	11.7
Cash from exercise of options	1.9	1.9
Enterprise value	372.0	408.0
Less net debt	75.0	80.0
Value of equity	297.0	328.0
Fully diluted shares on issue (million)	70.3	70.3
Value per MSF share (A$)	A$4.22	A$4.67

Note:

1 Includes our assessed value of tax losses held by MSF that arose out of the acquisition and subsequent operation of the NMJV assets, together with hedging losses when marked to market based on our midpoint sugar prices.

Cross-check to pre-announcement share trading range

188 We have cross-checked our assessed value of the equity in MSF to the listed market price of MSF shares adjusted for a premium for control. We note that:

(a) MSF is the only ASX listed sugar company and as such holds a unique position on the ASX

(b) MSF is researched and analysed by three share broking firms and has institutional investors on its register

(c) significant information has been disclosed in relation to MSF's operations in its financial reports and stock exchange announcements

(d) MSF has an obligation under the ASX Listing Rules (subject to certain exemptions) to notify the ASX immediately of any information that it becomes aware of concerning MSF which a reasonable person would expect to have a material effect on the price or value of MSF.

189 In order to cross-check our valuation of MSF shares we have considered the listed market price of MSF shares up to 4 November 2011 (the last day of trading prior to MSF entering

into the trading halt which preceded the announcement of the intention to make the Offer), adjusted for a premium for control.

190 The volume weighted average share prices for MSF in the one and three month periods up to 4 November 2011 were A$3.23 and A$3.24 respectively (refer Section VII for detailed calculations). Empirical evidence undertaken by LEA indicates that the average premium paid above the listed market price in successful takeovers in Australia ranges between 30% and 35% (assuming the pre-bid market price does not reflect any speculation of the takeover, and after adjusting the pre-bid market price for the movement in share market indices between the date of the pre-bid market price and the announcement of the takeover).

191 Adding a 30% to 35% premium for control to these share prices would therefore result in a theoretical "control" value of A$4.20 to A$4.37 per share. While the high end of our assessed valuation range (and the Offer consideration) exceeds the high end of this theoretical "control" value, we note that it is not uncommon for premiums above 30% to 35% of the pre-bid market price to be paid.

VII Evaluation of the Offer

Summary of opinion

192 LEA has concluded that the Offer is fair and reasonable. We have formed this opinion for the following reasons.

Assessment of fairness

193 Pursuant to RG 111 an offer is "fair" if:

"The value of the offer price or consideration is equal to or greater than the value of the securities the subject of the offer."

194 This comparison is shown below:

	Low A$ per share	High A$ per share	Mid-point A$ per share
Value of Offer consideration	4.45	4.45	4.45
Value of 100% of ordinary shares in MSF	4.22	4.67	4.45
Extent to which the Offer consideration exceeds (or is less than) the value of the ordinary shares in MSF	0.23	(0.22)	-

195 As the consideration offered by Mitr Phol is consistent with our assessed value of 100% of the ordinary shares in MSF, in our opinion, the Offer is fair.

Assessment of reasonableness

196 Pursuant to RG 111, an offer is reasonable if it is fair. Consequently we have concluded that the Offer is both fair and reasonable.

197 In assessing whether the Offer is reasonable LEA has also considered:

(a) the extent to which a control premium is being paid to MSF shareholders

(b) the extent to which a share of the synergies likely to arise upon an acquisition of MSF by Mitr Phol are being shared with MSF shareholders

(c) the listed market price of MSF shares both prior to the announcement of the intention to make the Offer and after the announcement of the Offer

(d) the likely market price of MSF shares if the Offer is not successful

(e) the position of MSF shareholders if Mitr Phol acquires 50.1% but less than 100% of the MSF shares on issue

(f) Mitr Phol's current shareholding in MSF

(g) the value of MSF to an alternative offeror and the likelihood of an alternative offer emerging, either prior to the close of the Offer, or sometime in the future

(h) other risks, advantages and disadvantages.

198 These issues are discussed in detail below.

Extent to which a control premium is being paid

199 Research undertaken by LEA indicates that average premiums paid in successful takeovers in Australia generally range between 30% and 35% above the listed market price of the target company's shares three months prior to the announcement of the bid (assuming no speculation of the takeover is reflected in the pre-bid price). This premium reflects the fact that:

(a) the owner of 100% of the shares in a company obtains access to all the free cash flows of the company being acquired, which it would otherwise be unable to do as a minority shareholder

(b) the controlling shareholder can direct the disposal of surplus assets and the redeployment of the proceeds

(c) a controlling shareholder can control the appointment of directors, management policy and the strategic direction of the company

(d) a controlling shareholder is often able to increase the value of the entity being acquired through synergies and/or rationalisation savings.

200 We have calculated the premium implied by the Offer of A$4.45 per share by reference to the market prices of MSF shares up to and including 4 November 2011 (being the last trading day prior to the announcement of the intention to make the Offer on 9 November 2011)[58], as shown below:

Implied offer premium relative to recent MSF share prices

	MSF share price A$	Implied control premium %
Offer consideration	4.45	
Closing share price on:		
4 November 2011[(1)]	3.40	30.9
5 October 2011 (1 month prior)	3.01	47.8
5 August 2011 (3 months prior)	3.20	39.1
Volume weighted average price (VWAP):		
1 month to 4 November 2011	3.23	37.8
3 months to 4 November 2011	3.24	37.3

Note:
1 Being the closing price on the last day of trading prior to the trading halt which preceded the announcement of the intention to make the Offer on 9 November 2011.

201 Given the relatively high implied premiums we have concluded that the consideration implies on offer premium which is consistent with or above the average premiums paid in successful takeovers generally.

58 Prior to the commencement of trading on Monday, 7 November 2011 MSF requested a trading halt in its shares pending an announcement in respect of a material control transaction. The intention to make the Offer from Mitr Phol was subsequently announced prior to the commencement of trading on 9 November 2011.

202 Accordingly, in our opinion, MSF shareholders are being compensated for the fact that control of MSF will pass to Mitr Phol if the Offer is successful.

Extent to which shareholders are being paid a share of synergies

203 Mitr Phol does not have any Australian operations independent of its existing interest in MSF, and has indicated an intention to retain the MSF head office subsequent to completion of the Offer[59]. Accordingly, MSF management have estimated that any synergies associated with the Offer are likely to be confined to cost savings resulting from the potential delisting of MSF from the ASX and related regulatory matters no longer required.

204 In the circumstances, based on our understanding of the likely nature and quantum of potential synergies, in our opinion, the potential synergies arising from the transaction are unlikely to be material in the overall context of our assessed value of MSF.

Recent share prices subsequent to the Offer

205 MSF shares have traded on the ASX in the range of A$4.34 to A$4.52 per share since the intention to make the Offer was announced up to 9 December 2011. The VWAP for the period was A$4.42 per share, and on 9 December 2011 MSF shares last traded at A$4.47 per share.

206 MSF shareholders should note that MSF shares have, on occasion, traded marginally above the Offer price. In our view this suggests that:

(a) in the absence of a superior proposal the consensus market view is that the Offer is likely to be successful

(b) some investors believe that there is some prospect of a higher offer given the recent level of corporate activity in the Australian sugar industry.

207 MSF shareholders considering selling their MSF shares on the ASX will need to consider brokerage costs and should note that:

(a) the MSF share price on the ASX is subject to daily fluctuation

(b) MSF shareholders who sell their MSF shares on the ASX will not obtain the benefit of any superior proposal should this eventuate.

Position if Mitr Phol acquires at least 50.1% or more but less than 90% of MSF

208 MSF shareholders should note that the Offer is currently conditional on Mitr Phol acquiring at least 50.1% of MSF shares. Should Mitr Phol acquire 50.1% but less than 90% of MSF, Mitr Phol will control MSF including its day-to-day management, strategic direction and level of dividend payments. Should this occur the liquidity of MSF shares may be diminished which may result in a fall in the price of MSF shares.

209 In addition, change in control provisions in agreements to which MSF is a party may be triggered with potentially adverse consequences for MSF shareholders.

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[59] Bidder's Statement Section 7.10(e).

Mitr Phol's current shareholding in MSF

210 At the date of the Offer, Mitr Phol had a relevant interest in approximately 22% of the shares on issue in MSF. The majority of this shareholding was acquired from GPG in November 2010 at a price of A$4.00 per share.

211 Whilst Mitr Phol could therefore prevent a competing bidder from proceeding to compulsory acquisition of MSF, it does not control MSF and, in our opinion, should therefore pay an appropriate premium for control.

Likelihood of an alternative offer

212 We have been advised by the Directors of MSF that no formal alternative offers have been received subsequent to the announcement of the intention to make the Offer on 9 November 2011.

213 Further, as Mitr Phol already owns 22.01% of MSF shares, Mitr Phol would need to agree to sell its shareholding in order for an alternative offeror to acquire 100% control of MSF.

Likely price of MSF shares if the Offer is unsuccessful

214 In our opinion, if the Offer is unsuccessful and in the absence of an alternative proposal, it is likely (at least in the short-term) that MSF shares will trade at a discount to our valuation and the Offer consideration of A$4.45 per share (consistent with the difference between the value of MSF on a portfolio basis and the value on a 100% controlling interest basis).

Conclusion

215 Based upon the above we have concluded that the Offer is fair and reasonable.

Other matters

216 The taxation consequences of accepting the Offer depend on the individual circumstances of each investor. Shareholders should read the taxation advice set out in the Bidder's Statement and Target Statement and should consult their own professional adviser if in doubt as to the taxation consequences of the Offer.

217 The ultimate decision whether to accept the Offer should be based on each shareholders' assessment of their own circumstances, including their risk profile, liquidity preference, tax position and expectations as to value and future market conditions. If shareholders are in doubt about the action they should take in relation to the Offer or matters dealt with in this report, shareholders should seek independent professional advice specific to their circumstances.

Appendix A

Financial Services Guide

Lonergan Edwards & Associates Limited

1 Lonergan Edwards & Associates Limited (ABN 53 095 445 560) (LEA) is a specialist valuation firm which provides valuation advice, valuation reports and independent expert's reports (IER) in relation to takeovers and mergers, commercial litigation, tax and stamp duty matters, assessments of economic loss, commercial and regulatory disputes.

2 LEA holds Australian Financial Services Licence No. 246532.

Financial Services Guide

3 The Corporations Act authorises LEA to provide this Financial Services Guide (FSG) in connection with its preparation of an IER to accompany the Target Statement to be sent to MSF shareholders in connection with the Offer.

4 This FSG is designed to assist retail clients in their use of any general financial product advice contained in the IER. This FSG contains information about LEA generally, the financial services we are licensed to provide, the remuneration we may receive in connection with the preparation of the IER, and if complaints against us ever arise how they will be dealt with.

Financial services we are licensed to provide

5 Our Australian Financial Services Licence allows us to provide a broad range of services to retail and wholesale clients, including providing financial product advice in relation to various financial products such as securities, derivatives, interests in managed investment schemes, superannuation products, debentures, stocks and bonds.

General financial product advice

6 The IER contains only general financial product advice. It was prepared without taking into account your personal objectives, financial situation or needs.

7 You should consider your own objectives, financial situation and needs when assessing the suitability of the IER to your situation. You may wish to obtain personal financial product advice from the holder of an Australian Financial Services Licence to assist you in this assessment.

Fees, commissions and other benefits we may receive

8 LEA charges fees to produce reports, including this IER. These fees are negotiated and agreed with the entity who engages LEA to provide a report. Fees are charged on an hourly basis or as a fixed amount depending on the terms of the agreement with the entity who engages us. In the preparation of this IER, LEA is entitled to receive a fee estimated at A$135,000 plus GST.

9 Neither LEA nor its directors and officers receives any commissions or other benefits, except for the fees for services referred to above.

10 All of our employees receive a salary. Our employees are eligible for bonuses based on overall performance and the firm's profitability, and do not receive any commissions or other benefits arising directly from services provided to our clients. The remuneration paid to our directors reflects their individual contribution to the company and covers all aspects of performance. Our directors do not receive any commissions or other benefits arising directly from services provided to our clients.

11 We do not pay commissions or provide other benefits to other parties for referring prospective clients to us.

Complaints

12 If you have a complaint, please raise it with us first, using the contact details listed below. We will endeavour to satisfactorily resolve your complaint in a timely manner.

13 If we are not able to resolve your complaint to your satisfaction within 45 days of your written notification, you are entitled to have your matter referred to the Financial Ombudsman Services Limited (FOS), an external complaints resolution service. You will not be charged for using the FOS service.

Contact details

14 LEA can be contacted by sending a letter to the following address:

Level 27
363 George Street
Sydney NSW 2000
(or GPO Box 1640, Sydney NSW 2001)

Appendix B

Qualifications, declarations and consents

Qualifications

1 LEA is a licensed investment adviser under the Corporations Act. LEA's authorised representatives have extensive experience in the field of corporate finance, particularly in relation to the valuation of shares and businesses and have prepared many hundred independent expert's reports.

2 This report was prepared by Mr Edwards and Mr Holt, who are each authorised representatives of LEA. Mr Edwards and Mr Holt have over 17 years and 25 years experience respectively in the provision of valuation advice.

Declarations

3 This report has been prepared at the request of the Directors of MSF to accompany the Target's Statement to be sent to MSF shareholders. It is not intended that this report should serve any purpose other than as an expression of our opinion as to whether or not the Offer is fair and reasonable to the shareholders of MSF.

Interests

4 At the date of this report, neither LEA, Mr Edwards nor Mr Holt have any interest in the outcome of the Offer. With the exception of the fee shown in Appendix A, LEA will not receive any other benefits, either directly or indirectly, for or in connection with the preparation of this report.

5 LEA has had no prior business or professional relationship with MSF or Mitr Phol prior to the preparation of this report.

Indemnification

6 As a condition of LEA's agreement to prepare this report, MSF agrees to indemnify LEA in relation to any claim arising from or in connection with its reliance on information or documentation provided by or on behalf of MSF which is false or misleading or omits material particulars or arising from any failure to supply relevant documents or information.

Consents

7 LEA consents to the inclusion of this report in the form and context in which it is included in MSF's Target Statement.

LONERGAN EDWARDS & ASSOCIATES LIMITED

Appendix C

Valuation evidence from recent transactions

1 There have been a number of transactions involving businesses operating in the Australasian agribusiness market, including transactions involving businesses in the Australian sugar industry. The implied multiples from these transactions, and a brief description of the target company's activities at the date of the acquisition, are set out below:

Summary of transaction multiples					
			Purchase	EBITDA multiples	
			price[2]	Historical	Forecast
Date[1]	**Target**	**Acquirer**	**A$m**	**x**	**x**
Australian sugar milling acquisitions					
Nov 11	Proserpine Sugar[3]	COFCO	108[4]	na	10.9[5]
May 11	Tully Sugar	COFCO	103[4]	16.8	10.3[5]
Jul 10	Sucrogen	Wilmar	1,059[4]	9.2	11.0[5]
Oct 07	Mulgrave Central Mills	MSF	40[4]	9.0	9.6[5]
Australian agriculture companies					
Dec 10	AWB commodity trading division (sold by Agrium)	Cargill Inc	870	9.3[6]	na
Nov 10	SunRice[7]	Ebro Foods S.A.	608	11.4	8.7[8]
Aug 10	AWB	Agrium	1,727	na	9.3
Oct 09	UMH	GrainCorp	757	6.9	na
May 09	ABB Grain	Viterra Inc	2,224	15.7	13.9[9][10]
Mar 07	Queensland Cotton Hldgs	Olam International	279	12.8	7.9[11]
Dec 05	Roberts	Ruralco Holdings	181	9.8	10.1[10]
Jul 05	Wrightson	Pine Gould Guinness	415	15.1	8.5
May 04	Ausbulk	ABB Grain	689	13.2	8.5
Aug 03	Landmark	AWB	825	11.4	9.1
Feb 03	Grainco Australia	GrainCorp	245	11.9	na

Note:
1 Date of the announcement.
2 Enterprise value. Foreign denominations are translated to A$ as at the date of the announcement.
3 Acquisition is subject to pending shareholder and creditor approval.
4 Consideration excluding assets other than the milling operations.
5 Implied forecast multiples are based on average historical earnings. Note that the implied Proserpine Sugar multiples includes two years of forecast results.
6 Based on maintainable earnings over the four year historical period to 2010.
7 Transaction did not proceed.
8 Based on maintainable earnings estimated by independent expert.
9 Multiple for ABB Grain is 9.7 times for the second forecast year. In our view, this is more reflective of a multiple based upon maintainable earnings than the 13.9 times forecast multiple for the forecast year.
10 Multiple includes an estimation of depreciation based upon historic experience.
11 Queensland Cotton Holdings forecast is based on average seasonal conditions as per the IER prepared for the transaction.

Source: LEA analysis using data from ASX announcements, analyst reports and company annual reports.
na – not available.

Appendix C

Australian sugar milling acquisitions

Proserpine Sugar Co-operative Sugar Milling Association Ltd

2 Proserpine Sugar was recently placed in administration following adverse hedging arrangements on sugar production sold forward. It has since received a number of competing offers for certain assets and liabilities of the company from Wilmar (A$120 million) and China National Cereals, Oils and Foodstuffs Corporation (COFCO) (A$128 million). Shareholders and creditors are yet to vote on the proposals from both companies and for the purposes of our analysis we have logically assumed the highest offer will be accepted.

3 The assets and liabilities to be purchased by the ultimate acquirer include the sugar milling assets, the Pro-soil and Furfural businesses, cane farm assets, STL shares as well as other working capital and related assets. The proposed transaction excludes the major financial liabilities such as bank overdrafts, unsecured loans from members and others and secured loans. Proserpine Sugar's cane crushing capacity in the five years to 2010 has averaged 1.6Mtpa.

Tully Sugar Limited

4 Tully Sugar accepted an offer for A$136 million by COFCO (a leading Chinese trading food group) in July 2011 following a contested competitive bidding process that included Bunge Ltd and Mackay Sugar Ltd. Tully Sugar operates one of the largest sugar mills in Australia, located at Tully in Far North Queensland. The company's milling facilities have produced on average 1.8Mtpa of cane over the four years to 30 April 2010. In addition, at the time of the acquisition, Tully Sugar's other material assets included shares in STL, investment properties including a shopping centre and residential development and cane farms covering 1,827Ha.

Sucrogen (division of CSR Limited prior to sale)

5 Sucrogen was sold to Wilmar, a Singapore based agribusiness group for A$1.75 billion in July 2010. At the time of acquisition Sucrogen was the largest Australian raw sugar producer with 2.1Mt of sugar production and accounting for over 40% of Australian sugar industry output. Its operations included seven sugar mills in Queensland, with cane crushing averaging 13.9Mtpa in the five years to 2010. Cogeneration power facilities at Sucrogen's mills generated around 171MW of power annually, with surplus power of approximately 105MW sold externally. Sucrogen's other assets included:

(a) 46% of STL's M class (miller) shares and 0.5% of the G class (grower) shares

(b) ownership of 2,500Ha of sugar cane farm land

(c) investments in Queensland Sugar, C. Czarenikow Limited (42.5% interest), a leading global supplier of sugar marketing services and Australian Molasses Trading Pty Ltd (36.8% interest), a joint venture company to export Australian molasses

(d) investments in the major sugar refining companies in Australia and New Zealand, being Sugar Australia and NZSC, with combined refining capacity of 1Mt. Sugar brands operated by these businesses include CSR in Australia and Chelsea in New Zealand; and

(e) a renewable energy business that produced ethanol (up to 60 million litres per annum) and fertiliser.

Mulgrave Central Mills Ltd

6 Mulgrave Central Mills was engaged in the milling of sugar cane and manufacture of raw sugar and molasses. The company was originally founded as a growers' co-operative, later transforming into a company with the majority of shareholders being cane suppliers. Prior to acquisition by The Maryborough Sugar Factory Limited in 2007, Mulgrave Central Mills was also a significant shareholder in STL and had material land and cash assets. Historical average sugar crushing capacity was 1.1Mtpa prior to the acquisition.

Australian agricultural acquisitions

Agrium Inc – Commodity Management Business

7 On 15 December 2010, Agrium Inc announced it had agreed to sell the commodity management business it acquired as part of its acquisition of AWB Limited to Cargill Inc. The commodity management business, comprising Australian and international operations, provided services and products required to market agricultural commodities from farm gate to first stage processors. The Australian arm provided grain marketing services, bulk ocean freight chartering and container management services, pool management and financing services. The international business consisted of operations in Geneva and India, and was focused on the trading and supply of commodities to existing and new customers.

SunRice / Ricegrowers Limited

8 On 26 November 2010, SunRice announced that it had executed a Scheme Implementation Agreement with Ebro Foods S.A. for it to acquire all the issued capital of SunRice. However, the transaction did not proceed due to the unwillingness of certain minority shareholders in SunRice to approve the Scheme. SunRice is an Australian company that supplies high quality and innovative consumer branded rice food products to approximately 60 countries around the world. It is one of the largest international rice food companies in the world and holds the sole and exclusive export sale rights on all rice grown in New South Wales and hence Australia.

AWB Limited

9 On 16 August 2010, AWB announced that it had received an unsolicited proposal from Agrium Inc for the acquisition of all the issued capital of AWB. The acquisition was completed on 3 December 2010. AWB was one of Australia's leading agribusiness companies. AWB had two primary business streams

(a) **Rural services –** incorporating the Landmark distribution network providing agribusiness needs including merchandise, fertiliser, farm services and advice, wool and livestock agency services, insurance and real estate, as well as investments in Australian Wool Handlers and Landmark Global Exports

(b) **Commodity management** – acquisition and sales of commodities such as wheat, feedgrains, oilseeds and pulses, and the operation of storage and handling infrastructure and freight services both in Australia and internationally.

United Malt Holdings Group (UMH)

10 UMH consisted of the Canada Malting Company, Great Western Malting, Bairds Malt and Barrett Burston Malting, which operated in Canada, the United States, the United Kingdom and Australia respectively. Prior to being acquired by GrainCorp in November 2009, UMH was the world's fourth largest commercial malt producer, supplying malt for use in the production of beer and whisky to the world's largest brewers and distillers. The group operated 14 malt houses located in, or with good access to, the world's primary barley growing and trading regions.

ABB Grain Limited

11 ABB Grain's primary business was the provision of storage, processing, logistics, marketing and trading services in agricultural commodities along an integrated supply chain. The company accumulated grains such as barley, wheat, sorghum, canola, oats and maize from all the grain growing regions in Australia and New Zealand and exported these to some 40 countries. ABB Grain owned 111 silos and seven export shipping terminals. The malting division operated the largest maltings network in Australia, producing over 500,000 tonnes of malt annually, principally for export destinations.

Queensland Cotton Holdings Limited

12 Queensland Cotton was one of Australia's largest and oldest cotton companies with extensive operations in Australia, the US and Brazil. The company was primarily involved in the production, processing and marketing of cotton and also provided crop financing, merchandising of cotton planting seeds, fertilisers and chemicals, raw cotton handling and transport and cotton ginning. Queensland Cotton operated 11 gins throughout Queensland and New South Wales in Australia and 12 cotton gins in California and Arizona in the US.

Roberts Limited

13 Roberts was an Australia-based company operating as an auctioneer and general merchant. The company was involved in farm merchandise, including farm advice and services covering such areas as nutrition, animal health, fertilisers, fencing and crop care. Roberts' other operations included wool broking, livestock agency and rural finance. The company also had smaller interests in real estate agency, farm machinery distribution, wool buying and exporting and sub-divisional development.

Wrightson Limited

14 Wrightson was a New Zealand-based agricultural service provider offering a range of products and services through its (some) 80 stores. The company was involved in rural merchandising, farm consultancy and financing, real estate and insurance services, supplying seeds, grains and feed supplements, livestock marketing and wool procurement, warehousing, marketing and exporting. It also provided forestry services on a small scale.

Ausbulk Limited

15 Ausbulk was an Australia-based unlisted public company whose core business was the storage and handling of grain and other bulk commodities. The company was engaged in grain marketing, first stage grain processing, logistics, containerisation, grain quality analytical services and e-commerce. Ausbulk acquired Joe White Maltings and Adelaide Malting, making it a leading malt processing company in Australia. The company's grain handling and storage business had over 100 receival sites and seven grain export terminals, as well as a 50% interest in Melbourne Grain Export Terminal.

Landmark

16 Landmark was a diversified rural services business based in Australia. At the date of acquisition by AWB Limited (August 2003), Landmark was engaged in merchandising of agricultural inputs, fertiliser agency services, provision of seasonal finance, sale of insurance for rural business and households, saleyard auction and private treaty services, wool broking and auction selling services and rural real estate. Landmark was Australia's largest distributor of merchandise and fertiliser products in Australia, with a national distribution network of 430 outlets.

Grainco Australia Limited

17 Grainco was an Australia-based unlisted bulk commodity, logistics and trade facilitation group. The company operated primarily in two business segments, being the handling and storage of grain and non-grain commodities and the sourcing, purchasing and marketing of grain products. The operations were primarily in Australia, however the trading operation entered into grain sales to both domestic and international customers.

Appendix D

Listed company multiples

1 Given the Australian sugar industry has been subject to a number of recent transactions, involving changes in control and/or ownership, there are no longer any ASX listed sugar companies aside from MSF. We have therefore had regard to Australian agribusiness companies as well as international sugar companies. Whilst there are a large number of companies operating in the global sugar industry, we have limited our analysis to those sugar cane milling companies without other operations that would adversely impact comparability (where possible). In this regard, we have excluded companies with material other operations such as power generation[60], downstream manufacturing and sugar beet manufacturing.

2 When assessing the company multiples we have considered factors impacting on earnings and cash flows, including:

(a) the natural environment and the impact of adverse changes in weather conditions, including drought, excessive rain and other natural disasters

(b) the inelastic demand for food staples[61] and related infrastructure needs and support services; and

(c) although many agribusiness companies operate in primarily one base country, the products in which they transact are commodity products that are marketed internationally.

3 The EBITDA multiples and a brief description of these companies are set out below.

Listed company multiples(1)

Company	EV(2) A$m	Gearing %	EBITDA multiple Historical(3) FY2011 x	Forecast(4) FY2012 x	Forecast(4) FY2013 x
Australian listed agricultural companies					
GrainCorp Ltd	2,330.0	33.0	11.2	7.1	7.2
Nufarm Ltd/Australia	1,966.4	36.6	7.7	6.9	6.3
Elders Ltd	527.7	76.3	8.8	8.4	7.0
PGG Wrightson Ltd	301.4	22.4	7.9	6.2	5.6
Ruralco Holdings Ltd	243.9	21.9	7.6	6.4	5.9
Select Harvests Ltd	167.9	43.2	6.0	5.0	7.0
Mean			8.2	6.7	6.5
Median			7.8	6.6	6.6
International listed sugar companies					
Shree Renuka Sugars Ltd	2,021.2	78.7	7.3	5.3	5.5
Illovo Sugar Ltd	1,742.2	12.6	9.9	9.1	7.1
Sao Martinho SA	1,698.6	23.5	5.5	5.2	5.1

60 Over and above that produced in the sugar milling process.

61 The demand for staples is not impacted by discretionary spending levels but is derived primarily from the growing global demand for food.

Appendix D

Listed company multiples[1]					
			EBITDA multiple		
			Historical[3]	Forecast[4]	Forecast[4]
	EV[2]	Gearing	FY2011	FY2012	FY2013
Company	**A$m**	**%**	**x**	**x**	**x**
Costa Pinto SA	697.9	9.1	7.8	na	na
Balrampur Chini Mills Ltd	585.3	61.9	5.5	7.0	8.5
Casa Grande SAA	487.7	9.1	4.5	4.8	6.5
Royal Swaziland Sugar Corp Ltd	226.7	14.4	7.3	na	na
JDW Sugar Mills Ltd	202.4	76.4	5.1	na	na
Cartavio SAA	187.4	10.8	4.4	na	na
Mean			6.4	6.3	6.5
Median			5.5	5.3	6.5

Note:
1 Enterprise value and earnings multiples calculated as at 30 November 2011.
2 Enterprise value includes net debt, net derivative liabilities, net pension liabilities, market capitalisation adjusted for material option dilution and excludes surplus assets.
3 Historical earnings is based on latest statutory full year accounts and excludes non-recurring items.
4 Forecast earnings is based on Bloomberg broker average forecast (excluding outliers and outdated forecasts).

Source: Bloomberg, Reuters, latest statutory accounts, company announcements, LEA analysis.
na - not available.

Australian listed agricultural companies

GrainCorp Limited

4 GrainCorp is currently the largest provider of grain storage, logistics and port elevation services in the eastern states of Australia. Following the acquisition of United Malt Holdings Group in 2009, GrainCorp became the world's fourth largest commercial malt producer. GrainCorp is a diversified agribusiness, engaged in the provision of services to domestic and international stockfeed, human grain and oilseed consumption, and bulk commodity customers. Its business consists of storage and handling of grain and bulk commodities, grain and protein meal supply, flour milling and malt production.

Nufarm Limited

5 Nufarm is one of the leading global crop protection companies involved in the manufacture, marketing and sale of branded, off-patent crop protection products such as herbicides, fungicides and pesticides. Its products protect crops against damage caused by weeds, pests and disease. The company has production and marketing operations in Australia, New Zealand, Asia, Europe and the Americas and sells its products in more than 100 countries.

Elders Limited

6 Elders is engaged in the provision of services and inputs to the rural sector and regional customers. It provides a range of agricultural products as well as dairy, cropping, horticulture and sheep and cattle services. The company is one of Australia's largest suppliers of cropping inputs and services. Elders also provides a real estate offering for residential, rural and commercial properties through a network of over 400 offices around Australia.

PGG Wrightson Limited

7 Based in New Zealand, PGG Wrightson provides rural services and solutions to growers, farmers and processors. The company operates in a number of segments, including merchandising (rural supplies and fruitfeed retail operations), livestock (trading activities and exporting), Agritech (research and development, manufacturing, distribution and consulting) and Agriservices (insurance, real estate, irrigation and pumping and funds management services). It also recently sold its financial services division which offered specialist rural loan and investment products.

Ruralco Holdings Limited

8 Ruralco Holdings provides rural merchandise, stock feed and grain storage, handling and distribution, wool and livestock agency, real estate agency, fertiliser manufacturing and financial services. The company supplies a range of farm inputs including crop protection, irrigation and fertiliser products as well as providing grain storage operations in Tasmania. Real estate services include both the rural and residential markets, as well as property management services. Financial services offered include seasonal finance and insurance for primary producers.

Select Harvests Limited

9 Select Harvests is Australia's largest almond grower and one of the largest almond growers globally. It manages 60% of Australia's almond orchards and is also Australia's leading manufacturer, processor and marketer of a range of nuts, fruit based and associated products. The company also exports almonds to several countries in Asia, Europe and the Middle East. The company owns 3,368 acres of almond orchards in Victoria and 4,500 acres in Western Australia and manages over 35,000 acres of almond orchards on a fee for service basis.

International listed sugar companies

Shree Renuka Sugars Ltd

10 Shree Renuka Sugars, headquartered in India, is a trans-national agribusiness and bio-energy corporation. The company has operations across India and Brazil, and is currently the fifth largest sugar producer in the world, the leading manufacturer of sugar in India and one of the largest sugar refiners globally. It operates seven sugar mills in India with a crushing capacity of 35,000 tonnes per day and two large port based sugar refineries with capacity of 1.7Mt per annum.

Illovo Sugar Ltd

11 Illovo Sugar is a South African sugar producer with extensive agricultural and manufacturing operations across six African countries, being South Africa, Swaziland, Mozambique, Zambia, Malawi and Tanzania. The company is Africa's largest sugar producer, and produces both raw and refined sugar for the African market as well as export markets such as the European Union and the US. Approximately 6.0Mt of company owned cane is crushed annually, which, when combined with sugar cane supplied by independent growers, provides sugar output of some 2Mtpa.

Sao Martinho SA

12 Sao Martinho is a Brazil-based company primarily engaged in the sale and production of sugar and ethanol. Activities include the cultivation of sugar cane and the production and sale of sugar, ethanol and other sugar cane derivatives. In addition, the company is involved in the cogeneration of electricity and cattle breeding, as well as the provision of agricultural products. It operates three mills located in the Brazilian states of Sao Paulo and Goias and one mill located in Iracemapolis.

Costa Pinto SA

13 Costa Pinto is a company based in Brazil operating primarily in the sugar and bio-energy sectors. It is involved in the production, distribution, export and marketing of sugar, ethanol, lubricants, fuels and food products in general. Costa Pinto is also engaged in the cultivation of sugarcane, leasing of agricultural land and real estate developments.

Balrampur Chini Mills Ltd

14 Balrampur Chini Mills is one of the largest integrated sugar manufacturing companies in India. Balrampur Chini Mills has four primary business segments, being sugar, distillery, cogeneration and organic manure. The company has a number of sugar factories located in eastern Uttar Pradesh, having an aggregate crushing capacity of 76,500 tonnes of cane per day.

Casa Grande SAA

15 Casa Grande is a Peru-based company that operates in the cultivation, growing, refining, processing and sale of sugar cane and its derivates. The company is also involved in the production and distribution of alcohol, sugar cane pulp, molasses and bagasse. As at 31 December, 2010, the company owned 31,377Ha of cultivable land.

Royal Swaziland Sugar Corporation Ltd

16 Royal Swaziland Sugar Corporation is a Swaziland-based company that operates in the sugar industry. It farms over 20,000Ha of irrigated sugar cane on two estates, delivering over 2Mt of cane per season to its two sugar mills. These mills crush cane at a combined throughput of 700 tonnes per hour, producing over 400,000 tonnes of sugar per season. The company also operates a sugar refinery, which has the capacity to produce 0.15Mtpa of refined sugar and a 32 million litre capacity ethanol plant.

JDW Sugar Mills Ltd

17 JDW Sugar Mills is headquartered in Pakistan and has four operating divisions, being sugar, power generation, dairy and farm activities. The principal activity of the company is the production and sale of crystalline sugar. It has three sugar mill units in the districts of Rahim Yar Khan, Punjab and Ghotki Sindh. The company contributes approximately 10% of Pakistan's sugar production.

Cartavio SAA

18 Cartavio SAA is a Peruvian company operating in the agricultural sector with activities including the cultivation, growing and refining of sugar cane, as well as processing and sale of a variety of domestic and industrial golden and white sugars, which are marketed under the Cartavio brand. It is also involved in the production and distribution of sugar cane derivates, such as molasses, bagasse, ethanol and industrial alcohol.

Appendix E

Glossary

Term	Meaning
Agreement	Takeover Implementation Agreement dated 9 November 2011
AIFRS	Australian equivalent to International Financial Reporting Standards
ASIC	Australian Securities & Investments Commission
ASX	Australian Securities Exchange
Bundaberg Sugar	Bundaberg Sugar Ltd
CCS	A measure of the recoverable sugar in the cane
COFCO	China National Cereals, Oils and Foodstuffs Corporation
Corporations Act	*Corporations Act 2001 (Cth)*
DCF	Discounted cash flow
EBIT	Earnings before interest and tax
EBITA	Earnings before interest, tax and amortisation
EBITDA	Earnings before interest, tax, depreciation and amortisation
FIRB	Foreign Investment Review Board
FOS	Financial Ombudsman Services Limited
FSG	Financial Services Guide
FY	Financial year
G class shares	Active growers share class in STL
GFC	Global financial crisis
GPG	Guinness Peat Group plc
Ha	Hectares
HFCS	High fructose corn syrup
IER	Independent expert's report
IPS	International Pol Scale
LEA	Lonergan Edwards & Associates Limited
M class shares	Active millers share class in STL
Mitr Phol	Mitr Phol Sugar Corp Ltd
Ml	Mega litre (1 million litres)
MSF	MSF Sugar Limited
Mt	Million tonnes
Mtpa	Million tonnes per hour
MW	Megawatt
NMJV	Northern Milling Joint Venture
No. 11 sugar contract	ICE Sugar No.11 futures contract
NPV	Net present value
NSX	National Stock Exchange of Australia
NTA	net tangible asset
Offer	Takeover offer for all the ordinary shares in MSF not held by Mitr Phol at an offer price of A$4.45 cash per share
PE	Price earnings
Proserpine Sugar	Proserpine Co-operative Sugar Milling Association Ltd
QSL	Queensland Sugar Limited
RECs	Renewable energy certificates
RG 111	Regulatory Guideline 111 *Content of expert reports*
STL	Sugar Terminals Limited
Tpa	Tonnes per annum
UMH	United Malt Holdings Group
VWAP	Volume weighted average price
Wide Bay	Wide Bay Property Valuations
Wilmar	Wilmar International Ltd