

Wednesday, 22 May 2013

The Manager – Companies

ASX Limited Company Announcements

For release to market

UPDATE ON THE DAIRY FARM AGGREGATION PROJECT

On 30 November 2012, APA Financial Services Limited (APA or the Company) announced a heads of agreement (HoA) in respect of a proposal to aggregate and operate dairy farms in Victoria (Proposal) in conjunction with Dairy Farm Investments Management Limited (DFI Management). The Proposal announced was conditional on a number of factors including all parties undertaking due diligence on the Proposal and contemplated acquisitions, and re-compliance by the Company with Chapters 1 and 2 of the ASX Listing Rules.

This announcement is to provide an update to the market about the status of the Proposal and a revised indicative timetable.

All parties are actively and cooperatively working towards achieving the anticipated outcomes as broadly outlined in the announcement of 30 November 2012, whereby APA would seek shareholder approval for several changes including principally:

- (a) a change in activity to become an operator and manager of dairy farms, including a change of name to Dairy Farm Investments Limited; and
- (b) raise funds to fund the acquisition of dairy livestock, plant and equipment and working capital.

The focus in the first year will be acquisitions in the prime dairy regions in South Western Victoria, with the first acquisitions including two adjoining operating farms in the Brucknell region near Warrnambool.

Background

It was envisaged at the time the HoA was entered into that a separate unlisted retail property trust entity would be established as a managed investment scheme to progressively acquire the dairy farm land and building assets (including fixed plant and equipment) while the Company would progressively acquire the operating dairy businesses comprising the livestock and small items plant and equipment). The initial intention was to acquire three farms, including one from parties related to DFI Management, as a condition of re-compliance with Chapters 1 and 2 of the Listing Rules, with additional farms to be acquired thereafter. Each stage envisaged incremental capital raisings.

Structure Changes

The process of finalising the structure of the trust entity to acquire the land assets of the dairy farms, has led to a heads of agreement / terms sheet being signed with Sydney based Kestrel Capital Pty Limited (Kestrel Capital) under which Kestrel Capital will endeavour to establish and capitalise a wholesale investment trust (indicatively titled "FarmBank") to acquire the land, buildings and plant assets of the dairy farms, rather than APA establishing a retail trust. These assets are to be leased to an APA subsidiary to operate.

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Kestrel Capital believes from initial market enquiry that there is good support for FarmBank from a range of institutional and wholesale investors both domestic and international. Attached to this announcement is a brief background statement about Kestrel Capital and its proposed involvement in the Dairy Farm Aggregation Proposal.

Preliminary market assessment of investor attitudes to the concept of aggregating established good quality dairy farms utilising stronger and experienced farm management to provide increased productivity, at both retail level with Australian investors and brokers, has been encouraging. This has confirmed the directors' views that the capital raising for the Proposal is likely to be supported at both a retail and wholesale investor level and for both the Company and FarmBank.

Discussions and documentation to finalise the detailed structure of the various transactions between the Company, DFI Management and Kestrel Capital are continuing with documentation of the parties' intentions expected to be completed by June 2013.

APA and DFI Management have extended the times for completion of due diligence and formal contracts between them to accommodate changes to the proposed structure and capitalisation of the two entities in response to encouraging feedback from brokers and potential investors.

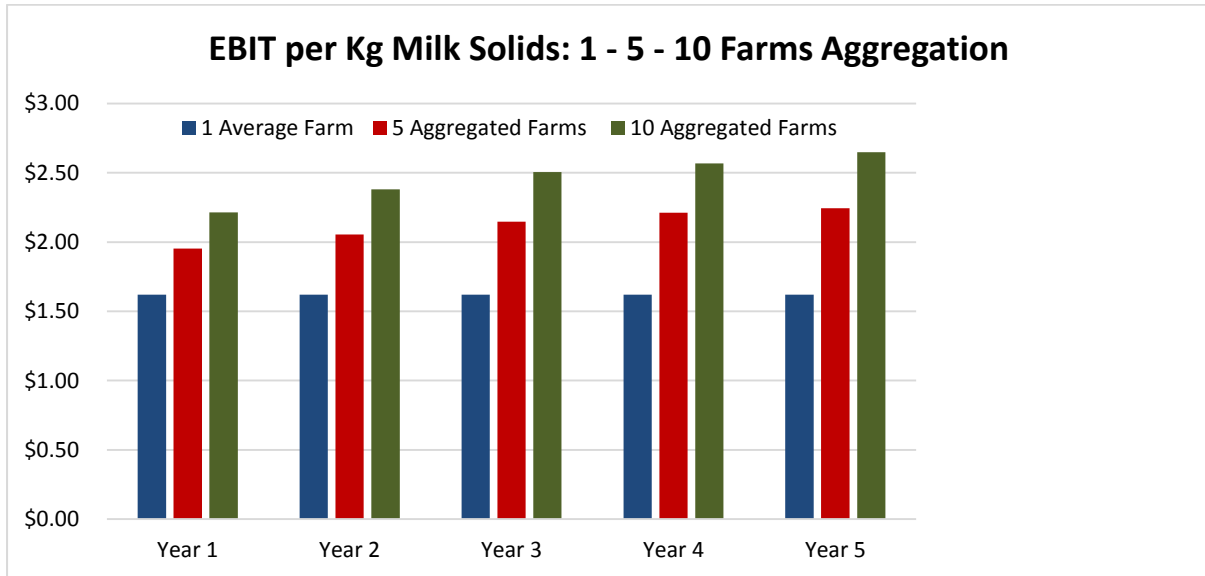
Improved business case through aggregation

The structure of the proposed initial capital raising within APA has also been amended to reflect the changes in the business model based on the positive response to the business case. The Directors and Kestrel Capital believe that there is market support for FarmBank as the land holder, and APA as the operating company, to raise the equity component to acquire the dairy businesses and land respectively for up to 10 farms by 30 June 2014.

DFI Management believes that progressively increasing the number of farms will optimise the financial returns of the Proposal through the following broad outcomes:

- (a) Obtaining premium farmgate prices currently paid by processors to farmers who produce high annual volumes of milk;
- (b) Creating cost savings from efficiencies in both operating and overhead costs through shared farm management and combined purchasing power; and
- (c) Increasing volume and quality production through application of sound agronomy, pasture management, breeding techniques and the capacity for livestock mobility between properties.

Using static current milk prices and 2011 statistical farm performance data from Red Sky Agricultural Pty Ltd (Red Sky), an independent provider of farm performance analysis in Australia and internationally, the following chart, prepared by DFI Management illustrates a simple example of the potential financial impact of these positive outcomes. *Note 1: see information below about Red Sky.*



The above chart illustrates the potential increase in net profit (expressed as \$ per kg of milk solids) by combining and improving Average Farms (see note 1) compared with the same farms operating separately as single stand-alone farms.

Based on this model, simply by aggregating the milk production volumes of 10 Average Farms, without improving farm management and achieving cost efficiencies, a higher net profit margin of more than 10% is achieved through the higher prices paid by processors to single high volume producers.

Assuming that over 5 years an Average Farm can be improved to production capabilities of the Top 10% of dairy farms surveyed by Red Sky, DFI Management calculates that the combined group of 10 improved farms achieves a 38% higher net profit margin compared with the combined profit of 10 separately operating Average Farms. DFI Management considers that there is a reasonable basis for believing that available good quality farms in each region currently performing as Average Farms can be improved over 5 years to production capabilities of the Top 10% of dairy farms in that region.

Kestrel Capital, DFI Management and APA's directors believe the Proposal has significant merit and will provide additional information in documents circulated to shareholders in coming weeks.

For any further enquiries regarding this announcement please contact the writer.

APA FINANCIAL SERVICES LIMITED

Michael Hackett
Chairman

Note 1

Red Sky

Red Sky Agricultural Pty Ltd (ACN 100 309 546) (Red Sky) is an independent Australian company which produces farm performance analysis to the agricultural industry and tools for consultants to provide advice to farmers or from which farmers can directly analyse the performance of their farm.

Historical performance data of operating farms is collected and analysed to provide averages and ranking of farm performance based on data collected. Red Sky operates in Australia, New Zealand and internationally. Red Sky

does not provide financial advice and does not accept liability for any person using data collected or published by Red Sky.

Data used in the preparation of the information in this announcement and attributed to Red Sky is based on the statistical data for the financial year ended 30 June 2011.

An "Average Farm" referred to in this announcement refers to the published performance of the average of all dairy farms in the South Western Victoria region in respect of which Red Sky published data and a "Top 10% Farm" refers to the published performance of the average of the top performing 10% of dairy farms in the South Western Victoria region in respect of which Red Sky published data.

Note 2

Disclaimer – Forward looking figures

In preparing the forward-looking statements, the Company has taken into account commonly accepted industry benchmarks for efficient dairy farm production in the regional areas of Victoria where the early stages of the Dairy Farm Aggregation Project will be focused. These benchmarks include statistics published by the Department of Primary Industries, Victoria on its website www.dpi.vic.gov.au, Dairy Australia www.dairyaustralia.com.au and data available from Red Sky Agriculture Pty Ltd, by subscription, all of which refer to historical data. There is no guarantee that historical data for the dairy industry will be reflective of future results.

Notwithstanding this, any forward-looking statements are subject to known and unknown risks, uncertainties and assumptions that could cause actual results, performance or achievements to differ materially from future results, performance or achievements expressed or implied by such forward-looking statements. Such forward looking statements are based on numerous assumptions regarding the Company's present and future business strategies and the environment in which the Company will operate in the future.

Matters not yet known to the Company or not currently considered material to the Company may impact on these forward looking statements. These statements reflect views held only as at the date of this document. In light of these risks, uncertainties and assumptions, the forward-looking statements in this document might not occur. Investors are therefore cautioned not to place undue reliance on these statements.

INTRODUCTION TO KESTREL CAPITAL (14 MAY 2013)

Kestrel Capital is a growth company investor and developer with a focus on Australian and New Zealand businesses that have a global opportunity or outlook in the Agribusiness, Technology, Energy, Resources and Services sectors.

Since the mid-1990's Kestrel Capital's investor base and managed funds have included local and overseas private and institutional capital.

Over this time Kestrel has invested in over 30 listed and unlisted businesses, including Agribusiness/technology companies **Tru-Test Corporation**, **Catapult Genetics** and others such as **Australian Helicopters**, **Gale Pacific**, **Intrapower**, **Prism Group** and **Ruthinium**.

Kestrel Capital brings to each business and managed fund its extensive experience base in operational management, finance, technology and investment management. Kestrel focuses on building sustainable distributions and capital growth and capital returns to investors.

Current Kestrel Capital investments include **global dairy technology supplier, Tru-Test Corporation** and a number of listed and unlisted companies.

Kestrel Capital is joining the Dairy Farm Investments (DFI) team, as manager of the new DFI Farmbank Trust (name to be confirmed) and is looking forward to helping build the DFI Farmbank Trust and the DFI group into a leading Australian dairy farm business.

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INDICATIVE TIMETABLE

Dispatch Notice of meeting	June 2013
Lodge prospectus	June 2013
Lodge ASX listing application	June 2013
Shareholder Meeting	July 2013
Close public offer	August 2013
Satisfy conditions to re-admission to quotation:	August 2013
Re-admission to quotation	August 2013