

30 November 2012

The Manager - Company Announcements  
ASX Limited

FOR RELEASE TO MARKET  
ASX Code: APP

## APA Financial Services Signs Heads of Agreement for Dairy Farm Aggregation

APA Financial Services Limited (ASX : APP) (APA or Company) is pleased to advise that it has entered into a binding Heads of Agreement with companies associated with Dairy Farm Investments Management Ltd (DFI Management) to acquire, operate and manage a planned aggregation of Australian dairy farms, predominantly in Victoria and Tasmania.

DFI Management is a New Zealand registered company which manages and operates dairy farms in New Zealand and commenced Australian operations in Victoria in 2010. The principals of DFI Management are experienced in the areas of primary production and the processing and marketing of food commodities in New Zealand and Australia. DFI Management manages an existing dairy farm at Warrnambool in Victoria (the Brucknell Farm), which is owned by an associated NZ registered company Dairy Farm Investments (Brucknell) Limited (DFI Brucknell), and has entered into an option agreement on a second property, and is negotiating on a third initial investment.

The dairy industry in Australia, particularly in Victoria and Tasmania, where the majority of milk products produced are sold on global markets, presents an attractive opportunity to aggregate numerous existing farms when prices for farms are at cyclical lows, to provide increased efficiencies in operations and farm management and in the marketing and pricing of the milk products.

Global trade of dairy products is forecast by global food conglomerate, Fonterra to grow at 5-6% through to 2020 driven by the significant growth in consumer markets throughout Asia.

Additional market appeal results from the clean and green reputation of Victoria's and Tasmania's open pasture based dairy industry which presents significant environmental and operational cost-efficiencies as well as superior animal welfare when compared to confinement (barn) production (currently accounting for approximately 90% of global milk production).

The transaction is conditional on a number of factors including APA shareholder approval and re-compliance with the Listing Rules of the ASX. It is structured so that APA, through a wholly owned subsidiary company to be formed will contract with DFI Management to provide dairy farm management, marketing and operational expertise exclusively to APA in Australia. The real property assets (farm land, buildings and fixed plant) will be acquired by a separate unlisted, widely-held trust entity to be formed (DFI Property Trust), with APA as its initial trustee.

A Corporate and Activity Structure Chart is included in this announcement at page 6.

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## Highlights

1. The Company's main business focus will be the aggregation of dairy farms and milk production in Victoria and Tasmania;
2. Board and management of DFI Management have established technical and corporate experience in primary production, particularly in the dairy industry and in the processing and marketing of food commodities.
3. Performance based milestones provide the Company with access to a strong and capable management team with low entry costs in an industry that has significant long term growth potential.
4. The pricing of Australian dairy farms is at a cyclical low resulting from its current "cottage industry" structure of relatively small holdings by mature age owner-operators.
5. A public offer capital raising of a minimum of \$4,411,826 by issue of fully paid ordinary shares in APA at 20 cents per share (post 1:8 consolidation) to acquire the operational businesses and livestock of an initial two farms.
6. Additional public offer capital raising in the DFI Property Trust of a minimum of \$1,493,597 by issue of 50 cent units to acquire the freehold dairy properties for lease to APA through DFI Operations and to be managed by DFI Management.
7. The structure of the transaction presents a range of investment opportunities for both wholesale and retail investors via the ASX listed operating entity as well as a direct property and farm performance exposure via the DFI Property Trust.
8. The ASX listed operations company, through its wholly owned subsidiary DFI Operations and its Australia-wide exclusive management agreement with DFI Management, will also be in a strong position to provide efficient third party dairy farm management and expertise on a fee for service basis to wholesale and institutional farm owners that may prefer direct exposure to the dairy industry rather than through a listed entity.

## Structure of the Transaction

Refer to Corporate Structure Chart on Page 6

- (a) APA will incorporate a wholly owned subsidiary company (DFI Investments Operations Pty Ltd (**DFI Operations**)), which will enter into an exclusive management agreement in Australia with DFI Management for the business operations, farm management and ownership of dairy livestock;
- (b) DFI Management currently manages the Brucknell Farm at Moreys Road Warrnambool, recognised as one of the prime Victorian dairy regions, on behalf of its NZ registered owner DFI Brucknell. DFI Management will identify and evaluate other dairy farms, initially in the same region in Victoria for acquisition and operation by the Group;
- (c) APA will establish a unit trust, ("DFI Property Trust") with APA as its initial trustee to acquire the dairy farm properties (land, buildings and fixed plant), which will be leased to DFI Operations and managed by DFI Management.
- (d) APA will acquire the Brucknell Farm from DFI Brucknell in two separate transactions comprising a total of \$750,000 in cash and the balance in APA and DFI Trust securities as follows:

- (i) DFI Operations will enter into a business contract with DFI Brucknell to acquire the operations and livestock of the Brucknell Farm for \$1,702,400 to be settled with a combination of cash and securities in APA; and
- (ii) DFI Property Trust will enter into a land purchase agreement with DFI Brucknell to acquire the land, buildings and fixed plant of the Brucknell Farm for \$4,521,600 (subject to independent valuation) to be settled with a combination of cash and securities in DFI Property Trust.
- (e) DFI Management is currently negotiating the acquisition of two additional farms, which are intended to be acquired in a similar structure and be settled after completion of capital raisings in APA and DFI Property Trust.
- (f) The total acquisition price of the initial three dairy farms including transaction costs and working capital is estimated to be approximately \$25,000,000 of which \$9,400,000 will comprise business operations and livestock acquired by DFI Operations and \$15,600,000 will comprise the land and buildings and fixed improvements of the dairy farms acquired by DFI Property Trust.
- (g) It is intended that:
- (i) APA will issue a prospectus to offer shares in APA to raise capital of up to \$5,200,000 for the operating businesses of the initial three dairy farms and the purchase and ownership of dairy livestock; and
- (ii) DFI Property Trust will issue a separate prospectus to offer units in DFI Property Trust to raise \$4,200,000 for the acquisition and capital improvement of the dairy farm properties.
- (iii) The balance of the acquisition cost of the three dairy farms and livestock will be funded through vendor securities issued to DFI Brucknell and debt facilities of approximately \$9,300,000 from Australian banks.
- (iv) Acquisition of additional farms after completion of the acquisition of the first three farms will require future additional fund raising in each of APA and the DFI Property Trust and may require the issue of further fund raising documents and shareholder / unitholder approvals depending on the amount of additional capital required.
- (h) The minimum subscription for each of the prospectuses referred to in paragraph (g)(i) and (ii) will reflect the amount of equity capital needed to be raised to complete the acquisition of and provide working capital for the first two farms as set out in Capital Structure table at page 7 of this announcement. The minimum subscription amounts are \$4,411,286 in respect of the prospectus for the issue of shares by APA and \$1,493,597 in respect of the prospectus for the issue of units by DFI property Trust.

**Overview of the proposed transaction for APA shareholders: OneVue Holdings Limited**

APA's only currently held investment, aside from cash and receivables of approximately \$300,000, is a minority investment in OneVue Holdings Limited which, in 2008, acquired the investment administration platform that APA was then developing.

The dairy farm transaction proposed (the **Transaction**) proposed represents a significant change in the activities of APA which will be required to re-comply with Chapters 1 and 2 of the ASX Listing Rules regarding minimum capital and shareholder numbers. Because APA's future activities will be focussed on the Australian dairy industry, it is intended that APA Equities Pty Ltd, which holds APA's interest in OneVue, will make a pro-rata issue of its shares to existing shareholders of APA to remove the interest in OneVue from the listed Company.

The proposed restructure of capital and the transactions described above will require the approval of an extraordinary general meeting which will be convened as soon as possible. Please refer to the indicative timetable for expected timing of that meeting.

If approved by shareholders, after completion, existing APA shareholders will have a direct shareholding interest in APA as a listed entity and a direct shareholding interest in APA Equities Limited as an unlisted entity holding shares in OneVue Holdings Limited.

**Consideration terms of the Transaction**

The Consideration payable to DFI Management for entering into the exclusive Management Agreement with DFI Operations and managing the identification, evaluation and operation of the farms is to be made by a combination of the issue of fully paid ordinary shares in APA at 20 cents per share representing 5% of the total shares on issue and fully paid units in DFI Property Trust representing 5% of the total units on issue on achievement of each of three **Milestone Events**.

The consideration payable to DFI Management includes a consideration payable to DFI Management's appointed adviser with respect to the Transaction, Technology Capital Pty Ltd representing 1.5% of the total shares on issue and fully paid units in DFI Property Trust representing 1.5% of the total units on issue on achievement of each of three **Milestone Events**.

Subject to satisfaction of the conditions precedent referred to below, APA will issue shares to DFI Management according to the following milestones:

**First Milestone:** Completion of the acquisition of a minimum of 3 farms (including Brucknell Farm) comprising 1000 Hectares of land, 2000 Cows, with milk production volumes of approximately 15 million litres per annum. Total Cost estimated at \$25 million, inclusive of livestock and working capital.

The Final Date for achievement of the First Milestone is 30 June 2013.

**Second Milestone:** Purchase of a further 4 farms, producing total of approximately 1500 hectares of land and 3000 cows, producing approximately 20 million litres of milk per annum at an estimated cost of \$30 Million.

The Final Date for achievement of the Second Milestone is 31 December 2013

**Third Milestone:** Purchase of further farms, having, in aggregate, approximately 5000 hectares of land, 10,000 cows and an indicative purchase price of \$90 million, such that the total milk

production from all farms at the completion of all of the Milestones exceeds 100 million litres of milk per annum.

The Final Date for achievement of the Third Milestone is 4 years from Completion of the Transaction.

All shares and units issued to DFI Management will be escrowed in accordance with the ASX Listing Rules if required.

Completion of the Transaction will be subject to a number of conditions precedent customary for a transaction of this nature, including:

- (a) Completion of due diligence by APA and DFI Brucknell and DFI Management on each other to each company's satisfaction by 31 December 2012;
- (b) APA obtaining all required regulatory and shareholder approvals to proceed with the Transaction on or prior to 28 January 2013 or such later date as agreed by the parties;
- (c) APA preparing a prospectus offering shares in APA and completing a capital raising of a minimum of \$4,411,826 at an issue price of 20 cents per share and re-complying with Chapters 1 and 2 of the ASX Listing Rules;
- (d) APA preparing a prospectus offering units in DFI Property Trust and completing a capital raising of a minimum of \$1,493,597 at an issue price of 50 cents per unit;
- (e) APA undertaking an in-specie distribution of its equity investment in OneVue to APA's existing shareholders, the approval for such to be obtained at the same EGM to approve the Transaction; and
- (f) APA undertaking a consolidation of its existing share capital on a 1:8 basis.
- (g) APA changing its name to one which is more appropriate to its new activity.

#### Board & Management

Post settlement of the Transaction, the Board shall consist of up to 5 directors. Michael Hackett as nominee of APA shall remain as a Director.

**Keith Jackson** - Managing Director of DFIM will be appointed Managing Director of the Company following completion of the Transaction.)

The parties will appoint three additional appropriately qualified persons as directors including at least two independent directors.

#### Advisors

DFI Management has been advised in this transaction by Technology Capital.

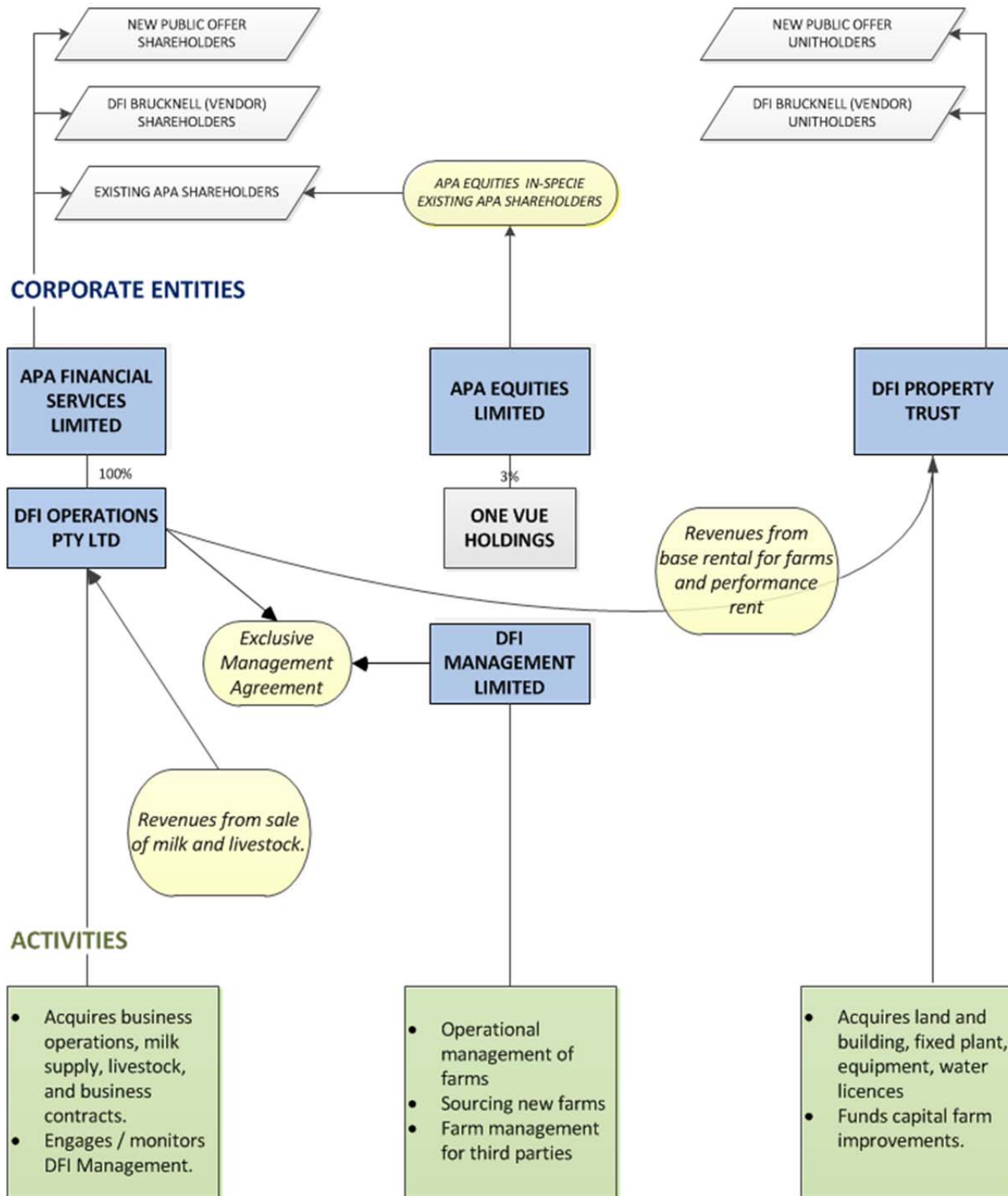
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Corporate and Activity Structure

EQUITY HOLDERS



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## Capital Structure

Following completion of the Transaction the indicative capital structure of the Company is shown below:

## PROPOSED CAPITAL STRUCTURE - FOLLOWING CAPITAL RAISING

APA Financial Services Limited	2 Farms		3 Farms	
	Shares	% of Total	Shares	% of Total
Existing APA Shareholders (following 8 for 1 consolidation)	7,623,342	19.5%	7,623,342	17.3%
Bucknell Farm vendors	7,486,219	19.1%	7,486,219	17.7%
Public Offer	22,059,130	56.4%	25,944,864	60.0%
DFI Management	1,934,637	5.0%	2,136,890	5.0%
<b>Total</b>	<b>39,103,327</b>	<b>100.00%</b>	<b>43,191,314</b>	<b>100.00%</b>
DFI Property Trust Unitholdings	Units	% of Total	Units	% of Total
Existing APA Shareholders (following 8 for 1 consolidation)	0	0	0	0
Bucknell Farm vendors	7,953,404	69.0%	7,953,404	46.3%
Public Offer	2,987,195	26.0%	8,387,195	48.7%
DFI Management	569,460	5.0%	425,266	5.0%
<b>Total</b>	<b>11,510,059</b>	<b>100%</b>	<b>8,595,565</b>	<b>100%</b>

Refer to the details regarding Minimum Subscription at paragraph (g) on Page 3 of this announcement as an explanation of this table.

## Indicative Timetable

The Company anticipates the following timetable in respect of the Transaction:

Step	Indicative Date
Announce heads of agreement	30/11/2012
Negotiate Formal Agreement	15/12/2012
Negotiate sale and purchase agreements for additional Farm	15/12/2012
Complete notice of meeting seeking APA shareholder approvals for lodgement with ASX	20/12/2012
Dispatch Notice of meeting	27/12/2012
Shareholder Meeting	28/01/2013
Lodge prospectus	01/02/2013
Lodge ASX listing application	05/02/2013
Close public offer	15/03/2013
Satisfy conditions to re-admission to quotation:	20/03/2013
Re-admission to quotation	22/03/2013

\*Shareholders should note that the above timetable is indicative only and may change. The Company will keep shareholders apprised on the progress and timing of the implementation of the Transaction as it progresses.