The New Zealand Wine Company Limited

Independent Adviser's Report

In Respect of the Allotments of Shares to Foley Family Wines Holdings, New Zealand Limited

July 2012

Statement of Independence

Simmons Corporate Finance Limited confirms that it:

- has no conflict of interest that could affect its ability to provide an unbiased report
- has no direct or indirect pecuniary or other interest in the proposed transactions considered in this report, including any success or contingency fee or remuneration, other than to receive the cash fee for providing this report.

Simmons Corporate Finance Limited has satisfied the Takeovers Panel, on the basis of the material provided to the Takeovers Panel, that it is independent under the Takeovers Code for the purposes of preparing this Independent Adviser's Report.

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Appendix

1. Introduction

1.1 Background

The New Zealand Wine Company Limited (**NZWC** or the **Company**) is listed on the alternative market (**NZAX**) operated by NZX Limited (**NZX**) with a market capitalisation of $7.4 million as at 13 July 2012 and unaudited equity of $12.8 million as at 30 April 2012.

NZWC is an integrated producer and marketer of premium and super premium wines. The Company owns 2 vineyards and leases 4 vineyards in Marlborough. Its winery has the capacity to process 3,200 tonnes of grapes. NZWC has sold over 220,000 case sales equivalents (9 litres of wine) in the first 10 months of the 2012 financial year.

A profile of the Company is set out in section 4.

1.2 Foley Family Wines Holdings, New Zealand Limited

Foley Family Wines Holdings, New Zealand Limited (**Foley Holdings**) is the holding company for the New Zealand wine interests of William (Bill) Foley. Mr Foley also holds significant wine interests in the USA through Foley Family Wines Holdings, Inc (**FFW Inc**).

Foley Family Wines NZ Limited (**FNZ**) is a wholly-owned subsidiary of Foley Holdings. It holds substantial interests in the New Zealand wine industry, including:

- vineyards and wineries in Marlborough and Wairarapa
- ownership of the *Vavasour*, *Goldwater Estate*, *Clifford Bay*, *Dashwood* and *Te Kairanga* wine brands.

A profile of FNZ is set out in section 5.

1.3 Merger

NZWC announced on 21 May 2012 that it was exploring a potential merger of the Company with FNZ.

NZWC and Foley Holdings entered into an agreement dated 28 June 2012 (the **Merger Agreement**) whereby NZWC will acquire 100% of the shares in FNZ from Foley Holdings and merge FNZ's and NZWC's operations (the **Merger**).

Detailed terms of the Merger are set out in section 2.5. The key terms are:

- the Merger is to be based on the net asset values (**NAV**) of NZWC and FNZ
- the Merger will be effected by NZWC acquiring 100% of the shares in FNZ for $42,114,541
- consideration will be in the form of NZWC issuing 30,380,525 new ordinary shares to Foley Holdings at $1.3862 per share (the **Acquisition Shares**)
- Foley Holdings will also invest $6 million of cash in NZWC for a further 4,328,271 new ordinary shares issued at $1.3862 per share (the **Subscription Shares**).

We refer to the issue of the 30,380,525 Acquisition Shares and the 4,328,271 Subscription Shares collectively as the **Foley Allotment**, representing 34,708,796 new NZWC ordinary shares.

The Merger will result in NZWC owning 100% of FNZ and the Foley Allotment will result in Foley Holdings holding 80.00% of the shares in NZWC.

The Company's shareholders prior to the Merger (the **Existing Shareholders**) will hold 20.00% of NZWC's shares post the Merger.

As part of the Merger, NZWC will issue an 18 month convertible note to Foley Holdings in the sum of $11.8 million (the **Convertible Note**) which, if converted, will result in NZWC issuing up to 8,512,266 new ordinary shares to Foley Holdings at $1.3862 per share (the **CN Conversion**).

If the Convertible Note is converted into the maximum 8,512,266 shares, then Foley Holdings will hold 83.28% of the shares in NZWC and the Existing Shareholders will hold 16.72% of the shares (assuming there are no other changes in the number of ordinary shares on issue).

The Merger is conditional on, amongst other things:

- the approval of the transaction by the Existing Shareholders. That condition requires that shareholders holding not more than 10% of the Company's shares and voting against the resolution exercise their minority buyout rights available under the Companies Act 1993 (the **Companies Act**)
- Foley Holdings obtaining the consent of the Overseas Investment Office (**OIO**) to take up the shares in NZWC (the **OIO Consent**).

The satisfaction of the OIO Consent condition is unlikely to be known until after the special meeting of shareholders. The settlement of the Merger and the issue of shares under the Foley Allotment can only occur if and when the OIO Consent condition is satisfied.

1.4 Special Meeting of Shareholders

The Existing Shareholders will vote on 4 resolutions in respect of matters associated with the Merger, the Foley Allotment and the CN Conversion at the Company's special meeting of shareholders on 14 August 2012:

- resolution 1 – *Approval of Acquisition of the Shares in FNZ* (acquiring all of the share capital of FNZ for $42,114,541)
- resolution 2 – *Issue of Shares* (the Foley Allotment)
- resolution 3 – *Issue of Convertible Note* (the Convertible Note and CN Conversion)
- resolution 4 – *Rescission of Resolutions*.

Resolution 1 is a special resolution and is required under section 129 of the Companies Act and NZAX Listing Rule 9.1.1.

Resolutions 2 and 3 are ordinary resolutions and are required under the NZAX Listing Rules and the Takeovers Code (the **Code**).

Resolution 4 is a special resolution.

All shareholders may vote in respect of resolutions 1 and 4. Should Foley Holdings or any persons who are associates of Foley Holdings be a shareholder of the Company at the date of the special meeting, they may not vote on resolutions 2 and 3.

All the resolutions are interdependent and require sequential approval. This means that resolution 2 can only be voted on if resolution 1 is approved and so on. All 4 resolutions in respect of the Merger, the Foley Allotment and the CN Conversion must be approved in order for the Merger to proceed. If any one of the 4 resolutions is not approved, then the Merger, the Foley Allotment and the CN Conversion cannot proceed.

1.5 Regulatory Requirements

Rule 6 of the Code prohibits:

- a person who holds or controls less than 20% of the voting rights in a code company from increasing its holding or control of voting rights beyond 20%
- a person holding or controlling 20% or more of the voting rights in a code company from increasing its holding or control of voting rights

unless the person and that person's associates comply with exceptions to this fundamental rule.

One of the exceptions, set out in Rule 7(d) of the Code, enables a person and its associates to increase their holding or control of voting rights by an allotment of shares if the allotment is approved by an ordinary resolution of the code company.

The Foley Allotment will result in Foley Holdings controlling 80.00% of the voting rights in NZWC.

The combination of the Foley Allotment and the CN Conversion will result in Foley Holdings controlling up to 83.28% of the voting rights in NZWC.

Accordingly, the Existing Shareholders will vote at the Company's special meeting of shareholders on ordinary resolution 2 in respect of the Foley Allotment and ordinary resolution 3 in respect of the CN Conversion in accordance with the Code.

Rule 16 of the Code mandates certain disclosures that are required to be made in the notice of meeting for the meeting in which shareholders approve Foley Holdings increasing its control of voting rights in the Company. The Company cannot comply with the exact requirements of Rule 16(b) as the number of shares to be issued to Foley Holdings under the CN Conversion and the percentage of the share capital that those shares may represent cannot be determined at the time of the meeting. Accordingly, the Company has relied on Clause 10A of the Takeovers Code (Class Exemptions) Notice (No 2) 2001 (the **Class Exemption**) which provides an exemption from these aspects of the requirements of Rule 16(b) in relation to the conversion of convertible securities. Details of the Class Exemption are set out in Appendix 1 of the notice of special meeting.

Rule 18 of the Code requires the directors of a code company to obtain an Independent Adviser's Report on the merits of an allotment under Rule 7(d).

This Independent Adviser's Report is to be included in the notice of meeting pursuant to Rule 16(h).

1.6 Purpose of the Report

The directors of NZWC (the **Directors**) have engaged Simmons Corporate Finance Limited (**Simmons Corporate Finance**) to prepare an Independent Adviser's Report on the merits of the allotments of shares under the Foley Allotment and the CN Conversion in accordance with Rule 18 of the Code.

Simmons Corporate Finance was approved by the Takeovers Panel on 13 April 2012 to prepare the Independent Adviser's Report.

Simmons Corporate Finance issues this Independent Adviser's Report to the Directors for the benefit of the Existing Shareholders to assist them in forming their own opinion on whether to vote for or against resolution 2 in respect of the Foley Allotment and resolution 3 in respect of the CN Conversion.

We note that each shareholder's circumstances and objectives are unique. Accordingly, it is not possible to report on the merits of the allotments of shares for each shareholder's circumstances under the Foley Allotment and the CN Conversion. This report on the merits of the allotments of shares under the Foley Allotment and the CN Conversion is therefore necessarily general in nature.

This Independent Adviser's Report is not to be used for any other purpose without our prior written consent.

2. Evaluation of the Merits of the Allotments of Shares to Foley Holdings

2.1 Basis of Evaluation

Rule 18 of the Code requires an evaluation of the merits of the allotments of shares to Foley Holdings under the Foley Allotment and the CN Conversion.

There is no legal definition of the term *merits* in New Zealand in either the Code or in any statute dealing with securities or commercial law.

In the absence of an explicit definition of *merits*, guidance can be taken from:

- the Takeovers Panel guidance note on the role of independent advisers dated August 2007
- definitions designed to address similar issues within New Zealand regulations which are relevant to the proposed transactions
- overseas precedents
- the ordinary meaning of the term *merits*.

We are of the view that an assessment of the merits of the allotments of shares to Foley Holdings under the Foley Allotment and the CN Conversion should focus on:

- the rationale for the Merger
- the terms and conditions of the Merger
- the rationale for the Foley Allotment
- the terms and conditions of the Foley Allotment
- the rationale for the Convertible Note
- the terms and conditions of the CN Conversion
- the impact of the Merger on NZWC's financial position and performance
- the impact of the Foley Allotment and the CN Conversion on the control of the Company
- the impact of the Foley Allotment and the CN Conversion on NZWC's share price
- other benefits and disadvantages to Foley Holdings of the Foley Allotment and the CN Conversion
- the benefits and disadvantages to the Existing Shareholders of the Foley Allotment and the CN Conversion
- the implications if the resolutions in respect of the Foley Allotment and the CN Conversion are not approved.

Our opinion should be considered as a whole. Selecting portions of the evaluation without considering all the factors and analyses together could create a misleading view of the process underlying the opinion.

2.2 Summary of the Evaluation of the Merits of the Allotments of Shares to Foley Holdings

In our opinion, after having regard to all relevant factors, the positive aspects of the Foley Allotment and the CN Conversion outweigh the negative aspects from the perspective of the Existing Shareholders.

Our evaluation of the merits of the allotments of shares to Foley Holdings under the Foley Allotment and the CN Conversion is set out in detail in sections 2.3 to 2.18. In summary, the key factors leading to our opinion are:

- the rationale for the Merger is compelling:
  - it will enable NZWC to meet its requirement to immediately repay $5 million of bank loans
  - the size and scale of the Company will increase significantly and NZWC will become one of the largest New Zealand wine producers and exporters
  - NZWC will form a strong relationship with Foley Holdings and FFW Inc
- we consider the 20:80 shareholding relativity under the Merger to be equitable to the Existing Shareholders:
  - the shareholding relativity is broadly in line with the relative values based on each company's NAV as at 30 April 2012
  - FNZ has recorded profits in the past 3 years whereas NZWC has recorded losses
- we note that the Merger is subject to 2 important conditions being met:
  - Foley Holdings receiving the OIO Consent
  - shareholders holding not more than 10% of the Company's shares and voting against resolution 1 exercise their minority buyout rights under the Companies Act
- the rationale for the Foley Allotment is sound. The transaction is a merger of interests and the most appropriate form of consideration for the acquisition of the shares in FNZ is the issue of NZWC scrip. Furthermore, as part of the Merger, Foley Holdings will invest $6 million of cash into NZWC
- the rationale for the Convertible Note is sound. The Convertible Note replaces a loan owing to Foley Holdings by FNZ with a loan of the same amount owing to Foley Holdings by NZWC
- we consider the issue price of $1.3862 per share under the Foley Allotment and the CN Conversion to be fair:
  - the issue price is effectively an outcome based on the number of shares issued to Foley Holdings to achieve a post merger 20:80 shareholding split
  - the issue price is at a premium of 40% to 113% to the Company's volume weighted average share price (**VWAP**) measured at different periods over the past year up to the announcement of the Merger
- we do not consider the possible alternatives to the Foley Allotment and the Convertible Note to be as attractive or feasible to the Company

- as set out in section 6, the Merger will strengthen the Company's financial position:
  - total assets will increase by $75 million to $111 million, including a $6 million increase in cash
  - equity will increase by $48 million to $61 million
  - financial leverage will reduce from 57% to 31%
- the Merger is projected to significantly improve the Company's financial performance. NZWC has recorded losses of late. Post the Merger, the Company projects to sell over 400,000 case sale equivalents of bottled wine in the 2013 year and generate earnings in excess of that recorded by FNZ in the last financial year
- the Foley Allotment will result in Foley Holdings having significant ability to influence the outcome of shareholder voting as it will control 80.00% of the voting rights in the Company, thereby enabling it to singlehandedly determine the outcome of any ordinary resolution or special resolution that it is entitled to vote on
- the CN Conversion will further enhance Foley Holdings' ability to influence the outcome of shareholder voting as it will control up to 83.28% of the voting rights in the Company
- the Foley Allotment will result in Foley Holdings having significant influence over the Company's board of directors (the **Board**) and its operations
- the Foley Allotment will see Existing Shareholders' voting interests in the Company diluted by 80%. If the Convertible Note is also converted, the Existing Shareholders' voting interests will be diluted by approximately 83% in total
- the Foley Allotment could potentially have a positive impact on the Company's share price. The shares last traded at $0.90 prior to the announcement of the Merger. The Foley Allotment issue price of $1.3862 per share is at a premium of 54% to that share price
- the Foley Allotment and the CN Conversion will not increase the number of shares held by the Existing Shareholders and therefore are unlikely to have any material impact on the liquidity of NZWC's shares unless there is a re-rating of the Company's shares by the market
- the Foley Allotment and the CN Conversion will likely reduce the attraction of NZWC as a takeover target
- the implications of the Foley Allotment and the CN Conversion not being approved by the Existing Shareholders are that the Merger will not proceed. This will have immediate negative consequences for NZWC as it will not be able to meet its commitment made in December 2011 to repay $5 million of bank loans to ANZ National Bank Limited (**ANZ Bank**) by 30 June 2012 or shortly thereafter. This may lead to the need to undertake an orderly realisation of the Company's assets. In our view, an orderly realisation of assets is unlikely to provide a more favourable outcome for Existing Shareholders.

2.3 Background to the Merger

NZWC announced on 27 June 2011 that it would be in breach of one of its 3 financial covenants with ANZ Bank as at 30 June 2011. ANZ Bank agreed to waive that breach, conditional on it being satisfied with the results of an independent review of NZWC's financial forecasts and business model.

NZWC appointed PricewaterhouseCoopers (**PwC**) to undertake an independent review of the Company's financial forecasts and business model and prepare an independent appraisal for ANZ Bank. The PwC independent appraisal report was issued on 8 August 2011.

As part of the review, NZWC agreed with ANZ Bank in December 2011 that it would develop an equity raising plan to pay down debt and strengthen the Company's balance sheet. NZWC committed to raise a minimum of $5 million by an anticipated completion date of 30 June 2012 and to reduce the ANZ Bank debt by a minimum of $5 million shortly thereafter.

NZWC appointed Grant Samuel & Associates Limited (**Grant Samuel**) in December 2011 to advise the Company on capital restructuring, targeted at satisfying the agreement reached with ANZ Bank. Grant Samuel identified and pursued interest from a number of trade investors.

The Directors considered the Merger to be the most meritorious option available to the Company and entered into a non-binding heads of agreement with Foley Holdings on 27 March 2012.

2.4 Rationale for the Merger

We are advised by the Directors that they view the Merger as a significant growth opportunity for the Company. The expected key benefits they perceive include:

- it meets NZWC's agreement with the ANZ Bank through the injection of $6 million of cash, of which $5 million will be used to repay bank debt and $1 million will be used to upgrade the NZWC winery for the production of higher quality and more profitable wines
- the Foley Allotment is at an issue price of $1.3862 per share which is significantly above the last traded share prices of:
  - $0.90 prior to the announcement of the Merger on 21 May 2012
  - $0.85 at the date of signing the Merger Agreement on 28 June 2012
- the Merger has the potential to provide a higher return for Existing Shareholders in the medium term than the alternatives of selling the Company's assets or introducing a financial investor to subscribe for new shares sufficient to reduce the ANZ Bank debt by the required amount
- the Merger will provide the scale required for NZWC to be a significant wine business globally and to position it to participate in the expected consolidation of the wine industry in New Zealand
- NZWC will be associated with FFW Inc, a reputable and experienced investor in the wine industry in both New Zealand and the USA
- the Merger will result in a stronger NZWC balance sheet with a more conservative debt to equity ratio which will provide better protection against seasonal adversity

- operational and administrative cost savings can be achieved through merging the 2 companies' marketing and back-office functions.

In our view, the rationale for the Merger is compelling. Of immediate importance is that it resolves the major issue that the Company currently faces of repaying $5 million of the ANZ Bank loan. We are advised by the Directors that the Merger Agreement satisfies the ANZ Bank's requirements.

In the absence of the $6 million cash injection by Foley Holdings, NZWC's future will likely be in the hands of ANZ Bank which would require the sale of some or all of NZWC's assets or other actions to the detriment of the Existing Shareholders (such as placing the Company into administration or receivership).

The Merger also creates longer term strategic opportunities for NZWC which could well be value-enhancing for the Existing Shareholders:

- the combined business will be of a size and scale which is far more likely to survive and thrive than would be the case if NZWC continued on a standalone basis. This should benefit all aspects of NZWC's operations from grape supply to production, marketing and distribution
- NZWC will benefit from the knowledge and input of Foley Holdings / FNZ personnel through their Board representation and their roles in the Company's senior management team
- NZWC will benefit from the distribution channels that FFW Inc offers – particularly in North America
- the combined NZWC / FNZ brand portfolio can be rationalised to ensure optimum market positioning and coverage
- NZWC's market capitalisation will increase significantly. This may lead to greater visibility of the Company and increased analyst coverage, which in turn may lead to a re-rating of the Company and improved liquidity of NZWC's shares.

2.5 Terms of the Merger

The key terms of the Merger as set out in the Merger Agreement are:

- NZWC will acquire all of the shares in FNZ from Foley Holdings
- Foley Holdings will also invest $6 million in NZWC, of which:
  - $5 million will be used repay ANZ Bank debt
  - $1 million will be available for expenditure on capital improvements
- Foley Holdings will contemporaneously be issued 34,708,796 shares in NZWC as consideration for the FNZ shares and the $6 million cash subscription
- the promissory note issued by FNZ to Foley Holdings of $11.8 million will be assumed as an obligation of NZWC, pursuant to the Convertible Note to be issued by NZWC to Foley Holdings

- the Merger is subject to a number of conditions, including:
  - Foley Holdings receiving the OIO Consent
  - NZWC shareholder approval of the Merger, the Convertible Note and the CN Conversion
  - shareholders who together hold not more than 10% of the Company's shares and who vote against the resolution not exercising their minority buyout rights under the Companies Act
  - no event occurring prior to the completion of the Merger which has a material effect on the Company
  - no insolvency event occurring
- upon execution of the Merger Agreement, NZWC and Foley Holdings intend to enter into an agreement for co-operation between the parties as to the operation of the parties' vineyards (the **Operations Agreement**) covering matters such as blending of the 2012 intake, vineyard pruning regimes, production strategy, sourcing strategy and securing additional grape supply. This agreement will cover the period through to the time the Merger becomes unconditional
- a range of warranties given by Foley Holdings in respect of FNZ covering matters such as title to the shares, material circumstances, financial matters, assets, properties, compliance with laws and legal proceedings.

Acquisition Price and Consideration

The purchase price payable by NZWC for 100% of the shares in FNZ is $42,114,541. This has been arrived at by considering FNZ's NAV on a "like-for-like" basis against NZWC's NAV.

We are advised by the Directors that they considered this was an appropriate way of determining the relative values of NZWC and FNZ for the purposes of the Merger as the transaction represents a merger of similar interests.

The Directors determined the value for FNZ following a due diligence investigation undertaken with the assistance of the Company's executives and its financial and legal advisers.

Consideration is in the form of the issue of 34,708,796 shares (the Foley Allotment):

- 30,380,525 Acquisition Shares at $1.3862 per share in respect of the acquisition of 100% of the shares in FNZ for $42,114,541
- 4,328,271 Subscription Shares at $1.3862 per share for the cash subscription of $6 million.

We have undertaken a financial evaluation of the Merger in section 6. In our opinion, the acquisition price and consideration are reasonable. The transaction is a merger of interests (rather than a takeover) and we consider the 20:80 shareholding relativity to be equitable to Existing Shareholders.

Conditions

There are 2 key conditions in the Merger Agreement that Existing Shareholders should be fully aware of because if either condition is not met, then the Merger may not proceed.

One of the conditions is that shareholders together holding not more than 10% of NZWC's shares and who vote against the resolution do not exercise their minority buyout rights under the Companies Act.

Resolution 1 in respect of the Merger is a special resolution. If the resolution is approved, the Companies Act provides that shareholders who vote against the proposal are entitled to require that the Company buy back their shares at a fair and reasonable price. Shareholders who vote against the resolution and who wish to exercise this right to require NZWC to buy back their shares must give written notice within 10 working days of the passing of the resolution that they require the Company to buy back their shares.

Foley Holdings or NZWC may cancel the Merger Agreement if shareholders voting against the resolution and exercising this right hold more than 10% of the shares of NZWC.

The approval of resolution 4 will enable the Company to rescind resolutions 1, 2 and 3 in the event that Foley Holdings cancels the Merger Agreement due to this condition not being met.

Another condition is that Foley Holdings obtains the OIO Consent.

The satisfaction of the OIO Consent condition is unlikely to be known until after the special meeting of shareholders. During that period, NZWC will work collaboratively with Foley Holdings in accordance with the Operational Agreement to ensure that pending receipt of the OIO Consent, business will continue as usual for both NZWC and FNZ but without detriment to NZWC following the Merger, should the OIO Consent not be forthcoming.

The approval of resolution 4 will enable the Company to rescind resolutions 1, 2 and 3 in the event that the OIO Consent is not obtained.

2.6 Rationale for the Foley Allotment

In our view, the rationale for the Foley Allotment is sound. The Merger is a combination of NZWC and FNZ's assets and operations rather than a takeover of FNZ by NZWC or vice versa. Accordingly, the most effective means of structuring the consideration is by way of the issue of NZWC scrip to Foley Holdings through the Foley Allotment.

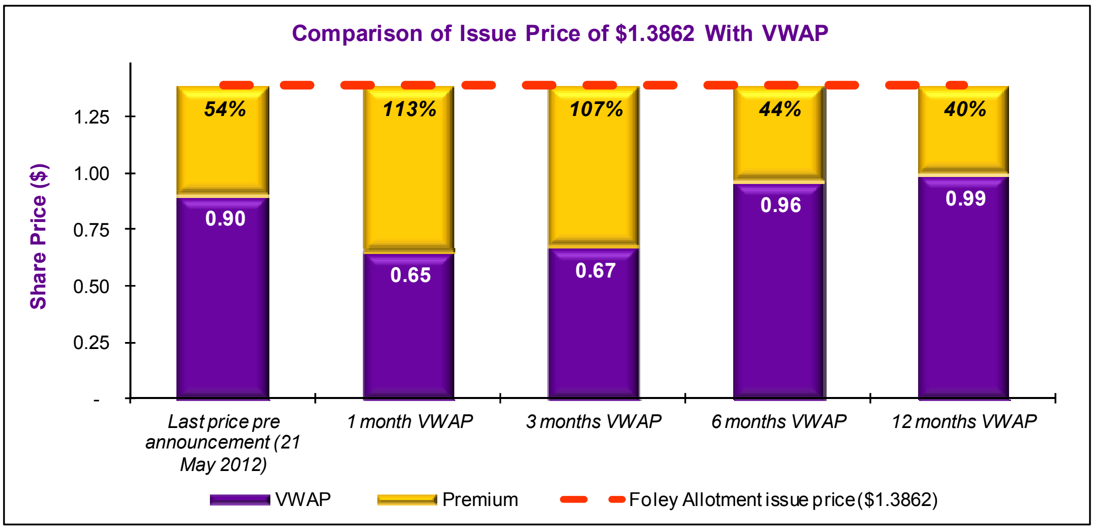
Furthermore, in order to meet NZWC's commitment to repay $5 million of the ANZ Bank loans by 30 June 2012 or shortly thereafter, NZWC has agreed to issue the 4,328,271 Subscription Shares as part of the Foley Allotment in order to raise $6 million of cash.

2.7 Terms of the Foley Allotment

The key terms of the Foley Allotment as set out in the subscription agreement between NZWC and Foley Holdings (the **Subscription Agreement**) are:

- NZWC will issue Foley Holdings 34,708,796 new ordinary shares at an issue price of $1.3862 per share in consideration for 100% of the shares in FNZ and the $6 million cash subscription by Foley Holdings
- the new ordinary shares will rank equally in all respects with the existing ordinary shares
- the Foley Allotment is conditional on the completion of the Merger Agreement and all the conditions in the Merger Agreement
- a range of warranties given by NZWC covering matters such as material circumstances, accuracy of information, financial matters, assets, properties, tax warranties, compliance with laws and legal proceedings..

The issue price is at a significant premium to the Company's share price. The issue price of $1.3862 per share is at a premium of 40% to 113% to the Company's VWAP measured at different periods over the past year up to the announcement of the Merger on 21 May 2012.



While the issue price of $1.3862 appears favourable to the Existing Shareholders based on a comparison with VWAP as it is at a significant premium, of greater importance is the relative shareholding levels of the Existing Shareholders and Foley Holdings following the Merger. As stated in section 2.5, we consider the 20:80 shareholding relativity to be equitable from the perspective of the Existing Shareholders.

2.8 Rationale for the Convertible Note

FNZ has a current loan liability of $11.8 million to Foley Holdings under a promissory note which is interest free and repayable on demand by Foley Holdings. NZWC has agreed to assume the loan liability to Foley Holdings through the issue of the Convertible Note. This liability has been taken into account in calculating the acquisition price payable by NZWC for all the shares in FNZ.

On conversion of the Convertible Note issued by NZWC, a further 8,512,266 shares in NZWC could be issued to Foley Holdings. Assuming no change in the shares on issue in NZWC between the date of the issue of the Convertible Note and the CN Conversion, this would, when aggregated with the Foley Allotment, increase the holdings of Foley Holdings to 83.28%.

In our view, the rationale for the issue of the Convertible Note is sound. Following the Merger, NZWC will assume the debt that was owed by FNZ to Foley Holdings prior to the Merger, with the Convertible Note being on more commercial terms. The loan will no longer be repayable upon demand (for the first 18 months) but will bear interest. The quantum of the debt will remain the same and it was taken into account in assessing the acquisition price for FNZ.

2.9 Terms of the Convertible Note and the CN Conversion

The key terms of the Convertible Note as set out in the Deed relating to a Loan between NZWC, Foley Holdings and FNZ (the **CN Deed**) are:

- the principal loan amount is $11.8 million
- interest is payable quarterly in arrears (not compounding) pending conversion at the rate of 6.5% per annum
- the term of the Convertible Note is a minimum term of 18 months. After that period (or earlier if NZWC is in breach of its obligations under the Convertible Note), Foley Holdings may convert all or part of the principal amount into NZWC ordinary shares (ie the CN Conversion) or demand repayment of the principal amount
- the issue price under the CN Conversion is $1.3862 per share
- all shares issued under the CN Conversion will rank equally in all respects with all other NZWC shares on issue.

A convertible security such as the Convertible Note has 2 components:

- a bond component (in this case an unsecured loan of $11.8 million with a coupon of 6.5% per annum)
- an embedded option (in this case an option to convert the loan principal into ordinary shares at an exercise price of $1.3862 per share, exercisable after 18 months).

The Convertible Note is unsecured. We are of the view that the interest rate of 6.5% per annum is in line with, or slightly lower than market rates of interest for unsecured borrowings of this nature and thus is fair (if not advantageous) to NZWC.

The issue price at which the shares will be issued under the CN Conversion of $1.3862 per share is the same price as the issue price under the Foley Allotment.

As stated in section 2.7, we consider an issue price of $1.3862 per share for the Foley Allotment to be reasonable from the perspective of the Existing Shareholders.

On the basis that we consider the interest rate on the Convertible Note to be fair to NZWC, we are of the view that the issue price of $1.3862 per share for the CN Conversion is reasonable from the perspective of the Existing Shareholders.

2.10 Alternatives to the Foley Allotment and the Convertible Note

As an alternative to issuing scrip to Foley Holdings, NZWC could have structured the consideration to be paid with a combination of cash and scrip. This would have required the Company to raise cash to pay a portion of the consideration to Foley Holdings. This could potentially have been achieved by:

- seeking additional debt funding
- raising equity from other shareholders
- asset sales.

We do not consider that any of these alternatives would be as attractive or feasible as the Foley Allotment.

ANZ Bank requires NZWC to repay $5 million of its borrowings. NZWC does not have any capacity to increase its borrowings at this point in time.

We consider it improbable in the current economic environment that NZWC could place over $42 million of fresh equity to new or existing shareholders within the required timeframe. Furthermore, given the Company's recent share price history, we consider it unlikely that any such share placement could be made at an issue price of $1.3862 per share.

The Company's main assets are its vineyards, winery, inventory and brands. Given that one of the Company's key strategic objectives is to increase the scale of its operations, the sale of any vineyards or the winery would be contrary to this objective and therefore would not be a viable option to part fund the Merger.

2.11 Impact on Control

Share Capital and Shareholders

NZWC currently has 8,677,199 ordinary fully paid shares on issue held by 356 shareholders. The names, number of shares and percentage holding of the Company's 10 largest shareholders as at 6 July 2012 are set out in section 4.7.

The top 10 shareholders collectively control 54.60% of the voting rights in the Company at present.

The allotment of shares under the Foley Allotment will result in Foley Holdings holding 80.00% of the shares in NZWC and the CN Conversion will result in Foley Holdings holding up to 83.28% of the shares in NZWC without it having to make a formal offer to all shareholders in accordance with Rules 7(a) or 7(b) of the Code.

Shareholding Levels

	Existing Shareholders		Foley Holdings		Total
	No. of Shares	%	No. of Shares	%	No. of Shares
Current	8,677,199	100.00%	-	-	8,677,199
Foley Allotment	-		34,708,796		34,708,796
Post Foley Allotment	8,677,199	20.00%	34,708,796	80.00%	43,385,995
CN Conversion	-		8,512,266		8,512,266
Post Foley Allotment and CN Conversion	8,677,199	16.72%	43,221,062	83.28%	51,898,261

Shareholding Voting

We are of the view that the Foley Allotment will provide Foley Holdings with the ability to exert significant shareholder control over NZWC.

Following the Foley Allotment, Foley Holdings will hold 80.00% of the voting rights in the Company and therefore will have the ability to influence the outcome of all shareholder voting (where it is entitled to vote) as it will be able to singlehandedly pass or block:

- ordinary resolutions – which require the approval of more than 50% of the votes cast by shareholders
- special resolutions – which require the approval of 75% of the votes cast by shareholders.

If the Convertible Note is converted into ordinary shares to the maximum extent possible, then Foley Holdings will hold 83.28% of the voting rights in the Company (assuming no other changes to the number of shares on issue), which will further strengthen its ability to influence the outcome of all shareholder voting.

The ability for any shareholder to influence the outcome of voting on the Company's ordinary resolutions or special resolutions may be reduced by external factors such as the Company's constitution, the NZAX Listing Rules and the Companies Act.

Board Control

Under the terms of the Merger, David Appleby and Bill Wallace will retire from the Board and the post Merger Board will consist of:

- 3 representatives of Foley Holdings (Bill Foley, Mark Turnbull and Tony Anselmi)
- one representative of the existing Board (Alton Jamieson).

As Foley Holdings will have 3 direct appointments to the Board, it will have significant control over the Board.

We note that any appointments will be subject to the requirements of the NZAX Listing Rules.

Operations

Foley Holdings' level of influence over the Company's operations will be significant following the Foley Allotment.

Foley Holdings personnel will be appointed to key senior management positions:

- Mr Turnbull will be appointed chief executive officer
- Michael van Druten will be appointed chief financial officer. Mr van Druten is currently the chief financial officer of Eurovintage Limited (**Eurovintage**), a wine distribution company in which Foley Holdings owns a 50% shareholding.

2.12 Dilutionary Impact

The Foley Allotment will result in the Existing Shareholders' proportionate shareholdings in the Company being significantly diluted by 80% and up to 83% if the Convertible Note is fully converted under the CN Conversion.

Dilutionary Impact of the Foley Allotment

	Current		Post Foley Allotment	
	No. of Shares	%	No. of Shares	%
Existing Shareholders	8,677,199	100.00%	8,677,199	20.00%
Foley Holdings	-	-	34,708,796	80.00%
Total	8,677,199	100.00%	43,385,995	100.00%
Dilutionary impact				80.0%

	Current		Post Foley Allotment and CN Conversion	
	No. of Shares	%	No. of Shares	%
Existing Shareholders	8,677,199	100.00%	8,677,199	16.72%
Foley Holdings	-	-	43,221,062	83.28%
Total	8,677,199	100.00%	51,898,261	100.00%
Dilutionary impact				83.3%

While the dilutionary impact on shareholding levels is significant, we are of the view that the prime focus on dilution from a minority shareholder's perspective should be on whether there is any dilution in the value of their interest in the Company. As previously stated, we consider the $1.3862 per share issue price of the Foley Allotment and the CN Conversion to be reasonable. Accordingly, there is unlikely to be any material dilution in the value of the Existing Shareholders' interests in NZWC arising from the Foley Allotment and the CN Conversion.

2.13 Impact on Share Price and Liquidity

Share Price

A summary of NZWC's daily closing share price and daily volume of shares traded from 5 January 2009 is set out in section 4.11.

The possibility of a merger with FNZ was announced on 21 May 2012. NZWC's closing share price immediately prior to that date was $0.90 (based on a last trade on 10 May 2012). Since then, 10,308 shares have traded on 3 days at a price of $0.85.

We consider the Foley Allotment could potentially have a positive impact on the Company's share price as the Foley Allotment issue price is at a significant premium in excess of 50% to the prevailing market price. However, the degree of the impact is likely to be restricted due to the limited liquidity of the Company's shares.

Liquidity

A summary of the trading in NZWC's shares over the past year is set out in section 4.11. Trading in the Company's shares is extremely thin. Only 4.6% of the Company's shares have traded in the past year on 23 days.

The size of the pool of shares held by the Existing Shareholders will not increase under the Foley Allotment and the CN Conversion.

In our view, the Foley Allotment and the CN Conversion on its own is unlikely to have a positive or negative effect on the liquidity of NZWC's shares. However, the Merger will result in NZWC's market capitalisation potentially increasing by over 4 times. The significant increase in size may increase NZWC's visibility in the capital markets which in turn may drive an increase in the liquidity of the Company's shares.

2.14 Benefits to Foley Holdings

The key benefit of the Foley Allotment is that it provides Foley Holdings with the opportunity to hold a controlling shareholding of 80.00% in NZWC at an issue price of $1.3862 per share. The CN Conversion will increase Foley Holdings' shareholding to up to 83.28%.

With a 80.00% shareholding, Foley Holdings will be able to utilise the *creep* provisions of Rule 7(e) of the Code. The *creep* provisions enable entities that hold between 50% and 90% of the voting securities in a code company to buy up to a further 5% of the code company's shares per annum. Foley Holdings would be able to acquire up to a further 5% of NZWC's shares commencing 12 months after the Foley Allotment is completed. Foley Holdings could use the *creep* provisions to increase its shareholding to 90%, at which point it could compulsorily acquire the remaining shares in the Company.

2.15 Disadvantages to Foley Holdings

Exposure to the Risks of NZWC

The key issues and risks that are likely to impact upon the business operations of NZWC are set out in section 4.5. Foley Holdings' 80.00% shareholding in NZWC will expose it significantly to these risks.

However, given its current investment in FNZ, it is arguable that Foley Holdings is already fully exposed to all of the risks.

2.16 Benefits for the Existing Shareholders

Increases the Size and Scale of NZWC

The Merger will transform NZWC from a 250,000 + case sale equivalent company to a 600,000 + case sale equivalent company. The increased size and scale of the Company should better position it to compete in the global wine industry.

Raises $6 Million of Capital

The Foley Allotment will raise $6 million of fresh equity, of which $5 million will be used to repay a portion of the Company's bank loans (as required under its agreement with ANZ Bank) and $1 million will be used to upgrade the NZWC winery.

Benefits to NZWC of Foley Holdings as a Cornerstone Shareholder

The Foley Allotment will result in Foley Holdings being an important cornerstone investor in the Company. NZWC will be able to leverage off Foley Holdings' industry knowledge, expertise, personnel and relationships and gain access to the distribution channels that FFW Inc offers – particularly in the USA.

The Foley Allotment also signals Foley Holdings' confidence in the future prospects of NZWC following the Merger.

Existing Shareholder Approval is Required

Pursuant to Rule 7(d) of the Code, the Existing Shareholders must approve by ordinary resolution the Foley Allotment and the CN Conversion.

Neither the Foley Allotment nor the CN Conversion will proceed unless the Existing Shareholders approve both resolution 2 and resolution 3.

2.17 Disadvantages to the Existing Shareholders

Existing Shareholders will be Diluted

Existing Shareholders' proportionate interests in the Company will be significantly diluted by 80% under the Foley Allotment and up to approximately 83% if the Convertible Note is converted to the maximum extent.

Will Reduce the Likelihood of a Takeover Offer from Foley Holdings

In our view, the Foley Allotment and the CN Conversion will reduce the likelihood of a future takeover offer from Foley Holdings as it may consider that it has sufficient control over the Company.

It is possible that if Foley Holdings did make a takeover offer for further shares in the Company, it may offer a control premium that is lower than would otherwise be expected as it may value its offer on the basis that it already has significant control of the Company and hence does not need to pay a control premium of any significance.

Following the Foley Allotment and the CN Conversion, Foley Holdings will not be able to increase the level of its shareholding in NZWC unless it complies with the provisions of the Code. It will only be able to acquire more shares in the Company if:

- it makes a full or partial takeover offer
- the acquisition is approved by way of an ordinary resolution of the Existing Shareholders
- the Company makes an allotment of shares which is approved by way of an ordinary resolution of the Company's shareholders other than Foley Holdings
- it complies with the *creep* provisions of Rule 7(e) of the Code.

Foley Holdings could also increase its level of shareholding in the Company if NZWC undertook a share buyback that was approved by the Company's shareholders and Foley Holdings did not accept the offer of the buyback.

Likelihood of Other Takeover Offers Will Reduce

In our view, the Foley Allotment and the CN Conversion will reduce the attraction of NZWC as a takeover target to other parties.

Currently, the NZWC share register is relatively widespread with no shareholder holding more than 11.4% of the Company's shares.

Following the Foley Allotment and the CN Conversion, any bidder looking to fully take over the Company or wishing to make a partial takeover offer for (say) 50.1% of the Company would need to ensure that Foley Holdings would accept its offer to ensure the success of its offer.

2.18 Implications of the Resolutions not Being Approved

As the 4 resolutions are interdependent and require sequential approval, if any one of the resolutions is not approved, then the Merger, the Foley Allotment and the issue of the Convertible Note will not proceed. Therefore if either resolution 2 in respect of the Foley Allotment or resolution 3 in respect of the Convertible Note and the CN Conversion is not approved, then the Merger will not proceed.

If the Merger does not proceed, the Board may seek to renegotiate the terms of the transaction with Foley Holdings and revert to the Existing Shareholders for their approval of the revised transaction (at additional cost to the Company).

Alternatively, the Board may decide to cease pursuing the Merger, in which case the Company will continue to operate in its current manner. However, it is faced with the immediate issue of its commitment to repay $5 million of the ANZ Bank loans.

In the event that NZWC and ANZ Bank cannot reach agreement on an alternative approach to the Company meeting the commitment, ANZ Bank will be entitled to terminate all bank facilities provided to the Company. This will most likely result in the need to undertake an orderly realisation of the Company's assets, either driven by the Board or under the direction of ANZ Bank.

The Board has evaluated the likely financial outcomes of such a process under various scenarios and is of the view that a realistic outcome of an orderly realisation of all of the Company's assets and the repayment of all of its liabilities would be a residual of $1.19 per share available for distribution to Existing Shareholders. The best case scenario suggests a figure of $1.67 per share whereas the worst case scenario suggests $0.52 per share.

In our view, the best case scenario assessment is optimistic as it assumes that all inventory will be able to be sold at above cost and certain fixed assets will realise their full carrying values. We consider the worst case scenario and realistic scenario range of $0.52 to $1.19 per share to be a reasonable estimate of the range of net proceeds from an orderly realisation of the Company's assets.

2.19 Likelihood of the Resolutions Being Approved

Resolutions 2 and 3 are ordinary resolutions and require the approval of more than 50% of the votes cast by shareholders for it to be passed. The Directors directly control 15.30% of the voting rights in the Company. Mr Appleby also influences a further 3.89% of the voting rights by way of his role as a trustee. The Directors have stated their support for the Merger and the associated resolutions. The Directors' 15.30% of the votes will increase to the extent of any votes not cast by other Existing Shareholders. For example, if the holders of 1,000,000 shares do not cast votes on the resolution, then the Directors' shares will represent 17.30% of the votes cast.

2.20 Voting For or Against the Foley Allotment Resolution and the Convertible Note Resolution

Voting for or against resolution 2 in respect of the Foley Allotment and resolution 3 in respect of the Convertible Note and the CN Conversion is a matter for individual shareholders based on their own views as to value and future market conditions, risk profile and other factors. Shareholders will need to consider these consequences and consult their own professional adviser if appropriate.

3. Overview of the New Zealand Wine Industry

3.1 Industry Snapshot

The New Zealand wine industry is relatively young when compared with many other international wine industries (particularly in Europe) and has grown significantly in the past decade:

- the number of wineries has increased by 75%
- producing areas have increased by over 140%
- tonnes crushed have increased by almost 180%
- production has increased by over 160%
- export volumes have increased by almost 600%.

New Zealand Wine Industry Snapshot	
Number of wineries	698
Producing area	33,600 hectares
Average yield	9.8 tonnes per hectare
Average grape price	$1,172 per tonne
Tonnes crushed	328,000 tonnes
Total production	235 million litres
Domestic sales of New Zealand wine	66.3 million litres
Consumption per capita New Zealand wine	15.1 litres
Total sale of all wine	93.7 million litres
Consumption per capita all wine	21.3 litres
Export volume	154.7 million litres
Export value (FOB)	$1,094 million

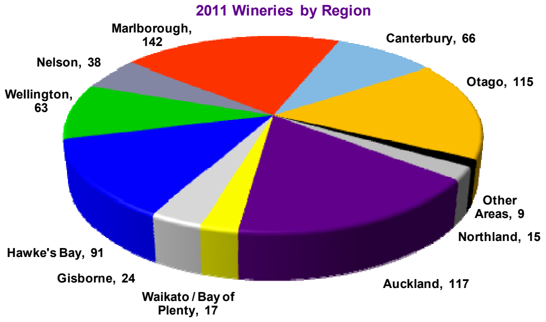
*Source: New Zealand Winegrowers (**NZWine**) Annual Report 2011*

3.2 Industry Participants

Industry Structure

The structure of the New Zealand wine industry is characterised by a combination of winemakers growing their own grapes and a large number of independent growers who supply grapes under contract to wineries or sell grapes at spot market prices.

Wineries



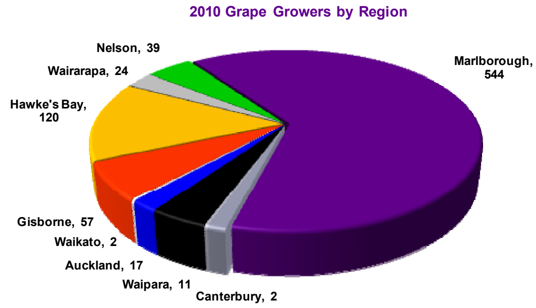
Source: NZWine Annual Report 2011

There were 698 wineries in New Zealand according to the NZWine Annual Report 2011, the majority of which had annual sales of less than 200,000 litres:

- category 1 (annual sales not exceeding 100,000 litres) – 615
- category 2 (annual sales between 200,000 and 4,000,000 litres) – 73
- category 3 (annual sales exceeding 4,000,000 litres) – 10.

Grape Growers

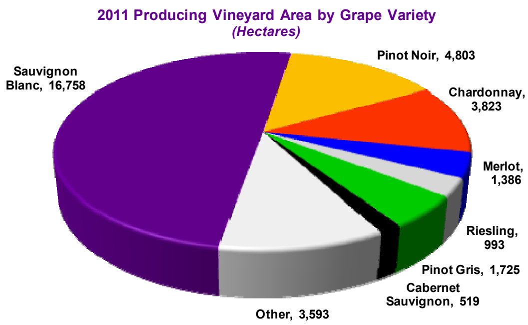
There were 851 grape growers in New Zealand in 2010, the majority of which were in Marlborough followed by Hawke's Bay. The number of grape growers has reduced by approximately 25% between 2009 and 2010.



Source: NZWine Annual Report 2011

3.3 Vineyard Area

Grape Variety



Source: NZWine Annual Report 2011

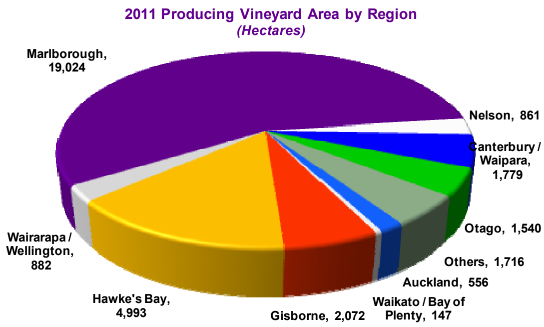
There were 33,600 producing vineyard hectares in New Zealand in 2011. 50% were planted in Sauvignon Blanc with Pinot Noir representing the second largest plantings (14%).

NZWine forecasts that Sauvignon Blanc will continue to account for approximately 50% of planted hectares in New Zealand in the near term and for there to be no major changes in other planted varieties.

Regions

Marlborough accounted for 57% of the producing vineyard hectares in New Zealand in 2011, followed by Hawke's Bay with 15%.

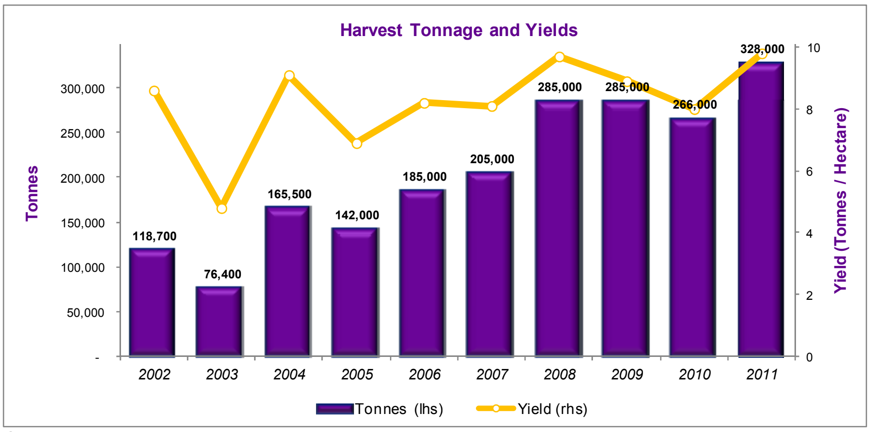
NZWine forecasts that Marlborough will continue to account for almost 60% of planted hectares in New Zealand in the near term and for there to be no major changes in other regions.



Source: NZWine Annual Report 2011

3.4 Grape Supply

Grape supply increased by 176% between 2002 and 2011, increasing from 118,700 tonnes to 328,000 tonnes.



Source: NZWine Annual Report 2011

The 2012 harvest was 269,000 tonnes (down 18%), with the cooler than average summer resulting in lower yields.

Region Growth

Grape supply in the Marlborough region increased 349% from 54,496 tonnes in 2002 to 244,893 tonnes in 2011. However, the 2012 harvest was 188,649 tonnes, down 23%.

Grape supply in Hawke's Bay increased 38% from 25,661 tonnes in 2002 to 35,533 tonnes in 2011 and decreased by 8% to 32,793 tonnes in 2012.

Variety Growth

Sauvignon Blanc grape supply increased 511% from 36,742 tonnes in 2002 to 224,412 tonnes in 2011. However, the 2012 harvest was 181,121 tonnes, down 19%.

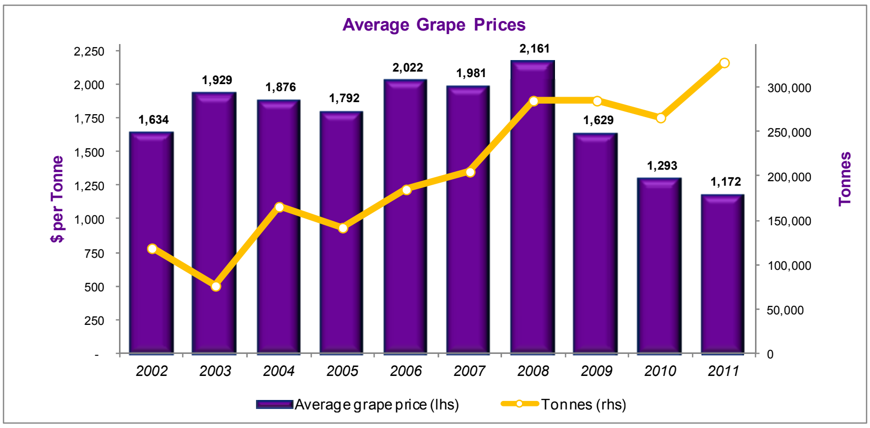
Pinot Noir grape supply increased 200% from 10,402 tonnes in 2002 to 31,156 tonnes in 2011. The 2012 harvest was 23,285 tonnes, down 25%.

Chardonnay grape supply decreased 25% from 33,883 tonnes in 2002 to 25,580 tonnes in 2011 and decreased by a further 11% to 22,855 tonnes in 2012.

Grape Prices

The (then) record 2008 and 2009 grape harvests resulted in an oversupply of grapes which led to a significant reduction in grape prices in 2009.

Average grape price per tonne fell 25% to $1,629 in 2009, a further 21% to $1,293 in 2010 and a further 9% to $1,172 in 2011.



Source: NZWine Annual Report 2011

Average price per tonne for major varietals in 2011 were:

- Sauvignon Blanc - $1,151 / tonne
- Pinot Noir - $2,429 / tonne
- Chardonnay – $1,197 / tonne.

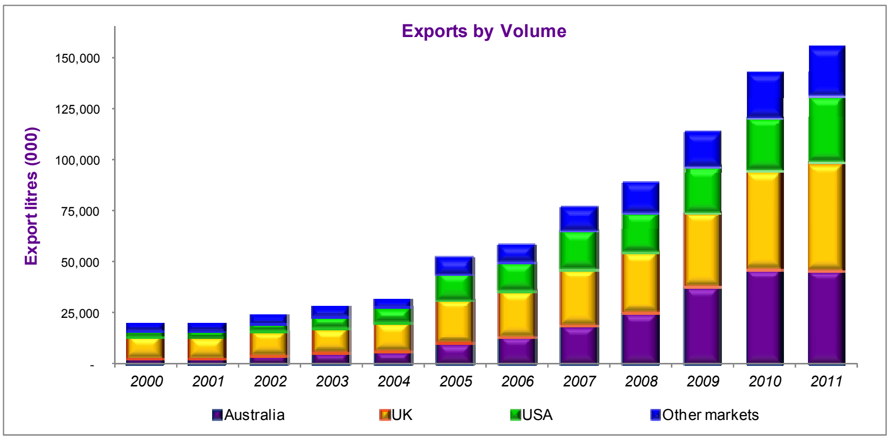
Regional Sauvignon Blanc grape prices in 2011 ranged from $926 / tonne (Gisborne) to $2,251 / tonne (Central Otago).

Marlborough Sauvignon Blanc grapes averaged $1,158 / tonne in 2011.

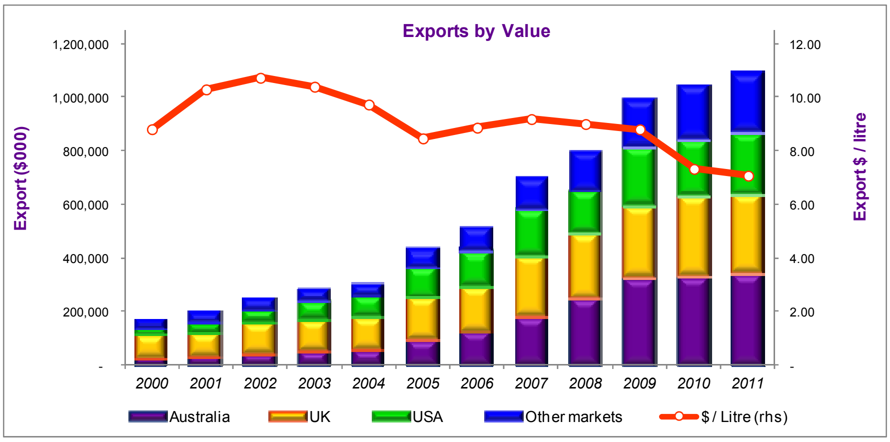
3.5 Exports

Volumes and Values

The level of New Zealand wine exports has increased dramatically in the past 10 years. Approximately 155 million litres were exported in 2011, representing approximately 66% of the industry's total production of 235 million litres. The value of wine exports in 2011 was approximately $1.1 billion.



Source: NZWine Annual Report 2011



Source: NZWine Annual Report 2011

Key Markets

Australia is the largest export market by value, accounting for 31% of exports by value and 29% by volume in 2011.

The UK is the largest export market by volume, accounting for 34% of exports (by volume) and 27% (by value) in 2011.

The USA is the third largest export market, accounting for 21% of exports (by both volume and value) in 2011.

Sauvignon Blanc accounted for 85% of wine exports in 2011 (by volume), with 131.7 million litres exported primarily to Australia, UK and USA.

Prices

Average price per litre was relatively steady at approximately $9 / litre in the 4 years to 2009. However, the effects of the global financial crisis, a sustained high New Zealand dollar and the increase in bulk wine sales from 2009 onwards has negatively impacted average prices, with average price dropping each year down to $7.07 / litre in the 2011 year.

3.6 Oversupply of Grapes in 2008 and 2009

The 2008 grape harvest was 39% higher than 2007, driven by good weather and the maturing of large scale recent plantings in Marlborough. Sauvignon Blanc tonnage increased by 66% and Marlborough tonnage increased by 61%.

The large 2008 and 2009 grape harvests produced an oversupply of grapes. This oversupply severely tested the financial sustainability of the New Zealand wine industry as wineries urgently tried to clear tanks and generate cash flow by selling wine in bulk.

The increase in the availability of bulk wine resulted in a number of substantial global companies buying surplus bulk wine at low prices and creating new bottled wine labels that significantly undercut the branded wine export prices of New Zealand wine companies.

Bulk wine sales increased significantly due to the oversupply of grapes, rising from 5% of total New Zealand export sales (4 million litres) in the 2008 year to 20% (23 million litres) in the 2009 year, 27% (38 million litres) in the 2010 year and 31% (48 million litres) in the 2011 year.

The impact of discounted bulk wine sales on traditional global branded wine sales has created a significant burden for the New Zealand wine industry:

- some bulk wine is being sold at below cost of production
- own brand grocery multiple wine sales have increased disproportionately
- branded bottle wine retail prices have dropped
- grape prices have fallen
- land and planted vineyard valuations have fallen.

3.7 Industry Outlook

NZWine released a strategic review of the New Zealand wine industry in November 2011, authored by PwC. Despite the reduced returns experienced by the industry in recent years, the review concluded that the outlook for the New Zealand wine industry was positive.

Demand for New Zealand wine in key export markets has grown at a compound annual growth rate of approximately 15% over the past decade. This compares favourably with both the global supply growth of 1% per annum over the same period and the total wine demand growth of 5% per annum.

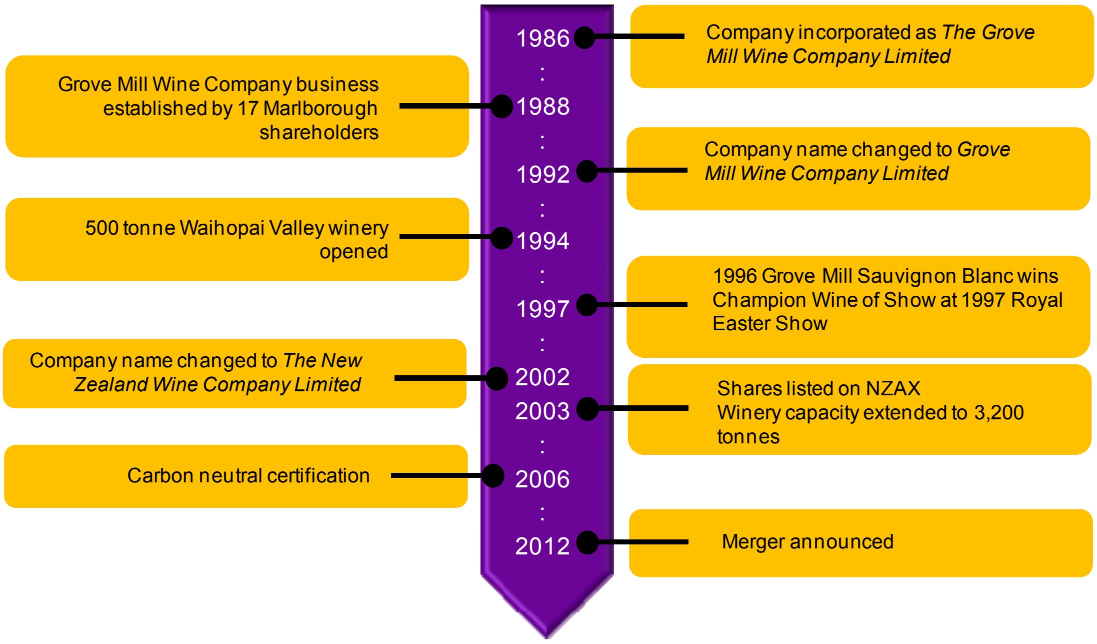
The strategic review concluded that supply of New Zealand wine will tighten, due to the reduction of new plantings over the last couple of years together with a short term constraint in winery capacity. On the demand side, growth in the USA and China markets is expected to be significant. The report concludes that the tightening in supply should lead to higher prices for New Zealand wines.

4. Profile of NZWC

4.1 Background

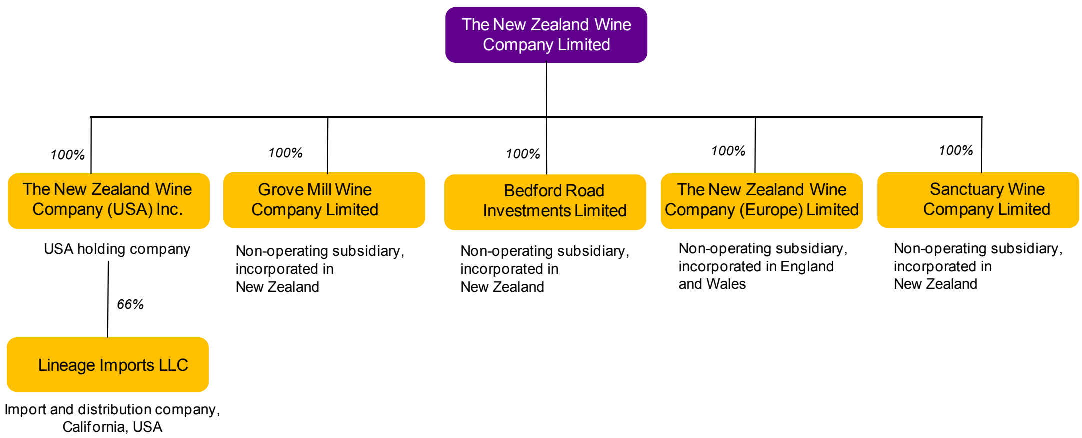
NZWC was incorporated on 7 July 1986 as The Grove Mill Wine Company Limited. It changed its name to Grove Mill Wine Company Limited on 5 August 1992 and to The New Zealand Wine Company Limited on 17 June 2002.

Key events in the Company's history are set out below.



4.2 Corporate Structure

The NZWC group structure includes a USA holding company which holds a 66% shareholding in Lineage Imports LLC (**Lineage**) and 4 non-operating wholly owned subsidiaries.



4.3 Nature of Operations

Overview

NZWC is an integrated wine company involved in:

- growing grapes
- winemaking and bottling
- marketing and sales of premium quality wines in New Zealand and to export markets.

Vineyards

NZWC owns and leases vineyards with a total producing area of 121 hectares situated in the Wairau, Seventeen and Waihopai Valleys in Marlborough:

- the Company owns 2 vineyards covering 43.2 producing hectares
- the Company leases 4 vineyards covering 78.0 producing hectares.

The vineyards are situated in the east, west and south of the Valleys, thus reducing frost risk.

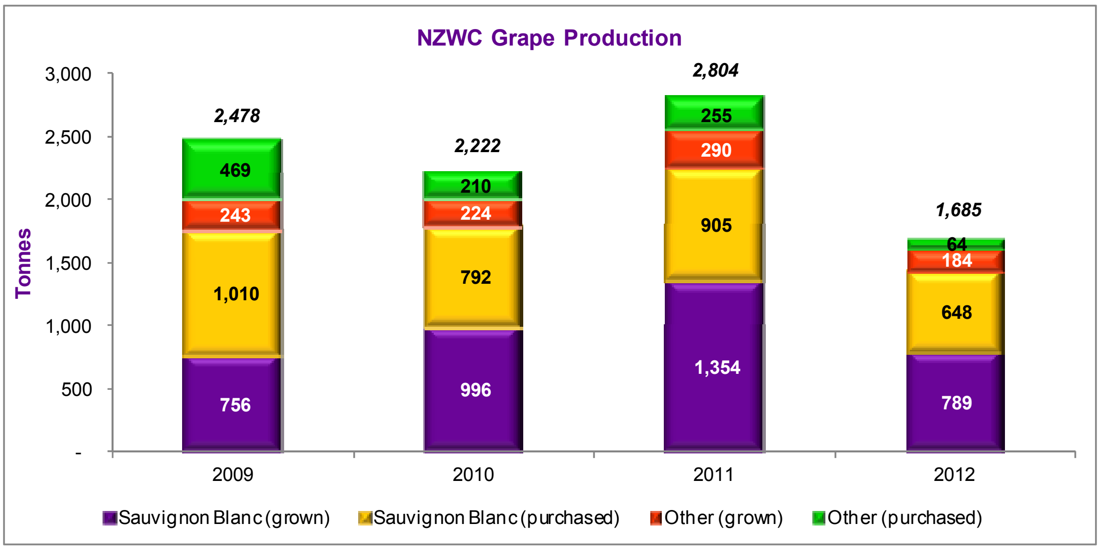
NZWC Vineyards

Vineyard	Owned / Leased	Plantings	Size (ha)
Bedford Road (Home)	Owned	Sauvignon Blanc	3.5
		Chardonnay	4.5
		Pinot Gris	1.5
		Riesling	2.2
		Gewurtzraminer	1.4
		Grüner Veltliner	0.4
		Kolor	0.1
			13.6
Seventeen Valley	Owned	Sauvignon Blanc	12.9
		Pinot Noir	8.4
		Pinot Gris	4.8
		Riesling	2.2
		Pinot Blanc	1.3
			29.6
Dowling	Leased	Sauvignon Blanc	20.3
Grovetown (Sadd)	Leased	Sauvignon Blanc	24.7
McCallum	Leased	Sauvignon Blanc	27.2
Avenelle	Leased	Sauvignon Blanc	4.1
		Semillon	1.7
			5.8
	Total owned		43.2
	Total leased		78.0
			121.2
		Total Sauvignon Blanc	92.7

Source: NZWC

Grape Production

Set out below is the grape tonnage grown by NZWC and purchased through contract growers over the past 4 years.



NZWC's 2012 tonnage was 40% lower than 2011. 58% of total grape tonnage in 2012 was from NZWC vineyards and 42% was purchased. Sauvignon Blanc represented approximately 85% of total production in 2012.

Winery

The original NZWC winery was constructed in 1994 on 16 hectares in Marlborough's Waihopai Valley. It is fully insulated and includes a "hot room" for control of secondary ferments.

An additional winery building was constructed in 2002, with separate red and white wine fermentation areas, separate finishing area and a purpose built barrel hall.

The wineries currently have the capacity to process 3,200 tonnes of grapes, with resource consent to increase capacity to up to 4,000 tonnes.

The wineries include a bottling hall with an Italian bottling line with capacity of 6,000 bottles per hour.

Since 2011, Kiwi-Oeno Limited (**Kiwi-Oeno**) has been responsible for the management of winemaking and vineyard and viticultural requirements.

carboNZero^{CertTM}

NZWC was the first winery in the world to achieve carbon neutrality status through achieving carboNZero^{CertTM} certification in 2006.

The carboNZero^{CertTM} program is an internationally recognised and accredited greenhouse gas certification scheme under ISO 14065, provided and managed by Landcare Research New Zealand Limited, a Crown Research Institute.

Brand Portfolio

NWZC has a portfolio of brands to address the various market segments.

NZWC Brand Portfolio	
Brand	**Quality Position**
Grove Mill	Super premium
Sanctuary	Premium
Frog Haven	Premium
Black Birch Mountain	Every day low price
Lansdowne	Every day low price

Source: NZWC

Distribution

NZWC's key markets have been:

- UK
- New Zealand
- USA
- Australia.

Sainsbury's is the Company's strongest sales channel in the UK, selling the *Sanctuary* and *Taste the Difference* brands. The *Grove Mill* brand is distributed by PLB Group Limited.

Domestic distribution is undertaken by Independent Liquor NZ Limited for the *Sanctuary* brand, directly with Progressive Enterprises for the *Grove Mill* brand and through the Blackmarket internet channel for the *Frog Haven* brand.

Distribution in the USA is primarily through Palm Bay International based in New York.

Distribution in Australia is through Liquor Marketing Group (**LMG**) and NZWC has secured a listing with Coles.

4.4 Corporate Strategy

NZWC's vision is to be a world class New Zealand wine company.

Its mission is to produce excellent wine in a globally recognised sustainable manner and marketing successful New Zealand wine products sold profitably through applicable distribution channels.

The Company's key strategic objectives are:

- to grow and secure at the correct cost quality grapes according to NZWC's market requirements
- to manage an excellent sustainable practice winery, producing outstanding award winning wine
- to aggressively position its products that makes them sought after by leading distributors, retailers and target consumers

- to develop a "by market" strategy that is capable of achieving 70% premium and 30% super premium mix profitability
- to create an environment in which NZWC's people can maximise their potential
- to return to profitability in order to resume dividends.

4.5 Key Issues Affecting NZWC

The main industry and specific business factors and risks that NZWC faces include:

- supply demand imbalance in the wine industry
- competition in the global wine industry from other New Zealand and international wine producers
- the loss or reduction in grape supply or grape quality
- damage to the Company's brands image or loss of their market appeal
- product quality issues
- termination or disruption to distribution arrangements
- fluctuations in the value of the New Zealand dollar relative to the currencies of key export markets
- the loss of key staff
- the inability to adequately finance the Company.

4.6 Directors and Senior Management

The directors of NZWC are:

- David Appleby
- Alton Jamieson, Chair
- Bill Wallace.

The Company's senior management team comprises:

- Peter Scutts, chief executive officer
- Jane Trought, chief financial officer
- Jens Merkle, winemaker
- Craig Young, vineyard manager
- Muriel Yvon, quality assurance manager
- Craig Fowles, sustainability and operations manager.

4.7 Capital Structure and Shareholders

NZWC currently has 8,677,199 ordinary shares on issue held by 356 shareholders.

The names, number of shares and percentage holding of the 10 largest shareholders as at 6 July 2012 are set out below.

NZWC's 10 Largest Shareholders		
Shareholder	**No. of Shares Held**	**%**
Alton Jamieson	988,268	11.39%
Alfa Lea Horticulture Limited	904,530	10.42%
Joy Croft	459,363	5.29%
Mark Peters and Viviene Peters	402,376	4.64%
John Orchard and Vida Orchard	387,842	4.47%
Helen Fletcher and Peter Doig Trustee Company Limited	354,000	4.08%
Winston McDonald, David Appleby and Robert Burnes	337,467	3.89%
John Milne, Maureen Milne and Daniel Stevenson	309,058	3.56%
Possum Equities Limited (**Possum Equities**)	300,000	3.46%
Timothy Fairhall	295,116	3.40%
Subtotal	4,738,020	54.60%
Others (346 shareholders)	3,939,179	45.40%
Total	8,677,199	100.00%

Source: NZX Data

Mr Jamieson is the chair of the Board.

Possum Equities is owned by David Appleby, one of the Directors.

Collectively, the Directors directly control 15.30% of the voting rights in the Company and Mr Appleby also influences a further 3.89% of the voting rights.

We are advised by the Directors that to the best of their knowledge Foley Holdings does not hold any shares in NZWC at the date of this report and it is not deemed to be an associate (as defined by the Code) of any Existing Shareholder.

4.8 Financial Performance

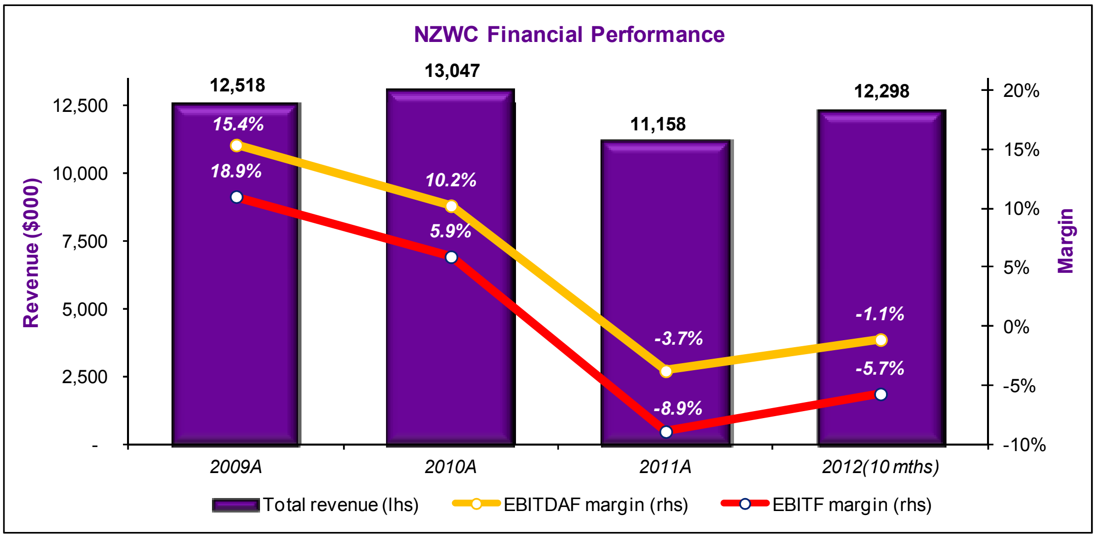
A summary of NZWC's recent financial performance is set out below.

Summary of NZWC Financial Performance				
	Year to 30 Jun 09 (Audited) $000	**Year to 30 Jun 10 (Audited) $000**	**Year to 30 Jun 11 (Audited) $000**	**10 Mths 30 Apr 12 (Unaudited) $000**
Sales revenue	12,477	11,792	11,158	11,729
Other revenue	41	1,255	-	569
Total revenue	12,518	13,047	11,158	12,298
EBITDAF	1,923	1,334	(418)	(135)
EBITF	1,377	771	(991)	(701)
Profit (loss) net of tax attributable to NZWC shareholders	1,283	(1,898)	(3,177)	(2,677)
EPS	$0.15	($0.22)	($0.37)	($0.31)

EBITDAF: Earnings before interest, tax, depreciation, amortisation, impairment and fair value adjustments
EBITF: Earnings before interest, tax and fair value adjustments
EPS: Earnings per share

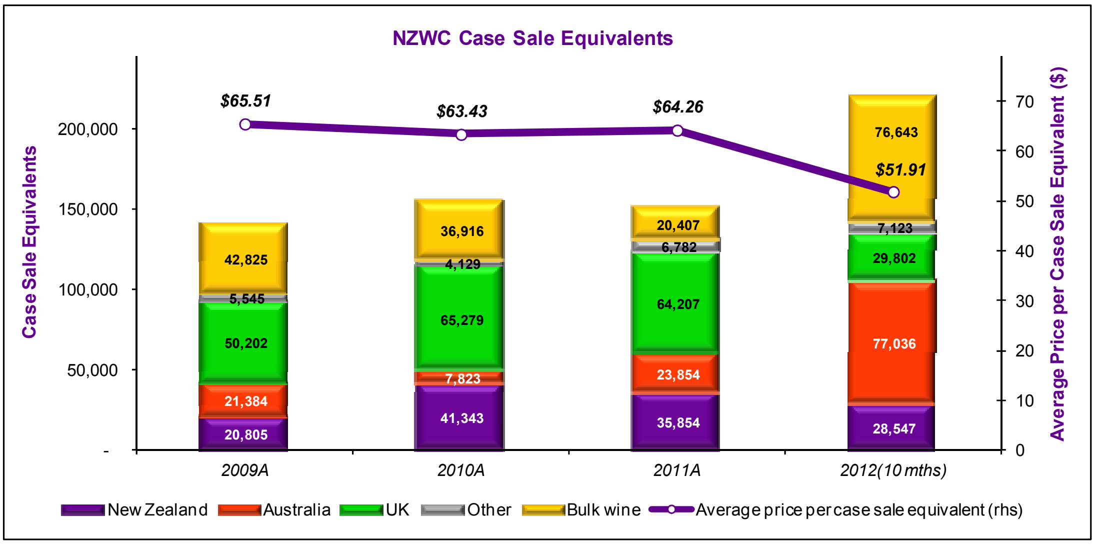
Source: NZWC audited financial statements and 30 April 2012 management accounts

NZWC's profitability has decreased over the past 4 years in line with the general trends in the New Zealand wine industry. The combination of increased grape supply, a high level of bulk wine sales, depressed global economic conditions and a strong New Zealand dollar against the UK pound and US dollar has resulted in reduced revenues and margins over the period.



Revenue from the sale of wine decreased from $12.5 million in the 2009 year to $11.2 million in the 2011 year and increased to $11.7 million in the 2012 year (based on the 10 months to 30 April 2012).

Export markets represent NZWC's major revenue sources, with over three quarters of bottled wine sales being to overseas markets. The UK market has historically been the Company's key export market until 2012, when 77,036 case sale equivalents were sold into the Australian market. This was mainly driven by a full year's sales to a new customer in Australia (LMG).



The key drivers of the fluctuations in sales revenue were:

- NZWC sold approximately 226,000 case sale equivalents in the 10 months to April 2012, compared with 174,000 case sale equivalents in the 2011 year, 186,000 case sale equivalents in the 2010 year and 190,000 case sale equivalents in the 2009 year
- the increased volume of sales in 2012 was driven mainly by significantly higher sales to Australia (up 223%) and a 276% increase in bulk wine sales to reduce inventory levels and enhance cash flow. Bulk wine sales totalled $2.1 million in 2012
- bulk wine case sale equivalents reduced from 42,825 cases in the 2009 year (22% of total case sale equivalents) to 20,407 cases in 2011 (12%) and increased to 76,643 cases in the 2012 year (34%)
- average prices per case sale equivalent were in the range of $63 to $66 between the 2009 and 2011 years and decreased to $52 in the 2012 year, mainly due to the significant increase in the level of bulk wine sales.

Other revenue included:

- $1.1 million of realised gains from foreign currency forward contracts closed out in the 2010 year
- $0.6 million of realised gains from foreign currency forward contracts closed out in the 2012 year.

Expenses have been in the range of $11 million to $13 million over the 4 year period, with cost of sales representing approximately 70% of expenses. Cost of sales has increased from 66% of sales revenue in the 2009 year to 78% in the 2012 year, largely due to reduced prices from exports.

The combination of reducing revenues and a static cost base has seen EBITDAF margin reduced from a high of 15% in the 2009 year to a low of negative 4% in the 2011 year.

Non cash impairment charges and revaluation adjustments have significantly influenced net profit each year:

- 2009 profit increased by $1.3 million due to a $2.6 million unrealised gain on financial assets / liabilities offset by $1.3 million of revaluation losses on biological assets and harvested grapes
- 2010 profit decreased by $2.0 million due mainly to revaluation losses on financial assets / liabilities, biological assets and harvested grapes
- 2011 profit decreased by $2.3 million due mainly to $0.9 million of impairment losses on assets and $2.0 million of revaluation losses on financial assets / liabilities and biological assets, offset by $0.6 million of revaluation gains on harvested grapes
- 2012 profit decreased by $1.9 million due mainly to revaluation losses on financial assets / liabilities and harvested grapes.

4.9 Financial Position

A summary of NZWC's recent financial position is set out below.

Summary of NZWC Financial Position				
	As at 30 Jun 09 (Audited) $000	As at 30 Jun 10 (Audited) $000	As at 30 Jun 11 (Audited) $000	As at 30 Apr 12 (Unaudited) $000
Current assets	18,490	17,481	16,870	14,949
Non current assets	25,960	22,695	20,461	20,693
Total assets	44,450	40,176	37,331	35,642
Current liabilities	(4,894)	(5,814)	(19,212)	(18,669)
Non current liabilities	(17,618)	(15,734)	(3,130)	(4,176)
Total liabilities	(22,512)	(21,548)	(22,342)	(22,845)
Total equity	21,938	18,628	14,989	12,797

Source: NZWC audited financial statements and April 2012 management accounts

NZWC's main current assets are inventories (representing 64% of current assets as at 30 April 2012), trade and other receivables (24%) and a deferred tax asset arising from tax losses carried forward (8%).

Non current assets consist mainly of property, plant and equipment and biological assets.

Property, plant and equipment of $14.5 million as at 30 April 2012 consisted mainly of:

- plant and equipment ($4.7 million)
- freehold buildings ($3.6 million)
- freehold land ($3.4 million)
- land improvements ($2.7 million).

Biological assets consist of grape vines. As at 30 June 2011, NZWC held approximately 292,000 grape vines on 121 producing hectares of owned or leased land.

Alexander Hayward Limited (**Alexander Hayward**) valued NZWC's vineyard and winery property assets at $15.8 million as at 30 June 2011. Subsequent to 30 April 2012, this valuation was reduced by 5% to $15.0 million.

The Company's main current liabilities are loans and borrowings (representing 89% of current liabilities as at 30 April 2012) and trade and other payables (11%).

Loans and borrowings totalled $16.7 million as at 30 April 2012, consisting of a bank overdraft and loans from ANZ Bank. The loans and borrowings were classified as current liabilities as their terms were being renegotiated with ANZ Bank.

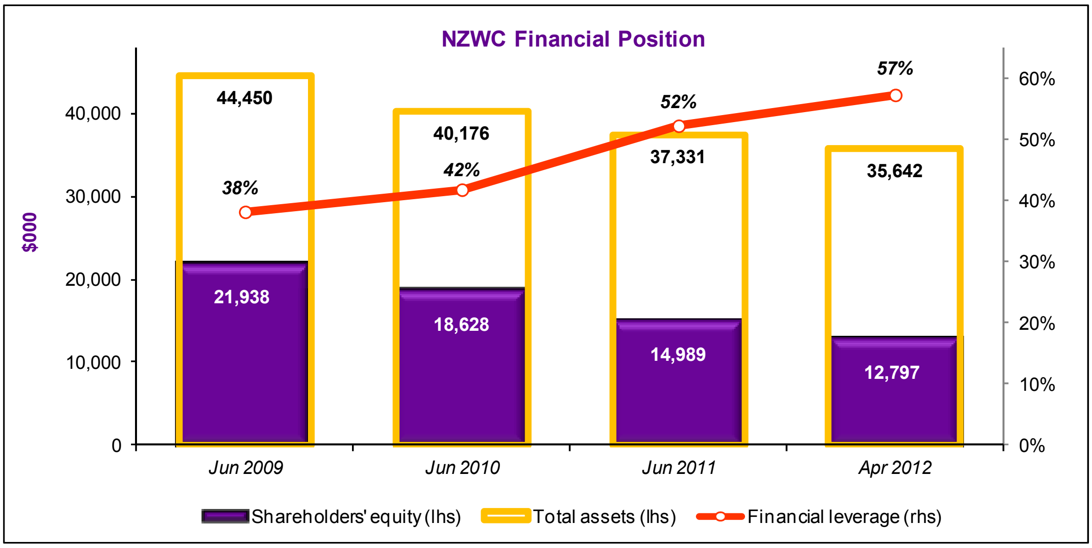
The ANZ Bank loans are secured by way of mortgage on land, buildings and vineyards and a floating charge over NZWC's other property assets.

Non current liabilities consist of deferred tax and financial liabilities.

NZWC holds financial assets in the form of foreign currency forward contracts and option contracts and financial liabilities in the form of interest rate swap contracts.

Total equity of $12.8 million as at 30 April 2012 consisted of:

- $9.6 million of issued and paid up capital
- $3.2 million of asset revaluation reserve, arising from the periodic revaluation of land, buildings and land improvements
- nil retained earnings (net of non-controlling interest).



The losses incurred in the past 3 years have resulted in a decrease in shareholders' equity. Total assets have also decreased over the period, mainly due to lower inventories and biological assets. Loans and borrowings have remained relatively steady over the period, resulting in NZWC's financial leverage increasing from 38% as at 30 June 2009 to 57% as at 30 April 2012.

4.10 Cash Flows

A summary of NZWC's recent cash flows is set out below.

Summary of NZWC Cash Flows

	Year to 30 Jun 09 (Audited) $000	Year to 30 Jun 10 (Audited) $000	Year to 30 Jun 11 (Audited) $000	10 Mths 30 Apr 12 (Unaudited) $000
Net cash flow from / (used in) operating activities	(1,028)	1,793	(1,461)	789
Net cash from / (used in) investing activities	(1,287)	(874)	(105)	(206)
Net cash from / (used in) financing activities	1,033	(14)	(303)	(862)
Net increase / (decrease) in cash held	(1,282)	905	(1,869)	(279)
Opening cash balance	650	(632)	273	(1,596)
Closing cash balance	(632)	273	(1,596)	(1,875)

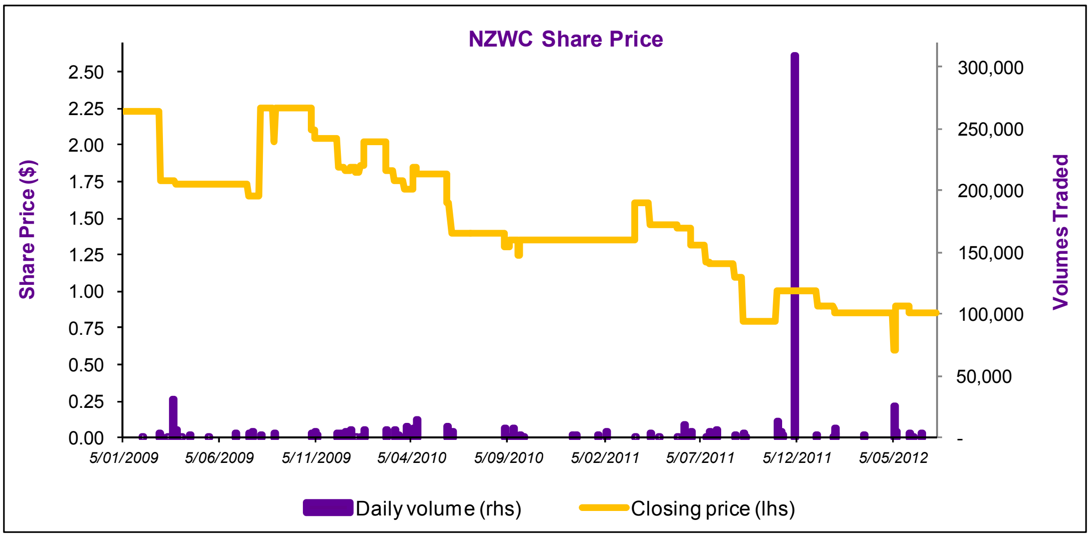
Source: NZWC audited financial statements and April 2012 management accounts

The positive cash flows from operating activities in the 2010 year included $1.1 million realised from foreign currency forward contracts being closed out.

4.11 Share Price History

The Company commenced trading its shares on the NZAX on 14 November 2003.

Set out below is a summary of NZWC's daily closing share price and daily volumes of shares traded from 5 January 2009 to 13 July 2012.



During the period, NZWC's shares have traded between $0.60 and $2.25 at a VWAP of $1.24.

Trading in the Company's shares is extremely thin. An analysis of VWAP, traded volumes and liquidity (measured as traded volumes as a percentage of shares outstanding) up to the announcement of the Merger is set out below.

Share Trading					
Period	**Low** [1]	**High** [1]	**VWAP** [1]	**Volume Traded** [1] **(000)**	**Liquidity**
1 month	0.85	0.85	0.85	5	0.1%
3 months	0.60	0.90	0.70	41	0.5%
6 months	0.60	0.90	0.74	54	0.6%
12 months	0.60	1.20	0.97	403	4.6%

1 To 13 July 2012

The Company's shares traded on 23 days in the past year at a VWAP of $0.97.

Included in the 12 months figures is a reorganisation of 2 shareholders' existing holdings totalling 309,058 shares.

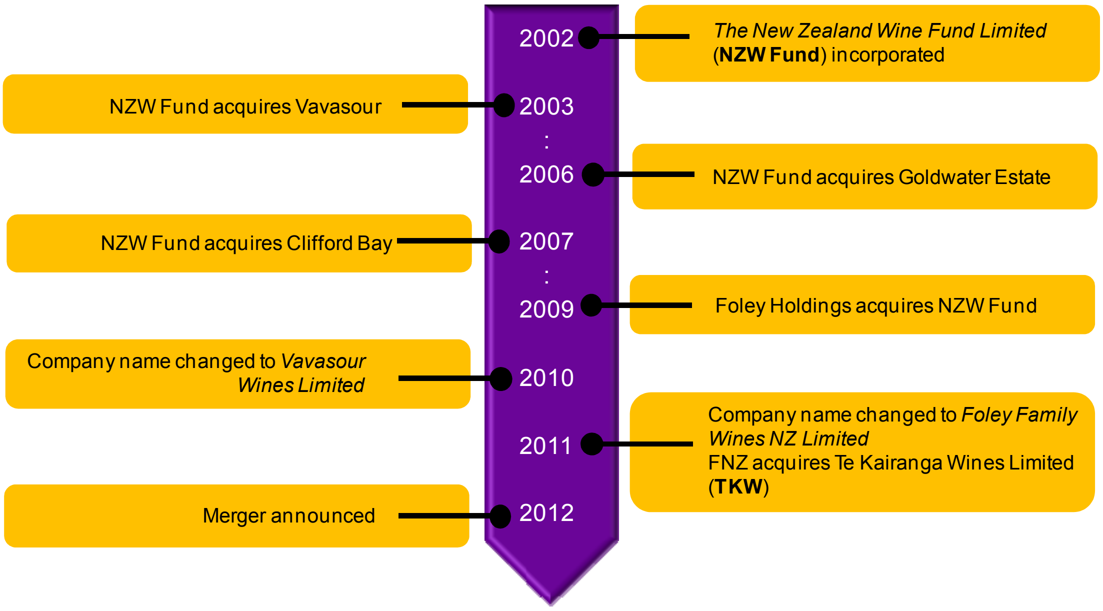
Excluding this transaction, the Company's shares traded on 22 days in the past year at a VWAP of $0.87.

5. Profile of FNZ

5.1 Background

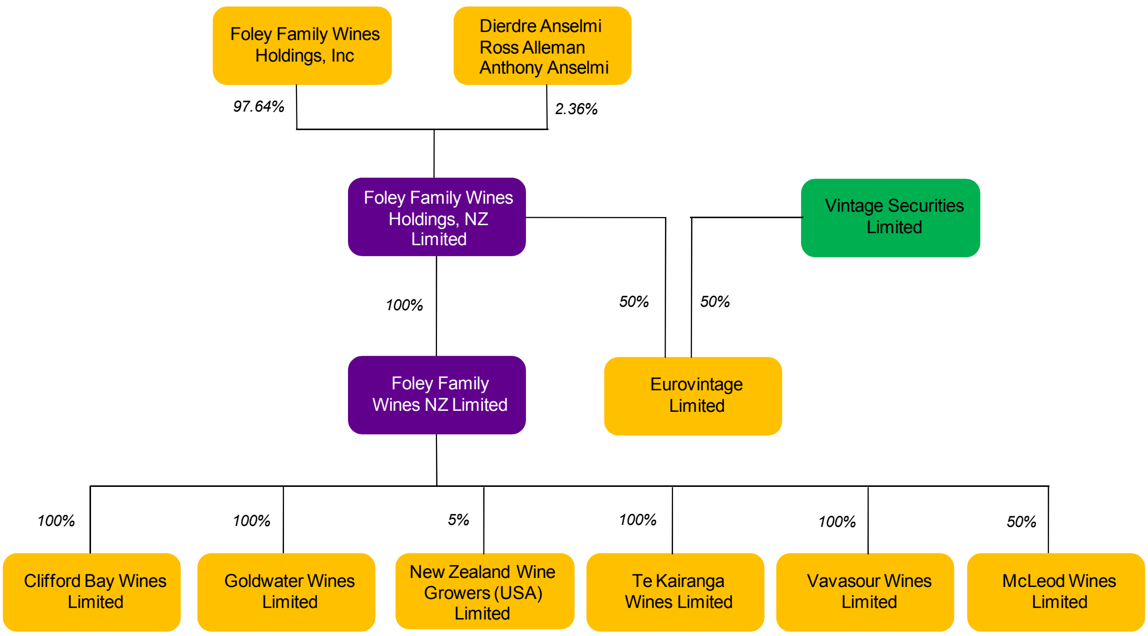
FNZ was incorporated on 29 November 2002 as The New Zealand Wine Fund Limited. It changed its name to Vavasour Wines Limited on 11 January 2010 and to Foley Family Wines NZ Limited on 28 June 2011.

Key events in FNZ's history are set out below.



5.2 Group Structure

The Foley Holdings and FNZ group structure is set out below.



Foley Holdings

Foley Holdings was incorporated in New Zealand on 16 September 2009 as Foley Family Wines, New Zealand Limited. It changed its name to Foley Family Wines Holdings, New Zealand Limited on 28 June 2011.

The directors of Foley Holdings are:

- Bill Foley
- Alan Stinson
- Mark Turnbull.

The shares in Foley Holdings are held by:

- FFW Inc – 97.64%
- Deirdre Anselmi, Ross Alleman and Anthony Anselmi – 2.36%.

FFW Inc

FFW Inc is controlled by Mr Foley. Mr Foley is the chairman and vice chairman of 2 Fortune 500 listed insurance companies – Fidelity National Inc. and Fidelity National Information Services.

FFW Inc owns 9 wineries in the Napa Valley and Sonoma regions of California and one in Washington State:

- Altvs, Napa Valley, California
- Chalk Hill Winery, Healdsburg, California
- EOS Estate Winery, Paso Robles, California
- Firestone Vineyard, Santa Ynez Valley, California
- Foley Estates, Santa Rita Hills, California
- Kuleto Estate, Napa Valley, California
- Lincourt Vineyards, Santa Ynez Valley, California
- Merus, Napa Valley, California
- Sebastiani Vineyards and Winery, Sonoma, California
- Three Rivers Winery, Walla Walla, Washington.

5.3 Nature of Operations

Overview

FNZ originated from the purchase of NZW Fund in 2009 by Foley Holdings. NZW Fund owned the *Vavasour*, *Goldwater*, *Clifford Bay* and *Dashwood* brands and 97 hectares of vineyards in Marlborough.

NZW Fund had the capacity to produce approximately 350,000 cases of wine annually at the time of the acquisition. Since the acquisition and its renaming to FNZ, substantial value has been added to the business.

In 2011, FNZ acquired TKW in Martinborough, Wairarapa, with 97 hectares of vineyards and producing approximately 35,000 cases of wine annually.

In total, FNZ has capacity to produce up to 400,000 cases of wine annually. The company has strong distribution channels into its markets. In New Zealand its distributor is Eurovintage, which Foley Holdings holds a 50% shareholding in. Its Australian distributor is Déjà Vu and in North America, FNZ uses the in-house extensive distribution network of FFW Inc.

Vineyards

FNZ owns and leases vineyards with a total producing area of 97 hectares situated in Martinborough and 84 hectares situated in the Awatere Valley in Marlborough:

- FNZ owns 8 vineyards covering 116.3 producing hectares
- FNZ leases 2 vineyards covering 64.9 producing hectares.

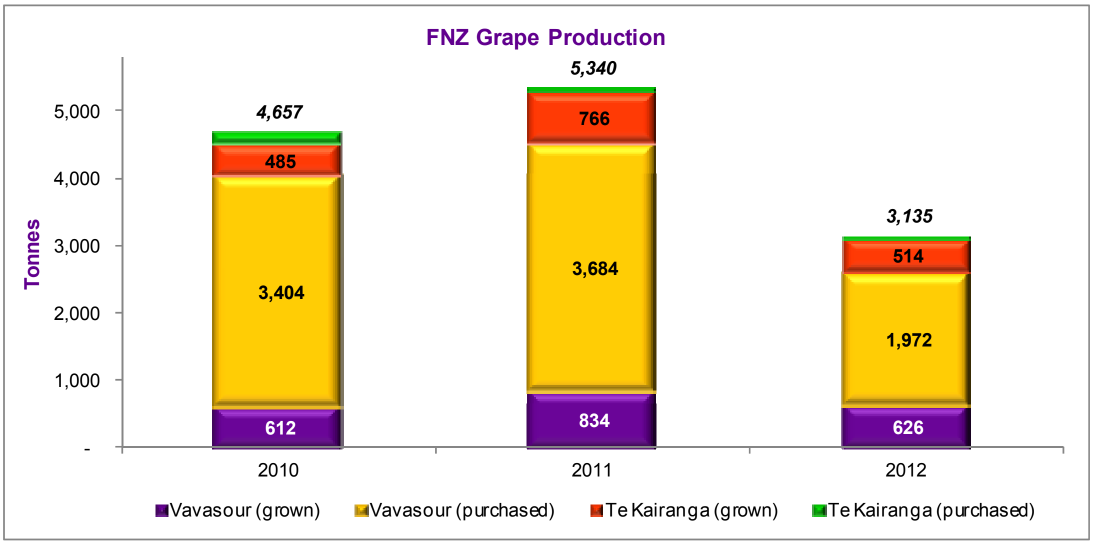
FNZ Vineyards

Vineyard	Owned / Leased	Plantings	Size (ha)
Te Kairanga Martinborough Winery	Owned	Sauvignon Blanc	3.4
		Pinot Noir	1.1
			4.5
East Plains Vineyard (Martinborough)	Leased	Sauvignon Blanc	2.5
		Pinot Noir	23.3
		Pinot Gris	0.7
		Riesling	1.7
		Chardonnay	3.9
			32.1
Springrock Vineyard (Martinborough)	Owned	Chardonnay	2.2
		Pinot Noir	6.4
			8.6
Ruakokoputuna Block (Martinborough)	Owned	Sauvignon Blanc	8.4
		Pinot Noir	38.5
			46.9
Sutherland West Block (Martinborough)	Owned	Pinot Noir	3.6
Sutherland East Block (Martinborough)	Owned	Pinot Noir	1.8
Winery Block (Marlborough)	Owned	Sauvignon Blanc	18.5
		Chardonnay	4.0
		Pinot Noir	3.6
		Pinot Gris	0.8
		Malbec	0.5
			27.4
Favourite (Marlborough)	Leased	Sauvignon Blanc	20.0
		Pinot Noir	8.9
		Pinot Gris	3.9
			32.8
Clifford Bay Estate Block (Marlborough)	Owned	Sauvignon Blanc	13.7
		Riesling	2.0
		Pinot Noir	4.8
			20.5
Old Coach Road Block (Marlborough)	Owned	Sauvignon Blanc	3.0
	Total owned		116.3
	Total leased		64.9
			181.2
		Total Pinot Noir	92.0
		Total Sauvignon Blanc	69.5

Source: FNZ

Grape Production

Set out below is the grape tonnage grown by FNZ and purchased through contract growers over the past 3 years.



FNZ's 2012 tonnage was 41% lower than 2011. 36% of total grape tonnage in 2012 was from FNZ vineyards and 64% was purchased. 83% of total grape tonnage in 2012 was from Marlborough vineyards and 17% was from Martinborough vineyards.

Wineries

The Vavasour winery was constructed in 2 stages in 1988 and 1997 in Marlborough's Awatere Valley. The winery currently has the capacity to process 3,000 tonnes of grapes.

The Te Kairanga winery was constructed in 2002 in Martinborough. The winery currently has the capacity to process 600 tonnes of grapes.

Brand Portfolio

FNZ's portfolio of brands includes:

- *Vavasour*
- *Goldwater Estate*
- *Clifford Bay*
- *Dashwood*
- *Redwood Pass*
- *Boatshed Bay*
- *The Pass*
- *Te Kairanga*.

5.4 Corporate Strategy

Foley Holdings' mission is to become the second NZX wine company within 2 years, with a 1 million case business.

Scale in New Zealand is seen as vitally important to achieve enhanced profitability and being listed on the NZSX is seen as an avenue for increasing FNZ's visibility in the industry and accelerating the growth of the company.

FNZ's growth strategy revolves around:

- acquisitions to build volumes and strengthen the portfolio of brands
- building the online business under the Wharekauhau Wine and Food Society
- increasing distribution through Eurovintage
- increasing US sales through FFW Inc.

5.5 Key Issues Affecting FNZ

The main industry and specific business factors and risks that FNZ faces are identical to those faced by NZWC as set out in section 4.5.

5.6 Directors and Senior Management

The directors of FNZ are:

- Bill Foley
- Alan Stinson
- Mark Turnbull.

FNZ's senior management team comprises:

- Mark Turnbull, chief executive officer
- Andrew Shackleton, general manager
- Louis Pilois, chief financial officer
- David Stevenson, group sales and marketing manager Australia
- Stu Marfell, Vavasour winemaker
- Matthew Duncan, Vavasour vineyard manager
- Wendy Potts, Te Kairanga winemaker
- Lorraine Boost, Te Kairanga vineyard manager.

5.7 Capital Structure and Shareholders

FNZ currently has 46,426,666 ordinary shares on issue held by Foley Holdings.

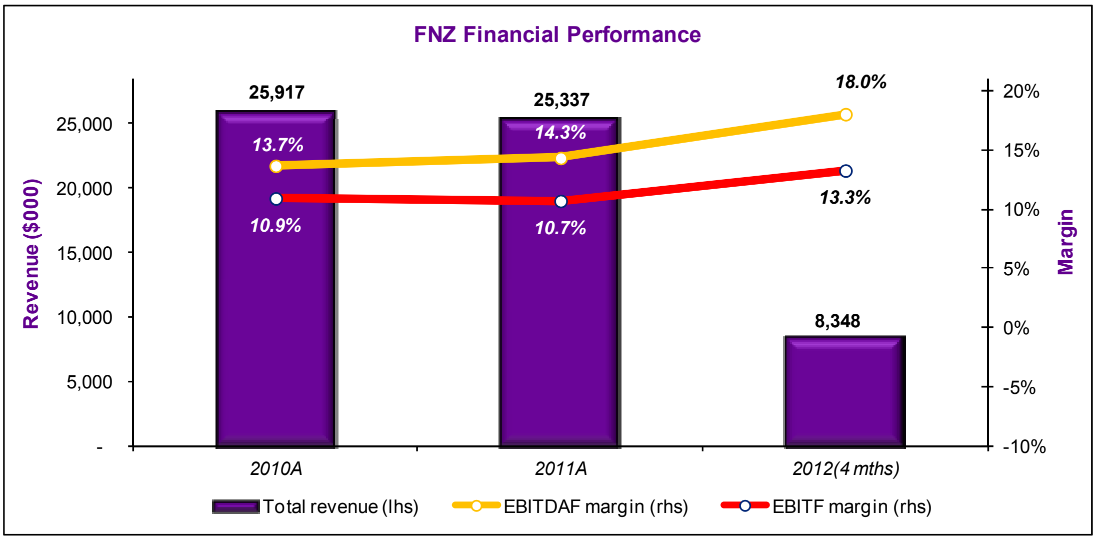
5.8 Financial Performance

A summary of FNZ's recent financial performance is set out below.

Summary of FNZ Financial Performance			
	Year to 31 Dec 10 (Audited) $000	Year to 31 Dec 11 (Audited) $000	4 Mths to 30 Apr 12 (Unaudited) $000
Sales revenue	25,001	24,619	8,231
Other revenue	916	718	117
Total revenue	25,917	25,337	8,348
EBITDAF	3,543	3,632	1,505
EBITF	2,831	2,713	1,108
Profit net of tax	264	6,652	235

Source: FNZ audited financial statements and April 2012 management accounts

FNZ has recorded relatively steady revenue in the last 2 years of just under $26 million and EBITDAF margins in excess of 13%.



Non cash impairment charges and revaluation adjustments have significantly influenced net profit each year:

- 2010 profit decreased by $1.2 million due to a $0.1 million revaluation loss on property, plant and equipment and a $1.1 million loss on biological assets
- 2011 profit increased by $5.1 million due to a $6.3 million gain on the acquisition of TKW (as the fair value of the assets acquired exceeded the acquisition price), offset to some degree by a $0.6 million revaluation loss on property, plant and equipment and a $0.7 million loss on biological assets
- 2012 profit decreased by $0.6 million due to a loss on biological assets.

5.9 Financial Position

A summary of FNZ's recent financial position is set out below.

Summary of FNZ Financial Position	As at 31 Dec 10 (Audited) $000	As at 31 Dec 11 (Audited) $000	As at 30 Apr 12 (Unaudited) $000
Current assets	19,361	29,690	31,722
Non current assets	24,796	36,851	37,507
Total assets	44,157	66,541	69,229
Current liabilities	(15,575)	(14,229)	(16,480)
Non current liabilities	(1,354)	(10,434)	(10,634)
Total liabilities	(16,929)	(24,663)	(27,114)
Total equity	27,228	41,878	42,115

Source: FNZ audited financial statements and April 2012 management accounts

FNZ's main current assets are inventories (representing 65% of current assets as at 30 April 2012), trade and other receivables (25%) and cash and cash equivalents (10%).

Non current assets consist mainly of property, plant and equipment, biological assets and intangible assets.

Property, plant and equipment of $22.9 million as at 30 April 2012 consisted mainly of:

- plant and equipment ($5.5 million)
- freehold buildings ($5.0 million)
- freehold land ($7.0 million)
- land improvements ($4.1 million).

Biological assets consist of grape vines with a fair value of $6.0 million as at 30 April 2012 (based on the 31 December 2011 valuation).

Alexander Hayward valued FNZ's Marlborough vineyards and winery property assets at $12.2 million as at 31 December 2011 and TelferYoung (Hawkes Bay) Limited (**TelferYoung**) valued FNZ's Martinborough vineyards and winery property assets at $10.4 million as at 31 December 2011.

Intangible assets of $8.3 million as at 30 April 2012 consisted of brands ($7.4 million), goodwill ($0.7 million) and trademarks ($0.2 million). The intangible assets were recognised upon the acquisition of NZW Fund in 2009. The fair values of the intangibles assets were assessed as at 31 December 2011 and were deemed to be not less than their carrying values.

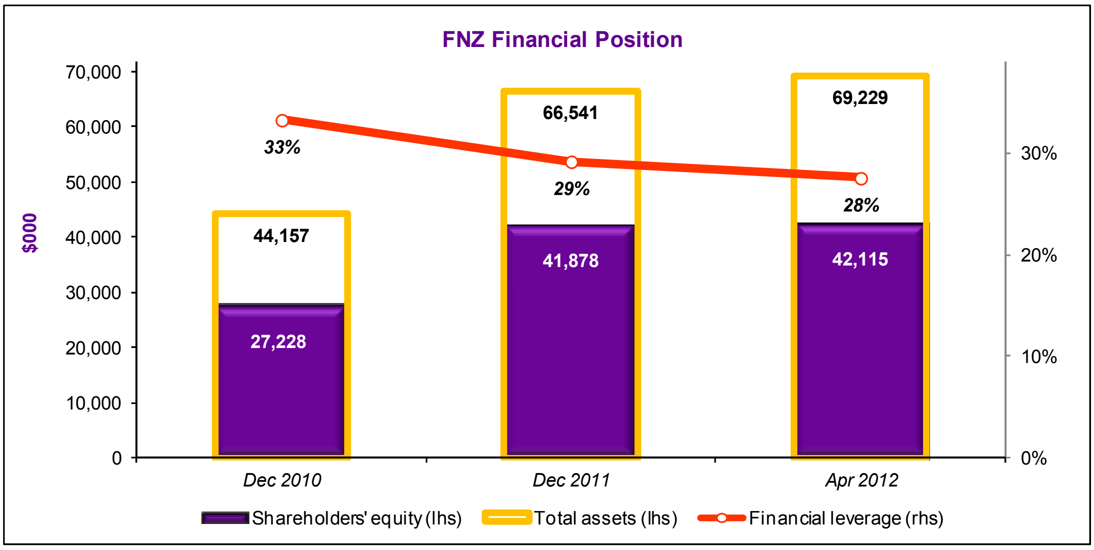
The Company's main current liabilities are the $11.8 million loan from Foley Holdings (representing 72% of current liabilities as at 30 April 2012) and trade and other payables (28%).

Non current liabilities consist of loans and borrowings and deferred tax.

Loans and borrowings totalled $7.3 million as at 30 April 2012, consisting of loans from Rabobank ($7.0 million) and lease finance from UDC Finance ($0.3 million).

The Rabobank loans are secured by the assets of Foley Holdings and FNZ and guaranteed jointly and severally by Foley Holdings and FNZ.

Total equity of $42.1 million as at 30 April 2012 consisted of $38.5 million of issued and paid up capital and $3.6 million of retained earnings.



Total assets increased in 2011 following the acquisition of TKW for $11.1 million. The acquisition was funded by $8.0 million of new equity plus debt. The fair value of the acquired assets was assessed at $17.4 million, resulting in a gain on acquisition of $6.3 million.

5.10 Cash Flows

A summary of FNZ's recent cash flows is set out below.

Summary of FNZ Cash Flows

	Year to 31 Dec 10 (Audited) $000	Year to 31 Dec 11 (Audited) $000
Net cash flow from / (used in) operating activities	15,304	(5,294)
Net cash from / (used in) investing activities	(843)	(6,352)
Net cash from / (used in) financing activities	(15,586)	13,099
Net increase / (decrease) in cash held	(1,125)	1,453
Opening cash balance	1,242	117
Closing cash balance	117	1,570

Source: FNZ audited financial statements

Negative cash flows from operating activities in the 2011 year arose due mainly to an increase in operating working capital of approximately $9 million.

FNZ repaid $17.5 million of bank loans to Bank of New Zealand in the 2010 year and entered into a new banking facility with Rabobank.

$8.0 million of equity was raised in the 2011 year to part finance the acquisition of TKW. $5.1 million of loans were also drawn down in the year.

6. Financial Evaluation of the Merger

6.1 Introduction

The Merger is a combination of the assets and operations of NZWC and FNZ into a single entity (NZWC). Foley Holdings will swap its shares in FNZ for shares in NZWC and following the Merger, Foley Holdings will hold an 80% shareholding in NZWC and the Existing Shareholders will hold 20% of the Company's shares.

We do not view the Merger as a takeover of FNZ by NZWC or vice versa as cash is not being paid by NZWC as consideration for the shares in FNZ and the post Merger Board will have representatives from both NZWC and FNZ's boards.

Given the structure of the Merger, we consider the appropriate basis to evaluate the financial aspects of the transaction is by analysing:

- whether the respective proportions of NZWC held by Existing Shareholders and Foley Holdings post the Merger are equitable
- the impact of the Merger on NZWC's financial position and performance.

We stress that under a merger of interests, the issue of prime importance is the relativity between the contributions of NZWC and FNZ to the Merger rather than the absolute values of the 2 companies.

6.2 Relative Contributions

Basis of Comparison

The relative financial contributions of NZWC and FNZ to the Merger can be evaluated from a variety of perspectives:

- market value
- NAV
- earnings
- revenue.

The Board and Foley Holdings have negotiated the Merger based on NAV. We concur with such an approach as:

- the assessment of relative market values would be extremely subjective:
  - the FNZ shares are not traded on any securities exchange and hence there is no transparent evidence of FNZ's market value
  - while NZWC's shares are listed on the NZAX, trading in the shares is extremely thin and therefore may not provide a definitive guide as to the value of NZWC
  - FNZ has recorded profits in the past 3 years whereas NZWC has recorded losses. This leads to difficulties in assessing relative market values applying the same valuation methodology (eg using the capitalisation of earnings method)
- the lack of profits on NZWC's part means that relative contributions based on earnings cannot be assessed

- basing relative contributions on revenue levels is unlikely to be equitable given that one company is profitable whereas the other company is not.

When deciding on the relative contributions based on NAV, NZWC and FNZ ensured that their respective financial positions as at 30 April 2012 were determined adopting similar accounting policies in line with New Zealand International Financial Reporting Standards and using their most recent market valuations of vineyards and winery assets (as at 30 June 2011 for NZWC and 31 December 2011 for FNZ).

Net Asset Value

NZWC and FNZ's respective financial positions as at 30 April 2012, along with the pro forma financial position post the Merger as at that date is set out in Appendix I and is summarised below.

Merger NAV				
	NZWC (Unaudited) $000	FNZ (Unaudited) $000	Merger Adjustments (Unaudited) $000	Post Merger (Unaudited) $000
Current assets	14,949	31,722	4,700	51,371
Non current assets	20,693	37,507	1,398	59,598
Total assets	35,642	69,229	6,098	110,969
Current liabilities	(18,669)	(16,480)	-	(35,149)
Non current liabilities	(4,176)	(10,634)	-	(14,810)
Total liabilities	(22,845)	(27,114)	-	(49,959)
NAV as reported	12,797	42,115	6,098	61,010
NAV as adjusted	12,895	48,115		
Relative contribution	21%	79%		
Financial leverage	57%	28%		31%

The adjustments to the reported NZWC NAV as at 30 April 2012 total $98,000:

- the deduction of $150,000 of non-exempt Merger costs (ie costs specific to NZWC rather than attributable to both parties)
- the elimination of $1,150,000 of deferred tax asset in respect of tax losses that will not be available for carry forward post the Merger (as the shareholder continuity test will not be met)
- a notional value of $1,398,000 is added for NZWC's brands to acknowledge that FNZ has recorded its acquired brands on its balance sheet whereas NZWC does not carry any value for brands on its balance sheet.

The adjustments to the reported FNZ NAV as at 30 April 2012 total $6,000,000, representing the cash subscription for the 4,328,271 Subscription Shares by Foley Holdings.

The adjusted NAV relativity suggests a 21:79 shareholding split. However, there is an element of subjectivity in various asset and liability balances for both NZWC and FNZ (eg intangible asset values such as brand values and goodwill) which means that a high degree of arithmetic precision is not necessarily justified.

Conclusion

In our opinion:

- the approach used to assess the relative contributions of NZWC and FNZ to the Merger based on NAV is reasonable
- on the basis that FNZ's adjusted NAV represents 79% of the combined NAV of the 2 companies and FNZ has recorded profits in the past 3 years whereas NZWC has recorded losses, the 20:80 shareholding relativity between the Existing Shareholders and Foley Holdings is equitable to the Existing Shareholders.

6.3 Impact on Financial Position

The Merger will have a significant positive impact on NZWC's financial position:

- it will increase total assets by $75 million (212%) to $111 million, including a $6 million increase in cash
- the Foley Allotment will increase the Company's equity by $48 million (375%) to $61 million
- while net debt will increase from $17 million to $27 million, NZWC's financial leverage will decrease from 57% to 31%.

6.4 Impact on Financial Performance

NZWC and Foley Holdings have prepared a range of financial projections for NZWC post the Merger under a number of scenarios. They expect that NZWC will sell over 450,000 case sale equivalents of bottled wine in the 2013 year and generate EBITAF in excess of that recorded by FNZ in the 2011 year.

The financial outcomes vary significantly due to the high level of uncertainty in respect of the wine industry in the near future - in particular in respect of potential sales volumes in key overseas markets and the ability to maintain or increase selling prices. Accordingly, the Directors have chosen not to disclose these financial projections at this point in time.

However, NZWC and Foley Holdings have identified approximately $1 million of cost savings which they consider would be able to be realised in the near term post the Merger through the elimination of duplicated functions, particularly in the marketing and administration areas.

In our view, the forecast cost savings appear reasonable but experience shows that such savings may not be achieved within the timeframes expected or to the levels anticipated.

The key operational initiatives for the Board and senior management team post the Merger will include:

- the identification and achievement of additional cost savings and synergies in areas such as cost of goods sold (eg bottling and freight)
- the rationalisation of the combined brand portfolio
- a review of the market to identify which markets and channels to serve to achieve optimum profitability and growth
- to enhance working capital management
- building brand awareness globally.

Any benefits that result from the implementation of the Merger will fall to Existing Shareholders and Foley Holdings in direct proportion to their shareholdings in NZWC (ie 20% and 80% respectively). Equally any one-off costs associated with implementing the Merger after the Merger is completed will be shared in the same proportions.

6.5 Conclusion

As stated in section 2.4, we consider the rationale for the Merger to be compelling. Based on the above analysis, we are of the view that the terms of the Merger are equitable to the Existing Shareholders and the Merger will strengthen NZWC's financial position and improve the Company's financial performance.

7. Sources of Information, Reliance on Information, Disclaimer and Indemnity

7.1 Sources of Information

The statements and opinions expressed in this report are based on the following main sources of information:

- the draft notice of special meeting
- the Merger Agreement
- the Subscription Agreement
- the CN Deed
- the NZWC business and financial plan 2012 to 2014
- the NZWC annual reports for the years ended 30 June, 2009 to 2011
- the NZWC half yearly report for the 6 months ended 31 December 2011
- the NZWC management accounts for the 10 months to 30 April 2012
- internal NZWC documents such as strategic plans and Board minutes
- the PwC independent appraisal report in respect of NZWC dated 8 August 2011
- the Alexander Hayward valuation reports for NZWC dated 30 June, 2011 and 2012
- the FNZ annual reports for the years ended 31 December, 2009 to 2011
- the FNZ management accounts for the 4 months to 30 April 2012
- the Alexander Hayward valuation report for FNZ dated 19 December 2011
- the TelferYoung valuation report for FNZ dated 13 January 2012
- publicly available information in respect of the New Zealand wine industry
- data in respect of NZWC, Foley Holdings and FNZ comparable companies from NZX Data and Capital IQ.

During the course of preparing this report, we have had discussions with and / or received information from the Directors and executive management of NZWC and NZWC's financial and legal advisers.

The Directors have confirmed that we have been provided for the purpose of this Independent Adviser's Report with all information relevant to the Merger, the Foley Allotment and the CN Conversion that is known to them and that all the information is true and accurate in all material aspects and is not misleading by reason of omission or otherwise.

Including this confirmation, we have obtained all the information that we believe is desirable for the purpose of preparing this Independent Adviser's Report.

In our opinion, the information to be provided by NZWC to the Existing Shareholders is sufficient to enable the Directors and the Existing Shareholders to understand all the relevant factors and to make an informed decision in respect of the Merger, the Foley Allotment and the CN Conversion.

7.2 Reliance on Information

In preparing this report we have relied upon and assumed, without independent verification, the accuracy and completeness of all information that was available from public sources and all information that was furnished to us by NZWC and its advisers.

We have evaluated that information through analysis, enquiry and examination for the purposes of preparing this report but we have not verified the accuracy or completeness of any such information or conducted an appraisal of any assets. We have not carried out any form of due diligence or audit on the accounting or other records of NZWC or FNZ. We do not warrant that our enquiries would reveal any matter which an audit, due diligence review or extensive examination might disclose.

7.3 Disclaimer

We have prepared this report with care and diligence and the statements in the report are given in good faith and in the belief, on reasonable grounds, that such statements are not false or misleading. However, in no way do we guarantee or otherwise warrant that any forecasts of future profits, cash flows or financial position of NZWC or FNZ will be achieved. Forecasts are inherently uncertain. They are predictions of future events that cannot be assured. They are based upon assumptions, many of which are beyond the control of NZWC or FNZ and their respective directors and management. Actual results will vary from the forecasts and these variations may be significantly more or less favourable.

We assume no responsibility arising in any way whatsoever for errors or omissions (including responsibility to any person for negligence) for the preparation of the report to the extent that such errors or omissions result from our reasonable reliance on information provided by others or assumptions disclosed in the report or assumptions reasonably taken as implicit.

Our evaluation has been arrived at based on economic, exchange rate, market and other conditions prevailing at the date of this report. Such conditions may change significantly over relatively short periods of time. We have no obligation or undertaking to advise any person of any change in circumstances which comes to our attention after the date of this report or to review, revise or update our report.

We have had no involvement in the preparation of the notice of special meeting issued by NZWC and have not verified or approved the contents of the notice of special meeting. We do not accept any responsibility for the contents of the notice of special meeting except for this report.

7.4 Indemnity

NZWC has agreed that, to the extent permitted by law, it will indemnify Simmons Corporate Finance and its directors and employees in respect of any liability suffered or incurred as a result of or in connection with the preparation of the report. This indemnity does not apply in respect of any negligence, wilful misconduct or breach of law. NZWC has also agreed to indemnify Simmons Corporate Finance and its directors and employees for time incurred and any costs in relation to any inquiry or proceeding initiated by any person. Where Simmons Corporate Finance or its directors and employees are found liable for or guilty of negligence, wilful misconduct or breach of law or term of reference, Simmons Corporate Finance shall reimburse such costs.

8. Qualifications and Expertise, Independence, Declarations and Consents

8.1 Qualifications and Expertise

Simmons Corporate Finance is a New Zealand owned specialist corporate finance advisory practice. It advises on mergers and acquisitions, prepares independent expert's reports and provides valuation advice.

The person in the company responsible for issuing this report is Peter Simmons, B.Com, DipBus (Finance), CFIP.

Simmons Corporate Finance and Mr Simmons have significant experience in the independent investigation of transactions and issuing opinions on the merits and fairness of the terms and financial conditions of the transactions.

8.2 Independence

Simmons Corporate Finance does not have at the date of this report, and has not had, any shareholding in or other relationship with NZWC, Foley Holdings or FNZ or any conflicts of interest that could affect our ability to provide an unbiased opinion in relation to these transactions.

Simmons Corporate Finance has not had any part in the formulation of the Merger, the Foley Allotment or the CN Conversion or any aspects thereof. Our sole involvement has been the preparation of this report.

Simmons Corporate Finance will receive a fixed fee for the preparation of this report. This fee is not contingent on the conclusions of this report or the outcome of the voting in respect of the Merger, the Foley Allotment or the CN Conversion. We will receive no other benefit from the preparation of this report.

8.3 Declarations

An advance draft of this report was provided to the Directors for their comments as to the factual accuracy of the contents of the report. Changes made to the report as a result of the circulation of the draft have not changed the methodology or our conclusions.

Our terms of reference for this engagement did not contain any term which materially restricted the scope of the report.

8.4 Consents

We consent to the issuing of this report in the form and context in which it is to be included in the notice of special meeting to be sent to NZWC's shareholders. Neither the whole nor any part of this report, nor any reference thereto may be included in any other document without our prior written consent as to the form and context in which it appears.

Peter Simmons
Director
Simmons Corporate Finance Limited
16 July 2012

Appendix I

Merger Pro Forma Financial Position

Merger Pro Forma Financial Position as at 30 April 2012					
.	NZWC (Unaudited) $000	FNZ (Unaudited) $000	Adjustments (Unaudited) $000		Merger (Unaudited) $000
Cash and cash equivalents	0	3,086	5,850	*1 / 2*	8,936
Trade and other receivables	3,642	8,085			11,727
Other financial assets	246	0			246
Inventories	9,597	20,551			30,148
Current tax assets	153	0			153
Deferred tax asset	1,150	0	(1,150)	*3*	0
Prepaid expenses	161	0			161
Current assets	14,949	31,722	4,700		51,371
Property, plant and equipment	14,549	22,900			37,449
Biological assets	6,032	5,969			12,001
Intangible assets	13	8,263	1,398	*4*	9,674
Investments	10	375			385
Other financial assets	89	0			89
Non-current assets	20,693	37,507	1,398		59,598
Total assets	35,642	69,229	6,098		110,969
Trade and other payables	1,998	4,595			6,593
Foley Holdings debt		11,800			11,800
Loans and borrowings	16,671	85			16,756
Current liabilities	18,669	16,480	0		35,149
Loans and borrowings	0	7,200			7,200
Other financial liabilities	835	0			835
Deferred tax liabilities	3,341	3,434			6,775
Non-current liabilities	4,176	10,634	0		14,810
Total liabilities	22,845	27,114	0		49,959
NAV as reported	12,797	42,115	6,098		61,010
Adjustments					
1 NZWC non-exempt merger costs	(150)				
2 Cash subscription		6,000			
3 Elimination of deferred tax asset	(1,150)				
4 Notional value for NZWC brands	1,398				
NAV for Merger	12,895	48,115			
Relative contribution	***21.1%***	***78.9%***			
Net debt	16,671	15,999			26,820
Total assets (adjusted)	35,740	75,229			110,969
Total tangible assets (adjusted)	35,727	66,966			101,295
Net debt / (net debt + reported equity)	57%	28%			
Net debt / (net debt + adjusted equity)	56%	25%			31%
Net debt / total assets (reported)	47%	23%			
Net debt / total assets (adjusted)	47%	21%			24%
Net debt / total tangible assets (reported)	47%	26%			
Net debt / total tangible assets (adjusted)	47%	24%			26%
NZWC shares on issue (000)	8,677.2		34,708.8		43,386.0
Equity per share	$ 1.4748		$ 1.3862		$ 1.4062