Oyster Bay Marlborough Vineyards Limited

Independent Adviser's Report

on the full takeover offer from Delegat's Wine Estate Limited

Oyster Bay
MARLBOROUGH
Vineyards Limited

GRANT SAMUEL

November 2010

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Glossary

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Term	**Definition**
Cash Option	The option available to Oyster Bay shareholders to receive $2.08 in cash for each Oyster Bay share held
the Company	Oyster Bay Marlborough Vineyards Limited
DCF	Discounted Cash Flow
Delegat's	Delegat's Wine Estate Limited or Delegat's Group Limited as the context requires
Delegat's Offer	The offer by Delegat's to acquire all of the shares in Oyster Bay that it does not already hold or control
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortisation
EBITDAF	Earnings Before Interest, Tax, Depreciation, Amortisation and Fair value adjustments
EBITDAS	Earnings Before Interest, Tax, Depreciation, Amortisation, Abnormal items and revaluations of SGARA
FNZC	First NZ Capital Limited
Grant Samuel	Grant Samuel & Associates Limited
IPO	Initial Public Offering
LTCA	Long Term Cooperation Agreement between Oyster Bay and Delegat's Group
NPV	Net Present Value
NZAX	New Zealand Alternative Market
NZSX	New Zealand Stock Exchange
Oyster Bay	Oyster Bay Marlborough Vineyards Limited
PYIL	Peter Yealands Investments Limited
Scrip Option	The option available to Oyster Bay shareholders to receive one Delegat's share for each Oyster Bay share held
SGARA	Self-generating and re-generating assets
VWAP	Volume Weighted Average Price

1. Terms of the Delegat's Offer

1.1 Background to the Delegat's Offer

Oyster Bay Marlborough Vineyards Limited (**Oyster Bay** or **the Company**) is majority owned by Delegat's Wine Estate Limited (**Delegat's**[1]). Oyster Bay's financial position has deteriorated over recent years as a result of falling grape prices and in April 2010 the Company announced that the anticipated loss for the 2010 financial year would likely cause it to breach its banking covenants as at 30 June 2010 and that, as a result, the directors were seeking a waiver from the Company's bank in anticipation of such a breach. A waiver of the calculation of Oyster Bay's relevant banking covenant was granted by Westpac on the condition that Oyster Bay prepare a plan before 31 October 2010 on how to remedy the potential breach.

In June 2010, the Directors of Oyster Bay commissioned investment bank First NZ Capital Limited (**FNZC**) to advise the Independent Directors of Oyster Bay (those not associated with Delegat's) on the most efficient and effective capital structure for Oyster Bay going forward. The advice received suggested that the current capital structure was unsustainable. Of the restructuring and recapitalisation alternatives put forward by FNZC the Independent Directors of Oyster Bay considered that only two were feasible, both of which required the co-operation of Oyster Bay's major shareholder Delegat's. The alternatives included:

- a full takeover offer by Delegat's; or
- a rights issue underwritten by Delegat's.

On balance the Independent Directors of Oyster Bay recommended a full takeover of Oyster Bay by Delegat's as a superior alternative to an equity raising. The Independent Directors of Oyster Bay approached Delegat's and discussed the key findings of the FNZC report. In response to this approach and Delegat's expectation that the financial situation of Oyster Bay is unlikely to improve in the medium term, Delegat's decided to pursue a full takeover of Oyster Bay.

1.2 Details of the Delegat's Offer

On 18 October 2010, Delegat's gave notice of intention to make an offer (**the Offer** or **the Delegat's Offer**) for all of the shares in Oyster Bay that it does not already own. Delegat's currently owns 4,942,816 shares in Oyster Bay or 54.92% of the shares on issue. The consideration being offered under the Delegat's Offer is, at the option of shareholders, one of the following two alternatives:

- **the Scrip Option** – one fully paid ordinary share in Delegat's Group Limited[1] for one fully paid ordinary share in Oyster Bay; or
- **the Cash Option** – NZ$2.08 for each fully paid ordinary share in Oyster Bay.

Subsequent to giving notice of intention to make the Offer Delegat's increased the cash offer price from $1.80 to $2.08 per Oyster Bay share.

Accepting shareholders must select one or the other option only. Accepting the Scrip Option for some shares and the Cash Option for the remainder is not an available alternative. If Delegat's receives acceptances to take its shareholding to 90% it must, under the terms of its Offer, proceed to compulsorily acquire the remaining shares in Oyster Bay. Oyster Bay shareholders who choose to do nothing in relation to the Delegat's Offer will receive shares in Delegat's Group under the compulsory acquisition

[1] For the purposes of this report any reference to Delegat's, Delegat's Group or the Group is a reference to Delegat's Wine Estate Limited or Delegat's Group Limited as the context requires

scenario (not the cash consideration). Delegat's has made a statement in the Takeover Notice that if it achieves sufficient acceptances to take its shareholding to 90% it will proceed with compulsory acquisition.

For legal reasons Oyster Bay shareholders whose address is outside New Zealand or Australia cannot be issued with scrip. The Takeovers Code requires an offer to be made to all shareholders on the same terms and conditions. The Takeovers Panel has granted an exemption enabling overseas shareholders who accept the Scrip Option to have their Delegat's shares issued to a nominee entity in New Zealand (being a member firm of the New Zealand Exchange), who must sell the shares as soon as practicable after the allotment and pay the proceeds, net of brokerage, to the overseas shareholders. The same mechanism will apply in respect of outstanding overseas shareholders if Delegat's receives sufficient acceptances to compulsorily acquire the remaining Oyster Bay shares. Grant Samuel understands that this is likely to only affect approximately 16 Oyster Bay shareholders (who together hold 1.1% of the shares in Oyster Bay).

The Delegat's Offer is conditional on Delegat's receiving acceptances sufficient to take its shareholding to 90% or more of the voting rights in Oyster Bay (when taken together with the 4.9 million shares it already holds). The Delegat's Offer provides that this condition may be waived at any time prior to the Offer being closed with the intent that if this condition is waived the Offer can be declared unconditional at an acceptance level which is less than 90% and all shares that have been accepted into the Offer will receive the consideration under either the Scrip Option or the Cash Option.

The Offer is conditional on a number of other conditions relating to the conduct of Oyster Bay during the period the Offer is open. These conditions are normal for an Offer of this nature.

The Delegat's Offer will close at 5pm on 14 December 2010. Delegat's may extend the Offer period by varying the Offer but only up to a maximum Offer period of 90 days. Delegat's may extend their Offer for a further 60 days if all conditions of the Offer are waived or satisfied.

1.3 Requirements of the Takeovers Code

The Takeovers Code came into effect on 1 July 2001, replacing the New Zealand Stock Exchange Listing Rules and the Companies Amendment Act 1963 requirements governing the conduct of company takeover activity in New Zealand. The Takeovers Code seeks to ensure that all shareholders are treated equally and on the basis of proper disclosure are able to make informed decisions on shareholding transactions that may impact on their own holdings.

Oyster Bay is a ***Code Company*** for the purposes of the Takeovers Code. Rule 6 of the Takeovers Code, the fundamental rule, states that a person (along with its associates) who holds or controls:

(a) no voting rights, or less than 20% of the voting rights, in a code company may not become the holder or controller of an increased percentage of the voting rights in the code company unless, after that event, that person and that person's associates hold or control in total not more than 20% of the voting rights in the code company;

(b) 20% or more of the voting rights in a code company may not become the holder or controller of an increased percentage of the voting rights in the code company.

Rule 7 of the Takeovers Code sets out the ***exceptions*** to the fundamental rule. Rule 7 states that a person may become the holder or controller of an increased percentage of the voting rights in a code company under the following circumstances:

(a) by an acquisition under a full offer;

(b) by an acquisition under a partial offer;

(c) by an acquisition by the person of voting securities in the code company or in any other body corporate from one or more other persons if the acquisition has been approved by an ordinary resolution of the code company in accordance with the code;

(d) by an allotment to the person of voting securities in the code company or in any other body corporate if the allotment has been approved by an ordinary resolution of the code company in accordance with the code;

(e) if:

(i) the person holds or controls more than 50%, but less than 90%, of the voting rights in the code company; and

(ii) the resulting percentage held of the total voting rights in the code company that is held or controlled by the person does not exceed by more than 5 the lowest percentage of the total voting rights in the code company held or controlled by the person in the 12-month period ending on, and inclusive of, the date of the increase;

(f) if the person already holds or controls 90% or more of the voting rights in the code company.

The Takeovers Code specifies the responsibilities and obligations for both Delegat's and Oyster Bay as ***bidder*** and ***target*** respectively. Oyster Bay's response to the Delegat's Offer, known as a ***target company statement***, must contain the information prescribed in the Second Schedule of the Takeovers Code, and is to include or be accompanied by an Independent Adviser's Report (or summary thereof).

2. Scope of the Report

2.1 Purpose of the Report

The Independent Directors of Oyster Bay have engaged Grant Samuel & Associates Limited (**Grant Samuel**) to prepare an Independent Adviser's Report to comply with the Takeovers Code in respect of the Delegat's Offer. Grant Samuel is independent of Oyster Bay and Delegat's and has no involvement with, or interest in, the outcome of the Delegat's Offer.

Rule 21 of the Takeovers Code requires the Independent Adviser to report on ***the merits of an offer***. The term "merits" has no definition either in the Takeovers Code itself or in any statute dealing with securities or commercial law in New Zealand. While the Takeovers Code does not prescribe a meaning of the term "merit", it suggests that "merits" include both positives and negatives in respect of a transaction.

A copy of this report will accompany the Target Company Statement to be sent to all Oyster Bay shareholders. This report is for the benefit of the shareholders of Oyster Bay other than Delegat's. The report should not be used for any purpose other than as an expression of Grant Samuel's opinion as to the merits of the Delegat's Offer.

2.2 Basis of Evaluation

Grant Samuel has evaluated the Delegat's Offer by reviewing the following factors:

- the estimated value range of Oyster Bay shares and the price of the Delegat's Offer when compared to that estimated value range;
- the likelihood of an alternative offer and alternative transactions that could realise fair value;
- the likely market price and liquidity of Oyster Bay shares in the absence of the Delegat's Offer;
- any advantages or disadvantages for Oyster Bay shareholders of accepting or rejecting the Delegat's Offer;
- the current trading conditions for Oyster Bay;
- the timing and circumstances surrounding the Delegat's Offer;
- the attractions of the Oyster Bay business; and
- the risks of the Oyster Bay business.

Grant Samuel's opinion is to be considered as a whole. Selecting portions of the analyses or factors considered by it, without considering all the factors and analyses together, could create a misleading view of the process underlying the opinion. The preparation of an opinion is a complex process and is not necessarily susceptible to partial analysis or summary.

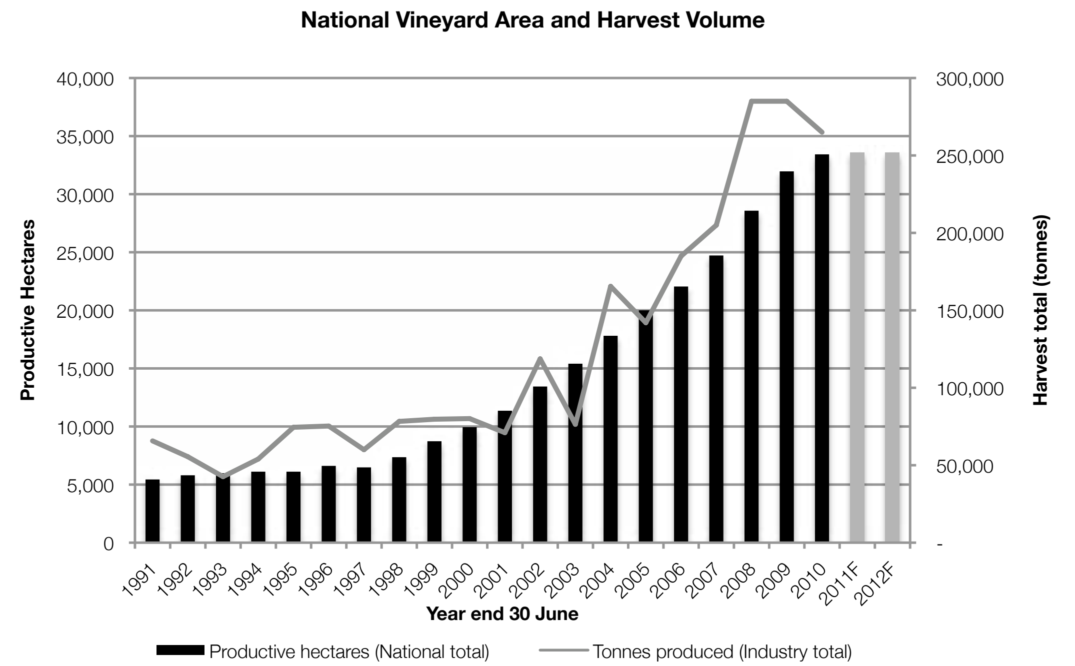
3. Overview of the NZ wine Industry

3.1 Background

History

The New Zealand wine industry is relatively young when compared with many other international wine industries, particularly in Europe. The industry really only began to gain favour in New Zealand in the late 1970's and has since grown to become an important part of the New Zealand economy and the 9th largest export category by value[2].

The major wine producing areas in New Zealand are Auckland, Gisborne, the Wairarapa (Martinborough), the Hawke's Bay, Marlborough, Central Otago and Canterbury. The producing vineyard area is approximately 33,000 hectares, of which 60% (or 19,800 hectares) is located in Marlborough. The chart below shows the development of New Zealand's national vineyard since 1991:



Source: New Zealand Winegrowers Statistical Annual for the 2000 to 2009 vintages

The New Zealand wine industry has grown significantly over the last ten years from a vintage of 80,100 tonnes for the year ended 30 June 2000 to 285,000 tonnes in both 2008 and 2009. The 2010 vintage was 266,000 tonnes. The reduction in harvest volume for the 2010 season is the result of industry focus on reducing harvest volumes due to oversupply in the preceding two seasons. Sauvignon Blanc volumes did not reduce in 2010.

At the beginning of 2006 wine sales were at record levels with domestic and export sales of New Zealand wine for the year ended September 2005 exceeding 100 million litres. New Zealand experienced a rush of investment into the wine industry and land prices for vineyards increased accordingly. As can be seen from the chart above the national vineyard has increased by more than 50% since 2005. Over the same period the productive area in the Marlborough region has almost doubled.

[2] For the 12 months ending 31 August 2010. "Overseas Merchandise Trade – August 2010", Statistics New Zealand

Overview

New Zealand wines are viewed as a premium quality product in major export markets and, as such, the industry is under constant pressure to maintain quality. Marlborough Sauvignon Blanc is considered to be of super-premium quality.

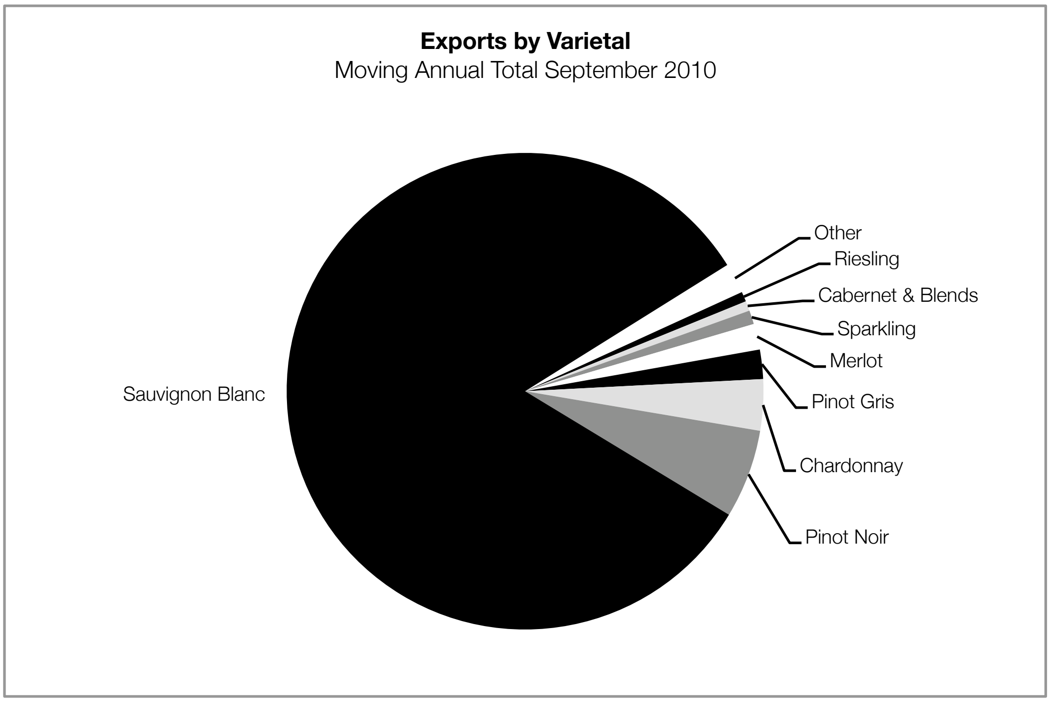
The New Zealand wine industry now comprises almost 650 wineries ranging in size from those producing more than 4 million litres – approximately 10 wineries including Constellation New Zealand, Delegat's, Kim Crawford, Pernod Ricard, Mud House, Villa Maria, Giesen, Matua Valley, Saint Clair Family Estate and Vidal Estate, to approximately 70 mid-sized wineries producing between 200,000 and 4 million litres, and hundreds of "boutique" wineries producing less than 200,000 litres.

The industry is also dependent on a large number of specialist grape growers who do not produce wine themselves, but rather supply grapes to regional wineries. Oyster Bay fits within this category and grows grapes purely for on supply to Delegat's for processing.

Overall the industry contributes approximately $1.5 billion to New Zealand's GDP[3] and employs approximately 6,000 people as well as a significant number of seasonal workers during the pruning and harvest periods.

Export Volume

Exports account for more than 60% of total sales by volume, of which more than 80% is Sauvignon Blanc and just over 6% is Pinot Noir. The chart below shows export volumes by varietal over the last 12 months:

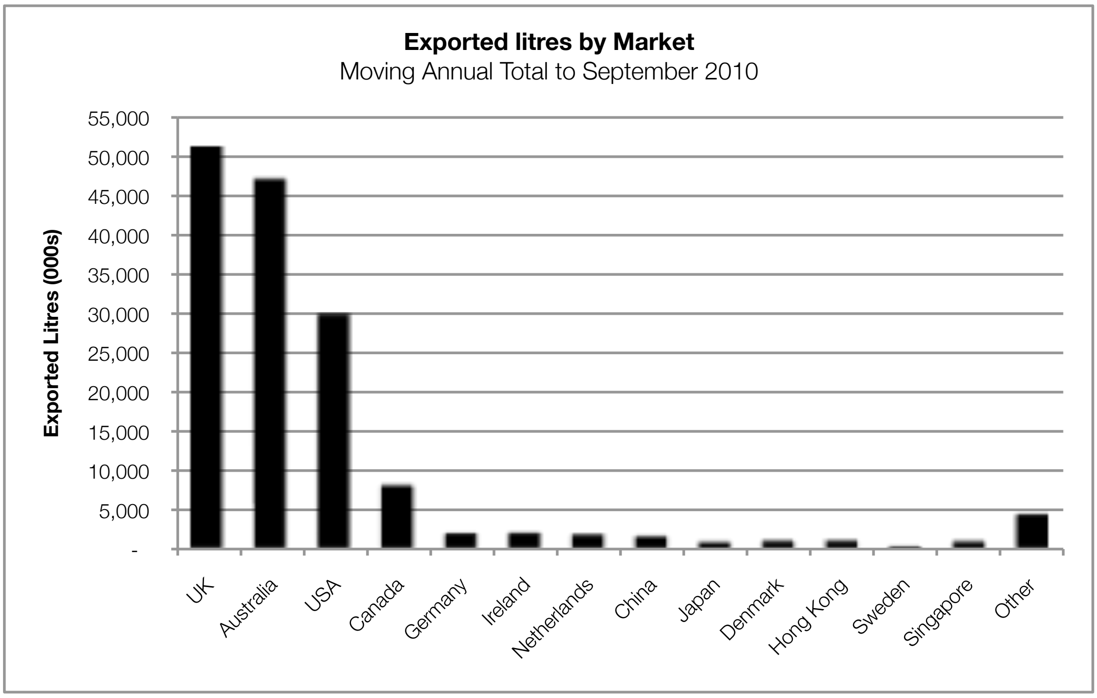


Source: New Zealand Wine Export Report – September 2010

In the year ended 30 June 2010 New Zealand exported more than 145 million litres valued at approximately $1.1 billion[4]. This represents an increase of 30% on a volume basis and 11% on value over the prior year. The chart below shows the major export destinations for New Zealand wine over the year to 30 September 2010:

[3] "Economic impact of the New Zealand wine industry – An NZIER report to New Zealand Winegrowers", April 2009

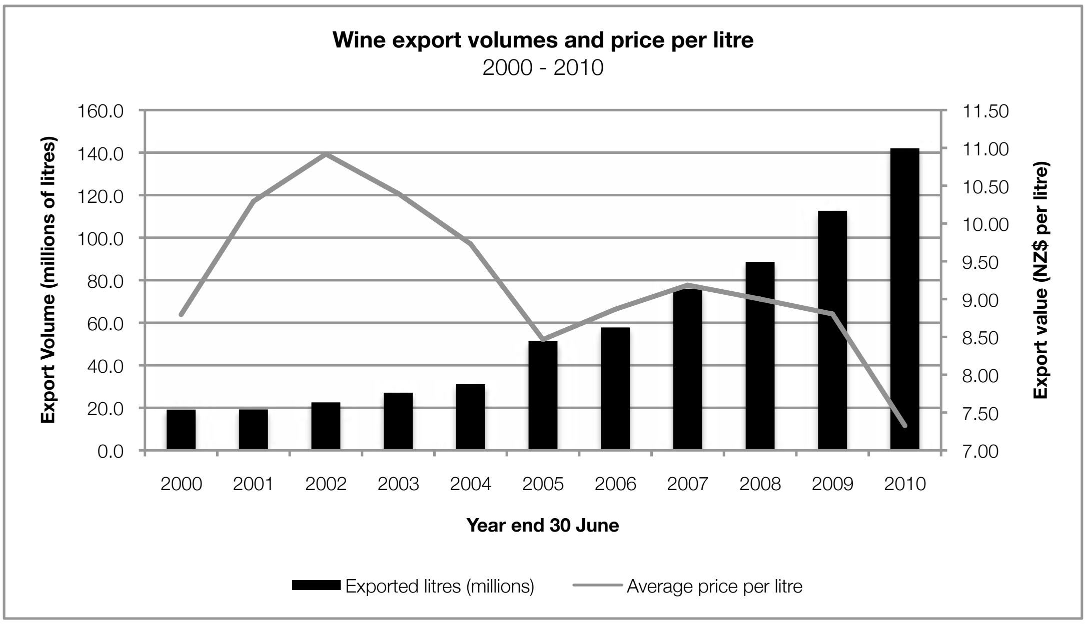
[4] Situation and Outlook for New Zealand Agriculture and Forestry – June 2010



Source: New Zealand Wine Export Report – September 2010

Export prices

Over the last 2 years the impact of the global financial crisis, a sustained high New Zealand dollar exchange rate and oversupply / overproduction have had a significant negative impact on prices for New Zealand wine both domestically and internationally. Although export volumes have continued to increase from almost 58 million litres in the year to 30 June 2006 to more than 142 million litres in the year to 30 June 2010, the average price per litre (in NZD) achieved in the industry's export markets has declined from a high of NZ$10.92 per litre in the year to 30 June 2002 to NZ$7.33 per litre in the year to 30 June 2010 respectively as shown in the graph below:

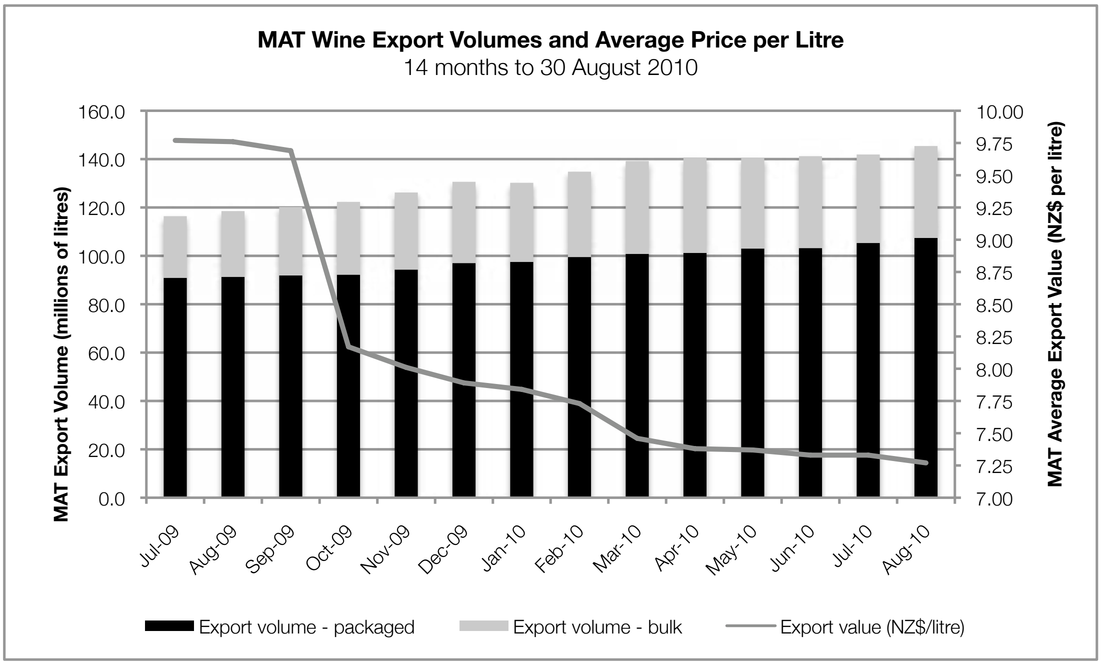


Source: New Zealand Winegrowers Statistical Annual for the 2000 to 2009 vintages

Much of the recent export growth in New Zealand has been driven by bulk wine exports which command significantly lower prices, often below the cost of production. By way of example, for the month of

August 2010 the value of exports across all wines, including bulk wine, was NZ$7.36 per litre, compared with NZ$8.58 per litre excluding bulk wines. The increase in bulk exports can be attributed to substantial overproduction over the last two seasons, particularly of Marlborough Sauvignon Blanc. For the month of September 2010 more than 43% of Sauvignon Blanc exported was bulk wine[5]. The increasing trend in the export of bulk wine is problematic for two reasons – it cannibalises bottled wine exports and risks undermining New Zealand's "super-premium" positioning in key export markets.

The chart below shows the Moving Annual Total (**MAT**) (ie: the total of the preceding 12 months) export volume and average export value per litre over the last 14 months. The MAT data provides a good indication of price and value trends. One of the key contributing factors to the decline in average export value is the strong New Zealand dollar, however, as the chart below is shown on a MAT basis, any currency impacts on price do not have a significant impact on the MAT average value per litre unless they are sustained for a period of time. The other key contributing factor, as discussed above, is the increasing volume of bulk wine exports which has a substantial negative impact on the average NZ$ price per litre achieved:



Source: New Zealand Wine Export Reports for the months ended July 2009 to September 2010

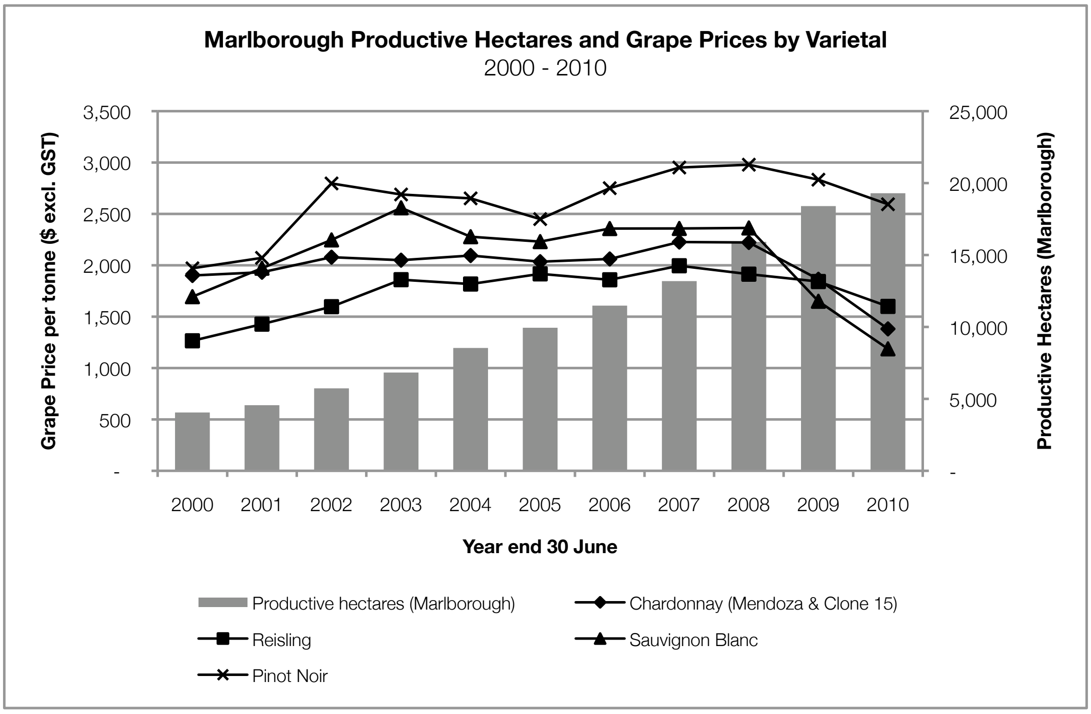
The oversupply situation currently facing the New Zealand wine industry has also been experienced in the Australian wine industry over the last 5 years as a result of overplanting. The oversupply of Australian wine lead to an increase in bulk wine exports, the prices for which were supported by the reputation of the Australian bottled product. Over time Australian exports became dominated by bulk wine at the expense of higher-yielding bottled wine, and the bulk exports began to undermine the reputation and price of the bottled product. Overall export volumes began to decline. The situation has not been resolved and the bulk exports continue to increasingly dominate overall exports of Australian wine. Without significant industry collaboration the New Zealand wine industry is facing a similar outcome.

3.2 Marlborough

All of Oyster Bay's vineyards are located in Marlborough and produce predominately Sauvignon Blanc grapes. The Marlborough region is the largest wine region in New Zealand producing approximately 70% of the country's wine. The prevailing varietal in the region is Sauvignon Blanc. This region has led the growth in the industry over the last 10 years with significant new plantings and an almost five-fold

[5] New Zealand Winegrowers Export Report, September 2010

increase in the total productive area. The wine industry in Marlborough accounts for approximately 20% of the regional economy[6]. Prices in the Marlborough region have also been adversely affected by oversupply in the last two harvests, with Sauvignon Blanc experiencing the largest decline. The following graph shows the growth in productive hectares in the Marlborough region together with the trend in grape prices observed in Marlborough over the past 11 years for the top four export varieties:



Sauvignon Blanc grape prices peaked in 2003 when unseasonable frosts resulted in an abnormally low harvest (approaching 50% less than forecast). Prices corrected in 2004, as harvest volumes returned to expected levels, and remained constant until the 2009 harvest when oversupply caused a significant downward price correction.

3.3 Outlook

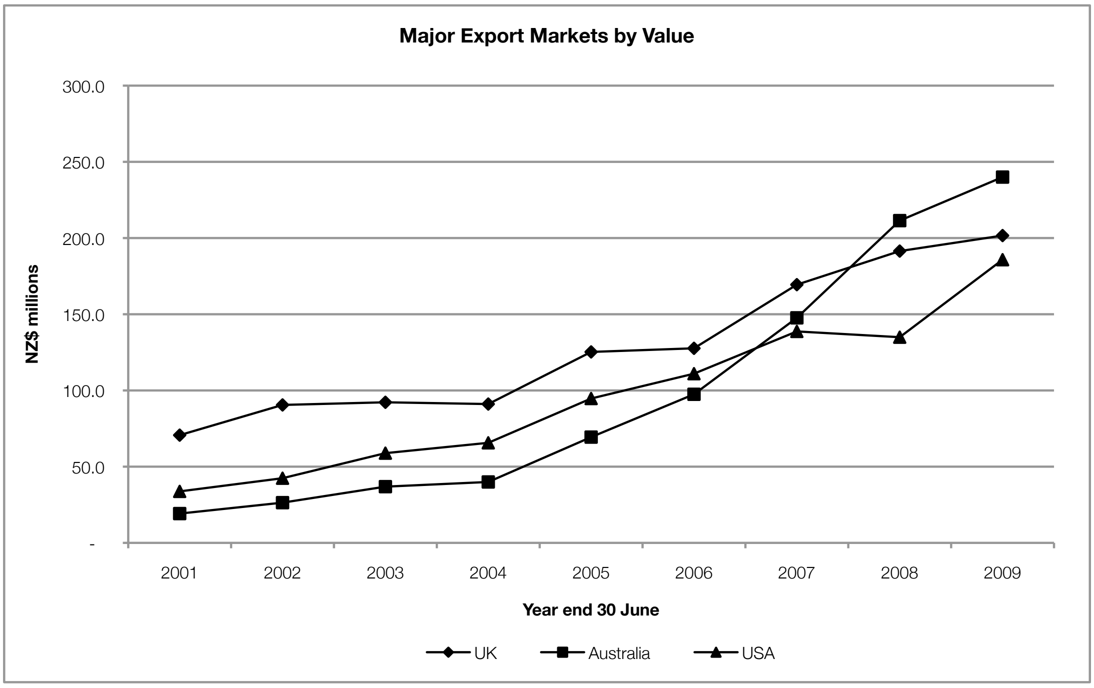
The significant current oversupply of grapes, particularly Marlborough Sauvignon Blanc, has forced grape prices to unsustainably low levels. The vast majority of vineyard owners and grape growers cannot continue to produce grapes at current prices which, for many, do not cover the cost of production. In order to correct the imbalance, one of two things must occur:

- ***a reduction of supply:*** vines must be pulled out to reduce the supply, either voluntarily or as a result of liquidation / sale; and/or
- ***an increase in demand:*** export demand for packaged, high-value product must be grown by the industry as a whole.

Grape growers have, understandably, demonstrated a reluctance to voluntarily disestablish their vineyards as evidenced by the sustained high harvest levels in 2010. However, over the next two or three years, if grape prices do not improve, it is likely that growers will be forced to sell their vineyards or put their land to alternate use. Anecdotal evidence suggests that the volume of vineyards currently for sale is significant and vineyards are becoming increasingly difficult to sell, resulting in low values being achieved particularly in distressed sale scenarios.

[6] "Economic impact of the New Zealand wine industry – An NZIER report to New Zealand Winegrowers", April 2009

New Zealand's export markets have shifted dominance over the last two or three years and a convergence of demand (on a value basis) between the UK and the USA is occurring, as shown below:



Much of the bulk wine exports over the last two years have been destined for the UK for in-market bottling and private labelling and it is unclear whether, or to what extent, the lower priced bulk exports have damaged "super premium" branding of Marlborough Sauvignon Blanc in this market. In fact, low price private label wines now account for 5 of the top 10 best selling New Zealand wines in the UK. If irreparable damage has occurred it is likely that pricing of super-premium wines will be adversely affected and New Zealand winemakers may have to look to other markets to replace lost demand.

The USA will be a key market for New Zealand wine makers going forward. Wine consumption in the US has increased year on year over the last decade but at an average consumption of 9 litres per capita, the US has significant capacity for growth before it matches New Zealand's 23 litres of wine consumption per capita per year. Several major New Zealand wineries, including Delegat's, have invested in significant in-market presence in the US to establish a profitable channel to market. In addition, the perception of quality for New Zealand wines has not yet been impacted. Expansion of the US market is not without its challenges, the most significant of which are regulatory, however if the industry is to move out of its current state of overproduction, increased US demand will be key.

Over the coming two to three years the industry will also face the ongoing effect of the global recession and pricing pressure arising as a result of the strength of the New Zealand dollar relative to the industry's main trading partners.

4. Profile of Oyster Bay

4.1 Background

Delegat's launched the Oyster Bay wine label in 1990 and in 1999 established Oyster Bay as a vehicle for owning the Oyster Bay vineyards and for growing grapes for the production of Oyster Bay wines by Delegat's.

In May 1999 Oyster Bay undertook an Initial Public Offering (**IPO**) of shares, raising $18 million. The proceeds of the IPO were used to acquire the Oyster Bay vineyard from Delegat's, fund the development of part of the vineyard and to fund capital expenditure, IPO expenses and working capital. At the time of the IPO Delegat's subscribed for a cornerstone 29.78% shareholding in Oyster Bay. During the following year it increased its shareholding to 32.58% by purchasing shares in-market.

Oyster Bay expanded its operations during 2002 by acquiring the Fault Lake Vineyard from Delegat's. The Fault Lake Vineyard comprises 43 hectares of freehold land and 128 hectares of leasehold land. Oyster Bay also entered into a lease agreement to lease a 158 hectare block from the Marlborough District Council for the Wairau River Vineyard. $18 million of debt was raised to fund the acquisitions and the development of the vineyards.

Oyster Bay's shares were listed on the New Zealand Alternative Market (**NZAX**) in November 2003.

In the period between June 2005 and February 2006, Oyster Bay was the subject of competing partial takeover offers by Peter Yealands Investments Limited (**PYIL**) and Delegat's. During the course of the nine months to February 2006, the offer price was raised from the initial PYIL offer of $3.10 to the final Delegat's offer of $6.00 per share on 28 December 2005, after the court cancelled Delegat's offer of $5.00 per share and PYIL agreed to sell its shares in Oyster Bay to Delegat's provided the price was increased to $6.00 per share. Delegat's final offer was successful and resulted in Delegat's increasing its shareholding in Oyster Bay to 50.1%. The competing offers gave rise to a legal dispute between Oyster Bay and PYIL, which was not resolved until June 2010 when the parties reached a settlement agreement. On settlement in July 2010, Delegat's acquired the remainder of PYIL's shareholding in Oyster Bay (4.82%), taking its total shareholding in the Company to 54.92%.

4.2 Operations

Oyster Bay was established exclusively for the purpose of vineyard ownership and lease, and the growing of premium quality grapes. Oyster Bay does not own the Oyster Bay brand (it is owned by Delegat's), nor does it produce any wine. Oyster Bay owns or leases three large vineyards in the Marlborough region of New Zealand. The table below profiles each of the vineyards:

Oyster Bay – Vineyard Profile

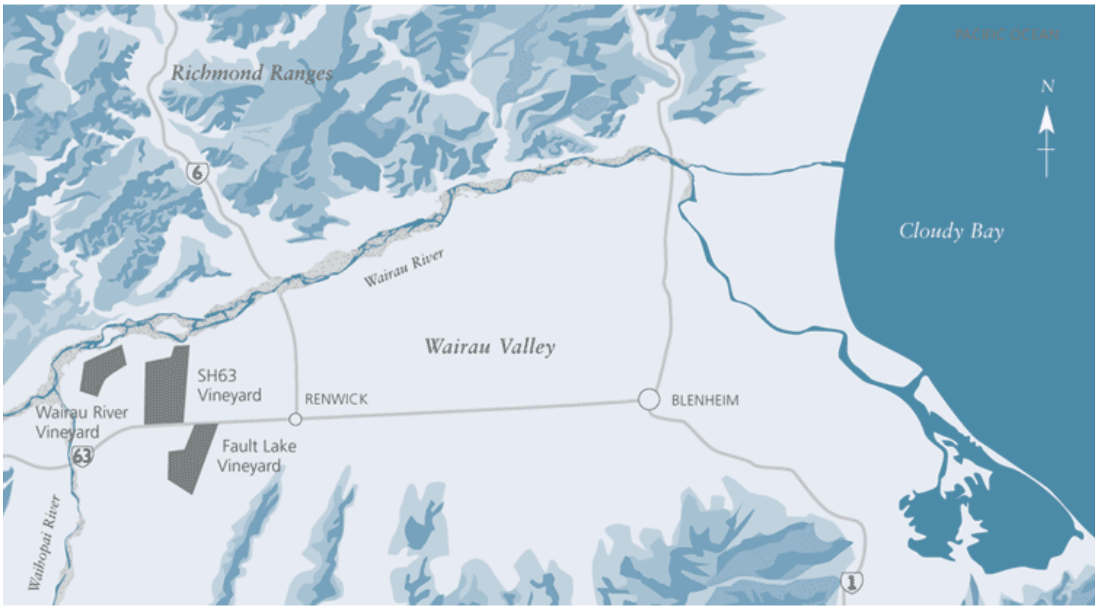
Vineyard	Vineyard area (planted area)					Owned / Leased
	Sauv. Blanc	Chardonnay	Pinot Noir	Riesling	Total	(gross hectares)
Oyster Bay	147 ha	84 ha	24 ha	2 ha	257 ha	Owned
Fault Lake	71 ha	35 ha	40 ha	-	146 ha	43 ha freehold 128 ha leased from Murray Downs Ltd until at least 2031
Wairau River	135 ha	-	-	-	135 ha	Leased from Marlborough District Council until at least 2034
Total	**353 ha**	**119 ha**	**64 ha**	**2 ha**	**538 ha**	

The ***Oyster Bay*** or SH63 vineyard is located on the central Wairau Plains, approximately 15 minutes drive from the centre of Blenheim. It is the largest Oyster Bay vineyard and one of the largest individual vineyards in New Zealand.

The ***Fault Lake*** vineyard is predominately leased land. Planting of the Fault Lake vineyard was completed in 2004. Fault Lake supplied Delegat's for the first time in the 2004 vintage. The vineyard is located in close proximity to the Oyster Bay vineyard.

The ***Wairau River*** vineyard is located only 400m from the Wairau River and within close proximity to the Oyster Bay vineyard. Planting of the Wairau River vineyard was completed in 2003.

The map below shows the location of each of Oyster Bay's vineyards:



Oyster Bay does not employ any staff. Delegat's undertakes the day-to-day operation and administration of each of the Oyster Bay vineyards on the terms set out in each vineyard's Management and Administration Agreement. The Management and Administration Agreements for the three vineyards have initial terms expiring on 30 June 2019 (Oyster Bay), 31 March 2031 (Fault Lake) and 30 June 2034 (Wairau River) respectively. Delegat's has the right to extend the agreements such that they expire no later than 30 June 2049, 31 March 2061 and 30 June 2067 respectively – beyond these dates the agreements can only be extended with the written consent of all parties. Oyster Bay may terminate the Management and Administration Agreements with Delegat's if Delegat's shareholding in Oyster Bay falls below 20% or if there are other events of default (as outlined at Appendix C).

Oyster Bay has contracted to sell all of the grapes produced at its vineyards to Delegat's. Delegat's has agreed to purchase the grapes, irrespective of their quality, at a price negotiated between the independent directors of Oyster Bay and Delegat's annually. The initial expiry, renewal and termination dates of the Grape Purchase Agreements are identical to those of the Management and Administration Agreements for each vineyard.

A Long Term Co-operation Agreement between Oyster Bay and Delegat's restricts Oyster Bay from selling any of its vineyards unless:

- Delegat's is first offered the vineyard;
- Oyster Bay has obtained the approval of Delegat's to any proposed purchaser of the vineyard;

- the proposed purchaser of the vineyard has accepted an assignment of Delegat's contractual rights to manage the vineyard and purchase grapes grown on the vineyard; and
- once price and terms have been agreed with a third party, the vineyard is again offered to Delegat's on the same price and terms.

The agreement also prescribes that should Oyster Bay purchase or lease new land it will offer Delegat's the right to manage the vineyards and purchase all of the grapes produced by the vineyard. If Delegat's proposes to acquire or lease any land or productive vineyards in the Marlborough region it must, in turn, offer Oyster Bay the right to take up such acquisitions on behalf of Delegat's[7]. The Long Term Co-operation Agreement remains in force so long as any one of the Management and Administration Agreements and Grape Purchase Agreements is in force.

The key terms of the agreements between Oyster Bay and Delegat's are set out in Appendix C.

4.3 Financial Performance

The financial performance of Oyster Bay for the years ended 30 June 2008, 2009 and 2010 is shown in the table below:

Oyster Bay Financial Performance (NZ$ 000s)			
Year end 30 June	**2008**	**2009**	**2010**
Grape sales	15,647	11,495	8,305
Other revenue	44	246	1
Total revenue	**15,691**	**11,741**	**8,306**
Vineyard labour and contracting costs	(3,168)	(3,120)	(2,720)
Vineyard inputs and frost protection	(2,251)	(1,707)	(1,512)
Vineyard occupancy costs	(1,618)	(1,620)	(1,626)
Corporate governance	(199)	(274)	(193)
Administration and other costs	(655)	(553)	(575)
Takeover and complaint related costs	(104)	(207)	(441)
EBITDAF[8]	**7,696**	**4,260**	**1,239**
Amortisation and depreciation	(890)	(1,090)	(1,092)
Impairment charges	-	-	(9,930)
Fair value movements in biological assets and other items	129	38	(7,107)
EBIT	**6,935**	**3,208**	**(16,890)**
Net interest	(1,972)	(1,430)	(1,215)
Tax expense	(2,150)	(240)	4,285
Profit after tax	**2,813**	**1,538**	**(13,820)**

The following points should be taken into consideration when reviewing the table above:

- grape sales revenue has declined over the last three years both as a result of the reduced grape prices arising from oversupply in the industry and due to a reduction in volumes. The table below outlines the harvest volume and average grape price achieved by Oyster Bay in each of the relevant financial years:

[7] It should be noted that Delegat's did not offer Oyster Bay the option to acquire the Gravitas vineyards which Delegat's purchased in October 2010. Oyster Bay has provided written confirmation to Delegat's that it will not take any action in relation to this until the outcome of the Delegat's Offer is known.

[8] Earnings Before Interest, Taxation, Depreciation, Amortisation and Fair Value movements / impairment costs

Oyster Bay Harvest Volume and Average Grape Price			
Year end 30 June	**2008**	**2009**	**2010**
Harvest volume (tonnes)	7,193	6,236	5,652
Average grape price (NZ$ per tonne)	2,175	1,843	1,469

- vineyard labour and contracting costs are split fairly evenly between vineyard and harvest wages and contract labour;
- vineyard inputs comprise repairs and maintenance, fertilisers, materials and crop inputs and electricity, rates and water;
- vineyard occupancy costs are the lease and rates costs associated with the Fault Lake and Wairau River vineyards;
- corporate governance costs include shareholder relations costs and Directors' fees and expenses. These costs are not expected to be incurred in the event that the Delegat's Offer is successful;
- takeover and complaint related expenses have arisen as a result of claims by Oyster Bay in relation to PYIL takeover offers in 2005 and subsequent proceedings initiated by PYIL alleging that Oyster Bay oppressed its minority shareholders. Since 2005 Oyster Bay has incurred almost $1.7 million in relation to PYIL's takeover bid and related complaints and proceedings. On 30 June 2010 Oyster Bay entered into a settlement agreement with PYIL. Under the terms of the settlement agreement PYIL agreed to pay $150,000 plus GST to Oyster Bay. As a result of the settlement Oyster Bay incurred a bad debt expense of $145,000 for unrecovered expenses relating to PYIL's takeover bid. Settlement took place on 30 July 2010;
- lower grape prices have reduced the value of Oyster Bay's vineyard improvements and land holdings. Oyster Bay tests its assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment charge is recognised for the amount by which the carrying value exceeds the recoverable amount. An impairment charge of $9.9 million was recorded in the year ended 30 June 2010 with $4.6 million charged against land and land improvements and $5.3 million charged against vineyard improvements; and
- Oyster Bay commissions annual valuations of its biological assets (grape vines). Under NZ IFRS accounting standards, Oyster Bay is required to account for changes in the fair value of its biological assets, which distorts the earnings of Oyster Bay to a significant degree year on year. In 2010 the fair value of Oyster Bay's biological assets was determined by Crighton Stone with reference to grape prices, the average remaining life of the grape vines, the average yield per hectare, the pre-tax discount rate at which forecast cashflows are discounted, the annual rate of inflation and vineyard maintenance costs. The resulting valuation of Oyster Bay's biological assets resulted in a fair value write-down of $6.9 million. This was compounded by fair value reductions on the sale of some minor assets and a reduction in the fair value of Oyster Bay's derivative instruments, taking the total fair value write-down to $7.1 million for 2010.

4.4 Financial Position

The financial position of Oyster Bay as at 30 June 2008, 2009 and 2010 is outlined in the table below:

Oyster Bay – Balance Sheet (NZ$ 000s)			
Year ended 30 June	**2008**	**2009**	**2010**
Cash and cash equivalents	9,732	5	7
Trade receivables	370	370	169
Prepaid expenses	18	33	114
Amounts owed from Related Parties	105	133	519
Current Assets	**10,225**	**541**	**809**
Biological assets	37,147	37,287	30,126
Property, plant and equipment	43,133	43,436	32,547
Non-current assets	**80,280**	**80,723**	**62,673**
Total assets	**90,505**	**81,264**	**63,482**
Trade and other payables	1,825	1,216	827
Amounts owed to Related Parties	168	123	174
Borrowings	-	-	10,810
Derivative financial instruments	(10)	92	176
Current liabilities	**1,983**	**1,431**	**11,987**
Deferred tax liability	11,802	12,042	7,757
Borrowings	18,000	9,333	-
Non-current liabilities	**29,802**	**21,375**	**7,757**
Total liabilities	**31,785**	**22,806**	**19,744**
Share capital	18,000	18,000	18,000
Retained earnings	40,720	40,458	25,738
Equity	**58,720**	**58,458**	**43,738**

The following points are relevant when considering the above table:

- Oyster Bay's working capital position is subject to the grape growing cycle. The low point of the company's working capital cycle is at the end of the harvest period when the grapes have been harvested and payment for the grapes been received from Delegat's. This low-point coincides with the company's 30 June year end and the company's working capital position as presented above is at its lowest point. In the 30 June 2010 financial year Oyster Bay's net debt peaked in the month of April 2010 at $18.1 million;
- the amounts owed from and owing to Related Parties represent labour charges and material costs incurred by both Delegat's and Oyster Bay in the ordinary course of business. For the year ended 30 June 2010 the amount owed from Delegat's also includes $401,000 in relation to the acquisition of 2 hectares of land by Delegat's pursuant to an option granted under the Long Term Co-operation Agreement. An option over a further 1 hectare (approximately) remains unexercised as at 30 June 2010;
- as discussed in Section 4.3 the fair value of the biological assets was written down in the year ended 30 June 2010;
- the Company entered into an amended banking arrangement with its bankers on 28 June 2010 under which the bank agreed to waive the measurement of one the company's banking covenants until 31 December 2010. As the Company is forecasting to breach the relevant covenant as at the 31 December 2010 measurement period the borrowings have been classified as current liabilities. The Delegat's Offer is principally aimed at addressing the current capital and debt funding issues facing Oyster Bay; and

- Oyster Bay's deferred tax liability has predominately arisen due to the difference between the accounting and tax values of the company's biological assets and property, plant and equipment. Oyster Bay also has approximately $1 million of carry forward tax losses available as at 30 June 2010. The carry forward tax losses have been taken into account for the purposes of Grant Samuel's assessment of the value of Oyster Bay.

4.5 Cash Flow

The cash flows for Oyster Bay for the years ended 30 June 2008, 2009 and 2010 are shown in the table below:

Oyster Bay – Statement of Cash Flows (NZ$ 000s)			
Year end 30 June	**2008**	**2009**	**2010**
Receipts from customers	15,647	11,495	8,305
Interest received	44	213	-
Other income	-	33	1
Payments to suppliers	(7,813)	(7,173)	(6,661)
Payments for takeover and complaint related costs	(99)	(185)	(224)
Interest paid	(1,809)	(1,602)	(1,299)
Net GST paid	761	(607)	(388)
Cash flows from Operating activities	**6,731**	**2,174**	**(266)**
Proceeds from sale of plant and equipment	36	18	-
Purchase of plant and equipment	(294)	(1,452)	(309)
Cash flows from Investing activities	**(258)**	**(1,434)**	**(309)**
Proceeds from borrowings	6,731	2,063	7,874
Repayment of borrowings	(6,731)	(10,730)	(6,397)
Distributions to owners	(450)	(1,800)	(900)
Cash flows from Financing activities	**(450)**	**(10,467)**	**577**
Net increase / (decrease) in cash held	6,023	(9,727)	2
Opening cash balance	3,709	9,732	5
Closing cash balance	**9,732**	**5**	**7**

As can be seen from the above table the company's cash flow from operations for the year ended 30 June 2010 are negative.

4.6 Capital Structure and Ownership

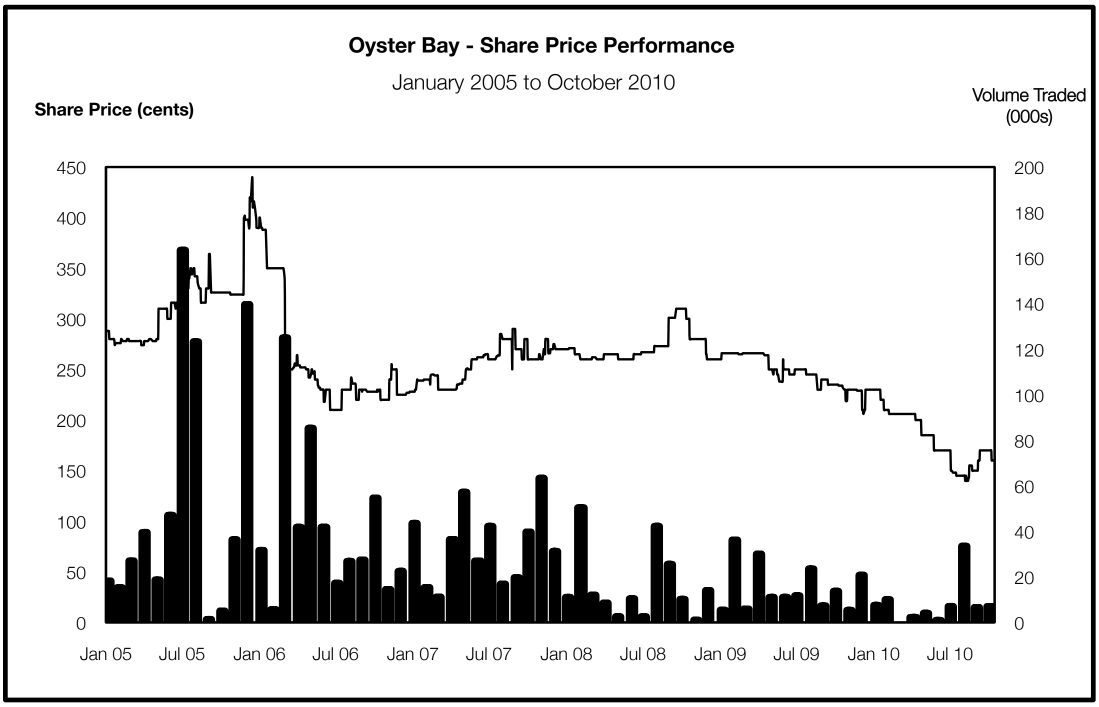
As of 31 October 2010 Oyster Bay had 9 million shares on issue held by 644 shareholders. The Company's top 20 shareholders as at 31 October 2010 are shown in the table below:

Oyster Bay – Top 20 Shareholders as at 31 October 2010		
Shareholder	**Shares (000s)**	**%**
Delegat's Wine Estate Limited	4,943	54.9
Ashfield Farm Limited	377	4.2
David Hugo Rankin	280	3.1
Forsyth Barr Custodians Limited	125	1.4
New Zealand Central Securities Depository Limited	107	1.2
Michael Murray Benjamin	100	1.1
R C MacDonald Limited	100	1.1
Warren Fraser Sanderson & Elizabeth Ann Sanderson	100	1.1
Heather Davina Fillmore	78	0.9
John Ross Elliot & Toni Elliot	70	0.8
Custodial Services Limited (4 a/c)	61	0.7
Geoffrey Stewart Wilkinson	60	0.7
Tetsuya Holdings Limited	55	0.6
David Herlihy Russell & Marie Anne Russell & Marylin Joy Davies	52	0.6
Kelley Ford Shippey & Donna Lynn Simpson	50	0.6
Holmeslee Enterprises Limited	42	0.5
Shirley Ruth Startup	30	0.3
Gail Kathleen Moody & Peter Warren Moody & Suellen Gail Woods	20	0.2
Lois Esma Nicholls & Tony Clarence Nicholls	20	0.2
Fiona Mary Patchett	18	0.2
Top 20 Shareholders	**6,688**	**74.3**
Other Shareholders	**2,317**	**25.7**
Total	**9,000**	**100.0%**

Delegat's already holds 54.9% of the shares in Oyster Bay. The remainder of the Company is very widely held. The Delegat's Offer is conditional on receiving acceptances to take its shareholding to at least 90% of Oyster Bay. However, Delegat's has retained its right to waive this condition.

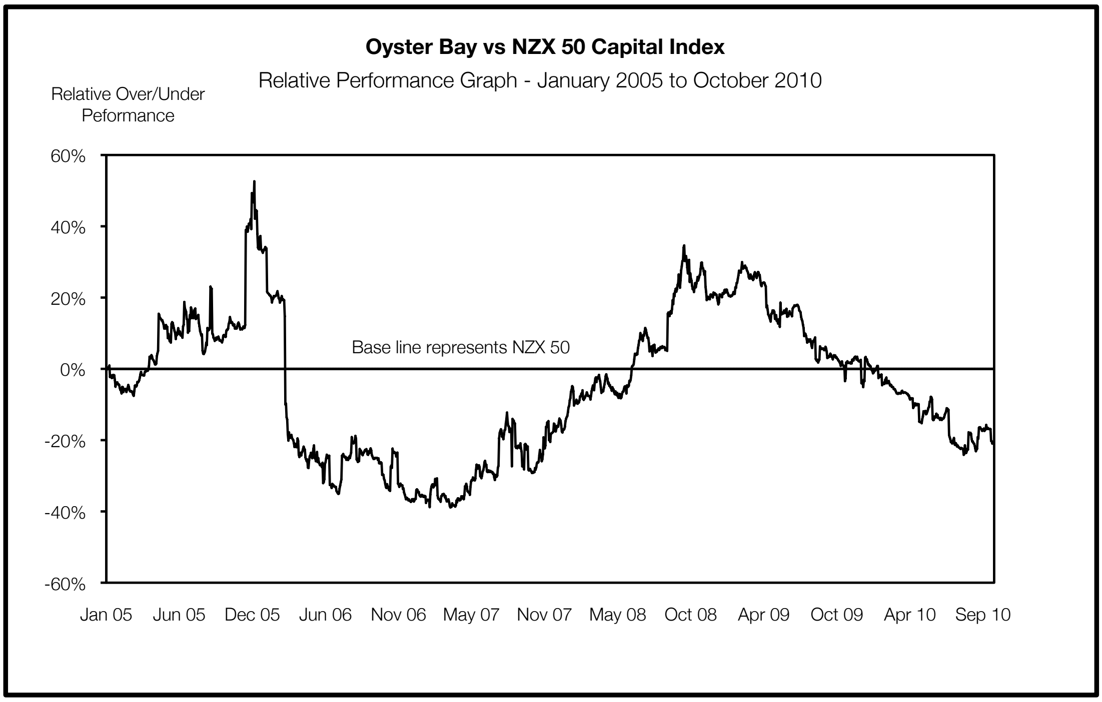
4.7 Share Price Performance

The share price and trading volume history of Oyster Bay shares is depicted graphically below.



The chart above shows the Oyster Bay share price peaking at approximately $4.40 in late 2005 / early 2006 around the time of Delegat's revised partial takeover offer for Oyster Bay. Since that time the share price has remained relatively flat, decreasing in 2010 on the back of poor operating performance as a result of oversupply issues affecting the industry as a whole.

Oyster Bay's share price against the NZX50 index is shown in the graph below. The company's performance has fluctuated and for 2010 the Company has underperformed relative to the NZX50:



5. Profile of Delegat's

5.1 Overview

Delegat's is offering Oyster Bay shareholders the option of either receiving $2.08 per share in cash or acquiring one Delegat's share for every Oyster Bay share they hold. The profile of Delegat's outlined below is provided to give Oyster Bay shareholders an overview of an investment in Delegat's. Delegat's share price at the date of this report is $1.80.

Delegat's is a New Zealand Stock Exchange listed producer of premium and super-premium quality wines marketed under the Oyster Bay and Delegat's brands. The company is one of New Zealand's largest winemakers.

Delegat's first vineyard and winery was established in 1947 in Henderson, Auckland. During the 1970s and 1980s Delegat's expanded and purchased grape growing land in the Hawkes Bay region (for merlot, cabernet sauvignon and chardonnay) and then more recently established a viticultural presence in the Marlborough region (for Sauvignon Blanc).

Delegat's operates three wineries across New Zealand and a bottling facility in Henderson, Auckland:

- ***Marlborough winery*** – the Marlborough winery is a state-of-the-art facility (and one of New Zealand's largest) located on Delegat's owned land within the Oyster Bay vineyard (acquired in 2004). The winery was commissioned in 2006;
- ***Hawkes Bay winery*** – a winery leased from Indevin Limited; and
- ***Auckland winery*** – located on the site of the original Delegat's vineyard in Henderson the Auckland winery operates at full capacity as the group's production, packaging and global distribution facility. The bottling facility is co-located on this site.

Delegat's grape supply is secured through Oyster Bay, leased vineyards and contract growers in Marlborough and Hawkes Bay. Delegat's also owns vineyards in its own right in the Hawkes Bay and Marlborough regions.

Delegat's now exports to 28 countries and has a sales team of 118 people, of which 100 are based offshore in Australia, the UK, the US and Canada staffing Delegat's wholly-owned in-market sales subsidiaries.

In the year to 30 June 2010 Delegat's achieved record sales of 1,950,000 cases. The company's Oyster Bay brand is the leading New Zealand wine brand in the UK and Ireland and a leading wine brand in Australia, New Zealand, Hong Kong, Singapore, and the UAE. In Australia, Oyster Bay Sauvignon Blanc is the top selling bottled wine by both volume and value and during the 2010 year Oyster Bay become the number 8 imported wine brand in the US over US$10 per bottle.

5.2 Financial Performance

The financial performance of Delegat's for the years ended 30 June 2008, 2009 and 2010 is shown in the table below:

Delegat's Financial Performance (NZ$ millions)			
Year end 30 June	**2008**	**2009**	**2010**
Revenue	164.9	227.5	222.1
Cost of sales	(61.8)	(89.4)	(100.8)
Gross Profit	**103.1**	**138.1**	**121.3**
Marketing and promotion expenses	(38.4)	(61.1)	(69.1)
Corporate governance expenses	(1.1)	(1.2)	(1.0)
Administration expenses	(9.8)	(11.7)	(14.4)
Production management expenses	(0.5)	(0.7)	(0.8)
EBITDAF	**53.3**	**63.4**	**36.0**
Depreciation and amortisation	(11.2)	(11.9)	(10.3)
Impairment charges	-	-	(9.9)
Goodwill impairment	-	-	(1.0)
Fair value movements in biological assets	1.9	1.6	(6.5)
EBIT	**44.0**	**53.1**	**8.3**
Net interest	(12.8)	(10.9)	(7.1)
Tax expense	(10.8)	(11.4)	(7.9)
Profit after tax	**20.4**	**30.8**	**(6.7)**
Profit / (loss) attributable to non-controlling interests	(1.3)	(0.8)	6.9
Profit / (loss) attributable to shareholders of Delegat's	**19.1**	**30.0**	**0.2**

The following points should be taken into consideration when reviewing the table above:

- Delegat's revenue is a function of the volume of cases sold and the average price per case achieved. A decline in revenue was experienced in the year ended 30 June 2010 despite an increase in sales volumes as prices were impacted by a high New Zealand dollar relative to Delegat's major trading partners. The table below outlines the case sales volume and average price per case in New Zealand dollars achieved in each of the relevant financial years:

Delegat's case sales volume and average price per case			
Year end 30 June	**2008**	**2009**	**2010**
Case Sales (000s)	1,449	1,738	1,950
Average revenue per case (NZ$ per case)	112	125	113

- marketing and promotion expense primarily relates to Delegat's international brand support and trade marketing;
- corporate governance expenses include directors fees, accounting and audit fees, shareholder communications expenses and stock exchange and registry fees;
- as at 30 June 2010 Delegat's owned 50.1% of Oyster Bay. Accordingly, Delegat's consolidated Oyster Bay's financial performance and position with its own. Both the impairment charge and the fair value movement in biological assets predominately relate to Oyster Bay as described in Section 4.3;
- for the year ended 30 June 2010 Delegat's also recorded an impairment of approximately $1 million against its investment in Oyster Bay;

- Delegat's interest expense has declined in line with reductions in aggregate borrowings and lower effective borrowing rates; and
- the profit / (loss) attributable to non-controlling interests represents the profit or loss attributable to the shareholders who own the remaining 49.9% of Oyster Bay.

5.3 Forecast sales

In their annual report for the year ended 30 June 2010 Delegat's outlined the following case sales forecasts:

Delegat's Case Sales Forecasts (000's)				
Year end 30 June	**2010***	**2011**	**2012**	**2013**
UK, Ireland and Europe	957	645	620	586
North America (USA, Canada)	357	431	525	633
Australia, New Zealand and Asia Pacific	636	709	770	816
Total Cases	**1,950**	**1,785**	**1,915**	**2,035**
Estimated Price Realisation per case (NZ$)	112.7	122.3	125.8	127.0

* Actual result for the year ended 30 June 2010

Delegat's has identified the United Kingdom and Ireland as "Value Growth" markets, that is markets where Delegat's focus is primarily on increasing profitability rather than sales volume. The key growth markets identified were North America, Australia, New Zealand and Asia Pacific where focus will primarily be on sales volume.

5.4 Financial Position

The financial position of Delegat's as at 30 June 2008, 2009 and 2010 is outlined in the table below:

Delegat's – Balance Sheet (NZ$ millions)			
Year ended 30 June	**2008**	**2009**	**2010**
Cash and cash equivalents	14.5	4.3	5.7
Trade and other receivables	46.6	49.3	40.9
Derivative Financial Instruments	-	1.8	1.4
Income tax receivable	1.6	2.9	-
Inventories	91.2	88.6	73.2
Current Assets	**153.9**	**146.9**	**121.2**
Property, plant and equipment	168.8	167.9	175.3
Biological assets	45.7	49.2	43.9
Deferred tax asset	0.1	0.1	0.2
Intangible assets	1.0	1.0	-
Non-current assets	**215.6**	**218.2**	**219.3**
Total assets	**369.5**	**365.1**	**340.5**
Trade payables and accruals	30.2	32.8	29.5
Derivative financial instruments	2.0	-	3.4
Interest bearing loans and borrowings	2.8	-	10.8
Income tax payable	0.7	0.7	1.8
Current liabilities	**35.7**	**33.5**	**45.4**
Deferred tax liability	15.4	19.3	18.7
Interest bearing loans and borrowings	173.5	143.5	124.0
Non-current liabilities	**188.9**	**162.8**	**142.7**
Total liabilities	**224.6**	**196.3**	**188.1**
Share capital	47.5	47.5	47.5
Reserves	(0.2)	(0.1)	(1.4)
Retained earnings	68.3	92.3	84.5
Non-controlling interests	29.3	29.2	21.8
Equity	**144.9**	**168.9**	**152.4**

The following points are relevant when considering the above table:

- as at each of the above balance dates Delegat's held 50.1% of the shares in Oyster Bay. Accordingly, Delegat's consolidated the financial position of Oyster Bay into its own financial position;
- the majority of Delegat's inventories relate to each financial year's current vintage. A split of Delegat's inventories is shown in the table below:

Delegat's Inventory (NZ$ millions)			
Year end 30 June	**2008**	**2009**	**2010**
Current vintage	67.9	58.3	42.4
Aged wine	19.0	25.7	25.7
Growing costs relating to next harvest	3.9	4.2	4.6
Winery ingredients, packaging materials and other	0.4	0.4	0.5
Total	**91.2**	**88.6**	**73.2**

- property, plant and equipment comprises freehold land and land improvements, vineyard improvements, buildings, plant and equipment, capitalised vineyard lease payments and capital work in progress;
- biological assets are predominately the Oyster Bay grape vines but also include grape vines owned by Delegat's directly;
- the $1 million of intangible asset as at 30 June 2008 and 2009 relates to the goodwill arising at the time Delegat's increased its ownership interest in Oyster Bay to 50.1% in 2006. This amount was written down (impaired) to zero during the year ended 30 June 2010;
- Delegat's current interest bearing loans and borrowings as at 30 June 2010 relate to Oyster Bay's external debt. The longer term facilities are Delegat's working capital, term and capital note facilities. Delegat's was in compliance with all of its banking covenants as at 30 June 2010. Delegat's also had additional facility headroom of $36 million available for draw down under its term loan as at 30 June 2010;
- Delegat's reserves comprise a share based payments reserve (for payments to employees as part of their remuneration) and a foreign currency translation reserve (which arises on the translation of the financial statements of foreign subsidiaries); and
- non-controlling interests are the net assets attributable to the remaining 49.9% of shareholders in Oyster Bay (ie: shareholders not associated with Delegat's).

5.5 Cash Flow

The cash flows for Delegat's for the years ended 30 June 2008, 2009 and 2010 are shown in the table below:

Delegat's – Statement of Cash Flows (NZ$ millions)			
Year end 30 June	**2008**	**2009**	**2010**
Receipts from customers	157.9	222.0	229.9
Payments to suppliers	(105.1)	(139.0)	(152.0)
Payments to grape growers	(24.3)	(21.1)	(16.0)
Net income tax paid	(9.5)	(8.8)	(4.4)
Net interest paid	(12.2)	(11.1)	(7.3)
Net GST paid	1.5	0.5	(1.9)
Cash flows from Operating activities	**8.3**	**42.6**	**48.2**
Purchase of plant and equipment	(6.0)	(5.6)	(19.9)
Vineyard development costs	(11.0)	(10.5)	(6.5)
Purchase of biological assets	(1.4)	(1.4)	(0.9)
Capitalised interest paid	(1.6)	(0.5)	(0.8)
Capitalised lease payments	(0.7)	(0.9)	(0.7)
Cash flows from Investing activities	**(20.7)**	**(18.9)**	**(28.8)**
Proceeds from borrowings	74.3	2.1	33.1
Finance lease repayments	(2.4)	(2.3)	-
Dividends paid to shareholders	(4.7)	(6.9)	(8.4)
Repayment of borrowings	(10.7)	(26.6)	(41.8)
Repayment of unsecured notes	(35.0)	-	-
Borrowing facility fees	-	(0.1)	(0.8)
Cash flows from Financing activities	**21.4**	**(33.8)**	**(17.9)**
Net increase / (decrease) in cash held	9.0	(10.1)	1.5
Opening cash balance	5.5	14.5	4.3
Effect of exchange rate on foreign currency balances	0.1	(0.1)	(0.2)
Closing cash balance	**14.5**	**4.3**	**5.6**

The following points are relevant when considering the above table:

- payments to grape growers have declined since 2008 as a result of a combination of both lower harvest levels and lower grape prices. Delegat's harvest volumes are shown in the table below:

Delegat's Harvest volume			
Year end 30 June	**2008**	**2009**	**2010**
Harvest volume (000's tonnes)	26,680	24,268	21,965

- during the year ended 30 June 2008 Delegat's repaid $35 million of outstanding unsecured notes.

5.6 Capital Structure and Ownership

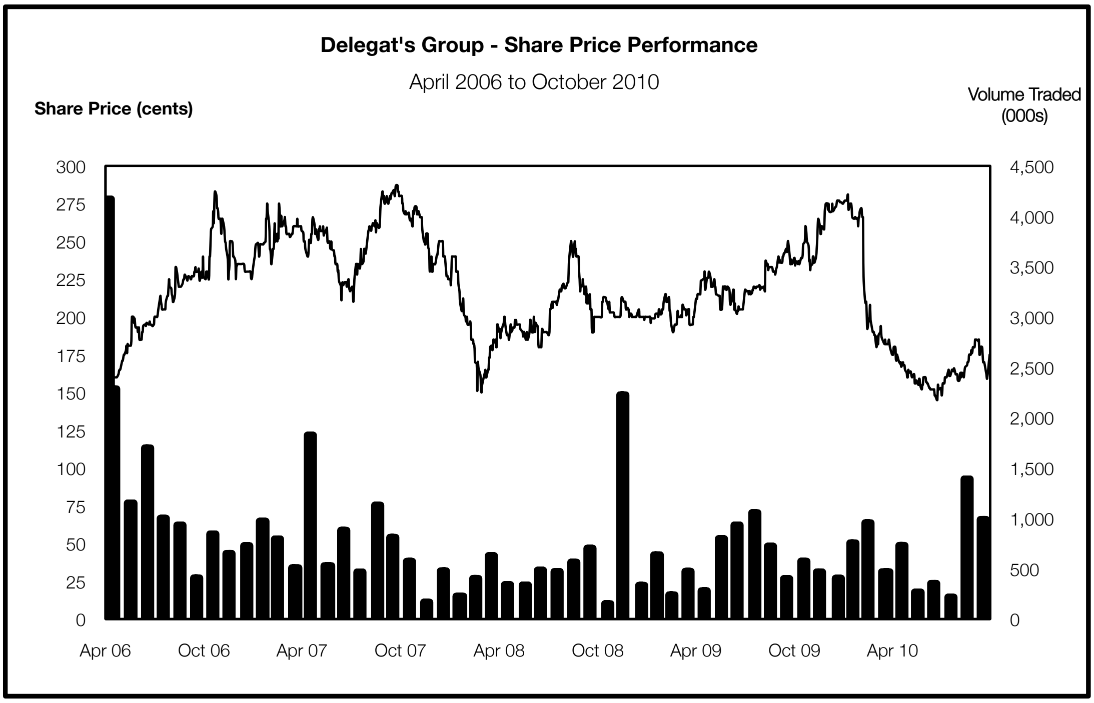
As of 31 October 2010 Delegat's had 100.5 million shares on issue held by approximately 2,500 shareholders. The Company's top 20 shareholders as at 31 October 2010 are shown in the table below:

Delegat's – Top 20 Shareholders as at 31 October 2010		
Shareholder	**Shares (000s)**	**%**
Jakov Nikola Delegat & Rosamari Suzan Delegat & Robert Lawrence Wilton	33,929	33.8
Rosamari Suzan Delegat & Robert Lawrence Wilton	32,929	32.8
TEA Custodians Limited	7,061	7.0
HSBC Nominees (New Zealand) Limited a/c State Street	2,710	2.7
Accident Compensation Corporation	2,146	2.1
New Zealand Superannuation Fund Nominees Limited	1,146	1.1
Robert Lawrence Wilton	1,000	1.0
Custodial Services Limited (a/c 3)	925	0.9
Superlife Trustee Limited	688	0.7
Custody and Investment Nominees Limited	525	0.5
Weijun Zhang	300	0.3
National Nominees New Zealand Limited	265	0.3
Custodial Services Limited (a/c 18)	242	0.2
Rainer Huebner & Shanti Huebner	225	0.2
Custodial Services Limited (a/c 2)	219	0.2
Warren Fraser Sanderson & Elizabeth Ann Sanderson	200	0.2
Custodial Services Limited (a/c 1)	194	0.2
Custodial Services Limited (a/c 6)	180	0.2
John Copson	174	0.2
Custodial Services Limited (a/c 4)	172	0.2
Top 20 Shareholders	**85,230**	**84.8**
Other Shareholders	**15,270**	**15.2**
Total	**100,500**	**100.0**

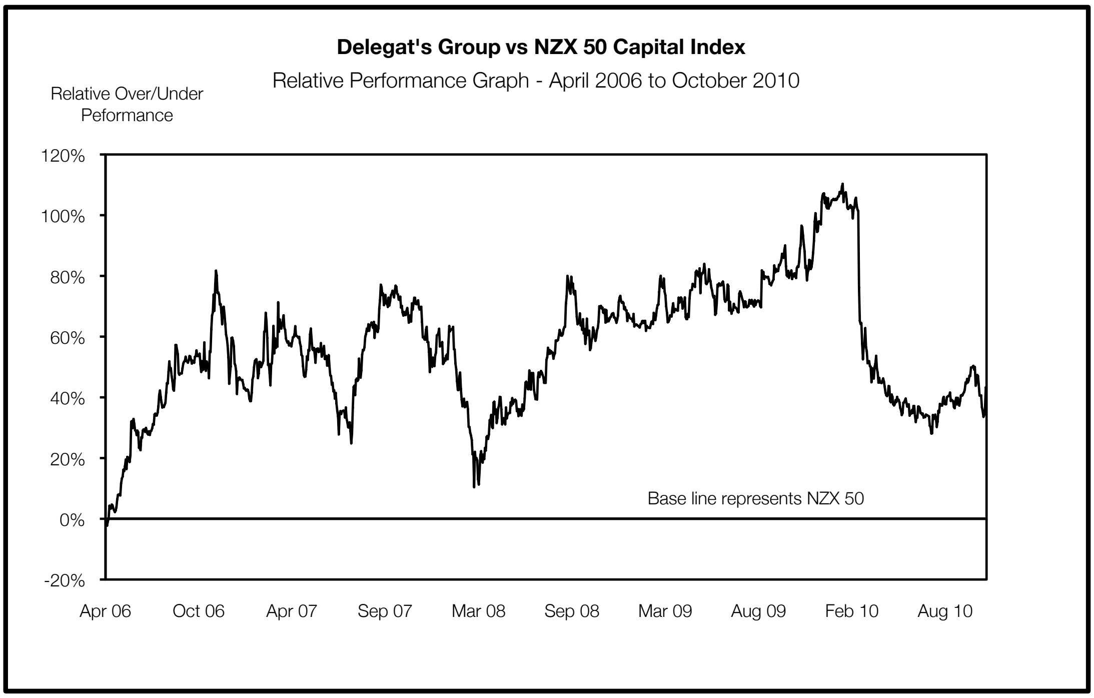
Delegat's is predominately owned by interests associated with Jim and Rosamari Delegat (c. 66.6%). Jim and Rosamari are the son and daughter of the late Nikola Delegat, the founder of Delegat's.

5.7 Share Price Performance

The share price and trading volume history of Delegat's shares is depicted graphically below. Delegat's share price has declined as a result of weaker performance in the current environment of the New Zealand wine industry:



Delegat's share price against the NZX50 index is shown in the graph below. For the most part Delegat's shares have outperformed the index over the period considered:



6. Valuation of Oyster Bay

6.1 Approach

Grant Samuel's valuation of Oyster Bay has been estimated on the basis of fair market value as a going concern, defined as the estimated price that could be realised in an open market over a reasonable period of time assuming that potential buyers have full information. The valuation of Oyster Bay is appropriate for the acquisition of the Company as a whole and accordingly incorporates a premium for control. The value is in excess of the level at which, under current market conditions, shares in Oyster Bay could be expected to trade on the sharemarket. Shares in a listed company normally trade at a discount of 15% - 25% to the underlying value of the company as a whole, but the extent of the discount (if any) depends on the specific circumstances of each company.

Grant Samuel's overall approach to estimating the fair market value range for Oyster Bay has been to:

- determine the Enterprise Value of Oyster Bay; and
- deduct Oyster Bay's average estimated borrowings for the year ending 30 June 2011 from the Enterprise value.

The Enterprise Value is estimated having regard to the projected future earnings of Oyster Bay. The Enterprise Value was estimated through the application of the Discounted Cash Flow (**DCF**) methodology in preference to the capitalisation of earnings methodology.

These two methodologies involve well-established analytical techniques and are the two valuation methodologies most widely used in practice. Both methods make a meaningful contribution to the valuation process as they offer insights from different perspectives. DCF analysis is deterministic in that it focuses on value in terms of the company's long run cash flow forecasts. Multiple analysis provides a benchmarking analysis by examining the value metrics that apply to comparable companies.

At the same time, both approaches have substantial limitations and drawbacks. Any valuation is necessarily a simplification of a much more complex business reality and is an attempt to quantify the current value of future returns that are inherently uncertain. Even an apparently sophisticated approach such as DCF analysis is in reality a simplified and partial analysis. For example, it does not capture the value of the flexibility that businesses generally have to respond to events as they unfold. Appendix F sets out the basis, the advantages and the limitations of each methodology.

Our normal approach to valuation would be to assess value on several different bases using these two methodologies:

- the net present value (**NPV**) derived from DCF analysis for a number of different scenarios or cases; and
- multiples (historical and forecast) for different parameters (EBITDA, EBIT, net assets etc).

We would then form an overall judgement as to an appropriate range of values having regard to all of the analyses.

However, we recognise the difficulties of this approach for Oyster Bay primarily because of the current state of the wine market and the impact on earnings, rendering the capitalisation of earnings approach problematic. In preference we have cross-checked our DCF valuation with the Net Tangible Assets (**NTA**) of Oyster Bay and evaluated the multiples implied by our valuation with reference to comparable transaction and comparable company multiples.

6.2 Summary

Grant Samuel has valued the equity in Oyster Bay in the range of $15.8 million to $18.7 million, equivalent to $1.76 to $2.08 per share. The values represent Grant Samuel's assessment of the full underlying value of Oyster Bay and include a premium for control. The valuation is summarised below:

Oyster Bay – Valuation Summary		
$ million except where otherwise stated	**Low**	**High**
Enterprise value	29.4	32.3
Net debt for valuation purposes	(13.6)	(13.6)
Equity value	**15.8**	**18.7**
Shares on issue (million)	9.0	9.0
Value per share (NZ$)	**1.76**	**2.08**

A value range of $29.4 - $32.3 million has been attributed to Oyster Bay's business operations. This valuation range is an overall judgement having regard to:

- the NPV outcomes of our DCF analysis;
- the NTA of Oyster Bay; and
- the multiples of EBITDA implied by the trading prices of listed companies in the New Zealand and Australian wine industries.

The valuation represents the estimated full underlying value of Oyster Bay assuming 100% of the Company was available to be acquired and includes a premium for control. The value exceeds the price at which, based on current market conditions, Grant Samuel would expect Oyster Bay shares to trade on the NZX in the absence of a takeover offer or proposal similar in nature to the Delegat's Offer.

The valuation reflects the strengths and weaknesses of Oyster Bay and takes into account the following factors:

- the magnitude of Oyster Bay's grape growing operation with long-term management and grape off-take agreements with Delegat's ensuring its entire harvest can be sold each year. Without such off-take agreements Oyster Bay would be exposed to the significant risk of not being able to sell all of its production in the current oversupplied New Zealand grape market;
- the earnings of Oyster Bay being predominately influenced by the price of Sauvignon Blanc grapes in the Marlborough region; and
- the long term nature of the leases over almost half of the land on which Oyster Bay has planted vineyard operations.

6.3 DCF valuation

The above valuation was prepared by applying the DCF methodology to a ten-year forecast of earnings and cash flows. The principle assumptions of the DCF analysis include:

- ***Grape Prices***

Grape Prices – Low ($ per tonne)										
30 June	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
Sauv. Blanc	1,500	1,500	1,650	1,800	1,835	1,875	1,910	1,948	1,987	2,027
Chardonnay Mend/Cl15	1,500	1,500	1,650	1,800	1,835	1,875	1,910	1,948	1,987	2,027
Chardonnay Cl6	1,500	1,500	1,650	1,800	1,835	1,875	1,910	1,948	1,987	2,027
Pinot Noir	2,500	2,500	2,500	2,550	2,600	2,650	2,700	2,760	2,815	2,870
Riesling	1,500	1,500	1,650	1,800	1,845	1,890	1,940	1,990	2,040	2,090

The table above shows the grape prices under the "low" scenario, the table below outlines the "high" scenario inputs:

Grape Prices – High ($ per tonne)										
30 June	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
Sauv. Blanc	1,400	1,650	1,800	1,850	1,895	1,945	1,990	2,040	2,095	2,145
Chardonnay Mend/Cl15	1,400	1,650	1,800	1,850	1,895	1,945	1,990	2,040	2,095	2,145
Chardonnay Cl6	1,400	1,650	1,800	1,850	1,895	1,945	1,990	2,040	2,095	2,145
Pinot Noir	2,500	2,500	2,500	2,565	2,630	2,690	2,760	2,830	2,900	2,975
Riesling	1,400	1,650	1,800	1,850	1,895	1,945	1,990	2,040	2,095	2,145

- ***Annual production (tonnes)***

The performance of Oyster Bay is heavily dependent on production volumes. There are a number of factors, many beyond management's control, that impact on annual production. The balancing act for management is to optimise production volumes and quality within contractual constraints to maximise net earnings. In the current climate of over supply production yields are being managed.

The challenge with projecting long term cash flows also involves distinguishing seasonal variations to derive long-run average sustainable yields (or production volumes) of the quality of grapes consistent with assumed forecast prices. The table below sets out actual production volumes by variety over the last five years together with the manager's assessment of a sustainable production volume going forward:

Oyster Bay – Production Volumes (tonnes)							
Variety	**2006**	**2007**	**2008**	**2009**	**2010**	**Mgmt Estimate**	**District Average**[9]
Sauv. Blanc	3,496	2,788	5,074	4,612	4,256	4,114	4,450
Chardonnay	841	1,088	1,450	1,134	1,020	1,140	1,345
Pinot Noir	332	312	646	470	356	510	640
Riesling	20	18	24	20	20	20	20
Total	**4,689**	**4,206**	**7,194**	**6,236**	**5,652**	**5,784**	**6,455**

It is very difficult to reliably predict what these vineyards will yield over the long run. Both the estimate of a district average adopted by Crighton Stone and the manager's assessment of sustainable volumes for Sauvignon Blanc look reasonable in the context of actual production over the last five years. Earlier this year Oyster Bay commissioned a vineyard benchmarking survey by an independent viticulturalist who, among other things is understood to have concluded that Oyster Bay's yield per hectare is marginally below those other vineyards surveyed, reflecting the impact of different vine row widths across the sample of vineyards. However, overall Oyster Bay vines have superior performance yielding marginally higher volume per row metre. Grant Samuel has interpreted this to mean that structural differences in the physical layout of the vineyards means in terms of production tonnes per hectare, the district average may not be achievable for Pinot Noir and Chardonnay.

Grant Samuel has adopted management's assessment in its "high" side scenario in combination with a premium price series. For the "low" scenario Grant Samuel has adopted Sauvignon Blanc volumes beyond 2015 that reflect levels closer to Oyster Bay's historical yields and the district average (approximately 12.5 tonnes per hectare). In line with this assumption Grant Samuel has applied a lower forecast price path on the basis that there is a trade off between producing higher volumes and grape quality thereby limiting Oyster Bay's ability to command the same level of "premium" prices.

[9] Source: Crighton Stone's assessed production levels based on district averages of production tonnes per hectare for each variety

The table below summarises Grant Samuel's annual production assumption:

Oyster Bay annual production tonnes and pricing				
	Low[10]		High	
Variety	tonnes	$/tonne	tonnes	$/tonne
Sauvignon Blanc	4,450	1,875	4,114	1,945
Chardonnay	1,140	1,875	1,140	1,945
Pinot Noir	510	2,650	510	2,690
Riesling	20	1,875	20	1,945
Total	**6,120**		**5,784**	

All vineyards are in full production and whilst production will vary from season to season it has been assumed that any lower production as a result of weather events will affect the industry as a whole and will therefore be offset by an increase in price (and vice versa), netting off any short-term impact of variance on production levels.

- ***Other assumptions***
  - annual vineyard operating costs of $5.2 million increasing by an assumed rate of inflation of 2% pa;
  - Oyster Bay's lease costs are based on the value of the underlying leased property with rent reviewed every five years and calculated at the 5-year Government bond rate plus a margin. Grant Samuel has projected Oyster Bay's ongoing lease costs on the basis of property as at the last rent reviews in 2006 and 2007 being held constant and using the forward yield curve for government bonds. This is broadly consistent with Crighton Stone's assumption that lease costs do not increase over the forecast period given that land values have experienced a significant correction since the last rent review date and that there is no indication that property values will increase materially over the forecast period. In any event it is unlikely in the short to medium term that government bond yields will reach levels approaching the 2006 and 2007 rates of approximately 7%;
  - annual capital expenditure of between $600,000 ("high" case) and $850,000 ("low" case) based on management estimates. These numbers are broadly in line with historical averages;
  - an after tax discount rate of 10.0% has been applied, based on Oyster Bay's estimated Weighted Average Cost of Capital;
  - taxation losses carried forward of $1 million as at 30 June 2010; and
  - cost savings of $300,000 per annum from corporate overheads associated with being a listed company, including independent viticulturalist's reports, directors' fees, listing costs, annual reports and legal fees, on the basis that these savings would be available to any buyer of 100% of Oyster Bay.
- ***Net debt***

  The net debt figure adopted for the purposes of Grant Samuel's valuation is the average forecast debt for the 12 months ending 30 June 2011. Applying the actual net debt as at the date of the valuation is not appropriate for a seasonal business such as Oyster Bay. Oyster Bay's debt increases during the growth season and peaks in March of each year. During the 2011 season debt is forecast to fluctuate by as much as $7.5 million. The average net debt for the year ending 30 June 2011 is forecast to be $13.6 million.

[10] assumptions employed from 2015 onwards

6.4 Assessment of Implied Multiples

The valuation of Oyster Bay implies the following earnings multiples:

Oyster Bay – Implied Multiples		
Year ended 30 June 2010	**Low**	**High**
EBITDAF	19.1x	21.0x
EBITF[11]	65.9x	72.4x
Year ending 30 June 2011 forecast		
EBITDAF	13.8x	15.2x
EBITF	26.1x	28.7x

At an EBITDA level the implied multiples are broadly in line with the comparable transaction and comparable listed company multiples outlined below, particularly when forecast earnings are based on cyclically low grape prices which are not expected to recover for some time.

Transactions in New Zealand and Australian Wine Industries

The valuation of Oyster Bay has been considered having regard to the earnings multiples implied by the price at which broadly comparable companies and businesses have changed hands. The New Zealand and Australian wine industries went through a period of significant consolidation between 2001 and 2004. As a result, over the last 3 or 4 years there have been very few transactions involving public entities in the New Zealand and Australian wine industries, with the majority of disclosed transactions involving specific winery, brand or vineyard assets. Accordingly the most recent transaction evidence available is now relatively outdated. The table below provides an overview of these transactions:

Recent Transaction Evidence

Date	Target	Acquirer	Implied Enterprise Value ($ millions)	EBITDAS Multiple[12] (times)		EBITA Multiple[13] (times)	
				Historical	Forecast	Historical	Forecast
Feb-06	Oyster Bay	Delegat's Group	NZ$75	29.0	na	40.4	na
Jan-05	Southcorp Limited	Fosters Group Limited	A$3,618	16.2	15.5	20.5	19.3
Sep-03	Peter Lehman	Hess	A$185	17.2	14.8	20.4	18.0
Sep-02	Wither Hills	Lion Nathan	NZ$52	na	10.4	na	na
Jun-02	Cranswick	Evans & Tate	A$87	na	6.4	na	9.2
Feb-02	Simeon Wines	Brian McGuigan Wines	A$338	8.8	8.5	10.0	10.2
Minimum				***8.8***	***6.4***	***10***	***9.2***
Maximum				***29.0***	***15.5***	***40.4***	***19.3***
Average				***17.8***	***11.1***	***22.8***	***14.2***
Weighted Average				***15.4***	***14.5***	***19.3***	***18.0***

Source:Media reports, company announcements, annual reports and presentations.

Brief descriptions of the transactions included above are provided in Appendix E. Each transaction has its own unique set of circumstances. As such it is often very difficult to identify trends or draw meaningful conclusions.

[11] Earnings Before Interest, Taxation, Fair Value movements / impairment costs

[12] Represents implied enterprise value divided by EBITDAS. EBITDAS is earnings before interest, tax, depreciation, amortisation, abnormal items and revaluations of self-generating and regenerating assets (**SGARA**).

[13] Represents implied enterprise value divided by EBITA.

Sharemarket Evidence

The valuation of Oyster Bay has also been considered in the context of the sharemarket ratings of listed Australasian and international companies with operations in the wine industry. While none of these companies is precisely comparable to Oyster Bay, the sharemarket data provides some framework within which to assess the valuation of Oyster Bay.

Sharemarket Ratings of Selected Listed Companies					
Company	**Market Capitalisation (millions)**	**EBITDAR Multiple[14]**	**EBITDA Multiple**	**EBIT Multiple[15]**	
		Historic	**Historic**	**Historic**	
Oyster Bay Limited (at the pre-Offer price of $1.60)	NZ$14.4	20.2	nc[16]	nc	
Oyster Bay Limited (at $2.08 Offer price)	NZ$18.7	23.7	nc	nc	
New Zealand					
Delegat's Group Limited (at 5 November)	NZ$185.9	9.3	11.3	38.7	
Delegat's Group Limited (at pre-Offer price of $1.64)	NZ$164.8	8.7	10.6	36.3	
New Zealand Wine Co. Ltd	NZ$11.7	22.4	nc	nc	
Australia					
Australian Vintage Limited	A$56.6	6.8	6.5	8.4	
Brand New Vintage Limited	A$6.3	21.6	21.6	nc	
Challenger Wine Trust	A$32.4	5.6	nc	nc	
Minimum*		***5.6***	***6.5***	***8.4***	
Maximum*		***22.4***	***21.6***	***38.7***	
Average*		***12.4***	***12.5***	***23.6***	
Weighted Average*		***9.3***	***13.0***	***33.0***	

Source: Grant Samuel analysis[17]
*excluding Oyster Bay at $2.08 Offer price

A description of each of the companies above is set out in Appendix D. When observing the table above the following points should be noted:

- the multiples are based on closing share prices as at 5 November 2010. The share prices, and therefore the multiples, do not include a premium for control. Shares in a listed company normally trade at a discount to the underlying value of the company as a whole;
- the data presented above is the most recent annual historical result for the year ended 30 June 2010;
- there are considerable differences between the operations and scale of the comparable companies when compared with Oyster Bay. In addition, care needs to be exercised when comparing multiples of New Zealand companies with internationally listed companies. Differences in regulatory environments, sharemarket and broader economic conditions, taxation systems and accounting standards hinder comparisons; and
- Australian Vintage Limited (**AVL**) and Challenger Wine Trust (**CWT**) trade at significantly lower multiples than the other comparable traded entities included in the table above. AVL benefits from

[14] Represents gross capitalisation (that is, the sum of the market capitalisation adjusted for minorities, plus borrowings less cash as at the latest balance date) divided by EBITDA. EBITDA is earnings before net interest, tax, depreciation, amortisation, revaluations, investment income, impairment adjustments and significant items.

[15] Represents gross capitalisation divided by EBIT. EBIT is earnings before net interest, tax, amortisation of intangibles, investment income, impairment adjustments and significant items.

[16] Not calculable

[17] Grant Samuel analysis based on company announcements and, in the absence of company published financial forecasts, brokers' reports.

significant economies of scale and therefore achieves better margins on its operating cost base than its New Zealand counterparts. CWT is largely a land-owning entity and is not exposed to the influences of the wine industry to a significant degree as the majority of its vineyard and winery assets are the subject of long term leases. The value of CWT's asset base, however does fluctuate with changes in the overall dynamics of the industry.

6.5 Comparison with NTA

As at 30 September 2010 the NTA of Oyster Bay were $4.82 per share. The NTA of Oyster Bay as at 30 June 2010 was a function of the market valuation of land and biological assets prepared by Crighton Stone at this date. This valuation is referred to as an "encumbered" valuation and reflects the fact that Oyster Bay does not have full and exclusive rights over its land. The rights are shared with Delegat's which has certain rights over the properties. Oyster Bay and Delegat's have to operate the property in accordance with the conditions and restrictions set out in the Long Term Co-operation Agreement, the Vineyard Management and Administration Agreement and the Grape Purchase Agreements between Oyster Bay and Delegat's, sharing the rewards and risks.

The "encumbered" valuation was determined by Crighton Stone using a discounted cash flow methodology based on the following assumptions:

Crighton Stone "encumbered" valuation – Key Assumptions	
Average yield per hectare	10.0 – 12.5 tonnes per hectare
Pre-tax discount rate	9.3%
Inflation applied to costs and revenue	0.8% to 2%
Vineyard Maintenance Costs	$9,000 to $10,500 per hectare
Grape Price	$1,700 to $2,700 per tonne increasing in subsequent years by inflation

The current book values of fixed and biological assets included in NTA at 30 June 2010 and related "encumbered" valuation are summarised below:

Oyster Bay Fixed Asset Values ($millions)		
	Book value at 30 June 2010	**Crighton Stone 2010 ("encumbered" value)[18]**
Freehold interests in land	21.6	21.6
Leasehold interests in land	-	10.1
Vineyard Improvements	8.8	6.3
Other fixed assets	2.1	2.9
Biological assets	30.1	30.1
Total	**62.6**	**71.0**

Prior to the introduction of NZ IFRS in 2007 Oyster Bay's biological assets were measured at cost less accumulated depreciation. On the introduction of NZ IFRS biological assets were required to be recorded at fair value. Their inclusion at fair value significantly increased the book value of NTA at that time. The fair value of the Company's biological assets is determined by a valuation prepared by Crighton Stone on an annual basis. In accordance with NZ IFRS Oyster Bay does not use the Crighton Stone valuation to recognise the value of its other fixed assets which are still measured at cost (or deemed cost) less accumulated depreciation. However, as at 30 June 2010 Oyster Bay recorded an impairment in the value of its land, writing the book value down to the value determined by Crighton Stone as at 30 June 2010. As at 30 June 2010 the book value of both land and biological assets were based on the Crighton Stone valuation.

[18] Note the "encumbered" values shown above are net of $0.9 million of disposal costs.

The "encumbered" valuation of $71.9 million (pre disposal costs of $0.9 million) of the vineyard land and improvements is prepared using the same methodology as Grant Samuel's valuation (discounted cash flow) but results in a materially higher value than Grant Samuel's valuation of $29.4 – $32.3 million for Oyster Bay (enterprise value) for the following reasons:

- Crighton Stone applied a discount rate of 9.3% to pre-tax cash flows whereas Grant Samuel has applied a 10% discount rate to after tax cash flows. Applying a higher rate of 10% to cash flows after deducting tax results in a materially lower value outcome. In Grant Samuel's opinion the pre-tax discount rate adopted by Crighton Stone is too low for the purposes of valuing Oyster Bay as a whole;
- Crighton Stone and Grant Samuel have adopted materially different revenue assumptions:

Oyster Bay Revenue Assumptions				
	Grant Samuel		Crighton Stone ("encumbered" valuation)	
	Tonnes / ha	Revenue / tonne	Tonnes / ha	Revenue / tonne
Sauvignon Blanc	11.6	$1,500 – 2,145	12.5	$1,750 – 2,031
Chardonnay	9.6	$1,500 – 2,145	11.5	$1700 – 1,973
Pinot Noir	8.0	$2,500 – 2,970	10.0	$2,703 – 3,137

- on the basis of discussions with Oyster Bay's managers and advisors, and in the context of the size and scale of Oyster Bay's operations, Grant Samuel applied annual capital expenditure range of $600,000 to $850,000 to the forecast cash flows, whereas Crighton Stone used $260,000 to $300,000 per annum.

The table below reconciles Crighton Stone's "encumbered" valuation to Grant Samuel's assessment of the Enterprise Value of Oyster Bay:

Summary of differences between Crighton Stone and Grant Samuel		
NZ$ millions	**Low**	**High**
"Encumbered" valuation[19]	71.9	71.9
Discount rate and methodology	(24.1)	(20.9)
Revenue	(15.5)	(14.2)
Capital expenditure	(5.3)	(3.4)
Operating expenditure	(3.3)	(3.3)
Enterprise Value	**29.4**	**32.3**

[19] This figure represents the aggregate of the encumbered values calculated by Crighton Stone for Oyster Bay's vineyards using a discounted cash flow approach before deducting disposal costs

6.6 Unencumbered Valuation

Crighton Stone also prepared an "unencumbered" valuation of the Oyster Bay vineyards as at 30 June 2010, which assumes that a purchaser would have full and exclusive property rights to the land in question.

A comparison of Crighton Stone's "unencumbered" and "encumbered" valuations is provided below:

Independent Valuations of Vineyard Assets (net of disposal costs)				
	Unencumbered	**Encumbered**	**Difference**	
	$m	**$m**	**$m**	**%**
Freehold land interests	28.3	21.6	6.7	23.6
Leasehold land interests	13.7	10.1	2.6	19.0
Buildings & other Improvements	3.9	2.9	1.0	25.6
Vineyard Improvements	48.5	36.4	12.1	24.9
Total	**94.4**	**71.0**	**23.4**	**24.5**

Unlike the "encumbered" valuation, which was determined by Crighton Stone with reference to projected cash flows, the "unencumbered" valuation was derived by inferring valuation parameters (e.g. sale price per hectare) from recent comparable transaction evidence. The latest unencumbered valuation, whilst materially lower than the prior valuation, equates to an overall average value per planted hectare of $178,000 and is significantly higher than Crighton Stone's assessed "encumbered" valuation.

Crighton Stone acknowledged the difficulty in assessing value using the Market Approach given the current depressed state of the wine industry:

"One of the key factors in the market at present is the paucity of vineyard transactions, large or small, despite a higher number of properties listed for sale. This is partly due to large properties being tightly held by the wine companies that own a large percentage of this size property but also partially due to the capital required to purchase these vineyards, and the buyers present reluctance to commit to purchase, believing there is possible further softening in values.

As a result of this uncertainty and the paucity of sales, there is a range of views and commentaries as to where the market values of assets currently lie. While some landowners are of the view the values have only had nominal change, others believe a major correction has occurred. Buyers in the market are obviously trying to lower the price expectation as far as possible to allow good buying opportunities. The key factor is the financial returns and short to medium term viability of the vineyard business combined with the build up of property that now has to be realised to the market into a small buyer pool. This suggests that values have softened and the few sales to date and those that will occur over the next 6 – 12 months will provide a wide and varied price range, reflecting the circumstances of the vendors and the other opportunities that buyers may have. The market is a buyers market at present. As a result there is a view that properties have a range of value in the present market determined by the circumstances surrounding the asset, particularly is there a need to sell and if so over what time frame."

The Crighton Stone valuation has been determined with reference to the following transaction evidence:

Crighton Stone Unencumbered Valuation – Comparable Sales Evidence				
Property	**Sale Date**	**Land Area (hectares)**	**Sale Price (NZ$000s)**	**Sale Price/Hectare (NZ$000s)**
Ferry Road	Dec-09	18.3	3,000	163.9
Selmes Land	Aug-09	11.0	2,060	187.3
Terrace Road	Jul-09	6.9	1,200	173.9
Godfrey Road	Jun-09	9.2	1,790	194.6
Bedford Road	Jun-09	12.7	1,798	141.9
Minimum		***6.9***	***1,200***	***141.9***
Average		***11.6***	***1,970***	***172.3***
Maximum		***18.3***	***3,000***	***194.6***

Theses parameters were used to value each of the Oyster Bay's vineyards after adjusting to reflect differences in location, standard of improvements, plantings, mixed age of plants and productive capacity.

The transaction evidence referenced by Crighton Stone in the unencumbered valuation of Oyster Bay vineyards at 30 June 2010 (and shown in the table above) references five moderately sized transactions from June to December 2009. Since that time the outlook for the New Zealand wine industry has not improved and vineyards that are available for sale are not generally selling.

In October 2010 Delegat's acquired the Gravitas vineyards out of receivership. The Gravitas vineyards comprised 18.8 planted hectares in the Marlborough region, which Grant Samuel understands were acquired for c.$100,000 per hectare. It is understood that there are more than 50 vineyards listed for sale in the Marlborough region and despite the high volume of stock for sale, the sale of Gravitas vineyards in October was one of only a very few Marlborough vineyards that have changed hands this year.

The real estate agent for the Gravitas vineyards stated at the time of sale that:

"Up until 2008, local vineyards sold for more than $200,000 per producing hectare. This Gravitas transaction, albeit a receivership sale, demonstrates that the per producing hectare value is now significantly below this figure".

The transaction evidence relied upon by Crighton Stone implied significantly higher per productive hectare prices, yielding a materially higher overall unencumbered valuation. What is unclear is the extent to which, if any, the Gravitas transaction and any other transactions that occur after 30 June 2010, may inform Crighton Stone's unencumbered valuation going forward.

Grant Samuel agrees with Crighton Stone insofar as they have identified the challenges and risks associated with assessing property values using a market approach in the current climate for a portfolio of vineyards of the size of Oyster Bay's. More importantly however, from a shareholder's perspective, Crighton Stone's unencumbered valuation is interesting to observe but not relevant when assessing the fair value of the ordinary shares they hold in Oyster Bay for the following reasons:

- investors in Oyster Bay hold ordinary shares in a corporate entity that owns vineyard assets, not direct, unfettered ownership of the individual vineyards themselves. The corporate structure that established this indirect ownership of the assets and the related long term contracts with Delegat's, may now be unwound as a result of the Delegat's Offer but as a starting point, pre-dates the IPO of ordinary shares in Oyster Bay. That is to say the rights and entitlements of Oyster Bay shares have always been subject to pre-existing contractual arrangements with Delegat's, including "encumbrances" over the vineyard assets. The value of these shares should therefore be derived with reference to the "encumbered" not "unencumbered" value of the vineyards and, more specifically to the economic returns that are expected to be derived by shareholders from an equity interest in the future cash flows of Oyster Bay that share ownership conveys. In the current market the "encumbrances" over Oyster Bay's assets are beneficial as they provide surety of off-take. It is quite conceivable that as further vineyard transactions occur the assessed "unencumbered" valuation could fall below the "encumbered" value. To illustrate, if the inferred price per planted hectare was to fall to say $100,000 the "unencumbered" value of Oyster Bay would be expected to be around $43 million:

Oyster Bay – Estimated "unencumbered" values ($ million)			
Price pre hectare	**$100,000**	**$150,000**	**$200,000**
Planted hectares	538.0	538.0	538.0
Freehold interest	53.8	80.7	107.6
Estimate of adjustment for leasehold interest:			
Ground rent capitalised at 10%	(11.1)	(11.1)	(11.1)
Implied "unencumbered" value	**42.7**	**68.9**	**96.5**

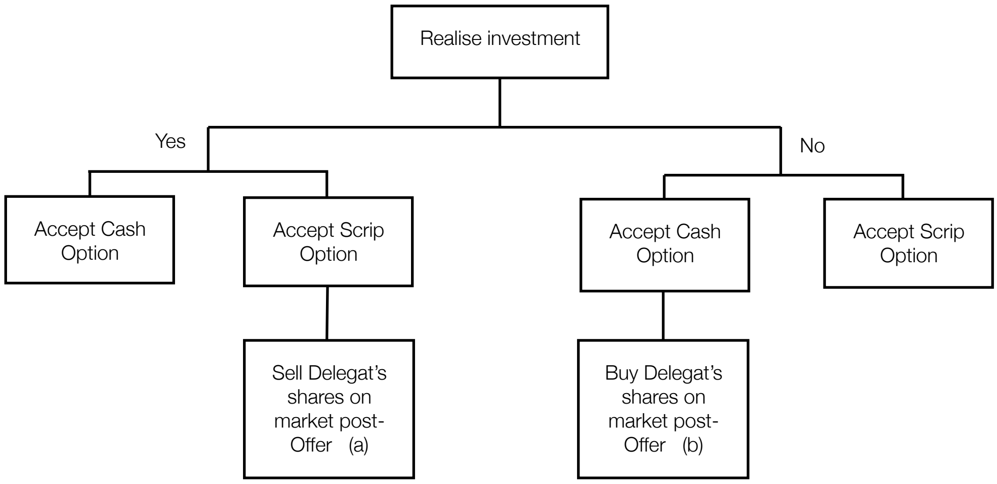
- the "unencumbered" value, whatever that may prove to be going forward will only ever be realised, if the vineyards assets are sold free of encumbrances either by Oyster Bay when the contracts expire or with Delegat's consent. The first option is still many years away and the second option is highly unlikely given that these assets continue to form a key part of Delegat's wine supply and also given that in the current environment it would be difficult to find a buyer without the assured off-take of production. On one hand the "encumbrances" limit the owners use of the assets but on the other hand they provide surety of off-take, which in the current market is very beneficial.

7. Merits of the Delegat's Offer

7.1 Options available to Oyster Bay shareholders

Oyster Bay shareholders can elect to accept the Delegat's Offer for either $2.08 in cash per share or one share in Delegat's Group per share. If shareholders whose address is not in New Zealand or Australia select the Scrip Option the Delegat's shares issued as consideration will be issued to a nominee entity and sold on their behalf with the proceeds after costs being sent to that shareholder (to comply with overseas regulatory restrictions).

Oyster Bay shareholders who choose to accept the Delegat's Offer have the following alternatives available to them:



(a) this alternative is only beneficial if Delegat's shares can be realised for more than $2.08 post the Offer (and net of brokerage). Based on the current Delegat's share price of $1.80 shareholders wishing to realise their investment would be better off accepting the Cash Option. This may change if the Delegat's share price increases.

(b) this alternative is only beneficial if Delegat's shares can be acquired for less than $2.08 post the Offer (allowing for brokerage). Based on the current Delegat's share price of $1.80 shareholders wishing to convert their investment to an investment in Delegat's may be marginally better off accepting the Cash Option and then buying Delegat's shares on market once the Offer has closed. However, there is a risk that a number of Oyster Bay shareholders adopt this strategy and the increased demand for Delegat's shares following the close of the Offer results in an increase in the price at which Delegat's shares can be acquired.

The option selected by each individual shareholder will depend on their appetite for risk, their individual investment strategy and their desire to retain an exposure to the New Zealand wine industry. It is possible that a successful takeover of Oyster Bay could see the Delegat's share price re-rated. In the very short term following the conclusion of the Delegat's Offer, the Delegat's share price may be further impacted by current Oyster Bay shareholders trading their Delegat's shares acquired as a consequence the Offer.

7.2 The Value of the Delegat's Offer

The Cash Option

The Cash Option can be compared against the following value indicators:

- ***Grant Samuel's assessment of the full underlying value of the shares.*** In Grant Samuel's opinion the full underlying value of Oyster Bay's shares is in the range of $1.76 – $2.08 per share. This range represents the price that Grant Samuel would expect a willing buyer to pay to acquire a controlling interest in Oyster Bay and, therefore, includes a premium for control. The cash offer price of $2.08 per share is at the top end of Grant Samuel's value range;

- ***the premium implied by the Offer.*** The Delegat's Offer represents a premium of 30% to Oyster Bay's closing share price of $1.60 on 15 October 2010, the last day on which Oyster Bay's shares were traded prior to receiving the Delegat's notice of intention to make a full takeover offer, and a 35% premium to the volume weighted average price (**VWAP**) in the 6 months prior to the notice of intention. This premium is towards the top end of premiums for control observed in successful takeovers of other listed companies in New Zealand and Australia despite:

  - Delegat's already having effective control over Oyster Bay; and

  - the remote likelihood of an alternative offer being made by a third party.

- ***the NTA of Oyster Bay.*** Oyster Bay's NTA as at 30 September 2010 was $4.82 per share. A large component of Oyster Bay's assets are its grape vine and property assets. As at 30 June 2010 the assets of Oyster Bay largely reflected the values contained in an independent market valuation of Oyster Bay's vineyards undertaken by Crighton Stone as at 30 June 2010. This NTA would suggest that the Delegat's Offer is opportunistic. Grant Samuel does not believe this to be the case given its own assessment of value of Oyster Bay shares which is based on more conservative cash flow projections aligned to the actual performance of Oyster Bay, and a higher discount rate of 10% applied to the post tax cash flows, compared with Crighton Stone's 9.3% pre-tax discount rate.

  Shareholders need to be mindful that there is a high degree of subjective judgement in any valuation exercise and in the context of the current Delegat's Offer consider whether:

  - the increase in profitability and future cash flows that both valuers are projecting compared to current results is achievable; and

  - a post tax return of 10% is appropriate given the risks associated with achieving these future cash flows.

  For a fuller evaluation of the NTA of Oyster Bay shareholders should refer to Section 6.5 of this report.

Share consideration

- Delegat's has offered the option of receiving one share in Delegat's for each share in Oyster Bay as an alternative to $2.08 cash for each share in Oyster Bay. The value of the share consideration is equal to the price per Delegat's share at the time the shares are issued. Delegat's shares are publicly traded and accordingly the share price represents the market value at which a willing buyer and willing seller agree to trade a minority interest in Delegat's. This is the "fair value" of Delegat's shares. As at the date of this report Delegat's share price is $1.80;

- as the majority shareholder in Oyster Bay, Delegat's presents consolidated financial statements that reflect the combined financial performance and position of both companies. The full impact of any change in the underlying earnings and cash flows of Oyster Bay are therefore reflected in the financial information presented by Delegat's to its investors and the NZSX. Delegat's balance sheet also incorporates the assets and liabilities of Oyster Bay at fair value. The acquisition of the minority interests in Oyster Bay is not expected to result in a material change in Delegat's reported financial position immediately following the acquisition. Accordingly, Grant Samuel has not undertaken a valuation of Delegat's to determine its full underlying value, as this is not what will be acquired by Oyster Bay shareholders who accept the share alternative (Oyster Bay shareholders who accept the share consideration option will receive a non-controlling interest in Delegat's – such interests typically trade at a discount to "full underlying value"); and

- shareholders whose address is not in Australia or New Zealand who select the Scrip Option will have their Delegat's shares issued to a nominee entity who will then sell the shares and issue the proceeds, net of brokerage, to the relevant shareholder. There is no guarantee of what price the nominee will sell the Delegat's shares for. The nominee may sell the shares for more or less than the Cash Option.

Other value considerations

- In June 2010 Crighton Stone valued the assets of Oyster Bay on an "encumbered"[20] basis at $71.9 million (before disposal costs). In Grant Samuel's opinion the valuation was based on overly optimistic assumptions in relation to grape prices, production volumes, capital expenditure, taxation and discount rate. The resulting valuation gives, in Grant Samuel's opinion, a misleading view of the likely sale price of the Oyster Bay vineyards. Recent vineyard sales in the region have predominately been for relatively small vineyards that are not remotely comparable to Oyster Bay vineyards. Several large, poorly located Marlborough vineyards are currently for sale by receivers. It is widely expected that there will be more receivership sales, which are likely to result in further reductions in the value of vineyard, land and assets;
- in December 2005, Delegat's made an offer to increase its shareholding from 32.58% to 50.1% at a price of $6.00 per share. The offer was successful and shareholders who accepted the offer, with the benefit of hindsight, did very well. Grape production from the 2005 harvest totalled 3,300 tonnes and was forecast to increase to 5,740 tonnes in 2009. The price reflected the expected increase in production that eventuated but did not anticipate the impact that a significant increase in production across the industry as a whole would have on the prevailing grape prices. Earnings in 2010 were considerably below the earnings projected in 2005. As a result, the current value of Oyster Bay is significantly lower than in 2005; and
- in July 2010, Oyster Bay and Delegat's settled a long-running legal dispute with PYIL. The settlement involved Delegat's purchasing PYIL's remaining 4.82% shareholding in Oyster Bay for $1.80 per share, Delegat's paying $200,000 to PYIL and PYIL paying $150,000 (plus GST) to Oyster Bay. The price paid for the PYIL shareholding is below the Delegat's Offer price. The acquisition of this stake restricts Delegat's ability to "creep" towards a higher shareholding within 12 months of this transaction under the terms of the Takeovers Code as the PYIL shares represented almost all of Delegat's permissible 5% per annum threshold.

7.3 Other merits of the Scrip Option

- Jim and Rosamari Delegat hold 66.52% of the shares on issue and as a consequence Delegat's shares are relatively thinly traded. Over the last six months 3.9 million shares have been transacted (or approximately 3.9% of the shares on issue). The VWAP over the last six months was $1.68 per share. If all Oyster Bay shareholders accepted the share option, a further 4,057,184 Delegat's shares would be issued (increasing the number of Delegat's shares on issue by 4%);
- there are limited other investment options which provide exposure to the New Zealand wine sector. At present this sector is depressed, particularly the export sector where Delegat's is a major participant. Any recovery will be reflected in Delegat's earnings and an increase in its share price could be expected. An investment in Delegat's involves an exposure to both grape prices and the selling prices of the finished product, principally in export markets. Delegat's owns the Oyster Bay

[20] valued using a discounted cash flow methodology. The "encumbrances" relate to the long term management and grape supply agreements between Oyster Bay and Delegat's

brand that it has carefully managed to become a premium brand. The earnings of Delegat's have exhibited a lower level of volatility over the last five years, when compared with Oyster Bay; and

- if Oyster Bay shareholders wish to retain an exposure to the New Zealand wine sector then by selecting the Scrip Option they will be aligning their interests with Delegat's shareholders. The transaction removes any potential conflict as between grower and wine maker and will give Oyster Bay shareholders an exposure to the Oyster Bay vineyards as part of a wider, fully integrated wine company. More significantly shareholders will gain exposure to the Oyster Bay brand and Delegat's extensive export distribution network. In Grant Samuel's opinion, an investment in Delegat's, incorporating 100% of Oyster Bay, is likely to produce superior returns than an investment in Oyster Bay, over the short to medium term. Over the longer term an investment in Oyster Bay on a standalone basis could show a higher return, albeit a more volatile and less certain return, but only if grape prices increase. Put simply, Delegat's should provide a lower risk, lower return, exposure to the wine industry than Oyster Bay, where returns are highly leveraged to the price of Sauvignon Blanc grapes in Marlborough.

"Unencumbering" the Oyster Bay assets

- if the Delegat's Offer is successful, the long-term contracts between Delegat's and Oyster Bay would become redundant and Delegat's has indicated that these contracts will be cancelled. At this time the technical "encumbrance" over the Oyster Bay assets will be removed[21]. However, there is no scope for a revaluation of Oyster Bay's assets in Delegat's accounts on acquisition within the framework of NZ IFRS (unless a new independent market valuation of the Oyster Bay assets is undertaken). It is most likely that the value of the Oyster Bay assets will be updated at Delegat's next balance date following the receipt of an updated valuation from its independent market valuer (also Crighton Stone). It is not possible to quantify the magnitude of any potential increase or decrease (if any) in the valuation of the Oyster Bay assets at Delegat's next balance date because:
  - it is not possible to estimate the degree to which the market valuation parameters will have changed between 30 June 2010 (the date of the last asset valuation) and Delegat's next balance date of 30 June 2011; and
  - the independent valuer naturally retains the discretion to determine what methodology is appropriate for valuing the Oyster Bay assets under Delegat's ownership for financial reporting purposes. It is conceivable that Crighton Stone will continue to apply a discounted cash flow methodology as this is consistent with the approach used to value Delegat's other large vineyard assets in excess of $6 million in value or 50 productive hectares in area. Conversely Crighton Stone may adopt a market evidence based valuation to establish the "unencumbered" value of Oyster Bay's assets. Regardless of methodology the valuation at 30 June 2011 will reflect the valuer's judgements at that time based on market conditions and other relevant information available. If the valuer adopts a market approach and applies the same price per hectare as that used at 30 June 2010 then Delegat's would record an uplift in the fair value of Oyster Bay assets to the "unencumbered" value. Grant Samuel has genuine doubts that this outcome will eventuate, (not least because more recent transaction evidence suggests a materially lower value) and there is no advantage to Delegat's to put its balance sheet at risk to unnecessary volatility in the carrying value of its assets by adopting a market approach;
- Delegat's is a long-term holder of the Oyster Bay assets, as indicated by the long-term nature of the agreements between Oyster Bay and Delegat's. In its Offer Delegat's states:

  "The decision to make the Offer follows a strategic review by Delegat's of its shareholding in Oyster Bay. This review considered Oyster Bay's financial situation and its strategic importance to Delegat's as a supplier of super premium quality grapes. Oyster Bay supplies the whole of its annual

[21] It is arguable that the contractual arrangements with Delegat's are beneficial to Oyster Bay in the current market environment as they provide a guaranteed off-take of grapes.

grape production to Delegat's pursuant to long-term supply agreements which represents a significant proportion of Delegat's annual grape requirements."

"Assured supply of quality grapes from New Zealand's pre-eminent wine regions is an essential component of [Delegat's] strategy".

However, in the event the Delegat's Offer is successful, Delegat's will have the right to dispose of the Oyster Bay vineyards at its election. Although Grant Samuel considers it unlikely that a sale of the vineyards would be pursued at this time by Delegat's in the event of a sale of the Oyster Bay vineyards Delegat's may achieve a value that is either more or less than the values determined by Crighton Stone as at 30 June 2010. Oyster Bay shareholders that accept their shares into the Delegat's Offer by selecting the Scrip Option will benefit to the extent any upside in the value of the Oyster Bay assets is realised by Delegat's in a future sale over and above that implied by the Offer;

7.4 Potential outcomes of the Delegat's Offer

Delegat's receives acceptances to take its shareholding to 90% or more

- Delegat's currently holds 54.92% of the shares in Oyster Bay. If it receives acceptances that take its shareholding to 90% or above, it will be required under the terms of its Offer to acquire the remaining shares using the compulsory acquisition provisions of the Takeovers Code; and
- Oyster Bay's second and third largest shareholders Ashfield Farm Limited (an entity associated with Sir Selwyn Cushing) and David Rankin hold 7.3% of Oyster Bay. These shareholders have publicly stated that they considered Delegat's original intended offer price of $1.80 per share to be too low. The acceptance or rejection of the Delegat's Offer by these two shareholders will be influential in determining the outcome of the Delegat's Offer. At the time of writing it is not known whether these shareholders will accept the revised higher offer of $2.08 per share.

Delegat's chooses to increase the Offer price or make another Offer

- the Offer is conditional upon Delegat's receiving acceptances sufficient to take its shareholding to 90% or more. Delegat's has reserved the right to waive this condition and declare the Offer unconditional at an acceptance level of less than 90%;
- if Delegat's is not successful in achieving the 90% compulsory acquisition threshold at the $2.08 Offer price it may choose to extend and / or increase its Offer further. If Delegat's chooses to increase its current Offer while the Offer is still open, the increased price will be available to all shareholders even if they have accepted the Offer; and
- Delegat's may choose to declare this current Offer unconditional at a level lower than 90% and make a subsequent, higher offer for the remaining shares in Oyster Bay. Any subsequent offer would only be available to the remaining shareholders of Oyster Bay

Delegat's is unsuccessful in receiving acceptances to take its shareholding to 90% or more

- if Delegat's is not successful in receiving sufficient acceptances to take its shareholding in Oyster Bay to 90% or more, and does not waive its 90% acceptance condition, Oyster Bay will remain a listed company with Delegat's holding 54.9% of the shares on issue. Conversely, if Delegat's is not successful in achieving 90% but waives the 90% acceptance condition and declares its offer unconditional, Oyster Bay will still remain a listed company but Delegat's shareholding will increase by the number of shares accepted into the Offer (and / or any subsequent offer);
- if Delegat's does not receive acceptances to take its shareholding to 90% or more, it will be permitted to "creep" towards the 90% threshold over time by acquiring a further 5% per annum commencing 12 months after the Delegat's Offer closes. It does not, however, have to wait 12 months to make another takeover offer after the current Offer closes;

- Oyster Bay shares are infrequently traded. The average weekly turnover for the last twelve months was only 2,072 shares (or 0.02% per week). Shares were only traded on 39 days over the last twelve months. The Delegat's Offer provides shareholders with the opportunity to exit some or all of their investment in Oyster Bay. In the absence of a takeover offer it could be difficult for shareholders to divest their shares due to the low level of shares ordinarily traded. However, if Delegat's increases its shareholding and declares its Offer unconditional by waiving the 90% acceptance condition, liquidity will decline further;
- Oyster Bay has been granted a waiver from the measurement of its banking covenants until 31 December 2010. Unless Oyster Bay can obtain another waiver or take other action a breach is expected for the period ending 31 December 2010. The bank gave Oyster Bay until 31 October 2010 to produce a plan to remedy the current situation. The Offer by Delegat's to acquire Oyster Bay is in response to this demand;
- if Delegat's does not receive sufficient acceptances to enable it to acquire 100% of Oyster Bay, Oyster Bay will need to raise equity capital to reduce its debt, which is forecast to reach a seasonal peak of $16.5 million in March 2011. The capital raising would most likely take the form of an underwritten rights issue and would, in all likelihood, be substantial in the context of Oyster Bay's current market capitalisation. Delegat's has funding available to undertake the Offer and it is therefore reasonable to anticipate that Delegat's would also have the capacity to participate in a rights issue in the event the Offer was unsuccessful. Remaining Oyster Bay shareholders will most likely need to invest further in Oyster Bay if they are not to suffer dilution. Rights issues typically take place at a discount to the prevailing share price; and
- in the absence of a takeover offer Grant Samuel would expect shares in Oyster Bay to trade at levels well below the Delegat's Offer price.

7.5 An investment in Oyster Bay

As with any equity investment there are risks associated with the market in which the company operates and specific risks attributable to the company itself. The risks associated with an investment in Oyster Bay in addition to those already identified include:

- there are a number of long-term agreements between Oyster Bay and Delegat's that effectively pass control of Oyster Bay to Delegat's. Nevertheless, Delegat's has a contractual obligation to manage the vineyards in accordance with best viticultural practice as set out in the Management and Administration Agreement. Oyster Bay employs an independent viticultural consultant who reviews the vineyard management on a regular basis and reports to the board of Oyster Bay. The consultant's reports confirm that Delegat's is managing the vineyards in accordance with the agreements. In addition, the Grape Purchase Agreements are very beneficial in the current oversupplied environment as they provide certainty of off-take at market prices;
- other than price negotiations, the directors and shareholders of Oyster Bay have very little ability to influence the performance of the business, to buy or sell vineyards without the permission of Delegat's or to manage some of the risks associated with the business. The normal freedom of action available to a public company board and its shareholders to manage the business of the company is therefore not present for Oyster Bay. These conditions were set out in the Prospectus issued at the time of the IPO of Oyster Bay in 1999;
- the earnings and cash flow of Oyster Bay is a function of the price received for its grapes. The price is set by negotiation and is closely tied to the prices paid to other growers in Marlborough. Delegat's is obliged to purchase all of the grapes produced by Oyster Bay. The average price paid for Sauvignon Blanc in Marlborough in 2010 was $1,215 per tonne. Oyster Bay received $1,400 per tonne. At $1,400 per tonne, Oyster Bay is operating slightly below its break-even point. The outlook for grape prices is not good with demand not meeting supply. The export of bulk wine at low prices is increasing and is a disturbing trend that could have long-term negative implications for Marlborough Sauvignon Blanc in particular. The wine industry is very aware of the current over-

supply which will be exacerbated by some of the more recent plantings reaching production. Several more years of poor earnings can be expected. Over-supply, a high New Zealand dollar and sales of bulk wine at low prices will see a continuation of relatively low prices. The Oyster Bay share price can be expected to remain depressed;

- Oyster Bay grows grapes under a restrictive, but commercial, contract to Delegat's. The price it receives for its grapes is determined by the market. Oyster Bay is protected in the current market environment by a guaranteed off-take agreement with Delegat's. Both grape growers and wine companies are suffering because of very low retail prices for Sauvignon Blanc as a result of supply exceeding demand. The New Zealand export wine sector is overly dependent on Sauvignon Blanc and in particular Marlborough Sauvignon Blanc, which has become a brand by default rather than as a result of a coordinated marketing campaign. In Grant Samuel's opinion, the over-supply situation of Sauvignon Blanc will be likely to continue for several years. Despite current prices being at or just above break even for the majority of growers, there is no evidence of vines being pulled out. The continuation of over-supply and the export of bulk wine at low prices suggests low prices for Sauvignon Blanc grapes could last for a number of years;
- the export of Sauvignon Blanc is currently dependent on two markets – the UK and Australia. Whilst quality brands such as Delegat's and Oyster Bay are able to command a small premium, the industry surplus has resulted in a multitude of "own label" brands all using the "Marlborough Sauvignon Blanc" brand. In September 2010, 43% of Sauvignon Blanc exported from New Zealand was in bulk. The majority of this is likely to have been sold at little or no margin and will be sold under "own label", in-market brands by importers and retailers in the UK and Australia. The damage to the wider Marlborough Sauvignon Blanc brand may be permanent. New Zealand Winegrowers has identified the potential damage to the Marlborough Sauvignon Blanc brand but is powerless to stop the increasing export of bulk wine. It is possible that the UK market will take many years to recover from the effects of deeply discounted Marlborough Sauvignon Blanc. On the positive side, the US wine market is relatively undeveloped on a per capita basis. Distribution in the US is complex and expensive because of restrictive trade practices and different regulations in each state. Consumption of wine in the US is also much lower than Europe or Australia at less than ten litres per capita.

There are some particular benefits that Oyster Bay shareholders can and may enjoy from membership of the Oyster Bay Shareholders' Wine Club. Benefits include:

- an annual entitlement to purchase three cases of Oyster Bay Marlborough or Delegat's branded wines at a 30% discount to recommended retail price, per parcel of 2,500 shares Oyster Bay shares held;
- preferential access to special release Delegat's wines; and
- the opportunity to attend field days at the Oyster Bay vineyards and annual wine tastings.

If a shareholder reduces their shareholding to less than 2,500 shares through acceptance into the Delegat's Offer, they will no longer be entitled to any of the benefits listed above.

7.6 Likelihood of an alternative offer

Delegat's existing shareholding of 54.92% and the long-term agreements between Delegat's and Oyster Bay are major impediments to an alternative offer. It is difficult to envisage a situation where Delegat's would accept an offer for its shareholding in Oyster Bay. In Grant Samuel's opinion it is very unlikely that another party would consider making an offer for Oyster Bay.

7.7 Acceptance or Rejection of the Delegat's Offer

Acceptance or rejection of the Delegat's Offer is a matter for individual shareholders based on their own view as to value and future market conditions, risk profile, liquidity preference, portfolio strategy, tax position and other factors. In particular, taxation consequences will vary widely across shareholders. Shareholders will need to consider these consequences and, if appropriate, consult their own professional adviser(s).

It should be noted that Delegat's may pay a broker-handling fee to brokers who advise their clients to accept the Offer. Shareholders in receipt of advice from their broker should bear this in mind when considering acceptance of the Delegat's Offer.

GRANT SAMUEL & ASSOCIATES LIMITED
17 November 2010

Appendix A
Qualifications, Declarations & Consents

a. Qualifications

The Grant Samuel group of companies provides corporate advisory services (in relation to mergers and acquisitions, capital raisings, corporate restructuring and financial matters generally), property advisory services and manages property development funds. One of the primary activities of Grant Samuel is the preparation of corporate and business valuations and the provision of independent advice and expert's reports in connection with mergers and acquisitions, takeovers and capital reconstructions. Since inception in 1988, Grant Samuel and its related companies have prepared more than 400 public expert and appraisal reports.

The persons responsible for preparing this report on behalf of Grant Samuel are Michael Lorimer, BCA, Peter Jackson BCom, CA and Alexa Preston, BBus, CA. Each has a significant number of years of experience in relevant corporate advisory matters.

b. Limitations and Reliance on Information

Grant Samuel's opinion is based on economic, market and other conditions prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time. The report is based upon financial and other information provided by the independent directors, Oyster Bay's managers and advisers. Grant Samuel has considered and relied upon this information. Grant Samuel believes that the information provided was reliable, complete and not misleading and has no reason to believe that any material facts have been withheld.

The information provided has been evaluated through analysis, enquiry, and review for the purposes of forming an opinion as to the underlying value of Oyster Bay. However in such assignments time is limited and Grant Samuel does not warrant that these inquiries have identified or verified all of the matters which an audit, extensive examination or "due diligence" investigation might disclose.

The time constraints imposed by the Takeovers Code are tight. This timeframe restricts the ability to undertake a detailed investigation of Oyster Bay. In any event, an analysis of the merits of the offer is in the nature of an overall opinion rather than an audit or detailed investigation. Grant Samuel has not undertaken a due diligence investigation of Oyster Bay. In addition, preparation of this report does not imply that Grant Samuel has audited in any way the management accounts or other records of Oyster Bay. It is understood that, where appropriate, the accounting information provided to Grant Samuel was prepared in accordance with generally accepted accounting practice and in a manner consistent with methods of accounting used in previous years.

An important part of the information base used in forming an opinion of the kind expressed in this report is the opinions and judgement of the managers of the relevant enterprise. That information was also evaluated through analysis, enquiry and review to the extent practicable. However, it must be recognised that such information is not always capable of external verification or validation.

The information provided to Grant Samuel included projections of future revenues, expenditures, profits and cashflows of Oyster Bay prepared by the managers of Oyster Bay. Grant Samuel has used these projections for the purpose of its analysis. Grant Samuel has assumed that these projections were prepared accurately, fairly and honestly based on information available to the managers at the time and within the practical constraints and limitations of such projections. It is assumed that the projections do not reflect any material bias, either positive or negative. Grant Samuel has no reason to believe otherwise.

However, Grant Samuel in no way guarantees or otherwise warrants the achievability of the projections of future profits and cashflows for Oyster Bay. Projections are inherently uncertain. Projections are predictions of future events that cannot be assured and are necessarily based on assumptions, many of which are beyond the control of the manager. The actual future results may be significantly more or less favourable.

To the extent that there are legal issues relating to assets, properties, or business interests or issues relating to compliance with applicable laws, regulations, and policies, Grant Samuel assumes no responsibility and offers no legal opinion or interpretation on any issue. In forming its opinion, Grant Samuel has assumed, except as specifically advised to it, that:

- the title to all such assets, properties, or business interests purportedly owned by Oyster Bay is good and marketable in all material respects, and there are no material adverse interests, encumbrances, engineering, environmental, zoning, planning or related issues associated with these interests, and that the subject assets, properties, or business interests are free and clear of any and all material liens, encumbrances or encroachments;

- there is compliance in all material respects with all applicable national and local regulations and laws, as well as the policies of all applicable regulators other than as publicly disclosed, and that all required licences, rights, consents, or legislative or administrative authorities from any government, private entity, regulatory agency or organisation have been or can be obtained or renewed for the operation of the business of Oyster Bay, other than as publicly disclosed;
- various contracts in place and their respective contractual terms will continue and will not be materially and adversely influenced by potential changes in control; and
- there are no material legal proceedings regarding the business, assets or affairs of Oyster Bay, other than as publicly disclosed.

c. *Disclaimers*

It is not intended that this report should be used or relied upon for any purpose other than as an expression of Grant Samuel's opinion as to the merits of the Delegat's Offer. Grant Samuel expressly disclaims any liability to any Oyster Bay security holder who relies or purports to rely on the report for any other purpose and to any other party who relies or purports to rely on the report for any purpose whatsoever.

This report has been prepared by Grant Samuel with care and diligence and the statements and opinions given by Grant Samuel in this report are given in good faith and in the belief on reasonable grounds that such statements and opinions are correct and not misleading. However, no responsibility is accepted by Grant Samuel or any of its officers or employees for errors or omissions however arising in the preparation of this report, provided that this shall not absolve Grant Samuel from liability arising from an opinion expressed recklessly or in bad faith.

Grant Samuel has had no involvement in the preparation of the Target Company Statement issued by Oyster Bay and has not verified or approved any of the contents of the Target Company Statement. Grant Samuel does not accept any responsibility for the contents of the Target Company Statement (except for this report).

d. *Independence*

Grant Samuel and its related entities do not have any shareholding in or other relationship or conflict of interest with Oyster Bay or Delegat's that could affect its ability to provide an unbiased opinion in relation to the Delegat's Offer. Grant Samuel had no part in the formulation of the Delegat's Offer. Its only role has been the preparation of this report. Grant Samuel will receive a fixed fee for the preparation of this report. This fee is not contingent on the outcome of the Delegat's Offer. Grant Samuel will receive no other benefit for the preparation of this report. Grant Samuel considers itself to be independent for the purposes of the Takeovers Code.

e. *Declarations*

Oyster Bay has agreed that it will indemnify Grant Samuel and its employees and officers in respect of any liability suffered or incurred as a result of or in connection with the preparation of the report. This indemnity will not apply in respect of the proportion of any liability found by a Court to be primarily caused by any conduct involving gross negligence or wilful misconduct by Grant Samuel. Oyster Bay has also agreed to indemnify Grant Samuel and its employees and officers for time spent and reasonable legal costs and expenses incurred in relation to any inquiry or proceeding initiated by any person. Where Grant Samuel or its employees and officers are found to have been grossly negligent or engaged in wilful misconduct Grant Samuel shall bear the proportion of such costs caused by its action. Any claims by Oyster Bay are limited to an amount equal to the fees paid to Grant Samuel.

Advance drafts of this report were provided to the independent directors of Oyster Bay. Certain changes were made to the drafting of the report as a result of the circulation of the draft report. There was no alteration to the methodology, evaluation or conclusions as a result of issuing the drafts.

f. *Consents*

Grant Samuel consents to the issuing of this report in the form and context in which it is to be included in the Target Company Statement to be sent to security holders of Oyster Bay. Neither the whole nor any part of this report nor any reference thereto may be included in any other document without the prior written consent of Grant Samuel as to the form and context in which it appears.

Appendix B
Information

Grant Samuel has obtained all the information that it believes is desirable for the purposes of preparing this report, including all relevant information which is or should have been known to any Director of Oyster Bay and made available to the Directors. Grant Samuel confirms that in its opinion the information provided by Oyster Bay and contained within this report is sufficient to enable Oyster Bay security holders to understand all relevant factors and make an informed decision in respect of the Delegat's Offer. The following information was used and relied upon in preparing this report:

Publicly Available Information

- Annual and interim reports for Oyster Bay for the years ended 30 June 2008, 2009 and 2010;
- Annual and interim reports for Delegat's for the years ended 30 June 2008, 2009 and 2010;
- information from the Oyster Bay and Delegat's websites; and
- other information on the wine industry and publicly listed companies with operations broadly comparable to Oyster Bay including annual reports, interim financial results, press reports, industry studies and information regarding the prospective financial performance of such companies.

Non Public Information

- monthly management accounts of Oyster Bay for the period from 1 April 2009 to 30 September 2010;
- Oyster Bay's budget for the year ending 30 June 2011;
- 5 year forecast from FY11 to FY15 for Oyster Bay prepared by the manager of Oyster Bay;
- production and yield profile of Oyster Bay's vineyards;
- recent board papers of Oyster Bay;
- annual market valuation of Oyster Bay assets as at 30 June 2010 prepared by Crighton Stone;
- annual market valuation of Oyster Bay assets as at 30 June 2009 prepared by Logan Stone;
- the Long Term Co-operation Agreement between Oyster Bay and Delegat's as well as the Grape Purchase Agreement and Vineyard Management and Administration Agreement for each of the Oyster Bay vineyards;
- various agreements with and documentation from Oyster Bay's bank; and
- other confidential correspondence and reports provided by Oyster Bay's managers and Independent Directors.

Appendix C
Key Terms of Agreements between Oyster Bay and Delegat's

The key terms of the Long Term Co-operation Agreement (**LTCA**) include that:

- Oyster Bay can only carry on the business of operating vineyards and growing grapes;
- Delegat's has the right of first refusal in the event it is proposed that any Oyster Bay property or part of any property be sold;
- in the event Delegat's chooses not to exercise its right to acquire such property, Oyster Bay's vineyards cannot be sold without the consent of Delegat's (such consent must not be unreasonably withheld);
- the transferee must be acceptable to Delegat's and must accept Delegat's rights and obligations to manage the vineyards and buy the grapes. If the transferee accepts these conditions, the property must again be offered to Delegat's on the same terms agreed with the third party;
- in the event Delegat's proposes to acquire any land or productive vineyard in the Marlborough region, it will offer Oyster Bay the right to purchase the land on the condition that Delegat's has the first option to enter into agreements with Oyster Bay to develop, manage and administer any vineyard on the land and to purchase the grapes produced by any such vineyard;
- Oyster Bay may not acquire any land unless the property has obtained a favourable report from the Independent Viticultural Consultant. If such land is acquired, Delegat's is entitled to the first right to enter into formal agreements regarding the development, management and administration of the vineyard and the purchase of grapes;
- the LTCA remains in force so long as the Grape Purchase Agreements and Vineyard Management Agreements remain in force; and
- on or before 31 December each year Delegat's must certify its financial viability to Oyster Bay.

The terms of the Grape Purchase Agreements include that:

- Oyster Bay will sell all of the grapes it produces to Delegat's and only to Delegat's while the agreement remains in force;
- either Oyster Bay or Delegat's can terminate the agreement immediately by written notice if one of the parties proposes or resolves to be dissolved (except in an amalgamation), receivers are appointed, the business of one of the parties substantially ceases (except in relation to an amalgamation), a scheme of arrangement is entered into by one of the parties with its creditors, in the event of insolvency of one of the parties, or where a material breach of the Grape Purchase Agreements by the other party has occurred which cannot be remedied;
- Oyster Bay can terminate the agreement immediately by notice in writing if Delegat's fails to certify its long term viability by 31 December each year (as required by the LTCA), or if Oyster Bay holds a reasonable opinion that the financial position of Delegat's has deteriorated to the point that it is unable to fulfil its obligations;
- Oyster Bay can terminate the agreement effective from the 30 June next following if Delegat's ceases to hold a minimum of 20% of the shares in Oyster Bay and does not increase its shareholding back to at least 20% within 60 days of notification by Oyster Bay;
- the agreement terminates automatically, along with the LTCA, if the Vineyard Management and Administration Agreements terminate for any reason;
- Oyster Bay shall not be obliged to produce grapes if it reasonably believes that the final harvest value of the next vintage of grapes will be less than the total cost of producing the grapes of that vintage;

- either party can terminate immediately if no grapes are produced by Oyster Bay for three consecutive years; and
- if grape prices cannot be agreed, the prices shall be set by arbitration. In determining a dispute the independent arbitrator shall consider the prices paid by Delegat's to other growers of the relevant grape variety in that region, and the prices paid by other winemakers in that region whose purchases of grapes, volumes of production requirements and operations can reasonably be compared with Delegat's.

The terms of the Vineyard Management and Administration Agreements include that:

- Delegat's administers Oyster Bay, and manages all the vines and vineyards, with all services to be provided by employees of Delegat's with the assistance of input from an Independent Viticultural Consultant;
- Oyster Bay may terminate the agreement if:
  - there have been three consecutive decisions against Delegat's by an independent expert or arbitrator in the dispute resolution procedure set out in the agreement;
  - Delegat's holds less than 20% of the shares issued by Oyster Bay and fails to increase its shareholding back to 20% within 60 days of notification by Oyster Bay;
  - in the reasonable opinion of Oyster Bay there is a deterioration in the long term outlook of the business of Delegat's or its financial position, which may result in Delegat's being unable to fulfil its obligations under the agreement; or
  - there is a change of control in Delegat's Group and the entity who gains control will not confirm that it will adhere to the philosophies and commitments of the agreements between Oyster Bay and Delegat's;
- the agreement terminates immediately on termination of the Grape Purchase Agreements; and
- either Delegat's or Oyster Bay can terminate the agreement immediately by notice in writing if either is dissolved, receivers are appointed, the business of one of the parties substantially ceases (except in relation to an amalgamation), a scheme of arrangement is entered into by one of the parties with its creditors, in the event of insolvency of one of the parties, or where a material breach of the Vineyard Management and Administration Agreements by the other party has occurred which cannot be remedied.

Delegat's can unilaterally extend the Vineyard Management Agreements and Grape Purchase Agreements for further periods of ten years: in relation to the Oyster Bay Vineyards up until 30 June 2049, Fault Lake Vineyard up until 31 March 2061, and Wairau River Vineyard up until 31 March 2067. Delegat's can extend thereafter with the written consent of all parties (being Oyster Bay, Delegat's and Delegat's Group).

Appendix D
Comparable Listed Companies

A brief description of each of the companies listed in Section 6.4 is outlined below:

New Zealand Wine Co. Limited

The New Zealand Wine Co. Limited (**NZWC**) is listed on the NZAX market and was formerly known as Grove Mill Wine Company. NZWC is a fully integrated wine company with operations including grape growing, winemaking and bottling and the marketing and sales of wine under the Grove Mill, Sanctuary and Frog Haven brands. NZWC sources its grapes from 70 hectares of owned and leased vineyards and a further 76 hectares of grapes grown under contract. In the year to 30 June 2010 the company harvested approximately 2,222 tonnes of grapes. NZWC achieved revenues of $13 million for the year ended 30 June 2010, selling 186,000 cases.

Australian Vintage Limited

Australian Vintage Limited (**AVL**) was formerly known as McGuigan Simeon and is a fully integrated wine company listed on the ASX. AVL is one of Australia's largest vineyard owners and managers crushing 9% of Australia's total annual production across the Hunter and Barossa Valleys, the Murray-Darling, Langhorne Creek and Limestone Coast regions, Griffith, Cowra and the Adelaide Hills. AVL operates three large-scale wineries in Buronga Hill (135,000 tonne capacity), the Hunter Valley (3,000 tonnes per annum) and the Barossa Valley. The company's brands include McGuigan, Miranda, Nepenthe, Passion Pop, Sunnyvale, Tempus Two and Yaldara.

Brand New Vintage Limited

Brand New Vintage Limited (**BNV**) is a boutique Australian wine company listed on the ASX. BNV owns the One Planet, Jackaroo, Republic and Sticks brands and manages the Fox Gordon brand. The company's principal focus is on the ownership, operation, marketing and distribution of wine brands. In the year to 30 June 2010 BNV achieved sales of A$7.2 million.

Challenger Wine Trust

Challenger Wine Trust (**CWT**) is an externally managed property trust that holds vineyard assets as a capital solution for wine industry participants. CWT owns 21 vineyards and 2 wineries across Australia and New Zealand backed by long-term leases and valued at A$235.6 million as at 30 June 2010. Its New Zealand assets include four vineyards based in the Hawkes Bay and Marlborough, all of which are leased to Delegat's, and comprise more than 600 planted hectares. CWT is currently the subject of a takeover offer from Hong Kong-based CK Life Sciences International for the 72.3% of the units in the trust not held by Challenger Life Company.

Appendix E
Recent Transaction Evidence

A brief description of each of the transactions listed in Section 6.4 is outlined below:

Oyster Bay / Delegat's Group

On 12 December 2005 Delegat's announced its intention to make a partial takeover offer to increase its shareholding in Oyster Bay from 32.58% to 50.1%. Oyster Bay had been the subject of a competitive bidding process between Delegat's and PYIL. As a result of this process, Delegat's offer was increased from $5.00 to $6.00 per share valuing the equity in the company at $54 million. Oyster Bay's EBITDA for the year ended 30 June 2005 was $2.6 million.

Southcorp / Fosters Group

On 17 January 2005 Foster's Group Limited launched a hostile takeover bid for the remaining 81.2% of Southcorp Limited it did not already own. Fosters' initial offer of A$4.17 per share was subsequently revised upwards to A$4.26 per share, valuing the company at A$3.7 billion. Foster's completed the acquisition in June 2005 successfully acquiring several wine brands including Rosemount, Penfolds and Lindemans.

Peter Lehman / Hess

In late 2003 Peter Lehman Wines was the subject of competitive takeover process between Allied Domecq and Hess. In October of the same year Allied Domecq pulled out of the process and agreed to sell their 14.5% stake in Peter Lehman Wines into the Hess family's revised offer of $4.00 per share. Hess was successful in acquiring 85% of the company with the founder, Peter Lehman, and his family interest retaining a 10.7% stake. On 9 July 2004 Peter Lehman Wines was delisted from the ASX.

Wither Hills / Lion Nathan

In September 2002 Lion Nathan acquired Wither Hills for $52 million, subject to Overseas Investment Office approval, which was subsequently granted. At the time of the acquisition Wither Hills was forecasting to produce 80,000 cases and had EBIT of $5 million.

Cranswick / Evans & Tate

On 9 July 2002 Cranswick and Evans & Tate announced a A$150 million merger. The merger terms were finalised in October 2002 with Cranswick shareholders receiving two fully paid ordinary Evans & Tate shares and A$2.50 cash for every five Cranswick shares held. The merged entity retained the Evans & Tate name and, at the time of the transaction, was forecast to have annual revenues in excess of A$90 million.

Simeon Wines / Brian McGuigan Wines

On 20 February 2002 Brian McGuigan Wines and Simeon Wines announced their intention to merge. Simeon Wines shareholders received 10 McGuigan shares for every 16 Simeon Wines shares held. At the time of the transaction Simeon Wines was the fourth largest winemaker listed on the ASX and Brian McGuigan the sixth largest.

Appendix F
Valuation Methodology Overview

Discounted Cash Flow Analysis

DCF analysis has two key components:

- projecting future cash flows of the business operations. This analysis usually involves projecting sales volumes, product prices, operating costs, profit margins (over the short term and the sustainable level over the long term), the impact of business improvement initiatives and the levels of capital expenditure (both replacement capital and growth capital) and working capital investment necessary to support the business; and
- discounting the cash flows to a NPV at a discount rate that allows for both the time value of money and the riskiness of the cash flows. A number of techniques are available to determine the appropriate discount rate but judgement by the valuer is ultimately required.

A DCF value represents a control value (the value of 100% of the business) excluding synergies, unless synergies are factored into the cash flows. This is the case even though the discount rate may be derived from data based on share prices from listed companies (i.e. minority interests).

DCF analysis has a strong theoretical basis. It is the most commonly used method for valuation in a number of industries, and for the valuation of start-up projects where earnings during the first few years can be negative but it is also widely used in the valuation of established businesses. This methodology is able to explicitly capture depleting resources, development projects and fixed terms contracts, the effect of a turnaround in the business, the ramp up to maturity or significant changes expected in operating cash flows or capital expenditure patterns. In addition, the construction of the necessary forecasts will normally involve identification of the key value drivers of the business and an understanding of how they impact future returns which is valuable in obtaining an appreciation of the range and sensitivity of potential outcomes.

Considerable judgement is required in estimating future cash flows and it is generally necessary to place great reliance on medium to long-term projections prepared by management. The discount rate is also not an observable number and must be inferred from other data (usually only historical data). None of this data is particularly reliable so estimates of the discount rate necessarily involve a substantial element of judgement. In addition, even where cash flow forecasts are available, the terminal or continuing value is usually a high proportion of value. Accordingly, the multiple used in assessing this terminal value becomes the critical determinant in the valuation. In effect, it is a “de facto” cash flow capitalisation valuation. The NPV is typically extremely sensitive to relatively small changes in underlying assumptions, few of which are capable of being predicted with accuracy, particularly beyond the first two or three years. The arbitrary assumptions that need to be made and the width of any value range mean the results are often not meaningful or reliable. Notwithstanding these limitations, DCF valuations are common and can at least play a role in providing a check on alternative methodologies, not least because explicit and relatively detailed assumptions as to expected future performance need to be made.