



**Listing Document**

**NXT Market Compliance Listing**

# **Marlborough Wine Estates Group Limited**

**Date: 30 June 2016**



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# LISTING DOCUMENT

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### Marlborough Wine Estates Group Limited

**Date: 30 June 2016**

## Warning

The NXT Market (NXT) is a licensed market operated by NZX Limited that is designed for smaller companies that are typically at an earlier stage of business development and accordingly, the risks of investing in companies listed on NXT may be higher than the risks of investing in other companies.

Under the NXT Market rules, NXT companies are required to immediately disclose information concerning specific events prescribed in the NXT Market rules. However, it is possible that some price-sensitive information may not be required to be disclosed, and therefore you could trade on NXT without the benefit of all price-sensitive information in relation to an NXT company. The NXT Market rules require NXT companies to have an insider trading policy and insider trading law applies to anyone trading on NXT.

NZX has appointed market makers and research providers for NXT. However, there is uncertainty as to the level of liquidity on NXT, which may affect your ability to sell shares when you want to.

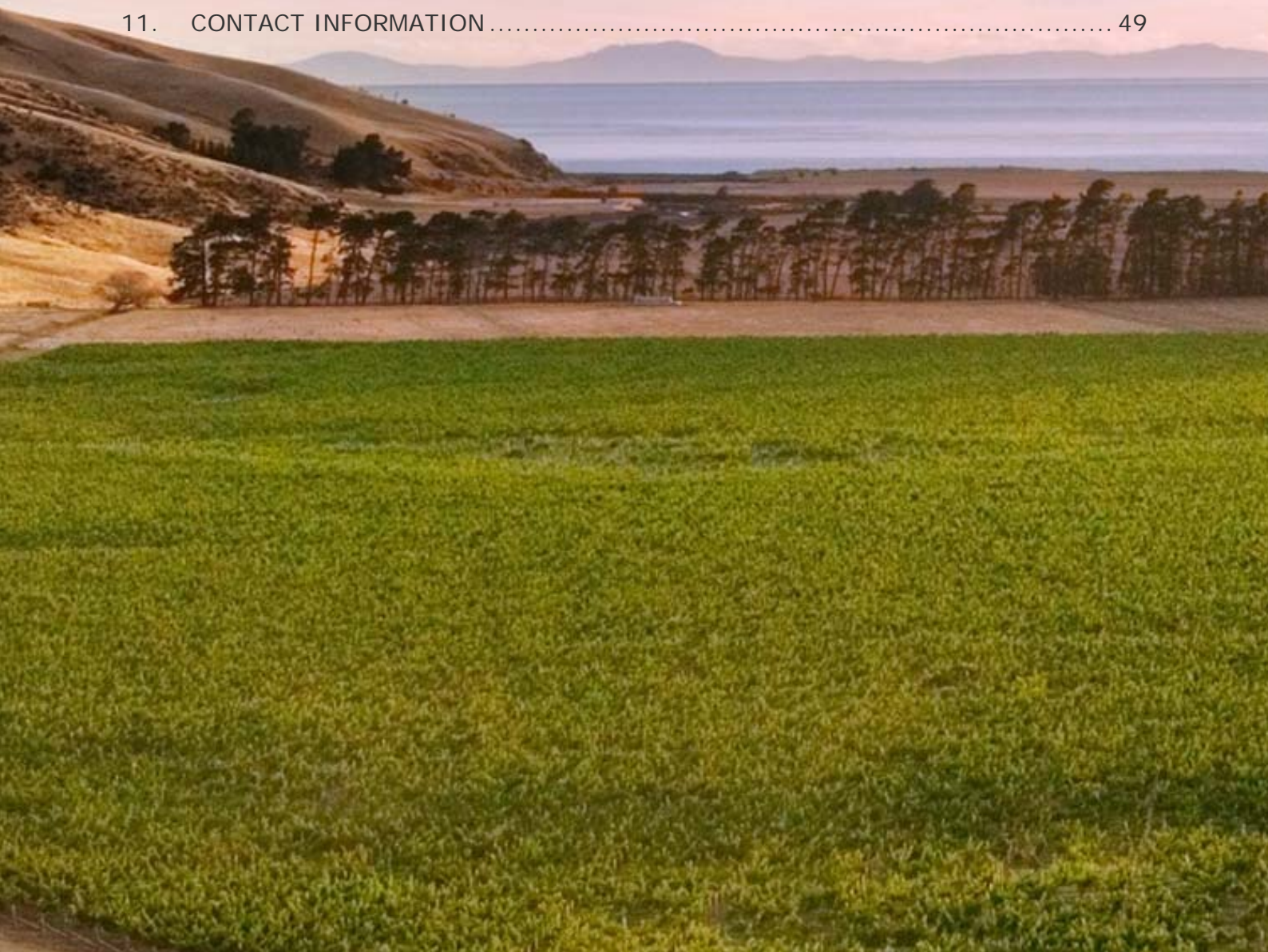
This document gives you important information about this investment to help you decide whether you want to invest, but does not contain as much information as a Product Disclosure Statement prepared under the Financial Markets Conduct Act 2013. There is other useful information on the NXT website at: <http://www.nxt.co.nz>. Marlborough Wine Estates Group Limited has prepared this document in accordance with the NXT Market Rules. You can also seek advice from a financial adviser to help you to make an investment decision.



NXT Advisor

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# 1. KEY INFORMATION SUMMARY

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## WHAT IS THIS?

This document has been prepared in accordance with the NXT Market Listing Rules in conjunction with the listing and quotation of the fully paid ordinary shares (**Shares**) in Marlborough Wine Estates Group Limited (**MWE**) on the NXT Market. Shares give you a stake in the ownership of MWE. You may receive a return if dividends are paid or MWE increases in value and you are able to sell your Shares at a higher price than you paid for them.

If MWE runs into financial difficulties and is wound up, you will be paid only after all creditors have been paid. You may lose some or all of your investment.

## ABOUT MWE

MWE has the following principal activities:

- MWE owns and operates its own vineyard assets located in the Awatere Valley in Marlborough;
- MWE produces grapes for its own wine vintages of Sauvignon Blanc under its O:TU and Music Bay brands;
- MWE wines are produced by a contracted processor under the supervision of MWE's chief winemaker;
- MWE distributes the majority of its own vintages internationally. MWE has a strong distribution channel into the Peoples Republic of China through a distribution partner associated with MWE's major shareholder;
- MWE supplies surplus Bulk Wine and Bulk Grape production to various wine makers throughout New Zealand.

Further information about the business operations of MWE is provided in section 2 of this document (*MWE and what it does*).

*Table 1: Compliance Listing Statistics and Important Dates*

<b>Total number of Shares in MWE on 30 June 2016:</b>	293,272,000 (percentage holdings on page 24)
<b>Total capital raised in the last 12 months prior to listing date</b>	\$141,400
<b>Financial year end</b>	30 June
<b>Expected Listing and Quotation date</b>	30 June 2016 under code 'MWE'

No new capital is being raised in conjunction with the listing and quotation of MWE's ordinary shares on the NXT Market.

## HOW YOU CAN GET YOUR MONEY OUT

MWE intends to quote these Shares on the NXT Market. This means you may be able to sell them on the NXT Market if there are interested buyers. You may get less than you invested. The price will depend on the demand for the Shares. Except in very limited circumstances under the Companies Act 1993, there is no mechanism that permits a holder of Shares to redeem their Shares for cash. The only way in which a holder of Shares can realise their investment is to sell their Shares on-market or via private treaty.

*Table 2: Key Operating Milestones*

	<b>FY ended 30 Jun 2015 (Actual)</b>	<b>FY ended 30 Jun 2016 (Prospective)</b>	<b>FY ended 30 Jun 2017 (Prospective)</b>
<b>Gross Harvest (tonnes)</b>	1,401	1,660	1,544
<b>Bulk Grape Sales (tonnes)</b>	955	1,190	1,144
<b>International Bottled Wine sales revenue</b>	\$679,806	\$1,600,000	\$3,200,000
<b>New Zealand Bottled Wine sales revenue</b>	\$104,407	\$137,293	\$205,940

MWE considers that the combined key operating milestones in the above table taken together address the most significant factors by which the performance of MWE should be assessed and monitored and will result in understandable reporting for investors.

You should also read page 32 for more information about the key operating milestones, including the reasons why MWE selected the key operating milestones, MWE's strategies and plans for achieving the targets included in the above table, and the key assumptions relating to those targets.

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## KEY RISKS AFFECTING THIS INVESTMENT

Investments in shares are risky and investing on the NXT Market carries additional risks compared with investing in other securities markets operated by NZX (see the warning statement at the start of this document for further information). You should consider if the degree of uncertainty about MWE's future performance and returns is suitable for you. The price of these Shares should reflect the potential returns and the particular risks of these Shares.

The Board of MWE consider that the most significant risk factors that could affect the value of the Shares are:

### MPI DISPUTE

The Ministry for Primary Industries (**MPI**) is currently in dispute with MWE's former contracted wine processor which may have adverse implications for MWE. MPI has withheld approval from the processor for the release for sale to MWE of approximately \$1,200,000 of Bottled Wine. This stock remains held by a third party storage company while the dispute is determined. The allegation by MPI is that the processor held insufficient records to enable proper traceability of the stock. If MPI's position is upheld the stock will be destroyed. MWE is in continuing discussions with its insurer however, the contractor has not accepted liability and MWE holds insufficient information at this time to form a view on whether any loss will be fully or partially covered by its insurance. The carrying value of this stock has not been impaired in the financial statements of MWE at the date of this document.

### OVERSEAS INVESTMENT OFFICE RETROSPECTIVE CONSENT

OIL is a wholly owned subsidiary of MWE. OIL obtained Overseas Investment Office (the **OIO**) consent to acquire the vineyards in Marlborough in 2013.

OIL subsequently undertook internal restructuring in preparation for listing MWE on the NXT market, which inadvertently breached the Overseas Investment Act (**Act**).

O:TU became aware of the breach and promptly (and voluntarily) informed the OIO of the breach, the reasons for the breach and the steps OIL intended to take to remedy the breach. After discussions with the OIO it was determined that in order to remedy the breach, a retrospective consent application should be submitted. That application was filed on 15th December 2015 and is currently under review.

### GEOGRAPHIC CONCENTRATION

At present, approximately 76%<sup>1</sup> of MWE's exports are to China and Hong Kong. This geographic concentration has arisen through a deliberate strategy of focussing on the Chinese market for growth. The Company considers that China is still a relatively immature market for white wine and therefore presents a significant growth opportunity for sales.

MWE intends to focus on developing other key foreign markets where it sees growth opportunities for its wines, which in turn will dilute its geographic concentration on China. These new markets include USA, and the South Korean and Japanese markets. As further export markets develop and a broader range of currencies are dealt in, MWE may also develop natural hedging mitigating concentrated exposure to individual currencies.

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<sup>1</sup> Note: the 76% is based on the consolidated sales history for the 12 months ending 30 June 2015.

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## OVERSUPPLY OF BULK GRAPES

For the year ended 30 June 2015, Bulk Grape sales represented two thirds of all sales revenue. While there is currently a strong market/demand for Bulk Grapes, there is a risk of grape oversupply into this market if demand reduces.

MWE intends to increase Bottled Wine sales, which will mitigate the risk of grape oversupply in the Bulk Grape market.

## GRAPE SUPPLY AND QUALITY

MWE sources grapes from its wholly owned subsidiary OIL. The loss or reduction in supply or a limited availability of high quality grapes could have an adverse impact on MWE's total Bottled Wine production and supply of Bulk Wine and Bulk Grapes which would impact adversely on the company's financial performance.

In vineyards, a number of climatic and agricultural factors have the potential to adversely impact grape supply. MWE is dependent on climatic conditions being consistent in the Awatere Valley (Marlborough) area where its vineyards are located.

MWE follows best viticultural management practices and engages experienced personnel to manage and mitigate the impact of climatic and agricultural factors (where possible).

## DISTRIBUTION

MWE relies on agreements and commercial arrangements with third parties to distribute its products.

These agreements, as is normal practice, can be terminated for a number of reasons on notice. In particular, the Great Esprit Limited (**GEL**) distribution agreement may be terminated on 90 days written notice by either party. The termination of any one or more of these arrangements or unsatisfactory performance by distributors could have an adverse impact on access to particular markets.

MWE believes it could, if required, negotiate alternative distribution arrangements on terms not materially less favourable to the current arrangements. However, there would still likely be a negative financial impact during any transition.

MWE also intends to continue to develop new distribution channels in its existing markets and is not currently subject to any exclusive distribution arrangement for its wines.

## FURTHER RISKS

This summary does not cover all of the risks of investing in the Shares. You should also refer to section 6 of this document (Risks to MWE's business and plans) and to other places in this document that describe risk factors, and the strategies the MWE Board has to mitigate those risks where practical. There is also information about the risks of investing in a NXT Market company on the cover of this document.

## WHERE YOU CAN FIND MWE'S FINANCIAL INFORMATION

The financial position and performance of MWE are essential to an assessment of this investment. You should also read section 5 of this document (*MWE's financial information and key operating milestones*).

Copies of financial statements of MWE are also available on the NXT Market website at: <http://www.nxt.co.nz> and on MWE's website: <http://www.nzmwe.com>

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## CHAIRMAN'S LETTER

30 June 2016

Marlborough Wine Estates Group Limited

Marlborough Wine Estates Group Limited  
Level 3, Tower One, 205 Queen Street  
Auckland Central,  
New Zealand  
Phone: +64 9 2156650  
Email: info@NZMWE.com

Dear customers and investors,

On behalf of the Marlborough Wine Estates Group Limited (**MWE**) Board, it is my pleasure to invite you to read our Listing Document for the quotation of our shares on the NXT market.

At MWE, we pride ourselves on producing some of New Zealand's finest Awatere Valley (Marlborough) Sauvignon Blancs'. To achieve this we have a critically acclaimed European wine maker who has over 20 years' experience in the industry and a passion for fine wines. MWE owns several vineyards in the highly regarded Marlborough region, from which we produce premium wines. To date we have won a number of international wine awards for our O:TU branded range of Sauvignon Blanc including:

- Gold Medal for O:TU Marlborough Sauvignon Blanc at the New World Wine Awards 2015;
- Gold Medal for O:TU Blend 102 Sauvignon Blanc at the Spiegelau International Wine Competition 2014;
- Blue Gold Medal for O:TU Prestige Marlborough Sauvignon Blanc at the Sydney International Wine Competition 2013;
- Gold Medal for O:TU Marlborough Sauvignon Blanc at the International Wine Challenge 2013;
- Gold Medal for O:TU Blend 102 Sauvignon Blanc at the International Wine Challenge 2013; and
- Gold Medal for O:TU Single Vineyard Sauvignon Blanc at the China International Wine & Spirits Competition 2013.

Our mission is to produce high quality Marlborough Sauvignon Blanc, which will attain global recognition. We are targeting the premium wine market and are developing recognition for our O:TU brand as signifying quality New Zealand white wine, particularly in China.

We are delighted to bring our group to the New Zealand capital markets. We believe that our company will provide an opportunity for prospective investors to be part of a successful New Zealand domiciled but internationally focused wine company. This document details our current business operations and future strategies as well as detailing what we view as the specific risks to an investment in MWE.

The Board of Directors look forward to MWE becoming a public company on the NXT Market, and we welcome your participation in MWE in the future.

Yours sincerely

**Min (James) Jia**

**Chairman**

**Marlborough Wine Estates Group Limited**





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## 2. MWE AND WHAT IT DOES

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### OVERVIEW OF MWE'S BUSINESS

#### INTRODUCTION

Marlborough Wine Estates Group Limited (**MWE**) is a New Zealand company involved in the production and distribution of Bottled Wine, Bulk Wine and Bulk Grapes. MWE owns and operates 6 vineyard blocks, comprising over 336 hectares located in the Awatere Valley in Marlborough, with current annual production capacity of approximately 1,500 tons of grapes.

MWE produces grapes for its own vintages (predominantly Sauvignon Blanc) of Bottled Wine, and also supplies grapes (in bulk), and Bulk Wine to wine makers throughout New Zealand. MWE's focus is to continue to develop its flagship O:TU Sauvignon Blanc as a premium white wine brand in China.

The founder of MWE acquired O:TU wines in Blenheim, Marlborough, in 2013. The vision was to transform a beautiful South Island vineyard into the home of New Zealand's most coveted artisan white wine brand. The name O:TU is becoming a recognized and respected New Zealand brand for authentic white wine in China. MWE was incorporated in March 2015 as part of a group restructure, and the group continues to operate the vineyard and the distribution of O:TU wines today.

MWE has a chief wine maker who has used his passion for fine wine and New Zealand vineyards to create a dynamic wine collection. The winemaker creates white wine blends tailored to the Asian palate. All of the Sauvignon Blanc MWE produces is estate grown in the Awatere Valley, Marlborough. MWE has full control over its viticulture processes, ensuring consistency in quality throughout its ranges and vintages.

MWE then contracts processing companies to make and bottle its wine under the supervision of its chief winemaker.

MWE's key export market for its Bottled Wines is currently China. MWE also has a non-exclusive distribution arrangement with a Hong Kong distributor with a view to expanding sales into broader Asian markets including Japan and South Korea.

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## PRODUCTS

Table 3: MWE's current wine varieties which it sells are:

Wine	Description & Target Market
O:TU Marlborough Sauvignon Blanc Sweet Wine	Low alcohol dessert style Sauvignon Blanc (SB) Sweet pallet Export market
O:TU Marlborough Sauvignon Blanc	Classic Awaterre valley SB Export market New Zealand Market including New World and selected retailers
O:TU Blend 102 Marlborough Sauvignon Blanc	Single vineyard SB Export market New Zealand on-premises
O:TU Blend 202 Marlborough Sauvignon Blanc	Reserve Style with Oak blended SB Export Market Fine wine retailers
O:TU Prestige Marlborough Sauvignon Blanc	Selected Year pick single vineyard SB Export market Fine wine retailers
Music Bay Summer	Classic Marlborough SB Export market New Zealand off-premises
Music Bay Spring	Low alcohol SB Export market New Zealand off – premises New Zealand Retailers
Music Bay Autumn	Dessert style SB Export market New Zealand Retailers

## BOTTLED WINE SALES AND DISTRIBUTION

MWE sells its wine through the following sales channels:

### Distributors in Asia

#### **Great Esprit Limited (GEL)**

Based in Hong Kong, GEL has a non-exclusive distribution agreement with MWE (through OTL). GEL is an entity largely owned by an associate of James Jia, accordingly GEL is considered to be a related party to MWE. MWE supplies Bottled Wine to GEL for distribution in China and Hong Kong, with a view to expanding this distribution arrangement into other key Asian markets in the future. The wine includes both the O:TU and Music Bay ranges. The agreement provides for GEL to order a minimum of \$3million of wine from MWE in the year ending 30 June 2017. Pricing is fixed under

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the agreement for each wine during this period. However, all prices have been set at a premium to the average white wine export price to China of \$11.86 per litre for the year ending 30 June 2015<sup>1</sup>. At the date of this document, all MWE's wine sold to GEL has been priced above the average white wine export price to China of \$11.86 per litre. The premium percentage depends on the MWE brand and varietal but most of the range is priced at a premium of 30% or more above the \$11.86 per litre average price. The rest of the range is sold at a premium of up to 13%.

This relationship aligns the group with its strategic vision of creating a distribution hub in Hong Kong for key Asian markets (i.e. South Korea and Japan). Hong Kong provides a tax and customs efficient point for the groups Asian distribution arrangements.

The GEL distribution agreement will be subject to the related party transaction provisions in the Listing Rules and depending on the materiality of the agreement at the time, future agreement variations may require shareholder approval under the Listing Rules.

### ***New Zenith International Trading (Shanghai) Co., Ltd (NZIT)***

James Jia, the founder, major shareholder and director of MWE, owns NZIT in China. NZIT non-exclusively sells, distributes and markets MWE's wine in China. NZIT typically places orders direct with MWE, which are undertaken on the same pricing as the GEL distribution agreement. Any direct orders with MWE from NZIT off-set's GEL's minimum order obligation under the GEL distribution agreement.

MWE and NZIT also work together to have O:TU premium wine traded on the Shanghai International Wine Exchange (SIWE) which was set up by the Shanghai Government. SIWE is an internet platform which aims to connect consumers or investors, with fine wine producers. The SIWE was established to educate Chinese wine consumers and investors and to sell approved stocks of fine wines. The SIWE provides surety for wine consumers and investors against counterfeit wines given its rigorous checking and inventory management requirements. MWE offers its 2013 O:TU Prestige Sauvignon Blanc through the SIWE and, through NZIT, it has supplied approximately 28,000 bottles.

NZIT supplies the O:TU premium wine directly to SIWE. MWE is contracted to SIWE as it is a SIWE requirement that the actual wine producer contracts, to help ensure quality of the wine and that it is genuine wine and not counterfeit. As a result, MWE is subject to contractual obligations to SIWE which are outlined under Risks on page 43. SIWE also has the benefit of certain financial and contractual protections from James Jia (and entities associated with him) for any breach of the SIWE contractual obligations as are also discussed on page 43.

The presence of O:TU wines on the SIWE is considered very valuable by MWE for building brand recognition as a premium wine. The SIWE undertakes significant promotional events for its wines and has a large customer and investor base.

### **New Zealand Direct Sales**

MWE also undertakes some direct Bottled Wine sales to New Zealand retailers. These arrangements are largely with a number of independent wine retailers. Supplies are made on MWE's standard terms of trade.

The most significant direct sales in New Zealand are through Foodstuffs North Island which places wine orders to MWE on a monthly basis. The wine is then sold in its New World Supermarkets. The

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<sup>1</sup> New Zealand Winegrowers Incorporated 2015 Annual Report, p 35.

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wine supplied is both MWE's O:TU and Music Bay brands. While Asian markets remain the primary focus for MWE, it is intended to continue to grow direct sales in New Zealand.

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## REVENUE STREAMS AND GEOGRAPHICAL EXPOSURE

MWE derives the majority of its revenues from the following business operations:

- The sale of Bottled Wine domestically and internationally;
- The sale of bulk processed wine domestically;
- The sale of Bulk Grapes domestically.

*Table 4: Revenues deriving from the above business operations in FY 2015 were as follows:*

Source of Revenue	FY ended 30 June 2015 (Pro forma)*	
Bottled wine sales	\$784,000	32%
Bulk grape sales	\$1,631,000	68%
<b>Total</b>	<b>\$2,414,000</b>	<b>100.0%</b>

\* These have been taken from Pro forma unaudited accounts.

There were no Bulk Wine sales in FY2015.

Given the fact that MWE exports much of its Bottled Wine internationally, MWE's current revenues derive from a combination of domestic and international geographies.

*Table 5: The table below illustrates the principal geographies from which MWE received revenues for FY 2015:*

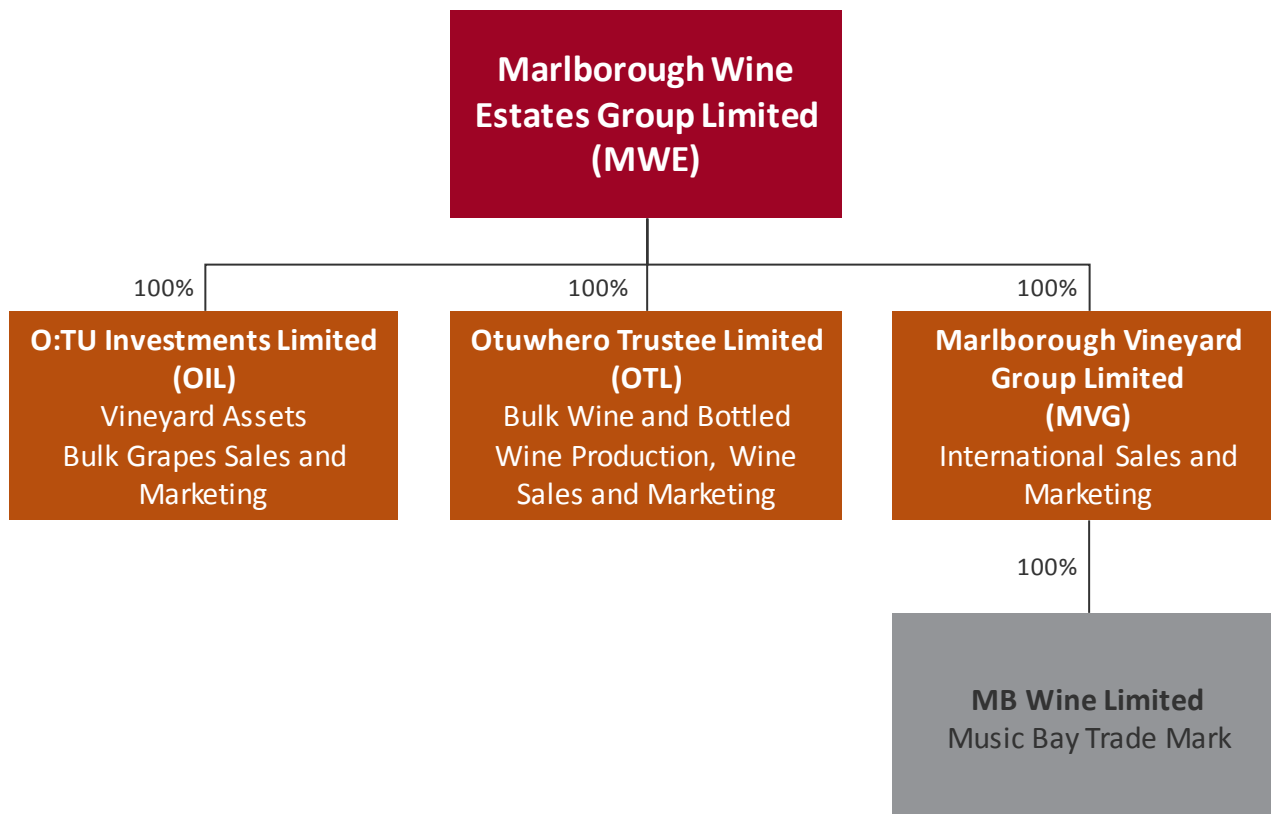
Geographical source of revenue	FY ended 30 June 2015(Pro forma)*	Proportion
New Zealand		
- Direct bottled wine sales	\$104,000	4%
- Bulk grape sales	\$1,631,000	68%
China		
- Bottled wine sales	\$509,000	21%
Others		
- Bottled wine sales	\$171,000	7%
<b>Total</b>	<b>\$2,414,000</b>	<b>100%</b>

\* These have been taken from Pro forma unaudited accounts.

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## BUSINESS DIVISIONS

An organisation chart illustrating the corporate structure for the MWE group of companies is provided below:



MWE was incorporated on 18 March 2015, and since 31 March 2015 MWE has remained a shell holding company, with the core trading operations of the MWE group remaining in its wholly owned subsidiaries: O:TU Investments Limited, Otuwhero Trustee Limited and Marlborough Vineyard Group Limited.

Details of each of MWE's current principal business divisions are as follows:

### VINEYARD OPERATIONS (OIL)

MWE, through its wholly owned subsidiary OIL, owns six vineyard blocks that are planted on north-facing coastal slopes and alluvial flats in the heart of the south-east Awatere Valley in Marlborough.

#### Summary of business operations

- OIL produces grapes from its vineyard blocks. In FY 2015, OIL produced 1401 tonnes of grapes.
- The grapes produced are either:
  - Utilised by MWE to produce OIL's own vintages of Sauvignon Blanc; or
  - Sold as Bulk Grapes to third party wine makers domestically.

OIL has both full time employees, and independent contractors who are responsible for the management of the vineyard assets. MWE grapes are supplied to a contract processor – Spring

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Creek Vintners Limited - who then process the grapes into MWE wines at the direction of the MWE Chief Winemaker. MWE does not own wine processing facilities.

### **Bulk Grapes**

The customers for Bulk Grapes are one off buyers from New Zealand.

In FY 2015, MWE produced 1,401 tons of grapes and sold 955 tons of Bulk Grapes (68% of production). MWE is under contract with two local purchasers of Bulk Grapes until the end of FY 2017. The contracts require MWE to sell approximately 500 and 560 tonnes to the respective buyer per harvest. The buyers have indicated their willingness to continue their respective arrangements with MWE beyond FY 2017, however no formal negotiations have commenced.

## **WINE PRODUCTION AND SALES (OTL)**

### **Bottled Wine**

In FY 2015, MWE sold 6,587 cases of wine, and had access to a total of 157 planted hectares of grapes in Marlborough. Its core varietal is Sauvignon Blanc.

MWE markets its wines under its flagship brands, “O:TU” and “ Music Bay”. Un-sold Bottled Wine is held as inventory or can be used for promotional or marketing purposes from time to time to support brand development (for example tastings and distributor samples).

Music Bay is mainly targeted at the New Zealand market, in particular for sales to off premises outlets and retailers. In the 12 months ending 30 June 2015, 1,044 cases of Music Bay Summer were produced and 260 cases were sold. For FY 2016, MWE launched the full Music Bay range adding Music Bay Spring, Autumn and Winter. Total production of these brands was 1,981 cases and as of 31 May 2016, 1,266 cases were sold.

O:TU wine makes up the balance of Bottled Wine production and sales and is currently sold into the following jurisdictions:



MWE looks to sell O:TU branded wine as a premium wine at a price point that provides strong margins for MWE.



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Accordingly, high-income demographic groups are targeted for the sale of O:TU wines. Income growth in the demographic of MWE's key Chinese export market has increased and as a result, the board's view is that premium wine is becoming an affordable everyday luxury for these consumers.

NZIT has operation centres in cities including Beijing, Shanghai, Suzhou, Nanchang, Sanya and Changsha. NZIT distributes and markets O:TU wines from these centres on the basis described earlier in this document.

During FY 2015, MWE had sales revenues of \$784,000 derived from the sale of MWE's range of Bottled Wine of which export markets made up \$680,000 and domestic sales \$104,000. To date in FY2016 approximately 7,417 cases of Bottled Wine have been produced and 14,721 cases have been sold (Note. a proportion of those cases sold were existing stock MWE had on hand).

### **The Bulk Wine Operations**

In the 12 months ending 30 June 2014, OTL sold 253,000 litres of Bulk Wine and nil for FY 2015 (due to an oversupply in the market and the market price dropping). For FY 2016 to date, MWE has sold approximately 770,000 litres of Bulk Wine. MWE anticipates that Bulk Wine sales for FY 2017 will decrease as more of its wine production will be needed to meet anticipated export requirements.

With Bulk Wine sales, MWE's grapes are processed by third parties into bulk un-branded wine and then sold as Bulk Wine to third party wine companies.

## **MARKETING OPERATIONS**

MWE's wholly owned subsidiaries MVG, OTL and OIL undertake the sales and marketing activities for MWE. In particular:

- OTL undertakes sales and marketing of the Bulk Wine produced by MWE to a range of domestic customers;
- OTL undertakes sales and marketing of the Bottled Wine produced by MWE domestically and internationally (O:TU and Music Bay brands);
- OIL undertakes sales and marketing of the Bulk Grapes produced by MWE to a range of domestic customers;
- MVG undertakes sales and marketing internationally including undertaking marketing initiatives with distributors and key customers; and
- Both the O:TU and Music Bay brand's principal sales and marketing focus is Bottled Wine from its own vineyards. O:TU is focused on the premium wine market while Music Bay is a sub brand for MWE and used for volume sales.

## **ACQUIRED BUSINESSES**

In 2011, OIL purchased the vineyards in Awatere Valley in Marlborough. Upon receiving the OIO consent in April 2013, the vineyards were settled in OIL and booked with a market value of

approximately \$13.1 million<sup>1</sup>. The rating valuation for the vineyards for the year ending 30 June 2016 is \$16.45 million (in aggregate).

At the time of the acquisition the vineyards were producing approximately 500 tonnes of grapes. In FY 2015 MWE produced 1,401 tonnes of grapes. This increase in production has occurred through higher grape yields which occur as the vines mature and through enhancing operational efficiencies at the vineyards since acquisition.

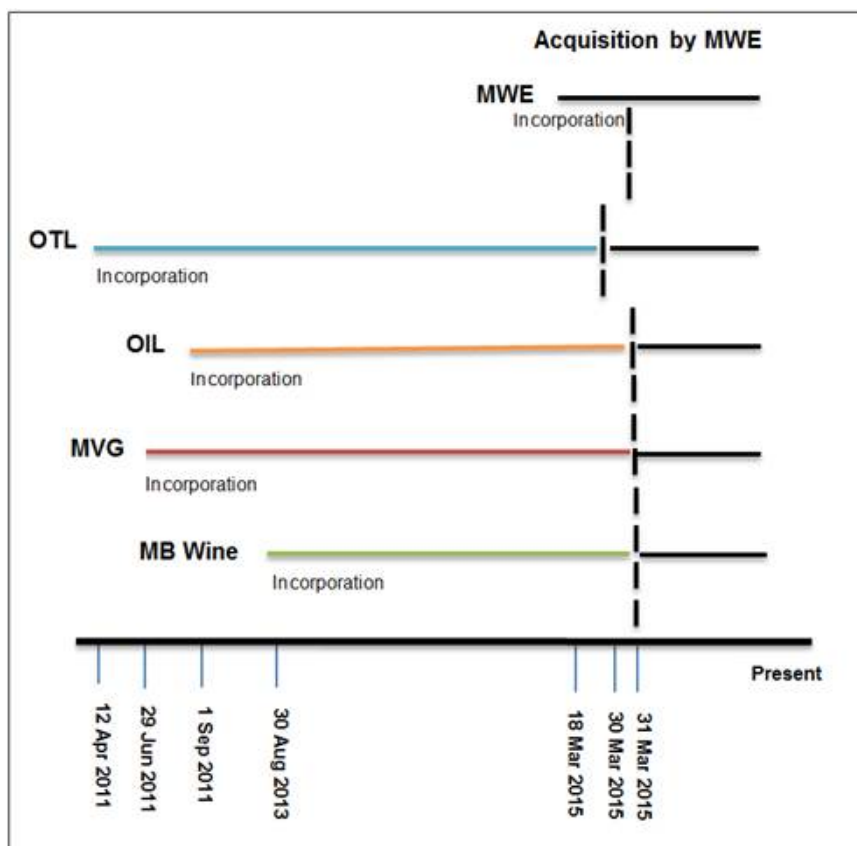
On 31 March 2015, MWE (which was incorporated on 18 March 2015) acquired 100% of the shares on issue in OIL, OTL, MVG and MB Wine Limited from James Jia. All of the parties to these transactions were either directly or indirectly related to James Jia. MWE now owns 100% of OIL, OTL, MVG and MB Wine Limited. The nominal consideration for the acquisition was \$126 which was satisfied by the issue of 215,000,000 new ordinary fully paid shares to the vendors of the transaction. This reflected the transaction being, in substance an internal restructuring.

On 31 March 2015, OTL acquired O:TU related business assets comprising the goodwill, brand, inventory, WIP, and distribution agreements from the Otuwhero Trust. The consideration for the acquisition was \$5 million which was satisfied by the issue of 25,000,000 new ordinary fully paid shares at an issue price of \$0.20 per share to the vendors of the transaction.

As a consequence of the above transaction, Otuwhero Trust no longer holds any MWE business assets. The Otuwhero Trust is a substantial shareholder in MWE.

The pro forma financial information set out in section 5 of this document (*MWE's financial information and key operating milestones*) reflects these recent acquisitions.

The timeline below demonstrates MWE's corporate history outlined above.



<sup>1</sup> Audited 2014 O:TU Investments Limited Financial Statements.

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## MARKET OVERVIEW

Marlborough Sauvignon Blanc is an internationally sought-after premium white wine. Its explosive flavours have earned the New Zealand grape varietal international recognition.<sup>1</sup>

MWE has been expanding in both international and domestic wine markets, with the primary focus being on the medium – high end of the Chinese market. China is now thought to be among the top five wine-consuming countries in the world. As middle-class consumers enjoy higher incomes, they are developing increasing capacity to indulge in luxury goods such as premium wines. Wine is seen as a status symbol among the emerging middle class in China.<sup>2</sup>

There is a rising awareness about wine in China and it is a relatively new concept for Chinese alcohol consumers. Traditionally, most Chinese drink Chinese distilled alcohol. Drinking trends and perceptions have been changing in recent years, and an increasing proportion of the Chinese population prefer beer and wine as they have lower alcohol contents. The Government, enterprises and the media have been promoting a wine culture in the past decade, and wine awareness among Chinese consumers has increased, stimulating growth in per capita consumption.<sup>3</sup>

Accordingly continued growth opportunities for imported wines into China are expected to continue. China wine imports in January 2016 reached US\$420 million, increasing by 40.3 percent compared to the same period in 2015.<sup>4</sup> Most of the wine imports are from France, Spain, Italy, Australia and New Zealand.<sup>5</sup>

Currently, China is New Zealand's sixth largest wine market. New Zealand's annual wine exports to China totalled US\$18.8 million in 2015 and this is expected to increase to US\$100 million by 2020.<sup>6</sup>

However, in China, the number of people who understand and enjoy white wine is still small relative to a likely market of some 100 million alcohol consumers. This presents a significant opportunity to develop and exploit the white wine market, which is forecast to grow rapidly.

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<sup>1</sup> New Zealand Winegrowers "Here – New Zealand Wine" (27 April 2015) <[www.nzwine.com/assets/2015%20San%20Fran-catalogue.pdf](http://www.nzwine.com/assets/2015%20San%20Fran-catalogue.pdf)>, page 7.

<sup>2</sup> "Wine in China" (9 October 2015) New Zealand Trade and Enterprise <<https://www.nzte.govt.nz/en/export/market-research/wine/wine-in-china/>>.

<sup>3</sup> "Wine in China" (9 October 2015) New Zealand Trade and Enterprise <<https://www.nzte.govt.nz/en/export/market-research/wine/wine-in-china/>>.

<sup>4</sup> Wines-info.com (29 February 2016) China wine imports data in January 2016 <[http://en.wines-info.com/Item\\_Style1.aspx?col=194](http://en.wines-info.com/Item_Style1.aspx?col=194)>.

<sup>5</sup> Wines-info.com (29 February 2016) China wine imports data in January 2016 <[http://en.wines-info.com/Item\\_Style1.aspx?col=194](http://en.wines-info.com/Item_Style1.aspx?col=194)>.

<sup>6</sup> New Zealand Winegrowers "Annual Report – 2015" <<http://www.nzwine.com/assets/sm/upload/bh/ph/9b/95/NZW%20Annual%20Report%202015.pdf>>



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## BUSINESS STRATEGIES

MWE seeks to further grow its existing business operations through a focus on large international markets, such as China. The Board considers the following target areas will ultimately impact positively on the overall key metrics of the MWE business operations and achieve this growth.

### 1. Bottled Wine

Bottled Wine is the most profitable commodity for MWE. For FY 2015, about 32% of MWE's revenue was generated from Bottled Wine sales. MWE's sales and distribution channels are continuing to grow and MWE is looking to expand into new markets, which include the USA market, and new Asian markets such as the Japanese and South Korean markets. MWE will increase its Bottled Wine production to match sales growth. MWE has the capacity to meet this increase by:

- Reducing the level of Bulk Wine inventory that it carries and bottling it for Bottled Wine sales;
- Reducing Bulk Grape sales by increasing Bottled Wine sales;
- Utilising the expected increases in harvest from the vineyards as the vines reach maturity over the next few years; and/ or
- Converting more of its land holdings to vineyards.

Any combination of the above provides the opportunity for MWE to increase its Bottled Wine production. Accordingly, the key challenge for MWE is to increase demand for its Bottled Wine through sales and distribution initiatives to utilise this production capacity.

### 2. Vineyard Growth

MWE has a big infrastructure footprint with its established vineyards and land in Marlborough. MWE owns approximately 336 hectares of land, including 157 hectares of producing vines. At present, MWE has vacant land with a planting area of approximately 45 hectares which could be converted to vineyards as required. MWE therefore has the ability to meet increased wine demand without the need for significant capital expenditure on further land acquisitions. MWE also intends to expand its wine varietal portfolio by planting new grape varieties on the vacant land.

A condition of the OIO consent for the 2011 acquisition of the vineyards was that the vacant block of land was converted to vines. It was intended that the conversion occur at a time when the Board is satisfied that MWE's presence and profile both in New Zealand, and overseas markets (particularly China) has increased to an extent that demand justifies the increase in supply. MWE has this year begun the initial stages of the conversion, implementing irrigation systems on the relevant blocks of land. MWE expects planting will begin next year. It takes approximately 5 years to develop a block of land into mature producing grapevines. Once the vines have matured, subject to agricultural factors (including climate), peak yields are reached and tend to be sustained for at least 15 years. Any decision on further conversions will be subject to commercial, economic and environmental factors at the relevant time.

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### 3. Joint ownership

MWE strives to have an innovative business model which would see customers and distributors owning stakes in the company. To achieve this, once MWE is listed, MWE intends to place and/or James will sell, modest parcels of shares to MWE's sales and distribution partners in China. It is a growing belief in China that, in order to align the distributor's interests with shareholders of the producer, contractual sales and marketing arrangements should be linked with equity incentives. MWE believes this alignment will further entrench these partners loyalty and drive sales growth.

### 4. Brand Recognition in China

MWE's premium Sauvignon Blanc is being sold on the Shanghai International Wine Exchange (SIWE) directly by one of its distributors, NZIT. The SIWE is an internet platform in China which aims to be a bridge between consumers or investors, and fine wine producers or suppliers. Participation on the SIWE is intended to result in an increasing exposure of the O:TU brand to a captive audience for premium wine in China. SIWE claims to have 5,000,000 customers. MWE believes strategies such as participating on the SIWE are important as it builds brand recognition for O:TU and, more generally, for Marlborough Sauvignon Blanc which should in turn support sales growth.

### 5. Entry into New Markets

MWE intends to enter other international markets with Bottled Wine sales including the USA, Japanese and South Korean markets.

The Board is of the opinion that New Zealand sauvignon blanc's are recognised in the USA as a quality varietal and that this is a geographical area MWE should look to enter to test demand. As a result, MWE is currently in discussions with an online wine distributor for the USA to begin testing demand.

The intention of the GEL distribution agreement described above is that GEL becomes an Asian distribution hub for MWE's Bottled Wine based out of Hong Kong. While the Asian market focus has been China, MWE will work with GEL to expand its markets in Asia and the Japanese and South Korean markets have been prioritised for investigation.

MWE currently supplies its O:TU Marlborough Sauvignon Blanc wine to China Airlines. MWE plans to enter further into the travel market by supplying its wine to additional airlines, and duty free shops throughout international airports. These initiatives assist in building international brand recognition for O:TU among international travellers which should support entry into new markets.

Moving forward, MWE will investigate further international markets including Australia and Europe for sales and distribution opportunities.

### 6. Growth via Acquisition

The MWE Board considers there are opportunities for MWE to grow via acquisition and may look at acquiring other vineyards and/or wine processing assets in Marlborough and other winemaking regions throughout New Zealand. MWE may also look to acquire other assets outside the wine industry, particularly in the New Zealand Food and Beverage sector. As MWE further develops its distribution networks, this will present opportunities to expand its product range to include other New Zealand premium products. MWE will assess the merits and viability of expanding into additional markets over the next 24 months and look at channels that have the potential to complement its existing operations however, its primary and immediate focus is increasing sales of Bottled Wine.

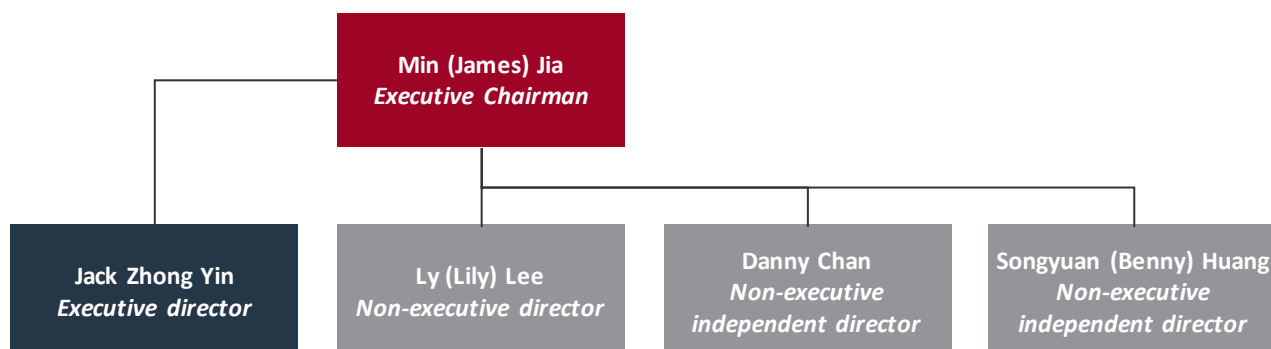
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In implementing the above strategies, the overall goals for MWE are to:

- supply premium New Zealand wine to its customers;
- develop customer loyalty;
- enhance its brand recognition for O:TU and Music Bay;
- increase its shareholder base; and
- increase profit and profit margins.

# MWE'S DIRECTORS AND SENIOR MANAGERS

## Board



## Senior Manager



Biographies for each of the directors are provided below:

### Board

#### Min (James) Jia

**Executive Chairman**, Master of Business Administration(MBA)

James is the founder of MWE and is its largest shareholder. He is responsible for providing strategic direction to the business, monitoring performance and driving international sales for MWE.

James has been involved in industries ranging from real estate development, vineyard acquisition, wine operation and forestry investments over the years in both China and New Zealand. Projects in New Zealand include Sugartree, Lily Garden and Lily Park. Further details on these projects are below:

- Sugartree: A commercial and residential apartment development project located on 27 Union Street, Auckland CBD. The pre-sale of stage one started in 2012, stage two is currently under construction, and stage three is in planning. The project is a joint venture between local developers. James is a director for the project management companies for all three stages of this development.
- Lily Garden: A residential property development project located on 297 Ormiston Rd, Flat Bush, Manukau City. This project commenced in 2010 and was completed by Lily Investment Co Ltd in 2014.
- Lily Park: A residential property development project located on 227 Brownhill Rd, Whitford. The project commenced in 2011 with two stages completed. This project is currently on-going.

James acts as a strategic advisor in assisting the managing directors to run the project by providing his strategic ideas, risk assessment skills and sharing his managerial experiences in real estate development from China.

James obtained his Master of Business Administration in 2000 from the College of Economics, Shen Zhen University. He also received his Bachelor of Engineering in 1985, from the People's Republic of China Airforce Engineering Institute.



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**Ly (Lily) Lee**

**Non-executive Director**, Bachelor of Language

Lily has been involved in New Zealand in both MWE and the Lily Investment Group Limited since 2010. Prior to coming to New Zealand, Lily established Lily Travel Group in the 1990s in Germany which focused on government, corporate and business delegation groups from China. It was recognised as the leading travel agency in Germany for many years.

Lily has also been working for a professional consultancy firm in China called Shanghai Aufun Investment Consultancy Co., Ltd from 2009. Her role in the company is general manager, responsible for managing the company and marketing, eg: assisting Chinese investors to invest offshore. Lily brings a large personal and business network in Europe and Asia to MWE. Lily also has a wealth of experience in marketing for the Chinese market.

Lily is the wife of Min (James) Jia.

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**Jack Zhong Yin**

**Executive Director**, Bachelor of Business Studies (Accounting and Finance), Master of Taxation Studies, MInstD, FSP

Jack has more than 20 years' investment management experience and is Head of Asian Development for a large accountancy firm, DFK Oswin Griffiths Carlton, in Auckland.

Jack previously held both project and case leader positions with the New Zealand Inland Revenue Department for over 8 years. Jack advises international corporations on mergers and acquisition transactions in both New Zealand and China and provides investment, business planning and taxation advice to high net worth clients from China, Hong Kong and Taiwan. Jack is the director and founder of Food & Agricultural Trading New Zealand Limited, which is the general partner of New Zealand Food & Agricultural Capital LP, a limited partnership formed with the objective of investing in small and medium-sized New Zealand enterprises that export high quality food and beverage products to China.

Jack is the director of Beyond Capital Management Limited, a private fund management company formed with the objective of investing in New Zealand technology companies, particularly in the medical device technology sector.

He is a member of the Chinese Chamber of Commerce in New Zealand whose members include leading Chinese-owned organisations with significant business interests in New Zealand, including SOE's, banks, airlines and shipping companies.

He is a member of the New Zealand Institute of Directors and is a registered Financial Services Provider (FSP).

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**Danny Chan**

**Non-executive Independent Director**, BCA(Hons), ACA, CMA, FCSAP

A third generation New Zealand Chinese, Danny was brought up in Wellington. Danny is an experienced New Zealand director with Honours in Bachelor of Commerce and Administration (BCA) from Victoria University of Wellington. He holds a number of directorships with companies including Academic Colleges Group Limited, Abano Healthcare Limited, Farmers' Mutual Group, Flowerzone International Limited and Auckland Tourism Events and Economic Development Limited, as well as numerous companies associated with his private investments in both New Zealand and Asia. He is a Member of the Department of Prime Minister and Cabinet China Project Advisory Group, the NZ China Advisory Council and the NZ Markets Disciplinary Tribunal.

Through his long involvement with the education, investment, insurance, floriculture and export industries, Danny has developed an extensive network of contacts in both NZ and Asia. He is fluent in Mandarin and Cantonese, and is very familiar with the protocols of Asian and Western cultures.

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**Songyuan (Benny) Huang**

**Non-executive Independent Director**,

Bachelor of Commerce, Master of Business Administration, Certified Public Accountant

Benny is a director of the global margin business of KVB Kunlun NZ. He is also responsible for the management of the investment business of the KVB Kunlun Group, including the foreign exchange, commodities and equities businesses. He has been working for KVB Kunlun Group since 2002.

Benny is currently one of the responsible officers of KVB HK and KVB AU, and a director and managing principal of KVB NZ. He obtained his bachelor's degree in accounting from the Sun Yat -Sen University in June 1999, his master's degree in international business from the Auckland Institute of Studies at St. Helens College, New Zealand in December 2000 and his graduate diploma in commerce from the University of Auckland in May 2002.

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Benny became a chartered financial analyst of the CFA Institute in September 2006 and has been a member of the Institute of Directors in New Zealand since 2015.

## Senior managers

### **Catherine Ma**

**Group Chief Executive Officer**, Bachelor of Commerce

Catherine is responsible for developing and executing business plans, as well as maintaining and growing the organisation. She joined the group in 2011 as one of the founding members. She has developed extensive experience managing the O:TU wine businesses and vineyards. Prior to joining MWE, she worked in the real estate sector. She worked as an associate director in a number of James and Ly Lee's real estate businesses in Auckland between 2010 and 2014. In 2013, she was assigned a director of Lily Investment FTC Trustee Ltd and Lily Nelson GP Ltd. In 2014, Catherine was appointed as a director of Lily Nelson Altro GP Ltd; and in 2015, she was assigned as director for the rest of their property development companies.

Catherine is a member of the New Zealand Institute of Directors.

### **Jan Kux**

**Chief Winemaker**

Jan is a qualified sommelier and has about 20 years of experience in wine making and vineyard management. Jan has had a very successful career working and consulting for many international wineries in Germany, Italy, Spain, France and USA. Since 1999, the notable wineries he has worked for include Weingut Koehler-Ruprecht, Kallstadt - Germany; Weingut Reichsrat von Buhl GmbH, Deidesheim - Germany; Cooperative Kallstadt – Germany; Poggio Ai Piani - Tuscany, Italy; Mount Rozier Estate - South Africa; Jaume Mesquida – Spain; and Kvareli – Georgia .

Jan is the CEO of Naturally Organic Agriculture (NOA), Schaffhausen, Switzerland. NOA markets and sells organically produced wines and products internationally. NOA also works to develop consumers' awareness and knowledge of wine products. He is a member of the GESCO Society for the sciences and development of viticulture and an active member in the German Sommelier Association.

### **Wenhan (Eric) Li**

**Financial Controller**, Bachelor of Commerce, Certified Practising Accountant (Australia)

Eric obtained his bachelor's degree in accounting and commercial law from the University of Auckland in May 2011. Eric joined O:TU vineyards and the wine business group in 2012 and has an extensive understanding of the business operations, and the groups financial accounts. Eric ensures that MWE complies with its audit requirements, monitors internal controls and advises on budgeting. Eric is a member of the CPA Australia.

## TABLE OF SUBSTANTIAL SHAREHOLDERS AND OF RELEVANT INTERESTS HELD BY DIRECTORS AND SENIOR MANAGERS

### Relevant interests of substantial shareholders

As at the date of this document, the following persons hold relevant interests in not less than 5% of the total number of ordinary shares on issue in MWE:

Name of substantial shareholder	Nature of relevant interest	Number of Shares/ Percentage holding
James Jia <sup>1</sup>	1. Registered Holder	1. 217,317,014 shares / 74.10%
	2. Beneficial Owner	2. 25,000,000 shares / 8.52%
	3. Relevant Interest <sup>2</sup>	3. 8,800,000 shares / 3.00%
Ly Lee	Beneficial Interest as wife of James Jia	251,117,014 shares / 85.62%
Li Zhong Wang	Registered Holder	22,980,906 shares / 7.84%
<b>Sub-total of substantial shareholders</b>		<b>274,097,920 shares / 90.46%</b>
<b>Total shares on issue</b>		<b>293,272,000 shares / 100%</b>

### Relevant interests of directors and senior managers

As at the date of this document, the following directors and senior managers of MWE hold relevant interests in the ordinary shares of MWE:

Name of Director/ Senior Manager	Role within MWE	Nature of relevant interest	Number of Shares/ Percentage holding
James Jia	Executive Chairman	1. Registered Holder	1. 217,317,014 shares / 74.10%
		2. Beneficial Owner	2. 25,000,000 shares / 8.52%
		3. Relevant Interest <sup>3</sup>	3. 8,800,000 shares / 3.00%
Ly Lee	Non-executive Director	Beneficial Interest as wife of James Jia	251,117,014 shares / 85.62%
Jack Yin	Non-executive Director	Registered Holder	1,500,000 shares / 0.51%
Danny Chan	Non-executive independent Director	Registered Holder	75,000 shares / 0.03%
Benny Huang	Non-executive independent Director	Registered Holder	75,000 shares / 0.03%
Eric Li	Financial Controller	Registered Holder	9,100,000 shares / 3.1%

<sup>1</sup> James is a Director of NZIT and an associated person of GEL.

<sup>2</sup> The shares giving rise to this relevant interest have been purchased off James Jia by Eric Li, over a three year term loan that James has advanced to Eric. The loan is secured, which gives rise to James' relevant interest.

<sup>3</sup> See note above at 2.

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## OPTIONS TO ACQUIRE SECURITIES OF MWE

There are no options to acquire equity securities on issue in MWE, and there are currently no plans to issue any options to acquire ordinary shares in MWE as at the date of this document.

## DIRECTOR REMUNERATION AND INTERESTS

*Table 6: The table below discloses the details of the total remuneration and the value of other benefits for the directors of MWE in respect of MWE as at the date of this document:*

Name of Director	Nature of benefit	Quantum/value of benefit
James Jia	Directors fee	\$120,000
Benny Huang	Directors fee	\$30,000
Danny Chan	Directors fee	\$40,000
Jack Yin	Directors fee	\$50,000
Lily Lee	Directors fee	\$40,000

There are no existing or proposed arrangements between MWE and the existing or proposed Directors in respect of retirement benefits or other compensation for loss of office.

The maximum aggregate Director's fees have been set at a pool of \$300,000 per annum, to be paid among the Directors in accordance with the table set out above or as the Board may otherwise allocate (within the approved pool) from time to time. This level of remuneration is considered appropriate to attract and maintain Directors of an appropriate level of expertise and to reflect the substantially increased governance responsibilities of MWE on becoming a public company.

In the event of an increase in the total number of Directors holding office, the Directors may, without the authorisation of an ordinary resolution of shareholders, increase the total remuneration by such an amount as is necessary to enable MWE to pay the additional Director or Directors of MWE remuneration not exceeding the average amount then being paid to each of the other non-executive Directors (other than the Chairman) of MWE.

## SENIOR EXECUTIVE REMUNERATION AND OTHER BENEFITS

### Remuneration

There is one employee or former employee of MWE, not being a director of MWE, that during the 12 months ended 30 June 2016, received remuneration and any other benefits in their capacity as an employee that in value exceeded \$100,000 per annum:

Remuneration	Number of Employees
\$100,000 - \$110,000	1
\$120,001 - \$130,000	0

### EMPLOYEE SHARE OWNERSHIP PLAN

MWE has established Employee and Senior Executive Share Ownership Plans (**Plans**) and has issued 2,565,000 Shares in total to certain directors/senior executives and employees of the MWE group.

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The objectives of the Plans are to retain key employees/senior executives, drive long-term performance, align incentives of participants with the interests of the Company's shareholders and facilitate and encourage employee share ownership.

The principal terms of the Plans are as follows:

#### SENIOR EXECUTIVE UNPAID SHARE SCHEME

The Company has established a Senior Executive Unpaid Share Scheme. Unpaid ordinary shares in the Company have been issued to eligible Directors/Senior Managers at \$0.20 per Share. The shares will be fully vested five years from issue (provided the executive remains engaged by the Company at that time), with one fifth of all shares vesting annually. The unpaid shares must be fully paid within 10 years of the date of issue and may be paid up, once vested, by:

- Dividends received;
- Voluntary payments; or
- The Company making a call on the unpaid shares which it may do only on paying such employees an equivalent net bonus.

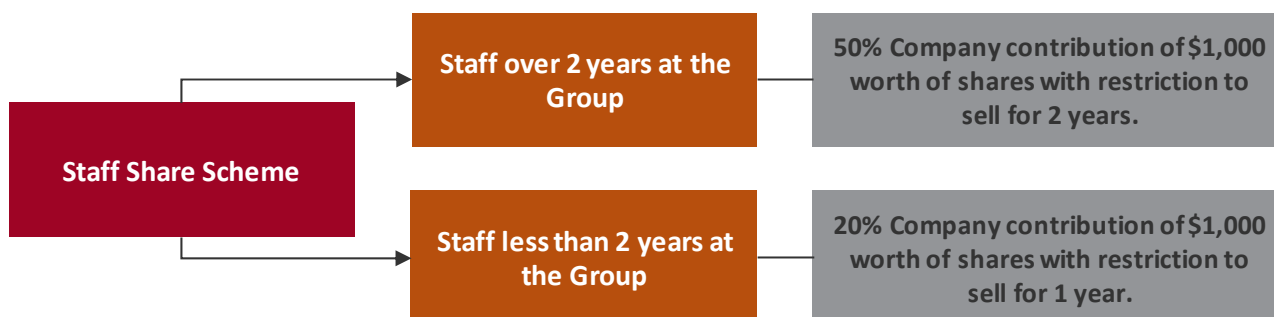
The unpaid ordinary shares are non-transferable until vested and fully paid, and have the same rights as ordinary shares but only in the proportion to which the shares are paid up.

#### STAFF SHARE SCHEME

The Company has also established a Staff Share Scheme. Ordinary shares in the Company have been issued to eligible employees at \$0.20 per share. The shares will be fully vested one or two years from the listing date (as defined in the Staff Share Scheme), depending on the length of time the employee has been employed with the Company. Once vested, the shares will be subscribed for in the following way:

- The employees contributing 50% - 80% of the issue price; and
- The Company contributing 20% - 50% of the issue price by directly applying a net employee bonus payment to the issue price.

The ordinary shares are non-transferable until vested and are issued fully paid. They otherwise have the same rights as all other ordinary shares on issue.





Awatere Valley  
Marlborough

O:TU  
prestige

HARBOROUGH 2012 SAUVIGNON BLANC NEW ZEALAND WINE

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## 3. TERMS OF THE SHARES

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### DESCRIPTION OF SHARES TO BE QUOTED

293,272,000 Shares are to be quoted on listing. Each Share gives the holder the right to:

- attend and vote at a meeting of MWE, including the right to cast one vote per Share on a poll (subject to any voting prohibitions under the Listing Rules);
- an equal share with other Shares in any dividends authorised by the Board;
- an equal share with other Shares in the distribution of surplus assets in any liquidation of MWE;
- be sent certain information by MWE; and
- other rights as a shareholder conferred by the Companies Act 1993 and MWE's Constitution.

No new Shares are being issued as part of MWE's application to list on the NXT Market.

### INDICATIVE MARKET CAPITALISATION

#### 1. Share Issues and Sales

MWE has not had any material need to raise new capital recently. However, with a view to listing and a desire to improve its shareholding spread it did recently raise a modest amount of new capital (\$140,000) in New Zealand and China. In addition James Jia has sold down a portion of his shareholding in MWE. All share sales and share issuances described in this section were to non-related parties and completed at a price of 0.20 cents per share (for clarity, all share sales and share issuance described in this section were to non-related parties, with the exception of issuances / sales to 3 directors, and 1 senior managers).

The principal terms of these issues and sales were as follows:

- **date of issue/sell down:** November 2015 – June 2016
- **number of shares issued:** 707,000
- **number of shares sold:** 47,682,986
- **quantum of capital raised:** \$141,400
- **total sale proceeds:** \$9,536,597.20
- **participants in the share issue:** 95
- **participants in the share sales:** 318

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Based on these share issues and sales at \$0.20 per share, MWE has an implied market capitalisation of \$58.65 million.

## **2. Net Asset Value**

As per the audited financial statements for the year ending 30 June 2015, MWE had net assets of \$20.78 million. The net assets may need to be impaired due to the MPI Dispute outlined under risks on page 40, which could result in net assets falling to \$19.58 million. Other than in respect of the MPI dispute and the potential impairment, the MWE Board considers the net asset value would not be materially different as at 30 June 2016.

The implied market capitalisation referred to above represents a multiple of 2.83 times net assets.



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## 4. KEY FEATURES OF THE SHARES

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### DIVIDENDS AND DIVIDEND POLICY

Dividend payments in respect of the Shares are not guaranteed, are at the discretion of the Directors, and will be declared only after MWE has been found to meet the appropriate solvency requirements.

The MWE Board currently has no intention to declare dividends in the foreseeable future as the focus is to reinvest all profits derived from the business back into the Group as part of MWE's growth strategy.

### NO GUARANTEE OF SHARES

No person or entity guarantees or undertakes any liability in respect of the Shares of MWE or the future value or performance of them.

### CONSEQUENCES OF INSOLVENCY

No holder of MWE Shares will be liable to pay any further amounts to MWE or any other person in respect of those Shares if MWE becomes insolvent.

In a liquidation of MWE, the claims of MWE shareholders will rank equally with each other, and after the claims of:

- persons to whom preferential payments must be made;
- secured creditors; and
- unsecured creditors.

### ALTERATION OF SHARES

The rights attaching to the Shares are governed by the MWE constitution, the Companies Act 1993 and the terms under which they have been issued (refer to section 3 Terms of the Shares). The constitution may only be altered by special resolution of shareholders subject to the rights of interest groups under the Companies Act 1993, or in certain circumstances by Court Order. A special resolution of shareholders must be approved by 75% of shareholders who are entitled to vote and are voting on that resolution. In certain circumstances, a shareholder whose rights are affected by a special resolution may require MWE to purchase their Shares.

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## ESCROW ARRANGEMENTS

Escrow arrangements are designed to prevent parties with close affiliations with a company from trading their shares for a fixed period of time. The following shareholders have entered into a Restricted Security Agreement with MWE in respect of shares held by them:

- James Jia; and
- MPMB Trustee Limited as trustee of the Otuwhero Trust,

and are subject to the following trading restrictions:

<b>Time Period</b>	<b>Percentage of Shareholders total shareholding subject to Escrow Restrictions</b>
During the period from the date of quotation of the Company's securities on the NXT market ("Quotation Date") to that date being 6 months after the Quotation Date	90% of the total number of shares held
During the period commencing 6 months and one day after the Quotation Date and ending 12 months after the Quotation Date	75% of the total number of shares held
During the period commencing 12 months and one day after the Quotation Date and ending 18 months after the Quotation Date	65% of the total number of shares held

The Restricted Security Agreement contains exceptions for transfers:

- to certain specified "affiliates", provided the affiliate enters into a similar agreement with MWE; or
- as a result of a change in trustee of any trust through which the Shares are held; or
- with the prior written consent of the non-interested Directors (as that term is defined in the Companies Act), MWE and NZX;
- in connection with a takeover offer under the Takeovers Code or scheme of arrangement; or
- arising directly as a result of a security interest over the shares being enforced by a bond fide lender to James Jia or MPMB Trustee Limited as trustee of the Otuwhero Trust.

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## 5. MWE'S FINANCIAL INFORMATION AND KEY OPERATING MILESTONES

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These tables provide key financial information about MWE and information about MWE's key operating milestones. Full financial statements are available at <http://www.nxt.co.nz> If you do not understand this financial information, you can seek advice from a financial adviser or an accountant.

Given MWE was only incorporated on 18 March 2015, MWE has produced financial statements for the period ended 30 June 2015. Those financial statements have been prepared for the period commencing on the date of incorporation of MWE through to 30 June 2015.

These consolidated financial statements were prepared by DFK Oswin Griffiths Carlton Limited and audited by Deloitte.

MWE has also produced unaudited interim financial statements for the period ended 31 December 2015. These consolidated financial statements were prepared by DFK Oswin Griffiths Carlton Limited.

### HISTORICAL FINANCIAL INFORMATION RELATING TO ACQUISITIONS

MWE acquired its assets following the date of its incorporation in March 2015 through an internal restructuring, namely:

- 100% of the shares on issue in OIL (which owned OTL); and
- the business assets of the Otuwhero Trust.

MWE also acquired 100% of MVG and its subsidiary MB Wine Limited.

Prior to 1 April 2014, the revenue of OIL, OTL and MVG is immaterial as the entities had engaged in little to no trading and no material international operations had been established. Accordingly, no financial information has been provided for any period prior to 1 April 2014 in this document.

### PRO FORMA FINANCIAL INFORMATION

As a consequence of the acquisitions described above, the audited financial statements for MWE do not illustrate accurately a full 12-month period of trading operations. In order to provide a more accurate picture of MWE's trading operations, MWE has prepared the following pro forma financial information for the 12 month period ended 30 June 2015 on the assumption that MWE had in fact acquired those business operations on 1 July 2014.

#### Marlborough Wine Estates Group Limited (MWE)

##### Basis of preparation of pro forma financial information

The MWE Pro Forma Financial Information for the 12 months ended 30 June 2015 set out in the MWE Listing Document (Pro Forma Information) has been prepared as if MWE was incorporated before 1 July 2014 and restructuring of the group had been completed as at 1 July 2014. The Pro Forma financial information is unaudited and was not prepared in accordance with GAAP.

Financial information	Pro forma for the 12 month period ended 30 June 2015 Unaudited (\$,000)
Revenues	2,800
EBITDA	1,013
EBIT	662
Net profit after tax	170
Dividends on all Shares of the issuer	0
Total assets	28,089
Cash and cash equivalents	989
Total liabilities	7,306
Total debt	6,100
Net cash flows from operating activities	(1,278)

The other key assumptions underlying the pro forma financial information contained in the above table are:

- Otuwhero Trust had entered the distribution agreement with Great Esprit Limited before the business was sold to OTL, and was sold at fair value as an intangible asset.
- The opening wine inventory (including Bulk Wine, Bottled Wine, dry goods) as at 01/07/2014 was stated at fair value as if OTL bought the business before 01/07/2014 as an arms' length transaction.
- The group and subsidiaries are assumed on a going concern and continuing operation basis, with the loss in the current year carried forward to offset future profit.

### **Cash Flow Fluctuation**

The net cash flow in the pro forma financial information above is negative (compared to the 30 June 2015 accounts), as there were no Bulk Wine sales in that financial year. The price for Bulk Wine was not competitive at that time so MWE held its Bulk Wine until later in the year when the price became more favourable. Net operating cash flow is positive in the December 2015 interim accounts.

Further information about the basis of preparation of the pro forma information set out above, including the principal assumptions made, can be found on the NXT website at, along with the interim updates reconciliations to the financial information prepared in accordance with GAAP: <http://www.nxt.co.nz>

### **KEY OPERATING MILESTONES**

All NXT companies are required to set key operating milestones (KOMs) and targets, and must report against those targets on an ongoing quarterly basis. A KOM is a metric for measuring and reporting on the performance of MWE. The KOMs must meet the NXT standard. This means that the KOMs, when taken together, address the most significant factors by which the performance of MWE's business should be assessed and monitored and will result in understandable reporting for investors.

The strategies for achieving the KOMs are summarised below. These strategies are also discussed earlier in this document. These strategies should be read in conjunction with the risks section of this document.

*Table 7: MWE has set the following KOMs and targets:*

	FY ended 30 Jun 2015 (Actual)	FY ended 30 Jun 2016 (Prospective)	FY ended 30 Jun 2017 (Prospective)
Gross Harvest (tonnes)	1,401	1,660	1,544
Bulk Grape Sales (tonnes)	955	1,190	1,144
International Bottled Wine sales revenue	\$679,806	\$1,600,000	\$3,200,000
New Zealand Bottled Wine sales revenue	\$104,407	\$137,293	\$205,940

The rationale for MWE adopting the KOMs expressed in the table above, together with the manner in which the respective KOM's have been calculated, is as follows:

Key assumptions relating to the KOM targets in the above table are:

- Gross harvest decreases in FY2017 following a very strong FY2016 harvest which was primarily due to a favourable growing climate
- Bulk grape sales decrease in FY2017 following a very strong FY2016 harvest which was primarily due to a favourable growing climate
- Average price for Bottled Wine sold is \$125 per case for both FY2016 and FY2017
- International wine sales increase by circa 150% in FY2016 and circa 90% in FY2017
- Domestic wine sales increase by circa 30% in FY2016 and circa 50% in FY2017

*Table 8: Gross Harvest (tonnes)*

	FY ended 30 Jun 2015 (Actual)	FY ended 30 Jun 2016 (Prospective)	FY ended 30 Jun 2017 (Prospective)
Gross Harvest (tonnes)	1,401	1,660	1,544

This is an annual measurement of grape production from the vineyards and shows the vineyards growth and grape supply capacity. Harvest yields are expected to increase from the existing vines until they mature. The board is of the opinion that at maturity, the peak harvest yield reached from existing plantings should be sustainable for at least 15 years, subject to favourable agricultural and climate conditions.

MWE is forecasting a 5% annual growth rate until the gross harvest reaches 2,000 tonnes at full production capacity. It does not include the acquisition of additional grape production as MWE has no plans to make any acquisitions during the period covered by these KOM's. In addition, any

harvest from the conversion of MWE's surplus land to vineyards is also not factored into these KOM's as any conversion may take up to five years to develop into full producing vines.

For the year ended June 30, 2016, MWE had expected its gross harvest to increase by 5% to 1,471 tonnes. However, due to very favourable climatic and better than normal growing conditions in the Marlborough region, the actual tonnage is now expected to be close to 1,660 tonnes. For the 2017 financial year, assuming normal growing conditions resume, MWE is forecasting a gross harvest of 1,544 tonnes which is consistent with the MWE's expected annual 5% production increase from 2015 levels.

The importance of increased gross harvest is to meet Bottled Wine sales growth. In particular, it demonstrates the ability of MWE to meet the growth in sales without a need to reduce or cease Bulk Grape sales in the short term. As demand rises, MWE will have the ability to utilise its increase in gross harvest for its Bottled Wine production. To increase that demand MWE will implement the growth strategies for Bottled Wine sales as discussed on page 18.

MWE believes the location of the vineyards, adherence to good viticulture management practices and engagement of experienced personnel, provide some mitigation against the impact of climatic and agricultural factors (where possible) which should underpin its forecast average annual 5% increase in grape production from its existing vines.

*Table 9: Bulk grape sales*

	FY ended 30 Jun 2015 (Actual)	FY ended 30 Jun 2016 (Prospective)	FY ended 30 Jun 2017 (Prospective)
Total	955	1190	1,144

Grape supply agreements have been signed to supply Bulk Grapes from certain blocks for the 2016 and 2017 vintage harvests. MWE is expecting to see growth in Bulk Grape sales for each vintage for 2016 and 2017 from the 2015 levels, due to increased operating efficiency and vine maturity resulting in a lift in gross harvest volumes as outlined in the Gross Harvest KOM.

Due to very favourable climatic and growing conditions in the Marlborough region which resulted in a larger than expected harvest, Bulk Grape sales in FY 2016 are expected to be close to 1,190 tonnes. For the 2017 financial year, assuming normal growing conditions resume, MWE is expecting Bulk Grape sales of 1,144 tonnes which is consistent with MWE retaining circa 400 tonnes of grapes for its own use from its gross harvest.

This measurement will show the Bulk Grape allocation of the total harvest under the first KOM with the remaining harvest being processed for Bottled Wine and Bulk Wine. MWE's key strategy is to significantly increase exports of Bottled Wine that will be supported over time by more allocation of grapes to Bottled Wine processing.

Table 10: Bottled wine sales revenue

Sales Revenue – bottled wine	FY ended 30 Jun 2015 (Actual)	FY ended 30 Jun 2016 (Prospective)	FY ended 30 Jun 2017 (Prospective)
International	\$679,806	\$1,600,000	\$3,200,000
New Zealand	\$104,407	\$137,293	\$205,940
<b>Total</b>	<b>\$784,213</b>	<b>\$1,737,293</b>	<b>\$3,405,940</b>

This is a measurement of revenue derived from Bottled Wine sales. It shows the core overall market growth that MWE is seeking to achieve. MWE's strategy is to use its Joint Ownership model and distribution network advantage in China to dramatically increase export volumes to that market and drive growth in Bottled Wine sales revenue. Marketing initiatives such as the SIWE have been building brand recognition for the O:TU brand and, more generally for Marlborough Sauvignon Blanc which the Board believes should support sales growth. Distribution agreements have been signed to supply \$1.4m and \$3m worth of Bottled Wine to China in FY2016 and FY2017 respectively. This measurement will show the effectiveness of the business strategies discussed earlier in this document in increasing Bottled Wine sales revenues.

MWE has the supply capacity to meet the increase in demand for Bottled Wine. One tonne of grapes will typically produce 1,000 750ml bottles of wine. MWE retains 400 tonnes from the gross harvest (being the surplus after Bulk Grape sales) which should be more than sufficient to meet the Bottled Wine sales target for FY2017. MWE can also reduce the level of Bulk Wine inventory it is carrying and bottle it to meet Bottled Wine demand if required.

A new range of products under the Music Bay brand was launched in NZ in 2016 to help drive revenues locally. New Zealand sales revenue is forecast to increase by circa 30% in FY2016 and circa 50% in FY2017.

## NXT MARKET DISCLOSURE OBLIGATIONS

Under the Listing Rules, MWE will be required to immediately disclose information concerning specific events prescribed in the Listing Rules. However, it is possible that some price-sensitive information may not be required to be disclosed, and therefore you could trade on the NXT Market without the benefit of all price sensitive information in relation to MWE.

The Listing Rules require MWE to publish a quarterly Business Update reporting the performance of MWE against the annual target for each Key Operating Milestone, within 20 business days after the end of each quarter. The Business Update must be in a form prescribed by NZX and will be available to view on the NXT Market website. A short form Business Update for the quarter ended 30 June 2016 will be released by 28 July 2016 in accordance with the waiver granted by NZX Regulation (as detailed on page 37 of this document).

Issuers listed on NZX's Main Board equity securities market are subject to a continuous disclosure obligation, requiring those issuers to notify the market immediately of any information which could affect the market price of a given issuer's traded securities.

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As an issuer listed on the NXT Market, MWE will not be subject to continuous disclosure requirements but will instead be subject to an alternative disclosure regime, requiring it to provide interim updates to the market upon the occurrence of certain triggering events.

If MWE becomes aware of the matters set out at Schedule 5A to the Listing Rules, it must immediately release an interim update containing details and the expected impact of the matter on MWE. Circumstances triggering an interim update include (but are not limited to):

- where MWE's operational performance is likely to vary by 10% or more from any of its key operating milestones (KOMs);
- MWE entering into a "significant transaction" which could include where assets are acquired or disposed of having a value which is greater than MWE's net tangible asset backing (as published in its most recent financial statements) or exceeding 10% of MWE's average market capitalisation;
- all issues or acquisitions of equity securities or any decision to subdivide or consolidate equity securities, to amend terms or to grant options in respect of such securities; and
- any material adjustment to its most recent preliminary announcement.

After due enquiry, the directors of MWE are of the opinion that the key operating milestones, taken together, address the most significant factors by which the performance of the NXT issuing group's business should be assessed and monitored and that, by reporting against the key operating milestones in this document, as required by the Listing Rules, MWE will provide understandable reporting for investors.

The directors confirm that the NXT advisor has declared to NZX that the key operating milestones in this document meet the NXT standard under the Listing Rules.

The key operating milestones and targets for the NXT issuing group may change over time. MWE will review the key operating milestones annually. Any restatement of the key operating milestones and any resetting of the annual targets will be disclosed in a business update in accordance with the Listing Rules.

## **NZX Waivers**

### ***Clause 2, Schedule 1A of the Listing Rules***

MWE has been granted a waiver by NZX Regulation from Clause 2, Schedule 1A of the Listing Rules, until 30 June 2017 to allow MWE to have at least 50 shareholders who are members of the public with at least a minimum holding that together represent at least 17 % of the total shares on issue, rather than 25% as ordinarily required by the Listing Rules. The waiver is subject to usual conditions requiring MWE to disclose the waiver in its annual and half-year report, and to monitor and report to NZX on the number and percentage of shares held by members of the public.

The implications of the waiver are that MWE may have less liquidity in trading in its shares than other companies listed on the NXT Market. A liquid market is important to ensure efficient price setting and to enable shareholders to trade. However, in granting the waiver, NZX Regulation considered, amongst other things, that:



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- the NXT Market Maker arrangements will provide an additional mechanism for liquidity in MWE's shares, and additional comfort is provided that MWE shareholders will not be disadvantaged;
  - James Jia may sell down shares in MWE or MWE may place shares particularly to Chinese distribution partners as part of its business strategy. This would occur from James' free float shares in his restricted security agreement. This strategy will further increase the number and percentage of MWE shareholders who are members of the public.
  - As a growth company, it is likely MWE will seek additional equity capital over time which should enhance liquidity. MWE is currently profitable and does not have an immediate need for material sums of new capital. However, it will investigate potential acquisitions and land conversions in the future which may give it a need for material additional capital.

A copy of the waiver is included on the NXT website.

### ***Rule 49 of the Listing Rules***

MWE has been granted a waiver by NZX Regulation from rule 49 of the Listing Rules, in respect of providing a full business update for the quarter ending 30 June 2016.

The purpose of rule 49 is to provide shareholders and investors with regular, targeted reporting on a NXT company's performance and operations.

Rule 49 contemplates a situation where a NXT company is reporting on its performance and operations over the last quarterly period. MWE has listed on the last day of such quarter, and material information for that quarter is included in this document.

The waiver is subject to a condition requiring MWE to report its actual performance against its key operating milestones for the period ending 30 June 2016 in a short form announcement, by close of trading 28 July 2016. The market will therefore receive timely information about MWE's performance against its key operating milestones set out in this document.

A copy of the waiver is included on the NXT website.



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## 6. RISKS TO MARLBOROUGH WINE ESTATES GROUP'S BUSINESS AND PLANS

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Any investment in the share market has risks associated with it, and this investment is no exception. Risks specific to MWE, and other general market risks, are set out in this section. These risks, if they were to occur, could materially adversely affect MWE's financial position or performance through loss of assets, reduced revenue, increased costs, loss of customers and suppliers, damage to reputation or a combination of these factors. These could reduce or eliminate the value of your shares or the returns on them.

The principal risk for MWE shareholders is that they may not be able to recover their original investment. This could happen for a number of reasons, including if:

- the price at which shareholders are able to sell their MWE Shares is less than the price they paid for them;
- MWE shareholders are unable to sell their MWE Shares at all;
- the financial performance of MWE is worse than expected; or
- MWE is placed into receivership or liquidation.

This section, which is not exhaustive, represents the most significant risk factors known to MWE that could affect the future operational and financial performance of MWE and the value of its Shares. You should consider such risk factors together with the other information in this document.

MWE considers that the most significant risk factors that could affect the future operational and financial performance of MWE and the value of its Shares are:

### **MPI DISPUTE**

The Ministry for Primary Industries (**MPI**) is currently in dispute with MWE's former contracted wine processor which may have adverse implications for MWE. As MWE is not a party to the dispute and the dispute is ongoing, MWE does not have the benefit of all information in relation to the dispute. MWE understands that stock from other producers has been involved in the dispute. MPI has withheld approval from the processor for the release for sale to MWE of approximately \$1,200,000 of Bottled Wine. This stock remains held by a third party storage facility while the dispute is determined. The allegation by MPI is that the processor held insufficient records to enable proper traceability of the stock. If MPI's position is upheld the stock will be destroyed. MWE's own insurance is unlikely to cover this situation. MWE is in continuing discussions with its insurer however, the contractor has not accepted liability and MWE holds insufficient information at this time to form a view on whether any loss will be fully or partially covered by its insurance. MWE may also have a claim against the processor in this scenario; however, liability in the event of an adverse finding has not been admitted by the processor and cannot be properly assessed at the time of this document.

The processor who is the party to the dispute with MPI considers MPI's position is unfounded. If the processor's position is upheld, the inventory will be released to MWE and it is considered the inventory will be saleable. An outcome to the dispute is expected within the next 6 months.

At the current time MWE has not impaired the carrying value of its inventory in response to this dispute. The Board will keep the carrying value under review and, as more information on the dispute comes to hand consider if impairment is necessary. In the worst case scenario, the inventory carrying value could be written down by approximately \$1.2 million and MWE may not be able to obtain compensation from either its insurer or the processor. The effect of a full write down of this inventory on the relevant line items of MWE's balance sheet as at 30 June 2015 would be:

	30th June 2015 - Audited (NZD)	Fully Impaired (NZD)
Inventory & work in progress	6,234,378	5,034,378
Total Assets	28,089,840	26,889,840
Net assets	20,783,156	19,583,156

## OVERSEAS INVESTMENT OFFICE RETROSPECTIVE CONSENT

OIL is a wholly owned subsidiary of MWE. OIL obtained Overseas Investment Office (the **OIO**) consent to acquire the vineyard in Marlborough in 2013 (**Original Consent**).

OIL subsequently undertook the internal restructuring noted earlier on page 15 in preparation for listing MWE on the NXT market, which inadvertently breached the Overseas Investment Act (Act). The breach occurred when 3% of the shares in OIL were transferred from an overseas company to James Jia as part of the internal restructuring described on page 15. The conditions of the Original Consent and the Act provide that further consent was required when James Jia increased his ownership in OIL.

There is a risk that the OIO may seek remedies under the Act for the inadvertent breach. Remedies under the Act include:

- a fine (not exceeding \$100,000);
- a penalty (not exceeding \$300,000); or
- in the worst case, selling down/disposing of the sensitive land.

OIL became aware of the breach and promptly (and voluntarily) informed the OIO of the breach, the reasons for the breach and the steps OIL intends to take to remedy the breach. After discussions with the OIO it was considered that in order to remedy the breach, a retrospective consent application should be submitted. That application was filed on 15 December 2015 and is currently under review.

At the date of this document, MWE has no reason to believe the OIO will seek any further remedies from OIL in regards to this breach.

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## GEOGRAPHIC CONCENTRATION

At present, approximately 76%<sup>1</sup> of MWE's exports are to China and Hong Kong. Therefore, MWE is exposed to the fluctuations of the Chinese economy and reliant on continued access to the Chinese market for Bottled Wine sales.

This geographic concentration has arisen through a deliberate strategy of focussing on the Chinese market for growth. MWE considers that China is still a relatively immature market for white wine and therefore presents a significant growth opportunity for sales.

A portion of MWE's revenue is denominated in currencies other than the New Zealand Dollar. Fluctuations in the value of the New Zealand Dollar relative to the currencies of MWE's key markets (e.g. RMB in China and HKD in Hong Kong) may increase or decrease earnings from overseas and could have an impact on MWE's revenues and therefore financial performance. This risk is enhanced by the geographic concentration MWE has.

MWE intends to focus on developing other key foreign markets where it sees growth opportunities for its wines. These new markets include Australia, UK, USA and Europe. As further export markets develop MWE will become less exposed to the Chinese currency. The company will regularly review its treasury policies and where appropriate will look to manage any significant currency exposures.

## GRAPE SUPPLY AND QUALITY

MWE sources grapes from its wholly owned subsidiary company OIL. The loss or reduction in supply or a limited availability of high quality grapes could limit MWE's total wine production and supply of Bulk Wine and grapes which in turn would impact adversely upon MWE's financial performance.

In vineyards, a number of climatic and agricultural factors have the potential to adversely impact grape supply. MWE is dependent on the climatic conditions being consistent in the area of its vineyards.

MWE follows good viticultural management practices and engages experienced personnel to manage and mitigate the impact of climatic and agricultural factors (where possible). Mitigation practices to avoid the following threats include:

- **Frost:** using wind machines on the flat blocks, on other blocks keeping the weed spray strip clear of high weeds, and mowing the grass very low to allow warmth accumulation to the ground from the sun.
- **Cape Cambell Weta:** applying weta guards to the trunk of the vines.
- **Irrigation:** ensuring all blocks have storage dams to assist when the scheme water is cut during the dry summer months.
- **Disease:** regularly spray for all known diseases that affect grapevines.
- **Bronze Beetle:** pesticide applications.
- **Birds:** gas guns, hawks, tapes and distress noises are used to keep the birds away from the vines.

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<sup>1</sup> Note: the 76% is based on the Pro Forma sales history for the 12 months ending 30 June 2015.

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## DISTRIBUTION

MWE relies on agreements and commercial arrangements with third parties to distribute its products. The bulk of MWE's expected revenue for Bottled Wine sales over the next two years is based on MWE's supply agreement (with GEL). This agreement is not for a fixed term, and the intention between the parties is for it to continue long-term but with two yearly reviews of varietals and pricing.

These agreements, as is normal practice, can be terminated for a number of reasons on notice. In particular, the GEL distribution agreement may be terminated on 90 days written notice by either party. The termination of any one or more of these arrangements or unsatisfactory performance by distributors could have an adverse impact on access to particular markets.

MWE believes it could, if required, negotiate acceptable alternative arrangements on terms not materially less favourable to the current arrangements, particularly as it continues to grow brand recognition for O:TU.

MWE also continues to develop new distribution channels in its existing markets and enter new markets that may provide strong growth opportunities.

## OVERSUPPLY OF BULK GRAPES

For the year ended June 30, 2015, Bulk Grape sales represented two thirds of all sales revenue. While there is currently a strong market/demand for Bulk Grapes there is a risk of grape oversupply in this market if demand reduces.

MWE currently has Bulk Grape supply agreements in place with two major wine producers in the Marlborough area until the 2017 vintage. Following expiry of these agreements MWE would need to negotiate and enter new arrangements for the sale of Bulk Grapes and its ability to do so will be determined by market demand at that time.

MWE increasing Bottled Wine sales over this period will mitigate this risk as more grapes can be diverted towards wine production and bottling rather than being disposed of through Bulk Grape sales.

## WINE PROCESSING AND WINERY DEVELOPMENT

MWE currently relies on agreements and commercial arrangements with third party processors to assist in the processing of its grape supply into Bottled Wine. The termination of one or more agreements, or the unsatisfactory performance of contracted processors, could have an adverse effect on production and volumes available for sale.

MWE considers that a number of other local processors with an acceptable standard of operations exist. MWE is confident it could access and contract an alternative third party to process its grapes, if need be.

## SIWE REDEMPTION RISK

As discussed on page 19, MWE is indirectly involved in the SIWE. The SIWE is a wine exchange platform where investors and consumers can trade wine. As part of the SIWE arrangements MWE is subject to various contractual obligations to SIWE that are supported by a NZD\$4.4m performance guarantee issued by the Industrial and Commercial Bank of China (New Zealand) Limited (**ICBC Guarantee**). A critical outstanding obligation under the SIWE arrangements is an obligation on MWE to redeem wine (at the option of a SIWE purchaser at the conclusion of the SIWE arrangements). The wine is to be repurchased at 102.5% of the original sale price.

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MWE has not supplied its wine directly to the SIWE. The wine on the SIWE has already been sold to the SIWE (and is supplied to the SIWE) by NZIT. As a result, MWE does not directly benefit from a financial upside on the SIWE sales, MWE simply enjoys the significant brand exposure that the SIWE creates.

The SIWE arrangements had to be entered into by MWE as it is a requirement that the wine producer (in this case MWE and not the distributor i.e. NZIT) is contracted directly to SIWE. To mitigate MWE's risk and exposure under the SIWE arrangements a separate New Zealand investment company owned by James Jia (the owner of NZIT) has novated the liability to ICBC for the ICBC Guarantee and MWE and its subsidiaries are therefore fully released from any liability to ICBC in connection with the ICBC Guarantee.

James Jia's investment company has also provided an indemnity in favour of MWE for any further liability that MWE may incur to SIWE due to being the contractual counterparty to SIWE, beyond the ICBC Guarantee.

## **KEY PERSONNEL**

MWE has identified the importance of key personnel including the founder of MWE, chief executive officer, the winemaker and the vineyard manager to MWE's business operations. In the normal course of business, MWE faces the risk that key personnel may choose to leave MWE. There is also the risk that the performance of senior management and Board members will not meet expected or required standards, either individually or collectively.

Either case could adversely impact MWE's operating and financial performance.

This risk is partially mitigated by the depth of experience of the senior management team and succession plans developed for each position. James Jia will also retain substantial shareholdings following listing and, over time, senior management will be offered the opportunity to become shareholders in MWE. Team structures operating within MWE and clearly defined operating procedures further reduce the exposure to any particular individual, including the winemaker. MWE is confident that key personnel within its operations can be replaced with minimal effect on its performance.

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## 7. TAX

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New Zealand taxes may have significant consequences for investments.

Any investor considering the purchase, ownership or disposition of Shares should consult their own financial or tax advisers concerning the tax consequences of owning Shares, in light of that particular shareholder's own personal situation.



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## 8. OTHER MATERIAL INFORMATION

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MWE has adopted a Corporate Governance Code, a Code of Ethics, an Audit, Finance and Risk Committee Charter, a Remuneration, Nomination and Health & Safety Charter, and a Financial Products Trading Policy, concerning its governance which are available to view on the NXT Market Website at: <http://www.nxt.co.nz>

The information set out on MWE's webpage on the NXT website forms part of this document.

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## 9. WHERE YOU CAN FIND MORE INFORMATION

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### **NXT Website**

Further information relating to MWE and its Shares is available free of charge on the MWE's website [www.nzmwe.com](http://www.nzmwe.com) and on the NXT webpage for MWE, at <http://www.nxt.co.nz>

Copies of the constitution and MWE's financial statements may also be found on the New Zealand Companies Register, at <http://www.business.govt.nz/companies/>

### **Annual Information**

Shareholders of MWE will be entitled to receive information relating to the on-going performance of MWE. Unless otherwise signalled, shareholders will receive periodic statutory reports relating to MWE, including annual reports with audited financial statements, and other shareholder communications. Shareholders will also receive a notice stating the availability of such shareholder communications, and how to obtain copies.

MWE is also required to make half-yearly and annual preliminary announcements of its financial results to NZX.

### **Information on Request**

Shareholders are also entitled to request and receive free copies of the following documents upon request:

- the most recent financial statements of MWE and all documents that are required to be incorporated in or attached to, or to accompany, those financial statements;
- MWE's constitution.

This information can be obtained by writing to MWE at the address specified in section 11 (Contact information).

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## 10. DIRECTORS' CERTIFICATION

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The Directors consider, after due enquiry by them, none of the following has materially and adversely changed during the period between 31 December 2015 and the date of this document 30 June 2016:

- a) the trading or profitability of Marlborough Wine Estates Group;
- b) the value of Marlborough Wine Estates Group's assets (other than in respect of the MPI issue in regards to \$1.2 million of inventory as disclosed in the risks section on page 41 of this document).

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## 11. CONTACT INFORMATION

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### Issuer details

**Address:** **Marlborough Wine Estates Group Limited**  
Level 3, Tower One, 205 Queen Street  
Auckland Central, Auckland

**Email:** [catherine.ma@otuwines.com](mailto:catherine.ma@otuwines.com)

**Phone:** +64 9 215 6650

**Website:** [www.nzmwe.com](http://www.nzmwe.com)

Any queries or complaints about the Shares can be made to Catherine Ma, Group Chief Executive Officer, at this address.

### Share registry

**Address:** **Link Market Services**  
Level 11, Deloitte House, 80 Queen Street  
Auckland

**Email:** [enquiries@linkmarketservices.co.nz](mailto:enquiries@linkmarketservices.co.nz)

**Phone:** +64 9 375-5998

**Website:** [www.linkmarketservices.co.nz](http://www.linkmarketservices.co.nz)

### NXT Advisor

**Address:** **CM Partners Limited**  
Suite 107, The Geyser Building, 100 Parnell Road, Parnell,  
Auckland 1052

**Email:** [info@cmpartners.co.nz](mailto:info@cmpartners.co.nz)

**Phone:** +64 21 865 704

**Website:** [www.cmpartners.co.nz](http://www.cmpartners.co.nz)

### Legal Adviser

**Address:** **Duncan Cotterill**  
Level 2, Chartered Accountants House, 50 Customhouse Quay  
Wellington 6011

**Website:** [www.duncancotterill.com](http://www.duncancotterill.com)

### Auditor

**Address:** **Deloitte**  
Deloitte Centre, 80 Queen Street  
P.O. Box 115033, Auckland 1140, New Zealand

**Website:** [www.deloitte.com/nz](http://www.deloitte.com/nz)

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## GLOSSARY OF TERMS

**\$** means all figures are in New Zealand dollars, unless otherwise stated.

**Board** means the board of directors of MWE.

**Bottled Wine** means bottled wine produced by MWE with grapes from the MWE vineyards.

**Bulk Wine** means bulk processed wine produced by grapes from the MWE vineyards and sold in bulk to third parties.

**Bulk Grapes** means bulk grapes from the MWE vineyards sold in bulk to third parties.

**Compliance Listing** means the listing of MWE shares on the NXT Market.

**FY** means financial year

**GEL** means Great Esprit Limited.

**Listing Rules** means the NXT Market rules.

**MVG** means MWE's wholly owned subsidiary Marlborough Vineyard Group Limited.

**MWE and Group and Company** means Marlborough Wine Estates Group Limited and its subsidiary companies, as the context requires.

**Material Information** means information which is material to an assessment of the position and prospects of MWE.

**MPI** means the Ministry for Primary Industries.

**NZX** means NZX Limited.

**NXT Market** means the growth market aimed at small and medium cap businesses, branded as the "NXT Market" and operated by NZX.

**OIL** means MWE's wholly owned subsidiary O:TU Investments Limited.

**OIO** means the Overseas Investment Office.

**OTL** means MWE's wholly owned subsidiary Otuwhero Trustee Limited.

**Shares** means the existing ordinary fully paid shares in the capital of MWE.

**SIWE** means the Shanghai International Wine Exchange.