FISHER & PAYKEL APPLIANCES HOLDINGS LIMITED TARGET COMPANY STATEMENT

—

IN RELATION TO A TAKEOVER OFFER BY HAIER NEW ZEALAND INVESTMENT HOLDING COMPANY LIMITED

—

4 OCTOBER 2012

Fisher&Paykel

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CHAIRMAN'S LETTER

Dear Shareholder

Haier New Zealand Investment Holding Company Limited ("**Haier**") has offered $1.20 per share to buy your shares in Fisher & Paykel Appliances Holdings Limited ("**FPA**") by means of a formal takeover offer (the "**Offer**").

INDEPENDENT DIRECTORS RECOMMEND DO NOT ACCEPT HAIER'S OFFER

The independent directors of FPA (Dr Keith Turner, Mr Philip Lough, Ms Lynley Marshall and Mr Bill Roest) (the "**Independent Directors**") unanimously recommend that shareholders **do not accept** the Offer from Haier. In making their recommendation, the Independent Directors have carefully considered a full range of expert advice available to them.

Therefore you should take no action.

The principal reasons for recommending that shareholders do not accept are:

- Having regard to a full range of expert advice now available to the Independent Directors (including the Independent Adviser's valuation range of $1.28 to $1.57 per FPA Share), the Independent Directors consider that the Offer of $1.20 per FPA Share does not adequately reflect their view of the value of FPA based on their confidence in the strategic direction of the Company; and
- FPA is in a strong financial position and, as the Independent Adviser notes, FPA is at a "relatively early stage of implementation of the company's comprehensive rebuilding strategy".

This letter forms part of the Company's Target Company Statement in response to Haier's Offer. The Target Company Statement is required by the Takeovers Code and includes the Independent Directors' recommendation regarding the Offer, as well as the Independent Adviser's report, prepared by the Independent Adviser, Grant Samuel.

FPA announced on 11 September 2012 that the independent board was supportive of the Offer subject to three conditions, including the Offer price being within or above the valuation range as determined by the Independent Adviser. Based on the full range of expert advice now available, your Independent Directors unanimously recommend that you **do not accept** the Offer from Haier.

WE URGE YOU TO READ THE TARGET COMPANY STATEMENT, INCLUDING THE INDEPENDENT ADVISER'S REPORT, CAREFULLY.

Shareholders will need to consider the Offer in the context of their own circumstances, and should consult their own professional adviser. If you have any questions in relation to the Offer, please do not hesitate to call the Fisher & Paykel Appliances Shareholder Information Line toll free on 0800 372 273 (if calling within New Zealand) or 1300 650 590 (if calling from within Australia) between 9.00am and 5.00pm Monday to Friday. The Independent Directors will, as appropriate, advise shareholders of any new information or changes in circumstances that they consider to be relevant to the Offer.

Yours faithfully

Dr Keith Turner

Chairman, Fisher & Paykel Appliances Holdings Limited

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TARGET COMPANY STATEMENT (TAKEOVERS CODE DISCLOSURES)

1. DATE

This target company statement (**Target Company Statement**) is dated 4 October 2012.

2. OFFER

2.1 This Target Company Statement relates to a full takeover offer (the **Offer**) by Haier New Zealand Investment Holding Company Limited (**Haier**) to purchase all of the ordinary shares (**FPA Shares**) in Fisher & Paykel Appliances Holdings Limited (**FPA**) for a purchase price of $1.20 per FPA Share, payable in cash.

2.2 The terms of the Offer are set out in the offer document dated 23 September 2012 (the **Offer Document**), which has been sent to FPA shareholders by Haier.

3. TARGET COMPANY

The name of the target company is Fisher & Paykel Appliances Holdings Limited.

4. DIRECTORS OF FPA

The names of the directors of FPA are:

(a) Dr Keith Turner;
(b) Mr Stuart Broadhurst;
(c) Mr Liang Haishan;
(d) Ms Tan Lixia;
(e) Mr Philip Lough;
(f) Ms Lynley Marshall; and
(g) Mr Bill Roest.

5. OWNERSHIP OF EQUITY SECURITIES OF FPA

5.1 Schedule 1 to this Target Company Statement sets out the number and the percentage of FPA Shares held or controlled by each director or senior officer[1] of FPA (a **Director** or **Senior Officer**, respectively) or their associates.

5.2 Schedule 2 to this Target Company Statement sets out the number and the percentage of FPA Shares held or controlled by any other person holding or controlling 5% or more of the class of equity securities, to the knowledge of FPA.

5.3 Except as set out in Schedule 1 to this Target Company Statement, no other Director or Senior Officer of FPA or their associates holds or controls any equity securities of FPA. Except as set out in Schedule 2 to this Target Company Statement, to FPA's knowledge no other person holds or controls more than 5% of a class of equity securities of FPA.

5.4 No equity securities of FPA have, during the two year period ending on the date of this Target Company Statement, been issued to the Directors, Senior Officers or their associates.

5.5 Schedule 3 to this Target Company Statement sets out the number of equity securities of FPA in which the Directors, Senior Officers or their

[1] The senior officers of FPA for the purposes of this Target Company Statement are: Stuart Broadhurst (Managing Director and Chief Executive Officer), Brett Butterworth (Vice President, Components & Technology, Production Machinery, Haier PMO), Andrew Cooke (Vice President, Supply Chain Management and Information Technology), Roger Cooper (Vice President Operations), Dale Farrar (Vice President Human Resources), Alastair Macfarlane (Managing Director, Fisher & Paykel Finance), Garry Moore (Vice President Quality and Customer Services), Matt Orr (Vice President Corporate Planning and Investor Relations), Craig Reid (Chief Sales & Marketing Officer), David Sullivan (Chief Financial Officer) and Daniel Witten-Hannah (Vice President Product Development).

associates have, during the two year period ending on the date of this Target Company Statement, obtained a beneficial interest under any employee share scheme or other remuneration arrangement, together with the price at which those equity securities were issued or provided.

6. TRADING IN FPA EQUITY SECURITIES

6.1 Details of the acquisition or disposition of FPA Shares during the six month period ending on 2 October 2012 (being the latest practicable date before the date of this Target Company Statement) by Directors, Senior Officers or their associates and any person holding or controlling 5% or more of the FPA Shares are set out in Schedule 4.

6.2 Except as set out in Schedule 4, no Director, Senior Officer or associate of a Director or Senior Officer or, to the knowledge of FPA, any person holding or controlling 5% or more of the equity securities of any class of FPA has acquired or disposed of equity securities of FPA during the six month period ending on 2 October 2012 (being the latest practicable date before the date of this Target Company Statement).

7. ACCEPTANCE OF OFFER

7.1 As at 2 October 2012 (being the latest practicable date before the date of this Target Company Statement), no Director or Senior Officer has accepted, or indicated to FPA a current intention to accept, the Offer in respect of any of the FPA Shares held or controlled by them.

7.2 Mr Stuart Broadhurst and Mr Philip Lough have indicated to FPA that they do not intend to accept the Offer at an offer price of $1.20 per FPA Share.

8. OWNERSHIP OF EQUITY SECURITIES OF HAIER

8.1 Neither FPA, nor any Director, Senior Officer or any of their associates, holds or controls any equity securities of Haier.

8.2 Two of FPA's Directors hold equity securities in Qingdao Haier Co. Ltd, a related company of Haier, as set out in the table below.

NAME	DESCRIPTION	COMPANY IN WHICH SECURITIES ARE HELD OR CONTROLLED	DESIGNATION OF SECURITIES	NUMBER OF SECURITIES	PERCENTAGE OF TOTAL CLASS
Liang Haishan	Director	Qingdao Haier Co. Ltd	Shares	1,027,920	0.0383
Liang Haishan	Director	Qingdao Haier Co. Ltd	Options	2,212,000	0.08
Tan Lixia	Director	Qingdao Haier Co. Ltd	Shares	1,027,920	0.0383
Tan Lixia	Director	Qingdao Haier Co. Ltd	Options	952,000	0.0344

9. TRADING IN EQUITY SECURITIES OF HAIER

Neither FPA, nor any Director, Senior Officer or any of their associates, has acquired or disposed of any equity securities of Haier during the six-month period before 2 October 2012 (being the latest practicable date before the date of this Target Company Statement).

10. ARRANGEMENTS BETWEEN HAIER AND FPA

10.1 Except as set out in paragraphs 10.2 to 10.4 below, no agreement or arrangement (whether legally enforceable or not) has been made, or is proposed to be made, between Haier or any associate of Haier and FPA or any related company of FPA, in connection with, in anticipation of, or in response to, the Offer.

10.2 Haier has advised FPA of its intentions to ensure business continuity for FPA. The following outlines Haier's current intentions (as outlined by Haier in the Offer Document):

(a) to retain the existing FPA brands and businesses in New Zealand, Australia and the United States;

(b) to support the direction of FPA's existing business strategy;

(c) to retain the office of the Chief Executive Officer and the corporate headquarters in New Zealand;

(d) to support the employment policies of FPA and to retain its key personnel;

(e) to retain the existing material businesses of the FPA group of companies (other than there could be a potential divestment of the Fisher & Paykel Finance business);

(f) to retain in New Zealand the existing FPA product development base and to support the future growth of FPA product development capabilities;

(g) to retain the existing operations currently operated by Fisher & Paykel Production Machinery Limited;

(h) to jointly manage any secondment programme to FPA;

(i) to maintain the existing ratio of New Zealand or Australian resident independent directors on the FPA board for at least two years after the closing date of the Offer;

(j) to maintain open lines of communication, enhance commercial opportunities and improve the working relationship between Haier and FPA, including establishing a board sub-committee to oversee the execution of these intentions; and

(k) to retain and respect the organisational culture, history and achievements of FPA.

Haier has stated that it reserves the right to make changes to the above intentions, but would only do so after consultation with the board of FPA.

10.3 Haier and FPA entered into a confidentiality agreement dated 6 September 2012, under which:

(a) Haier agreed to keep confidential information disclosed to it by FPA in connection with its proposal to make a takeover offer for FPA and to use that information solely for that purpose; and

(b) Haier agreed not to contact any of FPA's shareholders other than certain shareholders who Haier wished to approach to discuss the Offer and only after FPA had provided those shareholders on a confidential basis with certain information that had been provided to Haier.

10.4 In an announcement made on 11 September 2012, FPA stated that its independent board was supportive of the Offer on the following basis:

(a) the offer price must be within or above the valuation range as determined by the independent adviser;

(b) there is no superior alternative for FPA and its shareholders; and

(c) the terms and conditions of the Offer being acceptable.

As stated in the Chairman's Letter, the independent directors of FPA recommend that shareholders do not accept the Offer. Having regard to a full range of expert advice now available to the Independent Directors (including the Independent Adviser's valuation range of $1.28 to $1.57 per FPA Share), the Independent Directors consider that the Offer of $1.20 per FPA Share does not adequately reflect their view of the value of FPA based on their confidence in the strategic direction of the Company.

11. RELATIONSHIP BETWEEN HAIER AND DIRECTORS AND OFFICERS OF FPA

11.1 No agreement or arrangement (whether legally enforceable or not) has been made, or is proposed to be made, between Haier or any associates of Haier, and any of the directors or senior officers of FPA or of any related company of FPA (including any payment or other benefit proposed to be made or given by way of compensation for loss of office, or as to their remaining in or retiring from office) in connection with, in anticipation of, or in response to, the Offer.

11.2 Mr Liang Haishan, who is a director of FPA, is also a director of Haier, Haier (Singapore) Management Holding Co. Pte Ltd, Haier Electronics Group Co. Ltd and Qingdao Haier Co. Limited and a senior officer of Haier Group Corporation (occupying the role of Executive Vice President), Haier White Goods Group (occupying the role of President) and Qingdao Haier Co. Limited (occupying the role of General Manager).

11.3 Ms Tan Lixia, who is a director of FPA, is also a director of Haier and Haier (Singapore) Management Holding Co. Pte Ltd and a senior officer of Haier Group Corporation (occupying the roles of Senior Vice President and Chief Financial Officer).

11.4 Except as set out in paragraphs 11.2 and 11.3 above, none of the Directors or Senior Officers are also directors or senior officers of Haier or any related companies of Haier.

12. AGREEMENT BETWEEN FPA AND DIRECTORS AND OFFICERS OF FPA

12.1 Except as set out in paragraphs 12.2 to 12.7 below, no agreement or arrangement (whether legally enforceable or not) has been made, or is proposed to be made, between FPA or any related company of FPA and any directors, senior officers or their associates of FPA or its related companies, under which a payment or other benefit may be made or given by way of compensation for loss of office, or as to their remaining in or retiring from office in connection with, in anticipation of, or in response to, the Offer.

12.2 The FPA board has put in place new arrangements which are designed to:

(a) retain Senior Officers and a range of other employees through the 2 year period after any change of control; and

(b) recognise the significant additional work undertaken by certain Senior Officers and employees related to the Offer.

12.3 The FPA board has also modified the existing employee incentive arrangements of certain Senior Officers and certain other employees to provide clarity, confidence and certainty to those Senior Officers and other employees in respect of their current short and long term incentive arrangements.

12.4 These combined arrangements are consistent with the critical need for FPA to retain key personnel, deliver its business strategy and retain its organisational culture.

12.5 Retention scheme

(a) The employment agreements of each of the Participating Senior Officers and a range of other employees of the FPA group have been varied to put in place a retention scheme.

(b) The scheme only applies to employees of the FPA group who remain employed on the first and second anniversaries of the date (the **Change of Control Date**) on which a person becomes the holder of more than 50% of the ordinary shares in FPA (a **Change of Control**).

(c) Participating employees are eligible to receive a payment on the first and second anniversaries of the Change of Control Date. The amount of each of these payments ranges between 2.4 to 7.8 months' salary per employee.

(d) Other than in certain "good leaver" circumstances (such as redundancy or termination of employment without cause), participating employees are required to remain employed for the full 24 months following a Change of Control in order to receive these payments. If they leave prior to the second anniversary of the Change of Control Date they will be required to repay the first payment.

(e) The maximum potential amount that could be paid under this scheme to Participating Senior Officers and other employees is $14.45 million (in aggregate).

(f) This retention scheme has replaced the previous change of control entitlements for two of the company's Senior Officers and one other employee. One other Senior Officer has a change of control provision in his employment agreement which provides that, if a change of control in FPA occurs (which would be triggered if the Offer is declared unconditional), he will be entitled to a payment of an amount equal to one year's total remuneration if his employment is terminated within two years after the date on which the change of control occurs or he gives notice of his intention to terminate his employment within six months of the date on which the change of control occurs. One Participating Senior Officer's employment agreement was also varied to provide that, if he gives notice of termination of his employment during the last three months prior to the second anniversary of the Change of Control Date, a six month (rather than 12 month) notice period will apply.

12.6 Additional work related to the takeover

(a) The employment agreements of three Senior Officers and one other employee have been varied to provide for a payment to be made to them for extra work undertaken in connection with the Offer — above and beyond their usual responsibilities.

(b) These payments will be paid on the earlier of the Change of Control Date and 1 April 2013. These payments are not conditional on a Change of Control occurring.

(c) The amount of the payments will be determined by the independent directors of FPA after considering the extent of the work carried out by the relevant employees. Payments will range from 3 to 4.8 months' salary for each relevant employee.

12.7 Modification of the current "at risk" incentive remuneration

(a) A key component of the remuneration arrangements at FPA has been an "at risk" element linked to meeting short and long term performance goals. These are designed to increase shareholder value.

(b) The FPA board has modified elements of the short term and long term "at risk" remuneration arrangements, some of which were linked to FPA's share price, to reflect the change in circumstances if a Change of Control occurred.

FPA's short term incentive plan ("STIP")

(c) These arrangements have been varied for the Participating Senior Officers and certain other employees to provide a guaranteed minimum payment under the STIP in respect of each of the 2014 and 2015 financial years.

(d) The guaranteed minimum payment under the STIP in respect of each of the 2014 and 2015 financial years is 25% of their target incentive value for those financial years.

(e) An employee will not be entitled to receive this payment under the STIP in respect of the 2014 and 2015 financial years if any disciplinary action or process has been taken or commenced against that employee during the applicable financial year.

2012 Interim LTIP

(f) If a Change of Control occurs on or prior to 30 June 2013, the FPA board will proceed to make an interim long term incentive payment to the Participating Senior Officers of 60-80% of the maximum value of the long term incentive grant value that would otherwise have been offered to them on 1 October 2012.

(g) If a Change of Control does not occur on or prior to 30 June 2013, the FPA board will proceed to make the long term incentive grants under the existing long term incentive plan that it would otherwise have made on 1 October 2012 had that plan, rather than the 2012 Interim LTIP, applied.

(h) The 2012 Interim LTIP payment is in all respects conditional on a Change of Control occurring on or prior to 30 June 2013.

(i) The maximum aggregate amount of the payments payable under the 2012 Interim LTIP is approximately $2.2 million.

2013/2014 Interim LTIP

(j) The FPA board has agreed that if a Change of Control occurs on or before 30 June 2013, it will put in place an interim long term incentive plan for the Participating Senior Officers for the 2013 and 2014 calendar years (the **2013/2014 Interim LTIP**).

(k) This interim plan will replace the existing performance elements of the existing LTIP which were linked to FPA's share price performance.

(l) The 2013/2014 Interim LTIP will operate as follows:

(i) New plan targets for determining entitlements for the 2013 and 2014 calendar years will be based on the achievement of FPA's EBIT targets in its five year plan (rather than FPA's share price) for the 2014 and 2015 financial years.

(ii) For this purpose, target and actual EBIT numbers for the 2014 and 2015 financial years will be adjusted for any fundamental changes made to the five year plan by Haier (compared with FPA's current five year plan) so that Participating Senior Officers will not be disadvantaged by those fundamental changes when determining their entitlements under the 2013/2014 Interim LTIP.

(iii) There will be a minimum annual grant value of one times the current long term incentive grant value. The minimum annual grant value for the Participating Senior Officers ranges from 1.2 months' salary to 3 months' salary.

(iv) The maximum amount payable in respect of each of the 2013 and 2014 calendar years will be capped at five times the current long term incentive grant value for each Participating Senior Officer. This is the same cap that applies under FPA's existing long term incentive plan.

(v) The entitlements for the 2013 and 2014 calendar years will be paid on 29 May 2015 provided that the relevant Participating Senior Officer continues to be employed by the FPA group on 31 December 2014.

13. INTERESTS OF DIRECTORS AND OFFICERS OF FPA IN CONTRACTS OF HAIER OR RELATED COMPANY

13.1 Except as set out in paragraph 13.2 below, no Director, Senior Officer or any of their associates has an interest in any contract to which Haier, or any related company of Haier, is a party.

13.2 The following Directors are employed or engaged by the Haier Group and therefore have interests as parties to contracts to which Haier, or a related company of Haier, is a party and under which they are remunerated for their services provided to the Haier Group:

(a) Mr Liang Haishan, who acts as Executive Vice President of Haier Group and President of Haier White Goods Group; and

(b) Ms Tan Lixia, who acts as Senior Vice President and the Chief Financial Officer of the Haier Group.

13A. INTERESTS OF FPA'S SUBSTANTIAL SECURITY HOLDERS IN MATERIAL CONTRACTS OF HAIER OR RELATED COMPANY

13A.1 Except as set out in paragraph 13A.2 below, no person who, to the knowledge of the Directors or the Senior Officers, holds or controls 5% or more of the FPA Shares has an interest in any material contract to which Haier, or any related company of Haier, is a party.

13A.2 Allan Gray Australia Pty Ltd, a substantial security holder of FPA, is party to a lock-up agreement with Haier dated 11 September 2012 whereby it has agreed to accept the Offer in respect of 126,438,231 FPA Shares. If completion occurs under the Offer, the amount payable to Allan Gray Australia Pty Ltd under the Offer at $1.20 per FPA Share will be $151,725,877.20.

14. ADDITIONAL INFORMATION

In the opinion of the Directors, no additional information, within the knowledge of FPA, is required to make the information in the Offer Document correct or not misleading.

15. RECOMMENDATION

15.1 THE INDEPENDENT DIRECTORS OF FPA (DR KEITH TURNER, MR PHILIP LOUGH, MS LYNLEY MARSHALL AND MR BILL ROEST) HAVE CAREFULLY CONSIDERED A FULL RANGE OF EXPERT ADVICE NOW AVAILABLE TO THEM (INCLUDING THE INDEPENDENT ADVISER'S VALUATION RANGE OF $1.28 TO $1.57 PER FPA SHARE) AND UNANIMOUSLY RECOMMEND THAT SHAREHOLDERS DO NOT ACCEPT THE OFFER FOR THE REASONS SET OUT IN THE CHAIRMAN'S LETTER.

15.2 Mr Liang Haishan and Ms Tan Lixia, as associates of Haier, have a conflict of interest in respect of the Offer. For this reason they abstain from making any recommendation as to whether to accept or reject the Offer.

15.3 Mr Stuart Broadhurst, being the Managing Director and Chief Executive Officer of FPA and a party to the arrangements described in paragraphs 12.2 to 12.7 of this Target Company Statement, has a potential conflict of interest in respect of the Offer. For this reason, Mr Broadhurst also abstains from making any recommendation as to whether to accept or reject the Offer.

16. ACTIONS OF FPA

16.1 Except for the arrangements summarised in paragraphs 10 and 12, there are no material agreements or arrangements (whether legally enforceable or not) of FPA or any related company of FPA entered into as a consequence of, in response to, or in connection with, the Offer.

16.2 After Haier issued the Takeover Notice, FPA received approaches from several parties expressing interest in the possibility of acquiring some of FPA's assets or businesses. However, none of those approaches has developed into a firm proposal. There are therefore currently no negotiations underway as a consequence of, in response to, or in connection with, the Offer that relate to, or could result in:

(a) an extraordinary transaction, such as a merger, amalgamation or reorganisation, involving FPA or any of its related companies;

(b) the acquisition or disposition of material assets by FPA or any of its related companies;

(c) an acquisition of equity securities by, or of, FPA or any related company of FPA; or

(d) any material change in the issued equity securities of FPA, or the policy of the board of directors of FPA relating to distributions, of FPA.

17. EQUITY SECURITIES OF FPA

FPA has 724,235,162 FPA Shares on issue. These are all fully paid. Subject to certain conditions in the constitution of FPA and the NZSX Listing Rules and ASX Listing Rules each Share confers upon the holder the right to:

(a) an equal share in dividends authorised by the board of directors of FPA;

(b) an equal share in the distribution of surplus assets on liquidation of FPA;

(c) participate in certain further issues of equity securities by FPA; and

(d) cast one vote on a show of hands or the right to cast one vote per share on a poll, at a meeting of Shareholders on any resolution, including a resolution to:

- (i) appoint or remove a director or auditor;
- (ii) alter FPA's constitution;
- (iii) approve a major transaction by FPA;
- (iv) approve an amalgamation involving FPA; and
- (v) put FPA into liquidation.

18. FINANCIAL INFORMATION

18.1 A copy of FPA's most recent annual report (being the annual report for the year ended 31 March 2012) is available on FPA's website at www.fisherpaykel.co.nz.

18.2 Each person to whom the Offer is made is also entitled to obtain from FPA a copy of FPA's most recent annual report by making a written request to:

The Company Secretary
Fisher & Paykel Appliances Holdings Limited
78 Springs Road
East Tamaki
Auckland 2013
New Zealand.

18.3 No half-yearly report or interim report has been issued by FPA since the issue of the annual report referred to in paragraph 18.1 above.

18.4 There have been the following material changes in the financial or trading position, or prospects, of FPA since its 31 March 2012 annual report was prepared and sent to Shareholders:

(a) On 23 August 2012, FPA announced:

- (i) the following results (based on unaudited management accounts) for the FPA group for the four months ended 31 July 2012:
  - (A) group net profit after tax was $12.3 million (compared to $4.7 million for the four months ended 31 July 2011);

(B) earnings before interest and tax of $9.1 million for the Appliances business (compared to breakeven for the same period last year). Importantly, the Appliances business did not experience any significant transactional hedging losses compared to the prior corresponding quarter; and

(C) the Finance business achieved earnings before interest and tax of $10.9 million (compared to $10.2 million for the same period last year);

(ii) operating earnings before interest and tax for the FPA group for the financial year ending 31 March 2013 are expected to be between $70 million and $78 million (comprising operating earnings before interest and tax for the Appliances business for that period of between $35 million and $40 million and operating earnings before interest and tax for the Finance business for that period of between $35 million and $38 million). This forecast assumes that there are no unexpected material changes to the current trading assumptions;

(iii) that capital expenditure for the FPA group is forecast to be approximately $42 million for the financial year ending 31 March 2013;

(iv) that, assuming all operating and financial objectives are met, FPA group net debt (excluding Finance business operating borrowings) at the end of this financial year is expected to be well below reported group net debt of $65 million as at 31 March 2012; and

(v) that the FPA board took the difficult decision not to declare a dividend for the 2012 financial year. At that time the Directors believed it was prudent to take a cautious approach to market conditions, in particular in Australia. The Directors are conscious of the importance of dividends to Shareholders. The FPA board intends to resume dividend payments this year. Details of the amount and timing of any distribution will be announced in November 2012 according to the Company's usual cycle, subject to no unexpected material changes to the current trading assumptions.

(b) On 10 September 2012, FPA released to NZX and ASX a "5 Year Strategic Plan Presentation" containing excerpts from FPA's five year strategic plan. A copy of that presentation is available on FPA's website at www.fisherpaykel.co.nz.

(c) The trading performance of the Appliances business in September 2012 was below expectations, primarily as a result of softer retail market conditions in Australia, while the Finance business traded broadly in line with expectations. Despite that recent trading performance, FPA confirms the previous market guidance issued on 23 August 2012 (set out in paragraph 18.4(a)) but remains concerned about the potential for market conditions in Australia to deteriorate which would have a negative impact on near term earnings.

(d) Fisher & Paykel Finance is currently in renewal negotiations with a large customer. If this customer does not renew its business with Fisher & Paykel Finance there would be a negative impact on long term earnings.

(e) Fisher & Paykel Finance Holdings Limited recently undertook a funding and liquidity review. At its September meeting the board of Fisher & Paykel Finance Holdings Limited approved a reduction in excess bank facilities of $75 million, which is expected to be implemented during October.

18.5 The principal assumptions on which the prospective financial information referred to in paragraphs 18.4(a)(ii), (iii) and (iv) above is based are:

(a) FPA's actual results for the four months to 31 July 2012 plus management's forecast for the remaining eight months of the 2013 financial year;

(b) Revenues include the projected introduction of new products and the production of commercial quantities under two new motor supply contracts;

(c) Prices and margins are based on current and projected views of market pricing and product input costs including raw material prices, labour and freight costs;

(d) Corporate and operating overheads have been adjusted for anticipated changes for the balance of the 2013 financial year;

(e) Foreign exchange assumptions are based on July 2012 exchange rates and are assumed to remain constant for the balance of the 2013 financial year;

(f) Any costs or expenditure relating to Haier's Takeover Notice or Haier's Offer have not been included;

(g) Capital expenditure is based on existing projects, adjusted for anticipated changes;

(h) Fisher & Paykel Finance's earnings, interest income, interest expense and bad debt expenses are based on performance for the four months to 31 July 2012 adjusted for anticipated changes for the balance of the 2013 financial year;

(i) There being no material change to Fisher & Paykel Finance's funding costs and mix between 31 July 2012 and 31 March 2013.

18.6 FPA will incur one-off costs in the 2013 financial year in connection with the Offer. These costs will include the fees and expenses of FPA's financial, legal, PR and other advisers, the fees of the Independent Adviser, design, printing, mailing and communication costs. All or most of these costs are expected to be recoverable from Haier in accordance with Rule 49 of the Takeovers Code.

18.7 Other than as set out elsewhere in this Target Company Statement, or as contained in the Independent Adviser's Report:

(a) there have been no known material changes in the financial or trading position, or prospects, of FPA since the 31 March 2012 annual report; and

(b) there is no other information about the assets, liabilities, profitability and financial affairs of FPA that could reasonably be expected to be material to the making of a decision by Shareholders to accept or reject the Offer.

19. INDEPENDENT ADVICE ON MERITS OF OFFER

Grant Samuel is the Independent Adviser who has provided a report under Rule 21 of the Takeovers Code (the **Independent Adviser's Report**). A copy of the Independent Adviser's Report is attached to this Target Company Statement.

20. ASSET VALUATIONS

No information provided in this Target Company Statement refers to a valuation of any asset of FPA.

21. PROSPECTIVE FINANCIAL INFORMATION

21.1 The Independent Adviser's Report contains prospective financial information in relation to FPA. The principal assumptions on which the prospective financial information is based are set out in the Independent Adviser's Report.

21.2 The principal assumptions on which the prospective financial information in relation to FPA referred to in paragraphs 18.4(a)(ii), (iii) and (iv) above are set out in paragraph 18.5 above.

21.3 Other than the prospective financial information referred to in paragraphs 18.4(a)(ii), (iii) and (iv) and 21.1 above, this Target Company Statement does not refer to any other prospective financial information about FPA.

22. SALES OF UNQUOTED EQUITY SECURITIES UNDER OFFER

There are no unquoted equity securities that are subject of the Offer.

23. MARKET PRICES FOR QUOTED EQUITY SECURITIES UNDER OFFER

23.1 The FPA Shares are quoted on NZSX and ASX.

23.2 The closing price on NZSX and ASX of FPA Shares on:

(a) 2 October 2012, being the latest practicable working day before the date on which this Target Company Statement is sent to Shareholders, was NZ$1.205 on NZSX and A$0.965 on ASX respectively;

(b) 10 September 2012, being the last day on which NZSX and ASX were open for business before the date on which FPA received Haier's Takeover Notice, was NZ$0.97 on NZSX and A$0.755 on ASX respectively. Note that on 10 September 2012 FPA made an announcement that it had been approached by Haier expressing an interest in making a takeover offer for the Company and FPA's share price increased significantly on that day; and

(c) 7 September 2012, being the last trading day prior to the announcement by FPA that it had been approached by Haier expressing an interest in making a takeover offer for the Company, was NZ$0.75 on NZSX and A$0.58 on ASX respectively.

23.3 The highest and lowest closing market prices of FPA Shares on NZSX and ASX (and the relevant dates) during the six months before the Notice Date, were as follows:

(a) the highest closing market price was NZ$0.97 on NZSX and A$0.755 on ASX respectively (on 10 September 2012); and

(b) the lowest closing market price was NZ$0.455 on NZSX and A$0.35 on ASX respectively (on 12 March 2012).

The highest closing market price of FPA Shares on NZSX and ASX during the six months before 10 September 2012 (being the date on which FPA announced that it had been approached by Haier expressing an interest in making a takeover offer for the Company) was NZ$0.75 on NZSX and A$0.58 on ASX respectively (on 7 September 2012).

23.4 During the six month period before the Notice Date, FPA did not issue any equity securities, make any changes to any equity securities on issue, or make any distributions, which could have affected the market prices of FPA Shares referred to above.

24. OTHER INFORMATION

The following information is considered by FPA to be information that could reasonably be expected to be material to the making of a decision by the Shareholders of FPA as to whether to accept or reject the Offer, and the timing of the giving of any acceptance:

(a) the terms of the Offer state that, once given, acceptances may not be withdrawn by acceptors unless Haier fails to pay acceptors in accordance with the Takeovers Code;

(b) if Haier increases the price of the Offer, Haier must provide the increased price to all Shareholders whose FPA Shares are acquired under the Offer, whether or not the Shareholder accepted the Offer before or after the price was increased; and

(c) payment for FPA Shares in respect of which the Offer is accepted will only be made by Haier within seven days **of the later of** the date on which the relevant acceptance is received, the date on which the Offer becomes unconditional or 6 November 2012. Early acceptance of the Offer will therefore not result in payment being made any earlier than the later date described above.

25. APPROVAL OF THIS TARGET COMPANY STATEMENT

25.1 The contents of this Target Company Statement have been approved by the independent directors of FPA (Dr Keith Turner, Mr Philip Lough, Ms Lynley Marshall and Mr Bill Roest), who have been delegated with authority by the Directors of FPA to do so.

25.2 As disclosed in paragraph 15, Mr Liang Haishan and Ms Tan Lixia have a conflict of interest in respect of the Offer and Mr Stuart Broadhurst has a potential conflict of interest in respect of the Offer. As a result, they have not formally approved this Target Company Statement.

26. INTERPRETATION

26.1 In this Target Company Statement:

ASX means ASX Limited (ACN 008 624 691) or, as the context requires, the financial market operated by it known as the Australian Securities Exchange;

Directors means the directors of FPA;

FPA or the **Company** means Fisher & Paykel Appliances Holdings Limited;

FPA Share means an ordinary share in FPA;

Haier means Haier New Zealand Investment Holding Company Limited;

Haier Singapore means Haier (Singapore) Management Holding Co. Pte Limited;

Independent Adviser or **Grant Samuel** means Grant Samuel & Associates Limited;

Independent Adviser's Report means the independent adviser's report provided by Grant Samuel under Rule 21 of the Takeovers Code and set out in the Appendix to this Target Company Statement;

Notice Date means 11 September 2012;

NZ$ means New Zealand dollars;

NZSX means the NZX Main Board;

NZX means New Zealand Exchange Limited;

Offer means the full takeover offer by Haier to purchase all of the FPA Shares for a purchase price of $1.20 per FPA Share, payable in cash;

Offer Document means the offer document dated 23 September 2012 in relation to the Offer;

Participating Senior Officers means Stuart Broadhurst, Brett Butterworth, Andrew Cooke, Roger Cooper, Dale Farrar, Garry Moore, Matt Orr, Craig Reid, David Sullivan and Daniel Witten-Hannah;

Shareholders means the holders of FPA Shares which are the subject of the Offer by Haier;

Takeovers Act means the Takeovers Act 1993;

Takeovers Code means the Takeovers Code approved by the Takeovers Code Approval Order 2000 (as amended); and

Takeover Notice means the notice pursuant to rule 41 of the Takeovers Code given to FPA by Haier on the Notice Date.

26.2 Words and expressions defined in the Takeovers Act or the Takeovers Code and not otherwise defined in this Target Company Statement have the same meaning when used in this Target Company Statement.

27. CERTIFICATE

To the best of our knowledge and belief, after making proper enquiry, the information contained in or accompanying this statement is, in all material respects, true and correct and not misleading, whether by omission of any information or otherwise, and includes all the information required to be disclosed by FPA under the Takeovers Code.

SIGNATURES

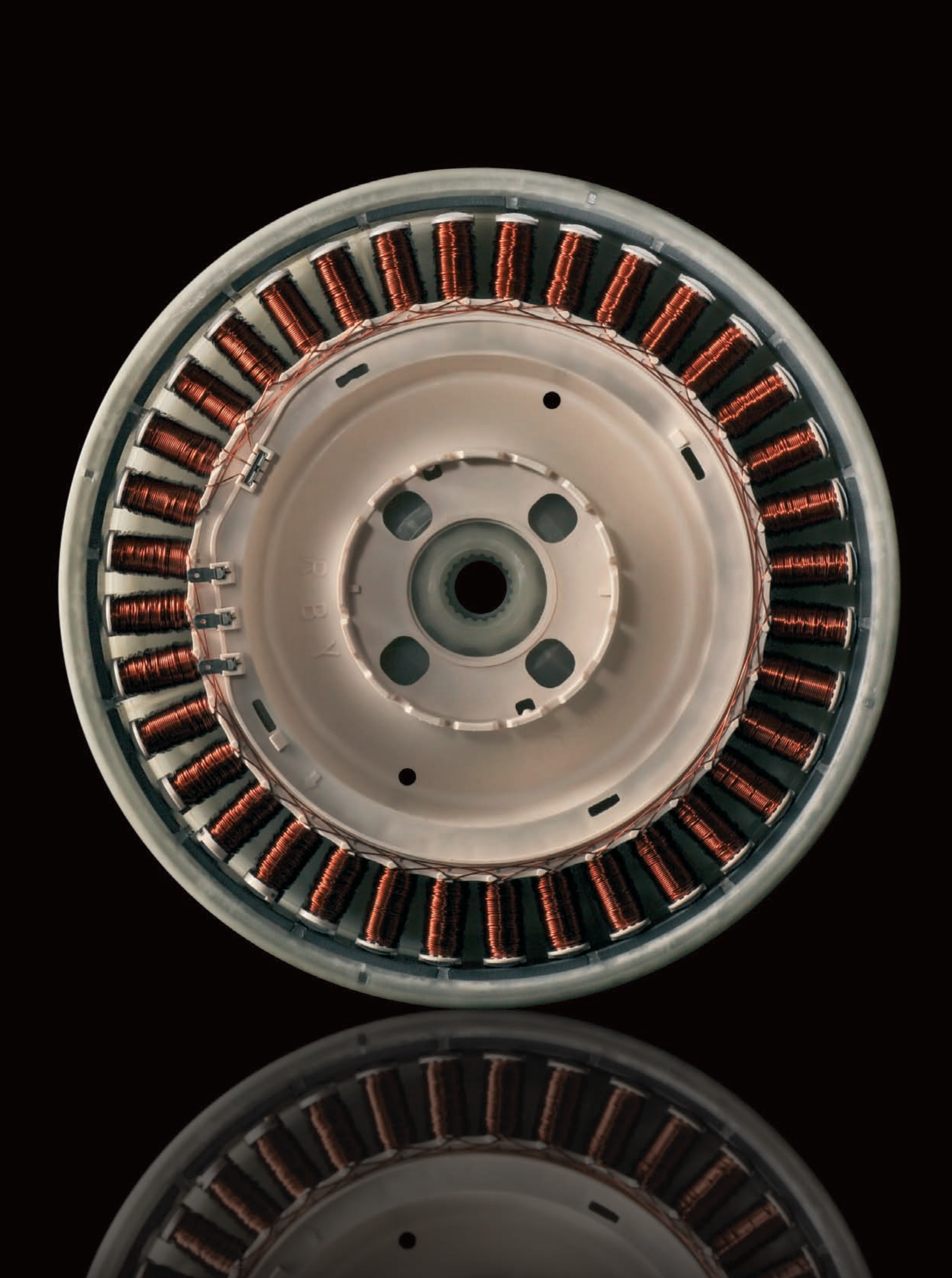
Dr Keith Turner
Chairman

Stuart Broadhurst
Chief Executive Officer

Bill Roest
Director

David Sullivan
Chief Financial Officer

SMARTDRIVE™ MOTOR — A DIRECT DRIVE WASHING MACHINE MOTOR



SCHEDULE

1 — 4

SCHEDULE 1:
OWNERSHIP OF FPA SHARES BY DIRECTORS AND SENIOR OFFICERS (PARAGRAPH 5.1)

NAME	DESCRIPTION	NUMBER OF FPA SHARES HELD OR CONTROLLED	PERCENTAGE OF TOTAL FPA SHARES
Philip Lough	Director	22,936	0.0032%
Stuart Broadhurst	Director and Senior Officer	500,000	0.0690%
Brett Butterworth[2]	Senior Officer	151,795	0.021%
Andrew Cooke	Senior Officer	100,000	0.0138%
Roger Cooper[2]	Senior Officer	318,591	0.044%
Dale Farrar	Senior Officer	70,000	0.0097%
Alastair Macfarlane[3]	Senior Officer	1,495,656	0.207%
Garry Moore	Senior Officer	2,600	0.0004%
Matt Orr	Senior Officer	100,000	0.0138%
Craig Reid[2]	Senior Officer	134,375	0.019%
David Sullivan	Senior Officer	100,000	0.0138%
Daniel Witten-Hannah	Senior Officer	1,744	0.0002%

Notes:

(1) This information is taken from responses to questionnaires circulated to the above Directors and Senior Officers by FPA after receipt of Haier's Takeover Notice.

(2) Includes a beneficial interest in 4,175 FPA Shares under the Fisher & Paykel Appliances Share Purchase Scheme (as outlined in Schedule 3).

(3) Alastair Macfarlane has a beneficial interest in 1,038,296 of the 1,495,656 FPA Shares that he holds or controls and a non-beneficial interest in the remaining 457,360 FPA Shares that he holds or controls.

SCHEDULE 2:
HOLDERS OR CONTROLLERS OF MORE THAN 5% OF FPA SHARES (PARAGRAPH 5.2)

NAME	DESCRIPTION	NUMBER OF FPA SHARES HELD OR CONTROLLED	PERCENTAGE OF TOTAL FPA SHARES
Haier[5]	Holder or controller of more than 5% of the FPA Shares	144,847,032	20.00%
Haier Singapore[5]	Holder or controller of more than 5% of the FPA Shares		
Allan Gray Australia Pty Ltd	Holder or controller of more than 5% of the FPA Shares	126,438,231	17.46%
Accident Compensation Corporation[6]	Holder or controller of more than 5% of the FPA Shares	52,041,176	7.186%
AMP Capital Investors (New Zealand) Limited	Holder or controller of more than 5% of the FPA Shares	39,430,671	5.444%
New Zealand Central Securities Depository Limited[7]	Holder or controller of more than 5% of the FPA Shares	241,516,718	33.3478%
JP Morgan Nominees Australia Limited[4]	Holder or controller of more than 5% of the FPA Shares	40,234,019	5.55%
National Nominees Limited	Holder or controller of more than 5% of the FPA Shares	36,881,097	5.092%

Notes:

(1) The information in the table above is based on information known to FPA at 2 October 2012 (being the latest practicable date before the date of this Target Capital Statement).

(2) The information relating to Haier and Haier Singapore is taken from Haier's Offer Document.

(3) The information relating to Allan Gray Australia Pty Limited, Accident Compensation Corporation, AMP Capital Investors (New Zealand) Limited, New Zealand Central Securities Depository Limited and National Nominees Limited was provided by or on behalf of the named persons in response to questionnaires circulated by FPA after receipt of Haier's Takeover Notice.

(4) The information relating to JP Morgan Nominees Australia Limited is taken from FPA's share register provided by Computershare Investor Services Limited because JP Morgan Nominees Australia Limited did not provide any information in response to the questionnaire circulated to it by FPA after receipt of Haier's Takeover Notice.

(5) Haier Singapore is the registered owner of 144,847,032 FPA Shares. Haier Singapore has granted a power of attorney to Haier authorising Haier to exercise all of Haier Singapore's rights and powers in relation to those FPA Shares. Haier is therefore the controller of the FPA Shares which are currently owned by Haier Singapore.

(6) Includes Nicholas Bagnall, Paul Robershawe, Blair Tallott, Blair Cooper and Ian Graham (employees and portfolio managers of Accident Compensation Corporation).

(7) New Zealand Central Securities Depository Limited is a custodial depository service, which allows electronic trading of securities to its members.

SCHEDULE 3:
FPA SHARES IN WHICH DIRECTORS OR SENIOR OFFICERS HAVE OBTAINED A BENEFICIAL INTEREST UNDER ANY EMPLOYEE SHARE SCHEME OR OTHER REMUNERATION ARRANGEMENT DURING THE PREVIOUS TWO YEARS (PARAGRAPH 5.5)

NAME	DESCRIPTION	NUMBER OF FPA SHARES	PRICE PER FPA SHARE	DATE BENEFICIAL INTEREST WAS OBTAINED
Brett Butterworth	Senior Officer	4,175	0.56047	5 July 2012
Roger Cooper	Senior Officer	4,175	0.56047	5 July 2012
Craig Reid	Senior Officer	4,175	0.56047	5 July 2012

Notes:

(1) This information is taken from responses to questionnaires circulated to the above Senior Officers by FPA after receipt of Haier's Takeover Notice.

(2) All of the beneficial interests in FPA Shares noted in the table above were provided under the Fisher & Paykel Appliances Share Purchase Scheme.

SCHEDULE 4:
TRADING IN FPA SHARES DURING THE PREVIOUS SIX MONTHS (PARAGRAPH 6)

Part A: Acquisitions or disposals of FPA Shares during the previous six months by Directors and Senior Officers

NAME	DESCRIPTION	ACQUISITION OR DISPOSAL	NUMBER OF FPA SHARES	DATE	CONSIDERATION PER FPA SHARE ($)
Dale Farrar	Senior Officer	Acquisition	20,000	22 June 2012	0.515
Craig Reid	Senior Officer	Acquisition	14,000	25 June 2012	0.52

Note:

This information is taken from responses to questionnaires circulated to the above Senior Officers by FPA after receipt of Haier's Takeover Notice.

Part B: Acquisitions or disposals of FPA Shares during the previous six months by persons holding 5% or more of the FPA Shares

NAME	ACQUISITION OR DISPOSAL	NUMBER OF FPA SHARES ACQUIRED OR DISPOSED OF IN RELEVANT WEEK	WEEK COMMENCING	WEIGHTED AVERAGE CONSIDERATION PER FPA SHARE ($)
Accident Compensation Corporation	Acquisition	383,000	2 April 2012	0.490
Accident Compensation Corporation	Acquisition	100,000	9 April 2012	0.490
Accident Compensation Corporation	Disposal	50,000	23 April 2012	0.559
Accident Compensation Corporation	Acquisition	206,505	30 April 2012	0.5287
Accident Compensation Corporation	Acquisition	53,816	7 May 2012	0.510
Accident Compensation Corporation	Acquisition	500,000	21 May 2012	0.555
Accident Compensation Corporation	Acquisition	220,000	28 May 2012	0.5229
Accident Compensation Corporation	Acquisition	460,000	4 June 2012	0.5097
Accident Compensation Corporation	Acquisition	400,000	25 June 2012	0.5425
Accident Compensation Corporation	Disposal	200,000	25 June 2012	0.5425
Accident Compensation Corporation	Disposal	600,000	6 August 2012	0.57

NAME	ACQUISITION OR DISPOSAL	NUMBER OF FPA SHARES ACQUIRED OR DISPOSED OF IN RELEVANT WEEK	WEEK COMMENCING	WEIGHTED AVERAGE CONSIDERATION PER FPA SHARE ($)
Accident Compensation Corporation	Acquisition	40,333	13 August 2012	0.60
Accident Compensation Corporation	Disposal	300,000	13 August 2012	0.59
Accident Compensation Corporation	Disposal	3,900,000	20 August 2012	0.6671
Accident Compensation Corporation	Disposal	900,000	27 August 2012	0.71
Accident Compensation Corporation	Acquisition	1,000,000	10 September 2012	1.16
Accident Compensation Corporation	Disposal	3,000,000	10 September 2012	1.1725
Accident Compensation Corporation	Disposal	700,000	17 September 2012	1.19
Allan Gray Australia Pty Ltd	Disposal	207,805	11 June 2012	0.42
Allan Gray Australia Pty Ltd	Disposal	538,734	18 June 2012	0.42
Allan Gray Australia Pty Ltd	Disposal	150,000	25 June 2012	0.43
AMP Capital Investors (New Zealand) Limited	Acquisition	717,100	2 April 2012	0.49
AMP Capital Investors (New Zealand) Limited	Disposal	931,100	2 April 2012	0.49
AMP Capital Investors (New Zealand) Limited	Acquisition	14,200	23 April 2012	0.55
AMP Capital Investors (New Zealand) Limited	Acquisition	4,900	7 May 2012	0.53
AMP Capital Investors (New Zealand) Limited	Acquisition	5,097,314	14 May 2012	0.55
AMP Capital Investors (New Zealand) Limited	Disposal	1,800	14 May 2012	0.56
AMP Capital Investors (New Zealand) Limited	Acquisition	443,080	21 May 2012	0.55
AMP Capital Investors (New Zealand) Limited	Disposal	288,600	21 May 2012	0.54
AMP Capital Investors (New Zealand) Limited	Acquisition	460,810	28 May 2012	0.54
AMP Capital Investors (New Zealand) Limited	Acquisition	64,512	11 June 2012	0.54
AMP Capital Investors (New Zealand) Limited	Disposal	50,000	11 June 2012	0.53
AMP Capital Investors (New Zealand) Limited	Acquisition	383,225	18 June 2012	0.54

NAME	ACQUISITION OR DISPOSAL	NUMBER OF FPA SHARES ACQUIRED OR DISPOSED OF IN RELEVANT WEEK	WEEK COMMENCING	WEIGHTED AVERAGE CONSIDERATION PER FPA SHARE ($)
AMP Capital Investors (New Zealand) Limited	Disposal	520,000	18 June 2012	0.53
AMP Capital Investors (New Zealand) Limited	Disposal	150,000	25 June 2012	0.52
AMP Capital Investors (New Zealand) Limited	Acquisition	91,198	2 July 2012	0.56
AMP Capital Investors (New Zealand) Limited	Acquisition	85,585	9 July 2012	0.57
AMP Capital Investors (New Zealand) Limited	Acquisition	175,090	16 July 2012	0.56
AMP Capital Investors (New Zealand) Limited	Disposal	15,000	16 July 2012	0.57
AMP Capital Investors (New Zealand) Limited	Acquisition	28,420	23 July 2012	0.57
AMP Capital Investors (New Zealand) Limited	Disposal	250,000	30 July 2012	0.57
AMP Capital Investors (New Zealand) Limited	Disposal	250,000	6 August 2012	0.57
AMP Capital Investors (New Zealand) Limited	Acquisition	397,790	10 September 2012	0.97
AMP Capital Investors (New Zealand) Limited	Acquisition	200,000[4]	24 September 2012	1.19
National Nominees Limited	Acquisition	384,967[4]	8 June 2012	0.433
National Nominees Limited	Disposal	198,868[4]	19 June 2012	0.422
National Nominees Limited	Disposal	103,830[4]	29 June 2012	0.425
National Nominees Limited	Disposal	56,422[4]	10 August 2012	0.442
JP Morgan Nominees Australia Limited	Disposal	50,000	2 April 2012	Not disclosed
JP Morgan Nominees Australia Limited	Disposal	30,000	16 April 2012	Not disclosed
JP Morgan Nominees Australia Limited	Disposal	23,500	30 April 2012	Not disclosed
JP Morgan Nominees Australia Limited	Disposal	75,000	25 June 2012	Not disclosed
JP Morgan Nominees Australia Limited	Acquisition	75,000	2 July 2012	Not disclosed
JP Morgan Nominees Australia Limited	Acquisition	10,000	23 July 2012	Not disclosed
JP Morgan Nominees Australia Limited	Disposal	15,000	23 July 2012	Not disclosed

NAME	ACQUISITION OR DISPOSAL	NUMBER OF FPA SHARES ACQUIRED OR DISPOSED OF IN RELEVANT WEEK	WEEK COMMENCING	WEIGHTED AVERAGE CONSIDERATION PER FPA SHARE ($)
JP Morgan Nominees Australia Limited	Acquisition	5,000	30 July 2012	Not disclosed
JP Morgan Nominees Australia Limited	Disposal	400,000	20 August 2012	Not disclosed
JP Morgan Nominees Australia Limited	Acquisition	200,000	27 August 2012	Not disclosed
JP Morgan Nominees Australia Limited	Acquisition	200,000	3 September 2012	Not disclosed
JP Morgan Nominees Australia Limited	Acquisition	20,000	17 September 2012	Not disclosed
JP Morgan Nominees Australia Limited	Disposal	21,000	17 September 2012	Not disclosed
New Zealand Central Securities Depository Limited	Acquisition	577,386	2 April 2012	Not disclosed
New Zealand Central Securities Depository Limited	Disposal	867,220	2 April 2012	Not disclosed
New Zealand Central Securities Depository Limited	Acquisition	303,124	9 April 2012	Not disclosed
New Zealand Central Securities Depository Limited	Disposal	80,280	9 April 2012	Not disclosed
New Zealand Central Securities Depository Limited	Acquisition	2,835,056	16 April 2012	Not disclosed
New Zealand Central Securities Depository Limited	Disposal	650,000	16 April 2012	Not disclosed
New Zealand Central Securities Depository Limited	Acquisition	213,061	23 April 2012	Not disclosed
New Zealand Central Securities Depository Limited	Disposal	913,139	23 April 2012	Not disclosed
New Zealand Central Securities Depository Limited	Acquisition	240,435	30 April 2012	Not disclosed
New Zealand Central Securities Depository Limited	Disposal	408,688	30 April 2012	Not disclosed
New Zealand Central Securities Depository Limited	Acquisition	967,368	7 May 2012	Not disclosed
New Zealand Central Securities Depository Limited	Disposal	142,941	7 May 2012	Not disclosed
New Zealand Central Securities Depository Limited	Acquisition	694,685	14 May 2012	Not disclosed
New Zealand Central Securities Depository Limited	Disposal	104,157	14 May 2012	Not disclosed
New Zealand Central Securities Depository Limited	Acquisition	542,867	21 May 2012	Not disclosed
New Zealand Central Securities Depository Limited	Disposal	450,863	21 May 2012	Not disclosed

NAME	ACQUISITION OR DISPOSAL	NUMBER OF FPA SHARES ACQUIRED OR DISPOSED OF IN RELEVANT WEEK	WEEK COMMENCING	WEIGHTED AVERAGE CONSIDERATION PER FPA SHARE ($)
New Zealand Central Securities Depository Limited	Acquisition	1,789,566	28 May 2012	Not disclosed
New Zealand Central Securities Depository Limited	Disposal	592,027	28 May 2012	Not disclosed
New Zealand Central Securities Depository Limited	Acquisition	1,280,589	4 June 2012	Not disclosed
New Zealand Central Securities Depository Limited	Disposal	506,517	4 June 2012	Not disclosed
New Zealand Central Securities Depository Limited	Acquisition	473,598	11 June 2012	Not disclosed
New Zealand Central Securities Depository Limited	Disposal	292,084	11 June 2012	Not disclosed
New Zealand Central Securities Depository Limited	Acquisition	676,822	18 June 2012	Not disclosed
New Zealand Central Securities Depository Limited	Disposal	145,731	18 June 2012	Not disclosed
New Zealand Central Securities Depository Limited	Acquisition	594,521	25 June 2012	Not disclosed
New Zealand Central Securities Depository Limited	Disposal	783,956	25 June 2012	Not disclosed
New Zealand Central Securities Depository Limited	Acquisition	827,133	2 July 2012	Not disclosed
New Zealand Central Securities Depository Limited	Disposal	170,009	2 July 2012	Not disclosed
New Zealand Central Securities Depository Limited	Acquisition	300,708	9 July 2012	Not disclosed
New Zealand Central Securities Depository Limited	Disposal	157,914	9 July 2012	Not disclosed
New Zealand Central Securities Depository Limited	Acquisition	953,914	16 July 2012	Not disclosed
New Zealand Central Securities Depository Limited	Disposal	31,353	16 July 2012	Not disclosed
New Zealand Central Securities Depository Limited	Acquisition	820,833	23 July 2012	Not disclosed
New Zealand Central Securities Depository Limited	Disposal	16,217	23 July 2012	Not disclosed
New Zealand Central Securities Depository Limited	Acquisition	415,049	30 July 2012	Not disclosed
New Zealand Central Securities Depository Limited	Disposal	31,570	30 July 2012	Not disclosed
New Zealand Central Securities Depository Limited	Acquisition	854,498	6 August 2012	Not disclosed
New Zealand Central Securities Depository Limited	Disposal	500,000	6 August 2012	Not disclosed

NAME	ACQUISITION OR DISPOSAL	NUMBER OF FPA SHARES ACQUIRED OR DISPOSED OF IN RELEVANT WEEK	WEEK COMMENCING	WEIGHTED AVERAGE CONSIDERATION PER FPA SHARE ($)
New Zealand Central Securities Depository Limited	Acquisition	1,912,090	13 August 2012	Not disclosed
New Zealand Central Securities Depository Limited	Disposal	1,164,252	13 August 2012	Not disclosed
New Zealand Central Securities Depository Limited	Acquisition	684,092	20 August 2012	Not disclosed
New Zealand Central Securities Depository Limited	Disposal	13,000	20 August 2012	Not disclosed
New Zealand Central Securities Depository Limited	Acquisition	796,215	27 August 2012	Not disclosed
New Zealand Central Securities Depository Limited	Disposal	587,455	27 August 2012	Not disclosed
New Zealand Central Securities Depository Limited	Acquisition	1,537,675	3 September 2012	Not disclosed
New Zealand Central Securities Depository Limited	Disposal	1,399,000	3 September 2012	Not disclosed
New Zealand Central Securities Depository Limited	Acquisition	6,463,773	10 September 2012	Not disclosed
New Zealand Central Securities Depository Limited	Disposal	2,650,534	10 September 2012	Not disclosed
New Zealand Central Securities Depository Limited	Acquisition	17,353,402	17 September 2012	Not disclosed
New Zealand Central Securities Depository Limited	Disposal	10,116,428	17 September 2012	Not disclosed
New Zealand Central Securities Depository Limited	Acquisition	3,961,288	24 September 2012	Not disclosed
New Zealand Central Securities Depository Limited	Disposal	1,762,487	24 September 2012	Not disclosed
New Zealand Central Securities Depository Limited	Acquisition	256,273	1 October 2012	Not disclosed
New Zealand Central Securities Depository Limited	Disposal	132,187	1 October 2012	Not disclosed

Notes:

(1) The information in the table above is based on information known to FPA at 2 October 2012 (being the latest practicable date before the date of this Target Capital Statement).

(2) The information relating to Allan Gray Australia Pty Limited, Accident Compensation Corporation, AMP Capital Investors (New Zealand) Limited, New Zealand Central Securities Depository Limited and National Nominees Limited was provided by or on behalf of the named persons in response to questionnaires circulated by FPA after receipt of Haier's Takeover Notice. No price information was provided by New Zealand Central Securities Depository Limited.

(3) The information relating to JP Morgan Nominees Australia Limited is taken from FPA's share register provided by Computershare Investor Services Limited because JP Morgan Nominees Australia Limited did not provide information in response to the questionnaire circulated to it by FPA after receipt of Haier's Takeover Notice. No price details are provided because Computershare Investor Services Limited is not aware of this information.

(4) This is a single transaction in the relevant week.

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OVEN, COMPACT OVEN,
MICROWAVE OVEN
AND COFFEE MACHINE

APPENDIX: INDEPENDENT ADVISER'S REPORT

GRANT SAMUEL

Fisher & Paykel Appliances Holdings Limited

Independent Adviser's Report

On the full takeover offer by Haier New Zealand Investment Holding Company

October 2012

Grant Samuel confirms that it:

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

Grant Samuel has satisfied the Takeovers Panel, on the basis of the material provided to the Panel, that it is independent under the Takeovers Code for the purposes of preparing this report.

LEVEL 31, VERO CENTRE, 48 SHORTLAND STREET, PO BOX 4306, AUCKLAND 1140
T: +64 9 912 7777 F: +64 9 912 7788
WWW.GRANTSAMUEL.CO.NZ

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Glossary

Term	Definition
Allan Gray	Allan Gray Australia Pty Limited
Appliances	Fisher & Paykel Appliances Limited
CISL	Consumer Insurance Services Limited
Components & Technology	The Components and Technology business
DCS	Dynamic Cooking Systems
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
EFL	Equipment Finance Limited
FPA	Fisher & Paykel Appliances Holdings Limited
Farmers FIA	Farmers Fixed Instalments Agreement
FPA Finance	Fisher & Paykel Finance Holdings Limited
FYOX	The financial year ended 31 March 200X
GFC	Global Financial Crisis
GMS	Global Manufacturing Strategy
Grant Samuel	Grant Samuel & Associates Limited
HA	Horizontal Axis
Haier	Haier New Zealand Investment Holding Company
OEM	Original Equipment Manufacturer
Offer	the Haier Offer
OIO	Overseas Investment Office
PML	Fisher & Paykel Production Machinery Limited
S&P	Standard & Poor's
VA	Vertical Axis
VWAP	Volume weighted average share price

1. Terms of the Full Takeover Offer from Haier

1.1 Background

Fisher & Paykel Appliances Holdings Limited (**FPA**) is a New Zealand Stock Exchange listed company. FPA is the New Zealand headquartered parent company of Fisher & Paykel Appliances Limited (**Appliances**) and Fisher & Paykel Finance Holdings Limited (**FPA Finance**). Appliances manufactures and markets a full range of refrigeration, laundry, dishwashing and cooking products, servicing key markets including New Zealand, Australia, the United States of America (USA), Canada, Singapore, Pacific Islands and the United Kingdom (UK). FPA Finance which includes Q Card, equipment finance, bulk finance, insurance and extended warranty products and Farmers Finance which includes the Farmers Finance Card.

On 12 September 2012, FPA announced that it had received a notice of intention to make a full takeover offer from Haier New Zealand Investment Holding Company (**Haier**), a wholly owned subsidiary of Haier (Singapore) Management Holding Co. Pte Limited, at a price of $1.20 per share (the **Haier Offer** or the **Offer**). The Haier Offer was sent to FPA shareholders on 26 September 2012 and remains open for acceptance until 6 November 2012, unless extended.

Haier already owns 20% of FPA - a shareholding that it acquired in June 2009. Haier has entered into a lock-up agreement with Allan Gray Australia Pty Limited (**Allan Gray**) in relation to Allan Gray's entire 17.46% shareholding in FPA. Under the terms of this lock-up agreement, Allan Gray accepted the Haier Offer shortly after the formal takeover offer was made. Combined with its existing 20% shareholding, this gives Haier a relevant interest in 37.46% of FPA's shares.

1.2 Details of the Haier Offer

The Haier Offer is for all of the ordinary shares in FPA. The material conditions of the Haier Offer are:

- acceptances received which will result in Haier becoming the holder or controller of more than 50% of the voting rights in FPA;
- no dividends, bonus issues or other payments or distributions are declared or paid before the Offer becomes unconditional;
- the business is carried on in a normal and ordinary course consistent with past practices while the Offer is open;
- pursuant to Clayton Act Section 7A, 15 USC 18a, any waiting periods under the Hart-Scott Rodino Antitrust Improvements Act of 1976 with respect to the Offer or any matter arising from the Offer having expired or being terminated;
- Haier having obtained all approvals, consents, or orders necessary from the Ministry of Commerce and the National Development and Reform Commission of the Peoples Republic of China for Haier to complete the acquisition of the FPA shares in accordance with the Offer;
- FPA not undertaking any acquisition or disposal of businesses or assets in excess of $5 million; and
- the Offer, and any contract arising from it, is further conditional upon Haier obtaining all necessary consents required under the Overseas Investment Act 2005 and Overseas Investment Regulations 2005 for Haier to complete the acquisition of FPA shares in accordance with this offer.

The full list of conditions of the Haier Offer are set out in the Haier Offer document dated 23 September 2012 that was sent to all FPA shareholders on 26 September 2012.

Other than the conditions relating to the consent from the Overseas Investment Office (**OIO**), and the Clayton Act, any conditions of the Haier Offer may be waived by Haier at its discretion. As would be expected, most of the conditions are included to protect Haier against any substantial change in the form and operations of FPA, or the markets it operates in, while the Offer is open for acceptance. The notice of intention to make an offer also contains a list of intentions from Haier with respect to FPA business continuity. These primary intentions include:

- retaining the existing Appliances brands and businesses in New Zealand, Australia and the United States;
- supporting the direction of Appliances' existing business strategy;

- supporting Appliances' employment policies and retaining its key personnel;
- signalling that there could be a potential divestment of the FPA Finance business;
- retaining the existing operations currently operated by Fisher & Paykel Production Machinery Limited;
- retaining the corporate headquarters in New Zealand;
- maintaining the existing ratio of New Zealand or Australian resident independent directors on the Board for at least two years after the closing date of the Offer;
- to continue to enhance the commercial opportunities and improve the working relationship between Haier and Appliances, including the establishment of a board sub-committee to oversee the execution of this list of intentions; and
- to retain and respect the organisational culture, history and achievements of Appliances.

Haier is not bound to adhere to the *intentions* listed above. However, Haier has stated that it will only make changes to the *intentions* after consultation with the Board of FPA.

1.3 Requirements of the Takeovers Code

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

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

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

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

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

(a) ***by an acquisition under a full offer;***

(b) by an acquisition under a partial offer;

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

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

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

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

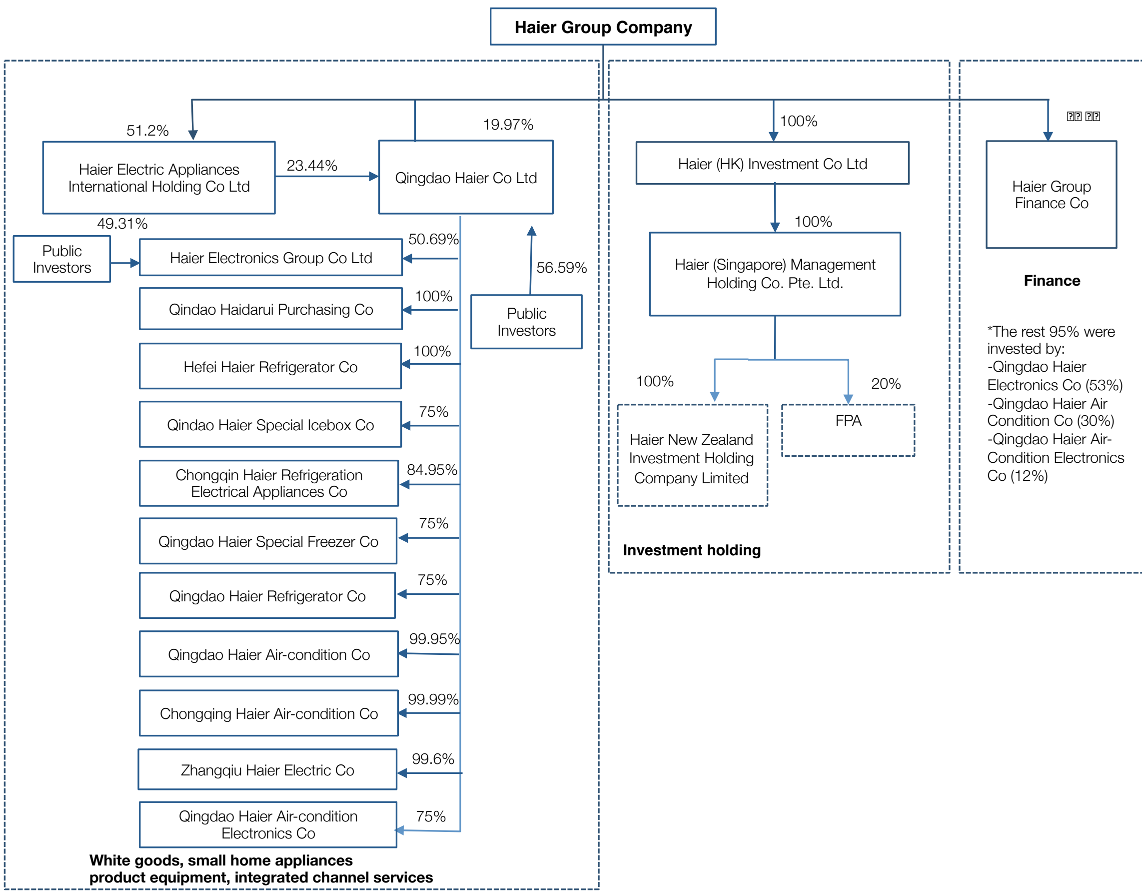
(f) if the person already holds or controls 90% or more of the voting rights in the code company.

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

1.4 Profile of Haier

Haier is a global manufacturer of household appliances and consumer electronic products. Haier has more than 80,000 employees and its worldwide headquarters are in Qingdao, Shangdong Province, China. Haier is considered by some market commentators to be the world's number one brand (in terms of retail volume) for whitegoods for three consecutive years since 2009 with 7.8% worldwide market share in 2011, up from 6.1% market share in 2010.[1] This is followed by LG (4.9%), Whirlpool (4.5%), and Samsung (3.4%). In China, Haier is also the number one brand for refrigerators, washing machines, freezers and water-heaters in terms of retail market share.

Haier currently has over 230 subsidiaries worldwide, with two listed subsidiaries, Qingdao Haier is listed on the Shanghai Stock Exchange with a market capitalisation of circa NZ$5.5 billion and Haier Electronics is listed on the Hong Kong Stock Exchange with a market capitalisation of circa NZ$3.4 billion.



Haier has five divisions:

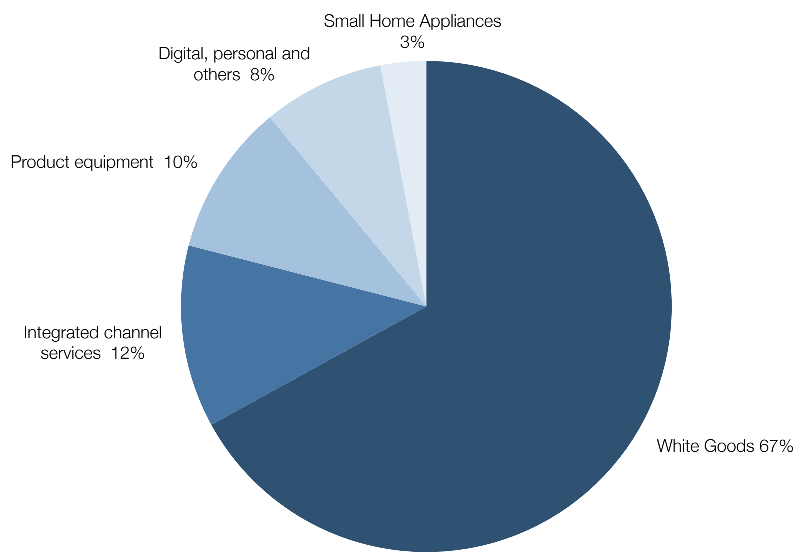
- ***Whitegoods:*** is widely diversified with its main business comprising the R&D, manufacturing and sales of refrigerators and freezers, air-conditioners, washing machines and water-heaters;
- ***Integrated Channel Services:*** retail sales, primarily under the *"Goodaymart"* brand. Goodaymart leverages the Haier's distribution network, logistics, products and services;
- ***Product Equipment:*** specialises in the R&D and manufacture of the equipment products in household appliances, electronics, telecommunications, and automotive. This division also produces the electronic components for Haier's whitegoods. The products cover numerous industries including mould injecting machines, punching, computer boards, motors, colour steel plates, plastics, powder and printing and wrapping;

[1] Euromonitor International

- ***Digital, personal and other:*** includes the R&D, manufacture and sale of computers, mobile phones and client solutions (e.g. kitchen integration with cabinetry and Haier appliances); and
- ***Small home appliances:*** manufactures over 200 products including vacuum cleaners, rice cookers, microwave ovens, water dispensers and garment steamers.

Whitegoods is the largest division contributing approximately two thirds of Haier's revenue:

Haier – Revenue Segmentation



Haier owns four globally recognised brands, namely '*Haier*', '*Casarte*', '*Tongshuai*' and '*Sanyo*'. This multi-brand strategy is used to assist Haier in delivering products across multiple price points. Haier currently has 29 manufacturing bases and 16 industrial parks in the USA, Europe, Asia, the Middle East and Africa. Haier also localises product design with eight R&D centres in the USA, Germany, Japan, China and Korea.

Over the past 24 years, Haier has acquired 18 domestic and overseas appliance factories. The latest acquisition occurred in March 2012 when Haier completed the acquisition of Sanyo Electric's refrigerator, washing machine and other consumer electric appliances business in Japan, Indonesia, Malaysia, Philippines and Vietnam.

Haier's earnings, balance sheet ratios, revenue and margin over the past three years are summarised in the table below:

Haier – Financial Summary (US$ millions)

As at 31 December	2009	2010	2011
Total Assets	7,761	10,045	10,689
Total Debt	754	1,053	1,551
Total Liabilities	5,721	7,479	7,996
Equity	2,040	2,566	2,693
Revenue	10,005	11,209	12,232
EBITDA	345	440	621
EBITDA margin	*3.5%*	*3.9%*	*5.1%*
EBIT	317	417	588
NPAT	327	469	527
EBIT Interest Cover (times)	47.3	39.2	32.2
Total Debt / EBITDA (times)	2.2	2.4	2.5

2. Scope of the Report

2.1 Purpose of the Report

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

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

A copy of this report will accompany the Target Company Statement to be sent to all FPA shareholders. This report is for the benefit of the shareholders of FPA other than Haier. The report should not be used for any purpose other than as an expression of Grant Samuel's opinion as to the merits of the Haier Offer. This report should be read in conjunction with the Qualifications, Declarations and Consents outlined at Appendix F.

2.2 Basis of Evaluation

Grant Samuel has evaluated the Haier Offer by reviewing the following factors:

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

2.3 Approach to Valuation

Grant Samuel has estimated the value range of FPA with reference to its full underlying value. In Grant Samuel's opinion the price to be paid under a full takeover should reflect the full underlying value of the company. The support for this opinion is two fold:

- the Takeovers Code's compulsory acquisition provisions apply when the threshold of 90% of voting rights has been reached. In this instance, the Takeovers Code seeks to avoid issues of premiums or discounts for minority holdings by providing that a class of shares is to be valued as a whole with each share then being valued on a pro rata basis. In other words, a minority shareholder is to receive its share of the full underlying value. Grant Samuel believes that the appropriate test for fairness under a full or partial takeover offer where the offeror will gain control is the full underlying value, prorated across all shares. The rationale for this opinion is that it would be inconsistent for one group of minority shareholders, those selling under compulsory acquisition, to receive a different price under the same offer from those who accepted the offer earlier; and
- under the Takeovers Code the acquisition of more than 20% of voting rights in a "code" company can only be made under an offer to all shareholders unless the shareholders otherwise give approval. As a result, a controlling shareholding (generally accepted to be no less than 40% of the voting rights) cannot be transferred without the acquirer making an offer on the same terms and conditions to all shareholders (unless shareholders consent). Prior to the introduction of the Takeovers Code some market commentators held the view that where a major shareholder had a controlling shareholding, any control premium attached only to that shareholding. One of the core foundations of the Takeovers Code is that all shareholders be treated equally. In this context, any control premium is now available to all shareholders under a takeover offer (in a scenario where an offeror will gain control), regardless of the size of their shareholding or the size of the offeror's shareholding at the time the offer is made.

Accordingly, Grant Samuel is of the opinion that not only because shares acquired under a compulsory acquisition scenario will receive a price equivalent to full underlying value, but because the control premium is now available to all shareholders, the share price under either a full or partial takeover offer where the offeror will gain control should be within or exceed the prorated full underlying valuation range of the company.

FPA has been valued at fair market value, which is defined as the estimated price that could be realised in an open market over a reasonable period of time assuming that potential buyers have full information.

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

3. Profile of Fisher & Paykel Appliances

3.1 Origins

Appliances

Fisher & Paykel Industries was founded in 1934 by Woolf Fisher and Maurice Paykel, as a retailer and importer of refrigerators and washing machines. In 1938, the business commenced local manufacturing in response to progressively tightening import and foreign exchange restrictions. As the business grew, in 1956 it established factory operations in Mt Wellington, Auckland and then a year later acquired Dunedin based electric oven maker HA Shacklock.

Export operations commenced in the late 1960s with sales into Australia and then to a selection of Asian countries. To meet the ever increasing product demand, the factory operations were shifted from Mt Wellington to the current site in East Tamaki, Auckland.

In 1979, Fisher & Paykel was listed on the New Zealand Stock Exchange through the issue of 40 million $1 shares. At the time of the initial public offering, the company's operations spanned whiteware and appliance manufacturing, a finance business (to assist customers financing the acquisition of Fisher & Paykel appliance products), television manufacture, spark plug manufacture, service businesses and a freight operation. In 1989, the company opened its first overseas manufacturing facility in Cleveland, Australia.

Fisher & Paykel became recognised for its product innovation and has won numerous awards for market-changing products such as the DishDrawer, washing machines, Direct Drive motors, new compressor technology and the Active Smart refrigeration system.

By 2000, Fisher & Paykel was largely operating as two distinct businesses – a healthcare business that had as its major product a range of respiratory care devices, and an appliance business. The decision was made to separate the businesses, and in 2001 Fisher & Paykel Healthcare Corporation Ltd and Fisher & Paykel Appliance Holdings Ltd became two separate listed companies.

In the mid 2000s, FPA embarked on a strategy to own manufacturing facilities close to its key markets. In 2004, FPA acquired California based Dynamic Cooking Systems (**DCS**), a manufacturer and distributor of high end (primarily outdoor) cooking appliances. The purchase price for DCS was US$33 million. The next acquisition was to have significant consequences for FPA – it acquired Italian cookware business Elba from DeLonghi in 2006 for a price of EUR$78 million. By the end of 2006, FPA had manufacturing plants in New Zealand, Australia, USA and Italy. The global economy was booming, and for a brief period, FPA enjoyed strong demand for its products. In the year to 31 March 2008, FPA reported a profit before tax of $70.9 million on global sales of $1.4 billion. Net debt at that time had increased to $386 million, in part to pay for the Elba acquisition and in part to assist in funding factory relocations and a growing inventory base associated with its global expansion plans. In the quest for growth, certain key aspects of the business were compromised.

FPA Finance

FPA Finance was originally formed in 1973 to rent televisions to New Zealand consumers. FPA Finance expanded into the finance of appliances products, launched a point of sale credit approval system in stores, and pioneered the introduction of interest free promotions to assist the merchant channel. In 1996, FPA Finance introduced insurance and extended warranty products and then in 2003 acquired the finance and insurance business of the Farmers Trading Company. In 2004, FPA Finance launched Q Card, a revolving credit product that gives cardholders the ability to use pre-approved credit for product and service purchases in a selection of New Zealand store and service provider chains. Today, FPA Finance is a leading provider of point of sale consumer finance solutions.

3.2 Events leading up to the 2009 Recapitalisation

In 2005, FPA began the progressive relocation of its manufacturing facilities to be closer to its global markets. Initially, this included the closure of its Dunedin facility, the acquisition of the Italian plant and the transfer of certain production from Australia and New Zealand to the US. A refrigeration plant was acquired in Mexico from Whirlpool in April 2008. Plant relocations are significant events, requiring the prior investment in the build up of inventory (to meet demand while the factory transition takes place), and the costs and organisation of the relocation itself. With the benefit of hindsight, FPA probably progressed the relocation with too much haste. While these major organisational events were occurring, a number of other adverse factors came into play:

- ***Product Development***

  In the run up to the global financial crisis FPA was generating high margins with buoyant sales across all markets. The focus in the preceding period had been on moving to offshore manufacturing, which came at the expense of investment in maintaining and developing the product range. The economic downturn in 2008 and 2009 highlighted the deficiencies in the product offering, and market share plunged. By 2009 the product line up was beginning to become uncompetitive in a number of areas and in New Zealand and Australia market share was being lost in core markets of both refrigeration and cookware. As an example, in the important cookware market, FPA was sourcing product for the New Zealand market from its recently acquired Italian plant. The product manufactured in Italy was designed for the European market and had a smaller internal oven cavity compared to what was being offered by FPA's competitors. This was not what New Zealand consumers were demanding, and the stagnating and poorly positioned product range inflicted a heavy cost on FPA. Another key contributing factor to the market share decline was the refrigeration range, that had not been refreshed for nearly eight years and was no longer offering the variety consumers wanted.

- ***Quality***

  In the years leading up to the recapitalisation, FPA's primary focus had been on relocating manufacturing offshore. While this strategy was eventually effective in reducing production costs, manufacturing performance was measured primarily on the per unit savings. Manufacturing standards and tolerances progressively slipped, and a steadily increasing level of customer service costs and product warranty claims papered over the underlying fundamental problem of diminishing quality control.

- ***Exchange Rate***

  In 2008, in part due to the debt funding arrangements put in place as part of the acquisition growth strategy, a substantial part of FPA's debt was denominated in foreign currencies. As a consequence of the depreciation of the New Zealand dollar through 2008 and 2009 FPA's debt, when measured in equivalent New Zealand dollar terms, increased by approximately NZ$110 million.

- ***Inventory Build***

  There was an inventory build of approximately $70 million related to the move of the refrigeration plant from Cleveland, Australia and DishDrawer plant from Dunedin.

- ***Delay in Asset Sales***

  Relocation costs associated with the Global Manufacturing Strategy (**GMS**) were planned to be partly funded by the sale of surplus land. The deepening global financial crisis meant this sale of surplus land was delayed.

The combination of the currency impact on FPA's debt, the advent of the Global Financial Crisis (**GFC**), the cost of implementing the offshore manufacturing plan and the marked decline in sales and market share (in part due to a poor product offering) in its three key operating markets (Australia, America and New Zealand) led to a financial crisis for FPA in the second half of the financial year ended March 2009 (**FY09**). As at 31 March 2009, FPA's net debt had ballooned to $459 million. While FPA had sufficient banking facilities in place to cover the stock build and plant relocation costs, the uncertain economic outlook and delay in property sales resulted in the banking syndicate initiating event of review discussions with FPA. This resulted in the company undertaking a major and critical debt refinance.

3.3 The Recapitalisation and Original Haier Investment

The FPA recapitalisation included the requirement for FPA to reduce debt by approximately $235 million by the end of 2009. To achieve the substantial part of the debt reduction required by its banks, FPA initiated a capital raising of $189 million through a $143 million pro-rata renounceable rights issue to all shareholders and the placement of approximately $46 million in new shares to Haier, the new cornerstone shareholder. The capital raising comprised:

- A placement of 58.1 million shares with Haier at $0.80 per share;
- 1:1 renounceable rights issue at $0.41 per share, with Haier committing to take up its rights; and
- a top up placement to Haier at $0.41 per share to bring its total shareholding after the rights issue to 20%.

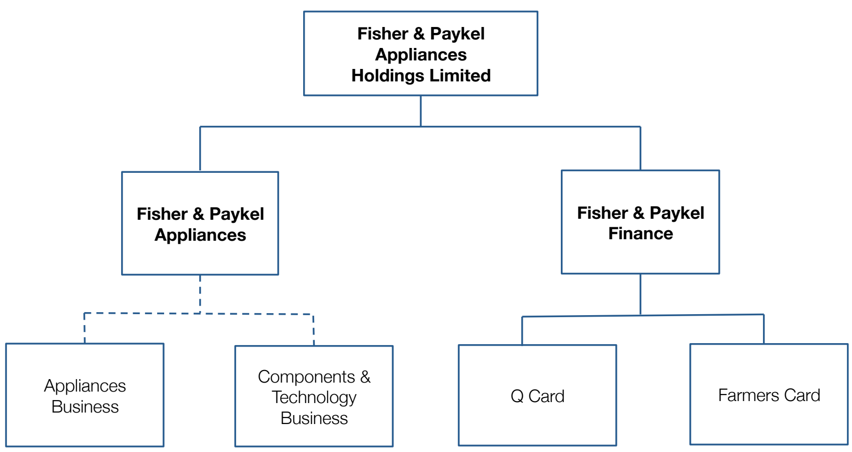
The issue was fully underwritten, with Haier being a sub underwriter. The recapitalisation raised a total of $200.5 million (before fees). Haier acquired 144.85 million shares at average price of $0.57 per share.

As a consequence of the capital raising, the sale of surplus property in New Zealand and Australia, and the reduction of a stock build up associated with the GMS (moving production lines to Australia), net debt was progressively reduced to a more comfortable $173 million by 31 March 2010.

In the absence of the Haier investment, it is likely that the rights issue would have needed to be priced at a lower level to be successful, resulting in further dilution for shareholders not willing or able to take up their rights entitlement. Accordingly, the original Haier investment of 20% in FPA was endorsed by market commentators at the time. After the recapitalisation was complete, Haier took up two seats on the Board of FPA. Through this presence on the Board, Haier has gained significant knowledge of the current operating state of the business and the opportunities that exist. In the context of this level of awareness and the commendable achievements and restructuring initiatives put in place by management since 2009, the timing and emergence of the Haier takeover offer is understandable.

3.4 Fisher & Paykel today

Today, FPA comprises three distinct businesses – Appliances, Components & Technology and FPA Finance:



Appliances designs, manufactures and markets a range of products for the kitchen and laundry, including ActiveSmart Refrigerators, DishDrawers, SmartDrive Washing Machines and Smart Load Top Loading dryers. The company has manufacturing facilities in New Zealand, USA, Italy, Thailand and Mexico.

The Components & Technology Business comprises the design and manufacture of motors, controllers and other parts for the original equipment manufacturer (**OEM**) market, and a separate business, Fisher & Paykel Production Machinery Limited (**PML**) that manufactures the machines that are used to form the basis of appliance production lines in factories. PML's machines are sold to both FPA and other appliance manufacturers around the world. Components & Technology is in the final stages of testing a revolutionary new refrigeration compressor that is smaller, and more energy efficient than existing compressors. The compressors will be manufactured under licence by Embarco, a subsidiary of Whirlpool.

FPA Finance is one of the largest consumer finance companies in New Zealand. It is a leading provider in New Zealand of retail point of sale consumer finance including the Farmers Card and Q Card, insurance services and extended warranties. It also provides rental and leasing finance.

As at 31 August 2012, FPA employed approximately 3,900 people across its global businesses.

4. Profile of Appliances

4.1 Background

Appliances designs, manufactures and markets a full range of refrigeration, laundry, dishwashing and cooking products, servicing key markets including New Zealand, Australia, USA, Canada, Singapore, Pacific Islands and the UK. In the Australian and New Zealand markets, Appliances is considered a market leader with a broad product offering. In other markets it sells into, Appliances is generally perceived as a higher end niche brand.

4.2 Products

Appliances' product strategy involves utilising its capabilities to innovate and develop new products. Appliances has increasingly focused on the mid to high-end appliance markets. The current and near term Appliance product range is summarised in the table below:

Appliances – Product Profile

Product Range	Description
Kitchen (Refrigeration)	***For larger fridges, Appliances' strategy is to maintain the competitiveness of its existing product range. For smaller fridges, OEM sourced product is being evaluated*** ▪ Appliances manufactures a range of ActiveSmart refrigeration products from 200 to 500 litres capacity ▪ Significant work has been undertaken on a new compressor to improve energy efficiency and enhance capacity
Kitchen (Cooking)	***Appliances' strategy is to broaden its product offering and invest in core cooking platforms, including leveraging the DCS range both outdoor and indoor*** ▪ Appliances manufactures a range of cooktops, wall-ovens and ranges. ▪ The DCS range of premium outdoor products will soon be launched in Australia and New Zealand.
Kitchen (Dishwashing)	***Appliances' strategy is to focus on DishDrawer technology and to source conventional dishwashers from an OEM*** ▪ Appliances manufactures a range of DishDrawers ▪ Appliances uses an OEM strategy for dishwashers, currently sourced from third parties and styled with FPA livery
Laundry	***Appliances' strategy is to build on its core laundry capabilities including supporting DirectDrive washer technology. New product platforms are supported by upgrades and OEM front-loaders*** ▪ Appliances manufactures a range of small, medium and large Vertical Axis (**VA**) washers (i.e. drum rotates on a vertical axis e.g. top loading washing machine) from 6 – 10kg ▪ In the short term, Appliances will introduce a front-load, Horizontal Axis (**HA**) washer (i.e. drum rotates on a horizontal axis e.g. front loading washing machine) ▪ In the dryer range, Appliances sources large dryers for the US market and manufactures its own range of small dryers

Appliances also supplies products to many OEM customers globally, including under various "house" brands in a number of retail chains in the UK.

4.3 Markets

Overview

The three largest markets for Appliances are Australia, North America and New Zealand, as summarised below:

Key Segmental Markets

Market	FY12 Market Update
New Zealand	▪ Appliance market still flat following Rugby World Cup ▪ Highly competitive ▪ Record low building consent levels ▪ Haier sales increased
Australia	▪ Low consumer confidence and record low building consents ▪ Intense competitor activity featuring discounting ▪ Haier volumes and revenues grow at the value end of the market
North America	▪ US market significantly lower although some early signs of economic improvement ▪ Strong DCS sales
Europe	▪ Difficult market conditions in Ireland and UK ▪ Distribution of Haier product commenced in 2012 in Ireland
Rest of the world	▪ Sales have commenced in India

Australia

Australia is Appliances' largest and most profitable market, generating approximately 50% of revenue. A current feature of the Australian market is that major appliance manufacturers are aggressively competing for market share through price discounting and an increased product range. This activity is expected to ensure the lower to middle ends of the market remain highly competitive. These market dynamics validate Appliances' targeted strategy to move to a higher quality product positioning in the Australian market and use Haier product to compete at the lower end of the market. Australia is the key market for FPA and management are very cognisant of the high level of competition and the urgent need to expand the refrigeration and cookware ranges.

North America

North America is Appliances' second largest market. Between 2000 and 2005 FPA's USA market revenue grew to a peak of US$270 million but by 2012, revenue had declined to US$98 million. The very large decline has been attributed to the onset of the GFC but is also unquestionably a function of FPA's previous product distribution strategy and unstructured branding across the diverse markets in the USA. Despite the significant level of sales, the North American market was historically unprofitable. In North America FPA distributes the FPA brand (positioned as premium, contemporary styled indoor kitchen and laundry) and DCS by Fisher & Paykel (positioned as a premium, professionally styled indoor and outdoor kitchen product range). Recently FPA has focussed on profitable sales and reducing operating costs.

New Zealand

New Zealand is the third largest market for Appliances, but like the Australian market, is highly competitive. Appliances has historically enjoyed the position of being the market leader in New Zealand. Since the housing construction peak in 2003 – 2006, the New Zealand market has been adversely impacted by the absence of a sustained economic recovery and FPA management expect no material increase in revenue in the short to medium term. The housing market remains depressed but slowly improving demand and the pending Christchurch rebuild are expected to result in an increase in new dwelling consents. Appliances' management expects some lift from the replacement and renovation markets in the medium term. FPA has developed its trading relationship with Haier and positioned the Haier refrigeration range at the lower price points of the market (basic refrigerators/bar fridges).

4.4 Manufacturing

Virtually all FPA's manufacturing operations are now offshore with approximately 60% of production located in Mexico and Thailand, low cost labour countries. Further rationalisation of FPA's manufacturing operations is under consideration.

Given FPA's existing relationship with Haier, it is conceivable that the production of certain lines, such as a lower cost DishDrawer, could ultimately take place in China at a Haier plant. Focussing production for each product range at a single facility avoids skill set and capital duplication, reduces overheads and increases economies of scale.

Future planning on manufacturing location will be strongly influenced by decisions on which product ranges are deemed suitable for manufacture by Appliances or deemed better to source from OEMs.

An overview of Appliances' manufacturing locations is summarised in the table below:

Appliances manufacturing locations

Market	Products	Features
New Zealand	▪ Refrigeration ▪ Compact refrigeration ▪ Cool Drawer ▪ Chest Freezers	▪ High cost (labour and materials) ▪ Poor labour flexibility (cost, multi-shift scheduling) ▪ Good access to main markets
Italy	▪ FPA Cooking ▪ OEM Cooking	▪ High cost ▪ Mixed labour flexibility ▪ Poor access to main markets
Ohio, USA	▪ Dryers ▪ Motors	▪ High cost ▪ Acceptable labour flexibility ▪ Good access to market
Mexico	▪ DCS ▪ DishDrawer ▪ Refrigeration ▪ Cooking	▪ Low cost ▪ Flexible labour force ▪ Acceptable market access
Thailand	▪ Laundry ▪ Refrigeration ▪ Motors ▪ Electronics	▪ Low cost ▪ Highly flexible ▪ Acceptable access to markets

4.5 Competition

The household appliances market incorporates the sale of refrigeration appliances, cooking appliances (including cookers, microwaves, ovens, hoods, food processors and toasters), washing appliances, room comfort and water heater appliances (air conditioning, circulating and ventilation fans, space heaters and water heaters), vacuum cleaners, and dishwashers. The global household appliances market is estimated to have a retail selling value of more than US$280 billion in 2012[2] with Asia Pacific comprising US$117 billion. Appliances' total revenue is forecast to be approximately NZ$950 million in FY13, only a small fraction of the global market.

The Fisher & Paykel brand is positioned in the premium segment but its product range spans a number of segments. Appliances' competitive advantages include a reputation for quality, product design, style and technology integration. In New Zealand and Australia, this reputation and brand trust is supported by loyal customers and a strong relationship with retailers and a comprehensive after sales service network. In the USA, the DCS brand is a premium product. Appliances also uses the Haier brand as a more mass market offering to augment its overall brand positioning in Australia, New Zealand and Ireland. In the context of this market positioning and reputation, Appliances competes with other premium appliance manufacturers. It is important to recognise that FPA is not a global competitor in the appliance market. It is a premium brand, underpinned by innovative and robust engineering and design, with manufacturing being undertaken in selected, efficient locations and with the strategy to source product from other OEMs as appropriate.

[2] MarketLine, "Global Household Appliances", February 2012

Competition by Brand Positioning

Value Brands	Mainstream Brands	Premium Brands
Haier, Indesit	Arcelik, De'Longhi, LG, Samsung, Smeg	ASKO, Bosch, Electrolux, Miele

Global competitors

Competitor	Estimated annual revenue US$* (year)	Other
Arcelik	$4.7 billion (2011)	Operates predominantly in Turkey and Europe. Sells electronic goods including televisions and computer products in addition to whitegoods
Asko (Gorenje Group)	$1.8 billion (2011)	Based in Slovenia, includes Household Appliances, Home Interior and Ecology, Energy and Services
Bosch	$66.2 billion (2011)	Includes Automotive Technology, Industrial Technology, Consumer Goods and Building Technology
De'Longhi	$1.8 billion (2011)	Operates a number of brands including De'Longhi, Kenwood and Ariete
Electrolux	$15.5 billion (2011)	Headquartered in Sweden, sells 40 million products annually across 150 countries under various brands
FPA	$740 million (2012)	Brands include Fisher & Paykel, Haier, DCS, De'Longhi (cookware), Elba (cookware)
Haier	$12.2 billion (2011)	Brands include Haier, Casarte, Tongshuai and Sanyo

* Converted into US$ at exchange rates as at 28 September 2012

4.6 Business restructuring since 2009

At the time of the recapitalisation in 2009, it was apparent that if the company was firstly going to survive and secondly prosper, that the entire business process needed to be reshaped, aligned and reinvigorated. The concentration of effort and resource on the offshore manufacturing strategy and the financial and operational toll of that initiative, had been debilitating for the company. Following the completion of the recapitalisation in 2009, the management team addressed the following aspects of the Appliance business:

- Customers;
- Quality;
- Product Development and Product Ranges;
- Cash flow and hedging;
- Manufacturing; and
- Markets and Branding.

Customers

Appliances defines its customers as consumers, retailers and suppliers. Since 2009, the company has developed a clear understanding of the profile of its current and future consumers – who they are, what they need, how they interact with FPA products, how they live, how they research and how they buy appliances. Appliances identified that it needs to deliver a consistent, seamless experience to its customers across every interface they have with FPA and importantly, do it better than its competitors. While many businesses have these aspirations and objectives, FPA has invested significant time and resource to achieve this level of understanding and is now translating this knowledge into its product development, sales and marketing, and customer relations divisions.

Quality

As a consequence of the progressively declining product quality leading up to the recapitalisation, Appliances initiated a major focus on quality control. To highlight the importance of product and process quality, management has indicated that product defects identified when the product is already in the consumer market cost multiples of the cost to fix that defect if it is identified in product development or even production stages. To compound the financial cost, reputation and brand damage is inflicted where defects are identified in-market. Commencing in 2010, FPA embedded the quality control function within product development and production, and set about implementing systems and reporting channels to report on and address the quality deterioration that had previously occurred. Some two years later, while only half way through the programme, the results of this initiative have been dramatic. Reliability and market perception of Fisher & Paykel as a quality brand are now overall strongly positive although recently there have been three major product recalls on products manufactured pre-2007. The cost to service quality issues through authorised service centres and customer service franchises has fallen significantly. Importantly, the organisational culture has changed to recognise quality as a primary driver of value and the sustainability of the brand.

Product Development

Appliances' product strategy is multifaceted with three core strategies:

- Focus on the premium markets with the Fisher & Paykel and the DCS range;
- Complete the line up with OEM supplied products; and
- Offer product across the total market using Haier in the main market and DCS at the very top.

Since 2010 there has been a significant focus on new products with expenditure on new product development increasing from $17 million in FY10 to $24 million in FY12. There are 110 employees located in Dunedin focussing on cooking and dishwashing product development and 180 employees in Auckland focussing on the product development of refrigeration, laundry and motors. The product development process seeks to produce new products that feature design leadership and which fulfil customer needs. New products already in the market (or about to be released) include:

- An expanded range of gas or glass and stainless steel cooktops;
- A range of induction cooktops, microwaves, coffee makers and steam ovens;
- Companion products for wall ovens;
- New 60 cm ovens and warming drawers;
- New 90 cm ovens;
- A refreshed range of DCS ranges, wall ovens, DishDrawers and French door refrigerators;
- A new and expanded range of refrigeration under the FPA brand; and
- New large capacity laundry products.

Cash flow & Hedging

At the time of the recapitalisation FPA's bank debt was approaching NZ$500 million. The debt had increased due to the substantial costs and working capital increases incurred in implementing the GMS, the acquisition of Elba, DCS and the Mexican refrigeration plant, but also due to the impact of the rapidly falling NZ$ at that time. A condition of the ongoing support of the banks to FPA after the recapitalisation was that FPA adopted a long term, lower risk approach to hedging and foreign exchange management. The framework put in place longer term (14 months) currency hedges and swaps to provide greater certainty in regard to the earnings and cash flow. This framework, while effective, was extremely costly to implement, and also meant that FPA was generally not in a position to benefit from favourable exchange rate variations. As the debt was being progressively reduced (from approximately $189 million immediately after the recapitalisation to approximately $56 million now), the lenders to FPA became more accommodating and FPA has recently been able to adopt a more pragmatic approach to hedging. The single largest currency exposure is the A$/US$, given that substantially all of the FPA products sold into the Australian and New

Zealand markets are now manufactured in localities using or linked to the US$. All other currency exposures are largely naturally hedged.

Manufacturing

The thrust of the current manufacturing strategy is to ensure facilities and operations are at the forefront of advanced manufacturing technologies and processes. By 2010, FPA had relocated a substantial part (60%) of production from New Zealand, Australia and the US to Thailand and Mexico. The current plan envisages up to 85% of manufacturing being shifted to low cost countries. The rationale for the progressive relocation is to take advantage of low labour costs, enjoy materials savings and avoid capital duplication, thereby improving the overall cost base of the business.

Markets & Branding

FPA has engaged a leading brand company to reposition its brand, which had become tired and inconsistent across different markets. The result is a new look and position for FPA focussing on being *"the most human centred appliance brand in the world"*. The new brand position is reflected not only in the design, look and feel of new products but also in all external and internal communications in all markets. An important change is to demonstrate to customers that they are the primary focus, and that the product must exceed their expectations in terms of look, functionality and reliability.

4.7 Five Year Strategic Plan

Overview

To assist in the coordination of the initiatives around product development, quality, manufacturing, markets, cash flow and new initiatives, a five year strategic plan was developed. The five year strategic plan is refreshed annually, with the most recent version (for the five years to FY17) approved by the FPA Board in August 2012. Certain excerpts of the five year plan were released to the market at time of the emergence of the Haier Offer. The overarching framework of the five year plan is to focus on "5 main things" and the "6 key opportunities" (as these aspects of the business are referred to). The "5 main things" refers to the five major cultural drivers of the business:

Appliances: 5 main things

Key Aspect	Description
Deliver Customer Benefits	Incorporates a focus on product development, product quality and product strategy in respect of the consumer market, and a focus on components & technology aspect of the industrial market
Disciplined Market Execution	Incorporates a coordinated and structured approach to brand, markets, and the business model generally
Business Excellence	Implement business excellence across the business
Organisational Capability	Build organisational capability across FPA's human resource
Cost Reduction	Incorporates not only cost reductions in manufacturing, but also to develop a lean thinking mentality throughout the business

The focus on these 5 main things has been to produce a step change in profitability and cash flow that has taken time, but is scheduled to become evident from the beginning of the financial year ending 31 March 2015. This overarching strategic plan has been underway since 2009/2010 and has been instrumental in transitioning FPA from a manufacturing business to a business with a clear sales and marketing focus, underpinned by innovative development and a reputation for quality.

The shift in strategic direction is evidenced by Appliances' approach to sales. Historically, the primary Appliances relationship had been with the retailer, who through exclusive supply agreements, could only sell the FPA product range. Today, the focus of Appliances is on the consumer. Appliances acknowledges that it has been slow to adapt to a more competitive market. New competitors from Korea and China and the increased availability of European product in Australia and New Zealand has made the appliance market very challenging. FPA is recognised internationally for its ability to develop innovative and technically advanced whiteware but until recently, its product planning and marketing had let it down and resulted in substantial market share losses. The five year plan seeks to leverage its product innovation capability to the maximum extent possible by continuing to develop new innovative products of the highest quality and also to licence and supply competitors with the technology.

The "6 key opportunities" refers to the six major areas of identified growth within Appliances:

Appliances: 6 Key Opportunities

Strategic Themes	Key Opportunities
Improve Core Appliances	1. Cooking Strategy
	2. North America
	3. Global Manufacturing Review
	4. Next Generation Laundry Platform
Monetising Technology to diversify earnings	5. Components and Technology
	6. Original Equipment Manufacture ("OEM")

Cooking Strategy

FPA has identified the enhancement of its cookware range and offering as a major opportunity for growth. To achieve this objective it significantly increased investment in cooking products over the last two financial years, resulting in a new range of cook tops, new DCS ranges, a 60cm built-in oven and the release of DCS outdoor cookware in New Zealand and Australia. Sales of cookware in New Zealand and Australia have suffered since 2007 due to the Fisher & Paykel branded cookware for the New Zealand and Australian markets being sourced from the newly acquired Italian plant. In response, FPA has designed a new range of stylish, integrated cookware products that will be released in early 2013. The new cookware product range complements the expanded range of DishDrawers and new refrigerator products coming on-stream to provide a comprehensive kitchen offering.

North America

FPA's sales revenue in the North American market has declined by nearly two thirds from a peak in 2006. The decline is due to the harsh impact of the GFC but also due to the effects of a poor marketing strategy and disparate product offering in the US. Notwithstanding that decline, the North America market is seen by FPA management as a key opportunity for the Fisher & Paykel appliances brand. DCS and Fisher & Paykel appliances cookware will be at the forefront of the proposed growth in sales and earnings in the US and Canada with a much more targeted market approach. North America was loss making in FY10 and FY11. In FY12 North America was profitable and the plan to generate EBIT of US$20 million in the financial year ending 31 March 2017 (**FY17**) is a critical aspect of the return of the core appliance business to profitability.

New Laundry Platform

FPA's laundry strategy is to build on its core capabilities including supporting Direct Drive washer technology. Direct Drive technology provides for the washing machine drum to be rotated and controlled by a beltless motor. Direct Drive motors are quieter, smaller and more dynamic and ultimately more efficient than the conventional belt-driven counterparts. Importantly, they allow for HA technology to be utilised (motor mounted on the back of the drum). Front load washers using HA technology provide better capacity, water and energy efficiency. Appliances' laundry initiatives include:

- Introducing a HA front load washer;
- Releasing major upgrades and new platforms for large and medium washers;
- Introducing a large dryer; and
- Upgrading small dryer capacity.

The new Laundry platform has been developed over 10 years to produce a water and energy efficient washer using the next generation of SmartDrive motor. The capital cost of the next generation laundry platform is expected to be in the order of NZ$25 - $30 million by the time the first product gets to market in the financial year ending 31 March 2016 (**FY16**).

The opportunities relating to global manufacturing and OEM have been discussed in Section 4.4. The opportunities for Components and Technology are discussed in Section 5.

4.8 Relationship with Haier

In 2009, following its purchase of 20% of FPA, Haier and FPA entered into a cooperation agreement to work together on a number of initiatives including exclusive distribution of Fisher & Paykel branded product into China, exclusive distribution of Haier branded products into Australia and New Zealand, joint product development, access to Haier's terms of trade with its suppliers, joint global distribution, sales and marketing operations, and numerous OEM opportunities for both companies. Today, the Haier relationship with FPA includes the following features:

- ***Components & Technology Supply Agreement*** – the production line was commissioned in Thailand in early 2012, with first orders shipped in April 2012;
- ***Distribution of Haier Products*** – the sales of Haier products is growing in both Australia and New Zealand. FPA also commenced the distribution of Haier products in Ireland in January 2012; and
- ***Fisher and Paykel brand in China*** – the Appliances product range for the Chinese market is now established. "Experience centres" featuring displays of Fisher & Paykel products have been opened in three Chinese centres (Changchun, Qingdao and Hangzhou).

FPA brings considerable expertise and technology to Haier. Haier brings the supply of affordable appliances in the Australian and New Zealand markets. Currently FPA supplies Direct Drive motors in significant and increasing quantities for front-loading washing machines. These machines have been engineered by FPA, the stainless steel washbowl made on an automated line supplied by PML and the electronics designed by FPA. Shortly a Fisher & Paykel branded model with its own unique electronic controller and features will be supplied for the New Zealand, Australian and European markets. Currently FPA has only a minimal share of the front-loading washing machine market in New Zealand and Australia, and expects to gain significant share with this new machine. FPA and Haier are exploring manufacturing a lower cost DishDrawer for the Chinese market. Haier and FPA are in the early stages of evaluating joint projects to significantly upgrade Haier's cookware range, including sourcing from FPA's cookware factory and some new refrigeration projects.

PML is providing engineering consulting services to Haier, and Haier has expressed a strong desire for PML to assist with modernising its numerous plants in China and elsewhere. PML is a world leader in the design and manufacture of appliance assembly lines and could generate significant revenue from Haier if it were able to scale up its resources to meet Haier's potential business demands.

The current trading terms with Haier are all on arms length terms with Haier receiving no better terms than any other customer. FPA believes that the overall relationship would not change if Haier increased its shareholding in FPA. If Haier became the sole shareholder in FPA, given the transfer pricing rules of the Income Tax Act and the need for FPA to supply and source product from other global appliance manufacturers, it is expected that the trading terms would remain unchanged.

FPA is currently benefiting from its growing relationship with Haier. Haier will derive significant benefits from access to FPA's significant technological expertise and its systems to modernise its own manufacturing processes. Haier is encouraging FPA to expand its New Zealand based development and engineering resources. The majority of New Zealand based employees are engaged in product development, marketing and administration, as the only manufacturing in New Zealand is a small refrigerator line.

5. Profile of Components & Technology and PML

5.1 Background

Separate to, but complementary with, the Appliance business are:

- The Components & Technology business (**Components & Technology**). Components & Technology designs and manufactures key appliance components such as motors, electronic controllers, and refrigeration compressors; and
- Fisher and Paykel Production Machinery Limited. PML is based in Auckland and builds the machines that form the basis of appliance manufacturing lines. These machines are sold to Appliances and to other global appliance manufacturers, including Haier.

5.2 Products

The principal areas of focus of the Components & Technology strategy are Direct Drive motors and the new refrigeration compressors.

Direct Drive Motors

The Components & Technology division has been at the heart of FPA's innovative product development for some twenty years, beginning with the launch of the SmartDrive Washer in 1991 with an electronically controlled Direct Drive motor. FPA was the first appliance manufacturer to implement the Direct Drive technology. A number of Asian manufacturers have since adopted Direct Drive and are now marketing the benefits to consumers. FPA has patented its technology. Since that time FPA has continued to invest in the technology:

Year Introduced	Magnet Type	Winding Material	Comments
1990	Neodymium	Copper	Rare earth magnet material provides high performance but is in short supply and is subject to increasing prices
1992	Ferrite	Copper	Reconfigured motor resulted in acceptable performance with lower cost Ferrite magnets
2005	Ferrite	Copper	Significant acoustic noise reduction
2008	Marilyn/Ferrite	Aluminium	In conjunction with FPA's magnet supplier, FPA developed the break-through high performance Marilyn magnet technology that enabled it to change over to aluminium wire and significantly reduce overall motor cost
Future	Marilyn/Ferrite	Aluminium	Using the Marilyn magnets, FPA has developed the innovative "Merlin" stator technology that provides increased performance over similar motors

Originally, the Direct Drive technology was intended to be for FPA's exclusive use to give a competitive advantage both in cost and customer benefits:

Direct Drive Motor Customer Benefits

Year	Stage
1991	Initial production with sensing intelligence and variable speed Direct Drive motor
1993	Auto-water level, load sensing and maximum capacity sensing introduced
1996	Intuitive washer with fabric sensing
1997-1998	Intuitive Eco launched. Significant energy savings
1998	EcoSmart launched in the US. Most energy efficient washing machine (top loading and front loading)
2006	AquaSmart introduced. First top loader in Australia to achieve the 4 star water rating
Current	Product line-up fully utilising the advanced benefits of Direct Drive technology

In addition to the advantages of energy saving, reliability, and motor sensing technology, is the ability to integrate the motor into existing washing machine models at low cost. For example, the slim design of the latest motors allows the motor to be placed behind the washer bowl in existing washers. In addition, work is being undertaken to investigate using the Direct Drive motors in air conditioning units, which is a potentially very large market. Components & Technology management are targeting an increase in annual sales to approximately 5 million units by FY16. With interest in the Direct Drive motor coming from manufacturers in Asia, the USA and Europe, Appliances will expand its manufacturing in the USA and Thailand and most likely commence production in China and Europe.

New Compressor Technology

Refrigeration compressor technology has changed very little for many decades. Existing compressors are relatively large and inefficient. Appliances has developed a new compressor that has fewer parts, is smaller in size and has high-energy efficiency. The new compressor technology has been patented and is currently in field-testing in NZ and the USA. Appliances has worked with Whirlpool to bring the technology to the pre-production phase. Whirlpool has a license agreement with Appliances and will undertake the manufacture of the compressor (through its subsidiary Embraco) and pay a royalty for each compressor and controller sold. Appliances proposes to introduce the new technology into its own refrigerators as soon as practicable. The new compressor should enable Appliances to meet pending stringent new energy efficiency requirements in the USA without the need to reengineer the existing refrigeration model line up.

5.3 Markets

The Components & Technology division has embarked on a policy of commercialising its technology beyond Appliances by supplying Direct Drive Motors to third parties, with production being undertaken in Thailand and the USA. Appliances is in discussions with existing and new customers to substantially increase the sales of Direct Drive motors and is forecasting significant growth in the sale of motors to other appliance producers. It is already supplying to two customers with a third commencing in 2012. Estimated revenue from these three customers in the year ending 31 March 2014 (**FY14**) is forecast to be in the range of US$50 – $60 million.

Appliances is seeking to leverage other aspects of its technology to other appliance manufacturers. Appliances is small and has limited international reach, but seeks to offer the opportunity to other appliance manufacturers to license and utilise the technology that it has developed. This needs to occur without compromising the Fisher & Paykel brand in key markets. It is possible that Haier may regard the licensing by Appliances of technology to third parties as a less than optimum outcome. Haier may well want any technology licensing to be limited to Haier given its global ambitions. However, with its existing 20% shareholding in FPA, Haier is currently unable to dictate the terms of third party licensing to other third parties by Appliances. It is also possible that existing and potential customers for motors may view an increased shareholding of Haier with some disquiet.

While Appliances was the first to implement the Direct Drive technology, LG have now widely adopted Direct Drive and have been a major factor in creating consumer awareness of the benefits of the technology. The market is considered to be at crossover point where the benefits of Direct Drive are starting to outweigh the cost advantage of the existing mass-market product. Potential competitors have observed the opportunities and are becoming more active.

PML

PML was established in 1981 and has developed a strong reputation for innovation in design and manufacture. PML designs and produces world-class innovative plants and production lines for a number of international manufacturers and for Appliances.

In the 1960s, FPA wanted to adopt flexible manufacturing techniques, which allowed one production line to manufacture the entire product range of any of its categories. To achieve truly flexible manufacturing, FPA concluded that it would have to develop the techniques and build the machinery itself. The small team initially assembled to meet these requirements grew in size and expertise, until, in 1981 it was decided to make PML a standalone business offering its expertise to other manufacturers.

The motor manufacturing equipment has been developed and produced by PML, resulting in lower manufacturing costs and ensuring a consistently high quality product. A modular approach to the manufacturing process enables incremental capacity to be added to meet demand and allows motor manufacturing plants to be established adjacent to the end product assembly lines where there is sufficient volume to do so.

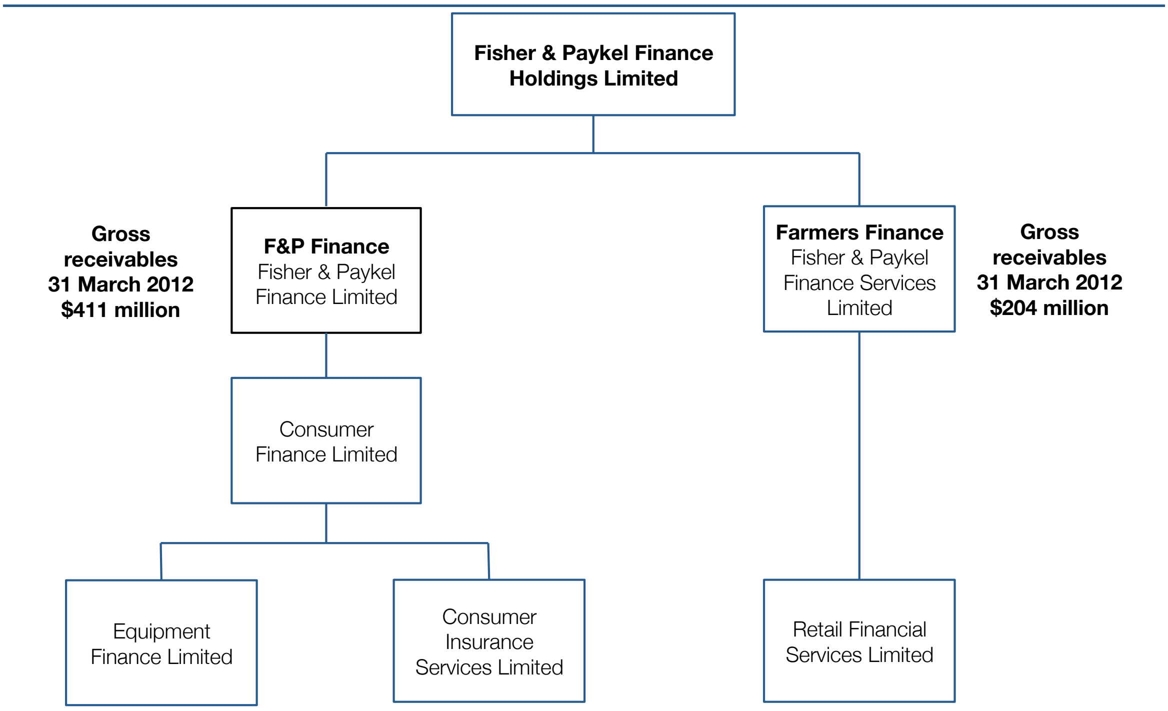
6. Profile of Fisher & Paykel Finance

6.1 Background

FPA Finance is one of the leading providers of retail point of sale consumer finance in New Zealand (including the Farmers Finance Card and Q Card). It also provides insurance services, extended warranties, rental and leasing finance. FPA Finance has a broad based consumer loan portfolio. The finance business consists of two separate divisions:

- ***Fisher & Paykel Finance*** – the original Fisher & Paykel Finance business which was started in 1973 and now includes Q Card, equipment finance, bulk funding, insurance and extended warranty products; and
- ***Farmers Finance*** – the Farmers Finance business, which was acquired in November 2003 and includes the Famers Finance Card and Famers Fixed Instalments Agreements (**Famers FIA**).

FPA Finance organisational structure



FPA Finance operates independently of Appliances, both in terms of management and governance, and location. Controls within FPA Finance are overseen by a number of internal committees, which are responsible for assessment and proactive management of risk. FPA Finance uses sophisticated credit processes to review and process new loan applications.

Key Events in FPA Finance's History

Year	Key Event
1973	▪ FPA Finance business is established, primarily to rent televisions to New Zealanders
1990	▪ Customer Approval System is launched, pioneering on-the-spot online point of sale credit approval in retail stores
1992	▪ FPA Finance becomes one of the first finance companies to support 'interest free' promotions as a payment option for consumers
1996	▪ Insurance introduced to provide consumer purchase protection and extended warranty
2003	▪ Alliance formed with Pascoes the Jewellers resulting in FPA Finance acquiring the finance and insurance business of Farmers Trading Company
2004	▪ Q Card is launched giving cardholders the opportunity to use pre-approved credit for purchases in a range of stores

6.2 Product Range

FPA Finance has a broad-based consumer loan portfolio, including the Farmers Finance Card, one of New Zealand’s largest private label store cards and the Q Card, a leading non-bank issued, fixed instalment and revolving credit card. Its New Zealand household penetration is approximately 35%. FPA Finance has no related party, private motorcar or property loans. The key products and brands within FPA Finance are summarised below:

Product range

Product/Brand	Receivables 31 Mar 2012	Description
	$298 million	Multiple finance plans on one card (interest free, interest bearing, delayed payments, structured payments). Offers a three-month Payment Holiday (no repayments and no interest) on every purchase, 3% minimum repayment thereafter. Longer Payment Holidays are available for larger value purchases. There are currently approximately 150,000 active Q Card holders. Q Card can be used at almost 10,000 retail outlets nationwide including: 100%, Big Save, Firestone, Flooring Xtra, the Good Guys, Rebel, Lumino Dentists, Briscoes, Michael Hill, Flight Centre, JB Hi-Fi, Mitre 10 Mega, Specsavers, HRV, Dick Smith, Walker & Hall, and the Warehouse.
	$204 million	Unsecured revolving credit. Now offers a three-month Payment Holiday (no repayments and no interest) on all Farmers purchases over $50. Farmers Card supports more than 20% of all Farmers’ sales and can be used at over 10,000 retail outlets nationwide (including, among others, supermarkets and petrol stations). There are currently 250,000 active Farmers Card holders. Farmers FIA provides fixed instalment finance to retailers and customers primarily via in-store offerings in Farmers stores.
Smiths City	$74 million	FPA Finance has had a relationship with Smiths City since 1990 and provides bulk finance facilities to Smithcorp Finance Limited, a special purpose funding vehicle of Smiths City, to enable it to provide instore credit to Smiths City customers.
CiS	n/a	Consumer Insurance Services Limited (**CISL**) provides Goods and Payment Protection insurance (FutureCare for Q Card and SAFEGuard for Farmers Card), card repayment insurance, product protection and life, trauma and income protection insurance. There are currently 285,000 policies on issue.
efl	$39 million	Equipment Finance Limited (**EFL**) provides plant, machinery, business equipment and asset finance and rental to businesses as well as through more than 300 third-party equipment dealers throughout New Zealand. EFL has approximately 11,000 customer accounts.
Gross receivables	$615 million	
Less provisions	($21 million)	
Net receivables	$594 million	

6.3 Credit rating

In April 2012 FPA Finance had its Standard & Poor’s (**S&P**) ‘BB Outlook Stable’ credit rating reaffirmed. Under a long-term issuer credit rating, an obligor rated 'BB' is less vulnerable in the near term than other lower-rated obligors.

However, it faces major ongoing uncertainties and exposure to adverse business, financial, or economic conditions which could lead to the obligor's inadequate capacity to meet its financial commitments. A 'Stable' outlook means that a rating is not likely to change, and reflects S&P's expectation that FPA Finance's financial characteristics will remain stable in the medium term. At the time of S&P's rating reaffirmation FPA Finance's stand-alone rating - that is the rating that would have been given by S&P had FPA Finance not been owned by FPA - was BB+ Outlook Stable. Pending the outcome of the Haier Offer, S&P has changed its outlook on FPA Finance from 'Stable' to 'CreditWatch positive'. CreditWatch highlights the potential direction of a short or long-term rating. The "positive" designation means that the rating may be raised.

6.4 Funding

FPA Finance's funding is structured as follows:

Funding Sources

Source	**Facility Limit**	**Drawn Amount 31 March 2012**	**Comments**
Bank Loans	$335 million	$245 million	Provided by ANZ, BNZ and Westpac and structured as follows: Tranche A - $20 million (maturing April 2015) Tranche B - $105 million (maturing October 2013) Tranche C - $105 million (maturing October 2015) Tranche D - $105 million (maturing April 2014)
Debentures	$300 million*	$111 million	Debenture stock is issued on terms ranging from three months to five years and is repayable on the maturity date. For the majority of debentures, interest is payable quarterly in arrears on the last day of March, June, September and December. The weighted average interest rate of the debenture stock at 31 March 2012 was 7.4%.
Notes		$194 million	The Farmers Finance business is funded by an asset backed non-recourse capital markets securitisation programme overseen by Fisher & Paykel Financial Services Limited. Each note has a minimum subscription price of $500,000. The term of the notes cannot exceed 364 days or the maturity of the supporting liquidity facility, whichever is earlier. Notes are normally issued on the basis that they bear no interest but are issued at a discount to their principal amount. The weighted average interest rate of the notes at 31 March 2012 was 6.5%. FPA Finance's notes are rated A1+ and are supported by a bank provided liquidity facility (see below).
Liquidity facility	$250 million		Liquidity support for the notes is provided under a committed standby facility. The weighted average interest rate of the liquidity facility at 30 March 2012 was 4.0%. This liquidity facility matures in April 2013.
Total funding	**$885 million**	**$550 million**	Surplus liquidity of $146 million available (excluding debentures)

* limit on volume of Debentures able to be issued by FPA Finance

FPA Finance generates significant cash flows from its lending activities. Operating cash flows for the year ended 31 March 2012 were in excess of $40.4 million.

As a public issuer FPA Finance is also required, under the terms of its Debenture Trust Deed and by virtue of the Reserve Bank of New Zealand Act 1989, to maintain a minimum ratio of net tangible assets to total tangible assets of 8% for as long as FPA Finance has a credit rating, or 10% in all other circumstances.

6.5 Effect of the Haier Offer

If the Haier Offer results in a change of ownership of FPA, the consent of FPA Finance's banking syndicate, which provides $335 million of banking facilities, will be required to obtain the continuation of those facilities. Management's current expectation is that the banking syndicate would consent to the continuation of the facilities and it is unlikely that the facilities will be withdrawn or reduced.

6.6 Competition

FPA Finance faces competition from bank credit cards, cash and direct debit, personal loans and other finance companies including GE Money, Finance Now and Gilrose. A brief profile of each of the main finance companies with which FPA Finance competes is outlined below:

FPA Finance's Competitor Profile

Competitor	Description
GE Money	GE Money specialises in the provision of personal finance providing personal loans (including debt consolidation loans and car loans), credit cards (gem Visa and GE CreditLine) insurance (predominately repayment, income protection and life insurance) and interest-free promotional retail finance. It has approximately $1.4 billion of assets and 600 staff. GE Money's products can be found at 2,000 retail partners including Bond & Bond, Michael Hill, Briscoes and Harvey Norman. GE Money is a division of GE Capital and part of the General Electric Group.
Finance Now	Finance Now's cornerstone shareholder is Southland Building Society (71.5%). Key products include personal loans (including car and marine loans, debt consolidation loans, home improvement loans and holiday loans), business finance (including loans and rental finance), home loans, insurance (including payment protection, life insurance, asset and motor vehicle insurance) and in store retail finance across 1,400 retail outlets including Beaurepairs, Big Save Furniture, Bond & Bond, Dick Smith, Noel Leeming, Vodafone and Warehouse Stationery.
Gilrose Finance	Gilrose is a privately owned finance company providing retail point of sale finance to consumers across 1,500 registered retailers including The Warehouse, Parallel Imported, Dwights Outdoors, and a range of jewellers.

6.7 Key opportunities

Management has identified several growth opportunities for the FPA Finance business including to:

- fully develop its partnership with Farmers Trading Company;
- broaden its merchant reach to move from 15% to 20% of New Zealand merchants over the next two years;
- target new retail channels for its consumer point of sale finance solutions (e.g. in the health and agriculture sectors);
- promote customer loyalty to retailers;
- expand its 'white label' credit card product into other retailers;
- expand gift and cash card offerings;
- deliver further technology solutions to customers including digital and online; and
- consider selective acquisitions of core portfolio receivables.

These opportunities would provide growth to the business without losing focus on the core business of consumer point of sale solutions.

6.8 Key risks

The table below summaries the key risks and mitigants of the FPA Finance business:

FPA Finance's Key Risks and Mitigants

Risk	Description	Mitigants
Liquidity risk	FPA Finance obtains its funding from debentures, bank facilities, notes and equity capital. There is a risk that FPA Finance may have insufficient liquid funds, or may not be able to raise sufficient funds at short notice, to meet its financial obligations as they fall due.	Pending the outcome of the Haier Offer, S&P has changed its outlook on FPA Finance from 'Stable' to 'CreditWatch positive' enhancing Finance's ability to raise capital. FPA Finance also operates an asset and liability committee that overseas all aspects of balance sheet risk assessment and management, including liquidity risk. Liquidity risk is managed by maintaining strong bank relationships, regularly forecasting future cash flows to identify any maturity mismatches in advance, monitoring the maturity profile of existing funding facilities and receivables, maintaining a diverse and stable funding base and by monitoring internal liquidity ratios.
Credit risk	FPA Finance lends money to a variety of customers, including individuals, companies and other organisations. There is a risk of financial loss if customers do not pay interest on, or repay, their loans on time or in full. If a significant increase in provisioning or bad debt write-offs occurs, this is likely to have a material adverse effect on the financial performance and financial condition of FPA Finance.	FPA Finance has a credit committee that oversees all aspects of credit risk assessment and credit management, operating within formal credit policies and guidelines approved by the Board. Consumer lending practices involve credit scorecards, credit checks, fraud detection software, business rules and a review of customer credit history. Where appropriate security will be taken over the asset being financed. FPA Finance does not undertake financing of residential or commercial property.
Interest rate risk	FPA Finance holds interest bearing assets and liabilities, and incurs interest rate risk because these assets and liabilities will mature or reprice in different periods. Since market interest rates fluctuate, this may impact on the margin earned between these interest bearing financial assets and liabilities	FPA Finance manages its interest rate risk by monitoring the maturity profile of assets and liabilities and seeking, where possible, to match the date at which these maturities reprice, by monitoring market interest rates and reviewing the impact of these on interest rate exposure, by hedging exposure using derivative instruments and by reviewing lending rates from time to time.
Operational risk	FPA Finance is exposed to financial loss and/or damage to its reputation where operational risks are not identified and properly managed. Operational risks include information technology systems failures, breakdowns in internal control systems or operating procedures, litigation and external events beyond its control. Should any of these events occur this could have a material adverse effect on FPA Finance's financial performance and financial condition	Operational risks and controls are formally assessed by the Board, executive team and senior management on a regular basis. Business continuity and disaster recovery plans have been established and tested to ensure that operations can be resumed as quickly and efficiently as possible in the case of a natural disaster or similar event.
Reliance on key retailers	FPA Finance distributes its products and services through a selection of retailers in New Zealand. If one or more of these retailers choose to use an alternative supplier of financial products and services, this would result in a loss of business.	FPA Finance recently experienced the loss of a $50 million per annum retailer for its Q Card product. This was replaced within a single financial year with new business from a diverse range of smaller retailers. Management is confident of its ability to continue to grow and diversify its retail base.

Market risk	The New Zealand economy is experiencing a range of adverse influences that are resulting in challenging market conditions. A continued and/or prolonged deterioration in general market conditions could result in reduced demand for point of sale finance and a consequential fall in interest earned by FPA Finance. Reduced or negative growth, such as a reduction in demand for retail goods, could have a material adverse effect on the financial performance and financial condition of FPA Finance.	FPA Finance regularly monitors local and global economic and business conditions in order to identify and assess any potential risks that may impact on its operations. However, economic changes are not always predictable.
Regulatory risk	The New Zealand financial sector is in the process of significant regulatory reform with applicable legislation subject to change. Regulatory risk is the risk to the financial performance and financial condition of FPA Finance that could arise from changes in the regulatory environment.	FPA Finance seeks to comply in all respects with all applicable legislation. Management seeks to keep abreast of current issues by regular reporting from the acting General Counsel and participation in industry groups as well as the engagement of external advisers.

6.9 Financial Performance

The financial performance of FPA Finance for the years ended 31 March 2009, 2010, 2011 and 2012, together with the forecast for the year ending 31 March 2013, are shown in the table below:

FPA Finance – Financial Performance (NZ$ millions)

Year end 31 March	2009	2010	2011	2012	2013F
Interest income	112.7	109.5	116.7	117.2	119.4
Interest expense	(51.0)	(38.8)	(41.3)	(40.8)	(37.9)
Net interest income	**61.7**	**70.7**	**75.4**	**76.4**	**81.5**
Net fee and commission income	11.9	12.2	13.7	13.2	17.0
Net premium revenue	9.6	8.4	10.7	11.4	7.1
Other income	2.9	1.9	2.0	1.6	1.8
Total net income	**86.1**	**93.2**	**101.8**	**102.6**	**107.4**
Employee benefits expense	(14.6)	(14.9)	(15.6)	(17.6)	(18.3)
Depreciation and amortisation expense	(7.9)	(8.0)	(8.3)	(9.0)	(9.2)
Impairment charge for credit losses	(20.0)	(19.5)	(19.3)	(11.1)	(15.4)
Operating expenses	(18.3)	(18.5)	(19.8)	(29.9)	(23.8)
Insurance commission	(2.1)	(1.5)	(2.3)	(1.7)	-
Net claims incurred	(2.1)	(1.8)	(1.8)	(2.2)	(0.3)
Total expenses	**(65.0)**	**(64.2)**	**(67.1)**	**(71.5)**	**(67.0)**
Profit before income tax	**21.1**	**29.0**	**34.7**	**31.1**	**40.4**
Income tax expense	(6.3)	(8.7)	(9.0)	(8.6)	(10.8)
Profit after income tax	**14.8**	**20.3**	**25.7**	**22.5**	**29.6**
Other comprehensive income after income tax	-	-	(1.3)	(0.1)	-
Total comprehensive income	**14.8**	**20.3**	**24.4**	**22.4**	**29.6**
Bad debts as a % of average gross receivables	*3.4%*	*3.2%*	*3.2%*	*1.9%*	

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

- FPA Finance's interest income has remained relatively consistent as its receivables book has been steady over the past four years;
- FPA Finance is currently benefiting from the lower interest costs (including the benefits of lower interest rates in the market but also lower facility fees) and lower operating costs;

- The 2013 forecast shows an uplift in fee and commission income as Q Card's increased annual card fee of $45 per card is introduced;
- The bad debt expense to average gross receivables ratio decreased from 3.2% in the year ended 31 March 2011 to 1.9% in the year ended 31 March 2012 partly as a result of a full reversal of a $2 million provision in relation to the Christchurch earthquake which was ultimately not required; and
- Operating expenses increased almost $10 million between 2011 and 2012 as a result of litigation costs ($6.8 million) associated with a legacy software system acquired as part of the Farmers acquisition, and increased marketing expenses.

6.10 Financial Position

The financial position of FPA Finance as at 31 March 2009, 2010, 2011 and 2012 is outlined in the table below:

FPA Finance – Financial Position (NZ$ millions)

Year ended 31 March	2009	2010	2011	2012
Cash and cash equivalents	13.1	22.7	27.1	25.1
Financial assets designated at fair value	25.1	21.3	21.2	17.5
Receivables	587.3	615.7	601.6	594.5
Other assets	4.2	3.2	3.5	3.6
Deferred acquisition cost	3.1	5.5	6.6	6.1
Intangible assets	130.2	124.5	120.3	113.5
Property, plant and equipment	1.5	1.3	1.2	1.1
Total Assets	**764.5**	**794.2**	**781.5**	**761.4**
Payables	6.8	7.9	8.2	14.6
Derivative financial instruments	1.9	0.8	3.2	2.7
Current tax liabilities	-	2.8	3.9	2.1
Outstanding claims liability	0.8	0.8	0.6	0.7
Unearned premium liability	8.2	12.1	14.2	12.5
Other liabilities	3.4	2.3	1.4	1.0
Interest bearing liabilities	557.0	548.7	529.0	506.0
Deferred tax liabilities	22.0	19.5	15.7	14.4
Total liabilities	**600.1**	**594.9**	**576.2**	**554.0**
Net assets	**164.4**	**199.3**	**205.3**	**207.4**

The following points are relevant when considering the above table:

- Financial assets include deposits and government stock;
- During the 2012 financial year FPA Finance lost the Harvey Norman account for its Q Card product. This was replaced with new receivables growth as a result of a strong promotional program for Q Card;
- intangible assets include internally generated and acquired computer software, goodwill, licenses and brand names;
- unearned premium liability represents insurance premiums paid in advance;
- interest bearing liabilities include bank loans, debentures and notes. Section 6.4 outlines FPA Finance's funding sources in detail; and
- The Crown Deposit Guarantee Scheme expired on 31 December 2011, however FPA Finance's debenture reinvestment rates have increased post this date with a reinvestment rate of 89% in March 2012. The increase in retail debentures enabled management to reduce its undrawn banking facilities (and therefore reduce associated fees) by $85 million, which were originally put in place to cover any shortfall in debenture funding post the expiry of the Crown Deposit Guarantee.

6.11 Cash Flows

The cash flows for FPA Finance for the years ended 31 March 2009 to 2012 are shown in the table below:

FPA Finance – Cash Flows (NZ$ millions)

Year end 31 March	2009	2010	2011	2012
Net (increase)/decrease in loans and advances	(23.1)	(50.0)	(6.7)	(6.1)
Insurance premium receipts	6.1	10.3	11.0	7.5
Interest received	111.8	109.7	117.3	117.3
Other revenue	15.1	14.8	16.3	16.2
Payments to suppliers and employees	(35.5)	(36.3)	(38.4)	(42.5)
Interest paid	(58.4)	(45.8)	(46.9)	(45.7)
Income taxes paid	(4.9)	(1.0)	(0.1)	(6.3)
Net cash from operations	**11.1**	**1.7**	**52.5**	**40.4**
Payments for property, plant and equipment	(0.7)	(0.3)	(0.4)	(0.3)
Payments for intangibles	(1.6)	(1.7)	(3.7)	(1.9)
Proceeds from the sale of debt securities	-	-	-	0.5
Net cash from investing activities	**(2.3)**	**(2.0)**	**(4.1)**	**(1.7)**
Proceeds from the issue of shares	7.0	30.0	-	8.5
Proceeds from borrowings	284.1	103.5	104.1	119.1
Repayment of borrowings	(296.6)	(111.5)	(79.1)	(150.0)
Dividends paid	(14.8)	(10.6)	(14.5)	(17.5)
Net cash from financing activities	**(20.3)**	**11.4**	**10.5**	**(39.9)**
Net cash flow[3]	**(11.5)**	**11.1**	**58.9**	**(1.2)**

In reviewing the above table the following should be considered:

- FPA Finance's loans and advances have increased year on year; and
- FPA Finance pays a regular dividend to FPA.

[3] Excluding subvention payments to FPA

7. Financial Summary

7.1 Financial Performance

The financial performance of FPA for the years ended 31 March 2008 to 2012, together with the forecast for the year ending 31 March 2013, are shown in the table below:

FPA – Earnings Statement (NZ$ millions)

Year ended 31 March	2008	2009	2010	2011	2012	2013F[4]
Appliance Revenue	**1,275.8**	**1,222.6**	**1,021.0**	**965.1**	**891.4**	**953.8**
COGS	(897.8)	(898.2)	(735.8)	(673.1)	(613.0)	(651.4)
Gross Profit	378.0	324.4	285.2	291.9	278.4	302.5
Gross Margin	29.6%	26.5%	27.9%	30.3%	31.2%	31.7%
Foreign Currency Gains/(Losses)	(3.3)	28.8	9.4	(14.2)	(25.6)	-
Operating costs	(252.1)	(247.0)	(227.1)	(225.4)	(214.7)	(222.2)
Operating costs as % of revenue	*(20%)*	*(15%)*	*(22%)*	*(23%)*	*(24%)*	*(23%)*
Normalised EBITDA from Appliances	**122.6**	**106.2**	**67.5**	**52.4**	**38.1**	**80.2**
Normalised EBITDA margin	*9.6%*	*8.7%*	*6.6%*	*5.4%*	*4.3%*	*8.4%*
Depreciation	(34.5)	(38.9)	(27.4)	(23.8)	(22.0)	(25.0)
Amortisation	(7.9)	(11.7)	(10.7)	(8.8)	(9.7)	(11.5)
Normalised EBIT from Appliances	**80.2**	**55.6**	**29.4**	**19.8**	**6.4**	**43.8**
Normalised EBIT margin	*6.3%*	*4.6%*	*2.9%*	*2.1%*	*0.7%*	*4.6%*
FPA Finance Revenue	**123.9**	**135.8**	**136.1**	**145.3**	**139.7**	**145.2**
Interest Expense	(43.2)	(51.0)	(38.8)	(41.4)	(40.8)	(37.9)
Bad debts	(13.3)	(20.0)	(19.5)	(19.3)	(11.1)	(15.4)
Operating expenses	(41.1)	(43.7)	(49.0)	(50.1)	(51.9)	(51.5)
Profit from FPA Finance	**26.2**	**21.1**	**28.9**	**34.5**	**35.9**	**40.4**
Other Income	6.6	-	-	10.6	6.8	-
Extraordinary Items	(20.6)	(141.1)	(133.2)	(1.4)	(10.7)	(1.9)
Appliance Interest Expense	(21.6)	(29.6)	(28.4)	(15.4)	(10.9)	(9.0)
Interest Rate Hedge Losses	-	(11.2)	-	-	-	-
Net Profit Before Tax	**70.9**	**(105.2)**	**(103.2)**	**48.1**	**27.5**	**73.3**
Taxation	(18.8)	10.0	19.9	(14.6)	(9.1)	(25.7)
Net Profit After Tax	**52.1**	**(95.2)**	**(83.3)**	**33.5**	**18.4**	**47.6**

In reviewing the above table, the following should be taken into consideration:

- The decline in both EBITDA and EBIT for the Appliances business between 2008 and 2012 reflects the major restructuring in a difficult market. The resulting upgrade of the product line up will only begin to positively impact earnings and cash flow in the second half of FY13;
- The decline in depreciation expense between 2010 and 2012 reflects the write-down of plant and equipment at March 2009 by $34.4 million in North America;
- The extraordinary items in 2009 and 2010 primarily comprise restructuring costs and the write-down in the value of fixed assets and goodwill;
- The foreign currency gains and loses were largely a function of the historical policy to take rolling cover for 14 months into the future, which was expensive both from the cost of the forward cover, but also the losses incurred when there were large moves in relative exchange rates;

[4] The 2013 forecasts have been developed for internal management purposes, and were last updated in July 2012. In August 2012, the Board has provided market guidance, including its assessment of risks around the current financial year, which differ slightly from these original internal management forecasts.

- Throughout the period under review FPA Finance has produced consistent results which has enabled FPA to significantly reduce debt; and
- FPA has been using up New Zealand tax losses, which reflects in a lower cash tax rate. It is a taxpayer in a number of foreign jurisdictions. Currently there are approximately $20 million of tax losses to be utilised. Depending on the outcome of the Haier Offer, these may be lost. The valuation has assumed these losses are used by Appliances over the next 4.5 years.

The principal assumptions on which the prospective financial information for 2013 is based are:

- FPA's actual results for the four months to 31 July 2012 plus management's forecast for the remaining eight months of the FY13 financial year;
- Revenues include the projected introduction of new products and the production of commercial quantities under two new motor supply contracts;
- Prices and margins are based on current and projected views of market pricing and product input costs including raw material prices, labour and freight costs;
- Corporate and operating overheads have been adjusted for anticipated changes for the balance of FY13;
- Foreign exchange assumptions are based on July 2012 exchange rates and are assumed to remain constant for the balance of FY13;
- Any costs relating to Haier's Offer have not been included;
- Capital expenditure is based on existing projects adjusted for anticipated changes;
- FY13 forecast is based on performance for the four months to July 2012; and
- No material change to FPA Finance's funding costs are assumed.

7.2 The Five Year Strategic Plan

By the beginning of 2009, FPA's debt had reached unacceptable levels, as a result of declining earnings relating to the GFC and the impact of the decline in the New Zealand dollar on foreign currency denominated debt. Following the resulting recapitalisation, FPA entered a significant phase of transition under the direction of the new CEO. In addition to the clear need to reduce debt, a number of serious structural issues were identified in the Appliance business that urgently needed to be addressed. The five year forecast is based on a well developed and comprehensive five year strategy, which envisages a significant number of new product releases, growth in the Components & Technology business, and the introduction of new leading edge innovative products in both the kitchen and laundry categories. Excerpts from the five year strategic plan were released to ASX and NZX on 10 September 2012. The following observations are extracted from the five year plan:

- ***Strong Earnings Growth.*** The strategic plan sees a step change in earnings in particular from Components & Technology. EBITDA more than doubles from the FY13 forecast by FY17. The major contributors to core appliances are cooking and refrigeration (both from the introduction of new models), next generation laundry and the benefits flowing from the final phase of the implementation of the GMS. The five year strategic plan forecasts a more than 50% increase in revenue and a 40% increase in volumes as FPA seeks again to diversify outside of its core markets of Australia, USA and New Zealand. More importantly, the forecast increased sales and volumes combined with a forecast increase in margins is expected to result in a significant improvement in earnings;
- ***Australian Market.*** Australia is FPA's most important market, generating approximately 50% of total gross margin. In Australia, revenue declined in FY12 due to intense price competition and a small loss of market share across all categories except cookware. In FY13 FPA expects to grow market share following the introduction of a significant number of new products. Revenue for the year to date is below the same comparable period last year, although it is notable that gross margins have improved on an improved exchange rate. The Haier range is exhibiting good growth at the value end of the market. In the five years to FY17 the combined Appliances/Haier unit market share is planned to increase with the biggest share of the growth coming from Haier product. Despite the increase in gross margin in FY13 over the previous year, the five year plan envisages a slight erosion of margin in part from a change in product mix and an expectation of continued intense competition in certain

segments. A sustained downturn in Australia, a loss of market share or a price war could result in a significant reduction in profitability for Appliances;

- ***US Market.*** The key area of focus in the USA in the five year strategic plan is the growth in kitchen, and in particular cookware, as a result of investment in new products in both the DCS and Fisher & Paykel brands. Refrigeration and cookware are forecast to comprise a significant portion of revenue and gross margin by FY17;
- ***New Zealand Market.*** The five year plan forecasts reasonably strong revenue growth targets for New Zealand, from both market share gains and volume improvements in the expectation of a lift in economic activity. Margins are expected to decline in FY14 and remain stable thereafter, due to competitive pressure and a decision by Appliances to pass a proportion of the cost benefits from implementing the GMS onto consumers. This is expected to increase volumes and address increased competition from Asian appliance manufacturers. The New Zealand market is anticipating a lift from the introduction of a number of new products in the second half of FY13;
- ***Motor Contract Volumes.*** The forecast volumes for the three existing contracts are lower than the contracted volumes. There remains a risk that the anticipated new contracts will not eventuate. FPA manufactures the equipment to produce the motors in-house and is confident that it can increase production to higher than forecast levels if there is demand;
- ***Refrigeration.*** Refrigeration is the largest contributor to gross margin in Appliances. The current aggressive pricing of competitors could put pressure on Appliances' refrigeration margin. Appliances is positioning its product above competitor's products and with the new product introduction believes it will be able to retrieve, if not grow, market share albeit at slightly lower margins;
- ***Raw Material Prices.*** Raw material prices have begun to recede from the highs experienced earlier in 2012. The current outlook is favouring further weakness in the short term as capacity increases come on stream and demand remains static or declining. Longer term raw material prices could rise, impacting margins as it has historically been difficult to pass on price increases. For the foreseeable future the expectation is for marginally improving rather than decreasing margins from changes in raw material prices. FPA has an ongoing policy of cost out designed to reduce the impact of raw material price increases. No allowance for cost out improvement has been included in the five year plan; and
- ***New Products.*** New product delivery has been carefully planned. The plan assumes an as yet to be negotiated OEM contract on dishwashers and the sale of new compressors during the five year forecast period. Currently there is no indication these projects will not commence as currently forecast but both of these projects have the ability to slip.

The long lead times in bringing new product to market, combined with the time it has taken to address fundamental branding, quality and manufacturing deficiencies, means that while the FY13 Appliance business will report increased earnings, the full impact of the management initiatives will only be seen in FY14 and beyond. By FY17 the Appliance EBITDA is forecast to more than double from current levels.

7.3 Financial Position

The financial position of FPA as at 31 March 2009 to 2012 is outlined in the table below:

FPA – Financial Position (NZ$ 000s)

Year ended 31 March	2009	2010	2011	2012
Inventories	357,793	205,641	195,108	151,772
Trade and other receivables	178,137	178,044	150,628	125,652
Assets held for sale	91,890	40,242	15,021	13,843
Other current assets	5,907	13,904	3,816	4,388
Current Assets	**633,727**	**437,831**	**364,573**	**295,655**
Finance business receivables	587,326	615,693	601,595	594,532
Finance business cash	36,749	42,820	47,154	42,074
Finance business borrowings	(541,838)	(548,656)	(528,915)	(505,966)
Net finance assets	**82,237**	**109,857**	**119,834**	**130,640**
Property, plant and equipment	300,514	218,374	202,155	200,521
Intangible Assets	297,845	218,231	210,948	196,709
Other non-current assets	81,547	79,256	65,614	56,922
Total Non-current assets	**679,906**	**515,861**	**478,717**	**454,152**
Trade creditors	152,340	125,598	99,141	96,560
Provisions	47,350	18,681	18,341	20,485
Other current liabilities	78,939	81,017	101,420	66,755
Total Current liabilities	**278,629**	**225,296**	**218,902**	**183,800**
Net debt (excluding Finance)	**459,046**	**173,076**	**100,182**	**64,537**
Non-current liabilities	**92,643**	**64,025**	**29,092**	**26,929**
Shareholders equity	**565,552**	**601,152**	**614,948**	**605,181**

The following points are relevant when considering the above table:

- Since 31 March 2009 FPA has been proactively reducing its working capital from $384 million to $180 million as at 31 March 2012, using the proceeds to reduce debt and fund capital expenditure;
- Net debt, excluding the FPA Finance net debt, has been reduced through a combination of the issue of new shares, asset sales and working capital management to a level where FPA could comfortably increase its debt. The current balance sheet is under-geared, increasing the likelihood of the resumption of dividend payments;
- Appliances continues to reduce net working capital driven by inventory reduction (finished goods, raw materials and spares); and
- Capital expenditure in Appliances has been limited to maintenance spending only for manufacturing assets, balanced by significant investment in new products and motor contracts. Target FY13 capital expenditure is $42 million.

7.4 Cash Flows

The cash flows for FPA for the years ended 31 March 2009 to 2012 are shown in the table below:

FPA – Cash Flows (NZ$ 000s)

Year end 31 March	2009	2010	2011	2012
Net Profit for the year	(95,254)	(83,328)	33,545	18,431
Add/(Deduct) non-cash items:				
Depreciation & Amortisation	58,489	46,106	40,893	40,626
Fair Value Adjustment and (gain)/loss on sale	88,365	95,568	(2,713)	809
FPA Finance business	(3,021)	(27,240)	13,684	6,980
Change in working capital	(92,459)	36,028	27,711	70,731
Foreign exchange translation	30,164	(29,510)	(6,959)	(26,872)
Net operating cash flow	**(13,716)**	**37,624**	**106,161**	**110,705**
Net investing cash flows	(69,799)	26,674	(11,425)	(60,708)
Net financing cash flows	71,908	(264,110)	(65,122)	(52,113)
Issue of shares	-	190,359	-	-
Increase/(decrease) in cash	**(11,607)**	**(9,453)**	**29,614**	**(2,116)**

In reviewing the above table the following should be considered:

- Net operating cash flow has increased strongly since year ended 31 March 2009; and
- In FY10, in response to the high levels of debt, capital expenditure was constrained and asset sales - predominantly property - increased. In 2012 capital expenditure on new product development was increased and will remain relatively high for the ensuing three years ending 31 March 2015.

7.5 Capital Structure and Ownership

As at 14 September FPA had 724 million shares on issue held by approximately 12,700 shareholders. The Company's top 20 shareholders are shown in the table below:

FPA – Top 20 Shareholders as at 14 September 2012

Shareholder	Shares (000s)	%
New Zealand Central Securities Depository Limited	237,541	32.8%
Haier	144,847	20.0%
JP Morgan Nominees Australia Limited	40,234	5.6%
National Nominees Limited	36,771	5.1%
Citicorp Nominees Pty Limited	35,554	4.9%
HSBC Custody Nominees (Australia) Limited	22,989	3.2%
FNZ Custodians Limited	7,505	1.0%
Superlife Trustee Nominees Limited	6,403	0.9%
Gary Albert Paykel & Dorothy Mary Paykel & Keith Raymond Rushbrook	4,183	0.6%
New Zealand Depository Nominee Limited	3,178	0.4%
Deutsche Securities New Zealand Limited	2,050	0.3%
John Julian Aubrey Williams & Shirley Anne Williams & William Lindsay Gillanders	2,035	0.3%
Investment Custodial Services Limited	2,027	0.3%
Michael Walter Daniel & Nigel Geoffrey Ledgard Burton & Michael Murray Benjamin	1,900	0.3%
Investment Custodial Services Limited	1,828	0.3%
Forsyth Barr Custodians Limited	1,664	0.2%
Robert Michael Lerner & John Keith Radley	1,597	0.2%
Michael John Fisher & Gurshon Fisher & The New Zealand Guardian Trust Company Limited	1,440	0.2%
Fisher & Paykel Appliances Employee Share Purchase Trustee Limited	1,347	0.2%
Custodial Services Limited	1,330	0.2%
Top 20 Shareholders	**556,424**	**76.8%**
Other Shareholders	**167,811**	**23.2%**
Total	**724,235**	**100.0%**

FPA is a closely held company with the substantial shareholders holding approximately 50%. The Company's substantial shareholders are shown in the table below:

FPA – Substantial Security Holders as at 14 September 2012

Shareholder	Shares (000s)	%
Haier	144,847	20.0%
Allan Gray	125,795	17.4%
Accident Compensation Corporation	54,408	7.5%
AMP Capital Investors (New Zealand) Limited	37,459	5.2%
Substantial shareholders	**362,509**	**50.1%**
Other Shareholders	**361,726**	**49.9%**
Total	**724,235**	**100.0%**

The following table shows the volume of FPA shares traded over the past 12 months, the price ranges and the volume weighted price for the respective time periods:

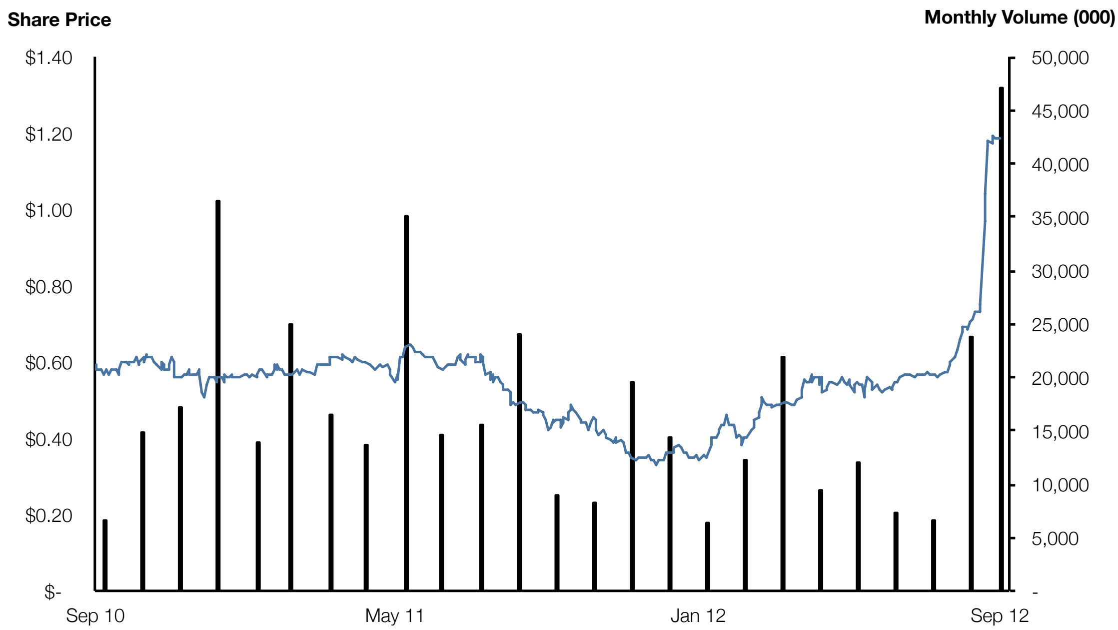
FPA – Share Trading Summary

Time period	Low	High	VWAP	Volume (000s)
1 month	0.69	1.19	1.04	56,187
3 months	0.53	1.19	0.92	79,316
6 months	0.48	1.19	0.80	112,538
12 months	0.33	1.19	0.64	190,943

7.6 Share Price Performance

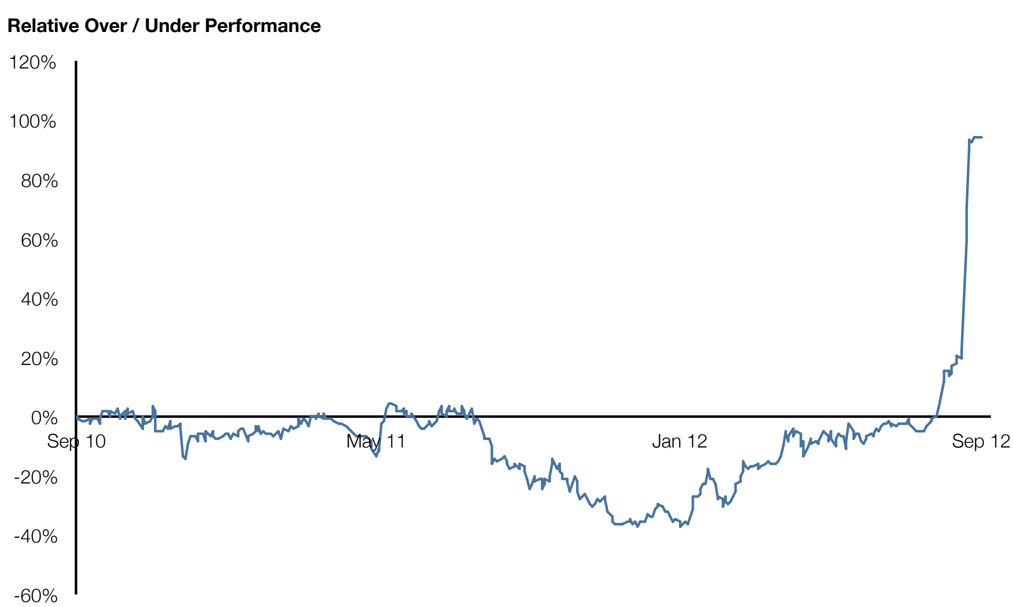
The share price and trading volume history of FPA shares is depicted graphically below.

FPA – Share price performance over the last two years



FPA's share price against the NZX50 index is shown in the graph below:

FPA – Share price performance relative to the NZ50 Capital Index



8. Valuation of Fisher & Paykel Appliances

8.1 Summary

Grant Samuel's valuation of the equity in FPA is $926 million - $1,137 million as at 30 September 2012, as summarised below:

FPA – Valuation Summary

$ million except where otherwise stated	Low	High
Appliances	431	585
Components & Technology	291	323
FPA Finance	260	285
Enterprise value	**982**	**1,193**
Net debt for valuation purposes	(65)	(65)
Other assets	9	9
Equity value	**926**	**1,137**
Fully diluted shares on issue (million)	724.2	724.2
Value per share	**1.28**	**1.57**

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

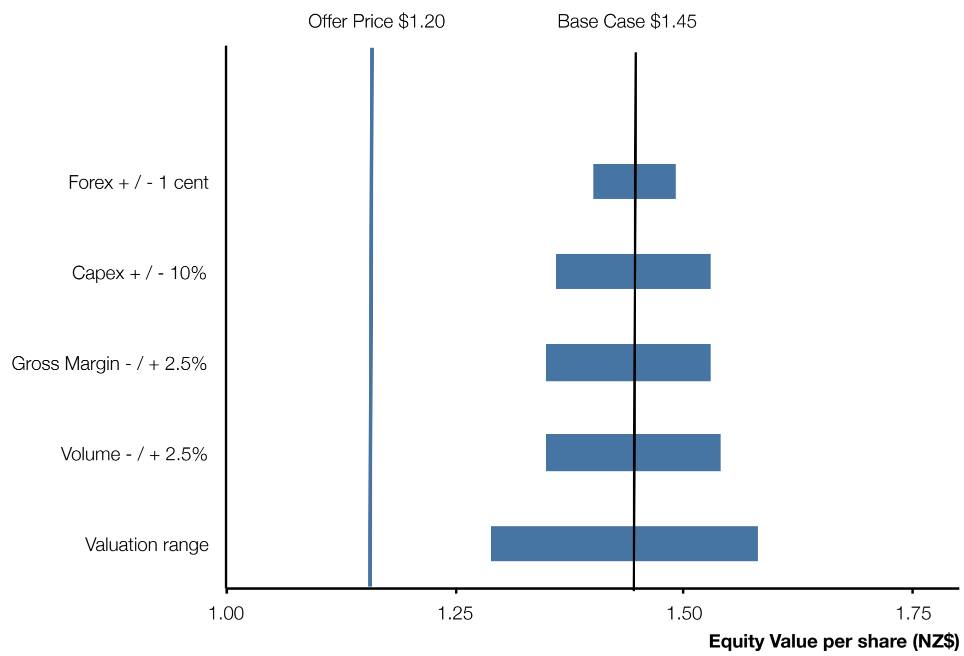
The base case valuation was prepared using the five year strategic plan. This plan is the result of a rigorous planning process and reflects the board and management's best estimate of the future earnings and cash flows of FPA through to 31 March 2017. The base case valuation is $1.45 per share. The low end of the valuation range reflects a volume reduction of 2.5% p.a. from the base case across all appliance sales in its key markets, a reduction in the value of the US dollar by 3 cents relative to the New Zealand dollar, and a 10% p.a. reduction in as yet uncontracted motor sales from the base case. The high case reflects a 2.5% uplift in appliance sales, a 3 cent increase in the value of the US dollar relative to the New Zealand dollar and with motor sales remaining at the base case level.

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

- the product development pipeline and the projected timing of the release of those products to market;
- the historic loss of market share that FPA suffered in its three largest sales regions and the viability of key plans to recover and increase share in those markets;
- the likelihood of achieving the five year strategic plan and the key factors that will influence that outcome;
- the existing relationship with Haier and the impact on FPA of Haier increasing its shareholding; and
- the achievability of the aggressive plan to increase sales of motors.

A sensitivity analysis of the valuation is summarised below:

FPA DCF Sensitivity Analysis



Net debt for Valuation Purposes

Net debt is the normalised forecast net debt for Appliances as at 30 September 2012. It reflects the receipt of proceeds from the sale of $5 million surplus property at East Tamaki, the receipt of a dividend from FPA Finance of $10 million, and an adjustment to normalise quarter end debtors. An amount has been added to net debt, being Grant Samuel's estimate of the possible outcome of a contingent liability.

Other Assets

The amount of $8.6 million represents the book value of surplus land and buildings at East Tamaki, Auckland that are currently being marketed at approximately $10 million.

Capital Expenditure

The five year strategic plan does not include any revenue from the next generation laundry and accordingly an adjustment has been made to the valuation to reflect this.

8.2 Preferred Methodology

Overview

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

The most reliable evidence as to the value of a business is the price at which the business or a comparable business has been bought and sold in an arm's length transaction. In the absence of direct market evidence of value, estimates of value are made using methodologies that infer value from other available evidence. There are four primary valuation methodologies commonly used for valuing businesses:

- capitalisation of earnings or cash flows;

- discounting of projected cash flows;
- industry rules of thumb; and
- estimation of the aggregate proceeds from an orderly realisation of assets.

Each of these valuation methodologies has application in different circumstances. The primary criterion for determining which methodology is appropriate is the actual practice adopted by purchasers of the type of business involved. A detailed description of each of these methodologies is outlined at Appendix D.

Preferred Approach

Grant Samuel has placed primary reliance on discounted cash flow analysis in delivering a value range for FPA. Discounted cash flow is the most commonly used methodology for valuing start up projects where there is significant variability in the early stages of development. In the case of FPA, while the substantial components of the post 2009 restructuring have been implemented, there is significant variability in the cash flows in FY13 – FY15, which can only be captured with a degree of accuracy using DCF. The valuation outcomes from the DCF have been crosschecked using capitalisation of earnings methodology, and the implied earnings multiples from comparable transactions and the share prices of comparable companies.

FPA provided Grant Samuel with a comprehensive five year financial model to support the five year strategic plan. Grant Samuel has adopted the FPA financial model as its base case. There are numerous variables when modelling a company of the size and complexity of FPA. The earnings and cash flows of FPA are most sensitive to variations in volumes of appliances and motors sold, and movements in the US$/A$ exchange rate.

8.3 Earnings Multiple Analysis

Implied Multiples

Grant Samuel estimates the value of FPA on an un-geared basis to be in the range of $982 million to $1,193 million. This range implies the following multiples:

FPA Group - Implied Multiples

	Valuation Range	
	Low	**High**
Multiple of normalised EBITDA – year ended 31 March 2012	11.6	14.1
Multiple of EBITDA – year ending 31 March 2013	7.6	9.2
Multiple of normalised EBIT – year ended 31 March 2012	22.2	27.0
Multiple of EBIT – year ending 31 March 2013	11.7	14.2

FPA Appliances (including Components & Technology) - Implied Multiples

	Valuation Range	
	Low	**High**
Multiple of normalised EBITDA – year ended 31 March 2012	18.9	23.8
Multiple of EBITDA – year ending 31 March 2013	9.0	11.3
Multiple of normalised EBIT – year ended 31 March 2012	112.8	142.0
Multiple of EBIT – year ending 31 March 2013	16.5	20.8

The implied multiples are consistent with multiples implied by the share prices of comparable companies and recent transaction evidence in the appliance sector. This conclusion is reinforced by the projections for FPA that show strong earnings growth (in excess of 15% per annum over the next four financial years). The implied EBITDA multiples for the Appliance division only (i.e. excluding Motors and Components) for the current financial year are 6.6 – 7.3 times.

An explanation regarding interpreting the above multiples is included at Appendix E.

Transactions in the Home Appliances Industry

The valuation of FPA has been considered having regard to the earnings multiples implied by the price at which broadly comparable companies and businesses have changed hands. A selection of relevant transactions is set out below:

Recent Transaction Evidence

Date	Target	Acquirer	Implied Enterprise Value (NZ$ millions)	EBITDA Multiple[5] (times)		EBIT Multiple[6] (times)	
				Historical	Forecast	Historical	Forecast
Dec 2011	Defy	Arcelik	$379	7.6	na	na	na
Oct 2011	Somela	Electrolux	$119	9.8	na	10.6	na
Oct 2011	CTI	Electrolux	$677	8.0	na	8.6	na
Sep 2011	Olympic	Electrolux	$862	14.1	10.3	22.4	14.1
Jul 2011	Schulthess	NIBE	$866	16.0	11.7	21.7	15.0
Jun 2008	ATAG	Gorenje	$265	6.8	na	na	na
Jun 2008	Trane	Ingersoll	$14,862	9.7	12.6	11.2	13.9
Feb 2008	Goodman Global	Hellman & Friedman	$3,327	9.9	9.2	11.5	10.5
Oct 2007	Turk Demir	Vaillant	$890	9.9	na	11.9	na
Jun 2006	ELBA	FPA	$158	7.0	na	10.4	na
Mar 2006	Maytag	Whirlpool	$3,741	9.3	23.4	8.6	19.0
Minimum				**6.8**	**9.2**	**8.6**	**10.5**
Maximum				**16.0**	**23.4**	**22.4**	**19.0**
Average				**9.8**	**13.4**	**13.0**	**14.5**
Median				**9.7**	**11.7**	**11.2**	**14.1**

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

Brief descriptions of the transactions included above are provided in Appendix A. Each transaction has its own unique set of circumstances. As such it is often very difficult to identify trends or draw any meaningful conclusions. Since the GFC, the recent transactions have occurred at an average historic EBITDA multiple of 11.1 times. Two of these transactions have involved Electrolux as acquirer.

Share Market Evidence

The valuation of FPA has been considered in the context of the share market ratings of international companies with operations in the appliance sector. While none of these companies is precisely comparable to FPA, the share market data provides some framework within which to assess the valuation of FPA.

[5] Represents implied enterprise value divided by EBITDA.

[6] Represents implied enterprise value divided by EBIT.

Share Market Ratings of Selected Listed Companies[7]

Company	Market Capitalisation (NZ$ millions)	Normalised EBITDA Multiple[8] (times)		Normalised EBIT Multiple[9] (times)	
		Historic	Forecast	Historic	Forecast
FPA (pre-offer price)	$543	7.1	4.6	13.6	7.1
FPA (Haier offer price)	$869	10.9	7.1	20.9	11.0
Asia					
Haier Electronics	$3,431	7.6	6.0	8.0	6.3
Qingdao Haier	$5,484	4.5	3.2	5.2	4.0
USA / Canada					
Whirlpool	$7,759	7.8	7.1	13.4	12.0
Europe					
Arcelik	$4,335	8.9	7.2	11.6	9.3
De' Longhi	$2,108	6.1	5.7	7.2	6.8
Electrolux	$8,505	8.1	6.6	15.6	10.9
Indesit Company	$619	3.4	4.1	6.1	8.4
Gorenje	$112	5.4	5.1	13.7	12.0
Minimum		***3.4***	***3.2***	***5.2***	***4.0***
Maximum		***8.9***	***7.2***	***15.6***	***12.0***
Average		***6.5***	***5.6***	***10.1***	***8.7***
Median		***6.9***	***5.9***	***9.8***	***8.8***

Source: Grant Samuel analysis[10], Capital IQ

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

- the multiples are based on closing share prices as at 28 September 2012. The share prices, and therefore the multiples, do not include a premium for control. Shares in a listed company normally trade at a discount to the underlying value of the company as a whole;
- the FPA pre offer multiple was calculated as at 7 September 2012;
- the companies selected have varying financial year ends. The data presented above is the most recent annual historical result plus the subsequent forecast year;
- there are considerable differences between the operations and scale of the comparable companies when compared with FPA. In addition, care needs to be exercised when comparing multiples of New Zealand companies with internationally listed companies. Differences in regulatory environments, share market and broader economic conditions, taxation systems and accounting standards hinder comparisons.

8.4 FPA Finance

Grant Samuel has assessed the full underlying value of FPA Finance, assuming 100% of the business was acquired, at $260 million to $285 million having regard to earnings and asset multiples of comparable listed companies. There is very limited transaction evidence of comparable businesses having changed hands, largely due to the specialised nature of FPA Finance's product offering, and as a result there are insufficient transactions from which to draw any meaningful conclusions. Grant Samuel has also had regard to discussions held between FPA Finance and potential purchasers of the business. The valuation takes into account the market position of FPA Finance's consumer credit

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[7] The companies selected have a variety of year ends. The financial information presented in the Historic column corresponds to the most recent actual annual result. The forecast column corresponds to the forecast for the subsequent year.

[8] Represents gross capitalisation (that is, the sum of the market capitalisation adjusted for minorities, plus borrowings less cash as at the latest balance date) divided by EBITDA.

[9] Represents gross capitalisation divided by EBIT.

[10] Grant Samuel analysis based on company announcements and, in the absence of company published financial forecasts, brokers' reports. Where company financial forecasts are not available, the median of the financial forecasts prepared by a range of brokers has generally been used to derive relevant forecast value parameters. The source, date and number of broker reports utilised for each company depends on analyst coverage, availability and recent corporate activity.

products, the diversity of FPA Finance's funding sources and the resultant robustness of its financial position and the business' positive outlook for growth. The valuation implies the following multiples:

FPA Finance - Implied Multiples

	Valuation Range	
	Low	**High**
Multiple of Net Assets – year ended 31 March 2012	1.25	1.37
Price earnings multiple – year ended 31 March 2012	11.6	12.7
Price earnings multiple – year ending 31 March 2013	8.8	9.6

The table below outlines the relevant earnings and asset multiples of broadly comparable listed companies:

Share Market Ratings of Selected Listed Companies[11]

Company	Market Capitalisation (NZ$ millions)	Price/Earnings (times)		Price/Net Assets (times)
		Historic	Forecast	Historic
New Zealand/Australia				
Australia & New Zealand Banking Group	$83,233	12.1	11.2	1.7
Bank of Queensland	$2,920	151.5	15.8	0.8
Bendigo and Adelaide Bank	$3,957	16.1	9.4	0.8
Commonwealth Bank of Australia	$110,703	12.9	12.5	2.2
FlexiGroup	$1,156	15.1	13.2	3.3
Heartland New Zealand	$253	10.8	11.4	0.7
MyState	$370	11.4	10.2	1.1
National Australia Bank	$71,473	12.0	10.0	1.4
Westpac Banking Corporation	$95,432	13.0	12.0	1.8
Wide Bay Australia	$ 292	12.1	na	1.2
Average (excluding outliers)		***12.8***	***11.7***	***1.5***
Median (excluding outliers)		***12.1***	***11.4***	***1.3***
International				
Aeon Credit	$3,763	22.3	16.8	1.7
American Express	$77,786	13.3	12.6	3.4
APlus Financial	$1,086	38.5	8.9	0.8
Credit Saison	$5,369	34.0	11.4	1.0
Discover Financial Services	$24,308	9.2	8.8	2.3
Hitachi Capital	$2,561	12.4	10.4	0.6
Average (excluding outliers)		***11.6***	***10.4***	***1.6***
Median (excluding outliers)		***12.4***	***10.4***	***1.4***
Overall Minimum (excluding outliers)		***9.2***	***8.8***	***0.6***
Overall Maximum (excluding outliers)		***16.1***	***15.8***	***3.4***
Overall Average (excluding outliers)		***12.5***	***11.3***	***1.6***
Overall Median (excluding outliers)		***12.3***	***11.3***	***1.3***

Source: Capital IQ

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

- the multiples are based on closing share prices as at 28 September 2012. The share prices, and therefore the multiples, do not include a premium for control. Shares in a listed company normally trade at a discount to the underlying value of the company as a whole;

[11] The companies selected have a variety of year ends. The financial information presented in the Historic column corresponds to the most recent actual annual result. The forecast column corresponds to the forecast for the subsequent year.

- the companies selected have varying financial year ends. The data presented above is the most recent annual historical result plus the subsequent forecast year; and
- there are considerable differences between the operations and scale of the comparable companies when compared with FPA Finance. In addition, care needs to be exercised when comparing multiples of New Zealand companies with internationally listed companies. Differences in regulatory environments, share market and broader economic conditions, taxation systems and accounting standards can hinder comparisons.

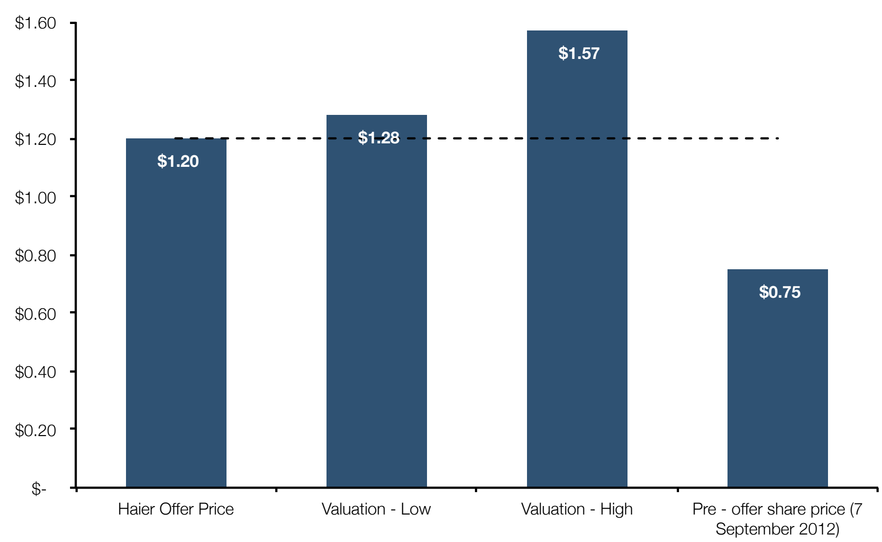
9. Merits of the Haier Offer

9.1 The Value of the Haier Offer

The value of the Haier Offer can be assessed with reference to a number of factors:

- ***Grant Samuel's assessment of the value of FPA.*** In Grant Samuel's opinion the full underlying value of FPA shares is in the range of $1.28 to $1.57 per share as set out in Section 8. This full underlying value represents the value of acquiring 100% of the equity in FPA and therefore includes a premium for control. In Grant Samuel's opinion the offer price under a takeover offer where the offeror will gain control should be within, or exceed, the pro-rated full underlying valuation range of the company. **The Haier Offer of $1.20 per share is below Grant Samuel's assessed value range for FPA shares.** The diagram below compares the Haier Offer price with Grant Samuel's assessed value range and the FPA share price immediately prior to the announcement that a takeover offer was expected from Haier.

Comparison of the Haier offer price with the valuation range and the pre-offer FPA share price



- ***the premium implied by the Haier Offer.*** The Haier Offer represents a premium of 60% relative to the closing price of $0.75 per share on 7 September 2012, being the last trading day prior to the announcement that a takeover offer from Haier was expected to be received. The Haier Offer represents a premium of 79% relative to the 1 month volume weighted average price (**VWAP**) for the month to 7 September 2012. The premium for control is higher than the premiums for control generally observed in successful takeovers of other listed companies. Since the announcement of the Haier Offer of $1.20 per share, FPA shares have traded in the range of $0.92 to $1.20 per share. From 7 September 2012 to 28 September, the NZX50 has increased 3.0%, consistent with the performances of other global equities markets during that period; and

- ***comparable company and comparable transaction data.*** The Haier Offer implies multiples of 10.9 times historical normalised EBITDA for FY2012 and 7.1 times forecast EBITDA for FY2013. Grant Samuel's analysis suggests the historical EBITDA multiple implied by the Haier Offer is below that implied by comparable transactions and below the multiples implied by the share prices of comparable listed companies.

9.2 The timing and circumstances surrounding the Haier Offer

Haier acquired a 20% shareholding in FPA in 2009 at the time of the major recapitalisation of FPA. Through the placement of new shares to Haier and the immediately subsequent participation in the rights issue, Haier paid $82 million or an average of $0.57 per share to acquire a 20% shareholding in FPA. The recapitalisation of FPA in 2009 was critical to ensure the continued support of FPA's banks. The investment by Haier assisted in the success and eventual pricing of the rights issue (the rights issue would likely have needed to be priced lower if the investment by Haier was not made). Since that time Haier has had two board members on the Board of FPA and has been able to observe (and to a limited extent influence) the substantial reshaping of the business over the past three years. Many of the initiatives that have been commenced in that period following the initial Haier investment are now being realised or in the case of product development, are shortly to be released to the market. The timing of Haier's takeover offer announcement is consistent with the progress achieved with these initiatives.

9.3 Possible outcomes of the Haier Offer

Haier does not receive acceptances which will result in Haier becoming the holder or controller of more than 50 % of the voting rights in FPA

If Haier does not receive acceptances that will result in it becoming the holder or controller of more than 50% of the voting rights in FPA, the offer will lapse and no shares will be acquired by Haier. In that circumstance, Haier will continue to own its existing shareholding of 20% of FPA. Allan Gray has already accepted the Haier Offer for its 17.46% shareholding in FPA. If Haier does not receive acceptances that will result in it becoming the holder or controller of more than 50% of the voting rights in FPA, Haier will be unable to purchase Allan Gray's shares. Under the Takeovers Code, a shareholding in any listed or code company between 20% and 50% is not permitted, except with the prior approval of other shareholders.

Haier receives acceptances of more than 50% but less than 90%

If Haier receives acceptances for more than 50% but does not receive sufficient acceptances to take its shareholding in FPA to 90% by the date on which the Haier Offer closes on 6 November 2012 (or as extended) then:

- if Haier achieves the 50% minimum acceptance condition and declares the Offer unconditional then all shares accepted into the Offer will be acquired. In these circumstances:
  - FPA will continue to be listed on the NZSX with Haier as a cornerstone majority shareholder with a shareholding greater than 50% but less than 90%;
  - Haier will have effective control over the day-to-day operations of FPA. Haier's high level intentions on how it proposes to run FPA are summarised in Section 1.2;
  - Haier will have the ability to appoint new directors to the board of FPA (although it has not signalled that it will do so) and by virtue of its majority shareholding, would control the outcome of any ordinary resolution put to shareholders and possibly special resolutions should its shareholding equal or exceed 75%;
  - the liquidity of FPA shares is likely to be adversely affected. A cornerstone shareholding of greater than 50% but less than 90% would impact on the liquidity of FPA shares. The closer Haier gets to a 90% shareholding, the lower the liquidity of FPA shares will be;
  - if Haier gains a shareholding of 75% or above it will be able to pass special resolutions such as those required to change the constitution or approve a major transaction; and
  - if Haier declares the Offer unconditional at a level greater than 50% but less than 90% it will be permitted to "creep" towards the 90% threshold over time by buying a further 5% per annum commencing 12 months after the current offer closes. It does not however have to wait 12 months to make another partial or full offer after the current Offer closes.

Haier is successful in reaching the 90% compulsory acquisition threshold

Haier has made an offer to acquire 100% of the FPA shares on issue. The Haier Offer is conditional upon Haier receiving acceptances to take its total shareholding in FPA to 50%, meaning that once the acceptance level of 50% (inclusive of the 20% it already owns and the 17.46% from Allan Gray) has been reached, the Offer will become unconditional as to acceptances. If Haier is successful in securing acceptances in respect of 90% of the issued shares in FPA (including the 20% it already owns), it will have reached the compulsory acquisition threshold. At that threshold Haier can effect the compulsory acquisition provisions of the Takeovers Code to acquire the remaining shares. Also at that threshold, holders of any remaining shares can require Haier to acquire those shares at the Offer price. In almost all circumstances, the offeror would be expected to implement the compulsory acquisition provisions. After compulsory acquisition of the remaining shares, FPA would be delisted from the NZX and would become a wholly owned subsidiary of Haier.

9.4 Factors that may affect the outcome of the Haier Offer

- Approximately 27.6% of the issued shares in FPA are owned by the top five shareholders excluding Haier and Allan Gray. The support or otherwise of the larger shareholders in relation to the Haier Offer is likely to be material in determining whether or not Haier achieves the 50% acceptance threshold;
- Haier already owns 20% of FPA and Allan Gray has already accepted the Haier Offer under the terms of the lock up agreement for its 17.46% shareholding. Accordingly, Haier needs to secure acceptances in respect of a further 12.4% of the issued shares in FPA to reach the minimum acceptance condition. This is equivalent to approximately 20% of the shares in FPA that it does not already own or control through the lock-up. To reach the 90% compulsory acquisition threshold, Haier would need acceptances in respect of a further 52.54% of the issued shares in FPA, representing approximately 84% of the shares on issue not already owned or controlled by Haier. The decisions of minority shareholders as to whether to accept the Haier Offer in respect of the shares that they own will be influential on whether Haier achieves the 90% threshold or not;
- Since the announcement of the Haier Offer, a large volume of shares in FPA have traded. As a result of some of these transactions, hedge funds are considered to currently hold close to 10% of the issued shares in FPA. In Grant Samuel's opinion, notwithstanding that Grant Samuel's assessment of the value of FPA is above the Haier offer price, the Haier Offer can be reasonably expected to gain sufficient traction to reach the 50% acceptance threshold if the hedge fund shareholders elect to sell into the Offer;
- the FPA share price has traded just below the Haier Offer price since the Haier Offer was announced. Part of the price increase in FPA's shares may be attributed to either or both of the following reasons:
  - the market reacting to FPA's future prospects through the release of excerpts of the five year plan to the market and subsequent re-rating of the prospects for the company; and
  - speculation as to the possibility of a higher offer if Haier is unsuccessful in achieving the 50% minimum acceptance condition (or the 90% compulsory acquisition acceptance threshold).
- In some takeovers there are factors that suggest that even if an offer is below the assessed value range shareholders should consider accepting the offer. In this instance there does not appear to be any compelling reason for shareholders to accept a takeover offer that is below full underlying value;
- There are only two permissible variations to the Haier Offer:
  - Haier may choose to extend its Offer period. The Haier Offer is due to close on 6 November 2012. Under the rules of the Takeovers Code the latest date to which the Haier Offer may be extended is 90 days after the date on which the Offer opens, in this case 23 September 2012. However, if the minimum acceptance condition is satisfied, the Offer is able to be extended for a further 60 days under rule 24B of the Takeovers Code. After closing, the Haier Offer can remain unconditional for up to a further 30 days if OIO consent is still outstanding (this additional time frame does not apply to offers that have been extended under rule 24B);
  - Haier may choose to increase its Offer price. If Haier chooses to increase its Offer price while its current Offer is still open the increased price will be available to all FPA shareholders even if they have already accepted the $1.20 per share offer. In that circumstance, the higher offer would also be available to Allan Gray. This will not apply if Haier makes a further takeover offer at a higher price after the current Offer has closed, in which case the higher price would not be available to shareholders that accepted the current Haier Offer;
- In Grant Samuel's opinion it is possible that, depending on the reaction of FPA shareholders to the current Haier Offer price, Haier may consider increasing its Offer price in order to secure a shareholding of more than 50% of the FPA shares on issue. However, this is by no means certain;
- the Haier Offer is conditional on Haier receiving OIO consent for the acquisition. OIO consent is unfortunately a slow process and when and if consent will be given is uncertain. If the OIO does not approve the acquisition of FPA by Haier, the Haier Offer will lapse and Haier will not acquire any shares in FPA. Under the Overseas Investment Act Haier could, if it wished, acquire up to 24.99% of FPA without OIO approval. The Takeovers Code prohibits the acquisition of more than 20% but less than 50% of a company without shareholder approval;
- the lock-up agreement does not confer any additional benefits on the locked-up shareholder than are available to all other FPA shareholders. In fact lock-up agreements have the effect of reducing the flexibility available to

locked-up shareholders who have only limited ability to terminate the lock-up agreements, such as in the event Haier does not make its Offer. Allan Gray does not have the ability to accept alternative proposals (unless the Haier Offer lapses) or to retain its shareholding in FPA (also unless the Haier offer lapses);

- there is no need for shareholders to accept the Offer early. The closing date for the Offer is 6 November 2012. This date can be extended by Haier by giving no less than 14 days notice of such an extension. Not accepting the Haier Offer or holding out until near the time the Haier Offer closes may cause the Offer price to be increased. However there is no certainty that the Offer price will be increased; and
- FPA shareholders who choose not to accept the Offer have either decided they want to retain their investment in FPA for the longer term, or are expecting that Haier will make another offer at a higher price. There is no certainty regarding the ongoing performance of FPA or that a subsequent offer from Haier will be forthcoming whether or not it is successful in acquiring 50% of FPA. The risks and benefits associated with an investment in FPA are outlined at Section 9.6 below.

9.5 Likelihood of alternative offers

- The prospect of a takeover offer from Haier was announced to the market on the morning of 10 September 2012. The notice of intention to make a takeover offer was issued the following day. Since that time, and given its high profile in the investment community and consumer market alike, the takeover offer and its prospects of success have received considerable press analysis and commentary. Speculation on the prospect of alternative competing takeover offers or potential acquisition of blocking stakes (shareholdings greater than 10% would be needed to prevent the occurrence of compulsory acquisition) has centred on influential appliance companies such as Bosch and Whirlpool. It is debatable whether the ownership of a blocking stake in FPA (by Bosch, Whirlpool or any other appliance manufacturer) would affect FPA's relationship with Haier. Haier has a number of reasons for acquiring FPA, including access to a reputable appliance brand positioned at the high end of the market to compete effectively in the key European and US markets, access to FPA's existing technologies and access to FPA's engineering and development expertise. If it can secure a controlling shareholding (50% or greater) in FPA, it can to a large extent effect its strategy whether Bosch, Whirlpool or any other competing appliance manufacturer holds 10% or not;
- To date, no alternative takeover offers have been forthcoming and no company that competes with Haier has emerged as the holder of a substantial security interest (5% or greater) in FPA;
- For any other full takeover to be successful Haier would need to agree to sell its shareholding into the offer. Given Haier has signalled it wishes to acquire 100% of FPA, this would be an unlikely change of heart; and
- If Haier declares its Offer unconditional at a shareholding of more than 50% but less than 90%, the likelihood of a takeover offer from another party substantially reduces. If at the conclusion of the Haier takeover offer Haier owns a controlling shareholding in FPA, the chances of any other competing partial takeover offers are slim. Any alternative partial offer for over 20% of FPA (should one be forthcoming) would require the approval of FPA shareholders, which would therefore require the support of Haier. Any subsequent takeover offer for 100% of FPA would require Haier to sell its shareholding in FPA to the new offeror for an alternative full takeover offer to be successful.

9.6 An investment in FPA

As with any equity investment there are risks associated with the market in which the company operates. The risks associated with an investment in FPA include:

- ***Foreign Currency.*** FPA operates in a number of countries and as a consequence is always exposed to relative movement in foreign exchange rates. The largest component of its manufacturing and raw material supply are US dollar denominated. Given that Australia is Appliances' largest market for its products, the major currency exposure is between the A$ and the US$. In 2009, in relation to the new banking arrangements, FPA's Treasury policy was revised to lengthen the duration of forward foreign exchange contracts to 12 to 14 months. FPA management have estimated the opportunity cost of the earlier forward cover policy to be approximately $12 million. The Treasury policy was changed in April 2012, and all of the cover previously put in place has now lapsed or been bought out and a new, more active and appropriate short term forward exchange policy implemented. Using a combination of shorter term forward contracts and options the currency exposure is able to be actively managed and is resulting in significantly improved outcomes. The new foreign currency risk management policy will not remove the risk but seeks to minimise the impacts of exchange rate volatility;

- ***Motor Contracts.*** Appliances' fastest growing source of revenue is from the sale of Direct Drive motors to other appliance manufacturers. To date Appliances has entered into contracts with three appliance manufacturers and is in active discussions with a number of other potential customers. The valuation of FPA attributes significant value to the Components & Technology business. Appliances has a number of patents and patents pending to protect its intellectual property surrounding the Direct Drive motor, its electronic controller and other technology. This, combined with the proprietary knowledge associated with its integration of motors into washing machines and in-house developed automated production line, manufactured by PML, gives Appliances a strong competitive advantage, which has been recognised by its OEM customers. However, there is a risk that a competing motor could emerge. There is also a risk (as with any contractual arrangement) that existing contracts will not be rolled over, be rolled over at lower margins, or the projected volumes from those contracts do not materialise. If sales of motors was reduced by 25%, the reduction in the valuation of FPA would be approximately 10 cents per share;

- ***Global Recession.*** The Five Year Plan assumes market conditions remain flat in FY13 and FY14. In FY15 and beyond, a gradual recovery is anticipated in New Zealand and Australia. In the USA, Appliances' strategy for growth is based around new products and adopting a new channel strategy to increase market share, albeit from a small base. It is not predicated on a market recovery. A slower recovery from FY15 onwards or worse, a further deterioration in any of the key markets would erode the leverage benefits expected from the planned growth in volumes. In both New Zealand and Australia, projected volume growth in the non-premium sector will come from focus on the Haier brand, which is forecast to account for approximately one third of Appliances' volume growth in New Zealand and nearly two thirds of Appliances' volume growth in Australia. Only modest market share gains are forecast in both markets, despite the new cookware and refrigeration product shortly to be released into the market. A 5% reduction in appliance sales forecast for New Zealand and Australia would reduce the valuation by approximately $80 million or 11 cents per share;

- ***Liquidity in FPA Shares.*** For the Haier Offer to be successful, Haier will need to acquire a further 217.3 million shares to satisfy the 50% minimum shareholding threshold. Allan Gray Australia Pty Ltd has accepted the offer in respect of its 126.4 million shares, requiring a further 90.8 million shares to be acquired from other investors from the remaining free float of 452.9 million shares for the threshold to be met. If Haier achieves a shareholding significantly above 50% but not 90% necessary for compulsory acquisition, liquidity in FPA shares will be negatively impacted. There is also potential for FPA to be removed from the NZX50 index which may cause some institutions to sell down their shareholding;

- ***Warranty Claims.*** Historically, Appliances' warranty claims history was equal to or slightly better than other appliance manufacturers. Unfortunately, the appliance industry as a whole has a poor reputation for quality. Over the last two years Appliances has placed significant emphasis on quality control both in its own manufacturing plants and with its suppliers of components and OEM appliances. This has resulted in a significant decline in warranty claims and a commensurate drop in service revenue. There remains a risk of a significant warranty claim, which would impact both earnings in the short term and reputation over a longer period. Grant Samuel considers that extensive testing of Appliances' product prior to release, Appliances' manufacturing and design expertise and the sustained investment in quality control has gone a long way to minimising this risk;

The benefits and opportunities associated with an investment in FPA include:

- ***Synergies with Haier.*** In Grant Samuel's opinion, it is highly likely both the Appliances and Components & Technology businesses will generate greater cash flows from the involvement with Haier than are currently forecast by management. Areas for increased cooperation include further plant rationalisation resulting in increased throughput for FPA's existing overseas manufacturing plants, wider use of Direct Drive motors beyond washing machines into such areas as air conditioning, and rising profits from PML as it assists Haier with the upgrade of its existing plants in China and elsewhere. In Grant Samuel's opinion, such benefits will be more easily gained if Haier holds a 50% or greater shareholding in FPA. To achieve these benefits would not necessarily require Haier to own 100% of FPA;

  There are likely to be additional benefits from working more closely with Haier and its involvement in a number of projects are important aspects of the current five year strategic plan. An example is the new front loading washing machine that will be produced by Haier in China but engineered, to a large extent, in New Zealand and using Appliances' Direct Drive motor built by FPA in Thailand. Being able to have direct input into the project, Appliances will be able to replace an inferior OEM sourced product at a lower cost and incorporating its world leading Direct Drive technology to provide competitive advantage; and

FPA is a very small player in a market dominated by very large companies. Despite having 340 people involved in the development process, FPA is unable to refresh its product range as often as other manufacturers, in part because of resource constraints and in part because the smaller volumes mean that to recover the cost of changes means that they are by necessity less frequent. Haier's greater financial resources may assist in enabling FPA to introduce more frequent updates if these are part of a wider product range developed jointly with Haier.

- ***FPA is in the middle stages of rebuilding.*** The offer price of $1.20 is not a compelling proposition particularly given the relatively early stage of the implementation of FPA's comprehensive rebuilding strategy. The strategy is not without risks but is, in Grant Samuel's opinion, a robust and conservative array of projects, which will enable FPA to remain competitive, defend its core New Zealand and Australian markets, and more successfully leverage its technology and product development skills. In recent years, Appliances has undertaken a number of key development steps that position the business well for the next phase of its growth:
  - The comprehensive GMS was developed to ensure Appliances' products remain competitive. The GMS has taken a long term view which will result in manufacturing for each product group focussed on a single plant or, where there are good reasons, a maximum of two. Creating centres of excellence and garnering economies of scale is behind the current plan. The strategy is not without risk as Appliances will increase its exposure to country risk in both Thailand and Mexico. There are further plant changes being evaluated. The five year plan has capital expenditure/relocation costs of $24 million for further plant changes. By the middle of FY15 the current GMS will have been fully implemented. Discussions with Haier have raised some new options within the existing plant structure, which could have positive benefits for Appliances. It is too early to place a value on any outcome of these discussions. The GMS has reduced Appliances' cost of production and will enable it to compete aggressively and profitably and a has laid a sound platform for growth and the delivery of a range of new world class appliances;
  - An important component of the valuation is the contribution from Components & Technology and in particular from the Direct Drive motor. The forecast growth is ambitious but as direct drive technology is being increasingly promoted, in particular by FPA's competitors, the awareness of its benefits amongst consumers is increasing. FPA has been developing and using Direct Drive washer motors for over 20 years. FPA's low profile motors can be readily accommodated into existing designs without the need for expensive reengineering and retooling. The motors provide a superior product at a similar or lower cost than existing technology. FPA is willing to sell its technology to its competitors and is actively marketing the product to a number of the world's largest appliance manufacturers. There is the possibility for increased demand as other applications are proved. An increase in Haier's shareholding may cause some customers to reconsider their supply of motors from Appliances. Appliances is conscious of this possibility and is working to provide comfort that supply will continue and that quality will remain at current levels or improve;
  - The repositioning of the brand has happened over the last two years and is designed to differentiate Appliances from both its European and Asian competitors in all markets. The new products being released in New Zealand and Australia in the second half of FY13 are consistent with new brand change and sales volumes should benefit from a comprehensive brand positioning for the first time in many years; and
- ***Sale of FPA Finance.*** Haier has indicated it may consider the sale of FPA Finance. Given the existing and forecast levels of debt in FPA, the proceeds of any sale may be returned to shareholders. This could amount to a return of approximately 36 cents at the low end of the FPA Finance valuation range.
- ***Positive earnings outlook.*** It could be that by waiting for some period, a better price could be achieved for FPA shares if the projected increased earnings are confirmed by actual earnings and/or growth initiatives continue to deliver strong results. The valuation set out in Section 8 incorporates discounted future cash flows from the Appliance and Components & Technology business units. For the first two years of the five year strategic plan. Appliances produces negative cash flows, followed by rapidly increasing positive cash flows until FY17. A similar pattern of cash flow is projected for the Components & Technology business, which is

forecasting strong and consistent growth, but requires significant capital expenditure particularly in FY15. The FY17 EBITDA multiple implied by the valuation of the Appliances business has a mid point of approximately less than 4 times (very low), suggesting a potential re-rating of the shares at that time if the reported results are broadly in line with the five year strategy plan.

For those shareholders wishing to have an equity investment in the appliances sector there are no comparable listed investment opportunities in New Zealand.

9.7 Acceptance or Rejection of the Haier Offer

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

GRANT SAMUEL & ASSOCIATES LIMITED
3 October 2012

Grant Samuel + Associates

Appendix A – Recent Transaction Evidence

A brief description of each of the transactions listed in Section 8 is outlined below:

Defy / Arcelik

On 20 July 2011, Arcelik agreed to acquire Defy Appliances (Pty) Ltd (**Defy**) from Franke Artemis Holding AG for approximately US$330 million. Defy is South Africa's largest manufacturer and distributor of major domestic appliances. The company markets its products under the Defy and Ocean brand names. The acquisition was completed on 1 December 2011. The acquisition of Defy supported Arcelik's emerging market growth strategy.

Somela / Electrolux

In October 2011, Electrolux acquired Somela from CTI Compania Tecno Industrial S.A. (**CTI**) for CLP42.9 billion in cash as a component of its full takeover offer of the parent company CTI (see below). Somela engages in the design, manufacture, marketing, and export of home appliances and white line products in Chile. Electrolux acquired 96.9% of the shares in Somela and offered the remaining minority shareholders the opportunity to sell their shares over a limited period of time.

CTI / Electrolux

In August 2011, Electrolux made an offer to acquire CTI from Sigdo Koppers S.A and other shareholders. CTI specialises in the production, development, marketing, sale, and after-sales service of home appliances in Chile and internationally. It offers refrigerators, stoves, and washing machines under the Fensa and Mademsa brands; and centrifuges, dryers, and polishers under the Somela brand. In Chile it is the leading manufacturer with a volume market share of 36% and it also holds a leading position in Argentina. In October 2011, Electrolux completed the acquisition of a 97% shareholding in CTI. The implied historical EBITDA and EBIT multiples of the combined offer price (CTI and Somela) was 9.1 and 9.9 times respectively. The acquisition supports Electrolux's growth strategy and it is expected to provide significant revenue and growth synergies.

Olympic Group / Electrolux

In October 2010, Electrolux signed a memorandum of understanding to acquire a 52% stake in Olympic Group Financial Investments Company (**Olympic Group**) from Paradise Capital Holding. In September 2011, Electrolux completed the acquisition of 98.3% of the shares in Olympic Group. Olympic Group is a leading manufacturer of appliances in the Middle East with a volume market share in Egypt of approximately 30%. The company manufactures washing machines, refrigerators, cookers and water heaters. The acquisition was part of Electrolux's strategy to grow in emerging markets like Middle East and Africa. Electrolux and Olympic have a 30-year commercial relationship, which includes technology, supply of components, distribution and brand licensing.

Schulthess Group / NIBE Industrier

In April 2011, NIBE Industrier AB (**Nibe**) made an offer to acquire its key competitor Schulthess Group AG (**Schulthess**) via a public takeover after locking up 31.1% through a share purchase agreement with Rudolf Kägi, Paul O. Rutz, Andrea Malär, MBM Management Beratung AG and Gabriela Rutz. The transaction was subject to a number of conditions including at least 66.67% Schulthess shares being tendered in the offer (including the 31.13% shares being acquired through the lock up), regulatory and antitrust clearance. The consideration for the transaction was a mix of cash and Nibe shares. Schulthess manufactures and distributes heat pumps for households and industrial/commercial customers, ventilation equipment for households, solar panels, cooling equipment and energy efficient washing machines and dryers for industrial, commercial and household use. Nibe expected the takeover of Schulthess to result in annual synergies of circa CHF12 million. In July 2012, Nibe completed the acquisition of 68.87% of the shares in Schulthess from the public, taking their shareholding to 98%. Nibe then applied to the court for a cancellation of outstanding shares.

Atag / Gorenje

In June 2008 Gorenje Group (**Gorenje**) successfully completed the acquisition of ATAG Europe B.V (**ATAG**) for approximately €130 million. Gorenje funded the acquisition with circa €90 million in cash and €40 million in Gorenje shares. ATAG manufactures kitchen and central heating equipment appliances. ATAG's brands include ATAG, Etna and Pelgrim. The addition of these brands to Gorenje's portfolio extended its reach into the premium appliance end of the market. The acquisition also enabled Gorenje to boost the production of refrigerators and cookers and expand into Western Europe (i.e. Belgium, Netherlands and Luxembourg).

Trane / Ingersoll-Rand Co.

In December 2007, Ingersoll Rand Company Limited (**Ingersoll**) signed a definitive agreement to acquire Trane Inc. (**Trane**) for approximately US$11.4 billion in cash and shares in Ingersoll. The deal was subject to approval by Trane shareholders, antitrust authorities and customary closing conditions. Trane designs and manufacturers various energy-efficient heating, ventilation, and air conditioning systems, dehumidifying and air cleaning products, service and parts support, and advanced building controls. As a result of the transaction Ingersoll's management expected revenue and cost synergies of approximately US$300 million by 2010, and they believed the new Ingersoll could sustain annual revenue growth of 5-7% and EPS growth of 15% per year.

Goodman Global / Hellman & Friedman

In October 2007, private equity investor Hellman & Friedman agreed to acquire Goodman Global for US$2.5 billion in cash. Goodman Global engages in engineering, manufacturing, distributing, and marketing a line of heating, ventilation, and air conditioning (HVAC) equipment and related products for residential and commercial markets in North America. In February 2008, the transaction was completed. In August 2012, the Japanese HVAC manufacturer Daikin signed an agreement to acquire Goodman Global from Hellman & Friedman LLC for US$3.7 billion. The transaction has not been completed and the valuation metrics have not been disclosed.

Turk Demir / Vaillant Saunier Duval Iberica

In May 2007, Vaillant Saunier Duval Iberica (**Vaillant**) signed an agreement to acquire Turk Demir Dokum Fabrikalari Anonim Sirketi (**Turk Demir**) for an implied enterprise value of €478 million. Turk Demir engages in the manufacture and trade of durable consumer goods primarily in Turkey. The acquisition provided the Spanish based Vaillant with the ability to enhance its position in its core business of heating, ventilation and air-conditioning technology and gain exposure to the economic development in Eastern Europe and Turkey. The transaction was completed in October 2007.

ELBA / FPA

In June 2006, FPA acquired Elba, the European cookware business, from De'Longhi. The purchase price for the acquisition of Elba was €78 million (approximately NZ$158 million) which implied an historical EBITDA multiple of 7.0 times pre anticipated synergies and costs and 5.4 times post the anticipated synergies and costs. The transaction was part funded by a NZ$55m institutional placement. Elba manufactures and distributes cookware products including freestanding cookers, built-in ovens and cooktops and has the Elba and De'Longhi and Kenwood brands (both under 20 year license). The strategic rationale behind the transaction was to provide FPA with the platform to achieve strategic growth in Europe and provide further geographical diversification, balancing the exposure to the USA Australian and New Zealand markets.

Maytag / Whirlpool

In August 2005, Whirlpool made an offer to acquire Maytag for an Enterprise Value of approximately US$2.7 billion, which subsequently led to a completed transaction in March 2006. The Maytag transaction was competitive with Haier America, and its financial partners, as the under bidder. Whirlpool initially bid $17 a share for Maytag but as a result of the competitive process it eventually raised its offer to $21 a share. Maytag Corporation specialises in the design, manufacture, and distribution of home and commercial appliances in North America and internationally. It operates two divisions, Home Appliances and Commercial Products. The Home Appliances division manufactures and distributes dishwashers, refrigerators, cooking appliances and floor care products. The Commercial Products division manufactures and sells commercial cooking equipment, vending equipment and commercial microwave ovens.

Appendix B – Comparable Listed Companies - Appliances

A brief description of each of the companies listed in Section 8 is outlined below:

Arcelik

Arcelik is Turkey's leading household appliances manufacturer, engaged in the production and marketing of consumer durable goods, consumer electronics, small home appliances and kitchen accessories. Arcelik provides goods and services under its brands, which include Arcelik, Beko, Altus, Blomberg, Defy, Arctic, Leisure, Grundig, Elektra Bregenz and Flavel. In FY2011, international sales accounted for approximately 50% of revenue and white goods and household appliances accounted for 83% of revenue. In FY2011, Arcelik gained market share across a number of key categories in Turkey and international markets and in December 2011 Arcelik acquired Defy to complement its international growth strategy. Arcelik currently trades at a premium to its international peer group due to, according to brokers' reports, Arcelik's stronger emerging growth profile.

De'Longhi

De'Longhi is an Italian manufacturer of heating, air-conditioning and air-treatment, food preparation and cooking, and house-cleaning and ironing products. De Longhi has a strong market position in the coffee machine segment as well as being the owner of the Kenwood brand for kitchen appliances. On 1 January 2012, De Longhi spun off its energy efficient division DeLclima, to simplify its business to focus on being a world leader in high-end coffee machines. In FY2011, De Longhi continued with its expansion into high growth emerging countries with the expansion/opening of new back offices in key markets. The growth in the first quarter of 2012 suggests that its strategy is working with emerging markets' revenue growing 26% against the same period in FY2011.

Electrolux

Electrolux is the number one European and number three USA appliance manufacturer, selling more than 40 million products to customers in more than 150 markets every year. Electrolux products include refrigerators, dishwashers, washing machines, vacuum cleaners, cookers and air-conditioners sold under Electrolux, AEG, Eureka and Frigidaire brands. In 2011, Electrolux acquired CTI and Olympic Group as outlined above. These acquisitions have provided Electrolux with access to emerging markets. The operations of Electrolux are exposed to a number of strong external factors that have recently impacted profitability, including the high cost of raw materials, weak demand from mature markets including Europe and North America and the resulting price pressures. Electrolux has recently implemented a range of strategic initiatives to improve profitability including restructuring, price increases, modularisation and coordination of marketing, design and R&D resources and the launch of new innovative products to key markets.

Gorenje Group

Gorenje is a home appliance manufacturer with 4.5% market share of the European appliance market. Gorenje's core activity is the manufacture of products for the home including major appliances, small appliances, HVAC equipment, and services related to home, including design. Gorenje is Slovenia's largest exporter and distributes over 95% of its product, primarily to European countries. In 2011, Gorenje revised its corporate strategy in response to the change in operating conditions. These changes included implementing a focus on basic home appliances, expansion into emerging markets and moving production to low cost labour countries. Gorenje's financial performance in FY2011 was impacted by a tough trading environment due to the European economy and an increase in competition.

Haier Electronics

Haier Electronics is a subsidiary of the unlisted Haier (the company that has made the offer to buy FPA). Haier Electronics is listed on the Hong Kong Stock Exchange and specialises in the research, development, production and sale of washing machines and water heaters under the brand name of Haier. Haier Electronics is also engaged in the integrated channel services business under its Goodaymart brand for home appliance products such as refrigerators, televisions and air-conditioners, of both Haier and non-Haier brands. Haier Electronics future financial performance will likely improve if its parent company is successful with the FPA acquisition, as it will benefit from a secured supply of washing machine motors and enhance its R&D capabilities. In FY2011, the integrated channel business represents approximately 74% of revenue.

Indesit

Indesit is a European manufacturer and distributor of major domestic appliances (washing machines, dryers, dishwashers, fridges, freezers, cookers, hoods, ovens and hobs) and is the number two white goods maker in Europe. Indesit's main brands are Indesit, Hotpoint and Scholtès. In FY2011, Western Europe and Eastern Europe represented 61% and 35% of revenue respectively. The lack of diversification of Indesit's revenue has led to the company's financial performance being impacted by the European economy. Indesit currently trades at a discount to its international peer group as a result of its exposure to the European economy.

Whirlpool

Whirlpool is the world's leading manufacturer and marketer of major home appliances. Whirlpool manufactures products in 12 countries and markets products in nearly every country around the world. Whirlpool's geographic segments consist of North America, Latin America, EMEA (Europe, Middle East and Africa) and Asia. In FY2011, North America and Latin America represented 53% and 28% of revenue respectively. Since the release of its second quarter financial results in late July 2012, despite the results missing analysts expectations, Whirlpool's share price has increased by 37%. The key outtakes from the announcement included diluted earnings per share almost doubling to $1.55, driven by the continued improvement in product price/mix and cost and capacity-reduction initiatives and a lower effective tax rate.

Qingdao Haier

Qingdao Haier is the core subsidiary of Haier and is listed on the Shanghai Stock Exchange. Qingdao Haier primarily engages in the manufacture and distribution of home appliances in China and internationally. It offers a wide range of home appliance products including refrigerators, freezers, air conditioners, washing machines, microwave ovens, dishwashers, sterilizers and electrical water heaters. Over the last five years Qingdao Haier has grown its revenue from US$4.0 billion in 2007 to US$11.7 billion in 2011.

Appendix C – Comparable Listed Companies – FPA Finance

A brief description of each of the companies listed in Section 8 is outlined below:

Australia & New Zealand Banking Group

ANZ provides various banking and financial products and services to retail, small business, corporate, and institutional customers across 32 countries primarily Australia, New Zealand, and the Asia Pacific region. Its retail products include housing finance, consumer credit cards, motor vehicle and equipment finance, personal loans, overdrafts, transaction banking and savings products. The company also offers investment products, commercial banking services, and various insurance products. For the year to 30 September 2011 ANZ reported revenues in excess of A$35.8 billion.

Bank of Queensland

Bank of Queensland provides banking, finance, and insurance services in Australia. The company offers savings and investments accounts, credit cards, personal loans, home loans, insurance products, business loans, and equipment finance. As of 31 August 2011 Bank of Queensland operated 259 branches.

Bendigo and Adelaide Bank

Bendigo and Adelaide Bank provides various banking and financial services in Australia. It offers personal banking services, home and personal loans, credict cards, consumer car lease, funds management products, financial planning, insurance products, business banking products and services, and equipment finance. Bendigo and Adelaide Bank operates through approximately 190 company-owned branches, 250 locally-owned Community Bank branches, and 90 agencies.

Commonwealth Bank of Australia

Commonwealth Bank of Australia provides various banking and financial products and services in Australia, New Zealand, the Asia Pacific, the United Kingdom, and the United States. It offers a range of personal banking products and services, credit cards, personal and home loans, financial planning services, insurance products, business banking products, and equipment, car, technology, and medical equipment finance. CBA operates approximately 1,100 branches and 3,700 Australia Post agencies.

FlexiGroup

FlexiGroup provides lease and rental financing services for office, technology, and related equipment in Australia, New Zealand, and Ireland. It offers interest-free loans and cheque guarantee services, consumer and commercial leases and loans, mobile broadband products and plans, vendor leasing programs, payment processing services, and credit card and interest free financing services. It serves a range of industries, including home improvement, solar energy, fitness, IT, electrical appliance, navigation systems, trade equipment, and point of sale systems. The company operates a network of 11,000 merchant, vendor, and retail partners.

Heartland New Zealand Group

Heartland provides financial services to small-to-medium sized businesses, farmers, and individuals. It offers term deposits, asset finance products (including term loans, revolving credit, finance lease, operating lease), importing letters of credit, business overdraft, and invoice finance. The company also provides capital and trading livestock, and working capital and seasonal finance, home and vehicle loans, and insurance products. Heartland operates a network of 40 branches and offices in New Zealand.

MyState

MyState provides a range of banking, trustee, and wealth management products and services primarily in Tasmania and Queensland, Australia. It offers lending products, such as home loans, term deposits, overdrafts, lines of credit, commercial products, and insurance. In addition, it offers trustee services consisting of estate planning, estate and trust administration, power of attorney, corporate and custodial trustee services, and wealth management solutions.

National Australia Bank

National Australia Bank Limited provides various banking and financial products and services. Its products include savings products, home loans, personal loans, car loans, debt consolidation loans, personal overdrafts, as well as business overdrafts, invoice finance, debtor finance, import and export finance, domestic trade finance, asset finance, agribusiness finance, and business loans. National Australia Bank also provides insurance products, online trading, financial advisory, and credit cards. It operates approximately 1,800 branches and service centres. The company has operations primarily in Australia, New Zealand, Asia, the United Kingdom, and the United States.

Westpac Banking Corporation

Westpac Banking Corporation provides various banking and financial services such as overdrafts, home loans, credit cards, leasing receivables, bill financing, term deposits, insurance, money market services, trade finance, automotive and equipment finance, property finance, agribusiness finance, transaction banking, and treasury services. It also offers investment, superannuation, and retirement products, investment platforms, financial planning services and insurance. As at 30 September 2011 Westpac operated 1,532 branches primarily in Australia, New Zealand, and the Pacific Islands.

Wide Bay Australia

Wide Bay Australia provides various banking and financial services in Queensland, New South Wales, Victoria, and South Australia in Australia. The company primarily engages in raising funds and providing finance for housing. It provides loans, savings and investments, insurance, foreign exchange, and banking services. The company offers various personal and business products and services including home loans, lines of credit, car loans, credit cards, term deposits, savings and investment products, financial planning services, insurance, and foreign exchange services. Wide Bay Australia provides its services through a network of 42 branches and agencies located in Queensland, as well as interstate branches in Sydney and Melbourne, and a lending outlet in Adelaide.

AEON Credit

AEON Credit Service Co Ltd provides various financial services in Japan and internationally. The company offers credit card services, loans, and hire purchase services (including for electrical home appliances and furniture). It also offers insurance agency services and provides services for the development of information systems. The company was founded in 1981 and is headquartered in Tokyo, Japan.

American Express

American Express Company provides charge and credit payment card products and travel-related services to customers worldwide. The company's product portfolio consists of charge and credit card products, expense management products and services, consumer and business travel services, stored value products, network services, merchant acquisition and processing, and fee services comprising market and trend analyses and related consulting services, fraud prevention services, and the design of customer loyalty and rewards programs. American Express also publishes luxury lifestyle magazines, travel, cooking, wine, time management, and financial books and products, and luxury-marketing events. American Express Company was founded in 1850 and is headquartered in New York, New York.

APlus Financial

APlus Financial Co Ltd provides consumer finance services primarily in Japan. It offers shopping credit (including for automobiles and household furnishings), credit cards, and consumer credit. The company was founded in 1956 and is based in Tokyo, Japan.

Credit Saison

Credit Saison Co Ltd primarily engages in credit service business in Japan. It operates in five segments: Credit Service, Lease, Finance, Real Estate, and Entertainment. The Credit Service segment is involved in credit card shopping, cash advance, processing agency, loan collection agency, and other services. The Lease segment engages in rental business that provides vendor leases of office equipment and communications equipment to small and medium-sized enterprises. The Finance segment provides credit guarantee, long-term and fixed rate mortgage loans. The Real Estate segment engages in real estate liquidation, real estate leasing, and other businesses. The Entertainment segment engages primarily in indoor recreation facilities. The company is also involved in temporary staffing business, telemarketing, processing agency, and outsourcing business, school education services and information processing services. Credit Saison Co Ltd was founded in 1951 and is headquartered in Tokyo, Japan.

Discover Financial Services

Discover Financial Services offers direct banking and payment services in the United States. It operates in two segments, Direct Banking and Payment Services. The Direct Banking segment offers Discover card-branded credit cards to individuals and small businesses that are accepted on the Discover Network. This segment also provides other consumer banking products and services, including personal loans, student loans, and prepaid cards, as well as other consumer lending and deposit products, such as certificates of deposit, money market accounts, online savings accounts, and individual retirement account. The Payment Services segment operates the PULSE network, an automated teller machine, debit, and electronic funds transfer network, the Diners Club International network, and third-party issuing business, which includes credit, debit, and prepaid cards issued on the Discover Network by third parties. The company was founded in 1986 and is based in Riverwoods, Illinois.

Hitachi Capital

Hitachi Capital Corporation provides a range of financial services and systems. It offers financing and operating leases, renting, and project finance for information equipment, industrial machinery, environmental equipment, construction machinery, semiconductor equipment, and medical equipment. The company also provides automobile financing services, home appliances loans, housing loans, home refurbishment loans, loans for business equipment as well as offers employee welfare support services, and general financial services for medical and agricultural fields. In addition, Hitachi Capital offers other financial services, including credit cards, account settlement-related services, insurance services and outsourcing services for corporate clients consisting of payment and collection agency. Hitachi Capital Corporation operates in Japan, Europe, North America, and Asia. The company was founded in 1957 and is based in Tokyo, Japan.

Appendix D – Valuation Methodology Descriptions

1. Capitalisation of Earnings

Capitalisation of earnings or cash flows is most appropriate for businesses with a substantial operating history and a consistent earnings trend that is sufficiently stable to be indicative of ongoing earnings potential. This methodology is not particularly suitable for start-up businesses, businesses with an erratic earnings pattern or businesses that have unusual expenditure requirements. This methodology involves capitalising the earnings or cash flows of a business at a multiple that reflects the risks of the business and the stream of income that it generates. These multiples can be applied to a number of different earnings or cash flow measures including EBITDA, EBITA, EBIT or net profit after tax. These are referred to respectively as EBITDA multiples, EBITA multiples, EBIT multiples and price earnings multiples. Price earnings multiples are commonly used in the context of the share market. EBITDA, EBITA and EBIT multiples are more commonly used in valuing whole businesses for acquisition purposes where gearing is in the control of the acquirer.

Where an ongoing business with relatively stable and predictable earnings is being valued Grant Samuel uses capitalised earnings or operating cash flows as a primary reference point. Application of this valuation methodology involves:

- estimation of earnings or cash flow levels that a purchaser would utilise for valuation purposes having regard to historical and forecast operating results, non-recurring items of income and expenditure and known factors likely to impact on operating performance; and
- consideration of an appropriate capitalisation multiple having regard to the market rating of comparable businesses, the extent and nature of competition, the time period of earnings used, the quality of earnings, growth prospects and relative business risk.

The choice between the parameters is usually not critical and should give a similar result. All are commonly used in the valuation of industrial businesses. EBITDA can be preferable if depreciation or non-cash charges distort earnings or make comparisons between companies difficult but care needs to be exercised to ensure that proper account is taken of factors such as the level of capital expenditure needed for the business and whether or not any amortisation costs also relate to ongoing cash costs. EBITA avoids the distortions of goodwill amortisation. EBIT can better adjust for differences in relative capital intensity.

Determination of the appropriate earnings multiple is usually the most judgemental element of a valuation. Definitive or even indicative offers for a particular asset or business can provide the most reliable support for selection of an appropriate earnings multiple. In the absence of meaningful offers, it is necessary to infer the appropriate multiple from other evidence.

The usual approach is to determine the multiple that other buyers have been prepared to pay for similar businesses in the recent past. However, each transaction will be the product of a unique combination of factors. A pattern may emerge from transactions involving similar businesses with sales typically taking place at prices corresponding to earnings multiples within a particular range. This range will generally reflect the growth prospects and risks of those businesses. Mature, low growth businesses will, in the absence of other factors, attract lower multiples than those businesses with potential for significant growth in earnings.

An alternative approach used in valuing businesses is to review the multiples at which shares in listed companies in the same industry sector trade on the share market. This gives an indication of the price levels at which portfolio investors are prepared to invest in these businesses. Share prices reflect trades in small parcels of shares (portfolio interests) rather than whole companies and it is necessary to adjust for this factor.

The analysis of comparable transactions and share market prices for comparable companies will not always lead to an obvious conclusion as to which multiple or range of multiples will apply. There will often be a wide spread of multiples and the application of judgement becomes critical. Moreover, it is necessary to consider the particular attributes of the business being valued and decide whether it warrants a higher or lower multiple than the comparable companies. This assessment is essentially a judgement.

2. Discounted Cash Flow

Discounting of projected cash flows has a strong theoretical basis. It is the most commonly used method for valuation in a number of industries, and for the valuation of start-up projects where earnings during the first few years can be negative. DCF valuations involve calculating the net present value of projected cash flows. This methodology is able to explicitly capture the effect of a turnaround in the business, the ramp up to maturity or significant changes expected in capital expenditure patterns. The cash flows are discounted using a discount rate, which reflects the risk associated with the cash flow stream. Considerable judgement is required in estimating future cash flows and it is generally necessary to place great reliance on medium to long-term projections prepared by management. The discount rate is also not an observable number and must be inferred from other data (usually only historical). None of this data is particularly reliable so estimates of the discount rate necessarily involve a substantial element of judgment. In addition, even where cash flow forecasts are available the terminal or continuing value is usually a high proportion of value. Accordingly, the multiple used in assessing this terminal value becomes the critical determinant in the valuation (i.e. it is a "de facto" cash flow capitalisation valuation). The net present value is typically extremely sensitive to relatively small changes in underlying assumptions, few of which are capable of being predicted with accuracy, particularly beyond the first two or three years. The arbitrary assumptions that need to be made and the width of any value range mean the results are often not meaningful or reliable. Notwithstanding these limitations, DCF valuations are commonly used and can at least play a role in providing a check on alternative methodologies, not least because explicit and relatively detailed assumptions need to be made as to the expected future performance of the business operations.

3. Realisation of Assets

Valuations based on an estimate of the aggregate proceeds from an orderly realisation of assets are commonly applied to businesses that are not going concerns. They effectively reflect liquidation values and typically attribute no value to any goodwill associated with ongoing trading. Such an approach is not appropriate in FPA's case.

4. Industry Rules of Thumb

Industry rules of thumb are commonly used in some industries. These are generally used by a valuer as a "cross check" of the result determined by a capitalised earnings valuation or by discounting cash flows, but in some industries rules of thumb can be the primary basis on which buyers determine prices. Grant Samuel is not aware of any commonly used rules of thumb that would be appropriate to value FPA. In any event, it should be recognised that rules of thumb are usually relatively crude and prone to misinterpretation.

Appendix E – Interpretation of Multiples

Earnings multiples are normally benchmarked against two primary sets of reference points:

- the multiples implied by the share prices of listed peer group companies; and
- the multiples implied by the prices paid in acquisitions of other companies in the same industry.

In interpreting and evaluating such data it is necessary to recognise that:

- multiples based on listed company share prices do not include a premium for control and are therefore often (but not always) less than multiples that would apply to acquisitions of controlling the interests in similar companies. However, while the premium paid to obtain control in takeovers is observable (typically in the range 20-35%) it is inappropriate to simply add a premium to listed multiples. The premium for control is an outcome of the valuation process, not a determinant of value. Premiums are paid for reasons that vary from case to case and may be substantial due to synergy or other benefits available to the acquirer. In other situations premiums may be minimal or even zero. There are transactions where no corporate buyer is prepared to pay a price in excess of the prices paid by share market investors;
- acquisition multiples from comparable transactions are therefore usually seen as a better guide when valuing 100% of a business but the data tends to be less transparent and information on forecast earnings is often unavailable;
- the analysis will give a range of outcomes from which averages or medians can be determined but it is not appropriate to simply apply such measures to the company being valued. The most important part of valuation is to evaluate the attributes of the specific company being valued and to distinguish it from its peers so as to form a judgement as to where on the spectrum it belongs;
- acquisition multiples are a product of the economic and other circumstances at the time of the transaction. However, each transaction will be the product of a unique combination of factors, including:
  - economic factors (e.g. economic growth, inflation, interest rates) affecting the markets in which the company operates;
  - strategic attractions of the business – its particular strengths and weaknesses, market position of the business, strength of competition and barriers to entry;
  - the company's own performance and growth trajectory;
  - rationalisation or synergy benefits available to the acquirer;
  - the structural and regulatory framework;
  - investment and share market conditions at the time, and
  - the number of competing buyers for a business;
- acquisitions and listed companies in different countries can be analysed for comparative purposes, but it is necessary to give consideration to differences in overall share market levels and rating between countries, economic factors (economic growth, inflation, interest rates), market structure (competition etc) and the regulatory framework. It is not appropriate to adjust multiples in a mechanistic way for differences in interest rates or share market levels;
- acquisition multiples are based on the target's earnings but the price paid normally reflects the fact that there were cost reduction opportunities or synergies available to the acquirer (at least if the acquirer is a "trade buyer" with existing businesses in the same or a related industry). If the target's earnings were adjusted for these cost reductions and/or synergies the effective multiple paid by the acquirer would be lower than that calculated on the target's earnings;
- while EBITDA multiples are commonly used benchmarks they are an incomplete measure of cash flow. The appropriate multiple is affected by, among other things, the level of capital expenditure (and working capital investment) relative to EBITDA. In this respect:

- EBIT multiples can in some circumstances be a better guide because (assuming depreciation is a reasonable proxy for capital expenditure) they effectively adjust for relative capital intensity and present a better approximation of free cash flow. However, capital expenditure is lumpy and depreciation expense may not be a reliable guide. In addition, there can be differences between companies in the basis of calculation of depreciation; and
- businesses that generate higher EBITDA margins than their peer group companies will, all other things being equal, warrant higher EBITDA multiples because free cash flow will, in relative terms, be higher (as capital expenditure is a smaller proportion of earnings).

Appendix F – Qualifications, Declarations and Consents

1. Qualifications

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

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

2. Limitations and Reliance on Information

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

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

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

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

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

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

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

- the title to all such assets, properties, or business interests purportedly owned by FPA is good and marketable in all material respects, and there are no material adverse interests, encumbrances, engineering, environmental, zoning, planning or related issues associated with these interests, and that the subject assets, properties, or business interests are free and clear of any and all material liens, encumbrances or encroachments;
- there is compliance in all material respects with all applicable national and local regulations and laws, as well as the policies of all applicable regulators other than as publicly disclosed, and that all required licences, rights, consents, or legislative or administrative authorities from any government, private entity, regulatory agency or organisation have been or can be obtained or renewed for the operation of the business of FPA, other than as publicly disclosed;
- various contracts in place and their respective contractual terms will continue and will not be materially and adversely influenced by potential changes in control; and
- there are no material legal proceedings regarding the business, assets or affairs of FPA, other than as publicly disclosed.

3. Disclaimers

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

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

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

4. Independence

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

5. Information

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

5.1 Publicly Available Information

- FPA Annual Reports for the years ending 31 March 2008 - 2012;
- FPA Investor Presentation dated 11 May 2009;

- FPA 5 Year Strategic Plan Presentation dated 2 September 2012;
- Various broker's reports on FPA and its competitors;
- FPA Shareholders Meeting Presentation dated August 2012
- FPA Investor's Day Presentations – December 2011; and
- FPA FY12 Interim Results Presentations November 2011.

5.2 Non Public Information

- FY17 Appliances Strategic Plan
- Management Accounts for July and August 2012;
- Product Development Board Presentation 2012;
- Components and Technology Board Presentation 2012;
- Global manufacturing strategy presentation April 2012;
- FPA North America FY13 outlook April 2012;
- FPA Direct Drive Motor Business Plan 2011-2012;
- Various internal marketing presentations; and
- FPA's Board Papers from the last twelve months.

6. Declarations

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

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

7. Consents

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