Valuecruncher.com Valuation Report

42 Below

27 September 2006

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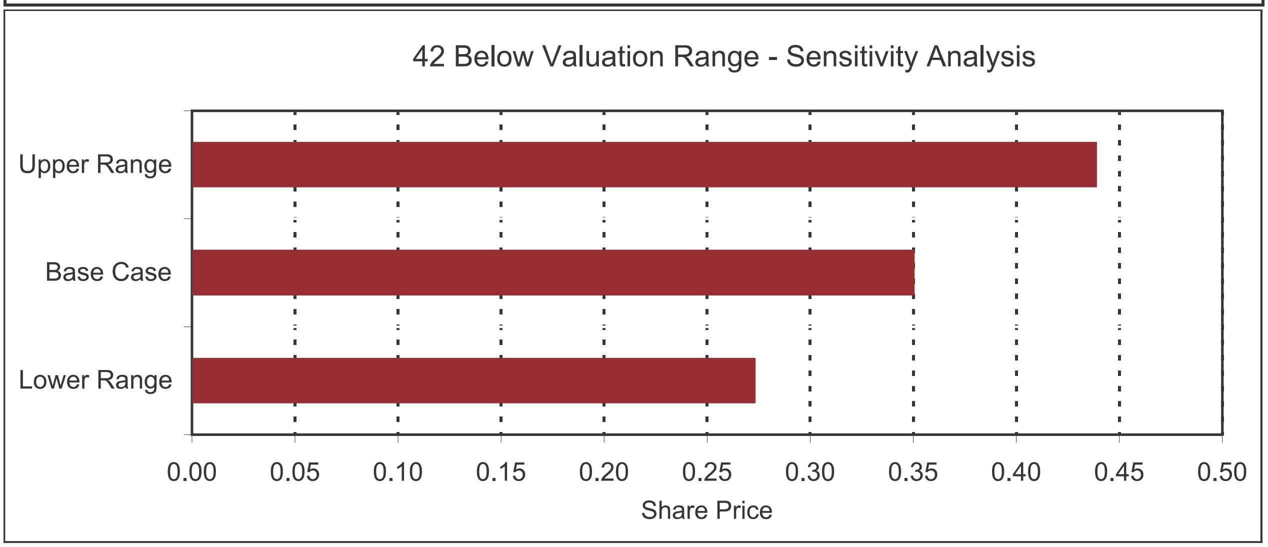
High-Level Valuation (NZ $'s)

42 Below Valuation Summary

Range	$.27 to $.44	*Based on Sensitivity Analysis*
Mid-Point Valuation	$0.35	*Based on projections supplied by Client*
Current Share Price	0.76	
Net Tangible Assets per Share	$0.12	*Based on Balance Sheet information*

For a full explanation of the valuation outputs see the attached "Valuation Notes"

On the 27 September 2006 42 Below announced a takeover by privately held Bacardi at $0.77 a share. Valuecruncher has used the following assumptions in our valuation of 42 Below as a standalone company. 42 Below grew revenues at just under 40% in the 2005/6 period - we have used growth of 30% in 2007, 20% in 2008 and 10% in 2009. 42 Below had negative EBIT in 2005/6 - we examined UK listed Diageo and US listed Fortune Brands as comparators for potential EBIT margins. Between 2002 and 2005 these companies had EBIT margins of between 16% and 35%. Valuecruncher has utilised EBIT margins of 15% in 2007, 20% in 2008 and 25% in 2009. Valuecruncher generates a mid-point valuation for 42 Below of $0.35 a share - well below the Bacardi offer. Bacardi will be valuing the company based on the sales of the 42 Below products in the Bacardi sales and distribution system (which is much larger and more developed than the 42 Below system) and then giving up some of this value in buying the company to ensure the success of the transaction.



DCF Sensitivity Analysis

Share Price		Revenue				
		-10.0%	-5.0%	0.0%	5.0%	10.0%
EBIT Margin	-5.00%	$0.27	$0.28	$0.29	$0.30	$0.32
	0.00%	$0.32	$0.34	$0.35	$0.36	$0.38
	5.00%	$0.37	$0.39	$0.41	$0.42	$0.44

Comparison Company Analysis

Company Local Currency ($millions)	Country	Market Cap	Net Debt	Enterprise Value (EV)	EBIT	EV/EBIT Multiple
42 Below	New Zealand	115,670,450	($14,045,000)	$101,625,450	($2,978,000)	-34.1

Net Tangible Assets

	Total Assets	Intangible Assets	Tangible Assets	Liabilities	NTA Per Share
42 Below	$24,613,000	$1,884,000	$22,729,000	$4,391,000	$0.12

Input Sheet

42 Below is a New Zealand spirts company.

Valuation Parameters

Country Where Business is Predominantly Located (HQ Location if Global)	New Zealand
Next Balance Date	31-Mar-07

WACC	15%	*Weighted average cost of capital*
Long-Term Growth	3.00%	*3.4% New Zealand last 10 years - Reserve Bank.*
Tax	28.00%	*Effective tax rate - as per PWC Cost of Capital Report.*
Terminal Capex adjustment	$200,000.0	*Long-term capital expenditure - long-term depreciation charge*

Key inputs into the DCF valuation include the WACC, long-term growth rate and the effective tax rate. Valuecruncher estimates the appropriate values of these parameters based on extensive valuation experience and the large volume of industry specific information available in the public domain.

Profit and Loss (NZ $'s)

Year Ending 31-Mar	2006A	2007F	2008F	2009F
Revenues	15,775,000	20,507,500	24,609,000	28,300,350
Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)	(2,800,000)	3,276,125	5,171,800	7,375,088
Depreciation Expense	178,000	200,000	250,000	300,000
Earnings Before Interest and Tax (EBIT)	(2,978,000)	3,076,125	4,921,800	7,075,088
Capital Expenditure	1,873,000	500,000	500,000	500,000
Pre-Tax Free Cash Flow	(4,673,000)	2,776,125	4,671,800	6,875,088

Projected Revenue Growth	21.5%	*Compound Annual Growth Rate (CAGR)*
Projected EBIT Growth	-233.4%	*Compound Annual Growth Rate (CAGR)*

EBIT Margin *(EBIT/Revenue)*	-18.9%	15.0%	20.0%	25.0%

The EBIT margin reflects the profitability of the business and varies greatly between industry sectors. Valuecruncher's Sensitivity Analysis examines the value impact of relatively small movements in the business' EBIT margin. Small movements in the EBIT margin can have a significant impact on value and it is important to consider this sensitivity when undertaking a DCF valuation.

Selected Balance Sheet Items at 31 March 2006 (NZ $'s)

Cash	12,115,000	*Cash balances (negative if in overdraft).*
Investments	1,930,000	*Investments in other companies carried on the balance sheet that are not included in the financial results.*
Tangible Assets	22,729,000	
Intangible Assets	1,884,000	*Assets without a physical nature - i.e. brands, intellectual property, etc.*
Total Assets	24,613,000	*Tangible Assets + Intangible Assets*
Long-Term Debt	0	*Long-term borrowings made by the business - bank loans, bonds, etc.*
Liabilities	4,391,000	
Shareholders Funds	20,222,000	
Total Liabilities & Shareholders Funds	24,613,000	

A valuation is an appraisal of what something is worth. This is different to price – what someone will actually pay for something in a commercial transaction. The Valuecruncher framework is a valuation. In place of a commercial transaction (actually buying or selling something) we provide an estimate of valuation of businesses.

Valuation professionals predominately utilise three valuation methodologies in valuing a business:
1. Discounted Cash Flow Analysis (DCF)
2. Comparison Company or Comparison Acquisition Analysis
3. Asset Analysis (usually Net Tangible Assets)

There are other sophisticated methodologies that are utilised in other contexts such as Real Option valuations. The majority of the time however, these three methodologies form the basis of professional valuations.

Discounted Cash Flow (DCF) Analysis

Within corporate finance value is a DCF. A DCF requires only two inputs:
1. Forecasts of cash flows into the future, and
2. A discount rate reflecting the variability around the cash flows (the higher the discount rate the more risky the cash flows)

Taking the forecast cash flows and discounting them back to a single present value using the discount rate gives an Enterprise Value. The Enterprise Value is the value of the whole business (debt and equity). To calculate the value of the equity in a business the Net Debt is removed from the Enterprise Value. Net Debt is long-term borrowings less cash. Enterprise Value less Net Debt is value of equity that can then be divided by the number of shares outstanding to produce a share price.

At the early/start-up stage of a business there is considerable uncertainty surrounding the future expected revenues. The high short-term growth rates and the uncertainty associated with early stage ventures seriously limits the validity of a point estimate of value.

Although the uncertainty of future cash flows is incorporated into the discount rate there is a limit to the ability of the discount rate to reflect high levels of uncertainty and produce a meaningful estimate of value. In situations of high uncertainty scenario analysis provides a robust evaluation of value across a variety of assumptions.

Comparison Company or Comparison Acquisition Analysis

Comparison company and comparison acquisition analysis is widely used in conjunction with DCF methods when providing estimates of value. The lack of relevant market information and the unique nature of early stage ventures make comparison analysis unsuitable for early stage valuation.

Asset Analysis (usually Net Tangible Assets)

As a base valuation professionals will look at the balance sheet Net Tangible Assets figure. Net Tangible Assets is the total assets on the balance sheet less any intangible items (goodwill etc) less total liabilities. This amount is then divided by the number of shares outstanding to produce a Net Tangible Asset valuation on a per share basis. This is a valuation of the physical assets controlled by the business less any liabilities – what the assets are worth from an accounting perspective.

Net Tangible Asset valuations will be impacted by accounting treatments of assets (i.e. depreciation policies).

Input Sheet

Example: Microsoft is the dominant global provider of PC software. Or: Joe's Bookstore is a single site bookstore in Sydney, Australia.

42 Below is a New Zealand spirts company.

Country Where Business is Predominantly Located (HQ Location if Global)

New Zealand

Next Balance Date	A	31-Mar			
Financial Years		Actuals	Forecasts	Forecast	Forecast
Latest year of actual results and three years of forecasts.	B	2006	2007	2008	2009
		i.e. 2006	i.e. 2007	i.e. 2008	i.e. 2009

Profit and Loss

Revenues	C	$15,775,000.0	$20,507,500.0	$24,609,000.0	$28,300,350.0

Top line sales.

NB: If incomplete Actuals and Forecasts submitted and no CAGR supplied - will take previous growth rate and scale back to long-term growth rate.

OR

Compound Annual Growth Rate (CAGR) 21.5%

Amount of growth anticipated each year after Actuals.

NB: If Actual and Forecasts are submitted these will be used over the CAGR.

Earnings Before Interest and Tax	D	($2,978,000.0)	$3,076,125.0	$4,921,800.0	$7,075,087.5

Operating earnings before interest and taxes but including depreciation.

OR

Compound Annual Growth Rate (CAGR) -233.4%

Amount of growth anticipated each year after Actuals.

NB: If Actual and Forecasts are submitted these will be used over the CAGR.

Expense Break-Out

Depreciation Expense	E	$178,000.0	$200,000.0	$250,000.0	$300,000.0

Total depreciation expenses for the periods - From the forecast numbers. This should have been INCLUDED as expenses in calculating Earnings Before Interest and Tax.

Capital Expenditure	F	$1,873,000.0	$500,000.0	$500,000.0	$500,000.0

Capital expenditure (or capitalised research and development) costs for the periods.

Terminal Capital Expenditure	G		$500,000.0

The amount of annual capital expenditure that the company would anticipate going into the future.

Balance Sheet

NB: Only the most recent balance sheet numbers are required - i.e. no forecasts.

Total Assets	H	$24,613,000.0	
Intangible Assets	I	$1,884,000.0	**22,729,000.0**
Liabilities	J	$4,391,000.0	**20,222,000.0**

Total Assets per the Balance Sheet.

Assets without a physical nature - i.e. brands, intellectual property, etc.

Tangible Assets.

Total Liabilities per the Balance Sheet.

Should equal Shareholders Funds in Balance Sheet.

Specific Balance Sheet Items

Cash	K	$12,115,000.0
Investments	L	$1,930,000.0
Long-Term Debt	M	$0.0

Cash balances (negative if in overdraft).

Investments in other companies carried on the balance sheet that are not included in the financial results.

Long-term borrowings made by the business - bank loans, bonds, etc. Not working capital items (i.e. accounts payable etc).