



THE NEW ZEALAND WINE COMPANY  
LIMITED

## **ANNUAL REPORT**

**FOR THE YEAR ENDED 30 JUNE 2012**

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LIMITED

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**CONTENTS**

	<b>PAGE</b>
<b>DIRECTORS' REPORT</b>	<b>2</b>
<b>CHIEF EXECUTIVE OFFICER'S REPORT</b>	<b>9</b>
<b>FINANCIAL STATEMENTS</b>	
DIRECTORS' RESPONSIBILITY STATEMENT	10
INCOME STATEMENT	11
STATEMENT OF COMPREHENSIVE INCOME	12
STATEMENT OF CHANGES IN EQUITY	12
STATEMENT OF FINANCIAL POSITION	14
STATEMENTS OF CASH FLOWS	16
NOTES TO THE FINANCIAL STATEMENTS	17
<b>AUDITOR'S REPORT</b>	<b>53</b>
<b>COMPARATIVE FINANCIAL REVIEW</b>	<b>55</b>
<b>CORPORATE GOVERNANCE STATEMENT</b>	<b>56</b>
<b>STATUTORY INFORMATION</b>	<b>66</b>

THE NEW ZEALAND WINE COMPANY  
LIMITED

## DIRECTORS' REPORT

### FOR THE YEAR ENDED 30 JUNE 2012

The Directors of The New Zealand Wine Company Limited (NZWC) present their 2012 full year operating results and Annual Report for the 12 months ended 30 June 2012. NZWC audited financial statements for the Annual Report have been prepared in accordance with the New Zealand equivalents to International Financial Reporting Standards (NZ IFRS).

Directors would like to thank all shareholders for their perseverance during a very challenging year for the company in 2012. After all of the hard work that was put in to provide a proposal to NZWC shareholders to consider to merge NZWC with Foley Family Wines New Zealand Limited (FFWNZ), it was satisfying that shareholders voted 99.9% in favour of the merger at the Special Shareholders Meeting on 14 August 2012. The Overseas Investment Office gave their consent to FFWNZ to merge with NZWC on 15 August 2012.

### Operating Results

Throughout the year Directors and Management worked to restructure the business while managing the requirements of the ANZ National Bank (Bank), working through PricewaterhouseCoopers (PwC) Independent Appraisal Report and working with Grant Samuel following their appointment early in December 2011 to advise on and assist the Company to implement a capital restructuring plan.

NZWC audited 'NZ IFRS' net earnings for the 30 June 2012 full year resulted in a net loss after tax of (\$5,330,000) which represents a significant increase on the (\$3,177,000) net loss reported for the same period in 2011. A number of significant NZ IFRS non cash revaluation adjustments at balance date contributed to the increased 2012 year loss, which are summarised in the table below, and are detailed in the Annual Report Financial Statements and in the accompanying Notes to the Financial Statements.

Income Statement Summary - \$'000	Group 12 months 30 June 2012	Group 12 months 30 June 2011
<b>Revenue</b>	<b>\$13,517</b>	<b>\$11,158</b>
<b>Underlying operating (loss) before impairment, NZ IFRS revaluations and income tax</b>	<b>(\$ 2,519)</b>	<b>(\$ 1,852)</b>
<b>Impairment</b>		
Impairment of trade and other receivables	(\$ 308)	(\$ 26)
Impairment of inventory	(\$ 55)	(\$ 247)
Impairment of goodwill	-	(\$ 640)
<b>Underlying (loss) before, NZ IFRS revaluations and income tax</b>	<b>(\$ 2,882)</b>	<b>(\$ 2,765)</b>
<b>NZ IFRS Revaluation gains and losses</b>		
Unrealised 'mark to market' (loss) in the fair value of financial assets/liabilities – held for trading	(\$ 1,557)	(\$ 1,418)
Unrealised (loss) from the revaluation of grape vine values classified as biological assets	(\$ 518)	(\$ 627)
Unrealised gain/(loss) in the value of harvested grapes valued at 'fair value'	(\$ 763)	\$ 254
Realised gain in the value of harvested grapes valued at fair value	\$ 148	\$ 401
<b>Loss before income tax</b>	<b>(\$ 5,572)</b>	<b>(\$ 4,155)</b>
Income tax benefit	\$ 1,421	\$ 834
Income tax expense – unused tax losses not available post a merger with Foley Family Wines	(\$ 1,323)	-
<b>Loss for the year</b>	<b>(\$ 5,474)</b>	<b>(\$ 3,321)</b>
Loss attributable to non-controlling interest	(\$ 144)	(\$ 144)
<b>Loss for the year net of tax, attributable to Shareholders of the Parent Company</b>	<b>(\$ 5,330)</b>	<b>(\$ 3,177)</b>

## DIRECTORS' REPORT

### FOR THE YEAR ENDED 30 JUNE 2012 (CONTINUED)

**Underlying (loss)** – NZWC's audited 'underlying' operating loss of (\$2,519,000) in 2012 before impairments, NZ IFRS revaluation adjustments and income tax is an increase over the comparative (\$1,852,000) in 2011. The restructuring of the Company significantly improved operating earnings in 2012 but the gains made during the year were more than offset by significant additional impairment, interest cost increases, plus one-off Bank review costs, restructuring costs and merger related expenses, below:

- (\$ 308,000) Impairment losses related to withdrawing from the Lineage Imports LLC USA investment.
- (\$ 199,000) Higher interest rates increased interest costs.
- (\$ 102,000) One off Bank review costs.
- (\$ 171,000) One off business restructuring costs.
- (\$ 744,000) One off capital raising expenses, legal costs and other costs incurred in the merger with Foley Family Wines
- (\$1,524,000) Total 2012 increased expenses over 2011

**NZ IFRS Revaluation gains and losses** - The NZ IFRS non cash revaluation adjustments include a significant revaluation loss in the value of harvested grapes taken into inventory of (\$763,000). The cost of growing grapes at company owned or leased vineyards in 2012 exceeded the fair value / 'market value' of the grapes harvested in 2012, as a result of the reduced size of the harvest.

**Revenue** - NZWC total revenue for the 30 June 2012 full year was \$13,517,000 which represents a 21% increase on the \$11,158,000 reported for the same period in 2011. Revenue from NZWC's branded wine case sales increased in 2012 but the overall revenue increase was reduced by market impacts flowing from the high level of bulk wine sales coupled with a strong NZD against the GBP and the USD along with strong competition.

#### **Cash Flow**

Net cash flow was strongly positive at \$1,549,000 for the full year, as a result of increased wine sales and a reduction in inventory.

#### **Balance Sheet - Shareholders Equity**

Total shareholders' equity as at 30 June 2012 was \$9,491,000 a reduction of \$5,498,000 compared to the equivalent \$14,989,000 reported for the same period in 2011. The net operating loss of \$5,330,000 was the biggest contributor to the reduction in shareholders equity.

**Net Tangible Assets** - With 8,677,199 shares on issue as at 30 June 2012 year end, net tangible asset backing was \$1.09 per share compared to the equivalent \$1.73 per share reported for the same period in 2011.

NZWC's annual Property Valuation was carried out by Alexander Hayward Limited as at 30 June 2012 with the total valuation being \$15,020,000 compared to the \$15,800,000 for the prior 2011 year, a reduction of \$780,000 or 7% for the year which is reflected in the reduction in shareholders' equity.

The reconciliation of the movements in NZWC Shareholders Equity from the \$12,797,000 reported in the Simmons Corporate Finance Independent Advisers Report as at 30 April 2012 compared to Shareholders Equity of \$9,491,000 as at 30 June 2012 is:

<b>Simmons Corporate Finance IAR Net Asset Value at 30 April 2012</b>	<b>\$12,797,000</b>
Less Deferred Tax Asset Written Off – Unused Tax Losses not available following the FFWNZ Merger	(\$ 1,323,000)
Less Revaluation of Plant & Equipment valuation increase not included as at 30 June 2012	(\$ 907,000)
Less Loss on Biological Assets – Alexander Hayward Revaluation of Vines as at 30 June 2012	(\$ 518,000)
Less Higher than expected Loss in the value of harvested grapes valued at fair value	(\$ 172,000)
Less One Off Merger Expenses from May to June 2012	(\$ 701,000)
Add Sundry other net gains and (losses)	\$ 315,000
<b>Shareholders Equity reported in the Financial Statements as at 30 June 2012</b>	<b>\$ 9,491,000</b>

## DIRECTORS' REPORT

### FOR THE YEAR ENDED 30 JUNE 2012 (CONTINUED)

**Plant and Equipment Valuation** - Alexander Hayward Limited valued NZWC Plant and Equipment assets on a comparable fair value basis with FFWNZ valuations for merger valuation purposes. A \$907,000 increase in the valuation of NZWC Plant & Equipment has not been booked as a valuation gain as at 30 June 2012, but may be used in future should the company decide to change its accounting policy in relation to plant and equipment. (Refer to comments below under NZWC merger with FFWNZ)

#### **Lineage Imports LLC USA**

Following an NZWC decision to cease financial support, the founders of Lineage Imports LLC were unable to introduce equity investment or funding. Your Directors decided that it should renounce any interest in the company and write off the investment. Accordingly impairment losses of (NZ\$308,000) have been included in the full year to June 2012.

#### **Foreign Exchange**

New Zealand Dollar foreign exchange risk management remains a key focus for the Board and Management who work closely with NZWC's treasury management adviser Asia Pacific Risk Management Limited to implement appropriate foreign exchange management strategies to minimise currency risks and maximise the benefits from operating an integrated Treasury Management Policy.

The strong NZD against the USD and GBP is still having a significant impact on export sales margins and revenues. At balance date the comparable FX rates were;

- NZD/GBP 0.51 at June 2012 was the same as June 2011 at 0.51 – The 0.388 10 year average is 24% below 0.51 at June 2012
- NZD/USD 0.80 at June 2012 was 4% down on June 2011 at 0.83 – The 0.670 10 year average is 16% below 0.80 at June 2012

As at 30 June 2012 the company had \$13.940m of NZD forward cover in place for its NZD/AUD, NZD/USD, NZD/GBP and NZD/EUR FX exposures, with the majority of the cover in place being for the NZD/AUD FX exposure.

#### **Deloitte Audit Report**

In last year's Directors' Report it was noted that the Auditors had expressed concerns regarding the going concern nature of NWC because of the review undertaken by Bank. Directors are pleased to report that, following the unanimous approval of the Foley Family Wines merger transaction, the issue of a going concern is no longer relevant.

#### **ANZ National Bank and Capital Restructuring**

The flow-on impacts from the significant oversupply of wine from the 2008 harvest through until late 2011, coupled with the Global Financial Crisis and the strength of the New Zealand dollar, created significant financial challenges for the Company which culminated in a breach one of NZWC's three financial covenants as at 30 June 2011.

During the last year NZWC has worked through a lengthy review and monitoring process with the ANZ National Bank Limited (Bank). PricewaterhouseCoopers (PwC) was appointed by NZWC in the second half of 2011 as an independent advisor to prepare an Independent Appraisal Report, for the benefit of the Company and the Bank. After reviewing NZWC's financial forecasts, business model, updated June 2012 Budget, 3 Year Business Plan and the PwC Independent Appraisal Report, the Bank agreed with the Company to;

- Incorporate new financial performance covenants into a new Deed of Covenant and to;
- Allow NZWC to develop an equity raising plan to raise new equity and pay down debt to strengthen the NZWC balance sheet.

These changes were incorporated in a new Deed of Covenant which was executed by the Company and the Bank on 21 December 2011. The Deed provides that if the Company fails to satisfactorily comply with the financial performance covenants and the equity raising plan, the Bank is entitled to treat that failure as an Event of Review which may lead to the Bank terminating the Company's credit facilities.

## DIRECTORS' REPORT

### FOR THE YEAR ENDED 30 JUNE 2012 (CONTINUED)

Grant Samuel was appointed by NZWC early in December 2011 and the brief was to work with the Company to consider all Capital Restructuring options that ranged from securing a strong cornerstone shareholder through to selling 100% of the business. Grant Samuel identified a number of interested investors and produced an Information Memorandum in January 2012 which was released to a limited number of interested trade investors.

When NZWC entered into the commitment with the Bank, that it would undertake a capital raising process to raise a minimum of \$5m to reduce Bank debt, it agreed that it would achieve that outcome by an anticipated completion date of 30 June 2012. Throughout the lengthy review process that the Company worked through with the Bank, NZWC management continued to implement the Company's restructuring and recovery plans to provide a pathway back to profitability.

The second half of the June 2012 year was devoted to working with Grant Samuel to implement a Capital Restructuring Plan that would enable NZWC to deliver on the undertaking that the Company gave to the Bank to repay \$5m of Bank debt. The Bank confirmed on 28 June 2012 that the Merger Agreement NZWC signed with FFWNZ satisfied the Banks requirement for progress on NZWC's undertaking to reduce its Bank debt by \$5m.

The review and monitoring process NZWC has had to work through with the Bank during the past year has been costly and time consuming. It is testament to the focus and the hard work of Directors, management and staff that NZWC has endured to continue to run its business effectively while also delivering the outcome that the Bank required.

It should be noted that during the last year NZWC met all of its interest and loan repayment commitments to the Bank on time, while also working within its approved Bank overdraft limit. For the full year to 30 June 2012 no Event of Review has occurred in terms of the Company's Deed of Covenant with the Bank.

#### **NZWC Merger with Foley Family Wines New Zealand Limited**

Grant Samuel produced an Information Memorandum in January 2012 and FFWNZ was one of the trade investors Grant Samuel identified as a potential NZWC investor. After a number of discussions with FFWNZ a Heads of Agreement was signed on 27 March 2012.

The due diligence process culminated in FFWNZ and NZWC signing a Merger Agreement on 28 June 2012 and as a condition of the Agreement an Operations Agreement was signed by NZWC and Foley Family Wines Holdings New Zealand Limited (Foley Holdings) on 2 August 2012. A Subscription Agreement was also signed by NZWC and Foley Holdings on 28 June 2012.

NZWC engaged Simmons Corporate Finance Limited to prepare an Independent Advisers Report to accompany a Notice of Special Shareholders Meeting (NoSSM) to be held in Blenheim on 14 August 2012.

**Plant and Equipment Valuation** - The merger negotiations with Foley Family Wines New Zealand were based on the fair value of each company's net asset values, using 'like for like' NZ IFRS accounting treatment. The net asset valuations were comparable on a fair value basis with the exception of NZWC's Plant & Equipment which had not been independently valued.

NZWC Directors engaged Alexander Hayward Limited to value the Plant and Equipment assets on the asset register at 30 April 2012. The book value of the Plant & Equipment at 30 April 2012 was \$3,981,000 and the Alexander Hayward market valuation was \$4,888,000, to give an increase in the Plant & Equipment valuation for merger purposes of \$907,000.

The increase in valuation of Plant & Equipment has not been booked as at 30 June 2012 as the Board decided not to change its current accounting policies for plant and equipment as there was no independent valuation conducted for plant and equipment as at 30 June 2011 for comparative purposes. The 30 June 2012 valuation may be used in future should the company decide to change its accounting policy in relation to plant and equipment.

## DIRECTORS' REPORT

### FOR THE YEAR ENDED 30 JUNE 2012 (CONTINUED)

The key factors supporting the NZWC merger with FFWNZ considered by your Directors were that:

- The \$6,000,000 cash subscription by Foley Holdings would enable the company to meet its commitment to the Bank to reduce its debt by \$5.0m and would also provide \$1.0m to invest in upgrading the winery to improve wine quality.
- The \$42,114,541 value ascribed to the FFWNZ shares for the purposes of the merger was fair and reasonable.
- The \$48,114,541 to be settled to be given effect by the issue of 34,708,796 new NZWC shares at \$1.386 to Foley Holdings;
- The \$1.386 NZWC share issue price is significantly above the last sale price of \$0.90 per share prior to the announcement of the potential merger on 21 May 2012 and \$0.85 at the date of signing the Merger Agreement on 28 June 2012;
- NZWC would be associating with the Foley Family Wines Group, a reputable and experienced investor in the USA and New Zealand wine industries having strong distribution arrangements in New Zealand, Australia and particularly the USA;
- The merged company would have a strong post-merger balance sheet by way of a more conservative debt to equity ratio;
- There are operational and administrative costs savings that are expected to be achieved by the merging of marketing and back-office functions; and
- The merger provides the scale required for NZWC to be a significant wine business globally while also enabling it to participate in the anticipated consolidation of the wine industry in New Zealand.

**Approvals required from NZWC Shareholders** – NZWC advised shareholders of details of the merger proposal through a 'Notice of Special Meeting of Shareholders' and the Simmons Corporate Finance Limited 'Independent Advisers Report' on 27 July 2012 and sought the approval of shareholders at a Special Meeting on 14 August 2012, to the following matters, in order to give effect to the proposed merger:

1. The acquisition by NZWC of FFWNZ shares from Foley Holdings
2. The issue of 34,708,796 new ordinary shares to Foley Holdings at \$1.386 in:
  - (a) satisfaction of the purchase price of \$42,114,541 for all the shares in FFWNZ;
  - (b) consideration of a cash subscription by Foley Holdings of \$6 million.
3. The issue of a Convertible Note to Foley Holdings in the sum of \$11.8 million, and the issue of 8,512,266 shares in the future if conversion occurs.

Shareholder approval was also sought to a final fourth resolution which dealt with the status of the above approvals if the merger did not proceed due to the conditions of the Merger Agreement not being satisfied.

NZWC Directors unanimously recommended that all shareholders vote in favour of all four resolutions and at the Special Meeting of Shareholder in Blenheim on 14 August 2012 when Directors sought the approval of shareholders to the merger of NZWC and FFWNZ. After considering the merger proposal, shareholders voted by poll on the four resolutions and strongly supported the rationale for the merger, with 99.9% of votes being cast in favour the resolutions.

On 15 August 2012 the Overseas Investment Office advised FFWNZ that they had approved the FFWNZ application seeking consent to the proposed merger with NZWC. Following the completion of a number of administrative conditions the merger of NZWC and FFWNZ is due to be completed on 1 September 2012.

1 September 2012 will mark the start of a new era for NZWC as the new NZWC Board works with new CEO Mark Turnbull as he works to implement a new NZWC organisation structure and to integrating the operations of NZWC and FFWNZ into one team that is working to achieve the objectives for the enlarged wine business.

## DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2012 (CONTINUED)

### Dividend Policy and Dividend Payments

Faced with reporting a significant underlying loss before impairments, revaluations and income tax for the full year to 30 June 2012 Directors have resolved that the company should not pay a 2012 final dividend, which is consistent with the decision made to not pay an interim dividend.

Directors have in the past undertaken to review the potential for dividend payments against available and sustainable underlying earnings, before NZ IFRS revaluations. NZWC's new Directors will need to consider a suitable dividend payout policy for the future.

### Staff and Organisation Changes

Directors would like to thank all staff who have continued to work hard during a year of uncertainty while the company has managed its way through the most challenging period in the company's history. Special thanks need to go to our CEO Peter Scutts and our CFO Jane Trought for handling a significant additional workload as we worked through the Banks requirements and our capital restructuring process to meet all of the deadlines and deliver what was required in a timely manner.

FFWNZ CEO Mark Turnbull will be appointed as NZWC's CEO following completion of the merger on 1 September 2012

All management and operational roles within the enlarged company's new organisation structure will be considered and confirmed following completion of the merger on 1 September 2012.

### Director Retirements and Appointments

At the 2011 AGM the prospect of reducing the size of the Board was raised by shareholders. Given the Capital Restructuring initiatives that were being undertaken and the need for a small responsive unit to manage the process, NZWC Directors decided in February 2012 that the size of the Board should be reduced. John Albertson and Steve Riley retired as Directors on 16 February 2012 to enable the NZWC Board to be reduced in size to the three remaining Directors - Alton Jamieson, Bill Wallace and David Appleby.

The NZWC merger with FFWNZ will see a corresponding change in the composition of the NZWC board of directors with two of the three current directors resigning and being replaced by three new directors appointed by Foley Holdings. David Appleby and Bill Wallace will therefore retire from the board effective on completion of the merger which is expected to be on 1 September 2012.

Following completion of the merger the NZWC board of directors will be:

- Alton Jamieson as the representative of the existing board; and
- Bill Foley, Mark Turnbull and Tony Anselmi as the three representatives of Foley Holdings

### 2012 AGM

The 2012 NZWC AGM will be put back to be held on 15 November 2012 to enable Bill Foley to attend when he is next in New Zealand.

### Operating Results Outlook

NZWC is unable to provide reliable net earnings guidance for the June 2013 financial year based on the NZ IFRS reporting standard, as it is not possible for an agricultural exporting company to predict what can be significant swings in the revaluation adjustments that are required to be made at each balance date. Directors and Management will continue to focus on the underlying profit before NZIFRS revaluation adjustments and income tax, as it is a more reliable and consistent earnings benchmark.



## DIRECTORS' REPORT

### FOR THE YEAR ENDED 30 JUNE 2012 (CONTINUED)

The Notice of Meeting for the Special Meeting of Shareholders held on 14 August 2012 included the following section on the future and forecast earnings for NZWC post the merger with FFWNZ:

*"Your directors have considered a range of financial forecasts for NZWC post-merger. A key assumption is the number of case sales in a financial year which can vary significantly due to the weather.*

*Depending on grape harvest volumes, the enlarged company is forecast to have capacity for the sale of 450,000 to 600,000 cases of wine annually, generating annual revenue in the range of \$35 million to \$45 million. In the first twelve months of trading for the June 2013 year, wine sales volumes are expected to be around 450,000 cases due to the 2012 NZWC and FNZ Marlborough grape harvest being significantly lower than in 2011. In a normal vintage year the enlarged company would have expected to have had 600,000 cases of wine available for sale.*

*In the June 2013 year the enlarged company will sell its wines into the distribution channels that are expected to maximise net margins. It is also expected that the enlarged company will achieve operational and administrative cost savings with the merging of marketing and back-office functions. While the sum of the net returns from the two businesses when operating as one merged entity are expected to be stronger than the stand alone NZWC and FNZ businesses, your directors do not consider that they can provide a reliable forecast at this point due to the current uncertainties facing the New Zealand wine industry."*

Directors will update shareholders at the 15 November 2012 AGM.

For and on behalf of the Board of Directors



Alton Jamieson, Chairman  
24 August 2012

## CHIEF EXECUTIVE OFFICER'S REPORT FOR THE YEAR ENDED 30 JUNE 2012

Dear Valued Shareholder

This is my first and last report to you as your CEO. It is written the day after your vote that approved the merger with Foley Family Wines NZ. I accepted this position a week before our bank delivered its ultimatum in June last year. To your boards credit they gave me the opportunity to walk away given the significant change in circumstances. Whilst I appreciated the offer it just wasn't an option.

The two significant challenges we faced were to strengthen the cash flow to ensure we met our commitments to the bank for the following twelve months whilst we readied the company for a significant capital restructuring. In my opinion we were way overstocked with products that were ready to sell. So we set about turning this excess into cash. With the industry in an oversupply knowing what to do was a lot easier than doing it. We were able to reduce our stock levels during the course of the year by clearing previous vintage wines, aggressively marketing current vintages and identifying customers for bulk wine sales. This resulted in improving both cash flow and stock to sales ratios.

In the year ended 30 June 2012 264,000 case sales equivalents were sold, an increase of 52% for the full year compared to the 174,000 for the same period in 2011. In 2012 branded wine case sales increased by 15% to 176,000 cases, while bulk wine case sales equivalents increased from 20,000 cases in 2011 to 88,000 cases in 2012 or 33% of total case sales equivalents. NZ Winegrowers have reported that 63 million litres of bulk wine was exported in the June 2011 year which accounted for 35% of the total New Zealand export wine volumes.

With our future far more secure and linked to the ambitious plans of Bill Foley it is a little easier to reflect on the past twelve months. To say we had some operational issues to confront is an understatement, but with your boards one hundred percent support we got ourselves into a position that made the company attractive to FFW NZ.

Marlborough Sauvignon Blanc is the engine room of the New Zealand wine industry and of NZWC. Unfortunately ours just wasn't capturing the attention of the people who count the most, our consumers. So we set about making some major changes including but not limited to, hiring Kiwi Eono as consultants and changing the make up of our in house resource. Jens Merkle, our new winemaker and his team have made some significant changes to how we go about the art of winemaking. Everyone who has tasted our 2012 Grove Mill sauvignon Blanc agrees we have lifted the bar on quality. This could not have been possible without the impressive input of Craig Young and his team in the vineyards. Great wine can only be made with exceptional grapes.

To go along with this evolution in quality we will introduce a new and modern package for the Grove Mill brand for the 2012 vintage, in which, the frog will continue to play an important role. Sanctuary, Frog Haven and Blackbirch labels will be modified and reintroduced as the 2012 wines are rolled out.

We have made significant changes to how we market our wines. The best gains have been our efforts in Australia, which have helped clear our excess stock and developed new channels to our consumers. The strength of the NZ dollar has made profitable trading very difficult in the UK and USA, two markets where we had invested heavily in through in- market representation. Coupled with the well documented over supply situation the only way to prepare ourselves for the future was to retrench. This was a great shame but inevitable under the circumstances.

In conclusion, through all this change the one rock that never faltered was our CFO, Jane Trought. Without her dedication, capacity for hard work and unquestioned support anything we have achieved would have been far more difficult.

Thank you for the opportunity to make a small difference.



Peter Scutts, CEO, 24 August 2012.

## DIRECTORS' RESPONSIBILITY STATEMENT

FOR THE YEAR ENDED 30 JUNE 2012

The Directors are responsible for the preparation, in accordance with New Zealand law and generally accepted accounting practice, of financial statements which give a true and fair view of the financial position of The New Zealand Wine Company Limited and Group as at 30 June 2012 and the results of their operations and cash flows for the year ended 30 June 2012.

The Directors consider that the financial statements of the Company and the Group have been prepared using accounting policies appropriate to the Company and Group circumstances, consistently applied and supported by reasonable and prudent judgements and estimates, and that all applicable New Zealand Equivalents to International Financial Reporting Standards have been followed.

The Directors have responsibility for ensuring that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the Company and Group and enable them to ensure that the financial statements comply with the Financial Reporting Act 1993.

The Directors have responsibility for the maintenance of a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting. The Directors consider that adequate steps have been taken to safeguard the assets of the Company and Group and to prevent and detect fraud and other irregularities.

The Directors are pleased to present the financial statements of The New Zealand Wine Company Limited and Group for the year ended 30 June 2012.

This annual report is dated 24 August 2012 and is signed in accordance with a resolution of the Directors made that day pursuant to section 211(1)(k) of the Companies Act 1993.

For and on behalf of the Directors



Alton Jamieson  
Chairman



David Appleby  
Director

THE NEW ZEALAND WINE COMPANY  
LIMITED

## INCOME STATEMENT

FOR THE YEAR ENDED 30 JUNE 2012

	Note	Group 2012 \$'000	Group 2011 \$'000	Parent 2012 \$'000	Parent 2011 \$'000
<b>Revenue</b>	3	13,517	11,158	13,520	11,205
<b>Expenses</b>					
Excise duty		(792)	(806)	(792)	(806)
Cost of sales		(10,436)	(7,890)	(10,436)	(7,834)
Distribution expenses		(524)	(243)	(524)	(215)
Marketing expenses		(638)	(1,507)	(638)	(1,408)
Administration expenses		(1,581)	(1,703)	(1,497)	(1,359)
Non-recurring expenses	4	(1,017)	-	(1,017)	-
<b>Expenses excluding interest</b>		<b>(14,988)</b>	<b>(12,149)</b>	<b>(14,904)</b>	<b>(11,622)</b>
<b>(Loss)/Profit before interest, impairment, revaluations &amp; income tax</b>		<b>(1,471)</b>	<b>(991)</b>	<b>(1,384)</b>	<b>(417)</b>
Interest revenue		37	25	36	35
Interest expense	5	(1,085)	(886)	(1,085)	(885)
<b>Net finance costs</b>		<b>(1,048)</b>	<b>(861)</b>	<b>(1,049)</b>	<b>(850)</b>
<b>(Loss)/Profit before impairment, revaluations &amp; income tax</b>		<b>(2,519)</b>	<b>(1,852)</b>	<b>(2,433)</b>	<b>(1,267)</b>
<b>Impairment</b>					
Impairment of trade and other receivables	2.2 (e)	(308)	(26)	(464)	(923)
Impairment of inventory	2.2 (e)	(55)	(247)	(55)	(247)
Impairment of investments	2.2 (e)	-	-	(114)	-
Impairment of goodwill	2.2 (f)	-	(640)	-	-
<b>(Loss)/Profit before revaluations &amp; income tax</b>		<b>(2,882)</b>	<b>(2,765)</b>	<b>(3,066)</b>	<b>(2,437)</b>
<b>Revaluation gains and losses</b>					
Unrealised gain/(loss) in fair value of financial asset/liabilities	24(k)	(1,557)	(1,418)	(1,557)	(1,418)
Unrealised gain/(loss) on biological assets	19	(518)	(627)	(518)	(627)
Unrealised (loss)/gain on harvested grapes		(763)	254	(763)	254
Realised gain on harvested grapes		148	401	148	401
<b>Loss before income tax</b>	3	<b>(5,572)</b>	<b>(4,155)</b>	<b>(5,756)</b>	<b>(3,827)</b>
Income tax benefit	6.1	1,421	834	1,421	834
Income tax expense – unused tax losses	6.1	(1,323)	-	(1,323)	-
<b>Loss for the year</b>		<b>(5,474)</b>	<b>(3,321)</b>	<b>(5,658)</b>	<b>(2,993)</b>
Loss attributable to non-controlling interests		144	144	-	-
<b>Loss for the year net of tax, attributable to Shareholders of the Parent Company</b>		<b>(5,330)</b>	<b>(3,177)</b>	<b>(5,658)</b>	<b>(2,993)</b>
Basic Earnings per share cps (after tax)	7	(61.4)	(36.6)	(65.2)	(34.5)
Diluted Earnings per share cps (after tax)	7	(61.4)	(36.5)	(65.2)	(34.4)

These financial statements should be read in conjunction with the Notes to the financial statements on pages 17 to 52.

THE NEW ZEALAND WINE COMPANY  
LIMITED

## STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2012

	Note	Group 2012 \$'000	Group 2011 \$'000	Parent 2012 \$'000	Parent 2011 \$'000
<b>Loss for the year</b>		(5,330)	(3,321)	(5,658)	(2,993)
<b>Other comprehensive income:</b>					
Exchange differences on translating foreign operations	11	(66)	66	-	-
Revaluation of property, plant and equipment	18	(130)	(430)	(130)	(430)
Income tax on items taken directly to or transferred from equity	6.2	28	49	28	49
<b>Other comprehensive income for the year, net of tax</b>		<b>(168)</b>	<b>(315)</b>	<b>(102)</b>	<b>(381)</b>
<b>Total comprehensive income/(expense) for the year, net of tax</b>		<b>(5,498)</b>	<b>(3,636)</b>	<b>(5,760)</b>	<b>(3,374)</b>
Attributable to:					
Owners of the Parent Company		(5,642)	(3,492)	(5,760)	(3,374)
Non-controlling interests		144	(144)	-	-
		<b>(5,498)</b>	<b>(3,636)</b>	<b>(5,760)</b>	<b>(3,374)</b>

## STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2012

	Note	Fully Paid Ordinary Shares \$'000	Asset Revaluation Reserve \$'000	Foreign Currency Translation Reserve \$'000	Employee Equity- Settled Benefits Reserve \$'000	Retained Earnings \$'000	Attributed to Owners of the Parent \$'000	Non- controlling Interests \$'000	Total \$'000
<b>Group</b>									
<b>Equity at 1 July 2011</b>		9,619	2,442	66	10	2,996	15,133	(144)	14,989
<b>Total comprehensive income/(expense) for the year</b>		-	(102)	(66)	-	(5,474)	(5,642)	144	(5,498)
Contributions by owners	9	-	-	-	-	-	-	-	-
Distributions to owners	8	-	-	-	-	-	-	-	-
Share-based payment	10	-	-	-	(10)	10	-	-	-
<b>Transactions with owners during the year</b>		-	-	-	(10)	10	-	-	-
<b>Added to equity during the year</b>		-	(102)	(66)	(10)	(5,464)	(5,642)	144	(5,498)
<b>Equity at 30 June 2012</b>		9,619	2,340	-	-	(2,468)	9,491	-	9,491
Dividends paid per share cps									0.0

These financial statements should be read in conjunction with the Notes to the financial statements on pages 17 to 52.

## STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2012 (CONTINUED)

	Note	Fully Paid Ordinary Shares \$'000	Asset Revaluation Reserve \$'000	Foreign Currency Translation Reserve \$'000	Employee Equity- Settled Benefits Reserve \$'000	Retained Earnings \$'000	Attributed to Owners of the Parent \$'000	Non- controlling Interests \$'000	Total \$'000
<b>Group</b>									
Equity at 1 July 2010		9,619	2,823	-	16	6,167	18,625	-	18,625
Total comprehensive income/(expense) for the year		-	(381)	66	-	(3,177)	(3,492)	(144)	(3,636)
Share-based payment	10	-	-	-	(6)	6	-	-	-
Transactions with owners during the year		-	-	-	(6)	6	-	-	-
Added to equity during the year		-	(381)	66	(6)	(3,171)	(3,492)	(144)	(3,636)
Equity at 30 June 2011		9,619	2,442	66	10	2,996	15,133	(144)	14,989
Dividends paid per share									0.0

	Note	Fully Paid Ordinary Shares \$'000	Asset Revaluation Reserve \$'000	Employee Equity- Settled Benefits Reserve \$'000	Retained Earnings \$'000	Total \$'000
<b>Parent</b>						
Equity at 1 July 2011		9,619	2,442	10	3,183	15,254
Total comprehensive income/(expense) for the year		-	(102)	-	(5,658)	(5,760)
Share-based payment	10	-	-	(10)	10	-
Transactions with owners during the year		-	-	(10)	10	-
Added to equity during the year		-	(102)	(10)	(5,648)	(5,760)
Equity at 30 June 2012		9,619	2,340	-	(2,465)	9,494
Dividends paid per share cps						0.0

Equity at 1 July 2010		9,619	2,823	16	6,170	18,628
Total comprehensive income/(expense) for the year		-	(381)	-	(2,993)	(3,374)
Share-based payment	10	-	-	(6)	6	-
Transactions with owners during the year		-	-	(6)	6	-
Added to equity during the year		-	(381)	(6)	(2,987)	(3,374)
Equity at 30 June 2011		9,619	2,442	10	3,183	15,254
Dividends paid per share cps						0.0

These financial statements should be read in conjunction with the Notes to the financial statements on pages 17 to 52.

THE NEW ZEALAND WINE COMPANY  
LIMITED

## STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2012

	Note	Group 2012 \$'000	Group 2011 \$'000	Parent 2012 \$'000	Parent 2011 \$'000
<b>CURRENT ASSETS</b>					
Trade and other receivables	16	2,928	2,641	2,928	3,050
Other financial assets	15	129	954	129	954
Inventories	17	8,408	13,079	8,408	12,733
Current tax assets	6.3	89	88	89	88
Prepaid expenses		52	108	52	108
		11,606	16,870	11,606	16,933
<b>NON-CURRENT ASSETS</b>					
Property, plant and equipment	18	13,612	13,903	13,612	13,901
Biological assets	19	5,319	6,032	5,319	6,032
Intangible assets	20	21	20	21	20
Investments	21	-	-	20	129
Other financial assets	15	-	506	-	506
Other non-current receivables		-	-	1	1
		18,952	20,461	18,973	20,589
<b>TOTAL ASSETS</b>		<b>30,558</b>	<b>37,331</b>	<b>30,579</b>	<b>37,522</b>

These financial statements should be read in conjunction with the Notes to the financial statements on pages 17 to 52.

THE NEW ZEALAND WINE COMPANY  
LIMITED

**STATEMENT OF FINANCIAL POSITION**

**AS AT 30 JUNE 2012 (CONTINUED)**

	Note	Group 2012 \$'000	Group 2011 \$'000	Parent 2012 \$'000	Parent 2011 \$'000
<b>CURRENT LIABILITIES</b>					
Trade and other payables	13	1,914	1,957	1,914	1,866
Loans and borrowings	14	15,906	17,254	15,906	17,253
Other financial liabilities	15	73	1	73	1
		17,893	19,212	17,893	19,120
<b>NON-CURRENT LIABILITIES</b>					
Loans and borrowings	14	-	-	18	18
Other financial liabilities	15	783	613	783	613
Deferred tax liabilities	6.4	2,391	2,517	2,391	2,517
		3,174	3,130	3,192	3,148
<b>TOTAL LIABILITIES</b>		21,067	22,342	21,085	22,268
<b>EQUITY</b>					
Share capital	9	9,619	9,619	9,619	9,619
Reserves	11	2,340	2,518	2,340	2,452
Retained earnings	12	(2,468)	2,996	(2,465)	3,183
Equity attributable to owners of the Parent Company		9,491	15,133	9,494	15,254
Non-controlling interests	31	-	(144)	-	-
<b>TOTAL EQUITY</b>		9,491	14,989	9,494	15,254
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>30,558</b>	<b>37,331</b>	<b>30,579</b>	<b>37,522</b>

These financial statements should be read in conjunction with the Notes to the financial statements on pages 17 to 52.



THE NEW ZEALAND WINE COMPANY  
LIMITED

## STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2012

	Note	Group 2012 \$'000	Group 2011 \$'000	Parent 2012 \$'000	Parent 2011 \$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Cash was provided from (applied to)					
Receipts from customers		13,936	14,157	14,383	13,340
Receipts from close out of foreign exchange forward contracts		634	-	634	-
Interest received		2	25	3	13
Payments to suppliers and employees		(11,671)	(14,569)	(11,922)	(13,213)
Interest and other costs of finance paid		(1,083)	(888)	(1,083)	(885)
Interest capitalised into inventories		(267)	(283)	(267)	(283)
Income tax paid		(2)	97	(2)	97
Net cash flow from operating activities	22	1,549	(1,461)	1,746	(931)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Cash was provided from (applied to)					
Sale of property, plant and equipment		2	4	2	4
Purchase of property, plant and equipment and biological assets		(198)	(132)	(200)	(130)
Purchase of intangible assets		(5)	(1)	(5)	(1)
Purchase of Investment	21	-	-	(5)	(109)
Advances to subsidiary		-	-	(191)	(809)
Grower & Other loans repaid (advanced)		-	24	-	390
Net cash flow from investing activities		(201)	(105)	(399)	(655)
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>					
Cash was provided for (applied to)					
Loans advanced		-	16,514	-	16,514
Loans repaid		(1,151)	(16,817)	(1,091)	(16,856)
Net cash flow from financing activities		(1,151)	(303)	(1,091)	(342)
Net increase (decrease) in cash held		197	(1,869)	256	(1,928)
Cash and cash equivalents/(Bank overdraft) at beginning of year		(1,596)	273	(1,655)	273
Cash and cash equivalents/(Bank overdraft) at end of year		(1,596)	(1,596)	(1,399)	(1,655)
Comprising: Cash and cash equivalents					
Bank overdraft	14	(1,399)	(1,596)	(1,399)	(1,655)
		(1,399)	(1,596)	(1,399)	(1,655)

These financial statements should be read in conjunction with the Notes to the financial statements on pages 17 to 52.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

### 1. REPORTING ENTITY

The New Zealand Wine Company Limited ("the Company", the "Parent") is a company domiciled in New Zealand, registered under the Companies Act 1993 and listed on the NZAX Board of the New Zealand Stock Exchange ("NZX"). The Company is an issuer in terms of the Financial Reporting Act 1993. The Company is an integrated wine company producing table wines with the marketing and sales of premium wines in New Zealand and various export markets.

### 2. SUMMARY OF ACCOUNTING POLICIES

The financial statements of The New Zealand Wine Company Limited ("the Company") and its subsidiaries and controlled entities (together referred to as "the Group") have been prepared in accordance with generally accepted accounting practice in New Zealand ("NZ GAAP") and the requirements of the Companies Act 1993 and the Financial Reporting Act 1993. The Company is a profit-oriented company incorporated in New Zealand with its registered office at 13 Waihopai Valley Road, Renwick, Marlborough, New Zealand.

#### 2.1 STATEMENT OF COMPLIANCE

The Company is a reporting entity for the purpose of the Financial Reporting Act 1993 and its financial statements comply with that Act.

The financial statements comply with New Zealand equivalents to International Financial Reporting Standards ('NZ IFRS') and other applicable Financial Reporting Standards as appropriate for profit-oriented entities. The financial statements comply with International Financial Reporting Standards ("IFRSs").

The financial statements were authorised for issue by the Directors on 24 August 2012.

#### 2.2 BASIS FOR PREPARATION

The financial statements have been prepared on the historical cost basis except for land and buildings, biological assets and derivative financial instruments each of which have been measured at fair value. Accrual accounting is used to recognise revenue and expenses. The reporting currency is New Zealand dollars and all values are rounded to the nearest thousand dollars (\$'000).

#### **Judgements, Estimates and Assumptions and Accounting Policies**

In the application of NZ IFRS the Directors are required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgements. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The significant areas of estimation, assumptions and critical judgements made in the preparation of these financial statements are as follows:

##### (a) *Going Concern Basis*

In the current year, the Company and Group incurred a loss of \$5,658,000 and \$5,330,000 respectively, and as at 30 June 2012 the Company and Group had a working capital deficiency of \$6,287,000 and \$6,287,000 respectively. As set out in Note 14, the Company has not complied with a number of Performance Covenants in several bi-monthly reporting periods during the year. The ANZ National Bank has deemed that the Performance of the Company has been satisfactory and has not declared an Event of Review as a result of these.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 30 JUNE 2012 (CONTINUED)

#### 2. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

##### 2.2 BASIS FOR PREPARATION (CONTINUED)

##### **Judgements, Estimates and Assumptions and Accounting Policies (Continued)**

(a) *Going Concern Basis (continued)*

Following the PricewaterhouseCoopers Independent Review conducted at the request of the ANZ National Bank the Company entered into a commitment to ANZ National Bank in December 2011 that it would undertake a capital raising process for a minimum of \$5 million to reduce Bank debt and that it would achieve that outcome by an anticipated completion date of 30 June 2012. The Bank has confirmed that the conditional Merger Agreement entered into with Foley Family Wines NZ Ltd which was announced on 28 June 2012 satisfies the Banks requirement for progress on the Company's undertaking to reduce its Bank debt by \$5 million. The ANZ National Bank have confirmed facilities remain in place either until 31 October 2012, the Merger is completed or these facilities are re-negotiated. Due to this process all ANZ National Bank loans have been classified as current liabilities as at 30 June 2012.

The financial statements have been prepared on a going concern basis, based on receipt of a committed letter of offer for new loan facilities for the Company by Bank of New Zealand subsequent to balance date (refer note 32).

(b) *Fair Value of Agricultural Assets*

The fair value of grape vines is determined by an independent Valuer. The fair value of vineyards, including land, grapes vines and other vineyard infrastructure were determined under the principle of highest and best use at balance date. Fair value is the amount for which the assets could have been exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction as at the valuation date.

Fair value is determined by direct reference to recent market transactions on arm's length terms for vineyards comparable in size, location and varietal mix to those held by the Group. The fair value of land and other vineyard infrastructure is deducted from the fair value of vineyards, to determine the fair value of grape vines as shown above. The Directors consider that an active market exists to support this basis of valuation.

(c) *Fair Value of Grapes at the Point of Harvest*

The fair value of grapes at the point of harvest is determined by reference to market prices for each variety of grape grown in the local area at the time of harvest. The Directors' assessment of the fair value at the point of harvest is determined after reviewing the market price paid to independent grape growers including reference to New Zealand Winegrowers annual Grape Price Data.

(d) *Determination of Lease Accounting*

The Group has entered into long-term vineyard leases which allow the Group to control the growing and harvesting of the grapes used in the production of finished product. After taking into consideration the terms and conditions within the leases, it is believed that the lessor retains the significant risks and rewards of ownership and the leases are accordingly classified as operating leases.

(e) *Impairment of Assets other than Goodwill*

The Group assesses impairment of all assets at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. If an impairment trigger exists the recoverable amount of the asset is determined. Given the current uncertain economic environment and industry challenges, management considered that the indications of impairment were significant enough to test the Group's inventories and trade and other receivables for impairment in this (and the prior) reporting period and the Parent's investments in this reporting period.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 30 JUNE 2012 (CONTINUED)

#### 2. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

##### 2.2 BASIS FOR PREPARATION (CONTINUED)

##### **Judgements, Estimates and Assumptions and Accounting Policies (Continued)**

(e) *Impairment of Assets other than Goodwill (continued)*

In relation to inventories the recoverable amount, or net realisable value, represents the estimated selling price in the ordinary course of business, less estimated costs of completion and estimated costs to be incurred in the marketing, selling and distribution. Following this review an additional Impairment of inventory of \$55,000 has been made in the current year (Group & Parent 2011: \$247,000).

In relation to trade and other receivables the recoverable amount of each trade receivable balance is determined after taking into consideration the period that has elapsed since the debt fell due and any other factors that are known regarding the customers financial stability. The Group has reviewed all trade receivable balances at balance date and has recorded an Impairment of Trade Receivables of \$308,000 for the Group and \$464,000 for the Parent in the current year (2011: Group \$26,000 & Parent \$923,000).

In relation to investments the recoverable amount of each investment is determined by the higher of fair value less costs to sell and value in use. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. The Parent has reviewed all investments at balance date and has recorded an Impairment of Investments of \$114,000 relating to its investment in The New Zealand Wine Company (USA) Inc. in the current year (2011: Nil). The New Zealand Wine Company (USA) Inc investment in Lineage Imports LLC has failed to deliver the cash flows required to enable this investment to be recovered.

(f) *Impairment of Goodwill*

The Group determines at least annually whether goodwill and intangible assets are impaired. This requires an estimation of the recoverable amount of the cash generating units to which the goodwill and intangible asset was allocated. The calculation of the recoverable amount of the cash generating unit involves assumptions to be made in terms of the timing and extent of net cash flows expected to arise from the cash generating unit and the selection of an appropriate discount rate in order to determine the present value. The Group has reviewed the recoverable amount in relation to the 66% membership interest held in Lineage Imports LLC and has made an Impairment of Goodwill of \$Nil in the current year (Group 2011: \$640,000).

The Directors continually review all accounting policies and areas of judgement in presenting the financial statements.

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported. A summary of significant accounting policies and are disclosed in section 2.3.

#### 2.3 SIGNIFICANT ACCOUNTING POLICIES

The following significant accounting policies have been adopted in the preparation and presentation of the financial statements:

##### 2.3.1 REVENUE RECOGNITION

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 30 JUNE 2012 (CONTINUED)

#### 2. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

##### 2.3.1 REVENUE RECOGNITION (CONTINUED)

(a) *Sale of goods*

Revenue is recognised when the significant risk and rewards of ownership of the goods have been passed to the buyer and the revenue can be measured reliably. Risks and rewards are considered passed to the buyer at the time of delivery of the goods to the customer or at the free on board (FOB) port/delivery point or as otherwise contractually determined.

(b) *Rendering of services*

Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract at the end of the reporting period.

(c) *Interest revenue*

Revenue is recognised as the interest accrues (using the effective interest method which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset).

##### 2.3.2 BORROWING COSTS

Borrowing costs are recognised as an expense when incurred except to the extent that they are directly attributable to the acquisition, construction or production of a qualifying asset.

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset will be capitalised as part of the cost of that asset.

##### 2.3.3 IMPAIRMENT OF ASSETS OTHER THAN GOODWILL

At each reporting date, the Group reviews the carrying value of its tangible and intangible assets and assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists or when annual impairment testing for an asset is required, the Group makes a formal assessment of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered to be impaired and is written down to its recoverable amount.

Impairment losses are recognised in the current period profit or loss, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease only to the extent that there are sufficient previous reserves.

Financial assets, other than those "at fair value through profit or loss" (FVTPL), are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected. The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 30 JUNE 2012 (CONTINUED)

#### 2. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

##### 2.3.4 CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash on hand, cash at bank and investments on call or in short-term deposits with an initial maturity of three months or less.

For the purposes of the cash flow statement, cash and cash equivalents includes cash on hand, demand deposits and short-term, highly liquid investments that are readily convertible into known amounts of cash and includes at call borrowings such as bank overdrafts, used by the Group as part of its day-to-day cash management.

Bank overdrafts are shown within loans and borrowings in current liabilities in the Statement of Financial Position.

##### 2.3.5 TRADE AND OTHER RECEIVABLES

Trade receivables are recognised and carried at original invoice amount less an allowance for uncollectible amounts. An estimate of doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off during the year in which they are identified.

Other receivables are initially recognised at fair value of the consideration received or receivable. Other receivables are classified as current assets unless the balances are expected to settle at least 12 months after balance date, in which case they are classified as non-current other receivables. Subsequent measurement of other non-current receivables occurs at amortised cost, where the nominal value is discounted to present value, using the effective interest rate of the asset over the expected period of settlement.

##### 2.3.6 INVENTORIES

All inventories are valued at the lower of cost or deemed cost and net realisable value. Cost is calculated on an average cost basis. Inventory costs include a systematic allocation of appropriate production overheads that relate to putting inventories in their present location and condition but exclude borrowing costs. The allocation of production overheads is based on the normal capacity of the production facilities.

The deemed cost for the Group's agricultural produce (grapes) is fair value at harvest date less estimated point-of-sale costs in accordance with NZ IAS 41 'Agriculture'.

Net realisable value represents the estimated selling price in the ordinary course of business, less estimated costs of completion and estimated costs to be incurred in the marketing, selling and distribution.

##### 2.3.7 INVESTMENTS IN SUBSIDIARIES

Non-current investments are valued at cost less any impairment.

##### 2.3.8 LEASES

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Operating lease payments are recognised as an expense in profit or loss on a systematic basis that is representative of the time pattern of the benefit to the Group.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 30 JUNE 2012 (CONTINUED)

#### 2. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

##### 2.3.9 AGRICULTURE (BIOLOGICAL ASSETS)

Agriculture comprises grape vines (bearer biological asset) which are valued on initial recognition and at each balance date at fair value less estimated point of sale costs. Any changes in the fair value during the period are recognised in profit or loss.

All costs incurred in deriving produce from the current years harvest or maintaining agricultural assets are recognised as expenses in profit or loss. Costs incurred in deriving produce from a future harvest are treated as work in progress in inventories.

The fair value of picked grapes (agricultural produce or "consumable biological asset") less estimated point-of-sale costs is recognised in profit or loss as gain/loss on harvested grapes in the period of harvest. The fair value of grapes is determined by reference to market prices for grapes in the local area, at the time of harvest. This becomes the deemed "cost" for inventory valuation purposes.

The fair value of grape vines (bearer biological asset) on initial recognition is determined with reference to independent valuations of vineyards. Subsequent movements in the fair values of vines in commercial production are determined by valuations which take into account operational reviews of the vineyard portfolio which identify, where applicable, any factors affecting the long term viability and value of vines in use or the current market value of similar relevant properties recently exchanged in the open market. The directors use an independent valuer where appropriate for these purposes.

##### 2.3.10 PROPERTY, PLANT AND EQUIPMENT

Land, land improvements and buildings are valued at fair value less accumulated depreciation. Land is not depreciated. Fair value is determined on the basis of an independent valuation prepared by external valuation experts annually. The fair values are recognised in the financial statements and are reviewed at the end of each reporting period to ensure that the carrying value is not materially different from their fair value. Fair value is determined by reference to market-based evidence, which is the amount for which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction as at the valuation date. Any subsequent acquisitions since the last revaluation are recorded at cost less accumulated depreciation and impairment losses.

Land improvements include all costs incurred in planting and developing vineyards including direct material, direct labour and an allocation of overhead and financing costs. These are not depreciated until the integrated vineyard asset reaches full commercial production which is typically three years after planting.

Revaluation increases are taken directly to the revaluation reserve except to the extent that they reverse a previous revaluation decrease of the same asset that was recognised as an expense in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously charged. Decreases in value are debited directly to the revaluation reserve to the extent that they reverse previous surpluses of the same asset and are otherwise recognised as expenses in profit or loss.

All other items of property, plant and equipment are recorded on the cost basis less accumulated depreciation and impairment losses.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Resulting impairment losses are recognised as an expense in profit or loss.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 30 JUNE 2012 (CONTINUED)

#### 2. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

##### 2.3.10 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

All items of property, plant and equipment other than land, are depreciated on a straight line basis at rates which will write off their cost or revalued amount less estimated residual value over their expected useful lives. The estimated useful lives, residual values and depreciation methods are reviewed at the end of each annual reporting period. The depreciation rates used for each class of assets are as follows:

Buildings and land improvements	2% pa
Winery equipment	5% pa
Vineyard equipment and Fixtures & fittings	10% pa
Motor vehicles	20% pa
Computer equipment	33% pa

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period the asset is derecognised.

##### 2.3.11 INTANGIBLE ASSETS

Purchased identifiable intangible assets, comprising trademarks, are shown at cost and amortised on a straight line basis over their estimated useful finite lives. The useful life of trademarks is estimated to be 7 years. The carrying values of identifiable intangible assets are reviewed for any impairment where an indicator of impairment exists. Useful lives are reviewed on an annual basis.

Intangible assets acquired in a business combination and recognised separately from goodwill, such as brands acquired, are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from de-recognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

##### 2.3.12 PAYABLES

Trade payables and other accounts payable are recognised when the Group becomes obliged to make future payments resulting from the purchase of goods and services.

##### 2.3.13 LOANS AND BORROWINGS

Borrowings are initially recorded at fair value of the consideration received, net of issue costs directly associated with the borrowing.

After initial recognition, borrowings are subsequently measured at amortised cost, which present values the borrowing using the effective interest rate method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on issuance. Any difference between the initial recognised amount and the amortised cost is recognised in profit or loss.



## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 30 JUNE 2012 (CONTINUED)

#### 2. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

##### 2.3.14 EMPLOYEE BENEFITS

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of employee benefits expected to be settled within 12 months are measured at their nominal values using the remuneration rate expected to apply at the time of settlement. Provisions made in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to reporting date.

Liabilities for short term bonus plans are recognised where there is a contractual or constructive obligation and accrued on an undiscounted basis.

##### 2.3.15 SHARE-BASED PAYMENTS

The Company provides benefits to employees in the form of share-based payment transactions, whereby employees render services in exchange for share options and rights over shares ('equity-settled transactions').

The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of shares that will eventually vest.

##### 2.3.16 FOREIGN CURRENCIES

In preparing the financial statements of each individual group entity, all transactions denominated in a currency other than the entity's functional currency (foreign currencies) occurring during the financial year are translated into the functional currency using the exchange rate in effect at the date of the transaction. Monetary items receivable or payable in a foreign currency are translated at the exchange rate existing at balance date. Foreign exchange gains or losses resulting from the settlement of transactions and from the translation at balance date are recognised in profit or loss in the period in which they arise.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into New Zealand dollars using exchange rates prevailing at balance date. Income and expense items are translated at the average exchange rates for each month during the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences relating to the translation of the results and net assets of the Group's foreign operations from their functional currencies to the Group's presentation currency (i.e. New Zealand dollars) are recognised directly in other comprehensive income and accumulated in the foreign currency translation reserve. Exchange differences previously accumulated in the foreign currency translation reserve are reclassified to profit or loss on the disposal of the foreign operation.

Goodwill and fair value adjustments on identifiable assets and liabilities acquired arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at balance date. Exchange differences arising are recognised in the foreign currency translation reserve which forms part of total equity.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 30 JUNE 2012 (CONTINUED)

#### 2. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

##### 2.3.17 INCOME TAX

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or loss for the year. It is calculated using the tax rates and tax laws that have been enacted or substantively enacted by the reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable) at the reporting date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax base of those items.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets or liabilities which affects neither taxable income nor accounting profit. Furthermore, a deferred liability is not recognised in relation to taxable temporary differences arising from goodwill.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the consolidated entity expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities. Adjusted net tangible assets per share (note 25) exclude any deferred tax liabilities which at balance date do not crystallise as a liability under current income tax legislation. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the company intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax is recognised as an expense or income in profit or loss, except when it relates to items credited or debited directly to equity or in other comprehensive income, in which case the deferred tax or current tax is also recognised directly in equity or in other comprehensive income.

##### 2.3.18 GOODS AND SERVICES TAX

Revenues, expenses, assets and liabilities are recognised net of the amount of goods and services tax (GST), except for receivables and payables which are recognised inclusive of GST, where invoiced.

Cash flows are included in the statement of cash flows on a gross basis.

##### 2.3.19 DERIVATIVE FINANCIAL INSTRUMENTS

The Group uses derivative financial instruments including forward exchange contracts, option contracts and interest rate swaps for the primary purpose of reducing its exposure to fluctuations in foreign currency exchange rates and interest rates.

Derivatives are initially recognised at fair value on the date the derivative contract is entered into (the trade date) and are subsequently re-measured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event, the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

The Group has not adopted hedge accounting during the year. All derivative financial instruments are treated as held for trading and changes in their fair value are recognised immediately in profit or loss.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 30 JUNE 2012 (CONTINUED)

#### 2. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

##### 2.3.19 DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

The fair value of forward exchange contracts, foreign exchange option contracts and interest rate swaps are based on market values of equivalent instruments at the reporting date. These are based on discounted cash flows using market inputs.

##### 2.3.20 FINANCIAL INSTRUMENTS ISSUED BY THE GROUP

###### *Debt and equity instruments*

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual agreement.

###### *Transaction costs on the issue of equity instruments*

Transaction costs arising on the issue of equity instruments are recognised directly in equity as a reduction of the proceeds of the equity instruments to which the costs relate. Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and which would not have been incurred had those instruments not been issued.

###### *Interest and dividends*

Interest and dividends are classified as expenses or as distributions of profit consistent with the Statement of Financial Position classification of the related debt or equity instruments or component parts of compound instruments.

##### 2.3.21 STATEMENT OF CASH FLOWS

The cash flow statement is prepared inclusive of GST for the Parent Company.

Definitions of the terms used in the statement of cash flows are:

"Cash and cash equivalents" includes cash on hand, demand deposits and short-term, highly liquid investments that are readily convertible into known amounts of cash and includes at call borrowings such as bank overdrafts, used by the Group as part of its day-to-day cash management.

"Investing activities" are those activities relating to the acquisition and disposal of current and non-current investments, and any other non-current assets, and includes dividends received.

"Financing activities" are those activities relating to changes in equity and debt capital structure of the Group and dividends paid on the Company's equity capital.

"Operating activities" include all transactions and other events that are not investing or financing activities.

##### 2.3.22 SEGMENT REPORTING

The Group adopted NZ IFRS 8 *Operating Segments*, with effect from 1 July 2009. NZ IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 30 JUNE 2012 (CONTINUED)

#### 2. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

##### 2.3.23 GOVERNMENT GRANTS

Government grants are recognised when there is reasonable assurance that they will be received and that the Group will comply with the conditions associated with the grant. Government grants that compensate the Group for expenses incurred are recognised in profit or loss on a systematic basis in the same periods in which the expenses are recognised.

##### 2.3.24 BUSINESS COMBINATIONS

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

##### 2.3.25 JOINTLY CONTROLLED ENTITIES

Joint venture arrangements that involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities. The Group reports its interest in jointly controlled entities using proportionate consolidation. The Group's share of the assets, liabilities, income and expenses of jointly controlled entities are combined with the equivalent items in the Group financial statements on a line-by-line basis.

Any goodwill arising on the acquisition of the Group's interest in a jointly controlled entity is accounted for in accordance with the Group's accounting policy for goodwill arising on the acquisition of a subsidiary (see 2.3.26 below).

Where the Group transacts with its jointly controlled entities, unrealised profits and losses are eliminated to the extent of the Group's interest in the joint venture.

##### 2.3.26 GOODWILL

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see 2.3.24 above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated income statement. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 30 JUNE 2012 (CONTINUED)

#### 2. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

##### 2.3.27 CHANGES IN ACCOUNTING POLICIES

There have been no changes in accounting policies during the year.

##### 2.3.28 ADOPTION STATUS ON RELEVANT FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS

###### 2.3.28.1 Standards and interpretations effective in the current year

The following Standards and Amendments to NZ IFRS, which are relevant to the Group's financial statements, and became effective mandatorily for the annual periods beginning on or after 1 July 2011, have not and will not lead to any change in the Group's accounting policies with measurement or recognition impact on the period presented in these financial statements:

- *Improvements to NZ IFRSs* issued in 2010.
- Amendments to NZ IAS 24 *Related Party Disclosures* – mandatory for annual periods beginning on or after 1 January 2011.
- Amendments to NZ IFRS 7: *Disclosures – Transfer of Assets* – mandatory for annual periods beginning on or after 1 July 2011.
- Amendments to NZ IFRS to Harmonise with International Financial Reporting Standards and Australian Accounting Standards – mandatory for annual periods beginning on or after 1 July 2011.
- FRS 44 *NZ Additional Disclosures* – mandatory for annual periods beginning on or after 1 July 2011.

###### 2.3.28.2 Standards and interpretations effective in future periods

Certain new Standards, Interpretations and Amendments to existing standards have been published that are mandatory for later periods and which the Group has not early adopted. The key items include:

- Amendments to NZ IAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets* – mandatory for annual periods beginning on or after 1 January 2012.
- NZ IFRS 9 *Financial Instruments* – New Standard issued November 2009 and revised October 2010 – mandatory for annual periods beginning on or after 1 January 2015.
- NZ IFRS 10 *Consolidated Financial Statements*, NZ IAS 27 *Separate Financial Statements (revised 2011)* and NZ IAS 28 *Investments in Associates and Joint Ventures (revised 2011)* – NZ IFRS 10 replaces NZ IAS 27 *Consolidated and Separate Financial Statements* and NZ SIC-12 *Consolidation – Special Purpose Entities* and has been issued concurrently with NZ IFRS 11 *Joint Ventures*, NZ IFRS 12 *Disclosure of Interests in Other Entities*, NZ IAS 27 *Separate Financial Statements (revised 2011)* and NZ IAS 28 *Investments in Associates and Joint Ventures (revised 2011)*. Each of the Standards in this "package of five" has an effective date for annual periods beginning on or after 1 January 2013.
- NZ IFRS 13 *Fair Value Measurement* – mandatory for annual periods beginning on or after 1 January 2013.
- Amendments to NZ IAS 1 *Presentation of Financial Statements* – Presentation of Items of Other Comprehensive Income – mandatory for annual periods beginning on or after 1 July 2012.
- Amendments to NZ IAS 19 *Employee Benefits* – mandatory for annual periods beginning on or after 1 January 2013.
- Amendments to NZ IFRS 7: *Disclosures – Offsetting Financial Assets and Financial Liabilities* – mandatory for annual periods beginning on or after 1 January 2013.
- Various - Improvements to IFRSs: 2009-2011 Cycle – mandatory for annual periods beginning on or after 1 January 2013.
- Amendments to NZ IAS 32 *Financial Instruments: Presentation* Offsetting Financial Assets and Financial Liabilities – mandatory for annual periods beginning on or after 1 January 2014.

The adoption of these standards is not expected to have a material financial impact on the financial statements of the Group but may affect disclosure.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012 (CONTINUED)

### 2. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

#### 2.4 BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated Income Statement and Statement of Comprehensive Income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Group 2012 \$'000	Group 2011 \$'000	Parent 2012 \$'000	Parent 2011 \$'000
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### 3. PROFIT/(LOSS) FOR THE YEAR

Included in profit/(loss) before income tax for the year are the following:

#### REVENUE:

Sales revenue	12,883	11,158	12,886	11,205
Net foreign exchange gains/(losses) on contract close outs	634	-	634	-
<b>Total revenue</b>	<b>13,517</b>	<b>11,158</b>	<b>13,520</b>	<b>11,205</b>

#### EXPENSES:

Amortisation	4	3	4	3
Bad debts	-	1	-	1
Depreciation*	24	24	23	24
Directors' fees	159	159	159	159
Employee benefits expense:				
- Short-term employee benefits	2,428	2,571	2,428	2,387
Fees paid to auditors:				
- Audit of the financial statements	64	36	64	36
- For other services	-	-	-	-
Operating lease rentals**	91	124	91	106

\* Total depreciation on property, plant and equipment totalled \$552,000 (2011: \$570,000). \$529,000 has been applied to inventories (2011: \$546,000).

\*\* Total operating lease rentals totalled Group \$591,000 Parent \$591,000 (2011: Group \$700,000 Parent \$682,000). \$500,000 has been applied to inventories (2011: \$576,000).

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012 (CONTINUED)

	Group 2012 \$'000	Group 2011 \$'000	Parent 2012 \$'000	Parent 2011 \$'000
<b>4. NON-RECURRING EXPENSES</b>				
Included in non-recurring expenses for the year are the following:				
Bank review costs	102	-	102	-
Restructuring costs	171	-	171	-
Merger expenses	744	-	744	-
	1,017	-	1,017	-

	Weighted average capitalisation rate 2012	Weighted average capitalisation rate 2011	Group 2012 \$000	Group 2011 \$000	Parent 2012 \$000	Parent 2011 \$000
<b>5. INTEREST EXPENSE</b>						
Loan interest and other costs of finance paid			1,352	1,169	1,352	1,168
Less: Interest capitalised/included in cost of grapes (inventories)	5.40%	6.38%	(267)	(283)	(267)	(283)
			1,085	886	1,085	885

### 6. INCOME TAX

#### 6.1 INCOME TAX RECOGNISED IN PROFIT/(LOSS)

Tax expense comprises:

Current tax expense/(benefit) – current year	-	96	-	96
Current tax expense/(benefit) – adjustment to prior year	-	(9)	-	(9)
Current tax expense/(benefit)	-	87	-	87
Deferred tax expense/(benefit) – origination & reversal of temporary differences	(1,421)	(921)	(1,421)	(921)
Deferred tax expense/(benefit) – change in company income tax rate to 28%	-	-	-	-
Deferred tax expense/(benefit)	(1,421)	(921)	(1,421)	(921)
Total income tax expense/(benefit)	(1,421)	(834)	(1,421)	(834)
Income tax expense – deferred tax expense – unused tax losses *	1,323	-	1,323	-
<i>Total deferred tax expense/(benefit)</i>	(98)	(921)	(98)	(921)
Reconciliation of income tax expense/(benefit):				
Profit/(loss) before income tax	(5,572)	(4,155)	(5,756)	(3,827)
Offshore losses not recognised	(184)	(328)	-	-
	(5,756)	(3,827)	(5,756)	(3,827)
Income taxation expense calculated at current rate of 28% (2011: 30%)	(1,612)	(1,148)	(1,612)	(1,148)
Non-deductible expenses	153	256	153	256
Other	38	58	38	58
Income tax expense/(benefit) as reported	(1,421)	(834)	(1,421)	(834)

\* The "income tax expense – deferred tax expense – unused tax losses" adjustment of \$1,323,000 for 2012 resulted from the de-recognition of the future income tax benefit of unused tax losses as a result of the proposed merger (refer note 32).

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012 (CONTINUED)

### 6. INCOME TAX (CONTINUED)

Group 2012 \$'000	Group 2011 \$'000	Parent 2012 \$'000	Parent 2011 \$'000
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#### 6.2 INCOME TAX RECOGNISED DIRECTLY IN OTHER COMPREHENSIVE INCOME

The following current and deferred amounts were charged/(credited) directly to other comprehensive income during the year:

Deferred tax: Revaluation of property, plant and equipment	(28)	(49)	(28)	(49)
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#### 6.3 CURRENT TAX ASSETS AND LIABILITIES

Current tax assets: Tax refund receivable	89	88	89	88
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#### 6.4 DEFERRED TAX BALANCES

Deferred tax liabilities comprise: Temporary differences	2,391	2,517	2,391	2,517
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Taxable and deductible temporary differences arise from the following:

	Balance Sheet				Income Statement			
	Group 2012 \$'000	Group 2011 \$'000	Parent 2012 \$'000	Parent 2011 \$'000	Group 2012 \$'000	Group 2011 \$'000	Parent 2012 \$'000	Parent 2011 \$'000
	<b>(i) Deferred tax liabilities</b>							
Fair value buildings and land improvements (incl. depreciation)	2,245	2,310	2,245	2,310	(35)	35	(35)	35
Accelerated depreciation: plant and equipment; motor vehicles	265	268	265	268	(3)	5	(3)	5
Fair value biological assets (value-in-use deferred tax)	417	526	417	526	(109)	(133)	(109)	(133)
Fair value through profit or loss financial assets/liabilities	-	237	-	237	-	(402)	-	(402)
Other	58	85	58	85	(27)	29	(27)	29
Gross deferred tax liabilities	2,985	3,426	2,985	3,426	(176)	(466)	(176)	(466)
<b>(ii) Deferred tax assets</b>								
Inventories	(320)	(205)	(320)	(205)	(115)	212	(115)	212
Annual, sick leave and employee entitlements accruals	(71)	(39)	(71)	(39)	(32)	(2)	(32)	(2)
Fair value through profit or loss financial assets/liabilities	(203)	-	(203)	-	(440)	-	(440)	-
Unused tax losses	-	(665)	-	(665)	665	(665)	665	(665)
Gross deferred tax assets	(594)	(909)	(594)	(909)	78	(455)	78	(455)
Net deferred tax liabilities	2,391	2,517	2,391	2,517	(98)	(921)	(98)	(921)

Deferred tax expense/(income)

At 30 June 2012, taxable temporary differences that are unrecognised tax losses that are associated with the Group's investments in subsidiaries totalled \$184,000 (2011: \$328,000).



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012 (CONTINUED)

6.5 IMPUTATION CREDITS	Group 2012 \$'000	Group 2011 \$'000	Parent 2012 \$'000	Parent 2011 \$'000
Balance at beginning of the year	2	92	2	92
Taxation paid/(refunded)	(2)	(90)	(2)	(90)
Attached to dividends paid	-	-	-	-
Balance at end of the year	-	2	-	2

### 7. EARNINGS PER SHARE

	Group 2012 cents per shares	Group 2011 cents per shares	Parent 2012 cents per shares	Parent 2011 cents per shares
Basic Earnings per share	(61.4)	(36.6)	(65.2)	(34.5)

The calculation of basic earnings per share in respect of 2012 is based on profit/(loss) of Group \$(5,330,000), Parent \$(5,658,000) (2011: Group \$(3,177,000), Parent \$(2,993,000)) and the weighted average of 8,677,199 ordinary shares on issue during the year (2011 8,677,199).

	Group 2012 cents per shares	Group 2011 cents per shares	Parent 2012 cents per shares	Parent 2011 cents per shares
Diluted Earnings per share	(61.4)	(36.5)	(65.2)	(34.4)

The calculation of diluted earnings per share in respect of 2012 is based on profit/(loss) of Group \$(5,330,000), Parent \$(5,658,000) (2011: Group \$(3,177,000), Parent \$(2,993,000)) and the weighted average of 8,677,199 ordinary shares on issue during the year (2011 8,709,399).

The weighted average number of ordinary shares for the purposes of diluted earnings per share reconciles to the weighted average number of ordinary shares used in the calculation of basic earnings per share as follows:

	2012 Number of shares	2011 Number of shares
Weighted average number of ordinary shares (Basic)	8,677,199	8,677,199
Share options outstanding at year end	-	32,200
Weighted average number of ordinary shares (Diluted)	8,677,199	8,709,399

### 8. DISTRIBUTION TO OWNERS

The Company did not declare or pay any dividends during the year (2011: nil).

No final dividend for the financial year has been declared and included in these financial statements.

	Parent & Group 2012 Number of shares issued	Parent & Group 2011 Number of shares issued	Group 2012 \$'000	Group 2011 \$'000	Parent 2012 \$'000	Parent 2011 \$'000
<b>9. SHARE CAPITAL</b>						
<b>FULLY PAID UP ORDINARY SHARES</b>						
Balance at beginning of financial year	8,677,199	8,677,199	9,619	9,619	9,619	9,619
Transfer from employee equity-settled benefits reserve			-	-	-	-
Balance at end of financial year	8,677,199	8,677,199	9,619	9,619	9,619	9,619

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 30 JUNE 2012 (CONTINUED)

#### 9. SHARE CAPITAL (CONTINUED)

The Company has only one class of shares and all shares have the same voting rights and share equally in surpluses on winding up. The shares have no par value.

The Company did not issue any shares during the year (2011: nil).

#### 10. SHARE-BASED PAYMENTS

##### SHARE OPTION SCHEME

An employee share option scheme was established by the Company in February 2001 for eligible employees to help align incentives with the Company's quoted share price. The Company restricts issue of options to the criteria in the NZX-NZAX Listing Rules whereby during a 12 month period the maximum number of options and ordinary shares issued to employees, excluding any authorised by separate shareholder resolution, is 3% of the total number of ordinary shares on issue at the commencement of that period and during the period of 5 years from the date of issue a maximum of 7% of the total number of ordinary shares immediately preceding the date of issue. The issue term is for a maximum of 5 years. They may be redeemed after October of each year on a phased basis of up to a maximum of one-third cumulative each year. Options will be adjusted on redemption as to exercise price for any bonus issues and as to volume for any share split or consolidations since the date of issue. Until exercised the options have no voting, dividend or other rights. Shares issued pursuant to the options will rank *pari passu* with shares already issued except they will not rank for dividends attaching to shares by reference to a record date falling prior to the date of issue. The options may not be sold or transferred and lapse on ceasing employment except in special circumstances at the discretion of the Directors such as retirement or death of the employee or on change in control of the Company. In the year ended 30 June 2012 the Board granted no options to acquire shares under the scheme (2011: nil).

	2012 Number of options	2012 Weighted average exercise price \$	2011 Number of options	2011 Weighted average exercise price \$
Balance at beginning of the financial year	32,200	\$2.20	66,067	\$2.07
Granted during the financial year	-	-	-	-
Forfeited during the financial year	-	-	-	-
Exercised during the financial year	-	-	-	-
Expired during the financial year	(32,200)	\$2.20	(33,867)	\$1.94
Balance at end of the financial year	-	-	32,200	\$2.20
Exercisable at the end of the financial year	-	-	32,200	\$2.20

The balance as at 30 June 2011 is represented by 32,200 options with an exercise price of \$2.20 each over ordinary shares exercisable until 1 October 2011, or two working days after the AGM for that year, whichever is the later.

The share options outstanding at the end of the financial year had a weighted average contractual life of nil months (2011: 3 months).

The weighted average share price at the date of exercise for options exercised during the year ended 30 June 2012 was \$nil (2011: \$nil).

The fair value of the equity-settled share options granted under the share option scheme is estimated at the date of grant using a binomial lattice model.

The expense recognised for the year for the employee share option scheme was \$nil (2011: \$nil).

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012 (CONTINUED)

	Group 2012 \$'000	Group 2011 \$'000	Parent 2012 \$'000	Parent 2011 \$'000
<b>11. RESERVES</b>				
<b>ASSET REVALUATION RESERVE</b>				
Balance at beginning of financial year	2,442	2,823	2,442	2,823
Revaluation increments/(decrements)	(130)	(430)	(130)	(430)
Deferred tax liability arising on revaluation (note 6.2)	28	49	28	49
Balance at end of financial year	<u>2,340</u>	<u>2,442</u>	<u>2,340</u>	<u>2,442</u>

The asset revaluation reserve arises on the revaluation of land, buildings and land improvements excluding biological assets. Where a revalued asset is sold that proportion of the asset revaluation reserve which relates to that asset, and is effectively realised, is transferred directly to retained earnings.

### FOREIGN CURRENCY TRANSLATION RESERVE

Balance at beginning of financial year	66	-	-	-
Translation gains/(losses)	(66)	66	-	-
Balance at end of financial year	<u>-</u>	<u>66</u>	<u>-</u>	<u>-</u>

### EMPLOYEE EQUITY-SETTLED BENEFITS RESERVE

Balance at beginning of financial year	10	16	10	16
Share-based payment	-	-	-	-
Transferred to retained earnings	(10)	(6)	(10)	(6)
Balance at end of financial year	<u>-</u>	<u>10</u>	<u>-</u>	<u>10</u>

The employee equity-settled benefits reserve arises on the grant of share options to employees under the share option scheme. Amounts are transferred to share capital when the options are exercised and retained earnings when the options lapse and are cancelled. Further information about share-based payments to employees is made in note 10 to the financial statements.

<b>TOTAL RESERVES</b>	<u>2,340</u>	<u>2,518</u>	<u>2,340</u>	<u>2,452</u>
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### 12. RETAINED EARNINGS

Balance at beginning of financial year	2,996	6,167	3,183	6,170
Loss for the year net of tax, attributable to Shareholders of the Parent Company	(5,474)	(3,177)	(5,658)	(2,993)
	<u>(2,478)</u>	<u>2,990</u>	<u>(2,475)</u>	<u>3,177</u>
Distributions to owners (note 8)	-	-	-	-
Transferred from employee equity-settled benefits reserve (note 11)	10	6	10	6
Balance at end of financial year	<u>(2,468)</u>	<u>2,996</u>	<u>(2,465)</u>	<u>3,183</u>

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012 (CONTINUED)

	Group 2012 \$'000	Group 2011 \$'000	Parent 2012 \$'000	Parent 2011 \$'000
<b>13. TRADE AND OTHER PAYABLES</b>				
Trade creditors	875	1,459	875	1,368
Employee entitlements	313	153	313	153
Other accruals	726	345	726	345
	1,914	1,957	1,914	1,866

### 14. LOANS AND BORROWINGS

	Interest Rate Review Date	Interest Rate Date	Expiry Date	Group 2012 \$'000	Group 2011 \$'000	Parent 2012 \$'000	Parent 2011 \$'000
At amortised cost:							
Bank Overdraft	5.96%- 8.09%pa		1/7/12	1,399	1,596	1,399	1,655
ANZ National Bank Term Loans	5.35%- 9.14%pa	30/7/12- 31/10/19	28/2/13- 30/11/17	14,507	15,598	14,507	15,598
Loans to Subsidiaries				-	-	18	18
Loans – A & R McBride				-	60	-	-
<b>TOTAL LOANS AND BORROWINGS</b>				15,906	17,254	15,924	17,271
Weighted average effective interest rate on ANZ National Bank Loans				5.41%	5.37%	5.41%	5.37%
Bank Overdraft				1,399	1,596	1,399	1,655
Loans due within 1 year				1,000	334	1,000	274
Loans due within 1 year – expected to be renegotiated				13,507	15,324	13,507	15,324
<b>Total current loans and borrowings</b>				15,906	17,254	15,906	17,253
Loans due 1 to 2 years				-	-	-	-
Loans due 2 to 5 years				-	-	-	-
Loans due after 5 years				-	-	18	18
<b>Total non-current loans and borrowings</b>				-	-	18	18
<b>Total loans and borrowings</b>				15,906	17,254	15,924	17,271

For loans covered by interest rate swap contracts (swaps) interest is charged on the underlying loan based on the 1 month floating rate. Interest rate swaps have been taken out by the Group to convert this floating interest rate obligation to a fixed interest rate obligation. Refer note 24 for further details of interest rate swap contracts.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012 (CONTINUED)

### 14. LOANS AND BORROWINGS (CONTINUED)

#### ANZ NATIONAL BANK FLEXIBLE CREDIT FACILITY (BANK OVERDRAFT)

The Company has a flexible credit facility of \$3.5 million on a 90-day rolling bill linked interest rate. The facility is a multi-currency facility that can be drawn at any time and is repayable upon demand from the bank. The facility is subject to annual review by the bank.

#### SECURITY

Loans and advances are secured by way of mortgage on land, buildings and vineyards and a floating charge over the Company's other personal property assets.

#### BANK COVENANTS

The Company complied with all of the financial covenants imposed by the ANZ National Bank during the year with the exception of several Performance Covenants in several bi-monthly reporting periods during the year. The ANZ National Bank has deemed that the Performance of the Company has been satisfactory and has not declared an Event of Review as a result of these. Following the PricewaterhouseCoopers Independent Review conducted at the request of the ANZ National Bank the Company entered into a commitment to ANZ National Bank in December 2011 that it would undertake a capital raising process for a minimum of \$5 million to reduce Bank debt and that it would achieve that outcome by an anticipated completion date of 30 June 2012. The Bank has confirmed that the conditional Merger Agreement entered into with Foley Family Wines NZ Ltd which was announced on 28 June 2012 satisfies the Banks requirement for progress on the Company's undertaking to reduce its Bank debt by \$5 million. The ANZ National Bank have confirmed facilities remain in place until the Merger is completed or these facilities are re-negotiated. Due to this process all ANZ National Bank loans have been classified as current liabilities as at 30 June 2012.

	Group 2012 \$'000	Group 2011 \$'000	Parent 2012 \$'000	Parent 2011 \$'000
<b>15. OTHER FINANCIAL ASSETS/(LIABILITIES)</b>				
At fair value:				
Foreign currency forward contracts	129	906	129	906
Foreign currency option contracts	-	48	-	48
Other financial assets – held for trading – Current	129	954	129	954
Foreign currency forward contracts	-	506	-	506
Other financial assets – held for trading – Non Current	-	506	-	506
<b>Other financial assets – held for trading – Total</b>	<b>129</b>	<b>1,460</b>	<b>129</b>	<b>1,460</b>
Interest rate swap contracts	(72)	(1)	(72)	(1)
Foreign currency option contracts	(1)	-	(1)	-
Other financial liabilities – held for trading - Current	(73)	(1)	(73)	(1)
Foreign currency forward contracts	(24)	-	(24)	-
Interest rate swap contracts	(759)	(613)	(759)	(613)
Other financial liabilities – held for trading – Non Current	(783)	(613)	(783)	(613)
<b>Other financial liabilities – held for trading – Total</b>	<b>(856)</b>	<b>(614)</b>	<b>(856)</b>	<b>(614)</b>

Derivative financial instruments are used by the Group in the normal course of business in order to hedge exposure to fluctuations in interest and foreign exchange rates. Refer note 24 for details of financial instruments used by the Group.

THE NEW ZEALAND WINE COMPANY  
LIMITED

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 30 JUNE 2012 (CONTINUED)**

	Group 2012 \$'000	Group 2011 \$'000	Parent 2012 \$'000	Parent 2011 \$'000
<b>16. TRADE AND OTHER RECEIVABLES</b>				
Trade receivables	2,667	2,212	2,667	2,709
Impairment of trade receivables	(387)	(26)	(387)	(114)
Other receivables	648	455	1,648	1,264
Impairment of other receivables	-	-	(1,000)	(809)
	2,928	2,641	2,928	3,050

The carrying amount disclosed above is a reasonable approximation of fair value. Trade receivables are non-interest bearing and are generally due the last working day of the month following invoice for domestic customers and 30-120 day terms for export customers.

Not Past Due	2,015	2,130	2,015	2,492
Past Due 1-30 days	1	56	1	41
Past Due 31-60 days	-	-	-	-
Past Due 61-90 days	-	-	-	150
Past Due > 91 days	651	26	651	26
	2,667	2,212	2,667	2,709

Trade receivables that are less than 90 days past due are generally not considered impaired. As of 30 June 2012 trade receivables of Group \$264,000 & Parent \$264,000 (2011: Group \$Nil & Parent \$62,000) were past due but not impaired. This balance relates substantially to Lineage Imports for which security is held over the inventory supplied.

Following an impairment review of trade receivables the Group and Parent have made an impairment of Group \$387,000, Parent \$387,000 for overdue accounts based on historical experience and the credit worthiness of the counterparty (2011: Group \$26,000, Parent \$114,000). The gross debt relating to the trade receivables which were considered to be impaired was \$574,000.

	Group 2012 \$'000	Group 2011 \$'000	Parent 2012 \$'000	Parent 2011 \$'000
<b>17. INVENTORIES</b>				
Raw materials	205	232	205	232
Consumable stores	84	94	84	94
Work in progress	6,199	9,169	6,199	9,169
Finished goods	1,920	3,584	1,920	3,238
Total inventories at lower of cost and net realisable value	8,408	13,079	8,408	12,733

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012 (CONTINUED)

### 18. PROPERTY, PLANT AND EQUIPMENT

	Freehold Land at Fair Value \$'000	Freehold Buildings at Fair Value \$'000	Land Improve- ments at Fair Value \$'000	Plant and Equip. at Cost \$'000	Motor Vehicles at Cost \$'000	Total \$'000
<b>Group and Parent</b>						
<b>Year ended 30 June 2012</b>						
At 1 July 2011, net of accumulated depreciation and impairment	3,375	3,641	2,752	4,050	85	13,903
Additions	-	-	195	200	-	395
Disposals	-	-	-	(4)	-	(4)
Revaluations	(30)	92	(192)	-	-	(130)
Impairment	-	-	-	-	-	-
Depreciation charge for the year	-	(73)	(59)	(398)	(22)	(552)
At 30 June 2012, net of accumulated depreciation and impairment	3,345	3,660	2,696	3,848	63	13,612
At 30 June 2012:						
Cost or fair value	3,345	3,660	2,696	7,439	468	17,608
Accumulated depreciation and impairment	-	-	-	(3,591)	(405)	(3,996)
Net carrying amount	3,345	3,660	2,696	3,848	63	13,612
<b>Group</b>						
<b>Year ended 30 June 2011</b>						
At 1 July 2010, net of accumulated depreciation and impairment	3,630	3,676	2,867	4,413	113	14,699
Additions	-	1	161	50	-	212
Disposals	-	-	-	(8)	-	(8)
Revaluations	(255)	37	(212)	-	-	(430)
Impairment	-	-	-	-	-	-
Depreciation charge for the year	-	(73)	(64)	(405)	(28)	(570)
At 30 June 2011, net of accumulated depreciation and impairment	3,375	3,641	2,752	4,050	85	13,903
At 30 June 2011:						
Cost or fair value	3,375	3,641	2,752	7,255	468	17,491
Accumulated depreciation and impairment	-	-	-	(3,205)	(383)	(3,588)
Net carrying amount	3,375	3,641	2,752	4,050	85	13,903
<b>Parent</b>						
<b>Year ended 30 June 2011</b>						
At 1 July 2010, net of accumulated depreciation and impairment	3,630	3,676	2,867	4,413	113	14,699
Additions	-	1	161	48	-	210
Disposals	-	-	-	(8)	-	(8)
Revaluations	(255)	37	(212)	-	-	(430)
Impairment	-	-	-	-	-	-
Depreciation charge for the year	-	(73)	(64)	(405)	(28)	(570)
At 30 June 2011, net of accumulated depreciation and impairment	3,375	3,641	2,752	4,048	85	13,901
At 30 June 2011:						
Cost or fair value	3,375	3,641	2,752	7,252	468	17,488
Accumulated depreciation and impairment	-	-	-	(3,204)	(383)	(3,587)
Net carrying amount	3,375	3,641	2,752	4,048	85	13,901

Commitments: At balance date the Group had no capital commitments (2011: nil).

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 30 JUNE 2012 (CONTINUED)

#### 18. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

##### Revaluation of Land, Buildings and Land Improvements

Land, buildings and land improvements shown at valuation were valued at fair value under the principle of highest and best use by Alexander Hayward Limited, registered independent valuers, on 30 June 2012 (2011: 30 June 2011). The valuations were completed by Dave Stark, FNZIV, FPINZ a registered valuer, in accordance with International Valuation Standard 2009 IVA 1 – valuation for financial reporting and IVGN 1 - valuation of real property. Fair value is the amount for which the assets could have been exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction as at the valuation date. Fair value is determined by direct reference to recent market transactions on arm's length terms for land, buildings and vineyards comparable in size, location and varietal mix to those held by the Group.

##### Revaluation of Plant and Equipment and Motor Vehicles

The Group's plant and equipment and motor vehicles were valued at fair value under the principle of in situ assessment of current market value to the ongoing business by Alexander Hayward Limited, registered independent valuers, on 23 May 2012. The valuations were completed by AC (Lex) Hayward, FNZIV, FPINZ a registered valuer, in accordance with International Valuation Standards which became mandatory from 1 January 2012. Fair value is the amount for which the assets could have been exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction as at the valuation date. This valuation which was as follows: Plant and Equipment \$4,660,000 and Motor Vehicles \$228,000, has not be recorded in these financial statements.

The sensitivity of the sales comparison approach used arises largely from the limited number of recent land sales.

	Group 2012 \$'000	Group 2011 \$'000	Parent 2012 \$'000	Parent 2011 \$'000
The carrying amount of land, buildings and land improvements had they been recognised under the cost model are as follows:				
Land	1,977	1,977	1,977	1,977
Buildings	3,540	3,532	3,540	3,533
Land Improvements (integrated vineyards asset including vines)	8,524	8,442	8,524	8,524

#### 19. BIOLOGICAL ASSETS

Biological assets consist of grape vines (bearer biological assets). The Company grows grapes to use in the production of wine, as part of normal operations. Vineyards are located in Marlborough, New Zealand. Grapes are harvested between March and May each year.

At 30 June 2012, the Company held approximately 292,000 grape vines planted on approximately 122 hectares of land owned or leased by the Company located in Marlborough in New Zealand (2011: 292,000 grape vines planted on 122 hectares of land). 112 hectares are currently in commercial production (2011: 112).

During the year ended 30 June 2012 the Company harvested 974 tonnes of grapes (2011: 1,645 tonnes).

	Group 2012 \$000	Group 2011 \$000	Parent 2012 \$000	Parent 2011 \$000
Carrying amount at 1 July	6,032	6,737	6,032	6,737
Gain/(loss) from changes to fair value of vines less estimated point of sale costs	(518)	(627)	(518)	(627)
Movement in vines	(195)	(78)	(195)	(78)
Carrying amount at 30 June	5,319	6,032	5,319	6,032



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012 (CONTINUED)

### 19. BIOLOGICAL ASSETS (CONTINUED)

The fair value less estimated point of sale costs of grape vines is determined by independent valuation at balance date. The fair value of vineyards, including land, grapes vines and other vineyard infrastructure were determined by Alexander Hayward Limited, registered independent valuers, under the principle of highest and best use on 30 June 2012 (2010: 30 June 2011). The valuations were completed by Dave Stark, FNZIV, FPINZ a registered valuer, in accordance with International Valuation Standard 2009 IVA 1 - valuation for financial reporting and IVGN 1 - valuation of real property. Fair value is the amount for which the assets could have been exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction as at the valuation date. Fair value is determined by direct reference to recent market transactions on arm's length terms for vineyards comparable in size, location and varietal mix to those held by the Company. The fair value of land and other vineyard infrastructure is deducted from the fair value of vineyards, to determine the fair value of grape vines as shown above.

The sensitivity of the sales comparison approach used arises largely from the limited number of recent land sales.

The Group is exposed to financial risks in respect of agricultural activity. The quality and quantity of the grape harvest is dependent on seasonal climatic factors such as rainfall, sunshine and temperature, including frosts. The Group manages this risk by diversifying its vineyards across the Marlborough region and through the use of windmills and helicopters for normal frost protection purposes.

	Group 2012 \$'000	Group 2011 \$'000	Parent 2012 \$'000	Parent 2011 \$'000
<b>20. INTANGIBLE ASSETS</b>				
<b>Trademarks</b>				
At 1 July, net of amortisation and impairment	20	22	20	22
Additions	5	1	5	1
Disposals	-	-	-	-
Impairment	-	-	-	-
Amortisation expense for the year	(4)	(3)	(4)	(3)
At 30 June, net of amortisation and impairment	21	20	21	20
Cost (gross carrying value)	67	84	67	84
Accumulated amortisation	(46)	(64)	(46)	(64)
Net carrying amount	21	20	21	20

Trademarks are carried at cost less accumulated amortisation and accumulated impairment losses. Trademarks have been assessed as having a finite life and are amortised using the straight line method over a period of 7 years. The amortisation has been recognised in the Income Statement in the line item 'Administrative expenses'. If an impairment indication arises, the recoverable amount is estimated and an impairment loss is recognised to the extent that the recoverable amount is lower than the carrying amount. The gross carrying amount in 2010 was \$84,000.

THE NEW ZEALAND WINE COMPANY  
LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012 (CONTINUED)

	Group 2012 \$'000	Group 2011 \$'000	Parent 2012 \$'000	Parent 2011 \$'000
<b>20. INTANGIBLE ASSETS (CONTINUED)</b>				
<b>Goodwill</b>				
At 1 July, net of impairment	-	-	-	-
Additional amounts recognised from business combinations occurring during the year (note 21)	-	640	-	-
Impairment losses recognised in the year	-	(640)	-	-
At 30 June, net of impairment	-	-	-	-
Cost (gross carrying value)	-	640	-	-
Accumulated impairment losses	-	(640)	-	-
Net carrying amount	-	-	-	-

Goodwill was recognised when The New Zealand Wine Company (USA) Inc acquired a 66% membership interest in Lineage Imports LLC on 1 January 2011. The goodwill arose substantially due to start-up and business establishment costs funded pre-acquisition. Due to the existence of an impairment indication at balance date an impairment of goodwill has been raised of \$640,000 (refer note 2.2 (f)). To date the entity has failed to achieve its projected revenues. With the challenging market place the Directors have fully impaired the goodwill.

### 21. INVESTMENTS

Parent's direct and ultimate investment in subsidiaries comprises shares at cost	-	-	134	129
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Investments in controlled entities are detailed in Note 28.

The New Zealand Wine Company (USA) Inc. purchased a 66% membership interest and voting rights in Lineage Imports LLC on 1 January 2011 to provide a direct import and distribution channel in the USA.

The acquisition date fair value of the total consideration transferred was \$US 20,000 (NZD\$26,000) paid in cash.

Under the acquisition method of accounting, the Group allocated the total purchase price of Lineage Imports LLC net tangible assets, based on their fair values as of 1 January 2011.

The New Zealand Wine Company (USA) Inc. allocated \$640,000 to goodwill which represented the excess of the purchase price over the fair value of tangible and intangible assets acquired.

The Group results for 2011 include the operations of Lineage Imports LLC for the six months from 1 January 2011 to 30 June 2011. This includes revenue of \$99,000 and a net loss of \$424,000.

The allocation of the purchase is as follows:

	<b>Group 2011</b>
	<b>\$'000</b>
Net Assets Acquired	
Cash	6
Trade receivables	47
Inventory	218
Property, plant and equipment	2
Trade and other payables	(304)
Loans and borrowings	(583)
Goodwill	640
Total Purchase Consideration	26

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012 (CONTINUED)

### 22. RECONCILIATION OF LOSS FOR THE YEAR TO NET CASH FLOW FROM OPERATING ACTIVITIES

	Group 2012 \$'000	Group 2011 \$'000	Parent 2012 \$'000	Parent 2011 \$'000
LOSS AFTER INCOME TAX FOR THE YEAR	(5,474)	(3,177)	(5,658)	(2,993)
Non-controlling interest share of (loss)/profit	144	(144)	-	-
NON-CASH ITEMS:				
Depreciation	552	570	552	570
Amortisation of intangibles	4	3	4	3
Increase/(decrease) in deferred tax	(97)	(921)	(97)	(921)
Impairment loss recognised on trade and other receivables	308	26	464	923
Impairment loss recognised on investments	-	-	114	-
Adjustments resulting from revaluation of grapes	746	(655)	746	(655)
Loss on revaluation of biological assets	518	627	518	627
(Gain)/loss on disposal of property, plant and equipment	1	3	1	3
(Gain)/loss on asset revaluations	(1)	(1)	(1)	(1)
Unrealised foreign exchange movements	(66)	66	-	-
	<u>(3,365)</u>	<u>(3,603)</u>	<u>(3,357)</u>	<u>(2,444)</u>
MOVEMENTS IN WORKING CAPITAL BALANCES:				
Inventories	3,622	(1,028)	3,276	(682)
Trade and other receivables	(595)	1,287	(151)	402
Trade and other payables	(44)	215	47	124
Other financial assets/liabilities	1,573	1,436	1,573	1,436
Other current assets and current tax assets/liabilities	358	232	358	233
	<u>4,914</u>	<u>2,142</u>	<u>5,103</u>	<u>1,513</u>
NET CASH FLOW FROM OPERATING ACTIVITIES	<u>1,549</u>	<u>(1,461)</u>	<u>1,746</u>	<u>(931)</u>

### 23. OPERATING LEASE COMMITMENTS

Not later than 1 year	494	581	494	580
Later than 1 year and not later than 2 years	421	485	421	485
Later than 2 years and not later than 5 years	1,124	1,167	1,124	1,167
Later than 5 years	5,544	5,926	5,544	5,926
	<u>7,583</u>	<u>8,159</u>	<u>7,583</u>	<u>8,158</u>

Operating leases relate substantially to vineyard land where the Group is the lessee with lease terms between 19 years and 364 days and 30 years.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012 (CONTINUED)

### 24. FINANCIAL INSTRUMENTS

#### (a) Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of debt, which includes loans and borrowings disclosed in note 14, cash and cash equivalents and equity, comprising issued capital, reserves and retained earnings as disclosed in notes 9, 11 and 12 respectively. The Group's Board of Directors reviews the capital structure on a semi-annual basis. As part of the review the Board considers the cost of capital and the risks associated with each class of capital as well as the requirement by the Group's bank, ANZ National Bank Ltd, to maintain shareholders funds at a level of at least 40% of total tangible assets. The Board will balance the Group's overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt. The Group's overall strategy remains unchanged from 2011.

#### (b) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2 to the financial statements.

#### (c) Financial risk management objectives

The Group is exposed to financial risks relating to the operations of the Group. These risks include agricultural risk, market risk (including currency risk and interest rate risk), credit risk and liquidity risk.

The agricultural activity of the Group consists of the management of vineyards to produce grapes for use in the production of wine. The primary financial risk associated with this activity occurs due to the length of time between expending cash on the purchase or planting and maintenance of grape vines and on harvesting grapes, and ultimately receiving cash from the sale of wine to third parties. The Group's strategy to manage this financial risk is to actively review and manage its working capital requirements. In addition, the Group maintains credit facilities at a level sufficient to fund the Group's working capital during the period between cash expenditure and cash inflow. At balance date, the Group had unused credit facilities in the form of undrawn bank overdrafts of \$2.1 million (2011: \$1.25 million).

The Group seeks to minimise the effects of these risks, by obtaining independent advice and using derivative financial instruments to hedge these risk exposures. The use of financial derivatives is governed by the Group's policies approved by the Board of Directors, which provide written principles on the use of financial derivatives. Compliance with policies and exposure limits is reviewed by the Board of Directors on a monthly basis. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

#### (d) Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates (refer note 24(e)) and interest rates (refer note 24(f)). The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign currency risk, including:

- (i) forward foreign exchange contracts and foreign currency option contracts to hedge the exchange rate risk arising on the export of wine principally to the United States, United Kingdom and Australia; and
- (ii) interest rate swaps to mitigate the risk of rising interest rates.

There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risk.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012 (CONTINUED)

### 24. FINANCIAL INSTRUMENTS (CONTINUED)

#### (e) Foreign currency risk management

The Group undertakes certain transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved parameters utilising forward foreign exchange contracts and foreign exchange option contracts.

Foreign currency denominated assets and liabilities at balance date are:

	Group 2012 \$'000	Group 2011 \$'000	Parent 2012 \$'000	Parent 2011 \$'000
Trade and other receivables	2,728	2,198	2,728	2,695
Inventories	-	346	-	-
Property, plant & equipment	-	1	-	-
Trade and other payables	(110)	(203)	(110)	(113)
Cash balances shown in Loans and borrowings	1	202	-	205
Net exposure at balance date	2,619	2,544	2,618	2,787

#### *Sensitivity analysis*

The Group is mainly exposed to US dollars (USD), Great British pounds (GBP) and Australian dollars (AUD). If there was a 10% upward movement in the New Zealand dollar against the relevant currencies the profit before tax and equity would decrease by \$57,000, \$57,000 and \$124,000 respectively for the Group and Parent (2011: Group \$10,000, \$107,000 and \$116,000; Parent \$30,000, \$107,000 and \$116,000). If there was a 10% downward movement in the New Zealand dollar against the relevant currencies the profit before tax and equity would increase by \$70,000, \$70,000 and \$152,000 respectively for the Group and Parent (2011: Group \$9,000, \$130,000 and \$142,000; Parent \$37,000, \$130,000 and \$142,000). The 10% sensitivity rate used represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for the listed percentage change in foreign currency rates.

#### *Forward foreign exchange contracts and option contracts*

It is the policy of the Group to enter into forward foreign exchange contracts to cover specific foreign currency payments and receipts up to 100% of the exposure generated. The Group also enters into forward foreign exchange contracts and option contracts including collars to manage the risk associated with anticipated sales and purchase transactions out to 60 months within 25-100% of the exposure generated, subject to certain criteria being met. Forward foreign exchange contracts and option contracts are measured at fair value through profit or loss. The fair value of forward foreign exchange contracts and option contracts is based on market values of equivalent instruments at the reporting date.

The aggregate notional principal of forward foreign exchange contracts outstanding as at balance date was \$13,940,000 (2011: \$21,442,000). The aggregate notional principal of foreign exchange option contracts outstanding at balance date was a net of \$20,000 (2011: \$23,000).

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 30 JUNE 2012 (CONTINUED)

#### 24. FINANCIAL INSTRUMENTS (CONTINUED)

##### (f) Interest rate risk management

The Company and the Group is exposed to interest rate risk as it borrows funds at both fixed and floating interest rates. The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowings, by use of interest rate swap contracts. Hedging activities are evaluated regularly with the assistance of independent advice to align with interest rate views and defined risk appetite; ensuring optimal hedging strategies are applied or protecting interest expense through different interest rate cycles.

The Company and the Group's exposure to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note or in note 14.

##### *Sensitivity analysis*

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivative and non-derivative instruments at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period. A 100 basis point (1%) increase or decrease is used and represents management's assessment of the reasonably possible change in interest rates.

At balance date, if interest rates had been 1% lower or higher and all other variables were held constant, the Company and Group's net profit and equity would increase/decrease by \$17,000 (2011: \$25,000) respectively. This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings.

The Company and Group's sensitivity to interest rates has increased during the current year mainly due to the increase in floating interest rate exposure.

##### *Interest rate swap contracts*

Under interest rate swap contracts, the Group agrees to exchange the difference between the fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Group to mitigate the risk of changing interest rates on debt held. The fair value of interest rate swaps are based on market values of equivalent instruments at the reporting date as disclosed below.

The aggregate notional principal amount of the outstanding interest rate swap contracts at balance date was \$15,107,000 (2011: \$15,919,000). The interest rates applicable to the interest rate swap contracts during the year were 4.37% pa – 6.42% pa (2011: 4.37% pa – 6.42% pa).

Interest rate swap contracts exchanging floating rate interest amounts for fixed rate interest amounts are used to reduce the Group's cash flow exposure resulting from variable interest rates on borrowings. These are measured at fair value through profit or loss. The interest rate swaps and the interest payments on the loan occur simultaneously on a monthly basis. The floating rate on the interest rate swaps is the 1 month BKBM rate. The Group will settle the difference between the fixed and floating interest rate on a net basis.

##### (g) Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with credit worthy counterparties as a means of mitigating the risk of financial loss from defaults. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are approved by the Board of Directors and are monitored on a regular basis. The Group does not require collateral in respect of trade and other receivables.

Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable and, where appropriate, trade credit insurance is purchased.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012 (CONTINUED)

### 24. FINANCIAL INSTRUMENTS (CONTINUED)

The Group does not have any significant concentrations of net credit risk. The Company does not expect the non-performance of any obligations at balance date. The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international agencies.

The carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represent the Group's maximum exposure to credit risk.

#### (h) Liquidity risk management

Liquidity risk represents the Group's ability to meet its contractual obligations. Ultimate responsibility for liquidity risk management rests with the Board of Directors, who has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. At balance date, the Group had unused credit facilities in the form of undrawn bank overdrafts of \$2.1 million (2011: \$1.25 million) to further reduce liquidity risk.

#### Liquidity tables

The following tables detail the Company and Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. Refer to note 14 for the weighted average effective interest rate.

	Less than 1 year \$000	1-2 years \$000	2-5 years \$000	Over 5 years \$000
<b>Group 2012</b>				
Trade and other payables	1,914	-	-	-
Loans and borrowings	15,906	-	-	-
	17,820	-	-	-
<b>Group 2011</b>				
Trade and other payables	1,957	-	-	-
Loans and borrowings	18,444	-	-	-
	20,401	-	-	-
<b>Parent 2012</b>				
Trade and other payables	1,914	-	-	-
Loans and borrowings	15,906	-	-	18
	17,820	-	-	18
<b>Parent 2011</b>				
Trade and other payables	1,866	-	-	-
Loans and borrowings	18,443	-	-	18
	20,309	-	-	18

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012 (CONTINUED)

### 24. FINANCIAL INSTRUMENTS (CONTINUED)

The following table details the Group's liquidity analysis for its derivative financial instruments. The table has been drawn up based on the undiscounted net cash inflows/(outflows) on the derivative instrument that settle on a net basis and the undiscounted gross inflows and (outflows) on those derivatives that require gross settlement. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves existing at the reporting date.

	Less than 6 mths \$000	6-12 mths \$000	1-2 years \$000	Over 2 years \$000
Group & Parent 2012				
Interest rate swaps	(193)	(171)	(263)	(345)
Forward exchange contracts	4,819	2,886	3,740	2,495
	4,626	2,715	3,477	2,150
Group & Parent 2011				
Interest rate swaps	(205)	(198)	(366)	(610)
Forward exchange contracts	6,279	2,518	6,410	6,235
	6,074	2,320	6,044	5,625

#### (i) Fair value of financial instruments

The fair values of financial assets and liabilities are determined as follows:

- the fair value of financial assets and liabilities with standard terms and conditions and traded on active markets are determined with reference to the quoted market prices; and
- the fair value of derivative instruments are calculated based on discounted cash flows using market inputs.

The Directors consider that the carrying value of all financial instrument assets and liabilities in the financial statements approximate their fair value.

#### (j) Fair value measurements recognised in the Statement of Financial Position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the assets or liability that are not based on observable market data (unobservable inputs).



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012 (CONTINUED)

### 24. FINANCIAL INSTRUMENTS (CONTINUED)

	Group 2012 \$'000	Group 2011 \$'000	Parent 2012 \$'000	Parent 2011 \$'000
Financial assets held for trading				
Other financial assets (derivative financial assets) – Current	129	954	129	954
Other financial assets (derivative financial assets) – N/Current	-	506	-	506
Total financial assets	<u>129</u>	<u>1,460</u>	<u>129</u>	<u>1,460</u>
Financial liabilities held for trading				
Other financial liabilities (derivative financial liabilities) – Current	73	1	73	1
Other financial liabilities (derivative financial liabilities) – N/Current	783	613	783	613
Total financial liabilities	<u>856</u>	<u>614</u>	<u>856</u>	<u>614</u>

All financial assets and liabilities of the Group that are measured at fair value were Level 2. There were no transfers between Level 1 and 2 during the year. Fair value measurements are based on Bank independent valuation based on market data.

	Group 2012 \$'000	Group 2011 \$'000	Parent 2012 \$'000	Parent 2011 \$'000
(k) Change in Fair Value of Financial Assets/Liabilities				
Foreign currency forward contracts	(1,307)	(1,248)	(1,307)	(1,248)
Foreign currency option contracts	(49)	54	(49)	54
Interest rate swaps	(201)	(224)	(201)	(224)
	<u>(1,557)</u>	<u>(1,418)</u>	<u>(1,557)</u>	<u>(1,418)</u>

	Group 2012 \$	Group 2011 \$	Parent 2012 \$	Parent 2011 \$
<b>25. NET TANGIBLE ASSETS PER SHARE</b>				
Net tangible assets per share	1.09	1.73	1.09	1.76
Adjusted Net tangible assets per share	<u>1.14</u>	<u>1.79</u>	<u>1.14</u>	<u>1.82</u>

Adjusted Net tangible assets per share is calculated by excluding deferred tax liabilities of \$417,000 (2011 \$526,000) which will not crystallise under current income tax legislation. On disposal of a vineyard property, the recorded deferred tax liability on vines that does not crystallise in respect of that property may be reversed back to profit or loss.

### 26. FOREIGN CURRENCY EXCHANGE RATES

The following spot foreign exchange rates have been applied at balance date:

	30 June 2012		30 June 2011	
	Buy	Sell	Buy	Sell
NZ \$1.00 =				
Australian dollar	0.7869	0.7818	0.7740	0.7691
United States dollar	0.7881	0.7826	0.8260	0.8204
Great British pound	0.5047	0.5087	0.5147	0.5107

THE NEW ZEALAND WINE COMPANY  
LIMITED

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2012 (CONTINUED)**

Group 2012 \$000	Group 2011 \$000	Parent 2012 \$000	Parent 2011 \$000
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**27. DIRECTORS AND KEY MANAGEMENT PERSONNEL COMPENSATION**

The compensation of the Directors and the key management personnel of the Group is set out below:

Short-term employee benefits	1247	1,072	1,247	1,072
	1,247	1,072	1,247	1,072

**28. RELATED PARTY DISCLOSURES**

(a) Investment in Subsidiaries

The parent entity in the consolidated entity is The New Zealand Wine Company Limited, which is the ultimate parent. The consolidated financial statements include the financial statements of The New Zealand Wine Company Limited and the following subsidiaries:

Name of Entity	Principal Activity	Parent Company	Country of Incorporation	Ownership Interest % 2012	Ownership Interest % 2011
Grove Mill Wine Company Limited	Non-operating	The New Zealand Wine Company Limited	New Zealand	100%	100%
Sanctuary Wine Company Limited	Non-operating	The New Zealand Wine Company Limited	New Zealand	100%	100%
Bedford Road Investments Limited	Non-operating	The New Zealand Wine Company Limited	New Zealand	100%	100%
The New Zealand Wine Company (Europe) Limited	Non-operating	The New Zealand Wine Company Limited	England and Wales	100%	100%
The New Zealand Wine Company (USA) Inc.	Holding company	The New Zealand Wine Company Limited	California, USA	100%	-
Lineage Imports LLC	Import & distribution, brand marketing & sales	The New Zealand Wine Company (USA) Inc.	California, USA	66%	66%

At balance date the Parent has the following balances that are due from/(to) subsidiary companies:

	Parent 2012 \$000	Parent 2011 \$000
Grove Mill Wine Company Limited	(9)	(9)
Sanctuary Wine Company Limited	(9)	(9)
Bedford Road Investments Limited	1	1
The New Zealand Wine Company (USA) Inc.	1,000	809
Impairment of other receivable	(1,000)	(809)
	(17)	(17)

All balances with the Parent are unsecured and not covered by any guarantees.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 30 JUNE 2012 (CONTINUED)

#### 28. RELATED PARTY DISCLOSURES (CONTINUED)

The advance to The New Zealand Wine Company (USA) Inc is interest bearing.

At balance date The New Zealand Wine Company (USA) Inc has a balance due from Lineage Imports LLC of \$988,000 (2011: \$879,000). The advance to Lineage Imports LLC is supported by an interest bearing loan agreement and a security agreement. This has been fully impaired at balance date (and written off over the past two years).

#### (b) Transactions with Related Parties – Directors and Key Management Personnel

Details of the compensation paid to Directors and key management personnel are set out in note 27.

	Group 2012 \$000	Group 2011 \$000	Parent 2012 \$000	Parent 2011 \$000
Certain Directors and key management personnel have interests in contracts with the Parent & Group as follows. All transactions were at normal commercial rates.				
SC Riley (Lundons Law – legal fees)	14	14	4	4
DJ Pearce (Aura Sustainability Ltd – consultancy services in relation to the carbon reduction labelling certification and other marketing matters)	-	16	-	16

#### (c) Transactions with Related Parties under Common Control

During the financial year the Parent advanced funds to the non-operating subsidiaries to provide funds for the payment of accounting fees relating to their securities commission and income tax obligations. No interest is charged on these advances. The amount of these advances was less than \$100 for each of Grove Mill Wine Company Limited, Sanctuary Wine Company Limited and Bedford Road Investments Limited for 2012 and 2011.

During the financial year the Parent advanced funds to The New Zealand Wine Company (USA) Inc to allow it to fund the working capital of Lineage Imports LLC of which it owns 66%. Interest is charged on the loan at a fixed rate of 5.4% pa. Total advances during the financial year were a net of \$191,000 (2011: \$801,000). The Parent has recognised net interest revenue of \$33,000 (2011: \$8,000) from The New Zealand Wine Company (USA) Inc for these advances.

#### (d) Transactions with Lineage Imports LLC

During the previous financial year the Parent sold inventories to Lineage Imports LLC at normal commercial rates. The total sales revenue recorded for these sales during the financial year was \$Nil (2011: \$515,000). An impairment of \$361,000 has been recognised at 30 June 2012 for the unrecoverable portion of the outstanding debtor balance (2011: \$86,000).

During the financial year The New Zealand Wine Company (USA) Inc advanced Lineage Imports LLC \$32,000 (2011: \$879,000) to fund working capital. The loan advances are supported by an interest-bearing loan agreement whereby interest is charged at a fixed rate of 5.4% pa. The New Zealand Wine Company (USA) Inc. has recognised interest revenue from Lineage Imports LLC for these advances which has been eliminated on consolidation.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012 (CONTINUED)

### 29. SEGMENT INFORMATION

The Group operates in the wine industry and is considered to operate in one segment. Financial information available to management including the chief operating decision maker is principally sales revenue based and is summarised below as additional information on the basis of the geographical areas in which their customers are based.

Geographical area	Revenue	Group	Group	Parent	Parent
		2012	2011	2012	2011
		\$'000	\$'000	\$'000	\$'000
New Zealand		4,375	3,318	4,375	3,318
United States		558	1,954	561	2,001
United Kingdom		3,404	3,414	3,404	3,414
Australia		4,470	1,921	4,470	1,921
Other		710	551	710	551
Total		13,517	11,158	13,520	11,205

Included in sales revenue are revenues of approximately \$2,760,000 (2011: \$860,000), \$1,330,000 (2011: \$1,630,000), \$1,220,000 (2011: \$2,670,000) and \$1,190,000 (2011: \$270,000) which arose from sales to the Group's largest customers. No other single customers contributed 10% or more to the Group's revenue in either 2012 or 2011.

### 30. COMMITMENTS

In the ordinary course of business the Group has Grower Agreements which would require it to purchase grapes.

Group	Group	Parent	Parent
2012	2011	2012	2011
\$000	\$000	\$000	\$000

### 31. NON-CONTROLLING INTERESTS

Balance at beginning of financial year	(144)	-	-	-
Movement for the year	144	(144)	-	-
Balance at end of financial year	-	(144)	-	-

### 32. SUBSEQUENT EVENTS

#### Details of the Business Combination

On the 28<sup>th</sup> June 2012, The New Zealand Wine Company Limited ('NZWC') entered into an agreement whereby NZWC acquires 100% shares in Foley Family Wines NZ ('FNZ') previously held by Foley Family Wines Holdings, New Zealand ('Foley Holdings') in exchange NZWC will issue shares to Foley Holdings to give them a 80% ownership in NZWC.

The agreement was made conditional on approval of Shareholders and Overseas Investment Office. A Special General Meeting of NZWC shareholders was held on 14 August 2012 which approved the transaction, NZWC becoming the legal acquirer of FNZ and Foley Holdings become the legal acquirer of NZWC. Overseas Investment Office approval was received on 15 August 2012.

Operationally NZWC and FNZ operations will be merged providing the scale required for NZWC to be a significant wine business globally. The merger will also assist NZWC in meeting their equity funding requirements with the ANZ National Bank which required equity funding of \$5 million by 30 June 2012. The consolidated financial statements issued in future will be in the name of the legal Parent NZWC, which will include continuation of the financial statements of the legal subsidiary FNZ as a subsidiary of Foley Holdings.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 30 JUNE 2012 (CONTINUED)

#### 32. SUBSEQUENT EVENTS (CONTINUED)

On completion \$5 million of debt will be repaid to the ANZ National Bank.

On 16 August 2012 the Group received a Committed Offer of Credit from Bank of New Zealand for funding facilities for the new enlarged entity. This facility was approved by the Board on 24 August 2012.

As a result of the change in NZWC shareholding previous accumulated tax losses of NZWC will be lost. The loss of these losses has been accounted for as income tax expense in the reported loss for the year ended 30 June 2012.

#### Other Subsequent Events

On 1 July 2012 the interest rate on the Bank Overdraft Facility was reviewed. The new interest rate is 5.91% pa floating.

On 30/31 July 2012 the interest rates on the ANZ National Bank terms loans were reviewed. The new interest rates for these loans are 5.37% - 5.86% pa floating.

No other material events have occurred since balance date.

**AUDIT REPORT**  
**FOR THE YEAR ENDED 30 JUNE 2012**



**INDEPENDENT AUDITOR'S REPORT**

**TO THE SHAREHOLDERS OF THE NEW ZEALAND WINE COMPANY LIMITED**

**Report on the Financial Statements**

We have audited the financial statements of The New Zealand Wine Company Limited (the "Company") and Group on pages 11 to 52, which comprise the consolidated and separate statements of financial position of the Company as at 30 June 2012, and the consolidated and separate income statements, statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

This report is made solely to the Company's shareholders, as a body, in accordance with Section 205(1) of the Companies Act 1993. Our audit has been undertaken so that we might state to the Company's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

***Board of Directors' Responsibility for the Financial Statements***

The Board of Directors are responsible for the preparation of financial statements, in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate, and for such internal control as the Board of Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibilities***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing and International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates, as well as the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other than in our capacity as auditor we have no relationship with or interests in The New Zealand Wine Company Limited or any of its subsidiaries.

***Opinion***

In our opinion, the financial statements on pages 11 to 52:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards; and
- give a true and fair view of the financial position of the Company and Group as at 30 June 2012, and their financial performance and cash flows for the year ended on that date.

**AUDIT REPORT**  
**FOR THE YEAR ENDED 30 JUNE 2012 (CONTINUED)**

**Report on Other Legal and Regulatory Requirements**

We also report in accordance with section 16 of the Financial Reporting Act 1993. In relation to our audit of the financial statements for the year ended 30 June 2012:

- we have obtained all the information and explanations we have required; and
- in our opinion proper accounting records have been kept by the Company as far as appears from our examination of those records.



**Chartered Accountants**

24 August 2012

Wellington, New Zealand

This audit report relates to the financial statements of The New Zealand Wine Company Limited (the "Company") and Group for the year ended 30 June 2012 included on the Company's website. The Company's Board of Directors is responsible for the maintenance and integrity of the Company's website. We have not been engaged to report on the integrity of the company's website. We accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website. The audit report refers only to the financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these financial statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited financial statements and related audit report dated 24 August 2012 to confirm the information included in the audited financial statements presented on this website. Legislation in New Zealand governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

THE NEW ZEALAND WINE COMPANY  
LIMITED

## COMPARATIVE FINANCIAL REVIEW

### FOR THE YEARS ENDED 30 JUNE

Group		2012	2011	2010	2009	2008
	Note	Audited NZ IFRS \$000	Audited NZ IFRS \$000	Audited NZ IFRS \$000	Audited NZ IFRS \$000	Audited NZ IFRS \$000
<b>Income Statement Data</b>						
Revenue		13,517	11,158	13,047	12,518	11,904
Underlying profit before interest, impairment, revaluations & income tax/Surplus from Operations		(1,471)	(991)	771	1,377	2,522
Net finance costs		(1,048)	(861)	(706)	(806)	(627)
Impairment		(363)	(913)	(111)	-	-
Revaluation gains/(losses)		(2,690)	(1,390)	(1,989)	1,272	1,103
Income tax expense		98	825	137	(560)	(954)
Profit/(loss) for the year		(5,572)	(3,300)	(1,898)	1,283	2,044
Profit/(loss) attributed to non-controlling interests		144	(144)			
Profit/(loss) attributed to s/h of Parent		(5,330)	(3,186)			
Basic earnings per share (cents)		(63.1)	(36.7)	(21.9)	14.8	23.6
Dividends per share (cents)	1	0.0	0.0	4.0	7.0	7.0
<b>Statement of Financial Position/ Balance Sheet Data</b>						
Current assets		11,606	16,870	17,481	20,401	17,146
Current liabilities		17,893	19,396	5,814	5,156	4,591
Working capital ratio		0.6	0.9	3.0	4.0	3.7
Non-current assets		18,952	20,461	22,695	24,049	24,137
Total assets		30,558	37,331	40,176	44,450	41,283
Non-current liabilities		3,174	2,946	15,734	17,356	15,392
Total liabilities		21,067	22,342	21,548	22,512	19,983
Total shareholders' equity		9,491	14,989	18,628	21,938	21,300
Profit/(loss) for the year % of average shareholders' equity		(43.5)%	(19.0)%	(9.4)%	5.9%	10.0%
Total comprehensive income/(expense) % of average shareholders' equity		(44.9)%	(20.8)%	(14.6)%	5.7%	11.8%
Total loans and borrowings		15,906	17,254	15,943	16,243	13,981
Gearing ratio %	2	62.6%	53.5%	46.1%	42.5%	39.6%
Net gearing ratio %	3	62.6%	53.5%	45.6%	42.5%	38.5%
Shareholders' equity % of total assets		31.1%	40.2%	46.4%	49.4%	51.6%
Adjusted net tangible assets per share	25	\$1.14	\$1.79	\$2.22	\$2.65	\$2.59
Number of shares at year end		8,677,199	8,677,199	8,677,199	8,677,199	8,677,199

Notes:

- Dividends per share are calculated on the basis of dividends paid during the year.
- Gearing ratio is Total loans and borrowings as a percentage of Total loans and borrowings plus Total shareholders' equity.
- Net gearing ratio adjusts the Total loans and borrowings in note 2 above by netting off Cash balances.



## CORPORATE GOVERNANCE STATEMENT

### FOR THE YEAR ENDED 30 JUNE 2012

This statement is designed to provide an overview for Shareholders to reflect the current governance policies and practices adopted or followed by the Board for the NZWC's adherence to the principles contained in

- the NZX Corporate Governance Best Practice Guide (NZSX Listing Rules Appendix 16); and
- the NZ Securities Commission "Corporate Governance in New Zealand Principles and Guidelines" issued 16 March 2004 (and reprinted in February 2011).

This statement elaborates on the foregoing with a structured Statement of the Responsibilities to and Role of Shareholders and the Board's Charter, including the operation of the Board, its Committees and the over-arching Code of Conduct to be adopted by directors, management, staff and contractors.

In summary, the Board is committed to high standards of best practice corporate governance and ethical conduct as being integral to overall business integrity and to delivery of long term shareholder value.

#### THE ROLE OF SHAREHOLDERS

Under the Companies Act, and the NZAX Listing Rules, all Shareholders have the right to receive Annual and Interim Financial Statements and all Notices of Meetings and to attend all such Meetings in person or by proxy. Resolutions for which requisite Notice are given may be voted upon by show of hands or, if a poll is called, on a one share one vote basis. There are no priority or special voting shares.

The NZWC is required to maintain the full list of shareholders - with the Register held by Computershare Investor Services - and certain other statutory information available to shareholders at the Company's registered office.

The Company is committed to communicating regularly with Shareholders. However, under the Listing Rules, the NZWC is obliged to meet the NZX continuous disclosure requirements of all market price sensitive or other material company information to be supplied first to the NZX as soon as practicable (and subject only to specified departures for incomplete information) - prior to communicating that information to shareholders, the general investment or local community, or to the media.

The Company will provide meaningful information about the Company's goals, corporate proposals, business affairs and general future strategies, plans and performance including periodic e-newsletters - as well as providing opportunities as Shareholders to obtain early availability under strict criteria for any of the Company's products.

To facilitate this general information flow, the Company maintains a comprehensive web site including an investor section. This contains the constitution, annual and half-yearly reports and financial statements, releases to the NZAX or media and any presentations to third parties.

The Directors have the power to declare dividends from time to time to shareholders subject to complying with the solvency and liquidity test criteria contained in the Companies Act.

It is the Board's policy to pay, through time, progressive and if possible fully imputed cash dividends, subject to meeting the solvency test criteria, at approximately 50% of annual Underlying profit before revaluations after income tax, with an interim dividend of approximately one-third payable in March/April and with the final dividend for the year payable in September/October.

## CORPORATE GOVERNANCE STATEMENT

FOR THE YEAR ENDED 30 JUNE 2012 (CONTINUED)

### BOARD CHARTER

#### ROLE OF THE BOARD OF DIRECTORS

The Directors are responsible, collectively as the Board under its Chairman, for the success of the NZWC and are accountable to shareholders for the Company's overall ethical conduct, strategic development, annual performance and long-term sustainable increase in shareholder value.

The Board exercises its powers on behalf of all Shareholders, except for those powers specifically required to be exercised by Shareholders by law, the NZAX Listing Rules or the NZWC constitution. Except for powers specifically reserved to the Directors under the Companies Act or the Delegated Authorities Policy, the Board in turn delegates authorities to the Chief Executive Officer (CEO), with sub-delegations to members of the Management Team, with the CEO responsible for the day-to-day management of the NZWC business and delivering against the agreed strategic plans, operating budgets and performance targets.

The Role of the Board is to provide the overall framework for governance, accountability, risk control and deliverability of the strategic and operating plans. To do so the Board meets with management normally at approximately monthly intervals, and more frequently if warranted, otherwise contact shall occur via email or teleconference to ensure Directors are fully apprised about key Company activities and issues.

The Chairman, on behalf of the Board, is the formal channel of communication to external stakeholders and to the CEO who in turn has delegated responsibility for management and staff and for achieving agreed policies, business strategies, operating plans and budgets.

Apart from any Board-only session during each meeting with the CEO and/or the Chief Financial Officer (CFO) and members of the Management Team may attend Board meetings.

Each year the Board will meet with the CEO and full Management Team in a dedicated strategic planning and review meeting.

To assist in this oversight role, and to help discharge these responsibilities, the Board will receive, and management will provide

- timely current financial and operational information and overall and functional performance against operating plans and budgets;
- advice on the risk and competitive environment and issues facing the NZWC within their review of the current viticultural, winery, marketing and finance functions; and
- overall progress on achieving long term strategic plans and associated threats and opportunities.

The Board shall maintain a Code of Ethics Policy Statement, reviewed annually, to underpin the NZWC's vision and values and expected standards of conduct for Directors, Managers, employees and contractors.

#### Responsibilities of Directors

In addition to the foregoing, the Directors are responsible for preparing and providing to Shareholders the financial statements, as prescribed in the Financial Reporting Act. These shall give a true and fair view of the financial (and operational) state of affairs of the NZWC for the period, as portrayed in the Income Statement, Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Financial Position and Statement of Cash Flows. These financial statements are unaudited for the half-year report but must be audited by the External Auditor for the full financial year report ended 30th June.

## CORPORATE GOVERNANCE STATEMENT

FOR THE YEAR ENDED 30 JUNE 2012 (CONTINUED)

### Composition of the Board

Under the constitution there shall be a minimum of 3 and maximum of 8 directors, with power to increase that number. The Board is therefore authorised to appoint one or more additional directors to fill a casual vacancy or to expand the Board for increased effectiveness or to help meet the Company's objectives.

A minimum of two Directors must be ordinarily resident in New Zealand and at least half the number of Directors must be independent, as defined in the Listing Rules.

Directors are elected by shareholders at the first annual meeting after appointment.

After that, at each annual meeting, at least one-third of Directors shall retire by rotation, determined by length of service since their last election.

### Directors' Remuneration

Directors' fees are recommended to and confirmed by Shareholders' resolution at an Annual Meeting.

The last fee increase was resolved at the 2008 Annual Meeting being an increase in fees to \$159,000 in total, with effect from 1 July 2008, with the fee allocation to be determined by directors.

The current year allocation of the agreed annual fee pool allocation was

Alton Jamieson (Chairman)	
\$62,000	

John Albertson and Steve Riley	\$14,000 each	David Appleby and Bill Wallace
\$34,000 each		

In the event of an increase in number of Directors the constitution permits an automatic increase in the fee pool by the base director fee (Cl. 14.2)

Directors may claim reimbursement against GST receipts for travelling and other associated reasonable expenses in the course of business as a Board member.

The Board, and individual Directors with the authority of the Chairman and/or the Board, has the ability to retain, at the Company's expense, special independent legal, accounting and other consultants or experts deemed necessary in the proper discharge of its or his duties and responsibilities.

### BOARD ACTIVITIES

The Board's role and responsibilities are outlined above; but in summary they are to

- prepare annual and interim financial statements, report to Shareholders and the NZAX market and call statutory meetings;
- declare dividends to Shareholders;
- ensure compliance with general Company and Securities law requirements including maintenance of up-to-date interests and share registers and other statutory reports and requirements;
- comply with the NZAX Listing Rules and in particular to maintain the continuous disclosure obligations following review at the end of each Board meeting and immediately at all other times market price sensitive information is ready for disclosure according to NZAX LR 10;
- review overall Company strategies, the competitive environment and the Company's risk environment;

## CORPORATE GOVERNANCE STATEMENT

FOR THE YEAR ENDED 30 JUNE 2012 (CONTINUED)

### BOARD ACTIVITIES (CONTINUED)

- review critically the underlying assumptions behind annual budgets and plans, approve such plans and monitor actual results against agreed budgets, including corrective action required to maintain agreed targets;
- authorise and monitor strategic investments, other capital expenditures or divestments and any new or replacement borrowing facilities;
- ensure compliance with general and specific industry laws and regulations, including Health & Safety, Environment, Wine Industry, Customs and export labelling;
- review the performance of the CEO and Management Team members;
- approve management appointments and review and approve remuneration and appropriate performance incentives Company-wide and for all staff individually;
- review annually specific Corporate Policy Statements for the
  - o Code of Ethics,
  - o Share Trading and Release of Company information,
  - o Wine Composition and Packaging Integrity,
  - o Wine Blend,
  - o Delegation of Authorities,
  - o Treasury Management;
- confirm Director appointments to Board Committees and to receive oral and written reports and recommendations from such Board Committees;
- review whether management has in place a current and comprehensive risk management framework, and associated procedures for effective identification and management of the Company's financial and business risks, including fraud;
- review whether a sound and effective approach has been followed in developing strategic risk management plans for major projects or undertakings;
- review the effect of the Company's risk management framework on its control environment and insurance arrangements;
- regularly review the performance of and, when appropriate, recommend to the Board changes in the Board, or its Committees, to maintain the right mix of experience, qualifications and skills;
- consider whether changes are required in number of Directors to enhance the performance of the Board;
- review the criteria for determining suitability of potential Directors in terms of Board balance, qualities, qualifications and skills and local and wine industry viticultural, wine making or marketing experience;
- identify Director retirements by rotation pursuant to the constitution and consider with the Board appropriate succession planning whether of Directors, the CEO or members of the Management Team;
- in the event of a vacancy to the Board, or one of its Committees, whether by retirement, death or resignation consider any persons nominated by Directors or Shareholders and make recommendation to the Board in respect of any such nomination;
- establish a programme to assess periodically the Board and Director performance;
- ensure any new Director receives appropriate induction to the NZWC Board and operating activities;
- consider whether specific Director development is appropriate;
- make recommendations for the appointment and removal of Directors;
- attend to any other Nomination matter put to the Committee by the Board.

### Board Committees

To increase the effectiveness of the Board there are two standing Board Committees:

- the Audit Committee;
- the Remuneration Committee; and
- the Due Diligence Committee.

## CORPORATE GOVERNANCE STATEMENT

FOR THE YEAR ENDED 30 JUNE 2012 (CONTINUED)

### Board Committees (Continued)

Each plays a vital role in ensuring good governance and the effective and efficient operation of the Board.

Each Committee shall comprise a minimum of two Directors with the Chairman being a member, or ex officio member, of each Committee. However, the Chairman cannot also be Chairman of the Audit Committee. A quorum shall be two Committee members, including the Committee Chairman. Any Director may attend any Committee meeting as an observer if he/she so wishes.

The terms of reference for each Committee shall be reviewed annually by end-September, after the end of the annual remuneration and financial reporting cycles, to ensure they reflect current best practice.

The Board may establish an ad hoc Committee at any appropriate time to consider a special issue.

The Committee may request the CEO and/or any Management Team member to attend.

Each Committee will report its deliberations and recommendations by oral or written report to the Board for formal resolution or ratification.

Formal minutes shall be provided to the Board at the earliest practicable opportunity.

### Audit Committee Charter

#### Audit Committee Underlying Philosophy

The Board aspires to achieve best practice standards in corporate governance and in the preparation and presentation of its published financial statements, as required by the Financial Reporting Act, and that they present a true and fair view of the current state of the NZWC's financial (and operational) affairs.

Management's monthly financial (and operational) reports are the most significant tools the Board has to monitor the Company's performance.

The underlying internal control and accounting and operational systems determine the accuracy of the financial statements and results presented to the Board.

The External Auditor is responsible for reviewing and making recommendations on these underlying control systems to ensure they produce accurate and consistent reports on which Shareholders may rely and, to assist meeting this responsibility, the External Auditor shall have full access to all board papers and minutes and all financial and related records.

It is paramount the independence of The External Auditor is maintained for Shareholders' benefit.

The Committee is responsible to ensure the External Auditor's independence is maintained. In the event there is actual or perceived conflict this should be brought to the Board's attention for resolution. If the risk is accepted (e.g. for statutory share register audit, for statutory or other Customs and Wine Maker returns), because it will be outweighed by the value to be achieved by the External Auditor undertaking such activity, such decision must be transparent and is to be recorded in the Minutes of the Board.

## CORPORATE GOVERNANCE STATEMENT

FOR THE YEAR ENDED 30 JUNE 2012 (CONTINUED)

### Purpose

The Audit Committee is appointed by and reports to the Board to assist the Board in fulfilling its financial oversight responsibilities. The principal duties and responsibilities are to:

- Monitor the integrity of the NZWC's financial reporting process and system of internal controls regarding finance, accounting and associated legal compliance;
- Maintain the independence of the External Auditor, including audit partner rotation at approximately 5 yearly intervals; to receive and review the annual Audit Plan, the Letters of Representation and the Audit Management letter (and management responses), including the annual External Audit report, and the Auditors Independence Confirmation letter;
- Meet with and review the performance of the External Auditor;
- Determine the cost-effectiveness of the annual audit;
- Recommend the annual audit fee basis;
- Review and make recommendations on financial and accounting policies;
- Review the integrity of and make recommendations on the statutory annual and half-yearly financial statements together with any other statutory or NZAX continuous disclosure for other financial reporting requirements and for the release of any investor or financial information to Shareholders or onto the Company web-site;
- Evaluate the Company's internal control environment and risk identification and mitigation;
- Conduct any investigation appropriate to discharging these responsibilities;
- Maintain Board Audit Committee oversight responsibility over any other NZWC operational entities;
- Review these terms of reference annually, after the annual financial reporting cycle, or when circumstances change;
- Provide oral or written reports to the Board on its deliberations and recommendations as soon as practicable after any meeting and maintain Minutes of its proceedings.

### Audit Committee Membership

Under the Listing Rules at least one Committee member shall have an accounting or financial background and the Chairman and a majority of Independent Directors must constitute Committee membership.

Under best governance practice, the Audit Committee Chairman cannot be the Board Chairman

The Committee members were David Appleby (Chairman), Alton Jamieson and John Albertson (resigned Feb12)..

At present all members comply and are also Independent Directors.

The quorum is two Committee members of whom one should be the Committee Chairman.

The CEO and CFO attend Committee meetings by invitation.

The External Auditor is invited to attend the Annual Accounts sign-off Audit Committee meeting.

The External Auditor shall be invited to meet with Committee members without management present to permit the full and proper discharge of their independence.

The Audit Committee Chairman shall maintain contact with the Audit Lead Partner to ensure an open communication channel exists between the External Audit Partner and the Board, or if necessary, the Board Chairman.

### External Financial Reporting

This is a special responsibility of the Committee. It shall

## CORPORATE GOVERNANCE STATEMENT

FOR THE YEAR ENDED 30 JUNE 2012 (CONTINUED)

### External Reporting (Continued)

- Consider and recommend to the Board adoption of the unaudited half-year and audited annual financial statements and confirm they present a true and fair view of the NZWC's financial (and operational) performance and position;
- Consider the appropriateness of the NZWC's accounting policies and recommend any new or changed Policies to the Board so as to ensure they comply with NZ-GAAP (NZ-IFRS)
- Management shall advise whether accounting methods comply with NZ-GAAP (NZ-IFRS)
- The External Auditor shall also advise and report to the Committee its concurrence with any new or changed accounting policy
- Management will advise the Committee specifically on any new, significant or unusual transactions or accounting treatment
- Assess significant estimates or judgements (particularly relating to impairments) in financial reports by enquiring about the process used in making material estimates and judgements and then enquire of the External Auditor the basis for their conclusions as to the reasonableness of management's estimates;
- Receive and review any communication from the External Auditor relating to their review of and final reporting on their External Audit Opinion;
- Assess management's internal control process for release of financial information, including the External Auditor's Report, to the NZX and to Shareholders, and onto the NZWC's web-site to ensure the release is accurate and does not conflict with the Board approved financial statements or other financial reports.

### Remuneration Committee Charter

#### Purpose

The purpose is to regularly review, and recommend changes to director fees and executive and staff total remuneration to ensure it is at the appropriate level and effectively managed so as to advance the NZWC's business objectives.

#### Committee Membership

The Committee shall comprise two directors, a majority of whom shall be independent directors.

The Committee members were Bill Wallace (Chairman), Alton Jamieson and Steve Riley (resigned Feb12).

At present all members are Independent Directors.

The quorum is two Committee members of whom one should be the Committee Chairman.

The CEO and CFO attend Committee meetings by invitation.

The Committee may commission any study, survey and/or independent advice that it sees fit in its consideration of any matter within its responsibilities.

The Committee shall provide oral or written reports to the Board on its deliberations and recommendations as soon as practicable after any meeting and maintain Minutes of its proceedings.

In the event a member is personally conflicted on any deliberations the Board may appoint an alternate.

## CORPORATE GOVERNANCE STATEMENT

FOR THE YEAR ENDED 30 JUNE 2012 (CONTINUED)

### Responsibilities

The Committee will:

#### Employees

- Adopt a Remuneration Policy for the Company that takes into account when settling remuneration levels for individual employees the following matters - Job Size, Organisation Policy, Organisation's Ability to Pay, Organisation's Need to Pay, Individual Performance and Market Relativities.
- Establish and oversee an Organisation Policy for the purpose of remuneration market alignment.
- Review in line with the Organisation Policy, the remuneration of the CEO and the members of the management who report directly to the CEO.
- Review the total remuneration of salaried employees in line with the Remuneration and Organisation Policies.
- Review, oversee and monitor all bonus schemes and the company's incentive based Share Option Schemes and Performance Share Plans.
- Ensure that all employment agreements comply with prevailing legislative or case law requirements at the time of engagement and are fully up to date.
- Attend to any other remuneration matter put to the Committee by the Board.
- In setting management remuneration the Company promotes a market-led strategy and alignment to stable median line in remuneration surveys. In addition there is the opportunity for at-risk performance related bonuses and incentive plans where shareholder value accretive performance occurs against financial metrics.

#### Directors

- Annually review the fees payable to Directors for recommendation to the Board and thence for submission to and consideration by Shareholders at the Annual Meeting.
- The Board reviews annually and recommends to shareholders any increase in directors' fees when profit performance warrants.

### Due Diligence Committee Charter

#### Purpose

The purpose of the Due Diligence Committee (DDC) in carrying out the due diligence was the systematic examination of FNZ to ensure that:

- all information relevant to an assessment of the value of FNZ assets and the prospects for the merger were able to be objectively determined (the "DD Focus Points");
- the Board was able to make a recommendation to its shareholders as to the merits of the proposed merger;
- the Board was given confidence that the information provided to its shareholders is sufficient to enable them to make an informed decision as to the merits of the proposed merger; and
- the Board was able to demonstrate that it had complied with its fiduciary obligations to NZWC and its shareholders.



## CORPORATE GOVERNANCE STATEMENT

FOR THE YEAR ENDED 30 JUNE 2012 (CONTINUED)

### Committee Membership

The Committee shall comprise three directors, a majority of whom shall be independent directors, the CEO, the company's legal representatives and the company's capital raising advisers.

The Committee members were David Appleby (Chairman), Alton Jamieson and Bill Wallace (Directors), Peter Scutts (CEO), David Jones and Keith Young (Jones Young) and John Mandeno (Grant Samuel) .

At present all three Director members are Independent Directors.

The quorum is four Committee members of whom one should be the Committee Chairman.

The CFO may attend Committee meetings by invitation.

The Committee may commission any independent advice that it sees fit in its consideration of any matter within its responsibilities.

The Committee shall provide oral or written reports to the Board on its deliberations and recommendations as soon as practicable after any meeting and maintain Minutes of its proceedings.

### Responsibilities

The responsibilities of the DDC have been to:

- establish and oversee the due diligence process;
- identify key issues and risk factors in respect of the merger;
- receive and adopt reports from experts;
- ensure adequate supervision at all stages of due diligence;
- liaise with those responsible for preparation of the merger documentation and information to be provided to shareholders; and
- provide minutes of committee meetings and a final report to the NZWC Board.

### Guiding Principles

The DDC adopted the following key principles in undertaking its work, with an overall guiding question of "what are we going to report and recommend to our shareholders":

- the relative values used to establish the values of both FNZ and NZWC assets and liabilities are to be established on a like for like basis; and
- the prospects for the merged company going forward are to be verified.

### Work Undertaken

The DDC oversaw the following work in the carrying out of due diligence:

- preparation of a Due Diligence Planning Memorandum;
- identification of the Due Diligence Focus Points (Appendix 1);
- provision of a due diligence information request and checklist to FNZ;
- establishment of an electronic data room for FNZ data;

## CORPORATE GOVERNANCE STATEMENT

### FOR THE YEAR ENDED 30 JUNE 2012 (CONTINUED)

- management of a written question and answer process through the data room;
- the holding of regular DDC committee meetings to evaluate progress of due diligence and to ensure that the review was meeting the requirements of the Due Diligence Planning Memorandum;
- liaison with Simmons Corporate Finance in respect of the preparation of the Independent Adviser's Report to be provided for NZWC shareholders under the provisions of the Takeovers Code;
- liaison with FNZ executives and Grant Samuel in respect of the preparation of a twelve month forecast of earnings for the merged company (**Mergeco**);
- negotiation and confirmation of the final relative shareholdings of FNZ and existing NZWC shareholders in the merged company;
- negotiation and finalisation of legal documentation required for the merger; and
- preparation of a Notice of Meeting for despatch to NZWC shareholders.

#### Board Meetings

Director participation in meetings during the year\*:

Director	Appointment	Board	Audit	Due Diligence
JA Jamieson	Oct 1999	15 #	2	7
JE Albertson	Oct 2008 (Resigned Feb12)	10	2	-
DR Appleby	Jun 2007	15	2 #	7 #
SC Riley	Jun 2007 (Resigned Feb12)	10	-	-
WF Wallace	Oct 2007	14	-	7

# denotes Chairman

\* No separate Remuneration Committee meetings were held during the year - all remuneration related matters were dealt with at full board meetings during the year.

## STATUTORY INFORMATION

### FOR THE YEAR ENDED 30 JUNE 2012

#### 1. DIRECTOR PROFILES

##### ALTON JAMIESON - CHAIRMAN

Alton Jamieson was elected to the Board in September 1999 and as its Chairman in September 2007. Alton's business career has covered banking, transport and waste management services. He has had a 23 year career with waste management services businesses, primarily with NZX and ASX publicly listed Waste Management NZ Limited and was its Managing Director on listing in 1985. Alton spent 5 years based in Sydney from 1991 as CEO and a director of Pacific Waste Management Pty Limited, Australia. He also served as Chairman of Waste Management NZ Limited for 12 years until he retired from the Board in 2002. Alton has been a director of the Blues Franchise Limited and also served as an independent contractor to the New Zealand Rugby Union, working on a number of projects over the 3 years to 2006. Alton is an Accredited Director and Fellow of the Institute of Directors in New Zealand and is a Fellow of the New Zealand Institute of Management.

##### DAVID APPLEBY

David Appleby was elected to the Board in July 2007. David is a director of Appleby Consulting Ltd, an Auckland based business specialising in business valuations and business advisory services. David has a career in chartered accounting and currently holds a number of directorships of private companies. David has been the Executive Chairman of publicly listed Ceramco Corporation Ltd as well as a past Chairman of the NZ Hockey Federation. He is a Chartered Accountant, Fellow of the Institute of Directors and a Fellow of the Chartered Institute of Secretaries.

##### BILL WALLACE

Bill Wallace was appointed to the Board in September 2007. This followed a career as a manager with Public Trust, Managing Director of Hannahs Footwear, Operations Director of the NZ Rugby Union and an offshore assignment with the International Rugby Board. He has held directorships for over 20 years, is a member of the Institute of Directors and currently a director of five private companies (Chairman of three) in Nelson/Marlborough, Chair of a shopping centre company in Palmerston North, Chairman of a Cinemas Exhibition business and a Past President of the NZ Retailers Association.

#### 2. INTEREST REGISTERS

The following entries were recorded in the Directors' interest register of the Company during the year:

##### SHARE DEALINGS IN THE SHARES OF THE NEW ZEALAND WINE COMPANY LIMITED

Share transactions undertaken during the year were as follows: Nil (2011: Nil).

TRANSACTIONS	2012 \$000	2011 \$000
Certain Directors have interests in contracts with The New Zealand Wine Company Limited. All transactions were at normal commercial rates.		
SC Riley (Lundons Law – legal fees)	14	14

##### LOANS TO DIRECTORS

No loans to directors were authorised during the year.

##### INDEMNITY AND INSURANCE

The Directors' and Officers' liability insurance is held to cover risks normally covered by such policies arising out of acts or omissions of directors and employees in their capacity as such except for specific matters which are expressly excluded.

## STATUTORY INFORMATION

### FOR THE YEAR ENDED 30 JUNE 2012 (CONTINUED)

#### 3. DIRECTORS REMUNERATION

Directors of the Company during the year and remuneration and other benefits paid to directors by the Company were as follows:

	2012 \$000	2011 \$000
DIRECTORS' FEES		
JA Jamieson	62	42
JE Albertson	14	22
DR Appleby	34	26
MJ McQuillan	-	22
SC Riley	14	22
WF Wallace	34	26

No Directors are executives. No remuneration and other benefits were paid to Directors during the year (2011: \$nil).

#### 4. EMPLOYEES' REMUNERATION

Remuneration and other benefits of \$100,000 per annum or more received by employees in their capacity as employees were as follows:

	Number of Employees
\$150,000-\$159,999	1
\$160,000-\$169,999	1
\$350,000-\$359,999	1

#### 5. DONATIONS

The New Zealand Wine Company Limited made no donations during the year (2011: Nil).

#### 6. SHAREHOLDER BREAKDOWN

Shareholding as at 30 June 2012	Number of shareholders	Total shares held	% of share capital
1-999	71	28,443	0.3%
1,000-9,999	199	575,189	6.6%
10,000-49,000	57	1,127,642	13.0%
50,000-99,999	12	839,871	9.7%
100,000-499,999	17	4,213,256	48.6%
500,000+	2	1,892,798	21.8%
	358	8,677,199	100.0%

## STATUTORY INFORMATION

### FOR THE YEAR ENDED 30 JUNE 2012 (CONTINUED)

#### 7. DIRECTORS' SHAREHOLDING

Shares held at 30 June 2012 (including beneficial interests):

	Ordinary Shares
DR Appleby	300,000
JA Jamieson	988,268
WF Wallace	39,531

#### 8. 20 LARGEST REGISTERED HOLDERS

Ordinary shares held at 30 June 2012:	Ordinary shares held	% of share capital
JA Jamieson*	988,268	11.4%
Alfa Lea Horticulture Limited*	904,530	10.4%
JD Croft*	459,363	5.3%
MA & VF Peters	402,376	4.6%
JG & VR Orchard	387,842	4.5%
CJC & HC Fletcher & Peters Doig Trustee Co Ltd	354,000	4.1%
WC McDonald, DR Appleby & RN Burnes	337,467	3.9%
JHG Milne & MA Milne & DFB Stevenson	309,058	3.6%
Possum Equities Limited	300,000	3.4%
TJ Fairhall	295,116	3.4%
JP Morgan Chase Bank NA - NZCSD	261,390	3.0%
D Edwards	207,712	2.4%
CM & BW Doig	198,794	2.3%
MJ McQuillan	135,107	1.5%
PI McCallum	123,684	1.4%
FNZ Custodian Limited	121,553	1.4%
AW & A Rutledge	109,981	1.3%
Fifeshire Holdings Limited	105,772	1.2%
LJ Hope	104,041	1.2%
TE & SN Seatter	93,456	1.1%
Sub-total	6,199,510	71.4%
Others (352 Shareholders)	2,477,689	28.6%
TOTAL	8,677,199	100.0%

\* These shareholders are substantial security holders as defined in Section 21 of the Securities Markets Act 1988.

## CONTRIBUTORS

### PERMANENT EMPLOYEES AS AT 30 JUNE 2012

Craig Fowles	Jayne Spalding	Patrick Maher
Craig Young	Jeffrey Parker	Peter Cairns
David Busch	Jens Merkle	Peter Sanders
Donna Clark	Josh Black	Peter Scutts
Donna Ngatai	Marie Dufour	Shane Henry
Gillian Moore	Michael Sweetlove	Steven Simpson
Jane Trought	Muriel Yvon	

## WINE SHOW AWARDS

### FOR THE YEAR ENDED 30 JUNE 2012

#### **New Zealand International Wine Show 2011**

Silver Medal – Grove Mill Riesling 2009  
Silver Medal – Grove Mill Grand Reserve Riesling 2009  
Silver Medal – Grove Mill Grand Reserve Pinot Noir 2010  
Silver Medal – Sanctuary Pinot Gris 2010

#### **International Wines and Spirits Competition 2011**

Silver Medal – Grove Mill Riesling 2010  
Silver Medal – Grove Mill Grand Reserve Riesling 2010

#### **Air New Zealand Wine Awards 2011**

Pure Silver Medal – Grove Mill Pinot Gris 2010

#### **New World Wine Awards 2011**

Silver Medal – Grove Mill Chardonnay 2009

#### **Decanter Wine Awards 2012**

Silver Medal – Grove Mill Pinot Noir 2010

THE NEW ZEALAND WINE COMPANY  
LIMITED

**ANNUAL REPORT**

**FOR THE YEAR ENDED 30 JUNE 2012**

<b>DIRECTORS:</b>	JA Jamieson (Chairman) DR Appleby WF Wallace
<b>WINERY ADDRESS:</b>	13 Waihopai Valley Road Renwick, Marlborough, New Zealand Telephone +64 3 572 8200 Facsimile +64 3 572 8211
<b>POSTAL ADDRESS:</b>	PO Box 67, Renwick 7243, Marlborough, New Zealand
<b>EMAIL:</b>	info@nzwineco.co.nz
<b>WEBSITES:</b>	www.nzwineco.co.nz www.grovemill.co.nz www.sanctuarywine.co.nz
<b>NATURE OF BUSINESS:</b>	Production and distribution of wine
<b>AUDITORS:</b>	Deloitte, Wellington
<b>SOLICITORS:</b>	Lundons Law, Blenheim
<b>BANKERS:</b>	National Bank of New Zealand, Blenheim
<b>REGISTRATION NO.</b>	307139
<b>REGISTERED OFFICE:</b>	13 Waihopai Valley Road, Renwick 7204, Marlborough
<b>SHARE REGISTRAR:</b>	Computershare Investor Services Limited 159 Hurstmere Road, Takapuna, North Shore City 0622 Private Bag 92119, Auckland 1142 Telephone +64 9 488 8777 Facsimile +64 9 488 8787 Email: enquiry@computershare.co.nz (please quote CSN or shareholder number) Website for shareholders to change address or payment instructions or view investment portfolio: www.computershare.co.nz/investorcentre
<b>SHARE TRADING:</b>	NZX – NZAX Market Stock Code “NWC”