THE NEW ZEALAND WINE COMPANY LIMITED

DIRECTORS' REPORT

For The Year Ended 30th June 2008

The Directors of The New Zealand Wine Company Limited (NZWC) present their 2008 full year operating results and Annual Report.

NZ IFRS Financial Reporting Standards

NZWC Financial Statements for the 30 June 2008 full year were prepared under NZ IFRS (New Zealand equivalents to International Financial Reporting Standards) for the first full year in the transition from reporting under the previous NZ GAAP Reporting Standard.

NZ IFRS is New Zealand's new Financial Reporting Standard and Directors are conscious of the need to focus on the company's cash-based underlying earnings performance. The Board believes this is best reflected by the first column - 'Result Before Biological Bearer-Asset Adjustments' - in the Income Statement on page 8 of the Annual Report as representing the most transparent management financial performance for an agricultural exporter given NZWC's reporting requirements specified under NZ IFRS.

Integrated grape-growing and wine-producing entities require own-produced grapes for strategic risk management as an essential ingredient to support winery investment and marketing activities. But no other integrated reporting entities are required to value their own-production at unrealized current market value (not cost) when transferred as grapes into inventory for wine-making, nor are revaluations of biological assets (the grape vines) customarily regarded as an unrealized profit item. The financial effects of these items are therefore identified and adjusted to achieve the Result Before Biological Bearer-Asset Adjustments.

Taken together, this underlying financial performance and the obligatory NZ IFRS reporting requirements represent, in the opinion of the Directors, a truer and fairer portrayal of the total NZWC operating results.

Operating Results

NZWC Directors are pleased to announce record net earnings for the 30 June 2008 full year with audited net profit after tax of a $1,351,000 result Before Biological Bearer-Asset Adjustments. This represents a 41% increase on the $960,000 result for the same period in 2007. The full NZ IFRS result was $2,044,000, including unrealized profit adjustments, compared to the equivalent $1,167,000 result for the previous year, an increase of 75%.

Basic earnings per share were 15.6 cps for the 30 June 2008 full year under the Result Before Biological Bearer-Asset Adjustments and 23.6 cps under NZ IFRS.

The 2008 net profit after tax include an unrealised foreign exchange gain of $176,000 relating to the valuation of forward exchange contracts at "fair value" as at balance date. With these open forward exchange contracts being "marked to market" at each balance date, unrealised foreign exchange gains or losses are now required to be booked as holding profits or losses on these contracts as at balance date. It is impossible for NZWC Directors or Management to predict whether there will be gains or losses in advance of the balance date and the swings either way can be significant. In the previous year there were no forward contracts so there were no unrealised foreign exchange gains or losses to be fair value adjusted at balance date.

Total shareholders equity as at 30 June 2008 was $22,200,000 under the Result Before Biological Bearer-Asset Adjustments and has been reduced to $21,300,000 under NZ IFRS, for a net reduction of $900,000 primarily resulting from deferred tax adjustments reported under NZ IFRS. The deferred tax adjustment will not crystallize under current New Zealand income tax legislation as at balance date but must, nevertheless, be reported.

With 8,677,199 shares on issue at year end net tangible assets per share have reduced from $2.62 under the Result Before Biological Bearer-Asset Adjustments to $2.45 per share under NZ IFRS. This reduction occurs primarily because of the notional deferred tax adjustment referred to above.

Sales

Total revenue earned for the twelve months was a record for NZWC at $11,986,000 which represents an increase of 6% on the $11,309,000 for the same period in 2007. The 2008 financial year excludes any revenue from a three year contract with Delegat's which ceased in the 2007 year. The 2007 revenue earned from Delegat's contract processing has been replaced in the 2008 year by revenue earned from wine sales.

Wine sales revenue for the twelve months reached record levels but revenue earned from the sale of wine did not match the volume growth as revenue was adversely affected by the strength of the NZD for the majority of the 2007/2008 financial year.

NZWC carboNZero™ certification from Landcare Research continues to be an important sustainability initiative for the company and has been very well received in our offshore markets, particularly in the United Kingdom to help counter the adverse 'food miles' claims. NZWC has obtained new wine listings with a number of UK retailers and European distributors as a direct result of the carboNZero™ initiative. Management continue to work with Landcare Research to expand the scope of the carboNZero™ certification to help enhance sales and shareholder value.

Foreign Exchange

NZD foreign exchange risk management remains a key focus for the Board and Management who continue to work to implement appropriate FX management strategies.

As an exporter NZWC loses revenue from a strong NZD. It has been positive for NZWC that the NZD has weakened recently against the currencies of the key Countries that provide the majority of the company's export earnings. NZWC earnings will benefit to the extent the NZD continues to weaken on a longer term basis and the financial sustainability of NZWC revenues are correspondingly strengthened.

Vintage 2008

NZWC harvested its largest ever Vintage in 2008, as did many other Marlborough Wineries. NZWC crushed 3,243 tonnes of grapes from Vintage 2008 from its company owned and leased vineyards and contract growers. No grapes were processed for other wineries this year. This 2008 harvest represents a 44% or 992 tonne increase over the 2007 NZWC grape crush of 2,251 tonnes and was 27% higher than the budgeted grape tonnage intake.

NZWC's winery capacity and infrastructure was severely stretched over a shortened harvest period in 2008 and temporary tanks were brought in to handle this bumper vintage which produced good quality wine. The Board thanks all of our people who worked so effectively to meet the challenges presented by the vintage.

20th Anniversary

2008 is a milestone year for NZWC as the company completed 20 years operating in the New Zealand wine business. And on 15 August 2008 NZWC's Chief Winemaker David Pearce completed 20 years of service with the company. Both milestones will be celebrated at a function on the evening before the AGM on 31 October 2008.

Operating Results Outlook

Sales revenues and volumes for the 2009 financial year are projected to increase significantly as a result of the bumper 2008 harvest. However projecting net earnings after tax under the NZ IFRS is impossible for an agricultural exporting company to do meaningfully because of the significant fluctuations from year to year in unrealized components of the NZ IFRS Income Statement given some are unrealized, some valuations reversing after balance date and some are unpredictable and depend on the outcome of market prices for the 2009 harvest.

For all these reasons the Directors will continue to focus on the cash based underlying earnings performance. At this juncture NZWC has record volumes of wine available for sale; exchange rates are at last declining which impact on a significant proportion of NZWC sales to its export markets many of which recognize the Company's carboNZero™ certification as a positive feature; but interest rates remain high although there are signs these will decline too. There is the further unknown as to the impact of the record Marlborough harvest on wine sales and worldwide pricing. A much clearer position will be available by the time of the 2009 Interim Results announcement in February 2009.

There are differing current opinions about vineyard yields that can be anticipated from Vintage 2009, with the consensus at this point being that yields will be above-average again if conditions remain favourable, quite apart from higher volumes becoming available from our development vineyards. NZWC has budgeted for a 2009 vintage harvest of 2,900 tonnes and management will be taking steps to ensure that intakes are controlled to about this level to enable grapes to be handled within our available winery capacity.

The Board continues to work closely with Management to implement a Strategic Plan and growth strategy that will deliver improvements in margins and earnings to increase shareholder value. In the three years since 2006 case sales have nearly doubled and against this sales platform Directors believe the future outlook is positive. The Board is however also clearly focused on delivering improvements in margins and profitability that will improve earnings per share and shareholder value.

Dividend

The Directors have declared a fully imputed final dividend of 5 cents per share for the full year to 30 June 2008 which is a 25% increase of 1 cent per share over the prior year. The final dividend will be paid on 26 September 2008, with a record date of 19 September 2008. The total fully imputed dividends paid in 2008 will be 8 cents per share which is a 14% increase of 1 cent per share over the prior year.

Directors remain committed to increasing dividend payments and will continue to review dividend payout levels against sustainable cash based underlying earnings.

Directors Fees

The Board has advised shareholders in the past that it would not seek increases in directors' fees until underlying earnings increased. In the five years since 2003 Directors Fees paid annually to individual Directors have increased by a total of 15% and the size of the Board was returned to its earlier level to function with 6 Directors from late in 2007.

Directors believe it is now an appropriate time to review the level of fees being paid. The Remuneration Committee has benchmarked the current level of fees paid to Directors against those paid to other similar organisations and has found that an increase is justified. Accordingly the Board will be presenting a resolution for consideration by shareholders at the 2008 Annual Meeting on 31 October 2008 seeking an increase in directors' fees.

Conclusion

2009 may be a watershed year for the New Zealand wine industry following the bumper 2008 vintage which stretched the resources of the majority of wineries. The bumper harvest may also be the catalyst for further rationalisation to take place amongst wineries and grape growers, which in turn may provide NZWC with merger or acquisition opportunities, which if considered would be carefully evaluated on the basis of adding value for NZWC shareholders. The New Zealand economy is technically in a recession and the flow on impacts from the worldwide credit crisis are still being experienced. The positives are that there is now the prospect of the Reserve Bank continuing to reduce the OCR and when coupled with a weakening NZD, Directors are cautiously optimistic about the future.

The Board would like to thank Rob White, the management team and all NZWC staff for their hard work during the year to deliver a record operating result while also handling the largest vintage in the company's history.

And the Board would like to record its special thanks to John Milne who proposes to retire as a Director at the AGM after 11 years on the Board. John was elected as a Director of the Grove Mill Wine Company Limited Board in September 1997 and was been a contributor to the formation of The New Zealand Wine Company Limited and its listing as a public listed company on the NZAX. NZWC has benefited greatly from John's considerable governance and financial expertise and we wish him well for the future.

For and on behalf of the Board of Directors

Alton Jamieson
CHAIRMAN
28 August 2008

Footnote:
Changes to the NZWC financial statements are being reported for a full year for the first time this year under NZ IFRS and are summarised in the following Income Statement and Balance Sheet tables. The additional information in the tables is supplied for the Users benefit to show the NZ IFRS figures compared to the underlying earnings, Result Before Biological Bearer-Asset Adjustments, along with explanatory notes for the material NZ IFRS adjustments.

A full copy of the Annual Report for the twelve months ended 30 June 2008 and the Directors' Report with comparative summary financial tables and explanatory notes is available on the NZWC web site, at: http://www.nzwineco.co.nz/financial.aspx.

29 August 2008
The New Zealand Wine Company Limited
Attachment to the Directors' Report 2008 - Impact of the Adoption of New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS)

As outlined in the 2007 Annual Report the Company is required to adopt the NZ Equivalents to International Financial Reporting Standards (NZ IFRS) for the financial year ended 30 June 2008. The financial statements presented for the year ended 30 June 2008, represent the first financial statements prepared under NZ IFRS by the Company and for the benefit of shareholders and other users we have included a comprehensive explanation of the significant impacts that the required changes to accounting standards, and our associated accounting policies, have had on the Company's reported results and financial position.

Income Statement

	Note	Audited 12 months 30 June 2008 Before Biological Bearer-Asset Adjustments $000s	Audited 12 months 30 June 2008 Biological Bearer-Asset Adjustments $000s	Audited 12 months 30 June 2008 Under NZ IFRS $000s	Audited 12 months 30 June 2007 Before Biological Bearer-Asset Adjustments $000s	Audited 12 months 30 June 2007 Biological Bearer-Asset Adjustments $000s	Audited 12 months 30 June 2007 Under NZ IFRS $000s
Revenue from sale of goods		11,774	0	11,774	10,325	0	10,325
Revenue from rendering of services		130	0	130	951	0	951
Interest revenue		82	0	82	33	0	33
Revenue		**11,986**	**0**	**11,986**	**11,309**	**0**	**11,309**
Other income							
Gain on biological assets	1	0	280	280	0	551	551
Vineyard income - harvested grapes	2	1,613	585	2,198	1,429	(199)	1,230
Vineyard expenses	3	(1,613)	0	(1,613)	(1,429)	0	(1,429)
Net vineyard contribution		*0*	*865*	*865*	*0*	*352*	*352*
Net Foreign exchange risk management gains/(losses)		799	0	799	(263)	0	(263)
Government grants		33	0	33	0	0	0
Change in fair value of financial assets/ liabilities – held for trading	4	113	0	113	0	0	0
Total Other income		*945*	*865*	*1,810*	*(263)*	*352*	*89*
Excise duty		(533)	0	(533)	(582)	0	(582)
Cost of sales		(7,659)	125	(7,534)	(6,745)	(203)	(6,948)
Distribution expenses		(196)	0	(196)	(117)	0	(117)
Marketing expenses		(742)	0	(742)	(896)	0	(896)
Administrative expenses		(1,084)	0	(1,084)	(963)	0	(963)
Finance costs		(709)	0	(709)	(397)	0	(397)
Profit before income tax		**2,008**	**990**	**2,998**	**1,346**	**149**	**1,495**
Income tax expense		(657)	(297)	(954)	(386)	58	(328)
Profit for the period		**1,351**	**693**	**2,044**	**960**	**207**	**1,167**
Basic Earnings per share		15.6	8.0	23.6	11.1	2.4	13.5
Profit for the period as previously reported							***960***

Explanation of NZ IFRS Adjustments:

1. **Gain on biological assets** – under NZ IFRS grape vines are classified as "biological assets". Any movement in the value of the vines during the period is required to be taken through the profit and loss (Income Statement). At 30 June the vines (post-harvest) are valued by an independent valuer to determine the gain/loss on previous carrying value. It should be noted that these revaluation gains/losses are unrealised within the Income Statement and were formerly recorded under NZ GAAP as part of the Asset revaluation reserve, included in Shareholder's Equity.

2. **Vineyard income** – the income shown for the year ended 30 June 2008 of $2,198,000 (2007: $1,230,000) is the unrealised value of harvested grapes from the company's owned and leased vineyards for the 2008 vintage (2007: 2007 vintage) valued at "fair value", representing market value. These grapes were previously transferred to the winery at their cost, and vineyard income recorded for this amount, and any profit was realised upon their eventual sale as wine. The valuation of these grapes at market value, as required by NZ IFRS, results in adjustments to vineyard income and subsequently to cost of sales.

3. **Vineyard expenses** – the costs shown for the year ended 30 June 2008 of $1,613,000 (2007: $1,429,000) are the costs incurred for the production of grapes from the 2008 vintage (2007: 2007 vintage). Costs incurred post harvest until 30 June 2008 for the production of grapes to be harvested in approximately March/April of the following year are included in "Other current assets" as prepayments (consistent with their previous treatment).

4. **Change in fair value of financial assets** – the other income shown for the current year of $113,000 includes unrealised losses of $59,000 relating to the valuation of interest rate swaps at "fair value" and unrealised gains/losses of $172,000 relating to the valuation of forward foreign exchange contracts and foreign exchange option contracts at "fair value" at balance date. What this means is that if the Company were to "cash in" all of its outstanding interest rate swaps and forward foreign exchange contracts at 30 June 2008 it would have paid to the bank $59,000 and received from the bank $172,000 respectively for these. Under the previous accounting policies the interest rate swap benefit/loss would only be accounted for as the interest savings/expenses were realised in future periods. In relation to the forward foreign exchange contracts, under the previous accounting policies the export sales in future periods would be recorded at the realised forward contract rates into New Zealand dollars, not at the unrealised spot rate as is required by NZ IFRS, and as such this is bringing forward revenue for future sales. Such unrealised entries at balance date reverse on the opening of the next financial period. These unrealised gains/losses are revalued at their "fair value" on a continuous basis until either financial instrument maturity, translation into New Zealand dollars or the next balance date occurs.

Balance Sheet

	Note	Audited 12 months 30 June 2008 Before Biological Bearer-Asset Adjustments $000s	Audited 12 months 30 June 2008 Biological Bearer-Asset Adjustments $000s	Audited 12 months 30 June 2008 Under NZ IFRS $000s	Audited 12 months 30 June 2007 Before Biological Bearer-Asset Adjustments $000s	Audited 12 months 30 June 2007 Biological Bearer-Asset Adjustments $000s	Audited 12 months 30 June 2007 Under NZ IFRS $000s
CURRENT ASSETS							
CASH AND CASH EQUIVALENTS		650		650	1,637		1,637
TRADE AND OTHER RECEIVABLES		3,813		3,813	3,725		3,725
OTHER FINANCIAL ASSETS	1	176		176	0		0
INVENTORIES	2	11,075	472	11,547	7,852	(238)	7,614
CURRENT TAX ASSETS		10		10	158		158
OTHER CURRENT ASSETS		950		950	611		611
TOTAL CURRENT ASSETS		16,674	472	17,146	13,983	(238)	13,745
NON-CURRENT ASSETS							
PROPERTY, PLANT & EQUIPMENT		24,024	(9,106)	14,918	22,682	(8,154)	14,528
BIOLOGICAL ASSETS	3	0	9,106	9,106	0	8,154	8,154
INTANGIBLE ASSETS		15		15	23		23
INVESTMENTS		10		10	10		10
OTHER NON-CURRENT ASSETS		88		88	127		127
TOTAL NON-CURRENT ASSETS		24,137	0	24,137	22,842	0	22,842
TOTAL ASSETS		**40,811**	**472**	**41,283**	**36,825**	**(238)**	**36,587**
CURRENT LIABILITIES							
TRADE AND OTHER PAYABLES		2,793		2,793	2,100		2,100
LOANS AND BORROWINGS		1,734		1,734	1,473		1,473
OTHER FINANCIAL LIABILITIES	1	64		64			
TOTAL CURRENT LIABILITIES		4,591	0	4,591	3,572	0	3,573
NON-CURRENT LIABILITIES							
LOANS AND BORROWINGS		12,247		12,247	11,025		11,025
DEFERRED TAX LIABILITIES	4	1,773	1,372	3,145	1,443	1,074	2,517
TOTAL NON-CURRENT LIABILITIES		14,020	1,372	15,392	12,468	1,074	13,542
TOTAL LIABILITIES		18,611	1,372	19,983	16,041	1,074	17,115
EQUITY							
SHARE CAPITAL		9,619		9,619	9,598		9,598
RESERVES	5	8,043	(4,099)	3,944	7,393	(3,819)	3,574
RETAINED EARNINGS	6	4,538	3,199	7,737	3,793	2,507	6,300
TOTAL EQUITY		**22,200**	**(900)**	**21,300**	**20,784**	**(1,312)**	**19,472**
TOTAL		**40,811**	**472**	**41,283**	**36,825**	**(238)**	**36,587**

Explanation of NZ IFRS Adjustments:

1. **Other financial assets/liabilities** – the balances shown at 30 June 2008 of $176,000 as current assets and $64,000 as current liabilities are the outstanding financial derivatives including interest rate swaps, forward foreign exchange contracts and foreign exchange option contracts, at "fair value" at balance date – this is a new asset/liability category required under NZ IAS 39. There were no outstanding financial derivatives as at 30 June 2007.

2. **Inventories** – the adjustment of $472,000 (2007: -$238,000) relates to the grapes being valued at "fair value" under NZ IAS 41 as the deemed cost instead of actual cost as previously. The wine inventories held at transition to NZ IFRS had to be restated to "fair value" from actual cost as though NZ IAS 41 had always applied. The corresponding adjustment was made in Retained earnings.

3. **Biological assets** – the adjustment of $9,106,000 (2007: $8,154,000) is due to the reclassification of grape vines out of "property, plant & equipment". Under NZ IFRS grape vines are deemed to be a severable asset from the integrated vineyard land and improvements. These are required to be classified separately as a non-current asset under NZ IAS 41.

4. **Deferred tax liabilities** – the adjustment of $1,372,000 (2007: $1,074,000) results primarily from the requirement under NZ IFRS to bring to account a deferred tax liability in relation to the revaluation of biological assets. This liability was not previously recognised and will never be realised in full under current NZ income tax legislation.

5. **Reserves** – the adjustment shown in reserves of $4,099,000 (2007: $3,819,000) includes the asset revaluation reserve which related to vines of $3,268,000 which was required to be transferred to retained earnings upon transition from NZ GAAP to NZ IFRS. This is because NZ IAS 41 requires movements in the value of vines ("biological assets") be taken through the profit and loss (Income Statement).

6. **Retained earnings** – in accordance with NZ IFRS 1 "First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards" all entries arising from the transition from NZ GAAP to NZ IFRS are required to adjust through opening retained earnings.