



FOLEY FAMILY WINES

FOLEY FAMILY WINES LIMITED

**HALF YEARLY REPORT
FOR THE 6 MONTHS ENDING
31 DECEMBER 2012**



FOLEY FAMILY WINES

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**FOLEY FAMILY WINES LIMITED
COMPANY DIRECTORY
AS AT 31 DECEMBER 2012**

Directors

William Patrick Foley II (Chairman)
Anthony John Anselmi
James Alton Jamieson
Antony Mark Turnbull

Registration number

307139

Registered office

13 Waihopai Valley Road, RD6, Blenheim 7276

Postal address

PO Box 67, Renwick 7243, Marlborough, New Zealand

Auditors

PricewaterhouseCoopers New Zealand, Auckland

Bankers

Bank of New Zealand, Auckland

Solicitors

Minter Ellison Rudd Watts Lawyers, Auckland

Share register

Computershare Investor Services Limited
Level 2, 159 Hurstmere Road, Takapuna, Auckland

Share trading

NZX - NZAX Market: Stock Code "FFW" (Formerly "NWC")

Company structure

The Company is 80% owned by Foley Family Wines Holdings, New Zealand Limited

The Company is the 100% shareholder of the following companies:

- Goldwater Wines Limited – incorporated 26 January 2010
- Clifford Bay Wines Limited - incorporated 12 January 2010
- Vavasour Wines Limited - incorporated 7 July 2011
- Te Kairanga Wines Limited - incorporated 24 August 2011
- Grove Mill Wine Company Limited - incorporated 18 December 2001
- Sanctuary Wine Company Limited - incorporated 6 December 2001
- The New Zealand Wine Company Ltd (prev Bedford Road Investments Ltd) - incorporated 22 June 1994
- The New Zealand Wine Company (Europe) Limited - incorporated 25 July 2008
- The New Zealand Wine Company (USA) Inc. - incorporated 1 July 2010

FOLEY FAMILY WINES LIMITED
STATEMENT OF COMPREHENSIVE INCOME
FOR THE PERIOD ENDED 31 DECEMBER 2012

		Unaudited Dec 2012 6 months Group \$000	Audited Jun 2012 6 months Group \$000	Unaudited Dec 2011 6 months Group \$000
Revenue from sale of goods and services	3	14,846	12,001	14,759
Cost of goods and services sold	5(c)	(10,978)	(10,427)	(9,834)
Gross profit		<u>3,868</u>	<u>1,574</u>	<u>4,925</u>
Loss on biological assets		0	0	(663)
Loss on revaluation property, plant & equipment		0	76	(586)
Other income	4	636	83	6,976
Operating and other expenses	5(a)	(3,311)	(2,662)	(3,446)
Profit/(loss) from operations		<u>1,193</u>	<u>(929)</u>	<u>7,206</u>
Finance costs	5(b)	(709)	(554)	(203)
Profit/(loss) before share of associates loss and income tax		<u>484</u>	<u>(1,483)</u>	<u>7,003</u>
Income tax income/(expense)		(155)	1,080	(772)
Profit/(loss) for the year after income tax		<u>329</u>	<u>(403)</u>	<u>6,231</u>
Share of associates profit		0	12	57
Profit/(loss) for the year attributable to shareholders of the Company		<u>329</u>	<u>(391)</u>	<u>6,288</u>
Other comprehensive expense				
Translation gains/(losses)	6(c)	(3)	0	0
Total other comprehensive expense		<u>(3)</u>	<u>0</u>	<u>0</u>
Total comprehensive income/(expense)		<u>326</u>	<u>(391)</u>	<u>6,288</u>
Basic earning per share (cents)	8(a)	0.73	-0.84	14.37
Diluted earnings per share (cents)	8(b)	0.62	-0.84	14.37

The notes to the financial statements form part of this statement

FOLEY FAMILY WINES LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2012

		Unaudited Dec 2012 6 months Group \$000	Audited Jun 2012 6 months Group \$000	Unaudited Dec 2011 6 months Group \$000
Current assets				
Cash and cash equivalents		5,142	3,510	1,570
Trade receivables		5,932	5,910	7,185
Other receivables and prepayments		979	870	1,997
Inventories		18,021	17,427	16,562
Biological work in progress		3,011	213	2,376
Derivative financial assets		53	0	0
Current tax assets		570	0	0
Total current assets		<u>33,708</u>	<u>27,930</u>	<u>29,690</u>
Non-current assets				
Biological assets		11,288	5,969	5,969
Property, plant & equipment		35,995	22,776	22,244
Intangibles	9	9,585	8,263	8,263
Investment in associate		387	387	375
Deferred tax		0	0	0
Total non-current assets		<u>57,255</u>	<u>37,395</u>	<u>36,851</u>
Total assets		<u>90,963</u>	<u>65,325</u>	<u>66,541</u>
Current liabilities				
Trade payables		1,690	2,700	1,927
Other payables		1,266	498	377
Employee entitlements		145	80	79
Finance Lease		99	113	0
Tax payable		0	33	45
Intercompany loan		0	10,900	11,800
Borrowings	11	0	7,000	7,000
Financial liabilities		43	0	0
Total current liabilities		<u>3,243</u>	<u>21,324</u>	<u>21,228</u>
Non-current liabilities				
Finance Lease		125	158	0
Borrowings	11	13,938	0	0
Convertible notes	12	10,900	0	0
Financial liabilities		678	0	0
Deferred tax		4,731	2,355	3,434
Total non-current liabilities		<u>30,372</u>	<u>2,513</u>	<u>3,434</u>
Total liabilities		<u>33,615</u>	<u>23,837</u>	<u>24,662</u>
Net assets		<u>57,348</u>	<u>41,488</u>	<u>41,879</u>
Equity				
Share capital - ordinary shares	6(a)	54,063	38,518	38,518
Retained earnings	6(b)	3,288	2,970	3,361
Reserves	6(c)	(3)	0	0
Total equity		<u>57,348</u>	<u>41,488</u>	<u>41,879</u>
Net tangible assets per share		\$1.10	\$0.72	\$0.72

The notes to the financial statements form part of this statement

FOLEY FAMILY WINES LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 31 DECEMBER 2012

	Note	Unaudited Dec 2012 6 months Group \$000	Audited Jun 2012 6 months Group \$000	Unaudited Dec 2011 6 months Group \$000
Share capital	6(a)			
Opening ordinary share capital		38,518	38,518	30,519
Movements in share capital		15,545	0	7,999
Closing ordinary share capital		<u>54,063</u>	<u>38,518</u>	<u>38,518</u>
Retained profits	6(b)			
Balance at start of period		2,959	3,361	(2,927)
Net income for period		329	(391)	6,288
Balance at end of period		<u>3,288</u>	<u>2,970</u>	<u>3,361</u>
Foreign currency translation reserve	6(c)			
Balance at start of period		0	0	0
Translations gains/(losses)		(3)	0	0
Balance at end of period		<u>(3)</u>	<u>0</u>	<u>0</u>
Total equity at end of period		<u><u>57,348</u></u>	<u><u>41,488</u></u>	<u><u>41,879</u></u>

The notes to the financial statements form part of this statement

FOLEY FAMILY WINES LIMITED
STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDED 31 DECEMBER 2012

	Unaudited Dec 2012 6 months Group \$000	Audited Jun 2012 6 months Group \$000	Unaudited Dec 2011 6 months Group \$000
Cash flows from operating activities:			
Receipts from customers	19,963	13,506	10,148
Interest received	27	22	15
Other income	636	1,050	690
Income tax refunded/(paid)	0	0	8
Payments to suppliers	(13,024)	(8,806)	(12,953)
Payments to employees and directors	(1,807)	(1,553)	(1,269)
Interest paid	(809)	(576)	(218)
Return of shareholder current account funds	0	12	0
Net cash flow from operating activities	4,986	3,655	(3,579)
Cash flows from investing activities:			
Sale of property, plant and equipment	0	0	662
Purchase of biological assets	0	0	(324)
Purchase of intangibles	(4)	0	(11)
Purchase of property, plant and equipment	(344)	(1,715)	(4,575)
Purchase of investments	0	0	(375)
Net cash flow from investing activities	(348)	(1,715)	(4,623)
Cash flow from financing activities:			
Borrowings	15,792	0	1,100
Loan from Parent	0	0	0
Loans paid	(24,798)	0	0
Equity Contribution	6,000	0	7,999
Net cash flow from financing activities	(3,006)	0	9,099
Net increase/(decrease) in cash & cash equivalents:	1,632	1,940	897
Cash & cash equivalents at start of period	3,510	1,570	673
Cash & cash equivalents at end of period	5,142	3,510	1,570
Cash & cash equivalents consists of:			
Cash at bank	5,142	3,510	1,570
	5,142	3,510	1,570

The notes to the financial statements form part of this statement

**FOLEY FAMILY WINES LIMITED
STATEMENT OF ACCOUNTING POLICIES
FOR THE PERIOD ENDED 31 DECEMBER 2012**

1. INTRODUCTION

Foley Family Wines Limited ('the Company') is involved in the viticultural and winemaking industry in New Zealand.

The Company is a limited liability company incorporated and domiciled in New Zealand. The address of its registered office is 13 Waihopai Valley Road, RD6, Blenheim 7276. The Company is registered under the Companies Act 1993 and is an issuer for the purposes of the Financial Reporting Act 1993.

The Company is 80% owned by Foley Family Wines Holdings, New Zealand Limited, which in turn is owned 84.2% by Foley Family Wines Inc., a company domiciled in the United States of America.

The financial statements were authorised for issue by the Directors on 25 February 2013.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

Accounting Period

The unaudited financial statements presented are for Foley Family Wines Limited, formerly The New Zealand Wine Company Limited (the legal Parent, accounting acquiree) and its subsidiaries (the Group) and cover the 6 month period to 31 December 2012. These financial statements include Foley Family Wines NZ Limited (the accounting acquirer) for the 6 months and Foley Family Wines Limited (formerly The New Zealand Wine Company Limited) for 4 months. These condensed financial statements have been prepared in accordance with IAS 34 and NZ IAS 34 Interim Financial Statements and should be read in conjunction with Foley Family Wines NZ Limited's Annual Report for the 6 months ended 30 June 2012.

All note disclosures are reported in New Zealand dollars rounded to the nearest thousand dollars.

Reverse Acquisition

The acquisition of Foley Family Wines NZ Limited by The New Zealand Wine Company Limited on 4 September 2012 is treated as a reverse acquisition for reporting purposes. This has the effect of treating Foley Family Wines NZ Limited as the accounting acquirer of The New Zealand Wine Company Limited, as it recognises that the shareholders of Foley Family Wines NZ Limited retained the controlling interest. Further details of the reverse acquisition are set out in Note 7.

Amalgamation

On 4 October 2012 Foley Family Wines Limited and Foley Family Wines NZ Limited amalgamated and the company that continued in existence was Foley Family Wines Limited. The amalgamation does not affect the Group financial statements.

Prior Year Comparatives

Certain prior year balances have been reclassified to assist comparison to the current period. The comparatives disclosed for the 6 months ended 30 June 2012 and 6 months ended 31 December 2011 for the Group are the comparatives of Foley Family Wines NZ Limited

Accounting Policies

The same accounting policies and methods of computation are followed in the interim financial statements as were followed in the annual financial statements for the year ended 30 June 2012 with the exception of the following:

**FOLEY FAMILY WINES LIMITED
STATEMENT OF ACCOUNTING POLICIES
FOR THE PERIOD ENDED 31 DECEMBER 2012**

Accounting Policies (continued)

Taxation

Income tax expense has been recorded in these financial statements on the basis of 28% of profit/(loss) before income tax. Any deferred benefits have not been brought to account. This is consistent with the prior year.

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.

Segment Reporting

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 based on the information provided in these financial statements. There are therefore no additional disclosures included in these financial statements.

Changes in accounting policies

There have been no significant changes in accounting policies during the period. Accounting policies have been applied on a basis consistent with the prior year.

FOLEY FAMILY WINES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2012

	Unaudited Dec 2012 6 months Group \$000	Audited Jun 2012 6 months Group \$000	Unaudited Dec 2011 6 months Group \$000
3. REVENUE			
Wine sales	16,593	13,286	16,253
less: Excise tax and ALAC duties	(1,747)	(1,285)	(1,494)
	14,846	12,001	14,759
4. OTHER INCOME			
Wine equalisation tax rebate	630	0	658
Gain on acquisition of assets	0	0	6,297
Other	6	83	21
	636	83	6,976
5. EXPENSES			
(a) Operating expenses include the following:			
Bad and doubtful debts	(49)	481	660
Depreciation	626	620	450
Loss on disposal of fixed assets	0	8	125
Foreign exchange (gains)/losses	65	276	(244)
Foreign exchange mark-to-market fair value losses	63	0	1
Land rental	209	203	161
Salaries and wages	1,759	1,554	1,269
Defined contribution benefit plans	25	11	2
Termination benefits paid including redundancy	283	30	131
Directors fees	48	0	0
Remuneration to audit firm - PricewaterhouseCoopers Auckland			
Audit	26	0	0
Tax compliance services	0	0	0
Remuneration to audit firm - BDO Wellington			
Audit	2	30	29
Statutory accounts preparation	0	6	4
Tax compliance services	12	27	12
(b) Finance costs include the following:			
Interest paid	(809)	(576)	(218)
Interest received	27	22	15
Fair value adjustment - interest rate swaps	73	0	0
	(709)	(554)	(203)
(c) Cost of sales include the following:			
Fair value adjustment - inventory	530	(1,594)	(125)
Movement in inventory obsolescence provision	(380)	29	(35)

FOLEY FAMILY WINES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2012

		Unaudited Dec 2012 6 months Group \$000	Audited Jun 2012 6 months Group \$000	Unaudited Dec 2011 6 months Group \$000
6. EQUITY				
<u>Total Equity</u>				
Share capital	6(a)	54,063	38,518	38,518
Retained earnings	6(b)	3,288	2,970	3,361
Reserves	6(c)	(3)	0	0
Total equity		<u>57,348</u>	<u>41,488</u>	<u>41,879</u>

The Company's capital is managed with the objective of maintaining adequate working capital so that all obligations can be met on time, keeping the risks of high gearing to a moderate level. All components of equity are regarded as capital.

(a) Share capital

Opening ordinary shares and share capital		38,518	38,518	30,519
Movements in shares and share capital		6,000	0	7,999
Reverse acquisition share issue		9,545	0	0
Closing ordinary shares and share capital		<u>54,063</u>	<u>38,518</u>	<u>38,518</u>

Share issue details and rights

As at 31 December 2012 there were 43,385,995 shares issued and fully paid (Jun12: 46,426,666; Dec 11: 46,426,666). All ordinary shares have equal voting rights and share equally in dividends and any surplus on winding up.

Reverse acquisition share issue

Parent

On 4 September 2012 Foley Family Wines NZ Limited was acquired in a merger transaction by The New Zealand Wine Company Limited, which purchased 100% of Foley Family Wines NZ Limited for \$42,114,541 from Foley Family Wines Holdings, New Zealand Limited. The New Zealand Wine Company Limited changed its name to Foley Family Wines Limited on 4 September 2012 and changed its NZX ticker code from NWC to FFW. The acquisition was satisfied with the issue of 30,380,525 shares at an issue price of \$1.386 per share. There were also 4,328,271 shares issued at \$1.386 per share for \$6,000,000 cash. This gave Foley Family Wines Holdings, New Zealand Limited, an 80% interest in the company as at that date.

Group

At the reverse acquisition date, The New Zealand Wine Company Limited had 8,677,199 shares on issue which had a fair value of \$1.10 per share based on the market price of NWC shares. This resulted in a reverse acquisition share issue of \$9,554,919. Further detail is provided in Note 7.

(b) Retained profits

Balance at start of period		2,959	3,361	(2,927)
Net income/(loss) for period		329	(391)	6,288
Balance at end of period		<u>3,288</u>	<u>2,970</u>	<u>3,361</u>

(c) Foreign currency translation reserve

Balance at start of period		0	0	0
Translations gains/(losses)		(3)	0	0
Balance at end of period		<u>(3)</u>	<u>0</u>	<u>0</u>

FOLEY FAMILY WINES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2012

	Unaudited Dec 2012 6 months Group \$000	Audited Jun 2012 6 months Group \$000	Unaudited Dec 2011 6 months Group \$000
7. REVERSE ACQUISITION SHARE ISSUE			
<p>The acquisition of The New Zealand Wine Company Limited, renamed Foley Family Wines Limited, on 4 September 2012 has been treated as a reverse acquisition for financial reporting purposes recognising that Foley Family Wines NZ Limited shareholders retained the controlling interest following the transaction.</p> <p>Summary of the effect of the reverse acquisition:</p>			
Trade receivables	3,182	0	0
Other receivables and prepayments	804	0	0
Inventories	5,411	0	0
Biological work in progress	635	0	0
Current tax assets	569	0	0
Derivative financial assets	51	0	0
Biological assets	5,319	0	0
Property, plant & equipment	13,501	0	0
Total assets acquired	29,472	0	0
Bank overdraft	(1,573)	0	0
Trade payables	(1,002)	0	0
Other payables	(914)	0	0
Employee entitlements	(94)	0	0
Deferred tax	(2,390)	0	0
Borrowings	(14,371)	0	0
Financial liabilities	(901)	0	0
Total liabilities acquired	(21,245)	0	0
Net assets acquired	8,227	0	0
Goodwill on consolidation	1,318	0	0
Total assets acquired	9,545	0	0
Funded as follows:			
Equity investment	9,545	0	0
	9,545	0	0

FOLEY FAMILY WINES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2012

10. RELATED PARTY DISCLOSURES

(a) Ultimate parent and subsidiaries

The Parent entity of Foley Family Wines Limited is Foley Family Wines Holdings, New Zealand Limited who own 80% of the shares in Foley Family Wines Limited. The ultimate parent is Foley Family Wines Inc., who own 84.2% of Foley Family Wines Holdings, New Zealand Limited and as such owns 67.4% of the Company. (Jun 2012: Foley Family Wines Inc, owned 97.6% of Foley Family Wines Holdings, New Zealand Limited which owned 100% of Foley Family Wines NZ Limited)

(b) Transactions with related parties during the year

No amounts owed by related parties have been written off or forgiven during the period.

Material transactions with related parties are set out below:

- (i) Sales were made to Foley Family Wines Inc., the ultimate parent of Foley Family Wines Limited. Sales were \$1,668 for the six months ended 31 December 2012 (Jun 2012: \$1,705).
- (ii) Marketing support services were provided by Foley Family Wines Inc., the ultimate parent of Foley Family Wines Limited. Marketing support charges were \$72 for the six months ended 31 December 2012 (Jun 2012: \$72).
- (iii) Sales were made to Foley Family Wines Holdings, New Zealand Limited the parent of the Foley Family Wines Limited. Sales were \$nil for the six months ended 31 December 2012 (Jun 2012: \$129).
- (iv) Interest was accrued on the intercompany loan from Foley Family Wines Holdings, New Zealand Limited the parent of the Foley Family Wines Limited. Interest accrued during and offset against the intercompany balance owing was \$120 for the six months ended 31 December 2012 (Jun 2012: \$382).
- (v) Interest was paid/payable to Foley Family Wines Holdings, New Zealand Limited the parent of the Foley Family Wines Limited under the convertible note (Note 12). Interest paid/payable was \$231 for the six months ended 31 December 2012 (Jun 2012: \$nil).
- (vi) Sales were made EuroVintage Limited a 50% owned associate of the parent company. Sales were \$5,603 for the six months ended 31 December 2012 (Jun 2012: \$4,522). Management fees and sales rebates of \$506 were charged by EuroVintage during the period (Jun 2012: \$503).
- (vii) Sales were made to, and administration services provided to, Wharekauhau Country Estate Limited, a luxury lodge 56% owned by Bill Foley, the majority shareholder of the ultimate parent. Sales for the period totalled \$9 (Jun 12: \$52). Administration Charges for the period totalled \$10 (Jun 12: \$12).
- (viii) Administration services were provided to, Wharepapa Station Limited, a subsidiary 61.8% owned by Wharekauhau Country Estate Limited. Administration Charges for the period totalled \$2 (Jun 12: \$3).
- (ix) New Zealand Wine Growers (USA) Limited is a group of 21 wine growers in New Zealand established to promote New Zealand wines at the premium end of the market. Foley Family Wines Limited (Vavasour) has a 5% interest in the Company and makes payment of \$4 per quarter as membership fees. Total amount paid during the period was \$8 (Jun 12: \$8).

FOLEY FAMILY WINES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2012

Unaudited Dec 2012 6 months Group \$000	Audited Jun 2012 6 months Group \$000	Unaudited Dec 2011 6 months Group \$000
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10. RELATED PARTY TRANSACTIONS (cont)

(c) Amounts owing to related parties at balance date

Foley Family Wines Inc.	36	38	0
Foley Family Wines Holdings, New Zealand Ltd - loan	0	10,900	11,800
Foley Family Wines Holdings, New Zealand Ltd - convertible note	10,900	0	0
Foley Family Wines Holdings, New Zealand Ltd - trading	0	112	0
Foley Family Wines Holdings, New Zealand Ltd - intercompany	0	12	1,117
Grove Mill Wine Company Limited	9	0	0
Sanctuary Wine Company Limited	9	0	0
EuroVintage Limited	107	3	113
Wharekauhau Country Estate Limited	0	10	0
Key management and personnel	0	0	1
Directors	0	4	0
	11,061	11,079	13,031

(d) Amounts owing from related parties at balance date:

Foley Family Wines Inc.	887	893	677
Foley Family Wines Holdings, New Zealand Limited	0	60	0
The New Zealand Wine Company Limited	2	0	0
EuroVintage Limited	1,559	971	1,647
Wharekauhau Country Estate Limited	42	39	26
Wharepapa Station Limited	0	1	1
McLeod Vineyard	33	0	16
Wineinc Pty Limited	0	36	539
Key management and personnel	0	1	0
	2,523	2,001	2,906

11. BORROWINGS

Bank loans (secured)	<u>13,938</u>	<u>7,000</u>	<u>7,000</u>
<i>split as:</i>			
Current	0	7,000	7,000
Non current	13,938	0	0
Contracted repayment terms:			
Less than 1 year	0	7,000	7,000
Between 1-5 years	13,938	0	0
	13,938	7,000	7,000

Bank loans of the Company are secured by the assets of the Company and all of its wholly owned subsidiaries (as noted on the Directory).

FOLEY FAMILY WINES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2012

11. BORROWINGS (CONTINUED)

On 7 September 2012 the Company repaid Rabobank in full and entered into a new banking facility with Bank of New Zealand. The arrangement provided for a three year \$20M term loan facility and \$5M multi-option overdraft/cash advance/letter of credit working capital facility. The facility also provides the option of uncommitted interest rate swap and uncommitted forward foreign exchange facilities. An event of review occurs under the facilities if entities owned or controlled by Mr William Foley no longer own at least 50.10% of the Group.

As at balance date the Company has \$11,062 of facility unused.

The Bank has registered a first ranking general security agreement over all the present and after acquired property of the Company and of its wholly owned subsidiaries, a specific security agreement over any separately identifiable intellectual property of the Company or its wholly owned subsidiaries and a first ranking mortgage over all of the land and improvements owned by the Company.

Unaudited	Audited	Unaudited
Dec 2012	Jun 2012	Dec 2011
6 months	6 months	6 months
Group	Group	Group
\$000	\$000	\$000

12. CONVERTIBLE NOTES

Foley Family Wines Holdings, New Zealand Limited	10,900	0	0
<i>split as:</i>			
Current	0	0	0
Non current	10,900	0	0

As part of the merger transaction with The New Zealand Wine Company Limited (renamed Foley Family Wines Limited ("FFW")), the Company issued an 18 month convertible note to Foley Family Wines Holdings, New Zealand Limited ("Foley Holdings") for the principal amount of \$10,900,000 thereby assuming Foley Family Wines NZ Limited's current loan liability to Foley Family Wines Holdings, New Zealand Limited of the same amount under a promissory note.

The principal terms of the Convertible Note are:

- the term of the Convertible Note is a minimum term of 18 months. After that period or earlier if FFW is in breach of its obligations under the Convertible Note, the Convertible Note converts at the option of Foley Holdings or alternatively Foley Holdings may demand repayment in lieu of conversion;
- the issue price on the conversion of any shares under the Convertible Note is \$1.386 per share which is the same price at which the shares have been issued to Foley Holdings pursuant to the Merger of The New Zealand Wine Company Limited and Foley Family Wines New Zealand Limited. On conversion of the Convertible Note issued by FFW, 7,863,025 shares in FFW could be issued to Foley Holdings at a price of \$1.386 per share by way of off-set against the amount owing to Foley Holdings under the Convertible Note. Assuming no change in the shares on issue in FFW between the date of the issue of the Convertible Note and its conversion to new shares, this would when aggregated with the shares issued under the Merger increase the holdings of Foley Holdings to 83%.
- the Convertible Note does not give Foley Holdings any right to vote. Foley Holdings will acquire voting rights with the ordinary shares it receives on any exercise of the right to convert under the Convertible Note;
- interest is payable, quarterly in arrears (not compounding), on the Convertible Note pending conversion at the rate of 6.5% pa. The interest rate has been agreed between FFW and Foley Holdings as being representative of market rates for an unsecured loan of its type; and
- all shares issued pursuant to the exercise of the Convertible Note will rank equally in all respects with all other FFW shares on issue.

The Convertible Note can be converted at the option of Foley Holdings after 18 months and there are no performance hurdles required to be met before conversion can occur.

FOLEY FAMILY WINES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2012

13. RECONCILIATION OF REPORTED NET PROFIT/(LOSS) AFTER TAXATION WITH CASH FLOWS FROM OPERATING ACTIVITIES

	Unaudited Dec 2012 6 months Group \$000	Audited Jun 2012 6 months Group \$000	Unaudited Dec 2011 6 months Group \$000
Reported net profit/(loss) after taxation	329	(393)	6,288
<i>Add (Less) non-cash items:</i>			
Fair value loss - biological assets	0	0	663
Depreciation	626	620	450
Provision for obsolete stock	(380)	29	35
Increase in deferred tax liability	(14)	(1,079)	2,080
Unrealised FX loss	(3)	14	0
Loss on disposal of plant and equipment	0	639	125
Decrease in future tax benefit	0	0	0
Revaluation of fixed assets	0	(76)	586
Share of profit from associate company	0	(12)	0
Fair value adjustment to inventory	530	(1,594)	(125)
Gain on acquisition - biological assets	0	0	(1,583)
Gain on acquisition - land and buildings	0	0	(4,910)
Gain on acquisition - property, plant & equipment	0	0	(1,354)
Bad debts	458	(180)	0
Provision for doubtful debts	(507)	0	661
Asset additions transferred from work in progress	0	0	0
Other	0	(4)	0
<i>Movements in working capital:</i>			
(Increase)/decrease in trade receivables	3,160	1,546	(2,332)
(Increase) in inventory	4,664	(865)	(10,344)
(Increase)/decrease in biological work in progress	(2,163)	2,163	1,553
(Increase)/decrease in other receivables and prepayments	695	2,864	3,559
(Increase)/decrease in taxation receivable	(34)	0	218
Increase in financial derivatives	(182)	0	45
Increase in trade payables	(2,012)	774	(773)
Decrease in other payables	(146)	(792)	1,571
Increase in employee entitlements	(32)	1	8
Net cash flow from operating activities	4,989	3,655	(3,579)

14. SUBSEQUENT EVENTS

No material events have occurred since balance date.