



THE NEW ZEALAND WINE COMPANY
LIMITED

HALF YEARLY REPORT

FOR THE SIX MONTHS ENDED 31 DECEMBER 2003

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THE NEW ZEALAND WINE COMPANY
LIMITED

CHAIRMAN'S REPORT

**HALF YEARLY REPORT FOR THE SIX MONTHS ENDED
31 DECEMBER 2003**

Despite the drop in tax paid surplus compared with the half year ended December 2002, the second half is expected to broadly match the second half of last year. There are a number of reasons for the tax paid surplus for the current half year of \$321,000 falling markedly short of the record \$596,000 in 2002. In summary these are:

- A change in ordering patterns by both the Australian and United Kingdom markets whereby they previously ordered in bulk during the first half, and are now ordering "just in time" for arrival as required. From their point of view this saves them carrying a lot of stock for a period. From the company's point of view the first half sales have reduced in volume due to such change. Some of this has been offset by increased sales in other markets, but overall has had an impact on the half year result.
- There were some one off costs relating to a change in a distribution channel during the period. Changes in distributors in two key markets provided some inevitable challenges, but the board is confident that the long term benefits from alignment with our two new distributors will far outweigh any short term impacts.
- As indicated in my 2003 Annual Report, margins reduced from the frost affected 2003 Vintage, whereby cost of grapes increased due to short supply, and factory overheads per litre increased due to short volume. 2003 vintage stock sales in the first half year (being only a portion of the total sales given that we did carry 2002 stock through due to the frosts) have consequently been at lower margins.

While the full year result is expected to improve it will still be markedly below the record 2003 full year for the same reasons. The major factor being the change in ordering patterns in two large markets. Having established this pattern this year there is an overall drop in stock sold for the year as a one off, and total sales for the following year would be expected to return to normal volumes because there will be little or no starting stock at year commencement in those markets.

A very significant surplus that is not fully reflected in the bottom line result of \$321,000 is the cash surplus of \$1,340,848 as a result of the sale of the company's Old Renwick Road vineyard in December 2003 (see note 9 to the accounts). Of this surplus a total of \$1,294,465 had previously been written in to unrealised reserves following various annual Registered Valuers reports over recent years. None of this \$1,294,465 had previously been included in the bottom line of the company's reported tax paid profits, but is now able to be transferred from the unrealised revaluation reserve to realised reserves. Accordingly this is a significant and important real cash benefit to the company. The vineyard was sold because we have purchased additional land for development adjoining the company's 17 Valley site. We are consolidating the vineyard management to lesser in number, but larger in area sites. Also there is the opportunity to reduce and alter the term of our corporate debt and the price being offered was an excellent integrated financial outcome for the company.

It is still early days for our 2004 harvest. The vineyards are in excellent health and the prospect is that on current growing conditions the yield would be substantially above last year's harvest. To the extent that there is any capacity available from the new winery, the company will be offering some third party processing to ensure the larger Marlborough crush can be handled locally.

Overall the company is still in a very sound position and well placed to move ahead once past this difficult trading period. There is no doubt that there is now and will be in the future pressure on the New Zealand Wine Industry members to meet challenges in the next few years. However we firmly believe that well managed and efficient companies, with quality product, good brand image and good marketing will be successful through this period and in the future. Naturally the continued high value of the New Zealand dollar remains of concern. We still have reasonable cover at good rates in place but this will start to run out in mid 2005 as existing stocks are sold and new forward cover is required for future sales. We would want to see the NZ/US rate at below 60 cents by then.

THE NEW ZEALAND WINE COMPANY
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CHAIRMAN'S REPORT

**HALF YEARLY REPORT FOR THE SIX MONTHS ENDED
31 DECEMBER 2003 (CONTINUED)**

The company is fortunate to have a highly efficient and professional CEO in Rob White and a very talented winemaker in David Pearce. These two and the other members of the very capable and focussed management team are very conscious of what is required to see the company being successful and returning to good growth in earnings over the course of the balance of our current 5 year plan. Quality fruit is being sought both from our own vineyards and from our valuable contract growers; quality and innovative wines are being planned from this fruit, and our branding, marketing and distribution channels are continually being worked upon. The US market with our new distributors coming to the end of only their first full year has shown excellent promise, the Australian and UK markets have slowed up a little as outlined above and the New Zealand market is showing promising growth following our change to Montana Wines as our national distributors in late 2003. Much effort will be put in to the Australian, UK and other export markets over the next few months.

The remuneration committee has reviewed long term incentive plans to find a suitable plan to offer Rob White and Dave Pearce. A further announcement will be made regarding an incentive based performance share plan that the board is looking to introduce.

There will certainly be challenges to be met, particularly as recent plantings throughout New Zealand come on stream and increase overall production. As I have touched upon in previous reports we do believe it is essential for the Industry nationally, in preference, but certainly in Marlborough, as critical, to have an overall strategic plan to ensure that the wine produced is of the highest quality possible and that co-ordinated promotional and marketing activities are giving the right emphasis for wine growers, the wine companies and the wine buyers in all markets. We do believe that there is a need to look at expansion of markets to take the projected growth in volume. For our part we are making forays into some new markets at present and trying to strengthen more recent markets. It is quite clear that the Industry can no longer rely on selling just about everything to the UK market.

The New Zealand Wine Company joined the first group of companies to list onto the NZ Stock Exchange's new AX Market when it opened for trading on Friday 14th November. This has been a worthwhile exercise from a governance point of view, and for increased visibility and potential marketability of shares for our Shareholders. The company is committed to assist the NZX to make this a viable and relevant market for investors in new and smaller companies destined, when large enough, for full listing on the NZSX.

It is intended that an interim dividend will be paid in April at the same level as last year – being 2 cents per share fully imputed.

Finally I wish to pay tribute to my fellow board members and all of the company staff for their continued contribution. The calibre of our board members and staff are a very valuable asset as the company goes forward.

Mark Peters
CHAIRMAN
30 January 2004.



THE NEW ZEALAND WINE COMPANY
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STATEMENT OF FINANCIAL PERFORMANCE
FOR THE SIX MONTHS ENDED 31 DECEMBER 2003

	Note	Unaudited 6 months ended 31 Dec 2003 \$'000	Audited 12 months ended 30 Jun 2003 \$'000	Unaudited 6 months ended 31 Dec 2002 \$'000
TOTAL REVENUE		3,352	7,407	4,316
Surplus from operations	3	649	1,835	982
Net Financing costs	4	(192)	(212)	(92)
Surplus before taxation		457	1,623	890
Taxation		(136)	(542)	(294)
NET SURPLUS FOR THE PERIOD		321	1,081	596
Earnings per share (after tax)	5	3.8	13.1	7.5

STATEMENT OF MOVEMENTS IN EQUITY
FOR THE SIX MONTHS ENDED 31 DECEMBER 2003

	Note	Unaudited 6 months ended 31 Dec 2003 \$'000	Audited 12 months ended 30 Jun 2003 \$'000	Unaudited 6 months ended 31 Dec 2002 \$'000
Net surplus for the period		321	1,081	596
Surplus on revaluation of land, land improvements and buildings		-	3,016	-
Comprehensive income for the period		321	4,097	596
Contributions by owners	6	23	1,977	1,963
Distributions to owners		(343)	(448)	(276)
Added to equity during period		1	5,626	2,283
Equity at beginning of period		16,384	10,758	10,758
Equity at end of period		16,385	16,384	13,041

These financial statements should be read in conjunction with the notes to the financial statements on pages 8 to 10.

THE NEW ZEALAND WINE COMPANY
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STATEMENT OF FINANCIAL POSITION

FOR THE SIX MONTHS ENDED 31 DECEMBER 2003

	Note	Unaudited 6 months ended 31 Dec 2003 \$'000	Audited 12 months ended 30 Jun 2003 \$'000	Unaudited 6 months ended 31 Dec 2002 \$'000
CURRENT ASSETS				
Cash		41	-	356
Receivables		545	1,711	1,520
Inventories		5,140	5,692	3,946
Taxation		180	145	20
Other current assets	9	3,046	274	165
		<u>8,952</u>	<u>7,822</u>	<u>6,007</u>
NON-CURRENT ASSETS				
Property, plant & equipment	9	16,336	17,921	14,544
Intangibles - Identifiable		224	203	221
- Goodwill		2	3	3
Investments		10	10	10
Other non-current assets		211	98	133
		<u>16,783</u>	<u>18,235</u>	<u>14,911</u>
TOTAL		<u>25,735</u>	<u>26,057</u>	<u>20,918</u>

These financial statements should be read in conjunction with the notes to the financial statements on pages 8 to 10.

THE NEW ZEALAND WINE COMPANY
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STATEMENT OF FINANCIAL POSITION
FOR THE SIX MONTHS ENDED 31 DECEMBER 2003 (CONTINUED)

	Note	Unaudited 6 months ended 31 Dec 2003 \$'000	Audited 12 months ended 30 Jun 2003 \$'000	Unaudited 6 months ended 31 Dec 2002 \$'000
CURRENT LIABILITIES				
Bank overdraft		-	1,189	-
Loans		447	382	360
Trade creditors		236	725	238
Payables		183	212	202
		<u>866</u>	<u>2,508</u>	<u>800</u>
NON-CURRENT LIABILITIES				
Deferred taxation		749	752	460
Loans		7,735	6,413	6,617
		<u>8,484</u>	<u>7,165</u>	<u>7,077</u>
TOTAL LIABILITIES		<u>9,350</u>	<u>9,673</u>	<u>7,877</u>
EQUITY				
Equity share capital	6	9,442	9,439	9,425
Reserves		6,888	6,910	3,581
Convertible notes		55	35	35
TOTAL EQUITY		<u>16,385</u>	<u>16,384</u>	<u>13,041</u>
TOTAL		<u>25,735</u>	<u>26,057</u>	<u>20,918</u>

These financial statements should be read in conjunction with the notes to the financial statements on pages 8 to 10.

THE NEW ZEALAND WINE COMPANY
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STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2003

	Note	Unaudited 6 months ended 31 Dec 2003 \$'000	Audited 12 months ended 30 Jun 2003 \$'000	Unaudited 6 months ended 31 Dec 2002 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash was provided from (applied to)				
Receipts from customers		4,890	9,220	5,470
Interest received		5	7	3
Payments to suppliers and employees		(2,948)	(8,050)	(4,016)
Interest		(287)	(538)	(262)
Income taxation paid		(173)	(361)	(279)
Net cash flow from operating activities	7	<u>1,487</u>	<u>278</u>	<u>916</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Cash was provided from (applied to)				
Sale of non-current tangible assets		123	41	37
Purchase of non-current tangible assets		(1,305)	(3,336)	(2,760)
Purchase of non-current non-tangible assets		(8)	(19)	(18)
Employee Share Scheme repaid		-	1	1
Grower loan repaid (advanced)		(113)	(110)	(116)
Net cash flow from investing activities		<u>(1,303)</u>	<u>(3,423)</u>	<u>(2,856)</u>
CASH FLOWS FROM FINANCING ACTIVITIES				
Cash was provided from (applied to)				
Issue of equity share capital		3	1,927	1,913
Loans advanced		1,600	2,400	2,400
Loans repaid		(214)	(359)	(176)
Dividends paid		(343)	(448)	(277)
Net cash flow from financing activities		<u>1,046</u>	<u>3,520</u>	<u>3,860</u>
Net increase/(decrease) in cash held		1,230	375	1,920
Cash at beginning of period		(1,189)	(1,564)	(1,564)
Cash at end of period		<u>41</u>	<u>(1,189)</u>	<u>356</u>
Comprising: Cash		41	-	356
Bank Overdraft		-	(1,189)	-
		<u>41</u>	<u>(1,189)</u>	<u>356</u>

These financial statements should be read in conjunction with the notes to the financial statements on pages 8 to 10.

THE NEW ZEALAND WINE COMPANY
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NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2003

1. ACCOUNTING PERIOD

These unaudited financial statements cover the six month period to 31 December 2003. These financial statements have been prepared in accordance with FRS-24 Interim Financial Statements and should be read in conjunction with The New Zealand Wine Company Limited's Annual Report for the year ended 30 June 2003.

2. ACCOUNTING POLICIES

Taxation expense has been recorded in these financial statements on the basis of 33% of surplus before taxation excluding the non-taxable surplus from the sale of vineyard. Any deferred benefits have not been brought to account.

This is consistent with the prior year.

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

	Unaudited 6 months ended 31 Dec 2003 \$'000	Audited 12 months ended 30 Jun 2003 \$'000	Unaudited 6 months ended 31 Dec 2002 \$'000
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3. SURPLUS FROM OPERATIONS

Included in surplus from operations are the following:

REVENUE ITEMS:

Net foreign exchange gain	80	97	30
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EXPENSES:

Amortisation	7	15	8
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Depreciation*	95	176	86
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Directors' fees	51	100	50
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Excise duty	246	502	245
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Fees paid to auditors:

- Audit of financial report	1	12	1
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- For other services	-	2	-
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* Total depreciation on non-current tangible assets totalled \$235,000 for the six months ended 31/12/03 (Y/E 30/6/03 \$389,000; P/E 31/12/02 \$177,000). \$140,000 has been applied to work in progress (Y/E 30/6/03 \$213,000; P/E 31/12/02 \$91,000).

4. NET FINANCING COSTS

Loan interest	308	550	276
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Less: Interest revenue	(5)	(7)	(3)
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Less: Interest capitalised	(111)	(331)	(181)
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	192	212	92
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5. EARNINGS PER SHARE

The calculation is based on earnings of \$321,618 (30/6/03 \$1,081,383; 31/12/02 \$596,383) and the weighted average of 8,584,852 ordinary shares in issue during the period (30/6/03 8,253,031; 31/12/02 7,925,610). The earnings per share for 31 December 2002 (reported as 6.7 in the Half Yearly Report for the 6 months ending 31 December 2002) have been adjusted for comparative purposes for the change in treatment of vineyard costs and the capitalisation of land improvement financing costs.

THE NEW ZEALAND WINE COMPANY
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2003 (CONTINUED)

	Unaudited 6 months ended 31 Dec 2003 \$'000	Audited 12 months ended 30 Jun 2003 \$'000	Unaudited 6 months ended 31 Dec 2002 \$'000
6. SHARE CAPITAL			
ORDINARY SHARES			
Balance at beginning of period	9,439	6,770	6,770
Share issues	3	2,019	2,004
Less Costs of issues	-	(42)	(41)
Bonus shares issued	-	692	692
Balance at end of period	9,442	9,439	9,425
Number of fully paid ordinary shares	8,585,586	8,583,452	8,574,452
During the period the Company issued the following shares:			
22 July 2003: 1,000 shares issued from share options exercised at \$1.57.			
7 October 2003: 1,134 shares issued from share options exercised at \$1.57.			
SHARE OPTIONS			
Balance at end of period	92,558	120,583	147,133
7. NET CASH FROM OPERATING ACTIVITIES			
<i>Reconciliation of statement of financial performance surplus with net cash flow from operating activities</i>			
SURPLUS	321	1,081	596
Non-cash items:			
Depreciation	231	389	177
Amortisation of identifiable intangibles	7	28	8
Increase/(Decrease) in deferred taxation	(3)	287	(5)
	556	1,785	776
MOVEMENTS IN WORKING CAPITAL			
(Increase)/Decrease in inventories	552	(1,337)	409
(Increase)/Decrease in receivables	1,166	226	418
Increase/(Decrease) in trade creditors	(489)	(216)	(702)
Increase/(Decrease) in payables and other current assets	(235)	(242)	(47)
	994	(1,569)	78
ITEMS CLASSIFIED AS INVESTING ACTIVITIES			
Loss (profit) on disposal of non-current tangible assets	(63)	62	62
Net cash inflow from operating activities	1,487	278	916

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2003 (CONTINUED)

	Unaudited 6 months ended 31 Dec 2003 \$'000	Audited 12 months ended 30 Jun 2003 \$'000	Unaudited 6 months ended 31 Dec 2002 \$'000
8. CAPITAL COMMITMENTS			
Winery Expansion Stage 2	312	-	-
Purchase of Land	-	320	-
Winery Expansion Stage 1	-	-	87

9. SALE OF OLD RENWICK ROAD VINEYARD

During the period the Company entered into a Sale and Purchase Agreement for the sale of the 13.6 hectare Old Renwick Road vineyard. The agreement went unconditional on 19 December 2003 with possession and settlement being on 1 June 2004. The balance owing of \$2.6 million has been included in Other current assets.

Sale Price	2,700
Less Net book value of land, buildings & land improvements	(2,654)
Gain on sale included in surplus from operations	46

The gain on sale is a non-taxable capital gain and therefore has been excluded when calculating the income tax expense.

The sale of the vineyard realised revaluation increments previously recorded in the Asset revaluation reserve of \$1,294,465. These will be transferred to Retained earnings within Equity.

10. SUBSEQUENT EVENTS

No material events have occurred since balance date.

11. SHAREHOLDER INFORMATION

April 2004	Interim Dividend
August 2004	Annual Report Published
September/October 2004	Annual General Meeting
October 2004	Final Dividend

THE NEW ZEALAND WINE COMPANY
LIMITED

HALF YEARLY REPORT

FOR THE SIX MONTHS ENDED 31 DECEMBER 2003

DIRECTORS:	M A Peters (Chairman) M J Hunter J A Jamieson M J McQuillan J H G Milne
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POSTAL ADDRESS:	P.O. Box 67, Renwick, Marlborough, NZ
EMAIL:	info@nzwineco.co.nz
WEBSITES:	www.nzwineco.co.nz www.grovemill.co.nz www.sanctuarywine.co.nz
NATURE OF BUSINESS:	Production and distribution of wine
AUDITORS:	Deloitte Touche Tohmatsu, Wellington
SOLICITORS:	Wisheart Macnab & Partners, Blenheim
BANKERS:	National Bank of New Zealand, Blenheim
REGISTRATION NO:	CH 307139
REGISTERED OFFICE:	13 Waihopai Valley Road, Renwick, Marlborough
SHARE REGISTRAR:	Computershare Investor Services Limited Level 2, 159 Hurstmere Road, Takapuna Private Bag 92119, AUCKLAND 1020 Telephone + 64 9 488 8777 Facsimile + 64 9 488 8787 Email: enquiry@computershare.co.nz
SHARE TRADING: "NWC"	NZX - NZAX Market