

THE NEW ZEALAND WINE COMPANY  
LIMITED

***ANNUAL REPORT***  
***FOR THE YEAR ENDED 30TH JUNE 2006***

THE NEW ZEALAND WINE COMPANY  
LIMITED

**A N N U A L R E P O R T**  
**F O R T H E Y E A R E N D E D 3 0 T H J U N E 2 0 0 6**

***DIRECTORS:***

M A Peters (Chairman)  
M J Hunter  
J A Jamieson  
M J McQuillan  
J H G Milne

***WINERY ADDRESS:***

13 Waihopai Valley Road  
Renwick, Marlborough NZ  
Telephone +64 3 572 8200  
Facsimile +64 3 572 8211

***EMAIL:***

info@nzwineco.co.nz

***WEBSITE ADDRESSES:***

www.nzwineco.co.nz  
www.grovmill.co.nz  
www.sanctuarywine.co.nz

***NATURE OF BUSINESS:***

Production and distribution of wine

***AUDITORS:***

Deloitte, Wellington

***SOLICITORS:***

Wisheart, Macnab & Partners, Blenheim

***BANKERS:***

National Bank of New Zealand, Blenheim

***REGISTRATION NO:***

CH307139

***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:***

NZX - NZAX Market  
Stock Code "NWC"

THE NEW ZEALAND WINE COMPANY  
LIMITED

**A N N U A L R E P O R T**  
**F O R T H E Y E A R E N D E D 3 0 T H J U N E 2 0 0 6**  
**C O N T E N T S**

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THE NEW ZEALAND WINE COMPANY  
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**CHAIRMAN'S REPORT**  
**FOR THE YEAR ENDED 30TH JUNE 2006**

THE PAST YEAR

The full year financial result for the company is a tax paid surplus of \$1.026 million, representing a sound 12% increase on 2005 despite difficult trading conditions. The EBIT result (earnings before interest and tax) was an all time record for the company at \$1.875 million. Sales increased by 6% to a record \$9.371million. This improvement has come off intense planning and strategy set over recent years.

The company has for the first time also released a projection for the 2007 financial year which is anticipating a major increase in tax paid profit of 56% to \$1.6 million. We are confident that our sales and distribution channels and volume of quality stock can deliver this. The unsurprising provisos in respect of this figure are the direction of the \$NZ exchange rate and cost inflation throughout 2007. However we have based our figures on the ANZ/National forecasts for that year and believe this is a prudent course to take. Finance manager Jane Trought assists the board greatly in the delivery of timely financial reports and budgets/forecasts.

The work put in by management in brand awareness and in securing good distribution channels has continued to prove an excellent investment. Our distribution partners in main export markets have all performed admirably. This will be expanded further in CEO Rob White's report, but suffice for me to say that I and the board are very pleased with the performance of our export distributors. Work still continues in a tough domestic market to secure a good positioning of the company's brands. Marketing manager Karen Walshe and sales manager Boyd Gardner are doing some very good work in this area.

The recent and future growth in the company's performance starts fairly and squarely with the continued consistency of quality of the company's products. I am firmly of the view that year on year the wines produced by Chief Winemaker David Pearce, and his winemaking team, have outstanding consistency of high quality. This is evidenced by the excellent awards achieved this year summarised on page 34 with a range of medals right across the various company brands and most particularly with a number of absolutely outstanding awards for three different wines at separate 2006 wine shows:

*Grove Mill 2004 Pinot Noir*, Blue Gold at the Sydney International Wine Competition

*Grove Mill 2004 Riesling*, Gold and Regional Trophy at the London Decanter Wine Awards

*Grove Mill 2005 Sauvignon Blanc*, Gold and three trophies - Best NZ Sauvignon Blanc, Best NZ White Wine and Best International Sauvignon Blanc at the International Wine Challenge UK

These results are always a wonderful bonus and to be celebrated, but awards or not, the full range of wines we produce are consistently good and are the basis upon which we go forward with confidence of continued improvement in the company results and improved returns to shareholders. Such quality products are not only a credit to the winemaking team but also to viticulturist Doug Holmes and his company vineyard team as well as his group of our valuable contract growers. As much as anything the Sauvignon Blanc trophies are a reinforcement of Marlborough's premium position as producer of the best Sauvignon Blanc in the world.

The 2006 grape harvest was an outstanding one for the company with a record total intake of 3017 tonnes, of which 1489 tonnes of very good quality fruit was for the company's own production.

THE NEW ZEALAND WINE COMPANY  
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**CHAIRMAN'S REPORT**

**FOR THE YEAR ENDED 30TH JUNE 2006 (CONTINUED)**

THE FUTURE

At the 2005 AGM CEO Rob White gave a presentation on the company's current 5 year plan. More recently Rob has presented to a group of market analysts hosted by J B Were Goldman Sachs in Auckland. In summary the theme of both presentations was that our company does have a point of difference with our sustainable wine-growing practices and our environmental care and that we have sound plans for continued growth. As I said in last years report, while 2007 will deliver substantial earnings growth, the 2008 financial year will see some consolidation with the winding down of our processing contract for Delegates while we wind up production of our own volume in utilisation of the released capacity and to fit our plans for sales volume growth. Ensuing years should see a further return to solid growth once that increased volume is available for sale.

One of the most exciting matters to report is that we are currently finalising a long term distribution agreement with our US Importer, Palm Bay Imports, for production and sale of a second brand into the US. This brand is currently Palm Bay's own brand and during 2005/6 we supplied around 21,000 cases in an initial run. It is planned for that to grow to 48,000 cases in 2006/7 and further growth is anticipated after that. A sizeable proportion of this is in a 1.5 litre bottle, which until recently was unique to Palm Bay in the US. We have an excellent relationship with Palm Bay and are very pleased to be able to work together with them on growing this second brand in the US.

I will leave Rob to expand further on the above matters, but I do want to say that to ensure continued quality supply of grapes to meet projected wine sales, we have entered into various contracts with a combination of new contract growers and new company vineyards on leased land to be planted this spring.

The board continues to monitor potential merger/acquisition possibilities, and will continue to do so. As previously said there is a set of criteria the board is seeking which will not be compromised for the sake of just concluding an expedient deal. There is no doubt in my mind that there are too many small wineries in New Zealand competing for a small number of efficient distribution channels and some consolidation in ensuing years is vital for the well being of the industry. In the meantime our policy is to continue with our own organic growth.

While there has been an increase in volume of shares sold, and a lift in share price, in recent months on the NZAX, it is fair to say that the performance of the AX, and more particularly the interest in the AX by investment managers, analysts and the media, has been somewhat under-whelming. The board will consider its options to move on to the main board in due course.

The company will be adopting the new International Financial Reporting Standards in its 2007/08 financial year. These IFRS have attracted some criticism in various published company reports and by other commentators in recent months. I can say that this board shares concerns over implementation of certain of those new standards.

In the meantime accounting policies have remained unchanged from previous years.

CONCLUSION

This company is being led outstandingly well by CEO Rob White and he along with his capable management team and staff have the ability to deliver not only continued good results for the company but results that will reward shareholders for their patience and loyalty to the company.

THE NEW ZEALAND WINE COMPANY  
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**CHAIRMAN'S REPORT**

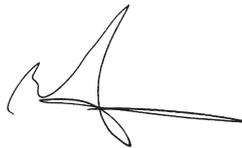
**FOR THE YEAR ENDED 30TH JUNE 2006 (CONTINUED)**

CONCLUSION (CONTINUED)

The final dividend to be paid on 22nd September will be a fully imputed 4 cents per share making the total of 7 cents for 2006, fully imputed, the same as last year. It is the definite intention of the board to increase dividends over the next and ensuing years along with the growth in earnings. Based upon realisation of the projected result for 2007 shareholders can anticipate an increase in dividend for the 2007 year.

The board will be presenting a resolution for consideration by shareholders at the Annual Meeting for an increase in directors' fees. It is 4 years since the last increase in directors' fees. The board's position has always been that no increase will be sought until earnings growth has been delivered.

Finally a sincere thanks to my fellow board members and all staff for their continued belief in and commitment to the company's philosophy, strategies and plans.

A handwritten signature in black ink, appearing to read 'Mark Peters', with a long horizontal stroke extending to the right.

Mark Peters  
CHAIRMAN

**CHIEF EXECUTIVE OFFICER'S REPORT**  
**FOR THE YEAR ENDED 30TH JUNE 2006**

There are a number of highlights to come from this Financial Year, which demonstrates the success of the key strategic initiatives of the last two years first communicated to shareholders at the AGM in September 2004.

**QUALITY WINE**

The Board and Management have taken steps to invest in the infrastructure of the business to ensure that not only can The NZ Wine Company increase its volume but through technology enhance the quality of wine produced. In managing our vineyard development to underpin supply, spread risk and provide diverse growing conditions the strategic investment decision was made to purchase and develop the 17 Valley Vineyard. This vineyard now close to full production produces the foundation for our Grove Mill brand wine.

Having taken the step to construct the new winery in 2002, the subsequent Delegates processing agreement has allowed us not only bring the winery to its full 3100 tonne capacity but invest in processing and handling technology that has both supported our environmental sustainable positioning and enhanced quality. Having good equipment will only produce results if we can maximise its potential and provide the flair and technical input necessary to produce great wine. The team of Winemakers, Cellar Hands, Bottling and Vineyard staff have managed what were difficult vintages in 2005 and 2006 to produce exceptional wines in record volumes.

It is very pleasing to have the results of these initiatives and efforts recognised in the form of awards as well as increasing sales. An undoubted highlight for the team has been the four trophies recently won in London wine shows on top of the many other awards highlighted on page 34 of this Annual Report.

**BRAND DEVELOPMENT**

We recognise that the key to The New Zealand Wine Company's long term success and ability to build shareholder value is to develop its brands so as to achieve a sustainable point of difference enabling us to build volume while retaining value. In taking what has been a founding principle of the company of respecting its environment we have started to build a credible platform for our sustainable environmental positioning. The most visible representation of this has been the new Grove Mill labels introduced in 2005 together with the continued development of the wetland at our Waihopai Valley site. The initial environmental strategy centred on our energy and waste management systems along with the wetland rehabilitation and we will continue to work on these areas.

We are now extending these initiatives and embarking on a series of new programmes that will enhance our environmental position and further improve our operating efficiencies.

\* Carbon Zero

We are working with government agency Landcare Research on an audit programme to establish our carbon status. We are hopeful that we can undertake initiatives that will ensure we can be registered as a carbon zero winery, possibly the first in the world. Global warming is fast becoming a major environmental issue and many consumers and trade customers are very aware of carbon emission issues, with 'food miles' a growing concern and a possible non-tariff trade barrier into Europe.

\* Green Globe 21

This is an environmental company standard initially developed in the tourism industry but which has grown to now provide independent benchmarked standards for wineries and vineyards. Accreditation to this standard will have significant status for many trade customers particularly in the tourism and transportation sectors. Full certification requires we implement a company wide environmental management system. We have selected to operate with "Environmark", a system administered by Landcare Research.

**CHIEF EXECUTIVE OFFICER'S REPORT**  
**FOR THE YEAR ENDED 30TH JUNE 2006 (CONTINUED)**

BRAND DEVELOPMENT (CONTINUED)

- \* Sustainable Winegrowing  
All our company owned and leased vineyards, along with the winery are now accredited under the Sustainable Winegrowing New Zealand scheme. We are now planning to work with our contract growers with the aim that all our fruit can be sourced from accredited vineyards.

DISTRIBUTION

Having great wine and unique brands only becomes significant if there are successful routes to market through effective distribution channels. The New Zealand Wine Company has worked hard in the last three years to rebuild its distribution channels and this is now reaping good rewards. Export markets provided most of the volume growth increasing 11% to around 59,000 cases.

The United States overtook the United Kingdom to become our largest export market based around our relationship with Importer – Palm Bay. Sales grew threefold with a significant portion being production of a second label for Palm Bay on top of continued good sales for Grove Mill.

Paragon our Grove Mill distributor in the United Kingdom made strong sales and distribution gains with shipments increasing 10% over last year. Our sales of Sanctuary to Sainsbury's did however fall back as a result of last years strengthening of the NZ dollar leading Sainsbury to increase the shelf price 50p per bottle. With the more recent decline in the NZ dollar we have commenced discussions on a possible return to the previous pricing position.

While the Australian market through our two distributors – The Wine Company and West Coast Wine Cellars had a tremendous year with sales almost doubling, the New Zealand domestic market remains difficult. Notwithstanding we were pleased to be able to grow domestic sales 3% but this required us to work closely and provide additional promotional support to our local distributors.

OUTLOOK

In June we presented to the market a projection for our year ending June 2007 indicating revenue growth to \$11.0 million and a Net profit after tax of \$1.6 million. The 2006 harvest has provided us with the volume of wine to achieve this projection and we anticipate export demand for Grove Mill to remain strong especially given our trophy wins. The volume of second brand sales to Sainsbury's and Palm Bay will depend on final discussions around pricing and supply agreements but we anticipate strong growth in this area. The domestic market will remain tight with the changing face of liquor retailing in New Zealand as a result of the Woolworths Australia purchase of Progressive and the entry of the Warehouse putting pressure on supplier margins. The movement in the NZ dollar will have significant impact on our result, we have used the quarterly assumptions from the ANZ bank as the basis of our projection.

The 2007 harvest will represent the third and last year of our Delegat's processing contract. We have been very active in sourcing additional grapes from the 2008 year onwards including negotiations around a number of lease vineyards. We have been able to source vines to ensure that we can plant sufficient acreage to secure the necessary volume of fruit going forward to continue fully utilising our winery capacity and meet our growing export demand.

Finally I would like to thank the Management team of The New Zealand Wine Company and all our staff for the efforts put into achieving the results delivered in this annual report.



Rob White  
CEO

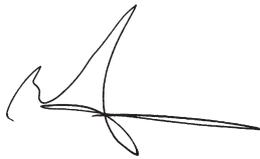
THE NEW ZEALAND WINE COMPANY  
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**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30TH JUNE 2006**

**APPROVAL BY DIRECTORS**

The Directors have approved the Financial Statements of The New Zealand Wine Company Limited for the year ended 30 June 2006 on pages 8 to 25.

For and on behalf of the Board of Directors 1 August 2006.



Mark A Peters  
CHAIRMAN



John HG Milne  
DIRECTOR

***S T A T E M E N T O F A C C O U N T I N G P O L I C I E S***  
***F O R T H E Y E A R E N D E D 3 0 T H J U N E 2 0 0 6***

The financial statements of The New Zealand Wine Company Limited have been prepared in accordance with the New Zealand Companies Act, 1993 and the Financial Reporting Act, 1993.

***1. BASIS FOR PREPARATION***

The financial statements have been prepared on the historical cost basis modified to include the revaluation of certain assets. Accrual accounting is used to recognise revenue and expenses. The reporting currency is New Zealand dollars.

***2. SPECIFIC ACCOUNTING POLICIES***

The specific accounting policies used in the preparation of the financial statements are as follows:

**2.1 PROPERTY, PLANT AND EQUIPMENT**

Land, land improvements and buildings are revalued to market value every year by an independent valuer. Any subsequent acquisitions since the last revaluation are recorded at historical cost.

Land improvements include all costs incurred in planting and developing vineyards including direct material, direct labour and an allocation of overhead and financing costs and are not depreciated until the asset reaches commercial production.

Revaluation surpluses are taken directly to the revaluation reserve. Decreases in value are debited directly to the revaluation reserve to the extent that they reverse previous surpluses within the class of asset concerned and are otherwise recognised as expenses in the Statement of Financial Performance.

All other items of property, plant and equipment are recorded on the historical cost basis.

Provision is made for any impairment in the value of property, plant and equipment.

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.

**2.2 IDENTIFIABLE INTANGIBLE ASSETS**

Purchased identifiable intangible assets, comprising brand imaging and trademarks, are shown at cost and amortised on a straight line basis over their estimated useful lives. Provision is made for any impairment in the value of identifiable intangible assets.

**2.3 INVESTMENTS**

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

**STATEMENT OF ACCOUNTING POLICIES**  
**FOR THE YEAR ENDED 30TH JUNE 2006 (CONTINUED)**

2.4 INVENTORIES

All inventories are valued at the lower of cost and net realisable value. Cost is calculated on an average cost basis.

Costs include a systematic allocation of appropriate production overheads that relate to putting inventories in their present location and condition. The allocation of production overheads is based on the normal capacity of the production facilities.

2.5 TRADE RECEIVABLES

Trade receivables are stated at net realisable values. Bad debts are written off during the year in which they are identified.

2.6 STATEMENT OF CASH FLOWS

The Statement of Cash Flows is prepared exclusive of GST, which is consistent with the method used in the Statement of Financial Performance.

Definitions of the terms used in the Statement of Cash Flows are:

“Cash” includes coins and notes, demand deposits and other highly liquid investments readily convertible into cash and includes at call borrowings such as bank overdrafts, used by the company 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.

“Financing activities” are those activities relating to changes in equity and debt capital structure of the company and those activities relating to the cost of servicing the company’s equity capital.

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

2.7 TAXATION

Deferred taxation, which is calculated on the comprehensive basis using the liability method, arises from amounts of income or expense recognised for tax purposes in years different from those in which they are dealt with in the financial statements.

A debit balance in the deferred taxation account is only carried forward to the extent that there is virtual certainty of its recovery.

Income taxation benefits arising from income taxation losses are recognised only to the extent of accumulated net credits from timing differences in the deferred taxation account unless there is virtual certainty of their realisation.

***S T A T E M E N T O F A C C O U N T I N G P O L I C I E S***  
***F O R T H E Y E A R E N D E D 3 0 T H J U N E 2 0 0 6 ( C O N T I N U E D )***

2.8 OPERATING LEASES

Operating lease rentals are recognised on a systematic basis that is representative of the time pattern of the benefit to the Company.

2.9 FOREIGN CURRENCY TRANSACTIONS

Transactions denominated in foreign currencies are translated into the reporting currency using the exchange rate in effect at the close of the transaction date.

Monetary items receivable or payable in a foreign currency, other than those resulting from short term transactions covered by forward exchange contracts, are translated at balance date at the closing rate. For transactions covered by short term forward exchange contracts, the rates specified in those contracts are used as the basis for measuring and reporting the transaction.

Exchange differences on foreign exchange balances are recognised in the Statement of Financial Performance.

2.10 FINANCIAL INSTRUMENTS

The Company uses forward exchange contracts with off-balance sheet risk for the primary purpose of reducing its exposure to fluctuations in foreign currency exchange rates. While these financial instruments are subject to risk that market rates may change subsequent to acquisition, such changes would generally be offset by opposite effects on the item being hedged.

Forward exchange contracts entered into as hedges of foreign exchange assets or liabilities are valued at the exchange rates prevailing at year end. Any unrealised gains or losses are offset against foreign exchange gains or losses on the related asset or liability.

2.11 CHANGES IN ACCOUNTING POLICIES

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

THE NEW ZEALAND WINE COMPANY  
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**STATEMENT OF FINANCIAL PERFORMANCE**  
**FOR THE YEAR ENDED 30TH JUNE 2006**

	Note	2006 \$'000	2005 \$'000
TOTAL REVENUE	1	9,414	8,993
Surplus from operations	2	1,875	1,646
Financing costs (net)	3	(341)	(283)
Surplus before taxation		1,534	1,363
Taxation	4	(508)	(455)
NET SURPLUS FOR THE YEAR		1,026	908
Earnings per share cps (after tax)	5	11.9	10.5
Dividends per share cps	6	7.0	7.0

**STATEMENT OF MOVEMENTS IN EQUITY**  
**FOR THE YEAR ENDED 30TH JUNE 2006**

	Note	2006 \$'000	2005 \$'000
Net surplus for the year		1,026	908
Revaluation of land, land improvements and buildings	9	660	1,084
Total recognised revenues and expenses		1,686	1,992
Contributions by owners	8, 10	-	77
Distributions to owners	7	(691)	(516)
Added to equity during the year		995	1,553
Equity at beginning of year		18,980	17,427
Equity at end of year		19,975	18,980

The Statement of Accounting Policies (pages 8 to 10) and the Notes to the Financial Statements (pages 15 to 25) form an integral part of these Financial Statements.

THE NEW ZEALAND WINE COMPANY  
LIMITED

**STATEMENT OF FINANCIAL POSITION**

**AS AT 30TH JUNE 2006**

	Note	2006 \$'000	2005 \$'000
<b>CURRENT ASSETS</b>			
Cash balances		-	850
Trade receivables		2,748	1,836
Inventories	16	5,653	5,957
Taxation		69	82
Other current assets		1,238	309
		9,708	9,034
 <b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	13	20,093	19,579
Identifiable intangibles	14	30	211
Goodwill	15	-	-
Investments	18	10	10
Other non-current assets		18	98
		20,151	19,898
 <b>TOTAL ASSETS</b>		<b>29,859</b>	<b>28,932</b>

The Statement of Accounting Policies (pages 8 to 10) and the Notes to the Financial Statements (pages 15 to 25) form an integral part of these Financial Statements.

THE NEW ZEALAND WINE COMPANY  
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**STATEMENT OF FINANCIAL POSITION**  
**AS AT 30TH JUNE 2006 (CONTINUED)**

	Note	2006 \$'000	2005 \$'000
<b>CURRENT LIABILITIES</b>			
Bank overdraft	11	159	-
Loans	11	757	734
Trade creditors		1,277	584
Payables	17	534	783
		2,727	2,101
 <b>NON-CURRENT LIABILITIES</b>			
Loans	11	6,211	6,976
Deferred taxation	12	946	875
		7,157	7,851
<b>TOTAL LIABILITIES</b>		9,884	9,952
 <b>EQUITY</b>			
Share capital	8	9,562	9,527
Reserves	9	10,413	9,418
Convertible notes	10	-	35
<b>TOTAL EQUITY</b>		19,975	18,980
 <b>TOTAL LIABILITIES AND EQUITY</b>		 <b>29,859</b>	 <b>28,932</b>

The Statement of Accounting Policies (pages 8 to 10) and the Notes to the Financial Statements (pages 15 to 25) form an integral part of these Financial Statements.

THE NEW ZEALAND WINE COMPANY  
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**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 30TH JUNE 2006**

	Note	2006 \$'000	2005 \$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash was provided from (applied to)			
Receipts from customers		9,578	10,904
Interest received		28	25
Payments to suppliers and employees		(7,854)	(7,408)
Interest paid		(569)	(549)
Taxation paid		(424)	(349)
Net cash flow from operating activities	19	759	2,623
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Cash was provided from (applied to)			
Sale of property, plant and equipment		1	25
Purchase of property, plant and equipment		(430)	(1,987)
Purchase of identifiable intangible assets		(7)	(4)
Grower loan advances		100	54
Employee loan advances/share scheme		-	1
Net cash flow from investing activities		(336)	(1,911)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Cash was provided from (applied to)			
Issue of equity share capital		-	33
Loan advanced		-	1,500
Loans repaid		(741)	(1,748)
Dividends paid		(691)	(516)
Net cash flow from financing activities		(1,432)	(731)
Net increase/(decrease) in cash held		(1,009)	(19)
Cash at beginning of year		850	869
Cash at end of year		(159)	850
Comprising: Cash balances		-	850
Bank overdraft		(159)	-
		(159)	850

The Statement of Accounting Policies (pages 8 to 10) and the Notes to the Financial Statements (pages 15 to 25) form an integral part of these Financial Statements.

THE NEW ZEALAND WINE COMPANY  
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**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30TH JUNE 2006**

	2006 \$'000	2005 \$'000
1. TOTAL REVENUE		
<i>Total revenue comprises:</i>		
Total sales revenue (net of excise duty)	9,371	8,840
Interest revenue	28	27
Total operating revenue (net of excise duty)	9,399	8,867
Other income:		
Net foreign exchange gain	15	126
Total revenue (net of excise duty)	9,414	8,993
2. SURPLUS FROM OPERATIONS		
<i>Included in surplus from operations are the following:</i>		
EXPENSES:		
Amortisation of goodwill	-	1
Amortisation of identifiable intangible assets	10	12
Bad and doubtful debts - Bad debts	-	-
Depreciation*	24	25
Directors' fees	102	102
Donations	-	-
Excise duty	568	531
Fees paid to auditors:		
- Audit of financial report	16	15
- For other services	-	-
Operating lease rentals	43	54
*Total depreciation on property, plant and equipment totalled \$576,000 (2005: \$659,000). \$552,000 has been applied to inventories (2005: \$634,000).		
3. NET FINANCING COSTS		
Interest expense	565	547
Less: Interest revenue	(28)	(27)
Less: Interest capitalised/included in cost of grapes	(196)	(237)
	341	283

THE NEW ZEALAND WINE COMPANY  
LIMITED

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 30TH JUNE 2006 (CONTINUED)**

		2006	2005
4.	TAXATION	\$'000	\$'000
	SURPLUS BEFORE TAXATION	1,534	1,363
	Income taxation expense calculated at current rate of 33 cents	506	450
	<i>Taxation effect of permanent differences</i>		
	Other permanent differences	2	5
	Taxation expense as reported	508	455
	ANALYSIS OF TAXATION EXPENSE		
	Current taxation	437	348
	Deferred taxation	71	107
		508	455
	IMPUTATION CREDITS		
	Balance at beginning of year	150	4
	Taxation paid	424	353
	Attached to dividends paid	(333)	(207)
	Balance at end of year	241	150

		2006	2005
		cents per share	cents per share
5.	EARNINGS PER SHARE	11.9	10.5

The calculation of earnings per share in respect of 2006 is based on earnings of \$1,025,796 (2005: \$908,153) and the weighted average of 8,643,499 ordinary shares on issue during the year (2005: 8,618,555). Diluted earnings per share have not been disclosed separately as they are not materially different from the basic earnings per share.

		7.0	7.0
6.	DIVIDENDS PER SHARE		

The calculation of dividends per share in respect of 2006 is based on the interim dividend paid in April and the proposed final dividend payable (Note 7) totalling \$605,570 (2005: \$604,310) and the weighted average of 8,643,499 ordinary shares on issue during the year (2005: 8,618,555).

		2006	2005
7.	DISTRIBUTIONS TO OWNERS	\$'000	\$'000
	2006 interim dividend 3 cps fully imputed paid 3/4/06	259	-
	2005 final dividend 5 cps fully imputed paid 23/9/05	432	-
	2005 interim dividend 2 cps fully imputed paid 15/4/05	-	173
	2004 final dividend 4 cps imputed to 3cps paid 29/10/04	-	343
		691	516

No final dividend has been declared and included in these financial statements. A final dividend of 4 cents per share fully imputed was approved by the Board on 1 August 2006 for payment on 22 September 2006.

THE NEW ZEALAND WINE COMPANY  
LIMITED

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30TH JUNE 2006 (CONTINUED)**

8. SHARE CAPITAL	2006 Number of shares issued	2005 Number of shares issued	2006 \$'000	2005 \$'000
FULLY PAID UP ORDINARY SHARES				
Balance at beginning of year	8,632,999	8,589,666	9,527	9,450
Share issue	18,000	43,333	35	77
Balance at end of year	8,650,999	8,632,999	9,562	9,527

The Company has only one class of shares and all shares have the same rights.

During the year the Company

- Issued 18,000 ordinary shares on 24 November 2005 at an issue price of \$1.95 per share ex convertible notes (refer Note 10).

SHARE OPTIONS

Balance at end of year	150,175	114,500
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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.

Information regarding options granted under the scheme is as follows:

	31 Oct 01	29 Jan 03	1 Mar 04	16 Nov 04	14 Nov 05	Total
Number of options granted	98,500	66,625	26,100	32,900	41,700	265,825
Number of options exercised	(6,300)	-	-	-	-	(6,300)
Number of options lapsed	(58,450)	(38,500)	(8,800)	(1,700)	(1,900)	(109,350)
Number of options outstanding at year end	33,750	28,125	17,300	31,200	39,800	150,175
Issue price	\$2.75	\$2.75	\$2.38	\$1.96	\$1.90	
Exercise price adjusted for bonus issues	\$2.50	\$2.75	\$2.38	\$1.96	\$1.90	
Percentage of total shares	0.4%	0.3%	0.2%	0.4%	0.4%	1.7%

THE NEW ZEALAND WINE COMPANY  
LIMITED

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30TH JUNE 2006 (CONTINUED)**

8. SHARE CAPITAL (continued)

PERFORMANCE SHARE PLAN

An employee performance share plan was established by the Company in December 2003 to drive improved longer-term earnings performance and align the interests of the Company's two key executives, Rob White, CEO, and David Pearce, Winemaker, with the interest of shareholders. A total of 185,186 rights to NZWC ordinary shares have been granted to Rob White and David Pearce. For the rights to be exercisable future EPS must meet or exceed a performance hurdle and increase by an average of 12% per year, to achieve EPS of no less than 23.1 cps for the 30 June 2008 financial year. EPS are to be calculated on a consistent basis from year to year, working from the base EPS of 13.1 cps actually achieved in the 30 June 2003 financial year. Each right issued under the plan entitles the participant to subscribe for one ordinary share during the exercise period on the terms and conditions of the agreement. No money is payable by the participant in respect of the grant of rights, or on the exercise of the rights. The exercise period for rights issued under the plan commences on the date of the performance hurdle confirmation notice given under the terms and conditions of the agreement and ends on 30 June 2010. If the EPS performance hurdle of 23.1 cps is not achieved for the 30 June 2008 financial year, then the rights will lapse and be cancelled.

	2006	2005
9. RESERVES	\$'000	\$'000
REVALUATION RESERVE		
Balance at beginning of year	6,254	5,170
Revaluation surplus during the year	660	1,084
Transferred from retained earnings on scrapping of property	13	-
Balance at end of year	6,927	6,254
RETAINED SURPLUS		
Balance at beginning of year	3,164	2,772
Net surplus for the year	1,026	908
Transfer to revaluation reserve	(13)	-
	4,177	3,680
Distributions to owners (Note 7)	(691)	(516)
Balance at end of year	3,486	3,164
TOTAL RESERVES	10,413	9,418

10. CONVERTIBLE NOTES

18,000 Convertible notes	-	35
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The notes were issued on 29 September 2000, are unsecured and carry a zero coupon. They were converted on a 1 for 1 basis to fully paid ordinary shares at an agreed value of \$1.95 on 24 November 2005.

THE NEW ZEALAND WINE COMPANY  
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**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30TH JUNE 2006 (CONTINUED)**

				2006 \$'000	2005 \$'000
11.	FUNDING				
		Interest Rate %	Interest Rate Review Date	Repayment Date	
	BANK OVERDRAFT	8.54% Floating	1/7/2006	159	-
	NATIONAL BANK LOANS				
	Loan # 1	8.48% Floating	20/8/2006	20/5/2011	379
	Loan # 2	7.95% Fixed	2/7/2006	2/7/2014	1,098
	Loan # 3	7.55% Fixed	29/11/2010	9/7/2016	1,236
	Loan # 4	7.75% Fixed	29/11/2006	9/7/2016	837
	Loan # 5	7.75% Fixed	29/11/2007	19/2/2012	347
	Loan # 6	7.58% Fixed	19/7/2007	19/7/2017	990
	Loan # 7	6.64% Fixed	21/8/2008	21/8/2018	1,473
	Loan # 8	7.75% Fixed	20/12/2007	20/12/2009	1,350
	TOTAL LOANS			6,968	7,710
	TOTAL FUNDING			7,127	7,710
	Bank overdraft			159	-
	Loans due within 1 year			757	734
	Loans due 1 to 2 years			787	759
	Loans due 2 to 5 years			2,118	2,323
	Loans due after 5 years			3,306	3,894
				7,127	7,710

NATIONAL BANK FLEXIBLE CREDIT FACILITY (BANK OVERDRAFT)

The Company has a flexible credit facility of \$2 million on a 90-day rolling bill linked interest rate.

SECURITY

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

THE NEW ZEALAND WINE COMPANY  
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**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 30TH JUNE 2006 (CONTINUED)**

	2006	2005
	\$'000	\$'000
12. DEFERRED TAXATION		
Balance at beginning of year	875	768
Movements during the year: Timing differences (net)	71	107
Balance at end of year	946	875
13. PROPERTY, PLANT AND EQUIPMENT		
FREEHOLDLAND:		
At valuation	4,220	4,030
<i>Revaluation surplus</i>	2,243	2,053
LAND IMPROVEMENTS:		
At valuation	8,267	8,035
<i>Revaluation surplus</i>	4,080	3,729
<i>Depreciation expense current year</i>	171	277
BUILDINGS:		
At valuation	3,363	3,295
<i>Revaluation surplus</i>	604	472
<i>Depreciation expense current year</i>	66	95
WINERY AND VINEYARD EQUIPMENT:		
At cost	5,550	5,279
Accumulated depreciation	(1,487)	(1,205)
	4,063	4,074
<i>Depreciation expense current year</i>	285	231
MOTOR VEHICLES:		
At cost	434	351
Accumulated depreciation	(280)	(241)
	154	110
<i>Depreciation expense current year</i>	39	42

THE NEW ZEALAND WINE COMPANY  
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**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30TH JUNE 2006 (CONTINUED)**

	2006	2005
	\$'000	\$'000
13. PROPERTY, PLANT AND EQUIPMENT (continued)		
FURNITURE AND FITTINGS:		
At cost	169	172
Accumulated depreciation	(143)	(137)
	26	35
<i>Depreciation expense current year</i>	15	14
TOTAL NET BOOK VALUE OF PROPERTY, PLANT AND EQUIPMENT	20,093	19,579
<i>Total Depreciation expense current year</i>	576	659

Land, land improvements and buildings shown at valuation were valued at market value by Alexander Hayward Limited, registered valuers, on 30 June 2006 (2005: 30 June 2005).

Land and buildings are subject to mortgage, (Note 11).

Depreciation rates per annum are as follows:	2006	2005
Buildings:	2%	3%
Land Improvements:	2%	4%
Winery Equipment:	5%	5%
Vineyard Equipment:	10%	10%
Fixtures and Fittings:	10%	10%
Motor Vehicles:	20%	20%
Computer Equipment:	33%	25%

During the year the Directors revised the depreciation rates for selected asset categories to represent the expected economic life of the various assets. The financial impact of this change was to decrease the depreciation expense for the current year by \$191,000.

	2006	2005
	\$'000	\$'000
14. IDENTIFIABLE INTANGIBLES		
Trademarks/Imaging		
At cost	65	117
Accumulated amortisation	(35)	(83)
	30	34

THE NEW ZEALAND WINE COMPANY  
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**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30TH JUNE 2006 (CONTINUED)**

	2006 \$'000	2005 \$'000
14. IDENTIFIABLE INTANGIBLES (continued)		
Grape Supply Contract Payments		
At cost	-	234
Accumulated amortisation	-	(57)
	-	177
Total Identifiable Intangibles	30	211

Trademarks are amortised over a period of 7 years and Imaging costs are amortised over a period of 3 years. During the year Imaging Costs have been written out of the financial records. Grape Supply Contract Payments are amortised over the period of the contract (i.e from 10 to 13 years) and charged direct to inventories. During the year these have been reclassified to Other current assets.

15. GOODWILL		
On acquisition of contract processing rights at cost	-	13
Accumulated amortisation	-	(13)
	-	-

During the year previously recognised goodwill was written out of the financial records.

16. INVENTORIES		
Raw materials	125	216
Consumable stores	34	34
Work in progress	4,472	3,454
Finished goods	1,022	2,253
	5,653	5,957

17. PAYABLES		
Employee entitlements	88	98
Other accruals	446	685
	534	783

18. INVESTMENTS		
Bedford Road Investments Limited	10	10

The New Zealand Wine Company Limited has three wholly owned, non-operating subsidiaries with no material assets or liabilities.

Subsidiaries at 30 June 2006 were:

- Grove Mill Wine Company Limited
- Sanctuary Wine Company Limited
- Bedford Road Investments Limited

THE NEW ZEALAND WINE COMPANY  
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**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30TH JUNE 2006 (CONTINUED)**

19.	NET CASH FLOW FROM OPERATING ACTIVITIES	2006 \$'000		2005 \$'000
	<i>Reconciliation of statement of financial performance surplus with net cash flow from operating activities:</i>			
	REPORTED SURPLUS AFTER TAXATION	1,026		908
	Non-cash items:			
	Depreciation	576		659
	Amortisation of identifiable intangibles/goodwill	10		13
	Grape supply contract payments	31		18
	Increase in deferred tax	71		107
		1,714		1,705
	MOVEMENTS IN WORKING CAPITAL ITEMS:			
	Inventories	304		427
	Trade receivables	(912)		729
	Trade creditors	693		(234)
	Payables	(249)		35
	Other current assets and taxation	(790)		(44)
	(Increase)/Decrease in working capital	(954)		913
	ITEMS CLASSIFIED AS INVESTING ACTIVITIES			
	(Gain)/Loss on disposal of property, plant and equipment	(1)		5
	Net cash flow from operating activities	759		2,623
	20. CAPITAL COMMITMENTS			
	Purchase of vineyard equipment	-		63
	21. OPERATING LEASE COMMITMENTS			
	Not later than one year	261		226
	Later than one year and not later than two years	227		197
	Later than two years and not later than five years	465		416
	Later than five years	1,327		1,134
		2,280		1,973

THE NEW ZEALAND WINE COMPANY  
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**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30TH JUNE 2006 (CONTINUED)**

22. FINANCIAL INSTRUMENTS

Currency and Interest Rate Risk

Nature of activities and management policies with respect to financial instruments:

*(i) Currency*

The Company has exposure to foreign exchange risk as a result of sales denominated in foreign currencies, arising from normal trading activities. Where exposures are certain, it is the Company's policy to hedge these risks as they arise, except where the policy is amended from time to time for particular exposures by specific Board decision. The notional principal or contract amounts of foreign exchange instruments outstanding at balance date are as follows:

	2006	2005
	\$'000	\$'000
<i>Forward foreign exchange contracts:</i>	2,039	351

Exchange differences arising are included in the measurement of the transactions to which they relate. The marked to market impact of the forward exchange contracts not matched to transactions at balance date would result in a loss of \$54,000 (2005: gain of \$46,000) which has not been reflected in these financial statements in accordance with the Company's accounting policies.

The Company has exposure to foreign exchange risk from time to time as a result of purchases denominated in foreign currencies. Where exposures are certain, it is the Company's policy to hedge these risks as they arise. The notional principal or contract amount of foreign exchange instrument outstanding at balance date was a specific hedge of \$nil (2005: \$nil).

The cash settlement requirement of forward foreign exchange contracts approximates the notional contract amounts shown above.

Foreign currency denominated receivables at balance date are \$1,292,000 (2005: \$491,000). Foreign currency denominated payables at balance date are \$42,000 (2005: \$25,000).

*(ii) Interest Rate*

The Company has long-term fixed rate borrowings which are used to fund ongoing activities. It is company policy to ensure interest rate exposure is maintained on fixed and floating rate bases.

Concentration of Credit Risk

In the normal course of its business the Company incurs credit risk from trade debtors, sundry debtors, grower advances and transactions with financial institutions. At balance date the maximum amount of credit risk is \$2,840,000 (2005: \$2,835,000).

The Company has a credit policy which is used to manage this exposure to credit risk. As part of this policy, limits on exposures with counter parties have been set and approved by the Board of Directors and are monitored on a regular basis.

The Company does not have any significant concentrations of credit risk. The Company does not expect the non-performance of any obligations at balance date.

Fair values

The carrying value of all financial instrument assets and liabilities approximate their fair value except for loans which are impracticable to fair value.

23. SEGMENT INFORMATION

The Company operates wholly within the Wine Industry in New Zealand producing table wines.

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30TH JUNE 2006 (CONTINUED)**

24. IMPACT OF ADOPTING NEW ZEALAND EQUIVALENTS TO IFRS

In December 2002 the Accounting Standards Review Board ("ASRB") announced that New Zealand reporting entities would be required to apply New Zealand International Financial Reporting Standards ("NZ IFRS") for reporting periods commencing on or after 1 January 2007. The international standards were released on 31 March 2004 and adopted in New Zealand by the ASRB on 24 November 2004 with certain adaptations to reflect New Zealand circumstances. Entities have the option of voluntary early adopting NZ IFRS for periods beginning on or after 1 January 2005.

The New Zealand Wine Company will not be an early adopter of NZ IFRS. The Opening Balance Sheet under the new Standards will be reported in the 2007 Annual Report preparatory to full adoption for the financial year ending 30 June 2008. A conversion project has commenced. This project entails assessing the impacts of changes in financial reporting standards on the Company's financial reporting and other related activities, then designing and implementing processes to deliver financial reporting on an NZ IFRS compliant basis, as well as dealing with any related business impacts.

Transition from existing NZ GAAP to NZ IFRS will be made in accordance with NZ IFRS 1 "First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards." Upon adoption of NZ IFRS, comparative information will be restated to conform with the requirements of NZ IFRS and the impact that adoption of NZ IFRS has had on the Company's financial statements will be set out. The majority of adjustments required on transition to NZ IFRS will be made to retained earnings.

A number of NZ IFRS have been identified to date as being expected to have the most impact on the Company's results and financial position. These areas are still subject to ongoing interpretation and review by both the Company and the industry and the actual impact on the Company is not yet known.

*Accounting for Income Tax*

Under current NZ GAAP the Company financial statements account for deferred tax on a comprehensive basis using the liability method, which recognises differences between the accounting surplus and taxable income. Under NZ IFRS (NZ IAS 12) deferred tax will be calculated using a "balance sheet" approach, which recognises deferred tax assets and liabilities by reference to differences between the accounting and tax values of balance sheet items.

*Accounting for Biological Assets*

Under current accounting policy, the Company accounts for the costs incurred in growing the grapes for each harvest in the period of the harvest. Costs incurred subsequent to the current year's harvest, for growing grapes for the next harvest are capitalised on the Statement of Financial Position and expensed in that period when the harvest occurs. Harvested grapes are carried in Inventory as wine at the lower of cost or market value. Under NZ IFRS (NZ IAS 41) the Company will be required to account for biological assets (vines) and agricultural produce (grapes) at fair value less estimated point-of-sale costs. Any gain or loss arising from initial recognition of the vines and grapes at fair value less estimated point-of-sale costs and from a change in the fair value less estimated point-of-sale costs of the vines will be included in the profit or loss for the period in which it arises.

*Employee Share Option Scheme and Performance Share Plan*

The Company operates an employee share option scheme and employee performance share plan. Under NZ GAAP the options and rights are not accounted for until they are exercised. Under NZ IFRS (NZ IFRS 2) the compensatory component of the schemes will be valued at the grant date at fair value (using an appropriate valuation methodology) and allocated over the vesting period of the share option schemes and performance share plan.

This list should not be taken as an exhaustive list of all the differences between NZ GAAP and NZ IFRS. The impacts discussed are based on management's current interpretation of the standards that have been released to date. There is potential for the significance to change when the Company prepares its first set of NZ IFRS financial statements due to changes in the standards, changes in our business, or changes in management's interpretation of the standards. At this stage it has not been determined if the impacts of these changes will be material.

As the assessment of the impact of NZIFRS is continuing other standards may be identified as impacting on the Company's results. As we progress toward full adoption of NZ IFRS the Company will continue to provide users of the financial statements with updated information about the likely impacts of NZ IFRS on the Company's earnings, cash flows and financial position.

25. SUBSEQUENT EVENTS

On 2 July 2006 the interest rate on Loan #2 was reviewed. The new interest rate for the loan is 8.48% pa floating.  
On 1 August 2006 the Board approved a final dividend of 4 cents per share fully imputed for payment on 22 September 2006.  
No other material events have occurred since balance date, not referred to elsewhere in these notes to the financial statements.

THE NEW ZEALAND WINE COMPANY  
LIMITED

**A U D I T R E P O R T**

**FOR THE YEAR ENDED 30TH JUNE 2006**

**AUDIT REPORT**

**To the Shareholders of The New Zealand Wine Company Limited**

We have audited the financial statements on pages 7 to 25. The financial statements provide information about the past financial performance of The New Zealand Wine Company Limited (the "Company") and Group and their financial position as at 30 June 2006. This information is stated in accordance with the accounting policies set out on pages 8 to 10.

**Board of Directors' Responsibilities**

The Board of Directors is 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 Company and Group as at 30 June 2006 and of the results of its operations and cash flows for the year ended 30 June 2006.

**Auditors' Responsibilities**

It is our responsibility to express an independent opinion on the financial statements presented by the Board of Directors and report our opinion to you.

**Basis of Opinion**

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial report. It also includes assessing:

- the significant estimates and judgements made by the Board of Directors in the preparation of the financial statements, &
- whether the accounting policies are appropriate to the Company and Group's circumstances, consistently applied and adequately disclosed.

We conducted our audit in accordance with New Zealand Auditing Standards. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to obtain reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Other than in our capacity as auditor we have no relationship with or interests in the Company or the Group.

**Unqualified Opinion**

We have obtained all the information and explanations we have required.

In our opinion:

- proper accounting records have been kept by the Company as far as appears from our examination of those records; and
- the financial statements on pages 7 to 25:
  - comply with generally accepted accounting practice in New Zealand;
  - give a true and fair view of the financial position of the Company and Group as at 30 June 2006 and the results of its operations and cash flows for the year ended on that date.

Our audit was completed on 1 August 2006 and our unqualified opinion is expressed as at that date.



Chartered Accountants  
Wellington, NZ

**Matters Relating to the Electronic Presentation of the Audited Financial Statements**

*This audit report relates to the financial statements of The New Zealand Wine Co Limited for the year ended 30 June 2006 included on The New Zealand Wine Co Limited's website. The New Zealand Wine Co Limited's Directors are responsible for the maintenance and integrity of The New Zealand Wine Co Limited's website. We have not been engaged to report on the integrity of The New Zealand Wine Co Limited'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 1st August 2006 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  
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**COMPARATIVE FINANCIAL REVIEW**  
**FOR THE YEARS ENDED 30TH JUNE**

	Note	2006 Audited \$'000	2005 Audited \$'000	2004 Audited \$'000	2003 Audited \$'000	2002 Audited \$'000
Statement of Financial Performance Data						
Total Revenue		9,414	8,966	7,733	7,407	6,777
Surplus from Operations		1,875	1,646	1,387	1,835	1,752
Financing Costs		341	283	319	212	237
Taxation		508	455	329	542	511
Net Surplus for the Year		1,026	908	739	1,081	1,004
Earnings per share (cents)	1	11.9	10.5	8.6	13.1	13.3
Dividends per share (cents)	2	7.0	7.0	6.0	6.2	5.5
Statement of Financial Position Data						
Current Assets		9,708	9,034	10,160	7,822	6,375
Current Liabilities		2,727	2,101	3,308	2,508	2,934
Working Capital Ratio		3.6	4.3	3.1	3.1	2.2
Non-Current Assets		20,151	19,898	17,558	18,235	12,253
Total Assets		29,859	28,932	27,718	26,057	18,628
Non-Current Liabilities		7,157	7,851	6,983	7,165	4,936
Total Liabilities		9,884	9,952	10,291	9,673	7,870
Total Shareholders Equity		19,975	18,980	17,427	16,384	10,758
Net Surplus % of Average Shareholders Equity		5.3%	5.0%	4.4%	8.0%	9.3%
Total Recognised Revenues & Exps % of Avg S/holders Equity		8.7%	10.9%	9.2%	30.2%	22.7%
Total Loans		6,968	7,710	7,957	6,795	4,754
Gearing Ratio %	3	25.9%	28.9%	31.3%	29.3%	30.6%
Net Gearing Ratio %	4	25.9%	26.5%	28.9%	29.3%	30.6%
Shareholders' Equity % of Total Assets		66.9%	65.6%	62.9%	62.9%	57.8%
Net Tangible Assets per share		\$2.31	\$2.17	\$2.01	\$1.88	\$1.54
Number of Shares at year end	1	8,650,999	8,632,999	8,589,666	8,583,452	6,894,099

Notes:

- 1 Dividends and earnings per share are restated to reflect the 1:10 bonus issue in September 2002.
- 2 Dividends per share are calculated on the amount paid/payable in respect of the year to which they relate.
- 3 Gearing Ratio is Total Loans as a percentage of Total Loans plus Total Shareholders Equity.
- 4 Net Gearing Ratio adjusts the Total Loans in Note 3 by netting off Cash Balances.

## **C O R P O R A T E G O V E R N A N C E S T A T E M E N T**

**F O R T H E Y E A R E N D E D 3 0 T H J U N E 2 0 0 6**

This statement gives Shareholders an overview of the Company's main corporate governance policies, practices and processes adopted or followed by the Board. The Board is committed to a high standard of corporate governance and ethical conduct and regularly reviews and updates the Company's policies and business practices to ensure they reflect best practice and the prevailing NZAX Listing Rules.

### **ROLE OF THE BOARD OF DIRECTORS**

The Board is responsible for the governance, strategic development and ethical and business affairs of the Company working through the Chief Executive Officer (CEO) and management team in order to achieve the main objective of securing 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 Company's constitution.

To discharge the above objective the Board's principal responsibilities are:

- preparing annual and interim financial statements, reporting to Shareholders and the NZAX market and calling statutory meetings;
- reviewing overall Company strategies, the competitive environment and the Company's risk environment;
- reviewing critically the underlying assumptions behind annual budgets and plans, approving such plans and monitoring actual results against agreed budgets, including corrective action required to maintain agreed targets;
- authorising and monitoring strategic investments, other capital expenditures or divestments and any new or replacement borrowing facilities;
- ensuring compliance with general and specific industry laws and regulations, including Health & Safety, Environment, Wine Industry, Customs and export labelling and general Company law requirements surrounding dividend distributions, maintenance of the shareholders' and interests registers and other statutory reports and requirements;
- approving management appointments and reviewing and approving remuneration and appropriate performance incentives Company-wide and for all staff individually; and
- reviewing annually specific policy statements for the code of ethics, share trading, release of Company information, label integrity, health and safety, delegation of authorities and foreign exchange cover.

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.

### **COMPOSITION OF THE BOARD**

Under the October 2003 constitution the minimum number of Directors shall be 3 and the maximum 8 but the Board has the power to increase that number. Not less than two Directors shall ordinarily be resident in New Zealand. The Board currently comprises 5 non-executive Directors all of whom are ordinarily resident in New Zealand and are shareholders of the Company. The Board has determined each of the present Directors are independent in terms of the Listing Rules. One-third of the Directors retire at each Annual Meeting.

### **REMUNERATION OF DIRECTORS**

Directors' fees are referenced against The Institute of Directors annual "Directors' Fee Survey" guidelines for equivalent entities. Any changes in Directors' fees are approved by ordinary resolution at the Company's Annual Meeting. At the 26 September 2003 Annual Meeting, an increase of \$2,000 per annum to a total sum of \$102,000 per annum commencing from 1 July 2003 was approved by Shareholders. A fee change notice is being tabled for consideration at the 2006 Annual Meeting.

### **BOARD OPERATIONS**

The Board meets formally each month, but more frequently on an as-required basis and to consider business opportunities with management. In the June 2005 financial year 12 Board meetings were held, 1 via telephone conference. Apart from a Board-only session during each meeting with the CEO and/or the finance manager all of the management team then present in Blenheim attend each Board meeting.

Each year the Board meets with the CEO and management team in a separate dedicated strategic planning and review meeting. Otherwise frequent contact is made via email to ensure Directors are fully apprised about the Company's activities.

**C O R P O R A T E G O V E R N A N C E S T A T E M E N T**  
**F O R T H E Y E A R E N D E D 3 0 T H J U N E 2 0 0 6 ( C O N T I N U E D )**

**BOARD COMMITTEES**

The Board has two working committees responsible for improving Board effectiveness and addressing key Board responsibilities. Any non-Committee board member may attend a committee meeting.

**Audit Committee**

The principal responsibilities are acting on behalf of and reporting to the Board:

- To maintain the independence of the external auditor, including audit partner rotation at approximately 5 yearly intervals, to review the annual audit plan, the letters of representation and audit management letter and the cost-effectiveness of the annual audit, together with the recommended annual audit fee basis;
- To meet with and review the performance of the external auditor;
- To review and make recommendations on financial and accounting policies;
- To 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 or other reporting requirements and the release of any investor or financial information to Shareholders or onto the Company web-site;
- To evaluate the Company's internal control environment and risk identification and mitigation.

The Committee members are John Milne (Chairman), Jane Hunter & Mark Peters. Two Committee members have an accounting or financial background. The CEO and finance manager attend committee meetings by invitation. The External Auditor has full access to all board papers and minutes and all financial and related records and is invited to attend the Annual Accounts sign-off Audit Committee meeting.

**Remuneration and Nomination Committee**

The principal responsibilities are acting on behalf of and reporting to the Board:

- To establish and appraise annual Company-wide, chief executive and management team member objectives and financial and key operational performance targets;
- To oversee and obtain external advice on the competitiveness and appropriateness of remuneration packages, contracts, remuneration policies and bonus or other incentive schemes for all management and staff;
- To review the Company's Share Option Scheme and periodically recommend alternative long term performance based incentives plans;
- To periodically review the fees payable to Directors;
- To review the size, composition, skills, independence, knowledge and experience or qualification criteria for Board membership and to consider the re-appointment of any Director eligible for re-election by rotation, pursuant to the constitution.

The Committee members are Alton Jamieson (Chairman), Maurice McQuillan & Mark Peters. The CEO and/or finance manager attend committee meetings by invitation.

**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 Board's policy is to pay progressive fully imputed cash dividends through time, subject to the solvency test criteria, at approximately 50% of annual Net Surplus, with an interim dividend of approximately one-third payable in March/April and with the final balance for the year payable in September/October.

The Company is committed to communicating regularly with Shareholders. The Company provides meaningful information about the Company's goals, corporate proposals, business affairs and general future strategies, plans and performance including monthly 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 containing the constitution, annual and half-yearly reports and financial statements, releases to the NZAX or media and any presentations to third parties.

THE NEW ZEALAND WINE COMPANY  
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**STATUTORY INFORMATION**

**FOR THE YEAR ENDED 30TH JUNE 2006**

**1. DIRECTOR PROFILES**

**MARK PETERS - CHAIRMAN**

Mark Peters was elected to the Board in 1990 and has been Chairman since 1993. Mark is a Senior Partner in Peters Doig Ltd, a leading Marlborough accounting practice. Mark is a Director of the New Zealand Rugby Union, is a past Chairman of the Marlborough District Council Holdings Limited and the Marlborough Rugby Football Union, and currently holds a number of private company Directorships. He is a Chartered Accountant and Member of the Institute of Directors in New Zealand.

**JANE HUNTER O.B.E.**

Since 1987, Jane has been owner, viticulturist and managing director of Hunter's Wines. In 1993 she received an OBE for service to the wine industry, and she was recently awarded an Honorary Doctorate of Science from Massey University for her outstanding contribution to the industry. She has served on the executive committee of the New Zealand Wine Institute, served as Director for the NZ Wine Guild, been a member of the Horticulture & Food Research Institute of New Zealand, and is currently a Board member of NZ Trade and Enterprise. Jane joined the Board in September 2003. In October 2003 Jane won the inaugural international Women in Wine Award at the International Wine and Spirits Awards in London for her long term commitment to Marlborough, New Zealand and wine.

**ALTON JAMIESON**

Alton Jamieson was elected to the Board in September 1999. Alton's business career has covered banking, transport and waste management industries. He has been Managing Director of publicly listed Waste Management N.Z. Limited and CEO of Pacific Waste Management Pty Limited, Australia. He has been a director of the Blues Franchise Limited and recently retired as a director of Waste Management NZ Limited after serving as its Chairman for 12 years. Alton is a Fellow of the New Zealand Institute of Management and is a Fellow of the Institute of Directors in New Zealand.

**MAURICE MCQUILLAN**

Maurice McQuillan was appointed to the Board in 1993. Maurice has many years experience in both the retailing and wholesaling of wines and spirits. He is at present the proprietor of a leading Blenheim liquor store.

**JOHN MILNE**

John Milne was appointed to the Board in August 1997. John's 34 year career with the Shell Group covered work in New Zealand, London and Asia where he completed his service contract as Deputy Chief Executive and Vice-President Finance & Legal with the Shell Companies in the Philippines. He has held a number of directorships of private companies and state sector entities. He is at present a director of Contact Energy Limited, Independent Member of the Wellington City Council's Audit & Risk Management sub-Committee and is Chairman of the He Huarahi Tamariki Trust. He is a Chartered Accountant and Fellow of the Institute of Directors in New Zealand.

THE NEW ZEALAND WINE COMPANY  
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**STATUTORY INFORMATION**  
**FOR THE YEAR ENDED 30TH JUNE 2006 (CONTINUED)**

**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.

TRANSACTIONS	2006 \$'000	2005 \$'000
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Certain Directors have interests in contracts with The New Zealand Wine Company Limited.

All transactions were at normal commercial rates.

MJ McQuillan (Grove Road Super Liquor - purchase of finished product)	1	2
MA Peters (Peters Doig Ltd - accounting, taxation and consultancy fees)	1	2

**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.

**3. DIRECTORS' REMUNERATION**

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

	DIRECTORS' FEES		REMUNERATION AND OTHER BENEFITS	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
MA Peters (Chairman)	32	32	-	-
MJ Hunter	16	16	-	-
JA Jamieson	19	19	-	-
MJ McQuillan	16	16	-	-
JHG Milne	19	19	-	-

Directors who are executives do not receive Director's Fees.

THE NEW ZEALAND WINE COMPANY  
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**STATUTORY INFORMATION**

**FOR THE YEAR ENDED 30TH JUNE 2006 (CONTINUED)**

**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
\$140,000 - \$149,999	1
\$180,000 - \$189,999	1

**5. DONATIONS**

During the year:

The New Zealand Wine Company Limited made no donations during the year (2005: Nil).

**6. SHAREHOLDING BREAKDOWN**

Shareholding as at 30 June 2006	Number of shareholders	Total shares held	% of share capital
1-999	62	24,744	0.3%
1,000-9,999	213	618,836	7.1%
10,000-49,999	77	1,466,231	17.0%
50,000-99,999	19	1,251,912	14.5%
100,000-499,999	18	4,301,008	49.7%
500,000+	1	988,268	11.4%
	<b>390</b>	<b>8,650,999</b>	<b>100.0%</b>

Under the Company's Constitution the minimum shareholding is as set out in the Listing Rules of the New Zealand Exchange. This minimum limit is waived by the Directors for any permanent staff member with a shareholding in the Company.

**7. DIRECTORS' SHAREHOLDING**

Shares held at 30 June 2006 (including Beneficial Interests)

	Ordinary Shares	Share Options
MJ Hunter	1,362	-
JA Jamieson	988,268	-
MJ McQuillan	135,107	-
JHG Milne	348,589	-
MA Peters	412,400	-

THE NEW ZEALAND WINE COMPANY  
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**STATUTORY INFORMATION**

**FOR THE YEAR ENDED 30TH JUNE 2006 (CONTINUED)**

**8. 20 LARGEST REGISTERED HOLDERS**

Ordinary Shares held at 30 June 2006:

	Ordinary shares held	% of share capital
JA Jamieson	988,268	11.4%
JD Croft	459,363	5.3%
MA & VF Peters	402,376	4.7%
JG & VR Orchard	387,842	4.5%
WC McDonald, DR Appleby & RN Burnes	337,467	3.9%
CJC & HC Fletcher	314,000	3.6%
TJ & MG Fairhall & RJ Wilson	295,116	3.4%
C & J Sacher	249,920	2.9%
CM & BW Doig	228,794	2.7%
RB & DM Thompson	212,362	2.5%
AW & A Rutledge	205,981	2.4%
DR Appleby & Others	200,000	2.3%
DE & WR Edwards	193,654	2.2%
JHG Milne & DFB Stevenson	154,529	1.8%
MA Milne & DFB Stevenson	154,529	1.8%
Portfolio Custodian Limited	140,512	1.6%
MJ McQuillan	135,107	1.5%
PI McCallum	123,684	1.4%
D & M Breaden	105,772	1.2%
TE & SN Seatter	93,456	1.1%
Sub-total	5,382,732	62.2%
Others (370 shareholders)	3,268,267	37.8%
TOTAL	8,650,999	100%

THE NEW ZEALAND WINE COMPANY  
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**C O N T R I B U T O R S**

**(PERMANENT EMPLOYEES AS AT 30TH JUNE 2006)**

Alison Scobie	Doug Holmes	John Jackson
Boyd Gardner	Gillian Moore	Karen Walshe
Craig Mahon	Jan Rutherford	Lorraine Carryer
Craig Young	Jane Trought	Robert White
David Pearce	Jarad Payne	Roger Kerrison
David Sax	Jared Nott	Ross Rudkin-Wise
Donna Clark	Jeffrey Parker	Sara Bateup

**W I N E S H O W A W A R D S**

**(FOR THE YEAR ENDED 30TH JUNE 2006)**

**International Wine Challenge UK 2006**

Trophy: Best International Sauvignon Blanc - Grove Mill Sauvignon Blanc 2005  
Trophy: Best New Zealand White Wine - Grove Mill Sauvignon Blanc 2005  
Trophy: Best New Zealand Sauvignon Blanc - Grove Mill Sauvignon Blanc 2005  
Gold: Grove Mill Sauvignon Blanc 2005  
Silver: Grove Mill Riesling 2004

**Sydney International Wine Competition 2006**

Blue Gold: Grove Mill Pinot Noir 2004

**The New Zealand International Wine Show 2005**

Gold: Grove Mill Riesling 2005  
Silver: Grove Mill Wairau Valley Reserve Pinot Noir 2004  
Silver: Grove Mill Pinot Noir 2004  
Silver Medal: Grove Mill Riesling 2004  
Champions List : Grove Mill Riesling 2005 and Grove Mill Riesling 2004

**The Air New Zealand Wine Awards 2005**

Gold: Grove Mill Riesling 2004  
Silver: Sanctuary Pinot Gris 2005

**International Wine & Spirits Competition (UK) 2005**

Silver: Grove Mill Chardonnay 2003

**Liquorland Top 100, 2005**

Silver and Top 100 : Sanctuary Pinot Gris 2005  
Silver: Sanctuary Riesling 2004

**Royal Easter Show Wine Awards (NZL) 2006**

Silver: Sanctuary Riesling 2004

**Decanter World Wine Awards 2006**

Regional Riesling Trophy under £10: Grove Mill Riesling 2004

**6th Hyatt National Riesling Challenge (2005)**

Silver: Grove Mill Riesling 2004

**Bragato Wine Awards (NZL) 2005**

Silver: Grove Mill Wairau Valley Reserve Pinot Noir 2004  
Silver: Grove Mill Pinot Noir 2004