



AUSTRALIAN VINTAGE LTD

**FINANCIAL REPORT FOR THE YEAR ENDED**

**30 JUNE 2012**

**(ACN: 052 179 932 ASX REFERENCE: AVG)**

# Directors' report

## For the financial year ended 30 June 2012

The Directors of Australian Vintage Ltd submit herewith the annual financial report for the financial year ended 30 June 2012. In order to comply with the provisions of the Corporations Act 2001, the Directors report as follows:

### Directors

The names and particulars of the Directors of the Company during or since the end of the financial year are:

**Ian D Ferrier AM, CA, Age 72**

(Chairman, Non-Executive) Director since 20 November 1991

Fellow of The Institute of Chartered Accountants in Australia and Chairman of BRI Ferrier. In this capacity, he has gained extensive experience in the management and administration of both private and public companies at all levels. He is presently Chairman of InvoCare Limited and Goodman Limited and a Director of Reckon Limited and Energy One Limited.

**Neil McGuigan, Age 54**

(Chief Executive Officer) Director since 21 July 2010.

Neil was previously the General Manager of Production and Wine Supply at Australian Vintage Ltd. He was appointed as a director and as the CEO on 21 July 2010. Neil has over 27 years' experience in the wine industry. He previously worked at the then privately owned Briar Ridge before leaving in 2000 to run Rothbury Estate and its satellites in the Upper Hunter, Cowra and Mudgee for the Foster's Group.

**Brian J McGuigan AM, Age 70**

(Non-Executive Director) Executive Director from 20 November 1991 to 31 December 2007. Non-executive director from 1 January 2008.

Over 45 years' experience in the wine industry. Formerly Managing Director of Wyndham Estate Wines Ltd then of Australian Vintage Ltd. He is currently on the Membership Committee of the Winemakers Federation of Australia, a Director of Hunter Wine Country Private Irrigation District as well as the Chairman and Director of a number of private companies.

**Perry R Gunner B. Ag. Sc, Grad. Dip. Bus. Admin, Age 65**

(Non-Executive) - Director since 28 June 2002

Over 30 years' experience in the Wine Industry. Former Chairman and Chief Executive Officer of Orlando Wyndham Group Pty Ltd. Chairman of Freedom Nutritional Products Ltd and Deputy Chairman of Viterra Inc and A2 Corporation Ltd (N.Z.). Chairman of the Occupational Health and Safety Committee and Remuneration Committee.

**Richard Davis B. Ec, Age 57**

(Non-Executive) Director since 5 May 2009.

Director (and previously CEO) of InvoCare Limited where he previously spent almost 20 years growing and managing the business. Former accounting partner for a national accounting firm. Chairman of the Audit Committee.

# Directors' report

## For the financial year ended 30 June 2012

### Directorships of other listed companies

Directorships of other listed companies held by Directors in the 3 years immediately before the end of the financial year are as follows:

Name	Company	Period of Directorship
Ian D Ferrier	InvoCare Limited	Since 2001
	Goodman Limited	Since 2003
	Reckon Limited	Since 2004
	Energy One Limited	Since 2007
Perry R Gunner	ABB Grain Limited / Viterra Inc.	Since 2004
	Freedom Nutritional Products Limited	Since 2003
	A2 Corporation Ltd (N.Z.)	Since 2010
Richard Davis	InvoCare Limited	Since 2012

### Company Secretary

Michael H Noack (appointed 23 November 2005)

B Accountancy (University of South Australia), Fellow of ASCPA, Graduate Diploma in Systems Analysis (University of South Australia) and Fellow of the Chartered Secretaries Australia. Michael has been with Australian Vintage Ltd since the merger in 2002 and was previously Chief Financial Officer and Company Secretary of Simeon Wines Limited. Michael has been the Chief Financial Officer since 2002.

### Principal activities

The consolidated entity's principal activities in the course of the financial year were wine making, wine marketing, vineyard management and development.

### Changes in state of affairs

During the financial year there was no significant change in the state of affairs of the consolidated entity other than that referred to in the financial statements or notes thereto.

### Environmental regulations

The consolidated entity holds licences issued by the Environmental Protection Authorities in various states which specify limits associated with the discharge of winery waste. There have been no known breaches of the licence conditions.

### Future developments

Disclosure of information regarding likely developments in the operations of the consolidated entity in future financial years and the expected results of these operations is likely to result in unreasonable prejudice to the consolidated entity. Accordingly, this information has not been disclosed in this report.

### Dividends

In respect of the financial year ended 30 June 2012, a final fully franked dividend of 2.6 cents per share out of current year profits was declared on 22<sup>nd</sup> August 2012 and will be paid on 19<sup>th</sup> November 2012.

In respect of the financial year ended 30 June 2011, a final fully franked dividend of 2.5 cents per share out of current year profits was declared on 24<sup>th</sup> August 2011 and paid on 18<sup>th</sup> November 2011.

# Directors' report

## For the financial year ended 30 June 2012

### Review of Operations

The group reported a net profit of \$7.1 million.

#### Sales

Overall, sales in the period of \$228.0 million were steady, 2.1% above last year in dollar terms and 6.1% in volume terms. Australasia / North America packaged sales were slightly below last year due to reduced lower margin cask sales. UK / Europe sales were up 1%. This is an outstanding result given the record high dollar and depressed and uncertain economic conditions in the region and is a result of brand development and marketing effort.

Vineyard revenue improved 9% due to increased vineyard management income and cellar door sales remained steady.

The Company maintains a conservative hedging policy on forward sales.

Our brands continue to deliver very strong growth and this remains a key focus in our strategic direction. Overall the McGuigan brand grew 23% in Australia and 12% in export markets which is an outstanding result and builds on the momentum of 2011. Tempus Two also grew and Nepenthe maintained sales. Our premium brands have developed and grown on the back of the awards won and targeted marketing focus in 2012. This is something that the business intends to extend in the coming year. Some low margin cask and private label sales declined during the year.

#### Earnings before interest and tax (EBIT)

EBIT (excluding significant items) were \$23.4 million (2011 : \$29.3 million).

The decline in EBIT before primarily related to below average crops from our owned vineyards resulting in a \$4.1m reduction in the fair value of grapes picked. In addition the contribution from the Australasia / North America Bulk and Processing segment was down due to lower processing margins, higher cost of running Austflavour from the Loxton Winery and one off costs associated with the sale of the Loxton winery. The Austflavour business has now been re located to the Buronga winery. Australasia/North America EBIT improved \$0.7 million on the back of increased branded sales.

Our brand and marketing effort has seen UK / Europe EBIT grow by 32% even after allowing for the unfavourable movement in foreign currency. This growth has been achieved by retaining our sales base and extending our range of products into higher priced categories. Total export sales in GBP now represent more than 60% of total exports.

#### Net Profit

Net profit of \$7.1 million (2011 : \$6.6 million), improved by 8% due to the \$3.6 million of significant items (after tax) incurred in 2010/11.

#### Cash Flow

Cash flow from operating activities was up \$9.3m to \$10.6 million due in part to reduced bulk wine purchases during the year. Net debt is down to \$129.1 million, compared to \$161 million as at June 2011 as a result of the sale of Loxton Winery in August 2011 to TWG Australia II Pty Ltd.

The Company signed an extension to September 2014 on our current banking facility with NAB which brings additional flexibility and confidence to manage capital in line with market conditions. The company will continue to be subject to various covenants including the requirement to repay debt in the event of equity raisings or the disposal of assets in certain circumstances.

# Directors' report

## For the financial year ended 30 June 2012

### Directors' meetings

The following table sets out the number of Directors' meetings (including meetings of Committees of Directors) held during the financial year and the number of meetings attended by each Director (while they were a Director or Committee Member).

During the financial year the company held 12 Board Meetings, 3 Audit Committee Meetings, 1 Occupational Health and Safety Meeting and 1 Remuneration Committee meeting.

Directors'	Board Meetings Attended	Audit Committee Attended	Occupational Health and Safety Committee Attended	Remuneration Committee Attended
Ian D Ferrier	11	2	-	1
Neil McGuigan	12	3	1	1
Brian J McGuigan	12	3	1	-
Perry R Gunner	11	-	1	1
Richard Davis	12	3	-	1
<b>Total Meetings Held</b>	<b>12</b>	<b>3</b>	<b>1</b>	<b>1</b>

### Directors' shareholdings

The following table sets out each Director's relevant interest in shares and options in shares of the Company as at the date of this report.

	Fully Paid Ordinary Shares	Executive Share Options
Ian D Ferrier	618,044	-
Neil McGuigan	150,000	481,677
Brian J McGuigan	308,670	-
Perry R Gunner	265,670	-
Richard Davis	-	-

# Directors' report

## For the financial year ended 30 June 2012

### Remuneration report

#### Directors and Key Management Personnel Details

The Directors of Australian Vintage Ltd during the year were:

- Ian D Ferrier (Chairman, Non-executive)
- Neil McGuigan (Chief Executive Officer)
- Brian J McGuigan (Non-executive)
- Perry R Gunner (Non-executive)
- Richard Davis (Non-executive)

The Key Management Personnel of Australian Vintage Ltd during the year were:

- Michael Noack (Company Secretary & Chief Financial Officer)
- Flora Sarris (General Counsel)
- Paul Schaafsma (General Manager, UK & Europe) – resigned 21st August 2012.
- Cameron Ferguson (General Manager – Sales and Marketing, Australasia)

The named persons held their current position for the whole of the financial year, except as noted.

#### Remuneration Committee and Key Management Personnel Compensation

The Remuneration Committee reviews the compensation packages of all key management personnel on an annual basis and makes recommendations to the board. Compensation packages are reviewed and determined with due regard to current market rates and are benchmarked against comparable industry salaries. Remuneration packages are set at levels that are intended to attract and retain executives capable of managing the consolidated entity's diverse operations.

The Key Management Personnel compensation packages have three components:

##### 1. Base Compensation

This component is not performance linked and generally consists of salary, motor vehicle, wine and post-employment superannuation entitlement (where applicable). The base amount is reviewed annually by the Remuneration Committee. Any adjustments made during the year will either be as a result of market rate changes in order for the Company to remain competitive or to reflect any changes in level of responsibility in the event the role has broadened.

##### 2. Short Term Incentives

Short term incentive payments take into account the extent to which specific operating targets set at the start of the financial year have been achieved. The operational targets consist of a number of key performance indicators (KPI's) covering both financial and non-financial measures of performance, the primary measure being the performance against profit targets. Short term incentive payments are normally made by way of a cash bonus.

Objectives and performance indicators are determined annually by the Chief Executive Officer (CEO) following consultation with each employee.

The maximum amount of bonus payable in respect of the financial year is determined by the CEO and the Remuneration Committee.

For the purpose of determining any bonus entitlement, individual performance is assessed against the set objectives and performance indicators by the CEO. The objectives and performance indicators relate to specific duties and Company performance.

Non-executive Directors receive remuneration in cash.

The Board reviews the level of fees from time to time, and sets individual non-executive Directors fees based on the levels of fees for comparable listed companies in the appropriate parts of the world.

All key management personnel, senior management and the Chief Executive Officer are entitled to a bonus on the achievement of pre-determined key performance criteria.

Bonuses and share options are the only parts of remuneration which are performance related.

# Directors' report

## For the financial year ended 30 June 2012

### Remuneration report (continued)

The table below shows the maximum entitled bonus for the current financial year and following financial year:

	2012 Minimum Bonus \$	2012 Maximum Bonus \$	2012 % of maximum granted	2013 Minimum Bonus \$	2013 Maximum Bonus \$
Neil McGuigan	0	150,000	70%	0	150,000
Paul Schaafsma	0	90,180	67%	0	94,550
Michael Noack	0	113,043	70%	0	116,435
Cameron Ferguson	0	101,530	64%	0	101,530
Flora Sarris	0	92,159	70%	0	94,923

### 3. Long Term Incentives

The company currently has two long term incentive plans in place.

#### Executive and Employee Share Option Plan:

Long term incentive is provided as options over ordinary shares in the company or as rights to the issue of shares. The ability to exercise options is conditional upon the achievement of certain performance hurdles which are designed to drive the financial performance of the consolidated entity and deliver shareholder value in the long term. There will be no further issues to employees under this plan as it is now replaced by the Performance Rights and Option Plan.

#### Performance Rights and Option Plan:

Established in August 2012, this long term incentive is provided as a right to an issue of shares. This right is subject to the achievement of set growth rates in earnings per share over a 4 year period up until the vesting date. The plan is available to senior management as approved by the Board.

### Key Management Personnel and employee share option plans

For the purpose of the disclosure 'Key Management Personnel' is defined as an individual who is responsible for strategic planning, management and performance of a division or function and reports directly to the Chief Executive Officer.

During and since the end of the financial year under the Performance Rights and Option Plan, 909,091 (2011 : Nil) share rights were granted to the five highest remunerated members of key management personnel as part of their remuneration. No shares were issued during or since the end of the financial year as a result of the exercise of options under either of the above Plans.

In accordance with the provisions of the Company's share option plans, as at the date of this report, key management personnel are entitled to exercise the following share options:

Key management personnel	Number of options granted	Exercise price	Issue date	Expiry date
Neil McGuigan	86,420	\$1.64	20 December 2007	30 December 2012
	395,257	N/A	12 August 2012	12 September 2016
Mike Noack	49,383	\$1.64	20 December 2007	30 December 2012
	158,103	N/A	12 August 2012	12 September 2016
Paul Schaafsma (1)	49,383	\$1.64	20 December 2007	30 December 2012
	-	N/A	12 August 2012	12 September 2016
Cameron Ferguson	49,383	\$1.64	20 December 2007	30 December 2012
	197,628	N/A	12 August 2012	12 September 2016
Flora Saris	-	-	-	-
	158,103	N/A	12 August 2012	12 September 2016
<b>TOTAL</b>	<b>1,143,660</b>			

(1) Resigned 21<sup>st</sup> August 2012.

Details of share options granted to Key Management Personnel are included in notes 7 and 8 of the financial statements.

# Directors' report

## For the financial year ended 30 June 2012

### Company Performance

The tables below set out summary information about the Group's earnings and movements in shareholder wealth for the five years to 30 June 2012:

	30 June 2008 \$ M	30 June 2009 \$ M	30 June 2010 \$ M	30 June 2011 \$ M	30 June 2012 \$ M
Total Revenue (excluding sale of assets)	265.0	288.3	237.7	223.2	228.0
EBIT before significant items	19.1	16.5	23.6	29.4	23.4
Net Profit/(Loss) after significant items	1.3	(123.6)	9.0	6.6	7.1

	30 June 2008	30 June 2009	30 June 2010	30 June 2011	30 June 2012
Earnings per share - cents	1.0	(96.0)	7.0	5.1	5.4
Dividends declared - cents *	-	-	-	2.5	2.6
Share price at start of year - \$ per share	2.15	1.15	0.15	0.20	0.27
Share price at end of year - \$ per share	1.15	0.15	0.20	0.27	0.34

\* The 2012 dividend is fully franked, will be paid out of current year profits and was declared on 22<sup>nd</sup> August 2012 with payment to be made on 19<sup>th</sup> November 2012.

There were no shares repurchased in the current year.

### Key management personnel options granted, exercised or lapsed

There were no options granted or exercised during the year. There were 116,797 options which lapsed during the year. There was no value attributed to these lapsed options.



# Directors' report

## For the financial year ended 30 June 2012

### Remuneration report (continued)

#### Directors and Executives Remuneration

The following table discloses the remuneration of the Directors and Executives of the Company:

2012	Short-term benefits				Post Employment		Share based payments			Total
	Salary & Fees	Bonus	Other	Non – Monetary (b)	Super - annuation	Other	Cash Settled	Equity Settled Options	Equity Settled Shares	
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>Non-executive directors</b>										
Ian D Ferrier	100,000	-	-	2,000	9,000	-	-	-	-	111,000
Brian J McGuigan	60,000	-	-	2,000	5,400	-	-	-	-	67,400
Perry R Gunner	60,000	-	-	2,000	5,400	-	-	-	-	67,400
Richard Davis	60,000	-	-	2,000	5,400	-	-	-	-	67,400
<b>Executive directors</b>										
Neil McGuigan	547,216	105,000	-	27,623	49,249	-	-	-	-	729,088
<b>Executives</b>										
Paul Schaafsma (a)	256,932	60,430	-	154,732	120,929	68,310	-	-	-	661,333
Michael Noack	330,856	79,130	-	71,758	33,129	-	-	-	-	514,873
Cameron Ferguson	289,266	64,980	-	26,200	26,034	-	-	-	-	406,480
Flora Saris	262,568	64,511	-	1,200	23,631	-	-	-	-	351,910
<b>TOTAL</b>	<b>1,966,838</b>	<b>374,051</b>	<b>-</b>	<b>289,513</b>	<b>278,172</b>	<b>68,310</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,976,884</b>

(a) Resigned 21<sup>st</sup> August 2012. Other post employment benefit is a cash payment of accrued leave entitlements.

(b) Non-monetary items include provision of motor vehicle, wine, rent, travel, health benefits and applicable fringe benefits tax.

2011	Short-term benefits				Post Employment		Share based payments			Total
	Salary & Fees	Bonus	Other	Non – Monetary (b)	Super - annuation	Other	Cash Settled	Equity Settled Options	Equity Settled Shares	
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>Non-executive directors</b>										
Ian D Ferrier	100,000	-	-	2,000	9,000	-	-	-	-	111,000
Brian J McGuigan	60,000	-	-	2,000	5,400	-	-	-	-	67,400
Perry R Gunner	60,000	-	-	2,000	5,400	-	-	-	-	67,400
Richard Davis	60,000	-	-	2,000	5,400	-	-	-	-	67,400
<b>Executive directors</b>										
Neil McGuigan	525,573	135,000	-	27,221	47,302	-	10,995	-	-	746,091
<b>Executives</b>										
Paul Schaafsma	261,121	82,253	-	162,301	68,398	-	6,283	-	-	580,356
Michael Noack	299,929	98,340	-	74,526	26,994	-	6,283	-	-	506,072
Cameron Ferguson	274,157	113,286	-	26,200	24,674	-	6,283	-	-	444,600
Flora Saris	246,059	80,138	-	1,200	22,145	-	-	-	-	349,542
Craig Thomas (a)	63,750	-	-	7,474	5,738	233,499	6,283	-	-	316,744
<b>TOTAL</b>	<b>1,950,589</b>	<b>509,017</b>	<b>-</b>	<b>306,922</b>	<b>220,451</b>	<b>233,499</b>	<b>36,127</b>	<b>-</b>	<b>-</b>	<b>3,256,605</b>

(a) Resigned 8<sup>th</sup> October 2010. Other post employment benefit is the final payment made on resignation. The payment of \$233,499 includes 6 months severance pay and leave entitlements.

(b) Non-monetary items include provision of motor vehicle, wine, rent, travel, health benefits and applicable fringe benefits tax.

No director or senior management person appointed during the period received a payment as part of his or her consideration for agreeing to the position.

# Directors' report

## For the financial year ended 30 June 2012

### Remuneration report (continued)

#### Senior management details

The senior managers of the Company and Group are:

- Michael Noack
- Cameron Ferguson
- Flora Saris
- Paul Schaafsma (resigned 21<sup>st</sup> August 2012)

#### Service Agreements of Key Management Personnel

Compensation and other terms of employment for directors and executives are formalised in service agreements or letters of appointment. Termination benefits disclosed below do not apply in cases of misconduct or other specified circumstances.

##### **Neil McGuigan**

- (i) Term of agreement – no specified term.
- (ii) Compensation includes:
  - a. Base salary, superannuation and motor vehicle allowance.
  - b. Short term incentive - entitlement to a bonus subject to certain key performance criteria.
  - c. Long term incentive - entitlement to equity under the Performance Rights and Options Plan subject to meeting growth rates in earnings per share over a 4 year period.
- (iii) If Mr McGuigan's employment is terminated by the Company, the Company must pay the following:
  - a. six months total base remuneration if terminated after 1 years service.
  - b. nine months total base remuneration if terminated after 2 years service.
  - c. twelve months total base remuneration if terminated after 3 years service.

##### **Paul Schaafsma**

- (i) Term of agreement - no specified term.
- (ii) Compensation includes base salary, superannuation, provision of a motor vehicle, rental assistance, relocation costs and entitlement to a bonus subject to certain key performance criteria.
- (iii) If Mr Schaafsma's employment is terminated by the company, the company must pay Mr Schaafsma the equivalent of one year's total base remuneration.

##### **Michael Noack**

- (i) Term of agreement - no specified term.
- (ii) Compensation includes:
  - a. Base salary, superannuation, life/trauma insurance and a motor vehicle allowance.
  - b. Short term incentive - entitlement to a bonus subject to certain key performance criteria.
  - c. Long term incentive - entitlement to equity under the Performance Rights and Options Plan subject to meeting growth rates in earnings per share over a 4 year period.
- (iii) If Mr Noack's employment is terminated by the company, the company must pay Mr Noack the equivalent of one year's total remuneration.

##### **Cameron Ferguson**

- (i) Term of agreement - no specified term.
- (ii) Compensation includes:
  - a. Base salary, superannuation and motor vehicle allowance.
  - b. Short term incentive - entitlement to a bonus subject to certain key performance criteria.
  - c. Long term incentive - entitlement to equity under the Performance Rights and Options Plan subject to meeting growth rates in earnings per share over a 4 year period.
- (iii) If Mr Ferguson's employment is terminated by the company, the company must pay Mr Ferguson the equivalent of one year's total base remuneration.

##### **Flora Sarris**

- (i) Term of agreement - no specified term.
- (ii) Compensation includes:
  - a. Base salary and superannuation.
  - b. Short term incentive - entitlement to a bonus subject to certain key performance criteria.
  - c. Long term incentive - entitlement to equity under the Performance Rights and Options Plan subject to meeting growth rates in earnings per share over a 4 year period.
- (iii) If Ms Sarris's employment is terminated by the company, the company must pay Ms Sarris the equivalent of one year's total base remuneration.

# Directors' report

## For the financial year ended 30 June 2012

### Non-audit services

The Directors are satisfied that the provision of non-audit services, during the year, by the auditor (or by another person or firm on the auditor's behalf) is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The Audit Committee, in conjunction with the Chief Financial Officer, assesses the provision of non-audit services by the auditors to ensure that the auditor independence requirements of the Corporation Act 2001 in relation to the audit are met.

Details of amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in note 9 to the financial statements.

The directors are of the opinion that the services as disclosed in note 9 to the financial statements do not compromise the external auditor's independence, based on advice received from the Audit Committee, for the following reasons:

- All non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor, and
- none of the services undermine the general principles relating to auditor independence as set out in Code of Conduct APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional & Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risks and rewards.

### Auditors' independence declaration

The Auditors independence declaration is included on page 12.

### Indemnification of officers and auditors

During the financial year, the Company paid a premium in respect of a contract insuring the Directors of the Company (as named previously), the Company Secretaries and all Executive Officers of the Company and of any related Body Corporate against a liability incurred as a Director, Secretary or Executive officer to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium. The Company has not otherwise, during or since the financial year, indemnified or agreed to indemnify an officer or auditor of the Company or of any related body corporate against a liability incurred as such an officer or auditor.

### Rounding off of amounts

The Company is a company of the kind referred to in ASIC Class Order 98/100, dated 10 July 1998, and in accordance with that Class Order amounts in the Directors' Report and the Financial Report have been rounded off to the nearest thousand dollars, unless otherwise indicated.

### Subsequent Events

There have been no matters or circumstances, other than that referred to in the financial statements or notes thereto, that have arisen since the end of the financial year, that have significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

Signed in accordance with a resolution of the Directors made pursuant to section 298(2) of the Corporations Act 2001.

On behalf of the Directors



Ian Ferrier  
Chairman  
26<sup>th</sup> September 2012

The Board of Directors  
Australian Vintage Ltd  
275 Sir Donald Bradman Drive  
COWANDILLA SA 5033

26 September 2012

Dear Board Member

**Australian Vintage Ltd**

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Australian Vintage Ltd.

As lead audit partner for the audit of the financial statements of Australian Vintage Ltd for the financial year ended 30 June 2012, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely



DELOITTE TOUCHE TOHMATSU



Stephen Harvey  
Partner  
Chartered Accountants

Liability limited by a scheme approved under Professional Standards Legislation.

Member of Deloitte Touche Tohmatsu Limited

## Independent Auditor's Report to the members of Australian Vintage Ltd

Deloitte Touche Tohmatsu  
ABN 74 490 121 060

11 Waymouth Street  
Adelaide SA 5000  
GPO Box 1969  
Adelaide SA 5001 Australia

DX: 664  
Tel: +61 (0) 8 8407 7000  
Fax: +61 (8) 8407 7001  
www.deloitte.com.au

We have audited the accompanying financial report of Australian Vintage Ltd, which comprises the statement of financial position as at 30 June 2012, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity, comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 14 to 65

### *Directors' Responsibility for the Financial Report*

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 3, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the consolidated financial statements comply with International Financial Reporting Standards.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

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

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

### *Auditor's Independence Declaration*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Australian Vintage Ltd, would be in the same terms if given to the directors as at the time of this auditor's report.

### *Opinion*

In our opinion:

- (a) the financial report of Australian Vintage Ltd is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the consolidated financial statements also comply with International Financial Reporting Standards as disclosed in Note 3.

### *Report on the Remuneration Report*

We have audited the Remuneration Report included in pages 6 to 10 of the directors' report for the year ended 30 June 2012. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

### *Opinion*

In our opinion the Remuneration Report of Australian Vintage Ltd for the year ended 30 June 2012 complies with section 300A of the *Corporations Act 2001*.



DELOITTE TOUCHE TOHMATSU



Stephen Harvey  
Partner  
Chartered Accountants  
Adelaide, 26 September 2012

Liability limited by a scheme approved under Professional Standards Legislation.

Member of Deloitte Touche Tohmatsu Limited

# Consolidated Statement of Comprehensive Income

## For the financial year ended 30 June 2012

	Note	Consolidated	
		2012 \$'000	2011 \$'000
Revenue	5	227,962	223,217
Cost of sales	5	(165,633)	(159,780)
<b>Gross Profit</b>		<b>62,329</b>	<b>63,437</b>
Fair value of grapes picked during the financial year less estimated costs to sell		967	5,036
Other revenue	5	1,665	1,781
Gain / (loss) on sales of other property plant and equipment		218	(173)
Distribution expenses		(12,269)	(11,456)
Sales and marketing expenses		(22,349)	(21,658)
Administration expenses		(6,271)	(7,752)
Gain / (loss) on foreign exchange		(601)	460
Finance costs – interest paid	5	(12,835)	(14,230)
Finance costs – interest un-wind	5	(1,916)	(2,119)
Significant items	5	-	(6,677)
<b>Profit before income tax</b>		<b>8,938</b>	<b>6,649</b>
Income tax expense	6	(1,871)	(85)
<b>Net profit for the year</b>		<b>7,067</b>	<b>6,564</b>
<b>Other comprehensive income/(loss) net of income tax:</b>			
Loss on interest rate swaps		(1,716)	(467)
Valuation of foreign exchange hedges		6	2,407
Exchange differences arising on translation of foreign operations		34	(241)
Income tax relating to components of other comprehensive income		503	(510)
<b>Other comprehensive income / (loss) for the year, net of income tax</b>		<b>(1,173)</b>	<b>1,189</b>
<b>Total comprehensive income for the year</b>		<b>5,894</b>	<b>7,753</b>
<b>Earnings Per Share:</b>			
Basic (cents per share)	36	5.4	5.1
Diluted (cents per share)	36	5.4	5.1

Notes to the financial statements are included on pages 18 to 64.

# Consolidated Statement of Financial Position

## As at 30 June 2012

	Note	2012 \$'000	Consolidated 2011 \$'000
<b>Current Assets</b>			
Cash and cash equivalents	43	237	6,424
Trade and other receivables	10	39,546	46,236
Inventories	11	130,624	140,507
Current tax assets	6	200	12
Other	13	4,105	2,685
		174,712	195,864
Assets classified as held for sale	12	-	25,901
<b>Total Current Assets</b>		<b>174,712</b>	<b>221,765</b>
<b>Non-Current Assets</b>			
Trade and other receivables	14	1,843	-
Inventories	15	21,878	19,082
Other financial assets	16	59	64
Biological assets	17	33,169	33,048
Property, plant and equipment	18	95,613	97,148
Goodwill	19	37,685	37,685
Other intangible assets	21	7,780	8,092
Water Licences	20	8,692	8,692
Deferred tax assets	6	55,123	58,493
<b>Total Non-Current Assets</b>		<b>261,842</b>	<b>262,304</b>
<b>Total Assets</b>		<b>436,554</b>	<b>484,069</b>
<b>Current Liabilities</b>			
Trade and other payables	23	36,918	41,433
Borrowings	24	1,993	1,838
Other financial liabilities	25	1,618	652
Provisions	26	8,016	9,321
Other	27	42	222
		48,587	53,466
Liabilities directly associated with assets classified as held for sale	12	-	373
<b>Total Current Liabilities</b>		<b>48,587</b>	<b>53,839</b>
<b>Non-Current Liabilities</b>			
Borrowings	28	127,329	165,596
Deferred tax liabilities	6	10,232	12,244
Other financial liabilities	29	751	-
Provisions	30	12,786	19,162
<b>Total Non-Current Liabilities</b>		<b>151,098</b>	<b>197,002</b>
<b>Total Liabilities</b>		<b>199,685</b>	<b>250,841</b>
<b>Net Assets</b>		<b>236,869</b>	<b>233,228</b>
<b>Equity</b>			
Issued capital	33	402,792	401,831
Reserves	34	641	1,814
Accumulated losses	35	(166,564)	(170,417)
<b>Total Equity</b>		<b>236,869</b>	<b>233,228</b>

Notes to the financial statements are included on page 18 to 64.

# Consolidated Statement of Changes in Equity

For the financial year ended 30 June 2012

	Share capital \$'000	Equity - settled employee benefits reserve \$'000	Hedging reserve \$'000	Foreign currency translation reserve \$'000	Accumulated losses \$'000	Total \$'000
Balance at 1 July 2011	401,831	1,497	332	(15)	(170,417)	233,228
Profit for the period	-	-	-	-	7,067	7,067
Loss on interest rate swaps	-	-	(1,716)	-	-	(1,716)
Valuation of foreign exchange hedges	-	-	6	-	-	6
Exchange differences arising on translation of foreign operations	-	-	-	34	-	34
Income tax relating to components of other comprehensive income	-	-	513	(10)	-	503
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>(1,197)</b>	<b>24</b>	<b>7,067</b>	<b>5,894</b>
<b>Transactions with owners in their capacity as owners:</b>						
Dividend paid	-	-	-	-	(3,214)	(3,214)
Issue of shares	961	-	-	-	-	961
<b>Balance at 30 June 2012</b>	<b>402,792</b>	<b>1,497</b>	<b>(865)</b>	<b>9</b>	<b>(166,564)</b>	<b>236,869</b>
Balance at 1 July 2010	401,831	1,458	(1,026)	154	(176,981)	225,436
Profit for the period	-	-	-	-	6,564	6,564
Loss on interest rate swaps	-	-	(467)	-	-	(467)
Valuation of foreign exchange hedges	-	-	2,407	-	-	2,407
Exchange differences arising on translation of foreign operations	-	-	-	(241)	-	(241)
Income tax relating to components of other comprehensive income	-	-	(582)	72	-	(510)
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>1,358</b>	<b>(169)</b>	<b>6,564</b>	<b>7,753</b>
<b>Transactions with owners in their capacity as owners:</b>						
Recognition of share-based payments	-	39	-	-	-	39
<b>Balance at 30 June 2011</b>	<b>401,831</b>	<b>1,497</b>	<b>332</b>	<b>(15)</b>	<b>(170,417)</b>	<b>233,228</b>

Notes to the financial statements are included on page 18 to 64.



# Consolidated Statement of Cash Flows

## For the financial year ended 30 June 2012

	Note	2012 \$'000	Consolidated 2011 \$'000
<b>Cash flows from operating activities</b>			
Receipts from customers		241,448	258,081
Payments to suppliers and employees		(217,723)	(244,500)
<b>Cash generated from operations</b>		<b>23,725</b>	<b>13,581</b>
Interest and other costs of finance paid		(13,292)	(12,750)
Interest and bill discounts received		157	457
<b>Net cash provided by operating activities</b>	43 (d)	<b>10,590</b>	<b>1,288</b>
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment		(5,183)	(4,755)
Payments for purchase of tanks at end of lease		-	(15,280)
Payments for intangibles	21	(151)	(241)
Proceeds from sale of property, plant & equipment		26,151	1,566
<b>Net cash provided by / (used in) investing activities</b>		<b>20,817</b>	<b>(18,710)</b>
<b>Cash flows from financing activities</b>			
Loan payment received		2,313	-
Dividends paid		(2,253)	-
Proceeds from borrowings		-	23,745
Repayment of borrowings		(37,654)	(1,454)
<b>Net cash (used in) / provided by financing activities</b>		<b>(37,594)</b>	<b>22,291</b>
Net increase / (decrease) in cash and cash equivalents		(6,187)	4,869
Cash and cash equivalents at the beginning of the financial year		6,424	1,555
<b>Cash and cash equivalents at the end of the financial year</b>	43	<b>237</b>	<b>6,424</b>

Notes to the financial statements are included on pages 18 to 64.

# Notes to the financial statements

## For the financial year ended 30 June 2012

### Note 1: General Information

Australian Vintage Ltd is a public company listed on the Australian Securities Exchange (trading under the symbol 'AVG'), incorporated in Australia and with operations in Australia and the United Kingdom.

Australian Vintage Ltd's registered office and principal place of business are as follows:

#### **Registered Office and principal place of business**

275 Sir Donald Bradman Drive  
Cowandilla SA 5033  
Tel: (08) 8172 8333

The consolidated entity's principal activities in the course of the financial year were wine making, wine marketing, vineyard management and development.

#### **Approval of financial statements**

The financial statements were approved by the board of directors and authorised for issue on 26<sup>th</sup> September 2012.

### Note 2: Adoption of new and revised Accounting Standards

#### **Adoption of new and revised Accounting Standards**

The following new and revised Standards and Interpretations have been adopted in the current year and have affected the amounts reported in these financial statements. Details of other Standards and Interpretations adopted in these financial statements but that have had no effect on the amounts reported are set out below.

#### **Standards affecting presentation and disclosure**

Amendments to AASB 7  
Financial Instruments:  
'Disclosure'

The amendments (part of AASB 2010-4 'Further Amendments Australian Accounting Standards arising from the Annual Improvements Project 1') clarify the required level of disclosures about credit risk and collateral held and provide relief from disclosures previously required regarding renegotiated loans.

Amendments to AASB 101  
Presentation of Financial Statements'  
The amendments (part of AASB 2010-4  
'Further Amendments'

Australian Accounting Standards arising from the Annual Improvements Project 1) clarify that an entity may choose to present the required analysis of items of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements.

AASB 1054 'Australian  
Additional Disclosures' and  
AASB 2011-1 'Amendments  
to Australian Accounting  
Standards arising from  
Trans-Tasman Convergence  
Project'

AASB 1054 sets out the Australian-specific disclosures for entities that have adopted Australian Accounting Standards. This Standard contains disclosure requirements that are in addition to IFRSs in areas such as compliance with Australian Accounting Standards, the nature of financial statements (general purpose or special purpose), audit fees, imputation (franking) credits and the reconciliation of net operating cash flow to profit (loss). AASB 2011-1 makes amendments to a range of Australian Accounting Standards and Interpretations for the purpose of closer alignment to IFRSs and harmonisation between Australian and New Zealand Standards. The Standard deletes various Australian-specific guidance and disclosures from other Standards (Australian-specific disclosures retained are now contained in AASB 1054), and aligns the wording used to that adopted in IFRSs.

AASB 124 'Related Party  
Disclosures' (revised  
December 2009)

AASB 124 (revised December 2009) has been revised on the following two aspects: (a) AASB 124 (revised December 2009) has changed the definition of a related party and (b) AASB 124 (revised December 2009) introduces a partial exemption from the disclosure requirements for government-related entities. The Company and its subsidiaries are not government-related entities.

# Notes to the financial statements

## For the financial year ended 30 June 2012

### Note 2: Adoption of new and revised Accounting Standards (continued)

#### **Standards and Interpretations affecting the reported results or financial position**

There are no new and revised Standards and Interpretations adopted in these financial statements affecting the reporting results or financial position.

#### **Standards and Interpretations adopted with no effect on financial statements**

The following new and revised Standards and Interpretations have also been adopted in these financial statements. Their adoption has not had any significant impact on the amounts reported in these financial statements but may affect the accounting for future transactions or arrangements.

AASB 2010-5 'Amendments to Australian Accounting Standards'	The Standard makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations. The application of AASB 2010-5 has not had any material effect on amounts reported in the Group's consolidated financial statements.
AASB 2010-6 'Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets'	The application of AASB 2010-6 makes amendments to AASB 7 'Financial Instruments – Disclosures' to introduce additional disclosure requirements for transactions involving transfer of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred and derecognised but the transferor retains some level of continuing exposure in the asset. To date the Group has not entered into any transfer arrangements of financial assets that are derecognised but with some level of continuing exposure in the asset. Therefore the application of the amendments has not had any material effect on the disclosures made in the consolidated financial statements.

#### **Standards and Interpretations in issue, but not yet adopted**

At the date of authorisation of the financial statements, the Standards and Interpretations listed below were in issue, but not yet effective.

<b>Standard/Interpretation</b>	<b>Effective for annual reporting periods beginning on or after</b>	<b>Expected to be initially applied in the financial year ending</b>
AASB 9 'Financial Instruments', AASB 200911 'Amendments to Australian Accounting Standards arising from AASB 9' and AASB 2010-7 'Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)'	1 January 2013	30 June 2014
AASB 10 'Consolidated Financial Statements'	1 January 2013	30 June 2014
AASB 11 'Joint Arrangements'	1 January 2013	30 June 2014
AASB 12 'Disclosure of Interests in Other Entities'	1 January 2013	30 June 2014
AASB 127 'Separate Financial Statements' (2011)	1 January 2013	30 June 2014
AASB 128 'Investments in Associates and Joint Ventures' (2011)	1 January 2013	30 June 2014
AASB 13 'Fair Value Measurement' and AASB 2011-8 'Amendments to Australian Accounting Standards arising from AASB 13'	1 January 2013	30 June 2014
AASB 119 'Employee Benefits' (2011) and AASB 2011-10 'Amendments to Australian Accounting Standards arising from AASB 119 (2011)'	1 January 2013	30 June 2014
AASB 2010-8 'Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets'	1 January 2012	30 June 2013
AASB 2011-4 'Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements'	1 July 2013	30 June 2014
AASB 2011-7 'Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements standards'	1 January 2013	30 June 2014
AASB 2011-9 'Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income'	1 July 2012	30 June 2013

# Notes to the financial statements

## For the financial year ended 30 June 2012

### Note 2: Adoption of new and revised Accounting Standards (continued)

At the date of authorisation of the financial statements, the following IASB Standards and IFRIC Interpretations were also in issue, but not yet effective, although Australian equivalent Standards and Interpretations have not yet been issued.

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB2012-3 Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)	1 January 2014	30 June 2015
AASB2012-2 Disclosures – Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)	1 January 2013	30 June 2014
Mandatory Effective Date of IFRS 9 and Transition Disclosures (Amendments to IFRS 9 and IFRS 7)	1 January 2015	30 June 2016

### Note 3: Summary of accounting policies

#### 3.1 Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with the Corporations Act 2001, Accounting Standards and Interpretations, and complies with other requirements of the law.

The financial report comprises the consolidated financial statements of the Group. For the purposes of preparing the consolidated financial statements, the company is a for-profit entity.

Accounting Standards include Australian equivalents to International Financial Reporting Standards ('A-IFRS'). Compliance with the A-IFRS ensures that the financial statements and notes of the Group comply with International Financial Reporting Standards ('IFRS').

#### 3.2 Basis of preparation

The financial report has been prepared on the basis of historical cost, except for the revaluation of financial instruments. Historical cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The company is a company of the kind referred to in ASIC Class Order 98/0100, dated 10 July 1998, and in accordance with that Class Order amounts in the financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

#### 3.3 Basis of consolidation

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

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

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

#### 3.4 Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition related costs are recognised in profit or loss as incurred.

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted for retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date. Contingent consideration that is classified as an asset or liability is remeasured at subsequent reporting dates in accordance with AASB 139, or AASB 137 'Provisions, Contingent Liabilities and Contingent Assets', as appropriate, with the corresponding gain or loss being recognised in profit or loss.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under AASB 3(2008) are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with AASB 112 *Income Taxes* and AASB 119 *Employee Benefits* respectively;

# Notes to the financial statements

## For the financial year ended 30 June 2012

### Note 3: Summary of accounting policies (continued)

- liabilities or equity instruments related to the replacement by the Group of an acquiree's share-based payment awards are measured in accordance with AASB 2 *Share-based Payment*; and
- assets (or disposal groups) that are classified as held for sale in accordance with AASB 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

The measurement period is the period from the date of acquisition to the date the Group obtains complete information about facts and circumstances that existed at the acquisition date – and is subject to a maximum of one year.

#### 3.5 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

#### 3.6 Cash and cash equivalents

Cash comprises cash on hand and demand deposits. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and have maturity of less than 3 months at date of acquisition.

#### 3.7 Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including foreign exchange forward contracts and interest rate swaps. Further details of derivative financial instruments are disclosed in note 44 to the financial statements.

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

The Group designates certain derivatives as either hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges), hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges), or hedges of net investments in foreign operations.

The fair value of a hedging derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

#### Embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

#### Hedge accounting

The Group designates certain hedging instruments, which include derivatives, embedded derivatives and non-derivatives in respect of foreign currency risk, as either fair value hedges, cash flow hedges, or hedges of net investments in foreign operations.

Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges. At the inception of the hedge relationship the Group documents the relationship between the hedging instrument and hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item.

Note 44 contains details of the fair values of the derivative instruments used for hedging purposes. Movements in the hedging reserve are shown in the Statement of Changes in Equity.

#### Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit or loss immediately, together with any changes in the fair value of the hedged item that is attributable to the hedged risk.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. The adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to profit or loss from that date.

# Notes to the financial statements

## For the financial year ended 30 June 2012

### Note 3: Summary of accounting policies (continued)

#### Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are deferred in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss as part of other expenses or other income. Amounts deferred in equity are recycled in profit or loss in the periods when the hedged item is recognised in profit or loss in the same line of the statement of comprehensive income as the recognised hedged item. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss deferred in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in profit or loss.

#### **3.8 Employee benefits**

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave when it is probable that settlement will be required and they are capable of being measured reliably.

Liabilities recognised in respect of short term employee benefits, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Liabilities recognised in respect of long term employee benefits which are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to reporting date.

#### Defined contribution plans

Contributions to defined contribution superannuation plans are expensed when employees have rendered service entitling them to the contributions.

#### **3.9 Financial instruments**

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit and loss are recognised immediately in profit or loss.

#### **Financial assets**

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held to maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

#### Investments in controlled entities

Investments in controlled entities are recorded at cost. Investments in associates have been accounted for under the equity method in the consolidated financial statements and the cost method in the Company financial statements. Other investments are recorded at fair value with gains or losses arising on re-measurement recognised in profit or loss.

Dividends are recognised on a receivable basis. Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial assets.

#### Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period.

Income is recognised on an effective interest rate basis for debt instruments.

#### Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method less impairment.

Interest is recognised by applying the effective interest rate.

#### Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset the estimated future cash flows of the investment have been impacted. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

# Notes to the financial statements

## For the financial year ended 30 June 2012

### Note 3: Summary of accounting policies (continued)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

#### Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that has been recognised in other comprehensive income and accumulated in equity is recognised in profit and loss.

On derecognition of a financial asset other than in its entirety, (e.g. when the Group retains an option to repurchase part of the transferred asset or retains a residual interest that does not result in the retention of substantially all the risks and rewards of ownership and the Group retains control), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit and loss. A cumulative gain or loss that has been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

### **3.10 Financial instruments issued by the company**

#### Debt and equity instruments

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

#### Financial guarantee contract liabilities

Financial guarantee contract liabilities are measured initially at their fair values and subsequently at the higher of the amount recognised as a provision and the amount initially recognised less cumulative amortisation in accordance with the revenue recognition policies.

#### Financial liabilities

Financial liabilities are classified as either financial liabilities 'at fair value through profit or loss' or other financial liabilities.

#### Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

#### De-recognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

### **3.11 Foreign currency**

#### Foreign currency transactions

All foreign currency transactions during the financial year are brought to account using the exchange rate in effect at the date of the transaction. Foreign currency monetary items at reporting date are translated at the exchange rate existing at reporting date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Australian dollars, which is the functional currency of Australian Vintage Ltd, and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

# Notes to the financial statements

## For the financial year ended 30 June 2012

### Note 3: Summary of accounting policies (continued)

Exchange differences are recognised in profit or loss in the period in which they arise except for:

- exchange differences which relate to assets under construction for future productive use, which are included in the cost of those assets where they are regarded as an adjustment to interest costs on foreign currency borrowings (refer note 3.7);
- exchange differences on transactions entered into in order to hedge certain foreign currency risks (refer note 3.7); and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned or likely to occur, which form part of the net investment in a foreign operation, and which are recognised in the foreign currency translation reserve and recognised in profit or loss on disposal of the net investment.

#### Foreign operations

On consolidation, the assets and liabilities of the Group's overseas operations are translated into Australian dollars at exchange rates prevailing at the balance sheet date. Income and expense items are translated at the average exchange rates for the period.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at exchange rates prevailing at the reporting date. Exchange differences arising are recognised in equity.

#### **3.12 Goodwill**

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

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

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated statement of comprehensive income.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

#### **3.13 Goods and services tax**

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- (i) where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- (ii) for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Cash flows are included in the cash flow statement on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

#### **3.14 Grape vines and produce extracted from vines**

Grape vines are classified as a separate biological asset class in accordance with Australian Accounting Standard AASB 141 "Agriculture". The biological assets are measured on initial recognition and at each reporting date at their fair value less costs to sell unless the market determined prices or values are not available and for which alternative estimates of fair value are determined to be clearly unreliable. In the current financial year and the comparative financial year, the fair values have been estimated by the directors based on discounted cash flow analysis of each vineyard and reference to the current market value of similar assets recently exchanged in the open market. Produce harvested from vines owned by the Company are measured as revenue at fair value less estimated costs to sell at the point of harvest (including production costs). A gain or loss arising from a change in fair values less estimated costs to sell is included in the profit and loss in the period in which the gain/loss arises. The agricultural produce is recorded within inventory.

#### **3.15 Impairment of long-lived assets excluding goodwill**

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Goodwill, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired. An impairment of goodwill is not subsequently reversed.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.



# Notes to the financial statements

## For the financial year ended 30 June 2012

### Note 3: Summary of accounting policies (continued)

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

#### 3.16 Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

##### Current tax

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

##### Deferred tax

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

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

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with these investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the company/Group intends to settle its current tax assets and liabilities on a net basis.

##### Current and deferred tax for the period

Current and deferred tax is recognised as an expense or income in the statement of comprehensive income, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

##### Tax consolidation

The company and all its wholly-owned Australian resident entities are part of a tax-consolidated group under Australian taxation law. Australian Vintage Ltd is the head entity in the tax-consolidated group.

Current tax liabilities and assets, and deferred tax assets arising from unused tax losses and relevant tax credits of the members of the tax-consolidated group are recognised by the company (as head entity in the tax-consolidated group).

Entities within the tax-consolidated group have entered into a tax funding arrangement and a tax-sharing agreement with the head entity. Under the terms of the tax funding arrangement, Australian Vintage Ltd and each of the entities in the tax-consolidated group has agreed to pay a tax equivalent payment to or from the head entity, based on the current tax liability or current tax asset of the entity.

#### 3.17 Intangible assets

##### Brand names and Registered Trademarks

Brand names recognised by the company are considered to have an indefinite useful life and are not amortised. Each period, the useful life of this type of asset is reviewed to determine whether events and circumstances continue to support an indefinite useful life assessment for the asset. Such assets are tested for impairment in accordance with the policy stated in Note 3.15.

##### Software

Software is carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight line basis over the estimated useful life. The estimated useful life of the software package is 10 years. Estimated useful lives and amortisation methods are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

# Notes to the financial statements

## For the financial year ended 30 June 2012

### Note 3: Summary of accounting policies (continued)

#### 3.17.1 Intangible assets acquired in a business combination

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

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

#### 3.18 Inventories

Inventories are valued at the lower of cost and net realisable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventory on hand by the method most appropriate to each particular class of inventory, with the majority being valued on a first in first out basis. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and estimated costs necessary to make the sale.

#### 3.19 Investments in associates

An associate is an entity over which the Group has significant influence. The results and assets and liabilities of associates are incorporated into the financial statements under the equity method of accounting.

Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

#### 3.20 Leased assets

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

##### Group as lessor

Rental income from operating leases is recognised on a straight line basis over the term of the relevant lease. However, contingent rentals arising under operating leases are recognised as income in a manner consistent with the basis on which they are determined.

##### Group as lessee

Assets held under finance leases are initially recognised at their fair value or, if lower, at amounts equal to the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are charged directly against income, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs. Refer to note 3.5.

Finance leased assets are amortised on a straight line basis over the estimated useful life of the asset.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

#### 3.21 Non-current assets held for sale

Non-current assets classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Non-current assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when management are committed to the sale, the sale is highly probable and the asset is available for immediate sale in its present condition and the sale of the asset is expected to be completed within one year from the date of classification.

#### 3.22 Payables

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

#### 3.23 Property, plant and equipment

Property, plant and equipment are initially measured at cost. Cost includes expenditure that is directly attributable to the acquisition of the item. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

Buildings, plant and equipment, vineyard improvements and equipment under finance lease are measured at cost less accumulated depreciation and impairment. Freehold land is not depreciated.

Depreciation is provided on property, plant and equipment, including freehold buildings but excluding land. Depreciation is calculated on a straight line basis so as to write off the net cost of each asset over its expected useful life to its estimated residual value. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis. Vineyard improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period, with the effect of any changes recognised on a prospective basis. Depreciation related to wineries, production and some vineyards is capitalised into inventory.

# Notes to the financial statements

## For the financial year ended 30 June 2012

### Note 3: Summary of accounting policies (continued)

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease. The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit and loss.

The following estimated useful lives are used in the calculation of depreciation:

• Buildings	50	years
• Vineyard improvements	15-20	years
• Plant and equipment	5-33	years
• Plant and equipment under lease	5-15	years

#### 3.24 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive), the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably.

An onerous contract is considered to exist where the Group has a contract under which the unavoidable cost of meeting the contractual obligations exceed the economic benefits estimated to be received. Present obligations arising under onerous contracts are recognised as a provision to the extent that the present obligation exceeds the economic benefits estimated to be received.

A restructuring provision is recognised when the Group has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity.

#### 3.25 Revenue

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates, discounts and other similar allowances.

##### Sale of goods

Revenue from the sale of goods is recognised when all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

##### Vineyard development/management contracts

Revenue from cost plus development contracts is recognised by reference to the recoverable costs incurred during the financial year plus the percentage of fees earned. Percentage of fees earned is measured by the proportion that costs incurred to date relate to the estimated total cost of the stage of the contract. Where a loss is expected to occur it is recognised immediately. Revenue from vineyard management contracts is recognised based on a percentage of fees earned.

##### Contract Processing

Revenue from contract processing is recognised based on the percentage of winemaking process completed.

##### Interest Revenue

Interest revenue is accrued on a time basis by reference to the principal balance and the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. Interest income from a financial asset is recognised when it is probable that the economic benefit will flow to the Group and the amount of revenue can be measured reliably.

##### Rental Income

Rent is accrued on a time basis by reference to the total rent due to the Company for the reporting period.

#### 3.26 Share-based payments

For cash-settled share-based payments, a liability equal to the portion of the goods or services received is recognised at the current fair value determined at each reporting date.

# Notes to the financial statements

## For the financial year ended 30 June 2012

### Note 3: Summary of accounting policies (continued)

#### 3.27 Trade credits

Trade credits are recorded at the net present value of expected future usage. The Company reviews the recoverable amount of the trade credits at each reporting date and any shortfall against carrying value is charged to profit and loss.

#### 3.28 Water licences

Water allocations with permanent rights are measured at cost on the date of acquisition. The permanent water licences have an indefinite useful life and are not subject to amortisation. Water allocations with permanent rights are assessed for impairment in each reporting period. Water allocations with temporary rights are expensed in the year of purchase.

### Note 4: Critical accounting judgments and key sources of estimation uncertainty

In the application of the Group's accounting policies, management is required to make judgments, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgments. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgments that management has made in applying the Group's accounting policies:

#### Inventories

The net realisable value of inventories is the estimated selling price in the ordinary course of business less estimated costs to sell which approximates fair value less cost to sell. The key assumptions require the use of management judgment. These key assumptions are the variables affecting the estimated costs to sell and the expected selling price.

The write down is based on assuming a selling price of the wine either through packaged goods or as bulk wine. Should the key assumptions applied in the estimation of revenue from the sale of the inventory when sold vary the ultimate realisable value may differ from that recorded at balance date.

#### Income tax losses

The company has recognised deferred tax assets in relation to unused tax losses and temporary differences as at the end of the reporting period. The recognition of deferred tax assets is after considering whether it is probable that the company will have sufficient taxable income in the foreseeable future and against which the deferred tax assets can be recovered.

The assessment of whether there will be sufficient taxable income is subject to a level of judgment and if the actual conditions vary to the assumptions adopted, the carrying value of the asset would need to be reassessed.

#### Onerous Contracts

The Company is party to a variety of grape supply agreements including vineyard lease agreements; grower grape supply agreements; and management of vineyard agreements. The agreements provide for the Company to acquire grapes at various prices some of which exceed market values.

The agreements in the current market have become onerous. The Company is attempting to mitigate the losses associated with the agreements.

Each contract has been reviewed and it has been determined that there is an unavoidable cost of meeting the obligations under the grape supply agreements that exceeds the forecast economic benefits (the onerous amount).

The provision for the onerous contracts has been brought to account using the best estimate of the onerous amount.

There are a number of future events the Company expects will affect the amount required to settle the contracts and these events are reflected in the amount of the provisions where there is sufficient objective evidence that they will occur.

The onerous contracts provision has been adjusted to the present value (at 8.5% discount rate – 2011 : 8.5%) of the expenditures expected to be required to settle the onerous obligations.

# Notes to the financial statements

## For the financial year ended 30 June 2012

### Note 4: Critical accounting judgments and key sources of estimation uncertainty (continued)

#### Impairment of goodwill and other intangibles

The goodwill arising from the acquisition of businesses has been reassessed through the estimation of the value in use of the cash generating units to which goodwill has been allocated. The value in use calculations require the Group to estimate the future cash flows expected to arise from the cash generating unit and select a risk adjusted discount rate in order to calculate present value.

A discounted cash flow analysis was performed on the cash generating units associated with the goodwill balances, using a pre-tax discount rate of 13.34% (2011: 15.14%) (bulk wine business), which indicated that the fair value of assets (including goodwill), based upon discounted cash flows, was higher than the carrying value.

The carrying value of the brand names have been individually assessed as part of separate cash generating units (CGUs).

Impairment tests were performed on brand names using a discounted cash flow model and a pre-tax discount rate of 20% (2011 : 20%) (branded wine business).

There have been estimations applied to assumptions in the cash flow from the CGUs. Should these estimations vary, the carrying amount of the intangible assets would need to be reassessed.

#### Useful lives of property, plant and equipment

The Group reviews the estimated useful lives of property, plant and equipment at the end of each annual reporting period. During the financial year, the directors determined that the useful lives of certain items of equipment should be shortened, due to developments in technology.

#### Revaluation of biological assets

The Company reviewed the long term value of vineyards and adopted the net present values of the cash flows as a Directors' Valuation for the period ended 30 June 2012.

In determining the fair value of the biological assets, the forecast cash flows from the vineyards have been discounted using a 14.53% (2011 : 15.62%) pre-tax discount rate.

# Notes to the financial statements

## For the financial year ended 30 June 2012

### Note 5: Profit / (Loss) from operations

The following is an analysis of the Group's revenue for the year from continuing operations

	<b>Consolidated</b>	
	<b>2012</b>	<b>2011</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>(a) Revenue – continuing operations</b>		
Revenue from the sale of goods	212,763	206,093
Revenue from contract processing	11,373	13,602
Revenue from rendering vineyard contract services	3,826	3,522
<b>Total</b>	<b>227,962</b>	<b>223,217</b>
A portion of the Group's revenue from the sale of goods denominated in foreign currencies is cash flow hedged. The amounts disclosed above for revenue from the sale of goods include the recycling of the effective amount of the foreign currency derivatives that are used to hedge foreign currency revenue.		
<b>Other revenue</b>		
Interest revenue – bank deposits	325	396
Rental revenue	133	184
Wine equalisation tax rebate	500	500
Other rebates	200	205
Insurance claim	-	258
Other	507	238
<b>Total</b>	<b>1,665</b>	<b>1,781</b>
<b>(b) Other income and expenses</b>		
Profit before income tax has been arrived at after crediting/(charging) the following gains and losses:		
Profit / (Loss) on disposal of property, plant and equipment	218	(173)
Unrealised (Loss) / Profit on foreign exchange	(601)	460
Profit before income tax has been arrived at after charging the following expenses:		
Cost of sales	165,633	159,780
Onerous contracts provision	-	(865)
Inventory net realisable adjustment	-	2,484
	<b>165,633</b>	<b>161,399</b>
Operating lease rental expenses (minimum lease payments)	15,143	18,284
Impairment of property, plant and equipment and other assets	-	5,142
Employee benefit expense:		
Share-based payments:		
Equity settled share-based payments	-	-
Cash settled share-based payments	-	39
	<b>-</b>	<b>39</b>
Termination benefits	591	374
Superannuation benefits	2,608	2,926
Other employee benefits (incl. salaries and wages)	34,474	36,046
<b>Total employee benefits expense</b>	<b>37,673</b>	<b>39,385</b>

# Notes to the financial statements

## For the financial year ended 30 June 2012

### Note 5: Profit / (Loss) from operations (continued)

	Consolidated	
	2012	2011
	\$'000	\$'000
Depreciation of non-current assets - charged to cost of sales / inventory	5,437	5,506
Depreciation of non-current assets - other	1,127	928
Amortisation of non-current assets	463	398
Total depreciation and amortisation expense	7,027	6,832
<b>(c) Finance costs:</b>		
Interest on bank overdrafts and loans	12,018	13,987
Interest on obligations under finance lease	817	243
	12,835	14,230
Unwinding of discounts on provisions	1,916	2,119
The weighted average capitalisation rate on funds borrowed generally is 8.12% per annum (2011: 8.07% per annum).		
<b>(d) Significant items</b>		
During the financial year the company incurred the following revenues and expenses of a significant and one-off nature:		
Provision for onerous contracts	-	865
Impairment of property, plant and equipment	-	(5,142)
Inventory net realisable adjustment	-	(2,484)
Sale of water licence	-	1,570
Holding cost associated with the Loxton Winery	-	(2,919)
Settlements received	-	1,433
Significant items before income tax	-	(6,677)
Income tax benefit / (expense) on significant items	-	2,003
Income tax benefit on capital losses utilised	-	49
Income tax benefit recognised on ceased investor vineyard scheme	-	969
Significant items after income tax benefit / (expense)	-	(3,656)

# Notes to the financial statements

## For the financial year ended 30 June 2012

### Note 6: Income taxes

	<b>Consolidated</b>	
	<b>2012</b>	<b>2011</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>(a) Income tax recognised in profit or loss</b>		
<b>Current tax</b>		
Tax expense / (income) comprises:		
Current tax expense / (income) in respect of the current year	1,010	480
	<u>1,010</u>	<u>480</u>
<b>Deferred tax</b>		
Deferred tax expense / (income) relating to the origination and reversal of temporary differences	1,358	610
Adjustments recognised in the current year in relation to the current tax of prior years	(497)	(1,005)
Total tax expense / (income) attributable to continuing operations	<u>861</u>	<u>(395)</u>
Total income tax expense recognised in the current year relating to continuing operations	<u>1,871</u>	<u>85</u>
The prima facie income tax expense/(benefit) on pre-tax accounting income/(loss) from operations reconciles to the income tax expense / (income) in the financial statements as follows:		
Profit / (Loss) from operations	8,938	6,649
Income tax expense / (income) calculated at 30%	<u>2,681</u>	<u>1,995</u>
Non-deductible expenses	23	113
Benefit recognised on ceased investor vineyard scheme	-	(969)
Capital losses utilised (not previously recorded)	<u>(336)</u>	<u>(49)</u>
	<u>2,368</u>	<u>1,090</u>
Adjustments recognised in the current year in relation to tax of prior years	(497)	(1,005)
Total tax expense / (income)	<u>1,871</u>	<u>85</u>
The tax rate used for the 2012 and 2011 reconciliations above is the corporation tax rate of 30% payable by Australian Corporate entities on taxable profits under Australian tax law.		
<b>(b) Income tax recognised in other comprehensive income</b>	<u>503</u>	<u>(510)</u>
<b>(c) Current tax assets and liabilities</b>		
Current tax assets (other tax receivable)	<u>200</u>	<u>12</u>
<b>(d) Deferred tax balances</b>		
Deferred tax assets comprise:		
Tax losses – revenue	33,353	40,913
Temporary differences	<u>21,770</u>	<u>17,580</u>
	<u>55,123</u>	<u>58,493</u>
Deferred tax liabilities comprise:		
Temporary differences	<u>10,232</u>	<u>12,244</u>
Total income tax recognised directly in equity	<u>503</u>	<u>(510)</u>



# Notes to the financial statements

## For the financial year ended 30 June 2012

### Note 6: Income taxes (continued)

(e) Taxable and deductible temporary differences arise from the following:

#### CONSOLIDATED

Temporary differences 2012	Opening Balance \$'000	Charged to Income \$'000	Charged to Equity \$'000	Acquisitions/ Disposals \$'000	Closing Balance \$'000
<b>Gross deferred tax liabilities:</b>					
Work in progress	(2,376)	428	-	-	(1,948)
Property, plant and equipment	(9,415)	2,786	-	-	(6,629)
Intangible assets	(406)	36	-	-	(370)
Inventories	-	(1,256)	-	-	(1,256)
Other	(47)	18	-	-	(29)
	(12,244)	2,012	-	-	(10,232)
<b>Gross deferred tax assets:</b>					
Property, plant and equipment	15	(15)	-	-	-
Provisions and accruals	17,446	(5,622)	-	-	11,824
Financial liabilities	-	711	-	-	711
Inventories	-	9,235	-	-	9,235
Tax losses	40,913	(7,560)	-	-	33,353
Other	119	(622)	503	-	-
	58,493	(3,873)	503	-	55,123

Temporary differences 2011	Opening Balance \$'000	Charged to Income \$'000	Charged to Equity \$'000	Acquisitions/ Disposals \$'000	Closing Balance \$'000
<b>Gross deferred tax liabilities:</b>					
Work in progress	(2,150)	(226)	-	-	(2,376)
Property, plant and equipment	(8,733)	(682)	-	-	(9,415)
Intangible assets	(1,191)	785	-	-	(406)
Other	(75)	28	-	-	(47)
	(12,149)	(95)	-	-	(12,244)
<b>Gross deferred tax assets:</b>					
Property, plant and equipment	137	(122)	-	-	15
Provisions and accruals	15,717	1,729	-	-	17,446
Financial liabilities	423	(423)	-	-	-
Tax losses	42,081	(1,168)	-	-	40,913
Other	650	(21)	(510)	-	119
	59,008	(5)	(510)	-	58,493

There are no unrecognised revenue tax losses relating to the Group or the Company. The company has not recognised \$5,769,000 (2011: \$6,528,000) of capital losses. The Directors expect the future financial performance of the company will facilitate the full recovery of the tax losses.

#### Tax Consolidation

##### Relevance of tax consolidation to the Group

The company and its wholly-owned Australian resident entities have formed a tax-consolidated group with effect from 1 July 2003 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is Australian Vintage Ltd. The members of the tax-consolidated group are identified in note 40.

##### Nature of tax funding arrangements and tax sharing agreements

Entities within the tax-consolidated group have entered into a tax funding arrangement and a tax-sharing agreement with the head entity. Under the terms of the tax funding arrangement, Australian Vintage Ltd and each of the entities in the tax-consolidated group has agreed to pay a tax equivalent payment to or from the head entity, based on the current tax liability or current tax asset of the entity. The tax funding arrangement requires each subsidiary to prepare an individual tax calculation to determine the amount payable or receivable. Such amounts are reflected in amounts receivable from or payable to other entities in the tax-consolidated group.

The tax sharing agreement entered into between members of the tax-consolidated group provides for the determination of the allocation or income tax liabilities between the entities should the head entity default on its tax payment obligation. No amounts have been recognised in the financial statements in respect of this agreement as payment of any amounts under the tax sharing agreement is considered remote. The effect of the tax sharing agreement is that each member's liability for tax payable by the tax-consolidated group is limited to the amount payable to the head entity under the tax funding arrangement.

# Notes to the financial statements

## For the financial year ended 30 June 2012

### Note 7: Key management personnel compensation

#### Details of Key Management Personnel

The key management personnel of Australian Vintage Ltd during the year were, except as noted below:

Ian D Ferrier (Chairman - Non-Executive Director)	Neil McGuigan (Chief Executive Officer)
Brian J McGuigan (Non-Executive Director)	Michael Noack (Chief Financial Officer and Company Secretary)
Perry R Gunner (Non-Executive Director)	Flora Sarris (General Counsel)
Richard Davis (Non-Executive Director)	Cameron Ferguson (General Manager – Sales and Marketing)
	Paul Schaafsma (General Manager – United Kingdom/Europe) resigned 21 <sup>st</sup> August 2012

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

	Consolidated	
	2012 \$	2011 \$
Short-term employee benefits	2,630,402	2,766,528
Post-employment benefits	346,482	220,451
Share based payments	-	36,127
Termination benefits	-	233,499
	<b>2,976,884</b>	<b>3,256,605</b>

### Note 8: Executive share option plan

The Company has an executive and senior employee option scheme which allows for the granting of share options over unissued shares of the company. The company also issues share options under the Australian Vintage Ltd Executive Option Acquisition Plan ("Plan"). These options are granted over issued shares of the company.

#### Australian Vintage Ltd Executive Option Acquisition Plan ("Plan") – option series 1 to 3.

During the year the company did not contribute any amounts to the trustee of the Australian Vintage Ltd Executive Option Acquisition Plan ("Plan") to acquire call options over ordinary shares in Australian Vintage Ltd.

The table below summarises all share options on issue:

	2012 Number	2011 Number	Weighted Average Exercise Price	
			2012 \$	2011 \$
Balance at the beginning of the financial year (i)	376,058	441,141	1.76	2.06
Granted during the financial year (ii)	-	-	-	-
Exercised during the financial year (ii)	-	-	-	-
Lapsed/cancelled during the financial year (iii)	(116,797)	(65,083)	3.02	2.02
Balance at the end of the financial year (iv)	<b>259,261</b>	<b>376,058</b>	<b>1.64</b>	<b>1.76</b>

The call options are exercisable subject to a performance hurdle which is satisfied if, the Earnings per Share performance for the pre-determined year ("Performance Year"), is greater than the EPS for the base year ("Base Year"), where the base year is the year the options are issued. Additionally, the call options are exercisable when there is a takeover event. The options can be exercised on the following basis:

- Where EPS performance is 15% - 19.99% greater than base EPS, 50% of the options can be exercised
- Where EPS performance is 20% - 24.99% greater than base EPS, 75% of the options can be exercised
- Where EPS performance is 25% or more greater than base EPS, 100% of the options can be exercised

# Notes to the financial statements

## For the financial year ended 30 June 2012

### Note 8: Executive share option plan (continued)

#### (i) Balance at the Beginning of the Financial Year

<b>2012 Options – Series</b>	<b>No.</b>	<b>Vested No.</b>	<b>Unvested No.</b>	<b>Grant Date</b>	<b>Exercise Date</b>	<b>Expiry Date</b>	<b>Exercise Price \$</b>
(1) Issued 16 November 2006	69,697	69,697	-	16/11/06	16/11/09	30/12/11	2.90
(2) Issued 3 April 2007	47,100	47,100	-	03/04/07	05/04/10	30/12/11	3.20
(3) Issued 20 December 2007	259,261	259,261	-	20/12/07	20/12/10	30/12/12	1.64
	<u>376,058</u>	<u>376,058</u>					

  

<b>2011 Options – Series</b>	<b>No.</b>	<b>Vested No.</b>	<b>Unvested No.</b>	<b>Grant Date</b>	<b>Exercise Date</b>	<b>Expiry Date</b>	<b>Exercise Price \$</b>
(1) Issued 16 November 2006	69,697	69,697	-	16/11/06	16/11/09	30/12/11	2.90
(2) Issued 3 April 2007	62,800	62,800	-	03/04/07	05/04/10	30/12/11	3.20
(3) Issued 20 December 2007	308,644	308,644	-	20/12/07	20/12/10	30/12/12	1.64
	<u>441,141</u>	<u>441,141</u>	-				

#### (ii) Granted/Exercised during the Financial Year

There were no options granted or exercised during the current or prior financial year.

#### (iii) Lapsed/cancelled during the Financial Year

<b>2012 Options – Series</b>	<b>No.</b>	<b>Grant Date</b>	<b>Expiry Date</b>
(1) Issued 16 November 2006	69,697	16/11/06	30/12/11
(2) Issued 3 April 2007	47,100	03/04/07	30/12/11
	<u>116,797</u>		

  

<b>2011 Options – Series</b>	<b>No.</b>	<b>Grant Date</b>	<b>Expiry Date</b>
(2) Issued 3 April 2007	15,700	03/04/07	Cancelled
(3) Issued 20 December 2007	49,383	20/12/07	Cancelled
	<u>65,083</u>		

#### (iv) Balance at End of Financial Year

<b>2012 Options – Series</b>	<b>No.</b>	<b>Vested No.</b>	<b>Unvested No.</b>	<b>Grant Date</b>	<b>Exercise Date</b>	<b>Expiry Date</b>	<b>Exercise Price \$</b>
(3) Issued 20 December 2007	259,261	259,261	-	20/12/07	20/12/10	30/12/12	1.64
	<u>259,261</u>	<u>259,261</u>	-				

  

<b>2011 Options – Series</b>	<b>No.</b>	<b>Vested No.</b>	<b>Unvested No.</b>	<b>Grant Date</b>	<b>Exercise Date</b>	<b>Expiry Date</b>	<b>Exercise Price \$</b>
(1) Issued 16 November 2006	69,697	69,697	-	16/11/06	16/11/09	30/12/11	2.90
(2) Issued 3 April 2007	47,100	47,100	-	03/04/07	05/04/10	30/12/11	3.20
(3) Issued 20 December 2007	259,261	259,261	-	20/12/07	20/12/10	30/12/12	1.64
	<u>376,058</u>	<u>376,058</u>	-				

The share options outstanding at the end of the year had a weighted average exercise price of \$1.64 (2011: \$1.76), and a weighted average remaining contractual life of 183 days (2011: 371 days).

### Note 9: Remuneration of auditors

	<b>Consolidated</b>	
	<b>2012 \$</b>	<b>2011 \$</b>
<b>Auditor of the parent company</b>		
Audit or review of financial report	325,000	325,000
Other services – other audit services	21,525	43,258
Other services – taxation advice	26,205	13,820
Other services – taxation compliance	39,000	233,141
	<u>411,730</u>	<u>615,219</u>

The external auditor of Australian Vintage Ltd is Deloitte Touche Tohmatsu.

# Notes to the financial statements

## For the financial year ended 30 June 2012

### Note 10: Current trade and other receivables

	<b>Consolidated</b>	
	<b>2012</b>	<b>2011</b>
	<b>\$'000</b>	<b>\$'000</b>
Trade receivables (i)	39,573	41,666
Allowance for doubtful debts	(303)	(410)
	<b>39,270</b>	<b>41,256</b>
Loans to other entities (ii)	188	2,400
Other receivables	88	2,580
	<b>39,546</b>	<b>46,236</b>

- (i) The average credit period on sales of goods and rendering of services is 65 days (2011: 78 days). No interest is charged on outstanding trade receivables. An allowance has been made for estimated irrecoverable trade receivable amounts arising from the past sale of goods and rendering of services, determined by reference to past default experience.
- (ii) Loan payable in instalments up to 30<sup>th</sup> June 2014, secured against a vineyard. The interest rate charged is 10.25% (2011: 7.00%).

Before accepting any new customers, the Group uses a third party to assess the potential customer's credit quality and defines credit limits by customer. Limits provided on customer accounts are reviewed throughout the year. Of the trade receivables balance at the end of the year, \$24.4 million (2011: \$24.1 million) is due from international supermarket groups and two major wine entities. There are no other customers who represent more than 5% of the total balance of trade receivables.

Included in the Group's trade receivable balance are debtors with a carrying amount of \$1.6 million (2011: \$2.8 million) which are past due at the reporting date for which the Group has not provided as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances.

#### Ageing of past due but not impaired

30 – 60 days	1,438	2,757
60 – 90 days	95	79
90 – 120 days	100	-
Total	<b>1,633</b>	<b>2,836</b>
Average age (days)	<b>44</b>	<b>49</b>

#### Movement in the allowance of doubtful debts

Balance at the beginning of the year	(410)	(1,119)
Impairment reversals / (losses) recognised on receivables	4	29
Amounts written off as not collectable	103	680
Balance at the end of the year	<b>(303)</b>	<b>(410)</b>

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. Accordingly, the directors believe that there is no further credit provision required in excess of the allowance for doubtful debts.

### Note 11: Current inventories

Bulk wine	100,023	107,286
Other stores and raw materials	3,417	3,332
Work in progress:	6,493	7,918
Bottled wine	20,691	21,971
	<b>130,624</b>	<b>140,507</b>

The cost of inventory recognised as an expense (or cost of sales) during the year in respect of continuing operations was \$165.6 million (2011: \$159.8 million).

# Notes to the financial statements

## For the financial year ended 30 June 2012

### Note 12: Assets classified as held for sale

	<b>Consolidated</b>	
	<b>2012</b>	<b>2011</b>
	<b>\$'000</b>	<b>\$'000</b>
Winery assets - carrying value	-	25,901
Liabilities associated with assets held for sale.	-	373

During the prior year the company held the Loxton winery and Austflavour assets for sale. The company signed binding agreements for the sale of the Loxton Winery and Austflavour assets to TWG Australia 11 Pty Ltd for \$27 million. Settlement occurred on 18<sup>th</sup> August 2011.

The relevant assets, and associated liabilities, have been recorded as held for sale assets and liabilities in the financial statements of the company.

The sale does not qualify as a discontinued operation.

### Note 13: Other current assets

Prepayments	2,636	1,560
Hedge assets – foreign exchange contracts (note 32)	1,469	1,125
	<b>4,105</b>	<b>2,685</b>

### Note 14: Non-current trade and other receivables

Loans carried at amortised cost:

Loans to other entities (i)	1,843	-
	<b>1,843</b>	<b>-</b>

(i) Loan payable in instalments from 30<sup>th</sup> September 2013 to 30<sup>th</sup> June 2014, secured against a vineyard. The interest rate charged is 10.25% (2011: 7%).

### Note 15: Non-current inventories

Bulk wine	20,789	17,926
Bottled wine	1,089	1,156
	<b>21,878</b>	<b>19,082</b>

### Note 16: Other non-current financial assets

Investments in companies (i)	59	64
	<b>59</b>	<b>64</b>

(i) Relates to investments in wine related businesses.

# Notes to the financial statements

## For the financial year ended 30 June 2012

### Note 17: Biological assets

	Consolidated	
	2012	2011
	\$'000	\$'000
Fair value less costs to sell of vines at beginning of year	33,048	31,303
Vines acquired	-	662
Valuation adjustment	121	(117)
Disposals	-	(474)
Transfer from / (to) non-current assets held for sale	-	1,674
Fair value less costs to sell of vines at end of year	<b>33,169</b>	<b>33,048</b>

**(a) Impact on Consolidated Statement of Comprehensive Income**

The profit / (loss) before income tax included in the Consolidated statement of comprehensive income resulting from the fair value less costs to sell of produce extracted from the biological assets is a profit of \$967,000 (2011: \$5,036,000).

**(b) Physical quantity of vines**

	Consolidated	
	2012	2011
	No.	No.
Number of vines owned	1,429,364	1,429,364
Acres owned	1,923	1,923
Number of grapes crushed - owned vineyards (tonnes)	16,786	19,419

**(c) Nature of asset**

Australian Vintage Ltd owns vineyards in several regions across Australia (primarily the Sunraysia, Riverland and Adelaide Hills regions).

There are two resulting assets:

- (i) grapes (agricultural produce) – recorded within inventory
- (ii) vines (biological asset)

**(d) Significant assumptions**

Significant assumptions made in determining the net market value of the vines are:

- (i) 100% of the vines are currently mature and will be productive for periods up to 40 years per vine;
- (ii) the expected price of the vines is constant in real terms, based on average prices throughout the current year;
- (iii) the costs expected to arise throughout the life of the vines are constant in real terms, based on average costs throughout the year; and
- (iv) inflation will continue at the current rate; and
- (v) discount rate of 14.53% (2011 : 15.62 %).

Significant assumptions made in determining the net market value of grapes picked are:

- (i) grapes crushed valued at management estimate of market price; and
- (ii) costs are those costs incurred in the 12 months preceding harvest.

# Notes to the financial statements

## For the financial year ended 30 June 2012

### Note 18: Property, plant and equipment

	Consolidated	
	2012 \$'000	2011 \$'000
<b>(a) Vineyard Improvements</b>		
at cost	14,273	14,194
accumulated depreciation	(5,575)	(4,876)
	<b>8,698</b>	<b>9,318</b>
<b>Freehold Land</b>		
at cost	<b>13,726</b>	<b>13,726</b>
<b>Buildings</b>		
At cost	17,346	16,763
accumulated depreciation	(4,469)	(4,094)
	<b>12,877</b>	<b>12,669</b>
<b>Plant and equipment under lease</b>		
at cost	12,192	12,192
accumulated amortisation	(457)	(91)
	<b>11,735</b>	<b>12,101</b>
<b>Plant and equipment</b>		
at cost	109,708	104,164
accumulated depreciation	(61,131)	(54,830)
	<b>48,577</b>	<b>49,334</b>
<b>Total Property, Plant and Equipment</b>		
at cost	167,245	161,039
accumulated depreciation and amortisation	(71,632)	(63,891)
	<b>95,613</b>	<b>97,148</b>
<b>(b) Reconciliations</b>		
<b>Vineyard Improvements</b>		
carrying amount at beginning of the financial year	9,318	9,530
transfer from / (to) non-current assets held for sale	-	463
additions	78	91
disposals	-	(64)
depreciation	(698)	(702)
<b>at end of year</b>	<b>8,698</b>	<b>9,318</b>
<b>Freehold land</b>		
carrying amount at beginning of the financial year	13,726	12,978
disposals	-	(417)
transfer from / (to) non-current assets held for sale	-	1,165
<b>at end of year</b>	<b>13,726</b>	<b>13,726</b>
<b>Buildings</b>		
carrying amount at beginning of the financial year	12,669	12,218
additions	583	16
disposals	-	(78)
depreciation	(375)	(467)
transfer from / (to) non-current assets held for sale	-	980
<b>at end of year</b>	<b>12,877</b>	<b>12,669</b>

# Notes to the financial statements

## For the financial year ended 30 June 2012

### Note 18: Property, plant and equipment (continued)

	Consolidated	
	2012	2011
	\$'000	\$'000
<b><i>Plant and equipment under lease</i></b>		
carrying amount at beginning of the financial year	12,101	704
additions	-	12,192
transfer to plant and equipment	-	(704)
amortisation	(366)	(91)
<b>at end of year</b>	<b>11,735</b>	<b>12,101</b>
<b><i>Plant and equipment</i></b>		
carrying amount at beginning of the financial year	49,334	44,213
additions	4,402	3,985
disposals	(34)	(972)
depreciation	(5,125)	(5,174)
impairment losses charged to profit	-	(600)
transfer from plant and equipment under lease	-	704
transfer to non-current assets held for sale	-	7,178
<b>at end of year</b>	<b>48,577</b>	<b>49,334</b>
<b><i>Aggregate depreciation and amortisation allocated, and impairment recognised as an expense during the year:</i></b>		
Buildings	375	467
Vineyard improvements	698	702
Plant and equipment	5,125	5,174
Plant and equipment under lease	366	91
	<b>6,564</b>	<b>6,434</b>

### Note 19: Goodwill

Gross carrying amount:		
Balance at beginning of the financial year	44,085	43,174
Transfer from non-current assets held for sale	-	911
<b>Balance at end of the financial year</b>	<b>44,085</b>	<b>44,085</b>
<b><u>Accumulated impairment losses</u></b>		
Balance at beginning of financial year	6,400	6,400
Impairment losses for the year (i)	-	-
<b>Balance at end of financial</b>	<b>6,400</b>	<b>6,400</b>
<b><u>Net book value</u></b>		
At the beginning of the financial year	37,685	36,774
Transfer from non-current assets held for sale	-	911
<b>At the end of the financial year</b>	<b>37,685</b>	<b>37,685</b>

#### Allocation of goodwill to cash-generating units

Goodwill has been allocated for impairment testing purposes to the following cash generating unit:

Bulk wine business	37,685	37,685
--------------------	--------	--------

- (i) The impairment of goodwill is tested each reporting date and is based on determining the recoverable amount the businesses' cash generating units (CGU). To assess the recoverable amount of each CGU, the company has determined both the fair value less costs to sell and the value in use of the assets in each CGU. Given the unique nature of the assets, it is not always possible to obtain comparable fair values to the assets owned by this company and therefore the value in use method is the primary method used by the company for assessing whether the assets in the CGU are impaired. The recoverable amount of each cash generating unit has been determined based on a value in use method which calculates the net present value of the forecast cash flows expected from the CGU. The cash flows are based on the current management forecasts for the following 5 years and a terminal value to account for the cash flows beyond the 5<sup>th</sup> year. In preparing the impairment models for each CGU the company started with the cash flows from the year ended 30 June 2012 and adjusted that base year for the budgets and plans approved by the Board of Directors.



# Notes to the financial statements

## For the financial year ended 30 June 2012

### Note 19: Goodwill (continued)

The cash flows in the impairment model have been discounted to present value using a discount rate applicable to each cash flow. The company has used the weighted average cost of capital as a guide to determine the discount rate applied to the cash flows as it is considered the most appropriate discount rate for the risk specific to the assets in the CGU's. The net present value of the cash flows has been compared to the assets within the CGU which include the goodwill balances above. In the current year, the company applied a pre-tax discount rate of 13.34% p.a. (2011: 15.14% p.a.) to account for the risk associated with the assets in the current financial markets.

#### Discount Rate

The discount rate was determined after considering an appropriate: Beta; risk free interest rate; incremental cost of borrowing for the company; and the debt /equity ratio. The inputs used in the model have been sourced from industry and financial market reports relevant to the company and the Australian wine industry and have been considered in relation to the company.

#### Key Assumptions

The other key assumptions used in the value in use calculations are as follows:

- Working capital levels used in future years adjust in line with future sales growth.
- Terminal Growth Rate of 3% (2011 : 3%)
- Pre-tax Weighted Average Cost of Capital/ Discount rate of 13.34% (2011 : 15.14%)
- Cost of debt 8.50% (2011 : 8.75%)
- Levered Beta of 0.85 (2011 : 0.85)

#### Sensitivity Analysis

The Company has performed sensitivity analysis on the value in use calculation as follows:

The discount rate can be increased by 1.5 percentage points (to 14.8%) before an impairment is recognised.

Reducing revenue growth rates to 0% does not cause the associated goodwill to be impaired.

Reducing the terminal growth rate to 1% does not cause the associated goodwill to be impaired. However, a reduction in the terminal growth rate to 0% would generate an impairment charge of \$4.7 million.

The calculations are not sensitive to exchange rates as the majority of cash flows from the business unit are denominated in Australian dollars.

Management believes that any reasonable possible change in the key assumptions on which recoverable amount or the inputs to the discount rate are based would not cause the carrying amount of the individual cash-generating units to exceed their recoverable amount.

### Note 20: Water licences

	<b>Consolidated</b>	
	<b>2012</b>	<b>2011</b>
	<b>\$'000</b>	<b>\$'000</b>
Permanent water licences – at cost	8,692	8,692
Balance at 1 July	8,692	8,692
Acquired during the year	-	-
Balance at 30 June	8,692	8,692

# Notes to the financial statements

## For the financial year ended 30 June 2012

### Note 21: Other intangible assets

	Consolidated	
	2012 \$'000	2011 \$'000
Brand Names and Registered Trademarks:		
Balance at 1 July	5,488	5,691
Acquired during the year	-	-
Disposal during the year	-	(203)
Balance at 30 June	5,488	5,488
Software:		
Balance at 1 July	2,604	2,761
Costs incurred during the year	151	241
Amortisation expense	(463)	(398)
Balance at 30 June	2,292	2,604
Total other intangible assets	7,780	8,092

Brand names have been assessed as having an indefinite useful life as the assets are integral to the business. Brand names can be managed by another management team and similar assets in the wine industry are commonly defined as having an indefinite useful life.

The impairment of brand names is tested each reporting date and is based on determining the recoverable amount of the cash flows generated by each brand. The cash flows are based on the current management forecasts for the following 5 years and a terminal value to account for the cash flows beyond the 5th year.

#### Discount Rate

The cash flows have been discounted to present value. In the current year, the company applied a pre-tax discount rate of 20% p.a. (2011: 20% p.a.) to account for the risk associated with the assets in the current financial markets.

The discount rate was determined after considering an appropriate: Beta; risk free interest rate; incremental cost of borrowing for the company; and the debt /equity ratio. The inputs used in the model have been sourced from industry and financial market reports relevant to the company and the Australian wine industry and have been considered in relation to the company.

#### Key Assumptions

The key assumptions used in the value in use calculations are as follows:

- Terminal Growth Rate of 3% (2011 : 3%)
- Pre-tax Weighted Average Cost of Capital / Discount rate of 20% (2011 : 20%)
- Cost of debt 9.0% (2011 : 9.5%)
- Levered Beta of 1.08 (2011 : 1.12)
- Revenue growth rate of 3% (2011 : 3%)

No impairment charges relating to brands were recorded as the cash flows continued to support the carrying values of these brands.

#### Sensitivity Analysis

The Company has performed sensitivity analysis on the brand names valuation models as follows:

- Reducing revenue growth rates to 0% does not cause the brand names to be impaired.
- Reducing the terminal growth rate to 0% does not cause the brand names to be impaired.

Management believes that any reasonable possible change in the key assumptions on which recoverable amount or the inputs to the discount rate are based would not cause the carrying amount of the brand names to exceed their recoverable amount.

# Notes to the financial statements

## For the financial year ended 30 June 2012

### Note 22: Assets pledged as security

In accordance with the security arrangements of liabilities, as disclosed in notes 24 and 28 to the financial statements, the majority of tangible assets of the Group have been covered by a first registered fixed and floating charge to the lending institutions, with the exception of assets under hire purchase arrangements. The following assets have been pledged as security:

	Consolidated	
	2012 \$'000	2011 \$'000
Inventory	152,502	159,589
Receivables	39,546	46,236
Property, plant and equipment (including Biological Assets)	128,782	156,097
	<b>320,830</b>	<b>361,922</b>

The holder of the security does not have the right to sell or re-pledge the assets other than in an event of default. Assets under finance lease are pledged as security.

### Note 23: Current trade and other payables

Trade payables(i)	26,580	25,949
Goods and services tax payable	597	395
Value added tax payable	472	3,532
Other accounts payable and accruals	9,269	11,557
	<b>36,918</b>	<b>41,433</b>

(i) The average credit period on purchase of goods is 34 days (2011: 43 days); no interest is charged on trade payables. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

### Note 24: Current borrowings

At amortised cost:

Finance lease liabilities - secured (i)	1,993	1,838
	<b>1,993</b>	<b>1,838</b>

(i) Secured by assets subject to the finance lease.

### Note 25: Other current financial liabilities

Interest rate swap	1,618	652
	<b>1,618</b>	<b>652</b>

### Note 26: Current provisions

Directors retirement benefit (note 31)	149	149
Onerous contracts (note 31)	3,849	5,317
Employee entitlements (i)	4,018	3,855
	<b>8,016</b>	<b>9,321</b>

(i) The current provision for employee entitlements includes \$3,909,599 (2011 : \$3,696,721) of annual leave and vested long service leave entitlements.

### Note 27: Other current liabilities

Income in advance	42	222
	<b>42</b>	<b>222</b>

# Notes to the financial statements

## For the financial year ended 30 June 2012

### Note 28: Non-current borrowings

	Consolidated	
	2012 \$'000	2011 \$'000
Secured - at amortised cost:		
Commercial Bills (i) (note 43(b))	122,000	157,000
Accrued interest	-	762
Prepaid interest	(512)	-
	121,488	157,762
Finance lease liabilities (ii)	5,841	7,834
	<b>127,329</b>	<b>165,596</b>

- (i) Commercial bills with a variable interest rate were issued in 2012. The current weighted average interest rate on the bills is 8.12% (2011: 8.07%). The bank overdraft and commercial bills are subject to fixed and floating charges over the majority of the Group's assets (refer note 22).
- (ii) Secured by assets subject to the finance lease.

### Note 29: Non-current other financial liabilities

Interest rate swap	751	-
	<b>751</b>	<b>-</b>

### Note 30: Non-current provisions

Employee entitlements	817	792
Onerous contracts (note 31)	11,969	18,370
	<b>12,786</b>	<b>19,162</b>

### Note 31: Provisions

	Consolidated	
	\$'000 Onerous Contracts (i)	\$'000 Directors Retirement Benefit (ii)
Balance at 30 June 2011	23,687	149
Reductions arising from payments/other sacrifices of future economic benefits	(9,766)	-
Unwinding of discount and effect of changes in the discount rate	1,969	-
Reductions resulting from re-measurement, contract re-negotiation or settlement without cost	(72)	-
<b>Balance at 30 June 2012</b>	<b>15,818</b>	<b>149</b>

- (i) The provision for onerous contracts represents the present value of the future grape payment that the Group is presently obligated to make in respect of onerous grape purchase contracts under non-cancellable grape agreements, less the estimate of the market value of the grapes. The estimate may vary as a result of changes in the market.
- (ii) The provision for Directors' Retirement represents the present value of the directors' best estimate of the costs likely to be incurred as a result of either termination or retirement of directors.

#### 31.1 Defined Contribution plans

The total expense recognised in the statement of comprehensive income of \$2,608,000 (2011: \$2,926,000) represents contributions payable to these plans by the Group at rates specified in the rules of the plans. As at 30 June 2012, contributions of \$108,521 (2011: \$239,467) due in respect of the 2012 (2011) reporting period had not been paid over to the plans. The amounts were paid subsequent to the end of the reporting period.

# Notes to the financial statements

## For the financial year ended 30 June 2012

### Note 32: Foreign currency balances

The following table details the forward foreign currency contracts outstanding as at 30 June 2012:

Currency	Exchange rate	Foreign currency FC '000	Contract value AUD \$ 000	Fair value AUD \$000
<u>Forward Contracts:</u>				
Sell GB Pounds	0.6192	2,200	3,583	131
Sell GB Pounds	0.6283	2,200	3,501	77
Sell GB Pounds	0.6235	3,000	4,811	170
Sell GB Pounds	0.6064	5,000	8,245	220
Sell GB Pounds	0.6000	4,900	8,166	326
Sell GB Pounds	0.6300	2,000	3,175	38
Sell GB Pounds	0.6427	2,500	3,890	149
Sell Euro	0.7900	1,000	1,432	10
Sell Euro	0.7099	2,700	3,803	378
<u>Cap / Collar Contracts:</u>				
Sell GB Pounds	0.5635 – 0.6300	2,000	3,362	93
Sell GB Pounds	0.6100 – 0.6600	8,000	12,618	184
Sell GB Pounds	0.6060 – 0.6600	4,700	7,486	28
Sell Euro	0.7030 – 0.7800	1,000	1,432	10
Sell Euro	0.7450 – 0.8300	450	571	1

The following table details the forward foreign currency contracts outstanding as at 30<sup>th</sup> June 2011:

Currency	Exchange rate	Foreign currency FC '000	Contract value AUD \$ 000	Fair value AUD \$000
<u>Forward Contracts:</u>				
Sell GB Pounds	0.5987	8,300	14,310	1,263
Sell GB Pounds	0.6380	9,000	14,105	307
Sell GB Pounds	0.6591	4,500	6,827	57
Sell GB Pounds	0.6518	4,000	6,557	53
Sell GB Pounds	0.6192	4,900	7,910	134
Sell GB Pounds	0.6038	2,700	4,472	32
Sell Euro	0.7385	2,400	3,250	1
Sell Euro	0.7044	1,000	1,426	(2)
Sell Euro	0.6865	500	723	(3)

### Note 33: Issued capital

	Consolidated			
	2012 \$'000	2011 \$'000		
131,993,692 Fully paid ordinary shares (2011: 128,580,317)	402,792	401,831		
	Consolidated			
	2012 Number	2012 \$'000	2011 Number	2011 \$'000
<b>Fully paid ordinary share capital</b>				
Beginning of financial year	128,580,317	401,831	128,580,317	401,831
<b>Issued during the year</b>				
Shares issued under dividend re-investment plan	3,413,375	961	-	-
End of financial year	131,993,692	402,792	128,580,317	401,831

Changes to the Corporations Act 2001 abolished the authorised capital and par value concept in relation to share capital from 1 July 1998. Therefore, the company does not have a limited amount of authorised capital and issued shares do not have a par value. All fully paid ordinary shares carry one vote per share and carry the right to dividends.

#### Share Options

Details of share options granted and on issue are disclosed in Note 8.

Share options or performance rights carry no rights to dividends and no voting rights.

# Notes to the financial statements

## For the financial year ended 30 June 2012

### Note 34: Reserves

	Consolidated	
	2012 \$'000	2011 \$'000
Employee equity-settled benefits (i)	1,497	1,497
Hedging reserve (ii)	(865)	332
Foreign currency translation reserve (iii)	9	(15)
	<b>641</b>	<b>1,814</b>

- (i) The employee equity-settled benefits reserve arises on the granting of shares and share options to directors and employees. The fair value of share based payments provided to directors and employees of the company are recorded within the reserve account and amounts are released into issued capital as options are exercised. Further details on share based payments are made in Note 8.
- (ii) The hedging reserve represents hedging gains and losses recognised on the effective portion of cash flow hedges. The cumulative deferred gain or loss on the hedge is recognised in the profit and loss when the hedge transaction impacts the profit or loss, or is included as a basis adjustment to the non- financial hedged item, consistent with the applicable accounting policy.
- (ii) The foreign currency translation reserve contains exchange differences relating to the translation from the functional currencies of the Group's foreign controlled entities into Australian dollars.

Movements in reserves balances are disclosed in the Statement of Changes in Equity.

### Note 35: Accumulated losses

Balance at beginning of financial year	(170,417)	(176,981)
Net profit	7,067	6,564
Dividends paid	(3,214)	-
<b>End of financial year</b>	<b>(166,564)</b>	<b>(170,417)</b>

### Note 36: Earnings per share

	Consolidated	
	2012 Cents Per share	2011 Cents Per share
Basic earnings per share	5.4	5.1
Diluted earnings per share	5.4	5.1
Basic earnings per share:		
The earnings and weighted average numbers of ordinary shares used in the calculation of basic earnings per share are as follows:		
	<b>\$'000</b>	<b>\$'000</b>
Profit / (loss) for the year	7,067	6,564
	<b>2012 '000 Number of Shares</b>	<b>2011 '000 Number of Shares</b>
<b>Basic earnings per share</b>		
Weighted average number of ordinary shares used in calculating basic earnings per share (i)	131,037	128,576
<b>Dilutive earnings per share</b>		
Weighted average number of ordinary shares used in calculating diluted earnings per share (i)	131,037	128,576

- (i) The basic and diluted EPS are the same. The options, if exercised would not result in the issue of any new shares and therefore are not dilutive.

# Notes to the financial statements

## For the financial year ended 30 June 2012

### Note 37: Dividends

	2012		2011	
	Cents per share	Total \$'000	Cents per share	Total \$'000
Fully paid ordinary shares:				
Interim dividend – franked to 30%	-	-	-	-
Final dividend – franked to 30%	2.5	3,214	-	-
	2.5	3,214	-	-
Adjusted franking account balance		14,059		15,437

In respect of the financial year ended 30 June 2012, a fully franked final dividend of 2.6 cents per share was declared on 22<sup>nd</sup> August 2012 and will be paid on 19<sup>th</sup> November 2012. In respect of the financial year ended 30 June 2011, a final dividend of 2.5 cents per share was declared on 24<sup>th</sup> August 2011 and was paid on 18<sup>th</sup> November 2011. There are no income tax consequences of unrecognised dividends.

### Note 38: Leases and other commitments

#### (a) Non-cancellable operating leases

The Group leases the following assets under normal economic terms. All operating lease contracts contain market review clauses in the event the Group exercises its option to renew.

- Vineyards
- Winery equipment

Operating leases relate to leases of plant and equipment with lease terms of between 3 and 7 years,

The following sets out payments recognised as an expense

	Consolidated	
	2012 \$'000	2011 \$'000
Minimum lease payments	15,143	18,284
The following sets out the commitments to future lease payments relating to operating leases:		
- not longer than 1 year	15,352	15,163
- longer than 1 year and not longer than 5 years	42,758	59,895
- longer than 5 years	-	1,324
	<b>58,110</b>	<b>76,382</b>
In respect of non cancellable operating leases the following liabilities have been recognised:		
Current	2,179	3,402
Non Current	6,582	11,847
	<b>8,761</b>	<b>15,249</b>

#### (b) Finance leases

Finance leases relate to plant and equipment with a lease term of 5 years, expiring in March 2016.

	Minimum Future Lease payments Consolidated		Present Value of Minimum Future Lease payments Consolidated	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
No Later than 1 year	2,638	2,654	1,993	1,838
Later than 1 year and not later than 5 years	6,595	9,235	5,841	7,834
Minimum lease payments*	9,233	11,889	7,834	9,672
Less future finance changes	(1,399)	(2,217)	-	-
Present value of minimum lease payments	<b>7,834</b>	<b>9,672</b>	<b>7,834</b>	<b>9,672</b>
Current borrowings (note 24)			1,993	1,838
Non-Current borrowings (note 28)			5,841	7,834
			<b>7,834</b>	<b>9,672</b>

\* Minimum lease payments include the aggregate of all lease payments and any guaranteed residual.

# Notes to the financial statements

## For the financial year ended 30 June 2012

### Note 38: Leases and other commitments (continued)

#### (c) Capital expenditure commitments

	Consolidated	
	2012 \$'000	2011 \$'000
Property, Plant and Equipment		
- not longer than 1 year	33	32
	<b>33</b>	<b>32</b>

### Note 39: Contingent liabilities

There are no material contingent liabilities the company is aware of as at the date of this report.

### Note 40: Subsidiaries

Name of entity	Country of Incorporation	Ownership of Interest	
		2012 %	2011 %
<b>Parent Entity</b>			
Australian Vintage Ltd	Australia		
<b>Controlled Entity</b>			
Simeon Wines Pty Ltd (1) (formerly Simeon Wines Limited)	Australia	100	100
Vintners Australia Pty Limited (1)	Australia	100	100
Barossa Valley Wine Company Pty Limited (1)	Australia	100	100
Coldridge Development Pty Limited (1)	Australia	100	100
McGuigan Simeon Wines Pty Ltd (1)	Australia	100	100
Mourquong Pty Limited (1)	Australia	100	100
Buronga Hill Pty Limited (1)	Australia	100	100
Austvin Pty Ltd (1) (formerly Austvin Limited)	Australia	100	100
Australian Flavours Pty Limited (1)	Australia	100	100
Austvin Holdings Pty Limited (1)	Australia	100	100
Australian Vintage (Domestic) Pty Ltd (1)	Australia	100	100
Miranda Wines Pty Limited (1)	Australia	100	100
Miranda Wines (Leasing) Pty Limited (1)	Australia	100	100
Miranda Family Investments Pty Limited (1)	Australia	100	100
M W (Purchasing) Pty Limited (1)	Australia	100	100
Miranda Wines (Europe) Limited	United Kingdom	100	100
Miranda Wines Holdings Pty Ltd (1) (formerly Miranda Wines Holdings Limited)	Australia	100	100
Australian Vintage (Europe) Limited	United Kingdom	100	100
MGW Executive Options Pty Limited (1)	Australia	100	100

(1) These wholly-owned controlled entities have entered into a deed of cross guarantee with Australian Vintage Ltd pursuant to ASIC Class Order 98/1418 and are relieved from the requirement to prepare and lodge an audited financial report.

As a condition of this class order, Australian Vintage Ltd has guaranteed to pay any deficiency in the event of winding up of any of its controlled entities. The controlled entities have also given a similar guarantee in the event Australian Vintage Ltd is wound up.



# Notes to the financial statements

## For the financial year ended 30 June 2012

### Note 40: Subsidiaries (continued)

The consolidated statement of comprehensive income and consolidated statement of financial position of the entities party to the deed of cross guarantee are:

#### Consolidated Statement of Comprehensive Income – Closed Group For the financial year ended 30 June 2012

	Consolidated	
	2012 \$'000	2011 \$'000
Revenue	227,962	223,217
Cost of sales	(165,633)	(159,780)
<b>Gross Profit</b>	<b>62,329</b>	<b>63,437</b>
Fair value of grapes picked during the financial year less estimated costs to sell	967	5,036
Other revenue	1,665	1,781
Gain / (Loss) on sales of other property plant and equipment	218	(173)
Distribution expenses	(12,269)	(11,456)
Sales and marketing expenses	(22,349)	(21,658)
Administration expenses	(6,271)	(7,752)
Gain / (Loss) on foreign exchange	(601)	460
Finance costs – interest paid	(12,835)	(14,230)
Finance costs – interest un-wind	(1,916)	(2,119)
Significant items	-	(6,677)
<b>Profit before income tax</b>	<b>8,938</b>	<b>6,649</b>
Income tax expense	(1,871)	(85)
<b>Net profit for the year</b>	<b>7,067</b>	<b>6,564</b>
<b>Other comprehensive income/(loss) net of income tax:</b>		
Loss on interest rate swaps	(1,716)	(467)
Valuation of foreign exchange hedges	6	2,407
Exchange differences arising on translation of foreign operations	34	(241)
Income tax relating to components of other comprehensive income	503	(510)
<b>Other comprehensive income / (loss) for the year, net of income tax</b>	<b>(1,173)</b>	<b>1,189</b>
<b>Total comprehensive income for the year</b>	<b>5,894</b>	<b>7,753</b>

# Notes to the financial statements

## For the financial year ended 30 June 2012

### Note 40 : Subsidiaries (continued)

#### Consolidated Statement of Financial Position – Closed Group As at 30 June 2012

	Consolidated	
	2012 \$'000	2011 \$'000
<b>Current Assets</b>		
Cash and cash equivalents	-	6,424
Trade and other receivables	39,546	46,236
Inventories	130,624	140,507
Current tax assets	200	12
Other	4,310	2,651
	174,680	195,830
Assets classified as held for sale	-	25,901
<b>Total Current Assets</b>	<b>174,680</b>	<b>221,731</b>
<b>Non-Current Assets</b>		
Trade and other receivables	1,843	-
Inventories	21,878	19,082
Other financial assets	59	64
Biological assets	33,169	33,048
Property, plant and equipment	95,613	97,148
Goodwill	37,685	37,685
Other intangible assets	7,780	8,092
Water Licences	8,692	8,692
Deferred tax assets	55,123	58,493
<b>Total Non-Current Assets</b>	<b>261,842</b>	<b>262,304</b>
<b>Total Assets</b>	<b>436,522</b>	<b>484,035</b>
<b>Current Liabilities</b>		
Trade and other payables	36,921	41,433
Borrowings	1,993	1,838
Other financial liabilities	1,618	652
Provisions	8,016	9,321
Other	42	222
	48,590	53,466
Liabilities directly associated with assets classified as held for sale	-	373
<b>Total Current Liabilities</b>	<b>48,590</b>	<b>53,839</b>
<b>Non-Current Liabilities</b>		
Borrowings	127,329	165,596
Deferred tax liabilities	10,232	12,244
Other financial liabilities	751	-
Provisions	12,786	19,162
<b>Total Non-Current Liabilities</b>	<b>151,098</b>	<b>197,002</b>
<b>Total Liabilities</b>	<b>199,688</b>	<b>250,841</b>
<b>Net Assets</b>	<b>236,834</b>	<b>233,194</b>
<b>Equity</b>		
Issued capital	402,703	401,742
Reserves	667	1,841
Accumulated losses	(166,536)	(170,389)
<b>Total Equity</b>	<b>236,834</b>	<b>233,194</b>

# Notes to the financial statements

## For the financial year ended 30 June 2012

### Note 41: Segment information

The Company's reportable segments are as follows:

**Australia / North America Packaged**

- supplies packaged wine within Australia, New Zealand, Asia and North America through retail and wholesale channels.

**UK / Europe**

- supplies packaged and bulk wine in the United Kingdom and Europe through retail and distributor channels.

**Cellar Door**

- supplies wine direct to the consumer through regional outlets.

**Australasia / North America bulk wine and processing**

- supplies bulk wine, concentrate and winery processing services throughout Australia, New Zealand, Asia and North America.

**Vineyards**

- provides vineyard management and maintenance services within Australia and includes biological assets income.

The revenue reported represents revenue generated from external customers. There were no intersegment sales during the period.

Segment profit represents the profit earned by each segment without allocation of share of profits of associates, investment revenue and finance costs, significant items and income tax expense. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

The following is an analysis of the group's revenue and results by reportable operating segment for the period under review:

**Segments**

**Segments Revenue, Results and other segmental information**

	Revenue	Revenue	Results	Results	Acquisition of segment assets		Depn. & amort. of segment assets	
	2012	2011	2012	2011	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Australasia / North America packaged	79,371	82,033	6,353	5,694	1,237	7,813	2,155	2,199
UK / Europe	97,302	96,811	7,098	5,366	1,576	10,368	2,764	2,691
Cellar door	6,913	6,975	885	1,219	207	91	121	111
Australasia / North America bulk wine and processing	40,550	33,876	7,562	11,762	1,894	3,623	1,121	820
Vineyards	3,826	3,522	1,466	5,238	250	205	740	419
Unallocated (a)	-	-	(14,426)	(22,630)	142	234	126	592
<b>Total</b>	<b>227,962</b>	<b>223,217</b>	<b>8,938</b>	<b>6,649</b>	<b>5,306</b>	<b>22,334</b>	<b>7,027</b>	<b>6,832</b>
Tax expense			(1,871)	(85)				
<b>Net Profit</b>			<b>7,067</b>	<b>6,564</b>				

(a) Unallocated result includes interest expense, interest received and significant items (note 5 (d)).

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3. Segment revenue represents revenue generated from external customers. There were no inter-segment sales in the current year (2011 : Nil).

# Notes to the financial statements

## For the financial year ended 30 June 2012

### Note 41: Segment information (continued)

#### Geographical Segments

	Revenue from customers		Segment non-current assets (b)	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Australia	99,423	102,981	206,660	203,747
UK / Europe	97,302	96,811	-	-
North America	18,137	11,774	-	-
Other	13,100	11,651	-	-
	<b>227,962</b>	<b>223,217</b>	<b>206,660</b>	<b>203,747</b>

The group has sales to three major customers who individually account for greater than 10% of annual sales. The total sales for these customers were \$105.6M (2011: \$108.7M). Of these sales, \$71.3M (2011: \$75.8M) is included within the UK / Europe division and \$34.3M (2011: \$32.9M) is included within the Australasia / North America Packaged division.

(b) Geographical segment non-current assets exclude financial instruments and deferred tax assets.

### Note 42: Related party transactions

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company are eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

#### (a) Equity interests in related parties

Details of the percentage of ordinary shares held in controlled entities are disclosed in note 40 to the financial statements.

#### (b) Key management personnel remuneration

Details of key management personnel compensation are disclosed in note 7 to the financial statements.

#### (c) Key management personnel equity holdings

Fully paid ordinary shares issued by Australian Vintage Ltd and held by key management personnel are as follows:

2012	Balance at 1/7/11 No.	Granted as remuneration No.	Received on exercise of options No.	Net other change No.	Balance at 30/6/12 No.	Balance held nominally No.
Ian D Ferrier	567,631	-	-	50,413	618,044	-
Brian J McGuigan	308,670	-	-	-	308,670	-
Perry R Gunner	269,420	-	-	(3,750)	265,670	-
Neil McGuigan	150,000	-	-	-	150,000	-
Michael Noack	1,875	-	-	168	2,043	-
Flora Saris	-	-	-	30,000	30,000	-
	<b>1,297,596</b>	<b>-</b>	<b>-</b>	<b>76,831</b>	<b>1,374,427</b>	<b>-</b>

  

2011	Balance at 1/7/10 No.	Granted as remuneration No.	Received on exercise of options No.	Net other change No.	Balance at 30/6/11 No.	Balance held nominally No.
Ian D Ferrier	317,631	-	-	250,000	567,631	-
Brian J McGuigan	308,670	-	-	-	308,670	-
Perry R Gunner	269,420	-	-	-	269,420	-
Neil McGuigan	-	-	-	150,000	150,000	-
Michael Noack	1,875	-	-	-	1,875	-
Craig Thomas <sup>(i)</sup>	250	-	-	(250)	-	-
	<b>897,846</b>	<b>-</b>	<b>-</b>	<b>399,750</b>	<b>1,297,596</b>	<b>-</b>

<sup>(i)</sup> Resigned 8th October 2010.

# Notes to the financial statements

## For the financial year ended 30 June 2012

### Note 42: Related party transactions (continued)

Share options issued by Australian Vintage Ltd and held by key management personnel are as follows:

<b>2012</b>	<b>Balance @ 1/7/11 No.</b>	<b>Granted as remuneration No.</b>	<b>Exercised No.</b>	<b>Other Change No.</b>	<b>Bal @ 30/6/12 No.</b>	<b>Bal Vested @ 30/6/12 No.</b>	<b>Vested but Not exercisable No.</b>	<b>Vested and exercisable No.</b>	<b>Options Vested during the year No.</b>
Neil McGuigan	156,117	-	-	(69,697)	86,420	86,420	-	86,420	-
Paul Schaafsma (i)	65,083	-	-	(15,700)	49,383	49,383	-	49,383	-
Michael Noack	65,083	-	-	(15,700)	49,383	49,383	-	49,383	-
Cameron Ferguson	65,083	-	-	(15,700)	49,383	49,383	-	49,383	-
Flora Sarris	-	-	-	-	-	-	-	-	-
	<b>351,366</b>	<b>-</b>	<b>-</b>	<b>(116,797)</b>	<b>234,569</b>	<b>234,569</b>	<b>-</b>	<b>234,569</b>	<b>-</b>

(i) Resigned 21<sup>st</sup> August 2012

<b>2011</b>	<b>Balance @ 1/7/10 No.</b>	<b>Granted as remuneration No.</b>	<b>Exercised No.</b>	<b>Other Change No.</b>	<b>Bal @ 30/6/11 No.</b>	<b>Bal Vested @ 30/6/11 No.</b>	<b>Vested but Not exercisable No.</b>	<b>Vested and exercisable No.</b>	<b>Options Vested during the year No.</b>
Neil McGuigan	156,117	-	-	-	156,117	156,117	-	156,117	86,420
Paul Schaafsma	65,083	-	-	-	65,083	65,083	-	65,083	49,383
Michael Noack	65,083	-	-	-	65,083	65,083	-	65,083	49,383
Cameron Ferguson	65,083	-	-	-	65,083	65,083	-	65,083	49,383
Craig Thomas <sup>(i)</sup>	65,083	-	-	(65,083)	-	-	-	-	-
Flora Sarris	-	-	-	-	-	-	-	-	-
	<b>416,449</b>	<b>-</b>	<b>-</b>	<b>(65,083)</b>	<b>351,366</b>	<b>351,366</b>	<b>-</b>	<b>351,366</b>	<b>234,569</b>

(i) Resigned 8<sup>th</sup> October 2010

All share options granted to key management personnel during the financial year were made in accordance with the provisions of the Australian Vintage Ltd Executive Option Acquisition Plan.

Each executive share option converts into 1 ordinary share of Australian Vintage Ltd on exercise. During the financial year, no options were exercised by key management personnel.

All ordinary shares issued to the directors during the financial year were made in accordance with the provisions of the non-executive directors' share scheme. These shares were issued as bonus shares as part of compensation under the non-executive director share scheme.

# Notes to the financial statements

## For the financial year ended 30 June 2012

### Note 42: Related party transactions (continued)

#### (d) Other transactions with key management personnel

	2012 \$	2011 \$
Consolidated revenue includes the following amounts arising from transactions with key management personnel of the Group or their related parties:		
Revenue	204,802	37,287
Consolidated profit includes the following expenses arising with key management personnel of the Group or their related parties:		
Cost of goods sold	731,842	2,028,002
Total assets arising from transactions other than loans and amounts receivable in relation to equity instruments with key management personnel:		
Current	-	37,287
Allowance for doubtful receivables	-	-
Non-current	-	-
	<u>-</u>	<u>37,287</u>

#### (i) During the year the company entered into the following transactions with entities associated with Brian McGuigan:

- (a) The company purchased grapes from Australian Horticultural Management Pty Limited ("AHM") to the value of \$90,298 (2011: \$96,492) on normal commercial terms. A balance of \$60,040 (2011: \$64,122) is owed by the company at 30 June 2012.
- (b) The company purchased bulk wine from AHM to the value of \$301,144 (2011: \$42,783) on normal commercial terms. A balance of \$25,988 (2011: Nil) is owed by the company at 30 June 2012.
- (c) In the prior year, the company purchased bulk wine from Premier Wines Pty Ltd to the value of \$1,628,550 on normal commercial terms (2012: Nil).
- (d) The company sold bottled wine to AHM to the value of \$91,462 (2011: Nil) on normal commercial terms.
- (e) In the prior year, the company sold bottles to Premier Wines 3 Pty Ltd to the value of \$22,805 (2012: Nil)
- (f) The company sold bottled wine to Premier Wines 4 Pty Ltd to the value of \$18,260 (2011: \$21,215) on commercial terms. A balance of \$4,129 (2011: \$1,064) is owed to the company at 30 June 2012.
- (g) McGuigan Nominees Pty Ltd holds a minority interest in an entity which received \$275,351 (2011: \$260,177) from the company for fruit, paid \$20,013 (2011: \$14,482) to the company for the contract processing of fruit to wine and received \$67,049 (2011: Nil) from the company for the sale of bulk wine. All transactions were on the same terms and conditions as other investors in that project.

#### (ii) During the year the company entered into the following transactions with Woodnibs Pty Ltd (an entity associated with Neil McGuigan):

- (a) The company sold bulk wine the value of \$35,548 (2011: Nil) on normal commercial terms.
- (b) The company sold concentrate to the value of \$10,743 (2011: Nil) on normal commercial rates.

#### (e) Parent Entity

The ultimate parent company in the wholly-owned group is Australian Vintage Ltd.

# Notes to the financial statements

## For the financial year ended 30 June 2012

### Note 43: Notes to the cash flow statement

#### (a) Reconciliation of cash

For the purposes of the cash flow statement, cash and cash equivalents includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the financial year as shown in the cash flow statement is reconciled to the related items in the balance sheet as follows:

	Consolidated	
	2012 \$'000	2011 \$'000
Cash	237	6,424
<b>(b) Financing Facilities</b>		
Unsecured bank overdraft facility, reviewed annually and payable at call:		
Amount Used	912	837
Amount Unused	4,088	4,163
	5,000	5,000
Reducing lease facility:		
Amount Used	7,838	9,672
Amount Unused	-	-
	7,838	9,672
Unsecured revolving lease facility:		
Amount Used	-	-
Amount Unused	2,000	2,000
	2,000	2,000
Bank Guarantee/Surrender facility:		
Amount Used	2,626	2,601
Amount Unused	8,374	8,399
	11,000	11,000
Corporate purchasing card facility:		
Amount Used	154	8
Amount Unused	346	492
	500	500
Cash advance facility:		
Amount Used	122,000	157,000
Amount Unused	21,600	17,500
	143,600	174,500
Total facility	169,938	202,672

#### (c) Non-cash financing and investing activities / businesses acquired

During the financial year the company issued 3,413,375 (2011 : Nil) ordinary shares for \$961,000 under the Dividend Reinvestment Plan. There were no other movements in ordinary share capital or issued capital in the current or prior period.

# Notes to the financial statements

## For the financial year ended 30 June 2012

### Note 43: Notes to the cash flow statement (continued)

#### (d) Reconciliation of profit / (loss) for the period to net cash flows from operating activities

	Consolidated	
	2012 \$'000	2011 \$'000
Profit from ordinary activities after income tax	7,067	6,564
Depreciation and amortisation of non-current assets	7,027	6,832
Loss / (Profit) on sale of non-current assets	(218)	173
Bad and doubtful debts	(106)	(709)
Interest on finance leases	817	243
Share option costs expensed	-	39
Impairment of property, plant and equipment	-	5,142
Inventory net realisable adjustment	-	2,484
<b><i>Changes in net assets and liabilities, net of effects from acquisition and disposal of businesses</i></b>		
<b><i>(Increase)/decrease in assets</i></b>		
Trade and other receivables	4,396	16,912
Inventories	7,087	(21,771)
Other current assets	(1,608)	1,362
Prepaid interest	(1,274)	1,245
Deferred tax assets	3,370	515
Other non-current assets	5	1,949
<b><i>Increase/(decrease) in liabilities</i></b>		
Current trade and other payables	(4,515)	(14,796)
Provisions	(9,266)	(3,692)
Deferred tax liabilities	(2,012)	95
Other	(180)	(1,299)
<b>Net cash provided by/(used in) operating activities</b>	<b>10,590</b>	<b>1,288</b>



# Notes to the financial statements

## For the financial year ended 30 June 2012

### Note 44: Financial instruments

#### (a) Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The group's general strategy remains unchanged from 2011.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in notes 24 and 28, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and accumulated losses as disclosed in notes 33, 34 and 35 respectively. The Group operates primarily through distributor relationships established in the markets in which the Group trades. None of the Group's entities are subject to externally imposed capital requirements.

Operating cash flows are used to maintain and expand the group's assets, as well as to make the routine outflows of tax, dividends and repayment of maturing debt. The Group's policy is to borrow centrally to meet anticipated future funding requirements.

#### Gearing ratio

The Board reviews the capital structure on an annual basis. As a part of this review the Board considers the cost of capital and the risks associated with each class of capital. The Group has a target gearing ratio of 40% in line with the industry norm, that is determined as the proportion of net debt to equity.

The company has not classified any assets as held for sale in the current period (2011 : \$25.9 million) as held for sale. The proceeds from the sale of these assets were used to pay down debt and decreased the company's debt to equity ratio to a level consistent with industry norms. Based on recommendations of the Board, the Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

The gearing ratio at year end was as follows:

	Consolidated	
	2012 \$'000	2011 \$'000
<b>Financial assets</b>		
Debt (i)	129,322	167,434
Cash and cash equivalents (net of bank overdraft)	(237)	(6,424)
Net Debt	129,085	161,010
Equity (ii)	236,689	233,228
Net debt to equity ratio	55%	69%

(i) Debt is defined as long- and short-term borrowings, as detailed in notes 24 and 28.

(ii) Equity includes all capital and reserves.

The Group is also subject to bank covenants with its primary financier as follows:

- Equity must be above \$210 million.
- Gross profit and earnings before interest and tax must exceed pre-defined levels.

#### Significant accounting policies

Details of the significant accounting policies and methods adopted (including the criteria for recognition, the bases of measurement, and the bases for recognition of income and expenses) for each class of financial asset, financial liability and equity instrument are disclosed in note 3.

#### (b) Categories of financial instruments

	Consolidated	
	2012 \$'000	2011 \$'000
<b>Financial assets</b>		
Available for sale	59	64
Loans and receivables	41,201	46,236
Cash and cash equivalents	237	6,424
Derivative instruments in designated hedge accounting relationships	1,469	1,125
<b>Financial liabilities</b>		
Derivative instruments in designated hedge accounting relationships	2,369	652
Amortised cost	166,752	208,105

# Notes to the financial statements

## For the financial year ended 30 June 2012

### Note 44: Financial instruments (continued)

At the reporting date there are no significant concentrations of credit risk relating to loans and receivables at fair value through profit or loss.

The carrying amount reflected above represents the company's and the Groups maximum exposure to credit risk for such loans and receivables.

#### (c) Financial risk management objectives

The Group's Corporate Treasury function provides services to the business, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyses exposures by degree and magnitude of risks. These risks include market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

The Group seeks to minimise the effects of these risks, by using derivative financial instruments to hedge these risk exposures. The use of financial derivatives is governed by the Group's policies approved by the board of directors, which provide principles on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. Compliance with policies and exposure limits is reviewed on a continuous basis. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

#### (d) Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates (refer note 32) and interest rates (refer note 44 (f)). The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign currency risk, including:

- foreign exchange forward contracts to hedge the exchange rate risk arising on the export of wine to the United States, Europe and United Kingdom; and
- interest rate swaps to mitigate the risk of rising interest rates.

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

#### (e) Foreign currency risk management

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

The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities		Assets	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
US dollars	72	52	11	68
GB pounds	2,624	5,592	8,348	18,351
Euro	-	-	442	1,452
Canadian Dollars	-	11	725	520

#### Foreign currency sensitivity analysis

The Group is exposed to US dollars (USD), GB pounds, EURO's and Canadian Dollars.

The following table details the Group's sensitivity to a 10% increase and decrease in the Australian Dollar against the relevant foreign currencies.

10% is the sensitivity rate used when reporting foreign currency risk internally to key management and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates.

The sensitivity analysis includes external loans as well as loans to foreign operations within the Group where the denomination of the loan is in a currency other than the currency of the lender or the borrower. A positive number indicates an increase in profit or loss and other equity where the Australian Dollar weakens 10% against the relevant currency. For a 10% strengthening of the Australian dollar against the currency, there would be a comparable impact on the profit or equity and the balances below would be negative.

# Notes to the financial statements

## For the financial year ended 30 June 2012

### Note 44: Financial instruments (continued)

For a weakening or strengthening of the Australian Dollar against the respective currency, the impact on the net profit would be as follows:

	Consolidated	
	2012 \$'000	2011 \$'000
<u>Increase (Deterioration) in foreign exchange rate by 10%</u>		
Profit or loss – GBP Impact	(364)	(872)
Profit or loss – USD Impact	4	-
Profit or loss – EURO Impact	(28)	(97)
Profit or loss – CAD Impact	(46)	-
<u>Decrease (Improvement) in foreign exchange rate by 10%</u>		
Profit or loss – GBP Impact	445	1,344
Profit or loss – USD Impact	(5)	-
Profit or loss – EURO Impact	34	128
Profit or loss – CAD Impact	56	-

#### Forward foreign exchange contracts – note 31

It is the policy of the Group to enter into forward foreign exchange contracts to cover specific foreign currency payments. The Group also enters into forward foreign exchange contracts to manage the risk associated with anticipated sales and purchase transactions out 12 months which is based on 75% coverage of highly probable sales and 50% of coverage on all other foreign currency sales. Foreign currency expenses are estimated and the net exposure is hedged. Basis adjustments are made to the carrying amounts of non-financial hedged items when the anticipated sale or purchase transaction takes place.

The Group has entered into contracts to supply wine to customers in the UK, Europe and United States. The Group has entered into forward foreign exchange contracts to hedge the exchange rate risk arising from these anticipated future transactions, which are designated as cash flow hedges.

As at reporting date the aggregate amount of unrealised profits under forward foreign exchange contracts deferred in the hedging reserve relating to the exposure on anticipated future transactions is \$1,469 thousand profit (2011: profit of \$1,125 thousand). It is anticipated that the sales will take place in the next financial year at which stage the amount deferred in equity will be released in profit or loss.

Outstanding contracts	Year end exchange rate		Foreign currency FC '000		Notional value \$ 000		Fair value \$ 000	
	30/06/12	30/06/11	30/06/12	30/06/11	30/06/12	30/06/11	30/06/12	30/06/11
<b>Cash flow hedges</b>								
<b>Buy Euro</b>								
Less than 3 months	0.8089	0.7377	1,050	1,100	1,298	1,490	179	1
3 to 6 months			650	700	803	948	30	-
6 to 9 months			450	500	556	677	67	-
9 to 12 months			300	100	371	135	47	-
<b>Buy GB Pounds</b>								
Less than 3 months	0.6521	0.6666	6,700	4,600	10,274	7,560	208	495
3 to 6 months			5,300	5,300	8,128	8,758	186	545
6 to 9 months			5,800	6,700	8,894	10,772	(45)	393
9 to 12 months			5,500	5,200	8,434	8,203	24	193

# Notes to the financial statements

## For the financial year ended 30 June 2012

### Note 44: Financial instruments (continued)

#### (f) Interest rate risk management

The company and the Group are exposed to interest rate risk as entities in the Group borrow funds at floating interest rates. The risk is managed by the Group by the use of interest rate swap contracts. Hedging activities are evaluated regularly to align with interest rate views and defined risk appetite; ensuring optimal hedging strategies are applied, by either positioning the balance sheet or protecting interest expense through different interest rate cycles.

It is the policy of the group to designate the Interest Rate Swap as a hedge against the variability in the cash flow arising from future changes in the interest rate.

The company policy requires fixed interest cover on 75% of all outstanding average net debt usage.

#### Interest rate sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for both derivative and non-derivative instruments at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period. A 50 basis point increase or decrease represents management's assessment of the possible change in interest rates.

At reporting date, if interest rates had been 50 basis points higher or lower and all other variables were held constant, the Group's net profit after tax would decrease/increase by \$130,000 (2011: increase/decrease by \$147,000). This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowing which are not covered by the interest rate swap agreements.

#### Interest rate swap contracts

Under interest rate swap contracts, the Group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Group to mitigate the risk of changing interest rates on the cash flow exposures on the issued variable rate debt held. The fair value of interest rate swaps at the reporting date is determined by discounting the future cash flows at reporting date. The average interest rate is based on the outstanding balances at the end of the financial year.

At balance date, the Group and the Company had four (4) interest rate swap agreements with a notional amount of \$115 million (2011: \$115 million), as follows:

Expiry Date	Currency	Amount	Pay		Receive
			Rate	Rollover Frequency	Rate
10-Sep-12	AUD	\$ 40,000,000	4.76%	Monthly	AUD-BBR-BBSW
2-Jul-13	AUD	\$ 30,000,000	5.12%	Quarterly	AUD-BBR-BBSY
26-Nov-13	AUD	\$ 25,000,000	5.60%	Monthly	AUD-BBR-BBSW
13-Jan-14	AUD	\$ 20,000,000	5.36%	Monthly	AUD-BBR-BBSY

The swaps in place cover 94% (2011: 73%) of the total borrowings as at 30 June 2012.

The group's sensitivity to interest rates has decreased during the current year due to the increase in interest rate swaps to swap floating rate debt to fixed.

The following table details the notional principal amounts and remaining terms of interest rate swap contracts outstanding as at reporting date:

#### Cash flow hedges

Outstanding floating for fixed contracts	Average contracted fixed interest rate		Notional principal amount		Fair value	
	2012 %	2011 %	2012 \$ 000	2011 \$ 000	2012 \$ 000	2011 \$ 000
Less than 1 year	4.76	-	40,000	-	40,000	-
1 -2 years	5.35	4.76	75,000	40,000	75,000	40,000
2 – 5 years	-	5.35	-	75,000	-	75,000

The interest rate swaps settle on a quarterly basis. The Group will settle the difference between the fixed and floating interest rate on a net basis.

All interest rate swap contracts exchanging floating rate interest amounts for fixed rate interest amounts are designated as cash flow hedges in order to reduce the Group's cash flow exposure resulting from variable interest rates on borrowings. The interest rate swaps and the interest payments on the loan occur simultaneously and the amount deferred in equity is recognised in profit or loss over the period that the floating interest payments on debt impact profit or loss.

# Notes to the financial statements

## For the financial year ended 30 June 2012

### Note 44: Financial instruments (continued)

#### (g) Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group.

The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults.

The Group undertake credit worthiness reviews on all customers and look to obtain debtor insurance for all significant customers. Credit exposure is controlled by counterparty limits that are reviewed and approved.

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

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents the Group's maximum exposure to credit risk without taking account of the value of any collateral obtained.

The Group does not hold any collateral or other credit enhancements to cover this credit risk.

The table below shows the balance of 4 major counterparties at the end of the reporting period using the Standard and Poor's credit rating symbols.

Counterparty	Location	30/06/12	30/06/11
		Carrying Amount \$ 000	Carrying Amount \$ 000
International supermarkets	United Kingdom	9,664	13,239
Australian supermarkets	Australia	6,631	8,859

Activities that give rise to credit risk and the associated maximum exposure to credit risk include, but are not limited to:

- granting loans and receivables to customers and placing deposits with other entities. In these cases, the maximum exposure to credit risk is the carrying amount of the related financial assets;
- entering into derivative contracts for example, foreign exchange contracts, interest rate swaps and credit derivatives. When the resulting asset is measured at fair value, the maximum exposure to credit risk at the reporting date will equal the carrying amount;
- granting financial guarantees. In this case, the maximum exposure to credit risk is the maximum amount the entity could have to pay if the guarantee is called on, which may be significantly greater than the amount recognised as a liability; and
- making a loan commitment that is irrevocable over the life of the facility or is revocable only in response to a material adverse change. If the issuer cannot settle the loan commitment net in cash or another financial instrument, the maximum credit exposure is the full amount of the commitment. This is because it is uncertain whether the amount of any undrawn portion may be drawn upon in the future. This may be significantly greater than the amount recognised as an asset.

# Notes to the financial statements

## For the financial year ended 30 June 2012

### Note 44: Financial instruments (continued)

#### (h) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of directors who have built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements.

The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Included in note 43 (b) is a listing of additional undrawn facilities that the Company/Group has at its disposal to further reduce liquidity risk.

The following table details the Group's and Company's remaining contractual maturity for its non-derivative financial assets and liabilities. The contractual maturity is based on the earliest date on which the Group may be required to pay. The amounts below are based on undiscounted cash flows and include principal and interest:

CONSOLIDATED	Weighted average interest rate	Less than 1 month \$'000	1-3 months \$'000	3 months to 1 year \$'000	1-5 years \$'000	5+ years \$'000
<b>2012</b>						
Non-interest bearing assets	-	9,846	19,781	9,846	-	-
Non-interest bearing liabilities	-	15,875	21,044	1,618	751	-
Finance Lease liability	9.02	-	659	1,977	5,198	-
Floating interest rate liabilities	7.83	46	91	411	7,000	-
Fixed interest rate liabilities	8.14	780	1,431	4,694	116,802	-
Fixed interest rate assets	10.25	14	91	222	1,843	-
Financial Guarantees	-	1,360	-	1,266	-	-
<b>2011</b>						
Non-interest bearing assets	-	10,417	23,413	10,417	-	-
Non-interest bearing liabilities	-	16,846	25,240	-	-	-
Finance Lease liability	9.02	-	659	1,977	9,253	-
Floating interest rate liabilities	7.88	276	552	2,482	42,000	-
Fixed interest rate liabilities	8.14	780	1,560	7,022	123,706	-
Fixed interest rate assets	7.00	14	28	2,470	-	-
Financial Guarantees	-	-	-	1,241	1,360	-

The amounts included above for financial guarantee contract are the maximum amounts the Group could be forced to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. Based on expectations at the end of the reporting period, the Group considers that it is more likely than not that such an amount will not be payable under the arrangement. However, the estimate is subject to change depending on the probability if the counterparty claiming under the guarantee which is a function of the likelihood that the financial receivables held by the counterparty which are guaranteed suffer credit losses.

The variable interest rate instruments for both non-derivative financial assets and liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

The Group has access to financing facilities of which \$36.4 million were unused at the end of the reporting period (2011: \$32.6 million). The Group expects to meet its other obligations from operating cash flows and proceeds of maturing financial assets.

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

	Less than 1 month \$'000	1-3 months \$'000	3 months to 1 year \$'000	1-5 years \$'000	5+ years \$'000
<b>2012</b>					
Net settled:					
Interest rate swaps	780	1,431	4,694	1,802	-
Gross settled:					
Foreign currency forward contracts	-	387	309	429	-
	780	1,818	5,003	2,231	-
<b>2011</b>					
Net settled:					
Interest rate swaps	780	1,560	7,022	8,706	-
Gross settled:					
Foreign currency forward contracts	-	496	1,132	214	-
	780	2,056	8,154	8,920	-

# Notes to the financial statements

## For the financial year ended 30 June 2012

### Note 44: Financial instruments (continued)

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

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

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices
- the fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions
- the fair value of derivative instruments, are calculated using quoted prices. Where such prices are not available use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives
- the fair value of financial guarantee contracts is determined using option pricing models where the main assumptions are the probability of default by the specified counterparty extrapolated from market-based credit information and the amount of loss, given the default.

Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts.

Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

The financial statements include holdings in unlisted shares which are measured at cost.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded in the financial statements approximate their fair values.

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

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

	Level 1	Level 2	Level 3	Total
	\$'000	\$'000	\$'000	\$'000
<b>Financial assets at FVTPL</b>				
Derivative financial assets – 30 June 2012	-	1,469	-	1,469
Derivative financial assets – 30 June 2011	-	1,125	-	1,125
<b>Financial liabilities at FVTPL</b>				
Derivative financial liabilities – 30 June 2012	-	2,369	-	2,369
Derivative financial liabilities – 30 June 2011	-	652	-	652

There were no items relating to Levels 1 and 3 in the year or the prior year.

### Note 45: Events after the reporting period

In respect of the financial year ended 30 June 2012, a final dividend of 2.6 cents per share was declared on 22<sup>nd</sup> August 2012 and will be paid on 19<sup>th</sup> November 2012.

There have been no other matters or circumstances, other than that referred to in the financial statements or notes thereto, that have arisen since the end of the financial year, that have significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

# Notes to the financial statements

## For the financial year ended 30 June 2012

### Note 46: Parent Entity Disclosures

#### 46.1 Financial Position

	2012 \$'000	2011 \$'000
<b>Assets</b>		
Current assets	179,871	201,143
Non-current assets	246,719	248,919
Total assets	426,590	450,062
<b>Liabilities</b>		
Current liabilities	37,507	47,300
Non-current liabilities	181,925	189,770
Total liabilities	219,432	237,070
<b>Net Assets</b>	<b>207,158</b>	<b>212,992</b>
<b>Equity</b>		
Issued Capital	402,792	401,831
Accumulated Losses	(196,189)	(190,591)
<b>Reserves</b>		
Equity settled employee benefits	1,497	1,497
Hedging	(865)	332
Foreign currency translation	(77)	(77)
Total reserves	555	1,752
<b>Total equity</b>	<b>207,158</b>	<b>212,992</b>

#### 46.2 Financial Performance

	Year ended 30 June 2012 \$'000	Year ended 30 June 2011 \$'000
<b>Profit / (Loss) for the year</b>	<b>(5,597)</b>	<b>(3,637)</b>
Other comprehensive income	(1,197)	1,359
Total comprehensive income	(6,794)	(2,278)

#### 46.3 Guarantees entered into by parent entity

	2012 \$'000	2011 \$'000
Guarantee provided under the deed of cross guarantee (i)	199,688	250,841

(i) The parent entity has entered into a deed of cross guarantee with subsidiaries as indicated in note 40.

#### 46.4 Contingent liabilities of the parent entity

Nil Nil

#### 46.5 Capital Commitments of the parent entity

<b>Plant and Equipment</b>		
Not longer than 1 year	33	32



## Directors' declaration

The Directors declare that:

- (a) In the Directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable;
- (b) the attached financial statements are in compliance with International Financial Reporting Standards as stated in note 3 to the financial statements;
- (c) In the Directors' opinion, the attached Financial Statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving true and fair view of the financial position and performance of the consolidated entity; and
- (d) The Directors' have been given the declarations required by s.295A of the Corporations Act 2001.

At the date of this declaration, the Company is within the class of companies affected by ASIC class order 98/1418. The nature of the deed of cross guarantee is such that each company which is party to the deed guarantees to each creditor payment in full of any debt in accordance with the deed of cross guarantee.

In the Director's opinion, there are reasonable grounds to believe that the Company and the companies to which the ASIC class order applies, as detailed in Note 40 to the Financial Statements will, as a group, be able to meet any obligations or liabilities to which they are or may become, subject by virtue of the deed of cross guarantee.

Signed in accordance with a resolution of the Directors made pursuant to s.295(5) of the Corporations Act 2001.

On behalf of the Directors



Ian Ferrier  
Chairman  
26<sup>th</sup> September 2012