



AUSTRALIAN VINTAGE LTD

**FINANCIAL REPORT FOR THE YEAR ENDED**

**30 JUNE 2009**

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

# Directors' report

## For the financial year ended 30 June 2009

The Directors of Australian Vintage Ltd submit herewith the annual financial report for the financial year ended 30 June 2009. 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:

**David S Clarke AO, B. Ec (Hons), Hon D. Sc. Econ, MBA (Harv), Age 67**

(Chairman to 2 July 2009 ) Director since 20 November 1991, Resigned 2 July 2009

Chairman of Macquarie Group Limited, Goodman International Limited, the Wine Committee of the Royal Agricultural Society of NSW, the Opera Australia Capital Fund, George Gregan Foundation and the Sydney University Football Club Foundation. Member of the Investment Advisory Committee of the Australian Olympic Foundation, the Sydney Advisory Board of the Salvation Army, the Council of the Royal Agricultural Society of NSW, the Harvard Business School Asia Advisory Committee, the Corporate Governance Committee of the Institute of Company Directors, the Bloomberg Asia Pacific Advice Committee, the Corporate Citizens Committee of the Children's Cancer Institute, the Seoul International Business Advisory Council and an honorary life member of the Financial Markets Foundation for Children. President of the Winemakers' Federation of Australia, and Vice President of the Sydney University Cricket Club.

**Dane B Hudson, B.E. (Chem) Hons, MBA, Age 47**

(Chief Executive Officer) Director since 22 February 2006, Dane Hudson joined Australian Vintage Ltd in 2006 from Yum Brands Inc (formerly PepsiCo Restaurants) in Dallas Texas where he was Senior Vice President and International Chief Finance, Development and Procurement Officer for the business outside of the US. Dane has previously worked with Visy Board Pty Ltd and Booz Allen and Hamilton before leaving the firm in 1994 to join the PepsiCo Group in its Restaurant division (Pizza Hut and KFC).

**Brian J McGuigan AM, Age 67**

(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 the Director of the Winemakers Federation of Australia, the Chairman of the Newcastle Mater Misericordiae Hospital, a Director of Hunter Wine Country Private Irrigation District as well as the Chairman and Director of a number of private companies.

**Ian D Ferrier AM, CA, Age 69**

(Acting Chairman, Non-executive - Chairman of the Audit Committee) Director since 20 November 1991

Fellow of The Institute of Chartered Accountants in Australia and Founding Partner of Ferrier Hodgson, Chairman of Ferrier Green Kreja Silvia. 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, Energy One Limited and Australian Oil Company Limited and a Director of Goodman International Limited and Reckon Limited.

**Nicholas F Greiner AC, B. Ec (Hons), MBA (Harv), Age 62**

(Non-executive) - Director since 11 September 1992

Former Premier and Treasurer of New South Wales 1988-92. Currently Chairman of Bilfinger Berger Australia Limited, CitiGroup Limited and Bradken Limited, Deputy Chairman of Stockland Group, a Director of Blue Freeway Limited and a number of other private companies.

**Perry R Gunner B. Ag. Sc, Grad. Dip, Bus. Admin, Age 62**

(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 ABB Grain Ltd.

**Christopher L Harris B. Ec, FCPA, FAICD Age 62**

(Non-executive) Director since 28 June 2002.

Formerly CEO and Group Managing Director of FH Faulding & Co. Ltd. Chairman of Argo Investments Limited and a Director of Adelaide Brighton Limited, EvoGenix Limited, Arana Therapeutics Limited and J.M. Financial Group Ltd.

**Richard Davis B. Ec, Age 54**

(Non-executive) Director since 5 May 2009.

Formerly CEO and Director of InvoCare Limited where he spent almost 20 years growing and managing the business. Former accounting partner for national accounting firm.

The above named directors held office during the whole of the financial year and since the end of the financial year except for:

- Mr N Griener – resigned 1 December 2008
- Mr R Davis – appointed 5 May 2009
- Mr C Harris – resigned 24 June 2009
- Mr D Clarke – resigned 2 July 2009

# Directors' report

## For the financial year ended 30 June 2009

### 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
David S Clarke	Macquarie Bank Limited	Since 1985
	Macquarie Office Management Limited	From 2000 to 2007
	Macquarie ProLogis Management Limited	Since 2002
	Goodman International Limited	From 2000 to 2008
	Macquarie CountryWide Management Limited	From 2000 to 2008
Ian D Ferrier	Invocare Limited	Since 2001
	Goodman International Limited	Since 2003
	Reckon Limited	Since 2004
	Australian Oil Company Limited	Since 2005
	Energy One Limited	Since 2007
Christopher L Harris	Argo Investments Limited	Since 1994
	Adelaide Brighton Limited	Since 1995
	EvoGenix Limited	Since 2004
	Arana Therapeutics Limited	Since 2007
Perry R Gunner	ABB Grain Limited	Since 2004
	Freedom Nutritional Products Limited	Since 2003
Nicholas F Greiner	Bradken Limited	Since 2004
	Stockland Corporation Limited	Since 1992
	Stockland Property Management Limited	Since 1992
	QBE Insurance Group Limited	From 1992 to 2006
	Blue Freeway Limited	From 2007 to 2009
	Citigroup Australia	Since 2008
Richard Davis	Invocare Limited	From 2001 to 2008

### Directors' Shareholdings

#### Remuneration of directors and senior management

Information about the remuneration of directors and senior management is set out in the remuneration report of this directors' report, on pages 7 to 11.

### Company Secretaries

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 Limited 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.

Flora Sarris (resigned from Company Secretarial position on 5 May 2009)

B Law (Adelaide University). Flora was a previous partner of law firm Fisher Jeffries where she worked for seven years. For the past seven years, prior to joining Australian Vintage Ltd, Flora managed her own legal and management consultancy practice.

### 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.

# Directors' report

## For the financial year ended 30 June 2009

### **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**

No dividends were paid or payable in respect of the financial year ended 30 June 2009 (30 June 2008: Nil).

### **Review of Operations**

The group reported a net loss of \$123.6 million. The result included significant items of \$127.9 million as detailed in note 2 (c) of the following financial statements.

Total revenue for the year ended 30 June 2009 of \$288.3 was 8.8% above the prior year. Export branded sales were 8% above the prior year.

# Directors' report

## For the financial year ended 30 June 2009

### Share options

During and since the end of the financial year no share options were granted to Directors or the five highest remunerated officers as part of their remuneration.

#### Senior Management and employee share option plans

For the purpose of the disclosure 'Senior Management' 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 or since the end of the financial year the Company did not grant any share options over unissued ordinary shares to Senior Management and employees of the Company. No shares were issued during or since the end of the financial year as a result of the exercise of options under the Executive and Employee Share Option Plans.

In accordance with the provisions of the Company's share option plans, as at the date of this report, Senior Management and employees are entitled to exercise the following share options:

directors and senior management	number of options granted	exercise price	expiry date
Dane B Hudson	150,000	\$3.10	13 February 2011
	260,000	\$4.00	13 February 2011
	284,739	\$2.90	9 November 2011
	288,717	\$3.10	15 March 2012
	334,225	\$2.00	31 January 2012
	302,663	\$2.00	31 January 2013
Neil McGuigan	28,515	\$4.36	13 May 2010
	28,515	\$4.36	13 May 2011
	69,697	\$2.90	16 November 2011
	86,420	\$1.64	20 December 2012
Mike Noack	15,700	\$3.20	3 April 2012
	49,383	\$1.64	20 December 2012
Paul Schaafsma	15,700	\$3.20	3 April 2012
	49,383	\$1.64	20 December 2012
Craig Thomas	15,700	\$3.20	3 April 2012
	49,383	\$1.64	20 December 2012
Cameron Ferguson	15,700	\$3.20	3 April 2012
	49,383	\$1.64	20 December 2012
Other executive employees	24,692	\$1.64	20 December 2012
<b>TOTAL</b>	<b>2,147,029</b>		

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"). Additionally, the call options are exercisable when there is a take over 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

# Directors' report

## For the financial year ended 30 June 2009

### 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 14 Board Meetings, 2 Audit Committee Meetings, and 1 Remuneration Committee meeting.

Directors'	Board Meetings Attended	Audit Committee Attended	Remuneration Committee Attended
David S Clarke	5	-	1
Dane B Hudson	14	2	1
Brian J McGuigan	12	1	-
Ian D Ferrier	14	2	1
Nicholas F Greiner	7	1	1
Perry R Gunner	11	-	-
Christopher L Harris	13	2	-
Richard Davis	2	-	-
<b>Total Meetings Held</b>	<b>14</b>	<b>2</b>	<b>1</b>

One Occupational, Health and Safety meeting was held during the year.

### 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
David S Clarke	976,485	-
Dane B Hudson	300,000	1,620,344
Brian J McGuigan	308,670	-
Ian D Ferrier	317,631	-
Perry R Gunner	269,420	-
Richard Davis	-	-

### Directors' and Senior Management Remuneration

Information about the remuneration of directors and senior management is set out in the remuneration report of this director's report.

# Directors' report

## For the financial year ended 30 June 2009

### Remuneration report

#### Directors and Senior Management Details

The Directors of Australian Vintage Limited during the year were:

- David S Clarke (Chairman, Non-executive), resigned 2 July 2008.
- Dane B Hudson (Chief Executive Officer)
- Brian J McGuigan (Non-executive)
- Ian D Ferrier (Non-executive)
- Nicholas F Greiner (Non-executive), resigned 1 December 2008
- Perry R Gunner (Non-executive)
- Richard Davis (Non-executive), appointed 5 May 2009
- Christopher L Harris (Non-executive), resigned 24 June 2009

The Senior Management of Australian Vintage Limited during the year were:

- Paul Schaafsma (General Manager, UK & Europe)
- Neil McGuigan (General Manager Production and Wine Supply)
- Michael Noack (Company Secretary & Chief Financial Officer)
- Julie Thomas (Group Administration Manager), resigned 31 January 2009
- Cameron Ferguson (General Manager – Sales and Marketing)
- Flora Sarris (Company Secretary to 5 May 2009 and Legal Counsel)
- Craig Thomas (Export Sales Manager – Australia)

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 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 partly in cash with the balance payable by the issue of shares in lieu of cash under the non-executive Directors' share scheme ("Scheme").

All shares issued were under the terms of the scheme and the following sets out the details for shares issued relating to the 2009 financial year.

Non-executive director	Shares issued subject to performance hurdle	Shares issued not subject to performance hurdle
David S Clarke	-	22,000
Nicholas F Greiner	-	4,611
Ian D Ferrier	-	11,000
Perry R Gunner	-	11,000
Christopher L Harris	-	10,789
Richard Davis	-	-

The total value of shares included in remuneration for the year is calculated in accordance with Accounting Standard AASB 2 Share Based Payments. Shares not subject to the performance hurdle were issued on 22 July 2009. These shares were issued as remuneration for the year ended 30 June 2009.

# Directors' report

## For the financial year ended 30 June 2009

### Remuneration report (continued)

The performance hurdle requires that the relevant tranche of shares are only issued if, at the time of issue, the Company's average annual return on an average shareholders' equity for the previous two financial years is at or above the 60th percentile of the corresponding figures for all companies in the ASX All Ordinaries Index. For the year ended 30th June 2009 this performance hurdle was not met and therefore no shares will be issued.

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 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 of key management personnel which are performance related.

#### Bonuses

Bonuses paid to the Chief Executive Officer and Senior Management are based upon the achievement of both financial and non-financial key performance criteria.

Key performance criteria vary for each person relative to their job description and area of responsibility.

Financial performance measures include, but are not limited to, achievement of budgeted Earnings Before Interest and Tax (EBIT) and before significant items, Revenue, Gross Margin and Cash Flow for their respective division and that of the Group.

Non-financial performance measures include the achievement of external (customers, suppliers) and internal (employees) relationships and the achievement of goals in line with the company's strategic goals and policies.

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

	2009 Minimum Bonus \$	2009 Maximum Bonus \$	2009 % of maximum granted	2010 Minimum Bonus \$	2010 Maximum Bonus \$
Dane Hudson	0	400,000	0 %	0	400,000
Paul Schaafsma	0	117,332	0 %	0	114,888
Michael Noack	0	102,198	0 %	0	102,074
Cameron Ferguson	0	95,162	0 %	0	86,325
Neil McGuigan	0	120,000	0 %	0	120,000
Julie Thomas *	0	82,719	0 %	0	-
Craig Thomas	0	89,250	0 %	0	89,250
Flora Sarris	0	35,152	0 %	0	40,760

\* Resigned 31 January 2009.

#### 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 2009:

	30 June 2005 \$ M	30 June 2006 \$ M	30 June 2007 \$ M	30 June 2008 \$ M	30 June 2009 \$ M
Total Revenue (excluding sale of assets)	340.6	310.40	286.70	265.0	288.3
EBIT before significant items	57.1	34.5	5.2	19.1	16.5
Net Profit/(Loss) before significant items	36.4	17.5	(2.7)	5.5	4.3
Net Profit/(Loss) after significant items	36.4	(14.8)	(5.9)	1.3	(123.6)

	30 June 2005	30 June 2006	30 June 2007	30 June 2008	30 June 2009
Earnings per share - cents	32.6	(12.7)	(4.8)	1.0	(96.0)
Dividends paid - cents *	23.5	5.0	-	-	-
Share price at start of year - \$ per share	4.68	3.95	2.50	2.15	1.15
Share price at end of year - \$ per share	3.95	2.50	2.15	1.15	0.15

\* Fully franked.

There were no shares repurchased in the current year.

# Directors' report

## For the financial year ended 30 June 2009

### Remuneration report (continued)

#### 3. Long Term Incentives

Long term incentives are provided as options over ordinary shares in the company. The ability to exercise options may be 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 is no policy or monitoring of Key Management Personnel's (KMP) limiting their risk in relation to issued options.

#### 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.

Details of share options granted to Key Management Personnel are included in note 5 of the financial statements.

#### Value of options issued to directors and senior management

The following table discloses the value of options granted, exercised or lapsed during the year.

	Options granted value at grant date	Options exercised value at exercise date	Options lapsed value at time of lapse	Fair value of options granted, exercised and lapsed	Valuation of options included in remuneration for the year	Total remuneration that consists of options
	\$	\$	\$	\$	\$	
Dane Hudson	-	-	-	-	433,160	40%
Paul Schaafsma	-	-	-	-	18,336	3%
Michael Noack	-	-	-	-	18,336	4%
Cameron Ferguson	-	-	-	-	18,336	6%
Neil McGuigan	-	-	-	-	46,748	10%
Julie Thomas	-	-	-	-	41,705	19%
Craig Thomas	-	-	-	-	18,336	6%
<b>TOTAL</b>	-	-	-	-	<b>594,957</b>	

(i) The total value of options granted, exercised and lapsed is calculated based on the following:

- Fair value of the option at grant date multiplied by the number of options granted during the year; plus
- Fair value of the option at the time it is exercised multiplied by the number of options exercised during the year.
- Fair value of the option at the time of lapse multiplied by the number of options lapsed during the year.

(ii) The total value of shares included in remuneration for the year is calculated in accordance with Accounting Standard AASB 2 "Share Based Payments".

#### Value of options - basis of calculation

- 1) The total value of options granted is calculated on the fair value of the option at the grant date multiplied by the number of options granted during the year. Options were priced using the Black Scholes model.
- 2) The total value of the options included in compensation for the year is calculated in accordance with Australian Accounting Standards. The value of the options is determined at grant date and included in compensation on a proportionate basis from grant date to vesting date.
- 3) 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"). Additionally, the call options are exercisable when there is a take over 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

Directors' report  
For the financial year ended 30 June 2009

Remuneration report (continued)

Directors and Executives Remuneration

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

2009	Short-term benefits			Post Employment			Share based payments			Total
	Salary & Fees	Bonus <sup>(a)</sup>	Non – Monetary <sup>(b)</sup>	Super - annuation	Prescribed Benefits	Other	Cash Settled	Equity Settled Options <sup>(c)</sup>	Equity Settled Shares	
	\$	\$	\$	\$	\$	\$	\$	\$	\$	
David S Clarke	1,000	-	2,799	367	-	-	-	-	94,380	98,546
Ian D Ferrier	1,000	-	2,799	229	-	-	-	-	47,190	51,218
Nicholas F Greiner (3)	419	-	2,799	96	-	-	-	-	13,187	16,501
Christopher L Harris (4)	981	-	2,799	224	-	-	-	-	30,857	34,861
Perry R Gunner	1,000	-	2,799	229	-	-	-	-	47,190	51,218
Brian J McGuigan	1,000	-	2,799	229	-	-	-	-	47,190	51,218
Richard Davis (1)	-	-	-	-	-	-	-	-	-	-
Dane B Hudson	643,370	-	1,200	13,000	-	-	-	433,160	-	1,090,730
Paul Schaafsma *	340,376	-	217,909	87,698	-	-	-	18,336	-	664,319
Neil McGuigan	365,014	-	24,000	36,000	-	-	-	46,748	-	471,762
Michael Noack *	291,639	-	71,640	26,248	-	-	-	18,336	-	407,863
Craig Thomas	255,000	-	24,100	22,950	-	-	-	18,336	-	320,386
Cameron Ferguson	246,642	-	26,200	22,198	-	-	-	18,336	-	313,376
Julie Thomas (2)	137,670	-	32,933	12,390	-	-	-	41,705	-	224,698
Flora Sarris	191,125	-	1,200	17,201	-	-	-	-	-	209,526
<b>TOTAL</b>	<b>2,476,236</b>	<b>-</b>	<b>415,976</b>	<b>239,059</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>594,957</b>	<b>279,994</b>	<b>4,006,222</b>

(1) Appointed 5 May 2009 (2) Resigned 31 January 2009 (3) Resigned 1 December 2008 (4) Resigned 24 June 2009

\* During 2009, \$105,903 was paid to Michael Noack, \$55,736 to Paul Schaafsma and \$85,188 to Julie Thomas in respect of long service leave and annual leave balances accrued in prior periods.

2008	Short-term benefits			Post Employment			Share based payments			Total
	Salary & Fees	Bonus <sup>(a)</sup>	Non – Monetary <sup>(b)</sup>	Super - annuation	Prescribed Benefits	Other	Cash Settled	Equity Settled Options <sup>(c)</sup>	Equity Settled Shares	
	\$	\$	\$	\$	\$	\$	\$	\$	\$	
David S Clarke	1,000	-	2,799	2,723	-	-	-	-	62,920	69,442
Ian D Ferrier	1,000	-	2,799	1,407	-	-	-	-	31,460	36,666
Nicholas F Greiner	1,000	-	2,799	1,407	-	-	-	-	31,460	36,666
Christopher L Harris	1,000	-	2,799	1,407	-	-	-	-	31,460	36,666
Perry R Gunner	1,000	-	2,799	1,407	-	-	-	-	31,460	36,666
Brian J McGuigan *	75,000	-	20,000	6,750	-	-	-	-	-	101,750
Dane B Hudson	637,000	332,500	-	13,000	-	-	-	348,091	-	1,330,591
Paul Schaafsma	356,735	78,525	224,664	83,031	-	-	-	12,053	-	755,008
Neil McGuigan	361,400	95,000	24,000	32,526	-	-	-	41,985	-	554,911
Michael Noack	285,277	92,276	61,804	25,675	-	-	-	12,053	-	477,085
Julie Thomas	234,000	55,575	48,200	21,060	-	-	-	12,053	-	370,888
Cameron Ferguson	244,200	69,597	26,500	21,978	-	-	-	12,053	-	374,328
Craig Thomas	214,300	89,250	24,100	19,287	-	-	-	12,053	-	358,990
Flora Sarris	169,000	25,350	-	15,210	-	-	-	-	-	209,560
<b>TOTAL</b>	<b>2,581,912</b>	<b>838,073</b>	<b>443,263</b>	<b>246,868</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>450,341</b>	<b>188,760</b>	<b>4,749,217</b>

(a) Bonus paid relates to achievement of key performance criteria (b) Non-monetary items include the provision of a motor vehicle, rent, travel, health benefits and applicable fringe benefits tax. (c) Equity settled options relates to the accounting expense as recorded in the financial statements (no cash has been paid for these options since 18 January 2008).

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

# Directors' report

## For the financial year ended 30 June 2009

### Remuneration report (continued)

#### Five Highest Paid Executives

The five highest paid senior managers of the Company and Group are :

- Dane Hudson
- Neil McGuigan
- Craig Thomas
- Michael Noack
- Paul Schaafsma

#### 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.

##### **Dane B Hudson**

- Term of agreement – no specified term.
- Compensation is comprised of base salary, superannuation, short term incentive bonus (capped at \$400,000 per annum), share options (to the value of \$250,000 per annum) subject to achievement of targets as set by the board.
- If Mr. Hudson's employment is terminated by the company, the company must pay Mr. Hudson the equivalent of one year's total compensation.

##### **Paul Schaafsma**

- Term of agreement - no specified term.
- 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.
- If Mr Schaafsma's employment is terminated by the company, the company must pay Mr Schaafsma the equivalent of one year's total compensation.

##### **Michael Noack**

- Term of agreement - no specified term.
- Compensation includes base salary, superannuation, life/trauma insurance, a motor vehicle and an entitlement to a bonus subject to certain key performance criteria.
- If Mr Noack's employment is terminated by the company, the company must pay Mr Noack the equivalent of one year's total compensation.

##### **Neil McGuigan**

- Term of agreement – through to 29th November 2010.
- Compensation includes base salary, superannuation, provision of a motor vehicle and an entitlement to a bonus subject to certain key performance criteria.
- If Mr McGuigan's employment is terminated by the Company, the Company must pay Mr McGuigan the equivalent of six months total base compensation.

##### **Craig Thomas**

- Term of agreement - no specified term.
- Compensation includes base salary, superannuation, the provision of a motor vehicle and is reviewed annually and a bonus subject to certain key performance criteria.
- If Mr Thomas's employment is terminated by the company, the company must pay Mr Thomas the equivalent of one year's total compensation.

##### **Cameron Ferguson**

- Term of agreement - no specified term.
- Compensation includes base salary, superannuation, the provision of a motor vehicle and is reviewed annually and a bonus subject to certain key performance criteria.
- If Mr Ferguson's employment is terminated by the company, the company must pay Mr Ferguson the equivalent of one year's total compensation.

##### **Flora Sarris**

- Term of agreement - no specified term.
- Compensation base salary, superannuation, and a bonus subject to certain key performance criteria.
- If Ms Sarris's employment is terminated by the company, the company must pay Ms Sarris the equivalent of one year's compensation.

### 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 6 to the financial statements.

### Auditors' independence declaration

The Auditors independence declaration is included on page 13.

# Directors' report

## For the financial year ended 30 June 2009

### 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 98/0100, 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

The company sold its Cowra vineyard in August 2009 for \$1.5 million. The water entitlements attached to the vineyard were not part of the sale and the company intends to sell these in due course.

The company has reached an in principle agreement with it's bank to extend the debt facility for a further two years with conditions and financial covenants of a comparable nature to the existing arrangements.

The company has agreed a settlement with Indage Vintners Limited (formerly Champagne Indage Limited) in relation to proceedings brought by the company against Indage Vintners resulting from the failure of Indage Vintners to complete the purchase of the Loxton Winery. The company has received a settlement amount that has been applied to the purchase of wine from Thachi Wines. Litigation commenced in the Federal Court has been discontinued

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 D Ferrier AM  
Director  
29 September 2009

The Board of Directors  
Australian Vintage Ltd  
Level 2, 170 Greenhill Road  
Parkside SA 5063

29 September 2009

Dear Board Members

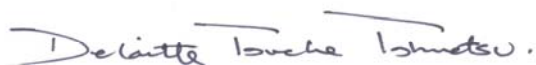
**Australian Vintage Ltd**

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.

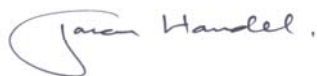
As lead audit partner for the audit of the financial statements of Australian Vintage Ltd for the financial year ended 30 June 2009, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (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



J J Handel  
Partner  
Chartered Accountants

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

We have audited the accompanying financial report of Australian Vintage Ltd, which comprises the balance sheet as at 30 June 2009, and the income statement, cash flow statement and statement of changes in equity for the year ended on that date, a summary of significant accounting policies, other explanatory notes 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 16 to 66.

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

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, 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. These Auditing 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 entity's preparation and fair presentation of the financial report 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 entity'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.

## Auditor's Opinion

In our opinion:

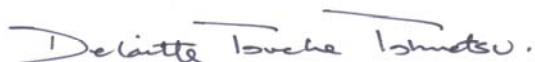
- (a) the financial report of Australian Vintage Ltd is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2009 and of their performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

## Report on the Remuneration Report

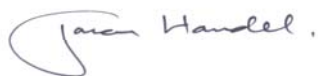
We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2009. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

### *Auditor's Opinion*

In our opinion the Remuneration Report of Australian Vintage Ltd for the year ended 30 June 2009, complies with section 300A of the *Corporations Act 2001*.



DELOITTE TOUCHE TOHMATSU



J J Handel  
Partner  
Chartered Accountants  
Adelaide, 29 September 2009

## Income Statement

For the financial year ended 30 June 2009

	Note	Consolidated		Company	
		2009	2008	2009	2008
		\$'000	\$'000	\$'000	\$'000
Revenue	2	288,308	264,980	218,358	200,454
Cost of sales	2	(227,913)	(203,931)	(178,296)	(156,864)
Cost of sales – prior year international rebate claim	2	-	(658)	-	(658)
<b>Gross Profit</b>		<b>60,395</b>	<b>60,391</b>	<b>40,062</b>	<b>42,932</b>
Fair value of grapes picked during the financial year less estimated point of sale costs		(1,490)	1,957	(1,490)	1,957
Other revenue	2	1,625	1,937	1,615	1,864
Other income	2	2,092	933	1,819	1,205
Loss on sale of other property, plant and equipment	2	(64)	(195)	(64)	(195)
Distribution expenses		(11,992)	(12,091)	(5,765)	(5,860)
Sales and marketing expenses		(25,599)	(25,280)	(13,929)	(13,235)
Administration expenses		(7,795)	(8,399)	(7,795)	(8,399)
Finance costs	2	(11,320)	(12,434)	(11,320)	(12,434)
Profit on sale of winery assets and investments	2	-	3,054	-	1,389
Onerous contracts provision	2	(73,473)	-	(73,473)	-
Redundancy costs	2	(2,196)	-	(2,196)	-
Inventory net realisable adjustment	2	(74,421)	(1,759)	(74,421)	(1,759)
Impairment of non-current other investments	2	-	-	(17,500)	-
Impairment of assets / other write downs	2	(35,279)	-	(9,501)	-
Change in market value of biological assets		-	-	(500)	1,000
Other revenue – contract settlement proceeds / deposits received	2	12,518	-	6,381	-
Re-organisation of overseas distribution agreements	2	-	(5,056)	-	(5,056)
Re-organisation of domestic business	2	-	(1,535)	-	(1,535)
<b>Profit / (Loss) before income tax</b>	<b>2</b>	<b>(166,999)</b>	<b>1,523</b>	<b>(168,077)</b>	<b>1,874</b>
Tax (expense) / income	3	43,358	(179)	44,337	(508)
<b>Profit / (Loss) for the year attributable to equity holders of the parent</b>		<b>(123,641)</b>	<b>1,344</b>	<b>(123,740)</b>	<b>1,366</b>
<b>Earnings Per Share:</b>					
Basic (cents per share)	33	(96.0)	1.0		
Diluted (cents per share)	33	(96.0)	1.0		

Notes to the financial statements are included on pages 20 to 65.

# Balance Sheet

## As at 30 June 2009

	Note	Consolidated		Company	
		2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
<b>Current Assets</b>					
Cash and cash equivalents	42	6,182	1,000	5,563	619
Trade and other receivables	7	71,992	72,487	71,992	72,164
Other financial assets	10	-	1,959	-	1,959
Inventories	8	111,272	189,453	111,612	189,793
Current tax assets	3	261	-	204	-
Other	11	2,140	4,543	1,677	4,334
		191,847	269,442	191,048	268,869
Non-current assets classified as held for sale	9 & 43	34,096	28,844	3,822	-
<b>Total Current Assets</b>		<b>225,943</b>	<b>298,286</b>	<b>194,870</b>	<b>268,869</b>
<b>Non-Current Assets</b>					
Trade and other receivables	12	2,954	3,350	13,911	17,536
Inventories	13	25,213	55,530	25,213	55,530
Investments accounted for using the equity method	14	-	1,910	-	-
Other financial assets	15	1,817	5,159	129,379	152,356
Biological assets	16	30,233	35,888	11,541	8,134
Property, plant and equipment	17	91,934	102,215	35,440	41,772
Goodwill	18	36,774	46,800	-	-
Water licences	19	8,515	8,326	5,306	4,902
Other intangible assets	20	8,645	10,637	4,935	4,784
Deferred tax assets	3	59,347	18,029	57,365	12,252
<b>Total Non-Current Assets</b>		<b>265,432</b>	<b>287,844</b>	<b>283,090</b>	<b>297,266</b>
<b>Total Assets</b>		<b>491,375</b>	<b>586,130</b>	<b>477,960</b>	<b>566,135</b>
<b>Current Liabilities</b>					
Trade and other payables	22	53,797	67,610	50,633	64,168
Borrowings	23	390	689	244	422
Current tax liabilities	3	95	95	95	95
Provisions	24	26,250	5,384	25,915	4,512
Other	25	3,920	9,184	3,220	5,134
		84,452	82,962	80,107	74,331
Current liabilities directly associated with non-current assets held for sale	43	601	679	601	679
Non-current liabilities directly associated with non-current assets held for sale	43	49	65	49	65
<b>Total Current Liabilities</b>		<b>85,102</b>	<b>83,706</b>	<b>80,757</b>	<b>75,075</b>
<b>Non-Current Liabilities</b>					
Borrowings	26	151,015	147,740	151,015	147,606
Deferred tax liabilities	3	8,642	10,699	2,623	2,339
Provisions	27	28,382	690	28,382	690
<b>Total Non-Current Liabilities</b>		<b>188,039</b>	<b>159,129</b>	<b>182,020</b>	<b>150,635</b>
<b>Total Liabilities</b>		<b>273,141</b>	<b>242,835</b>	<b>262,777</b>	<b>225,710</b>
<b>Net Assets</b>		<b>218,234</b>	<b>343,295</b>	<b>215,183</b>	<b>340,425</b>
<b>Equity</b>					
Issued capital	30	401,629	401,629	401,629	401,629
Reserves	31	314	1,734	(5)	1,497
Accumulated losses	32	(183,709)	(60,068)	(186,441)	(62,701)
<b>Total Equity</b>		<b>218,234</b>	<b>343,295</b>	<b>215,183</b>	<b>340,425</b>

Notes to the financial statements are included on pages 20 to 65.

# Statement of Changes in Equity

## For the financial year ended 30 June 2009

(a) Consolidated

		Equity - settled employee benefits reserve	Interest rate swap	Foreign currency translation reserve	Accumulated losses	Total
Notes	Share capital \$'000	\$'000	\$'000	\$'000	\$'000	\$'000
	401,266	1,594	-	-	(61,412)	341,448
Gain on interest rate swaps	31	-	1,409	-	-	1,409
Exchange differences arising on translation of foreign operations	31	-	-	160	-	160
Net income recognised directly in equity		-	1,409	160	-	1,569
Profit for the period		-	-	-	1,344	1,344
<b>Total recognised income and expense</b>		-	<b>1,409</b>	<b>160</b>	<b>1,344</b>	<b>2,913</b>
Recognition of share-based payments		-	187	-	-	187
Pre-paid share options		-	(1,249)	-	-	(1,249)
Transfer from reserves	30	367	(367)	-	-	-
Costs related to the issue of shares	30	(4)	-	-	-	(4)
<b>Balance at 30 June 2008</b>		<b>401,629</b>	<b>165</b>	<b>1,409</b>	<b>(60,068)</b>	<b>343,295</b>
Balance at 1 July 2008		401,629	165	1,409	(60,068)	343,295
Loss on interest rate swaps	31	-	(2,419)	-	-	(2,419)
Exchange differences arising on translation of foreign operations		-	-	82	-	82
Net income recognised directly in equity		-	(2,419)	82	-	(2,337)
Loss for the period		-	-	-	(123,641)	(123,641)
<b>Total recognised income and expense</b>		-	<b>(2,419)</b>	<b>82</b>	<b>(123,641)</b>	<b>(125,978)</b>
Recognition of share-based payments		-	283	-	-	283
Recognition of share options reserve		-	634	-	-	634
<b>Balance at 30 June 2009</b>		<b>401,629</b>	<b>1,082</b>	<b>(1,010)</b>	<b>(183,709)</b>	<b>218,234</b>

(b) Parent

		Equity - settled employee benefits reserve	Interest rate swap	Foreign currency translation reserve	Accumulated losses	Total
Notes	Share capital \$'000	\$'000	\$'000	\$'000	\$'000	\$'000
	401,266	1,594	-	-	(64,067)	338,793
Gain on interest rate swaps	31	-	1,409	-	-	1,409
Exchange differences arising on translation of foreign operations	31	-	-	(77)	-	(77)
Net income recognised directly in equity		-	1,409	(77)	-	1,332
Profit for the period		-	-	-	1,366	1,366
<b>Total recognised income and expense</b>		-	<b>1,409</b>	<b>(77)</b>	<b>1,366</b>	<b>2,698</b>
Recognition of share-based payments		-	187	-	-	187
Pre-paid share options		-	(1,249)	-	-	(1,249)
Transfer from reserves	30	367	(367)	-	-	-
Costs related to the issue of shares	30	(4)	-	-	-	(4)
<b>Balance at 30 June 2008</b>		<b>401,629</b>	<b>165</b>	<b>1,409</b>	<b>(62,701)</b>	<b>340,425</b>
Balance at 1 July 2008		401,629	165	1,409	(62,701)	340,425
Loss on interest rate swaps	31	-	(2,419)	-	-	(2,419)
Net income recognised directly in equity		-	(2,419)	-	-	(2,419)
Loss for the period		-	-	-	(123,740)	(123,740)
<b>Total recognised income and expense</b>		-	<b>(2,419)</b>	<b>-</b>	<b>(123,740)</b>	<b>(126,159)</b>
Recognition of share-based payments		-	283	-	-	283
Recognition of share options reserve		-	634	-	-	634
<b>Balance at 30 June 2009</b>		<b>401,629</b>	<b>1,082</b>	<b>(1,010)</b>	<b>(186,441)</b>	<b>215,183</b>

Notes to the financial statements are included on pages 20 to 65.

# Cash Flow Statement

For the financial year ended 30 June 2009

	Note	Consolidated		Company	
		2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
<b>Cash flows from operating activities</b>					
Receipts from customers		310,689	304,495	226,221	232,538
Payments to suppliers and employees		(279,328)	(281,715)	(202,599)	(214,320)
Interest and other costs of finance paid		(10,596)	(12,523)	(10,596)	(12,517)
Income tax received / (paid)		-	2,190	-	2,190
Interest and bill discounts received		595	710	595	705
Payment for temporary water licences		(3,623)	(9,165)	(3,623)	(9,165)
Payments relating to re-organisation of overseas distribution agreements		-	(4,419)	-	(4,419)
<b>Net cash (used in) / provided by operating activities</b>	42(e)	<b>17,737</b>	<b>(427)</b>	<b>9,998</b>	<b>(4,988)</b>
<b>Cash flows from investing activities</b>					
Payments for property, plant and equipment		(13,814)	(12,104)	(7,509)	(7,530)
Payments for permanent water licences	19	(324)	(4,902)	-	(4,902)
Payments for intangibles	20	(821)	(1,211)	(151)	-
Proceeds from sale of property, plant & equipment		153	16,790	79	5,899
Proceeds from sale of investments		-	1,212	-	-
Payments for investments		-	(399)	-	(221)
<b>Net cash used in investing activities</b>		<b>(14,806)</b>	<b>(614)</b>	<b>(7,581)</b>	<b>(6,754)</b>
<b>Cash flows from financing activities</b>					
Payment for employee share options		-	(834)	-	(834)
Proceeds from borrowings		3,000	-	3,000	-
Repayment of borrowings		(749)	(1,122)	(473)	(522)
Amounts received from related parties		-	-	-	11,866
<b>Net cash (used in) / provided by financing activities</b>		<b>2,251</b>	<b>(1,956)</b>	<b>2,527</b>	<b>10,510</b>
Net decrease in cash and cash equivalents		5,182	(2,997)	4,944	(1,232)
Cash and cash equivalents at the beginning of the financial year		1,000	3,997	619	1,851
<b>Cash and cash equivalents at the end of the financial year</b>	42 (a)	<b>6,182</b>	<b>1,000</b>	<b>5,563</b>	<b>619</b>

Notes to the financial statements are included on pages 20 to 65.

# Notes to the financial statements

## For the financial year ended 30 June 2009

### Note 1: Summary of accounting policies

#### 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 includes the separate financial statements of the company and the consolidated financial statements of the Group.

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').

The financial statements were authorised for issue by the directors on 29 September 2009.

#### Basis of preparation

The financial report has been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. 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.

#### Critical accounting judgements and key sources of estimation uncertainty

In the application of the group's accounting policies, management is required to make judgements, 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. Judgements made by management in the application of A-IFRS that have significant effects on the financial statements and estimates with a significant risk of material adjustments in the next year are disclosed, where applicable, in the relevant notes to the financial statements.

The following are the critical judgements that management has made in applying the Groups' 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 judgement. 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.

In the current period the Group undertook a review of their inventories and estimated a shortfall in net realisable value relative to book value of \$74,421,000 before income tax.

##### *Income tax losses*

The company has recognised deferred tax assets in relation to unused tax losses and temporary differences as an asset 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 judgement and if the actual conditions vary to the assumptions adopted, the carrying value of the asset would need to be reassessed.

# Notes to the financial statements

## For the financial year ended 30 June 2009

### Note 1: Summary of accounting policies (continued)

#### *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% discount rate) of the expenditures expected to be required to settle the onerous obligations.

The provision has been recorded as a significant item.

#### *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 the calculations requires 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 14.6% (bulk wine business), which indicated that the fair value of assets (including goodwill), based upon discounted cash flows, was lower than the carrying value. The main contributors to the impairment of the cash generating unit were an increase in the discount rate and a reduction of forecast revenue and margins from the cash generating unit.

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 17.35% to 20% (branded wine business), resulting in a write down of brand names.

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.

#### *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 2009. This resulted in a charge against the vines which has been recorded as a significant item.

In determining the fair value of the biological assets, the forecast cash flows from the vineyards have been discounted using a 15% pre-tax discount rate.

# Notes to the financial statements

## For the financial year ended 30 June 2009

### Note 1: Summary of accounting policies (continued)

#### Adoption of new and revised Accounting Standards

In the current year, the company and the Group have adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to their operations and effective for the current annual reporting period.

#### Standards and Interpretations issued not yet effective

At the date of authorisation of the financial report, a number of Standards and Interpretations were in issue but not yet effective.

Initial application of the following Standards will not affect any of the amounts recognised in the financial report, but will change the disclosures presently made in relation to the Group and the Company's financial report:

Standard	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
<ul style="list-style-type: none"> <li>AASB 101 'Presentation of Financial Statements' (revised September 2007), AASB 2007-8 'Amendments to Australian Accounting Standards arising from AASB 101', AASB 2007-10 'Further Amendments to Australian Accounting Standards arising from AASB 101'</li> </ul>	1 January 2009	30 June 2010
<ul style="list-style-type: none"> <li>AASB 8 'Operating Segments', AASB 2007-3 'Amendments to Australian Accounting Standards arising from AASB 8'</li> </ul>	1 January 2009	30 June 2010
<ul style="list-style-type: none"> <li>AASB 2009-2 'Amendments to Australian Accounting Standards – Improving Disclosures about Financial Instruments'</li> </ul>	1 January 2009 (and that ends on or after 30 April 2009)	30 June 2010

Initial application of the following Standards/Interpretations is not expected to have any material impact on the financial report of the Group and the Company:

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
<ul style="list-style-type: none"> <li>AASB 123 'Borrowing Costs' (revised), AASB 2007-6 'Amendments to Australian Accounting Standards arising from AASB 123'</li> </ul>	1 January 2009	30 June 2010
<ul style="list-style-type: none"> <li>AASB 3 'Business Combinations' (revised), AASB 127 'Consolidated and Separate Financial Statements' (revised) and AASB 2008-3 'Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127'</li> </ul>	Business combinations occurring after the beginning of annual reporting periods beginning 1 July 2009	30 June 2010
<ul style="list-style-type: none"> <li>AASB 2008-1 'Amendments to Australian Accounting Standard - Share-based Payments: Vesting Conditions and Cancellations'</li> </ul>	1 January 2009	30 June 2010

# Notes to the financial statements

## For the financial year ended 30 June 2009

### Note 1: Summary of accounting policies (continued)

#### Standards and Interpretations issued not yet effective (continued)

<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 2008-2 'Amendments to Australian Accounting Standards - Puttable Financial Instruments and Obligations arising on Liquidation'	1 January 2009	30 June 2010
• AASB 2008-5 'Amendments to Australian Accounting Standards arising from the Annual Improvements Project'	1 January 2009	30 June 2010
• AASB 2008-6 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project'	1 July 2009	30 June 2010
• AASB 2008-7 'Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate'	1 January 2009	30 June 2010
• AASB 2008-8 'Amendments to Australian Accounting Standards – Eligible Hedged Items'	1 July 2009	30 June 2010
• AASB 2009-4 'Amendments to Australian Accounting Standards arising from the Annual Improvements Process'	1 July 2009	30 June 2010
• AASB 2009-5 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Process'	1 January 2010	30 June 2011
• AASB 2009-6 'Amendments to Australian Accounting Standards'	1 January 2009	30 June 2010
• AASB 2009-7 'Amendments to Australian Accounting Standards'	1 July 2009	30 June 2010
• AASB 1 'First-time Adoption of Australian Accounting Standards'	1 July 2009	30 June 2010
• AASB Interpretation 15 'Agreements for the Construction of Real Estate'	1 January 2009	30 June 2010
• AASB Interpretation 16 'Hedges of a Net Investment in a Foreign Operation'	1 October 2008	30 June 2010
• AASB Interpretation 17 'Distributions of Non-cash Assets to Owners', AASB 2008-13 'Amendments to Australian Accounting Standards arising from AASB Interpretation 17 – Distributions of Non-cash Assets to Owners'	1 July 2009	30 June 2010
• AASB Interpretation 18 'Transfers of Assets from Customers'	1 July 2009	30 June 2010

# Notes to the financial statements

## For the financial year ended 30 June 2009

### Note 1: Summary of accounting policies (continued)

#### Significant accounting policies

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

**(a) 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 income statement 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.

**(b) Business combinations**

Acquisitions of subsidiaries and businesses are accounted for using the purchase 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, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under AASB 3 'Business Combinations' are recognised at their fair values at the acquisition date, except for non-current 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', which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

**(c) 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.

**(d) 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.

Bank overdrafts are shown within cash in the current assets of the balance sheet, due to the right of set off.

# Notes to the financial statements

## For the financial year ended 30 June 2009

### Note 1: Summary of accounting policies (continued)

#### (e) 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.

#### 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 income statement 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.

#### (f) 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 employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Liabilities recognised in respect of employee benefits which are not expected to be settled within 12 months 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.

#### (g) Financial assets

Investments are recognised and derecognised on trade date where purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs.

Subsequent to initial recognition, investments in subsidiaries are measured at cost in the company financial statements.

Other financial assets are classified into the following specified categories: 'available-for-sale' 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.

# Notes to the financial statements

## For the financial year ended 30 June 2009

### Note 1: Summary of accounting policies (continued)

#### 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 cost. 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 uncollectable, 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.

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.

#### **(h) 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.

##### Transaction costs on the issue of equity instruments

Transaction costs arising on the issue of equity instruments are recognised directly in equity as a reduction of the proceeds of the equity instruments to which the costs relate. Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and which would not have been incurred had those instruments not been issued.

##### Interest expense and dividends

Interest expense and dividends are classified as expenses or as distributions of profit consistent with the balance sheet classification of the related debt or equity instruments or component parts of compound instruments.

##### 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 described in note 1(w).

##### 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.

#### **(i) 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.

# Notes to the financial statements

## For the financial year ended 30 June 2009

### Note 1: Summary of accounting policies (continued)

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.

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 1(c));
- exchange differences on transactions entered into in order to hedge certain foreign currency risks (refer note 1(e)); 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 on or after the date of transition to A-IFRS are treated as assets and liabilities of the foreign entity and translated at exchange rates prevailing at the reporting date. Goodwill arising on acquisitions before the date of transition to A-IFRS is treated as an Australian dollar denominated asset.

#### **(j) Goodwill**

Goodwill is initially recorded at cost, representing the excess of the cost of acquisition over the fair value of the identifiable assets, liabilities and contingent liabilities acquired and is recognised as an asset and not amortised, but tested for impairment annually and whenever there is an indication that the goodwill may be impaired. Any impairment is recognised immediately in profit or loss and is not subsequently reversed.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units (CGUs), or groups of CGUs, expected to benefit from the synergies of the business combination. CGUs (or groups of CGUs) to which goodwill has been allocated are tested for impairment annually, or more frequently if events or changes in circumstances indicate that goodwill might be impaired.

If the recoverable amount of the CGU (or group of CGUs) is less than the carrying amount of the CGU (or groups of CGUs), the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU (or groups of CGUs) and then to the other assets of the CGU (or groups of CGUs) pro-rata on the basis of the carrying amount of each asset in the CGU (or groups of CGUs). An impairment loss recognised for goodwill is recognised immediately in profit or loss and is not reversed in a subsequent period.

On disposal of an operation within a CGU, the attributable amount of goodwill is included in the determination of the profit or loss on disposal of the operation.

#### **(k) 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.

#### **(l) 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 estimated point of sale costs 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 point of sale costs at the point of harvest (including production costs). A gain or loss arising from a change in fair values less estimated point of sale costs is included in the profit and loss in the period in which the gain/loss arises. The agricultural produce is recorded within inventory.

#### **(m) 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.

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.

# Notes to the financial statements

## For the financial year ended 30 June 2009

### Note 1: Summary of accounting policies (continued)

#### (n) Income 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 income statement, 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.

#### (o) Intangible assets

##### Brand names

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 1(m).

##### Software

Software is carried at cost and amortised to the profit and loss over the estimated useful life of the software package (10 years).

#### (p) 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.

#### (q) 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.

#### (r) 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.

# Notes to the financial statements

## For the financial year ended 30 June 2009

### Note 1: Summary of accounting policies (continued)

#### 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 balance sheet 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 charges 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 1(c).

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.

#### **(s) 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 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.

#### **(t) 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.

#### **(u) Property, plant and equipment**

Property, plant and equipment is 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.

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. 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 is 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.

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

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

#### **(v) 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.

# Notes to the financial statements

## For the financial year ended 30 June 2009

### Note 1: Summary of accounting policies (continued)

#### (w) 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.

##### Rental Income

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

#### (x) Share-based payments

Equity-settled share-based payments granted after 7 November 2002 that vested on or after 1 July 2005, are measured at fair value of the equity instrument at the date of grant. Fair value is measured by use of a Black Scholes Option Valuation Model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest.

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.

#### (y) 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.

#### (z) 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.

Notes to the financial statements  
For the financial year ended 30 June 2009

Note 2: Profit / (Loss) from operations

	Consolidated		Company	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
<b>(a) Revenue – continuing operations</b>				
Revenue from the sale of goods	260,369	233,420	191,314	169,771
Revenue from contract processing	14,737	17,442	14,737	17,442
Revenue from rendering vineyard contract services	13,202	14,118	12,307	13,241
<b>Total</b>	<b>288,308</b>	<b>264,980</b>	<b>218,358</b>	<b>200,454</b>
<b>Other revenue</b>				
Interest revenue – bank deposits	715	821	715	816
Rental revenue	91	156	91	156
Other	819	960	809	892
<b>Total other revenue</b>	<b>1,625</b>	<b>1,937</b>	<b>1,615</b>	<b>3,069</b>
<b>Other income</b>				
Foreign exchange gains	2,092	933	1,819	1,205
<b>(b) Profit / Loss before income tax</b>				
Profit / (Loss) before income tax has been arrived at after crediting/(charging) the following gains and losses:				
Gain / (Loss) on disposal of property, plant and equipment	(64)	(195)	(64)	(195)
Profit / (Loss) before income tax has been arrived at after charging the following expenses:				
Cost of sales	227,913	203,391	178,296	156,864
Onerous contracts provision	73,473	-	73,473	-
Inventory net realisable adjustment	74,421	1,759	74,421	1,759
Prior year international rebate claim	-	658	-	658
	<b>375,807</b>	<b>205,808</b>	<b>326,190</b>	<b>159,281</b>
Finance costs:				
Interest on bank overdrafts and loans	11,264	12,192	11,264	12,192
Interest on obligations under finance lease	56	242	56	242
	<b>11,320</b>	<b>12,434</b>	<b>11,320</b>	<b>12,434</b>
Depreciation of non-current assets - charged to cost of sales / inventory	6,118	6,914	1,169	1,223
Depreciation of non-current assets - other	1,652	2,131	1,133	1,100
Amortisation of non-current assets	313	241	-	-
	<b>8,083</b>	<b>9,286</b>	<b>2,302</b>	<b>2,323</b>
Operating lease rental expenses (minimum lease payments)	19,935	19,084	19,600	18,761
Employee benefit expense:				
Share based payments:				
Equity settled share-based payments	283	187	283	187
Cash settled share-based payments	634	461	634	445
	917	648	917	632
Termination benefits	2,196	677	2,196	677
Superannuation benefits	3,267	3,310	2,977	3,065
Other employee benefits (incl. salaries and wages)	38,419	40,835	35,046	38,093
	<b>44,799</b>	<b>45,470</b>	<b>41,136</b>	<b>42,467</b>

Notes to the financial statements  
For the financial year ended 30 June 2009

Note 2: Profit / (Loss) from operations (continued)

	Consolidated		Company	
	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000
<b>(c) Significant items</b>				
During the financial year the company incurred the following revenue and expenses of a significant and one-off nature:				
Profit before tax on disposal of winery assets and investments	-	3,054	-	1,389
Costs associated with the re-organisation of overseas distribution agreements	-	(5,056)	-	(5,056)
Prior year international rebate claims <sup>1</sup>	-	(658)	-	(658)
Costs associated with the re-organisation of domestic business	-	(1,535)	-	(1,535)
Revaluation of biological assets	(9,762)	-	(700)	-
Impairment of property, plant and equipment	(6,385)	-	(2,563)	-
Impairment of goodwill and other intangibles (Brand Names)	(12,527)	-	-	-
Provision for onerous contracts <sup>1</sup>	(73,473)	-	(73,473)	-
Redundancy costs	(2,196)	-	(2,196)	-
Inventory net realisable value adjustment <sup>1</sup>	(74,421)	(1,759)	(74,421)	(1,759)
Impairment of non-current investment in associate	(1,910)	-	(2,013)	-
Impairment of non-current other investments	-	-	(17,500)	-
Allowance for significant doubtful debts	(1,248)	-	(1,248)	-
Impairment of non-current financial assets	(3,262)	-	(3,262)	-
Contract settlement proceeds	12,518	-	6,381	-
Other	(185)	-	(215)	-
Significant items before income tax	(172,851)	(5,954)	(171,210)	(7,619)
Income tax benefit on significant items	44,924	1,786	45,496	2,286
Significant items after income tax benefit	(127,927)	(4,168)	(125,714)	(5,333)

<sup>1</sup> Included in cost of sales in note 2 (b).

# Notes to the financial statements

## For the financial year ended 30 June 2009

### Note 3: Income taxes

	Consolidated		Company	
	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000
<b>(a) Income tax recognised in profit or loss</b>				
Tax expense / (income) comprises:				
Current tax expense / (income) in respect of the current year	363	158	492	2,105
Deferred tax expense / (income) relating to the origination and reversal of temporary differences	(43,375)	200	(44,829)	(1,496)
Adjustments recognised in the current year in relation to the current tax of prior years	(346)	(179)	-	(101)
<b>Total tax expense / (income) contributable to continuing operations</b>	<b>(43,358)</b>	<b>179</b>	<b>(44,337)</b>	<b>508</b>
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	(166,999)	1,523	(168,077)	1,874
Income tax expense / (income) calculated at 30%	(50,100)	457	(50,423)	562
Depreciation	(617)	(556)	-	-
Share-based payments	85	128	85	128
Non-deductible expenses	584	329	133	-
Impairment of non-current investments in subsidiary	-	-	5,250	-
Non deductible impairment losses	3,008	-	-	-
Capital losses not brought to account	4,028	-	618	-
Other	-	-	-	(81)
	(43,012)	358	(44,337)	609
Adjustments recognised in the current year in relation to tax of prior years	(346)	(179)	-	(101)
<b>Total tax expense / (income)</b>	<b>(43,358)</b>	<b>179</b>	<b>(44,337)</b>	<b>508</b>
The tax rate used in the above reconciliation is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law. There has been no change in the corporate tax rate when compared with the previous reporting period.				
<b>(b) Current tax assets and liabilities</b>				
Current tax assets (other tax receivable)	261	-	204	-
Current tax liabilities:				
Income tax payable attributable to entities in the tax-consolidated group	95	95	95	95
	95	95	95	95
<b>(c) Deferred tax balances</b>				
Deferred tax assets comprise:				
Tax losses - revenue	31,363	9,785	30,074	8,496
Tax losses - capital	173	83	173	83
Temporary differences	27,811	8,161	27,118	3,673
	59,347	18,029	57,365	12,252
Deferred tax liabilities comprise:				
Temporary differences	8,642	10,699	2,623	2,339

Notes to the financial statements  
For the financial year ended 30 June 2009

Note 3: Income taxes (continued)

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

**CONSOLIDATED**

Temporary differences 2009	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	(2,094)	153	-	-	(1,941)
Property, plant and equipment	(7,551)	2,514	-	-	(5,037)
Intangible assets	(966)	(618)	-	-	(1,584)
Other	(88)	8	-	-	(80)
	(10,699)	2,057	-	-	(8,642)
<b>Gross deferred tax assets:</b>					
Property, plant and equipment	3,205	(2,748)	-	-	457
Provisions and accruals	4,617	21,785	-	-	26,402
Tax losses	9,868	21,668	-	-	31,536
Deferred income	3	(3)	-	-	-
Other	336	616	-	-	952
	18,029	41,318	-	-	59,347
<b>Temporary differences 2008</b>					
<b>Gross deferred tax liabilities:</b>					
Work in progress	(2,368)	274	-	-	(2,094)
Property, plant and equipment	(6,482)	(1,069)	-	-	(7,551)
Intangible assets	(966)	-	-	-	(966)
Other	(220)	132	-	-	(88)
	(10,036)	(663)	-	-	(10,699)
<b>Gross deferred tax assets:</b>					
Property, plant and equipment	350	2,855	-	-	3,205
Provisions and accruals	7,010	(2,393)	-	-	4,617
Tax losses	7,673	2,195	-	-	9,868
Deferred income	662	(659)	-	-	3
Other	1,871	(1,535)	-	-	336
	17,566	463	-	-	18,029
<b>COMPANY</b>					
<b>2009</b>					
<b>Gross deferred tax liabilities:</b>					
Work in progress	(2,094)	153	-	-	(1,941)
Financial assets	-	(618)	-	-	(618)
Other	(245)	181	-	-	(64)
	(2,339)	(284)	-	-	(2,623)
<b>Gross deferred tax assets:</b>					
Property, plant and equipment	-	451	-	-	451
Tax losses	8,579	21,668	-	-	30,247
Provisions and accruals	3,673	22,994	-	-	26,667
	12,252	45,113	-	-	57,365
<b>2008</b>					
<b>Gross deferred tax liabilities:</b>					
Work in progress	(2,092)	(2)	-	-	(2,094)
Other	(116)	(129)	-	-	(245)
	(2,208)	(131)	-	-	(2,339)
<b>Gross deferred tax assets:</b>					
Property, plant and equipment	-	-	-	-	-
Tax losses	4,344	4,235	-	-	8,579
Provisions and accruals	6,204	(2,531)	-	-	3,673
Other	77	(77)	-	-	-
	10,625	1,627	-	-	12,252

There are no unrecognised revenue tax losses relating to the Group or the Company. The company has not recognised \$4,028,000 of capital losses. The Directors expect the future financial performance of the company will facilitate the full recovery of the tax losses.

# Notes to the financial statements

## For the financial year ended 30 June 2009

### Note 3: Income taxes (continued)

#### 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 37.

##### 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 of 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.

### Note 4: 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:

David S Clarke (Chairman – non-executive director)	Michael Noack (Chief Financial Officer and Company Secretary)
Dane B Hudson (Chief Executive Officer)	Neil McGuigan (General Manager Production and Wine Supply)
Christopher L Harris (non-executive director)	Paul Schaafsma (General Manager – United Kingdom/Europe)
Nicholas F Greiner (non-executive director)	Cameron Ferguson (General Manager – Sales and Marketing)
Perry R Gunner (non-executive director)	Craig Thomas (Export Sales Manager – Australia)
Brian J McGuigan (Executive Director)	Julie Thomas (resigned 31 January 2009)
Richard Davis (non-executive director)	Flora Sarris (Legal Counsel) - Company Secretary to 5 May 2009.
Ian D Ferrier (non-executive director)	

- Mr N Greiner – resigned 1 December 2008
- Mr R Davis – appointed 5 May 2009
- Mr C Harris – resigned 24 June 2009
- Mr D Clarke – resigned 2 July 2009

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

	Consolidated		Company	
	2009	2008	2009	2008
	\$	\$	\$	\$
Short-term employee benefits	2,892,212	3,863,248	2,892,212	3,863,248
Post-employment benefits	239,059	246,868	239,059	246,868
Share based payments	874,951	639,101	874,951	639,101
	<u>4,006,222</u>	<u>4,749,217</u>	<u>4,006,222</u>	<u>4,749,217</u>

# Notes to the financial statements

## For the financial year ended 30 June 2009

### Note 5: 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.

Executive and Senior Employee Option Scheme ("Scheme") – option series 1.

In accordance with the provisions of the Scheme, options were issued to a number of executives and senior employees of the Company. These options expired on 2<sup>nd</sup> September 2008.

Australian Vintage Ltd Executive Option Acquisition Plan ("Plan") – option series 2 to 13.

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:

	2009 Number	2008 Number	Weighted Average Exercise Price	
			2009 \$	2008 \$
Balance at the beginning of the financial year (i)	2,976,495	1,932,197	2.99	3.62
Granted during the financial year (ii)	-	1,044,298	-	1.86
Exercised during the financial year (iii)	-	-	-	-
Lapsed/cancelled during the financial year (iv)	(829,466)	-	3.76	-
Balance at the end of the financial year (v)	2,147,029	2,976,495	2.69	2.99

Notes to the financial statements  
For the financial year ended 30 June 2009

Note 5: Executive share option plan (continued)

(i) Balance at the Beginning of the Financial Year

<b>2009</b>	<b>No.</b>	<b>Vested No.</b>	<b>Unvested No.</b>	<b>Grant Date</b>	<b>Exercise Date</b>	<b>Exercise Price</b>
<b>Options – Series</b>						<b>\$</b>
(1) Issued 2 September 2003	715,000	715,000	-	02/09/03	02/09/06	4.07
(2) Issued 6 March 2006	150,000	-	150,000	06/03/06	10/04/10	3.10
(3) Issued 6 March 2006	260,000	-	260,000	06/03/06	10/04/10	4.00
(4) Issued 13 May 2005	28,514	28,514	-	13/05/05	13/05/07	4.36
(5) Issued 13 May 2005	28,515	28,515	-	13/05/05	13/05/08	4.36
(6) Issued 13 May 2005	28,515	-	28,515	13/05/05	13/05/09	4.36
(7) Issued 9 November 2006	284,739	-	284,739	09/11/06	09/11/09	2.90
(8) Issued 16 November 2006	69,697	-	69,697	16/11/06	16/11/09	2.90
(9) Issued 15 March 2007	288,717	-	288,717	15/03/07	15/03/10	3.10
(10) Issued 3 April 2007	78,500	-	78,500	03/04/07	05/04/10	3.20
(11) Issued 20 December 2007	407,410	-	407,410	20/12/07	20/12/10	1.64
(12) Issued 22 January 2008	334,225	-	334,225	18/01/08	01/02/11	2.00
(13) Issued 22 January 2008	302,663	-	302,663	18/01/08	01/02/12	2.00
	<b>2,976,495</b>	<b>772,029</b>	<b>2,204,466</b>			

<b>2008</b>	<b>No.</b>	<b>Vested No.</b>	<b>Unvested No.</b>	<b>Grant Date</b>	<b>Exercise Date</b>	<b>Exercise Price</b>
<b>Options – Series</b>						<b>\$</b>
(1) Issued 2 September 2003	715,000	715,000	-	02/09/03	02/09/06	4.07
(2) Issued 6 March 2006	150,000	-	150,000	06/03/06	10/04/10	3.10
(3) Issued 6 March 2006	260,000	-	260,000	06/03/06	10/04/10	4.00
(4) Issued 13 May 2005	28,514	28,514	-	13/05/05	13/05/07	4.36
(5) Issued 13 May 2005	28,515	28,515	-	13/05/05	13/05/08	4.36
(6) Issued 13 May 2005	28,515	-	28,515	13/05/05	13/05/09	4.36
(7) Issued 9 November 2006	284,739	-	284,739	09/11/06	09/11/09	2.90
(8) Issued 16 November 2006	69,697	-	69,697	16/11/06	16/11/09	2.90
(9) Issued 15 March 2007	288,717	-	288,717	15/03/07	15/03/10	3.10
(10) Issued 3 April 2007	78,500	-	78,500	03/04/07	05/04/10	3.20
	<b>1,932,197</b>	<b>772,029</b>	<b>1,160,168</b>			

(ii) Granted During the Financial Year

**2009**

Nil

<b>2008</b>	<b>No.</b>	<b>Grant Date</b>	<b>Exercise Date</b>	<b>Exercise Price</b>
<b>Options - Series</b>				<b>\$</b>
(11) Issued 20 December 2007	407,410	20/12/07	20/12/10	1.64
(12) Issued 22 January 2008	334,225	18/01/08	01/02/11	2.00
(13) Issued 22 January 2008	302,663	18/01/08	01/02/12	2.00
	<b>1,044,298</b>			

Notes to the financial statements  
For the financial year ended 30 June 2009

Note 5: Executive share option plan (continued)

(iii) Exercised During the Financial Year

2009 Options - Series	No of Options Exercised	Grant Date	Exercise Date	Expiry Date	Exercise Price \$	No. of Shares	Consideration Received \$	Fair Value of Shares at Date of Issue \$
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Nil

2008 Options - Series	No of Options Exercised	Grant Date	Exercise Date	Expiry Date	Exercise Price \$	No. of Shares	Consideration Received \$	Fair Value of Shares at Date of Issue \$
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Nil

(iv) Lapsed/cancelled During the Financial Year

2009

Options – Series	No.	Grant Date	Expiry Date
(1) Issued 2 September 2003	715,000	02/09/03	02/09/08
(10) Issued 3 April 2007	15,700	03/04/07	20/12/11
(11) Issued 20 December 2007	98,766	20/12/07	20/12/12
	<u>829,466</u>		

2008

Options – Series

Nil

(v) Balance at End of Financial Year

2009 Options – Series	No.	Vested No.	Unvested No.	Grant Date	Exercise Date	Expiry Date	Exercise Price \$
(2) Issued 6 March 2006	150,000	-	150,000	06/03/06	10/04/10	30/12/11	3.10
(3) Issued 6 March 2006	260,000	-	260,000	06/03/06	10/04/10	30/12/11	4.00
(4) Issued 13 May 2005	28,514	28,514	-	13/05/05	13/05/07	13/05/10	4.36
(5) Issued 13 May 2005	28,515	28,515	-	13/05/05	13/05/08	13/05/10	4.36
(6) Issued 13 May 2005	28,515	28,515	-	13/05/05	13/05/09	13/05/10	4.36
(7) Issued 9 November 2006	284,739	-	284,739	09/11/06	09/11/09	30/12/11	2.90
(8) Issued 16 November 2006	69,697	-	69,697	16/11/06	16/11/09	30/12/11	2.90
(9) Issued 15 March 2007	288,717	-	288,717	15/03/07	15/03/10	30/12/11	3.10
(10) Issued 3 April 2007	62,800	-	62,800	03/04/07	05/04/10	30/12/11	3.20
(11) Issued 20 December 2007	308,644	-	308,644	20/12/07	20/12/10	30/12/12	1.64
(12) Issued 22 January 2008	334,225	-	334,225	18/01/08	01/02/11	30/12/11	2.00
(13) Issued 22 January 2008	302,663	-	302,663	18/01/08	01/02/12	30/12/12	2.00
	<u>2,147,029</u>	<u>85,544</u>	<u>2,061,485</u>				

2008 Options – Series	No.	Vested No.	Unvested No.	Grant Date	Exercise Date	Expiry Date	Exercise Price \$
(1) Issued 2 September 2003	715,000	715,000	-	02/09/03	02/09/06	02/09/08	4.07
(2) Issued 6 March 2006	150,000	-	150,000	06/03/06	10/04/10	30/12/11	3.10
(3) Issued 6 March 2006	260,000	-	260,000	06/03/06	10/04/10	30/12/11	4.00
(4) Issued 13 May 2005	28,514	28,514	-	13/05/05	13/05/07	13/05/10	4.36
(5) Issued 13 May 2005	28,515	28,515	-	13/05/05	13/05/08	13/05/10	4.36
(6) Issued 13 May 2005	28,515	-	28,515	13/05/05	13/05/09	13/05/10	4.36
(7) Issued 9 November 2006	284,739	-	284,739	09/11/06	09/11/09	30/12/11	2.90
(8) Issued 16 November 2006	69,697	-	69,697	16/11/06	16/11/09	30/12/11	2.90
(9) Issued 15 March 2007	288,717	-	288,717	15/03/07	15/03/10	30/12/11	3.10
(10) Issued 3 April 2007	78,500	-	78,500	03/04/07	05/04/10	30/12/11	3.20
(11) Issued 20 December 2007	407,410	-	407,410	20/12/07	20/12/10	30/12/12	1.64
(12) Issued 22 January 2008	334,225	-	334,225	18/01/08	01/02/11	30/12/11	2.00
(13) Issued 22 January 2008	302,663	-	302,663	18/01/08	01/02/12	30/12/12	2.00
	<u>2,976,495</u>	<u>772,029</u>	<u>2,204,466</u>				

# Notes to the financial statements

## For the financial year ended 30 June 2009

### Note 6 : Remuneration of auditors

	Consolidated		Company	
	2009	2008	2009	2008
	\$	\$	\$	\$
<b>Auditor of the parent company</b>				
Audit or review of financial report	315,000	345,000	315,000	345,000
Other services – other audit services	111,850	21,742	111,850	21,742
Other services – environmental impact review	-	37,524	-	37,524
Other services – systems implementation review	4,963	21,313	4,963	21,313
Other services – application for government grants	37,438	-	37,438	-
Other services – taxation advice	32,083	17,600	32,083	17,600
Other services – taxation compliance	45,213	58,075	45,213	58,075
	<b>546,547</b>	<b>501,254</b>	<b>546,547</b>	<b>501,254</b>

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

### Note 7: Current trade and other receivables

	Consolidated		Company	
	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000
Trade receivables (i)	65,457	72,564	65,457	72,375
Allowance for doubtful debts	(1,923)	(1,499)	(1,923)	(1,218)
	<b>63,534</b>	<b>71,065</b>	<b>63,534</b>	<b>71,157</b>
Goods and services tax (GST) and WET recoverable	-	-	-	-
Foreign currency forward contracts (note 29)	120	-	120	-
Other receivables	8,338	1,422	8,338	1,007
	<b>71,992</b>	<b>72,487</b>	<b>71,992</b>	<b>72,164</b>

(i) The average credit period on sales of goods and rendering of services is 87 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.

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, \$32.7 million (2008: \$21.8 million) is due from international supermarket groups and a major Australian wine entity. 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 \$3.3 million (2008: \$5.0 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	2,237	587	2,237	587
60 – 90 days	375	1,199	375	1,199
90 – 120 days	658	3,260	658	3,071
Total	<b>3,270</b>	<b>5,046</b>	<b>3,270</b>	<b>4,857</b>

#### Movement in the allowance of doubtful debts

Balance at the beginning of the year	(1,499)	(1,674)	(1,218)	(1,377)
Impairment losses recognised on receivables	(1,974)	(986)	(2,255)	(850)
Amounts written off as not collectable	1,550	1,161	1,550	1,009
Balance at the end of the year	<b>(1,923)</b>	<b>(1,499)</b>	<b>(1,923)</b>	<b>(1,218)</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.

Notes to the financial statements  
For the financial year ended 30 June 2009

Note 7: Current trade and other receivables (continued)

Ageing of impaired trade receivables

	Consolidated		Company	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
0 – 30 days	-	-	-	-
30 – 60 days	238	-	238	-
60 – 90 days	-	24	-	24
90 – 120 days	37	283	37	132
120+ days	1,648	1,192	1,648	1,062
Total	1,923	1,499	1,923	1,218

Note 8: Current inventories

Bulk wine	76,273	146,073	76,613	146,413
Other stores and raw materials	4,371	5,595	4,371	5,595
Work in progress:	6,468	7,215	6,468	7,215
Bottled wine	24,160	30,570	24,160	30,570
	<b>111,272</b>	<b>189,453</b>	<b>111,612</b>	<b>189,793</b>

Note 9: Non current assets held for sale

Winery and vineyard assets - carrying value (refer note 43)	34,096	28,844	3,822	-
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Note 10: Other current financial assets

Interest rate swap	-	1,409	-	1,409
Foreign currency forward contracts (note 29)	-	225	-	225
Trade credits – at amortised cost (note 1 (y))	-	325	-	325
	-	<b>1,959</b>	-	<b>1,959</b>

Note 11: Other current assets

Prepayments	2,140	4,543	1,677	4,334
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Note 12: Non current trade and other receivables

Loans carried at amortised cost:				
Loans to other entities (i)	2,400	2,400	-	-
Loans to subsidiaries	-	-	13,911	17,536
Austvin Vineyards 1997 Project (ii)	554	950	-	-
	<b>2,954</b>	<b>3,350</b>	<b>13,911</b>	<b>17,536</b>

(i) Loan payable on 31<sup>st</sup> January 2012, secured against a vineyard. The interest rate charged is 7% (2008 : 7%).

(ii) Austvin Vineyards Limited, a 100% subsidiary of Australian Vintage Ltd is the manager of this project with loans held by another 100% subsidiary Austvin Finance Pty Ltd at an interest rate of 11% (2008 : 11%). The loan relates to amounts advanced to investors in the project to be recouped from the sale of grapes in future periods.

Notes to the financial statements  
For the financial year ended 30 June 2009

Note 13: Non current inventories

	Consolidated		Company	
	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000
Bulk wine	23,942	53,921	23,942	53,921
Bottled wine	1,271	1,609	1,271	1,609
	<b>25,213</b>	<b>55,530</b>	<b>25,213</b>	<b>55,530</b>

Note 14: Investments accounted for using the equity method

Investment in associates	-	1,910
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(a) Interest in associates

Name of Entity	Principal Activity	Ownership Interest		Consolidated Carrying Amount	
		2009	2008	2009	2008
		%	%	\$'000	\$'000
Mangoola Vineyards Pty Ltd	Vineyard investor	45	45	-	-
Tempus Two Pty Limited	Winery ownership	-	50	-	1,910
				<b>-</b>	<b>1,910</b>

Both entities are incorporated in Australia. Voting rights equate to ownership interest and both entities have the same year end as the Company. Investments are owned by the parent entity (refer note 15).

During the year, the company sold its interest in Tempus Two Pty Limited. Refer to Significant Items Note 2(c) for further information.

(b) Reconciliation of movement in investments accounted for using the equity method

	Ownership Interest	
	2009	2008
	\$'000	\$'000
Balance at 1 July	1,910	2,110
Repayment of capital	-	(200)
Write down of investment	(1,910)	-
<b>Balance at 30 June</b>	<b>-</b>	<b>1,910</b>

# Notes to the financial statements

## For the financial year ended 30 June 2009

### Note 15: Other non-current financial assets

	Consolidated		Company	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Investments in companies at cost (i)	64	297	51	286
Investments in subsidiaries	-	-	129,328	146,828
Investments in associates (14 (a))	-	-	-	2,013
Deposit on operating lease (ii)	1,753	1,633	-	-
Trade credits - at amortised cost (note 1 (y))	-	3,229	-	3,229
	<b>1,817</b>	<b>5,159</b>	<b>129,379</b>	<b>152,356</b>

(i) Relates to investments in wine related businesses.

(ii) Relates to deposit held by lessor of storage tanks leased. The applicable interest rate is 7.25% and the maturity date is 30<sup>th</sup> March 2011.

### Note 16: Biological assets

Fair value less costs to sell of vines at beginning of year	35,888	37,373	8,134	6,990
Vines acquired	5,038	238	5,038	238
Valuation adjustment	(9,762)	-	(700)	1,000
Transfer to non-current assets held for sale	(931)	-	(931)	-
Vines disposed	-	(1,723)	-	(94)
Fair value less costs to sell of vines at end of year	<b>30,233</b>	<b>35,888</b>	<b>11,541</b>	<b>8,134</b>

#### (a) Impact on Income Statement

The profit / (loss) before income tax included in the Consolidated Income Statement resulting from the fair value less costs to sell of produce extracted from the biological assets is a loss of \$1,490,000 (2008: profit \$1,957,000); Company loss \$1,490,000 (2008: profit \$1,957,000).

#### (b) Physical quantity of vines

	Consolidated		Company	
	2009 No.	2008 No.	2009 No.	2008 No.
Number of vines owned	1,940,772	1,634,774	475,161	169,163
Acres owned	2,457	2,267	450	260
Number of grapes crushed - owned vineyards (tonnes)	16,128	19,874	1,007	1,064

#### (c) Nature of asset

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

There are two resulting assets:

- (i) grapes (agricultural produce) – recorded within inventory
- (ii) vines (bearer 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 20 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;
- (iv) inflation will continue at the current rate; and
- (v) discount rate of 15%.

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

- (i) grapes crushed valued at management forecast 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 2009

Note 17: Property, plant and equipment

	Consolidated		Company	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
<b>(a) Vineyard Improvements</b>				
at cost	14,103	12,427	5,565	739
accumulated depreciation	(3,881)	(4,517)	(284)	(37)
	<b>10,222</b>	<b>7,910</b>	<b>5,281</b>	<b>702</b>
<b>Freehold Land</b>				
at cost	<b>13,725</b>	<b>16,106</b>	<b>2,910</b>	<b>3,173</b>
<b>Buildings</b>				
At cost	16,915	19,832	12,090	14,002
accumulated depreciation	(3,210)	(3,537)	(1,562)	(1,415)
	<b>13,705</b>	<b>16,295</b>	<b>10,528</b>	<b>12,587</b>
<b>Plant and equipment under lease</b>				
at cost	1,282	1,282	-	-
accumulated amortisation	(449)	(321)	-	-
	<b>833</b>	<b>961</b>	<b>-</b>	<b>-</b>
<b>Plant and equipment</b>				
at cost	98,918	110,193	26,411	35,571
accumulated depreciation	(45,469)	(49,250)	(9,690)	(10,261)
	<b>53,449</b>	<b>60,943</b>	<b>16,721</b>	<b>25,310</b>
<b>Total Property, Plant and Equipment</b>				
at cost	145,748	159,840	46,976	53,485
accumulated depreciation and amortisation	(53,814)	(57,625)	(11,536)	(11,713)
	<b>91,934</b>	<b>102,215</b>	<b>35,440</b>	<b>41,772</b>
<b>(b) Reconciliations</b>				
<b>Vineyard Improvements</b>				
carrying amount at beginning of the financial year	7,910	9,253	702	1,460
Additions	-	16	-	-
Impairment losses charged to profit	(1,744)	-	-	-
transfer from / (to) non-current assets held for sale	(70)	(4)	(70)	-
transfer from / (to) other category	4,904	(711)	4,904	(711)
depreciation	(778)	(644)	(255)	(47)
<b>at end of year</b>	<b>10,222</b>	<b>7,910</b>	<b>5,281</b>	<b>702</b>
<b>Vineyard Improvements under lease (from third party)</b>				
carrying amount at beginning of financial year	-	297	-	-
disposals	-	(297)	-	-
<b>at end of year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Freehold land</b>				
carrying amount at beginning of the financial year	16,106	24,730	3,173	4,270
additions	-	410	-	409
disposals	(500)	(3,044)	(500)	(1,710)
Impairment losses charged to profit	(1,524)	-	(236)	-
transfer from / (to) water licences	135	-	(404)	-
transfer from / (to) non-current assets held for sale	(1,786)	(5,990)	(417)	-
transfer from / (to) other category	1,294	-	1,294	204
<b>at end of year</b>	<b>13,725</b>	<b>16,106</b>	<b>2,910</b>	<b>3,173</b>

Notes to the financial statements  
For the financial year ended 30 June 2009

Note 17: Property, plant and equipment (continued)

	Consolidated		Company	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
<b>Buildings</b>				
carrying amount at beginning of the financial year	16,295	18,405	12,587	13,812
additions	-	566	-	557
disposals	-	(1,353)	-	(1,353)
impairment losses charged to profit	(1,271)	-	(892)	-
depreciation	(478)	(536)	(357)	(385)
transfer from / (to) non-current assets held for sale	(810)	(743)	(810)	-
transfer from / (to) other category	(31)	(44)	-	(44)
<b>at end of year</b>	<b>13,705</b>	<b>16,295</b>	<b>10,528</b>	<b>12,587</b>
<b>Plant and equipment under lease</b>				
carrying amount at beginning of the financial year	961	1,005	-	-
amortisation	(128)	(44)	-	-
<b>at end of year</b>	<b>833</b>	<b>961</b>	<b>-</b>	<b>-</b>
<b>Plant and equipment</b>				
carrying amount at beginning of the financial year	60,943	78,708	25,310	15,234
additions	8,767	11,228	2,471	6,326
disposals	(207)	(1,026)	(143)	(956)
impairment losses charged to profit	(1,846)	-	(1,435)	-
depreciation	(6,386)	(7,821)	(1,690)	(1,891)
transfer from subsidiary	-	-	-	5,899
transfer to non-current assets held for sale	(1,655)	(21,194)	(1,594)	-
transfer from non-current assets held for sale	-	293	-	-
transfer from / (to) other category	(6,167)	755	(6,198)	698
<b>at end of year</b>	<b>53,449</b>	<b>60,943</b>	<b>16,721</b>	<b>25,310</b>
<b>Aggregate depreciation and amortisation allocated, whether recognised as an expense or capitalised as part of the carrying amount of other assets during the year:</b>				
Buildings	478	536	357	385
Vineyard improvements	778	644	255	47
Plant and equipment	6,386	7,821	1,690	1,891
Plant and equipment under lease	128	44	-	-
	<b>7,770</b>	<b>9,045</b>	<b>2,302</b>	<b>2,323</b>

# Notes to the financial statements

## For the financial year ended 30 June 2009

### Note 18: Goodwill

During the financial year, the Group assessed the recoverable amount of goodwill, and determined the goodwill associated with the Group's winemaking activities was impaired by \$10.0M (2008: nil). The recoverable amount of the bulk wine business was with reference to the cash-generating unit's value in use. A discount factor of 14.75% per annum. (2008:12% per annum) was applied in the value in use model.

	Consolidated		Company	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Gross carrying amount:				
Balance at beginning of the financial year	46,800	47,711	-	-
Impairment of goodwill	(10,026)	-	-	-
Goodwill transferred to current assets held for sale	-	(911)	-	-
Balance at end of the financial year	<b>36,774</b>	<b>46,800</b>	-	-
<b>Accumulated impairment losses</b>				
Balance at beginning of financial year	-	-	-	-
Impairment losses for the year (i)	10,026	-	-	-
Balance at end of financial year	10,026	-	-	-
<b>Net book value:</b>				
At the beginning of the financial year	46,800	47,711	-	-
At the end of the financial year	<b>36,774</b>	<b>46,800</b>	-	-

(i) During the year, the Group assessed the recoverable amount of goodwill in each of its Cash Generating Units (CGU).

The recoverable amount analysis (using discounted cash flows) of the Miranda and AVL Europe (UK Distribution businesses) no longer supported the associated goodwill balances.

- Miranda – the main contributing factor to the impairment was the discontinuation of a number of product lines.
- AVL Europe (UK Distribution business) – the main contributing factor to the impairment was the decline in product margins in the UK market.

The recoverable amount analysis (using discounted cash flows) of the bulk wine business resulted in an impairment charge of \$6.404 million. The main contributing factor to this was the decline in bulk wine sales prices.

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

Goodwill has been allocated for impairment testing purposes to the following cash generating units: 1. Bulk wine business; 2. AVL Europe; and 3. Miranda Wines Group as follows:

	Consolidated	
	2009 \$'000	2008 \$'000
Bulk wine business	36,774	43,178
AVL Europe	-	2,621
Miranda Wines Group	-	1,001
	<b>36,774</b>	<b>46,800</b>

The impairment of goodwill is tested each reporting date and is based on determining the recoverable amount of each of the businesses' above cash generating units (CGU). To assess the recoverable amount of each CGU, the company has determined both the fair value 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 4 years and a terminal value to account for the cash flows beyond the 4<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 2009 and adjusted that base year for the budgets and plans approved by the Board of Directors.

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 14.6% p.a. (2008: 10.7% p.a.) to account for the increased risk associated with the assets in the current financial markets.

# Notes to the financial statements

## For the financial year ended 30 June 2009

### Note 18: Goodwill (continued)

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.

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.
- Revenue is forecast to increase at 3% per annum from 1st July, 2009.
- Gross margin rates are forecast to continue at levels consistent with the 2009/2010 budget.
- Terminal Growth Rate of 3%.
- Pre-tax Weighted Average Cost of Capital/ Discount rate of 14.6%
- Cost of debt 9%
- Processing and Storage revenue growth of 3% for 2010 and beyond
- Bottled and bulk wine revenue growth of 3% for 2010 and beyond
- Beta of 0.88 based on analysts reports

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

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

Reducing the terminal growth rate to 2% does not cause the associated goodwill to be impaired. However, a reduction in the terminal growth rate to 1% would generate an impairment charge of \$9.2 million.

The calculations are not sensitive to exchange rates as the majority of cash flows 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 19: Water licences

	Consolidated		Company	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Permanent water licences – at cost	8,515	8,326	5,306	4,902
Balance at 1 July	8,326	3,424	4,902	-
Transfer from / (to) property, plant and equipment	(135)	-	404	-
Acquired during the year	324	4,902	-	4,902
Balance at 30 June	8,515	8,326	5,306	4,902

# Notes to the financial statements

## For the financial year ended 30 June 2009

### Note 20: Other intangible assets

	Consolidated		Company	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Brand Names:				
Balance at 1 July	8,004	7,682	4,784	4,462
Acquired during the year	151	322	151	322
Impairment losses charged to profit and loss	(2,500)	-	-	-
Balance at 30 June	5,655	8,004	4,935	4,784
Software:				
Balance at 1 July	2,633	1,985	-	-
Costs incurred during the year	670	889	-	-
Amortisation expense	(313)	(241)	-	-
Balance at 30 June	2,990	2,633	-	-
Total other intangible assets	8,645	10,637	4,935	4,784

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 4 years and a terminal value to account for the cash flows beyond the 4<sup>th</sup> year.

The cash flows have been discounted to present value. In the current year, the company applied a pre-tax discount rate of 17.35% to 20% p.a. (2008: 15% p.a.) to account for the increased 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.

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

- Terminal Growth Rate of 3%.
- Pre-tax Weighted Average Cost of Capital/ Discount rate of 17.35% to 20%.
- Cost of debt 9%
- Beta of 0.88 based on analysts reports
- Revenue growth rate of 3% - 10%.

The recoverable amount analysis (using discounted cash flows) of the Yaldara brand name resulted in an impairment charge of \$2.5 million. The main contributing factor to this was a decline in both sales and margins.

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

### Note 21: Assets pledged as security

In accordance with the security arrangements of liabilities, as disclosed in notes 23 and 26 to the financial statements, the majority of tangible assets of the Group have been covered by a first registered fixed and floating charge or an interlocking guarantee and indemnity with the lending institutions, with the exception of assets under hire purchase arrangements. The following assets have been pledged as security:

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

Inventory	136,485	244,983	136,825	245,323
Receivables	71,992	72,712	71,992	72,389
Property, plant and equipment (including Biological Assets)	155,352	166,036	50,803	49,906
	363,829	483,731	259,620	397,618

# Notes to the financial statements

## For the financial year ended 30 June 2009

### Note 22: Current trade and other payables

	Consolidated		Company	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Trade payables(i)	41,840	43,920	41,840	43,802
Goods and services tax (GST) payable	890	1,232	890	1,232
Other accounts payable and accruals	11,067	22,458	7,903	19,134
	<b>53,797</b>	<b>67,610</b>	<b>50,633</b>	<b>64,168</b>

(i) The average credit period on purchase of goods is 43 days (2008 : 49 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 23: Current borrowings

At amortised cost:

Finance lease liabilities - secured (i)	390	456	244	189
Other loans – unsecured (ii)	-	233	-	233
	<b>390</b>	<b>689</b>	<b>244</b>	<b>422</b>

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

(ii) Interest free local council loan.

### Note 24: Current provisions

Directors retirement benefit (note 28)	298	376	-	-
Onerous contracts (note 28)	20,817	456	20,817	-
Redundancy	1,266	-	1,266	-
Employee entitlements (i)	3,869	4,552	3,832	4,512
	<b>26,250</b>	<b>5,384</b>	<b>25,915</b>	<b>4,512</b>

(i) The current provision for employee entitlements includes \$2,275,000 (company: \$2,275,000) of annual leave and vested long service leave entitlements accrued but not expected to be taken within 12 months (2008: \$1,991,000 Group, \$1,991,000 company).

# Notes to the financial statements

## For the financial year ended 30 June 2009

### Note 25: Other current liabilities

	Consolidated		Company	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Income in advance (note 1(w))	3,853	9,117	3,175	5,087
Other	67	67	45	47
	<b>3,920</b>	<b>9,184</b>	<b>3,220</b>	<b>5,134</b>

### Note 26: Non-current borrowings

Secured - at amortised cost:

Commercial Bills (i) (note 42(b))	152,000	149,000	152,000	149,000
Prepaid interest	(1,150)	(1,794)	(1,150)	(1,794)
	150,850	147,206	150,850	147,206
Finance lease liabilities (ii)	165	534	165	400
	<b>151,015</b>	<b>147,740</b>	<b>151,015</b>	<b>147,606</b>

(i) The bank overdraft and commercial bills are subject to an interlocking guarantee and indemnity to National Australia Bank, secured by a charge over the majority of the Group's assets (refer note 21).

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

### Note 27: Non-current provisions

Employee entitlements	681	690	681	690
Interest rate swap	1,010	-	1,010	-
Onerous contracts (note 28)	26,691	-	26,691	-
	<b>28,382</b>	<b>690</b>	<b>28,382</b>	<b>690</b>

### Note 28: Provisions

	Consolidated		
	\$'000 Onerous Contracts (i)	\$'000 Directors Retirement Benefit (ii)	\$'000 Redundancy (iii)
Balance at 30 June 2008	456	376	-
Increases arising from additional provisions	73,473	-	2,196
Reductions arising from payments/other sacrifices of future economic benefits	(26,421)	(78)	(930)
<b>Balance at 30 June 2009</b>	<b>47,508</b>	<b>298</b>	<b>1,266</b>

	Company		
	\$'000 Onerous Contracts (i)	\$'000 Directors Retirement Benefit (ii)	\$'000 Redundancy (iii)
Balance at 30 June 2008	-	-	-
Increases arising from additional provisions	73,473	-	2,196
Reductions arising from payments/other sacrifices of future economic benefits	(25,965)	-	(930)
<b>Balance at 30 June 2009</b>	<b>47,508</b>	<b>-</b>	<b>1,266</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.

(iii) The provision for redundancy represents the present value of the directors' best estimate of the costs likely to be incurred as a result of termination or redundancy of employees.

# Notes to the financial statements

## For the financial year ended 30 June 2009

### Note 29: Foreign currency balances

The following table details the forward foreign currency contracts outstanding as at reporting date.

Currency	Exchange rate 2009	Exchange rate 2008	Foreign currency FC \$'000 2009	Foreign currency FC \$'000 2008	Contract value AUD \$'000 2009	Contract value AUD \$'000 2008	Fair value AUD \$'000 2009	Fair value AUD \$'000 2008
<b>Forward foreign currency contracts:</b>								
Sell GB Pounds	-	0.40	-	1,274	-	3,209	-	564
Sell Euro	0.57	0.57	1,137	1,432	2,004	2,510	25	165
Sell US Dollars	0.78	-	1,659	-	2,141	-	95	-
Buy US Dollars	-	0.85	-	(3,796)	-	(4,454)	-	(504)
<b>Total</b>							<b>120</b>	<b>225</b>

### Note 30: Issued capital

	Consolidated		Company	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
128,509,917 Fully paid ordinary shares (2008: 128,509,917)	401,629	401,629	401,629	401,629
	Consolidated		Company	
	2009 Number	2009 \$'000	2008 Number	2008 \$'000
<b>Fully paid ordinary share capital</b>				
Beginning of financial year		128,509,917	401,629	128,377,917
<b>Issued during the year</b>				
Non-executive share scheme (refer Directors' Report)		-	-	132,000
Share issue costs		-	-	(4)
End of financial year		128,509,917	401,629	128,509,917

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 5.

### Note 31: Reserves

	Consolidated		Company	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Employee equity-settled benefits (i)	1,082	165	1,082	165
Interest rate hedging reserve (ii)	(1,010)	1,409	(1,010)	1,409
Foreign currency translation reserve (iii)	242	160	(77)	(77)
	<b>314</b>	<b>1,734</b>	<b>(5)</b>	<b>1,497</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 Notes 4 and 5.
- (ii) The interest rate 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.
- (iii) 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.

# Notes to the financial statements

## For the financial year ended 30 June 2009

### Note 32: Accumulated losses

	Consolidated		Company	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Balance at beginning of financial year	(60,068)	(61,412)	(62,701)	(64,067)
Net profit / (loss)	(123,641)	1,344	(123,740)	1,366
<b>End of financial year</b>	<b>(183,709)</b>	<b>(60,068)</b>	<b>(186,441)</b>	<b>(62,701)</b>

### Note 33: Earnings per share

	Consolidated	
	2009 Cents Per share	2008 Cents Per share
Basic earnings per share	(96.0)	1.0
Diluted earnings per share	(96.0)	1.0
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:		
	\$'000	\$'000
Profit / (loss) for the year	(123,641)	1,344
	2009 '000	2008 '000
	Number of Shares	Number of Shares
Weighted average number of ordinary shares used in calculating basic earnings per share	128,510	128,444
<b>Dilutive earnings per share</b>		
Share options (over un-issued shares) (i)	-	715
Directors shares (not yet issued) (i)	-	-
Weighted average number of ordinary shares used in calculating diluted earnings per share	128,510	129,159

(i) The options and Directors shares not yet issued are not dilutive as the consolidated entity recorded a net loss and as a result the basic and diluted are the same.

### Note 34: Dividends

	Company 2009		Company 2008	
	Cents per share	Total \$'000	Cents per share	Total \$'000
Fully paid ordinary shares:				
Interim dividend – franked to 30%	-	-	-	-
Final dividend – franked to 30%	-	-	-	-
Adjusted franking account balance		15,437		15,437

# Notes to the financial statements

## For the financial year ended 30 June 2009

### Note 35: 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

The following sets out the commitments to future lease payments relating to operating leases :

	Consolidated		Company	
	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000
- not longer than 1 year	18,108	19,277	14,591	15,591
- longer than 1 year and not longer than 5 years	55,590	60,064	53,882	54,878
- longer than 5 years	24,336	38,502	24,336	38,502
	<b>98,034</b>	<b>117,843</b>	<b>92,809</b>	<b>108,971</b>

In respect of non cancellable operating leases the following liabilities have been recognised:

	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000
Current	8,746	-	8,746	-
Non Current	9,342	-	9,342	-
	<b>18,088</b>	<b>-</b>	<b>18,088</b>	<b>-</b>

#### (b) Finance leases

Finance leases relate to plant and equipment with a lease term of up to 4 years.

	Minimum Future Lease payments				Present Value of Minimum Future Lease payments			
	Consolidated		Company		Consolidated		Company	
	2009	2008	2009	2008	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
No Later than 1 year	413	507	267	230	390	456	244	189
Later than 1 year and not later than 5 years	174	565	174	432	165	534	165	400
Minimum lease payments*	587	1,072	441	662	555	990	409	589
Less future finance changes	(32)	(82)	(32)	(73)	-	-	-	-
Present value of minimum lease payments	<b>555</b>	<b>990</b>	<b>409</b>	<b>589</b>	<b>555</b>	<b>990</b>	<b>409</b>	<b>589</b>
Current borrowings (note 23)					390	456	244	189
Non-Current borrowings (note 26)					165	534	165	400
					<b>555</b>	<b>990</b>	<b>409</b>	<b>589</b>

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

#### (c) Capital expenditure commitments

	Consolidated		Company	
	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000
Property, Plant and Equipment				
- not longer than 1 year	323	1,314	323	1,314
Intangibles				
- not longer than 1 year	-	-	-	-
	<b>323</b>	<b>1,314</b>	<b>323</b>	<b>1,314</b>

# Notes to the financial statements

## For the financial year ended 30 June 2009

### Note 36: Contingent liabilities

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

### Note 37: Subsidiaries

Name of entity	Country of Incorporation	Ownership of Interest	
		2009 %	2008 %
<b>Parent Entity</b>			
Australian Vintage Ltd	Australia		
<b>Controlled Entity</b>			
Simeon Wines Limited (1)	Australia	100	100
Vintners Australia Pty Limited (1)	Australia	100	100
Barossa Valley Wine Company Pty Limited (1)	Australia	100	100
Archstone Vineyards 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 Ltd	Australia	100	100
Austvin Vineyards Limited (1)	Australia	100	100
Austvin Finance Pty Limited (1)	Australia	100	100
Austvin Management Pty Limited (1)	Australia	100	100
Australian Flavours Pty Limited (1)	Australia	100	100
Austvin Holdings Pty Limited (1)	Australia	100	100
Nepenthe Wines Pty Limited (1)	Australia	100	100
Australian Vintage (Domestic) Pty Ltd (1)	Australia	100	100
Limestone Coast Wines Pty Limited (1)	Australia	100	100
Icon Brands Pty Limited (1)	Australia	100	100
Botany Creek Wines Pty Limited (1) (2)	Australia	0	100
Miranda Wines Pty Limited (1)	Australia	100	100
Miranda Wines (Leasing) Pty Limited (1)	Australia	100	100
Barossa Rovalley Estates Pty Limited (1)	Australia	100	100
Miranda Family Investments Pty Limited (1)	Australia	100	100
MW (Purchasing) Pty Limited (1)	Australia	100	100
Miranda Wines (Europe) Limited	United Kingdom	100	100
Miranda Wines Holdings Limited (1)	Australia	100	100
Australian Vintage (Europe) Limited	United Kingdom	100	100
MGW Executive Options Pty Limited	Australia	100	100
Inspire Brands Pty Ltd	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.

The balance sheet and income statement balances of the entities not subject to the class order are not considered material. Therefore, the total assets and liabilities and total revenue and expenses of companies included in the cross guarantee are equivalent to that included in the consolidated income statement and balance sheet.

Australian Vintage Ltd is the head entity within the tax-consolidated group. All companies are included in the tax consolidated group except Miranda Wines (Europe) Limited and Australian Vintage (Europe) Limited.

- (2) De-registered 9th March 2009.

# Notes to the financial statements

## For the financial year ended 30 June 2009

### Note 38: Segment information

#### Business Segments

##### Segment Revenue, Results, Assets and Liabilities

	Revenue 2009 \$'000	Revenue 2008 \$'000	Results 2009 \$'000	Results 2008 \$'000	Assets 2009 \$'000	Assets 2008 \$'000	Liabilities 2009 \$'000	Liabilities 2008 \$'000
Branded wine division	146,146	146,068	4,605	7,292	69,209	95,385	14,928	22,927
Private Label wine division	38,249	25,568	481	(1,071)	10,632	6,432	797	2,448
Bulk wine and processing	90,711	79,226	9,676	6,830	267,515	366,050	81,589	37,632
Vineyards	13,202	14,118	851	5,119	73,496	86,270	4,558	11,126
Unallocated	-	-	(182,612)	(16,647)	70,523	31,993	171,269	168,702
<b>Total</b>	<b>288,308</b>	<b>264,980</b>	<b>(166,999)</b>	<b>1,523</b>	<b>491,375</b>	<b>586,130</b>	<b>273,141</b>	<b>242,835</b>
Tax (expense) / income			43,358	(179)				
<b>Net profit / (loss)</b>			<b>(123,641)</b>	<b>1,344</b>				

Unallocated results include finance costs and significant items (refer note 2 (c)).

Unallocated assets include tax related assets.

Unallocated liabilities include commercial bill facilities utilised in the whole business and tax related liabilities.

#### Other Segmental Information

	Acquisition of segment assets		Depn. & amort. of segment assets		Significant non-cash expenses		Share of Associates Profit/(Loss)		Carrying value of Equity Investments	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Branded wine division	511	2	1,409	1,466	-	-	-	-	-	1,910
Private Label wine division	-	-	-	-	-	-	-	-	-	-
Bulk wine and processing	7,646	10,702	6,004	7,157	-	-	-	-	-	-
Vineyards	5,804	6,243	-	-	-	-	-	-	-	-
Unallocated	847	1,298	670	663	(184,254)	(1,759)	-	-	-	-
<b>Total</b>	<b>14,808</b>	<b>18,245</b>	<b>8,083</b>	<b>9,286</b>	<b>(184,254)</b>	<b>(1,759)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,910</b>

#### Geographical Segments

	Revenue from customers		Segment assets		Acquisition of segment assets	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Australia	134,112	131,771	449,160	547,994	14,808	18,245
Europe	113,872	108,728	32,988	31,785	-	-
North America	26,706	13,960	5,545	3,080	-	-
Other *	13,618	10,521	3,682	3,271	-	-
<b>Total</b>	<b>288,308</b>	<b>264,980</b>	<b>491,375</b>	<b>586,130</b>	<b>14,808</b>	<b>18,245</b>

\* Other includes Asia and New Zealand.

#### Products and Services within each Business Segment

Branded wine division	<ul style="list-style-type: none"> <li>Sale of branded bottled and cask wine throughout Australia and overseas.</li> </ul>
Private Label wine division	<ul style="list-style-type: none"> <li>Sale of private label bottled and cask wine throughout Australia and overseas.</li> </ul>
Bulk wine and processing	<ul style="list-style-type: none"> <li>Sale of bulk wine and concentrate within Australia.</li> <li>Provision of contract processing services within Australia.</li> </ul>
Vineyards	<ul style="list-style-type: none"> <li>Contract management and development of vineyards.</li> <li>Management of owned vineyards.</li> </ul>

# Notes to the financial statements

## For the financial year ended 30 June 2009

### Note 39: Related party transactions

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

Details of the percentage of ordinary shares held in controlled entities are disclosed in note 37 to the financial statements.

**Equity interests in associates**

Details of the percentage of ordinary shares held in associates are disclosed in note 14 to the financial statements

**(b) Key management personnel remuneration**

Details of key management personnel compensation are disclosed in note 4 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:

<b>2009</b>	<b>Balance at 1/7/08 No.</b>	<b>Granted as remuneration No.</b>	<b>Received on exercise of options No.</b>	<b>Net other change No.</b>	<b>Balance at 30/6/09 No.</b>	<b>Balance held nominally No.</b>
David S Clarke	954,485	-	-	-	954,485	-
Dane B Hudson	50,000	-	-	250,000	300,000	-
Brian J McGuigan	220,005	-	-	77,665	297,670	-
Ian D Ferrier	306,631	-	-	-	306,631	-
Nicholas S Greiner	370,379	-	-	(370,379)	-	-
Chris L Harris	126,719	-	-	(126,719)	-	-
Perry R Gunner	258,420	-	-	-	258,420	-
Richard Davis	-	-	-	-	-	-
Paul Schaafsma	-	-	-	-	-	-
Michael Noack	1,875	-	-	-	1,875	-
Cameron Ferguson	-	-	-	-	-	-
Neil McGuigan	-	-	-	-	-	-
Julie Thomas	2,946	-	-	(2,946)	-	-
Craig Thomas	250	-	-	-	250	-
Flora Sarris	-	-	-	-	-	-
	<b>2,291,710</b>	<b>-</b>	<b>-</b>	<b>(172,379)</b>	<b>2,119,331</b>	<b>-</b>
<b>2008</b>	<b>Balance at 1/7/07 No.</b>	<b>Granted as remuneration No.</b>	<b>Received on exercise of options No.</b>	<b>Net other change No.</b>	<b>Balance at 30/6/08 No.</b>	<b>Balance held nominally No.</b>
David S Clarke	908,000	44,000	-	2,485	954,485	-
Dane B Hudson	50,000	-	-	-	50,000	-
Brian J McGuigan	297,670	-	-	(77,665)	220,005	-
Ian D Ferrier	384,622	22,000	-	(99,991)	306,631	-
Nicholas S Greiner	348,379	22,000	-	-	370,379	-
Chris L Harris	104,719	22,000	-	-	126,719	-
Perry R Gunner	231,420	22,000	-	5,000	258,420	-
Paul Schaafsma	-	-	-	-	-	-
Michael Noack	1,875	-	-	-	1,875	-
Cameron Ferguson	-	-	-	-	-	-
Neil McGuigan	-	-	-	-	-	-
Julie Thomas	27,946	-	-	(25,000)	2,946	-
Craig Thomas	250	-	-	-	250	-
Flora Sarris	-	-	-	-	-	-
	<b>2,354,881</b>	<b>132,000</b>	<b>-</b>	<b>(195,171)</b>	<b>2,291,710</b>	<b>-</b>

Share granted as remuneration include 66,000 issued on 25<sup>th</sup> June 2008 (relating to the 2007/08 financial year) and 66,000 issued on 4<sup>th</sup> July 2007 (relating to the 2006/07 year).

# Notes to the financial statements

## For the financial year ended 30 June 2009

### Note 39: Related party transactions (continued)

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

2009	Balance @ 1/7/08 No.	Granted as remuneration No.	Exercised No.	Other Change No.	Bal @ 30/6/09 No.	Bal Vested @ 30/6/09 No.	Vested but Not exercisable No.	Vested and exercisable No.	Options Vested during the year No.
Dane Hudson	1,620,344	-	-	-	1,620,344	-	-	-	-
Paul Schaafsma	90,083	-	-	(25,000)	65,083	-	-	-	-
Michael Noack	115,083	-	-	(50,000)	65,083	-	-	-	-
Cameron Ferguson	65,083	-	-	-	65,083	-	-	-	-
Neil McGuigan	241,661	-	-	-	241,661	85,544	-	85,544	28,515
Julie Thomas	65,083	-	-	(65,083)	-	-	-	-	-
Craig Thomas	90,083	-	-	(25,000)	65,083	-	-	-	-
Flora Sarris	-	-	-	-	-	-	-	-	-
	<b>2,287,420</b>	<b>-</b>	<b>-</b>	<b>(165,083)</b>	<b>2,122,337</b>	<b>85,544</b>	<b>-</b>	<b>85,544</b>	<b>28,515</b>
2008	Balance @ 1/7/07 No.	Granted as remuneration No.	Exercised No.	Other Change No.	Bal @ 30/6/08 No.	Bal Vested @ 30/6/08 No.	Vested but Not exercisable No.	Vested and exercisable No.	Options Vested during the year No.
Dane Hudson	983,456	636,888	-	-	1,620,344	-	-	-	-
Paul Schaafsma	40,700	49,383	-	-	90,083	25,000	-	25,000	-
Michael Noack	65,700	49,383	-	-	115,083	50,000	-	50,000	-
Cameron Ferguson	15,700	49,383	-	-	65,083	-	-	-	-
Neil McGuigan	155,241	86,420	-	-	241,661	57,029	-	57,029	28,515
Julie Thomas	15,700	49,383	-	-	65,083	-	-	-	-
Craig Thomas	40,700	49,383	-	-	90,083	25,000	-	25,000	-
Flora Sarris	-	-	-	-	-	-	-	-	-
	<b>1,317,197</b>	<b>970,223</b>	<b>-</b>	<b>-</b>	<b>2,287,420</b>	<b>157,029</b>	<b>-</b>	<b>157,029</b>	<b>28,515</b>

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.

Further details of the options granted during the year are contained in note 5 to the financial statements.

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.

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

- (i) During the year ended 30 June 2009, a company associated with David Clarke, Poole's Rock Wines Pty Limited, transacted with the company as follows:
- Poole's Rock Wines Pty Limited sold packaged wine to the Company to the value of nil (2008: \$3,906) at normal commercial rates.
  - The company sold concentrate to Poole's Rock Wines Pty Limited to the value of \$20,662 (2008: \$60,127) at normal commercial rates.
  - The company provided winery services to Poole's Rock Wines Pty Limited to the value of nil (2008 : \$5,114) at normal commercial rates.
  - The company sold bulk wine to Poole's Rock Wines Pty Limited to the value of \$20,066 (2008 : \$27,301) at normal commercial rates.
  - The company charged Poole's Rock Wines Pty Limited an administration fee for sales by the company of Poole's Rock wines to Poole's Rock retail customers to the value of nil (2008 : \$636) at normal commercial rates.
  - As of 30th June 2009, nil (2008: \$5,389) is payable to the company in relation to the above transactions.

# Notes to the financial statements

## For the financial year ended 30 June 2009

### Note 39: Related party transactions (continued)

- (ii) During the year ended 30 June 2009, a company associated with David Clarke, Macquarie Bank Limited, conducted banking transactions, entered into foreign exchange contracts and received nil (2008 : \$830,000) in relation to key management personnel share options under the Australian Vintage Ltd Executive Option Acquisition Plan ("Plan") on normal commercial terms.
- (iii) Fay McGuigan (associate of Brian McGuigan) has a minority interest in an entity which paid \$164,536 (2008: \$161,152) to the Company for the provision of viticultural services at Barmera and Bordertown. Fruit from both vineyards was purchased by the Company from the entity for \$266,049 (2008: \$293,775) on the same terms and conditions as other investors in that project.
- (iv) The company purchased grapes from Nicholas Greiner's Spring Mountain vineyard during the 2008 year to the value of \$197,553 (2009 : nil) at normal commercial rates. During the year ended 30 June 2009, the company paid \$75,000 to a company associated with Mr Greiner as a final settlement for prior year vineyard contract services. As of 30th June 2009, nil (2008: \$134,007) is payable to the company in relation to the above transaction.
- (v) Lisa McGuigan (associate of Brian McGuigan) has a minority interest in an entity which paid \$52,904 (2008: \$51,816) to the Company for the provision of viticultural services at Bordertown. Fruit from the Bordertown vineyard was purchased by the Company from the entity for \$116,835 (2008: \$113,392) on the same terms and conditions as other investors in that project.
- (vi) During the year the year ended 30 June 2009, a company associated with Ian Ferrier, Ironbark Ferrier Pty Limited, provided corporate advisory services to the value of \$11,000 (2008 : nil) on normal commercial terms.
- (vii) During the year ended 30 June 2008, Australian Horticultural Management Pty Limited ("AHM"), a company owned by Brian McGuigan, managed the Hunter Valley vineyards for the company. In addition, AHM maintained the gardens and provided general upkeep of the Hunter Valley wineries, cellar doors and pipelines. The company paid to AHM, at normal commercial rates, \$379,702 (2009 : nil) during the 2008 financial year.
- (viii) During the year the company entered into the following transactions with AHM:
  - a. The company provided AHM with grape concentrating and processing services to the value of nil (2008: \$209,406) on normal commercial terms. A balance of nil (2008: \$139,904) is owing to the company at 30 June 2009.
  - b. The company purchased grapes from AHM to the value of \$102,847 (2008: \$404,113) on normal commercial terms. A balance of \$68,384 (2008: \$133,998) is owed by the company at 30 June 2009.
  - c. The company has paid McGuigan Nominees \$117,427 (2008: \$97,856) for the rental of wine storage tanks and \$103,528 (2008: \$133,306) for the rental of warehouse space, both of which are on normal commercial terms. There are no amounts payable by the company (2008: \$46,232) at 30 June 2009.
  - d. The company sold bulk wine to Premier Wines 2 Pty Ltd (a company in which Brian McGuigan is a Director) to the value of \$2,125,032 (2008 : nil) on normal commercial terms.
  - e. The company sold packaged wine to Premier Wines Pty Ltd (a company in which Brian McGuigan is a Director) to the value of \$14,386 (2008 : nil) on normal commercial terms.
  - f. In the prior year, the company paid commission fees to Premier Wines Pty Limited (a company in which Brian McGuigan is a Director) who acted as a broker for bulk wine sales made by the company on normal commercial terms, totalling \$164,208 (2009: nil).

#### (e) Transactions within the wholly-owned group

Amounts which are non-trade receivables from wholly-owned controlled entities are disclosed in note 12.

#### (f) Transactions with Associates

During the prior financial year, Australian Vintage Ltd was charged \$247,668 for contract processing of wine by Tempus Two Pty Ltd on normal commercial terms (2009 : nil).

#### (g) Parent Entity

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

### Note 40: Subsequent events

The company sold its Cowra vineyard in August 2009 for \$1.5 million. The water entitlements attached to the vineyard were not part of the sale and the company intends to sell these in due course.

The company has reached an in principle agreement with its bank to extend the debt facility for a further two years with conditions and financial covenants of a comparable nature to the existing arrangements.

The company has agreed a settlement with Indage Vintners Limited (formerly Champagne Indage Limited) in relation to proceedings brought by the company against Indage Vintners resulting from the failure of Indage Vintners to complete the purchase of the Loxton Winery. The company has received a settlement amount that has been applied to the purchase of wine from Thachi Wines. Litigation commenced in the Federal Court has been discontinued.

# Notes to the financial statements

## For the financial year ended 30 June 2009

### Note 41: Acquisition of businesses

Names of businesses acquired	Principal activity	Date of Acquisition	Proportion of shares acquired (%)	Cost of acquisition \$'000
<b>2009</b>				
Nil.				
<b>2008</b>				
Nil				

### Note 42: 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		Company	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Cash and cash equivalents	6,182	2,051	5,563	1,670
Bank overdraft	-	(1,051)	-	(1,051)
	<u>6,182</u>	<u>1,000</u>	<u>5,563</u>	<u>619</u>

#### (b) Financing Facilities

Unsecured bank overdraft facility, reviewed annually and payable at call:

Amount Used	-	1,051	-	1,051
Amount Unused	5,000	3,949	5,000	3,949
	<u>5,000</u>	<u>5,000</u>	<u>5,000</u>	<u>5,000</u>

Unsecured revolving lease facility:

Amount Used	-	-	-	-
Amount Unused	2,000	2,000	2,000	2,000
	<u>2,000</u>	<u>2,000</u>	<u>2,000</u>	<u>2,000</u>

Bank Guarantee/Surrender facility:

Amount Used	3,210	3,358	3,210	3,358
Amount Unused	7,790	4,142	7,790	4,142
	<u>11,000</u>	<u>7,500</u>	<u>11,000</u>	<u>7,500</u>

Corporate purchasing card facility:

Amount Used	96	3	96	3
Amount Unused	404	497	404	497
	<u>500</u>	<u>500</u>	<u>500</u>	<u>500</u>

Unsecured bill acceptance facility

Amount Used	152,000	149,000	152,000	149,000
Amount Unused	34,500	41,000	34,500	41,000
	<u>186,500</u>	<u>190,000</u>	<u>186,500</u>	<u>190,000</u>

#### (c) Non-cash financing and investing activities

There were no non-cash financing and investing activities during the year ended 30 June 2009 (2008: Nil).

#### (d) Business acquired

No businesses were acquired in the current or prior financial years.

# Notes to the financial statements

## For the financial year ended 30 June 2009

### Note 42: Notes to the cash flow statement (continued)

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

	Consolidated		Company	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Profit / (Loss) from ordinary activities after income tax	(123,641)	1,344	(123,740)	1,366
Depreciation and amortisation of non-current assets	8,083	9,286	2,302	2,323
Loss / (Profit) on sale of non-current assets	64	(2,859)	64	(1,389)
Bad and doubtful debts	424	(175)	705	(159)
Shares issued as remuneration	283	367	283	367
Interest on finance leases	56	247	56	59
Unrealised foreign exchange losses / (gains)	(2,092)	(933)	(1,819)	(1,205)
Change in market value of biological assets	9,762	-	700	(1,000)
Impairment of property, plant and equipment	6,385	-	2,563	-
Impairment of goodwill and other intangibles	12,527	-	-	-
Impairment of non-current investments in associate	2,033	-	2,162	-
Impairment of other non-current investments	-	-	17,500	-
<b>Changes in net assets and liabilities, net of effects from acquisition and disposal of businesses</b>				
<b>(Increase)/decrease in assets</b>				
trade and other receivables	467	32,233	3,092	202,999
inventories	108,498	(27,511)	108,498	(198,052)
other current assets	2,142	(1,016)	2,453	1,240
deferred tax assets	(41,318)	-	(45,113)	-
other non-current assets	3,342	(463)	3,625	(1,627)
<b>Increase/(decrease) in liabilities</b>				
current trade and other payables	(13,813)	(9,952)	(13,535)	(11,749)
provisions	48,558	614	49,095	(521)
deferred tax liabilities	(2,057)	-	284	-
other	(1,966)	(1,609)	823	2,360
<b>Net cash provided by/(used in) operating activities</b>	<b>17,737</b>	<b>(427)</b>	<b>9,998</b>	<b>(4,988)</b>

### Note 43: Assets and liabilities held for sale

During the year the proposed purchaser of the Loxton winery failed to settle the transaction. The company is pursuing alternative buyers of the winery.

In December 2008, the company closed its winery at Lenswood in the Adelaide Hills. The company has made available for sale this winery and the adjacent vineyard.

The company has also sold its Cowra vineyard in August 2009 for \$1.5m. The water entitlements attached to the vineyard were not part of the sale and the company intends to sell these in due course.

All the above assets, and associated liabilities, have been recorded as held for sale assets in the financial statements as the company is committed to the sale of these assets.

None of the proposed sales of the assets above qualify as a discontinued operation.

# Notes to the financial statements

## For the financial year ended 30 June 2009

### 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 2008.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in notes 23 and 26, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and accumulated losses as disclosed in notes 30, 31 and 32 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 manufacturing 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. 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		Company	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
<b>Financial assets</b>				
Debt (i)	151,405	148,429	151,259	148,028
Cash and cash equivalents (net of bank overdraft)	(6,182)	(1,000)	(5,563)	(619)
Net Debt	145,223	147,429	145,696	147,409
Equity (ii)	218,234	343,295	215,183	340,425
Net debt to equity ratio	67%	43%	68%	43%

(i) Debt is defined as long and short-term borrowings, as detailed in notes 23 and 26.

(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, operating cash flow and earnings before interest and tax must exceed pre-defined levels.

#### (b) Categories of financial instruments

	Consolidated		Company	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
<b>Financial assets</b>				
Available for sale	64	2,207	129,379	149,127
Loans and receivables	76,669	81,024	87,826	93,687
Cash and cash equivalents	6,182	1,000	5,563	619
Derivative instruments in designated hedge accounting relationships	-	1,409	-	1,409
Foreign currency contracts	-	225	-	225
<b>Financial liabilities</b>				
Derivative instruments in designated hedge accounting relationships	1,010	-	1,010	-
Amortised cost	206,352	217,833	203,042	213,990

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.

# Notes to the financial statements

## For the financial year ended 30 June 2009

### Note 44: Financial instruments (continued)

#### (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 29) 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	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
US dollars	-	-	2,318	1,009
GB pounds	230	-	8,606	2,639
Euro	-	-	746	319
Other	-	-	191	462

#### Foreign currency sensitivity analysis

The Group is mainly exposed to US dollars (USD) and GB pounds.

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 represents management's assessment of the 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 strengthens against the respective currency.

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

# Notes to the financial statements

## For the financial year ended 30 June 2009

### Note 44: Financial instruments (continued)

	Consolidated		Company	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
<u>Increase in foreign exchange rate by 10%</u>				
Profit or loss – GBP Impact (i)	(1,604)	(258)	(1,604)	(258)
Profit or loss – USD Impact (i)	(74)	(96)	(74)	(96)
Profit or loss – EURO Impact (i)	(19)	-	(19)	-
<u>Decrease in foreign exchange rate by 10%</u>				
Profit or loss – GBP Impact (i)	1,960	315	1,960	315
Profit or loss – USD Impact (i)	90	117	90	117
Profit or loss – EURO Impact (i)	23	-	23	-

#### Forward foreign exchange contracts – refer to note 29

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 within 40% to 50% of the exposure generated. 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 \$120 thousand (2008: profit of \$225 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.

#### (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.

The company and the Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

#### 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 increase and decrease by \$375,000 (2008: increase by \$242,000 and decrease by \$242,000). 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 two interest rate swap agreements with a notional amount of \$45 million (2008: \$80 million).

- \$25 million on which it pays 5.99% interest and receives the Bank Bill Swap Rate (BBSW) on the notional amount (2008: \$25m). This swap agreement expires in September 2010.
- \$20 million on which it pays 5.64% interest and receives BBSW calculated on the notional amount (2008: \$20m). This swap agreement expires in February 2011.

The swaps in place cover 30% (2008: 54%) of the total borrowings as at 30 June 2009.

# Notes to the financial statements

## For the financial year ended 30 June 2009

### Note 44: Financial instruments (continued)

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	
	2009	2008	2009	2008	2009	2008
	%	%	\$ 000	\$ 000	\$ 000	\$ 000
Less than 1 year	-	6.19	-	35,000	-	35,147
1 -2 years	5.84	-	45,000	-	43,990	-
2 – 5 years	-	5.84	-	45,000	-	46,262

The interest rate swaps settle on a quarterly basis. The floating rate on the interest rate swaps is the Australian BBSW. 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.

#### (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.

#### (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 42 (b) is a listing of additional undrawn facilities that the Company/Group has at its disposal to further reduce liquidity risk.

# Notes to the financial statements

## For the financial year ended 30 June 2009

### Note 44: Financial instruments (continued)

The following table details the Group's and Company's remaining contractual maturity for its non-derivative financial assets and liabilities. They are based on undiscounted cash flows and include principal and interest:

<b>CONSOLIDATED</b>	<b>Weighted average interest rate</b>	<b>Less than 1 month \$'000</b>	<b>1-3 months \$'000</b>	<b>3 months to 1 year \$'000</b>	<b>1-5 years \$'000</b>	<b>5+ years \$'000</b>
<b>2009</b>						
Non interest bearing assets	-	16,364	32,849	24,702	-	-
Non interest bearing liabilities	-	23,909	30,898	-	-	-
Finance Lease liability	7.32	34	69	310	174	-
Floating interest rate liabilities	3.20	285	571	2,349	107,220	-
Fixed interest rate liabilities	5.84	-	656	1,969	46,126	-
Fixed interest rate assets	6.58	18	36	164	5,177	-
<b>2008</b>						
Non interest bearing assets	-	18,168	37,983	19,794	1,688	1,541
Non interest bearing liabilities	-	27,883	39,961	-	-	-
Finance Lease liability	6.77	38	76	393	565	-
Floating interest rate liabilities	7.63	439	877	3,729	69,220	-
Fixed interest rate liabilities	5.99	-	1,198	2,330	83,752	-
Fixed interest rate assets	7.83	33	65	293	5,766	-
<b>COMPANY</b>						
	<b>Weighted average interest rate</b>	<b>Less than 1 month \$'000</b>	<b>1-3 months \$'000</b>	<b>3 months to 1 year \$'000</b>	<b>1-5 years \$'000</b>	<b>5+ years \$'000</b>
<b>2009</b>						
Non interest bearing assets	-	16,364	32,849	24,702	-	13,911
Non interest bearing liabilities	-	23,118	28,525	-	-	-
Finance Lease liability	7.32	22	45	200	174	-
Floating interest rate liabilities	3.20	285	571	2,349	107,220	-
Fixed interest rate liabilities	5.84	-	656	1,969	46,126	-
Fixed interest rate assets	-	-	-	-	-	-
<b>2008</b>						
Non interest bearing assets	-	18,121	37,474	19,747	1,688	19,510
Non interest bearing liabilities	-	26,993	37,409	-	-	-
Finance Lease liability	6.77	16	32	183	432	-
Floating interest rate liabilities	7.63	439	877	3,729	69,220	-
Fixed interest rate liabilities	5.99	-	1,198	2,330	83,752	-
Fixed interest rate 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.

	<b>Less than 1 month \$'000</b>	<b>1-3 months \$'000</b>	<b>3 months to 1 year \$'000</b>	<b>1-5 years \$'000</b>	<b>5+ years \$'000</b>
<b>2009</b>					
Net settled:					
Interest rate swaps	-	-	-	48,752	-
Gross settled:					
Foreign currency forward contracts	-	-	4,145	-	-
	-	-	4,145	48,752	-
<b>2008</b>					
Net settled:					
Interest rate swaps	-	-	35,903	51,377	-
Gross settled:					
Foreign currency forward contracts	-	-	1,265	-	-
	-	-	37,168	51,377	-

# Notes to the financial statements

## For the financial year ended 30 June 2009

### 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 fair value (note 15). Fair value is estimated using a discounted cash flow model, which includes some assumptions that are not supportable by observable market prices or rates.

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

### Note 45: 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**

Level 2, 170 Greenhill Road  
Parkside, South Australia, 5063  
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.

## 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) 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 company and the consolidated entity; and
- (c) 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 37 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 D Ferrier AM  
Director  
29 September 2009