
PETER LEHMANN WINES LIMITED

DIRECTORS' REPORT

The directors present their report together with the financial report of Peter Lehmann Wines Limited ("the Company") and of the consolidated entity, being the Company and its controlled entities, for the year ended 30 June 2003 and the auditor's report thereon.

Directors

The directors of the Company at any time during or since the end of the financial year are:

Name, Qualifications & Special Responsibilities	Age	Experience
Richard Anthony Fountayne ENGLAND FCA, MAICD Independent Non-Executive Director Member of the Audit and Remuneration Committees	53	Chartered Accountant in public practice with 30 years in management advisory work. Chairman of Tower Trust Limited, GroPep Limited, Ruralco Holdings Limited, Director of Healthscope Limited and ABB Grain Ltd. Director since June 1998. Appointed Chairman October 1999.
Peter Leon LEHMANN, AM Executive Director	73	Peter Lehmann has 56 years experience in the wine industry and is renowned for his strong and enduring relationships with the independent Barossa grape growers as well as commitment to producing top quality wines. Deputy Chairman and Director since March 1993. Retired 25 October 2002.
Douglas McCaig LEHMANN, FAICD Executive Director	51	Douglas Lehmann's formative experience in the wine industry was as a winemaker. Over the last 31 years he has developed skills in wine production, marketing and distribution as well as general management. Managing Director since March 1993.
Harold William George TILLEY, BEC, ASA, ABIA Independent Non-Executive Director Chairman of the Audit Committee Member of Remuneration Committee	66	Harold Tilley has 46 years experience in the capital markets and has specialist skills in the financing of well managed small and medium sized growth businesses. Director since May 1993.
Roger Maxwell WILSON, LLB Non-Executive Director Chairman of the Remuneration Committee and Member of the Audit Committee	62	Roger Wilson has 41 years experience as a practicing solicitor specialising in commercial law. Director since March 1993. Designated as Peter Lehmann's representative in November 2002.
Neil Charles LISTER, BEc Independent Non-Executive Director Member of the Audit and Remuneration Committees	56	Neil Lister has over 31 years in the food industry in Australia, Asia and the UK with a strong marketing and strategic focus. Formerly CEO of The Uncle Toby's Company he is currently a director of the Peanut Company of Australia Ltd and was a director of Goodman Fielder Ltd until March 2003. Appointed Director August 1999.
Robert Victor EDWARDS, BCom Executive Director	57	Robert Edwards has over 21 years marketing and selling experience in the wine industry. He has been Marketing Manager with PLW since 1995. Appointed Marketing Director August 1999.
Anthony Grant FROGGATT, LLB (Hons) MBA Independent Non-Executive Director	55	Tony Froggatt has more than 30 years international experience in fast moving consumer goods. He is the CEO of Scottish & Newcastle plc. Appointed Director March 2003 and resigned August 2003.

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Name, Qualifications & Special Responsibilities	Age	Experience
Margaret Elizabeth LEHMANN, BA, Dip Ed Alternate Director	60	Responsible for liaising with the media and winery functions. Appointed alternate for Peter Lehmann March 1994. Ceased 25 October 2002.
Andrew Douglas WIGAN, BSc (App Chem) Dip Oen Alternate Director	54	Chief Winemaker and leads the team of winemakers and technical staff. Appointed alternate for Robert Edwards August 1999.

Directors' Meetings

The number of directors' meetings (including meetings of committees of directors) and number of meetings attended by each of the directors of the Company during the financial year are:

	Board Meetings		Audit Committee Meetings		Remuneration Committee Meetings	
	A	B	A	B	A	B
R A F England	14	14	3	3	3	3
P L Lehmann	4	6	-	-	-	-
D McC Lehmann	14	14	-	-	-	-
N C Lister	14	14	3	3	3	3
H W G Tilley	14	14	3	3	3	3
R M Wilson	14	14	3	3	3	3
R V Edwards	12	14	-	-	-	-
A G Froggatt ⁽¹⁾	2	4	-	-	-	-
A D Wigan ⁽²⁾	1	14	-	-	-	-

A – Number of meetings attended

B – Number of meetings held during the time the director held office during the year.

⁽¹⁾ A G Froggatt now domiciled in Scotland

⁽²⁾ A D Wigan attended 1 directors' meeting as an alternate for Robert Edwards

Principal Activities

The principal activities of the consolidated entity during the course of the financial year were the manufacturing and sale of wine. The wine is sold in bottle and in bulk. Bottled wine is exported as well as being sold domestically.

The Company has two operating subsidiaries, Peter Lehmann Wines (Europe) Ltd and Austral Wines Pty Ltd. These companies distribute wine in Europe and buyers own brand wine respectively.

Review of Operations

The Australian Market

Despite a relatively strong Australian economy, PLW's domestic sales volume mirrored that of the previous year.

Expected growth, was dampened by –

- excessive discounting by major wine companies
- continued consolidation in the retail sector
- considerably more wine becoming available for sale on the domestic market

These elements added to the tension in what was already an extremely competitive market and impacted on volume and margin.

Given these difficult conditions Samuel Smith & Son, PLW's national distributor performed well to maintain the level of distribution.

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Export Markets

Exports remain crucial to the continued growth of PLW. Over the past twelve months the company has expanded its distribution to over 25 countries world wide, with sales to these overseas destinations accounting for 58% of the company's total branded sales volume.

Total export sales grew by 19% in volume and 10% by revenue over the previous year.

- The United Kingdom remains the Company's largest export market accounting for 30% of the branded volume. Gains in distribution, particularly with regional wholesalers and on premise outlets, together with the acceptance of the Weighbridge and Wildcard ranges saw volume grow by 10% over the past twelve months. Revenue was down 4% for similar reasons that are affecting the domestic market. While this market will continue to remain extremely competitive the company expects to see further growth and improved returns over the next twelve months.
- Over the past six years PLW has focused on building its presence in Continental Europe. Working closely with independent distributors in 16 countries PLW has been able to increase brand awareness and its distribution throughout the continent. Over the past year sales increased by 63% in volume with Continental Europe now accounting for 17% by volume of the company's total export sales. Revenue increased by 46% over that of the previous year. The Company is confident that it can continue to grow volume ahead of market growth over the next twelve months.
- North American volume is slightly below the previous year as the strong Canadian performance was offset by a poor USA result. The latter was due to distribution difficulties which management believe have now been rectified with the recent appointment of a new distributor effective from 1 January 2004.
- The Asian and New Zealand markets also experienced growth over the past year.

Production

The Company remains very focused on the production of top quality table wine at all price points and believes that this priority is vital in the process of building the brand name "*Peter Lehmann*" which underpins continued growth and profitability.

This year PLW processed a total crush of 14,302 tonnes, down 16% on the record 2002 crush of 17,070 tonnes. The PLW intake was 9,506 tonnes (2002 11,561 tonnes) with contract crushing at 4,796 tonnes (2002 5,509 tonnes).

The reduced crop levels were spread across all varieties. The wines made, combined with existing stocks from the large 2002 vintage, ensure sufficient quantities are available for future sales. PLW is comfortable with the volumes of wines held.

Overall the company is very satisfied with the vintage outcome, both in terms of quality and volume, given the difficult seasonal conditions.

Consolidated Result

The consolidated operating profit after tax for the year was \$5,419,000. (2002: \$6,915,000).

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Dividends

Dividends paid or declared by the Company since the end of the previous financial year were:

	Cents per share	Total amount \$000	Franked/ Unfranked	Date of payment
As proposed and provided for in last year's report				
- Final – ordinary	7.5	2,786	franked	4 October 2002
In respect of the current financial year:				
<i>Paid or declared during the year</i>				
- Interim – ordinary	3.5	1,309	franked	7 April 2003
<i>Paid or declared after end of year</i>				
- Final – ordinary	5.5	2,054	franked	6 October 2003
Dealt with in the financial report as:				
- Dividends	3.5	1,309		
- Noted as a subsequent event	5.5	<u>2,054</u>		
		<u>3,363</u>		

All the franked dividends paid or declared by the Company since the end of the previous financial year were franked at 30%.

State of Affairs

The consolidated entity extended its borrowings by a net amount of \$10,390,000. These funds were used for the major expansion of the Company's winemaking facilities, other capital expenditure and additional working capital requirements.

During the year end 30 June 2003 equity increased by 162,500 shares with the exercising of executive options for \$287,000.

Events Subsequent to Balance Date

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity, in future financial years.

Likely Developments

The Company will continue to pursue its strategy of increasing the profitability and market share of its major business sectors during the next financial year.

At the date of this report, there have been several developments in the operations of the consolidated entity that are likely to be finalised during 2003 and 2004. These include:

- the sale of two vineyards which are not considered to be of strategic importance to the Company
- the recent appointment of a new importer in the USA market effective 1 January 2004
- adoption of the international financial reporting standards from 1 July 2005, requiring the implementation of a formal plan to address:
 - significant IT system changes
 - financial reporting accounting policy changes
 - assessment of impact on current and proposed significant transactions, and
 - communication of changes to stakeholders

Employee Share Plan

Under employee share plans the consolidated entity provided 15,444 fully paid shares to 54 employees resident in Australia and 1,710 fully paid shares to 6 employees resident in the UK.

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Environmental Regulation & Management

The Company's operations are subject to licence requirements under the South Australian Environment Protection Act 1993. This requires the Company to dispose of winery waste water in a manner which does not adversely impact on the surrounding land, underground water or nearby water course. The Company regularly monitors its licence requirements, with performance reported to the state regulator on a periodic basis. There have been no instances of non-compliance in relation to these licence requirements during the financial year.

Directors' and Senior Executives' Emoluments

The remuneration committee, consisting of four non-executive directors, is responsible for making recommendations to the Board on remuneration policies and practices generally, and makes specific recommendations on remuneration packages applicable to board members and senior executives of the consolidated entity.

The broad remuneration policy is to ensure the remuneration package properly reflects the person's duties and responsibilities and level of performance. Remuneration packages are set at levels that are intended to attract and retain and motivate people of the highest quality.

Remuneration of non-executive directors is determined by the Board within the maximum amount approved by the shareholders from time to time. The Board undertakes an annual review of its performance. Non-executive directors do not receive any performance related remuneration.

Executive remuneration is reviewed annually by the committee having regard to performance, relevant comparative information and the size of the organisation. Independent advice is sought when required.

Executive directors and senior executives may receive bonuses based on the achievement of specific goals related to the performance of the consolidated entity.

Details of the nature and amount of each major element of the emoluments of each director of the Company and each of the five named officers of the consolidated entity receiving the highest emolument are:

	Base Emolument	Bonuses	Non-Cash and Other Benefits	Superannuation Contributions	Retirement Benefits	Total 2003	Total 2002
	\$	\$	\$	\$	\$	\$	\$
Director							
<i>Non-executive</i>							
R A F England	70,000	0	3,550	7,000	67,136	147,686	80,118
N C Lister	39,000	0	3,340	3,900	27,380	73,620	46,074
H W G Tilley	39,000	0	3,349	3,900	76,100	122,349	45,998
R M Wilson	39,000	0	4,497	3,900	76,380	123,777	46,128
A G Froggatt ⁽¹⁾	11,667	0	666	1,167	-	13,500	-
<i>Executive</i>							
D McC Lehmann	196,225	0	56,714	28,761	-	281,700	283,242
P L Lehmann ⁽²⁾	175,256	0	7,704	-	78,000	260,960	147,539
R V Edwards	194,187	0	40,343	27,347	-	261,877	257,369

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	Base Emolument	Bonuses	Non-Cash and Other Benefits	Superannuation Contributions	Retirement Benefits	Total 2003	Total 2002
	\$	\$	\$	\$	\$	\$	\$
Executives officers (excluding directors)							
The Company							
B K Clapton	142,918	0	31,911	13,429	-	188,258	176,543
A D Wigan	159,987	0	31,314	15,347	-	206,648	197,049
H T Astrom	192,395	42,841	73,377	18,226	-	326,839	262,266
T Brown ⁽³⁾	60,077	0	17,154	5,036	-	82,267	-
Consolidated							
W I Whigham	259,269	0	24,037	21,901	-	305,207	289,044

⁽¹⁾ From March 2003 to August 2003

⁽²⁾ Retired October 2002 and retained on a consultancy basis. The base emolument includes annual leave and long service entitlements of \$68,920.

⁽³⁾ Engaged November 2002

Under the Corporations Act 2001 the non-executive directors are entitled to compensation on retirement or loss of office. This benefit is payable for past services and is not to exceed the total remuneration paid to the director in the three year period up to retirement. The benefit has been capped at the maximum after 10 years service.

Executive officers are those involved in the strategic direction, general management or control of business at a company or operating division level. This group numbers five in total.

Non-cash and other benefits comprise motor vehicles at their salary package value, an allowance for the promotion of the Company's wine, location allowances and applicable fringe benefits tax.

The salary packages of the executive resident in the UK and the executive domiciled in Switzerland have been converted to Australian dollars at the average exchange rates during the financial year.

Options

No options were granted during or since the end of the financial year. Options have not been granted since 1998.

During the financial year, the Company issued ordinary shares as a result of the exercise of options as follows:

Number of shares	Amount paid on each share
50,000	\$1.22
112,500	\$2.01

Shares under option

Unissued ordinary shares of Peter Lehmann Wines Limited under option at the date of this report are as follows:

Year of Grant	Exercise Period	Exercise Price	No of Options
1996	29/11/99 – 29/11/06	\$1.22	65,000
1997	12/12/00 – 12/12/07	\$2.01	172,500
1998	1/1/02 – 31/12/08	\$2.01	420,000

On grant, the ability to exercise the options was made conditional upon the achievement of certain performance hurdles. The options do not entitle the holder to participate in any share issue of the Company.

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The outstanding options have been classified as potential ordinary shares and included in the calculation of the diluted earnings per share. Thus the effect of the options on the financial performance of the Company is reflected in diluted earnings per share.

The Accounting Standard Board's Exposure Draft ED2 Share Based Payment and ASIC's guidance of 30 June 2003 require the disclosure of the fair value of options between the date of granting and the date the options fully vested. All of the Company's outstanding options have vested in the option recipients prior to 1 July 2002 and accordingly there is no requirement to include the value of the options in remuneration.

Directors' Interest

The relevant interest of each director in the share capital of the Company, as notified by the directors to the Australian Stock Exchange at the date of this report is as follows:

Director	Shares	Shares	Options
	Directly Held	Indirectly held	Number
R A F England	12,415	40,216	
D McC Lehmann	66,981	-	225,000
N C Lister	18,235	-	
H W G Tilley	93,036	-	
R M Wilson	21,415	13,585	
R V Edwards	-	56,415	100,000

Indemnification and Insurance of Officers

Indemnification

The Company has agreed to indemnify the current, alternate and former directors of the Company, against all liabilities to another person (other than the Company or related body corporate) that may arise from their position as directors of the Company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses.

The Company has also agreed to indemnify the current directors of its controlled entities and an officer of the Company for all liabilities to another person (other than the Company or a related body corporate) that may arise from their position, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses.

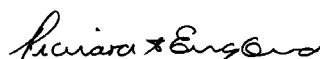
Insurance Premiums

The directors have not included details of the nature of liabilities covered or the amount of the premium paid in respect of the Directors' and Officers' Liability insurance contracts, as such disclosure is prohibited under the terms of the insurance contract.

Rounding Off

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with the Class Order, amounts in the financial report and the directors' report thereon have been rounded off to the nearest thousand dollars unless otherwise stated.

Signed in accordance with a resolution of the directors.



R A F England (Chairman)



D McC Lehmann (Managing Director)

Dated at Tanunda this 12th day of September 2003

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STATEMENTS OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2003

	NOTE	CONSOLIDATED		THE COMPANY	
		2003	2002	2003	2002
		\$'000	\$'000	\$'000	\$'000
Revenue from ordinary activities	3	46,639	45,179	42,310	39,919
Expenses from ordinary activities, excluding borrowing costs expense	4	(37,546)	(34,525)	(34,577)	(30,364)
Borrowing costs expense	4	(1,420)	(787)	(1,420)	(786)
Profit from ordinary activities before income tax expense		7,673	9,867	6,313	8,769
Income tax expense relating to ordinary activities	6(a)	(2,254)	(2,952)	(1,848)	(2,635)
Profit from ordinary activities after related income tax expense	21	5,419	6,915	4,465	6,134
Non-owner transaction changes in equity					
Net exchange difference relating to self-sustaining foreign operations	20	(197)	(28)	-	-
Total revenues, expenses and valuation adjustments to members of the parent entity recognised directly in equity		(197)	(28)	-	-
Total changes in equity from non-owner related transactions attributable to members of the parent entity	23	5,222	6,887	4,465	6,134
Basic earnings per share	7	14.55 cents	19.02 cents		
Diluted earnings per share	7	14.43 cents	18.81 cents		

The statements of financial performance are to be read in conjunction with the notes to and forming part of the financial statements

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STATEMENTS OF FINANCIAL POSITION AS AT 30 JUNE 2003

		CONSOLIDATED		THE COMPANY	
	NOTE	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
CURRENT ASSETS					
Cash		1,607	1,991	585	758
Receivables	9	13,765	14,423	11,477	12,467
Inventories	10	35,242	31,508	35,074	31,351
Other	11	699	544	610	487
Total current assets		51,313	48,466	47,746	45,063
NON-CURRENT ASSETS					
Inventories	10	14,120	14,520	14,120	14,520
Other financial assets	12	38	34	104	104
Property, plant and equipment	13	28,970	21,105	28,946	21,079
Grape Vines	14	1,282	994	1,282	994
Deferred tax assets	6	511	487	511	487
Total non-current assets		44,921	37,140	44,963	37,184
TOTAL ASSETS		96,234	85,606	92,709	82,247
CURRENT LIABILITIES					
Payables	15	13,601	13,367	15,281	14,588
Interest bearing liabilities	16	3,000	3,410	3,000	3,410
Current tax liabilities	6	16	1,132	-	984
Provisions	18	1,077	3,792	1,077	3,792
Total current liabilities		17,694	21,701	19,358	22,774
NON-CURRENT LIABILITIES					
Payables	15	-	500	-	500
Interest bearing liabilities	16	28,800	18,000	28,800	18,000
Deferred tax liabilities	6	1,243	1,104	1,243	1,104
Provisions	18	47	51	47	51
Total non-current liabilities		30,090	19,655	30,090	19,655
TOTAL LIABILITIES		47,784	41,356	49,448	42,429
NET ASSETS		48,450	44,250	43,261	39,818
EQUITY					
Contributed equity	19	29,354	29,067	29,354	29,067
Reserves	20	16	213	-	-
Retained profits	21	19,080	14,970	13,907	10,751
TOTAL EQUITY	23	48,450	44,250	43,261	39,818

The statements of financial position are to be read in conjunction with the notes to and forming part of the financial statements

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STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2003

		CONSOLIDATED		THE COMPANY	
	NOTE	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash receipts in the course of operations		49,232	43,509	44,859	39,044
Cash payments in the course of operations		(41,827)	(41,963)	(37,670)	(37,756)
Interest received	3	75	77	54	46
Borrowing costs paid	4	(1,709)	(999)	(1,709)	(998)
Income taxes paid		(3,383)	(2,988)	(2,953)	(2,768)
NET CASH PROVIDED BY/(USED IN) OPERATING ACTIVITIES	29(ii)	2,388	(2,364)	2,581	(2,432)
CASH FLOWS FROM INVESTING ACTIVITIES					
Payment for property, plant & equipment		(9,354)	(6,457)	(9,336)	(6,446)
Proceeds from sale of non-current assets		-	1	-	1
NET CASH USED IN INVESTING ACTIVITIES		(9,354)	(6,456)	(9,336)	(6,445)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of shares	19	287	6,756	287	6,756
Proceeds from borrowings		10,800	7,000	10,800	7,000
Repayment of borrowings		(410)	(415)	(410)	(415)
Dividends paid		(4,095)	(3,659)	(4,095)	(3,659)
NET CASH PROVIDED BY/USED IN FINANCING ACTIVITIES		6,582	9,682	6,582	9,682
NET INCREASE (DECREASE) IN CASH HELD		(384)	862	(173)	805
CASH AT THE BEGINNING OF THE FINANCIAL YEAR		1,991	1,129	758	(47)
CASH AT THE END OF THE FINANCIAL YEAR	29(i)	1,607	1,991	585	758

The statements of cash flows performance are to be read in conjunction with the notes to and forming part of the financial statements

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003

1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies which have been adopted in the preparation of this financial report are:

a) *Basis of Preparation*

The financial report is a general purpose financial report which has been prepared in accordance with Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

It has been prepared on the basis of historical costs and except where stated, does not take into account changing money values or fair values of non-current assets.

These accounting policies have been consistently applied by each entity in the consolidated entity and, except where there is a change in accounting policy, are consistent with those of the previous year.

b) *Principles of Consolidation*

The financial statements of the controlled entities are included in the consolidated financial statements from the date control commences until the date control ceases. Unrealised gains and losses and inter-entity balances resulting from transactions with or between controlled entities are eliminated in full on consolidation.

c) *Revenue Recognition – Note 3*

Sales Revenue

Sales revenue comprises revenue earned (net of returns, discounts, trade allowances and duties and taxes paid) from the provision of products and services to entities outside the consolidated entity. Revenue is recognised for the major business activities as follows:

Bottled and Bulk Wine

Revenue is recognised pursuant to sales orders and associated deliveries.

Contract Services

Contract revenue is recognised when the service is provided.

Interest Income

Interest income is recognised when it is received.

Sale of non-current assets

The gross proceeds of asset sales are included as revenue. The gain or loss on disposal of assets is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal.

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d) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances the GST is recognised as part of the cost acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position.

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

e) Foreign Currency Transactions

Foreign currency transactions are translated to Australian currency at the rates of exchange ruling at the dates of the transactions. Amounts receivable and payable in foreign currencies at balance date are translated at the rates of exchange ruling on that date.

Exchange differences relating to amounts payable and receivable in foreign currencies are brought to account as exchange gains or losses in the statement of financial performance in the financial year in which the exchange rates change, except where:

- hedging specific anticipated transactions or net investments in self-sustaining operations (see Note 1 (f))
- relating to amounts payable or receivable in foreign currency forming part of a net investment in a self-sustaining foreign operations. In this case, the exchange difference, together with any related income tax expense/revenue, is transferred to the foreign currency translation reserve on consolidation
- relating to acquisition of qualifying assets (see Note 1(g)).

Translation of Controlled Foreign Entities

The assets and liabilities of an overseas controlled entity that is a self-sustaining foreign operation are translated at the rate of exchange ruling at balance date. Equity items are translated at historical rates. The statement of financial performance is translated at a weighted average rate for the year. Exchange differences arising on translation are taken directly to the foreign currency translation reserve.

f) Derivatives

The consolidated entity is exposed to changes in interest rates and foreign exchange rates from its activities. The consolidated entity uses the following derivative financial instruments to hedge these risks: interest rate swaps and forward rate agreements. Derivative financial instruments are not held for speculative purposes.

Hedges

Anticipated transactions

Transactions are designated as a hedge of the anticipated specific purchase or sale of goods or services, purchase of qualifying assets, or an anticipated interest transaction, only when they are expected to reduce exposure to the risks being hedged, are designated prospectively so that it is clear when an anticipated transaction has or has not occurred and it is probable the anticipated transaction will occur as designated. Gains or losses on the hedge arising up to the date of the anticipated transaction, together with any costs or gains arising at the time of entering into the hedge, are deferred and included in the measurement of the anticipated transaction when the transaction has occurred as designated. Any gains or losses on the hedge transaction after that date are included in the statement of financial performance.

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The net amounts receivable or payable under forward foreign exchange contracts and the associated deferred gains or losses are recorded on the statement of financial position from the date of inception of the hedge transaction. When recognised, the net receivables or payables are revalued using the foreign currency current at reporting date.

The net amounts receivable or payable under forward rate agreements and the associated deferred gains or losses are not recorded on the statement of financial position until the hedge transaction occurs. When recognised the new receivables or payables are revalued using the interest or commodity rates current at reporting date.

g) *Borrowing Costs*

Borrowing costs include interest, amortisation of discounts or premiums relating to borrowings, amortisation of ancillary costs incurred in connection with arrangement of borrowings and lease finance charges. Borrowing costs are expensed as incurred unless they relate to qualifying assets. Qualifying assets are assets which generally take more than 12 months to get ready for their intended use or sale. In these circumstances, borrowing costs are capitalised to the cost of the assets. Where funds are borrowed specifically for the acquisition, construction or production of a qualifying asset, the amount of borrowing costs capitalised are those incurred in relation to that borrowing, net of any interest earned on those borrowings. Where funds are borrowed generally, borrowing costs are capitalised using a weighted average capitalisation rate.

h) *Taxation - Note 6*

The consolidated entity adopts the income statement liability method of tax effect accounting.

Income tax expense is calculated on operating profit adjusted for permanent differences between taxable and accounting income. The tax effect of timing differences, which arise from items being brought to account in different periods for income tax and accounting purposes, is carried forward in the statement of financial position as a future income tax benefit or a provision for deferred income tax.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt.

The Company is the head entity in the tax-consolidated group comprising all the Australian wholly-owned subsidiaries set out in Note 24. The implementation date for the tax-consolidated group is 1 July 2002.

The head entity recognises all of the current and deferred tax assets and liabilities of the tax-consolidated group (after elimination of intragroup transactions).

The tax-consolidated group has entered into a tax sharing agreement that requires wholly-owned subsidiaries to make contributions to the head entity for tax liabilities and deferred tax balances arising from external transactions occurring after the implementation of tax consolidation. The contributions are calculated as a percentage of the group's current tax liability. The contributions are payable annually.

The assets and liabilities arising under the tax sharing agreement are recognized as intercompany assets and liabilities with a consequential adjustment to income tax expense/revenue.

i) *Earnings per share*

Basic earnings per share ("EPS") is calculated by dividing the net profit attributable to members of the parent entity for the reporting period by the weighted average number of ordinary shares of the Company.

Diluted EPS is calculated by dividing the basic EPS earnings, adjusted by the after tax effect of financing costs associated with dilutive potential ordinary shares and the effect on revenues and expenses of conversion to ordinary shares associated with dilutive potential ordinary shares, by the weighted average number of ordinary shares and dilutive potential ordinary shares.

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j) Acquisitions of Assets

All assets acquired including property, plant and equipment and intangibles other than goodwill are initially recorded at their cost of acquisition at the date of acquisition, being the fair value of the consideration provided plus incidental costs directly attributed to the acquisition.

The cost of assets constructed or internally generated by the consolidated entity, include the cost of materials and direct labour. Incidental costs are also capitalised to the asset. Costs attributable to feasibility and alternative approach assessments are expensed as incurred.

k) Receivables - Note 9

Trade Debtors

Trading terms vary between 30 and 180 days depending upon the market into which the wine is sold with settlement usually occurring within 60 days. Sales of vintage bulk wine are made in March with payments due at the end of April, June and September. The amount owing to the Company at balance date from the sale of such material is 6% of the total outstanding by customers to the consolidated entity (2002: 8%).

Doubtful Debts

The collectability of debts is assessed at balance date and specific provision is made for any doubtful accounts. In addition, a general provision is maintained by the parent entity.

l) Inventories - Note 10

Inventories are carried at the lower of cost and net realisable value.

Manufacturing Activities

Costs include grapes, materials, direct labour, other direct variable costs and allocated production overheads necessary to bring inventories to their present condition and location.

Net Realisable Value

Net realisable value is determined on the basis of each inventory line's normal selling pattern. Expenses of marketing, selling and distribution to customers are estimated and are deducted to establish net realisable value.

Maturation of Wine

Generally red wine is matured for a period of two years or more prior to its release. This wine forms the substantial portion of the non-current inventory. Borrowing costs are capitalised to wine which is generally held for more than 12 months as set out in Note 1(g).

Stock Writedowns

The inventories have been reviewed for slow moving and obsolete items and a provision made for possible writedown of the relevant items.

m) Investments

Controlled entities

Investments in controlled entities are carried in the Company's financial statements at the lower of cost and recoverable amount.

Other entities

Investments in other unlisted companies are carried at the lower of cost and recoverable amount.

n) Leased Assets

Leases of plant and equipment under which the Company or its controlled entities assume substantially all the risks and benefits of ownership are classified as finance leases. Other leases are classified as operating leases. Payments made under operating leases are expensed on a straight line basis over the term of the lease.

o) Recoverable amount of non-current assets valued on cost basis

The carrying amount of non-current assets valued on the cost basis, are reviewed to determine whether they are in excess of their recoverable amount at reporting date. If the carrying amount of

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a non-current asset exceeds its recoverable amount, the asset is written down to the lower amount. The write-down is expensed in the reporting period in which it occurs.

Where a group of assets working together supports the generation of cash inflows, recoverable amount is assessed in relation to that group of assets.

In assessing recoverable amounts of non-current assets, the relevant cash flows have not been discounted to their present value.

p) Depreciation and amortisation

Useful lives

Items of property, plant and equipment, excluding freehold land, are depreciated/amortised over their estimated useful lives using the straight line method over their estimated useful lives.

Assets are depreciated or amortised from the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and held ready for use.

Depreciation rates and methods are reviewed annually for appropriateness. When changes are made, adjustments are reflected prospectively in current and future periods only.

The depreciation rates used for each class of asset are as follows:-

- Buildings 2%
- Plant and equipment 2% - 20%
- Leased plant and equipment 3% - 20%

q) Accounts Payable - Note 15

Liabilities are recognised for amounts to be paid in the future for goods or services received. Trade creditors are generally settled within 60 days. The Company purchases its grape intake predominantly in March with settlement taking place at the end of April, June and September. The amount owing by the Company at balance date for such material is 28% of the trade creditors of the consolidated entity (2002: 42%).

r) Interest bearing liabilities - Note 16

Bills of exchange are recognised when issued at the net proceeds received, with the premium or discount on issue amortised over the period to maturity.

s) Employee Entitlements - Note 26

Wages, Salaries, and Annual Leave

Liabilities for employee benefits for wages, salaries and annual leave expected to be settled within 12 months of the year end represent present obligations resulting from employees' services provided to reporting date, calculated at undiscounted amounts based on remuneration wages and salary rates that the consolidated entity expects to pay as at reporting date including related on-costs.

Long Service Leave

The provision for employee benefits to long service leave represents the present value of the estimated future cash outflows to be made resulting from employees' services provided to reporting date.

The provision is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates based on turnover history and is discounted using the rates attaching to national government bonds at reporting date which most closely match the terms of maturing of the related liabilities. The unwinding of the discount is treated as long service leave expense.

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In determining the liability for employee entitlements, consideration has been given to future increases in wage and salary rates, and the economic entity's experience with staff departures. Related on-costs have also been included in the liability.

Employee Share Plan

The Company provided ordinary shares to a number of employees during the year. Further information is set out in Note 26 to the financial statements.

Superannuation Plan

The Company contributes to employee superannuation funds. The plans are not defined benefits plans. Contributions are charged against income as they are made. Further information is set out in Note 27 to the financial statements.

t) Provisions – Note 18

A provision is recognised when there is a legal, equitable or constructive obligation as a result of a past event and it is probable that a future sacrifice of economic benefits will be required to settle the obligation, the timing or amount of which is uncertain.

If the effect is material, a provision is determined by discounting the expected future cash flows (adjusted for expected future risks) required to settle the obligation at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability, being risk free rates on government bonds most closely matching the expected future payments, except where noted below. The unwinding of the discount is treated as part of the expense related to the particular provision.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party the recovery receivable is recognised as an asset when it is probable that the recovery will be received and is measured on a basis consistent with the measurement of the related provision.

In the statement of financial performance, the expense recognised in respect of a provision is presented net of the recovery. In the statement of financial position, the provision is recognised net of the recovery receivable only when the entity:

- has a legally recognized right to set-off the recovery receivable and the provision, and
- intends to settle on a net basis, or to realise the asset and settle the provision simultaneously.

Dividends

A provision for dividends payable is recognised in the reporting period in which the dividends are declared, for the entire undistributed amount, regardless of the extent to which they will be paid in cash.

2 CHANGES IN ACCOUNTING POLICY

Provisions and contingent liabilities

The consolidated entity has applied AASB 1044 "Provisions, Contingent Liabilities and Contingent Assets" for the first time from 1 July 2002.

Dividends are now recognised at the time they are declared, determined or publicly recommended. Previously, final dividends were recognised in the financial year to which they related, even though the dividends were announced after the end of that financial year.

The adjustments to the consolidated and Company financial reports as at 1 July 2002 as a result of this change are:

- \$2,786,000 increase in opening retained profits

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- \$2,786,000 decrease in provision for dividends

	CONSOLIDATED		THE COMPANY	
	2003	2002	2003	2002
	\$'000	\$'000	\$'000	\$'000
3 REVENUE FROM ORDINARY ACTIVITIES				
Revenue from operating activities				
Sale of goods	45,147	43,720	40,839	38,491
Rendering of services	944	1,042	944	1,042
Other Revenue				
Revenue recognised for vine valuation	288	26	288	26
Revenue recognised for grapes harvested	-	193	-	193
Rent received	3	2	3	2
Interest – other parties	75	77	54	46
Sundry income	182	119	182	119
Total revenue from ordinary activities	46,639	45,179	42,310	39,919
4 PROFIT FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE				
Profit from ordinary activities before income tax has been arrived at after charging/(crediting) the following items:				
Costs of goods sold	26,302	25,709	25,115	23,105
Administration expenses	2,533	2,284	2,437	2,179
Marketing and public relations	1,203	888	1,203	888
Selling and distribution expenses	7,346	5,616	5,660	4,164
Expenses recognised for grapes harvested	53	-	53	-
Sundry expenses	109	28	109	28
Expenses from ordinary activities, excluding borrowing costs expense	37,546	34,525	34,577	30,364
Depreciation of:				
- property	107	101	107	101
- plant and equipment	1,358	1,190	1,347	1,170
- less: capitalised depreciation expense	(1,376)	(1,146)	(1,376)	(1,146)
	89	145	78	125
Net expense from movement in provision for:				
- doubtful trade debts	-	24	-	24
- employee entitlements	342	361	342	361
- stock writedown	(30)	(99)	(30)	(99)
Operating lease rental expense	482	391	428	391
Net losses/(gain) on sales of property, plant & equipment	14	-	14	-
Net foreign exchange loss/(gain)	45	(42)	98	(20)
Borrowing costs:				
- other parties	1,709	999	1,709	998
- less: capitalised borrowing costs	(289)	(212)	(289)	(212)
Borrowing costs expensed	1,420	787	1,420	786

Borrowing costs were capitalised to maturing inventory (see Note 10)

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	CONSOLIDATED		THE COMPANY	
	2003	2002	2003	2002
	\$'000	\$'000	\$'000	\$'000
5 AUDITORS' REMUNERATION				
Audit Services:				
Auditors of the Company – KPMG				
Audit and review of the financial reports	80	64	55	45
Other services:				
KPMG Australia related practices				
Taxation services	13	12	13	12
	93	76	68	57
6 TAXATION				
(a) Income Tax Expense				
Prima facie income tax expense calculated at 30% (2002: 30%) on the profit from ordinary activities	2,302	2,960	1,894	2,631
Increase/decrease in income tax due to non-deductible items	(46)	13	(46)	3
Overseas tax rate differential	(2)	(23)	-	-
Income tax under/(over) provided in prior year	-	2	-	1
Income tax expense attributable to operating profit	2,254	2,952	1,848	2,635
(b) Provision for Current Income Tax				
Movements during the year:				
Balance at beginning of year	1,132	1,283	984	1,232
Income tax paid	(3,383)	(2,988)	(2,953)	(2,769)
Current year's income tax expense on operating profit	2,137	2,817	1,731	2,501
Prepaid income tax – refer to Note 11	128	-	128	-
Transfer on consolidation of income tax expense on controlled entity's profit	--	-	112	-
Under/(Over) provision in prior year	2	20	(2)	20
	16	1,132	-	984
(c) Deferred Tax Liabilities				
Provision for Deferred Income Tax				
Provision for deferred income tax comprises the estimated expense at the applicable rate of 30%, (2002: 30%) on the following items:				
Difference in depreciation and amortisation of property, plant & equipment for accounting and income tax purposes.	1,118	964	1,118	964
SGARA income on grape harvest	100	130	100	130
Expenditure currently deductible but deferred and amortised for accounting purposes	25	10	25	10
	1,243	1,104	1,243	1,104

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	CONSOLIDATED		THE COMPANY	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
6 TAXATION continued				
(d) Deferred Tax Assets				
Future Income Tax Benefit				
Future income tax benefit comprises the estimated future benefit at the applicable rate of 30%, (2002: 30%) on the following items:				
Provisions & accrued employee entitlements not currently deductible	443	432	443	432
Sundry items	68	55	68	55
	511	487	511	487

The potential future income tax benefits will be obtained if:

1. the relevant entities derive future assessable income of a nature and an amount sufficient to enable the benefit to be realised;
2. the relevant entities continue to comply with the conditions for deductibility imposed by the law; and
3. no changes in tax legislation adversely affect the relevant entities in realising the benefit.

7 EARNINGS PER SHARE	2003 \$'000	2002 \$'000
Earnings used in calculations	5,419	6,915
Basic earnings per share		
Weighted average number of ordinary shares	37,259,968	36,358,659
Basic earnings per share	14.5 cents	19.0 cents
Diluted earnings per share		
657,500 options (2002: 820,000) outstanding under the Executive Option Plan have been classified as potential ordinary shares and included in the calculation of the diluted earnings per share. Further details of these securities are contained in Note 26.		
Weighted average number of ordinary shares	37,259,968	36,358,659
Effect of executive options on issue	290,382	395,653
Number for diluted earnings per share	37,550,350	36,754,312
Diluted earnings per share	14.4 cents	18.8 cents

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8 SEGMENT REPORTING

Geographical segments

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets are based on the geographical location of assets.

The consolidated entity's business segments operate geographically as follows:

- | | |
|-------------|--|
| Australasia | <ul style="list-style-type: none"> ▪ Vineyards in the Barossa and Clare Valleys of South Australia ▪ Winemaking and storage facilities in the Barossa Valley, South Australia ▪ Brand management representation in the capital cities of Queensland, New South Wales, Victoria and South Australia ▪ Customers in Australia and New Zealand with selling performed by distributors |
| Europe | <ul style="list-style-type: none"> ▪ Distribution company located in Kent, UK to service the UK and Irish markets ▪ Sales and brand management representation in continental Europe ▪ Distributors sell wines to customers in Ireland, Germany, Switzerland, Austria, Scandinavia and other European countries |
| Other | <ul style="list-style-type: none"> ▪ Distributors sell wines to customers in the USA, Canada, Asia and the Pacific |

	Australasia		Europe		Other		Consolidated	
	2003 \$000's	2002 \$000's	2003 \$000's	2002 \$000's	2003 \$000's	2002 \$000's	2003 \$000's	2002 \$000's
Segment Revenue	23,493	22,629	18,974	18,220	4,172	4,330	46,639	45,179
Segment Result	6,120	6,439	3,806	4,347	1,702	2,152	11,628	12,938
Unallocated corporate expenses							3,955	3,071
Profit from ordinary activities							7,673	9,867
Income tax expense							2,254	2,952
Profit from ordinary activities after tax							5,419	6,915
Depreciation	1,454	1,271	11	20			1,465	1,291
Non Cash net expenses other than depreciation	23	260					23	260
Segment Assets	90,289	79,356	5,945	6,250			96,234	85,606
Segment Liabilities	12,793	16,379	3,191	3,567			15,984	19,946
Unallocated liabilities							31,800	21,410
Total liabilities							47,784	41,356
Acquisition of Non-current assets	9,336	6,447	18	7			9,354	6,454

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items mainly comprise income earning assets and revenue, interest bearing loans, borrowings and expenses, and corporate assets and expenses.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

The Australasia segment sells wine to the Europe segment and the intersegment revenue of \$7,461,000 (2002: \$7,473,000) has been eliminated in the reported Segment Revenue.

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	CONSOLIDATED		THE COMPANY	
	2003	2002	2003	2002
	\$'000	\$'000	\$'000	\$'000
9 RECEIVABLES				
<i>Current</i>				
Trade debtors	14,046	14,686	9,654	10,230
Less: Provision for doubtful trade debtors	(336)	(336)	(336)	(336)
	13,710	14,350	9,318	9,894
Other debtors	55	73	12	28
Amounts owing by controlled entities	-	-	2,147	2,545
	13,765	14,423	11,477	12,467
10 INVENTORIES				
<i>Current</i>				
Packaging materials & souvenirs – at cost	863	818	863	818
Finished goods - at cost	34,396	30,737	34,228	30,580
	35,259	31,555	35,091	31,398
Less: Provision for writedown	(17)	(47)	(17)	(47)
	35,242	31,508	35,074	31,351
<i>Non-Current</i>				
Finished goods - at cost	14,120	14,520	14,120	14,520
TOTAL INVENTORIES	49,362	46,028	49,194	45,871
Borrowing costs of \$289,000 (2002:\$212,000) have been capitalised to non-current inventory.				
11 PREPAYMENTS				
Prepaid expenses	571	544	482	487
Prepaid income tax. Refer to Note 6(b)	128	-	128	-
	699	544	610	487
12 OTHER FINANCIAL ASSETS				
<i>Non-Current</i>				
Shares in controlled entities	-	-	81	81
Other corporations unlisted shares at cost	23	23	23	23
Employee shares held in escrow	15	11	-	-
	38	34	104	104
Refer Note 24 for particulars in relation to controlled entities.				

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	NOTE	CONSOLIDATED		THE COMPANY	
		2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
13 PROPERTY, PLANT & EQUIPMENT					
Freehold land and improvements					
At Cost		3,307	3,284	3,307	3,284
Less: Accumulated depreciation		(29)	(27)	(29)	(27)
		3,278	3,257	3,278	3,257
Buildings					
At Cost		7,319	4,577	7,319	4,577
Less: Accumulated depreciation		(626)	(524)	(626)	(524)
		6,693	4,053	6,693	4,053
Plant and equipment					
At Cost		25,955	19,049	25,881	18,922
Less: Accumulated depreciation		(7,104)	(5,862)	(7,054)	(5,761)
		18,851	13,187	18,827	13,161
Capital Works in Progress					
At Cost		148	608	148	608
TOTAL PROPERTY, PLANT & EQUIPMENT					
- net book value		28,970	21,105	28,946	21,079

Valuations

The independent valuation of the Company's freehold land and buildings carried out as at 30 June 2002 on the basis of open market values for existing use resulted in a valuation of land of \$2,748,000 and buildings of \$4,953,000. The major difference between the carrying value of the land relates to the October 2001 acquisition of the property north of the winery complex. This land has significant strategic value to the Company as it provides access to a public road, vacant land for future expansion and an area for the storage of treated wastewater. Accordingly, given the strategic value of the land, the directors have assessed the carrying value to be recoverable based on the future economic benefits. As land and buildings are recorded at cost, the valuation has not been brought to account.

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13 PROPERTY, PLANT & EQUIPMENT continued

Reconciliations

Reconciliations of the carrying amount of each class of property, plant and equipment at the beginning and end of the current financial year are set out below:

	\$000's				
	Freehold Land & Improvement	Buildings	Plant & Equipment	Capital Works in Progress	Total
Consolidated					
Carrying amount at 1 July	3,257	4,053	13,187	608	21,105
Additions	23	1	211	9,597	9,832
Transfer of capital works		2,749	6,820	(10,057)	(488)
Disposals		(5)	(9)	-	(14)
Depreciation	(2)	(105)	(1,358)	-	(1,465)
Carrying amount at 30 June	3,278	6,693	18,851	148	28,970
Parent Entity					
Carrying amount at 1 July	3,257	4,053	13,161	608	21,079
Additions	23	1	202	9,597	9,823
Transfer of Capital Works	-	2,749	6,820	(10,057)	(488)
Disposals		(5)	(9)	-	(14)
Depreciation	(2)	(105)	(1,347)	-	(1,454)
Carrying amount at 30 June	3,278	6,693	18,827	148	28,946

	NOTE	CONSOLIDATED		THE COMPANY	
		2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
14 GRAPE VINES					
At independent valuation		1,282	994	1,282	994

Peter Lehmann Wines has 71 hectares planted to grape vines in the premium grape growing areas of the Barossa and Clare Valleys. The values of the vineyards were determined by Taylor Brooke Pty Ltd as at 30 June 2002 and 30 June 2003 based on the discounted net present value of expected future cashflows. The net market value of grape vines has been determined as the difference between the vineyard values and the values of land and other vineyard improvements thereon. In determining the net market values certain assumptions have been made about the yields and market prices of grapes in future vintages, the cost of running the vineyards and quality of the grapes grown.

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	NOTE	CONSOLIDATED		THE COMPANY	
		2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
15 ACCOUNTS PAYABLE					
<i>Current</i>					
Trade creditors		11,030	11,430	10,610	11,065
Other creditors and accruals		2,571	1,937	2,110	1,409
Amounts owing to controlled entities		-	-	2,561	2,114
		13,601	13,367	15,281	14,588
<i>Non Current</i>					
Other creditors and accruals		-	500	-	500
16 INTEREST BEARING LIABILITIES					
<i>Current</i>					
Multi option facility Overdraft – secured	17	-	-	-	-
Multi option facility – Bills secured	17	3,000	3,000	3,000	3,000
Commercial bills – secured	17	-	410	-	410
		3,000	3,410	3,000	3,410
<i>Non Current</i>					
Commercial bills – secured	17	28,800	18,000	28,800	18,000
17 FINANCING ARRANGEMENTS					
The consolidated entity has access to the following lines of credit:					
Total facilities available:					
Multi-option facility		4,000	4,000	4,000	4,000
Bank loans/leases		500	500	500	500
Bill acceptance facility		29,700	21,535	29,700	21,535
		34,200	26,035	34,200	26,035
Facilities utilised at balance date:					
Multi-option facility		3,000	3,000	3,000	3,000
Bank loans/leases		-	-	-	-
Bill acceptance facility		28,800	18,410	28,800	18,410
		31,800	21,410	31,800	21,410
Facilities not utilised at balance date:					
Multi-option facility		1,000	1,000	1,000	1,000
Bank loans/leases		500	500	500	500
Bill acceptance facility		900	3,125	900	3,125
		2,400	4,625	2,400	4,625

Multi Option Facility

The \$4M line incorporates an overdraft and commercial bill facility. The facility is subject to annual review. Interest is charged at prevailing market rates. The weighted average overdraft interest rate as at 30 June 2003 was 9.45% (2002: 9.85%)

Bill Acceptance Facility

The facility is reviewed annually and is on a rolling two year term.

The consolidated entity has entered into interest rate swaps for \$12.9M with a weighted average interest rate at 30 June 2003 of 5.13%. The weighted average interest rate for the other bills subject to prevailing market rates at 30 June 2003 was 4.82%. The resultant rate when the effect of the interest rate swaps is incorporated into the total weighted average interest rate as at 30 June 2003 was 4.93% (2002: 5.15%)

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Bank Loans/Leases

Various bank loans have been consolidated into Bill Acceptance Facilities with the pre-existing installment payment schedules and approved terms retained.

Lease commitments were completed in March 2000. The current lease facility was unused at 30 June 2003.

Security

Registered first ranking mortgage debenture over all the assets and undertakings of Peter Lehmann Wines Limited up to \$34,200,000 (2002: \$26,035,000).

In addition, the Company and its subsidiaries are parties to a Deed of Cross Guarantee under which each company guarantees the debts of the others.

	NOTE	CONSOLIDATED		THE COMPANY	
		2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
18 PROVISIONS					
<i>Current</i>					
Final dividend	22	-	2,786	-	2,786
Employee entitlements		1,077	1,006	1,077	1,006
		1,077	3,792	1,077	3,792
<i>Non-Current</i>					
Employee entitlements		47	51	47	51
19 CONTRIBUTED EQUITY					
<i>Issued and Paid Up Capital</i>					
37,311,433 (2002 – 37,148,933) ordinary shares, fully paid		29,354	29,067	29,354	29,067
Movements in ordinary share capital					
Balance at the beginning of the financial year		29,067	22,311	29,067	22,311
Shares issued					
Share placement (2002: 2,200,000)		-	6,820	-	6,820
Transaction costs arising from issue for cash pursuant to share placement		-	(95)	-	(95)
162,500 issued from exercise of options (2002: 25,000)		287	31	287	31
		29,354	29,067	29,354	29,067

Terms and Conditions

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings.

In the event of winding up of the Company, ordinary shareholders rank after all other shareholders and creditors and are fully entitled to any proceeds on liquidation.

Note 26 provides details of shares issued on exercise of options.

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	NOTE	CONSOLIDATED		THE COMPANY	
		2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
20 RESERVES					
Foreign currency translation		16	213	-	-
<i>Foreign Currency Translation</i>					
Balance at beginning of year		213	241	-	-
Translation adjustment on controlled foreign entity's financial statements		(197)	(28)	-	-
		16	213	-	-

Nature and purpose of reserves

Foreign currency reserve

The foreign currency translation reserve records the foreign currency differences arising from the translation of self-sustaining foreign operations. Refer to accounting policy Note 1(e).

	NOTE	CONSOLIDATED		THE COMPANY	
		2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
21 RETAINED PROFITS					
Retained profits at beginning of year		14,970	12,143	10,751	8,705
Net effect on dividends from:		2,786	-	2,786	-
Initial adoption of AASB 1044 "Provisions, Contingent Liabilities and Contingent Assets"					
Net profit attributable to members of the parent entity		5,419	6,915	4,465	6,134
Dividends		(4,095)	(4,088)	(4,095)	(4,088)
Retained profits at the end of the year		19,080	14,970	13,907	10,751

PETER LEHMANN WINES LIMITED

22 DIVIDENDS

Dividends recognised by the Company are:

	Cents per share	Total amount \$'000	Franked	Date of payment
2003				
Interim – ordinary	3.5	1,309	franked	7 April 2003
2002 final dividend recognized when declared during the year. Refer to Note 2 “Changes in accounting policies”				
Final – ordinary	7.5	<u>2,786</u>	franked	4 October 2002
Total amount		<u>4,095</u>		

2002

Interim – ordinary	3.5	1,302		8 April 2002
Final – ordinary	7.5	<u>2,786</u>		4 October 2002
Total franked amount		<u>4,088</u>		

Franked dividends declared or paid during the year were franked at the tax rate of 30%.

Subsequent events

Since the end of the financial year, the directors declared the following dividends

Final – ordinary	5.5	2,054	franked	6 October 2003
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The financial effect of these dividends have not been brought to account in the financial statements for the year ended 30 June 2003 and will be recognised in subsequent financial reports.

THE COMPANY	
2003	2002
\$000	\$000

Dividend franking account

30% franking credits available to shareholders of Peter Lehmann Wines Limited for subsequent financial years.	7,894	11,995
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The above available amounts are based on the balance of the dividend franking account at year end adjusted for:

- franking credits that will arise from the payment of the current tax liability
- franking debits that will arise from the payment of dividends recognised as a liability at the year end
- franking credits that will arise from the receipt of dividends recognised as receivables at the year end
- franking credits that the entity may be prevented from distributing in subsequent years.

The ability to utilize the franking credits is dependent upon there being sufficient available profits to declare dividends.

PETER LEHMANN WINES LIMITED

Change in measurement of dividend franking account

a) New Business Tax system (Imputation) Act 2002

In accordance with the New business Tax System (Imputation) Act 2002, the measurement basis of the dividend franking account changed on 1 July 2002 from an after-tax profits basis to an income tax paid basis.

The amount of franking credits available to shareholders disclosed as at 30 June 2003 has been measured under the new legislation and represents income tax paid amounts available to frank distributions. The balance disclosed as at 30 June 2002 has been measured under the legislation existing at 30 June 2002 and represents after-tax profits able to be distributed fully franked at the current tax rate.

The change in the basis of measurement does not change the underlying value of franking credits or tax offsets available to shareholders from the dividend franking account.

Comparative information has not been restated for this change in measurement. Had the comparative information been calculated on the new basis, the "franking credits available" balance as at 30 June 2002 would have been \$5,141,000.

b) Tax consolidation legislation

On 1 July 2002, Peter Lehmann Wines Limited and its wholly-owned subsidiaries adopted the Tax Consolidation legislation which requires a tax consolidated group to keep a single franking account. The amount of franking credits available to shareholders disclosed at 30 June 2003 has been measured under the new legislation as those available from the tax-consolidated group.

The comparative information has not been restated for this change in measurement. Had the comparative information been calculated on the new basis and the basis outlined in (a) above, the "franking credits available" balance as at 30 June 2002 would have been \$6,367,000.

PETER LEHMANN WINES LIMITED

	NOTE	CONSOLIDATED		THE COMPANY	
		2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
23 TOTAL EQUITY RECONCILIATION					
Total equity at beginning of year		44,250	34,695	39,818	31,016
Total changes in equity recognised in the statement of financial performance		5,222	6,887	4,465	6,134
Transactions with owners as owners					
Contributions of equity		287	6,756	287	6,756
Dividends		(1,309)	(4,088)	(1,309)	(4,088)
Total equity at end of year		48,450	44,250	43,261	39,818

24 PARTICULARS IN RELATION TO CONTROLLED ENTITIES

Name	Class of Shareholding	Percentage Ownership	Amount of Investment	Contribution to Consolidated Profit	
				2003 \$'000	2002 \$'000
Peter Lehmann Wines Limited				4,465	6,134
Controlled entities:					
Austral Wines Pty Ltd	ORD	100	-	910	527
Lehmann Wines Pty Ltd	ORD	100	-	-	-
Peter Lehmann Wines (Europe) Ltd	ORD	100	81	44	254
Vine Vale Trustees Limited	ORD	100	-	-	-
			81	5,419	6,915

All entities are incorporated in Australia, except Peter Lehmann Wines (Europe) Ltd and Vine Vale Trustees Limited which are incorporated in the UK. The ultimate parent entity is Peter Lehmann Wines Limited.

Peter Lehmann Wines (Europe) Ltd and Austral Wines Pty Ltd have entered into a Deed of Cross Guarantee with Peter Lehmann Wines Limited with Lehmann Wines Pty Ltd as the trustee company. In accordance with a Class Order Austral Wines Pty Ltd is granted relief from specific accounting and financial reporting requirements.

25 FINANCIAL INSTRUMENTS DISCLOSURE

Interest Rate Risk

Interest rate risk emanates from changes in market interest rates impacting on the economic entity's short and long term debt. This exposure is managed by combining interest rate swaps with floating rate arrangements. These are set out in Note 17.

Foreign Exchange Risk

The Company's sales commitments are transacted predominantly in Australian dollars with some sales made in euros and Canadian dollars.

Transactions between the UK subsidiary and its customers are predominantly in the supplier's currency. The UK subsidiary translates transactions denominated in foreign currencies (Australian dollars and US dollars) into sterling at the rate ruling at the date of settlement of transaction. Amounts receivable and payable in foreign currencies at balance date are translated at the rate ruling at that date.

Credit Risk

PETER LEHMANN WINES LIMITED

Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted.

The credit risk on financial assets of the consolidated entity which have been recognised on the statement of financial position, is the carrying amount, net of any provision for doubtful debts.

The consolidated entity minimises concentrations of credit risk by undertaking transactions with a large number of customers in various countries. The parent entity takes out insurance on certain overseas debts to reduce its credit risk.

The consolidated entity operates under a board approved credit risk policy for the granting, management and reporting of credit risk exposures. The consolidated entity does trade with some large Australian wineries and UK retailers that represent material exposure. However the long term associations and close trading relationships provide an acceptable level of comfort.

	NOTE	CONSOLIDATED		THE COMPANY	
		2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
26 EMPLOYEE ENTITLEMENTS					
Aggregate employee entitlements including on-costs					
- Current		1,077	1,006	1,077	1,006
- Non-Current		47	51	47	51
		1,124	1,057	1,124	1,057

The present value of employee entitlements not expected to be settled within 12 months of balance date have been calculated using the following weighted averages:

Assumed rate of increase in wage and salary rates	3%	4%	3%	4%
Discount rate	5%	5%	5%	5%
Settlement term (years)	10	10	10	10

Employee Share Plans

Under the Exempt Employee Share Plan the Company provided 15,444 fully paid ordinary shares in the capital of the Company to 54 employees at an expense of \$54,000. Under the terms of the plan the shares are to be held in custody for 3 years for employees resident in Australia.

Peter Lehmann Wines (Europe) Ltd has established an Employee Share Ownership Plan and 1,710 Peter Lehmann Wines Limited shares were allocated to 6 employees located in the UK. Under the terms of the plan the shares are to be held in escrow for 2 years. Refer Note 12.

Executive Option Plan

Unissued ordinary shares of the Company under option at balance date are:

Exercise Period	Exercise Price	No of Options
29/11/99 – 29/11/06	\$1.22	65,000
12/12/00 – 12/12/07	\$2.01	172,500
1/1/02 – 31/12/08	\$2.01	<u>420,000</u>
		<u>657,500</u>

All options expire on the earlier of their expiry date or termination of the employee's employment. On grant, the exercise of the options was made conditional on the consolidated entity achieving certain performance hurdles.

PETER LEHMANN WINES LIMITED

The market value of shares under these options at 30 June 2003 was \$3.36 (2002: \$3.85). No options expired during the year ended 30 June 2003. Executives exercised 162,500 options during the year.

PETER LEHMANN WINES LIMITED

	CONSOLIDATED		THE COMPANY	
	2003	2002	2003	2002
	\$'000	\$'000	\$'000	\$'000

27 COMMITMENTS

Capital Expenditure Commitments

Contracted but not provided for and payable not later than one year

-	3,418	-	3,418
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Superannuation Commitments

The Company contributes to employee superannuation funds at various percentages of employees' gross salaries. Employees are entitled to benefits on retirement, disability or death. The funds provide benefits on an accumulation basis for all employees. The Company is under no legal obligation to make up any shortfall in the funds' assets to meet payments due to employees.

Operating Lease Commitments

	CONSOLIDATED		THE COMPANY	
	2003	2002	2003	2002
	\$'000	\$'000	\$'000	\$'000

Future operating lease rentals for the cellar door, motor vehicles, computers and UK office not provided for in the financial statements are payable as follows:

not longer than one year	486	462	433	408
Longer than one year but not longer than two years	356	268	303	215
Longer than two years but not longer than five years	597	66	537	12
	1,439	796	1,273	635

28 CONTINGENT LIABILITIES

The details and estimated maximum amounts of contingent liabilities that may become payable are set out below. The directors are of the opinion that provisions are not required in respect of these matters, as it is not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.

Environmental

The Company is involved in an industry which has the potential to impose environmental risks through chemical storage and handling and winery wastewaters. Strict controls are in place to ensure that chemicals are stored and handled carefully, hazardous by-products are disposed of safely and that winery wastewater is managed in accordance with the Environment Protection Act. However, the Company's operations are subject to rapidly changing environmental legislation.

The directors are not aware of any current breaches of legislation which are material in nature and have no reason to believe that any possible legal or remedial action required would result in a material cost or loss to the consolidated entity.

PETER LEHMANN WINES LIMITED

Deed of cross guarantee

Peter Lehmann Wines Limited, Peter Lehmann Wines (Europe) Ltd and Austral Wines Pty Ltd are parties to a Deed of Cross Guarantee under which each company guarantees the debts of the others. Lehmann Wines Pty Ltd has been formed and acts as trustee to represent the interests of the creditors of the closed group. The Deed of Cross Guarantee was approved by the Australian Securities and Investments Commission on 18 June 1999. By entering into the deed, the wholly-owned entity incorporated in Australia has been relieved from the requirements to prepare a financial report and directors' report under Class Order 98/1418.

Indemnities

Indemnities have been provided to directors, (current, former and alternate) and an executive officer of the Company and directors of subsidiary companies in respect of liabilities to third parties arising from their positions, except where the liability arises out of conduct involving a lack of good faith. No monetary limit applies to these agreements and there are no known obligations outstanding at 30 June 2003.

PETER LEHMANN WINES LIMITED

		CONSOLIDATED		THE COMPANY	
		2003	2002	2003	2002
		\$'000	\$'000	\$'000	\$'000
29	NOTES TO THE STATEMENTS OF CASH FLOWS				
(i)	RECONCILIATION OF CASH				
	For the purposes of the Statements of Cash Flows, cash includes cash on hand and at bank, net of outstanding bank overdrafts. Cash at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the statement of financial position as follows:				
	Cash	1,607	1,991	585	758
	Bank overdraft	-	-	-	-
		1,607	1,991	585	758
(ii)	RECONCILIATION OF OPERATING PROFIT AFTER INCOME TAX TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
	Operating profit after income tax	5,419	6,915	4,465	6,134
	Add/(less) items classified as investing/financing activities:		-		-
	(Profit)/loss on sale of non-current assets	14		14	
	Add/(less) non-cash items:				
	Amounts set aside to provisions	312	286	312	286
	Depreciation	1,465	1,291	1,454	1,271
	SGARA income capitalised to vines	(289)	(26)	(289)	(26)
	(Decrease)/increase in income taxes payable	(1,116)	(151)	(984)	(248)
	Net cash provided by operating activities before change in assets and liabilities	5,805	8,315	4,972	7,417
	Change in assets and liabilities during the financial year:				
	(Increase)/decrease in inventories	(3,304)	(8,599)	(3,292)	(8,641)
	(Increase)/decrease in prepayments and other debtors	(137)	(90)	(107)	(106)
	(Increase)/decrease in trade debtors	640	(3,826)	576	(2,865)
	(increase)/decrease in other assets	-	(11)	-	-
	(Increase)/decrease in loans to controlled entities	-	-	845	(304)
	(Decrease)/increase in trade creditors	(259)	1,964	(253)	2,157
	(Decrease)/increase in provisions	(275)	(204)	(275)	(204)
	(Decrease)/increase in deferred taxes payable	115	114	115	114
	(Decrease)/increase in foreign currency translation reserves	(197)	(27)	-	-
	Net cash provided by operating activities	2,388	(2,364)	2,581	(2,432)
(iii)	FINANCING FACILITIES				
	Refer Note 17				

PETER LEHMANN WINES LIMITED

30 DIRECTORS' REMUNERATION

THE COMPANY
2003 2002

The number of directors of the Company, including executive directors, who received or in respect of whom income is due and receivable, from the Company within the following bands is:

\$ 10,000 - \$ 19,999	1	-
\$ 50,000 - \$ 59,999	-	3
\$ 70,000 - \$ 79,999	1	-
\$ 80,000 - \$ 89,999	-	1
\$120,000 - \$129,999	2	-
\$140,000 - \$149,999	-	1
\$150,000 - \$159,999	1	-
\$260,000 - \$269,999	2	1
\$280,000 - \$289,999	1	1

CONSOLIDATED		THE COMPANY	
2003	2002	2003	2002
\$	\$	\$	\$

Total income paid or payable, or otherwise made available to all directors of the Company and controlled entities from the Company or any related party.	1,644,202	1,253,847	1,297,187	931,792
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Directors' income includes an allocation of insurance premiums paid by the Company in respect of directors' and officers' liabilities and legal expenses insurance contracts, in accordance with common commercial practice.

CONSOLIDATED		THE COMPANY	
2003	2002	2003	2002

31 EXECUTIVES' REMUNERATION

Executive officers are those officers involved in the strategic direction, general management or control of business at a company or operating division level.

The number of executive officers of the Company and controlled entity whose income from the Company or related parties, and from entities in the consolidated entity, falls within the following bands:

\$170,000 - \$179,999	-	1	-	1
\$190,000 - \$199,999	1	-	1	-
\$200,000 - \$209,999	-	1	-	1
\$210,000 - \$219,999	1	-	1	-
\$260,000 - \$269,999	-	1	-	1
\$320,000 - \$329,999	1	-	1	-

Total income received, or due and receivable, by the executive officers of the Company and of controlled entities whose income exceeds \$100,000	730,151	642,150	730,151	642,150
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Executives' income includes an allocation of insurance premiums paid by the Company in respect of directors and officers' liabilities and legal expenses, insurance contracts, in accordance with common commercial practice.

PETER LEHMANN WINES LIMITED

32 RELATED PARTIES

The names of each person holding the position of director of Peter Lehmann Wines Limited during the financial year are Messrs P L Lehmann, R A F England, D McC Lehmann, H W G Tilley, R M Wilson, N C Lister, R V Edwards and A G Froggatt.

Directors' holdings of shares and share options

The interests of directors of the reporting entity and their director-related entities in shares and share options within the consolidated entity at year end are set out below.

	2003 Number held	2002 Number held
Ordinary shares	322,298	6,765,575
Options over ordinary shares	325,000	375,000

Directors' Transactions in shares and share options

Directors' transactions in shares have been notified to the Australian Stock Exchange in accordance with the listing rules.

No options to unissued shares under the Executive Option Plan were granted during the year ended 30 June 2003.

Details of Directors' remuneration and superannuation are set out in Note 30.

Apart from the details disclosed in this note, no director has entered into a material contract with the Company.

The Company sells wine to Peter Lehmann Wines (Europe) Ltd for distribution in the European market. The Company also sells wine to Austral Wines Pty Ltd for sale to customers who distribute the wine under their own label.

The Company leases the cellar door outlet from Elmar Nominees Pty Ltd, a company controlled by Peter Lehmann. The amount paid to Elmar Nominees Pty Ltd was \$148,000 (2002: \$144,000).

The Company purchased grapes from Peter and Margaret Lehmann. The grapes were purchased at the same rate as paid to other growers and cost \$46,000 (2002: \$31,000). The Company purchased grapes from Elmar Trust, a trust controlled by Peter Lehmann. The grapes were purchased at the same rate as paid to other growers and cost \$138,000 (2002: \$74,000).

The Company purchased grapes from Ebenezer Vineyard Pty Ltd, a company in which Peter Lehmann has an interest. The grapes were purchased at the same rate as paid to other growers and cost \$179,000 (2002: \$369,000).

The Company crushed grapes from Runyon Investments Pty Ltd, a Company controlled by Peter and Margaret Lehmann. The crushing charge was at normal commercial rates and amounted to \$4,000 (2002: \$4,000).

A Service Agreement was signed with Peter Lehmann on 11 December 1998. Under the terms of the Agreement retirement benefits of \$390,000 are payable on termination over a 5 year period.

From time to time directors of the Company or its controlled entities, purchase wine from the consolidated entity. These purchases are on the same terms and conditions as those entered into by employees.

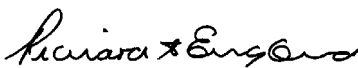
PETER LEHMANN WINES LIMITED

DIRECTORS' DECLARATION

1. In the opinion of the directors of Peter Lehmann Wines Limited:
 - a) the financial statements and notes, set out on pages 8 to 35, are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the financial position of the Company and consolidated entity as at 30 June 2003 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
 - b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. There are reasonable grounds to believe that the Company and the subsidiaries identified in Note 24 will be able to meet any obligations or liabilities to which they are or may become subject by virtue of the Deed of Cross Guarantee between the Company and those subsidiaries pursuant to ASIC Class Order 98/1418.

Dated at Tanunda this 12th of September 2003

Signed in accordance with a resolution of the Directors:



R A F England (Chairman)



D McC Lehmann (Managing Director)

PETER LEHMANN WINES LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PETER LEHMANN WINES LIMITED

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for both Peter Lehmann Wines Limited (the "Company") and the "Consolidated Entity", for the year ended 30 June 2003. The Consolidated Entity comprises both the company and the entities it controlled during that year.

The directors of the Company are responsible for the preparation and true and fair presentation of the financial report in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

We conducted an independent audit in order to express an opinion to the members of the Company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, Australian Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Company's and the Consolidated Entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*.

Audit opinion

In our opinion, the financial report of Peter Lehmann Wines Limited is in accordance with:

- a) 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 2003 and of their performance for the financial year ended on that date; and
 - ii. complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
 - iii. mandatory professional reporting requirements in Australia.

KPMG



G SAVAGE
Partner
Adelaide
12 September 2003