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# PETER LEHMANN WINES LIMITED

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## 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 2005 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:

<b>Name, Qualifications &amp; Special Responsibilities</b>	<b>Age</b>	<b>Experience</b>
Max LIENHARD PhD (Economics) Non-Executive Director Member of the Audit and Remuneration Committees	61	Dr Max Lienhard is Chairman & CEO of Hess Group AG. Prior to joining Hess he held positions in international marketing in the pharmaceuticals and food industries. Appointed Chairman and Director on 31 October 2003.
Paul Antony YOUNG MA (Cantab) ACA (ICAEW) FAICD Non-Executive Director Chairman of the Audit Committee Member of the Remuneration Committee	50	Paul Young is a director of Baron Partners Limited and has 21 years' experience in corporate advisory work. Director of Cordukes Limited, Ambition Group Limited and Trent Capital Limited. Appointed as an Alternate Director for the Chairman on 31 October 2003. Appointed Deputy Chairman and Director 11 December 2003.
Roger Maxwell WILSON, LLB Non-Executive Director Chairman of the Remuneration Committee and Member of the Audit Committee	64	Roger Wilson has 43 years experience as a practicing solicitor specialising in commercial law. Director since March 1993. Designated as Peter Lehmann's representative in November 2002.
Kay Elaine CAREY, BCom Non-Executive Director Member of the Audit and Remuneration Committees	51	Kay Carey gained significant brand development and marketing skills internationally whilst employed by a multi-national consumer product company. Product portfolios included health and well being products and food, flavours and fragrances. Appointed to the board in December 2004.
Douglas McCaig LEHMANN, FAICD Executive Director	53	Douglas Lehmann's formative experience in the wine industry was as a winemaker. Over the last 33 years he has developed skills in wine production, marketing and distribution as well as general management. Managing Director since March 1993.
Robert Victor EDWARDS, BCom Executive Director	59	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.
Andrew Douglas WIGAN, BSc (App Chem) Dip Oen Alternate Director	56	Chief Winemaker and leads the team of winemakers and technical staff. Appointed alternate for Robert Edwards August 1999.
<b>Company Secretary</b> Barbara Kay CLAPTON, B Ed Grad Dip Acc FCA, FCIS	51	Chief Financial Officer & Company Secretary and leads the finance and administration team. Appointed Company Secretary 5 March 1993.

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## Corporate Governance Report

The directors set out to develop a transparent and accountable framework from the time of the Company's formation in 1993. This direction and attitude have shaped the policies, practice and culture of PLW.

The board was reconstituted following the takeover in October 2003 with many of the existing practices adopted by the current board of directors.

The Company requested removal from the Australian Stock Exchange (ASX) and this came into effect on 12 October 2004. Although PLW is no longer bound by the ASX Corporate Governance Guidelines many of the principles continue to be applied as they represent good practice and are relevant to an unlisted public company.

## Board of Directors & Its Committees

### *Role of the Board*

The directors have the overall obligations to act in the best interests of the shareholders and to protect the shareholders' investment.

### *Responsibilities of the Board*

The board is responsible for the strategic direction of the business, establishing goals for management and monitoring the achievement of goals directly and through its committees. Responsibility for day to day activities is delegated to the Managing Director.

### *Matters considered by the Board*

The board charter defines the purpose, responsibilities and operation of the board. Issues of substance affecting PLW are considered by the full board of directors, with advice from appropriate committees and external advisers as required.

Specific matters reserved for the board -

- Review and approval of the business strategies developed by management
- Approval of financial and other reporting
- Review and approval of the operating budget and capital expenditure projects
- Monitoring the financial performance and capital management of the business
- Reviewing the risk management system and ensuring the integrity of internal controls and adherence to the codes of conduct and legal compliance program
- Monitoring senior management's performance and implementation of the business strategy
- Appointment and, where appropriate, removal of the managing director
- Ratifying the appointment and, where appropriate, the removal of the chief financial officer and company secretary.

### *Composition*

The Constitution requires a minimum of three and a maximum of ten directors. Up to five directors may be executive directors. The board's policy is for the chairman to be a non-executive director and for there to be a majority of non-executive directors.

All directors, with the exception of the managing director, are subject to election by shareholders at the first opportunity after their appointment. With the exception of the managing director, by rotation one third of the directors are required to be re-elected at each annual general meeting. New directors appointed by the board are required to seek election at the first general meeting of shareholders following their appointment.

The board presently comprises four non-executive directors, one of whom is the chairman, and two executive directors. Three of the four non-executive directors are not considered to be independent as one is an officer of a shareholder with more than 5% of the shares, one is associated with the holder of more than 5% of the shares and the third acted as a professional advisor to the Company's parent company during the year ended 30 June 2004.

The ownership of the Company whereby two shareholders control 96% of the shares has determined the board structure. It is not considered appropriate to set a maximum term of office for individual directors.

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The composition of the board is reviewed regularly to ensure it meets its responsibilities. The board has determined that a broad portfolio of skills and experience are required to complement the specific wine industry experience of the executive directors.

All the directors are involved in the process of appointing new directors by firstly defining the characteristics required and then deciding whether the prospective appointee is best secured by way of consultancy advice or by the board's own research. A nominations committee is not considered to be appropriate given the size and culture of the business.

The board has a portfolio of skills including CEO experience, marketing, finance and capital markets, and commercial law.

## *Process*

The board generally schedules at least 7 meetings each year at the winery and this provides directors with the opportunity to visit the production facilities and for contact with a wide group of employees. Other meetings and any extraordinary meetings may be convened at shorter notice and held at other venues or conducted by conference calls.

The chairman of the Company resides in Switzerland and in his absence some of his authority has been delegated to the deputy chairman. The deputy chairman's responsibilities include –

- leading the board, including ensuring meetings are conducted in an open and professional manner so that matters discussed are debated and analysed objectively
- providing effective leadership on formulating the board's strategy
- representing the views of the board to shareholders and the public
- conducting shareholder meetings in an open and democratic manner for shareholders to express their views and to ask questions of the board, management and external auditors
- ensuring new directors are properly briefed on the terms of their appointment and their rights, duties and responsibilities
- setting an example of the culture and values for which PLW stands.

Meeting agendas are prepared by the company secretary in conjunction with the deputy chairman and managing director. Standing items include the managing director's report, finance report, strategic matters, sales and marketing reports, governance and compliance. Board papers are circulated in sufficient time to allow effective preparation. All directors have access to the company secretary.

Each director enters into an Access and Indemnity Deed with PLW to ensure ten year access to documents after retirement from the board.

The Company has induction procedures designed to allow new board appointees to participate fully and actively in board decision-making at the earliest opportunity.

To assist in the execution of its responsibilities the board has established an audit committee and a remuneration committee. Following each audit committee meeting the board is given a verbal report by the committee chairman. Audit committee minutes are circulated to all board members.

Each director has the right to seek independent professional advice at the Company's expense after first obtaining the deputy chairman's approval. The deputy chairman has the discretion to approve expenditure without prior reference to the board or to refer the request to the board.

Board members are expected to devote sufficient time to prepare for meetings and contribute to the governance of the business.

## *Conflict of Interest*

Directors must keep the board advised, on an ongoing basis, of any interest that could potentially conflict with those of the Company. Where the board believes a significant conflict of interest exists, the director concerned does not receive the relevant board papers and does not attend the meeting whilst the item is considered.

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## *Audit Committee*

A documented charter detailing the role, membership, responsibilities and reporting has been determined and is available on the Company's website. The role of the audit committee is to oversee and enhance the credibility of the financial reporting process of PLW.

The objectives of the committee include:

1. assessing the risk and control environment and reviewing accounting policies, internal controls, practices and disclosures to assist the board in making informed decisions
2. overseeing the financial reporting to ensure it is appropriate and of a high quality prior to recommending adoption of the financial statements by the board for release to shareholders
3. evaluating the audit process, particularly the scope, effectiveness and outcome.

The audit committee is comprised of non-executive directors. Committee members are financially literate, that is, have the ability to read and understand financial reports including statements of financial performance, financial position and cash flow. The committee chairman has accounting and financial experience, is knowledgeable about financial and auditing processes and is responsible for the planning and conduct of meetings and overseeing the reporting to the board.

The audit committee meets at least once a year to coincide with the production of published financial statements and the assessment of external audit reports. The external auditor, the managing director and chief financial officer/company secretary are invited to audit committee meetings. The committee members consult directly with the external auditor as required. This consultation may be independent of management in order to provide an opportunity for the auditor to discuss any contentious issues or raise concerns.

The audit committee reviews the performance of the external auditors on an annual basis and normally meets with them during the year to discuss the external audit, identify any significant changes which are likely to impact on the financial statements and review the fees proposed for the audit work to be performed. The external audit firm was appointed in 1993 and the audit engagement partner was last rotated in 2004. In April 2002 the board formally advised the audit firm that PLW requires assurance and tax compliance services only.

The audit committee addresses any matters outstanding with auditors, Australian Taxation Office, Australian Securities and Investments Commission and the Company's banker.

The Company is subject to legal and regulatory compliance with the audit committee responsible for reviewing the legal compliance program regularly. Procedures are in place to ensure compliance with label integrity, export, trademarks, liquor licence and environment requirements. The Company is cognisant of its responsibilities in relation to food safety, effective lifecycle management of packaging and paper products, and the hazard analysis critical control point methodology as applied to the wine industry.

The managing director and chief financial officer complete a detailed questionnaire regarding the financial reports and underlying internal controls and risk management system. They provide a written statement that, in all material respects, the financial reports present a true and fair view of the Company's financial condition and operational results and are in accordance with relevant accounting standards. This statement is made at yearly intervals.

## *Remuneration Committee*

A documented charter detailing the role, membership, responsibilities and reporting has been determined and is available on the Company's website.

The committee reviews and makes recommendations to the board on the remuneration packages of directors and senior executives. The non-executive directors form the committee with the managing director invited to attend at the discretion of the committee.

The remuneration policy and extensive detail on the nature and amount of the remuneration paid to directors and senior executives are provided in the Directors' Report.

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## **Ethical Standards**

All directors and employees are expected to act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the Company. PLW has codes of conduct for directors and staff and finance officers and these codes are available on the Company's website.

## **Risk Management**

### *Oversight of the risk management system*

The board as a whole considers the major risks affecting the business. PLW has developed a risk management system to evaluate and control risks effectively to ensure opportunities are not lost, competitive advantage is enhanced, and management time is not spent reacting to issues or events. It is not intended to eliminate risk. The risk management system encompasses all financial, operational and compliance controls and risk management and is subject to regular review.

The managing director and the chief financial officer have declared, in writing to the board, that the financial reporting risk management and associated compliance and controls have been assessed to be operating effectively and efficiently.

### *Risk profile*

PLW has a simple business model with these features:-

- a single processing site
- vineyard and packaging work outsourced
- wine is sold through independent distributors except for the UK subsidiary, an associated company in the USA and retail sales through the Cellar Door
- stable workforce

Major business risks have been identified as the sourcing of grapes, wine quality, accessing channels to markets, the impact of exchange rate movements on sales, interest rate variations, actions by competitors, environment regulation and government policy changes.

### *Grape intake*

The Company has long-standing arrangements with 179 independent growers. Written contracts are available to these growers, with 82% of the 2005 grape intake received under formal agreement.

### *Wine Quality*

Winemakers, laboratory, cellar and maintenance staff are trained to ensure PLW complies with the highest production standards. The hazard analysis critical control point program (HACCP program) has been implemented to ensure PLW addresses food safety issues. The contract bottler is HACCP and ISO 9001 accredited.

### *Channels to market*

PLW has developed a network of quality distributors and works closely with them to promote wines with a range of buyers including wholesalers, retailers, mail order businesses, duty free operators and the restaurant trade.

### *Exchange rate movements*

PLW transacts export sales in Australian dollars, Euros, US dollars and Canadian dollars and has developed a treasury management policy to ensure personnel do not engage in unauthorised trading positions.

### *Interest rate movements*

Interest rate risk emanates from changes in market interest rates impacting on the Company's short and long term debt. This exposure is managed by combining interest rate swaps with floating rate arrangements.

### *Environment regulation*

The Company is involved in an industry which has the potential to impose environmental risks through chemical storage and handling and winery wastewater. PLW's operations are subject to South Australian environment legislation and compliance with the specific licence requirements was achieved.

### *Risk management and compliance and control*

The board is responsible for the overall internal control framework but recognises that no cost effective internal control system will preclude all errors and irregularities. The system is based upon written procedures, policies and codes, division of responsibility, and the careful selection and training of qualified personnel.

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The system provides the structure for controlling the business – planning, running the operation and monitoring activities to assess progress on achieving defined business objectives.

Key areas subject to regular reporting to the board include occupational health and safety performance, treasury operations, credit risk, insurance, legal matters and environment performance.

There are a number of committees established to oversee matters relating to operational activities - occupational health and safety, environment and enterprise conditions. These committees meet regularly with senior management who report to the board.

Financial controls and procedures are clearly defined with the operating and capital budgets used as key controls for business operations. Management regularly report monthly actual results against budgets approved by the board. Rolling forecasts for the year are regularly prepared in line with market conditions and expectations.

Finance staff have undertaken training for the transition to Australian International Financial Reporting Standards (AIFRS). The transition requires the Company to assess its accounting policies and evaluate the impact of changes resulting from the adoption of AIFRS. To facilitate the first reporting under AIFRS the Company is required to calculate its opening AIFRS statement of financial position as at 1 July 2004 and to calculate its statement of financial performance for the 2004-05 year on a Australian Accounting Standard basis and an AIFRS basis.

#### *Assessment of the effectiveness of risk management*

In August 2003 the external auditors were engaged to provide an objective evaluation of some of the Company's internal controls which are not in the scope of the external audit.

The managing director and chief financial officer monitor compliance and control systems and report to the audit committee on weaknesses identified and remedial actions undertaken.

#### **Shareholder Involvement**

The directors aim to ensure the shareholders are informed of all major developments affecting the Company. The vintage outcome is communicated in May each year and PLW distributes the annual report, notice of annual general meeting (AGM), Managing Director's address to the AGM and outcome of the AGM to all shareholders. Shareholders, who elect to do so, receive promotional information in the form of newsletters which are usually circulated twice a year.

The board encourages full participation of shareholders at the annual general meeting to ensure a high level of accountability and identification with PLW's strategy and goals. The shareholders are requested to vote on the appointment and aggregate remuneration of directors and changes to the Constitution. The audit engagement partner attends the AGM and is available to answer questions about the conduct of the audit and the preparation and content of the auditor's report.

#### **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.

#### **Consolidated Result**

The consolidated operating profit after tax for the year was \$6,434,000 (2004: \$3,830,000).

#### **Review of Operations**

##### *Company overview*

The global wine industry is very competitive as supply from the wine producing countries exceeds demand from consumers. At the same time there is a considerable amount of consolidation activity among retailers with the large supermarket chains increasing their market share and influence. The Australian dollar has strengthened over the last 2 years and this has placed further pressure on Australian exporters.

The Company has performed credibly in these circumstances.

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## *Trading*

Total branded bottle sales grew by 8% and 9% in volume and revenue respectively over the previous year. Strong performances were recorded in Australia with revenue up by 6% on 2003/04, the UK which lifted sales by 18% over the previous year and the North American markets where sales increased by 29% over the previous year. Sales in Europe were down by 9% and 7% in volume and revenue respectively and reflect the economic conditions in the dominant EU countries and changing buying patterns within some markets.

## *Production*

PLW processed a record total crush of 21,079 tonnes, up 11% on the 2004 crush of 18,948 tonnes. The PLW intake was 17,308 tonnes (2004: 14,588 tonnes) with contract crushing at 3,771 tonnes (2004: 4,360 tonnes).

## *Equity*

PLW was removed from the ASX Official List on 12 October 2004 and now operates as an unlisted public company.

## *Strategy and future performance*

The Company is expecting to sustain the growth in sales over the coming years. The Barossa district is highly regarded as a world class producer of top quality fruit. PLW has good volumes of high quality wine available from outstanding vintages which will greatly assist in meeting future sales aspirations.

## **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.

## **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
<i>Paid or declared during the year</i>				
- Final 2004 ordinary	5.5 cents	2,088	franked	8 November 2004
<i>Declared after end of year</i>				
- Final 2005 ordinary	9.3 cents	3,539	franked	8 November 2005
<i>Dealt with in the financial report as:</i>				
- Dividends	5.5 cents	2,088		
- Noted as a subsequent event	9.3 cents	<u>3,539</u>		
		<u>5,627</u>		

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

## **Events Subsequent to Balance Date**

For reporting periods beginning on or after 1 July 2005, the consolidated entity must comply with Australian equivalents to International Financial Reporting Standards (AIFRS) as issued by the Australian Accounting Standards Board. The implementation and potential impact of adopting AIFRS are detailed in note 32 to the financial statements.

Apart from the item above 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.

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## Likely Developments

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

Further information about likely developments in the operations of the consolidated entity and the expected results of these operations in future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the consolidated entity.

## 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
M Lienhard	3	3	-	-	-	-
P A Young	7	7	1	1	1	1
D McC Lehmann	7	7	-	-	-	-
R M Wilson	7	7	1	1	1	1
R V Edwards	7	7	-	-	-	-
K E Carey	3	3	-	-	1	1

A – Number of meetings attended

B – Number of meetings held in which the overseas director could participate or during the time the director held office during the year.

## Remuneration Policies

Remuneration levels are competitively set to attract and retain appropriately qualified and experienced directors and senior executives. Remuneration packages may include a mix of fixed and performance based remuneration. Equity based remuneration has not been included since 1998.

The remuneration structures took into account:

- the overall level of remuneration for each director and executive
- the executive's ability to control performance
- the amount of incentives within each executive's remuneration

Executive directors and senior executives may receive bonuses based on the achievement of specific performance hurdles. The performance hurdles may be a blend of the consolidated entity's and each relevant market. Non-executive directors do not receive any performance related remuneration.

Non-executive directors and senior executives may receive additional benefits as non-cash benefits. Non-cash benefits typically include wine allowances and motor vehicles and the Company pays fringe benefits tax on these benefits.

Total remuneration for all non-executive directors, last voted upon by shareholders at the 2001 AGM, is not to exceed \$300,000 per annum. Directors' base fees are presently \$34,000 per annum with an additional \$5,000 per annum paid to directors who chair board committees. The Chairman's fees are \$70,000 per annum.

The retirement scheme has been discontinued from 31 October 2003. Mr Roger Wilson is entitled to \$113,667 on retirement.

# PETER LEHMANN WINES LIMITED

		Salary & Fees	Bonuses	Non-Monetary Benefits	Superannuation Contributions	Termination Benefits	Total
		\$	\$	\$	\$	\$	\$
<b>Specified directors</b>							
<b>Non-executive</b>							
Dr M Lienhard	2005	70,000	-	-	-	-	70,000
Chairman	2004	46,705	-	-	-	-	46,705
Appointed 31 October 2003							
P A Young	2005	39,000	-	3,175	3,510	-	45,685
Deputy Chairman	2004	26,000	-	2,893	2,340	-	31,233
Appointed 31 October 2003							
R M Wilson	2005	39,000	-	4,075	3,510	-	46,585
	2004	44,000	-	3,543	3,640	-	51,183
Kay Carey	2005	18,419	-	1,000	1,658	-	21,077
Appointed 12 December 2004	2004	-	-	-	-	-	-
H W G Tilley	2005	-	-	-	-	-	-
Retired 31 October 2003	2004	15,000	-	3,476	1,300	113,667	133,443
R A F England	2005	-	-	-	-	-	-
Retired 31 October 2003	2004	28,333	-	3,030	2,333	98,333	132,029
N C Lister	2005	-	-	-	-	-	-
Resigned 31 October 2003	2004	15,000	-	3,424	1,300	45,467	65,191
A G Froggatt	2005	-	-	-	-	-	-
Resigned 21 August 2003	2004	5,833	-	-	583	-	6,416
<b>Executive</b>							
D Mc Lehmann	2005	197,491	-	72,795	29,624	-	299,910
Managing Director	2004	191,739	-	60,448	28,761	-	280,948
R V Edwards	2005	187,785	-	51,751	28,168	-	267,704
Marketing Director	2004	182,316	-	38,877	27,347	-	248,540
Total, all specified directors	2005	551,695	-	132,796	66,470	-	750,961
	2004	554,926	-	115,691	67,604	257,467	995,688
<b>Specified executives</b>							
<i>The Company</i>							
H T Astrom <sup>(1)</sup>	2005	232,141	-	83,035	23,214	-	338,390
VP - EU & USA Brand Development	2004	230,443	-	84,341	23,045	-	337,829
T M Brown	2005	94,500	-	28,586	9,450	-	132,536
Operations Manager	2004	90,000	-	25,082	8,100	-	123,182
B K Clapton	2005	138,314	-	32,827	13,831	-	184,972
CFO & Company Secretary	2004	134,285	-	32,259	13,429	-	179,973
A D Wigan	2005	162,814	-	31,192	16,281	-	210,287
Chief Winemaker	2004	158,072	-	30,908	15,807	-	204,787
<i>Controlled entity</i>							
W I Whigham <sup>(1)</sup>	2005	275,718	-	33,983	23,415	-	333,116
Managing Director Peter Lehmann Wines (Europe)	2004	252,497	-	23,031	21,329	-	296,857
Total, all specified executives	2005	903,487	-	209,623	86,191	-	1,199,301
	2004	865,297	-	195,621	81,710	-	1,142,628

<sup>(1)</sup> Salary packages of the EU and UK executives have been converted to Australian dollars at the balance date exchange rates.

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## Non-audit services

During the year, KPMG, the Company's auditor, has performed certain other services in addition to their statutory duties.

The board has considered the non-audit services provided during the year by the auditor and in accordance with written advice provided by resolution of the audit committee, is satisfied that the provision of those non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the audit committee to ensure they do not impact the integrity and objectivity of the auditor.
- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in Professional Standard F1 *Professional independence*, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

A copy of the auditor's independence declaration as required under Section 307C of the Corporations Act is included in the directors' report.

Details of the amounts paid to the auditor of the Company, KPMG, and its related practices for audit and non-audit services provided during the years are set out below.

	<b>CONSOLIDATED</b>	
	<b>2005</b>	<b>2004</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Statutory audit:</b>		
Audit and review of the financial reports (KPMG Australia)	<b>49</b>	55
Audit and review of the financial reports (KPMG UK)	<b>30</b>	24
	<hr/> <b>79</b>	<hr/> 79
<b>Services other than statutory audits:</b>		
Taxation services (KPMG Australia)	<b>26</b>	13
Other assurance services (KPMG Australia)	<b>-</b>	25
	<hr/> <b>26</b>	<hr/> 38

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## Lead auditor's independence declaration under Section 307C of the Corporations Act 2001

To: the directors of Peter Lehmann Wines Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2005 there have been:

- no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- no contraventions of any applicable code of professional conduct in relation to the audit.

A handwritten signature in black ink, appearing to be 'G. Drabsch'.

KPMG

A handwritten signature in black ink, appearing to be 'G. Drabsch', with a vertical line extending upwards from the start of the signature.

Grant Drabsch  
*Partner*  
Adelaide

16 September 2005



KPMG, an Australian partnership, is a member of KPMG International, a Swiss non-operating association.

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## 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.

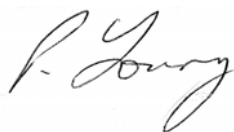
### Insurance Premiums

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.



P A Young (Deputy Chairman)



D McC Lehmann (Managing Director)

Dated at Tanunda this 16<sup>th</sup> day of September 2005

# PETER LEHMANN WINES LIMITED

## STATEMENTS OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2005

	NOTE	CONSOLIDATED		THE COMPANY	
		2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Revenue from ordinary activities	3	<b>55,797</b>	52,298	<b>51,490</b>	49,331
Expenses from ordinary activities, excluding borrowing costs expense	4	<b>(44,732)</b>	(45,064)	<b>(41,161)</b>	(42,425)
Borrowing costs expense	4	<b>(1,952)</b>	(1,624)	<b>(1,952)</b>	(1,624)
<b>Profit from ordinary activities before income tax expense</b>		<b>9,113</b>	5,610	<b>8,377</b>	5,282
Income tax expense relating to ordinary activities	6(a)	<b>(2,679)</b>	(1,780)	<b>(2,501)</b>	(1,618)
<b>Profit from ordinary activities after related income tax expense</b>	21	<b>6,434</b>	3,830	<b>5,876</b>	3,664
<b>Non-owner transaction changes in equity</b>					
Net exchange difference relating to self-sustaining foreign operations	20	<b>(130)</b>	83	-	-
Total revenues, expenses and valuation adjustments to members of the parent entity recognised directly in equity		<b>(130)</b>	83	-	-
<b>Total changes in equity from non-owner related transactions attributable to members of the parent entity</b>	23	<b>6,304</b>	3,913	<b>5,876</b>	3,664
Basic earnings per share	7	<b>16.94 cents</b>	10.14 cents		
Dilutive earnings per share	7	<b>16.94 cents</b>	10.14 cents		

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

# PETER LEHMANN WINES LIMITED

## STATEMENTS OF FINANCIAL POSITION AS AT 30 JUNE 2005

		CONSOLIDATED		THE COMPANY	
	NOTE	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
<b>CURRENT ASSETS</b>					
Cash	29i	1,545	1,377	732	809
Receivables	9	15,809	15,148	12,693	13,026
Inventories	10	42,287	34,221	42,087	34,096
Other	11	1,003	702	1,003	570
<b>Total current assets</b>		<b>60,644</b>	<b>51,448</b>	<b>56,515</b>	<b>48,501</b>
<b>NON-CURRENT ASSETS</b>					
Inventories	10	14,023	19,370	14,023	19,370
Other financial assets	12	15	15	96	96
Property, plant and equipment	13	30,148	29,066	30,112	29,053
Grape vines	14	575	486	575	486
Deferred tax assets	6	1,133	1,241	1,133	1,241
<b>Total non-current assets</b>		<b>45,894</b>	<b>50,178</b>	<b>45,939</b>	<b>50,246</b>
<b>TOTAL ASSETS</b>		<b>106,538</b>	<b>101,626</b>	<b>102,454</b>	<b>98,747</b>
<b>CURRENT LIABILITIES</b>					
Accounts payable	15	11,568	12,398	13,350	14,957
Interest bearing liabilities	16	4,000	4,000	4,000	4,000
Current tax liabilities	6	664	828	664	828
Provisions	18	1,336	1,246	1,336	1,246
<b>Total current liabilities</b>		<b>17,568</b>	<b>18,472</b>	<b>19,350</b>	<b>21,031</b>
<b>NON-CURRENT LIABILITIES</b>					
Interest bearing liabilities	16	31,700	30,200	31,700	30,200
Deferred tax liabilities	6	1,374	1,315	1,374	1,315
Provisions	18	99	58	99	58
<b>Total non-current liabilities</b>		<b>33,173</b>	<b>31,573</b>	<b>33,173</b>	<b>31,573</b>
<b>TOTAL LIABILITIES</b>		<b>50,741</b>	<b>50,045</b>	<b>52,523</b>	<b>52,604</b>
<b>NET ASSETS</b>		<b>55,797</b>	<b>51,581</b>	<b>49,931</b>	<b>46,143</b>
<b>EQUITY</b>					
Contributed equity	19	30,624	30,624	30,624	30,624
Reserves	20	(31)	99	-	-
Retained profits	21	25,204	20,858	19,307	15,519
<b>TOTAL EQUITY</b>	23	<b>55,797</b>	<b>51,581</b>	<b>49,931</b>	<b>46,143</b>

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

# PETER LEHMANN WINES LIMITED

## STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2005

	NOTE	CONSOLIDATED		THE COMPANY	
		2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Cash receipts in the course of operations		57,507	52,461	53,947	50,288
Cash payments in the course of operations		(48,988)	(49,707)	(45,868)	(47,219)
Interest received	3	93	75	66	51
Borrowing costs paid	4	(2,255)	(2,057)	(2,255)	(2,057)
Income taxes paid		(2,677)	(1,480)	(2,499)	(1,319)
<b>NET CASH PROVIDED BY/(USED IN) OPERATING ACTIVITIES</b>	29(ii)	<b>3,680</b>	<b>(708)</b>	<b>3,391</b>	<b>(256)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Payment for property, plant & equipment		(2,925)	(2,284)	(2,881)	(2,282)
Proceeds from sale of non-current assets		1	1,144	1	1,144
<b>NET CASH USED IN INVESTING ACTIVITIES</b>		<b>(2,924)</b>	<b>(1,140)</b>	<b>(2,880)</b>	<b>(1,138)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Proceeds from issue of shares	19	-	1,270	-	1,270
Proceeds from borrowings		1,500	2,400	1,500	2,400
Dividends paid		(2,088)	(2,052)	(2,088)	(2,052)
<b>NET CASH PROVIDED BY/USED IN FINANCING ACTIVITIES</b>		<b>(588)</b>	<b>1,618</b>	<b>(588)</b>	<b>1,618</b>
<b>NET INCREASE (DECREASE) IN CASH HELD</b>		<b>168</b>	<b>(230)</b>	<b>(77)</b>	<b>224</b>
<b>CASH AT THE BEGINNING OF THE FINANCIAL YEAR</b>		<b>1,377</b>	<b>1,607</b>	<b>809</b>	<b>585</b>
<b>CASH AT THE END OF THE FINANCIAL YEAR</b>	29(i)	<b>1,545</b>	<b>1,377</b>	<b>732</b>	<b>809</b>

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

# PETER LEHMANN WINES LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

### 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 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) *Reclassification of financial information*

The consolidated entity changed the accounting disclosure for volume discounts during the year to more accurately reflect the nature of the underlying transactions.

The effect of this change on the prior year's comparatives are:

	CONSOLIDATED	THE COMPANY
Prior Year financial statements	2004 \$'000	2004 \$'000
Sale of goods	50,356	47,540
<b>Total revenue from ordinary activities</b>	<b>52,729</b>	<b>49,889</b>
Selling and distribution expenses	8,591	6,783
<b>Expenses from ordinary activities, excluding borrowing costs expense</b>	<b>45,496</b>	<b>42,983</b>
<b>Profit from ordinary activities before borrowing costs and income tax expense</b>	<b>7,233</b>	<b>6,906</b>

	CONSOLIDATED	THE COMPANY
Restated	2004 \$'000	2004 \$'000
Sale of goods	49,925	46,982
<b>Total revenue from ordinary activities</b>	<b>52,298</b>	<b>49,331</b>
Selling and distribution expenses	8,161	6,225
<b>Expenses from ordinary activities, excluding borrowing costs expense</b>	<b>45,065</b>	<b>42,425</b>
<b>Profit from ordinary activities before borrowing costs and income tax expense</b>	<b>7,233</b>	<b>6,906</b>

#### c) *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.

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# PETER LEHMANN WINES LIMITED

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**d) 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.

**e) 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.

**f) 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
- relating to amounts payable or receivable in foreign currency forming part of a net investment in a self-sustaining foreign operation. 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

**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.

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# PETER LEHMANN WINES LIMITED

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## *Exchange rates used*

	Weighted Average		As at 30 June	
	2005	2004	2005	2004
UK pound sterling	0.40	0.41	0.42	0.38
EU euro	0.59	0.59	0.63	0.57
US dollar	0.75	0.71	0.76	0.69
Canadian dollar	0.94	0.95	0.93	0.93

### **g) 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 foreign exchange contracts. 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.

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 currency and interest rate swap 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 net receivables or payables are revalued using the interest rates current at reporting date.

When the anticipated transaction is no longer expected to occur as designated, the deferred gains or losses relating to the hedged transaction are recognised immediately in the statement of financial performance.

Where a hedge transaction is terminated early and the anticipated transaction is still expected to occur as designated, the deferred gains or losses that arose on the hedge prior to its termination continue to be deferred and are included in the measurement of the purchase or sale or interest transaction when it occurs. Where a hedge transaction is terminated early because the anticipated transaction is no longer expected to occur as designated, deferred gains or losses that arose on the hedge prior to its termination are included in the statement of financial performance for the period.

Where a hedge is redesignated as a hedge of another transaction, gains or losses arising on the hedge prior to its redesignation are only deferred where the original anticipated transaction is still expected to occur as designated. When the original anticipated transaction is no longer expected to occur as designated, any gains or losses relating to the hedge instrument are included in the statement of financial performance for the period.

Gains or losses that arise prior to and upon the maturity of transactions entered into under hedge rollover strategies are deferred and included in the measurement of the hedged anticipated transaction if the transaction is still expected to occur as designated. If the anticipated transaction is no longer expected to occur as designated, the gains or losses are recognised immediately in the statement of financial performance.

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# PETER LEHMANN WINES LIMITED

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## **h) 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.

Interest payments in respect of financial instruments classified as liabilities are included in borrowing costs.

Where interest rates are hedged or swapped, the borrowing costs are recognised net of any effect of the hedge or the swap.

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.

## **i) 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.

Capital gains tax, if applicable, is provided for in establishing period income tax expense when an asset is sold.

The Company is the head entity in the tax-consolidated group comprising all the Australian wholly-owned subsidiaries set out in Note 24. 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 funding agreement that requires wholly-owned subsidiaries to make contributions to the head entity for tax liabilities and deferred tax balances arising from external transactions during the year.

Under the tax funding agreement, the contributions are calculated on a "stand alone basis" so that the contributions are equivalent to the tax balances generated by external transactions entered into by wholly-owned subsidiaries. The contributions are payable as set out in the agreement and reflect the timing of the head entity's obligations to make payments for tax liabilities to the relevant tax authorities. The assets and liabilities arising under the tax funding agreement are recognized as intercompany assets and liabilities with a consequential adjustment to income tax expense/revenue.

## **j) 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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# PETER LEHMANN WINES LIMITED

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**k) 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.

**l) Use and revision of accounting estimates**

The preparation of the financial report requires the making of estimations and assumptions that affect the recognised amounts of assets, liabilities, revenues and expenses and the disclosure of contingent liabilities. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

**m) 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 2% of the total outstanding by customers to the consolidated entity (2004: 4%).

*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.

**n) 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(h).

*Stock Writedowns*

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

**o) 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.

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# PETER LEHMANN WINES LIMITED

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**p) 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.

**q) 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 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.

Independent valuations of land and buildings valued on the cost basis are carried out at least once every three years. The most recent valuations were determined on 30 June 2005 on the basis of open market values for existing use.

**r) 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:-

	2005	2004
• Buildings	2%	2%
• Plant and equipment	2 – 33%	2% – 33%

**s) 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 55% of the trade creditors of the consolidated entity (2004: 47%).

**t) 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.

**u) 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, such as workers compensation, payroll tax and superannuation guarantee levy.

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# PETER LEHMANN WINES LIMITED

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## *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.

## *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.

## v) *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 money and the risks specific to the liability, 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

There are no changes in accounting policies in Peter Lehmann Wines Limited.

# PETER LEHMANN WINES LIMITED

	CONSOLIDATED		THE COMPANY	
	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000
<b>3 REVENUE FROM ORDINARY ACTIVITIES</b>				
<b>Revenue from operating activities</b>				
Sale of goods	54,706	49,925	50,426	46,982
Rendering of services	837	894	837	894
Other Revenue				
Revenue recognised for vine valuation	88	-	88	-
Revenue recognised for grapes harvested	14	160	14	160
Rent received	2	2	2	2
Interest – other parties	93	75	66	51
Sundry income	57	98	57	98
<b>From outside operating activities</b>				
Gross proceeds from sale of non-current assets	-	1,144	-	1,144
<b>Total revenue from ordinary activities</b>	<b>55,797</b>	<b>52,298</b>	<b>51,490</b>	<b>49,331</b>
<b>4 PROFIT FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE</b>				
Profit from ordinary activities before income tax has been arrived at after charging/(crediting) the following items:				
Costs of goods sold	31,696	29,119	29,859	28,499
Administration expenses	2,537	2,203	2,143	2,118
Marketing and public relations	1,750	1,427	1,493	1,427
Selling and distribution expenses	8,268	8,161	7,185	6,225
Licence Fee	471	-	471	-
Loss recognised for vine valuation	-	65	-	65
Carrying amount of assets sold	-	1,210	-	1,210
Sundry expenses	10	85	10	87
Individually significant item – takeover costs	-	2,794	-	2,794
Expenses from ordinary activities, excluding borrowing costs expense	<b>44,732</b>	<b>45,064</b>	<b>41,161</b>	<b>42,425</b>
Depreciation of:				
- property	170	164	170	164
- plant and equipment	1,669	1,545	1,648	1,533
- less: capitalised depreciation expense	<b>(1,707)</b>	<b>(1,607)</b>	<b>(1,707)</b>	<b>(1,607)</b>
	<b>132</b>	<b>102</b>	<b>111</b>	<b>90</b>
Net expense from movement in provision for:				
- employee entitlements	383	180	383	180
- stock writedown	-	20	-	20
Operating lease rental expense	564	486	497	439
Net losses/(gain) on sales of property, plant & equipment	3	66	3	66
Net foreign exchange loss/(gain)	252	(185)	252	(182)
Borrowing costs:				
- other parties	2,255	2,057	2,255	2,057
- less: capitalised borrowing costs	<b>(303)</b>	<b>(433)</b>	<b>(303)</b>	<b>(433)</b>
Borrowing costs expensed	<b>1,952</b>	<b>1,624</b>	<b>1,952</b>	<b>1,624</b>
Borrowing costs were capitalised to maturing inventory (see Note 10)				

# PETER LEHMANN WINES LIMITED

	CONSOLIDATED		THE COMPANY	
	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000
<b>5 AUDITORS' REMUNERATION</b>				
Audit Services:				
Auditors of the Company – KPMG				
Audit and review of the financial reports	79	79	49	55
Other services:				
KPMG Australia related practices				
Taxation services	26	13	26	13
Other assurance services	-	25	-	25
	<b>105</b>	<b>117</b>	<b>75</b>	<b>93</b>
<b>6 TAXATION</b>				
<b>(a) Income Tax Expense</b>				
Prima facie income tax expense calculated at 30% (2004: 30%) on the profit from ordinary activities	2,734	1,683	2,513	1,585
Increase/decrease in income tax due to non-deductible items	(13)	40	(13)	40
Overseas subsidiary loss	-	79	-	-
Overseas tax rate differential	(43)	(17)	-	-
Income tax under/(over) provided in prior year	1	(5)	1	(7)
Income tax expense related to current and deferred tax transactions of the wholly-owned subsidiaries in the tax-consolidated group	-	-	157	177
Recovery of income tax expense under a tax funding agreement	-	-	(157)	(177)
Income tax expense attributable to operating profit	<b>2,679</b>	<b>1,780</b>	<b>2,501</b>	<b>1,618</b>
<b>(b) Provision for Current Income Tax</b>				
Movements during the year:				
Balance at beginning of year	828	16	828	-
Balance of prepaid income tax at beginning of year	-	(128)	-	(128)
Income tax (paid)/refunded – current year	(2,056)	(1,455)	(2,056)	(1,278)
Income tax (paid)/refunded – prior year	(443)	152	(443)	136
Income tax (paid)/refunded related to current and deferred tax transactions of the wholly-owned subsidiaries in the tax-consolidated group	(157)	(177)	(157)	(177)
Current year's income tax expense on operating profit	2,486	2,443	2,329	2,106
Income tax expense related to wholly-owned subsidiary transactions in the tax-consolidated group	-	-	157	177
Prepaid/recoverable income tax – refer to Note 11	-	(17)	-	-
Under/(Over) provision in prior year	6	(6)	6	(8)
	<b>664</b>	<b>828</b>	<b>664</b>	<b>828</b>
<b>(c) Deferred Tax Liabilities</b>				
<b>Provision for Deferred Income Tax</b>				
Provision for deferred income tax comprises the estimated expense at the applicable rate of 30%, (2004: 30%) on the following items:				
Difference in depreciation and amortisation of property, plant & equipment for accounting and income tax purposes.	1,283	1,170	1,283	1,170
SGARA income on grape harvest	85	101	85	101
Expenditure currently deductible but deferred and amortised for accounting purposes	6	44	6	44
	<b>1,374</b>	<b>1,315</b>	<b>1,374</b>	<b>1,315</b>

# PETER LEHMANN WINES LIMITED

	CONSOLIDATED		THE COMPANY	
	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'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%, (2004: 30%) on the following items:

Provisions & accrued employee entitlements not currently deductible	542	503	542	503
Legal and consulting fees deductible over 5 years	551	683	551	683
Sundry items	40	55	40	55
	<b>1,133</b>	1,241	<b>1,133</b>	1,241

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.

The realisation of the future income tax benefit of \$8,000 from capital losses sustained is dependent upon the ability to offset against future capital gains and has not been included.

## 7 EARNINGS PER SHARE

	2005	2004
	\$'000	\$'000
Earnings used in calculations	6,434	3,830
<b>Basic earnings per share</b>		
Weighted average number of ordinary shares	37,968,933	37,769,527
Basic earnings per share	16.94 cents	10.14 cents

#### Diluted earnings per share

There are no dilutive potential ordinary shares, therefore, diluted EPS has not been calculated or disclosed.

# PETER LEHMANN WINES LIMITED

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

	Australasia		Europe		North America		Other		Consolidated	
	2005 \$000's	2004 \$000's	2005 \$000's	2004 \$000's	2005 \$000's	2004 \$000's	2005 \$000's	2004 \$000's	2005 \$000's	2004 \$000's
Segment Revenue	25,231	25,102	22,241	20,437	7,485	5,818	840	941	55,797	52,298
Segment Result	6,848	5,776	4,234	3,847	2,300	2,167	389	441	13,771	12,231
Unallocated corporate expenses									4,658	6,621
Profit from ordinary activities									9,113	5,610
Income tax expense									2,679	1,780
Profit from ordinary activities after tax									6,434	3,830
Depreciation	1,818	1,697	21	12					1,839	1,709
Non Cash net expenses other than depreciation	265	280							265	280
Segment Assets	100,370	96,309	6,168	5,317					106,538	101,626
Segment Liabilities	11,528	12,864	3,513	2,981					15,041	15,845
Unallocated liabilities									35,700	34,200
Total liabilities									50,741	50,045
Acquisition of Non-current assets	2,881	2,283	44	1					2,925	2,284

# PETER LEHMANN WINES LIMITED

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 \$9,901,000 (2004: \$9,301,000) has been eliminated in the reported Segment Revenue.

	CONSOLIDATED		THE COMPANY	
	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000
<b>9 RECEIVABLES</b>				
<i>Current</i>				
Trade debtors	15,242	14,357	10,049	10,128
Less: Provision for doubtful trade debtors	(336)	(336)	(336)	(336)
	<b>14,906</b>	<b>14,021</b>	<b>9,713</b>	<b>9,792</b>
Other debtors	3	74	1	1
Amounts owing by controlled entities	-	-	2,079	2,180
Amounts owing by related entities	900	1,053	900	1,053
	<b>15,809</b>	<b>15,148</b>	<b>12,693</b>	<b>13,026</b>
<b>10 INVENTORIES</b>				
<i>Current</i>				
Packaging materials & souvenirs – at cost	649	523	649	523
Finished goods - at cost	41,674	33,735	41,474	33,610
	<b>42,323</b>	<b>34,258</b>	<b>42,123</b>	<b>34,133</b>
Less: Provision for writedown	(36)	(37)	(36)	(37)
	<b>42,287</b>	<b>34,221</b>	<b>42,087</b>	<b>34,096</b>
<i>Non-Current</i>				
Finished goods - at cost	14,023	19,370	14,023	19,370
	<b>14,023</b>	<b>19,370</b>	<b>14,023</b>	<b>19,370</b>
<b>TOTAL INVENTORIES</b>	<b>56,310</b>	<b>53,591</b>	<b>56,110</b>	<b>53,466</b>
Borrowing costs of \$303,000 (2004:\$433,000) have been capitalised to non-current inventory.				
<b>11 PREPAYMENTS</b>				
Prepaid expenses	1,003	685	1,003	570
Prepaid income tax. Refer to Note 6(b)	-	17	-	-
	<b>1,003</b>	<b>702</b>	<b>1,003</b>	<b>570</b>
<b>12 OTHER FINANCIAL ASSETS</b>				
<i>Non-Current</i>				
Shares in controlled entities	-	-	81	81
Other corporations unlisted shares at cost	15	15	15	15
	<b>15</b>	<b>15</b>	<b>96</b>	<b>96</b>

Refer Note 24 for particulars in relation to controlled entities.

# PETER LEHMANN WINES LIMITED

	NOTE	CONSOLIDATED		THE COMPANY	
		2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
<b>13 PROPERTY, PLANT &amp; EQUIPMENT</b>					
Freehold land and improvements					
At Cost		<b>3,012</b>	3,012	<b>3,012</b>	3,012
Less: Accumulated depreciation		<b>(32)</b>	(30)	<b>(32)</b>	(30)
		<b>2,980</b>	2,982	<b>2,980</b>	2,982
Buildings					
At Cost		<b>7,853</b>	7,557	<b>7,853</b>	7,557
Less: Accumulated depreciation		<b>(956)</b>	(787)	<b>(956)</b>	(787)
		<b>6,897</b>	6,770	<b>6,897</b>	6,770
Plant and equipment					
At Cost		<b>30,117</b>	27,663	<b>30,059</b>	27,584
Less: Accumulated depreciation		<b>(10,000)</b>	(8,478)	<b>(9,978)</b>	(8,412)
		<b>20,117</b>	19,185	<b>20,081</b>	19,172
Capital Works in Progress					
At Cost		<b>154</b>	129	<b>154</b>	129
<b>TOTAL PROPERTY, PLANT &amp; EQUIPMENT</b>					
- net book value		<b>30,148</b>	29,066	<b>30,112</b>	29,053

## Valuations

The independent valuation of the Company's freehold land and buildings carried out as at 30 June 2005 on the basis of open market values for existing use resulted in a valuation of land of \$2,098,000 and buildings of \$9,143,000.

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.

# PETER LEHMANN WINES LIMITED

## 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
<b>Consolidated</b>					
Carrying amount at 1 July	2,982	6,770	19,185	129	29,066
Additions		19	185	2,721	2,925
Transfer of capital works		276	2,420	(2,696)	0
Disposals			(4)		(4)
Depreciation	(2)	(168)	(1,669)		(1,839)
Carrying amount at 30 June	2,980	6,897	20,117	154	30,148
<b>Parent Entity</b>					
Carrying amount at 1 July	2,982	6,770	19,172	129	29,053
Additions		19	141	2,721	2,881
Transfer of Capital Works		276	2,420	(2,696)	0
Disposals			(4)		(4)
Depreciation	(2)	(168)	(1,648)		(1,818)
Carrying amount at 30 June	2,980	6,897	20,081	154	30,112

	NOTE	CONSOLIDATED		THE COMPANY	
		2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
<b>14 GRAPE VINES</b>					
At independent valuation		<b>575</b>	486	<b>575</b>	486

Peter Lehmann Wines has 41 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 2004 and 30 June 2005 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.

# PETER LEHMANN WINES LIMITED

	NOTE	CONSOLIDATED		THE COMPANY	
		2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
<b>15 ACCOUNTS PAYABLE</b>					
<i>Current</i>					
Trade creditors		<b>8,989</b>	10,851	<b>8,447</b>	10,309
Other creditors and accruals		<b>2,017</b>	1,547	<b>1,110</b>	1,272
Amounts owing to controlling entity		<b>470</b>	-	<b>470</b>	-
Amounts owing to controlled entities		-	-	<b>3,282</b>	3,376
Amounts owing to related entities		<b>92</b>	-	<b>41</b>	-
		<b>11,568</b>	12,398	<b>13,350</b>	14,957
<b>16 INTEREST BEARING LIABILITIES</b>					
<i>Current</i>					
Multi option facility Overdraft – secured	17	-	-	-	-
Multi option facility – Bills secured	17	<b>4,000</b>	4,000	<b>4,000</b>	4,000
		<b>4,000</b>	4,000	<b>4,000</b>	4,000
<i>Non Current</i>					
Commercial bills – secured	17	<b>31,700</b>	30,200	<b>31,700</b>	30,200
<b>17 FINANCING ARRANGEMENTS</b>					
The consolidated entity has access to the following lines of credit:					
Total facilities available:					
Multi-option facility		<b>5,000</b>	5,000	<b>5,000</b>	5,000
Bank loans/leases		<b>550</b>	550	<b>550</b>	550
Bill acceptance facility		<b>31,700</b>	31,700	<b>31,700</b>	31,700
		<b>37,250</b>	37,250	<b>37,250</b>	37,250
Facilities utilised at balance date:					
Multi-option facility		<b>4,000</b>	4,000	<b>4,000</b>	4,000
Bank loans/leases		-	-	-	-
Bill acceptance facility		<b>31,700</b>	30,200	<b>31,700</b>	30,200
		<b>35,700</b>	34,200	<b>35,700</b>	34,200
Facilities not utilised at balance date:					
Multi-option facility		<b>1,000</b>	1,000	<b>1,000</b>	1,000
Bank loans/leases		<b>550</b>	550	<b>550</b>	550
Bill acceptance facility		-	1,500	-	1,500
		<b>1,550</b>	3,050	<b>1,550</b>	3,050

## Multi Option Facility

The \$5M 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 2005 was 9.95% (2004: 9.95%).

## 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 \$15.7M with a weighted average interest rate at 30 June 2005 of 5.71%. The weighted average interest rate for the other bills subject to prevailing market rates at 30 June 2005 was 5.63% (2004: 5.51%). The resultant rate when the effect of the interest rate swaps is incorporated into the total weighted average interest rate as at 30 June 2005 was 5.73% (2004: 5.54%)

# PETER LEHMANN WINES LIMITED

## Bank Loans/Leases

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

Lease commitments were completed in March 2000. The current lease facility was unused at 30 June 2005.

## Security

Registered first ranking mortgage debenture over all the assets and undertakings of Peter Lehmann Wines Limited up to \$37,250,000. (2004: \$37,250,000).

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	
		2005 \$'000	2004 \$'000	2005 \$000's	2004 \$'000
<b>18 PROVISIONS</b>					
<i>Current</i>					
Employee entitlements		<b>1,336</b>	1,246	<b>1,336</b>	1,246
<i>Non-Current</i>					
Employee entitlements		<b>99</b>	58	<b>99</b>	58
<b>19 CONTRIBUTED EQUITY</b>					
<i>Issued and Paid Up Capital</i>					
37,968,933 (2004 – 37,968,933) ordinary shares, fully paid		<b>30,624</b>	30,624	<b>30,624</b>	30,624
<b>Movements in ordinary share capital</b>					
Balance at the beginning of the financial year		<b>30,624</b>	29,354	<b>30,624</b>	29,354
Shares issued					
657,500 issued from exercise of options		-	1,270	-	1,270
		<b>30,624</b>	30,624	<b>30,624</b>	30,624

## 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.

# PETER LEHMANN WINES LIMITED

	NOTE	CONSOLIDATED		THE COMPANY	
		2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
<b>20 RESERVES</b>					
Foreign currency translation		<b>(31)</b>	99	-	-
<i>Foreign Currency Translation</i>					
Balance at beginning of year		<b>99</b>	16	-	-
Translation adjustment on controlled foreign entity's financial statements		<b>(130)</b>	83	-	-
		<b>(31)</b>	99	-	-

## 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(f).

	NOTE	CONSOLIDATED		THE COMPANY	
		2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
<b>21 RETAINED PROFITS</b>					
Retained profits at beginning of year		<b>20,858</b>	19,080	<b>15,519</b>	13,907
Net profit attributable to members of the parent entity		<b>6,434</b>	3,830	<b>5,876</b>	3,664
Dividends		<b>(2,088)</b>	(2,052)	<b>(2,088)</b>	(2,052)
Retained profits at the end of the year		<b>25,204</b>	20,858	<b>19,307</b>	15,519

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# PETER LEHMANN WINES LIMITED

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## 22 DIVIDENDS

Dividends recognised in the current year by the Company are:

	Cents per share	Total amount \$'000	Franked	Date of payment
<b>2004</b>				
Final 2004 ordinary	5.5	2,088	franked	8 November 2004

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	9.3	3,539	franked	8 November 2005
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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 2005 and will be recognised in subsequent financial reports.

THE COMPANY	
2005	2004
<b>\$000</b>	<b>\$000</b>

### Dividend franking account

30% franking credits available to shareholders of Peter Lehmann Wines Limited for subsequent financial years.	<b>10,272</b>	8,511
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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

	NOTE	CONSOLIDATED		THE COMPANY	
		2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
<b>23 TOTAL EQUITY RECONCILIATION</b>					
Total equity at beginning of year		<b>51,581</b>	48,450	<b>46,143</b>	43,261
Total changes in equity recognised in the statement of financial performance		<b>6,304</b>	3,913	<b>5,876</b>	3,664
Transactions with owners as owners					
Contributions of equity		-	1,270	-	1,270
Dividends		<b>(2,088)</b>	(2,052)	<b>(2,088)</b>	(2,052)
Total equity at end of year		<b>55,797</b>	51,581	<b>49,931</b>	46,143

## 24 PARTICULARS IN RELATION TO CONTROLLED ENTITIES

Name	Class of Shareholding	Percentage Ownership	Amount of Investment	Contribution to Consolidated Profit	
		2005 %	2005 \$'000	2005 \$'000	2004 \$'000
Peter Lehmann Wines Limited				<b>5,875</b>	3,664
Controlled entities:					
Austral Wines Pty Ltd	ORD	100	-	<b>367</b>	414
Lehmann Wines Pty Ltd	ORD	100	-	-	-
Peter Lehmann Wines (Europe) Ltd	ORD	100	81	<b>192</b>	(248)
			81	<b>6,434</b>	3,830

All entities are incorporated in Australia, except Peter Lehmann Wines (Europe) Ltd which is incorporated in the UK.

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 in Australian dollars with some sales made in Euros, USA dollars 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

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

# PETER LEHMANN WINES LIMITED

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 operates under a board approved credit risk policy for the granting, management and reporting of credit risk exposures.

Concentration of credit risk on trade debtors exists in respect of the Company. As at 30 June 2005, 72% of the company's trade debtors (excluding controlled and related entities) was owed by 5 customers.

The parent entity takes out insurance on certain overseas debts to reduce its credit risk.

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	
		2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
<b>26 EMPLOYEE ENTITLEMENTS</b>					
<b>Aggregate employee entitlements including on-costs</b>					
- Current		1,336	1,246	1,336	1,246
- Non-Current		99	58	99	58
		<b>1,435</b>	<b>1,304</b>	<b>1,435</b>	<b>1,304</b>
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		2.5%	3%	2.5%	3%
Discount rate		5%	5%	5%	5%
Settlement term (years)		10	10	10	10
<b>Number of employees at year end (Full time equivalent)</b>		<b>74</b>	<b>81</b>	<b>66</b>	<b>69</b>

# PETER LEHMANN WINES LIMITED

	CONSOLIDATED		THE COMPANY	
	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000

## 27 COMMITMENTS

### Capital Expenditure Commitments

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

<b>120</b>	70	<b>120</b>	70
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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	
	2005	2004	2005	2004
	\$'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	<b>555</b>	443	<b>512</b>	390
Longer than one year but not longer than two years	<b>432</b>	369	<b>412</b>	302
Longer than two years but not longer than five years	<b>439</b>	532	<b>439</b>	532
	<b>1,426</b>	1,344	<b>1,363</b>	1,224

### Service Agreements

Four executives of the consolidated entity are employed under Services Agreements which entitle them to receive payment of 24 months gross remuneration if they cease to be employed, other than because of the summary termination, in the period after a person's voting power in the Company reaches 40% or more. If all four executives elected to resign within 24 months of the Hess Group AG achieving 40% control on 13 October 2003, the consolidated entity would be liable to pay approximately \$2.3 million.

## 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.

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# PETER LEHMANN WINES LIMITED

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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.

## **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 2005.

# PETER LEHMANN WINES LIMITED

		CONSOLIDATED		THE COMPANY	
		2005	2004	2005	2004
		\$'000	\$'000	\$'000	\$'000
<b>29</b>	<b>NOTES TO THE STATEMENTS OF CASH FLOWS</b>				
(i)	<b>RECONCILIATION OF CASH</b>				
	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	<b>1,545</b>	1,377	<b>732</b>	809
	Bank overdraft	-	-	-	-
		<b>1,545</b>	<b>1,377</b>	<b>732</b>	<b>809</b>
(ii)	<b>RECONCILIATION OF OPERATING PROFIT AFTER INCOME TAX TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>				
	Operating profit after income tax	<b>6,434</b>	3,830	<b>5,876</b>	3,664
	Add/(less) items classified as investing/financing activities:				
	(Profit)/loss on sale of non-current assets	<b>3</b>	66	<b>3</b>	66
	Add/(less) non-cash items:				
	Amounts set aside to provisions	<b>383</b>	417	<b>383</b>	417
	Depreciation	<b>1,839</b>	1,709	<b>1,818</b>	1,697
	Write off water licence and employee shares	-	23	-	9
	SGARA (income)/loss capitalised to vines	<b>(88)</b>	65	<b>(88)</b>	65
	(Decrease)/increase in income taxes payable	<b>(164)</b>	940	<b>(164)</b>	957
	Net cash provided by operating activities before change in assets and liabilities	<b>8,407</b>	7,050	<b>7,828</b>	6,875
	Change in assets and liabilities during the financial year:				
	(Increase)/decrease in inventories	<b>(2,719)</b>	(4,249)	<b>(2,645)</b>	(4,292)
	(Increase)/decrease in prepayments and other debtors	<b>(231)</b>	(149)	<b>(434)</b>	(78)
	(Increase)/decrease in trade debtors	<b>(886)</b>	(311)	<b>79</b>	(474)
	(Increase)/decrease in loans to controlling, controlled and associated entities	<b>665</b>	(1,054)	<b>671</b>	(271)
	(Decrease)/increase in trade creditors	<b>(1,341)</b>	(1,203)	<b>(2,023)</b>	(1,141)
	(Decrease)/increase in provisions	<b>(252)</b>	(217)	<b>(252)</b>	(217)
	(Decrease)/increase in deferred taxes payable	<b>167</b>	(658)	<b>167</b>	(658)
	(Decrease)/increase in foreign currency translation reserves	<b>(130)</b>	83	-	-
	Net cash provided by operating activities	<b>3,680</b>	(708)	<b>3,391</b>	(256)
(iii)	<b>FINANCING FACILITIES</b>				
	Refer Note 17				

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# PETER LEHMANN WINES LIMITED

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## 30 DIRECTOR & EXECUTIVE DISCLOSURES FOR DISCLOSING ENTITIES

### Remuneration of specified directors and specified directors by the consolidated entity

Remuneration levels are competitively set to attract and retain appropriately qualified and experienced directors and senior executives. Remuneration packages may include a mix of fixed and performance based remuneration. Equity based remuneration has not been included since 1998.

The remuneration structures took into account:

- the overall level of remuneration for each director and executive
- the executives' ability to control performance
- the amount of incentives within each executive's remuneration

Executive directors and senior executives may receive bonuses based on the achievement of specific performance hurdles. The performance hurdles may be a blend of the consolidated entity's and each relevant market. Non-executive directors do not receive any performance related remuneration.

Non-executive directors and senior executives may receive additional benefits as non-cash benefits. Non-cash benefits typically include wine allowances and motor vehicles and the Company pays fringe benefits tax on these benefits.

Total remuneration for all non-executive directors, last voted upon by shareholders at the 2001 AGM, is not to exceed \$300,000 per annum. Directors' base fees are presently \$34,000 per annum with an additional \$5,000 per annum paid to directors who chair board committees. The Chairman's fees are \$70,000 per annum.

The board had a retirement scheme whereby based on a sliding scale for up to 10 years service retiring non-executive directors were entitled to receive the equivalent of the fees for the 3 years preceding retirement. The scheme has been discontinued from 31 October 2003. Mr Roger Wilson is entitled to \$113,667 on retirement.

Refer to Note 27 for details on the financial impact in 2005/06 resulting from firm commitments arising from senior executive resignations in the 2 year period following the takeover.

The following table provides the details of all directors of the Company ("specified directors") and the five executives of the consolidated entity with the greatest authority ("specified executives") and the nature and amount of the elements of their remuneration for the year ended 30 June 2005.

# PETER LEHMANN WINES LIMITED

		Salary & Fees	Bonuses	Non-Monetary Benefits	Superannuation Contributions	Termination Benefits	Insurance Premiums	Total
		\$	\$	\$	\$	\$	\$	\$
<b>Specified directors</b>								
<b>Non-executive</b>								
Dr M Lienhard	2005	70,000	-	-	-	-	3,091	73,091
Chairman	2004	46,705	-	-	-	-	2,991	49,696
Appointed 31 October 2003								
P A Young	2005	39,000	-	3,175	3,510	-	3,091	48,776
Deputy Chairman	2004	26,000	-	2,893	2,340	-	2,991	34,224
Appointed 31 October 2003								
R M Wilson	2005	39,000	-	4,075	3,510	-	7,280	53,865
	2004	44,000	-	3,543	3,640	-	7,180	58,363
Kay Carey	2005	18,419	-	1,000	1,658	-	1,545	22,622
Appointed 12 December 2004	2004	-	-	-	-	-	-	-
H W G Tilley	2005	-	-	-	-	-	-	-
Retired 31 October 2003	2004	15,000	-	3,476	1,300	113,667	4,189	137,632
R A F England	2005	-	-	-	-	-	-	-
Retired 31 October 2003	2004	28,333	-	3,030	2,333	98,333	4,189	136,218
N C Lister	2005	-	-	-	-	-	-	-
Resigned 31 October 2003	2004	15,000	-	3,424	1,300	45,467	4,189	69,380
A G Froggatt	2005	-	-	-	-	-	-	-
Resigned 21 August 2003	2004	5,833	-	-	583	-	4,189	10,605
<b>Executive</b>								
D Mc Lehmann	2005	197,491	-	72,795	29,624	-	7,280	307,190
Managing Director	2004	191,739	-	60,448	28,761	-	7,180	288,128
R V Edwards	2005	187,785	-	51,751	28,168	-	7,280	274,984
Marketing Director	2004	182,316	-	38,877	27,347	-	7,180	255,720
Total, all specified directors	2005	551,695	-	132,796	66,470	-	29,567	780,528
	2004	554,926	-	115,691	67,604	257,467	44,278	1,039,966
<b>Specified executives</b>								
<i>The Company</i>								
H T Astrom <sup>(1)</sup>	2005	232,141	-	83,035	23,214	-	7,280	345,670
VP - EU & USA Brand Development	2004	230,443	-	84,341	23,045	-	7,180	345,009
T M Brown	2005	94,500	-	28,586	9,450	-	7,280	139,816
Operations Manager	2004	90,000	-	25,082	8,100	-	7,180	130,362
B K Clapton	2005	138,314	-	32,827	13,831	-	7,280	192,252
CFO & Company Secretary	2004	134,285	-	32,259	13,429	-	7,180	187,153
A D Wigan	2005	162,814	-	31,192	16,281	-	7,280	217,567
Chief Winemaker	2004	158,072	-	30,908	15,807	-	7,180	211,967
<i>Controlled entity</i>								
W I Whigham(1)	2005	275,718	-	33,983	23,415	-	7,280	340,396
Managing Director Peter Lehmann Wines (Europe)	2004	252,497	-	23,031	21,329	-	7,180	304,037
Total, all specified executives	2005	903,487	-	209,623	86,191	-	36,400	1,235,701
	2004	865,297	-	195,621	81,710	-	35,900	1,178,528

<sup>(1)</sup> Salary packages of the EU and UK executives have been converted to Australian dollars at the balance date exchange rates.

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# PETER LEHMANN WINES LIMITED

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## Equity holdings and transactions

The movement during the reporting period in the number of ordinary shares of Peter Lehmann Wines Limited held, directly, indirectly or beneficially, by each specified director and specified executive, including their personally-related entities as follows:

	Held at 1 July 2004	Purchases	Sales	Held at 30 June 2005 Direct
<b><i>Specified director</i></b>				
M Lienhard	-	-	-	-
P A Young	-	-	-	-
K E Carey	-	-	-	-
R M Wilson	35,000	-	-	35,000
D Mc Lehmann	-	-	-	-
R V Edwards	-	-	-	-
<b><i>Specified executive</i></b>				
H T Astrom	-	-	-	-
T M Brown	-	-	-	-
B K Clapton	-	-	-	-
W I Whigham	-	-	-	-
A D Wigan	10,000	-	-	10,000

## Other transactions with the Company or its controlled entities

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

## 31 NON-DIRECTOR RELATED PARTIES

### Controlling entity

Hess Group AG, the controlling entity of the Company, provides trade mark and know how expertise on in the normal course of business and on normal terms and conditions. A licence fee is payable for the use of the trade mark.

### Wholly-owned controlled entities

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 financial effect of these transactions has been eliminated on consolidation.

### Associates

Wine is sold to The Hess Collection Wines, an entity controlled by Hess Group AG, for distribution in the USA in the normal course of business and on normal terms and conditions.

The Company provides representation services to other members of the controlling entity's group. Service fees are earned on a usage basis from Hess Collection Wines, Glen Carlou Wines and Bodega Colomé. Services are provided in the normal course of business and the fees charged are on normal terms and conditions.

Hess AG, a subsidiary of the controlling entity, provides administrative support and this is charged to the Company on normal terms and conditions.

# PETER LEHMANN WINES LIMITED

The aggregate amounts included in the profit from ordinary activities before income tax expense that resulted from transactions with non-director related parties are:

	THE COMPANY	
	2005	2004
	\$	\$
Revenue from sale of goods – associates	4,494,892	3,415,222
Revenue from service fees – associates	291,889	-
Licence fee paid – controlling entity	470,776	-
Service fee paid – associate	218,357	-

Amounts owing to or by non-director related parties are:

	CONSOLIDATED		THE COMPANY	
	2005	2004	2005	2004
	\$	\$	\$	\$
<b>Receivables – Current</b>				
Wholly owned controlled entities	-	-	2,078,988	2,178,809
Associates	899,555	1,053,724	899,555	1,053,724
	<b>899,555</b>	<b>1,053,724</b>	<b>2,978,543</b>	<b>3,232,533</b>
<b>Payables – Current</b>				
Controlling entity	470,270	-	470,270	-
Wholly-owned controlled entities	-	-	3,281,587	3,375,599
Associates	92,016	-	92,016	-
	<b>562,286</b>	<b>-</b>	<b>3,843,873</b>	<b>3,375,599</b>

## Particulars in Relation to Controlled Entities

Refer to Note 24

### Ultimate parent entity

The immediate parent entity is Hess Group Australia Pty Ltd, a company incorporated in New South Wales.

The ultimate parent entity is Hess Group AG, a company incorporated in Switzerland.

## 32 IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

### International Financial Reporting Standards

For reporting periods beginning on or after 1 January 2005, the consolidated entity must comply with International Financial Reporting Standards (IFRS) as issued by the Australian Accounting Standards Board.

This financial report has been prepared in accordance with Australian Accounting Standards and other financial reporting requirements (Australian GAAP) applicable for reporting periods ended 30 June 2005.

### Transition Management

An implementation project has been established to assess the impact of the transition to Australian International Financial Reporting Standards (AIFRS) and to achieve compliance with AIFRS reporting for the financial year commencing 1 July 2005.

The project is monitored by the audit committee. The consolidated entity is expected to be in a position to fully comply with the requirements of AIFRS for the 30 June 2006 financial year.

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# PETER LEHMANN WINES LIMITED

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Priority has been given to the preparation of an opening balance sheet in accordance with AIFRS. This will form the basis of accounting for AIFRS in the future.

There is a significant amount of judgement involved in the preparation of disclosures from current Australian GAAP to AIFRS and the actual effects of transition may differ due to:

- potential implications in financial reporting requirements that are relevant to the Company's and consolidated entity's first complete AIFRS financial report resulting from new or revised accounting standards or interpretations issued by the Australian Accounting Standards Board subsequent to the preparation of the 30 June 2005 financial report
- additional guidance on the application of AIFRS in a particular industry or to a particular transaction
- changes to the Company's and consolidated entity's operations.

## Expected Changes

The significant changes in accounting policies expected to be adopted in preparing the AIFRS reconciliations and the elections to be made under ASSB 1 *First Time Adoption of Australian Equivalents to International Financial Reporting Standards* are set out below.

- (a) Reclassifications  
Based on preliminary work, adjustments are unlikely to be material.
- (b) Property, plant and equipment  
Property, plant and equipment is measured at cost under AIFRS and it is expected that the consolidated entity will continue to adopt these values.
- (c) Leased assets  
At the date of transition to AIFRS leases will be classified as operating leases or finance leases on the basis of circumstance existing at inception of the lease. Based on preliminary work leases are considered to be operating leases and adjustments are unlikely to be material for the consolidated entity or the Company.
- (d) Impairment  
Under AIFRS, the carrying amount of the consolidated entity's non-current assets, excluding, deferred tax assets, will be reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset will be tested for impairment by comparing its recoverable amount to its carrying amount.

If there is any indication that an asset is impaired (or for those tested annually), the recoverable amount will be estimated for the individual asset. If it is not possible to estimate the recoverable amount for the individual asset, the recoverable amount of the cash generating unit to which the asset belongs will be determined.

A cash generating unit will be the smallest identifiable group of assets that generate cash inflows largely independent of the cash inflows of other assets or group of assets, each cash-generating unit must be no larger than a segment.

Under current Australian GAAP, the recoverable amount of non-current assets are as assessed at an entity level using undiscounted cash flows.

Under AIFRS the recoverable amount of the consolidated entity's non-current assets will be the greater of the fair value less costs to sell and the value in use. In assessing value in use, the estimated future cash flows will be discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the risks specific to the asset or cash generating unit. Preliminary work indicates that it will be unlikely material adjustments will be required for the consolidated entity or the Company.

An impairment loss will be recognised whenever the carrying amount of an asset, or its cash generating unit exceeds its recoverable amount.

Under the current Australian GAAP the Company has created a bad debt provision raised on the age of outstanding receivables. The impact of the change in the basis of impairment testing for trade receivables has still to be evaluated.

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# PETER LEHMANN WINES LIMITED

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(e) Taxation

On transition to AIFRS the balance sheet method of tax effect accounting will be adopted, rather than the liability method applied currently under Australian GAAP.

Under the balance sheet approach, income tax on the profit and loss for the year comprises current and deferred taxes. Income tax will be recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it will be recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at reporting date, and any adjustments to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided will be based on the expected manner of realisation of the asset or settlement of the liability, using tax rates enacted or substantially enacted at reporting date.

A deferred tax asset will be recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets will be reduced to the extent it is no longer probable that the related tax benefit will be realised.

The expected impact on the consolidated entity at 1 July 2004, of the change in basis and the transition adjustments on the deferred tax balances and the previously reported tax expense has not been finalised. Accordingly the adjustments which may be material have not been estimated at this stage.

Under the tax consolidation regime in the AIFRS framework the wholly owned subsidiaries in a tax consolidated group will be required to recognise their own tax balances directly. The impact, if any, of this change has not been quantified at this stage.

(f) Foreign Currency

Under Australian GAAP, the assets and liabilities of the self-sustaining foreign operations are translated at the rates of exchange ruling at reporting date. Equity items are translated at historical rates. The statements of financial performance are translated at a weighted average rate for the year. Exchange differences arising on translation are recognised directly in the foreign currency translation reserve.

Under AIFRS each entity in the consolidated entity determines its functional currency, the currency of the primary economic environment in which the entity operates reflecting the underlying transactions, events and conditions that are relevant to the entity. The entity maintains its books and records in its functional currency. The assets and liabilities of the foreign operation are translated from the entity's functional currency to the consolidated entity's presentation currency of Australian dollars at foreign exchange rates ruling at reporting date. The revenues and expenses of the foreign operation are translated to Australian dollars at the exchange rates approximating the exchange rates ruling at the date of the transactions. Foreign exchange differences arising on translation are recognised directly in a separate component of equity.

There are no expected changes in functional currency for the Company or its foreign operation. The AASB 1 *First Time Adoption of Australian Equivalents to International Financial Reporting Standards* election to reset the existing foreign currency translation reserve balance to nil is not expected to be adopted. Foreign currency translation differences that have risen prior to the date of transition are expected to continue to be presented as a separate component of equity.

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# PETER LEHMANN WINES LIMITED

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(g) Borrowing costs

Current Australian GAAP requires borrowing costs relating to qualifying assets to be capitalised as part of the cost of the asset.

Under AIFRS borrowing costs may either be recognised as an expense in the period in which they are incurred, or where they are directly attributable to the acquisition, construction or production of a qualifying asset they may be capitalised as part of the cost of the asset.

Under Australian GAAP Peter Lehmann Wines Limited capitalises borrowing costs to the production of maturing inventory.

(h) Earnings per share

Under AIFRS basic and diluted earnings per share are calculated using the profit or loss from continuing operations attributable to the ordinary equity holders of the Company. As the impact of the adoption of AIFRS has not been finalised no estimate has been made for the AIFRS adjusted results. Accordingly no estimate for the earnings per share for the financial year ended 30 June 2005 calculated under AIFRS has been made.

(i) Financial instruments

Peter Lehmann Wines Limited expects to take advantage of the election in AASB 1 *First Time Adoption of Australian Equivalents to International Financial Reporting Standards* to not restate comparatives for AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement*.

The expected impact on the consolidated entity at 1 July 2004, of the change in basis and the transition adjustments on the financial instruments has not been finalised. Accordingly the adjustments, if any, have not been estimated at this stage.

## 33 EVENTS SUBSEQUENT TO REPORTING DATE

### **Dividends**

For dividends declared after 30 June 2005 see Note 22.

### **International Financial Reporting Standards**

For reporting periods beginning on or after 1 January 2005 the consolidated entity must comply with Australian equivalents to International Financing Reporting Standards (AIFRS) as issued by the Australian Accounting Standards Board. The implementation plan and potential impact of adopting AIFRS are detailed in Note 32 to the financial statements.

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# PETER LEHMANN WINES LIMITED

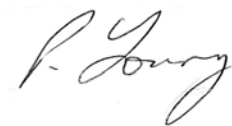
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## DIRECTORS' DECLARATION

1. In the opinion of the directors of Peter Lehmann Wines Limited ("the Company"):
  - a) the financial statements and notes, set out on pages 13 to 45, 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 2005 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 controlled entities 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 controlled entities pursuant to ASIC Class Order 98/1418.

Dated at Tanunda this 16<sup>th</sup> day of September 2005

Signed in accordance with a resolution of the Directors:



P A Young (Deputy Chairman)



D McC Lehmann (Managing Director)

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# PETER LEHMANN WINES LIMITED

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

### Scope

We have audited the financial report of Peter Lehmann Wines Limited ("the Company") for the financial year ended 30 June 2005, consisting of the statements of financial performance, statements of financial position, statements of cash flows, accompanying notes 1 to 33, and the directors' declaration. The financial report includes the consolidated financial statements of the consolidated entity, comprising the Company and the entities it controlled at the end of the year or from time to time during the financial year. The Company's directors are responsible for the financial report. We have conducted an independent audit of this financial report in order to express an opinion on it to the members of the Company.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements in Australia and statutory requirements so as to present a view which is consistent with our understanding of the Company's and the consolidated entity's financial position, and performance as represented by the results of their operations and their cash flows.

The audit opinion expressed in this report has been formed on the above basis.

### 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 2005 and of their performance for the year ended on that date; and
  - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- b) other mandatory professional reporting requirements in Australia.



KPMG



G DRABSCH  
Partner  
Adelaide

16<sup>th</sup> September 2005