



**PETER LEHMANN WINES LIMITED
AND ITS SUBSIDIARIES
FULL YEAR FINANCIAL STATEMENTS
TO 30 JUNE 2011**

PETER LEHMANN WINES LIMITED AND ITS SUBSIDIARIES

DIRECTORS' REPORT

The Directors present their report together with the financial statements of the Group comprising Peter Lehmann Wines Limited (the Company), and its subsidiaries for the financial year ended 30 June 2011 and the auditor's report thereon.

Directors

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

Name, Qualifications & Special Responsibilities	Age	Experience and other Directorships
Eveline Maria SAUPPER, Dr iur Non-Executive Director Member of the Audit & Remuneration Committees	52	Eveline Saupper is a member of the Hess Family Estates AG Board. She is a member and partner at Homburger AG, a law firm in Zurich, Switzerland. She is a member of the Zurich bar and a qualified tax expert. Appointed to the board on 16 August 2010 and appointed Chairwoman on 25 January 2011.
Douglas McCaig LEHMANN Executive Director until 30 June 2010 Non-Executive Director from 1 July 2010 Member of the Audit & Remuneration Committees	59	Doug Lehmann's formative experience in the wine industry was as a winemaker. Over the last 37 years he has developed skills in wine production, marketing and distribution as well as general management. Managing Director from March 1993 and appointed Deputy Chairman from 1 July 2010.
Donald Mark Conrad HESS Non-Executive Director Member of the Audit & Remuneration Committees	75	Donald Hess is Chairman of the Hess Family Estates AG Board. Inspired by a trip to the Napa Valley he bought his first vineyard and developed the Hess Collection Winery which also houses part of his collection of modern art. Hess Family Estates has wineries in four continents - Hess Collection Winery in California, Bodega Colomé in Argentina, Glen Carlou in South Africa and the majority holding in Peter Lehmann Wines, Australia. Appointed Director on 4 March 2010.
Robert Lee WILLIAMS, JD, LL.M (Tax) Non-Executive Director Chairman of the Audit Committee Member of the Remuneration Committee	68	Vice Chairman of Hess Family Estates AG Board and a former Ernst & Young International Tax Partner. Appointed to the board on 4 March 2010.
Roger Maxwell WILSON, LLB Non-Executive Director Chairman of the Remuneration Committee and Member of the Audit Committee	70	Roger Wilson has 47 years experience as a practicing solicitor specialising in commercial law. Appointed as a Director in March 1993 and designated as Peter Lehmann's representative in November 2002.
Christoph Jakob EHRBAR, BBus Admin (Marketing) Non-Executive Director Member of the Audit & Remuneration Committees	35	Christoph Ehrbar has built on his finance industry experience in Switzerland and the UK through an active involvement in a property company and management of an Argentinean winery. He was appointed as Managing Director of the Hess Family Estates and appointed to the board on 1 July 2011.

Name, Qualifications & Special Responsibilities	Age	Experience and other Directorships
Martin Robert KRONENBERG Non-Executive Director Member of the Audit & Remuneration Committees	46	Martin Kronenberg was a member of the Hess Family Estates AG Board. Appointed to the board on 12 March 2009 and appointed Chairman of the board on 12 March 2010. Resigned 10 January 2011.
General Manager Jeffrey Brooke BOND, BBus Management (Marketing)	37	Jeff Bond has held senior marketing positions in food and beverage businesses in Australia, Asia and North America. He joined the Company on 12 July 2010.
Company Secretary Barbara Kay CLAPTON, BEd Grad Dip Acc FCA, FCIS	57	Chief Financial Officer & Company Secretary and leads the finance and administration team. Appointed Company Secretary 5 March 1993.

Corporate governance statement

The board was reconstituted following the takeover in October 2003 with many of the established practices remaining in place. The Company requested removal from the Australian Securities Exchange (ASX) and this came into effect on 12 October 2004.

During 2009 Hess Family Estates AG formulated a strategy of combining the marketing and selling resources for the wine companies under its ownership. The restructuring of the PLW board reflects the greater involvement of the Hess Family Estates AG Directors in overseeing PLW's operations.

Board of Directors & its committees

Role of the board

The Directors have the overall obligation to act in the best interests of the shareholders and to protect the shareholders' investment. The board's charter is located on the Company's website.

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 the operation and administration is delegated to executive management.

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 and governance 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 management information systems including adherence to the codes of conduct and legal compliance program
- Monitoring senior management's performance and implementation of the business strategy
- Setting remuneration and appointing, removing and creating succession policies for Directors and senior executives.

Composition of the board

The Constitution requires a minimum of three and a maximum of ten Directors. Up to five Directors may be executive Directors.

All Directors are subject to election by shareholders at the first opportunity after their appointment. 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 ownership of the Company whereby two shareholders control 96% of the issued shares has determined the board structure. It is not considered appropriate to set a maximum term of office for individual Directors.

Process

The board generally schedules one meeting each year at the winery and this provides Directors with the opportunity to visit the production facilities and for contact with a wider group of employees. Other meetings may be convened at other venues or conducted by conference calls.

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.

Each director has the right to seek independent professional advice at the Company's expense after first obtaining the chairwoman's approval. A copy of the advice received by the director is made available to all other members of the board. The chairwoman has the discretion to approve expenditure without prior reference to the board or to refer the request to the board.

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:

- assessing the risk and control environment, reviewing accounting policies, internal controls, practices and disclosures to assist the board in making informed decisions;
- overseeing the financial reporting to ensure it complies with Australian Accounting Standards (AASBs), is of a high quality and appropriate prior to recommending adoption of the financial statements by the board for release to shareholders; and
- 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 income statements, balance sheets and statements of 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 twice a year to coincide with the production of published financial statements and the assessment of external audit reports. The external auditor, the general manager 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 audit committee provides advice to the board in respect of whether the provision of non-audit services by the external auditor is compatible with the general standard of independence of auditors imposed by the Corporations Act 2001. The external audit firm was appointed in 1993 and the audit engagement partner was last rotated in March 2009. Each reporting period the external auditor provides an independence declaration in relation to the audit or review.

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

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 continuous disclosure, occupational health and safety, environment, label integrity, export, trademarks and liquor licence requirements. The Company is cognisant of its responsibilities in relation to food safety, efficient use of resources, effective lifecycle management of packaging and paper products, and the hazard analysis critical control point methodology as applied to the wine industry.

The general manager 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 half yearly intervals. The audit committee assesses management processes which support external reporting.

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. It is also responsible for incentive performance policies, superannuation entitlements, retirement and termination entitlement, and fringe benefits policies.

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. It is not intended to eliminate risk. The risk management system encompasses all financial, operational and compliance controls and is subject to regular review.

The general manager 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. All risk assessments covered the whole financial year and the period up to the signing of the annual financial report for all material operations in the Group and joint ventures.

Risk profile

PLW has a simple business model with these features:-

- sourcing of grapes from 143 independent growers who bear the agricultural risks
- a single processing site
- the winery operations are subject to South Australian Environment Protection Authority (EPA) requirements with regular monitoring of licence requirements reported to the EPA as required
- stable workforce
- packaging work outsourced
- wine is sold through independent distributors in Australian and overseas markets except for the UK and USA
- distribution in the UK is through a joint venture
- wine is sold to a commonly controlled company in the USA
- retail sales through the Cellar Door
- operates in a market subject to rapid changes in consumer preferences
- affected by potential government policy changes regarding the taxing and regulation of the alcohol industry

Major business risks include

- *Grape intake* – 79% of the 2011 grape intake was from contracted growers. Crop levels vary with seasonal events and restrictions on water allocations have the potential to constrain yields.
- *Occupational health and safety* - Occupational health and safety standards and management systems are monitored and reviewed by the board to assess performance and compliance with regulations. The Company has not had any health and safety prosecutions.
- *Environmental impact* - The Company's operation has the potential to impose environmental risks through chemical storage and handling and winery wastewater. Winery wastewater is treated onsite and then piped to a nearby operator where it is further processed before being returned for irrigation on lawns and gardens at Cellar Door. The Company voluntarily reports emissions to the National Pollutants Index and is a member of the National Packaging Covenant which seeks to reduce packaging materials entering the waste stream. PLW is signatory to the South Australian wine industry sector agreement which seeks to record and reduce carbon emissions. PLW has adopted the Australian Wine Industry Carbon Calculator and is a preliminary member of the Wine Federation of Australia's *EntWine* program which addresses sustainability issues.
- *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 food safety issues are addressed with PLW granted accreditation in 2011. The contract bottler is HACCP and ISO 9001 accredited.
- *Channels to market* – PLW works closely with a range of buyers including distributors, wholesalers, retailers, mail order businesses, duty free operators and the restaurant trade.
- *Competitor activity* – the Australian wine industry is dominated by four large producers and their marketing and selling programs, particularly with large retail chains, influence trading conditions in many markets.
- *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 fixed interest rate swaps with floating rate arrangements.

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.

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 grape intake, 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 – wine production, occupational health and safety, environment and enterprise conditions. These committees meet regularly and provide reports to the board.

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

Assessment of the effectiveness of risk management

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

Communication with shareholders

The Directors ensure shareholders are informed of all major developments affecting the Company.

- The half yearly report contains summarised financial information about the operations during the period. The half-year reviewed financial report is lodged with the Australian Securities and Investments Commission (ASIC), published on the Company's website and sent to any shareholder who requests it.
- A summary of the half-year result is sent to all shareholders in March each year.
- PLW prepares full financial statements which are available in September each year from the Company's website and sent to any shareholder who requests a copy.
- The annual report and other relevant information about the operations during the financial year, changes in the state of affairs and details of future developments are made available on the Company's website. The annual report is sent to any shareholder who requests a copy.
- The outcome of the AGM is sent to all shareholders each year.
- Shareholders, who elect to do so, receive promotional information in the form of newsletters which are usually circulated twice a year.
- Shareholders may also join the electronic mailing list and receive notices of the winery's activities and promotional information.
- All announcements, financial statements and other relevant reports are made available on the Company's website within a day of public release.
- Announcements, annual reports and financial statements are archived on the Company's website.

The board encourages full participation of shareholders at the annual general meeting. 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.

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		Audit Committee	
	A	B	A	B
E M Saupper	3	3	2	2
D McC Lehmann	3	3	2	2
D M C Hess	2	3	1	2
R L Williams	3	3	2	2
R M Wilson	3	3	2	2
M R Kronenberg	1	2	-	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.

Principal activities

The principal activities 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.

Specific information relating to employment and occupational health and safety management, environment management, 10 year financial history, capital investment cycle and the review of operations and financial conditions for year ended 30 June 2011 is available from the Company's website.

Shareholder returns

	2011	2010	2009	2008	2007
After tax profit for the year	\$1,006,000	\$3,795,000	\$5,736,000	\$9,604,000	\$5,975,000
Basic EPS	2.6 cents	10.0 cents	15.1 cents	25.3 cents	15.7 cents
Dividends paid/payable	Nil	\$2,088,000	\$3,148,000	\$5,282,000	\$3,265,000
Dividends per share	Not applicable	5.5 cents	8.3 cents	13.9 cents	8.6 cents
Return on capital employed	1%	6%	9%	14%	10%

Returns to shareholders increase through both dividends and capital growth.

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>Declared and paid during the year 2011</i>				
- Final 2010 ordinary	5.5 cents	2,088	franked	5 Nov 2010

Franked dividends declared as paid during the year were franked at the rate of 30 per cent.

After the balance sheet date the result was considered by the Directors and they determined not to pay a dividend for the year ended 30 June 2011.

Review of operations

Company overview

Since the public subscription in 1993 Peter Lehmann Wines has worked assiduously to build the brand in both the domestic and export markets. As our home base the Australian market is particularly important and we have enjoyed considerable success over the years.

However, the market dynamics have changed with the two major retailers exerting substantial influence and making it difficult to work through a distributor business model. Accordingly we have restructured the business operation in Australia to deal direct with the retailers and service the independent and on-premise trade through Four Seasons Fine Wines Pty Ltd, a distributor which did not have a Barossa producer in its portfolio.

Considerable uncertainty continues in the global economy with the resources boom fueling the Australian dollar compared with our trading partners. The higher dollar impacts on the profitability of exporters and most commentators predict the Australian dollar will remain strong against the US dollar, euro and pound sterling over the short to medium term.

Consequently total branded sales were down 6% in volume and 8% in value over that of the previous year. These difficult conditions are expected to continue over the medium term.

Production

Above average rainfall before and during vintage did cause disease problems in some of the independent growers' vineyards. However, this fruit was not picked and did not enter the winery. The majority of our growers were unaffected and, due to the ideal ripening temperatures have produced excellent wines.

Despite the challenging conditions, the total crush was 11,380 tonnes (2010: 10,477) with 11,000 tonnes (2010: 10,138) made for our own use. The increased yields as a result of the higher than average rainfall compensated for the loss of volumes caused by disease, enabling the Company to have a higher intake than in 2010.

Trading during 2010-11

The Australian market conditions continue to remain extremely difficult, with our branded domestic sales down 23% in volume and 20% in value, compared with the previous year. Over supply, continued market consolidation and the strong presence of New Zealand white wine are major factors negatively influencing the domestic scene. These poor results underpinned the need for the business to seek an alternate business model in the domestic market.

PLW total branded export sales have been significantly affected by adverse exchange rates, with volume down 1% and value decreasing by 3%. Transactions in foreign currencies are translated at the prevailing exchange rates with profitability put under pressure when the Australian dollar strengthens against the counterpart's currency. These conditions further emphasise the need for the business to seek growth within the domestic market.

Monitoring of our stock holding is a continuous process as we align stock levels with bottled wine sales and sales forecasts. Wine surplus to our requirements is sold on the bulk wine spot market and despite an overall national wine surplus we saw solid movement with sales of \$3.4M (2010: \$3.9M).

Foreign exchange and financing

On a value basis the Company exported approximately 72% (2010: 68%) of its branded wine to a number of overseas markets. Consequently PLW has substantial exposure to foreign exchange movements. The Australian dollar has been strengthening against most major currencies over the last year and for the year ended 30 June 2011 on translation of receipts from sales and conversion of balances owing at balance date an overall exchange rate loss on translation of \$654,000 (2010: \$471,000 loss; 2009: \$1M gain; 2008 \$0.1M loss) was recorded.

The Company's \$15.5M debt at 30 June 2011 represented 23% (2010: 27%) of shareholders' equity. Marking the interest rate swap contracts with a face value of \$6M to market values resulted in a gain of \$46,000 (2010: \$311,000 gain).

Equity

There has been no change to the capital structure of the Company during the year and it remains an unlisted public company with 449 shareholders. Swiss based Hess Family Estates AG (formerly Hess Group AG) and founder Peter Lehmann hold 85.67% and 10.37% of the issued shares respectively.

Strategy and future performance

Over recent years the Australian wine industry has experienced rapid change and is currently undergoing a restructuring of sorts. The strengthening of the Australian dollar, the rise of new world wine producers (NZ, Chile and Argentina) with lower cost structures and the oversupply of grapes in Australia have all resulted in compressed sales and squeezed producer margins. PLW traditionally found its strength in export markets mitigated risks associated with being too concentrated in one or two markets. This strength still remains, however the industry headwinds mean profitability in the export markets has come under pressure.

In response to these pressures, the core strategies were reviewed and priorities set. The first priority is to "refresh" and reposition the brand through a revised brand portfolio and packaging update. The brand refresh is the most significant since the Art Series Queens were introduced in the mid 1990's.

The second priority is to position the business for growth in the domestic market. The Australian market parameters have changed markedly over the last decade and the previous arrangement whereby the Company successfully sold its wines primarily through a distributor ceased to be relevant. The Company will be selling direct to the two large retailers and appointed Four Seasons Fine Wines to distribute to the independent chains and on-premise segment. This route to market commenced on 1 July 2011.

In addition to these key priorities we have reviewed all facets of the business to reshape it to take advantage of opportunities. The Company continues to make wines of outstanding quality and with its strong backing and rejuvenation PLW is expected to come through the current difficulties and progress positively.

Likely developments

The Group 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 Group 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 Group.

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.

Events subsequent to reporting date

As outlined in Note 21 to the financial statements the Group breached its banking covenants by exceeding its interest rate cover and maximum leverage threshold in the fourth quarter of 2011. Subsequent to year end the bank advised that they would not waive or give up its rights in relation to the breaches of banking covenants thresholds in June 2011.

In September 2011 a letter of continuing financial support was received from Hess Family Estates AG.

There have been no other events subsequent to balance date which would have a material effect on the Group's financial statements at 30 June 2011.

Banking arrangements and the going concern basis of preparation

As outlined above and in Note 21 to the financial statements the Group breached banking covenants in June 2011 and are in ongoing negotiations with National Australia Bank. In Note 2(e) to the financial statements the directors have determined the going concern basis of preparation to be appropriate for the 30 June 2011 financial statements.

Remuneration report - audited

Compensation policies

Key management personnel have authority and responsibility for planning, directing and controlling the activities of the Company and the Group. Key management personnel comprise the directors of the Company and senior executives for the Company including the five most highly remunerated Company executives.

The compensation structures took into account:

- the overall level of compensation for each director and executive
- the key management personnel's ability to control the relevant segment performance
- the Group's performance including earnings per share
- the amount of incentives within each executive's compensation

Compensation packages may include a mix of fixed and performance based remuneration. Equity based remuneration has not been included since 1998.

Fixed compensation

Fixed compensation consists of base compensation (which is calculated on a total cost basis and includes any FBT charges related to employee benefits including motor vehicles), as well as employer contributions to superannuation funds. Compensation levels are reviewed annually by the remuneration committee through a process that considers individual, market contributions and overall performance of the Group. Compensation levels are competitively set to attract and retain appropriately qualified and experienced directors and senior executives.

Performance linked remuneration

The remuneration committee may structure packages for executive directors and senior executives to receive performance linked remuneration based on the achievement of specific performance objectives. The performance objectives are designed to reward key management personnel for meeting or exceeding their financial and personal objectives. The short term incentive is an 'at risk' bonus provided in the form of cash.

Short term incentive bonus

Each year the remuneration committee considers the key performance indicators (KPIs) for certain sales personnel. The KPIs generally include the financial performance measures relating to the relevant market and individual. The financial performance objectives are 'market contributions' compared to budgeted amounts as these directly align the individual's reward to the KPI's of the Group and to its strategy and performance. At the end of the financial year the remuneration committee assesses the actual performance of the Group, the relevant segment and individual against the KPI's set at the beginning of the financial year. No bonus is awarded where the performance falls below the minimum.

Consequences of performance on shareholder wealth

In considering the Group's performance and benefits for shareholder wealth, the remuneration committee has regard to the following indices in respect of the current financial year and the previous four financial years.

	2011	2010	2009	2008	2007
After tax profit for the year	\$1,006,000	\$3,795,000	\$5,736,000	\$9,604,000	\$5,975,000
Basic EPS	2.6 cents	10.0 cents	15.1 cents	25.3 cents	15.7 cents
Dividends paid/payable	Nil	\$2,088,000	\$3,148,000	\$5,282,000	\$3,265,000
Dividends per share	Not applicable	5.5 cents	8.3 cents	13.9 cents	8.6 cents
Return on capital employed	1%	6%	9%	14%	10%

'After tax profit' is considered to be the key financial performance target in setting short term incentives for the Group's personnel. The 'after tax profit' determines the rate of dividend payments and the return on capital provided by shareholders.

The overall level of key management personnel compensation takes into account the performance of the Group over a number of years. Since the record 2008 year the Group's profit after tax has declined in line with the reduced level of sales which reflect the extremely competitive global and domestic wine market and the effect of a strengthening Australian dollar.

Other benefits

Key management personnel may receive additional benefits such as non-cash benefits. Non-cash benefits typically include wine allowances and motor vehicles and the Company pays fringe benefits tax on these benefits.

Service contracts

It is the Group's policy that service contracts for key management personnel be unlimited in term.

Retirement Benefits

The retirement scheme has been discontinued from 31 October 2003 and is not available to directors first appointed after that date. Upon retirement, Mr Roger Wilson is entitled to \$113,667.

The former Managing Director was paid \$600,000 in cash and given use of two motor vehicles under operating leases which expire in January 2013 valued at \$159,930, on transition to the non-executive Deputy Chairman role. His appointment as Deputy Chairman recognises his deep understanding of the Australian wine industry and long standing involvement with the Company.

Non-executive Directors

Compensation 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 up to \$44,000 per annum.

The Deputy Chairman's base fee is set at \$80,000 per annum. Non-executive Directors do not receive any performance related remuneration. Director's Fees cover all main board activities and membership of the board committees.

In the 2010/11 year the non-executive directors' compensation, excluding the retirement benefit, totalled \$295,961 (2010: \$273,187).

Bonus Payment

The General Manager who was appointed in July 2010 received a "sign on" bonus of \$25,000 after completing six months in the position.

Directors' and executive officers' remuneration (Company and Group)

Details of the nature and amount of each major element of remuneration of each director of the Company, each of the five named Group executives who receive the highest remuneration and other key management personnel are:

		Short-term				Post Employment	Total	Proportion of remuneration performance related
		Salary & Fees	Cash Bonus	Increment in Annual & Long Service Leave Entitlements	Non-Monetary Benefits	Super-annuation Contributions/Termination Payment		
		\$	\$	\$	\$	\$	\$	%
Directors								
Non-executive								
E M Saupper (Appointed 16 August 2010 and appointed Chairwoman 25 January 2011)	2011	44,000	-	-	-	-	44,000	-
R M Wilson (appointed 5 March 1993)	2011 2010	44,000 44,000	- -	- -	2,574 2,996	4,400 4,400	50,974 51,396	- -
D M C Hess (appointed 4 March 2010)	2011 2010	44,000 -	- -	- -	- -	- -	44,000 -	- -
R L Williams (appointed 4 March 2010)	2011 2010	44,000 -	- -	- -	- -	- -	44,000 -	- -
D Mc Lehmann Former Managing Director (appointed non-executive 1 July 2010)	2011 2010	80,000 269,995	- -	- 5,900	2,574 80,181	767,930 90,499	850,504 446,575	- -
P A Young (Appointed Chairman 25 October 2009 and resigned 12 March 2010)	2010	80,000	-	-	2,800	8,000	90,800	-
Kay Carey (resigned 3 March 2010)	2010	44,000	-	-	2,519	4,400	50,919	-
R V Edwards (resigned 3 March 2010)	2010	44,000	-	-	2,701	4,400	51,101	-
M R Kronenberg (appointed 12 March 2009 & resigned 10 January 2011)	2011 2010	22,413 -	- -	- -	- 28,971	- -	22,413 28,971	- -
Executives								
J B Bond General Manager (Appointed 12 July 2010)	2011	250,000	25,000	13,270	31,216	25,000	344,486	-
H T Astrom ⁽¹⁾ EU Brand Development	2011 2010	290,125 271,890	- -	(5,634) (17,536)	91,961 88,506	36,266 33,986	412,718 376,846	- -
B K Clapton CFO & Company Secretary	2011 2010	192,678 187,066	- -	4,670 20,971	39,546 40,859	19,268 18,707	256,162 267,603	- -
P S Turale Marketing Manager	2011 2010	194,361 188,700	- -	22,021 18,496	57,384 53,367	19,436 18,870	293,202 279,433	- -
A D Wigan Chief Winemaker	2011 2010	205,669 199,679	- -	14,558 10,988	37,107 34,439	20,567 19,968	277,901 265,074	- -
T M Brown Operations Manager	2011 2010	- 127,773	- -	- 3,731	- 28,463	- 12,777	- 172,744	- -
W I Whigham ⁽¹⁾ (retired 31 December 2009) Director of Sales – UK & Ireland	2011 2010	- 97,801	- -	- 19,797	- 7,900	- 137,264	- 262,762	- -
Total compensation: key management personnel	2011 2010	1,411,246 1,554,904	25,000 -	48,885 62,347	262,362 373,702	892,867 353,271	2,640,360 2,344,224	- -

⁽¹⁾ Salary packages of the EU executives have been converted to Australian dollars at the balance date exchange rates.

Notes in relation to the table of Directors' and executive officers' remuneration – audited

The short-term incentive bonus is for performance during the respective financial year using the criteria set out on page 9. It was clear that the criteria for bonus payments would not be met when the board considered internal financial reports on 6 August 2011.

Indemnification and insurance of officers

Indemnification

The Company has agreed to indemnify the current 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.

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 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 APES 110 *Code of Ethics for Professional Accountants*, 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.

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.

<i>In thousands of AUD</i>	Consolidated	
	2011	2010
Audit services:		
Audit and review of the financial reports (KPMG Australia)	89	87
Services other than statutory audits:		
Taxation compliance services (KPMG Australia)	15	24

Lead auditors independence declaration

The Lead auditor's independence declaration is set out on page 14 and forms part of the Directors' report for the financial year ended 30 June 2011.

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.

Presentation of Financial Statements

The Company has elected to adopt the amendment to the *Corporations Act 2001* which allows companies to present consolidated financial statements and remove full parent entity financial statements. In accordance with the *Corporations Amendment Regulations 2010* the consolidated financial statements include a note containing information about the parent entity.

Signed in accordance with a resolution of the Directors.



E M Säupper
Chairwoman



D McC Lehmann
Deputy Chairman

Adelaide, South Australia
30 September 2011



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 2011 there have been:

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

KPMG

N T Faulkner
Partner

Adelaide
30 September 2011

PETER LEHMANN WINES LIMITED
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

<i>In thousands of AUD</i>	<i>Note</i>	30 June 2011	30 June 2010
Assets			
Cash and cash equivalents	19	579	596
Trade and other receivables	18	9,575	13,036
Inventories	17	49,919	48,270
Current tax asset	16	352	1,521
Total current assets		60,425	63,423
Property, plant and equipment	13	31,489	32,003
Intangible assets	14	142	238
Biological assets	15	468	469
Total non-current assets		32,099	32,710
Total assets		92,524	96,133
Liabilities			
Trade and other payables	23	7,729	6,860
Loan and borrowings	21	15,526	-
Employee benefits	22	1,800	1,759
Total current liabilities		25,055	8,619
Loans and borrowings	21	-	18,750
Employee benefits	22	88	125
Deferred tax liability	16	272	448
Total non-current liabilities		360	19,323
Total liabilities		25,415	27,942
Net assets		67,109	68,191
Equity			
Share capital	20	30,624	30,624
Retained earnings	20	36,485	37,567
Total equity		67,109	68,191

The notes on pages 21 to 50 are an integral part of these consolidated financial statements.

PETER LEHMANN WINES LIMITED
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 30 June 2011

<i>In thousands of AUD</i>	<i>Note</i>	2011	2010
Revenue	6	45,634	50,088
Cost of sales		(25,750)	(27,375)
Gross profit		19,884	22,713
Other income	6	69	265
Administration expenses		(3,397)	(2,944)
Marketing and public relations expenses		(1,940)	(1,963)
Selling and distribution expenses		(11,310)	(11,067)
Other expenses	7	(727)	(716)
Results from operating activities		2,579	6,288
Finance income	9	92	330
Finance costs	9	(1,236)	(1,386)
Net finance costs		(1,144)	(1,056)
Profit before tax		1,435	5,232
Income tax expense	12	(429)	(1,437)
Profit for the year		1,006	3,795
Other comprehensive income		-	-
Total comprehensive income for the year		1,006	3,795

The notes on pages 21 to 50 are an integral part of these consolidated financial statements.

PETER LEHMANN WINES LIMITED
STATEMENT OF CHANGES IN EQUITY
For the year ended 30 June 2011

<i>In thousands of AUD</i>	Share capital	Retained earnings	Total equity
Balance at 1 July 2009	30,624	35,595	66,219
Total comprehensive income for the period	-	3,795	3,795
Dividends to equity holders	-	(1,823)	(1,823)
Balance at 30 June 2010	<u>30,624</u>	<u>37,567</u>	<u>68,191</u>
Balance at 1 July 2010	30,624	37,567	68,191
Total comprehensive income for the period	-	1,006	1,006
Dividends to equity holders	-	(2,088)	(2,088)
Balance at 30 June 2011	<u>30,624</u>	<u>36,485</u>	<u>67,109</u>

The notes on pages 21 to 50 are an integral part of these consolidated financial statements.

PETER LEHMANN WINES LIMITED
CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 30 June 2011

<i>In thousands of AUD</i>	<i>Note</i>	2011	2010
Cash flows from operating activities			
Cash receipts from customers		50,431	51,445
Cash paid to suppliers and employees		(42,293)	(42,051)
Cash generated from operating activities		8,138	9,394
Interest received		46	19
Interest paid		(1,368)	(1,659)
Income taxes paid		563	(3,537)
Net cash from operating activities	19	7,379	4,217
Cash flows from investing activities			
Proceeds from sale of property, plant & equipment		45	36
Acquisition of property, plant & equipment	13	(2,014)	(2,200)
Acquisition of intangible assets	14	(39)	(40)
Net cash from/(used in) investing activities		(2,008)	(2,204)
Cash flows from financing activities			
Repayment of borrowings		(3,300)	(1,300)
Dividends paid	20	(2,088)	(1,823)
Net cash from/(used in) financing activities		(5,388)	(3,123)
Net decrease in cash and cash equivalents		(17)	(1,110)
Cash and cash equivalents at 1 July		596	1,706
Cash and cash equivalents at 30 June	19	579	596

The notes on pages 21 to 50 are an integral part of these consolidated financial statements.

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NOTES TO THE FINANCIAL STATEMENTS

1 Reporting Entity

Peter Lehmann Wines Limited (the 'Company') is a company domiciled in Australia. The address of the Company's registered office is off Para Road, Tanunda, South Australia. The consolidated financial statements of the Company as at and for the year ended 30 June 2011 comprise the Company and its subsidiaries (together referred to as the 'Group' and individually as "Group entities"). The Group primarily is involved in the manufacture of wine for sale.

2 Basis of preparation

(a) Statement of compliance

The consolidated financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The consolidated financial statements of the Group comply with International Financial Reporting Standards (IFRSs) adopted by the International Accounting Standards Board (IASB).

The consolidated financial statements were authorised for issue by the Board of Directors on 30 September 2011.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following material items in the statement of financial position:

- derivative financial instruments are measured at fair value
- biological assets are measured at fair value less costs to sell

The methods used to measure fair values are discussed further in note 4.

(c) Functional and presentation currency

These consolidated financial statements are presented in Australian dollars, which is the Company's functional currency.

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, all financial information presented in Australian dollars has been rounded to the nearest thousand unless otherwise stated.

(d) Use of estimates and judgements

The preparation of the consolidated financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

- note 24 – financial instruments
- note 27 – contingencies

(e) Going concern basis of accounting

The consolidated financial statements have been prepared on a going concern basis, which presumes the realisation of assets and extinguishment of liabilities in the normal course of business.

The Group has recognised a net profit after tax of \$1,006,000 for the year ended 30 June 2011 and as that date, current assets exceed current liabilities by \$35,370,000. For the year ended 30 June 2011, the Group had accumulated profits of \$36,485,000 and achieved positive cash flows from operations of \$7,379,000. The Company, as an established winemaker in the industry, expects to be cash generating in 2012 following the restructuring for the Australian market and sales recovery.

As outlined in note 21, the Group breached its banking covenants by exceeding its interest rate cover and maximum leverage threshold in the fourth quarter of 2011. Subsequent to year end, the National Australia Bank (NAB) advised that it would not waive or give up its rights in relation to the breaches. Management are in ongoing negotiations with NAB in relation to banking facilities.

The directors believe the going concern basis of preparation to be appropriate given that:

The Company has received a letter of continuing financial support from Hess Family Estates AG which includes an undertaking to enable it to meet its financial obligations as and when they fall due and payable.

The Group is confident of achieving forecast revenues from existing and future products which provide positive cash flows and profitability.

Having carefully assessed the Group's ability to secure future finance, the directors believe that the Group will continue to operate as a going concern for the foreseeable future and therefore that it is appropriate to prepare the financial statements on a going concern basis.

3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date control commences until the date control ceases.

(ii) Jointly controlled operations

The interest of the Group in an unincorporated joint venture is brought to account by recognising in its financial statements the expenses it incurs and its share of income that it earns from the sale of goods by the joint venture.

(iii) Transactions eliminated on consolidation

Intra-group balances and any unrealised gains and losses or income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

(b) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the foreign exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period and the amortised cost in the foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on translation are recognised in profit or loss.

(c) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, borrowings, and trade and other payables.

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or a financial liability when its contractual obligations are discharged or cancelled or expire.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

All non-derivative financial instruments are measured at cost using the effective interest rate method, less any impairment losses.

(ii) Derivative financial instruments

The Group holds derivative financial instruments to reduce its foreign exchange and interest rate risk exposure. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes. The Group does not apply hedge accounting, and therefore derivatives are accounted for as trading instruments.

Derivatives are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss when incurred. Subsequent to initial recognition, derivative financial instruments are measured at fair value and changes therein are recognised in profit or loss.

(iii) Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

(d) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The Group capitalises borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of that asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within "other income" in profit or loss.

(ii) Subsequent costs

The cost of replacing part of such an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of lease term. Land is not depreciated.

The estimated useful lives in the current and comparative periods are as follows:

▪ buildings	50 years
▪ plant and equipment	3 to 50 years
▪ leasehold improvements	10 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

(e) Intangible assets

(i) Intangible assets

Intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

(ii) Amortisation

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date they are available for use. The estimated useful lives in the current and comparative periods are as follows:

▪ computer software	3 years
---------------------	---------

(f) Biological assets

Biological assets are measured at fair value less costs to sell, with any change therein recognised in profit or loss. Costs include all costs that would be necessary to sell the assets.

Vines

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. These assumptions and estimates have been provided to the independent valuer to assist with the valuation of the vines.

(g) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised on the Group's balance sheet.

(h) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of harvested grapes is its fair value less costs to sell at the date of harvest.

The cost of inventory items that are not interchangeable is assigned based on specific identification.

In respect of borrowing costs relating to qualifying assets, the Group capitalises borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of that asset. The Group has capitalised borrowing costs with respect to inventory held for maturation.

All items of inventory that are deemed to be held for trading purposes have been classified as current.

(i) Impairment

(i) *Non-derivative financial assets*

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor will enter bankruptcy and economic conditions that correlate with defaults.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar risk characteristics.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. When a subsequent event (eg repayment by a debtor) causes the amount of the impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(ii) *Non-financial assets*

The carrying amounts of the Group's non-financial assets, other than biological assets, inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

The recoverable amount of an asset or its cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. For the purpose of impairment testing, assets are

grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (“the cash generating unit”).

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit (group of units) on a *pro rata* basis.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(j) Employee benefits

(i) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as a personnel expense in profit or loss when they are due.

(ii) Other long-term employee benefits

The Group’s net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods plus related on-costs; that benefit is discounted to determine its present value, and the fair value of any related assets is deducted. The discount rate is the yield at the reporting date on Commonwealth Government bonds that have maturity dates approximating the terms of the Group’s obligation. The calculation is performed using the projected unit credit method. Any actuarial gains or losses are recognised in profit or loss in the period in which they arise.

(iii) Termination benefits

Termination benefits are recognised as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date.

(iv) Short-term benefits

Short-term employee benefits obligations for wages, salaries and annual leave represent present obligations resulting from employees’ services provided to reporting date and are calculated at undiscounted amounts based on remuneration wage and salary rates that the Group expects to pay as at reporting date including related on-costs, such as workers compensation insurance and payroll tax. Non-accumulating non-monetary benefits, such as cars and free or subsidised goods and services, are expensed based on the net marginal cost to the Group as the benefits are taken by the employees.

A liability is recognised for the amount expected to be paid under short-term cash bonus if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(k) Revenue and other income

(i) Revenue from sale of wine

Revenue from the sale of wine is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of

goods can be estimated reliably, there is no continuing management involvement with the wine and the amount of revenue can be measured reliably.

Transfers of risks and rewards vary depending on the individual terms of the contract of sale. For bottled and bulk wine, transfer usually occurs when the wine is received at the customer's warehouse; however, for most international shipments transfer occurs upon loading the wine onto the relevant carrier.

(ii) Services

Contract revenue earned from winery processing activity and laboratory analysis is recognised in the income statement when the service is provided.

(l) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease.

(m) Finance income and expenses

Finance income comprises interest income on funds invested, changes in the fair value of financial assets at fair value through profit or loss, foreign currency gains, and gains on hedging instruments that are recognised in profit or loss.

Finance expenses comprise interest expense on borrowings, foreign currency losses, changes in the fair value of financial assets at fair value through the income statement, impairment losses recognised on financial assets, and losses on hedging instruments that are recognised in profit or loss.

Borrowing costs not directly related to production of qualifying assets, are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

(n) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax is recognised in the profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

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

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantially enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

The Company and its wholly-owned Australian resident entity are part of a tax-consolidated group. As a consequence, all members of the tax-consolidated group are taxed as a single entity from that date. The head entity within the tax-consolidated group is Peter Lehmann Wines Limited.

(o) Goods and services tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of the GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of 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 Australian Taxation Office (ATO) is included as a current asset or liability on the balance sheet.

(p) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2010, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except for AASB 9 *Financial Instruments*, which becomes mandatory for the Group's 2014 consolidated financial statements and could change the classification and measurement of financial assets. The Group does not plan to adopt this standard early and the extent of the impact has not been determined.

4 Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(i) Biological assets

Grapes and Vines

The fair 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 fair 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. These assumptions and estimates have been provided to the external, independent valuation company, having appropriate recognised professional qualifications and recent experience in the property being valued, to assist with the annual valuation of the vines. The valuations are prepared by considering the aggregate of the estimated cash flows expected to be received from the production of grapes from the vines. A yield that reflects the specific risks inherent in the net cash flows then is applied to the net annual cash flows to arrive at the valuation of the vines.

(ii) Derivatives

The fair value of interest rate swaps is based on broker quotes.

The fair value forward exchange contracts is based on their listed market price.

5 Financial risk management

Overview

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information about the Group's exposure to each of the above risks, its objectives, policies and processes for measuring and managing risk, and the management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework.

Risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aim to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers.

Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Group's customer base include the default risk of the industry and country in which customers operate. Approximately 21% (2010: 19%) of the Group's revenue is attributable to sales transactions with a single customer.

The Board of Directors has established a credit policy under which each new customer is analysed individually for creditworthiness before the appropriate payment and delivery terms and conditions are offered. The Group's review includes external ratings. Purchase limits are established for each customer, which represents the maximum open amount. Approval by the Board of Directors is required for limits above a certain amount. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group only on a prepayment basis.

Of the Group's major customers which have amounts due at reporting date, 78% (2010: 76%) have been transacting with the Group for over four years. In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are an individual or legal entity, geographic location, aging profile, maturity and existence of previous financial difficulties. The Group's trade and other receivables relate mainly to the Group's distributors, wine industry customers and retailers. The Group generally arranges trade credit insurance for transactions with overseas customers to protect against default. Losses have occurred infrequently.

Goods are sold subject to retention of title clauses, so that in the event of non-payment the Group may have a secured claim. The Group does not require collateral in respect of trade and other receivables.

The Group has established an allowance for impairment that represents their estimate of incurred losses in respect of trade and other receivables. The allowance comprises specific loss amounts for any individually significant exposures.

Guarantees

Group policy is to provide financial guarantees only to wholly-owned subsidiaries. Details of outstanding guarantees are provided in note 21.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group monitors its cash flow requirements on a monthly basis by reviewing receipts from trading activities in conjunction with the timing of payments for operational costs, the annual grape intake as well as capital and other commitments. Typically the Group ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 90 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot be reasonably predicted, such as natural disasters. In addition, the Group maintains a bank facility, details of which are provided in note 21.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Group enters into derivatives, and also incurs financial liabilities, in order to manage market risks. All such transactions are carried out within the guidelines set by the Board of Directors.

Currency risk

The Group is exposed to currency risk on sales and purchases that are denominated in a currency other than the respective functional currencies of Group entities, the Australian dollar (AUD). The currencies in which transactions primarily are denominated are AUD, Euro, GBP, US dollar (USD), Canadian dollar (CAD) and Swiss Franc (CHF).

At any point in time the Group may arrange forward exchange contracts for up to 50 percent of its estimated foreign currency in respect of sales. Maturity is timed to align with incoming receipts for specific sales. When necessary, forward exchange contracts are rolled over at maturity.

Interest rate risk

The Group manages its exposure to changes in interest rates on borrowings. This is achieved by entering into interest rate swaps.

Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor and creditor confidence and to sustain future development of the business. The Board of Directors monitors the return on capital, which the Group defines as earnings before tax divided by total shareholders' equity. The Board of Directors also monitors the level of dividends to ordinary shareholders.

The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position. During the year ended 30 June 2011 the return on capital as defined was 4% (2010: 9%).

There were no changes in the Group's approach to capital management during the year.

6 Revenue and other income

<i>In thousands of AUD</i>	Consolidated	
	2011	2010
Revenue from customers – wine sales	45,162	49,701
Revenue from customers – service provision	472	387
Total revenue	45,634	50,088
Gains from change in fair value of biological assets – crop	55	6
Joint venture profit/(loss)	(71)	150
Other	85	109
Total other income	69	265
Total revenue and other income	45,703	50,353

7 Other expenses

<i>In thousands of AUD</i>	Note	Consolidated	
		2011	2010
Losses from change in fair value of biological assets - vines	15	1	-
Licence fee paid to ultimate parent entity	28	417	422
Net loss on sale of property, plant and equipment	19	161	96
Other		148	198
		727	716

8 Personnel expenses

<i>In thousands of AUD</i>	Consolidated	
	2011	2010
Salaries & wages	8,383	7,392
Increase in liability for annual leave	340	288
Increase in liability for long service leave	103	151
Other associated personnel expenses	789	830
Contributions to defined contribution superannuation funds	534	543
	10,149	9,204

Personnel expenses are included in the profit and loss within administration \$2,510,000 which included a retirement benefit payment of \$600,000 (2010: \$1,883,000), marketing and public relations \$874,000 (2010: \$876,000), selling and distribution \$3,324,000 (2010: \$3,279,000). Personnel expenses for the winery of \$3,441,000 (2010: \$3,166,000) are included in inventory and released through the income statement when the wine is sold.

9 Finance income and expense

<i>In thousands of AUD</i>	Consolidated	
	2011	2010
Interest income on bank deposits	(46)	(19)
Net change in fair value of financial assets designated at fair value through profit or loss	(46)	(311)
Financial income	(92)	(330)
Net change in fair value of financial assets designated at fair value through profit or loss	-	10
Interest expense	1,443	1,570
Interest capitalised to maturing inventory	(207)	(194)
Financial expenses	1,236	1,386
Net financing costs/(income)	1,144	1,056

The carrying value of inventories includes wine held for maturation and \$207,000 (2010: \$194,000) of borrowing costs have been capitalised using the weighted average cost of capital rate of 1.52% (2010: 1.32%) to the maturing wines.

10 Foreign exchange gains and losses relating to operating activities

<i>In thousands of AUD</i>	Consolidated	
	2011	2010
Foreign exchange gain	(26)	(452)
Foreign exchange loss	680	923
Net foreign exchange loss (gain)	654	471

Net foreign exchange gains/losses are included in selling and distribution expenses on the income statements.

11 Depreciation and amortisation costs

<i>In thousands of AUD</i>	Note	Consolidated	
		2011	2010
Depreciation of property, plant and equipment			
Property	13	187	172
Plant and equipment	13	2,132	2,046
Less capitalised depreciation expense		(2,081)	(1,990)
		238	228
Amortisation of intangibles			
Computer software	14	135	169
Total amortisation and depreciation		373	397

Net depreciation and amortisation costs are included within the following expense categories on the income statements: administration \$201,000 (2010: \$227,000), marketing and public relations \$150,000 (2010: \$150,000) and selling and distribution \$22,000 (2010: \$20,000).

12 Income tax expense

	Consolidated	
	2011	2010
Current tax expense		
Current period	607	968
Adjustment to prior periods	-	6
	607	974
Deferred tax expense		
Origination and reversal of temporary differences	(176)	470
Adjustment to prior periods	(2)	(7)
	(178)	463
Total income tax expense	429	1,437

Numerical reconciliation between tax expense and pre-tax net profit

<i>In thousands of AUD</i>	Consolidated	
	2011	2010
Profit for the period	1,435	5,232
Income tax using the domestic corporation Tax rate of 30% (2010: 30%)	431	1,569
Increase in income tax expense due to:		
Non-deductible expenses/(income)	39	69
Decrease in income tax expense due to:		
Other deductible expenses	(39)	(200)
	431	1,438
Under/(over) provided in prior years	(2)	(1)
Income tax expense on pre-tax net profit	429	1,437

13 Property, plant and equipment

In thousands of AUD

<i>Note</i>	Freehold Land & Improvement	Buildings	Plant & Equipment	Capital Works in Progress	Total
Cost					
Consolidated					
Balance at 1 July 2009	3,012	7,984	36,695	851	48,542
Acquisitions	-	8	170	2,005	2,183
Transfer of capital works	-	710	1,518	(2,228)	-
Disposals	-	-	(846)	(164)	(1,010)
Balance at 30 June 2010	<u>3,012</u>	<u>8,702</u>	<u>37,537</u>	<u>464</u>	<u>49,715</u>
Cost					
Consolidated					
Balance at 1 July 2010	3,012	8,702	37,537	464	49,715
Acquisitions	-	25	292	1,697	2,014
Transfer of capital works	-	6	1,811	(1,817)	-
Disposals	-	-	(1,053)	-	(1,053)
Balance at 30 June 2011	<u>3,012</u>	<u>8,733</u>	<u>38,587</u>	<u>344</u>	<u>50,676</u>
Depreciation and impairment losses					
Consolidated					
Balance at 1 July 2009	37	1,589	14,583	-	16,209
Depreciation charge for the year	1	171	2,046	-	2,218
Disposals	-	-	(714)	-	(714)
Balance at 30 June 2010	<u>38</u>	<u>1,760</u>	<u>15,915</u>	<u>-</u>	<u>17,713</u>
Depreciation and impairment losses					
Consolidated					
Balance at 1 July 2010	38	1,760	15,915	-	17,713
Depreciation charge for the year	1	186	2,132	-	2,319
Disposals	-	-	(845)	-	(845)
Balance at 30 June 2011	<u>39</u>	<u>1,946</u>	<u>17,202</u>	<u>-</u>	<u>19,187</u>
Carrying amounts					
Consolidated					
At 1 July 2009	<u>2,975</u>	<u>6,395</u>	<u>22,112</u>	<u>851</u>	<u>32,333</u>
At 30 June 2010	<u>2,974</u>	<u>6,942</u>	<u>21,622</u>	<u>464</u>	<u>32,003</u>
At 1 July 2010	<u>2,974</u>	<u>6,942</u>	<u>21,622</u>	<u>464</u>	<u>32,003</u>
At 30 June 2011	<u>2,973</u>	<u>6,787</u>	<u>21,385</u>	<u>344</u>	<u>31,489</u>

Security

The bank holds a first ranking mortgage debenture charge over all the assets and undertakings of the Group.

Regulatory and environmental risks

The Group is subject to laws and regulations and has established environmental policies and procedures aimed at compliance with the requirements of the South Australian Environment Protection Authority. Management performs regular reviews to identify environmental risks and to ensure the systems in place are adequate to manage those risks.

Contractual commitments for the acquisition of property, plant and equipment

At 30 June 2011 the Group has commitments for plant and equipment of \$NIL (2010: nil)

14 Intangible assets

<i>In thousands of AUD</i>	Consolidated 2011
Balance at 1 July 2009	681
Acquisitions and software development	56
Disposals	-
Balance at 30 June 2010	<u>737</u>
Balance at 1 July 2010	737
Acquisitions and software development	39
Disposals	(78)
Balance at 30 June 2011	<u>698</u>
Amortisation and impairment losses	
Balance at 1 July 2009	330
Amortisation charge for the year	169
Disposals	-
Balance at 30 June 2010	<u>499</u>
Amortisation and impairment losses	
Balance at 1 July 2010	499
Amortisation charge for the year	135
Disposals	(78)
Balance at 30 June 2011	<u>556</u>
Carrying amounts	
At 1 July 2009	<u>351</u>
At 30 June 2010	<u>238</u>
At 1 July 2010	<u>238</u>
At 30 June 2011	<u>142</u>

The Group uses computer software in its operations and for financial reporting purposes. The software licences are capitalised and amortised over their expected useful lives.

15 Biological assets

<i>In thousands of AUD</i>	Consolidated	
	2011	2010
Balance 1 July 2010	469	469
Increase/(decrease) in fair value	(1)	-
Balance at 30 June 2011	468	469

The Group has 41 hectares planted to grape vines in the premium grape growing areas of the Barossa and Clare Valleys. The vineyards yielded 253 tonnes (2010: 227 tonnes) at a market value of \$321,000 (2010: \$308,000). The crops represent 2.3% (2010: 2.2%) of the total intake of 11,000 tonnes (2010: 10,138 tonnes).

The values of the vineyards were determined by McGees Property, an independent valuation company, as at 30 June 2011 and 30 June 2010 based on the discounted net present value of expected future cash flows. The net market value of grapes vines has been determined as the difference between the vineyard values and the values of land and other vineyards 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 grapes grown.

Climate and other risks

The Group's own vineyards are exposed to the risk of damage from climatic changes, diseases and other natural forces. The Group has processes in place aimed at monitoring and mitigating these risks, including regular vineyard inspections for pests and disease.

16 Tax assets and liabilities

Current tax assets and liabilities

The current tax asset for the Group of \$352,000 (2010: \$1,521,000) represents the amount of income taxes recoverable in respect of current and prior financial periods.

Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

Consolidated <i>In thousands of AUD</i>	Assets		Liabilities		Net	
	2011	2010	2011	2010	2011	2010
Property, plant and equipment	-	-	1,128	1,178	1,128	1,178
Biological assets	-	-	43	39	43	39
Employee benefits	(566)	(565)	-	-	(566)	(565)
Inventory	(52)	(59)	-	-	(52)	(59)
Other items	(281)	(280)	-	135	(281)	(145)
Net tax (assets)/liabilities	(899)	(904)	1,171	1,352	272	448

Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items

<i>In thousands of AUD</i>	Consolidated	
	2011	2010
Capital loss	8	8
Overseas subsidiary tax loss	140	140
	148	148

The deductible capital loss does not expire under current tax legislation. A deferred tax asset has not been recognised in respect of this item as it is dependent upon the ability to offset against future capital gains.

A deferred tax asset for the subsidiary's tax loss has not been recognised as it is not probable that future taxable profit will be available to utilise the tax loss.

17 Inventories

<i>In thousands of AUD</i>	Consolidated	
	2011	2010
Packaging materials and souvenirs	501	491
Finished goods	49,418	47,779
Inventories stated at lower of cost and net realisable Value	49,919	48,270

The carrying amounts of inventories are stated at net realisable value. Inventories are shown net of provisions for write-downs of \$172,000 (2010: \$199,000) recognised in the current year. The Group holds stocks of table wines which are slow moving in the current economic climate and accordingly a provision for write-down has been made.

The carrying value of inventories includes wine held for maturation and \$207,000 (2010: \$194,000) of borrowing costs have been capitalised using the weighted average cost of capital rate of 1.52% (2010: 1.32%) to the maturing wines.

18 Trade and other receivables

<i>In thousands of AUD</i>	<i>Note</i>	Consolidated	
		2011	2010
Current			
Trade receivables due from commonly controlled entities		623	1,285
Other trade receivables and prepayments	5	8,947	11,619
Receivables due from ultimate parent entity		-	-
Receivables due from commonly controlled entities		5	132
		9,575	13,036

At 30 June 2011 trade receivables are shown net of an allowance for doubtful debts of \$Nil (2010: \$13,000) arising from the likely non-payment from a customer.

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables is disclosed in note 24.

19 Cash and cash equivalents

<i>In thousands of AUD</i>	Consolidated	
	2011	2010
Bank balances	579	596
Cash and cash equivalents in the statements of cash flows	579	596

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities is disclosed in note 24.

Reconciliation of cash flows from operating activities

<i>In thousands AUD</i>	<i>Note</i>	Consolidated	
		2011	2010
Cash flows from operating activities			
Operating profit after income tax		1,006	3,795
Add/(less) items classified as investing/financing activities:			
(Profit)/loss on sale of non-current assets		161	97
Add/(less) non-cash items:			
Change in provisions		418	(587)
Depreciation and amortisation expense	11	2,454	2,387
Impairment loss on property, plant and equipment	13	-	164
Change in fair value of derivatives		(46)	(301)
Change in biological assets	7	1	-
Income taxes payable		1,168	(2,562)
Net cash provided by operating activities before change in assets and liabilities		5,162	2,993
Change in assets and liabilities during the financial year:			
(Increase)/decrease in inventories		(1,621)	2,617
(Increase)/decrease in prepayments and other debtors		98	735
(Increase)/decrease in trade receivables		3,422	(1,291)
(Decrease)/increase in trade payables		935	(881)
(Decrease)/increase in provisions		(439)	(418)
(Decrease)/increase in deferred taxes		(178)	462
Net cash provided by operating activities		7,379	4,217

20 Capital and reserves

Reconciliation of movement in capital and reserves attributable to equity holders of the parent

Consolidated

<i>In thousands of AUD</i>	Share Capital	Retained earnings	Total equity
Balance at 1 July 2009	30,624	35,595	66,219
Total comprehensive income	-	3,795	3,795
Dividends to shareholders	-	(1,823)	(1,823)
Balance at 30 June 2010	30,624	37,567	68,191
Balance at 1 July 2010	30,624	37,567	68,191
Total comprehensive income	-	1,006	1,006
Dividends to shareholders	-	(2,088)	(2,088)
Balance at 30 June 2011	30,624	36,485	67,109

Dividends

Dividends recognised in the current year by the Company are:

<i>In thousands of AUD</i>	Cents per Share	Total amount	Franked/ unfranked	Date of Payment
2011				
Final 2010	5.5 cents	2,088	Franked	5 November 2010
2010				
Final 2009	4.8 cents	1,823	Franked	6 November 2009

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

No dividend has been proposed by the Directors for 2011.

<i>In thousands of AUD</i>	Company	
	2011	2010
Dividend franking account		
30 per cent franking credits available to shareholders of Peter Lehmann Wines Limited for subsequent financial years.	16,766	18,224

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 current tax liabilities. The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends. The impact on the dividend franking account of dividends proposed after the balance sheet date but not recognised as a liability is to reduce it by nil (2010: \$895,000).

21 Loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing borrowings. For more information about the Group's exposure to interest rate, foreign currency and liquidity risk, see note 24.

<i>In thousands of AUD</i>	Consolidated	
	2011	2010
Non-current liabilities		
Bank bills	-	18,750
Current liabilities		
Bank overdraft	-	-
Bank bill	15,526	-
Financing facilities		
Bank overdraft	1,000	1,000
Bank loans/leases	550	550
Bill acceptance facility	23,000	29,000
	24,550	30,550
Facilities utilised at reporting date		
Bank overdraft	-	-
Bank loans/leases	-	-
Bill acceptance facility	15,526	18,750
	15,526	18,750
Facilities not utilised at reporting date		
Bank overdraft	1,000	1,000
Bank loans/leases	550	550
Bill acceptance facility	7,474	10,250
	9,024	11,800

Terms and debt repayment schedule

The overdraft facility is subject to annual review. Interest is charged at prevailing market rates.

Bill Acceptance Facility and Bank Leases

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

Breach of loan covenants

The Company has a loan facility of \$23,000,000 with the National Australia Bank, for which \$15,526,000 was outstanding at 30 June 2011. According to the terms of the agreement, this loan would be repayable on 31 January 2013 and is subject to a review on 21 January 2012. The loan contains a debt covenant stating that at the end of each quarter:

- Interest cover must be greater than 2.75
- Operating leverage ratio must be less than 4.0

The Company has experienced a decrease in Earnings Before Interest and Tax (EBIT), in part due to the strong Australian dollar affecting earnings from sales in overseas markets and a decline in sales in the Australian market. As a result the Company breached the interest cover and operating leverage thresholds in June 2011. Management is currently in the process of renegotiating with the National Australia Bank and has not obtained a waiver for the breaches in covenants. Accordingly the loan is payable on demand at 30 June 2011.

The Group has entered into interest rate swaps for \$6,000,000 with a weighted average interest rate at 30 June 2011 of 5.38% (2010: 6.51%). The weighted average interest rate for the other bills subject to prevailing market rates at 30 June 2011 was 5.99% (2010: 5.54%). The resultant rate when the effect of the interest rate swaps is incorporated into the total weighted average interest rate as at 30 June 2011 was 5.75% (2010: 5.92%), for the Company and Group.

The current lease facility was unused at 30 June 2011 (2010: nil).

Security

Registered first ranking mortgage debenture over all the assets and undertakings of Peter Lehmann Wines Limited up to \$41,650,000 (2010: \$41,650,000). In addition, the Company and its controlled entities are parties to a Deed of Cross Guarantee under which each company guarantees the debts of the others.

22 Employee benefits

<i>In thousands of AUD</i>	Consolidated	
	2011	2010
Current		
Liability for annual leave	863	799
Liability for long service leave	937	960
	1,800	1,759
Non Current		
Liability for long service leave	88	125
Total employee benefits	1,888	1,884

23 Trade and other payables

<i>In thousands of AUD</i>	Consolidated	
	2011	2010
Trade payables and accrued expenses	7,436	6,435
Accrued expenses due to ultimate parent entity	99	117
Accrued expenses due to commonly controlled entities	138	206
Fair value derivatives	56	102
	7,729	6,860

Payments owing to commonly controlled entities denominated in currencies other than the functional currency comprise:

- US Dollars 2011: USD15,671 (2010:USD143,445)
- Swiss Francs 2011: CHF43,545 (2010: CHF25,509)
- Euros 2011: €76,973 (2010: €6,477)

24 Financial instruments

Credit risk

Exposure to credit risk

The carrying amount of the Group's financial assets represents the maximum credit exposure. The Group's maximum exposure to credit risk at the reporting date was:

Consolidated

<i>In thousands of AUD</i>	Carrying amount	
	2011	2010
Trade receivables	9,575	13,036
Cash and cash equivalents	579	596
	10,154	13,632

The Group's maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

<i>In thousands of AUD</i>	Carrying amount	
	2011	2010
Domestic market - Australia	4,161	5,649
Export markets – UK & Europe	2,519	4,066
Export markets – North America	1,960	2,691
Export markets - Other	935	630
	9,575	13,036

The Group's maximum exposure to credit risk for trade receivables at the reporting date by type of customer was:

<i>In thousands of AUD</i>	Carrying amount	
	2011	2010
Bulk wine and contract services to wine industry customers	1,211	1,895
Bottled wine to distributors, direct mail and retail customers	8,364	11,141
	9,575	13,036

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit. The Group does not require collateral in respect of financial assets.

The Group takes out trade credit insurance on certain overseas debts to reduce its risk. At 30 June 2011: 41% (2010: 39%) of the trade receivables carrying amount was covered by trade credit insurance.

Concentration of credit risk on trade receivables exists in respect of the Group. As at 30 June 2011, 74% (2010: 78%) of the Group's trade receivables was owed by 10 customers. The Group's most significant customer, an Australian distributor, accounts for 21% (2010: 19%) of the trade receivables carrying amount at 30 June 2011. The Group also trades with some large Australian organisations that represent material exposure. However the long term associations and close trading relationships provide an acceptable level of comfort.

Impairment losses

The ageing of the Group's trade receivables at the reporting date was:

Consolidated

<i>In thousands of AUD</i>	Gross 2011	Impairment 2011	Gross 2010	Impairment 2010
Not past due	7,883	-	12,210	-
Past due 0-30 days	1,350	-	719	-
Past due 31-60 days	147	-	83	-
Past due 61-90 days	93	-	1	-
Past due 91-120 days	102	-	-	-
Past due 121 days to one year	-	-	23	13
	9,575	-	13,036	13

Consolidated

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

<i>In thousands of AUD</i>	2011	2010
Balance at 1 July	13	-
Impairment loss recognised	-	13
Impairment loss realised	-	-
Impairment loss reversed	(13)	-
Balance at 30 June	-	13

Liquidity risk

The following are the contractual maturities of financial liabilities.

Consolidated

30 June 2011

In thousands of AUD

Non-derivative financial liabilities

	Carrying amount	Contractual Cash Flows	6 months or less	6 -12 months	1-2 years	2-3 years
Unsecured bank facility	-	-	-	-	-	-
Trade and other payables	7,555	(7,555)	(7,555)	-	-	-

Derivatives

Interest rate swap assets used for Hedging

	56	(110)	(34)	(34)	(28)	(14)
	7,611	(7,665)	(7,589)	(34)	(28)	(14)

30 June 2010

In thousands of AUD

Non-derivative financial liabilities

	Carrying amount	Contractual Cash Flows	6 months or less	6 -12 months	1-2 years	2-3 years
Unsecured bank facility	18,750	(20,395)	(564)	(554)	(19,277)	-
Bank overdraft	-	-	-	-	-	-
Trade and other payables	6,860	(6,860)	(6,860)	-	-	-

Derivatives

Interest rate swap assets used for hedging

	102	(123)	(39)	(29)	(55)	-
	25,721	(27,378)	(7,463)	(583)	(19,332)	-

The Group's exposure to foreign currency risk at balance date was as follow, based on notional amounts:

Consolidated 30 June 2011	AUD	Euro	GBP	USD	CAD	CHF	SEK	NZD	HKD
<i>In thousands of AUD</i>									
Trade receivables	6,779	1,044	-	513	1,238	-	-	-	-
Trade payables	(7,198)	(231)	(7)	(15)	-	(91)	(28)	(30)	(8)
Bank facility and cash on hand	(15,403)	210	-	94	76	-	-	-	-
Gross exposure	(15,822)	1,023	(7)	592	1,314	(91)	(28)	(30)	(8)
Forward exchange contracts	-	-	-	-	-	-	-	-	-
Net exposure	(15,822)	1,023	(7)	592	1,314	(91)	(28)	(30)	(8)
30 June 2010									
<i>In thousands of AUD</i>									
Trade receivables	9,072	1,269	-	1,442	1,253	-	-	-	-
Trade payables	(6,251)	(250)	(1)	(171)	-	(144)	-	-	-
Bank facility and cash on hand	(18,660)	206	-	150	-	-	-	-	-
Gross exposure	(15,839)	1,225	(1)	1,421	1,253	(144)	-	-	-
Forward exchange contracts	-	-	-	391	-	-	-	-	-
Net exposure	(15,839)	1,225	(1)	1,812	1,253	(144)	-	-	-

The following exchange rates applied during the year:

AUD	Average rate		Reporting date spot rate	
	2011	2010	2011	2010
CAD 1	0.9897	0.9325	1.0349	0.8979
Euro 1	0.7251	0.6400	0.7388	0.6982
GBP 1	0.6214	0.5605	0.6636	0.5648
USD 1	0.9897	0.8811	1.0661	0.8511

Sensitivity analysis

A 10 percent strengthening of the Australian dollar against the following currencies at 30 June would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2010.

<i>In thousands of AUD</i>	Consolidated Equity Profit or (loss)	
30 June 2011		
GBP	-	1
CAD	-	(119)
CHF	-	8
EURO	-	(81)
USD	-	(101)
SEK	-	3
NZD	-	2
HKD	-	1
	-	(286)
30 June 2010		
GBP	-	-
CAD	-	(114)
CHF	-	13
EURO	-	(113)
USD	-	(130)
SEK	-	-
	-	(344)

A 10 percent weakening of the Australian dollar against the above currencies at 30 June would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Interest rate risk

The Group adopts a policy of ensuring that up to 50 percent of its exposure to changes in interest rates on borrowings is on a fixed rate basis. The length of time commercial bills subject to variable interest rates are generally held ranges between 30 and 120 days. Interest rate swaps, denominated in Australian dollars, have been entered into to achieve an appropriate mix of fixed and floating rate exposure in accordance with the Group's policy. The swaps mature over the next 2 years and the fixed rate swap rates range between 5.18% to 5.57%. At 30 June 2011, the Group held interest rate swaps with a notional contract amount of \$6,000,000 (30 June 2009: \$7,300,000).

The Group classifies interest rate swaps as derivatives held for trading and state them at fair value. The net fair value of swaps for the Group at 30 June 2011 was a liability of \$56,000 (30 June 2010: a liability of \$102,000). These amounts were recognised as fair value derivatives.

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2010.

Consolidated

<i>Effect in thousands of AUD</i>	Profit or loss		Equity	
	100bp increase	100bp decrease	100bp increase	100bp decrease
30 June 2011				
Variable rate instruments	(157)	157	-	-
Interest rate swap	68	(68)	-	-
Cash flow sensitivity (net)	<u>(89)</u>	<u>89</u>	<u>-</u>	<u>-</u>
30 June 2010				
Variable rate instruments	(184)	184	-	-
Interest rate swap	101	(101)	-	-
Cash flow sensitivity (net)	<u>(73)</u>	<u>73</u>	<u>-</u>	<u>-</u>

The effective interest rate on call deposits in 2011 was 0.4% (2010: 1%).

Foreign currency risk

The Group is exposed to foreign currency risk on sales and purchases that are denominated in a currency other than Australian dollars. The currencies giving rise to the risk are: Canadian Dollars, Euro and US Dollars,

The Group may use forward exchange contracts to minimise the foreign currency risk arising from trade sale transactions. The forward exchange contracts have maturities of less than one year after the balance sheet date.

In respect of other monetary assets held in currencies other than Australian dollars, the Group ensures that the net exposure is kept to an acceptable level, by selling foreign currencies at spot rates where necessary to address short-term imbalances.

Recognised assets and liabilities

The fair value of forward exchange contracts used as economic hedges of monetary assets and liabilities in foreign currencies at 30 June 2011 was nil (2010: nil).

Derivatives

All derivatives are recognised at their fair value at reporting date. Forward exchange contracts are marked to market using listed market data. For interest rate swaps broker quotes are used.

Receivables and Payables

Receivables and payables have a remaining life of less than one year and the notional amount is deemed to reflect the fair value. All other receivables and payables are discounted to determine their fair value.

Interest-bearing loans and borrowings

Fair value is calculated based on discounted expected future principal and interest cash flows.

Fair values

Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (ie, as prices) or indirectly (ie, derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

<i>In thousands of AUD</i>	Level 1	Level 2	Level 3	Total
30 June 2011				
Derivative financial assets	-	-	-	-
	-	-	-	-
Derivative financial liabilities	-	(56)	-	(56)
	-	(56)	-	(56)
30 June 2010				
Derivative financial assets	-	-	-	-
	-	-	-	-
Derivative financial liabilities	-	(102)	-	(102)
	-	(102)	-	(102)

25 Operating leases

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

<i>In thousands of AUD</i>	Consolidated	
	2011	2010
Less than one year	511	518
Between one and five years	693	944
More than five years	-	-
	1,204	1,462

The Group leases motor vehicles and computer equipment under operating leases. The leases typically run for a period of three years. Lease payments remain constant throughout the term of the lease.

The Company leases the Cellar Door facility with a five year lease term, with an option to renew the lease after that date. Lease payments are increased annually in line with the consumer price index.

During the financial year ended 30 June 2011, \$538,000 was recognised as an expense in the income statement in respect of operating leases (2010: \$518,000).

26 Capital and other commitments

<i>In thousands of AUD</i>	Consolidated	
	2011	2010
Capital expenditure commitments payable due within one year		
<i>Plant and equipment</i>	-	-

27 Contingencies

The Directors are of the opinion that there are no matters which will require a future sacrifice of economic benefits.

Deed of Cross Guarantee

Under the terms of the Deed of Cross guarantee the Company has guaranteed the debts of all subsidiaries. No deficiencies in net assets for these subsidiaries existed at reporting date.

Environment

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

28 Related parties

The key management personnel compensation included in 'personnel expenses' (see note 8) is as follows:

<i>In AUD</i>	Consolidated	
	2011	2010
Short-term employee benefits	1,747,493	1,990,953
Post employment benefits	892,867	353,271
	2,640,360	2,344,224

The key management personnel receive compensation in relation to the management of the Group.

Individual Directors and executives compensation disclosures

Information regarding individual Directors and executives compensation as permitted by the Corporations Regulation 2M 30.03 is provided in the remuneration report section of the Directors' report.

Apart from the details disclosed in this note, no director has entered into a material contract with the Company or the Group since the end of the previous financial year and there were no material contracts involving Directors' interests existing at year-end.

Other key management personnel transactions with the Company or its subsidiaries

From time to time Directors and executives of the Company and its subsidiaries, purchase wine from the Group. These purchases are on the same terms and conditions as those entered into by employees.

Movement in shares

The movement during the reporting period in the number of ordinary shares of Peter Lehmann Wines Limited held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

	Held at 1 July 2010	Purchases	Sales	Held at 30 June 2011 Direct
<i>Director</i>				
E M Saupper	-	-	-	-
R M Wilson	35,000	-	-	35,000
D Mc Lehmann	-	-	-	-
M R Kronenberg	-	-	-	-
D M C Hess	-	-	-	-
R L Williams	-	-	-	-

	Held at 1 July 2010	Purchases	Sales	Held at 30 June 2011 Direct
<i>Executive</i>				
H T Astrom	-	-	-	-
J B Bond	-	-	-	-
B K Clapton	-	-	-	-
P Turale	-	-	-	-
A D Wigan	10,000	-	-	10,000

No shares were granted to key management personnel during the reporting period as compensation in 2010 or 2011. No shares were held by related parties of key management personnel.

Non-key management personnel disclosures

Entities with joint control or significant influence over the group

The Group has a related party relationship with the majority owner and its subsidiaries.

Ultimate parent entity

Hess Holding SA Luxembourg through its operating company Hess Family Estates AG in Switzerland provides trade mark and know how expertise in the normal course of business and on normal terms and conditions. A licence fee is payable for the use of the trade mark.

Subsidiaries

The Company has designated Peter Lehmann Wines (UK) Ltd as importer for the UK and European markets. The Company sold 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.

Commonly Controlled Entities

The Company sold wine to Hess Collection Wines for distribution in the USA in the normal course of business and on normal terms and conditions.

The Company provided representation services for Hess Collection Wines, Glen Carlou Wines and Hess Family Estates Latin America in Europe. Service fees are earned on a usage basis from Hess Collection Wines, Glen Carlou and Hess Family Estates Latin America. 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, provided administrative support and this is charged to the Company on normal terms and conditions.

Joint Venture

The Company is engaged in a profit sharing agreement with UK based distributor Enotria Winecellars Ltd. The joint venture is not a separate entity and the Company accounts for the assets it controls, the liabilities it incurs and its share of income from the sale of goods undertaken by the joint venture at reporting date. There are no contingencies or commitments.

The aggregate amounts included in the profit before income tax expense that resulted from transactions with other related parties are:

<i>In thousands of AUD</i>	Consolidated	
	2011	2010
Revenue from sale of goods – commonly controlled entity	4,236	5,615
Revenue from service fees – commonly controlled entities	610	389
Licence and service fee paid – controlling entity	417	451
Service fee paid – commonly controlled entity	188	194
Representation costs – commonly controlled entity	729	698
Joint Venture net profit/(loss)	(71)	150

Amounts owing to or by other related parties are:

<i>In thousands of AUD</i>	Consolidated	
	2011	2010
Receivables – Current		
Ultimate parent entity	5	-
Commonly controlled entities	623	1,417
Payables – Current		
Ultimate parent entity	99	117
Commonly controlled entities	138	206
	237	323

29 Group entities

	Country of incorporation	Ownership interest	
		2011	2010
Ultimate parent entity			
Hess Holding SA	Luxembourg	100%	100%
Immediate parent entity			
Hess Group Australia Pty Ltd	Australia	85.67%	85.67%
Parent entity of the Group			
Peter Lehmann Wines Limited	Australia		
Subsidiaries			
Austral Wines Pty Ltd	Australia	100%	100%
Peter Lehmann Wines (UK) Ltd	United Kingdom	100%	100%

30 Parent Entity Disclosures

As at, and throughout, the financial year ending 30 June 2011 the parent company of the Group was Peter Lehmann Wines Limited.

<i>In thousands of AUD</i>	<i>Note</i>	Company	
		2011	2010
Result of the parent entity			
Profit for the period		358	2,646
Other comprehensive income		-	-
Total comprehensive income for the period		358	2,646
Financial position of parent entity at year end			
Current assets		59,665	61,201
Total assets		91,764	95,329
Current liabilities		29,863	12,735
Total liabilities		30,223	32,058
Total equity of the parent entity comprising of:			
Share capital		30,624	30,624
Retained earnings		30,917	32,647
Total Equity		61,541	63,271

Parent entity contingencies

The Directors are of the opinion that provisions are not required in respect of any known contingencies, as it is not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.

<i>In thousands of AUD</i>	<i>Note</i>	Company	
		2011	2010
Contingent liabilities not considered remote			
GST liabilities of other entities within the GST group		37	139
Tax Liabilities of other entities within the tax consolidated group		276	345

30 Parent Entity Disclosures continued

Parent entity capital commitments for acquisition of property plant and equipment

<i>In thousands of AUD</i>	Company	
	2011	2010
Plant and equipment contracted but not provided for and payable within 1 year	-	-

Parent entity guarantee in respect of debts of its subsidiaries

The parent entity has entered into a Deed of Cross Guarantee with the effect that the company guarantees debts in respect of its subsidiaries. Further details of the Deed of Cross Guarantee and its subsidiaries subject to the deed, are disclosed in note 33.

31 Subsequent events

As outlined in Note 21 the Group breached its banking covenants by exceeding its interest rate cover and maximum leverage threshold in the fourth quarter of 2011. Subsequent to year end the bank advised that they would not waive or give up its rights in relation to the breaches of banking covenants thresholds in June 2011.

In September 2011 a letter of continuing financial support was received from the majority owner Hess Family Estates AG. There have been no other events subsequent to balance date which would have a material effect on the Group's financial statements at 30 June 2011.

32 Auditors' remuneration

<i>In thousands of AUD</i>	Note	Consolidated	
		2011	2010
Audit services			
<i>KPMG Australia</i>			
Audit and review of financial reports		89	87
Other services			
<i>KPMG Australia</i>			
Taxation services		15	24

33 Deed of cross guarantee

Pursuant to ASIC class Order 98/1418 (as amended) dated 13 August 1998, the wholly-owned subsidiary Austral Wines Pty Ltd is relieved from the *Corporations Act 2001* requirements for preparation, audit and lodgement of financial reports, and Directors' report.

It is a condition of the Class Order that the Company and each of the subsidiaries enter into a Deed of Cross Guarantee. The effect of the Deed is that the Company guarantees to each creditor payment in full of any debt in the event of winding up of any of the subsidiaries under certain provisions of the *Corporations Act 2001*. If a winding up occurs under other provisions of the Act, the Company will only be liable in the event that after six months any creditor has not been paid in full. The subsidiaries have also given similar guarantees in the event that the Company is wound up. The subsidiaries subject to the Deed are:

- Austral Wines Pty Ltd
- Peter Lehmann Wines (UK) Ltd

The closed group of entities subject to the Deed of Cross Guarantee is the same as the consolidated Group.

DIRECTORS' DECLARATION

1. In the opinion of the Directors of Peter Lehmann Wines Limited ("the Company"):
 - (a) the financial statements and notes and the remuneration disclosures that are contained in the Remuneration report in the Directors' report, on pages 9 to 11, are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Group's financial position as at 30 June 2011 and of its performance, for the financial year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
 - (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2(a); and
 - (c) 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 group entities identified in Note 33 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and those controlled entities pursuant to ASIC Class Order 98/1418.

Signed in accordance with a resolution of the Directors:



E M Säupper
Chairwoman



D McC Lehmann
Deputy Chairman

Adelaide, South Australia
30 September 2011



Independent auditor's report to the members of Peter Lehman Wines Limited

Report on the financial report

We have audited the accompanying financial report of Peter Lehmann Wines Limited (the company), which comprises the consolidated statement of financial position as at 30 June 2011, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, notes 1 to 33 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement whether due to fraud or error. In note 2, the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements of the Group comply with International Financial Reporting Standards.

Auditor's responsibility

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

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

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Group's financial position and of their performance.

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's opinion

In our opinion:

- (a) the financial report of the Group is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Group's financial position at 30 June 2011 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2.

Report on the remuneration report

We have audited the remuneration report included in pages 9 to 12 of the Directors' report for the year ended 30 June 2011. The Directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

Auditor's opinion

In our opinion, the remuneration report of Peter Lehmann Wines Limited for the year ended 30 June 2011, complies with Section 300A of the *Corporations Act 2001*.



KPMG



N T Faulkner
Partner

Adelaide
30 September 2011