MARLBOROUGH WINE ESTATES

2019 ANNUAL REPORT

Marlborough Wine Estates Group Limited


HAWKES BAY 2017
MERLOT CABERNET SAUVIGNON
MARLBOROUGH
PINOT GRIS
NEW ZEALAND WINE
O:TU
MARLBOROUGH
PINOT NOIR
NEW ZEALAND WINE

MARLBOROUGH WINE ESTATES GROUP LIMITED

FINANCIAL STATEMENT

For the Year Ended 30 June 2019

Contents

EXECUTIVE CHAIRMAN AND CEO'S REPORT

On behalf of the Board of Directors of Marlborough Wine Estates Group Limited (MWE), I am pleased to present our financial results for the financial year ended 30 June 2019.

Performance highlights:

- Continued growth in sales to the United States, Japan, Taiwan
- First shipment arrived in Canada
- Sales in the NZ domestic market increased by 268% compared to the previous financial year.
- Awards:
  - OTU Classic Sauvignon Blanc 2018 received a Blue Gold Medal in the Sydney International Wine Competition
  - OTU Classic Merlot Cabernet Sauvignon 2017 received a Gold medal in China Wines & Spirits Award Best Value 2019
  - Music Bay Merlot 2016 received a Gold medal in China Wines & Spirits Award Best Value 2019

Operating Performance

- MWE's total sales for the year ended 30 June 2019 was $5,379,675 (FY19), This is an increase of 35% from the previous financial year (FY18 - $3,984,984).

- MWE's year ended with a net loss after tax of $365,796 a significant improvement from the previous financial year's loss (FY18 - $1,706,913). MWE invested in additional resources and marketing during FY19, which led to increased operational expenses. There was some write-down recognised which contributed to the loss. After adjusting for the non-operating expense (income) that do not relate to the on-going performance of the Group, MWE's normalised EBITDA for the year ended 30th June 2019 is calculated to be $592,684. Please refer to Appendix 1 for the details of the calculations.

Key adjustments

Inventory write-down

Some aged wine in the inventory was not likely able to be sold at full cost. Therefore, MWE performed an annual impairment test on bottled wine inventory, resulting in an impairment in the value of inventory of $166,713. Please refer to note 11 of Financial Statement for details.

Key highlights for the year ended 30th June 2019

Harvest season

MWE's gross harvest tonnage for the 2019 vintage was 1,861 tonnes of grapes, an improvement compared to the previous vintage (2018: 1,784 tonnes).

Overall, the Marlborough region experienced a difficult vintage, due to the extended drought in early 2019. The Awatere Valley area was slightly less affected by the drought and our investment into dam and irrigation infrastructure helped immensely with continuing the supply of water to our blocks.

MWE is expecting its harvest tonnage to continue to grow as more newly planted vines begin to mature. MWE is also expected to start harvesting the newly planted Pinot Noir blocks over the next two vintages.

Vineyard development
MWE had developed approximately 10 hectares of Pinot Noir in the past 3 years. MWE's main plan is to continue planting Pinot Noir and Pinot Gris. These two varietals are proving to be important as both a grape supply and bottled wine product.

Improved sales strategy and product portfolio
MWE has continued to grow its brand awareness and portfolio in the NZ market. In the past financial year, MWE released a new chardonnay into its classic range and will release a premium Methode Traditionelle sparkling wine in just a few months.

MWE has continued to focus on the long-term development of its fleet of brands and premium wines. With help from additional sales resources and additional investment in marketing events, MWE's products over the past few years have reached significantly wider distribution.

MWE will continue to invest more in brand building and look to grow the awareness of its brands as a top priority.

International market development
MWE's international market development has been a core focus of the management team during FY19.

MWE has grown business in most of its existing international markets in the past financial year. The volume exported to Japan and Taiwan has grown steadily and MWE is working closely with the local distributors to build on the initial success achieved in those markets.

MWE continues to work with its US distributor to grow the US market, which is the most important export market for NZ wines. MWE has further expanded its partnership with its bulk wine importer and bulk wine sales continue to provide a reliable source of cash flow and further opportunities in the US market.

MWE shipped its first orders to Canada in FY19. This new market has huge potential to grow and MWE is planning to invest into marketing and local resources into this market in the coming years.

Domestic Sales
In FY19, MWE's domestic sales have grown by 268% compared to the previous financial year.

MWE's products are now distributed nationwide through its own sales team. Sales from the domestic market contributed to MWE's overall sales growth.

MWE is targeting further growth in the NZ market in the coming financial year. The sales volume growth MWE achieved in FY19 is still far from the potential sales volume of the NZ market that MWE is capable of achieving, and MWE is looking to invest further into the NZ market in the coming 3 – 4 years.

Supply improvements
As MWE sales grew over the past few years, MWE began to require additional grape supplies on the varietals it did not yet produce, including some Hawkes Bay reds.

During FY19, MWE contracted multiple growers for long term grape supply to MWE. The long-term contracts will give MWE favourable pricing and consistency in supply, therefore improving the quality and profitability of MWE's products in the long run.

NZX main board migration

MWE successfully migrated to the NZX Main Board on 19 March 2019. The NZX Main Board migration gives MWE the opportunity to further utilise the NZX platform, as NZX Main Board traded shares have better liquidity and a higher level of engagement with market participants.

Looking ahead

MWE has firmly established its position in the New Zealand market and set up strong foundations for future growth in the international markets. MWE is looking forward to many prosperous years ahead and will continue to focus on long term growth in revenue, profitability and brand awareness in both domestic and international markets.

ENDS

Authority for this announcement

Name of senior manager or director authorised to make this announcement:	Catherine Ma
Contact phone number:	09 215 6650
Contact email address:	catherine.ma@otuwines.com
Date of release:	30 August 2019

Marlborough Wine Estates Group Limited's shares can be traded on the NZX Main Board. Marlborough Wine Estates Group Limited is required to disclose information under the NZX listing rules. Information about the NZX Main Board and the NZX company is available here www.nzx.com

Appendix 1 (non -GAAP financial information)

EBITDA[1] Reconciliation

	Year Ended 30 June 2019 $	Year Ended 30 June 2018 $
Net loss after tax per Financial Statements	**(365,796)**	**(1,706,913)**
Plus net interest and financing cost[2]	298,214	274,500
Plus/(less) tax expense (benefit)	(137,133)	(117,034)
Plus depreciation[3]	477,292	406,802
Plus amortisation	4,457	176,991
EBITDA	**277,034**	**(965,654)**
Plus loss on assets disposal	-	1,308
Plus inventory write down	166,713	152,477
Plus impairment loss	-	1,194,689
Plus NZX migration related costs	12,170	-
Plus/(less) insurance claim related legal fees/ (settlement)[4]	126,672	85,255
Plus share based payment expense	10,095	24,440
Adjusted EBITDA[5]	**592,684**	**492,515**

[1] EBITDA is the earnings before interest, tax, depreciation and amortisation.

[2] Net interest and financing cost is the net amount of interest income of $402 earned by the Group (2018: $15,948) and interest and financing costs of $299,616 incurred by the Group during the year (2018: $290,448).

[3] The depreciation consists of another $248,081 which was classified into Cost of Sales (2018: $180,838).

[4] The Group incurred legal expenses of $126,672 during the year in relation to making the insurance claim for bottled wine being held by MPI (2018: $85,255).

[5] Management has historically used Adjusted EBITDA when evaluating the operating performance for the Group. The inclusion or exclusion of certain items is necessary to provide the most accurate measure of on-going core operating results and to evaluate comparative results period over period. As such, Adjusted EBITDA excludes other non-operating expense (income) that do not relate to the on-going performance of the Group. The Group excludes the following items from EBITDA to arrive at Adjusted EBITDA:

- Loss on assets disposal which is not continuous;
- Inventory write down which is non-cash;
- Impairment loss which is non-cash;
- NZX migration related costs which is not continuous;
- Insurance claim related legal fees or settlement which is not continuous; and
- Share based payment expense which is non-cash.

ANNUAL REPORT & DIRECTOR'S RESPONSIBILITY STATEMENT

The Directors present the Annual Report including the consolidated financial statements of Marlborough Wine Estates Group Limited (the 'Company') and its subsidiaries (together the 'Group'), for the 12 months ended 30 June 2019 and the auditor's report thereon.

The Directors are responsible for ensuring that the financial statements present fairly the financial position of the Group as at 30 June 2019 and its financial performance and cash flows for the period ended on that date in accordance with NZ GAAP. The Directors consider that the financial statements of the Group have been prepared using appropriate accounting policies, consistently applied and supported by reasonable judgements and estimates and that all relevant financial reporting and accounting standards have been followed. The Directors believe that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the Group and facilitate compliance of the financial statements with the Financial Markets Conduct Act 2013. The Directors consider that adequate steps have been taken to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Signed for and on behalf of the Board by:

Signature:

Executive Chairman: Min Jia

Signature:

Director: Danny Chan

Date: 30 August 2019

Independent Auditor’s Report

To the Shareholders of Marlborough Wine Estates Group Limited

Opinion

We have audited the consolidated financial statements of Marlborough Wine Estates Group Limited (the ‘Company’) and its subsidiaries (the ‘Group’), which comprise the consolidated statement of financial position as at 30 June 2019, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements, on pages 10 to 39, present fairly, in all material respects, the consolidated financial position of the Group as at 30 June 2019, and its consolidated financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (‘NZ IFRS’) and International Financial Reporting Standards (‘IFRS’).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (‘ISAs’) and International Standards on Auditing (New Zealand) (‘ISAs (NZ)’). Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements* section of our report.

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

We are independent of the Group in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants’ *Code of Ethics for Professional Accountants*, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Other than in our capacity as auditor, we have no relationship with or interests in the Company or any of its subsidiaries, except that partners and employees of our firm deal with the Company and its subsidiaries on normal terms within the ordinary course of trading activities of the business of the Company and its subsidiaries.

Audit materiality

We consider materiality primarily in terms of the magnitude of misstatement in the financial statements of the Group that in our judgement would make it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced (the ‘quantitative’ materiality). In addition, we also assess whether other matters that come to our attention during the audit would in our judgement change or influence the decisions of such a person (the ‘qualitative’ materiality). We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined materiality for the Group financial statements as a whole to be $106,000.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Capitalisation of tax losses (Note 7) As at 30 June 2019, the Group has recognised deferred tax assets of $0.90 million (2018: $0.76 million) which includes primarily tax losses to be carried forward to future years of $0.45m. The Group's accounting policy is to recognise deferred tax assets only to the extent that it is probable that future taxable profits will be available against which the asset can be recognised. Further, tax losses carried forward from prior year are subject to IRD approval and the Group complying with shareholder continuity rules under New Zealand tax legislation. We have included capitalisation of tax losses as a key audit matter as deferred tax asset is quantitatively material to the financial statements and the Group has not historically generated taxable profits from its operations.	We obtained an understanding of the Group's evaluation of its deferred tax assets. We performed the following procedures to evaluate the appropriateness of the Group recognition of deferred tax asset: • challenging the reasonableness of the underlying assumptions used by the Group in their forecasts that supports the generation of future taxable profits; and • reviewing the Group's analysis of shareholder continuity and tax losses carried forward. We also involved our internal tax specialist to review the tax calculation. We noted there is shareholder continuity and tax losses can be carried forward.
Inventory valuation (Note 11) The Group has inventory amounting to $2.9 million as at 30 June 2019 (2018: $3.05 million) and is significantly comprised of bottled wine and in-progress wine. During the year, the Group has recognised $0.17 million in provision for inventory obsolescence. The Group measures inventory at the lower of cost and net realisable value. We have included inventory valuation as a key audit matter due to the significant judgement involved in determining provisions for slow moving or obsolete inventory. In addition, specific provisions are considered where known product quality issues and products that are considered unlikely to be sold via regular distribution channels.	We obtained an understanding of the Group's evaluation of the carrying amount of inventory at year-end including the Group's methodology for determining provision for inventory obsolescence. We performed the following procedures to evaluate the appropriateness of the Group's valuation of inventory: • Selecting an appropriate sample of inventory at year-end, comparing the carrying amount of inventory to its cost and net realisable value, and ensuring the correct amounts recorded in accordance with the accounting standards. • Obtaining audit evidence to support the underlying valuation of inventory. • Challenging the provision rates used by the Group on slow moving inventory with reference to historical sales information and committed sales orders.

Other information

The directors are responsible on behalf of the Group for the other information. The other information comprises the information in the Annual Report that accompanies the consolidated financial statements and the audit report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and consider whether it is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If so, we are required to report that fact. We have nothing to report in this regard.

Directors' responsibilities for the consolidated financial statements

The directors are responsible on behalf of the Group for the preparation and fair presentation of the consolidated financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible on behalf of the Group for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and ISAs (NZ) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is located on the External Reporting Board's website at:

https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1

This description forms part of our auditor's report.

Restriction on use

This report is made solely to the Company's shareholders, as a body. Our audit has been undertaken so that we might state to the Company's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

Deloitte Limited

Brendan Lyon
Partner
for Deloitte Limited
Auckland, New Zealand
30 August 2019

This audit report relates to the consolidated financial statements of Marlborough Wine Estates Group Limited (the 'Company') for the year ended 30 June 2019 included on the Company's website. The Directors are responsible for the maintenance and integrity of the Company's website. We have not been engaged to report on the integrity of the Company's website. We accept no responsibility for any changes that may have occurred to the consolidated financial statements since they were initially presented on the website. The audit report refers only to the consolidated financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these consolidated financial statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited consolidated financial statements and related audit report dated 30 August 2019 to confirm the information included in the audited consolidated financial statements presented on this website.


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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2019

	Note	Group Year Ended June 2019 $	Group Year Ended June 2018 $
Sales	3	5,379,675	3,984,984
Cost of sales	5	(3,377,363)	(2,444,433)
Gross profit		2,002,312	1,540,551
Other income	4	41,320	11,083
Interest income		402	15,948
Loss on assets disposal		-	(1,308)
Operating expenses	6	(1,847,966)	(1,349,652)
Interest expense and financing cost		(298,616)	(290,448)
Amortisation	14	(4,457)	(176,991)
Depreciation	15	(229,211)	(225,964)
Inventory write down	11	(166,713)	(152,477)
Impairment loss on intangible assets	14	-	(1,194,689)
(Loss) for the period before taxation		(502,929)	(1,823,947)
Tax (expense)/benefit	7	137,133	117,034
(Loss) for the period attributable to shareholders of the company		(365,796)	(1,706,913)
Other comprehensive income		-	-
Total comprehensive (loss) for the period attributable to the shareholders of the Company		(365,796)	(1,706,913)
Basic and diluted (loss) per share	29	(0.001)	(0.006)

The above statement of comprehensive income should be read in conjunction with the attached notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2019

Group	Note	Share Capital	Retained earnings / (deficit)	Share-based payment reserve	Total
Balance at 30 June 2017		15,174,626	505,186	73,712	15,753,524
Total comprehensive (loss) for the year					
Loss for the year		-	(1,706,913)	-	(1,706,913)
Other comprehensive income		-	-	-	-
Total comprehensive (loss) for the year		-	(1,706,913)	-	(1,706,913)
Transactions with owners					
Share-based payment options	8 & 31	-	-	24,440	24,440
		-	-	24,440	24,440
Balance at 30 June 2018		15,174,626	(1,201,727)	98,152	14,071,051
Total comprehensive (loss) for the year					
Loss for the year		-	(365,796)	-	(365,796)
Other comprehensive income		-	-	-	-
Total comprehensive (loss) for the year		-	(365,796)	-	(365,796)
Transactions with owners					
Share-based payment options	8 & 31	-	-	10,095	10,095
		-	-	10,095	10,095
Balance at 30 June 2019		15,174,626	(1,567,523)	108,247	13,715,350

The above statement of changes in equity should be read in conjunction with the attached notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

	Note	Group June 2019 $	Group June 2018 $
ASSETS			
Current assets			
Cash and bank balances	9	291,638	684,251
Accounts receivable	13	1,360,532	1,071,235
Inventory	11	2,900,803	3,052,091
Biological work in progress	12	401,106	248,599
Prepayments		55,715	55,717
Deposits paid		21,610	-
GST receivable		39,459	81,717
Total current assets		5,070,863	5,193,610
Non-current assets			
Property, plant and equipment	15	14,907,548	14,695,146
Deposits paid		20,000	41,610
Related party loan	24	59	3,203
Investments carried at cost	16	72,250	72,250
Deferred tax	7	900,892	763,762
Intangible assets	14	29,076	21,123
Total non-current assets		15,929,825	15,597,094
Total assets		21,000,688	20,790,704
LIABILITIES			
Current liabilities			
Accounts payable	17	300,285	305,343
Accrued expenses		249,303	119,772
Contract liability	18	76,771	-
Interest bearing borrowings	19	6,100,000	6,100,000
Finance Lease	21	91,436	107,860
Total current liabilities		6,817,795	6,632,975
Non-current liabilities			
Shareholder Loan	24	392,855	-
Finance lease	21	74,688	86,678
Total non-current liabilities		467,543	86,678
Total liabilities		7,285,338	6,719,653
Total net assets		13,715,350	14,071,051
EQUITY			
Capital Shares	8	15,174,626	15,174,626
Share-based payment reserve	8 & 31	108,247	98,152
Retained earnings		(1,567,523)	(1,201,727)
Total equity		13,715,350	14,071,051

Signed for and on behalf of the board by:

Signature:

Signature:

Executive Chairman: Min Jia

Director: Danny Chan

Date: 30 August 2019

The above statement of financial position should be read in conjunction with the attached notes.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2019

	Note	Group Year Ended June 2019 $	Group Year Ended June 2018 $
Cash flows from operating activities			
Cash was provided from:			
Receipts from customers		5,032,529	4,758,364
Other revenue		41,320	11,083
GST refund		55,616	28,314
Income tax refund		3	3,731
Interest received		402	15,948
		5,129,870	4,817,440
Cash was disbursed to:			
Payment to suppliers		(4,008,534)	(3,019,695)
Payments to employees		(860,356)	(758,457)
Interest paid		(298,616)	(290,448)
		(5,167,506)	(4,068,600)
Net cash flow (used in) / generated by operating activities	25	(37,636)	748,840
Cash flows from investing activities			
Cash was disbursed to:			
Payments for investments		-	2,500
Payments for intangible assets		(4,298)	(1,326)
Payments for property, plant and equipment		(612,525)	(437,601)
		(616,823)	(436,427)
Net cash flow (used in) investing activities		(616,823)	(436,427)
Cash flows from financing activities			
Cash was provided from:			
Proceeds from shareholder loan	24	392,855	-
		392,855	-
Cash was disbursed to:			
Repayment of lease obligation	21	(130,828)	(127,037)
		(130,828)	(127,037)
Net cash flow generated by / (used in) financing activities		262,027	(127,037)
Net (decrease) / increase in cash		**(392,432)**	**185,376**
Cash and cash equivalents at the beginning of the year		**684,251**	**498,821**
Exchange adjustment		(181)	54
Cash and cash equivalents at the end of the year		**291,638**	**684,251**

The above statement of cash flows should be read in conjunction with the attached notes.

1 Reporting Entity

These financial statements are for Marlborough Wine Estates Group Limited (the Company) and its subsidiaries (together the Group, or MWE).

The Company and its subsidiaries are incorporated and domiciled in New Zealand, registered under the Companies Act 1993 and migrated from NXT market to the main board of the New Zealand Stock Exchange ("NZX") on 19 March 2019.

The Company is designated as a for-profit entity for financial reporting purposes.

These financial statements were authorised for issue by the Board of Directors on 30 August 2019.

The principle activities of the Group are grape production, wine making, marketing and sales of premium wine in New Zealand and various export markets.

2 Summary of significant accounting policies

(a) Basis of Preparation

The consolidated financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ("NZ GAAP"), and they comply with the New Zealand Equivalents to International Financial Reporting Standards ("NZ IFRS") and its interpretations and other relevant Financial Reporting Standards applicable to for-profit entities. The financial statements comply with International Financial Reporting Standards (IFRS).

The Group is a FMC reporting entity under the Financial Markets Conduct Act 2013. These consolidated financial statements have been prepared in accordance with the requirements of Financial Markets Conduct Act 2013.

Historical cost convention

The consolidated financial statements have been prepared on a historical cost basis except for Biological work in progress and produce which have been measured at fair value. Fixed assets have been recorded at cost less accumulated depreciation.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis.

Functional and presentation currency

The financial statements are presented in New Zealand dollars, which is the functional currency of the Company and its subsidiaries.

Accounting estimates & judgements

The preparation of financial statements in conformity with NZ IFRS requires the use of certain critical accounting estimates. Refer to Note 2(u) for further information. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

2 Summary of significant accounting policies (continued)

(b) Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the Consolidated Statement of Comprehensive Income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.
All intra group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable NZ IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under NZ IAS 39 Financial Instruments: Recognition and Measurement, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

2 Summary of significant accounting policies (continued)

(c) Business Combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred to the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with NZIAS 12 Income Taxes and NZ IAS 19 Employee Benefits respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with NZ IFRS 2 Share Based Payments at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with NZ IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

(d) Revenue Recognition

Sales of grapes and wine

The primary source of revenue for the Group is from the sales of grapes harvested and the sale of wines produced. Revenue on sales of goods is recognised when goods are delivered to and ready for use by the customer or when contractual term have been satisfied. The performance obligations are considered performed at the time of the delivery of the goods.

Interest income and expense

Interest income and expense are recognised on an accrual basis using the effective interest method.

Other income

Other income is recognised when the Group's right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably).

(e) Goods and Services Tax

With the exception of accounts receivable and payable, all items are stated exclusive of Goods and Services Tax. The net amount of GST recoverable from or payable to the taxation authority is included as part of current assets or current liabilities in the statement of financial position.

(f) Foreign Currencies

Items included in the financial statements of the Group are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The financial statements are presented in New Zealand Dollars, which is the company's functional and presentation currency. All values are rounded to the nearest dollar.

At balance date, foreign monetary assets and liabilities are translated into the functional currency at the closing exchange rate and exchange variations arising from these translations are recognised in profit or loss.

Transaction in foreign currencies are translated into New Zealand currency at the rate of exchange ruling at the transaction date or a rate approximating that rate.

2 Summary of significant accounting policies (continued)

(g) Property, Plant and Equipment

The cost of land, dams and roads includes all costs incurred in planting vineyards and developing vineyards, dams and irrigation systems including direct material and direct labour.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Any resulting impairment losses are recognised as an expense in profit or loss.

The Company has five classes of property, plant and equipment:

- Land, dams and roads
- Computer equipment
- Tools, equipment & sheds
- Motor vehicles
- Vines & vineyards

All items of property, plant and equipment are initially recorded at cost. All items are recorded on the cost basis less accumulated depreciation and impairment losses.

When an item of property, plant and equipment is disposed of, any gain or loss is recognised in profit or loss and is calculated as the difference between the sale price and the carrying value of the item.

Depreciation is provided for on a straight line or diminishing value basis on all tangible property, plant and equipment at depreciation rates calculated to allocate the assets' cost less estimated residual value, over their estimated useful lives. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Rates used during the year were:

- Land, dams and roads / Diminishing value / 0.0% - 13.0%
- Computer equipment / Diminishing value / 50.0%
- Tools, equipment & sheds / Diminishing value / 13.0% - 67.0%
- Motor vehicles / Diminishing value / 10.0% - 100.0%
- Vines & vineyards / Straight line / 5 - 25 years

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period the asset is derecognised.

(h) Impairment

The Group reviews the carrying value of its tangible and intangible assets and assesses whether there is any indication that an asset may be impaired at each reporting date. Where an indication of impairment exists, or when annual impairment testing of an asset is required, the Group makes a formal assessment of recoverable amounts.

Intangible assets with indefinite useful lives are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

2 Summary of significant accounting policies (continued)

(h) Impairment (continued)

If the recoverable amount of an asset is less than its carrying amount, the asset is written down to its recoverable amount. The write-down of the asset recorded at historical cost is recognised as an expense in profit or loss.

The carrying amount of an asset that has previously been written down to recoverable amount is increased to its current recoverable amount if there has been a change in the estimates used to determine the amount of the write-down. The increased carrying amount of the asset will not exceed the carrying amount that would have been determined if the write-down to recoverable amount had not occurred.

Reversals of impairment write downs on property, plant and equipment are accounted for in profit or loss.

(i) Trade and Other Receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business.

The Group recognises a loss allowance for expected credit losses on trade and other receivables. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument. The expected credit losses on the trade receivables are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

Other receivables are initially recognised at fair value less any provision for impairments. These are classified as current assets unless the balances are expected to settle at least 12 months after balance date, in which case they are classified as non-current assets.

(j) Payables

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

(k) Financial instruments

Financial instruments are recognised in the Statement of Financial Position when the Group become party to a financial contract. They include cash balances, deposits, bank overdrafts, receivables, payables and related party balances.

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

Financial assets are measured at amortised cost or fair value on the basis of the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The determination is made at the initial recognition. The Group classifies its financial assets as at amortised cost if both of the following criteria are met:

- the asset is held within a business model whose objective is to collect the contractual cash flows, and
- the contractual terms give rise to cash flows that are solely payments of principal and interest.

2 Summary of significant accounting policies (continued)

(k) Financial instruments (continued)

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

Interest income is recognised by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

Financial liabilities

Other financial liabilities (including borrowings and trade and other payables) are subsequently measured at amortised cost using the effective interest method.

(l) Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a first-in-first-out basis. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

(m) Common Control Transactions

A combination of entities or businesses under common control is a business combination in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the combination, and that control is not transitory.

Common control transactions are accounted for at book value at the date of the transaction with any resulting gain/loss recognised directly in equity.

(n) Income Tax

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

The charge for current income tax expense is based on the profit for the period adjusted for any non-assessable or disallowed items. It is calculated using the tax rates that have been enacted or are substantively enacted by the reporting date.

Deferred tax is calculated on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the statement of financial position. No deferred tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability settled based on tax rates that have been enacted or substantively enacted at the reporting date.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

2 Summary of significant accounting policies (continued)

(n) Income Tax (continued)

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxation authority.

The amount of income tax benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the Group will derive sufficient future assessable income to enable the benefit to be realized and comply with the conditions of deductibility imposed by law.

(o) Borrowing costs

Borrowing costs are recognised as an expense except when incurred to the extent that they are directly attributable to the acquisition, construction or production of a qualifying asset.

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset will be capitalised as part of the cost of that asset.

(p) Agriculture (biological assets other than bearer plants and biological work in progress)

All costs incurred in maintaining agricultural assets are recognised in profit or loss. Costs incurred in the current year's harvest are included in profit or loss and Statement of Financial Position as work in progress.

The fair value of picked grapes is recognised in profit or loss as a gain/loss on harvested grapes at the point of harvest. The fair value of grapes is referenced to market prices for grapes in the local area, at the time of harvest. This becomes the deemed 'cost' for inventory valuation purposes.

Unharvested grapes are biological assets and are measured at fair value less costs to sell.

(q) Fair value estimation

Some of the Group's assets and liabilities are measured at fair value for financial reporting purposes. The board of directors of the Company has determined the appropriate valuation techniques and inputs for fair value measurements.

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group applies an alternative valuation technique.

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date; and
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The carrying value less estimated credit adjustments of trade receivables and payables is assumed to approximate its fair values due to their short-term nature.

2 Summary of significant accounting policies (continued)

(r) Intangible assets

i. Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

ii. Intangible assets acquired in a business combination

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

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for a prospective basis.

iii. Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

(s) Share-based payment transactions

The grant date fair value of equity settled share based payment awards granted to employees is recognised as an expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

(t) Leases

The Group as lessee

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

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, the present value of minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense in the statement of financial performance. Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

The Group as lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

2 Summary of significant accounting policies (continued)

(u) Key sources of judgement of estimation uncertainty

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

i. Estimation of useful lives of assets (other than bearer plants) (refer to note 14 and 15)

The estimation of useful lives intangible assets has been based on historical experience and management's best estimate of the terms and conditions attached to intangible assets that arise from legal agreements. The estimation of the useful lives of fixed assets has been based on historical experience as well as lease terms. The condition of the assets are assessed at least once per year and considered against the remaining useful life. Adjustments to useful lives are made when considered necessary. The significant depreciation terms and classes of equipment are included in note 2(g).

ii. Fair value of grapes at the point of harvest less cost to sell (refer to note 10)

The fair value of grapes at the point of harvest is determined by reference to market prices for each variety of grape grown in the local area at the time of harvest. The Directors' assessment of the fair value at the point of harvest is determined after reviewing the market price at which the Group sells the harvested grapes.

iii. Impairment of intangible assets (refer to note 14)

The carrying amount of intangible assets are assessed at least annually to ensure that they are not impaired. This assessment requires the management to estimate the future cash flows generated by the intangible assets. Estimating cash flow entails making judgements including the expected rate of growth in revenue, expense and an appropriate discount rate to apply to the cash flows.

The Group acquired distribution rights on 31 March 2015 for amount of $5.15 million which were estimated to have a 10 years useful life.

There was an impairment loss of $2.6 million for the distribution rights as at 30 June 2017. Due to the continuous challenging trading conditions in China, management concluded that an additional impairment of $1.2 million was attributable to this distribution rights as at 30 June 2018. After this impairment, the value of the distribution agreement became $nil. Refer to note 14 for disclosure of key assumptions.

iv. MPI dispute (refer to note 11)

The Ministry for Primary Industries (MPI) is currently in dispute with the Group's former contracted wine processor which may have adverse implications for the Group. MPI has withheld approval from the processor for the release of sale to the Group of approximately $1,200,000 of Bottled Wine. This stock remains held by a third-party storage company while the dispute is determined. The allegation by MPI is that the processor held insufficient records to enable proper traceability of the stock. If MPI's position is upheld the stock will be destroyed. The Group is in continuing discussions with its insurer. However, the contractor has not accepted the liability and the Group holds insufficient information at this time to form a view on whether any loss will be fully or partially covered by its insurance. On 30 June 2017, the management performed an impairment test on the bottled wine in dispute, and a provision has been recognised for the bottled wine and now the full amount of the affected stock has been written off.

v. Deferred tax asset (refer to note 7)

For the purposes of measuring deferred tax assets arising from continuous operation and difference in depreciation for Vines and Vineyards, the directors have reviewed the Group's performance forecast for the near future and concluded that the Group will generate sufficient profit in the near future to utilise the deferred taxed assets recognised. Therefore, it is appropriate to carry deferred tax balance forward for future use. Key assumptions used for the forecast are: 1. vineyards harvest tonnage would reach about 2000 tonnes and remain constant then. 2. bottled wine would follow the current growth trend 3. bulk wine sales would remine relatively constant at current level. 4. marketing and promotional expenses would grow less aggressively, given the foundation works has been done now, such as setting up the regional promotional team.

2 Summary of significant accounting policies (continued)

(v) Standards and interpretations effective in the current year

The following Standards and Amendments to NZ IFRS are relevant to the group's financial statements and became mandatorily effective for the annual periods beginning on or after 1 July 2018. The Group has applied NZ IFRS 9: Financial Instruments and NZ IFRS 15: Revenue from Contracts with Customers, for the first time in the current financial year. Details of the impact of the application of these new NZ IFRSs are described below.

NZ IFRS 9 requires financial assets to be classified into two measurement categories; those measured as at fair value and those measured at amortised cost. The determination is made at the initial recognition. The main impact of the application of NZ IFRS 9 to the Group is in relation to the assessment of impairment of financial assets. Under NZ IFRS 9 the expected credit loss model for impairment of financial assets replaces the incurred loss model used in NZ IAS 39. The expected credit loss model requires the Group to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. It is therefore no longer necessary for a credit event to have occurred before credit losses are recognised.

The Group has used the simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. The Group determines the expected credit losses on receivables by using a provision matrix, estimated based on historical credit loss experience based on the past due status of the debtors, adjusted as appropriate to reflect current conditions and estimates of future economic conditions.

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

The Group has applied full retrospective method and elected not to restate comparatives, however the implementation of this NZ IFRS has not had a material impact on the financial statement of the Group.

On 1 July 2018, the Group adopted NZ IFRS 15: Revenue from Contracts with Customers, applying the modified retrospective transition provision. NZ IFRS 15 replaces NZ IAS 18 Revenue and introduces a five-step process for revenue recognition with the core principle being for entities to recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. The application of NZ IFRS 15 did not have an impact on the timing of revenue recognition or net profit after tax for the Group.

(w) Changes in accounting policy and disclosure

The Group has not adopted the following new and revised NZ IFRS that has been issued but is not yet effective:

NZ IFRS 16 Leases. Effective for annual period beginning on or after 1 January 2019. NZ IFRS 16 requires lessees to account for all leases under a single on-balance sheet model (subject to certain exemptions) in a similar way to finance leases under NZ IAS 17: Leases. Lessees will be required to recognise a liability to pay rentals with a corresponding asset and recognise interest expense and depreciation separately. Reassessment of certain key considerations (e.g. lease term, variable rents based on an index or rate, discount rate) by the lessee is required upon certain events. Lessor accounting is substantially the same as lessor accounting under NZ IAS 17's dual classification approach.

The Group's operating lease commitments are set out in note 20. Management has performed an initial assessment of the financial impact on the Group based on leases in effect at 30 June 2019. For the year ended 30 June 2019 and based on an initial estimate of an appropriate discount rate, we calculate the new standard would have increased reported EBITDA by the amount of its current operating lease cost, which for the year ended 30 June 2019 was approximately $118k. The impact on the statement of financial position as at 30 June 2019 would have been an increase in assets of approximately $26K with a similar corresponding increase in liabilities. The impact of the new standard will continue to be assessed as it is implemented in the 2020 financial year.

The Directors expect to adopt the above standards and amendments when they become effective.

3 Sales

	Year Ended June 2019 $	Year Ended June 2018 $
Bulk grape sales	2,495,008	2,213,280
Bulk wine sales	1,252,590	987,017
Bottled wine sales	1,632,077	784,687
	5,379,675	3,984,984

Prices of two grape sale agreements are based on the regional average price which will become available sometime in the following financial year. The Group uses its best estimation of transaction prices for each agreement to record the revenue. Adjustment, if any, will be made when official regional price is published.

4 Other Income

	Year Ended June 2019 $	Year Ended June 2018 $
Lease of farmland	3,250	3,546
Compensation from customer	20,000	-
Others	18,070	7,537
	41,320	11,083

5 Cost of sales

The group runs a vineyard and wine producing business and as a consequence have incurred $3,377,363 of cost of sales (2018: $2,444,433). These costs relate to growing grapes and producing wine.

	Year Ended June 2019 $	Year Ended June 2018 $
Cost of sales	3,377,363	2,444,433
	3,377,363	2,444,433

6 Operating expenses

	Year Ended June 2019 $	Year Ended June 2018 $
Selling, marketing and promotion expenses	940,362	456,078
Corporate governance expenses	392,517	428,639
Administration expenses	515,087	464,936
	1,847,966	1,349,652
Specific components of the above expenses include:		
Wages and salaries	783,521	527,587
Kiwisaver contribution	14,323	8,361
Share-based payments to directors and staff	10,095	24,440
Foreign exchange losses	181	(54)
Auditor Remuneration	88,932	62,875
Lease expenses (note 20)	113,183	117,585

7 Taxation

		Year Ended June 2019	Year Ended June 2018
(a) Income Tax		$	$
Current tax	- current period	-	-
	- prior year	(3)	(2,006)
Deferred tax movement		(137,130)	(115,028)
Income tax expense		(137,133)	(117,034)

(b) Numerical reconciliation of income tax expense to prima facie tax payable

	Year Ended June 2019	Year Ended June 2018
(Loss) / profit before taxation	(502,929)	(1,823,947)
Income tax @ 28%	(140,820)	(510,705)
Permanent differences	3,690	395,677
Prior year adjustment	(3)	(2,006)
Income tax (benefit) / expense	(137,133)	(117,034)

(c) Imputation credits are as follows:

	Year Ended June 2019	Year Ended June 2018
Balance available for use in subsequent reporting periods	720,684	615,756

(d) Deferred tax balances

The following is the analysis of deferred tax assets/(liabilities) presented in the consolidated statement of financial position:

	Year Ended June 2019	Year Ended June 2018
	$	$
Deferred tax assets	900,892	763,762
	900,892	763,762

June 2018

	Opening balance	Recognised in profit or loss	Closing balance
Deferred tax assets/(liabilities) in relation to:	$	$	$
Biological assets	269,732	63,620	333,352
Accrued expenses	21,201	1,617	22,818
Inventory provision	-	42,694	42,694
Property, plant & equipment	415	-	415
Tax losses on prior period	357,386	7,097	364,483
	648,734	115,028	763,762

June 2019

	Opening balance	Recognised in profit or loss	Closing balance
Deferred tax assets/(liabilities) in relation to:	$	$	$
Biological assets	333,352	63,620	396,972
Accrued expenses	22,818	6,744	29,562
Inventory provision	42,694	3,986	46,680
Property, plant & equipment	415	(18,535)	(18,120)
Tax losses	364,483	81,315	445,798
	763,762	137,130	900,892

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits with be available against which the asset 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 deferred tax benefit will be realised.

The company's year ended with net loss after tax of $365,796 which was mainly due to the recognition of inventory write down, and high selling, marketing and promotional cost as a result of investment in growth. Management prepared forecasts and expects the Group to be profitable in the foreseeable future. Refer to note 2 (u(v)).

8 Equity

Share Capital

	June 2018 Number	June 2018 $
Balance of ordinary share capital at 1 July 2017	290,872,000	15,174,626
Ordinary shares issued for investors during the period	-	-
Cash contribution from option holders	-	-
Share options exercised during the year	-	-
Balance at 30 June 2018	290,872,000	15,174,626

	June 2019 Number	June 2019 $
Balance of ordinary share capital at 1 July 2018	290,872,000	15,174,626
Ordinary shares issued for investors during the period	-	-
Cash contribution from option holders	-	-
Share options exercised during the year	-	-
Balance at 30 June 2019	290,872,000	15,174,626

Share-based payment reserve

	June 2018 Number	June 2018 $
Balance of share based payment reserve at 1 July 2017	2,400,000	73,712
Share based expenses for the year	-	24,440
Share options granted/(forfeited) during the year	-	-
Share options exercised during the year	-	-
Balance at 30 June 2018	2,400,000	98,152

	June 2019 Number	June 2019 $
Balance of share based payment reserve at 1 July 2018	2,400,000	98,152
Share based expenses for the year	-	10,095
Share options granted/(forfeited) during the year	(120,000)	-
Share options exercised during the year	-	-
Balance at 30 June 2019	2,280,000	108,247

Total number of security registered as at 30 June 2019	293,152,000

At 30 June 2019, share capital comprised of 293,152,000 authorised and issued shares (30 June 2018: 293,272,000). Other than the 2,280,000 shares issued under the Group's Employee Share Ownership Plan (ESOP) all issued shares are fully paid.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to vote at meetings of the Company and on any written resolution and rank equally with regards to the Company's residual assets.

Proportionate rights for the holders of unpaid shares issued under ESOP- until a Share is fully paid it shall have the same rights and privileges as an Ordinary Share but only in the proportion to which it has been paid up. For example, if a Share is 50% paid up it will confer half of a right to vote on a poll at a meeting of shareholders and a right to receive half of the amount of any dividend paid on an Ordinary Share. However, the Shares will carry identical rights to Ordinary Shares in terms of entitlements to participate in any issue of equity (including securities convertible into equity capital) in the Company.

Issue of shares

MWE has issued no shares (30 June 2018: nil) or share options (30 June 2018: nil) during the 12 months ended 30 June 2019. And no existing share options have been exercised during the 12 months ended 30 June 2019 (30 June 2018: nil). 120,000 share options have been cancelled due to the former holder was no longer being employed by MWE and the share options had not vested.

9 Cash and bank balances

	Year Ended June 2019 $	Year Ended June 2018 $
Cash at bank (ANZ Bank, BNZ Bank and Industrial Commercial Bank of China)	291,638	684,251
	291,638	684,251

Cash and cash equivalents comprise cash on hand, cash at bank and investments on call or in short-term deposits with an initial maturity of 3 months or less.

10 Biological asset produce

Biological assets consist of grape vines (bearer plants). Bearer plants are classified as Property, Plant and Equipment and are included as part of Vines and Vineyards in note 15. The Group grows grapes to sell and use in the production of wine, as a part of normal operations. Vineyards are located in Marlborough, New Zealand. Grapes are harvested between March and April each year.

At 30 June 2019, the Group held approximately 336 hectares of land owned by the Company in Marlborough, New Zealand (30 June 2018: 336), During the year, another 4 hectares of land were in the process of being converted into vineyard which bring the total planted area to 153 hectares (30 June 2018: 149).

During the year ended 30 June 2019, the Group harvested 1861 tonnes of grapes (30 June 2018: 1,784). The grapes harvested are recognised at fair value at the point of harvest after taking into consideration various market factors, as well as reviewing the district average price report for grapes of similar quality and variety. The fair value adjustment included in cost of sale for the 2019 harvest was $1,648,404 (30 June 2018: $1,517,051). Refer to note 12 for recognition of the biological transformation between the time of harvest and balance date.

11 Inventories

	Year Ended June 2019 $	Year Ended June 2018 $
Wines - bottled	897,388	1,540,459
Wines - work in progress	1,827,737	1,338,210
Dry goods	175,678	173,422
Total wine in inventory and work in progress (net of impairment)	2,900,803	3,052,091
Impairment of Inventory		
Balance as at 1 July	152,477	1,293,761
Provision provided during the year	166,713	152,477
Inventory written off during the year	(152,477)	(1,293,761)
Balance as at 30 June	166,713	152,477

Inventories are valued at the lower of cost, net realisable value. Cost is calculated on a FIFO basis.
Due to the challenging trading conditions overseas, especially in China, the Group's bottled wine sales were slower than expected. Some aged wine currently held by the Group will not likely be able to be sold at full cost. On 30 June 2019, the Group performed an annual impairment test on bottled wine inventory, taking into consideration historical data and forecast economic conditions, and believed the additional value of the wine that should be provided for is $166,713 (30 June 2018: $152,477).

12 Biological work in progress

	Year Ended June 2019 $	Year Ended June 2018 $
Growing costs related to next harvest	401,106	248,599

The growth on the vines in the period from harvest to 30 June 2019 cannot be reliably measured due to the lack of market information and the variables in completing the biological transformation process between the time of harvest and the balance date. The cost of agricultural activity in the period to 30 June 2019 has been recognised as biological work in progress for the next harvest. This assumes the cost of the agricultural activity approximates the fair value of the biological transformation that has occurred in that period. The value of biological work in progress at balance date was $401,106 (30 June 2018: $248,599), of which, $124,515 was related to top grafted and replanted vines for the period from April 2018 to June 2019 and it will be carried until the next harvest which is expected at late March or early April 2020.

13 Accounts receivable

	Year Ended June 2019 $	Year Ended June 2018 $
Trade receivables	1,360,532	1,071,235
Provision for doubtful debts	-	-
	1,360,532	1,071,235

The standard credit terms on sales of goods given to domestic bottled wine customers are 20th of month following the issue of invoice. Before accepting any new customer, the Group assess the potential customer's credit quality and defines credit limits by customer. For overseas and other major customers, credit quality is assessed individually. Clients with customised purchase orders might receive a different payment term, normally not longer than 180 Days.

The Group recognises a loss allowance for expected credit losses on trade and other receivables. Expected credit losses are not material as at 30 June 2019 and 30 June 2018. The Group also considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period. Refer to note 2(i).

Included in the total receivable amount above, there is no material past due accounts. As of 30 June 2019, there were 4 customers who represent more than 5% of the total balance of trade receivables individually (30 June 2018: 4 customers).

Payment due schedule from major customers as of 30 June 2019	Total Receivable amount $	Due in 0 - 30 days $	Due in 31 - 90 days $	Due in 91 days + $	Past due $
Customer 3	658,109	-	394,865	263,244	-
Customer 4	192,176	176	192,000	-	-
Customer 5	97,151	87,377	-	-	9,774
Customer 6	136,082	136,082	-	-	-

Payment due schedule from major customers as of 30 June 2018	Total Receivable amount $	Due in 0 - 30 days $	Due in 31 - 90 days $	Due in 91 days + $	Past due $
Customer 1	96,402	522	28,200	67,680	-
Customer 2	79,753	-	79,753	-	-
Customer 3	625,116	-	375,070	250,046	-
Customer 4	159,600	-	159,600	-	-

The Group determines the expected credit losses on receivables by using a provision matrix, estimated based on historical credit loss experience based on the past due status of the debtors, adjusted as appropriate to reflect current conditions and estimates of future economic conditions. The Group has determined the expected credit loss is negligible at this stage so the provision has not been recognised.
The loss allowance for accounts receivable was tested as follows.

Payment due schedule from major customers as of 30 June 2019

	Current	Less than 30 days past due	30 to 60 days past due	More than 60 days past due
Trade receivables	1,311,983	29,652	505	18,392
Provision for doubtful debts	-	-	-	-

14 Intangibles

(a) Cost and accumulated amortisation

	Distribution Rights	Trademarks	Website	Total
Cost:	$	$	$	$
Balance as at 1 July 2017	5,150,565	20,959	-	5,171,524
Additions for the year	-	1,326	-	1,326
Balance at 30 June 2018	5,150,565	22,285	-	5,172,850
Reclassification for the year	-	-	8,112	8,112
Additions for the year	-	-	4,298	4,298
Balance at 30 June 2019	5,150,565	22,258	12,410	5,185,260

14 Intangibles (continued)

Amortisation and impairment losses:	Distribution Rights $	Trademarks $	Website $	Total $
Balance as at 1 July 2017	3,778,885	1,162	-	3,780,047
Amortisation for the year	176,991	-	-	176,991
Impairment loss for the year	1,194,689	-	-	1,194,689
Balance at 30 June 2018	5,150,565	1,162	-	5,151,727
Amortisation for the year	-	4,457	-	4,457
Impairment loss for the year	-	-	-	-
Balance at 30 June 2019	5,150,565	5,619	-	5,156,184

(b) Carrying amount

	Distribution Rights $	Trademarks $	Website $	Total $
June 2018				
Cost	5,150,565	22,285	-	5,172,850
Accumulated amortisation and impairment loss	(5,150,565)	(1,162)	-	(5,151,727)
Balance at 30 June 2018	-	21,123	-	21,123
June 2019				
Cost	5,150,565	22,285	12,410	5,185,260
Accumulated amortisation and impairment loss	(5,150,565)	(5,619)	-	(5,156,184)
Balance at 30 June 2019	-	16,666	12,410	29,076

15 Property, plant & equipment

(a) Cost and accumulated depreciation

Cost:	Land, dams & roads $	Vines & Vineyards $	Computer equipment $	Tools & equipment $	Motor vehicles $	Total $
Balance at 1 July 2017	9,306,833	5,377,954	11,824	263,044	386,417	15,346,072
Additions for the year	103,424	155,982	9,401	164,194	208,735	641,736
Disposals for the year	-	-	-	-	(30,000)	(30,000)
Balance at 30 June 2018	9,410,257	5,533,936	21,225	427,238	565,152	15,957,808
Additions for the year	25,657	448,165	-	137,874	89,888	701,584
Reclassification	-	-	(8,112)	-	-	(8,112)
Disposals for the year	-	-	-	-	-	-
Balance at 30 June 2019	9,435,914	5,982,101	13,113	565,112	655,040	16,651,280
Accumulated Depreciation						
Balance at 1 July 2017	122,550	514,650	7,188	78,782	86,142	809,312
Depreciation for the year	88,014	241,117	2,374	69,955	65,621	467,081
Disposals for the year	-	-	-	-	(13,731)	(13,731)
Balance at 30 June 2018	210,564	755,767	9,562	148,737	138,032	1,262,662
Depreciation for the year	85,990	251,859	1,778	67,989	73,454	481,070
Disposals for the year	-	-	-	-	-	-
Balance at 30 June 2019	296,554	1,007,626	11,340	216,726	211,486	1,743,732

Of the above $251,859 depreciation for vines and vineyards, $187,802 was reclassified to cost of sales and the remaining $64,057 was capitalised into biological work in progress. As they were directly attributable to grapes growing. (30 June 2018: $180,838 was reclassified to cost of sales and 60,279 was capitalised into WIP.)

15 Property, plant & equipment (continued)

(b) Carrying amounts

	Land, dams & roads $	Vines & Vineyards $	Computer equipment $	Tools & equipment $	Motor vehicles $	Total $
June 2018						
Cost	9,410,257	5,533,936	21,225	427,238	565,152	15,957,808
Accumulated depreciation	(210,564)	(755,767)	(9,562)	(148,737)	(138,032)	(1,262,662)
Carrying amount	9,199,693	4,778,169	11,663	278,501	427,120	14,695,146
June 2019						
Cost	9,435,914	5,982,101	13,113	565,112	655,040	16,651,280
Accumulated depreciation	(296,554)	(1,007,624)	(11,340)	(216,726)	(211,488)	(1,743,732)
Carrying amount	9,139,360	4,974,477	1,773	348,386	443,552	14,907,548

Land, dams and vines acquired by the Group are subject to a registered charge in favour of the ICBC Bank. This is up to the extent of the loan balance.

The Group grows and harvests grapes. Harvesting of grapes is from March to April each year. The vineyards are situated in Marlborough.

The Group leased certain of its vineyards machinery under finance leases. The Group's obligations under finance leases (see note 21) are secured by the lessors' title to the leased assets, which have a carrying amount of $166,124 (30 June 2018: $194,538).

16 Investments

The Group has 7.8% ownership in Blind River Irrigation Limited and has advanced funds to the company. This gives the Group the right to draw water from Blind River Irrigation Limited. During the 12 months ended 30 June 2019, MWE has received no dividend from this investment (30 June 2018: nil).

	Year Ended June 2019 $	Year Ended June 2018 $
Investment carried at cost	72,250	72,250
	72,250	72,250

17 Accounts payable

	Year Ended June 2019 $	Year Ended June 2018 $
Trade payables	300,285	305,343
	300,285	305,343

Trade payables are non-interest bearing and are generally settled within 30 days. As a result of their short-term nature, trade payables and accruals are not discounted. The carrying amount disclosed above is a reasonable approximation of fair value.

18 Contract Liabilities

	Year Ended June 2019 $	Year Ended June 2018 $
Revenue received in advance	76,771	-
	76,771	-

The amount received in advance by the Group is recognised as contract liability until the goods have been delivered to the customer.

19 Borrowings

	Year Ended June 2019 $	Year Ended June 2018 $
Loan - ICBC	6,100,000	6,100,000
	6,100,000	6,100,000
Current	6,100,000	6,100,000
	6,100,000	6,100,000

19 Borrowings (continued)

A subsidiary of the Group entered into a loan agreement with ICBC on 18 December 2014. The loan is secured by way of registered charge over land located at Blind River Loop Road, Seddon. The loan is interest only and as such no principle repayments have been made. The interest rate at 30 June 2019 was 4.38% (30 June 2018: 4.78%). The loan will mature on 30 September 2019 and subsequently was refinanced for another two years (see note 28).

Borrowings are initially recognised at the fair value of the consideration received, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

20 Operating leases

	Year Ended June 2019 $	Year Ended June 2018 $
Leases as lessee		
Operating lease rentals are payable as follows		
Less than one year	27,329	115,209
Between one and five years	-	27,679

The Group entered various non-cancellable operating lease agreements. The leases reflect normal commercial arrangement with varying terms, escalation clauses and renewal rights.

During the year ended 30 June 2019 $3,251 (30 June 2018: $3,546) was recognised as revenue and $113,183 (30 June 2018: $117,585) was recognised as expense in respect of operating leases.

21 Finance leases

	Year Ended June 2019 $	Year Ended June 2018 $
Leases as lessee		
Finance lease rentals are payable as follows		
Less than one year	99,351	115,260
Between one and five years	82,063	90,303
	181,414	205,563
less future finance charges	(15,290)	(11,025)
Present value of minimum lease payments	166,124	194,538
Disclosed as:		
Current finance lease liability	91,436	107,860
Non-current finance lease liability	74,688	86,678
	166,124	194,538
Total finance lease liability:		
Outstanding at 1 July	194,538	104,087
New finance leases added during the year	102,414	217,488
Finance lease liability paid during the year	(130,828)	(127,037)
Outstanding at 30 June	166,124	194,538

The Group leased certain of its vineyards machinery and motor vehicles under finance leases. The average lease term is 3 years. The ownership of the leased assets will be transferred to the Group at the end of the lease terms. The Group's obligations under finance leases are secured by the lessors' title to the leased assets. Interest rates underlying all obligations under finance leases are fixed at respective contract dates ranging from 2.49% to 10.75% per annum.

22 Contingent Liabilities

O:TU Investments Limited (OIL) is a wholly owned subsidiary of MWE. OIL obtained Overseas Investment Office (the OIO) consent to acquire the vineyard in Marlborough in 2013 (Original Consent).

OIL subsequently undertook the internal restructuring in preparation for listing MWE on the NXT market, which inadvertently breached the Overseas Investment Act (Act). The breach occurred when 3% of the shares in OIL were transferred from an overseas company to James Jia as part of the internal restructuring. The conditions of the Original Consent and the Act provide that further consent was required when James Jia increased his ownership in OIL.

The OIO has formally concluded its investigation into the breaches and issued a warning letter to MWE and Mr. Min Jia in September 2018. In the warning letter, the OIO states that it considers that the breaches were at the low end of the range for possible breaches of the Act. The warning letter confirms that the OIO has decided to take no further enforcement action with respect to the breaches.

As at the period end there were no other contingent liabilities.

23 Capital Commitments

As at the balance date the Group had capital commitments of $nil (30 June 2018: $nil).

24 Related Party Disclosures

(a) Identity of related party

The Group has a related party relationship with its key management personnel. All members of the Group are considered to be the related parties of the Parent, Marlborough Wine Estates Group Limited (MWE). This includes the subsidiaries identified below. This has been remained the same as last year.

Subsidiaries	Principal Activity	Proportion of ownership	Accounting balance date	Jurisdiction
Marlborough Vineyard Group Limited	International Marketing	100%	30 June	New Zealand
Otuwhero Trustee Limited	Wine production, sales and marketing	100%	30 June	New Zealand
O:TU Investments Limited	Vineyards operation	100%	30 June	New Zealand
MB Wine Limited	Music Bay trademark	100%	30 June	New Zealand

The Group has a related party relationship with the entities below:

New Zenith International Trading (Shanghai) Co., Ltd (NZIT)	Min Jia, the founder, major shareholder and director of MWE, owns NZIT in China. NZIT sells, distributes and markets MWE's wine in China.
Lily Investments Company Limited	Min Jia and Ly Lee, directors of MWE, own Lily Investment Company Limited.
Lily Investments 227 Limited	Min Jia and Ly Lee, directors of MWE, own Lily Investment 227 Limited.
Blind River Irrigation Limited	The Group holds 7.8% ownership in Blind River Irrigation Limited.
Lily Nelson Altro LP	Min Jia and Ly Lee, directors of MWE, are ultimate beneficiaries of a trust who is a partner in in Lily Nelson Altro LP.
Lily investment 265 Trust	Min Jia and Ly Lee, directors of MWE, are beneficiaries of Lily Investment 265 Trust.
PersoVino By NOA GmbH	Jan Kux, winemaker of MWE, owns PersoVino By NOA GmbH.
Flowerzone International Ltd	Danny Chan, director of MWE, is a director and shareholder in Flowerzone International Ltd.
OTU Australia Pty Ltd	Catherine Ma, CEO of MWE, is a close relative of the director of OTU Australia Pty Ltd.
FMG Insurance Limited	Danny Chan, director of MWE, is a director in FMG Insurance Limited

24 Related Party Disclosures (continued)

(b) Transactions with related party

	Total Value 2019 $	Total Value 2018 $	Asset/(liability) 2019 $	Asset/(liability) 2018 $
Wine Sales				
New Zenith International Trading (Shanghai) Co., Ltd	97,169	300,384	(72,466)	96,402
Lily Nelson Altro LP	1,821	2,970	-	-
Lily Investment 265 Trust	387	25,512	387	-
PersoVino By NOA GmbH	-	4,704	-	-
Flowerzone International Ltd	22,655	4,284	7,620	-
OUT Australia Pty Ltd	49,364	-	-	-
Office rent and other payments				
Lily Investments Company Limited (for office rent)	35,733	36,636	2,978	-
Lily Investment 227 Limited (for office rent)	35,736	35,736	2,978	-
Blind River Irrigation Limited (for water usage)	31,391	32,463	(16,130)	(18,878)
FMG Insurance Limited (for insurance policy)	42,739	-	-	-
New Zenith International Trading (Shanghai) Co., Ltd (compensation for loss of sales)	20,000	-	-	-

Transactions with Directors and Key Management Personnel

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the entity, either directly or indirectly. The key management personnel are the directors and senior officers of the Group.

	Total Value 2019 $	Total Value 2018 $	Asset/(liability) 2019 $	Asset/(liability) 2018 $
Directors' Fees				
Min Jia (Executive Chairman)	45,000	45,000	(3,750)	(3,750)
Ly Lee	20,000	20,000	(1,667)	(1,667)
Jack Zhong Yin	30,900	34,334	-	-
Danny Chan	40,000	40,000	(10,000)	(30,000)
Songyuan Huang	30,000	30,000	-	-

	Total Value 2019 $	Total Value 2018 $	Asset/(liability) 2019 $	Asset/(liability) 2018 $
Share-based payments for director				
Jack Zhong Yin	6,966	16,264		

	Year Ended June 2019 $	Year Ended June 2018 $
Senior officers' compensation (excludes directors)		
Short-term employee benefits	226,242	265,759
Share-based payments	3,130	8,176
Total senior officers' compensation (excludes directors)	229,372	273,935

	Year Ended June 2019	Year Ended June 2018
Shareholder loan- Min Jia		
Amount owned to Min Jia at 1 July	-	-
Amount advanced by Min Jia during the year	392,855	-
Amount withdrawn by Min Jia during the year	-	-
Amount owed to Min Jia at 30 June	392,855	-

24 Related Party Disclosures (continued)

	Year Ended June 2019 $	Year Ended June 2018 $
Amounts owing from related parties:		
Amounts owing from Blind River Irrigation Limited at 1 July	3,203	8,443
Amount withdrawn by the Company during the year	(3,144)	(5,240)
Amount owing from Blind River Irrigation Limited at 30 Jun	59	3,203

	Year Ended June 2019 $	Year Ended June 2018 $
Other related party transactions during the year		
Wine purchased by shareholders and senior officers during the year	400	3,324
Payments reimbursed to senior officers and shareholders for business related expenses during the year	22,040	23,897
Irrigation water charged by Blind River Irrigation Limited during the year	31,391	28,228

All shareholder loan balances are interest free and are not repayable within 12 months of signing the financial statements. No amounts owed by related parties have been written off or forgiven during the year. All other related party balances are repayable within 12 months.

The loan from shareholder is unsecured and has been subordinated in favour of all other creditors of the company. The shareholder loan is not due for repayment for the following 12 months. And the major shareholder has agreed to support the Group's growth in the following year.

During the year ending 30 June 2019, the major shareholder, Min Jia, sold 2,680,000 shares to a key management personnel.

25 Notes to Cash Flow Statement

	Year Ended June 2019 $	Year Ended June 2018 $
Reconciliation of net (loss) after tax to net cash flow from operating activities:		
Net (loss) / profit after tax	(365,796)	(1,706,913)
Add: Non-cash items		
Amortisation	4,457	176,991
Depreciation	477,297	467,081
Tax expense	(137,133)	(117,034)
loss on asset disposal	-	1,308
Impairment loss	-	1,194,689
Foreign exchange movement	181	(54)
Share-based payments	10,095	24,440
Withholding tax adjustment	-	2,006
Other non-cash adjustment	17,138	28,315
(Increase)/decrease in assets:		
(Increase) / Decrease in accounts receivables	(289,297)	931,958
Decrease / (Increase) in GST receivable	42,258	(51,795)
(Increase) / Decrease in inventory	(1,219)	(318,644)
Decrease / (Increase) in prepayments	2	37,916
Decrease / (Increase) in related party loan	3,144	5,240
Increase / (Decrease) in liabilities:		
(Decrease) / Increase in trade payables	(5,058)	66,466
Increase / (Decrease) in revenue received in advance	76,771	(22,230)
Increase / (Decrease) in tax paid	-	1,725
Increase / (Decrease) in accrued expenses	129,530	27,375
Net cash provided by operating activities	**(37,636)**	**748,840**

26 Financial Risk Management

The Group's activities expose it to a variety of financial risks: market risk, credit risk, liquidity risk and agricultural risk.

(a) Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates.

The Group undertakes certain transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise. Exchange rate exposures are currently not managed as the foreign currency exposure is not material enough to warrant the use of foreign exchange contracts and foreign exchange option contracts. Forward foreign exchange contracts and foreign exchange option contracts will be used in the future as the Group's foreign currency exposure increases.

(b) Credit risk

Credit risk is managed on a regular basis. Credit risk arises from outstanding receivables from debtors. As part of the Group's financial risk policy, limits on exposures have been set and are monitored on a regular basis. Credit risk is therefore not significant. The Group does not require any collateral or security to support financial instruments due to the quality of the financial institutions dealt with. The maximum exposure to credit risk is to the extent of the balance of the receivable.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, and the availability of funding through an adequate amount of committed credit facilities. All financial liabilities are payable in 12 months other than the shareholder loan and lease commitment (refer to note 21). The Group will consider additional funding options through loans or equity when required.

(d) Agricultural risk

The Group is exposed to financial risks in respect of agricultural activities. The agricultural activities of the Group primarily consist of the ownership of vineyards to produce grapes that are then sold to both related and non-related parties for the production of wine. The Company takes reasonable measures to ensure that the current year's harvest is not affected by disease, drought, frost or other factors that may have a negative effect on yield and quality. These measures include consultation with experts in viticulture and frost protection measures.

(e) Cash flow risk

The table below analyses the Company's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. Interest payable has been calculated at balance date rates, assuming bank borrowings at balance date are held to maturity. The Group will consider additional funding options through loans or equity when required.

June 2018

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Trade Payables	305,343	-	-	-
Bank Borrowings	6,172,590	-	-	-
Finance Lease	115,260	68,807	21,496	-

June 2019

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Trade Payables	300,285	-	-	-
Bank Borrowings	6,166,795	-	-	-
Shareholder Loan	-	392,855	-	-
Finance Lease	99,351	34,882	47,181	-

The $6.1 million Bank Borrowing will mature on 30 September 2019, and subsequently was refinanced for another two years (see note 28).

(f) Foreign currency risk

Foreign currency denominated assets and liabilities at balance date are:

	Year Ended June 2019 $	Year Ended June 2018 $
Cash and cash equivalents	-	-
Trade & other receivables	-	9,469
Trade & other payables	-	-
Exposure at balance date	-	9,469

The Group is mainly exposed to Euro (EUR) and Chinese Yuan (CNY). As at 30 June 2019, the Group has a trade receivable balance of $9,469 denominated in EUR. The following sensitivity is based on the foreign currency risk exposures in existence at the reporting date. The 10% sensitivity rate used represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for the listed percentage change in foreign currency rates.

	June 2019		June 2018	
	NZD +10% $	NZD -10% $	NZD +10% $	NZD -10% $
Pre-tax profit / (loss)	-	-	(861)	1,052

(g) Interest rate risk

The Group is exposed to interest rate risk as it borrows funds at floating interest rates. The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowings. Financing activities are evaluated regularly with assistance of independent advice to align with interest rate views and defined risk appetite; ensuring optimal economic strategies are applied or protecting interest expense through different interest rate cycles.

If interest rates had been 10% higher/lower and all other variables were held constant, the Group's profit for the year would be decrease/increase by $28,995. This is mainly attributable to the Group's exposure to interest rates on its variable borrowing.

(h) Categories of financial assets and liabilities

	Loans and receivables $	Investment at cost $	Financial liabilities at amortised cost $	Total $
June 2018				
Cash and bank balances	684,251	-	-	684,251
Accounts receivable	1,071,235	-	-	1,071,235
Related party loan	3,203	-	-	3,203
Investment carried at cost	-	72,250	-	72,250
Total financial assets	**1,758,689**	**72,250**	**-**	**1,830,939**
Non-financial assets				18,959,765
Total assets				**20,790,704**
Liabilities				
Accounts payable	-	-	305,343	305,343
Accrued expenses	-	-	119,772	119,772
Finance lease obligation	-	-	194,538	194,538
Related party loan	-	-	-	-
Bank loan	-	-	6,100,000	6,100,000
Total financial liabilities	**-**	**-**	**6,719,653**	**6,719,653**
Non-financial liabilities				-
Total liabilities				**6,719,653**

26 Financial Risk Management (continued)

	Financial assets at amortised cost	Financial assets at fair value through profit and loss	Financial liabilities at amortised cost	Total
	$	$	$	$
June 2019				
Cash and bank balances	291,638	-	-	291,638
Accounts receivable	1,360,532	-	-	1,360,532
Related party loan	59	-	-	59
Financial assets at fair value through profit and loss	-	72,250	-	72,250
Total financial assets	**1,652,229**	**72,250**	**-**	**1,727,479**
Non-financial assets				19,276,208
Total assets				**21,000,687**
Liabilities				
Accounts payable	-	-	300,285	300,285
Accrued expenses	-	-	249,303	249,303
Finance lease obligation	-	-	166,124	166,124
Shareholder loan	-	-	392,855	392,855
Bank loan	-	-	6,100,000	6,100,000
Total financial liabilities	**-**	**-**	**7,208,567**	**7,208,567**
Non-financial liabilities				76,771
Total liabilities				**7,285,338**

(i) Capital management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year. The capital structure of the Group consists of net debt and equity of the Group.

27 Subsequent events

To further support the Company, the major shareholder, Mr. Min Jia offered MWE a further $1 million interest free loan for two years. The funds will provide the additional working capital required to support MWE's continued growth and a portion of the loan will also be applied by MWE towards the repayment of the Industrial and Commercial Bank of China loan that will mature on 30 September 2019. The part repayment of this loan will reduce MWE's debt servicing costs and allow MWE to focus on the growth. The $6.1m bank loan has been refinanced with the loan balance being reduced to $5.3m. The new loan will mature on 30 September 2021.

28 Going concern

During the current period, the Group's had a negative working capital of about $1.8 million, due to the $6.1m bank loan being recorded as a current liability (see note 19). As at the signing of this report, this loan was refinanced for another two years with loan balance being reduced to $5.3m and this loan now will mature on 30 September 2021. The major shareholder, Mr. Min Jia offered MWE a further $1 million interest free loan for two years after year end. The funds will provide the additional working capital required to support its continued growth and a portion of the loan will also be applied by MWE towards the repayment of the Industrial and Commercial Bank of China loan. The major shareholder has also agreed to support the Group's growth in the following year. In March 2019, O:TU Vineyards was valued at $20.65 million based on a valuation report done by Property Advisory Limited. Directors have made an assessment of the Group's ability to continue as a going concern and are satisfied that the Group has the resources to continue in business for the foreseeable future. On this basis, the Directors believe that the use of the Going Concern assumption in preparation of the financial statements remains appropriate.

29 Earnings per share

(a) Basic earnings per share

Basic earnings per share is calculated by dividing the profit/(loss) attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares purchased by the Company and held as treasury shares.

29 Earnings per share (continued)

	June 2019 Number	June 2018 Number
Number of ordinary shares at 1 July	290,872,000	290,872,000
Ordinary shares issued and paid during the period	-	-
Number of ordinary shares at 30 June	290,872,000	290,872,000
Weighted average number of ordinary shares	290,872,000	290,872,000

	Year Ended June 2019	Year Ended June 2018
(Loss) / profit attributable to equity holders of the Company (in dollars)	(365,796)	(1,706,913)
Weighted average number of ordinary shares on issue	290,872,000	290,872,000
Basic (loss) per share (in dollars)	(0.001)	(0.006)

(b) Diluted earnings per share

Same earning was used for diluted earnings per share

	Year Ended June 2019	Year Ended June 2018 Restated
Weighted average number of ordinary shares used in the calculation of basic earnings per share	290,872,000	290,872,000
Share options	-	-
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	290,872,000	290,872,000
Diluted (loss) per share (in dollars)	(0.001)	(0.006)

30 Segment Reporting

The Group operates in the wine industry and is considered to operate in a single segment.

The Group operates in one principal geographical area - Marlborough, New Zealand. During the financial year, majority of Group's sales were generated from suppling products to customers based in New Zealand, United States and China. At balance date, the Group held all non-current assets in Marlborough, New Zealand.

The below represents a geographical analysis of sales:

Sales	Year Ended June 2019 $	Year Ended June 2018 $
New Zealand	3,940,249	2,611,910
United States	1,056,440	984,989
China	228,493	295,680
Others	154,493	92,405
Total	**5,379,675**	**3,984,984**

For the year ended 30 June 2019, there were 3 customers (30 June 2018: 3 customers) who individually accounted for greater than 10% of the Group's total sales. The sales amount to these customers in total was $3.21 million (30 June 2018: $2.13 million). The following table shows only the amount which is greater than 10% of the Group's total sales.

	Year Ended June 2019 $	Year Ended June 2018 $
Customer A	1,187,689	1,087,159
Customer B	1,056,440	895,200
Customer C	973,255	156,310
Total	**3,217,384**	**2,138,669**

31 Employee benefits
Share options programme (equity - settled)

On 31 January 2016 the Group established a share option programme that entitled directors and key management personnel and staff to purchase shares in the Company. Under this programme, holders of vested options are entitled to purchase shares at $0.20 per share. The key terms and conditions related to the grants under this programme are as follows:

Grant Date	Number of instruments	Vesting conditions
2/03/2016	300,000	Fully vest in 5 years, 1/5th vest on each anniversary of the grant date subject to the holder continuing to be employed by the Group (Service Condition only). The options expire 10 years from the grant date.
3/03/2016	600,000	Fully vest in 5 years, 1/5th vest on each anniversary of the grant date subject to the holder continuing to be employed by the Group (Service Condition only). The options expire 10 years from the grant date.
27/06/2016	1,500,000	Fully vest in 5 years, 1/5th vest on each anniversary of the grant date subject to the holder continuing to be employed by the Group (Service Condition only). The options expire 10 years from the grant date.

Measurement of fair value
The fair value of the employee share options has been measured using the Black-Scholes formula. The inputs used in measurement of the fair values at grant date of the equity-settled share based payment plan were as follows.

Fair value at grant date	$113,000
Share price at grant date	$0.20
Exercise price	$0.20
Expected volatility (weighted-average)	31.79%
Expected life (weighted-average)	3 years
Expected dividends	0%
Risk-free rate	2.01% - 2.47%

The expected volatility in the measurement of fair value at grant date has been based on an evaluation of the historical volatility of a list of comparable listed companies as a proxy for the Company's future volatility. The Company had no trading history as at valuation date.

Reconciliation of the outstanding share options
The number and weighted-average exercise prices of share options under the share option programme were as follows:

	June 2019		June 2018	
	Number of Options	Exercise price	Number of Options	Exercise price
Outstanding at 1 July	2,400,000	$0.20	2,400,000	$0.20
Granted during the year	-	N/a	-	N/a
Forfeited during the year	(120,000)	N/a	-	N/a
Exercised during the year	-	N/a	-	N/a
Outstanding at 30 June	2,280,000	$0.20	2,400,000	$0.20
Exercisable at 30 June	1,440,000	$0.20	960,000	$0.20

Share-based payment reserve

	June 2019		June 2018	
	Number	$	Number	$
Outstanding at 1 July	2,400,000	98,152	2,400,000	73,712
Share based payment expense	-	10,095	-	24,440
Share options forfeited during the year	(120,000)	-	-	-
Outstanding at 30 June	2,280,000	108,247	2,400,000	98,152

STATUTORY INFORMATION
For the year ended 30 June 2019

1 The name of the directors holding office during the year are:

Marlborough Wine Estates Group Limited	Min Jia Ly Lee Jack Zhong Yin Danny Chan Songyuan Huang
Marlborough Vineyard Group Limited	Min Jia Catherine Ma
Otuwhero Trustee Limited	Min Jia Catherine Ma
O:Tu Investments Limited	Min Jia Catherine Ma
MB Wine Limited	Catherine Ma

2 20 largest shareholdings

The 20 largest shareholdings as at 5 August 2019 are provided in the table below.

No.	Shareholder	No. of shares	% of shares
1	Min Jia	214,637,014	73.22%
2	Mpmb Trustee Limited	25,000,000	8.53%
3	Nzwe Limited	14,446,606	4.93%
4	Wenhan Li	9,100,000	3.10%
5	Chen Liu	6,086,270	2.08%
6	Yefan Hong	5,013,000	1.71%
7	Cong Wang	2,680,000	0.91%
8	Jing Wang	1,838,810	0.63%
9	Jack Zhong Yin	1,500,000	0.51%
10	Jiaxing Li	1,450,000	0.49%
11	Lizhong Huang	1,100,000	0.38%
12	Jarden Securities Limited	617,718	0.21%
13	Suzhi Lin	400,000	0.14%
14	Chi Yuan	330,000	0.11%
15	Anna Dai	310,000	0.11%
=	Jianguo Xie	310,000	0.11%
=	Jinyan Liu	310,000	0.11%
=	Yuanfu Dai	310,000	0.11%
=	Yun Feng Zheng	310,000	0.11%
16	Bao Hui Wang	300,000	0.10%

STATUTORY INFORMATION
For the year ended 30 June 2019

3 Distribution of equity securities

The total number of ordinary shares on issue as at 5 August 2019 is 293,152,000. The company has only ordinary shares on issue. Details of the distribution of ordinary shares amongst shareholders as at 5 August 2019 are set out below:

Size of holdings	No. of shareholders	% of shareholders	No. of shares held	% of shares held
Less than 5,000	208	42.02%	616,169	0.21%
5,000 to 59,999	248	50.10%	2,795,413	0.95%
60,000 to 599,999	27	5.45%	6,217,000	2.14%
600,000 to 999,999	1	0.20%	617,718	0.21%
1,000,000 to 9,999,999	8	1.62%	28,768,080	9.81%
10,000,000 and over	3	0.61%	254,083,620	86.67%
TOTAL	495	100.00%	293,152,000	100.00%

4 Substantial Security holders

Details of substantial security holders and their total relevant interests in not less than 5% of the total number of ordinary shares on issue in MWE as at 5 August 2019.

Name of substantial shareholders	Nature of relevant interest	No. of shares held	% of shares held
Min Jia	1. Registered Holder	214,637,014	73.22%
	2. Beneficial Owner	25,000,000	8.53%
	3. Relevant Interest	8,800,000	3.00%
Ly Lee	Beneficial Interest as wife of Min Jia	248,437,014	84.75%

5 Directors' shareholding and share dealings

There were no acquisitions nor disposals of any ordinary shares in MWE by directors during the year.

At the balance date of 30 June 2019, the following directors and senior managers of MWE hold relevant interest in the ordinary shares of MWE.

Name of substantial shareholders	Role within MWE	Nature of relevant interest	No. of shares held	% of shares held
Min Jia (James)	Executive Chairman	1. Registered Holder	214,637,014	73.22%
		2. Beneficial Owner	25,000,000	8.53%
		3. Relevant Interest*	8,800,000	3.00%
Ly Lee	Non-executive Director	Beneficial Interest as wife of James Jia	248,437,014	84.75%
Jack Zhong Yin	Executive Director	Registered Holder	1,500,000	0.51%
Danny Chan	Non-executive Director	Registered Holder	75,000	0.03%
Songyuan Huang	Non-executive Director	Registered Holder	75,000	0.03%
Wenhan Li (Eric)	Financial Controller	Registered Holder	9,100,000	3.10%

* The shares giving rise to this relevant interest have been purchased from James Jia by Eric Li, over a three-year term loan that James has advanced to Eric. The loan is secured, which gives rise to James' relevant interest.

6 Interested Transactions

The Directors have disclosed the following transactions with the Group

(a) The Group has related party relationship with the entities below:

New Zenith International Trading (Shanghai) Co., Ltd (NZIT)	Min Jia, the founder, major shareholder and director of MWE, owns NZIT in China. NZIT sells, distributes and markets MWE's wine in China.
Lily Investments Company Limited	Min Jia and Ly Lee, directors of MWE, own Lily Investment Company Limited.
Lily Investments 227 Limited	Min Jia and Ly Lee, directors of MWE, own Lily Investment 227 Limited.
Blind River Irrigation Limited	The Group holds 7.8% ownership in Blind River Irrigation Limited.
Lily Nelson Altro LP	Min Jia and Ly Lee, directors of MWE, are ultimate beneficiaries of a trust who is a partner in in Lily Nelson Altro LP.
Lily investment 265 Trust	Min Jia and Ly Lee, directors of MWE, are beneficiaries of Lily Investment 265 Trust.
PersoVino By NOA GmbH	Jan Kux, winemaker of MWE, owns PersoVino By NOA GmbH.
Flowerzone International Ltd	Danny Chan, director of MWE, is a director and shareholder in Flowerzone International Ltd.
OTU Australia Pty Ltd	Catherine Ma, CEO of MWE, is a close relative of the director of OTU Australia Pty Ltd.
FMG Insurance Limited	Danny Chan, director of MWE, is a director in FMG Insurance Limited

(b) Transactions with related party

	Total Value		Asset/(liability)	
	2019	2018	2019	2018
	$	$	$	$
Wine Sales				
New Zenith International Trading (Shanghai) Co., Ltd	97,169	300,384	(72,466)	96,402
Lily Nelson Altro LP	1,821	2,970	-	-
Lily Investment 265 Trust	387	25,512	387	-
PersoVino By NOA GmbH	-	4,704	-	-
Flowerzone International Ltd	22,655	4,284	7,620	-
OTU Australia Pty Ltd	49,364	-	-	-
Office rent and other payments				
Lily Investments Company Limited (for office rent)	35,733	36,636	2,978	-
Lily Investment 227 Limited (for office rent)	35,736	35,736	2,978	-
Blind River Irrigation Limited (for water usage)	31,391	32,463	(16,130)	(18,878)
FMG Insurance Limited (for insurance policy)	42,739	-	-	-
New Zenith International Trading (Shanghai) Co., Ltd (compensation for loss of sales)	20,000	-	-	-

Transactions with Directors and Key Management Personnel

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the entity, either directly or indirectly. The key management personnel are the directors and senior officers of the Group.

	Total Value		Asset/(liability)	
	2019	2018	2019	2018
	$	$	$	$
Directors' Fees				
Min Jia (Executive Chairman)	45,000	95,000	(3,750)	(3,750)
Ly Lee	20,000	20,000	(1,667)	(1,667)
Jack Zhong Yin	30,900	34,334	-	-
Danny Chan	40,000	40,000	(10,000)	(30,000)
Songyuan Huang	30,000	30,000	-	-

6 Interested Transactions (continued)

	Total Value		Asset/(liability)	
	2019	2018	2019	2018
	$	$	$	$
Share-based payments for director				
Jack Zhong Yin (Executive Director)	6,966	16,264	-	-

	Year Ended June 2019	Year Ended June 2018
	$	$
Senior officers' compensation (excludes directors)		
Short-term employee benefits	226,242	265,759
Share-based payments	3,130	8,176
Total senior officers' compensation (excludes directors)	229,372	273,935

	Year Ended June 2019	Year Ended June 2018
	$	$
Shareholder loan- Min Jia		
Amount owned to Min Jia at 1 July	-	-
Amount advanced by Min Jia during the year	392,855	-
Amount withdrawn by Min Jia during the year	-	-
Amount owed to Min Jia at 30 June	392,855	-

	Year Ended June 2019	Year Ended June 2018
	$	$
Amounts owing from related parties:		
Amounts owing from Blind River Irrigation Limited at 1 July	3,203	8,443
Amount withdrawn by the company during the year	(3,144)	(5,240)
Amount owing from Blind River Irrigation Limited at 30 Jun	59	3,203

	Year Ended June 2019	Year Ended June 2018
	$	$
Other related party transactions during the year		
Wine purchased by shareholders and senior officers during the year	400	3,324
Payments reimbursed to senior officers and shareholders for business related expenses during the year	22,040	23,897
Irrigation water charged by Blind River Irrigation Limited during the year	31,391	28,228

All shareholder loan balances are interest free and are not repayable within 12 months of signing the financial statements. No amounts owed by related parties have been written off or forgiven during the year. All other related party balances are repayable within 12 months.

The loan from shareholder is unsecured and has been subordinated in favour of all other creditors of the company. The shareholder loan is not due for repayment for the following 12 months. And the major shareholder has agreed to support the Group's growth in the following year.

During the year ending 30 June 2019, the major shareholder, Min Jia, sold 2,680,000 shares to a key management personnel.

STATUTORY INFORMATION
For the year ended 30 June 2019

7 Directors' Remuneration

Remuneration details of directors are provided above.

8 Directors' Loan

There is no loan made by the Group to Directors.

9 Employee

The number of employees within the Group receiving remuneration and benefits above $100,000, as is required to be disclosed in accordance with Section 211(g) of the Companies Act 1993, is indicated in the following table:

	Year Ended June 2019	Year Ended June 2018
Remuneration	Number	Number
$110,000 - $120,000	1	1

10 Indemnification and insurance of directors and officers

In accordance with section 162 of the Companies Act 1993 and the constitution of the company, the company has provided insurance for, and indemnity to Directors and employees of the Group and its subsidiaries for losses from actions undertaken in the course of their duties, unless the liability related to conduct involving lack of good faith.

11 Net tangible assets per share

	Year Ended June 2019 $	Year Ended June 2018 $
Net tangible assets	13,686,274	14,049,928
Net tangible assets per share	0.047	0.048

12 Donation

During the year ending 30 June 2019 the Group made wine donations of $4,722 (30 June 2018: $nil).

13 NZX Governing Document Waiver

Waiver from Main Board Listing Rules 1.1.1(a), 2.18.1(a) and 2.20.1

Subject to the conditions set out below, NZX Regulation granted a class waiver to all Issuers migrating from the NXT/NZAX Board to the NZX Main Board from NZX Listing Rules (Rules) 1.1.1(a), 2.18.1(a) and 2.20.1 in respect of their Governing Documents to the extent that the Rules would require them to have a Governing Document that complies with Rules 2.18.1(a) and 20.20.1 from the Migration Date. MWE currently relies on this class waiver in respect of their migration from the NXT Board to the NZX Main Board on 19 March 2019 (**Migration Date**).

The waiver was provided on the following conditions:

a. MWE puts a resolution at its next scheduled annual meeting (or earlier, if a special meeting of shareholders is called (other than a meeting called by the Board following a request by shareholders pursuant to section 121(b) of the Companies Act 1993) prior to the scheduled annual meeting) after its Migration Date to approve a Rules compliant Governing Document; and

b. Until MWE adopts a Rules compliant Governing Document, it will comply with, and procure that its Directors comply with, the Rules from its Migration Date, as if the content requirements of Rules 2.18.1 and 2.20.1 were contained in MWE's Governing Document.

The Board intends to adopt a Rules compliant Governing Document at MWE's annual meeting later this year.

CORPORATE GOVERNANCE
For the year ended 30 June 2019

Marlborough Wine Estates Group Limited (**MWE**) believes in the benefit of good corporate governance and the value it provides for shareholders and other stakeholders. MWE is committed to meeting best practice corporate governance principles, to the extent that it is appropriate for the nature of MWE's operations.

The board of MWE (**Board**) is responsible for establishing and implementing MWE's corporate governance frameworks, and is committed to fulfilling this role in accordance with best practice having regard to applicable laws, the NZX Corporate Governance Code 2019 (**Code**) and the Financial Markets Authority Corporate Governance – Principles and Guidelines.

During the financial year, MWE was listed on the NXT market and was not subject to the new NZX Listing Rules (dated 1 January 2019) (**NZX Listing Rules**) and the Code. Since migrating to the NZX Main Board on 19 March 2019, MWE has reviewed its policies, codes and charter documents to ensure that MWE maintains appropriate governance standards and behaviours that reflect the requirements and best practice under the Code, which are included and referred to in the NZX Listing Rules.

MWE's approach to applying the recommendations outlined in the Code is set out below. This statement is structured in the same order as the principles detailed in the Code and explains how MWE is applying the Code's recommendations.

A copy of the policies, codes and charter documents referred to in this statement are available on MWE's website at http://www.nzmwe.com/governance-documents/.

Principle 1 – Code of ethical behaviour

"Directors should set high standards of ethical behaviour, model this behaviour and hold management accountable for these standards being followed throughout the organisation."

Code of Ethics

As part of the Board's commitment to the highest standards of behaviour and accountability, MWE has adopted a code of ethics to guide its directors, and any employees or contractors MWE may have from time to time (**MWE People**) in carrying out their duties and responsibilities.

MWE's code of ethics is the framework by which MWE People are expected to conduct their professional lives. It is intended to support decision making that is consistent with MWE's values, goals and obligations, rather than to prescribe an exhaustive list of acceptable and non-acceptable behaviour.

The Board approves the code of ethics, which cover a wide range of areas including standards of behaviour, conflicts of interest, proper use of company information and assets, compliance with laws and policies, reporting concerns and receiving gifts.

Any person who becomes aware of a breach or suspected breach of the code of ethics is required to report it immediately in accordance with the procedure set out in the code of ethics.

Financial Product Trading Policy

MWE supports the integrity of New Zealand's financial markets. This integrity is maintained, in part, through the insider trading laws that apply in New Zealand. MWE's financial product trading policy outlines how those laws apply, as well as the rules that MWE has put in place to ensure those laws are followed by MWE People.

MWE People must seek approval from MWE's chair of the Board (**Chair**) or CEO prior to trading in the company's financial products. Generally, approval will only be granted in the 30 day period commencing on the first day of trading after:

- release of MWE's half year results to NZX;
- release of MWE's full year results to NZX; or
- release of a product disclosure statement or cleansing notice for a retail offer of MWE financial products.

The shareholdings of MWE's directors (**Directors**) and all trading of shares during the year by the Directors is disclosed each year in MWE's annual report

Principle 2 – Board composition and performance

"To ensure an effective board, there should be a balance of independence, skills, knowledge, experience and perspectives."

Board Charter

The Board operates under a written charter which defines the respective functions and responsibilities of the Board, focusing on the values, principles and practices that provide the corporate governance framework (**Charter**). The Charter complies with the relevant recommendations in the Code and is reviewed annually.

The Board has overall responsibility for all decision making within MWE. The Board is responsible for the direction and control of MWE and is accountable to shareholders and others for MWE's performance and its compliance with appropriate laws and standards. The Board uses committees to address certain matters that require detailed consideration. The Board retains ultimate responsibility for the function of its committees and determines their responsibilities.

Nomination and appointment of directors

In accordance with the NZX Listing Rules, a Director must not hold office past the third annual meeting following the director's appointment or three years, whichever is longer. Procedures for the appointment and removal of Directors are also governed by the Charter. MWE does not maintain a separate nomination committee, given the current size and nature of MWE's business, rather Director nominations and appointments are the responsibility of the Board.

Written Agreements with directors

MWE intends to enter into written agreements with any newly appointed Directors establishing the terms of their appointment.

Director Information and Independence

The Board comprises five Directors with different backgrounds, skills, knowledge, experience and perspectives. Information about each Director is available at http://www.nzmwe.com/our-team/.

All Directors have had their independence assessed against the Code. Director independence is considered annually. Directors are required to inform the Board as soon as practicable if they think their status as an independent Director has (or may have) changed. Information in respect of Directors' ownership interests and independence is contained in this annual report.

In assessing Danny Chan and Songyuan Huang's independence, the Board has assessed their roles with MWE against the Code and nothing suggests that either lack independence.

Director Meeting Attendance

The Board of MWE formally meets a minimum of four times during the financial year and holds additional meetings to deal with specific matters of the Group. Given the current size of the Board and composition of the standing committees, the Board incorporates the matters of each committee as part of the regularly scheduled Board meetings.

Diversity

MWE welcomes diversity. MWE's approach to diversity is to continually develop an environment that supports equality and inclusion, regardless of difference. MWE has a formal diversity policy. The Board sets measurable objectives for assessing performance against its diversity policy (including achieving gender diversity). MWE will assess progress annually.

CORPORATE GOVERNANCE
For the year ended 30 June 2019

The Board's gender composition is as follows:

	Directors		Officers (excluding directors)	
	June 2019	June 2018	June 2019	June 2018
Female	1	1	1	1
Male	4	4	3	4
TOTAL	5	5	4	5

The Board believes that MWE is achieving the objectives set out in its diversity policy and will continue to look to enhance its diversity into the future.

Director Training

All Directors are responsible for ensuring they remain current in understanding their duties as Directors. Where necessary, MWE will support Directors to help develop and maintain Directors' skills and knowledge relevant to performing their role.

Director Performance

In accordance with the Charter and recommendation 2.7 of the Code, the Board has established and reviews performance criteria for itself and Directors, and reviews performance against those criteria at least annually to ensure Directors are performing to a high standard. The Board recognises that the quality with which it performs its functions is an integral part of the performance of MWE and that there is a strong link between good governance and performance.

The Board will regularly review the performance of the committees in accordance with their relevant charters. These evaluations will be carried out annually.

Separation of the Chair and CEO

In accordance with the Charter and recommendation 2.9 of the Code, the Chair and CEO are separate people.

Principle 3 – Board Committees

"The board should use committees where this will enhance its effectiveness in key areas, while still retaining board responsibility."

The Board currently has two standing committees: Audit and Risk, and Remuneration. Each committee operates under a specific charter which is approved by the Board and will be reviewed annually. Any recommendations made by these committees are recommendations to the Board.

Audit and Risk Committee

The Audit and Risk Committee Charter sets out the objectives of the Audit and Risk Committee which are to provide assistance to the Board in fulfilling its responsibilities in relation to the company's financial reporting, internal controls structure, risk management systems and the external audit function.

The audit committee currently comprises of Jack Zhong Yin, Danny Chan and Songyuan Huang. Danny Chan and Songyuan Huang are considered Independent Directors for the purposes of Listing Rule 2.13.2. All members of the Audit and Risk Committee have appropriate financial experience and an understanding of the industry in which MWE operates.

The Audit and Risk Committee focusses on audit and risk management and specifically addresses responsibilities relative to financial reporting and regulatory compliance. The Audit and Risk Committee is accountable for ensuring the performance and independence of the external auditor, including that MWE provides for 5-yearly rotation of either the external auditor or the lead audit partner.

The Audit and Risk Committee provides a forum for the effective communication between the Board and external auditors. The responsibilities of the committee include:

- reviewing the appointment of the external auditor, the annual audit plan, and addressing any recommendations from the audit;
- reviewing any financial information to be issued to the public; and
- ensuring that appropriate financial systems and internal controls are in place.

The Audit and Risk Committee may have in attendance the CEO and/or others including the external auditor as required from time to time.

Remuneration Committee

The Remuneration Committee Charter sets out the objectives of the Remuneration Committee which is to set and review the level of directors' remuneration, following the policies set out in the Remuneration Policy.

The Remuneration Committee currently comprises of Min Jia, Jack Zhong Yin, Danny Chan and Songyuan Huang. Danny Chan and Songyuan Huang are considered Independent Directors for the purposes of Listing Rule 2.13.2.

Takeover Response Protocol

The Board has protocols in place that set out the procedure to be followed if there is a takeover offer for MWE. This procedure is set out in the Charter.

Principle 4 – Reporting and Disclosure

"The board should demand integrity in financial and non-financial reporting, and in the timeliness and balance of corporate disclosures."

Continuous Disclosure

The Board focusses on providing accurate, adequate and timely information both to existing shareholders and the market generally. This enables all investors to make informed decisions about MWE.

MWE, as a company listed on the NZX Main Board, has an obligation to comply with the disclosure requirements under the NZX Main Board Listing Rules, and the Financial Markets Conduct Act 2013. MWE recognises that these requirements aim to provide equal access for all investors or potential investors to material price-sensitive information concerning issuers or their financial products. This in turn promotes confidence in the market.

MWE has a Continuous Disclosure Policy designed to ensure compliance that outlines the obligations of MWE People in order to satisfy these disclosure requirements. MWE Disclosure Officer (currently the CEO) is responsible for ensuring compliance with the NZX continuous disclosure requirements and overseeing and co-ordinating disclosure to the exchange.

Financial Reporting

MWE believes its financial reporting is balanced, clear and objective. MWE is committed to ensuring integrity and timeliness in its financial and non-financial reporting, ensuring the market and shareholders are provided with an objective view on the performance of the company.

The Audit and Risk Committee oversees the quality and integrity of external financial reporting including the accuracy, completeness and timeliness of financial statements. The Audit and Risk Committee reviews half-yearly and annual financial statements and if necessary, may make recommendations to the Board concerning accounting policies, areas of judgment, compliance with accounting standards, NZX and legal requirements and the results of the external audit.

MWE does not comply with recommendation 4.3 of the Code as MWE does not have a formal environmental, social and governance (**ESG**) framework. Given the scale of its business, MWE considers that it is prudent for MWE to instead select non-financial matters to report upon in its annual report. MWE will continue to assess whether it is appropriate that an ESG framework is adopted for MWE in the future.

Principle 5 – Remuneration

"The remuneration of directors and executives should be transparent, fair and reasonable."

Directors' Remuneration

The Remuneration Committee makes recommendations to the Board on remuneration matters in keeping with the Remuneration Policy which outlines the key principles that influence MWE's remuneration practices. The committee is also responsible for making recommendations to the Board on the remuneration of the CEO. Directors' fees are determined by the Board on the recommendation of the committee within the aggregate director remuneration pool approved by shareholders.

Details of remuneration paid to directors are disclosed in this annual report.

Principle 6 – Risk Management

"Directors should have a sound understanding of the material risks faced by the issuer and how to manage them. The Board should regularly verify that the issuer has appropriate processes that identify and manage potential and material risks."

The Board has selected to report upon in its annual report what it considers to be key risks to MWE which are market, credit, liquidity and agricultural risks.

Key risk management tools used by MWE include the Audit and Risk Committee function and outsourcing certain functions to service providers (such as legal and audit). MWE also maintains insurance policies that is considers adequate to meet insurable risks. The Board will continue to regularly consider any potential risks and its risk management processes and adapt these should the nature and size of the business change in the future.

While MWE is comfortable this approach to risk is sufficient, it does not comply with recommendation 6.1 of the Code as it does not have a formal risk management framework. The Board will continue to assess whether it is appropriate for a risk management committee to be appointed in the future.

Health and Safety

The Board does not have an identifiable Health and Safety Committee. The responsibility for health and safety is viewed as a collective responsibility for the Board. The Board has responsibility for ensuring that MWE maintains a health and safety management system that meets best practice standards to protect the health and safety of employees and contractors engaged by MWE.

Under the health and safety management system, a workplace health and safety report will be presented to the Board as part of the materials prepared for each Board meeting. The report will detail MWE's process for identifying risks to health and safety and a review of any outstanding risks. The Board will then actively ensure that any risks to health and safety are managed.

The Board recognises the importance of health and safety considerations, and will continue to assess any risks, management and performance in this regard in the future.

Principle 7 – Auditors

"The board should ensure the quality and independence of the external audit process."

The Audit and Risk Committee makes recommendations to the Board on the appointment of the external auditor as set out in Audit and Risk Committee Charter. The committee also monitors the independence and effectiveness of the external auditor and reviews and approves any non-audit services performed by the external auditor.

The Board considers that MWE's financial statements and audit report is simple and relatively self-explanatory given the size and nature of its current business. Accordingly, the Board do not consider it necessary for the company to follow recommendation 7.2 in the Code, which recommends that the external auditor attend the issuer's annual meeting to answer questions from shareholders in relation to the audit. The Board considers that at present it is in the best interests of shareholders to keep operating costs to a minimum. Should a shareholder have a question regarding the audit which is unable to be answered by the Audit and Risk Committee, the Board will seek a response from the external auditor on an "as required" basis.

Given the nature of the business of MWE and the internal financial controls MWE has in place, it is not considered necessary to have an internal auditor in addition to the Audit and Risk Committee.

Principle 8 – Shareholder rights and relations

"The board should respect the rights of shareholders and foster constructive relationships with shareholders that encourage them to engage with the issuer."

Information for Shareholders

MWE seeks to ensure that investors understand its activities by communicating effectively with them and providing access to clear and balanced information.

MWE's website http://www.nzmwe.com/ provides an overview of the business and information about MWE. This information includes details of investments, latest news, investor information, key corporate governance information, and copies of significant NZX announcements. The website also provides profiles of the directors and the senior executive team. Copies of previous annual reports, financial statements, and results presentations are available on the website.

Shareholders have the right to vote on major decisions of the company in accordance with requirements set out in the Companies Act 1993 and the NZX Main Board Listing Rules.

Communicating with Shareholders

MWE endeavours to communicate regularly with its shareholders through its market updates and other investor communications. The company receives questions from time to time from shareholders, and has processes in place to ensure shareholder communications are responded to in a timely and accurate manner. MWE's website sets out appropriate contact details for communications from shareholders, including the phone number and email address of the CEO. MWE provides the opportunity for shareholders to receive and send communications by post or electronically.

MWE sends the annual shareholders notice of meeting and publishes it on the company website as soon as possible and at least 20 working days before the meeting each year.

COMPANY DIRECTORY

For the year ended 30 June 2019

Company Registration Number	5639568
Registered office	Level 3, 205 Queen Street Auckland Central New Zealand
Directors	Min Jia (Chairman) Ly Lee Jack Zhong Yin Danny Chan (independent) Songyuan Huang (independent)
Auditors	Deloitte Limited Deloitte Centre 80 Queen Street P.O. Box 115033, Auckland 1140 New Zealand
Solicitors	Duncan Cotterill Level 2, Chartered Accountants House 50 Custom House Quay, Wellington
Bankers	Industrial Commercial Bank of China (New Zealand) Limited ANZ Bank Limited BNZ Bank Limited
Share Registrar	Link Market Services Limited Deloitte Centre, 80 Queen Street, Auckland