

For personal use only

*Prince Hill Wines*



**Consolidated Financial Statements**

**For the Year Ended 30 June 2011**

# Prince Hill Wines Limited

ABN: 99 000 094 995

For the Year Ended 30 June 2011

## CONTENTS

### Page Number

#### Consolidated Financial Statements

|   |    |
|---|----|
| Corporate Information   |    |
| Managing Director's Report  | 1  |
| Corporate Governance Statement  | 3  |
| Directors' Report   | 8  |
| Auditors Independence Declaration under Section 307C of the Corporations Act 2001 | 15 |
| Directors' Declaration  | 16 |
| Consolidated Statement of Comprehensive Income                                    | 17 |
| Consolidated Statement of Financial Position                                      | 18 |
| Consolidated Statement of Changes in Equity                                       | 19 |
| Consolidated Statement of Cash Flows  | 20 |
| Notes to the Financial Statements   | 21 |
| Independent Audit Report  | 64 |
| Additional Information for Listed Public Companies                                | 67 |
| Notice of Annual General Meeting  | 69 |
| Proxy Form  | 70 |

#### Corporate Information

|  |   |
|--|---|
| ABN:   | 99 000 094 995  |
| Directors:   | Rex Watson (executive chairman)<br>Paul Miller (non executive director)<br>Mark Leaker (non executive director)<br>Andrew Parkinson (managing director and chief executive officer) |
| Company Secretary:                                 | Conrad Guerra   |
| Registered Office and Principal place of business: | 235 Glen Osmond Road, Frewville, South Australia 5063<br>Mc Bain Road Coonawarra, South Australia 5263  |
| Postal address:                                    | PO Box 167 Fullarton, South Australia, 5064   |
| Telephone:   | +61 8 8338 3400   |
| Facsimile:   | +61 8 8338 3244   |
| Email:   | enquiries@princehillwines.com   |
| ASX Code:  | PHW   |
| Share Registry:                                    | Boardroom Limited, Level 7, 207 Kent Street, Sydney, New South Wales, 2000<br>Tel: +61 2 9290 9600 Fax: +61 2 9279 0664<br>Website: www.boardroomlimited.com.                       |
| Auditor:   | Grant Thornton, South Australian Partnership<br>Level 1<br>67 Greenhill Road<br>Wayville SA 5034  |
| Bankers:   | Commonwealth Bank of Australia, Adelaide, South Australia   |

# Prince Hill Wines Limited

ABN: 99 000 094 995

## Managing Director's Report

The year to 30 June 2011 continued to be another difficult period for the wine industry and the Group. Against this backdrop of difficult industry and economic circumstances Prince Hill has continued with its strategies of seeking opportunities to merge or restructure the business. To this end the Group has completed two transactions as follow:

- A contract was exchanged with CN Wine (Australia) Pty Ltd on the 30 June 2010 for the sale of the vineyard and winery located at 1220 Castlereagh Highway, Apple Tree Flat, Mudgee, New South Wales for \$2,300,000 this was settled on the 12 August 2010;
- On 3 September Prince Hill Wines Limited (ASX: PHW) announced a proposal to acquire certain assets and liabilities from the Watson Wine Group Pty Ltd (ACN 093886 509) and its subsidiary companies in exchange for the issue of 148,514,029 shares at a notional issue price of \$0.005 per share. The total notional issue price for all shares issued to Watson Wine Group by Prince Hill Wines Limited is \$742,510 which equates to the net asset value at 30 June 2010 of the assets and liabilities to be acquired. The transaction was approved by a vote of shareholders on the 8 October 2010 and resulted in Watson Wine Group Pty Ltd holding approximately 42% of the issued shares in Prince Hill Wines Limited.

The two transactions listed above has moved the Group's sphere of operations from Mudgee in New South Wales to one of the world's premier grape growing regions, the Coonawarra in South Australia. In addition to the restructuring activities the following major events also occurred in the year to 30 June 2011:

- The borrowings from the National Australia Bank of \$768,000 were repaid in full;
- The borrowings from Coonawarra Australia Property Trust of \$1,433,234 at commercial rates of interest to provide working capital were repaid in full;
- The Group arranged a bill facility of \$1,190,000 with the Commonwealth Bank of Australia;
- The Group is continuing to take further steps to enforce all its legal rights under the original sale agreement with Great Southern Beverage Pty Ltd which was terminated on the 9 March 2010;
- The Group harvested only 220 tonnes of grapes from the McKie vineyard located in the Coonawarra. This was a disappointing result and was due to the poor weather conditions experienced in the Coonawarra and across most vineyards in Australia for the 2011 vintage.

Despite the difficult economic and industry conditions the Group has reduced the loss attributable to members by \$3,062,550 to \$680,602 down from \$3,743,152. The improvement in financial performance is mainly due to the acquisition of the Watson Wine Group assets and business. The business improvements for the 2011 financial year were:

- Increased revenues from both wine sales and as the vineyard manager for the Coonawarra Premium Vineyards managed investment scheme (ARSN: 087 876 186);
- Impairments to asset values have been significantly reduced this year following the sale of the winery and closure of the cellar door and function operations;
- Ongoing reductions in management expenses and other operating costs through the rationalisation of the business operations.

Various changes to the Group in relation to management and its operations have reduced the trading losses. The Board and management expect a positive financial performance for the year ended 30 June 2012.

The key factors contributing to the 2011 loss are:

- The extremely poor weather conditions that affected the entire 2011 vintage reduced profitability by \$77,939 compared to previous harvests for the McKie vineyard. As the vineyard manager of the Coonawarra Premium Vineyards Project the group also incurred additional spraying costs of \$129,333.
- The poor margins achieved in the domestic wholesale markets. Management are working on strategies to improve margins.
- The impairment loss \$54,000 from cellar door plant and equipment due to the closure of the cellar door.
- Losses from the cellar door facility \$57,437.
- Legal fees incurred due to the merger, special meetings for the Coonawarra Vineyards Project and the failed winery sale \$87,038

Revenue has increased as a result of the acquisition of the assets from the Watson Wine Group effective 1 July 2010 to \$5,879,575. The group has diversified its income streams from wine sales to include vineyard management and administration income with the acquisition of the Watson Wine Group assets.

The pursuit of international opportunities has improved significantly with export sales increasing to 9,500 cases

# Prince Hill Wines Limited

**ABN: 99 000 094 995**

(2010: 886 cases). The Group is expecting a further increase in export sales from the marketing activities that have been undertaken. In particular, significant effort has been made to break even further into the Chinese wine market.

The Group increased its market share, despite the current oversupply in the wine market, as overall case sales (in 9 litre case equivalents) increased by 131 percent to 64,222 cases for the twelve months (2010: 27,785 cases).

External factors that contributed to the Group's poor performance over the past year are:

- The oversupply of wine and grapes across all markets, impacting sales and margins from traditional channels; and
- Continuing consolidation of distribution and retail channels.

The industry continues to grapple with the effects of the poor 2011 vintage and the current oversupply while simultaneously contending with the:

- rising Australian dollar reducing price competitiveness in export markets and the resulting competition from imported wine;
- discounting competition that the major retailers are undertaking and the resulting pressures this places on the wine suppliers;
- impact of domestic internet discounting houses making further inroads into traditional distribution channels; and
- continued promotion of the large retail chains of their own brands.

Prince Hill Wines has also established its own internet site [SellerDoorWines.com](http://SellerDoorWines.com) for the promotion and sale of its own brands.

Management continues to strive to improve operating results by improving its brand awareness and finding niche markets with suitable margins to achieve a profitable result.

Andrew Parkinson  
Managing Director

# Prince Hill Wines Limited

ABN: 99 000 094 995

## Corporate Governance Statement

The Board of directors of Prince Hill Wines Limited is responsible for the corporate governance of the Group. The Board monitors the business affairs of the Group on behalf of the shareholders by whom they are elected and to whom they are accountable. The Group comprises the Company and any entities that the Company controls from time to time.

The directors acknowledge the Principles of Good Corporate Governance and Best Practice Recommendations set by the Australian Securities Exchange ("ASX") Corporate Governance Council. In view of the Group's current size and extent and nature of operations, however, full adoption of the recommendations is currently not practical. The Board will continue to work towards full adoption of the recommendations in line with growth and development of the Group in the years ahead. Where the Group's framework has been different to the Principles of Good Corporate Governance and Best Practice Recommendations set by the ASX Corporate Governance Council, the differences have been noted.

The ASX Corporate Governance Council has released amendments dated 30 June 2010 to the second edition Corporate Governance Principles and Recommendations (Principles and Recommendations) in relation to diversity, remuneration, trading policies and briefings. The Group has addressed the amended principles within this statement.

A summary of the current corporate governance practices as adopted by the Board follows:

### Board Composition

As at the date of this report the Board comprised four directors: two executive directors (including the managing director) and two non-executive directors. There are no set terms for directors to hold office. The Board generally meets on a monthly basis. The Board carries out its responsibilities according to the following mandate:

- The Board should comprise at least three directors, with at least half being non-executive directors;
- The chairman of the Board should be a non-executive director;
- The directors should possess a broad range of skills, qualifications and experience;
- The Board should meet at least on a quarterly basis; and
- All available information in connection with items to be discussed at a meeting of the Board shall be provided to each director prior to that meeting.

The Group discloses the curriculum vitae of each director in its Annual Report.

Due to the size of the Group, the members of the Remuneration & Nomination Committee are the same as the members of the Board.

The Principles of Good Corporate Governance and Best Practice recommend that the majority of the Board should be independent. Due to the Group's current size and extent and nature of operations, the following departures from The Principles of Good Corporate Governance and Best Practice have occurred:

- The non executive directors Mark Leaker and Paul Miller joined the Board on the 1 and 6 of April 2010 respectively;
- As Andrew Parkinson and Rex Watson are executive directors and Paul Miller is an associate of a substantial shareholder, Andrew Parkinson, Rex Watson and Paul Miller are not considered independent. Mark Leaker is independent in all regards.

With the prior approval of the company secretary, each director has the right to seek independent legal and other professional advice at the Group's expense concerning any aspect of the Group's operations or undertaking in order to fulfil their duties and responsibilities as directors.

### Ethical Standards

The Board endeavours to ensure that the directors, officers and employees of the Group act with integrity and observe the highest standards of behaviour and business ethics in relation to their corporate activities. Specifically, that directors, officers and employees must:

- Comply with the law;
- Act in the best interests of the Group;
- Be responsible and accountable for their actions; and
- Observe the ethical principles of fairness, honesty and truthfulness, including disclosure of potential conflicts.

# Prince Hill Wines Limited

ABN: 99 000 094 995

## Corporate Governance Statement Trading Policy

The Group's policy regarding directors and employees trading in its securities is set by the Board. The policy restricts directors and employees from acting on material information until it has been released to the market and adequate time has been given for this to be reflected in the security's prices. The Group has set the following windows for trading in the Group's securities by the directors and employees, being thirty days following:

- The release to the ASX of the Group's preliminary full year financial statements
- The release to the ASX of the Group's half year financial statements
- The date on which the Group holds its annual general meeting.

### Audit Committee

The Board has established an Audit Committee consisting of non-executive directors of the Group.

The names and qualifications of the directors in the Audit Committee and the number of meetings held and attendees are disclosed in the Annual Report. Andrew Parkinson was a member of the Audit Committee only while he was a non-executive director between October 2006 and 5 April 2007. The previous members of the Audit Committee were Peter Cleaves, and Rex Watson and the present members of the Audit Committee are Paul Miller and Mark Leaker.

The Audit Committee has a formal Charter and provides a forum for the effective communication between the Board and external auditors. The committee reviews:

- The annual and half-yearly financial report prior to their approval by the Board;
- The effectiveness of management information systems and systems of internal control; and
- The efficiency and effectiveness of the external audit function.

The Audit Committee invites the external auditors to attend committee meetings on occasion. The Audit Committee also meets with external auditors, as necessary, concerning any matters that arise in connection with the performance of their role, including the adequacy of internal controls.

The Audit Committee requests the Group's external auditor to attend the annual general meeting and be available to answer shareholder questions about conduct of the audit and the preparation and content of the auditors report.

The members of the Audit Committee are at liberty to meet with the external auditors and discuss matters of relevance to their respective roles independent of management.

Due to the Group's current size and extent of nature of operations, the following departures from the Principles of Good Corporate Governance and Best Practice Recommendations have occurred:

- The Audit Committee Chairperson should be independent and not the Chairperson of the Board. Neither the Committee nor the Board has a designated chairperson, with these roles being rotated through the members of the Board and the Committee.
- As Andrew Parkinson has been acting in an executive capacity since April 2007 there are only two non-executive directors and currently therefore there are only two members on the Audit Committee.

### Performance Evaluation

In view of the Group's current size and extent and nature of operations a formal external evaluation of the Board's operations is not practical. The Board conducts its own ongoing evaluation of the Board's Performance according to the goals, objectives and primary responsibilities of each director as outlined in the Board of directors Section.

### Board Roles and Responsibilities

The Board is first and foremost accountable to provide value to its shareholders through delivery of timely and balanced disclosures. The Board's other responsibilities include:

- The approval of the annual and half-yearly financial report;
- The establishment of the long term goals of the Group and strategic plans to achieve those goals;
- The review and adoption of annual budgets for the financial performance of the Group and monitoring the results on a quarterly basis;
- Ensuring that the Group has implemented adequate internal controls together with appropriate

# Prince Hill Wines Limited

ABN: 99 000 094 995

## Corporate Governance Statement

- monitoring of compliance activities; and
- Ensuring that the Group is able to pay its debts as and when they fall due.

There is no nominated chairperson of the Board. The chairperson of the Board alternates between each of the non-executive directors and the Chief Executive Officer is managing director Andrew Parkinson, therefore as required under best practice, the chairperson is not the same as the Chief Executive Officer.

The Group's executive management comprises the Chief Executive Officer (Andrew Parkinson) and the Chief Financial Officer (Conrad Guerra), to whom the Board delegate responsibilities as expected for these executive positions.

The company secretary has been appointed as the person responsible for communications with the Australian Securities Exchange (ASX). Together with the Board this person is also responsible for ensuring the compliance with the continuous disclosure requirements in the ASX listing rules and overseeing and co-ordinating information disclosure to the ASX.

The Board and the company secretary are responsible for the communications strategy to promote effective communications with shareholders and encourage effective participation at general meetings. The Company adheres to best practice in its preparation of notices of meetings to ensure all shareholders are fully informed. Due to the size of the Group, all communications are prepared and administered in-house.

## Shareholder's Rights

Shareholders are entitled to vote on significant matters impacting on the business, which include the election and remuneration of directors, changes to the constitution and receipt of annual and interim financial statements. Shareholders are encouraged to attend and participate in the Annual General Meetings of Prince Hill Wines Limited, to lodge questions to be responded to by the Board and or the Chief Executive Officer, and are able to appoint proxies.

## Risk Management

The Board is responsible for the Group's system of internal controls. The Board monitors the operational and financial aspects of the Group's activities and considers the recommendations and advice of external auditors and other external advisers on the operations and financial risks that face the Group.

The Board ensures that recommendations made by the external auditors and other external advisers are investigated and, where considered necessary, appropriate action is taken to ensure that the Group has an appropriate internal control environment in place to manage the key risks identified.

In addition, the Board investigates ways of enhancing existing risk management strategies, including appropriate segregation of duties and the employment and training of suitably qualified and experienced personnel.

The Group obtains statements from its chief executive officer and chief financial officer that:

- The Group's financial reports present a true and fair view in all material respects, of the Group's financial position and operational results, in accordance with the relevant accounting standards. Furthermore the Board of directors does, in its role, state to shareholders in the Group's accounts that they are true and fair, in all material respects
- The integrity of the financial statements is founded on a sound system of risk management and internal compliance and control which implements policies adopted by the Board
- The Group's risk management and internal compliance and control system is operating efficiently and effectively in all material respects to the best of their knowledge and belief.

The Board has no reason to believe the Group's risk management and internal compliance and control procedures are not operating efficiently and effectively in all material aspects appropriate for a Group of Prince Hill Wines Limited's size and nature.

## Remuneration Policies

The Remuneration Committee reviews the remuneration policies applicable to all directors and executive officers on an as needed basis and makes recommendations on remuneration packages and terms of employment to the Board. Remuneration packages, which consist of base salary, fringe benefits, incentive schemes (including performance-related bonuses), superannuation, and entitlements upon retirement or termination, are reviewed with due regard to performance and other relevant factors.

# Prince Hill Wines Limited

ABN: 99 000 094 995

## Corporate Governance Statement

In order to retain and attract executives of sufficient calibre to facilitate the efficient and effective management of the Group's operations, the remuneration committee may occasionally seek the advice of external advisers in connection with the structure of remuneration packages.

Full remuneration disclosure, including superannuation entitlements, and the number of meetings of the Remuneration & Nomination Committee is provided by the Group in its Annual Report. The Remuneration Committee ensures that all equity based executive remuneration is made within the guidelines set by plans approved by shareholders.

The Remuneration Committee considers the appointment and retirement of non-executive Directors on a case by case basis. In doing so, the Board must take into account the requirements of Listing Rules and the Corporations Act 2001. Currently all Directors are required to be re-elected at least every three years and at least one-third of Directors must retire at each annual general meeting.

Due to the Group's current size and extent and nature of operations, the following departures from the Principles of Good Corporate Governance and Best Practice Recommendations have occurred:

- The Remuneration Committee Chairperson should be independent and not the Chairperson of the Board. Neither the Committee nor the Board has a designated chairperson, with these roles being rotated through the members of the Board and Committee.
- The present Board has not carried out a formal review of remuneration policies.

## Remuneration Committee

The Board has established a Remuneration Committee consisting of all the directors of the Group. All matters pertaining to the Remuneration Committee are resolved at Board meetings.

## Code of Conduct

As part of the Board's commitment to the highest standard of conduct, the Group adopts a code of conduct to guide executives, management and employees in carrying out their duties and responsibilities. The code of conduct covers such matters as:

- Responsibilities to shareholders;
- Compliance with laws and regulations;
- Relationships with customers and suppliers;
- Ethical responsibilities;
- Employment practices; and
- Responsibilities to the environment and the community.

However, the Group has not publicly disclosed the code of conduct and therefore the Group has not complied with recommendation 3.1 and 3.3 of the Corporate Governance Council. Given the size of the Group, the Board does not consider disclosure of the code of conduct to be necessary. The Board takes ultimate responsibility for these matters.

## Environmental Review

The Board has a strong commitment to playing its part in reducing the damaging impact of human activity on the environment.

## Occupational Health and Safety

The Board recognises its duty to ensure the occupational health, safety and welfare (OHS&W) at work of its contractors and visitors when on the Group's property. The Group's management plan involves several key elements:

- A preventative approach is adopted through adequate hazard management and regular review of action plans.
- Appropriate standards of work methods are maintained by consultation between contractors and managers.
- Contractors are provided with information necessary to understand the risks associated with their work and their responsibility to safe work practices.
- All legislative requirements are met and incorporate continuous improvement via Group action plans.

# Prince Hill Wines Limited

ABN: 99 000 094 995

## Corporate Governance Statement Related Party Transactions

The non-executive directors review all related party transactions, which are approved in the absence of any representatives of the respective related party.

### Diversity

The ASX Corporate Governance Council has released amendments dated 30 June 2010 to the second edition Corporate Governance Principles and Recommendations (Principles and Recommendations) in relation to diversity. The Group is committed to supporting diversity, including consideration of gender, age, ethnicity and cultural background.

The Board is ultimately responsible for reviewing the achievement of this policy. The Group recognises that through consideration of diversity and the best available talent, it will assist in promoting a working environment to maximise achievement of the corporate goals of the organisation.

The Group continues to strive towards achieving objectives established towards increasing gender diversity.

The Group is highly aware of the positive impacts that diversity may bring to an organization. The Group continues to assess all staff and Board appointments on their merits with consideration to diversity a driver in decision making. The Group has not yet developed or disclosed a formal diversity policy and therefore has not complied with the recommendations 3.2 and 3.3 of the Corporate Governance Council effective from 1 January 2011.

For personal use only

# Prince Hill Wines Limited

ABN: 99 000 094 995

## Directors' Report

30 June 2011

Your directors present their report on the company and its controlled entities for the financial year ended 30 June 2011.

### Director's Report

#### 1. Director Information

##### (a) Information on Directors

|   |  |
|---|--|
| Mr Paul Miller                              | Appointed as a non executive director 6 April 2010   |
| Qualifications                              | B Ag Sci.  |
| Experience                                  | Over 20 years experience as a research scientist, a consulting horticulturalist and since 1997 in commercial viticulture.  |
| Directorships held in other listed entities | Coonawarra Premium Vineyards Limited as trustee for Coonawarra Australia Property Trust (ASX: CNR) and Redisland Australia Ltd (formerly Piquant Blue Ltd) (ASX: RLS)  |
| Mr Mark Leaker                              | Appointed as a non executive director on 1 April 2010  |
| Experience                                  | Over 25 years of experience in corporate law, debt recovery, capital raisings, corporate reconstructions and general litigation and since 2001 as the principal of his own law firm Leaker Partners  |
| Mr Andrew Parkinson                         | Appointed as a non executive director on 20 October 2006 and appointed managing director on 5 April 2007.  |
| Qualifications                              | B Comm. LLB  |
| Experience                                  | Mr Parkinson is a director of CPVL, the responsible entity and trustee of CNR Mr. Parkinson has extensive senior management experience with a background in stock broking, banking and chartered accountancy. He has been involved in viticulture and the wine industry since 1999 when he became the inaugural chairman of CPVL. Mr. Parkinson took on a full time role with CPVL in January 2003 when he was appointed its Chief Executive. He was again appointed a director of CPVL in February 2006.  |
| Directorships held in other listed entities | Coonawarra Premium Vineyards Limited as trustee for Coonawarra Australia Property Trust (ASX: CNR)   |
| Mr Rex Watson                               | Appointed as an executive director on 1 November 2011  |
| Experience                                  | Mr Watson is the founding Group Managing Director of Coonawarra Premium Vineyards Limited (CPVL) and the driving force behind the Coonawarra Australia Property Trust (ASX: CNR), which between them own, manage or control almost 1,000 acres of vineyards located in the Coonawarra region of South Australia. His understanding of the wine industry and its networks is extensive. Mr. Watson has built a number of businesses including an industrial service company specifically operating in the wine industry and a vineyard management services company. In addition he has developed the Watson Wine Group, his family owned company, from a grape producer to a significant wine enterprise that now sells wines to more than seven international markets. |
| Directorships held in other listed entities | Coonawarra Premium Vineyards Limited as trustee for Coonawarra Australia Property Trust (ASX: CNR)   |

# Prince Hill Wines Limited

ABN: 99 000 094 995

## Directors' Report

30 June 2011

### 1. Director Information continued

#### Information on Directors continued

Mr Peter Cleaves Appointed as a non executive director on 5 April 2007.  
Resigned as a non executive director 1 April 2010

Qualifications ASA, FCIS, SAFIN, Dip CM (AGSM – Uni NSW)

Experience Mr Cleaves brought considerable wine industry experience to the Board. He was Finance Director of Rosemount Wines from 1985 to 2001. From March 2001 to March 2002 he was Chief Financial Officer of Southcorp Limited - Wine Division and from April 2002 to May 2003 he was Chief Financial Officer of Southcorp Limited.

### (b) Meetings of Directors

During the financial year, 11 meetings of directors (including committees of directors) were held. Attendances by each director during the year were as follows:

|                  | Directors' Meetings |                 | Audit Committee Meetings |                 |
|------------------|---------------------|-----------------|--------------------------|-----------------|
|                  | Eligible to attend  | Number attended | Eligible to attend       | Number attended |
| Paul Miller      | 7                   | 7               | 4                        | 4               |
| Mark Leaker      | 7                   | 7               | 4                        | 4               |
| Andrew Parkinson | 7                   | 7               | -                        | 4               |
| Rex Watson       | 4                   | 4               | -                        | -               |

### 2. General information

#### (a) Company Secretary

The following person(s) held the position of company secretary during the financial year:

Conrad Guerra Appointed 29 April 2009. Bachelor of Economics CA, Chartered Accountant with over 30 years of professional accounting experience.

Andrew Parkinson Appointed 31 July 2008, refer to Information on Directors above

#### (b) Principal Activities and Significant Changes in Nature of Activities

The Company is domiciled in Australia and listed on the Australian Securities Exchange (ASX: PHW).

The principal activities of the Group during the financial year were:

- Production of premium Australian table wines for sale to the consumer market
- Vineyard manager for the Coonawarra Premium Vineyards managed investment scheme (ARSN: 087 876 186).

The following significant changes in the nature of the principal activities occurred during the financial year:

- A contract was exchanged with CN Wine (Australia) Pty Ltd on the 30 June 2010 for the sale of the vineyard and winery located at 1220 Castlereagh Highway, Apple Tree Flat, Mudgee, New South Wales for \$2,300,000 this was settled on the 12 August 2010;
- On 3 September Prince Hill Wines Limited (ASX: PHW) announced a proposal to acquire certain assets and liabilities from the Watson Wine Group Pty Ltd (ACN 093886 509) and its subsidiary companies in exchange for the issue of 148,514,029 shares at a notional issue price of \$0.005 per

# Prince Hill Wines Limited

ABN: 99 000 094 995

## Directors' Report

30 June 2011

### 2. General information continued

#### Principal Activities and Significant Changes in Nature of Activities continued

share. The total notional issue price for all shares issued to Watson Wine Group by Prince Hill Wines Limited is \$742,510 which equates to the net asset value at 30 June 2010 of the assets and liabilities to be acquired. The transaction was approved by a vote of shareholders on the 8 October 2010 and resulted in Watson Wine Group Pty Ltd holding approximately 42% of the issued shares in Prince Hill Wines Limited.

There were no other significant changes in the nature of the Group's principal activities during the financial year.

### 3. Financial review

#### (a) Review of Operations

Revenue has increased by \$5,829,312 as a result of the acquisition of the Watson Wine Group assets and business and the resultant diversification of the Group's income streams, these being:

- Significantly increased wines sales revenue from both domestic and international markets;
- New income streams from vineyard management and administration income;
- Case sales (in 9 litre case equivalents) for the twelve months were 64,222 cases (2010: 27,785 cases).

Despite the difficult economic and industry conditions the Group has reduced the loss attributable to members by \$3,062,550 to \$680,602 down from \$3,743,152. The improvement in financial performance is mainly due to the acquisition of the Watson Wine Group assets and business. The business improvements for the 2011 financial year were:

- Increased revenues from both wine sales and as the vineyard manager for the Coonawarra Premium Vineyards managed investment scheme (ARSN: 087 876 186);
- Impairments to asset values have been significantly reduced this year following the sale of the winery and closure of the cellar door and function operations;
- Ongoing reductions in management expenses and other operating costs through the rationalisation of the business operations.

The key factors contributing to the 2011 loss are:

- The extremely poor weather conditions that affected the entire 2011 vintage reduced profitability by \$77,939 compared to previous harvests for the McKie vineyard. As the vineyard manager of the Coonawarra Premium Vineyards Project the group also incurred additional spraying costs of \$129,333
- The poor margins achieved in the domestic wholesale markets. Management are working on strategies to improve margins.

The net assets of the Group have increased by \$55,324 from 30 June 2010 to \$322,090 as at 30 June 2011. The increase in net assets is due to the merger with the Watson Wine Group that occurred during the year, this increased net assets by \$749,095 (net of transaction costs). The increase in net assets through the merger was reduced by the current year loss of \$680,602.

### 4. Other items

#### (a) Significant Changes in State of Affairs

No significant changes in the Group's state of affairs occurred during the financial year other than discussed in the review of operations.

#### (b) Dividends Paid or Recommended

There were no dividends paid or declared for payment since the beginning of the financial period.

# Prince Hill Wines Limited

ABN: 99 000 094 995

## Directors' Report

30 June 2011

### 4. Other items continued

#### (c) After balance date events

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in future financial years.

#### (d) Likely developments and expected results of operations

Disclosure of other information regarding likely developments in the operations of the Company in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the Company. Accordingly, this information has not been disclosed in this report.

#### Future Developments, Prospects and Business Strategies

Given the very difficult industry circumstances and the past and current performance of the business, management and the Board will continue to strive to meet the challenge.

In addition to restructuring the businesses the Board will continue to pursue all appropriate options for improving the Group's near and medium term performance, including as necessary:

- Rationalising operations to the most cost effective model
- Implementing pricing and product positioning adjustments as needed to improve sales margins.

#### Indemnification of Officers and Auditors

During the financial year, the Company paid a premium in respect of a contract insuring the directors of the Company (as named above), the Company secretaries, and all executive officers of the Company against a liability incurred as a director, secretary or executive officer to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The Company has not otherwise, during or since the financial year, indemnified or agreed to indemnify an officer or auditor of the Company against a liability incurred as an officer or auditor.

#### Proceedings on Behalf of Company

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

The Company was not a party to any such proceedings during the year.

#### Non-audit services

Grant Thornton South Australian Partnership in its capacity as auditor for Prince Hill Wines Ltd, has not provided any non-audit services throughout the reporting period.

Details of amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in note 26 to the financial statements

#### (e) Environmental Issues

The Group's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a state or territory.

# Prince Hill Wines Limited

ABN: 99 000 094 995

## Directors' Report

30 June 2011

### 4. Other items continued

#### (f) Auditors Independence Declaration

The lead auditors independence declaration for the year ended 30 June 2011 has been received and can be found on page 15 of the financial report.

### 5. Options

All options previously granted have expired. There are no issued shares under options at the reporting date.

### 6. Remuneration Report (Audited)

#### (a) Remuneration Policy

The Board of directors of the Company reviews the remuneration packages of all directors and senior executives of the Company on an annual basis and makes recommendations to the Board. Remuneration packages are reviewed and determined with due regard to current market conditions, comparable industry salaries, performance of the Group and other relevant factors. All director and senior executive compensation is paid by the Group, either directly or by associated entities and passed onto the Group through a management fee.

#### (b) Employment Details of Members of Key Management Personnel and Other Executives

The following table provides employment details of persons who were, during the financial year, members of key management personnel of the Group, and to the extent different, among the five Group executives or company executives receiving the highest remuneration. The table also illustrates the proportion of remuneration that was performance and non-performance based and the proportion of remuneration received in the form of options.

|                                 | Position                                    | Contract details (duration & termination)  | Proportions of elements of remuneration not related to performance |         |
|---------------------------------|---|--|--|---------|
|                                 |   |  | Fixed Salary/Fees %  | Total % |
| <b>Key Management Personnel</b> |   |  |  |         |
| Mr Paul Miller                  | Non executive director                      | No fixed term  | 100  | 100     |
| Mr Mark Leaker                  | Non executive director                      | No fixed term.   | 100  | 100     |
| Mr Andrew Parkinson             | Managing Director                           | No fixed term. 3 months notice required to terminate   | 100  | 100     |
| Mr Rex Watson                   | Executive director                          | 3 year fixed term with option to extend for a further 3 years. 6 months notice required to terminate | 100  | 100     |
| Mr Peter Cleaves                | Non executive director (retired April 2010) | No fixed term. (retired 1 April 2010)  | 100  | 100     |
| <b>Other Executives</b>         |   |  |  |         |
| Mr Conrad Guerra                | Chief Financial Officer                     | No fixed term. 1 month notice to terminate   | 100  | 100     |

The employment terms and conditions of key management personnel and group executives are formalised in contracts of employment.

Terms of employment require that the relevant group entity provide an executive contracted person with a

# Prince Hill Wines Limited

ABN: 99 000 094 995

## Directors' Report

30 June 2011

### 6. Remuneration Report (Audited) continued

minimum of one months notice prior to termination of contract. Termination payments of 100% are generally payable. A contracted person deemed employed on a permanent basis may terminate their employment by providing at least one months notice. Termination payments are not payable on resignation or under the circumstances of unsatisfactory performance.

#### (c) Changes in Directors and Executives Subsequent to Year-end

There have been no changes to Directors and Executives subsequent to year end.

#### (d) Remuneration Details for the Year Ended 30 June 2011

The following table of benefits and payment details lists the components of remuneration for each member of the key management personnel of the Group paid during the financial year. For details of employment terms for each member of the key management personnel refer to note 6(b) in the directors report.

Table of Benefits and Payments for the Year Ended 30 June 2011

|                                       |      | Salary,<br>fees and<br>leave<br>\$ | Other<br>\$   | Pension<br>and<br>superan<br>nuation<br>\$ | Termin-<br>ation<br>benefits<br>\$ | Total<br>\$    |
|---------------------------------------|------|------------------------------------|---------------|--|------------------------------------|----------------|
| <b>Key Management Personnel</b>       |      |                                    |               |  |                                    |                |
| Mr Paul Miller                        | 2011 | 18,578                             | -             | 1,672                                      | -                                  | 20,250         |
|                                       | 2010 | 3,578                              | -             | 322  | -                                  | 3,900          |
| Mr Mark Leaker                        | 2011 | 25,760                             | -             | -  | -                                  | 25,760         |
|                                       | 2010 | 8,500                              | -             | -  | -                                  | 8,500          |
| Mr Andrew Parkinson                   | 2011 | 121,907                            | 15,818        | 18,614                                     | -                                  | 156,339        |
|                                       | 2010 | 153,404                            | 9,623         | 23,493                                     | -                                  | 186,520        |
| Mr Rex Watson                         | 2011 | 146,641                            | 18,725        | 11,185                                     | -                                  | 176,551        |
|                                       | 2010 | 16,343                             | 1,624         | 1,631                                      | -                                  | 19,598         |
| Mr Peter Cleaves                      | 2011 | -                                  | -             | -  | -                                  | -              |
|                                       | 2010 | 15,138                             | -             | 1,362                                      | -                                  | 16,500         |
| <b>Total Key Management Personnel</b> | 2011 | <b>312,886</b>                     | <b>34,543</b> | <b>31,471</b>                              | -                                  | <b>378,900</b> |
|                                       | 2010 | 196,963                            | 11,247        | 26,808                                     | -                                  | 235,018        |
| <b>Other Executives</b>               |      |                                    |               |  |                                    |                |
| Mr Conrad Guerra                      | 2011 | 57,004                             | 4,348         | 11,362                                     | -                                  | 72,714         |
|                                       | 2010 | 34,997                             | 1,068         | 7,004                                      | -                                  | 43,069         |
| <b>Total Other Executives</b>         | 2011 | <b>57,004</b>                      | <b>4,348</b>  | <b>11,362</b>                              | -                                  | <b>72,714</b>  |
|                                       | 2010 | 34,997                             | 1,068         | 7,004                                      | -                                  | 43,069         |

# Prince Hill Wines Limited

ABN: 99 000 094 995

## Directors' Report

30 June 2011

### 6. Remuneration Report (Audited) continued (e) Securities Received that are not Performance Related

No members of key management personnel are entitled to receive securities which are not performance-based as part of their remuneration package.

### (f) Cash Bonuses, Performance-related Bonuses and Share-based Payments

None of the key management personnel of the Company is employed under a contract where they are entitled to any performance-related bonus or remuneration of any kind.

This Report of the Directors, incorporating the Remuneration Report, is signed in accordance with a resolution of the Board of Directors.

Director: Andrew Robinson

Dated 31 August 2011

For personal use only

Level 1,  
67 Greenhill Rd  
Wayville SA 5034  
GPO Box 1270  
Adelaide SA 5001

T 61 8 8372 6666  
F 61 8 8372 6677  
E [info.sa@au.gt.com](mailto:info.sa@au.gt.com)  
W [www.grantthornton.com.au](http://www.grantthornton.com.au)

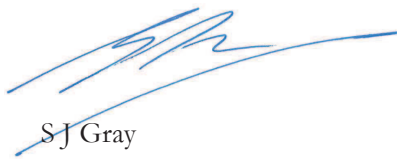
**AUDITOR'S INDEPENDENCE DECLARATION  
TO THE DIRECTORS OF PRINCE HILL WINES LIMITED**

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Prince Hill Wines Limited for the year ended 30 June 2011, I declare that, to the best of my knowledge and belief, there have been:

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

*Grant Thornton*

GRANT THORNTON SOUTH AUSTRALIAN PARTNERSHIP  
Chartered Accountants



S J Gray  
Partner

Adelaide, 31 August 2011

For personal use only

# Prince Hill Wines Limited

ABN: 99 000 094 995

## Directors' Declaration

The directors of Prince Hill Wines Limited (the company) declare that:

1. The financial statements and notes, as set out on pages 17 to 63, are in accordance with the *Corporations Act 2001* and:
  - (a) comply with Accounting Standards; and
  - (b) give a true and fair view of the financial position as at 30 June 2011 and of the performance for the year ended on that date of the consolidated group;
  - (c) these statements also comply with International Financial Reporting Standards as disclosed in note 1.
2. This declaration has been made after receiving the declarations required to be made to the directors in accordance section 295A of the *Corporations Act 2001*.
3. In the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

The company and a wholly-owned subsidiary, Prince Hill Wine Services Pty Ltd (ABN: 40 062 979 588), have entered into a deed of cross guarantee under which the company and its subsidiary guarantee the debts of each other.

At the date of this declaration, there are reasonable grounds to believe that the companies which are party to this deed of cross guarantee will be able to meet any obligations or liabilities to which they are, or may become subject to, by virtue of the deed.

This declaration is made in accordance with a resolution of the Board of Directors.

Director .....



Dated 31 August 2011

For personal use only

# Prince Hill Wines Limited

ABN: 99 000 094 995

## Consolidated Statement of Comprehensive Income

For the Year Ended 30 June 2011

|   | 2011                    | 2010                      |
|---|-------------------------|---------------------------|
| Note  | \$                      | \$                        |
| Revenue   | 3(a) 7,244,493          | 1,415,181                 |
| Cost of sales   | 4(a) (5,578,472)        | (1,614,009)               |
| Gross profit / (loss)                                 | <u>1,666,021</u>        | (198,828)                 |
| Other revenue   | 3(b) 192,405            | 142,142                   |
| Marketing expenses                                    | (108,417)               | (47,910)                  |
| Corporate expenses                                    | 4(a) (1,891,069)        | (576,405)                 |
| Management Expenses                                   | -                       | (228,000)                 |
| Impairment of inventory                               | 4(a) -                  | (260,373)                 |
| Impairment of winery sale receivable                  | 4(a) -                  | (2,388,643)               |
| Impairment of plant and equipment                     | 4(a) (54,000)           | -                         |
| Other expenses  | 4(a) (198,276)          | (3,875)                   |
| Finance expenses                                      | 4(a) (285,876)          | (181,260)                 |
| <b>Loss before income tax</b>                         | <b>(679,212)</b>        | <b>(3,743,152)</b>        |
| Income tax expense                                    | 6 (1,390)               | -                         |
| <b>Loss for the year</b>                              | <b><u>(680,602)</u></b> | <b><u>(3,743,152)</u></b> |
| <b>Other comprehensive income</b>                     | <u>-</u>                | <u>-</u>                  |
| <b>Total comprehensive income (loss) for the year</b> | <b><u>(680,602)</u></b> | <b><u>(3,743,152)</u></b> |
| Loss attributable to:                                 |                         |                           |
| Members of the parent entity                          | <u>(680,602)</u>        | <u>(3,743,152)</u>        |
|   | <b><u>(680,602)</u></b> | <b><u>(3,743,152)</u></b> |
| Total comprehensive income (loss) attributable to:    |                         |                           |
| Members of the parent entity                          | <u>(680,602)</u>        | <u>(3,743,152)</u>        |
|   | <b><u>(680,602)</u></b> | <b><u>(3,743,152)</u></b> |
| <b>Earnings per share</b>                             |                         |                           |
| From continuing operations:                           |                         |                           |
| Basic earnings per share (cents)                      | (0.01)                  | (0.02)                    |
| From continuing operations:                           |                         |                           |
| Basic earnings per share (cents)                      | (0.01)                  | (0.02)                    |

# Prince Hill Wines Limited

ABN: 99 000 094 995

## Consolidated Statement of Financial Position

As At 30 June 2011

|                                      | Note | 2011<br>\$       | 2010<br>\$       |
|--------------------------------------|------|------------------|------------------|
| <b>ASSETS</b>                        |      |                  |                  |
| <b>CURRENT ASSETS</b>                |      |                  |                  |
| Cash and cash equivalents            | 7    | 87,286           | 23,041           |
| Trade and other receivables          | 8    | 3,427,952        | 96,457           |
| Inventories                          | 9    | 2,240,625        | 440,637          |
| Prepayments                          | 10   | 10,292           | 4,079            |
| Winery sale receivable               | 11   | -                | 2,211,421        |
| <b>TOTAL CURRENT ASSETS</b>          |      | <b>5,766,155</b> | <b>2,775,635</b> |
| <b>NON-CURRENT ASSETS</b>            |      |                  |                  |
| Property, plant and equipment        | 12   | 1,147,273        | 112,567          |
| Biological assets                    | 13   | 966,300          | -                |
| <b>TOTAL NON-CURRENT ASSETS</b>      |      | <b>2,113,573</b> | <b>112,567</b>   |
| <b>TOTAL ASSETS</b>                  |      | <b>7,879,728</b> | <b>2,888,202</b> |
| <b>LIABILITIES</b>                   |      |                  |                  |
| <b>CURRENT LIABILITIES</b>           |      |                  |                  |
| Trade and other payables             | 17   | 3,661,930        | 350,072          |
| Borrowings                           | 18   | 1,444,828        | 2,204,797        |
| Provisions                           | 19   | 180,967          | 16,866           |
| Revenue received in advance          | 20   | 1,792,607        | -                |
| <b>TOTAL CURRENT LIABILITIES</b>     |      | <b>7,080,332</b> | <b>2,571,735</b> |
| <b>NON-CURRENT LIABILITIES</b>       |      |                  |                  |
| Borrowings                           | 18   | 354,231          | 12,622           |
| Provisions                           | 19   | 123,075          | 37,079           |
| <b>TOTAL NON-CURRENT LIABILITIES</b> |      | <b>477,306</b>   | <b>49,701</b>    |
| <b>TOTAL LIABILITIES</b>             |      | <b>7,557,638</b> | <b>2,621,436</b> |
| <b>NET ASSETS</b>                    |      | <b>322,090</b>   | <b>266,766</b>   |
| <b>EQUITY</b>                        |      |                  |                  |
| Issued capital                       |      | 37,207,851       | 36,471,926       |
| Retained earnings                    |      | (36,885,761)     | (36,205,160)     |
| <b>TOTAL EQUITY</b>                  |      | <b>322,090</b>   | <b>266,766</b>   |

The accompanying notes form part of these financial statements

# Prince Hill Wines Limited

ABN: 99 000 094 995

## Consolidated Statement of Changes in Equity

For the Year Ended 30 June 2011

2011

|   | Issued<br>Capital | Retained<br>Earnings | Option<br>Reserve | Total          |
|---|-------------------|----------------------|-------------------|----------------|
| Note  | \$                | \$                   | \$                | \$             |
| <b>Balance at 1 July 2010</b>                               | 36,471,926        | (36,205,160)         | -                 | 266,766        |
| Total other comprehensive income for the year               | -                 | (680,602)            | -                 | (680,602)      |
| <b>Transactions with owners in their capacity as owners</b> |                   |                      |                   |                |
| Transaction costs   | (6,585)           | -                    | -                 | (6,585)        |
| Issue of shares   | 742,510           | -                    | -                 | 742,510        |
| <b>Sub-total</b>  | <b>735,925</b>    | <b>(680,602)</b>     | <b>-</b>          | <b>55,323</b>  |
| <b>Balance at 30 June 2011</b>                              | <b>37,207,851</b> | <b>(36,885,762)</b>  | <b>-</b>          | <b>322,089</b> |

2010

|   | Issued<br>Capital | Retained<br>Earnings | Option<br>Reserve | Total              |
|---|-------------------|----------------------|-------------------|--------------------|
| Note  | \$                | \$                   | \$                | \$                 |
| <b>Balance at 1 July 2009</b>                               | 36,089,103        | (32,477,008)         | 15,000            | 3,627,095          |
| Total comprehensive loss for the year                       | -                 | (3,743,152)          | -                 | (3,743,152)        |
| <b>Transactions with owners in their capacity as owners</b> |                   |                      |                   |                    |
| Transaction costs   | (17,937)          | -                    | -                 | (17,937)           |
| Reclassification of shares                                  | -                 | 15,000               | (15,000)          | -                  |
| Issue of shares   | 400,760           | -                    | -                 | 400,760            |
| <b>Sub-total</b>  | <b>382,823</b>    | <b>(3,728,152)</b>   | <b>(15,000)</b>   | <b>(3,360,329)</b> |
| <b>Balance at 30 June 2010</b>                              | <b>36,471,926</b> | <b>(36,205,160)</b>  | <b>-</b>          | <b>266,766</b>     |

The accompanying notes form part of these financial statements

# Prince Hill Wines Limited

ABN: 99 000 094 995

## Consolidated Statement of Cash Flows

For the Year Ended 30 June 2011

|  | Note | 2011<br>\$         | 2010<br>\$         |
|--|------|--------------------|--------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>              |      |                    |                    |
| Receipts from customers                                  |      | 5,758,805          | 1,503,429          |
| Payments to suppliers and employees                      |      | (5,351,194)        | (2,335,489)        |
| Interest received  |      | 122,758            | 215                |
| Interest paid  |      | (359,668)          | (205,329)          |
| Net cash provided by (used in) operating activities      | 28   | <u>170,701</u>     | <u>(1,037,174)</u> |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>              |      |                    |                    |
| Proceeds from winery sale receivable                     |      | 2,220,096          | 110,000            |
| Purchase of property, plant and equipment                |      | (159,909)          | -                  |
| Business acquisitions                                    |      | (189,969)          | -                  |
| Net cash provided by (used in) investing activities      |      | <u>1,870,218</u>   | <u>110,000</u>     |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>              |      |                    |                    |
| Proceeds from issue of shares                            | 21   | -                  | 400,760            |
| Repayment of borrowings                                  |      | (2,305,600)        | (275,000)          |
| Payment of finance lease liabilities                     |      | (61,598)           | (7,309)            |
| Payment of transaction costs                             | 21   | (6,585)            | (17,937)           |
| Loans from related parties - proceeds from payments      |      | 166,502            | 737,013            |
| Net cash provided by (used in) financing activities      |      | <u>(2,207,281)</u> | <u>837,527</u>     |
| Net increase (decrease) in cash held                     |      | (166,362)          | (89,647)           |
| Cash and cash equivalents at beginning of financial year |      | <u>23,041</u>      | <u>112,688</u>     |
| Cash and cash equivalents at end of financial year       | 7    | <u>(143,321)</u>   | <u>23,041</u>      |

The accompanying notes form part of these financial statements

# Prince Hill Wines Limited

ABN: 99 000 094 995

## Notes to the Financial Statements

For the Year Ended 30 June 2011

### 1 Summary of Significant Accounting Policies

#### (a) General information

This financial report includes the consolidated financial statements and notes of Prince Hill Wines Limited and controlled entities (the Group).

#### (b) Basis of preparation

The financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*.

Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards.

Material accounting policies adopted in the preparation of these financial statements are presented below and have been consistently applied unless otherwise stated.

The financial statements have been prepared on an accruals basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

#### (c) Comparative figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year. There have been no changes in the comparative figures due to changes in accounting standards for the year.

#### (d) Business combinations

Business combinations occur where an acquirer obtains control over one or more businesses and results in the consolidation of its assets and liabilities.

The consideration transferred by the group to obtain control of a subsidiary is calculated as the sum of the acquisition-date fair values of assets transferred, liabilities incurred and the equity interests issued in the Group, which includes the fair value of any asset or liability arising from a contingent consideration arrangement. Acquisition costs are expensed as incurred.

The Group recognises identifiable assets acquired and liabilities assumed in a business combination regardless of whether they have been previously recognised in the acquiree's financial statements prior to the acquisition. Assets acquired and liabilities assumed are generally measured at their acquisition-date fair values.

Goodwill is stated after separate recognition of identifiable assets. It is calculated as the excess of the sum of :

- (a) Fair value of consideration transferred;
- (b) The recognised amount of any non-controlling interest in the acquiree; and
- (c) Acquisition-date fair value of identifiable net assets. If the fair values of identifiable net assets exceed the sum calculated above, the excess amounts (for example on a gain on a bargain purchase) is recognised in profit or loss immediately.

# Prince Hill Wines Limited

ABN: 99 000 094 995

## Notes to the Financial Statements

For the Year Ended 30 June 2011

### 1 Summary of Significant Accounting Policies continued

#### (d) Business combinations continued

#### (e) Adoption of New and Revised Accounting Standards

During the current year, the Group adopted all of the new and revised Australian Accounting Standards and Interpretations applicable to its operations which became mandatory.

The adoption of these Standards has impacted the recognition, measurement and disclosure of certain transactions. The following is an explanation of the impact the adoption of these Standards and Interpretations has had on the financial statements of Prince Hill Wines Limited.

The Group has adopted the following revisions and amendments to AASB's issued by the Australian Accounting standards Board and IFRS issued by the International Accounting Standards Board, which are relevant to and effective for the Group's financial statements for the annual period beginning 1 July 2010.

The Adoption of new and revised Accounting Standards effective for the financial statements for the annual period beginning 1 July 2010 did not have a material impact on the Group's financial statements.

| Standard Name  | Impact  |
|--|---|
| AASB 2010-3 / AASB 2009-5 Amendments and further Amendments to Australian Accounting Standards - Group Cash-settled Share-based Payment Transactions   | No significant changes on adoption of these standards.          |
| AASB 2009-8 Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions  | No significant changes on adoption of these standards.          |
| AASB 2009-9 Amendments to Australian Accounting Standards – Additional Exemption for First-time Adopters / AASB 2010-1 Limited exemption from comparative AASB 7 disclosures for first-time adopters | No impact since the entity is not a first-time adopter of IFRS. |
| AASB 2009-10 Amendments to Australian Accounting Standards – Classification of Rights Issues   | No significant changes on adoption of this standard.            |
| Interpretation 19 Extinguishing liabilities with equity instruments  | No significant changes on adoption of this standard.            |

#### (f) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of manufactured products includes direct materials, direct labour and an appropriate portion of variable and fixed overheads. Overheads are applied on the basis of normal operating capacity. Costs are assigned on the basis of weighted average costs.

#### (g) Property, plant and equipment

Each class of property, plant and equipment is carried at cost or fair value as indicated less, where applicable, any accumulated depreciation and impairment losses.

# Prince Hill Wines Limited

ABN: 99 000 094 995

## Notes to the Financial Statements

For the Year Ended 30 June 2011

### 1 Summary of Significant Accounting Policies continued

#### (g) Property, plant and equipment continued

##### (i) Plant and equipment

Plant and equipment are measured on the cost basis. Cost includes expenditure that is directly attributable to the asset.

The carrying amount of plant and equipment is reviewed annually by the directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

##### (ii) Depreciation

The depreciable amount of all fixed assets including buildings and capitalised leased assets, but excluding freehold land, is depreciated on a reducing balance basis over the asset's useful life to the Group commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements. Land is not depreciated.

The depreciation rates used for each class of depreciable assets are:

| <b>Class of Fixed Asset</b> | <b>Depreciation Rate</b> |
|-----------------------------|--------------------------|
| Plant and Equipment         | 10% - 33%                |
| Leased plant and equipment  | 10% - 33%                |

The assets' residual values, depreciation methods and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

#### (h) Financial Instruments

##### Initial recognition and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument. For financial assets, this is the equivalent to the date that the company commits itself to either the purchase or sale of the asset (i.e. trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transactions costs, except where the instrument is classified 'at fair value through profit or loss' in which case transaction costs are expensed to profit or loss immediately.

##### Classification and subsequent measurement

Financial instruments are subsequently measured at either fair value, amortised cost using the effective interest rate method, or cost. *Fair value* represents the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in arm's length transaction. Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.

*Amortised cost* is calculated as:

- (a) the amount at which the financial asset or financial liability is measured at initial recognition;

# Prince Hill Wines Limited

ABN: 99 000 094 995

Notes to the Financial Statements

For the Year Ended 30 June 2011

## 1 Summary of Significant Accounting Policies continued

### (h) Financial Instruments continued

#### Initial recognition and measurement continued

- (b) less principal repayments;
- (c) plus or minus the cumulative amortisation of the difference, if any, between the amount initially recognised and the maturity amount calculated using the *effective interest method*; and
- (d) less any reduction for impairment.

The *effective interest method* is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that exactly discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense in profit or loss.

The classification of financial instruments depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and at the end of each reporting period for held-to-maturity assets.

#### Financial assets at fair value through profit and loss

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management and within the requirements of AASB 139: Recognition and Measurement of Financial Instruments. Derivatives are also categorised as held for trading unless they are designated as hedges. Realised and unrealised gains and losses arising from changes in the fair value of these assets are included in the consolidated statement of comprehensive income in the period in which they arise.

#### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method.

#### Held-to-maturity investments

These investments have fixed maturities, and it is the Group's intention to hold these investments to maturity. Any held-to-maturity investments held by the Group are stated at amortised cost using the effective interest rate method.

#### Available-for-sale financial assets

Available-for-sale financial assets include any financial assets not included in the above categories. Available-for-sale financial assets are reflected at fair value. Unrealised gains and losses arising from changes in fair value are taken directly to equity.

# Prince Hill Wines Limited

ABN: 99 000 094 995

Notes to the Financial Statements

For the Year Ended 30 June 2011

## 1 Summary of Significant Accounting Policies continued

### (h) Financial Instruments continued

#### Financial liabilities

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

#### Fair value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

#### Impairment

At each reporting date, the Group assess whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in the statement of comprehensive income.

### (i) Impairment of non-financial assets

At the end of each reporting period, the Group assesses whether there is any indication that an asset may be impaired. The assessment will include considering external sources of information and internal sources of information and dividends received from subsidiaries, associates or jointly controlled entities deemed to be out of pre-acquisition profits. If such an indication exists, an impairment test is carried out on the asset by comparing the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use to the asset's carrying value. Value in use is calculated by discounting the estimated future cash flows of the asset or cash-generating unit (CGU) at a pre-tax discount rate reflecting the specific risks in the asset / CGU. Any excess of the asset's carrying value over its recoverable amount is expensed to the consolidated statement of comprehensive income.

Where an impairment loss on a revalued asset is identified, this is debited against the revaluation surplus in respect of the same class of asset to the extent that the impairment loss does not exceed the amount in the revaluation surplus for that same class of asset.

### (j) Investments (financial assets)

#### (i) Available-for-sale financial assets

Investments are classified as available-for-sale financial assets. Available-for-sale financial assets are reflected at fair value unless their fair value cannot be reliably measured. Unrealised gains and losses arising from changes in fair value are taken directly to equity.

#### (ii) Fair value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

# Prince Hill Wines Limited

ABN: 99 000 094 995

## Notes to the Financial Statements

For the Year Ended 30 June 2011

### 1 Summary of Significant Accounting Policies continued

#### (j) Investments (financial assets) continued

#### (iii) Recognition

Financial assets are initially measured at cost of trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below.

#### (k) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less which are convertible to a known amount of cash and subject to an insignificant risk of change in value, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities in the consolidated statement of financial position.

#### (l) Employee benefits

Provision is made for the company's liability for employee benefits arising from services rendered by employees to the end of the reporting period. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled.

Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits. In determining the liability, consideration is given to employee wage increases and the probability that the employee may satisfy vesting requirements. Those cash flows are discounted using market yields on national government bonds with terms to maturity that match the expected timing of cash flows.

#### (m) Provisions

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

#### (n) Earnings per share

The Group presents basic and diluted earnings per share information for its ordinary shares.

Basic earnings per share is calculated by dividing the profit attributable to owners of the company by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share adjusts the basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

#### (o) Income taxes

The income tax expense (revenue) for the year comprises current income tax expense (income) and deferred tax expense (income).

Current income tax expense charged to the profit or loss is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantially enacted, as at the end of the

# Prince Hill Wines Limited

ABN: 99 000 094 995

## Notes to the Financial Statements

For the Year Ended 30 June 2011

### 1 Summary of Significant Accounting Policies continued

#### (o) Income taxes continued

reporting period. Current tax liabilities (assets) are therefore measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses.

Current and deferred income tax expense (income) is charged or credited directly to equity instead of the profit or loss when the tax relates to items that are credited or charged directly to equity.

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. No deferred income 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 assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted at the end of the reporting year. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, branches, associates, and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

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.

Current assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where a legally enforceable right of set-off exists, the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

#### (p) Leases

##### (i) Finance leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership that are transferred to entities in the Group, are classified as finance leases.

Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

For personal use only

# Prince Hill Wines Limited

ABN: 99 000 094 995

## Notes to the Financial Statements

For the Year Ended 30 June 2011

### 1 Summary of Significant Accounting Policies continued

#### (p) Leases continued

Leased assets are depreciated on a straight-line basis over the shorter of their estimated useful lives or the lease term.

#### (ii) Operating leases - expense in period incurred

Lease payments for operating leases, where substantially all of the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred. The lease is not recognised in the consolidated statement of financial position.

#### (q) Revenue

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as discussed below.

Revenue is measured at the fair value of the consideration received or receivable after taking into account any trade discounts and volume rebates allowed. Any consideration deferred is treated as the provision of finance and is discounted at a rate of interest that is generally accepted in the market for similar arrangements. The difference between the amount initially recognised and the amount ultimately received is interest revenue.

#### Sale of goods

Revenue from the sale of goods is recognised at the point of delivery as this corresponds to the transfer of significant risks and rewards of ownership of the goods and the cessation of all involvement in those goods.

#### Grant revenue

Government grants are recognised at fair value where there is reasonable assurance that the grant will be received and all grant conditions will be met. Grants relating to expense items are recognised as income over the periods necessary to match the grant to the costs they are compensating. Grants relating to assets are credited to deferred income at fair value and are credited to income over the expected useful life of the asset on a straight-line basis.

#### Interest revenue

Interest revenue is recognised using the effective interest rate method, which for floating rate financial assets is the rate inherent in the instrument.

#### Provision of services

Revenue recognition relating to the provision of services is determined with reference to the stage of completion of the transaction at the end of the reporting period and where the outcome of the contract can be estimated reliably. Stage of completion is determined with reference to the services performed to date as a percentage of total anticipated services to be performed. Where the outcome cannot be estimated reliably, revenue is recognised only to the extent that related expenditure is recoverable.

All revenue is stated net of the amount of goods and services tax (GST).

# Prince Hill Wines Limited

ABN: 99 000 094 995

## Notes to the Financial Statements

For the Year Ended 30 June 2011

### 1 Summary of Significant Accounting Policies continued

#### (r) Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

#### (s) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the consolidated statement of financial position are shown inclusive of GST.

Cash flows are presented in the consolidated statement of cash flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

#### (t) Basis of consolidation

A list of controlled entities is contained in Note 14 to the financial statements.

All inter-group balances and transactions between entities in the the Group, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with those adopted by the parent entity.

A controlled entity is an entity over which Prince Hill Wines Limited has the power to govern the financial and operating policies so as to obtain benefits from its activities. In assessing the power to govern, the existence and effect of holdings of actual and potential voting rights are considered.

All inter-group balances have and transactions between entities in the consolidated group, including any unrealised profits or losses have been eliminated on consolidation. Minority interests, being that portion of the profit or loss and net assets of subsidiaries attributable to equity interests held by persons outside the Group, are shown separately within the equity section of the Consolidated statement of Financial Position and Consolidated Statement of Comprehensive Income.

#### (u) New Accounting Standards for Application in Future Periods

The AASB has issued new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods. The Group has decided against early adoption of these standards. The following table summarises those future requirements, and their impact on the Group:

| Standard name   | Effective date for entity | Requirements  | Impact                  |
|---|---------------------------|---|-------------------------|
| AASB 124 Related Party Disclosures and amending standard AASB 2009-12 | 30 June 2012              | - Clarification of the definition of a related party<br>- Requirement to disclose commitments to related parties<br>- Disclosure exemptions for government-related entities | Minimal impact expected |

# Prince Hill Wines Limited

ABN: 99 000 094 995

Notes to the Financial Statements

For the Year Ended 30 June 2011

## 1 Summary of Significant Accounting Policies continued

### (u) New Accounting Standards for Application in Future Periods continued

| Standard name   | Effective date for entity | Requirements   | Impact  |
|---|---------------------------|--|---|
| AASB 9 Financial Instruments and amending standards AASB 2009-11 / AASB 2010-7  | 30 June 2013              | - Changes to the classification and measurement requirements for financial assets and financial liabilities.<br>- New rules relating to derecognition of financial instruments.                                    | The impact of AASB 9 has not yet been determined.   |
| AASB 2009-14 Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement   | 30 June 2012              | Changes where the entity is subject to minimum funding requirements and makes an early payment to cover these requirements in relation to defined benefit plans.   | No significant impact expected.   |
| AASB 2010-4 / 2010-5 Amendments and further amendments to Australian Accounting Standards arising from the Annual Improvements Project        | 30 June 2012              | Makes changes to a number of standards / interpretations including:<br>- Clarification of the content of the statement of changes in equity<br>- Financial instrument disclosures<br>- Fair value of award credits | No impact expected.   |
| AASB 2010-6 Amendment to Australian Accounting Standards – Disclosures on transfers of financial assets                                       | 30 June 2012              | Requires additional disclosures regarding for example, remaining risks where an entity has transferred a financial asset   | No impact expected.   |
| AASB 2010-8 Amendment to Australian Accounting Standards – Deferred tax: Recovery of underlying assets  | 30 June 2013              | Adds a presumption to AASB 112 that the recovery of the carrying amount of an investment property at fair value will be through sale.  | No impact expected.   |
| AASB 2010-9 / 2010-10 Amendment to Australian Accounting Standards – Severe hyperinflation and removal of fixed dates for first-time adopters | 30 June 2012              | Makes amendments to AASB 1   | No impact since the entity is not a first-time adopter of IFRS.   |
| AASB 1054 Additional Australian disclosures / AASB 2011-1 Amendments to Australian Accounting Standards arising from Trans-Tasman convergence | 30 June 2012              | Collates the Australian specific disclosures into one Accounting Standard rather than including them within a number of different standards.   | Little impact since most of the disclosures required by AASB 1054 are already included within the financial statements. |

For personal use only

# Prince Hill Wines Limited

ABN: 99 000 094 995

Notes to the Financial Statements

For the Year Ended 30 June 2011

## 1 Summary of Significant Accounting Policies continued

### (u) New Accounting Standards for Application in Future Periods continued

| Standard name   | Effective date for entity | Requirements   | Impact  |
|---|---------------------------|--|---|
| AASB 2011-2 Amendments to Australian Accounting Standards arising from Trans-Tasman convergence – Reduced Disclosure Requirements   | 30 June 2014              | Highlights the disclosures not required in AASB 1054 for entities applying the RDR.  | <p>FOR RDR ENTITIES</p> <p>Little impact since the disclosures are not included in the RDR financials.</p> <p>FOR NON RDR ENTITIES</p> <p>The entity is not adopting the RDR and therefore this standard is not relevant.</p>   |
| AASB 2011-3 Amendments to Australian Accounting Standards – Orderly Adoption of Changes to ABS GFS Manual and Related Amendments  | 30 June 2013              | Standard is applicable for whole of government and general government financial statements only. AASB 2011 provides details of changes in accounting treatment due to the Government Finance Statistics manual.  | Standard is not applicable and therefore there will be no impact on adoption.   |
| AASB 10 Consolidated Financial Statements / AASB 11 Joint Arrangements / AASB 12 Disclosures of Interests in Other Entities, AASB 127 Separate Financial Statements and AASB 128 Investments in Associates. [These are expected to be released by the AASB in June / July]. | 30 June 2014              | <p>AASB 10 includes a new definition of control, which is used to determine which entities are consolidated, and describes consolidation procedures. The Standard provides additional guidance to assist in the determination of control where this is difficult to assess.</p> <p>AASB 11 focuses on the rights and obligations of a joint venture arrangement, rather than its legal form (as is currently the case). IFRS 11 requires equity accounting for joint ventures, eliminating proportionate consolidation as an accounting choice.</p> <p>AASB 12 includes disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles.</p> | <p>The Group will review its controlled entities to determine whether they should be consolidated under AASB 10, no changes are anticipated.</p> <p>All joint ventures of the group are equity accounted and therefore minimal impact is expected due to the adoption of AASB 11.</p> <p>Additional disclosures will be required under AASB 12 but there will be no changes to reported position and performance.</p> |

# Prince Hill Wines Limited

ABN: 99 000 094 995

Notes to the Financial Statements

For the Year Ended 30 June 2011

## 1 Summary of Significant Accounting Policies continued

### (u) New Accounting Standards for Application in Future Periods continued

| Standard name                  | Effective date for entity | Requirements  | Impact   |
|--------------------------------|---------------------------|---|--|
| AASB 13 Fair Value Measurement | 30 June 2014              | <p>AASB 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across Accounting Standards but does not change when fair value is required or permitted.</p> <p>There are a number of additional disclosure requirements.</p> | <p>Fair value estimates currently made by the entity will be revised and potential changes to reported values may be required.</p> <p>The entity has not yet determined the magnitude of any changes which may be needed.</p> <p>Some additional disclosures will be needed.</p> |

### (v) Critical accounting estimates and judgments

The directors evaluate estimates and judgments incorporated into the financial statements based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Group. Accounting estimates have been used in determining the impairment of receivables, refer to note 8 and capital assets, refer to note 12.

# Prince Hill Wines Limited

ABN: 99 000 094 995

## Notes to the Financial Statements

For the Year Ended 30 June 2011

### 2 Earnings per share

#### (a) Reconciliation of Earnings to Loss

|  | 2011             | 2010        |
|--|------------------|-------------|
|  | \$               | \$          |
| (Loss) attributable to members               | <u>(680,602)</u> | (3,743,152) |
| Earnings used to calculate basic EPS         | <u>(680,602)</u> | (3,743,152) |
| Earnings used in calculation of dilutive EPS | <u>(680,602)</u> | (3,743,152) |

#### (b) Reconciliation of Earnings to Loss from Continuing Operations

|   | 2011             | 2010        |
|---|------------------|-------------|
|   | \$               | \$          |
| (Loss) from continuing operations   | <u>(680,602)</u> | (3,743,152) |
| Earnings used to calculate basic EPS from continuing operations             | <u>(680,602)</u> | (3,743,152) |
| Earnings used in the calculation of dilutive EPS from continuing operations | <u>(680,602)</u> | (3,743,152) |

#### (c) Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS

|   | 2011               | 2010        |
|---|--------------------|-------------|
| Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS    | 233,277,899        | 151,008,712 |
| Weighted average number of options outstanding  | -                  | 6,539,178   |
| Weighted average number of ordinary shares outstanding during the year used in calculating dilutive EPS | <u>233,277,899</u> | 157,547,890 |

For personal use only

# Prince Hill Wines Limited

ABN: 99 000 094 995

## Notes to the Financial Statements

For the Year Ended 30 June 2011

### 3 Revenue

#### (a) Revenue

|                    | 2011             | 2010             |
|--------------------|------------------|------------------|
|                    | \$               | \$               |
| Sales revenue      |                  |                  |
| - Sale of goods    | 4,016,089        | 1,402,126        |
| - Services revenue | 3,228,404        | 13,055           |
| Total Revenue      | <u>7,244,493</u> | <u>1,415,181</u> |

#### (b) Other Income

|                          | 2011           | 2010           |
|--------------------------|----------------|----------------|
|                          | \$             | \$             |
| Other Income             |                |                |
| - Grape distributions    | 11,616         | -              |
| - Gain on sale of assets | 8,712          | 129,947        |
| - Interest               | 122,612        | 215            |
| - Recoveries             | 49,465         | 11,980         |
| Other Income             | <u>192,405</u> | <u>142,142</u> |

#### (c) Interest revenue

|   | 2011           | 2010       |
|---|----------------|------------|
|   | \$             | \$         |
| Interest revenue from:  |                |            |
| bank  | 4,278          | -          |
| interest charged on trade and other receivables                                     | 118,334        | 215        |
| Total interest revenue on financial assets not at fair value through profit or loss | <u>122,612</u> | <u>215</u> |

For personal use only

# Prince Hill Wines Limited

ABN: 99 000 094 995

## Notes to the Financial Statements

For the Year Ended 30 June 2011

### 4 Loss for the Year

#### (a) Expenses

|   | 2011             | 2010           |
|---|------------------|----------------|
|   | \$               | \$             |
| Cost of sales   | 5,578,472        | 1,614,009      |
| <b>Depreciation of property plant and equipment</b>                                 |                  |                |
| Depreciation included in cost of sales  | 99,670           | 27,750         |
| Depreciation of property plant and equipment included in other expenses             | 109,724          | 8,361          |
| <b>Total depreciation expense</b>   | <b>209,394</b>   | <b>36,111</b>  |
| Interest expense on financial liabilities not at fair value through profit or loss: |                  |                |
| external  | 227,921          | 44,598         |
| related entities  | 57,955           | 136,663        |
| Total interest expense  | 285,876          | 181,261        |
| Impairment of inventory   | -                | 260,373        |
| Impairment of winery sale receivable  | -                | 2,388,643      |
| Impairment of plant and equipment   | 54,000           | -              |
| <b>Employee benefits</b>  |                  |                |
| Employee benefits included in cost of sales   | 675,490          | 165,894        |
| Employee benefits included in corporate expenses                                    | 1,197,163        | 258,654        |
| <b>Total Employee benefits</b>  | <b>1,872,653</b> | <b>424,548</b> |
| Bad and doubtful debts  |                  |                |
| Provision for doubtful debts and bad debts recovered                                | 80,625           | (4,486)        |
| Total bad and doubtful debts  | 80,625           | (4,486)        |
| Rental expense on operating leases included in corporate expenses                   |                  |                |
| Minimum lease payments  | 74,096           | -              |
| <b>Other expenses</b>   |                  |                |
| Depreciation of property plant and equipment  | 109,724          | 8,361          |
| Provision for doubtful debts and bad debts recovered                                | 80,625           | (4,486)        |
| Loss on exchange differences  | 7,927            | -              |
| <b>Total other expenses</b>   | <b>198,276</b>   | <b>3,875</b>   |
| <b>Corporate expenses</b>   |                  |                |
| Listing, legal and assurance  | 197,921          | 52,439         |
| Insurance   | 121,373          | 53,581         |
| Bank charges  | 72,665           | 24,069         |
| Office expenses   | 180,194          | 71,152         |
| Employee expenses   | 1,197,163        | 258,654        |
| Property  | 47,656           | 116,510        |
| Lease rentals on operating lease  | 74,096           | -              |
| <b>Total corporate expenses</b>   | <b>1,891,068</b> | <b>576,405</b> |

# Prince Hill Wines Limited

ABN: 99 000 094 995

## Notes to the Financial Statements

For the Year Ended 30 June 2011

### 5 Income Tax Expense

(a) The prima facie tax on profit from ordinary activities before income tax is reconciled to the income tax expense as follows:

|   | 2011         | 2010        |
|---|--------------|-------------|
|   | \$           | \$          |
| Prima facie tax benefit on profit from ordinary activities before income tax at 30% (2010: 30%) |              |             |
| - economic entity   | 203,764      | 1,122,946   |
| - Deferred tax assets not brought to account  | (203,764)    | (1,122,946) |
| - Write off of deferred tax assets from business acquisition                                    | 1,390        | -           |
| Income tax expense  | <u>1,390</u> | <u>-</u>    |

The applicable weighted average effective tax rates are as follows:

- %                      - %

The increase in the weighted average effective consolidated tax rate for 2011 is a result of the write off of deferred tax assets on the business acquisitions.

The income tax expense of \$1,390 is the write back of the deferred tax asset which was acquired in the purchase of Coonawarra Premium Vineyards Limited as set out in Note 14(a).

### 6 Tax

#### (a) Income tax expense and future income tax benefits not brought to account

Deferred tax assets are not brought to account, the benefits of these deferred tax assets will only be realised if the conditions for deductibility set out in Note 1(o) occur.

|                         | 2011             | 2010             |
|-------------------------|------------------|------------------|
|                         | \$               | \$               |
| - temporary differences | 120,338          | 17,502           |
| - tax losses:           |                  |                  |
| - operating losses      | 7,687,320        | 7,586,421        |
| - capital losses        | 863,044          | 863,044          |
|                         | <u>8,670,702</u> | <u>8,466,967</u> |

### 7 Cash and cash equivalents

|              | 2011          | 2010          |
|--------------|---------------|---------------|
|              | \$            | \$            |
| Cash on hand | 2,001         | 1,751         |
| Cash at bank | 85,285        | 21,290        |
|              | <u>87,286</u> | <u>23,041</u> |

#### (a) Effective Interest Rate

The effective interest rate on short-term bank deposits was 0.70% (2010: 0.50%); these deposits have an average maturity of 20 days.

# Prince Hill Wines Limited

ABN: 99 000 094 995

## Notes to the Financial Statements

For the Year Ended 30 June 2011

### 7 Cash and cash equivalents continued

#### (b) Reconciliation of cash

Cash at the end of the financial year as shown in the consolidated statement of cash flows is reconciled to items in the consolidated statement of financial position as follows:

|  | 2011             | 2010          |
|--|------------------|---------------|
| Note   | \$               | \$            |
| Cash and cash equivalents                                  | 87,286           | 23,041        |
| Related party loans  | 18 (230,607)     | -             |
| <b>Balance as per consolidated statement of cash flows</b> | <b>(143,321)</b> | <b>23,041</b> |

### 8 Trade and other receivables

#### CURRENT

|  | 2011             | 2010          |
|--|------------------|---------------|
| Note   | \$               | \$            |
| Trade receivables                                | 1,214,724        | 94,382        |
|  | <b>1,214,724</b> | <b>94,382</b> |
| Related party receivables                        | 563,499          | -             |
| Grower receivables                               | 1,652,416        | -             |
| Trade and other receivables (impairments)        | (80,850)         | (962)         |
| Other receivables                                | 78,163           | 3,037         |
| <b>Total current trade and other receivables</b> | <b>3,427,952</b> | <b>96,457</b> |

#### (a) Provision for impairment of receivables

Current trade receivables are non-interest bearing loans and are generally on 30 to 180 day terms. A provision is recognised when there is objective evidence that an individual trade receivable is impaired. These amounts have been included in the other expense item.

Movement in provision for impairment of receivables is as follows:

|                                       | 2011          | 2010       |
|---------------------------------------|---------------|------------|
|                                       | \$            | \$         |
| Balance at beginning of the year      | 962           | 12,000     |
| Additional impairment loss recognised | 80,850        | (17,579)   |
| Provision used                        | (1,187)       | 6,541      |
| Reversal of impairment                | 225           | -          |
| <b>Balance at end of the year</b>     | <b>80,850</b> | <b>962</b> |

# Prince Hill Wines Limited

ABN: 99 000 094 995

## Notes to the Financial Statements

For the Year Ended 30 June 2011

### 8 Trade and other receivables continued (b) Credit risk - Trade and Other Receivables

These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

The following table details the Group's trade and other receivables exposure to credit risk (prior to collateral and other credit enhancements) with ageing analysis and impairment provided for thereon. Amounts are considered as 'past due' when the debt has not been settled, with the terms and conditions agreed between the Group and the customer or counter party to the transaction. Receivables that are past due are assessed for impairment by ascertaining solvency of the debtors and are provided for where there is objective evidence indicating that the debt may not be fully repaid to the Group.

The balances of receivables that remain within initial trade terms (as detailed in the table) are considered to be of high credit quality.

|                            | Gross amount     | Past due and impaired | Past due but not impaired<br>(days overdue) |                |                |                | Within initial trade terms |
|----------------------------|------------------|-----------------------|---|----------------|----------------|----------------|----------------------------|
|                            |                  |                       | < 30  | 31-60          | 61-90          | > 90           |                            |
|                            | \$               | \$                    | \$  | \$             | \$             | \$             | \$                         |
| <b>2011</b>                |                  |                       |   |                |                |                |                            |
| Trade and term receivables | 1,778,223        | -                     | 620,644                                     | 164,533        | 189,458        | 235,069        | 568,519                    |
| Grower receivables         | 1,652,416        | 80,850                | -   | 3,492          | 18,413         | 323,787        | 1,225,874                  |
| Other Receivables          | 78,163           | -                     | -   | -              | -              | -              | 78,163                     |
| <b>Total</b>               | <b>3,508,802</b> | <b>80,850</b>         | <b>620,644</b>                              | <b>168,025</b> | <b>207,871</b> | <b>558,856</b> | <b>1,872,556</b>           |
| <b>2010</b>                |                  |                       |   |                |                |                |                            |
| Trade and term receivables | 94,382           | 962                   | 259   | 102            | 604            | -              | 92,455                     |
| Other receivables          | 3,037            | -                     | -   | -              | -              | -              | 3,037                      |
| <b>Total</b>               | <b>97,419</b>    | <b>962</b>            | <b>259</b>                                  | <b>102</b>     | <b>604</b>     | <b>-</b>       | <b>95,492</b>              |

The Group does not hold any financial assets with terms that have been renegotiated, but which would otherwise be past due or impaired, refer to accounting policy note 1(v) for methodology in regards to impairment of receivables..

The other classes of receivables do not contain impaired assets.

### 9 Inventories

|                          | Note | 2011<br>\$       | 2010<br>\$     |
|--------------------------|------|------------------|----------------|
| <b>CURRENT</b>           |      |                  |                |
| At cost:                 |      |                  |                |
| Raw materials and stores |      | 62,945           | 9,934          |
| Work in progress         |      | 65,430           | -              |
| Finished goods           |      | 2,112,250        | 430,703        |
|                          |      | <b>2,240,625</b> | <b>440,637</b> |
|                          |      | <b>2,240,625</b> | <b>440,637</b> |

# Prince Hill Wines Limited

ABN: 99 000 094 995

## Notes to the Financial Statements

For the Year Ended 30 June 2011

### 10 Other Assets

|             | 2011          | 2010         |
|-------------|---------------|--------------|
|             | \$            | \$           |
| CURRENT     |               |              |
| Prepayments | 10,292        | 4,079        |
|             | <u>10,292</u> | <u>4,079</u> |

### 11 Winery sale receivable

|                        | 2011     | 2010             |
|------------------------|----------|------------------|
|                        | \$       | \$               |
| Winery sale receivable | -        | 2,211,421        |
|                        | <u>-</u> | <u>2,211,421</u> |

The Group exchanged contracts with CN Wine (Australia) Pty Ltd on the 30 June 2010 for the sale of the vineyard and winery located at 1220 Castlereagh Highway, Apple Tree Flat, Mudgee, New South Wales for \$2,300,000. The winery sale receivable was written down to its net realisable value after deducting selling costs.

Previously the Group exchanged contracts on the 30 September 2008 with Great Southern Beverage Pty Ltd for the sale of the vineyard and winery for \$5,500,000. When the purchaser did not complete the transaction on the 18 February 2010 the group issued a "Notice of Termination of Contract" to Great Southern Beverage on the 9 March 2010.

The Statement of Comprehensive Income includes the impairment losses as a result of the failed contract with Great Southern Beverage Pty Ltd and the installments received as a result of the failed sale are recognised in Other Income. The Statement of Cash Flows includes the installment receipts from Great Southern Beverage Pty Ltd.

# Prince Hill Wines Limited

ABN: 99 000 094 995

## Notes to the Financial Statements

For the Year Ended 30 June 2011

### 12 Property, plant and equipment

|  | 2011                    | 2010                  |
|--|-------------------------|-----------------------|
|  | \$                      | \$                    |
| <b>LAND AND BUILDINGS</b>                  |                         |                       |
| Freehold land                              |                         |                       |
| At cost                                    | 433,700                 | -                     |
| Total land                                 | <u>433,700</u>          | <u>-</u>              |
| <b>PLANT AND EQUIPMENT</b>                 |                         |                       |
| Plant and equipment                        |                         |                       |
| At cost                                    | 936,707                 | 332,619               |
| Accumulated depreciation                   | (313,496)               | (220,052)             |
| Accumulated impairment losses              | (54,000)                | -                     |
| Total plant and equipment                  | <u>569,211</u>          | <u>112,567</u>        |
| Leased plant and equipment                 |                         |                       |
| Capitalised leased assets                  | 255,950                 | -                     |
| Accumulated depreciation                   | (111,588)               | -                     |
| Total leased plant and equipment           | <u>144,362</u>          | <u>-</u>              |
| Total plant and equipment                  | <u>713,573</u>          | <u>112,567</u>        |
| <b>Total property, plant and equipment</b> | <u><u>1,147,273</u></u> | <u><u>112,567</u></u> |

#### (a) Movements in Carrying Amounts

Movement in the carrying amount for each class of property, plant and equipment between the beginning and the end of the current financial year. Refer to accounting policy note 1(v) for methodology in regards to impairment of capital assets.

|   | Land           | Plant &<br>Equipment<br>Leased from<br>External<br>Parties | Plant and<br>Equipment | Total            |
|---|----------------|--|------------------------|------------------|
|   | \$             | \$   | \$                     | \$               |
| Balance at the beginning of year        | -              | 20,287   | 92,280                 | 112,567          |
| Additions                               | -              | -  | 115,491                | 115,491          |
| Additions through business combinations | 433,700        | 255,950  | 492,959                | 1,182,609        |
| Depreciation expense                    | -              | (111,527)  | (97,867)               | (209,394)        |
| Impairment loss in income               | -              | -  | (54,000)               | (54,000)         |
| Carrying amount at the end of year      | <u>433,700</u> | <u>164,710</u>   | <u>548,863</u>         | <u>1,147,273</u> |

# Prince Hill Wines Limited

ABN: 99 000 094 995

## Notes to the Financial Statements

For the Year Ended 30 June 2011

### 13 Biological Assets

|   | Biological<br>assets<br>\$ | Total<br>\$    |
|---|----------------------------|----------------|
| Opening balance   | -                          | -              |
| Biological assets acquired through<br>business combinations | 966,300                    | 966,300        |
| <b>Balance at 30 June 2011</b>                              | <b>966,300</b>             | <b>966,300</b> |
| Biological assets (Non-current)                             | 966,300                    | 966,300        |
| <b>Total</b>  | <b>966,300</b>             | <b>966,300</b> |

Prince Hill Wines has 40 hectares of grapevines planted in the premium grape growing district of the Coonawarra, South Australia. The overall property is a vineyard comprised of land, water licenses, vines trellising, irrigation equipment including full frost control and other improvements. The vines were planted in 2000.

Land and grapevines are recorded at net market value. The carrying amount of valuation improvements to non-current assets is initially recorded at the previous year's fair value less depreciation and any impairment, which is compared to market value at the end of the financial year and a revaluation to market value is made. The grapevines are biological assets, measured on a net market value basis. The valuation separated the assets between biological assets and non-biological assets for the purposes of Accounting Standard AASB 141 - Agriculture.

The vineyard assets are carried at fair value and no impairment charges have been incurred.

The water licences have been included in the valuation of the biological assets. These water licenses are not valued separately given there is no active market in the Coonawarra.

#### Financial Risk

The Group is exposed to a number of risks related to its biological assets:

#### Regulatory and environmental risks

The Group is subject to laws and regulations in Australia. The Group has established environmental policies and procedures aimed at compliance with these laws and regulations. Management performs regular reviews to identify environmental risks and to ensure that the systems in place are adequate to manage the identified risks.

#### Supply and demand risk

Where possible the Group manages supply and demand risk by aligning its harvest volume to market supply and demand. Management performs regular industry trend analyses to ensure that the Group's pricing structure is in line with the market and to ensure that projected harvest volumes are consistent with expected demand.

#### Climate and other risks

The Group's vines and grapes are exposed to climate changes and other natural disasters. The Group, to prevent grape damage due to weather conditions holds appropriate chemical and fungicide reserves.

# Prince Hill Wines Limited

ABN: 99 000 094 995

## Notes to the Financial Statements

For the Year Ended 30 June 2011

### Fair Value

To assist in determining the fair value of the vineyard the directors engaged an independent valuer, Colin Pickett, Certified Practising Valuer, Associate Australian Property Institute, Gaetjens Pickett Valuers. The independent valuation of the vineyard and land on an unencumbered freehold basis as at the 30 June 2011 was determined to be \$966,300 for the vines and \$433,700 for the land.

The valuation was based on market conditions and interpretation of all circumstances in relation to the vineyard by the independent valuer.

### 14 Controlled Entities

| Name                                  | Country of incorporation | Percentage Owned (%)* | Percentage Owned (%)* |
|---------------------------------------|--------------------------|-----------------------|-----------------------|
|                                       |                          | 2011                  | 2010                  |
| <b>Parent Entity:</b>                 |                          |                       |                       |
| Prince Hill Wines Limited (ASX: PHW)  | Australia                |                       |                       |
| <b>Subsidiaries of parent entity:</b> |                          |                       |                       |
| Prince Hill Wine Services Pty Ltd     | Australia                | 100%                  | 100%                  |
| Prince Hill Cellars Pty Ltd           | Australia                | 100%                  | 100%                  |
| Coonawarra Premium Vineyards Limited  | Australia                | 100%                  | 100%                  |

\* Percentage of voting power is in proportion to ownership

#### (a) Acquisitions of Controlled Entities

As approved by a special meeting of shareholders on the 8 October 2010 the Group acquired Coonawarra Premium Vineyards Limited (ABN: 58 086 944 265) the responsible entity of the managed investment scheme Coonawarra Vineyards Project (ARSN: 087 876 186) effective 1 July 2010. In addition the Group purchased the assets and business operations of Watson Wine Group Pty Ltd (ABN: 83 093 886 509) and its subsidiaries, effective 1 July 2010, in exchange for 148,514,029 shares of Prince Hill Wines Limited (ABN: 99 000 094 995) at a notional issue price of \$0.005 per share. The total notional issue price for all shares issued to Watson Wine Group by Prince Hill Wines Limited was \$742,510 which equates to the net asset value at 1 July 2010 of the assets and liabilities acquired. For details of the assets and liabilities acquired refer to Note 15.

#### (b) Disposal of Controlled Entities

The Group did not dispose any entities during the year.

# Prince Hill Wines Limited

ABN: 99 000 094 995

## Notes to the Financial Statements

For the Year Ended 30 June 2011

### 15 Business Combinations

On 1 July 2010, Prince Hill Wine Services Pty Ltd acquired all of Watson Wine Group's business operations. This acquisition is expected to increase the Group's share of the domestic and international wine market, diversify income streams into vineyard management and reduce costs through economies of scale.

The following table shows the assets acquired, liabilities assumed and the purchase consideration at the acquisition date.

|   | Acquiree's<br>carrying<br>amount | Fair value     |
|---|----------------------------------|----------------|
|   | \$                               | \$             |
| Purchase consideration:                                     |                                  |                |
| - Equity instruments  | -                                | 742,510        |
| <b>Total purchase consideration</b>                         | <b>-</b>                         | <b>742,510</b> |
| Cash  | 96,854                           | 96,854         |
| Trade receivables   | 1,596,588                        | 1,596,588      |
| Inventories   | 2,246,434                        | 2,246,434      |
| Plant and equipment   | 748,909                          | 748,909        |
| Prepayments   | 868,857                          | 868,857        |
| Land and Vines  | 1,400,000                        | 1,400,000      |
| Deferred Tax Assets   | 1,390                            | 1,390          |
| Trade payables  | (2,070,095)                      | (2,070,095)    |
| Bank loans  | (2,161,413)                      | (2,161,413)    |
| Provisions  | (251,295)                        | (251,295)      |
| Income received in advance                                  | (1,733,719)                      | (1,733,719)    |
| <b>Total net identifiable assets</b>                        | <b>742,510</b>                   | <b>742,510</b> |
| <b>Identifiable assets acquired and liabilities assumed</b> | <b>742,510</b>                   | <b>742,510</b> |
| Goodwill consideration                                      | -                                | 742,510        |
| Less: Identifiable assets acquired                          | -                                | 742,510        |
| <b>Goodwill</b>   | <b>-</b>                         | <b>-</b>       |

Revenue of Watson Wine Group's business operations included in the consolidated revenue of the Group since the acquisition date on 1 July 2010 amounted to \$ 5,936,248 with a profit of \$ 346,590 after tax.

Included within Administration Expenses in the consolidated statement of comprehensive income are acquisition related costs totaling \$ 56,938. The costs include legal and due diligence fees.

# Prince Hill Wines Limited

ABN: 99 000 094 995

## Notes to the Financial Statements

For the Year Ended 30 June 2011

### 16 Contingent Liabilities and Contingent Assets

#### (a) Contingent Assets

Prince Hill Wine Service Pty Ltd has issued a claim against Great Southern Beverage Pty Ltd (ACN 132 761 392) due to its failure to complete the unconditional contract for the purchase of the vineyard and winery located at 1220 Castlereagh Highway, Apple Tree Flat, Mudgee New South Wales by the 9 March 2010.

The Group is pursuing its legal rights but it is not practicable to estimate the value of any recovery.

#### (b) Contingent Liabilities

The group has no contingent liabilities and there has been no change in contingent liabilities since the last annual reporting date.

### 17 Trade and other payables

|                         | 2011             | 2010           |
|-------------------------|------------------|----------------|
|                         | \$               | \$             |
| CURRENT                 |                  |                |
| Unsecured liabilities   |                  |                |
| Trade payables          | 2,049,162        | 170,150        |
| Other payables          | 396,776          | 28,909         |
| Amount payable to:      |                  |                |
| - other related parties | 1,215,992        | 151,013        |
|                         | <u>3,661,930</u> | <u>350,072</u> |

### 18 Borrowings

#### (a) Current Borrowings

|                          | 2011             | 2010             |
|--------------------------|------------------|------------------|
|                          | \$               | \$               |
| CURRENT                  |                  |                  |
| Secured liabilities      |                  |                  |
| Finance lease obligation | 104,490          | 3,563            |
| Bank bill facility       | 1,190,000        | 768,000          |
| Related party borrowings | 150,338          | 1,433,234        |
|                          | <u>1,444,828</u> | <u>2,204,797</u> |

#### (b) Non Current Borrowings

|                          | 2011           | 2010          |
|--------------------------|----------------|---------------|
|                          | \$             | \$            |
| NON-CURRENT              |                |               |
| Secured liabilities      |                |               |
| Finance lease obligation | 123,624        | 12,622        |
| Related party loan       | 230,607        | -             |
|                          | <u>354,231</u> | <u>12,622</u> |

# Prince Hill Wines Limited

ABN: 99 000 094 995

## Notes to the Financial Statements

For the Year Ended 30 June 2011

### 18 Borrowings continued

#### (c) Total current and non-current secured liabilities

|                           | 2011             | 2010             |
|---------------------------|------------------|------------------|
|                           | \$               | \$               |
| Bank bill facility        | 1,190,000        | 768,000          |
| Finance lease obligations | 228,114          | 16,185           |
| Related party loan        | 230,607          | -                |
| Related party borrowings  | 150,338          | 1,433,234        |
|                           | <u>1,799,059</u> | <u>2,217,419</u> |

#### (d) The carrying amounts of non-current assets pledged as security are:

|   | 2011             | 2010             |
|---|------------------|------------------|
|   | \$               | \$               |
| Land  | 433,700          | -                |
| Biological assets                           | 966,300          | -                |
| Floating charge over winery sale receivable | -                | 2,211,421        |
| Property, Plant and Equipment               | 548,863          | -                |
|   | <u>1,948,863</u> | <u>2,211,421</u> |

#### (e) Collateral Provided

The bank bill facility is secured by a first registered company charge over the freehold properties owned by the company and over the whole of the Group's assets and undertakings, including all uncalled capital. In addition the bank bill facility is secured by a first registered mortgage over assets of executive director Mr Rex Watson to \$400,000.

The related party borrowings are secured by a second mortgage over the freehold properties owned by the company and a fixed and floating charge over the whole of the Group's assets.

Lease liabilities are secured by the underlying leased assets.

Financial assets that have been pledged as part of the total collateral for the benefit of the bank debt are:

|                                | 2011             | 2010           |
|--------------------------------|------------------|----------------|
|                                | \$               | \$             |
| Cash and cash equivalents      | 87,286           | 23,041         |
| Trade and other receivables    | 2,864,453        | 96,458         |
| Inventories                    | 2,240,625        | 440,636        |
| Prepayments                    | 10,292           | 4,079          |
| Total financial assets pledged | <u>5,202,656</u> | <u>564,214</u> |

# Prince Hill Wines Limited

ABN: 99 000 094 995

## Notes to the Financial Statements

For the Year Ended 30 June 2011

### 18 Borrowings continued

#### (f) Bank bill facility

The bank bill facility has been drawn as a source of long-term finance. The term of the facility is for two years. They mature on 31 December 2012 and reduce in face value by \$150,000 on 30 December 2011 and by \$200,000 on 31 December 2012 with a residual balance of \$840,000 which will require a new financing agreement with the bank.

The Covenant within the bank borrowings require interest rate coverage ratio to be no less than 1.25 times. At the end of the year Prince Hill Wines Limited breached their interest coverage covenant.

The bank is reserving its rights in relation to the breaches. The bank and Prince Hill Wines are working together to remedy the situation.

#### (g) Related party loan

A related party borrowing of \$150,000 expires on 14 July 2011. The related party loan is provided for working capital and has no expiry date.

### 19 Provisions

#### (a) Movement in carrying amounts

|   | Employee entitlements | Total          |
|---|-----------------------|----------------|
|   | \$                    | \$             |
| Opening balance at 1 July 2010          | 53,945                | 53,945         |
| Additional provisions                   | 152,295               | 152,295        |
| Amounts used                            | (96,380)              | (96,380)       |
| Additions through business acquisitions | 194,182               | 194,182        |
| Balance at 30 June 2011                 | <u>304,042</u>        | <u>304,042</u> |

#### (b) Analysis of Total Provisions

|             | 2011           | 2010          |
|-------------|----------------|---------------|
|             | \$             | \$            |
| Current     | 180,967        | 16,866        |
| Non-current | 123,075        | 37,079        |
|             | <u>304,042</u> | <u>53,945</u> |

#### (c) Provision for Employee Entitlements

Provisions have been recognised for employee entitlements relating to long service leave, annual leave and wine allowances. The measurement and recognition criteria relating to employee benefits has been included in Note 1 to this report.

# Prince Hill Wines Limited

ABN: 99 000 094 995

## Notes to the Financial Statements

For the Year Ended 30 June 2011

### 20 Revenue received in advance

|                  | 2011             | 2010     |
|------------------|------------------|----------|
|                  | \$               | \$       |
| Unearned revenue | 1,792,607        | -        |
| <b>Total</b>     | <b>1,792,607</b> | <b>-</b> |

The Group's wholly owned subsidiary Coonawarra Premium Vineyards Limited is the responsible entity for Coonawarra Premium Vineyards Project (ARSN: 087 876 186). The Coonawarra Premium Vineyards Project is a managed investment scheme and Coonawarra Premium Vineyards Limited charges vineyard management fees to the investors in June each year. The revenue in advance is then amortised as costs are incurred for managing the vineyard.

### 21 Issued Capital

#### (a) Total issued capital

|   | 2011              | 2010              |
|---|-------------------|-------------------|
|   | \$                | \$                |
| 353,304,702 (2010: 204,790,673) Ordinary Shares | 37,207,851        | 36,471,926        |
| <b>Total</b>                                    | <b>37,207,851</b> | <b>36,471,926</b> |

The merger with the Watson Wine Group increased Issued capital by \$742,510 (2010: \$400,760 due to a rights issue). The capital raising was reduced by \$6,585 (2010: \$(17,937)) for transaction costs associated with the capital raising.

#### (b) Ordinary Shares

|                                      | 2011               | 2010        |
|--------------------------------------|--------------------|-------------|
|                                      | No.                | No.         |
| At the beginning of reporting period | 204,790,673        | 124,638,407 |
| Shares issued during the year        |                    |             |
| Rights Issue                         | -                  | 80,152,266  |
| Merger transaction                   | 148,514,029        | -           |
| At reporting date                    | <b>353,304,702</b> | 204,790,673 |

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held.

At the shareholders meetings, each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

#### (c) Capital Management

Management controls the capital of the Group in order to maintain a good debt to equity ratio and ensure that it can fund its operations as a going concern.

The Group's debt and capital includes ordinary capital and financial liabilities.

The Group is not to pay any dividends for the two years of the current funding is a condition imposed by the Group's bankers.

# Prince Hill Wines Limited

ABN: 99 000 094 995

## Notes to the Financial Statements

For the Year Ended 30 June 2011

### 21 Issued Capital continued

#### (c) Capital Management continued

Management effectively manages the Group's capital by assessing the Group's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of debt levels and share issues.

Due to the current economic conditions of the wine industry there have been forced changes in the strategy adopted by management in regards to the gearing ratio's adopted by management.

The gearing ratio for the year ended 30 June 2011 and 30 June 2010 are as follows:

|                                |      | 2011      | 2010      |
|--------------------------------|------|-----------|-----------|
|                                | Note | \$        | \$        |
| Bank borrowings                | 18   | 1,444,828 | 2,204,797 |
| Related party borrowings       | 18   | 354,231   | 12,622    |
| Total borrowings               |      | 1,799,059 | 2,217,419 |
| Less Cash and cash equivalents | 7    | (87,286)  | (23,041)  |
| Net debt                       |      | 1,711,773 | 2,194,378 |
| Total equity                   |      | 322,089   | 266,766   |
| Total capital                  |      | 2,033,862 | 2,461,144 |
| Gearing ratio                  |      | 84.16 %   | 89.16 %   |

### 22 Operating Segments

#### Segment information

##### (a) Identification of reportable segments

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors (chief operating decision makers) in assessing performance and determining the allocation of resources.

The Group is managed primarily on the basis of product category and service offerings as the diversification of the Group's operations inherently have notably different risk profiles and performance assessment criteria. Operating segments are therefore determined on the same basis.

##### (b) Identification of reportable segments

Reportable segments disclosed are based on aggregating operating segments where the segments are considered to have similar economic characteristics and are also similar with respect to the following:

- the products sold and/or services provided by the segment;
- the manufacturing process;
- the type or class of customer for the products or services;
- the distribution method; and

# Prince Hill Wines Limited

ABN: 99 000 094 995

Notes to the Financial Statements

For the Year Ended 30 June 2011

## 22 Operating Segments continued

- any external regulatory requirements.

Performance is measured based on segment profit before income tax as included in the internal financial reports.

### (c) Types of products and services by reportable segment

(i) Business segments:

- Wine sales and wine services;
- Vineyard management services.

(ii) Geographic segments

- The Group's business segments are located in Australia.

### (d) Accounting policies adopted

Unless stated below, all amounts reported to the Board of Directors, being the chief operating decision maker with respect to operating segments, are determined in accordance with accounting policies that are consistent to those adopted in the annual financial statements of the Group.

An internally determined transfer price is set for all inter-entity sales. This price is reset annually and is based on what would be realised in the event the sale was made to an external party at arm's-length. All such transactions are eliminated on consolidation of the Group's financial statements.

Corporate charges are allocated to reporting segments based on the segments' overall proportion of revenue generation within the Group. The Board of Directors believes this is representative of likely consumption of head office expenditure that should be used in assessing segment performance and cost recoveries.

Inter-segment loans payable and receivable are initially recognised at the consideration received/to be received net of transaction costs. If inter-segment loans receivable and payable are not on commercial terms, these are not adjusted to fair value based on market interest rates. This policy represents a departure from that applied to the statutory financial statements.

### (e) Segment assets

Where an asset is used across multiple segments, the asset is allocated to the segment that receives the majority of economic value from the asset. In the majority of instances, segment assets are clearly identifiable on the basis of their nature and physical location.

### (f) Segment liabilities

Liabilities are allocated to segments where there is direct nexus between the incurrence of the liability and the operations of the segment. Borrowings and tax liabilities are generally considered to relate to the Group as a whole and are not allocated. Segment liabilities include trade and other payables and certain direct borrowings.

# Prince Hill Wines Limited

ABN: 99 000 094 995

Notes to the Financial Statements

For the Year Ended 30 June 2011

## 22 Operating Segments continued

### (g) Unallocated items

The following items of revenue, expense, assets and liabilities are not allocated to operating segments as they are not considered part of the core operations of any segment:

- derivatives
- net gains on disposal of available-for-sale investments
- impairment of assets and other non-recurring items of revenue or expense
- income tax expense
- deferred tax assets and liabilities
- current tax liabilities
- other financial liabilities
- intangible assets
- discontinuing operations
- retirement benefit obligations

For personal use only

**22 Operating Segments continued  
(h) Segment performance**

|   | Wine sales and wine services |                    | Vineyard management services |          | Eliminated or Unallocated |          | Total            |                    |
|---|------------------------------|--------------------|------------------------------|----------|---------------------------|----------|------------------|--------------------|
|   | 2011                         | 2010               | 2011                         | 2010     | 2011                      | 2010     | 2011             | 2010               |
|   | \$                           | \$                 | \$                           | \$       | \$                        | \$       | \$               | \$                 |
| <b>REVENUE</b>                                  |                              |                    |                              |          |                           |          |                  |                    |
| Revenue from external customers                 | 5,365,315                    | 1,427,162          | 1,939,652                    | -        | -                         | -        | 7,304,967        | 1,427,162          |
| Inter-segment revenue                           | 1,797,655                    | -                  | -                            | -        | (1,797,655)               | -        | -                | -                  |
| Interest revenue                                | 4,748                        | 215                | 117,864                      | -        | -                         | -        | 122,612          | 215                |
| Other Revenue                                   | 9,320                        | 129,947            | -                            | -        | -                         | -        | 9,320            | 129,947            |
| <b>Total segment revenue</b>                    | <b>7,177,038</b>             | <b>1,557,324</b>   | <b>2,057,516</b>             | <b>-</b> | <b>(1,797,655)</b>        | <b>-</b> | <b>7,436,899</b> | <b>1,557,324</b>   |
| Depreciation and amortisation of segment assets | 207,258                      | 36,111             | 2,136                        | -        | -                         | -        | 209,394          | 36,111             |
| Interest expense external                       | -                            | 48,076             | -                            | -        | 255,996                   | -        | 255,996          | 48,076             |
| Interest expense from related parties           | 46,168                       | 133,184            | 11,787                       | -        | -                         | -        | 57,955           | 133,184            |
| Impairment of property plant and equipment      | 54,000                       | 2,388,643          | -                            | -        | -                         | -        | 54,000           | 2,388,643          |
| Impairment of inventory                         | (225)                        | 260,373            | -                            | -        | -                         | -        | -                | 260,373            |
| Impairment of receivables                       | (225)                        | (4,486)            | 80,850                       | -        | -                         | -        | 80,625           | (4,486)            |
| Other expenses                                  | 7,273,871                    | 2,438,575          | 1,981,924                    | -        | (1,797,655)               | -        | 7,458,140        | 2,438,575          |
| <b>Profit before tax</b>                        | <b>(404,034)</b>             | <b>(3,743,152)</b> | <b>(19,181)</b>              | <b>-</b> | <b>(255,996)</b>          | <b>-</b> | <b>(679,211)</b> | <b>(3,743,152)</b> |

22 Operating Segments continued  
(i) Segment assets

|  | Wine sales and wine services |            | Vineyard management services |      | Eliminated or Unallocated |      | Total      |            |
|--|------------------------------|------------|------------------------------|------|---------------------------|------|------------|------------|
|  | 2011                         | 2010       | 2011                         | 2010 | 2011                      | 2010 | 2011       | 2010       |
| <b>Segment assets</b>                          | \$ 887,015                   | \$ 676,781 | \$ -                         | \$ - | \$ -                      | \$ - | \$ 887,015 | \$ 676,781 |
| Winery sale receivable                         | -                            | 2,211,421  | -                            | -    | -                         | -    | -          | 2,211,421  |
| Total segment assets                           | 887,015                      | 2,888,202  | -                            | -    | -                         | -    | 887,015    | 2,888,202  |
| <b>Segment asset increases for the period:</b> |                              |            |                              |      |                           |      |            |            |
| - Acquisition of non-current segment assets    | 115,491                      | -          | -                            | -    | -                         | -    | 115,491    | -          |
| - Assets acquired through business acquisition | 4,705,597                    | -          | 2,171,625                    | -    | -                         | -    | 6,877,222  | -          |
|  | 4,821,088                    | -          | 2,171,625                    | -    | -                         | -    | 6,992,713  | -          |
| <b>Total group assets</b>                      | 5,708,103                    | 2,888,202  | 2,171,625                    | -    | -                         | -    | 7,879,728  | 2,888,202  |

(j) Segment liabilities

|                            | Wine sales and wine services |              | Vineyard management services |      | Eliminated or Unallocated |      | Total        |              |
|----------------------------|------------------------------|--------------|------------------------------|------|---------------------------|------|--------------|--------------|
|                            | 2011                         | 2010         | 2011                         | 2010 | 2011                      | 2010 | 2011         | 2010         |
| <b>Segment liabilities</b> | \$ 5,174,342                 | \$ 2,621,436 | \$ 2,383,296                 | \$ - | \$ -                      | \$ - | \$ 7,557,638 | \$ 2,621,436 |
| Total group liabilities    | 5,174,342                    | 2,621,436    | 2,383,296                    | -    | -                         | -    | 7,557,638    | 2,621,436    |

# Prince Hill Wines Limited

ABN: 99 000 094 995

## Notes to the Financial Statements

For the Year Ended 30 June 2011

### 23 Capital and Leasing Commitments

#### (a) Finance Lease Commitments

|   | 2011              | 2010          |
|---|-------------------|---------------|
|   | \$                | \$            |
| Payable - minimum lease payments        |                   |               |
| - not later than 12 months              | 119,160           | 5,038         |
| - between 12 months and 5 years         | 133,728           | 14,263        |
| Minimum lease payments                  | 252,888           | 19,301        |
| Less future finance changes             | (24,774)          | (3,116)       |
| Present value of minimum lease payments | 18 <u>228,114</u> | <u>16,185</u> |

The finance leases relate to motor vehicles and plant and equipment used in vineyard and administration operations.

#### (b) Operating lease commitments

Non-cancellable operating leases contracted for but not capitalised in the financial statements

|                                   | 2011          | 2010     |
|-----------------------------------|---------------|----------|
| Note                              | \$            | \$       |
| Payable - minimum lease payments: |               |          |
| - no later than 1 year            | 5,352         | -        |
| - between 1 year and 5 years      | 21,408        | -        |
|                                   | <u>26,760</u> | <u>-</u> |

Operating leases have been taken out for office equipment. Lease payments are increased on an annual basis to reflect market rentals.

### 24 Financial instruments

#### (a) Financial Risk Management

The Group's financial instruments consist mainly of deposits with banks, accounts receivable and payable, loans to and from related parties and leases.

The totals for each category of financial instruments, measured in accordance with AASB 139 as detailed in the accounting policies to these financial statements, are as follows:

|                             | 2011             | 2010             |
|-----------------------------|------------------|------------------|
|                             | \$               | \$               |
| <b>Financial Assets</b>     |                  |                  |
| Cash and cash equivalents   | 87,286           | 23,041           |
| Trade and other receivables | 3,427,952        | 2,307,878        |
|                             | <u>3,515,238</u> | <u>2,330,919</u> |

#### **Financial Liabilities**

Financial liabilities at amortised cost

# Prince Hill Wines Limited

ABN: 99 000 094 995

## Notes to the Financial Statements

For the Year Ended 30 June 2011

### 24 Financial instruments continued

|                            | 2011             | 2010             |
|----------------------------|------------------|------------------|
|                            | \$               | \$               |
| - Trade and other payables | 3,661,930        | 350,072          |
| - Borrowings               | 1,799,059        | 2,217,419        |
|                            | <u>5,460,989</u> | <u>2,567,491</u> |

#### (b) Financial Risk Management Policies

The Group provides treasury services to the business, co-ordinates access to domestic and international financial markets, and manages the financial risks relating to the operations of the consolidated group. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes. The use of financial derivatives is governed by the Group's policies approved by the Board of directors of the Group, which provide written principles on the use of financial derivatives. Compliance with policies and exposure limits is reviewed by the Board on a continuous basis. The Group's activities expose it primarily to the financial risks of changes in interest rates. The Group does not enter into derivative financial instruments to manage its exposure to interest rate risk.

#### (c) Specific Financial Risk Exposures and Management

The main risks the Group is exposed to through its financial instruments are interest rate risk and liquidity risk.

#### (d) Interest rate risk

The Group is not exposed to any significant interest rate risk as bank and related party loans are at fixed interest rates.

##### *Sensitivity analysis*

The following sensitivity analysis is based on the interest rate risk exposures in existence at the end of the reporting period.

An increase of 100 basis points or a decrease of 50 basis points would have increased/(decreased) profit or loss by the amounts shown below. This analysis assumes that other variables are held constant.

|      | Profit                    |                          |
|------|---------------------------|--------------------------|
|      | 100 basis points increase | 50 basis points decrease |
| 2011 | 11,900                    | 5,950                    |
| 2010 | 7,680                     | 3,840                    |

The movements in profit are due to higher/lower interest costs from variable rate debt and cash balances.

The net exposure at the end of the reporting period is representative of what the Group was and is expecting to be exposed to at the end of the next twelve months.

The sensitivity analysis is performed on the same basis as in 2010.

# Prince Hill Wines Limited

ABN: 99 000 094 995

Notes to the Financial Statements

For the Year Ended 30 June 2011

## 24 Financial instruments continued

### (e) Liquidity risk

Liquidity risk arises from the possibility that the Group might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities. The Group manages risk through the following mechanisms:

- preparing forward looking cash flow analysis in relation to its operational, investing and financial activities
- monitoring undrawn credit facilities
- obtaining funding from a variety of sources
- maintaining a reputable credit risk profile
- managing credit risk related to financial assets
- investing only in surplus cash with major financial institutions
- comparing the maturity profile of financial liabilities with the realisation profile of financial assets

### (f) Liquidity Risk - financial assets pledged as collateral

#### *Financial assets pledged as collateral*

Certain financial assets have been pledged as security for debt and their realisation into cash may be restricted subject to terms and conditions attached to the relevant debt contracts. Refer to Note 18: Borrowings for further details.

For personal use only

# Prince Hill Wines Limited

ABN: 99 000 094 995

## Notes to the Financial Statements

For the Year Ended 30 June 2011

### 25 Interests of Key Management Personnel

#### (a) Totals of remuneration paid

The totals of remuneration paid to key management personnel of the company and the Group during the year are as follows:

|                              | 2011           | 2010           |
|------------------------------|----------------|----------------|
|                              | \$             | \$             |
| Short term employee benefits | 408,781        | 208,210        |
| Post-employment benefits     | 42,833         | 26,808         |
|                              | <u>451,614</u> | <u>235,018</u> |

The Remuneration Report contained in the Directors' Report contains details of the remuneration paid or payable to each member of the Group's key management personnel for the year ended 30 June 2011.

#### (b) Key Management Personnel Shareholdings

The number of ordinary shares in Prince Hill Wines Limited held either in trust or as a personal holding by each key management personnel of the Group during the financial year is as follows:

|                     | Balance at beginning of year | Granted as remuneration during the year | Issued on exercise of options during the year | Merger transaction | Balance at end of year |
|---------------------|------------------------------|---|---|--------------------|------------------------|
| <b>30 June 2011</b> |                              |   |   |                    |                        |
| Rex Watson          | 86,500,685                   | -                                       | -   | 148,514,029        | 235,014,714            |
| Andrew Parkinson    | 86,500,685                   | -                                       | -   | -                  | 86,500,685             |

|                     | Balance at beginning of year | Granted as remuneration during the year | Issued on exercise of options during the year | Other changes during the year | Balance at end of year |
|---------------------|------------------------------|---|---|-------------------------------|------------------------|
| <b>30 June 2010</b> |                              |   |   |                               |                        |
| Rex Watson          | 56,500,685                   | -                                       | -   | 30,000,000                    | 86,500,685             |
| Andrew Parkinson    | 56,500,685                   | -                                       | -   | 30,000,000                    | 86,500,685             |

As directors of Coonawarra Australia Property Trust 86,500,685 shares are held in trust by Australian Executor (SA) Trust Limited as custodian for Coonawarra Australian Property Trust, a related party of Mr Rex Watson and Mr Andrew Parkinson.

# Prince Hill Wines Limited

ABN: 99 000 094 995

## Notes to the Financial Statements

For the Year Ended 30 June 2011

### 25 Interests of Key Management Personnel continued

#### (c) Options and Rights Holdings

There were no options granted during the financial year to the directors or any of the five most highly remunerated officers as part of their remuneration. The listed individuals each have a relevant interest in the options.

The number of options over ordinary shares held by each key management personnel of the Group during the financial year is as follows:

|                     | Balance at<br>beginning<br>of year | Expired<br>options | Balance at<br>end of year |
|---------------------|------------------------------------|--------------------|---------------------------|
| <b>30 June 2010</b> |                                    |                    |                           |
| Rex Watson          | 3,000,000                          | (3,000,000)        | -                         |
| Andrew Parkinson    | 3,000,000                          | (3,000,000)        | -                         |

#### (d) Other Key Management Personnel Transactions

There have been no other transactions involving equity instruments other than those described in the tables above. For details of other transactions with key management personnel, refer to Note 27: Related Party Transactions.

### 26 Auditors' Remuneration

|   | 2011   | 2010   |
|---|--------|--------|
|   | \$     | \$     |
| Remuneration of the auditor of the parent entity for: |        |        |
| - auditing or reviewing the financial report          | 47,500 | 30,000 |

### 27 Related party transactions

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

Transaction with related parties:

|   | 2011     | 2010        |
|---|----------|-------------|
|   | \$       | \$          |
| During the prior financial year the Group paid fees to Coonawarra Vineyard Management Services Pty Ltd (CVMS), a related entity of director, Rex Watson. These fees were in respect of management services (including administration, finance, accounting, sales and marketing) provided to the consolidated entity for the 2010 financial year. These fees were charged to Prince Hill Wines at cost with CVMS not making any profit margin on the fees. In this respect, the fees were at a discount to normal commercial terms and conditions. |          | - (229,731) |
| The Coonawarra Australia Property Trust has lent the Group in the prior year funding to pay for its operational losses. The funding has been repaid in full during the current year. The interest charges were on third party commercial terms and conditions. Interest charged by Coonawarra during 2011 is \$31,116.  | (31,116) | 1,433,234   |

# Prince Hill Wines Limited

ABN: 99 000 094 995

## Notes to the Financial Statements

For the Year Ended 30 June 2011

### 27 Related party transactions continued

Mr Rex Watson has provided funding for the Group's operational expenses.

Interest charges were on third party commercial terms and conditions.

During the prior financial year the Group purchased bulk wine, finished wine and bottling services from the Watson Wine Group, a related entity of director, Rex Watson. These charges were calculated on the basis of cost recovery and do not include any profit element.

**(393,156)** (572,652)

During the prior financial year the Group sold finished wine and other wine services to the Watson Wine Group, a related entity of director, Rex Watson.

These charges were on third party commercial terms and conditions.

- 22,520

During the prior financial year the Group was charged commission by The Wine List Pty Ltd (TWL), a related entity of director, Rex Watson. These charges were on third party commercial terms and conditions. Further, TWL recharged wine selling costs incurred on behalf of the Group. These charges were calculated on the basis of cost recovery and do not include any profit element.

- (209,818)

During the prior financial year the Group sold finished wine and other wine services to the The Wine List Pty Ltd, a related entity of director, Rex Watson.

These charges were on third party commercial terms and conditions.

- 468,398

During the prior financial year the Group was recharged insurance services from the Coonawarra Premium Vineyards Limited, formerly a related entity of director, Rex Watson. These charges were calculated on the basis of cost recovery and do not include any profit element.

- (55,695)

During the year the group purchased grapes from CPV Wines Limited for resale and for the Group's own use. The contracted purchase price is based on the Coonawarra's district weighted average price for each variety. Balance owing at 30 June 2011 is \$96,382 (2010: Nil).

**(290,537)** -

During the year the group provided vineyard management and administration services to CPV Wines Limited. These charges were on third party commercial terms and conditions. Further, the group recharged director employment costs incurred on behalf of CPV Wines Limited. These charges were calculated on the basis of cost recovery and do not include any profit element. The balance owing at 30 June 2011 is \$415,423 (2010: Nil).

**647,993** -

The Group's wholly owned subsidiary Coonawarra Premium Vineyards Limited is the trustee for the Coonawarra Australia Property Trust. Coonawarra Australia Property Trust as a Trust has built into its constitution management fees for administering its affairs by the responsible entity. The balance owing at 30 June 2011 is \$138,421.

**205,953** -

The Group charged vineyard management fees for terminated units of the Coonawarra Premium Vineyards Project and were charged at the rates in the constitution of the Coonawarra Vineyards Project, these items were paid in full at 30 June 2011

**149,492** -

During the year the group charged vineyard management fees to the Coonawarra Premium Vineyards Project. These charges were on third party commercial terms and conditions and are per the rates detailed in the Coonawarra Premium Vineyard Project prospectus, the balance owing at 30 June 2011 is \$1,652,416.

**1,907,089** -

# Prince Hill Wines Limited

ABN: 99 000 094 995

## Notes to the Financial Statements

For the Year Ended 30 June 2011

### 28 Cash Flow Information

#### (a) Reconciliation of Cash Flow from Operations with Loss after Income Tax

|  | 2011           | 2010               |
|--|----------------|--------------------|
|  | \$             | \$                 |
| Net (loss) for the year  | (680,602)      | (3,743,152)        |
| Cash flows excluded from profit attributable to operating activities                           |                |                    |
| Non-cash flows in profit   |                |                    |
| Depreciation   | 209,394        | 36,111             |
| Impairment of property, plant and equipment  | 54,000         | 2,388,643          |
| Impairment of receivables  | 80,625         | (4,486)            |
| Impairment of inventory  | -              | 260,373            |
| Net gain on disposal of property, plant and equipment  | (8,712)        | (129,947)          |
| Net gain/(loss) on foreign currency transactions   | 7,928          | -                  |
| Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries |                |                    |
| (Increase)/decrease in trade and term receivables  | (3,230,206)    | 80,017             |
| (Increase)/decrease in prepayments   | (6,213)        | 1,462              |
| (Increase)/decrease in inventories   | (1,799,988)    | 133,879            |
| (Increase)/decrease in income in advance   | 1,792,607      | -                  |
| Increase/(decrease) in trade payables and accruals   | 3,501,770      | (56,795)           |
| Increase/(decrease) in provisions  | -              | (3,279)            |
| Increase/(decrease) in employee benefits   | 250,097        | -                  |
|  | <u>170,700</u> | <u>(1,037,174)</u> |

#### (b) Loan Facilities

|                            | 2011             | 2010           |
|----------------------------|------------------|----------------|
|                            | \$               | \$             |
| Loan facilities unutilised | 399,393          | -              |
| Loan facilities utilised   | <u>1,190,000</u> | <u>768,000</u> |
|                            | <u>1,589,393</u> | <u>768,000</u> |

Funds have been drawn under a fixed rate bill facility. A payment of \$150,000 is due on the 30 December 2011 and a further \$200,000 is due on 31 December 2012 and bears a fixed interest at 9.97% payable monthly in advance (2010: 7.98% in arrears).

# Prince Hill Wines Limited

ABN: 99 000 094 995

Notes to the Financial Statements

For the Year Ended 30 June 2011

## 29 Parent Company information

### (a) Prince Hill Wines Limited Parent Company Information

#### (i) Parent Entity

|                                   | 2011             | 2010             |
|-----------------------------------|------------------|------------------|
|                                   | \$               | \$               |
| <b>Assets</b>                     |                  |                  |
| Current assets                    | 2,207            | 2,636            |
| Non-current assets                | 4,787,267        | 4,102,412        |
| <b>Total Assets</b>               | <u>4,789,474</u> | <u>4,105,048</u> |
| <b>Liabilities</b>                |                  |                  |
| Current liabilities               | (57,121)         | (19,713)         |
| Non-current liabilities           | -                | -                |
| <b>Total Liabilities</b>          | <u>(57,121)</u>  | <u>(19,713)</u>  |
| <b>Net Assets</b>                 | <u>4,732,353</u> | <u>4,085,335</u> |
| Reserves                          | -                | -                |
| <b>Financial Performance</b>      |                  |                  |
| Loss for year                     | 88,907           | 67,212           |
| Other Comprehensive Income        | -                | -                |
| <b>Total Comprehensive Income</b> | 88,907           | 67,212           |

#### (ii) Guarantees

Prince Hill Wines Limited is guarantor in relation to the debts of its subsidiaries.

#### (iii) Contingent Assets and Liabilities

Prince Hill Wines Limited has no contingent assets and liabilities.

#### (iv) Capital Commitments

Prince Hill Wines Limited has no capital commitments for the acquisition of property, plant or equipment.

For personal use only

# Prince Hill Wines Limited

ABN: 99 000 094 995

## Notes to the Financial Statements

For the Year Ended 30 June 2011

### 30 Assets and Liabilities of Coonawarra Australia Property Trust for which the Group is trustee

The following information has been extracted from the books and records of the Coonawarra Australia Property Trust. Coonawarra Premium Vineyards Limited has a right of indemnity from the Trust's assets. Details of the underlying assets and liabilities are as follows:

#### Coonawarra Australia Property Trust

|   | Consolidated      |                   |
|---|-------------------|-------------------|
|   | 2011              | 2010              |
|   | \$                | \$                |
| <b>ASSETS</b>                                     |                   |                   |
| <b>Current assets</b>                             |                   |                   |
| Cash and cash equivalents                         | 10                | 23,051            |
| Trade and other receivables                       | 1,255,780         | 867,589           |
| Inventories                                       | -                 | 440,637           |
| Other Assets                                      | 4,129             | 9,388             |
| Winery sale receivable                            | -                 | 2,211,421         |
| <b>Total current assets</b>                       | <b>1,259,919</b>  | <b>3,552,086</b>  |
| <b>Non-current assets</b>                         |                   |                   |
| Investments accounted for using the equity method | 271,408           | -                 |
| Property, plant and equipment                     | 3,601,984         | 3,754,736         |
| Deferred tax assets                               | 854,229           | 815,428           |
| Biological assets                                 | 8,648,016         | 11,107,831        |
| <b>Total non-current assets</b>                   | <b>13,375,637</b> | <b>15,677,995</b> |
| <b>TOTAL ASSETS</b>                               | <b>14,635,556</b> | <b>19,230,081</b> |
| <b>LIABILITES</b>                                 |                   |                   |
| <b>Current liabilities</b>                        |                   |                   |
| Trade and other payables                          | 1,563,172         | 1,563,248         |
| Borrowings  | 8,514,448         | 10,519,836        |
| Current tax liabilities                           | 106,138           | 211,288           |
| Short-term provisions                             | -                 | 16,866            |
| <b>Total current liabilities</b>                  | <b>10,183,758</b> | <b>12,311,238</b> |
| <b>Non-current liabilities</b>                    |                   |                   |
| Borrowings  | -                 | 12,622            |
| Deferred tax liabilities                          | 2,483,723         | 3,223,971         |
| Long-term provisions                              | -                 | 37,079            |
| <b>Total non-current liabilities</b>              | <b>2,483,723</b>  | <b>3,273,672</b>  |
| <b>TOTAL LIABILITES</b>                           | <b>12,667,481</b> | <b>15,584,910</b> |
| <b>NET ASSETS</b>                                 | <b>1,968,075</b>  | <b>3,645,171</b>  |

# Prince Hill Wines Limited

ABN: 99 000 094 995

## Notes to the Financial Statements

For the Year Ended 30 June 2011

### 31 Total benefits paid by Coonawarra Australia Property Trust to key management personnel and other executives

|                                       | 2011           | 2010     |
|---------------------------------------|----------------|----------|
|                                       | \$             | \$       |
| <b>Key Management Personnel</b>       |                |          |
| Mr Paul Miller                        | 20,250         | -        |
| Mr Andrew Parkinson                   | 52,113         | -        |
| Mr Rex Watson                         | 95,066         | -        |
| <b>Total Key Management Personnel</b> | <b>167,429</b> | <b>-</b> |
| <b>Other Executives</b>               |                |          |
| Mr Conrad Guerra                      | 59,493         | -        |
| <b>Total Other Executives</b>         | <b>59,493</b>  | <b>-</b> |

### 32 Assets and Liabilities for the Coonawarra Premium Vineyards project for which the Group is the responsible entity

Coonawarra Premium Vineyards Limited, as responsible entity for the Coonawarra Premium Vineyards Project, has a right of indemnity from the project's assets. Details of the underlying assets and liabilities are as follows:

#### Coonawarra Premium Vineyards Project

|                                  | 2011             | 2010             |
|----------------------------------|------------------|------------------|
|                                  | \$               | \$               |
| <b>Current assets</b>            |                  |                  |
| Trade and other receivables      | 2,863,251        | 1,730,493        |
| Other assets                     | 1,971,873        | 1,907,090        |
| <b>Total current assets</b>      | <b>4,835,124</b> | <b>3,637,583</b> |
| <b>Current liabilities</b>       |                  |                  |
| Trade and other payables         | 2,863,251        | 1,730,493        |
| Other liabilities                | 1,971,873        | 1,907,090        |
| <b>Total current liabilities</b> | <b>4,835,124</b> | <b>3,637,583</b> |

### 33 Events after the end of the Reporting Period

#### (a) Carbon Tax

On 10 July 2011, the Commonwealth Government announced the "Securing a Clean Energy Future – the Australian Government's Climate Change Plan". Whilst the announcement provides further details of the framework for a carbon pricing mechanism, uncertainties continue to exist on the impact of any carbon pricing mechanism on the Group as legislation must be voted on and passed by both houses of Parliament. In addition, as the Group will not fall within the "top 500 Australian Polluters", the impact of the Carbon Scheme will be through indirect effects of increased prices on production inputs and general business expenses as suppliers subject to the carbon pricing mechanism are likely to pass on their carbon price burden to their customers in the form of increased prices. Directors expect that this will not have a significant impact upon the operation costs within the business, and therefore will not have an impact on the valuation of assets and/or going concern of the business.

# Prince Hill Wines Limited

ABN: 99 000 094 995

## Notes to the Financial Statements

For the Year Ended 30 June 2011

### (b) Events after the Reporting Period

There has not been any other matter or circumstance, other than that referred to in the financial statements or notes thereto, that has arisen since the end of the financial year, that has significantly affected or may significantly affect, the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

### (c) Financial statements authorised date

The financial statements were authorised for issue on 31 August 2011.

### 34 Going concern basis of accounting

The Directors have prepared the financial statements on the basis of going concern. At the year end the Company had net current liabilities of \$1,313,177 and had incurred a loss for the year of \$680,601. Included in the net current liabilities is the unearned revenue of \$1,792,607, which is amortised to income during the next financial year and does not include any cash payments by the Group. After excluding the non cash current liability the Group has net current assets of \$479,430. Notwithstanding this, the company continues to be economically dependent on generating profits from the business and the continued support from the bank while in breach of its banking covenants.

The Company's ability to continue as a going concern is contingent upon generation of profit from its business, the continued support of the bank and/or successful raising of capital. If profits are not generated, banking support is not maintained and/or capital is not raised, the going concern basis may not be appropriate, with the result that the Company may have to realise its assets and extinguish its liabilities, other than in the ordinary course of business and in amounts different from that stated in the financial report. No allowance for such circumstances has been made in the financial report.

### 35 Company Details

#### (a) Registered office

The registered office of the company is:  
Prince Hill Wines Limited  
235 Glen Osmond Road  
Frewville SA 5063

#### (b) Principal place of business

The principal place of business is:  
McBain Road  
Coonawarra SA 5263

Level 1,  
67 Greenhill Rd  
Wayville SA 5034  
GPO Box 1270  
Adelaide SA 5001

T 61 8 8372 6666  
F 61 8 8372 6677  
E [info.sa@au.gt.com](mailto:info.sa@au.gt.com)  
W [www.grantthornton.com.au](http://www.grantthornton.com.au)

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PRINCE HILL WINES LIMITED**

### **Report on the financial report**

We have audited the accompanying financial report of Prince Hill Wines Limited (the "Company"), which comprises the consolidated statement of financial position as at 30 June 2011, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the consolidated entity comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

### **Directors responsibility for the financial report**

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view of the financial report in accordance with Australian Accounting Standards and the Corporations Act 2001. This responsibility includes such internal controls as the Directors determine are necessary to enable the preparation of the financial report to be free from material misstatement, whether due to fraud or error. The Directors also state, in the notes to the financial report, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

### **Auditor's responsibility**

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

Grant Thornton South Australian Partnership ABN 27 244 906 724  
a subsidiary or related entity of Grant Thornton Australia Ltd ABN 41 127 556 389

Grant Thornton Australia Limited is a member firm within Grant Thornton International Ltd. Grant Thornton International Ltd and the member firms are not a worldwide partnership. Grant Thornton Australia Limited, together with its subsidiaries and related entities, delivers its services independently in Australia.

Liability limited by a scheme approved under Professional Standards Legislation

For personal use only

### **Auditor's responsibility Continued**

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

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

### **Independence**

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

### **Auditor's opinion**

In our opinion,

- a the financial report of Prince Hill Wines Limited is in accordance with the Corporations Act 2001, including:
  - i giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the year ended on that date; and
  - ii complying with Australian Accounting Standards and the Corporations Regulations 2001; and
- b the financial report also complies with International Financial Reporting Standards as disclosed in the notes to the financial statements.

### **Material uncertainty regarding continuation as a going concern**

Without qualifying our opinion, we draw attention to Note 32 in the financial report which indicates that the consolidated entity incurred a net loss of \$680,601 during the year ended 30 June 2011 and, as of that date, the consolidated entity's current liabilities exceeded its current assets by \$1,313,177. These conditions, along with other matters as set forth in Note 32, indicate the existence of a material uncertainty which may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business, and at the amounts stated in the financial report.

For personal use only

**Report on the remuneration report**

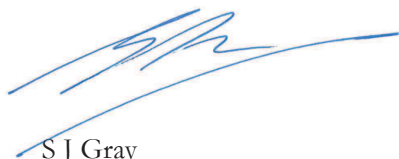
We have audited the remuneration report included in pages 12 to 14 of the directors' report for the year ended 30 June 2011. The Directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

**Auditor's opinion on the remuneration report**

In our opinion, the remuneration report of Prince Hill Wines Limited for the year ended 30 June 2011, complies with section 300A of the Corporations Act 2001.

*Grant Thornton*

GRANT THORNTON SOUTH AUSTRALIAN PARTNERSHIP  
Chartered Accountants



S J Gray  
Partner

Adelaide, 31 August 2011

# Prince Hill Wines Limited

ABN: 99 000 094 995

## Additional Information for Listed Public Companies

As at the 26 September 2011 there were 353,304,702 fully paid ordinary shares held by 698 shareholders. All shares carry full voting rights. Of these ordinary shares, the twenty largest holders held 328,401,232 shares equal to 93% of all issued shares.

### 1. Shareholding

#### a. Distribution of Shareholders

| Category (size of holding) | Number     |                    |
|----------------------------|------------|--------------------|
|                            | Ordinary   | Total Units        |
| - 1,000                    | 471        | 74,093             |
| 1, - 5,000                 | 56         | 137,185            |
| 5, - 10,000                | 22         | 180,183            |
| 10, - 100,000              | 71         | 2,908,584          |
| 100, - shares and over     | <u>78</u>  | <u>350,004,657</u> |
|                            | <u>698</u> | <u>353,304,702</u> |

b. The number of shareholdings held in less than marketable parcels is 614

c. The names of the substantial shareholders listed in the holding company's register as at 26 September 2011 are:

#### Shareholder

|   | Ordinary Shares |
|---|-----------------|
| Mr Rex Watson   | 148,514,029     |
| Coonawarra Premium Vineyards Limited<br>(Coonawarra Australia Property Trust A/C) | 86,500,685      |
| Ironwood Investments Pty Ltd  | 30,000,000      |
| Elmach Pty Ltd (Commercial Property No 1<br>A/C)                                  | 20,807,765      |
| Mr John David Saergeant (Sergeant Family<br>A/C)                                  | 9,981,189       |

#### d. Voting Rights

The voting rights attached to each class of equity security are as follows:

##### Ordinary shares

- Each ordinary share is entitled to one vote when a poll is called, otherwise each member present at a meeting or by proxy has one vote on a show of hands.

##### Redeemable and converting preference shares

- These shares have no voting rights.

# Prince Hill Wines Limited

ABN: 99 000 094 995

## Additional Information for Listed Public Companies

### e. 20 Largest Shareholders - Ordinary Shares

| Name  | Number of Ordinary Fully Paid Shares Held | % Held of Issued Ordinary Capital |
|---|---|-----------------------------------|
| Watson Wine Group Pty Ltd                                       | 148,514,029                               | 42.04                             |
| Coonawarra Premium Vineyards Limited (Coonawarra Aust Prop A/C) | 72,922,608                                | 20.64                             |
| Ironwood Investments Pty Ltd                                    | 30,000,000                                | 8.49                              |
| Elmach Pty Ltd (Commercial Property No 1 A/C)                   | 20,807,765                                | 5.89                              |
| Mr John David Sergeant (Sergeant Family A/C)                    | 9,981,189                                 | 2.83                              |
| G & J Paul Pty Limited  | 9,477,021                                 | 2.68                              |
| Coonawarra Premium Vineyards Limited                            | 9,265,486                                 | 2.62                              |
| Mr Guenther Franz Goetz (G Goetz & Co Super A/C)                | 4,065,346                                 | 1.15                              |
| Mr David Corley   | 3,000,000                                 | 0.85                              |
| Coonawarra Premium Vineyards Ltd                                | 2,562,775                                 | 0.73                              |
| Luton Pty Ltd   | 2,500,000                                 | 0.71                              |
| Bende Holdings Pty Ltd  | 2,495,151                                 | 0.71                              |
| Mr Geoffrey John Paul   | 2,191,466                                 | 0.62                              |
| Coonawarra Vineyard Management Services Pty Ltd                 | 1,749,816                                 | 0.50                              |
| Toporino Pty Ltd  | 1,735,991                                 | 0.49                              |
| Ruminator Pty Ltd   | 1,576,383                                 | 0.45                              |
| Sandstone Nominees Pty Ltd (JW Mackenzie Private S/F A/C)       | 1,505,391                                 | 0.43                              |
| Mr Trevor Neil Hay  | 1,478,296                                 | 0.42                              |
| Mrs Milly Elkington   | 1,446,300                                 | 0.41                              |
| Dr Gordon Bradley Elkington                                     | <u>1,126,219</u>                          | <u>0.32</u>                       |
|   | <u>328,401,232</u>                        | <u>92.98</u>                      |

2. The name of the company secretary is Conrad Guerra

3. The address of the principal registered office in Australia is 235 Glen Osmond Road, Frewville SA 5063. Telephone: +61 8 8332 3400

4. Register of securities is held at the following address

Boardroom Limited  
Level 7, 207 Kent Street Sydney 2000  
New South Wales

### 5. Stock Exchange Listing

Quotation has been granted for all the ordinary shares of the company on all Member Exchanges of the Australian Stock Exchange Limited.

# Prince Hill Wines Limited

ABN: 99 000 094 995

## Notice of Annual General Meeting

Notice is hereby given that the annual general meeting of the Company will be held at 235 Glen Osmond Road, Frewville, South Australia 5063 on Friday 25 November at 12 noon.

### BUSINESS

**1. To consider reports.**

The annual financial report, director's report and independent auditor's report for the year ended 30 June 2011 will be presented for consideration.

**2. Adoption of Remuneration Report**

To consider and if thought fit to pass the following resolutions as an ordinary resolution:

*"That the remuneration report for the Company (included in the Report of the Directors at page(s) ) for the 30 June 2011 be adopted" (1)*

(1) Please note whilst the Corporations Act 2001 (Cth) requires this resolution to be put to the vote, the resolution is advisory only and does not bind the Directors or the Company. A reasonable opportunity will be provided for discussion of the Remuneration Report at the meeting

**3. Election of Directors**

**Resolution 1: To elect Mr Mark Leaker as a director**

Mr Mark Leaker was appointed as a non executive director to fill a casual vacancy on the 1 April 2010. He retires in accordance the Company's constitution and being eligible, offers himself for election.

Mr Mark Leaker has over 25 years of experience in corporate law, debt recovery, capital raisings, corporate reconstructions and general litigation and since 2001 as the principal of his own law firm Leaker Partners.

### EXPLANATORY NOTE

The remuneration report is set out in the report of the Directors (*at page(s) )* in the Company's 2011 Annual Report. The Corporation's Act requires companies to put a resolution to their shareholder's that the Remuneration Report be adopted. Under section 250R(3) of the Corporations Act, the vote on the resolution is advisory only and does not bind the Director's or the Company.

For personal use only

# Prince Hill Wines Limited

ABN: 99 000 094 995

## Proxy Form

For personal use only

### Proxy Form

I / We

(Name in Block Letters)

Of

  
 - Postcode: 

(Address in Block Letters)

Being a Shareholder of Prince Hill Wines Limited (Company)

hereby appoint(s)

(Name in Block Letters)

  
 - Postcode 

(Address in Block Letters)

or failing him/her, the Chair of the Meeting, as my/our proxy to attend, vote and otherwise act on my/our behalf at the annual general meeting of the Company to be held at 235 Glen Osmond Road, Frewville, South Australia 5063, on Friday 25 November 2011 commencing at 12.00 noon and at any adjournment of that meeting.

If I/we have appointed two proxies, this proxy shall represent \_\_\_\_\_% of my/our voting rights or \_\_\_\_\_ (number) of my/our shares.

#### ORDINARY RESOLUTIONS (refer to Notice of Meeting):

My/our proxy is instructed to vote as indicated below in respect of the resolution arising out of the business in the Notice of Meeting. If I/we have not specifically directed my/our proxy how to vote, my/our proxy may vote or abstain from voting as the proxy thinks fit. I/we acknowledge that the chairman of the meeting may exercise my/our proxy votes even though item 1 is connected directly or indirectly with the remuneration of a member of key management personnel.

|   | FOR                      | AGAINST                  | ABSTAIN                  | * NO DIRECTION           |
|---|--------------------------|--------------------------|--------------------------|--------------------------|
| 1. Adoption of Remuneration report          | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. Election of Mr Mark Leaker as a director | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

The Chairperson of the meeting intends to vote in favour of each resolution with any undirected proxies he holds.

\* If you **do not** wish to direct your proxy how to vote, please place a mark in the box marked "no direction". By marking this box you acknowledge that the Chairman, if appointed as your proxy, may exercise your proxy, even if he has an interest in the outcome of the resolution and votes cast by him other than as a proxyholder will be disregarded because of that interest.

Signature(s) of member(s) \_\_\_\_\_

(Refer to note 7 overleaf)

Dated \_\_\_\_\_ 2011

#### PRIVACY

The Company advises that Chapter 2C of the Corporations Act 2001 requires information about security holders (including name, address and details of the securities held) to be included in the public register of the entity in which the securities are held. This information must continue to be included in the public register if the security holder ceases to be a security holder. These statutory obligations are not altered by the Privacy Amendment (Private Sector) Act 2000. Information is collected to administer the security holdings and if some of the information is not collected it might not be possible to administer the security holding. The Company's privacy policy is available on its website ([www.princehillwines.com](http://www.princehillwines.com))

**SEE OVERLEAF FOR NOTES ON PROXIES**

# Prince Hill Wines Limited

ABN: 99 000 094 995

## Notes on Proxies

1. A member who is entitled to attend and cast a vote at a meeting of members of the Company may appoint a person as the member's proxy to attend and vote for the member at the meeting.
2. The appointment may specify the proportion or number of votes that the proxy may exercise.
3. If the member is entitled to cast 2 or more votes at the meeting, the member may appoint up to 2 proxies. If the member appoints 2 proxies and the appointment does not specify the proportion or number of the member's votes each proxy may exercise, each proxy may exercise half of the votes.
4. Any fractions of votes resulting from the application of notes 2 or 3 above will be disregarded.
5. A proxy need not be a member of the Company.
6. A proxy appointed to attend and vote for a member has the same rights as the member to speak at the meeting, to vote (but only to the extent allowed by the appointment) and to join in a demand for a poll.
7. The appointment of a proxy must be signed by the member or his attorney duly authorized in writing. If the appointer is a corporation, the appointment must be signed by its duly authorized attorney, or in accordance with the corporation's constitution and the Corporations Act 2001.
8. A corporate shareholder wishing to appoint a natural person to act as its representative at the meeting can do so in accordance with the Corporations Act 2001. The representative must bring evidence of his or her appointment as a representative to the meeting.
9. To be valid, the instrument appointing a proxy, and the power of attorney or other authority (if any) under which it is signed or executed (or a copy certified by a notary), must be lodged at the registered office of the Company, (being 235 Glen Osmond Road, Frewville, South Australia 5063), not less than 48 hours before the time appointed for the meeting or any adjournment thereof. The lodgment referred to in this paragraph can also be achieved by faxing the document(s) to the attention of the "Secretary" on (+61) 8 8338 3244 or mailing to PO Box 167, Fullarton, South Australia 5063.
10. If this proxy form is signed by the member(s) but otherwise left blank, it shall be deemed to be a valid appointment of the Chair of the meeting as the member's proxy.
11. A proxy other than the Chair need not vote on a poll or a show of hands, but if the proxy does vote he/she must vote the way the appointment specifies. A proxy who is the Chair must vote on a poll.
12. If a member desires to direct the proxy how to vote on a particular resolution, the member should place an "X" in the appropriate box, otherwise the proxy may vote or abstain as he or she deems fit.
13. The Company will make further copies of this form available to members on request.

For personal use only