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Preliminary Final Report of
Prince Hill Wines Limited
for the Financial Year Ended 30 June 2011

ABN 99 000 094 995

This Preliminary Final Report is provided to the Australian Securities Exchange (ASX) under ASX Listing Rule 4.3A.

Current Reporting Period:

Financial Year ended 30 June 2011

Previous Reporting Period

Financial Year ended 30 June 2010

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**PRELIMINARY FINAL REPORT
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011
RESULTS FOR ANNOUNCEMENT TO THE MARKET**

The financial report has been audited. No matters have arisen which would result in a dispute or qualification.

	Notes	2011	2010	\$ Change	% Change
Revenue from ordinary activities	1	7,244,493	1,415,181	5,829,312	411.91%
Net Profit (loss) before tax, interest, depreciation and Impairments	2	23,349	(852,697)	876,046	(102.74%)
Net loss from ordinary activities attributable to members	3	(679,211)	(3,743,152)	3,063,941	(81.85%)
Net loss after tax attributable to members	3	(680,601)	(3,743,152)	3,062,551	(81.82%)
Net tangible assets per security	4	0.001	0.001		
Earnings per Share	4	(0.002)	(0.020)		

No dividends have been declared or are expected to be declared.

Notes to Results for Announcement to the Market

The Group, following the purchase of the Watson Wine Group assets and business increased its market share within the Australian domestic wine market. This was achieved despite the current oversupply in the wine market. Overall case sales (in 9 litre case equivalents) increased by 131 percent to 64,222 cases for the twelve months (2010: 27,785 cases).

The pursuit of international opportunities has improved with export sales increasing to 9,500 cases (2010: 886 cases). The Group is expecting a further increase in export sales in 2012 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 has diversified its income streams from wine sales to also include vineyard management and administration income with the acquisition of the Watson Wine Group assets.

- Various changes to the company in relation to income streams, management and the Group's operations have resulted in a small trading profit of \$23,349 an improvement of \$876,046 compared to the previous year when a loss of \$852,697 was recorded.
- Net loss before and after tax attributable to members has also improved 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.
- Net tangible assets per security remain on par with the previous year despite the operating losses incurred during the year (\$680,601). The decrease in net tangible assets from the year's loss was offset by the merger with the Watson Wine Group and the acquisition of these business assets. The merger realised net tangible assets of \$735,925 net of transaction costs. The merger increased the issued shares by 148,514,029 shares.

4. The Earnings per Share have improved due to the reduced loss incurred this year when compared to the prior year and despite the issue of the 148,514,029 shares to the Watson Wine Group through the merger transaction.

Subsequent Events

No other 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.

Details of entities where control has been gained:

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.

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

	Acquiree's carrying amount	Fair value
	\$	\$
Purchase consideration:		
- Equity instruments	-	742,510
Total purchase consideration	-	742,510
Assets or liabilities acquired:		
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)
Total net identifiable assets	742,510	742,510
Identifiable assets acquired and liabilities assumed	742,510	742,510
Goodwill consideration	-	742,510
Less: Identifiable assets acquired	-	742,510
Goodwill	-	-

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 totalling \$ 56,938. The costs include legal and due diligence fees.

Prince Hill Wines Limited

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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)
Loss before income tax	(679,212)	(3,743,152)
Income tax expense	6 (1,390)	-
Loss for the year	<u>(680,602)</u>	<u>(3,743,152)</u>
Other comprehensive income	-	-
Total comprehensive income (loss) for the year	<u>(680,602)</u>	<u>(3,743,152)</u>
Loss attributable to:		
Members of the parent entity	<u>(680,602)</u>	(3,743,152)
	<u>(680,602)</u>	<u>(3,743,152)</u>
Total comprehensive income (loss) attributable to:		
Members of the parent entity	<u>(680,602)</u>	(3,743,152)
	<u>(680,602)</u>	<u>(3,743,152)</u>
Earnings per share		
From continuing operations:		
Basic earnings per share (cents)	(0.01)	(0.02)
From continuing operations:		
Basic earnings per share (cents)	(0.01)	(0.02)

The accompanying notes form part of these financial statements

Prince Hill Wines Limited

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Consolidated Statement of Financial Position

As At 30 June 2011

	Note	2011 \$	2010 \$
ASSETS			
CURRENT ASSETS			
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
TOTAL CURRENT ASSETS		5,766,155	2,775,635
NON-CURRENT ASSETS			
Property, plant and equipment	12	1,147,273	112,567
Biological assets	13	966,300	-
TOTAL NON-CURRENT ASSETS		2,113,573	112,567
TOTAL ASSETS		7,879,728	2,888,202
LIABILITIES			
CURRENT LIABILITIES			
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	-
TOTAL CURRENT LIABILITIES		7,080,332	2,571,735
NON-CURRENT LIABILITIES			
Borrowings	18	354,231	12,622
Provisions	19	123,075	37,079
TOTAL NON-CURRENT LIABILITIES		477,306	49,701
TOTAL LIABILITIES		7,557,638	2,621,436
NET ASSETS		322,090	266,766
EQUITY			
Issued capital		37,207,851	36,471,926
Retained earnings		(36,885,761)	(36,205,160)
TOTAL EQUITY		322,090	266,766

The accompanying notes form part of these financial statements

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Consolidated Statement of Changes in Equity

For the Year Ended 30 June 2011

2011

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

2010

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

The accompanying notes form part of these financial statements

Prince Hill Wines Limited

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Consolidated Statement of Cash Flows

For the Year Ended 30 June 2011

	Note	2011 \$	2010 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
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>
CASH FLOWS FROM INVESTING ACTIVITIES			
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>
CASH FLOWS FROM FINANCING ACTIVITIES			
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

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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.

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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.

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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:

Class of Fixed Asset	Depreciation Rate
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;

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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.

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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.

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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

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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.

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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).

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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 - Requirement to disclose commitments to related parties - Disclosure exemptions for government-related entities	Minimal impact expected

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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. - 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: - Clarification of the content of the statement of changes in equity - Financial instrument disclosures - 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.

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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>

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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

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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

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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>

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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
Depreciation of property plant and equipment		
Depreciation included in cost of sales	99,670	27,750
Depreciation of property plant and equipment included in other expenses	109,724	8,361
Total depreciation expense	209,394	36,111
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	-
Employee benefits		
Employee benefits included in cost of sales	675,490	165,894
Employee benefits included in corporate expenses	1,197,163	258,654
Total Employee benefits	1,872,653	424,548
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	-
Other expenses		
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	-
Total other expenses	198,276	3,875
Corporate expenses		
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	-
Total corporate expenses	1,891,068	576,405

Prince Hill Wines Limited

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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.

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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)	-
Balance as per consolidated statement of cash flows	(143,321)	23,041

8 Trade and other receivables

CURRENT

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

(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	-
Balance at end of the year	80,850	962

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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 (days overdue)				Within initial trade terms
			< 30	31-60	61-90	> 90	
	\$	\$	\$	\$	\$	\$	\$
2011							
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
Total	3,508,802	80,850	620,644	168,025	207,871	558,856	1,872,556
2010							
Trade and term receivables	94,382	962	259	102	604	-	92,455
Other receivables	3,037	-	-	-	-	-	3,037
Total	97,419	962	259	102	604	-	95,492

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

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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.

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Notes to the Financial Statements

For the Year Ended 30 June 2011

12 Property, plant and equipment

	2011	2010
	\$	\$
LAND AND BUILDINGS		
Freehold land		
At cost	433,700	-
Total land	<u>433,700</u>	-
PLANT AND EQUIPMENT		
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>	112,567
Leased plant and equipment		
Capitalised leased assets	255,950	-
Accumulated depreciation	(111,588)	-
Total leased plant and equipment	<u>144,362</u>	-
Total plant and equipment	<u>713,573</u>	112,567
Total property, plant and equipment	<u><u>1,147,273</u></u>	<u>112,567</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 & Equipment Leased from External Parties	Plant and 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>

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Notes to the Financial Statements

For the Year Ended 30 June 2011

13 Biological Assets

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

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.

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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
Parent Entity:			
Prince Hill Wines Limited (ASX: PHW)	Australia		
Subsidiaries of parent entity:			
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.

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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 carrying amount	Fair value
	\$	\$
Purchase consideration:		
- Equity instruments	-	742,510
Total purchase consideration	-	742,510
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)
Total net identifiable assets	742,510	742,510
Identifiable assets acquired and liabilities assumed	742,510	742,510
Goodwill consideration	-	742,510
Less: Identifiable assets acquired	-	742,510
Goodwill	-	-

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.

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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>

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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>

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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.

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Notes to the Financial Statements

For the Year Ended 30 June 2011

20 Revenue received in advance

	2011	2010
	\$	\$
Unearned revenue	1,792,607	-
Total	1,792,607	-

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
Total	37,207,851	36,471,926

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	353,304,702	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.

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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

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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

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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

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**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
	\$	\$	\$	\$	\$	\$	\$	\$
REVENUE								
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
Total segment revenue	7,177,038	1,557,324	2,057,516	-	(1,797,655)	-	7,436,899	1,557,324
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	-	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
Profit before tax	(404,034)	(3,743,152)	(19,181)	-	(255,996)	-	(679,211)	(3,743,152)

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
Segment assets								
Winery sale receivable	\$ 887,015	\$ 676,781	-	-	-	-	\$ 887,015	\$ 676,781
Total segment assets	887,015	2,211,421	-	-	-	-	-	2,211,421
Segment asset increases for the period:								
- 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	-
Total group assets	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
Segment liabilities								
Total group liabilities	\$ 5,174,342	\$ 2,621,436	\$ 2,383,296	-	-	-	\$ 7,557,638	\$ 2,621,436
	5,174,342	2,621,436	2,383,296	-	-	-	7,557,638	2,621,436

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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	18 228,114	16,185

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	-
	26,760	-

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
	\$	\$
Financial Assets		
Cash and cash equivalents	87,286	23,041
Trade and other receivables	3,427,952	2,307,878
	3,515,238	2,330,919

Financial Liabilities

Financial liabilities at amortised cost

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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.

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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.

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Notes to the Financial Statements

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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
30 June 2011					
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
30 June 2010					
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.

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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 beginning of year	Expired options	Balance at end of year
30 June 2010			
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

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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 -

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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	1,190,000	768,000
	<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).

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

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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
	\$	\$
ASSETS		
Current assets		
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
Total current assets	1,259,919	3,552,086
Non-current assets		
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
Total non-current assets	13,375,637	15,677,995
TOTAL ASSETS	14,635,556	19,230,081
LIABILITES		
Current liabilities		
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
Total current liabilities	10,183,758	12,311,238
Non-current liabilities		
Borrowings	-	12,622
Deferred tax liabilities	2,483,723	3,223,971
Long-term provisions	-	37,079
Total non-current liabilities	2,483,723	3,273,672
TOTAL LIABILITES	12,667,481	15,584,910
NET ASSETS	1,968,075	3,645,171

Prince Hill Wines Limited

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

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
	\$	\$
Current assets		
Trade and other receivables	2,863,251	1,730,493
Other assets	1,971,873	1,907,090
Total current assets	4,835,124	3,637,583
Current liabilities		
Trade and other payables	2,863,251	1,730,493
Other liabilities	1,971,873	1,907,090
Total current liabilities	4,835,124	3,637,583

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

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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
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W 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.

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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.

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Report on the remuneration report

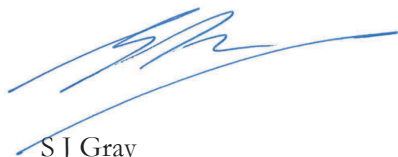
We have audited the remuneration report included in pages 12 to 14 of the directors' report for the year ended 30 June 2011. The Directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the Corporations Act 2001. Our responsibility 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



SJ Gray
Partner

Adelaide, 31 August 2011