

# Terra Vitae Vineyards Limited



Field Days Marlborough – March 2012, Seddon Vineyard

## Annual Report

For the year ended 30 June 2012

**Terra Vitae Vineyards Limited**  
**Financial Statements**  
**For the year ended 30 June 2012**

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## **Terra Vitae Vineyards Limited Chairman's Report**

On behalf of your Board of Directors I have pleasure in presenting the Annual Report of Terra Vitae Vineyards Ltd (TVV) for the year ended 30th June 2012.

Last year I wrote that in spite of the continuation of the global financial turmoil and the historically high value of the New Zealand dollar, the market was showing signs of improving and that New Zealand was continuing to hold a good price point in the world markets. After four years of significant hardship in the wine industry, the last season delivered an unseasonably cool, and in Hawke's Bay, a rain affected harvest. The combination of these conditions saw the record harvest in 2011 of 328,000 tonnes fall 18% to 269,000 tonnes in 2012. The positive effect of this has been the fall in volume of bulk export shipments with the demand/supply balance in the market place becoming more balanced. The effect has seen many wineries being short of grapes, with the demand for the coming season being quite strong, which will result in a welcome lift in prices being offered to growers.

"Profitability is a key concern," the Chairman of NZ Winegrowers said, "Lower yields this year have restricted grower incomes, while for wineries the challenge will be to maintain shelf space and grow key development markets in a time of tight supply."

Vine planting activity has increased with the more optimistic outlook for grape prices and vineyard values. At the national level, annual exports are up 8% rising to \$1.12b in the 12 months ending June 30, 2012. Sales (export and domestic) increased 10% to a record 242 million litres. Our largest export market is Australia at \$380m followed by UK at \$284m, US at \$250m, Canada \$70m and China growing \$50% to \$25m. The UK now imports a greater volume of wine from New Zealand than Australia.

Vineyard prices in Marlborough reached levels as low as \$85,000 eight months ago and more recently have reached levels of \$150,000 per ha. It is good to think that the value of our vineyards is rising after the falls we have experienced in the last three years.

This year the Company grossed \$5,107,402 across your vineyards as against \$5,466,492 last year and after expenses, incurred an operating loss of \$230,210 (\$216,831 last year). Under the IFRS rules, the valuation increase, based on property sales (and carried out by an independent registered valuer), resulted in a \$1,110,170 increase in value across all of our vineyards being put to the income statement, which resulted in the total reported pre-tax profit of \$879,960. We are budgeting a modest profit for 2013, which will be achievable if we crop to expectations.

It has been a difficult time for Terra Vitae with four years of negative results and the resulting inability to pay dividends during that period, including for the 2012 year. The major reviews of operating costs, benchmarking and mechanisation have lowered the cost of running the vineyards, which are now in full production with a subsequent lift in the tonnages produced.

The 2012 season will go down as one of the more difficult vintages for grape growers throughout New Zealand, with the cold cloudy spring causing issues at flowering in parts of Marlborough. In Hawke's Bay, flowering was relatively unaffected but the major rain events in the East Coast had a devastating effect on vineyards throughout the region. This resulted in major deterioration in the fruit quality and volumes harvested and the Keltern and Twyford Gravels vineyards were not immune from this. Marlborough fared better during the late summer with very settled harvest weather, but the crop yields were down significantly throughout the Province, with the district average being down 25%.

Terra Vitae's three Marlborough vineyards (making up 83% of our total vineyard area), performed better than the district average, with Taylors Pass down only 14% against budget and Seddon down 9% against budget. This was a very good result in such a difficult vintage. The good news is that the winemakers commented on the excellent flavours of the grapes at harvest and subsequent tasting of those wines already bottled has confirmed that it has been a good vintage.

The reduced yield resulted in the performance of Terra Vitae being negatively affected for the year and the annual result is below the budgeted result. Our total gross income is down on budget, but the

company has managed to keep expenses well down on budget. As I write this, your Board is again reviewing all expenses for the next twelve months and is working on lowering all expenditure where possible and delaying capital expenditure for the next twelve months, where prudent to do so.

As I commented above, the general view from most involved in the industry is that the large drop in total New Zealand production this season will have a very positive effect on the industry in addressing the supply and demand issue which has hung over the industry since the huge 2008 vintage, with expectations that the prices for both grapes and wine will rise in the next twelve months.

As I write this, pruning is in the final stages, with a focus on maximising yields next year. I look forward to reporting our progress in the vineyards at our AGM.

**Production figures for the 2011/2012 season:**

Vineyard	Yield 2011	Yield 2012	Crop Value 2011	Crop Value 2012
<b>Seddon</b>	<b>941</b>	<b>790</b>	<b>\$1,490,678</b>	<b>\$1,310,782</b>
<b>Higgins Road</b>	<b>1395</b>	<b>1426</b>	<b>\$1,975,081</b>	<b>\$2,015,387</b>
<b>Taylor's Pass</b>	<b>896</b>	<b>695</b>	<b>\$1,348,187</b>	<b>\$1,105,363</b>
<b>Keltern</b>	<b>285</b>	<b>242</b>	<b>\$460,765</b>	<b>\$393,750</b>
<b>Twyford Gravels</b>	<b>68</b>	<b>58</b>	<b>\$191,781</b>	<b>\$282,120</b>
<b>Totals</b>	<b>3585</b>	<b>3211</b>	<b>\$5,466,492</b>	<b>\$5,107,402</b>

**Awards**

Some of the awards achieved over the last year from wine produced from your vineyards are listed below, highlighted by the numerous awards and trophies won by several vintages of the Single Vintage Keltern Chardonnay grown at the Keltern Vineyard managed by Mark Dixon.

**VM SV Keltern Chardonnay 2011**

- Bragato Wine Show 2012 – Gold medal
- Winestate Magazine – 5 stars

**VM SV Keltern Chardonnay 2010**

- Hawkes Bay Wine Awards 2011 - Chardonnay Trophy, Sustainable Trophy, Wine of Show Trophy
- Air NZ Wine Awards 2011 – Champion Chardonnay Trophy, Champion Sustainable Wine Trophy, Air NZ Champion Wine of Show 2011

**VM SV Keltern Chardonnay 2009**

- Hawkes Bay Wine Awards 2011 – Gold medal
- Air NZ Wine Awards 2011 – Pure Elite Gold medal

**VM SV Keltern Chardonnay 2008**

- Royal Easter Show 2012 – Gold medal

**VM SV Taylor's Pass Pinot Noir 2010**

- Winestate Magazine – 5 stars

**VM SV Seddon Pinot Noir 2010**

- Cuisine magazine – 5 stars

**VM Reserve Syrah 2010**

- Royal Easter Show 2012 – Gold medal

The company's shares are trading on the Unlisted market, and have traded between 20 cents and 29 cents over the last year. The current share price is 21 cents. This represents a substantial discount to the net tangible asset backing of 68 cents per share.

There are many possible reasons for this discount, including the Global Financial Crisis over the last four years, the wine industry issues over the same period, and the nature of our shareholder base which has seen only a small number of trades during the year. As directors, we are reluctant to comment too much on the share price, however, the discount is noteworthy.

Once again a successful field day was enjoyed by a good number of shareholders on March 10 in Marlborough. Both vineyards were looking well maintained, which was a credit to the managers and their staff. The vines were carrying excellent quality fruit but it was disappointing to see the much lighter crops as a result of the poor flowering. The field day ended with an enjoyable lunch at the Marlborough winery in perfect weather. If there is good interest we will be looking once again to holding a field day in Hawke's Bay in February/March 2013.

In conclusion I want to record my thanks to Sir George Fistonich, Alastair Maling, Ollie Powrie, Stuart Dudley, the Villa Maria team and our vineyard managers, Carl, Garrie, Mark and Phil for the work they do for Terra Vitae. Finally I want to thank my fellow board members for their large contribution to the running of TVV and our secretary/ manager Alan O'Sullivan for his assistance to me. As I commented last year, Alan's contribution, humour and professional efficiency is huge and much appreciated and recognised by myself and the Board.

Our Annual Meeting is being held at 2.30 pm on the 26th of November at Villa Maria, Auckland. I look forward to meeting many of you there. Following the formal part of the AGM we will have an update on the wine industry from Sir George and a representative from his marketing team. That will be followed by an update from our vineyard managers. We will conclude with afternoon tea and a wine tasting including wines from the Terra Vitae vineyards.

D S Ferraby

A handwritten signature in black ink, appearing to be 'D S Ferraby', written in a cursive style.

Chairman  
Terra Vitae Vineyards Limited

## Terra Vitae Vineyards Limited

### Directors' Report & Responsibility Statement

The Board of Directors have pleasure in presenting the annual report of Terra Vitae Vineyards Limited, incorporating the financial statements and the independent auditors' report, for the year ended 30 June 2012.

### Principal Activity

The principal activity of the Company continued to be the growing of grapes for the wine industry.

<b>Results</b>	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>
Profit / (loss) for the year	502,294	(4,221,649)
Total Equity of the Company	26,665,539	26,013,135
Total Assets of the Company	57,491,725	56,985,311

### Auditors

In accordance with section 196(1) of the Companies Act 1993 the auditors, CST Nexia Audit, continue in office.

### Related Parties

All transactions conducted by the Company with Villa Maria Estate Limited, Vineyard Plants Limited and Vine Test Lab Limited, companies of which Sir G Fistonich is a current director, are interested transactions. Details of these are given in Note 25 to the financial statements.

### Directors' remuneration

During the year the Company paid the following directors' fees as approved by the shareholders:

D Ferraby	\$24,000
G Fistonich	\$12,000
A Pearson	\$12,000
M Brajkovich	\$12,000
	<u>\$60,000</u>

### Directors' Loans

There were no loans by the Company to the directors during the year.

### Directors' Indemnity and Insurance

The Company has arranged policies of Directors Liability Insurance to ensure that generally, Directors will incur no monetary loss as a result of actions taken against them as Directors.

### Directors' Shareholding

The Directors' current shareholdings in the Company are as follows:

D Ferraby	30,000
G Fistonich	503,240
A Pearson	61,000
M Brajkovich	26,000

## **Terra Vitae Vineyards Limited**

### **Directors' Report Continued**

#### **Significant Events**

No significant events occurred during the year under review.

#### **Directors' Responsibility Statement**

The Directors are responsible for ensuring that the financial statements give a true and fair view of the statement of financial position as at 30 June 2012 and the income statement, statements of other comprehensive income, changes in equity and cash flows for the Company for the year then ended.

The Directors consider that the financial statements of the Company have been prepared using appropriate accounting policies, consistently applied and supported by reasonable judgements and estimates and that all relevant financial reporting and accounting standards have been followed.

The Directors believe that proper accounting records have been kept, which enable with reasonable accuracy, the determination of the financial position of the Company and the compliance of the financial statements with the Financial Reporting Act 1993 and the Companies Act 1993.

The Directors consider that they have taken adequate steps to safeguard assets of the Company. The financial statements have been prepared on a going concern basis. Subject to note 2(ii) nothing has come to the attention of the directors to indicate that the Company will not remain a going concern in the foreseeable future.

The Board of Directors of the Company authorised these financial statements presented on pages 6 to 34 for issue on 20 September 2012.

For and on behalf of the Board.

D Ferraby  
Director



A Pearson  
Director



20 September 2012

20 September 2012

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**Terra Vitae Vineyards Limited**  
**Income Statement**  
**For the year ended 30 June 2012**

	Notes	2012 \$	2011 \$
<b>Revenue</b>			
Sale of Grapes		5,107,402	5,466,492
Interest Income		8,910	1,543
Dividends		250	250
Services rendered-Harvesting Income		219,157	212,172
		<u>5,335,719</u>	<u>5,680,457</u>
Cost of sales	8	<u>2,504,057</u>	<u>2,908,168</u>
<b>Gross profit</b>		<u>2,831,662</u>	<u>2,772,289</u>
<b>Other Income</b>			
Sundry income	7	89,385	40,460
Fair value movement in biological assets	7	1,828,710	-
<b>Total Other Income</b>		<u>1,918,095</u>	<u>40,460</u>
<b>Operating Expenses</b>			
Administrative costs	8	210,499	203,955
Depreciation	8	619,083	633,614
Finance costs	8	1,959,724	1,972,840
Other expenses	8	361,951	219,171
Fair value movement in land	8	-	2,647,978
Fair value movement in other property, plant and equipment	8	718,540	1,037,354
Fair value movement in biological assets	8	-	882,000
<b>Total operating expenses</b>		<u>3,869,797</u>	<u>7,596,912</u>
<b>Total Expenses</b>		<u>3,869,797</u>	<u>7,596,912</u>
<b>Profit/(loss) before income tax</b>		<u>879,960</u>	<u>(4,784,163)</u>
Income tax (expense)/credit	9	(377,666)	562,514
<b>Profit/(loss) for the year</b>		<u>502,294</u>	<u>(4,221,649)</u>

*The above Income Statement should be read in conjunction with the accompanying notes.*

**Terra Vitae Vineyards Limited**  
**Statement of Other Comprehensive Income**  
**For the year ended 30 June 2012**

	Notes	2012 \$	2011 \$
<b>Profit (loss) for the year</b>		<u>502,294</u>	<u>(4,221,649)</u>
<b>Other comprehensive income</b>			
Revaluation of land and buildings*	19	156,765	(513,439)
Income tax relating to components of other comprehensive income	16	<u>(6,654)</u>	<u>(54,563)</u>
<b>Other comprehensive income for the year, net of tax</b>		150,111	(568,002)
<b>Total comprehensive income for the year, net of tax</b>		<u>652,405</u>	<u>(4,789,651)</u>
Attributable to:			
Owners of the parent		<u>652,405</u>	<u>(4,789,651)</u>
<b>Basic and diluted earnings/(loss) per share</b>	27	<u>0.01</u>	<u>-0.11</u>

\* - represents the net increase (decrease) in the revaluation reserve

*The above Statement of Other Comprehensive Income should be read in conjunction with the accompanying notes.*

**Terra Vitae Vineyards Limited**  
**Statement of Financial Position**  
**As at 30 June 2012**

	Notes	2012 \$	2011 \$
<b>Current assets</b>			
Cash and cash equivalents	10	4,336	4,336
Prepayments and other receivables	11	25,513	82,943
Related party receivables	25e	3,629,356	3,745,545
Current tax receivable	9	2,461	463
<b>Total current assets</b>		<u>3,661,666</u>	<u>3,833,287</u>
<b>Non-current assets</b>			
Property, plant and equipment	12	34,443,959	35,561,924
Biological assets	14	19,386,000	17,590,000
Other financial assets	13	100	100
<b>Total non-current assets</b>		<u>53,830,059</u>	<u>53,152,024</u>
<b>Total assets</b>		<u>57,491,725</u>	<u>56,985,311</u>
<b>Current liabilities</b>			
Interest bearing liabilities	17	96,953	25,654,357
UDC Finance Limited		51,217	37,912
Trade and other payables	15	111,357	361,843
Related party payables	25e	79,038	87,079
<b>Total current liabilities</b>		<u>338,565</u>	<u>26,141,191</u>
<b>Non-current liabilities</b>			
Interest bearing liabilities	17	25,300,000	-
UDC Finance Limited		233,394	261,078
Deferred tax liability	16	4,954,227	4,569,906
<b>Total non-current liabilities</b>		<u>30,487,621</u>	<u>4,830,984</u>
<b>Total liabilities</b>		<u>30,826,186</u>	<u>30,972,176</u>
<b>Net assets</b>		<u>26,665,539</u>	<u>26,013,135</u>
<b>Equity</b>			
Share capital	18a	28,800,000	28,800,000
Retained earnings		(9,184,645)	(9,686,938)
Asset revaluation reserve - property, plant & equipment	19	7,050,184	6,900,073
<b>Total equity</b>		<u>26,665,539</u>	<u>26,013,135</u>

*The above Statement of Financial Position should be read in conjunction with the accompanying notes.*

**Terra Vitae Vineyards Limited**  
**Statement of Changes in Equity**  
**For the year ended 30 June 2012**

	Notes	Share capital \$	Asset revaluation reserve \$	Retained earnings \$	Total \$
<b>Balance as at 1 July 2010</b>		<b>28,800,000</b>	<b>7,468,075</b>	<b>(5,465,289)</b>	<b>30,802,786</b>
Profit for the period		-	-	(4,221,649)	(4,221,649)
Other comprehensive income		-	(568,002)	-	(568,002)
<b>Total comprehensive income for the year</b>		-	(568,002)	(4,221,649)	(4,789,651)
<hr/>					
<b>Balance as at 30 June 2011</b>		<b>28,800,000</b>	<b>6,900,073</b>	<b>(9,686,939)</b>	<b>26,013,135</b>
<b>Balance as at 1 July 2011</b>		<b>28,800,000</b>	<b>6,900,073</b>	<b>(9,686,939)</b>	<b>26,013,135</b>
Profit for the period		-	-	502,294	502,294
Other comprehensive income		-	150,111	-	150,111
<b>Total comprehensive income for the year</b>		-	150,111	502,294	652,405
<hr/>					
<b>Balance as at 30 June 2012</b>		<b>28,800,000</b>	<b>7,050,184</b>	<b>(9,184,645)</b>	<b>26,665,539</b>

*The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.*

**Terra Vitae Vineyards Limited**  
**Statement of Cash Flows**  
**For the year ended 30 June 2012**

	Notes	2012 \$	2011 \$
<b>Operating Activities</b>			
<b>Cash was provided from:</b>			
Receipts from customers		5,442,748	4,695,213
Interest received		8,910	1,543
Dividends received		250	250
Other income received		89,385	40,460
Income tax refunded		463	62
<b>Cash was disbursed to:</b>			
Payments to suppliers		(3,129,688)	(3,352,160)
Interest paid		(1,959,724)	(1,972,840)
Income taxes paid		(2,461)	(463)
<b>Net cashflows from operating activities</b>	22	449,883	(587,935)
<b>Investing activities</b>			
<b>Cash was provided from:</b>			
Sale of property, plant and equipment		-	-
<b>Cash was applied to:</b>			
Purchase of property, plant and equipment		(98,100)	(585,315)
Other adjustments		-	-
Purchase of biological assets		(80,000)	-
<b>Net cashflow from investing activities</b>		(178,100)	(585,315)
<b>Financing activities</b>			
<b>Cash was provided from:</b>			
Proceeds of bank borrowings			874,219
Proceeds from other loans			298,990
<b>Cash was applied to:</b>			
Repayment of bank borrowings		(257,404)	0
Payment of other loans		(14,379)	0
<b>Net cashflows from financing activities</b>		(271,783)	1,173,209
<b>Net increase/(decrease) in cash and cash equivalents</b>		0	(41)
Cash and cash equivalents at beginning of year		4,336	4,376
<b>Cash and cash equivalents at end of the year</b>	10	4,336	4,336

*The above Statement of Cash Flows should be read in conjunction with the accompanying notes.*

**Terra Vitae Vineyards Limited**  
**Notes to the financial statements**  
**for the year ended 30 June 2012**

**1 General Information**

Terra Vitae Vineyards Limited grows grapes for sale to wine producers. The company is a limited liability company incorporated and domiciled in New Zealand and is registered under the Companies Act 1993. The address of its registered office and principal place of business is 10 Birman Close, Half Moon Bay, Auckland, New Zealand. The company is a profit oriented entity. The Company is an issuer in terms of the Financial Reporting Act 1993.

These financial statements were authorised for issue by the Board of Directors on 28 September 2012. The entity's owners do not have the power to amend the financial statements after issue.

**2 (i) Summary of Significant Accounting Policies**

**(a) Basis of preparation**

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP) and the requirements of the Companies Act 1993 and the Financial Reporting Act 1993.

The financial statements comply with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and other financial reporting standards as applicable to profit oriented entities. The financial statements comply with International Financial Reporting Standards (IFRS).

*Entity reporting*

The financial statements are for Terra Vitae Vineyards Limited as a separate legal entity.

*Historical cost convention*

These financial statements have been prepared under the historical cost convention, except for the revaluation of biological assets and some classes of property, plant & equipment, which are stated at fair value.

*Accounting estimates and judgements*

The preparation of financial statements in conformity with NZ IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 4.

**(b) Segment reporting**

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers (CODM). The CODM, being the Board of Directors, are responsible for the allocation of resources to operating segments and assessing their performance.

**(c) Foreign currency translation**

*(i) Functional and presentation currency*

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

*(ii) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Income Statement.

Non monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

**Terra Vitae Vineyards Limited**  
**Notes to the financial statements**  
**for the year ended 30 June 2012**

**2 (i) Summary of Significant Accounting Policies (continued)**

**(d) Revenue recognition**

Revenue comprises the fair value of the consideration received or receivable from the sale of goods and services, net of Goods and Services Tax, rebates and discounts. Revenue is recognised as follows:

*(i) Sale of grapes*

The primary source of revenue for the company is from the sales of grapes harvested. Revenue is recognised when the significant risks and rewards of ownership have passed to the customer and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Risks and rewards of ownership are considered passed to the customer at the time of delivery of the grapes.

*(ii) Interest income*

Interest income is recognised on a time proportion basis using the effective interest method. When a receivable is impaired, the company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income.

*(iii) Dividend income*

Dividend income is recognised when the right to receive payment is established.

*(iv) Fair value of grape vines*

Changes in the fair value less estimated point of sale costs of grape vines are recognised in the Income Statement in the year they arise.

**(e) Income tax**

The income tax expense comprises both current and deferred tax. Income tax expense is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to the tax payable in respect of previous years. Deferred tax is recognised in full, using the balance sheet method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

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

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

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

**(f) Goods and Services Tax (GST)**

The Income Statement has been prepared so that all components are stated exclusive of GST. All items in the Statement of Financial Position are stated net of GST, with the exception of receivables and payables, which include GST invoiced. The net amount of GST recoverable from or payable to the taxation authority is included as part of receivables or payables in the statement of financial position. Cash flows are included in the statement of cash flows on a net basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from or payable to the taxation authority is classified as part of the operating cash flows.

**Terra Vitae Vineyards Limited**  
**Notes to the financial statements**  
**for the year ended 30 June 2012**

**(g) Cash and cash equivalents**

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the Statement of Financial Position. For the statement of cash flows presentation purposes, cash and cash equivalents also include bank overdrafts.

**2 (i) Summary of Significant Accounting Policies (continued)**

**(h) Leases**

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependant on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the Income Statement on a straight line basis over the period of the lease. Operating lease incentives are recognised as a liability when received and subsequently reduced by allocating lease payments between rental expense and the reduction of the liability.

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

Assets with finite useful lives are subject to depreciation and amortisation and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment irrespective of whether any circumstances identifying a possible impairment have been identified. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). The value in use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that suffered an impairment are tested for possible reversal of the impairment whenever events or changes in circumstances indicate that the impairment may have reversed.

**(j) Trade & other receivables**

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less an allowance for impairment. Trade receivables are due for settlement as per the terms of the Vineyard Management and Grape Purchase Agreement with Villa Maria Estate Ltd. The last date for payment under this agreement is 30 September, four months after the date of invoice. Collectibility of trade receivables is reviewed on an ongoing basis.

An allowance for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the Income Statement within 'other expenses'. When a trade receivable is uncollectible, it is written off against an allowance account for trade receivables. Other receivables are recognised at amortised cost, less any provision for impairments.

**(k) Investments and other financial assets**

*(i) Loans and Receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after balance date. These are classified as non-current. The company's loans and receivables comprise "trade and other receivables" and "cash and cash equivalents" in the statement of financial position (notes g and j)

**Terra Vitae Vineyards Limited**  
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*(ii) Available for sale financial assets*

Available for sale financial assets are non derivatives that are either designated in this category or not classified in any other categories. They are included in non current assets unless management intends to dispose of the investment within 12 months of the reporting date.

**2 (i) Summary of Significant Accounting Policies (continued)**

Purchases and sales of investments are recognised on trade date or the date on which the company commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

The Company has accounted for its available for sale financial assets at cost because there is no quoted market price available, and the range of reasonable fair value estimates using valuation techniques is significant and the probabilities of the various estimates cannot be reasonably assessed.

**(l) Fair value estimation**

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

The carrying value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values due to their short term nature. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Company for similar financial instruments.

**(m) Property, plant and equipment**

Land, land development and buildings are shown at fair value, based on periodic, but at least triennial, valuations by external independent valuers, less subsequent depreciation for buildings and land development. The valuations are undertaken more frequently if there is a material change in the fair value, relative to the carrying amount. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the Income Statement during the financial period in which they are incurred.

Increases in the carrying amounts arising on revaluation of land, land development and buildings are credited to an asset revaluation reserve in shareholders' equity. To the extent that the increase reverses a decrease previously recognised in the income statement, the increase is first recognised in the Income Statement. Decreases that reverse previous increases of the same asset are first charged against revaluation reserves directly in equity to the extent of the remaining reserve attributable to the asset; all other decreases are charged to the Income Statement.

Land is not depreciated. Depreciation on other assets is calculated using the straight line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives, as follows:

Freehold buildings	25 - 33 years
Land development	33 years
Motor vehicles	3 - 10 years
Plant	2 - 20 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the entity.

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Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the Income Statement. When revalued assets are sold, it is company policy to transfer the amounts included in the asset revaluation reserve in respect of those assets to retained earnings.

**2 (i) Summary of Significant Accounting Policies (continued)**

**(n) Borrowings**

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

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

**(o) Borrowing costs**

Borrowing costs for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Once the asset is brought into productive use, capitalisation of the borrowing costs ceases. All other borrowing costs are expensed when incurred, including; interest on bank overdraft, interest on short term and long-term borrowings, interest on finance leases and unwinding of discount on provisions.

The Company did not capitalise any borrowing costs in the current year.

**(p) Trade and other payables**

These amounts represent liabilities for goods and services provided to the Company prior to the end of financial year which are unpaid. Due to their short term nature, they are measured at amortised cost and not discounted. The amounts are unsecured and are usually paid within 20 days after the end of the month of recognition.

**(q) Dividends**

Provision is made for the amount of any dividend declared on or before the end of the year but not distributed at balance date.

**(r) Biological assets**

*Grape vines*

Grape vines are measured at their fair value less estimated point of sale costs. Point of sale costs include all costs that would be necessary to sell the asset, excluding costs necessary to get assets to markets. The fair value of vineyards, including land, grape vines and other vineyard infrastructure, is determined by an independent valuer, and is based on current market prices in an active market. An active market is a market where the items traded within the market are homogenous, willing buyers and sellers can normally be found at any time, and prices are available to the public. This includes use of recent arms length transactions and reference to other vineyards that are substantially the same. The fair value of land and other vineyard infrastructure is deducted from the fair value of vineyards, to determine the fair value of grape vines.

**(s) Contributed equity**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

**(t) Earnings per share**

*(i) Basic earnings per share*

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the company by the weighted average number of ordinary shares outstanding during the year, adjusted for bonus elements in ordinary shares issued during the year.

*(ii) Diluted earnings per share*

Diluted earnings per share adjusts the figures used in the determination of 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 shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

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**2 (ii) Going Concern**

The Directors have considered the Company's future position and have established that it can reasonably be considered a going concern. The Directors have taken into account a number of factors in forming this view including the following:

1. The Company was established to grow premium grapes under a long term contractual arrangement with Villa Maria. This agreement is current with rights of renewal up until 2058.
2. The Vineyard Management and Grape Purchase Agreement requires Villa Maria to purchase all grapes grown on the Company's vineyards at market prices (subject to minimum quality specifications). The Company therefore expects to sell all its grapes harvested in the foreseeable future to Villa Maria.
3. The vineyards are in two regions at four locations providing some diversity and protection against the effects of climatic and geological events.
4. The vineyards are fully developed, with 98% in full production and the varieties grown are, in the main, in line with the current demand for the wine produced and the mix of varieties is considered appropriate.
5. The wine industry's export volumes have continued to grow (10% for the year ended July 2012) as opposed to no projected growth in producing vineyards from 2010 to 2014. The 2012 harvest was 18% below the 2011 vintage and this will produce around 194m litres, well below current sales volumes of around 240m litres. This shortfall has redressed the supply imbalance and started to put upward pressure on grape prices, with some significant increases already being signalled for 2013. The Directors have considered this position in projecting an increase in revenue in future years.
6. The majority of the losses reported in the past four years have been the result of fair value adjustments to the vineyards, which has had no effect on the cash flow of the business. The company continues to maintain its operating loss before fair value adjustments at a low level. Operating losses before fair value adjustments in the past four years have been \$230,210 (2012) \$216,831 (2011), \$511,240 (2010) and \$619,900 (2009). A modest operating profit before fair value adjustments is forecast for 2013.
7. The Directors anticipate that the timing of receipt of revenue will be adequate to meet the Company's cash flow requirements provided the Company achieves its targeted production levels of at least 3,700 tonnes at forecast prices. In the event that the targeted production level or price is not achieved, the Directors will negotiate a temporary additional facility with its bankers to meet the shortfall.
8. The Company operates in an industry that is cyclical and subject to the effects of both international and local economic conditions, however the Directors view is that the industry has moved off the bottom of the current cycle and can look forward to improved trading conditions. The Directors consider that risk is being prudently managed in the circumstances.

**3 (A) New Standards and Interpretations Issued but Not Yet Effective**

At the date of authorisation of the financial statements, a number of Standards and Interpretations were in issue but not yet effective.

Standards, amendments, and interpretations issued but not yet effective that have not been early adopted, and are relevant to the Company include:

***NZ IAS 1 Presentation of Financial Statements - Presentation of other comprehensive income (Effective for annual periods beginning on or after 1 July 2012):*** This standard requires entities to group items presented in other comprehensive income on the basis of whether they are potentially reclassifiable to profit or loss in subsequent periods.

***NZ IFRS 7 Amendments to NZ IFRS 7 Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities (Effective for Annual Periods beginning on or after 1 July 2013):*** These amendments introduce disclosures, which provide users with information that is useful in evaluating the effect or potential effect of netting arrangements on an entity's financial position.

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**NZ IFRS 7 Amendments to NZ IFRS 7 Financial Instruments: Disclosures - Transition Disclosures (Effective for annual periods beginning on or after 1 July 2013):** These amendments to NZ IFRS 7 remove the requirement for the restatement of comparative period financial statements upon initial application of the classification and measurement requirements of NZ IFRS 9.

Instead, the amendments introduce additional disclosures on transition from the classification and measurement requirements of NZ IAS 39 *Financial Instruments: Recognition and Measurement* to those of NZ IFRS 9.

For entities adopting NZ IFRS 9 from 2013 onwards, these disclosures are required even if they choose to restate the comparative figures for the effect of applying NZ IFRS 9.

**NZ IFRS 13 Fair Value Measurement (Effective for annual periods beginning on or after 1 July 2013):** NZ IFRS 13 establishes a single source of guidance under NZ IFRS for determining the fair value of assets and liabilities. NZ IFRS 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value under NZ IFRS when fair value is required or permitted by NZ IFRS. Application of this guidance may result in different fair values being determined for the relevant assets.

NZ IFRS 13 also expands the disclosure requirements for all assets or liabilities carried at fair value. This includes information about the assumptions made and the qualitative impact of those assumptions on the fair value determined.

**NZ IFRS 9 (2010) Financial Instruments (Effective for annual periods beginning on or after 1 July 2015):** NZ IFRS 9 (2010) supersedes NZ IFRS 9 (2009). The requirements for classifying and measuring financial liabilities were added to NZ IFRS 9 as issued in 2009. The existing NZ IAS 39 *Financial Instruments: Recognition and Measurement* requirements for the classification of financial liabilities and the ability to use the fair value option have been retained. However, where the fair value option is used for financial liabilities, the change in fair value is accounted for as follows:

- (i) the change attributable to changes in credit risk are presented in other comprehensive income.
- (ii) the remaining change is presented in profit or loss.

If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss.

### **3 (A) New Standards and Interpretations Issued but Not Yet Effective (continued)**

**NZ IFRS 9 (2009) Financial Instruments (Effective for annual periods beginning on or after 1 July 2015):** NZ IFRS 9 (2009) includes the requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the IASB's project to replace NZ IAS 39.

These requirements improve and simplify the approach for classification and measurement of financial assets compared to the requirements of NZ IAS 39. The revised Standard introduces a number of changes to the accounting for financial assets, the most significant of which includes:

- (i) Two categories for financial assets being amortised cost or fair value
- (ii) Strict requirements to determine which financial assets can be classified as amortised cost or fair value. Financial assets can only be classified as amortised cost if (a) the contractual cash flows from the instrument represent principal and interest and (b) the entity's purpose for holding the instrument is to collect contractual cash flows.
- (iii) Reclassifications between amortised cost and fair value no longer permitted unless the entity's business model for holding the asset changes.

### **Annual Improvements to NZ IFRSs 2009 - 2011 Cycle: Amendments to NZ IFRSs arising from the Annual Improvements Project (2009 - 2011) (Effective for annual periods beginning on or after 1 July 2013)**

NZ IAS 1: clarifies the difference between voluntary additional comparative information and minimum required comparative information. Generally, the minimum required comparative period is the previous period.

NZ IAS 16: clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.

**Terra Vitae Vineyards Limited**  
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**3 (B) New Accounting Standards and Interpretations**

**Improvements to NZ IFRSs:** Amendments to NZ IFRSs arising from the Annual Improvements Project (2010) emphasises the interaction between quantitative and qualitative NZ IFRS 7 disclosures and the nature and extent of risks associated with financial instruments.

It also clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements.

**NZ IAS 24 Related Party Disclosures (Revised 2009):** The revised NZ IAS 24 simplifies the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition, including:

- (i) the definition now identifies a subsidiary and an associate with the same investor as related parties of each other
- (ii) entities significantly influenced by one person and entities significantly influenced by a close member of the family of that person are no longer related parties of each other.
- (iii) the definition now identifies that, whenever a person or entity has both joint control over a second entity and joint control or significant influence over a third party, the second and third entities are related to each other.

**FRS 44 New Zealand Additional Disclosures** - this is a consequence of the joint Trans-Tasman Convergence Project of the Australian Accounting Standards Board ("AASB") and Financial Reporting Standards Board ("FRSB"). This standard relocates New Zealand specific disclosures from other standards to one place and revises disclosures in the following areas:

- (i) Compliance with NZ IFRS
- (ii) The statutory basis or reporting framework for financial statements
- (iii) Audit fees
- (iv) Imputation credits
- (v) Reconciliation of net operating cash flow to profit

**4 Critical Accounting Estimates and Judgements**

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities and profit within the next financial year are discussed below.

*(i) Valuation of grape vines*

Vines are measured at fair value as determined by an independent valuer. The independent valuer uses valuation techniques which are inherently subjective and involve estimation. The fair value of the vines at 30 June 2012 is \$19,386,000 (2011: \$17,590,000). The increase in their fair value for the year ended 30 June 2012 is \$1,828,710 (2011: \$882,000). (Refer to note 14.)

*(ii) Valuation of land and buildings*

Land (including land development) and buildings are measured at fair value as determined by an independent valuer. The independent valuer uses valuation techniques which are inherently subjective and involve estimation. The fair value of land, land development and buildings at 30 June 2012 is \$32,529,000 (2011: \$33,328,999). The decrease in their fair value, net of impairment losses or reversals, for the year ended 30 June 2012 is \$561,775 (2011: \$4,198,773). (Refer to note 12.)

*(iii) Estimation of useful lives of assets*

The estimation of the useful lives of assets has been based on historical experience. In addition, the condition of the assets is assessed at least once per year and considered against the remaining useful life. Adjustments to useful lives are made when considered necessary.

**Terra Vitae Vineyards Limited**  
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*(iv) Recovery of Deferred Tax Assets*

Deferred tax assets are recognised for deductible temporary differences as management considers that it is probable that future taxable profits will be available to utilise those temporary differences. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits over the next five years. Deferred tax assets, including those arising from unrecouped tax losses and temporary differences, are recognised only where it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxable profits. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These depend on estimates of future production and sales volumes, operating costs, capital expenditure, dividends and other capital management transactions. Judgements are also required about the application of income tax legislation.

These judgements and assumptions are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets recognised on the statement of financial position and the amount of other tax losses not yet recognised. In such circumstances, some or all of the carrying amounts of recognised deferred tax assets may require adjustment, resulting in a corresponding credit or charge to the statement of comprehensive income.

*(v) Going concern*

The Company's management has made an assessment of the Company's ability to continue as a going concern and is satisfied that the Company has the resources to continue in business for the foreseeable future. Under note 2(ii), management has detailed the strategies and plans in place to demonstrate the Company's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

**Terra Vitae Vineyards Limited**  
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**5 Financial Risk Management**

The Company's activities expose it to a variety of financial risks: market risk (price risk, cash flow and fair value interest rate risk), credit risk, liquidity risk and agricultural risk.

Risk management is carried out by the Board of Directors. The Board identifies and evaluates financial risks in close co-operation with the Company's operating units. The Board provides written principles for overall risk management, as well as policies covering specific areas, such as interest rate risk, credit risk, investment of excess liquidity and agricultural risk.

**(a) Market risk**

*(i) Foreign exchange risk*

The Company has no direct currency risk. No assets or liabilities are held in foreign currency and the Company's purchases and sales are in New Zealand dollars.

*(ii) Price risk*

The Company sells its entire grape harvest under a Vineyard Management and Grape Purchase Agreement with Villa Maria Estate Limited. The price paid for the grapes is based on the average price paid for each variety by similar sized companies in each region. These prices are verified with the Company's Independent Consultant and other industry sources. Various quality factors are also taken into account in assessing the final price paid. As the selling price is set on an annual basis, the Company is exposed to movement in the price paid.

*(iii) Cash flow and fair value interest rate risk*

The Company's main interest rate risk arises from long term borrowings. Borrowings issued at variable rates expose the Company to cash flow interest rate risk. Borrowings issued at fixed rates expose the Company to fair value interest rate risk. The Company's long term borrowings from Rabobank have both a variable and fixed interest rate portion. At 30 June 2012 approximately 16% (2011 21%) of borrowings had interest rates fixed for a minimum of 3 years.

*Sensitivity Analysis*

The following table shows the sensitivity of the Company's after tax profit and equity from changes in the interest rates on its variable long term borrowings. It has been assumed that a movement of 1% or more in the variable rate would result in the variable interest rate borrowings being fixed at a rate lower than the existing variable rate.

		<b>+1% change in interest rate</b>			
		Impact on post tax profit		Impact on equity	
Carrying amount		2012	2011	2012	2011
Variable portion of long term borrowings	\$146,953 (2011: \$28,576)	\$1,058	\$200	\$1,058	\$200
		<b>-1% change in interest rate</b>			
		Impact on post tax profit		Impact on equity	
Carrying amount		2012	2011	2012	2011
Variable portion of long term borrowings	\$146,953 (2011: \$28,576)	-\$ (1,058)	-\$ (200)	-\$ (1,058)	-\$ (200)

**Terra Vitae Vineyards Limited**  
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**5 Financial Risk Management (continued)**

**(b) Credit risk**

Credit risk is managed on a regular basis. Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions. For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are accepted. As part of the company's financial risk policy, limits on exposures have been set and are monitored on a regular basis. Credit risk is therefore not significant. The company does not require any collateral or security to support financial instruments due to the quality of the financial institutions dealt with.

The Company has only one significant debtor at the reporting date:

	<b>2012</b>	<b>2011</b>
<b>Counter party</b>		
Villa Maria Estate Limited	\$ 3,629,356	\$ 3,745,545

There was no outstanding balance at the time of authorising the financial statements. The balance is therefore not impaired.

**(c) Liquidity risk**

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, and the availability of funding through an adequate amount of committed credit facilities.

The table below analyses the Company's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
<b>At 30 June 2012</b>				
Trade payables	\$ 241,612	\$ -	\$ -	\$ -
Bank borrowings	\$ 96,953	\$ -	\$25,300,000	\$ -
UDC Finance	\$ 51,217	\$ 55,925	\$ 177,469	\$ -
	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
<b>At 30 June 2011</b>				
Trade payables	\$ 486,834	\$ -	\$ -	\$ -
Bank borrowings	\$25,654,357	\$ -	\$ -	\$ -
UDC Finance	\$ 37,912	\$ 41,387	\$ 219,691	

**Terra Vitae Vineyards Limited**  
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**5 Financial Risk Management (continued)**

**(d) Fair value estimation**

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes. Refer to the accounting policies for fair value estimation methods.

The carrying value of cash and cash equivalents, trade receivables and trade payables are assumed to approximate their fair values due to the short term nature of these financial instruments.

The carrying value of bank borrowings are assumed to approximate their fair values. The fair values of balances due within 12 months equal their carrying balances, as the impact of discounting is not significant. The fair values of balances due after 12 months equal their carrying balances, as the interest rates on these borrowings are fixed at market rates.

**(e) Financial risk management strategies related to agricultural activity.**

The Company is exposed to financial risks in respect of agricultural activities. The agricultural activities of the Company primarily consist of the ownership of vineyards to produce grapes that are then sold to Villa Maria Estate Limited for the production of wine. The primary risk borne by the Company is caused by the length of time between when the cash is expended on the purchase or planting and maintenance of grape vines and on harvesting grapes and the ultimate realisation of proceeds from the sale of the grapes. The realisation of proceeds from the sale of grapes is however governed by the Vineyard Management and Grape Purchase Agreement that stipulates the exact time that the money is expected to be received. The Company also takes reasonable measures to ensure that the current year's harvest is not affected by disease, drought, frost, or other factors that may have a negative effect upon yield and quality. These measures include consultation with experts in viticulture, frost protection measures, and ensuring that each vineyard is managed according to the Vineyard Management and Grape Purchase Agreement.

**6 Segment Information**

The company operates in one industry segment being the cultivation of vineyards and the harvest of grapes. The company operates in one geographic segment, being New Zealand.

Management have determined the operating segments based on the reports reviewed by the Board that are used to make decisions.

The Company manages three vineyards in the Marlborough region and two vineyards in the Hawkes Bay region, both in New Zealand. The five vineyards have the same economic, procurement and cultivation methods and the same end customer and are considered a single segment as defined by NZ IFRS 8. The segment result is equivalent to the financial information as presented.

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<b>7 Other income</b>	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>
<b>Sundry Income</b>		
Insurance Claim Proceeds	49,000	-
Grazing Income	5,931	6,086
Rental Income	25,006	24,002
Contracting Income	9,448	10,372
<b>Total sundry income</b>	<u>89,385</u>	<u>40,460</u>
<b>Fair Value Movement in biological assets (note 14)</b>		
<i>Keltern</i>	(38,000)	-
<i>Twyford</i>	17,710	-
<i>Taylor's Pass</i>	273,000	-
<i>Seddon</i>	291,000	-
<i>Higgins Road</i>	1,285,000	-
	<u>1,828,710</u>	<u>-</u>
<b>8 Expenses</b>		
<b>Cost of sales</b>		
<i>Fertilizer</i>	69,533	64,403
<i>Frost Control</i>	49,189	30,594
<i>Pesticides</i>	159,972	197,917
<i>Herbicides</i>	21,408	22,149
<i>Irrigation Running</i>	106,608	50,225
<i>Labour &amp; Contractor Costs</i>	1,492,835	1,850,447
<i>Machinery Running</i>	98,627	92,362
<i>Pellenc Tractor Maintenance</i>	74,200	72,292
<i>Harvesting Costs</i>	102,724	109,399
<i>Rates</i>	60,364	59,484
<i>Repairs &amp; Maintenance</i>	101,314	163,389
<i>Other Vineyard Expenses</i>	167,283	195,507
	<u>2,504,057</u>	<u>2,908,168</u>

**Additional notes on income & expenses**

**Harvesting Income** - is the value of harvesting work performed by the company for the use of the Seddon, Taylor's Pass and Keltern Pellenc Harvesters on non-company vineyards.

**Frost Control** - includes costs of running frost fighting pumps and equipment including wind machines, diesel pots and the hire of helicopters.

**Irrigation Running** - includes repairs & maintenance to the irrigation system, power charges and water rates.

**Labour & Contractor Costs** - Includes the cost of employing both permanent and seasonal labour on the company vineyards.

**Machinery Running** - includes the fuel cost of running vineyard machinery and hireage of vineyard machinery.

**Harvesting Costs** - includes both the cost of employing contract harvesters during peak times and hand harvesting costs for reserves.

**Repairs & Maintenance** - Includes the maintenance of machinery, trellissing, vineyard tracks and buildings.

**Other Vineyard Expenses** - the major costs included are Bird Control, Lease costs, FBT and ACC levies, Plant & Soil Analysis, Communications, Motor Vehicle expenses and Power (other than irrigation).

**Terra Vitae Vineyards Limited**  
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<b>Operating Expenses</b>	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>
<b>Administrative Costs</b>		
<i>Remuneration of auditors - audit of financial statements</i>	21,800	15,600
<i>Bank Fees</i>	5,365	7,570
<i>Management Consulting</i>	11,390	10,018
<i>Administrative Services</i>	46,344	53,454
<i>Share Register Charges</i>	18,000	19,750
<i>Company Secretarial</i>	30,000	30,000
<i>Insurance</i>	44,520	35,745
<i>Travel Expenses</i>	8,056	9,050
<i>Shareholder Meeting Expenses</i>	6,504	6,207
<i>Other Administrative Costs</i>	18,520	16,561
	<u>210,499</u>	<u>203,955</u>
<b>Depreciation</b>		
<i>Land Development</i>	208,597	229,902
<i>Buildings</i>	35,088	35,649
<i>Plant</i>	304,604	300,118
<i>Office Equipment</i>	665	616
<i>Motor Vehicles</i>	70,129	67,330
	<u>619,083</u>	<u>633,614</u>
<b>Finance Costs</b>		
<i>Interest Paid</i>	<u>1,959,724</u>	<u>1,974,840</u>
<b>Other Expenses</b>		
<i>Grape Growers Levy</i>	38,244	40,712
<i>Directors Fees</i>	60,000	60,000
<i>Legal Expenses</i>	2,511	5,181
<i>Vineyard Management Fee</i>	113,278	113,278
<i>Loss on Disposal of Assets</i>	147,918	-
	<u>361,951</u>	<u>219,171</u>
<b>Fair Value Movement in Land</b>		
<i>Keltern</i>	-	18,978
<i>Twyford</i>	-	202,000
<i>Taylor's Pass</i>	-	758,000
<i>Seddon</i>	-	-
<i>Higgins Road</i>	-	1,669,000
	<u>-</u>	<u>2,647,978</u>
<b>Fair Value Movement in other property, plant &amp; equipment</b>		
<i>Keltern</i>	178,725	177,855
<i>Twyford</i>	(1,346)	203,773
<i>Taylor's Pass</i>	158,397	474,097
<i>Seddon</i>	220,256	-
<i>Higgins Road</i>	162,508	181,629
	<u>718,540</u>	<u>1,037,354</u>
<b>Fair Value Movement in biological assets (note 14)</b>		
<i>Keltern</i>	-	147,000
<i>Twyford</i>	-	64,000
<i>Taylor's Pass</i>	-	370,000
<i>Seddon</i>	-	213,000
<i>Higgins Road</i>	-	88,000
	<u>-</u>	<u>882,000</u>
<b>Total Operating Expenses</b>	<u>3,869,797</u>	<u>7,598,912</u>

**Terra Vitae Vineyards Limited**  
**Notes to the financial statements**  
**For the year ended 30 June 2012**

**9 Income Tax**

	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>
<b>(a) Income tax expense</b>		
<i>Current Tax</i>		
Current tax on profits for the year	(161,314)	(211,275)
Adjustments in respect of prior years	-	-
<i>Deferred tax</i>		
Origination and reversal of temporary differences	384,425	(551,443)
Temporary differences not recognised (tax losses)	154,555	200,204
Impact of change in tax rates	-	-
	<u>377,666</u>	<u>(562,514)</u>

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

Profit/(loss) before income tax expense	879,960	(4,784,163)
Tax at the New Zealand tax rate of 28% (2011:30%)	246,389	(1,435,249)
<i>Tax effect of amounts which are not deductible (taxable) in calculating taxable income:</i>		
Fair value changes in Property, Plant & Equipment		794,393
Deferred tax movement (reserves)	-	-
Deferred tax movement	154,555	78,342
Impact on change in Building depreciation	(23,429)	-
Change in tax rate	-	-
Permanent differences	150	-
<b>Income tax expense</b>	<u>377,666</u>	<u>(562,514)</u>

**Included under Current Assets**

Income tax receivable/(payable) at beginning of year	463	62
Adjustment for non-deductible expenses	-	-
Prior Period Resident Withholding Tax Credit	11	-
Income Tax Expense in respect of current period	-	-
Net Income Tax Paid/(Refunded)	1,987	401
<b>Income tax receivable at year end</b>	<u>2,461</u>	<u>463</u>

*The weighted average applicable tax rate was 28%*

**(c) Imputation credit account**

Balance at beginning of year	354,103	353,579
Tax payments/(refunds)	(474)	(62)
Credits attached to interest & dividends received	2,472	474
Imputation credits attached to dividends received	112	112
Balance at end of year	<u>356,213</u>	<u>354,103</u>

**10 Cash and Cash Equivalents**

Bank balances	4,336	4,336
<b>Total cash and cash equivalents</b>	<u>4,336</u>	<u>4,336</u>

**11 Prepayments and Other Receivables**

GST Receivable	-	52,540
Prepayments	19,312	25,953
Other Receivables	6,201	4,450
<b>Total prepayments and other receivables</b>	<u>25,513</u>	<u>82,943</u>

**Terra Vitae Vineyards Limited**  
**Notes to the financial statements**  
**For the year ended 30 June 2012**

**12 Property, Plant and Equipment**

	Land \$	Land development \$	Buildings \$	Plant \$	Office equipment \$	Motor vehicles \$	Total \$
<b>At 1 July 2010</b>							
Cost/Valuation	28,603,000	8,016,000	1,097,000	2,796,727	4,637	739,190	41,256,554
Accumulated depreciation	-	-	-	(955,029)	(4,409)	(488,123)	(1,447,561)
Carrying amount	28,603,000	8,016,000	1,097,000	1,841,698	228	251,067	39,808,993
<b>Year ended 30 June 2011</b>							
Opening carrying amount	28,603,000	8,016,000	1,097,000	1,841,698	228	251,067	39,808,993
Additions	-	9,836	67,487	506,607	1,385	-	585,315
Revaluation	(3,606,000)	(598,934)	6,161	-	-	-	(4,198,773)
Depreciation	-	(229,902)	(35,649)	(300,118)	(616)	(67,330)	(633,615)
Closing carrying amount	24,997,000	7,197,000	1,134,999	2,048,187	997	183,737	35,561,921
<b>At 1 July 2011</b>							
Cost/Valuation	24,997,000	7,305,257	1,158,875	3,303,334	6,022	739,190	37,509,678
Accumulated depreciation	-	(108,257)	(23,876)	(1,255,147)	(5,025)	(555,452)	(1,947,758)
Carrying amount	24,997,000	7,197,000	1,134,999	2,048,187	997	183,738	35,561,921
<b>Year ended 30 June 2012</b>							
Opening carrying amount	24,997,000	7,197,000	1,134,999	2,048,187	997	183,738	35,561,921
Additions/(Disposals)	-	5,459	-	10,210	-	30,435	46,104
Impairment losses	-	-	-	16,792	-	-	16,792
Revaluation increases/(decreases)	133,000	(734,862)	40,087	-	-	-	(561,775)
Depreciation	-	(208,597)	(35,088)	(304,604)	(665)	(70,129)	(619,083)
Closing carrying amount	25,130,000	6,259,000	1,139,998	1,770,585	332	144,044	34,443,959
<b>At 30 June 2012</b>							
Cost/Valuation	25,130,000	6,543,563	1,171,781	3,313,544	6,022	769,625	36,934,535
Accumulated depreciation	-	(284,563)	(31,781)	(1,542,961)	(5,690)	(625,581)	(2,490,576)
Carrying amount	25,130,000	6,259,000	1,140,000	1,770,583	332	144,044	34,443,959

**Terra Vitae Vineyards Limited**  
**Notes to the financial statements**  
**For the year ended 30 June 2012**

**12 Property, Plant and Equipment (continued)**

If land and buildings were stated on the historical cost basis, the amounts would be as follows:

	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>
Cost	20,679,679	20,679,679
Accumulated depreciation	(192,153)	(158,844)
<b>Carrying amount</b>	<u>20,487,526</u>	<u>20,520,835</u>

All land owned by the company is pledged as security to Rabobank New Zealand Limited. In the event of a sale of all or part of any vineyard, under the Vineyard Management and Grape Purchase Agreement with Villa Maria Estate Limited, Villa Maria has first right of refusal to purchase. Where this right is not taken up, any Third Party will be bound by all the obligations of the company under the agreement insofar as they relate to the sale of the land. Further, such Third Party must be acceptable to Villa Maria, (acceptance not to be unreasonably withheld).

There has been a decrement of \$568,429 in the fair value of the land, buildings and land improvements as at 30 June 2012. The revaluation decrement net of applicable deferred taxes was debited partly to asset revaluation reserve and also the income statement. The valuation was independently performed by Logan Stone Limited, an associate of the New Zealand Institute of Valuers under the principle of highest and best use. Logan Stone has confirmed that the valuation can be relied upon for the purpose of these financial statements at 30 June 2012.

Highest and best use is that use that is practically feasible, legally permissible and supported by market demand. It is that particular property use that indicates the highest likely competitive price for the real estate at a particular time. Determination of the property's current highest and best use is a necessary precursor of market value assessment.

Fair value is the amount for which the assets could have been exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arms length transaction as at the valuation date. Fair value is determined by direct reference to recent market transactions on arms length terms for land, buildings and vineyards comparable in size, location and varietal mix to those held by the Company.

The Company has been capitalising interest expense relating to the development of the Higgins property. The property has now been fully developed and the total annual interest cost has been expensed from the 2011 financial year onwards.

In line with prior years, the directors have not applied any adjustment to the market values, included in the valuation report, for the existing supply contract with Villa Maria Estate Limited.

**Terra Vitae Vineyards Limited**  
**Notes to the financial statements**  
**For the year ended 30 June 2012**

<b>13 Other Financial Assets</b>	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>
Shares in Ravensdown Fertiliser	100	100

The above shares have been measured at the value set by Ravensdown Fertiliser Co-operative Limited.

<b>14 Biological Assets</b>	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>
<b>Grape Vines</b>		
<b>Carrying amount at 1 July</b>	17,590,000	18,472,000
Fair value gains/(losses) on grape vines during the year	1,828,710	(882,000)
Purchases of grape vines	80,000	-
Disposal of grape vines	(112,710)	-
<b>Carrying value at 30 June</b>	<u>19,386,000</u>	<u>17,590,000</u>

The company grows and harvests grapes. Harvesting of vines is from March to May each year. The vineyards are situated in Hawkes Bay and Marlborough.

As at 30 June 2012, the company had a total of 373 hectares of vines. The fair value of the vines are determined at each balance date. All grapes have been harvested and sold by balance date and therefore have nil value at year end. During the year the company sold grapes to Villa Maria Estate Limited at fair value of \$5,107,402 (2011 \$5,466,492). The amount shown under "Related party receivables" relate to the amount outstanding at balance date in respect of these sales.

The fair value less estimated point of sale costs of the vines and the land have been determined in accordance with an independent valuation performed at each annual reporting date by Logan Stone Registered Valuers. The basis of valuation is Valuation Standard Number 1 - Market Value Basis of Valuation and Practice Standard Number 3 - The Valuation of Rural Properties.

<b>15 Trade and Other Payables</b>	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>
Trade payables	54,322	308,676
GST Liability	16,087	-
Accrued expenses	40,948	53,167
	<u>111,357</u>	<u>361,843</u>

Trade payables are non-interest bearing and are generally settled between 30 to 60 days. As a result of their short term nature, trade payables and accruals are not discounted. The carrying amounts disclosed above is a reasonable approximation of fair value.

**Terra Vitae Vineyards Limited**  
**Notes to the financial statements**  
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**16 Deferred Tax**

The balance comprises temporary differences attributable to:

	Plant & equipment	Other	Vines	Land development	Buildings	Tax Losses	Total
	\$	\$	\$	\$	\$	\$	\$
Balance at 1 July 2010	60,005	(0)	(4,628,914)	(936,614)	(275,316)	702,980	(5,077,859)
Other movements	-	-	-	-	-	-	-
Amounts charged to income statement	(21,429)	-	239,700	196,046	41,982	(2,909)	453,390
Amounts charged to equity	-	-	-	71,415	(16,852)	-	54,563
Balance at 30 June 2011	<u>38,576</u>	<u>(0)</u>	<u>(4,389,214)</u>	<u>(669,153)</u>	<u>(250,186)</u>	<u>700,071</u>	<u>(4,569,906)</u>
Balance at 1 July 2011	38,576	(0)	(4,389,214)	(669,153)	(250,186)	700,071	(4,569,906)
Other movements	(1,186)	5,600	(576,357)	161,249	19,719	-	(390,975)
Amounts charged to income statement	-	-	-	-	-	-	-
Amounts charged to equity	-	-	-	-	6,654	-	6,654
Balance at 30 June 2012	<u>37,390</u>	<u>5,600</u>	<u>(4,965,571)</u>	<u>(507,904)</u>	<u>(223,813)</u>	<u>700,071</u>	<u>(4,954,227)</u>

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on the Company.

The Company has tax losses approximating \$5,933,870 (2011:\$5,358,121) to carry forward to offset future taxable income. It has not recognised a deferred tax asset for losses of \$3,433,616 (2011:\$2,857,867) due to uncertain future taxable income. The Company estimates that the tax effect of its recognisable losses is \$700,000 (2011: \$700,000), which is consistent with prior years. This has been recognised and offset against the reported deferred tax liability and is available to be utilised against future assessable income. The ability to carry forward its tax losses to reduce future taxable income is subject to the shareholder continuity rules.

**Terra Vitae Vineyards Limited**  
**Notes to the financial statements**  
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**17 Interest Bearing Liabilities**

	<b>2012</b>	2011
	<b>\$</b>	<b>\$</b>
<b>Current</b>		
<b>Secured</b>		
Bank borrowings	96,953	25,654,357
<b>Non-current</b>		
<b>Secured</b>		
Bank borrowings	25,300,000	-
<b>Total interest bearing borrowings</b>	<u>25,396,953</u>	<u>25,654,357</u>

The carrying amount of the above borrowing approximates its fair value. The secured term loan has a total facility amount of \$25,300,000 and a temporary additional facility of \$800,000 until 31 July 2012 (2011: \$25,300,000) of which at the reporting date, \$703,047 was available for further drawdown (2011: \$441,424). The secured term loan facility with Rabobank matures in 2015.

The weighted average interest rate on interest bearing borrowings outstanding at 30 June 2012 was:

	7.52%	7.84%
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**Assets pledged as security**

The bank loans and overdraft are secured by a registered first ranking mortgage in favour of Rabobank New Zealand Limited over the following properties;

- Keltorn Vineyard Property
- Twyford Gravel Vineyard Property
- Taylors Pass Vineyard Property
- Seddon Vineyards Property
- Higgins Road Vineyard Property

Also securing the above bank loans is a general first ranking security agreement over all the assets and undertakings of Terra Vitae Vineyards Limited.

**18 Contributed Equity**

	<b>2012</b>	2011
	<b>\$</b>	<b>\$</b>
<b>(a) Authorised share capital</b>		
Share capital at the beginning of the year	28,800,000	28,800,000
Issue of shares	-	-
Share capital at the end of the year	<u>28,800,000</u>	<u>28,800,000</u>
<b>(b) Movements in number of shares</b>	<b>Number</b>	<b>Number</b>
Opening balance of ordinary shares issued	40,000,000	40,000,000
Issues of ordinary shares during the year	-	-
<b>Closing balance of ordinary shares issued</b>	<u>40,000,000</u>	<u>40,000,000</u>

**(c) Ordinary shares**

Ordinary shares carry one vote per share and entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of and amounts paid on the shares held. The shares have no par value and all shares are fully paid.

**(d) Capital Risk Management**

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares.

**Terra Vitae Vineyards Limited**  
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The Company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total external borrowings (including 'borrowings' and 'trade and other payables' as shown in the statement of financial position) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the statement of financial position plus net debt. The gearing ratios at 30 June 2012 and 2011 were as follows:

	<b>2012</b>	2011
	\$	\$
Total borrowings	25,681,563	25,953,347
Less cash and cash equivalents	4,336	4,336
Net debt	<u>25,677,227</u>	<u>25,949,011</u>
Total equity	26,665,539	26,013,135
Total capital	<u>52,342,766</u>	<u>51,962,146</u>
Gearing ratio	49%	50%

As part of the loan agreement with Rabobank entered into in 2007 and revised on 17 April 2012, the Company is required to maintain a minimum Quasi Equity of \$30,000,000, where Quasi Equity = Total tangible assets - total liabilities (excluding Deferred Tax Liability). Tangible assets are defined as the tangible book value of assets plus the difference between the book value and the latest bank valuation for security purposes. In addition, the Company is required to maintain a minimum Quasi Equity ratio of 50% and a Debt Service Cover Ratio of not less than 1.2.

	<b>2012</b>	2011
	\$	\$
Total Tangible assets (using latest bank valuation 30/6/12)	57,491,725	65,688,312
Total Liabilities	(30,826,186)	(30,972,176)
Add Back Deferred Tax Liability	4,954,227	4,569,906
Total Quasi Equity	<u>31,619,766</u>	<u>39,286,042</u>
Quasi Equity Ratio	55%	60%

	<b>2012</b>
	\$
Net Profit per Income Statement	879,960
Adjust for Valuation Adjustments	(1,110,170)
Add back Net Interest Expense	1,950,814
Add back depreciation	619,083
Add back non-recurring item	147,918
EBITDA	<u>2,487,605</u>
Debt Service Cover Ratio	1.28

All covenants were met for the year ended 30 June 2012

## **19 Reserves**

### **Revaluation reserve**

The property, plant and equipment revaluation reserve is used to record increments and decrements on the revaluation of land and buildings to the extent that they offset each other.

## **20 Dividends**

<b>Ordinary shares</b>	<b>\$</b>	<b>Per share</b>
Dividend paid during the year ended 30 June 2011	0.000	0.000
Dividend paid during the year ended 30 June 2012	0.000	0.000

On 20 September the directors resolved that no dividend would be paid for the year ended 30 June 2012.

**Terra Vitae Vineyards Limited**  
**Notes to the financial statements**  
**For the year ended 30 June 2012**

**21 Financial Instruments by Category**

**30 June 2012**

**Assets as per Statement of Financial Position**

	Loans and receivables
	\$
Trade and other receivables	3,635,557
Cash and cash equivalents	4,336
	<u>3,639,893</u>

**Liabilities as per Statement of Financial Position**

	Other financial liabilities at amortised cost
	\$
Borrowings	25,681,563
Trade and other payables	190,398
	<u>25,871,961</u>

**30 June 2011**

**Assets as per Statement of Financial Position**

	Loans and receivables
	\$
Trade and other receivables	3,749,995
Cash and cash equivalents	4,336
	<u>3,754,331</u>

**Liabilities as per Statement of Financial Position**

	Other financial liabilities at amortised cost
	\$
Borrowings	25,953,347
Trade and other payables	448,922
	<u>26,402,269</u>

**22 Reconciliation of net operating surplus after taxation with cash flows from operating activities**

	2012	2011
	\$	\$
<b>Profit/(loss) after income taxation</b>	<b>502,294</b>	<b>(4,221,649)</b>
<i>Add non cash items:</i>		
Depreciation	619,083	633,614
<b>Other adjustments</b>		
Movement in fair value of fixed assets	718,540	3,685,332
Movement in fair value of vines	(1,828,710)	882,000
Net loss on assets disposed	147,918	0
	<u>(343,169)</u>	<u>5,200,946</u>
Change in goods and services taxation	68,627	6,188
Increase (decrease) in accounts payable	(274,617)	(9,310)
(Increase) decrease in prepayments & other receivables	4,890	(17,742)
(Increase)/decrease in taxes receivable	(1,998)	(401)
Increase (decrease) in deferred tax liability	377,667	(562,516)
(Increase) decrease in amounts due from related parties	116,189	(983,451)
	<u>290,758</u>	<u>(1,567,232)</u>
<b>Net cash flow from operating activities</b>	<b>449,883</b>	<b>(587,935)</b>

**Terra Vitae Vineyards Limited**  
**Notes to the financial statements**  
**For the year ended 30 June 2012**

**23 Contingencies**

As at 30 June 2012 the Company had no contingent liabilities or contingent assets (2011:Nil).

**24 Commitments**

**(a) Capital commitments**

As at 30 June 2012 the total capital expenditure contracted for but not provided for was \$nil (2011:\$27,182).

**(b) Lease commitments : Company as lessee**

*Operating leases*

Operating lease commitments comprise a long-term land lease of 8 ha at the Keltorn Vineyard and a motor vehicle lease. The land lease is for a period of 21 years and expires in 2019. The motor vehicle lease is for a period of 1 year and expires in December 2012. The Ground Rental is reviewed every 5 years with the next review due in 2013.

	<b>2012</b>	2011
	<b>\$</b>	\$
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows and are based on lease payments current at each balance date:		
Within one year	19,635	24,419
Later than one year but not later than five years	67,500	67,500
Later than five years	46,406	63,281
	<u>133,541</u>	<u>155,200</u>

**25 Related Party Transactions**

**(a) Directors**

The names of persons who were directors of the company at any time during the financial year are as follows: Milan Brajkovich, David Ferraby, Sir George Fistonich, Andrew Pearson, Robert Ferguson.

**(b) Key management and personnel and compensation**

Key management personnel compensation for the year ended 30 June 2012 and the year ended 30 June 2011 is set out below. The key management personnel are all the directors of the company and the executives with the greatest authority for the strategic direction and management of the company.

	<b>2012</b>	2011
	<b>\$</b>	\$
Short term benefits (Directors' Fees)	60,000	60,000
Other long-term benefits	-	-
Termination benefits	-	-
Total	<u>60,000</u>	<u>60,000</u>

**(c) Other transactions with key management personnel or entities related to them**

Information on transactions with key management personnel or entities related to them, other than compensation, are set out below.

	<b>2012</b>	2011
	<b>\$</b>	\$
<b>Purchase of shares from key management personnel</b>	-	-

**Terra Vitae Vineyards Limited**  
**Notes to the financial statements**  
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**25 Related Party Transactions (continued)**

**(d) Transactions with related parties**

The following transactions occurred with related parties:

	<b>2012</b>	2011
	\$	\$
<i>Purchases of services</i>		
Villa Maria Estate Limited	113,278	113,278
<i>Purchase of vines</i>		
Vineyards Plants Limited	31,260	-
<i>Sales of grapes</i>		
Villa Maria Estate Limited	5,107,402	5,466,492
<i>Purchases of virus testing services</i>		
Vine Test Lab Limited	2,077	5,180

**(e) Outstanding balances**

The following balances are outstanding at the reporting date in relation to transactions with related parties:

	<b>2012</b>	2011
	\$	\$
<i>Receivables</i>		
Villa Maria Estate Limited	<u>3,629,356</u>	<u>3,745,545</u>
<i>Payables</i>		
Villa Maria Estate Limited	<u>79,038</u>	<u>87,079</u>

**Relationships with related parties**

Sir George Fistonich, a director of Terra Vitae Vineyards Limited, is also a director of Villa Maria Estate Limited, a company with which Terra Vitae Vineyards Limited has a Vineyard Management contract and Purchase Agreement. Villa Maria Estate Limited holds 8,756,361 shares in Terra Vitae Vineyards Limited.

During the year, the Company commissioned virus testing services from Vine Test Lab Limited, a company which is owned 50% by Sir George Fistonich. Sir George Fistonich is also a Director of Vine Test Lab Limited. During the year, the Company purchased vines from Vineyard Plants Limited, a company which is owned by Villa Maria Estate Limited.

**(f) Terms and conditions**

All transactions were made on normal commercial terms and conditions and at market rates.

Outstanding balances are unsecured and are repayable in cash.

**26 Events Occurring After The Reporting Date**

No events requiring adjustment or disclosure in the financial statements occurred after the reporting date.

**27 Earnings Per Share**

**(i) Basic earnings per share**

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

	<b>2012</b>	2011
Profit/(loss) attributable to equity holders of the Company - in dollars	<u>502,294</u>	<u>(4,221,649)</u>
Weighted average number of ordinary shares in issue	<u>40,000,000</u>	<u>40,000,000</u>
Basic earnings per share - in dollars	0.01	(0.11)

**(ii) Diluted earnings per share**

Diluted earnings per share is equal to basic earnings per share as above as there are no dilutive instruments issued by the Company.

## **INDEPENDENT AUDITOR'S REPORT**

### **To the Shareholders of Terra Vitae Vineyards Limited**

#### **Report on the Financial Statements**

We have audited the financial statements of Terra Vitae Vineyards Limited on pages 6 to 34, which comprise the statement of financial position as at 30 June 2012, and the income statement, statement of other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### **Directors' Responsibility for the Financial Statements**

The directors are responsible for the preparation of financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Other than in our capacity as auditor we have no relationship with, or interests in, Terra Vitae Vineyards Limited.

## **INDEPENDENT AUDITOR'S REPORT Continued**

### **Opinion**

In our opinion, the financial statements on pages 6 to 34:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards;
- give a true and fair view of the financial position of Terra Vitae Vineyards Limited as at 30 June 2012 and its financial performance and its cash flows for the year then ended.

### **Report on Other Legal and Regulatory Requirements**

In accordance with the requirements of sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993, we report that:

- We have obtained all the information and explanations that we have required.
- In our opinion, proper accounting records have been kept by Terra Vitae Vineyards Limited as far as appears from an examination of those records.

*CST Nexia Audit*

**CST Nexia Audit  
Chartered Accountants  
Manukau City**

**20 September 2012**

#### **Matters relating to the Electronic Presentation of the Audited Financial Statements**

This auditor's report relates to the financial statements of Terra Vitae Vineyards Limited for the year ended 30 June 2012 included on Terra Vitae Vineyards Limited's website. The directors are responsible for the maintenance and integrity of Terra Vitae Vineyards Limited's website. We have not been engaged to report on the integrity of Terra Vitae Vineyards Limited's website. We accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

The auditor's report refers only to the financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these financial statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited financial statements and related auditor's report dated 20 September 2012 to confirm the information included in the audited financial statements presented on this website.

Legislation in New Zealand governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

**Terra Vitae Vineyards Limited**  
**Shareholders' Information**  
**For the year ended 30 June 2012**

**Ten Largest Shareholders as at 30 June 2012**

<b>Holder</b>	<b>Shares Held</b>	<b>% of Shares</b>
Villa Maria Estate Limited	8,756,361	21.89%
National Nominees Limited	1,936,000	4.84%
George Vjeceslav Fistonich	503,240	1.26%
Custodial Services Limited Account 2	367,421	0.92%
Sheather Family Account	238,000	0.60%
Hatch Mansfield Agencies Limited	227,760	0.57%
T J Goodwin*A Goodwin*I R B Burgess	200,000	0.50%
Custodial Services Limited Account 3	183,000	0.46%
JB Were (NZ) Nominees Ltd	175,000	0.44%
Murray Hamilton Blyth & Beverley Campbell Blyth	169,000	0.42%
Total for top 10 Shareholders	<u>12,755,782</u>	<u>31.89%</u>

**Shareholding Breakdown**

<b>Holding Range</b>	<b>Holders</b>	<b>Shares Held</b>	<b>% of Shares</b>
< 25,000	165	1,471,675	3.68%
25,000 - 49,999	640	17,272,533	43.18%
50,000 - 99,999	110	6,410,750	16.03%
100,000 - 999,999	26	4,152,681	10.38%
> 1,000,000	2	10,692,361	26.73%
Totals	<u>943</u>	<u>40,000,000</u>	<u>100.00%</u>

**Terra Vitae Vineyards Limited**  
**Directory**  
**For the year ended 30 June 2012**

**Board of Directors**

David Ferraby (Chairman)  
Sir George Fistonich  
Andrew Pearson  
Milan Brajkovich  
Robert Ferguson (Alternate Director to Sir George Fistonich)

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**Registered Office and Principal place of Business**

10 Birman Close  
Half Moon Bay  
Auckland 2012

**Web Site:** [www.terravitae.co.nz](http://www.terravitae.co.nz)  
**email:** [info@terravitae.co.nz](mailto:info@terravitae.co.nz)

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**Independent Viticulture Consultant**

Mark Allen  
Allen Vineyard Advisory  
PO Box 5123  
Springlands  
Blenheim

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**Bankers**

Rabobank  
Level 6, Rabobank Tower  
2 Commerce Street  
Auckland 1010

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**Auditors**

CST Nexia Audit  
PO Box 76261  
Manukau City 2241

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**Share Register**

BC Limited  
PO Box 54124  
The Marina  
Auckland 2144

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**Solicitors**

Minter Ellison Rudd Watts  
Lumley Centre  
88 Shortland Street  
Auckland 1010

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