Terra Vitae Vineyards Limited

Seddon Vineyard in October showing the original sauvignon blanc vines planted in 1994 with Mount Tapuaenuku in the background.

ANNUAL REPORT
for the year ended 30 June 2009

Terra Vitae Vineyards Limited

Financial Statements

For the year ended 30 June 2009

Contents

Terra Vitae Vineyards Ltd

Chairman’s report

On behalf of the Directors I hereby present the Annual Report for the year ended 30 June 2009, reflecting the effects of three major occurrences, which have impacted severely on the profitability of the company for the financial year.

The first is the Global financial turmoil, which has had a major effect on consumer confidence, resulting in reduced spending on dining out and purchasing of discretionary items. Wine sales worldwide have been affected by this. This has led to wine facing deteriorating demand in many global markets coupled with significant discounting. In conjunction with this, the exchange rates of New Zealand’s two main export markets - the USA and UK have worked against the wine industry (and exports in general), reducing returns for NZ producers. Villa Maria’s group winemaker, Alastair Maling, has just returned from a marketing trip to the UK and Europe and comments that there is a feeling of optimism and signs of consumers spending again. However there is no doubt that the market which New Zealand wine will play in, has changed, particularly with Sauvignon Blanc and unless we see a significant correction in the exchange rate it will continue to hamper the profitability of any company exporting.

Secondly and very significantly there has been the affect of the huge overproduction of the 2008 vintage of Sauvignon Blanc in the Marlborough region. The overproduction was caused by a combination of unusually favourable weather conditions at various times during the season and no-one had predicted or planned for a 60% increase in yield in Marlborough Sauvignon Blanc. As a result of the overproduction, last December wineries introduced various forms of target and maximum yield parameters for the 2009 harvest to growers. Like the previous season, the vines were carrying far above the average yield, which was well above the recognised yields required to produce quality wine. This, coupled with a large drop in the prices offered for the 2009 harvest across all varieties, resulted in a significant drop in income for Terra Vitae.

The combination of the above two factors has resulted in a significant drop in property values throughout the country. Under the new NZ International Financial Reporting Standards we are required to take the majority of these adjustments to our Income Statement. The effect of this was a drop in property values of $3,206,312. The impact of these factors will have an effect on the performance of the company in the medium term.

The company produced a gross income of $3,916,466 and a trading loss of $619,900. Added to this the effect of the NZ IFRS reporting rules is a valuation drop of $3,206,312, resulting in a total reported loss of $3,826,212 This is an unsatisfactory result and everything possible has been done to minimize this to date and efforts continue in to the current financial year. Budgets were prepared for the new season and they show a modest profit. Everything possible will be done to ensure that happens.

As a result of the loss, no dividend was declared by the Board.

A summary of each vineyard’s yield follows:

Vineyard	Yield 2009	Yield 2008	Crop Value 2009	Crop Value 2008
Seddon	726	1008	$1,382,574	$2,543,900
Higgins Road	196	152	$344,944	$373,628
Taylors Pass	726	1049	$1,204,299	$2,554,258
Keltern	409	362	$699,930	$659,768
Twyford Gravels	132	132	$284,719	$310,689
Totals	2189	2703	$3,916,466	$6,442,243

The Season

The season produced some early season frosts in both regions and a lot of sleepless nights for our managers. From about Christmas on our staff were challenged by the revised target and maximum yield parameters for the 2009 vintage. This was because of the extremely large crops the vines were carrying. Sauvignon Blanc in particular produced above average bunch numbers and also bunch weights up to 40% higher than average. In some cases this required the vineyards to have up to three extra passes to thin the crop to ensure that the vines did not over crop. These included shoot thinning, the removal of one or more canes and bunch thinning.

February was a very challenging month for the South Island vineyards. Unseasonal high rainfall occurred at a time when the fruit was at higher levels of ripeness and therefore more susceptible to disease pressure. This meant that some botrytis infected fruit needed to be thinned, to ensure the winery specifications were met. Fortunately, the weather improved following this and the harvest went very smoothly once underway Thanks to our very capable vineyard managers who managed the process with the assistance of our independent advisor Mark Allen.

The Higgins Road development is nearing completion with last year's plantings pruned and ready to produce a light crop next year. The benefits of economies of scale are now being felt, with the ability to share resources over a much larger vineyard. The Board is comfortable with its decision to undertake this development. The site was a prime site with A class water rights, existing producing vines as well as bare land, enabling a balance of varieties next door to an existing Terra Vitae vineyard and most importantly a secure long term contract for the grapes produced. At the moment many of the problems with vineyards in Marlborough are centered on a poor supply of water, marginal land in marginal areas, and in a lot of cases no contract for supply.

Share trading

Share trading has been light during the past 12 months with approximately 240,000 shares trading at between 40 and 55 cents. The current share price is 40 cents as against each share having a NTA value of 94 cents.

The Board

The Board has met regularly throughout the year, sometimes by teleconference. The members bring to the table a wide range of governance and viticultural experience and uses expert advice to enable it to come to various decisions it needs to make. The Board operates at a high level of ethical and governance standard. George Fistonich retires by rotation this year and being eligible, offers himself for re-election.

Field day

During the year a successful field day was held, with visits to both our Hawkes Bay vineyards, followed by lunch at the Esk Valley winery. It was a day enjoyed by many of our shareholders. There is a field day planned for Marlborough early next year, and once confirmed, notice will be given to allow enough time for shareholders to make their arrangements to attend.

Conclusion

I can inform you that the Vineyard Management Agreement has been successfully managed again. Thank you to George and his team, especially Alastair and Ollie. Thank you again to our vineyard managers who always seem to "go that extra mile". It was great to receive the news in October this year that Villa Maria had been named Champion Wine Producer of the Year for the second time at the 2009 Liquorland Top 100. One of the four Trophies won by Villa Maria was for the 2007 Taylors Pass Pinot Noir which is good news for Terra Vitae.

Thank you also to Alan O'Sullivan for the very professional way in which you manage a large part of our business, as well as keeping your chairman well informed. You are a very important part of the company. Thank you also to my fellow Directors for all the hard work you have done for the benefit of the company and the support you give to me.

Finally to you our shareholders, it has been a difficult year with a disappointing result, but I feel the company is in good shape to meet the upturn when it will inevitably come. The benefits of the long term grape supply and purchase contract with Villa Maria enhances the value of the company considerably. The value of those vineyards without secure supply contracts in place has diminished considerably over the last twelve months.

I look forward to meeting with as many of you as possible at the AGM on Monday 30th November or at our Field day in Marlborough late February/ early March 2010.

Joe Ferraby
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 auditors' report, for the year ended 30 June 2009.

Principal Activity

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

Results	**2009**	**2008**
	$	**$**
Net operating profit / (loss) for the year	(3,060,440)	2,307,857
Total Equity of the Company	37,507,755	41,511,889
Total Assets of the Company	65,619,234	66,735,097

Auditors

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

Interested Parties

All transactions conducted by the Company with Villa Maria Estate Limited, Vineyard Plants Limited and Vine Test Lab Limited, companies of which Mr. 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
	$60,000

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	25,000
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 balance sheet as at 30 June 2009 and the income statement, 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.

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. 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 30 for issue on 15th October 2009.

For and on behalf of the Board.

D Ferraby
Director

15th October 2009

A Pearson
Director

15th October 2009

Terra Vitae Vineyards Limited
Income Statement
For the year ended 30 June 2009

	Notes	**2009** **$**	2008 $
Revenue - sale of grapes		3,916,466	6,442,241
Cost of sales	8	3,387,187	2,600,612
Gross profit		529,279	3,841,629
Other Income			
Sundry income	7	191,212	197,592
Fair value movement in biological assets	7	-	997,387
Total Other Income		191,212	1,194,979
Operating Expenses			
Administrative costs	8	197,643	194,793
Depreciation	8	517,051	386,706
Finance costs	8	426,145	229,057
Other expenses	8	199,552	302,337
Fair value movement in non-biological assets	8	1,252,735	725,956
Fair value movement in biological assets	8	1,953,577	-
Total operating expenses		4,546,703	1,838,849
Total Expenses		4,546,703	1,838,849
Profit/(loss) before income tax		(3,826,212)	3,197,759
Income tax (expense)/credit	9	765,772	(889,902)
Profit/(loss) for the year		(3,060,440)	2,307,857
Basic and diluted earnings/(loss) per share	27	-0.08	0.06

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

Terra Vitae Vineyards Limited
Balance Sheet
As at 30 June 2009

	Notes	**2009** $	2008 $
Current assets			
Cash and cash equivalents	10	4,408	22,357
Prepayments and other receivables	11	103,583	241,490
Related party receivables	25e	2,643,614	4,367,491
Current tax receivable	9	900	115,213
Total current assets		2,752,505	4,746,551
Non-current assets			
Property, plant and equipment	12	44,115,629	42,445,445
Biological assets	14	18,751,000	19,543,001
Other financial assets	13	100	100
Total non-current assets		62,866,729	61,988,546
Total assets		65,619,234	66,735,097
Current liabilities			
Trade and other payables	15	566,690	634,164
Related party payables	25e	137,258	88,877
Total current liabilities		703,948	723,041
Non-current liabilities			
Interest bearing liabilities	17	22,627,416	18,783,798
Deferred tax liability	16	4,780,115	5,716,369
Total non-current liabilities		27,407,531	24,500,167
Total liabilities		28,111,479	25,223,208
Net assets		37,507,755	41,511,889
Equity			
Share capital	18a	28,800,000	28,800,000
Retained earnings		(1,008,255)	2,855,553
Asset revaluation reserve	19	9,716,010	9,856,336
Total equity		37,507,755	41,511,889

The above Balance Sheet should be read in conjunction with the accompanying notes.

Terra Vitae Vineyards Limited
Statement of Changes in Equity
For the year ended 30 June 2009

	Notes	Share capital $	Asset revaluation reserve $	Retained earnings $	Total $
Balance as at 1 July 2007		**28,800,000**	**8,797,205**	**1,197,108**	**38,794,313**
Fair value gain - land and buildings	19	-	1,190,493 *	-	1,190,493
Tax effect of fair value gains	16	-	(131,362)	-	(131,362)
Net income recognised directly in equity		-	1,059,131	-	1,059,131
Profit for the year		-	-	2,307,856	2,307,856
Total recognised income and expense		-	1,059,131	2,307,856	3,366,987
Dividends paid	20	-	-	(649,411)	(649,411)
Balance as at 30 June 2008		**28,800,000**	**9,856,336**	**2,855,553**	**41,511,889**
Balance as at 1 July 2008		**28,800,000**	**9,856,336**	**2,855,553**	**41,511,889**
Other movements				(3,368)	(3,368)
FITC				12,050	12,050
Fair value gain/(loss)- land and buildings	19	-	(298,758) *	-	(298,758)
Tax effect of fair value gains/(losses)	16	-	158,432	-	158,432
Net income recognised directly in equity		-	(140,326)	-	(140,326)
Profit for the year		-	-	(3,060,440)	(3,060,440)
Total recognised income and expense		-	(140,326)	(3,060,440)	(3,200,766)
Dividends paid	20	-	-	(812,050)	(812,050)
Balance as at 30 June 2009		**28,800,000**	**9,716,010**	**(1,008,255)**	**37,507,755**

* represents increase/(decrease) in revaluation reserve

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 2009

	Notes	**2009** **$**	2008 $
Operating Activities			
Cash was provided from:			
Receipts from customers		5,798,548	4,915,676
Interest received		3,106	20,380
Dividends received		200	260
Other income received		23,811	23,696
Income tax refunded		114,313	-
Cash was disbursed to:			
Payments to suppliers		(3,663,045)	(3,302,758)
Interest paid		(426,145)	(229,057)
Income taxes paid		0	(774,665)
Net cashflows from operating activities	22	1,850,788	653,533
Investing activities			
Cash was provided from:			
Sale of property, plant and equipment		-	23,000
Cash was applied to:			
Purchase of property, plant and equipment		(2,534,899)	(16,569,098)
Payments of interest capitalised to property, plant and equipment		(1,288,958)	(587,916)
Purchase of biological assets		(1,076,448)	(1,998,613)
Net cashflow from investing activities		(4,900,305)	(19,132,627)
Financing activities			
Cash was provided from:			
Proceeds of bank borrowings		3,843,618	18,783,799
Cash was applied to:			
Repayment of bank borrowings		-	-
Payment of dividend		(812,050)	(649,411)
Net cashflows from financing activities		3,031,568	18,134,388
Net increase/(decrease) in cash and cash equivalents		(17,949)	(344,707)
Cash and cash equivalents at beginning of year		22,357	367,064
Cash and cash equivalents at end of the year	10	4,408	22,357

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 2009

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 is 10 Birman Close, Half Moon Bay, Manukau, 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 15th October 2009. The entity's owners do not have the power to amend the financial statements after issue.

2 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, as modified by the revaluation of certain assets and liabilities as stated in specific accounting policies below.

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

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different from those of segments operating in other economic environments.

(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.

(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.

2 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.

(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 Balance Sheet are stated net of GST, with the exception of receivables and payables, which include GST invoiced.

(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 Balance Sheet.

(h) Leases

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.

2 Summary of Significant Accounting Policies (continued)

(i) Impairment

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).

(j) Trade 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.

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.

(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 receivables" and "cash and cash equivalents" in the balance sheet (notes g and j)

(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 balance sheet date.

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.

2 Summary of Significant Accounting Policies (continued)

(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. 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 balance sheet 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.

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.

(n) Borrowings

Borrowings are initially recognised at fair value, 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 balance sheet date.

2 Summary of Significant Accounting Policies (continued)

(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.

The capitalisation rate used to determine the amount of borrowing costs capitalised was 76% of total interest paid.

(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. 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. 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.

3 Basis of Transition to NZ IFRS

Standards, amendments and interpretations to existing standards that are not yet effective

(a) NZ IFRS 3 (Amendment) 'Business Combinations' (effective from 1 January 2009). The amendment includes a number of updates including the requirement that all costs relating to a business combination must be expensed and subsequent remeasurement of the business combination must be put through the Income Statement. The Company has adopted this from 1 July 2009 and it is not expected to have any impact on the financial statements as they are at balance date.

(b) NZ IFRS 8 'Operating segments' (effective from 1 January 2009) replaces NZ IAS 14. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The Company will adopt this standard from 1 July 2009. The standard may change the segmental reporting in the financial statements but there will be no measurement differences.

(c) NZ IAS 1 (Amendment) 'Presentation of Financial Statements'. The amendment requires a number of changes to the presentation and disclosures in financial statements including the introduction of a Statement of Comprehensive Income. The revised standard also prohibits the presentation of items of income and expenses (that is 'non-owner changes in equity') in the Statement of Changes in Equity requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity will be shown in the 'Statement of Comprehensive Income'. The Company will adopt this standard from 1 July 2009. The adoption of the standard may cause some presentation changes to the financial statements but no measurement differences.

(d) NZ IAS 23 (Amendment) 'Borrowing costs' (effective from 1 January 2009). The amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as a part of that asset. The option of immediately expensing those borrowing costs will be removed. The Company will adopt this standard from 1 July 2009 and it is not expected to have any impact on the financial statements as they are at balance date given that the company already capitalises borrowing costs that are directly attributable to acquisition or construction of qualifying assets.

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 2009 is $18,751,000 (2008: $19,543,001). The decrease in their fair value for the year ended 30 June 2009 is $1,953,577 (2008: increase of $997,387). (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 2009 is $42,032,000 (2008: $41,309,998). The decrease in their fair value, net of impairment losses or reversals, for the year ended 30 June 2009 is $1,665,686 (2008:increase of $464,538). (Refer to note 12.)

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 2009 approximately 80% 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.

		+[1]% change in interest rate			
		Impact on post tax profit		Impact on equity	
	Carrying amount	2009	2008	2009	2008
Variable portion of long term	$827,416 (2008: $4,383,799)	$4,402	$20,338	$4,402	$20,338

		-[1]% change in interest rate			
		Impact on post tax profit		Impact on equity	
	Carrying amount	2009	2008	2009	2008
Variable portion of long term	$827,416 (2008: $4,383,799)	-$(4,402)	-$(20,338)	-$(4,402)	-$(20,338)

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 balance sheet date:

	2009	2008
Counter party		
Villa Maria Estate Limited	$ 2,643,615	$ 4,367,491

There was no outstanding balance at the time of authorising the financial statements.

(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.

At 30 June 2009		Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Trade payables		$ 703,948	-	-	-
Bank borrowings		-	-	-	$ 22,627,416

At 30 June 2008		Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Trade payables		$ 723,041	-	-	-
Bank borrowings		-	-	-	$ 18,783,798

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.

7 Other income

	2009	2008
	$	$
Sundry Income		
Interest income	3,106	20,380
Dividend income	200	260
Harvesting income	164,095	130,255
Profit on sale of property, plant & equipment	-	23,000
Sundry income	23,811	23,696
Total sundry income	191,212	197,592
Fair value movement in biological assets (note 14)	-	997,387

8 Expenses

Cost of sales		
Fertilizer	77,788	49,462
Frost Control	107,397	122,651
Pesticides	189,521	116,055
Herbicides	68,250	43,303
Irrigation Running	45,008	44,960
Labour & Contractor Costs	2,256,986	1,686,566
Machinery Running	99,600	66,149
Pellenc Tractor Maintenance	65,218	95,755
Harvesting Costs	112,899	108,827
Rates	34,373	29,142
Repairs & Maintenance	127,836	83,826
Other Vineyard Expenses	202,312	153,917
	3,387,187	2,600,612

Operating Expenses

Administrative Costs		
Remuneration of auditors - audit of financial statements	15,850	28,400
Bank Fees	593	3,099
Management Consulting	9,473	12,223
Administrative Services	67,795	55,295
Share Register Charges	18,437	16,750
Company Secretarial	30,000	30,000
Insurance	26,348	17,870
Travel Expenses	6,131	6,947
Shareholder Meeting Expenses	7,145	5,097
Other Administrative Costs	15,871	19,113
	197,643	194,793

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Operating Expenses (continued)	**2009**	2008
	$	$
Depreciation		
Land Development	235,757	171,257
Buildings	32,698	23,398
Plant	178,006	129,778
Office Equipment	19	917
Motor Vehicles	70,571	61,356
	517,051	386,706
Finance Costs		
Interest Paid	426,145	229,057
Other Expenses		
Grape Growers Levy	29,373	48,304
Directors Fees	60,000	60,000
Legal Expenses	978	64,363
Vineyard Management Fee	109,200	103,387
Higgins Road Preliminary Expenses	-	22,051
Other	-	4,231
	199,552	302,337
Fair Value Movement in non-biological assets		
Higgins Road Vineyard	1,252,735	725,956
Fair Value Movement in biological assets		
Keltern	217,000	-
Twyford	231,000	-
Taylors Pass	1,023,000	-
Seddon	589,000	-
Higgins Road	(106,423)	-
	1,953,577	-
Total Operating Expenses	4,546,703	1,838,849

9 Income Tax

(a) Income tax expense

Current Tax		
Current tax on profits for the year	(1,079,616)	667,887
Adjustments in respect of prior years	-	-
Deferred tax		
Origination and reversal of temporary differences	313,844	199,813
Impact of change in tax rates	-	22,202
	(765,772)	889,902

Terra Vitae Vineyards Limited
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9 Income tax expense (continued)

	2009	2008
	$	$
(b) Numerical reconciliation of income tax expense to prima facie tax payable		
Profit/(loss) before income tax expense	(3,826,212)	3,197,759
Tax at the New Zealand tax rate of 30% (2008: 33%)	(1,147,864)	1,055,260
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Fair value changes in Property, Plant & Equipment	375,821	-
Deferred tax movement (reserves)	158,432	-
Deferred tax movement	155,412	-
Other permanent differences	(307,573)	(143,156)
Adjustment for change in tax rate from 33% to 30%	0	(22,202)
Income tax expense	**(765,772)**	**889,902**
Included under Current Assets		
Income tax receivable/(payable) at beginning of year	115,213	8,435
Adjustment for non-deductible expenses 2008	(12,779)	-
Income Tax Expense in respect of current period	0	(667,887)
Net Income Tax Paid/(Refunded)	(101,534)	774,665
Income tax receivable at year end	**900**	**115,213**

The weighted average applicable tax rate was 30% (2008: 33%).

(c) Imputation credit account		
Balance at beginning of year	849,297	366,582
Credit arising from transfer of credits on amalgamation	10,095	-
Tax payments/(refunds)	(111,845)	768,991
Credits attached to interest received	900	2,682
Debit arising from continuity breach due to amalgamation	-	-
Imputation credits attached to dividends paid	(381,980)	(288,958)
Balance at end of year	366,467	849,297

10 Cash and Cash Equivalents

Bank balances	4,408	20,255
Deposits at call	-	2,102
Total cash and cash equivalents	4,408	22,357

11 Prepayments and Other Receivables

GST Receivable	76,158	87,731
Prepayments	21,535	153,759
Other Receivables	5,890	-
Total prepayments and other receivables	103,583	241,490

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12 Property, Plant and Equipment

	Land	Land development	Buildings	Plant	Office equipment	Motor vehicles	Total
	$	$	$	$	$	$	$
At 1 July 2007							
Cost/Valuation	18,281,999	5,481,152	510,999	1,101,388	4,161	512,354	25,892,053
Accumulated depreciation	-	-	-	(391,485)	(3,167)	(286,801)	(681,453)
Net book amount	18,281,999	5,481,152	510,999	709,903	994	225,553	25,210,600
Year ended 30 June 2008							
Opening net book amount	18,281,999	5,481,152	510,999	709,903	994	225,553	25,210,600
Additions	13,856,378	2,454,805	454,782	164,214	-	226,836	17,157,015
Impairment losses reversed/(recognised)	-	(725,956)	-	-	-	-	(725,956)
Revaluation increases/(decreases)	752,621	359,257	78,616	-	-	-	1,190,494
Depreciation	-	(171,257)	(23,398)	(129,779)	(917)	(61,357)	(386,708)
Closing net book amount	32,890,998	7,398,001	1,020,999	744,338	77	391,032	42,445,445
At 1 July 2008							
Cost/Valuation	32,890,998	7,398,001	1,020,999	1,265,602	4,161	739,190	43,318,951
Accumulated depreciation	-	-	-	(521,264)	(4,085)	(348,158)	(873,507)
Net book amount	32,890,998	7,398,001	1,020,999	744,338	76	391,032	42,445,444
Year ended 30 June 2009							
Opening net book amount	32,890,998	7,398,001	1,020,999	744,338	76	391,032	42,445,444
Additions	1,032,363	1,462,010	47,577	1,196,303	476	-	3,738,729
Revaluation increases/(decreases)	(1,133,361)	(403,254)	(14,878)	-	-	-	(1,551,492)
Depreciation	-	(235,757)	(32,698)	(178,006)	(19)	(70,571)	(517,052)
Closing net book amount	32,790,000	8,221,000	1,021,000	1,762,635	533	320,461	44,115,629
At 30 June 2009							
Cost/Valuation	32,790,000	8,221,000	1,021,000	2,461,905	4,637	739,190	45,237,732
Accumulated depreciation	-	-	-	(699,270)	(4,104)	(418,729)	(1,122,103)
Net book amount	32,790,000	8,221,000	1,021,000	1,762,635	533	320,461	44,115,629

12 Property, Plant and Equipment (continued)

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

	2009 **$**	2008 $
Cost	20,521,013	20,473,437
Accumulated depreciation	(101,103)	(72,233)
Net book amount	20,419,909	20,401,204

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 $1,665,686 in the fair value of the land, buildings and land improvements as at 30 June 2009. 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 2009.

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.

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.

13 Other Financial Assets

	2009	2008
	$	$
Shares in Ravensdown Fertiliser	100	100

The above shares in Ravensdown Fertiliser have been measured 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.

14 Biological Assets

	2009	2008
	$	$
Grape Vines		
Carrying amount at 1 July	19,543,001	16,547,001
Fair value gains/(losses) on grape vines during the year	(1,953,577)	997,387
Purchases of grape vines	1,161,576	1,998,613
Other movements	-	-
Carrying value at 30 June	18,751,000	19,543,001

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 2009, the company had a total of 380 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 $3,916,466 (2008 $6,442,240). 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.

15 Trade and Other Payables

	2009	2008
	$	$
Trade payables	538,962	518,332
Accrued expenses	27,728	105,832
Directors' fees	-	10,000
	566,690	634,164

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
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16 Deferred Tax

The balance comprises temporary differences attributable to:

	Plant & equipment	Other	Vines	Land development	Buildings	Tax Losses	FITC	Total
	$	$	$	$	$	$	$	$
Balance at 1 July 2007	111,328	(1,339)	(4,511,413)	(907,443)	(54,125)	-	-	(5,362,992)
Amounts charged to income statement	(12,097)	69	(387,721)	180,885	(3,151)	-	-	(222,015)
Amounts charged to equity	-	-	-	(107,777)	(23,585)	-	-	(131,362)
Balance at 30 June 2008	99,231	(1,270)	(4,899,134)	(834,335)	(80,861)	-	-	(5,716,369)
Balance at 1 July 2008	99,231	(1,270)	(4,899,134)	(834,335)	(80,861)	-	-	(5,716,369)
Other movements	-	-	-	-	-	-	12,050	12,050
Amounts charged to income statement	(8,500)	3,428	18,345	(16,589)	6,336	1,079,616	-	1,082,636
Amounts charged to equity	-	-	-	(153,969)	(4,463)	-	-	(158,432)
Balance at 30 June 2009	90,731	2,158	(4,880,789)	(1,004,893)	(78,988)	1,079,616	12,050	(4,780,115)

	2009	2008
	$	$
Deffred tax assets:		
- Deferred tax assets to be recovered after more than 12 months	12,050	-
- Deferred tax assets to be recovered within 12 months	1,172,505	99,231
	1,184,555	99,231
Deferred tax liabilities:		
- Deferred tax liabilities to be recovered after more than 12 months	(5,964,670)	(5,815,600)
- Deferred tax liabilities to be recovered within 12 months	-	-
	(5,964,670)	(5,815,600)
Deferred tax liability (net):	**(4,780,115)**	**(5,716,369)**

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.

17 Interest Bearing Liabilities

	2009	2008
Non-current	**$**	$
Secured		
Bank borrowings	(22,627,416)	(18,783,798)
Total interest bearing borrowings	**(22,627,416)**	(18,783,798)

The carrying amount of the above borrowing approximates its fair value. The secured term loan facility with Rabobank matures in 2017.

The weighted average interest rate on interest bearing borrowings outstanding at 30 June 2009 was:	7.97%	9.08%

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;

- Keltern Vineyard Property
- Twyfords Gravel Vineyard Property
- Taylors Pass Vineyard Property
- Seddon Vineyards Property
- Hammond 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

	2009	2008
	$	$
(a) Authorised share capital		
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	28,800,000	28,800,000
(b) Movements in number of shares	**Number**	Number
Opening balance of ordinary shares issued	40,000,000	40,000,000
Issues of ordinary shares during the year	-	-
Closing balance of ordinary shares issued	40,000,000	40,000,000

(c) Ordinary shares
Ordinary shares 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.

	2009	2008
(d) Treasury share capital	**$**	$
Movements in treasury share capital		
Purchase of treasury shares during year	-	1,034,000
Sale of treasury shares during year	-	(1,034,000)
Closing balance of treasury shares issued	-	-

18 Contributed Equity (continued)

(e) 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.

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 balance sheet) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the balance sheet plus net debt. The gearing ratios at 30 June 2009 and 2008 were as follows:

	2009 **$**	2008 $
Total borrowings	22,627,416	18,783,798
Less cash and cash equivalents	4,408	22,357
Net debt	22,623,007	18,761,441
Total equity	37,507,755	41,511,889
Total capital	60,130,763	60,273,330
Gearing ratio	38%	31%

As part of the loan agreement with Rabobank entered into in 2007 and revised on 1 June 2009, the Company is required to maintain a minimum Quasi Equity of $40,000,000, 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.

	2009 **$**	2008 $
Total Tangible assets	65,619,234	66,735,097
Total Liabilities	(28,111,479)	(25,223,208)
Add Back Deferred Tax Liability	4,780,115	-
Total Equity	42,287,869	41,511,889
Equity Ratio	64%	62%

Terra Vitae Vineyards Limited met all bank covenants for the year ended 30 June 2009.

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.

20 Dividends

Ordinary shares	**$**	**Per share**
Dividend paid during the year ended 30 June 2008	649,411	0.016
Dividend paid during the year ended 30 June 2009	812,050	0.020

The dividends are fully imputed.

On 15 October 2009 the directors resolved that no dividend would be paid for the year ended 30 June 2009

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21 Financial Instruments by Category

30 June 2009

Assets as per Balance Sheet	Loans and receivables $
Trade and other receivables	2,649,504
Cash and cash equivalents	4,408
	2,653,913

Liabilities as per Balance Sheet	Other financial liabilities at amortised cost $
Borrowings	22,627,416
Trade and other payables	703,948
	23,331,364

30 June 2008

Assets as per Balance Sheet	Loans and receivables $
Trade and other receivables	4,367,492
Cash and cash equivalents	22,357
	4,389,849

Liabilities as per Balance Sheet	Other financial liabilities at amortised cost $
Borrowings	18,783,798
Trade and other payables	723,041
	19,506,839

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

	2009 **$**	2008 $
Profit/(loss) after income taxation	**(3,060,440)**	**2,307,856**
Add non cash items:		
Depreciation	517,051	386,706
Other adjustments		
Movement in fair value of fixed assets	1,252,735	702,956
Movement in fair value of vines	1,953,577	(997,387)
	3,723,363	**92,275**
Change in goods and services taxation	11,573	(491,732)
Increase (decrease) in accounts payable	(22,460)	429,905
(Increase) decrease in prepayments & other receivables	126,335	(143,188)
(Increase)/decrease in taxes receivable	114,313	(106,778)
Increase (decrease) in deferred tax liability	(765,772)	222,015
(Increase) decrease in amounts due from related parties	1,723,877	(1,656,820)
	1,187,866	**(1,746,598)**
Net cashflow from operating activities	**1,850,788**	**653,533**

23 Contingencies

As at 30 June 2009 the Company had no contingent liabilities or contingent assets (2008:Nil).

24 Commitments

(a) Capital commitments

As at 30 June 2009 the total capital expenditure contracted for but not provided for was $149,034 (2008:$794,272).

(b) Lease commitments : Company as lessee

Operating leases

Operating lease commitments comprise a long-term land lease of 8 ha at the Keltern 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 4 years and expires in 2011. The Ground Rental is reviewed every 5 years with the next review due in 2013.

	2009	2008
	$	$
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	28,467	28,467
Later than one year but not later than five years	82,956	94,548
Later than five years	80,156	97,031
	191,579	220,046

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, George Fistonich, Andrew Pearson.

(b) Key management and personnel and compensation

Key management personnel compensation for the year ended 30 June 2009 and the year ended 30 June 2008 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.

	2009	2008
	$	$
Short term benefits (Directors' Fees)	60,000	60,000
Other long-term benefits	-	-
Termination benefits	-	-
Total	**60,000**	60,000

(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.

	2009	2008
	$	$
Purchase of shares from key management personnel		
On 30 August 2007 676,000 shares were purchased at 65 cents per share from Salvus Asset Management Ltd, a company of which Andrew Couch is a Director.	-	439,400

25 Related Party Transactions (continued)

(d) Transactions with related parties
The following transactions occurred with related parties:

	2009 **$**	2008 $
Purchases of services		
Villa Maria Estate Limited	109,200	103,387
Purchase of vines		
Vineyards Plants Limited	747,848	320,418
Sales of grapes		
Villa Maria Estate Limited	3,916,466	6,442,241

(e) Outstanding balances

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

	2009 **$**	2008 $
Receivables		
Villa Maria Estate Limited	2,643,614	4,367,491
Payables		
Villa Maria Estate Limited	137,258	84,285
Vine Test Lab Limited	-	4,592
	137,258	88,877

Relationships with related parties

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.

During the year, the Company purchased vines from Vineyards Plants Limited, a company which is owned 50% by Villa Maria Estate Limited. George Fistonich is also a director of Vineyard Plants Limited.

During the year, the Company commissioned virus testing services from Vine Test Lab Limited, a company which is owned 50% by George Fistonich. George Fistonich is also a Director of Vine Test Lab 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 Balance Sheet Date

No events requiring adjustment in the financial statements occurred after balance 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.

	2009	2008
Profit/(loss) attributable to equity holders of the Company - in dollars	-3,060,440	2,307,856
Weighted average number of ordinary shares in issue	40,000,000	40,000,000
Basic earnings per share - in dollars	-0.08	0.06

(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 AUDITORS' REPORT

To the Shareholders of Terra Vitae Vineyards Limited

We have audited the financial statements on pages 6 to 30 which comprise the balance sheet as at 30 June 2009, and the income statement, 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' Responsibilities for the Financial Statements

The Directors are responsible for the preparation of the 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.

Auditors' Responsibilities

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 statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company'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 to 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 audit opinion.

Other than in our capacity as auditors, the firm has no relationship with, or interest in, Terra Vitae Vineyards Limited.

Level 3, CST Nexia Centre, 22 Amersham Way. PO Box 76 261 Manukau City New Zealand. Tel 0-9 262 2595 Fax 0-9 262 2606 Email: team@cstnexia.co.nz

CST NEXIA
CHARTERED ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT Continued

Opinion

In our opinion, the financial statements on pages 6 to 30:

- 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 2009 and its financial performance and its cash flows for the year ended on that date.

Report on Other Legal and Regulatory Requirements

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

15 October 2009

<u>Matters relating to the Electronic Presentation of the Audited Financial Report</u>

This audit report relates to the financial statements of Terra Vitae Vineyards Limited for the year ended 30 June 2009 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 audit 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 these financial statements are concerned with the inherent risks arising from electronic data communication they should refer to the published copy of the audited financial statements and related audit report dated 15 October 2009 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 2009

Ten Largest Shareholders as at 30 June 2009

Holder	Shares Held	% of Shares
Villa Maria Estate Limited	8,756,361	21.89%
HSBC Nominees New Zealand Ltd	1,911,000	4.78%
George Vjeceslav Fistonich	503,240	1.26%
Custodial Services Limited (No 3)	456,000	1.14%
Custodial Services Limited (No 2)	227,921	0.57%
Hatch Mansfield Agencies Limited	227,760	0.57%
T J Goodwin*A Goodwin*I R B Burgess	200,000	0.50%
Sheather Family Account	173,000	0.43%
Murray Hamilton Blyth & Beverley Campbell Blyth	169,000	0.42%
David Nicholas Coleman	156,000	0.39%
Total for top 10 Shareholders	12,780,282	31.95%

Shareholding Breakdown

Holding Range	Holders	Shares Held	% of Shares
< 25,000	157	1,435,468	3.59%
25,000 - 49,999	664	17,899,200	44.75%
50,000 - 99,999	108	6,344,250	15.86%
100,000 - 999,999	22	3,653,721	9.13%
> 1,000,000	2	10,667,361	26.67%
Totals	953	40,000,000	100.00%

Terra Vitae Vineyards Limited
Directory
For the year ended 30 June 2009

Board of Directors
David Ferraby (Chairman)
George Fistonich
Andrew Pearson
Milan Brajkovich

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Manukau 2012

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Manukau City 2241

Share Register
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PO Box 54124
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Manukau 2144

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