Terra Vitae Vineyards Limited

Looking East over Chardonnay and Sauvignon Blanc vines at the Taylors Pass Vineyard,
with some of the boulders removed from the land prior to planting shown in the foreground

ANNUAL REPORT
for the year ended 30 June 2010

Terra Vitae Vineyards Limited

Financial Statements

For the year ended 30 June 2010

Contents

Terra Vitae Vineyards Ltd

Chairman's report

On behalf of your Board of Directors I am pleased to present the results of Terra Vitae Vineyards Ltd's (TVV) activities for the year ended June 30, 2010.

In my report to you last year I reported on three events which had impacted severely on the wine industry here in New Zealand, with those events impacting on our results for that year. The issues identified have continued to affect this reporting period with weaker prices for wine worldwide. This, coupled with an ongoing hangover of excess volumes of Sauvignon Blanc from the 2008 harvest, meant a further fall in grape prices along with a continuation of yield restrictions across the New Zealand viticulture industry. This resulted in a drop in gross revenue, resulting in a trading loss of $511,240 (2009 $619,900).

Property prices throughout New Zealand have been affected by the global financial events and vineyard values have been affected by these events, along with the current lack of profitability in the wine industry. This has led to a further drop in our vineyard land values. As required by IFRS rules, the fair value adjustments of $3,644,587 (mainly relating to the Higgins Road property with no previous revaluation surplus) have been taken to our Income Statement, bringing the total reported loss to $4,155,827. These fair value adjustments include interest capitalised on the Higgins Road property, allowable under IFRS.

This further drop in prices and vineyard values meant that we did not achieve our budgeted modest profit which was forecast and indicated in last year's report from me. The resulting loss has meant that there will be no dividend paid this year. Whilst it is disappointing to have to make this decision, the Board considers it is prudent not to pay any dividend until we are profitable.

The wine industry, like other commodity products, has always been subjected to the volatility of world supply and demand and currency movements causing prices to rise and fall. As disappointed as we are in the state of the industry at this time, your board remains optimistic about the future of the industry. This optimism is based on some factors that are evident out there now, in spite of this present downturn being much deeper than the industry was expecting this time last year.

Your board has remained focused on strategically assessing the five vineyards by bench marking their performance against each other and comparable vineyards in their respective regions. The highlight of the analysis is the benefits of economies of scale which are now becoming apparent. The combined Seddon/Higgins vineyard enjoys costs per hectare well below industry averages, whilst our other vineyards are in line with industry averages. Cutting costs is only one part of the equation and a recent strategy session held by the Board concentrated on our income and how we can increase that with pruning to maximum yields in the most efficient way possible, by growing premium quality grapes to attract premium prices, i.e. reserve wines. We also focused on the varieties we are growing and whether they are giving us the best returns per hectare.

We have also invested in a mechanical pruner and have updated our multipurpose harvesting equipment. In both cases these machines have given us a good payback, mainly because of the efficiencies gained by the economies of scale at the Seddon/Higgins Block.

The chart below shows the individual vineyards production and gross revenue. The season was relatively kind in Marlborough, resulting in a harvest close to budget, whilst in Hawke's Bay the yield was affected by a cool November, which impacted on flowering and a rain event in March, which created disease pressure on the fruit. The Higgins Road block is starting to produce good volumes and the 2010 harvest was up to budget yield and of good quality across the four varieties it is growing. A summary of each vineyard's yield follows:

Vineyard	Yield 2009	Yield 2010	Crop Value 2009	Crop Value 2010
Seddon	726	778	$1,382,574	$1,244,691
Higgins Road	196	684	$344,944	$956,797
Taylors Pass	726	801	$1,204,299	$1,263,475
Keltern	409	219	$699,930	$351,453
Twyford Gravels	132	101	$284,719	$278,057
Totals	2189	2583	$3,916,466	$4,094,473

Wines made from the company's vineyards by Villa Maria Estate have again achieved numerous awards at both National and International level. A small selection of the highlights follows:

Taylors Pass	VM Reserve Chardonnay 2008	– Gold Air NZ Wine Awards
	VM Single Vineyard Sauv Blanc 2009	– 5 Stars Winestate Magazine
Seddon	VM Single Vineyard Pinot Noir 2007	– Silver Liquorland Int Wine Comp
	VM Single Vineyard Pinot Gris 2009	– Pure Silver Bragato Wine Awards
Keltern	VM Single Vineyard Chardonnay 2007	– Champion Wine of Show Trophy Liquorland Int Wine Competition

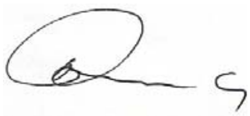
It has not been an easy year for the board governing the company in these difficult times. The wide range of viticulture and business experience that is brought to the table has been invaluable during the last twelve months. I retire by rotation this year and being eligible, offer myself for re-election.

The last twelve months has seen very few shares traded and what have traded have been in the 40 to 45 cent range. A successful field day attended by a good number of shareholders was held in Marlborough. The weather was not typical of Marlborough's normally fine weather on the day, however the rain did hold off at the appropriate times.

In conclusion I want to thank our four vineyard managers for the excellent way in which they have managed our vineyards. Thank you Carl, Garrie, Mark and Phil. Thank you also to the team at Villa Maria who manage our Vineyard Management Agreement, especially Sir George Fistonich, Alastair Maling and Ollie Powrie. Finally my thanks to my fellow board members for their input and to our secretary Alan O’Sullivan, who continues to manage the company’s administration requirements. Alan’s input and efficiency in managing our share register and the financial operation of the business is done very efficiently and accurately.

As I said at the beginning it has not been a good year in the wine industry and our results reflect that. Our focus as a board is to keep the company in the best shape possible, in anticipation for the upturn in the industry that will inevitably come.

I look forward to seeing as many of you who are able to attend at our AGM on November 30th at 2.30pm at the Villa Maria Estate, Auckland or at our anticipated Field Day in Hawke’s Bay in March.



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 independent auditors' report, for the year ended 30 June 2010.

Principal Activity

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

Results	**2010**	**2009**
	$	**$**
Net operating profit / (loss) for the year	(4,457,033)	(3,060,440)
Total Equity of the Company	30,802,786	37,507,755
Total Assets of the Company	61,119,015	65,619,234

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 2010 and the income statement, statement of 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.

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 32 for issue on 6 October 2010.

For and on behalf of the Board.

D Ferraby
Director

A Pearson
Director

AK Pearson

Wednesday, 6 October 2010

Wednesday, 6 October 2010

Terra Vitae Vineyards Limited
Income Statement
For the year ended 30 June 2010

	Notes	**2010** **$**	2009 $
Revenue			
Sale of Grapes		4,094,473	3,916,466
Interest Income		241	3,106
Dividends		-	200
Services rendered-Harvesting Income		166,919	164,095
		4,261,633	4,083,867
Cost of sales	8	3,080,925	3,387,187
Gross profit		1,180,708	696,680
Other Income			
Sundry income	7	26,464	23,811
Fair value movement in biological assets	7	-	-
Total Other Income		26,464	23,811
Operating Expenses			
Administrative costs	8	193,106	197,643
Depreciation	8	607,745	517,051
Finance costs	8	545,733	426,145
Other expenses	8	371,827	199,552
Fair value movement in land	8	2,986,525	-
Fair value movement in other property, plant and equipment	8	456,885	1,252,735
Fair value movement in biological assets	8	201,177	1,953,577
Total operating expenses		5,362,998	4,546,703
Total Expenses		5,362,998	4,546,703
Profit/(loss) before income tax		(4,155,826)	(3,826,212)
Income tax (expense)/credit	9	(301,207)	765,772
Profit/(loss) for the year		(4,457,033)	(3,060,440)

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

Terra Vitae Vineyards Limited
Statement of Comprehensive Income
For the year ended 30 June 2010

	Notes	**2010** **$**	2009 $
Profit (loss) for the year		(4,457,033)	(3,060,440)
Other comprehensive income			
Revaluation of land and buildings*	19	(2,263,434)	(298,758)
Income tax relating to components of other comprehensive income	16	15,499	158,432
Other comprehensive income for the year, net of tax		(2,247,935)	(140,326)
Total comprehensive income for the year, net of tax		(6,704,968)	(3,200,766)
Attributable to:			
Owners of the parent		(6,704,968)	(3,200,766)
Basic and diluted earnings/(loss) per share	27	-0.11	-0.08

* - represents increase (decrease) in the revaluation reserve

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

Terra Vitae Vineyards Limited
Balance Sheet
As at 30 June 2010

	Notes	**2010** $	2009 $
Current assets			
Cash and cash equivalents	10	4,376	4,408
Prepayments and other receivables	11	71,389	103,583
Related party receivables	25e	2,762,094	2,643,614
Current tax receivable	9	62	900
Total current assets		2,837,921	2,752,505
Non-current assets			
Property, plant and equipment	12	39,808,994	44,115,629
Biological assets	14	18,472,000	18,751,000
Other financial assets	13	100	100
Total non-current assets		58,281,094	62,866,729
Total assets		61,119,015	65,619,234
Current liabilities			
Trade and other payables	15	336,937	566,690
Related party payables	25e	121,295	137,258
Total current liabilities		458,232	703,948
Non-current liabilities			
Interest bearing liabilities	17	24,780,138	22,627,416
Deferred tax liability	16	5,077,859	4,780,115
Total non-current liabilities		29,857,997	27,407,531
Total liabilities		30,316,229	28,111,479
Net assets		30,802,786	37,507,755
Equity			
Share capital	18a	28,800,000	28,800,000
Retained earnings		(5,465,289)	(1,008,255)
Asset revaluation reserve - property, plant & equipment	19	7,468,075	9,716,010
Total equity		30,802,786	37,507,755

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 2010

	Notes	Share capital $	Asset revaluation reserve $	Retained earnings $	Total $
Balance as at 1 July 2008		**28,800,000**	**9,856,336**	**2,855,553**	**41,511,889**
Profit for the period		-	-	(3,060,440)	(3,060,440)
Other comprehensive income		-	(140,326)	-	(140,326)
Total comprehensive income for the year		-	(140,326)	(3,060,440)	(3,200,766)
Transactions with owners					
Foreign investor tax credit (FITC)		-	-	12,050	12,050
Other movements		-	-	(3,368)	(3,368)
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**
Balance as at 1 July 2009		**28,800,000**	**9,716,010**	**(1,008,255)**	**37,507,755**
Profit for the period		-	-	(4,457,033)	(4,457,033)
Other comprehensive income		-	(2,247,935)	-	(2,247,935)
Total comprehensive income for the year		-	(2,247,935)	(4,457,033)	(6,704,968)
Transactions with owners					
Foreign investor tax credit (FITC)		-	-	-	-
Other movements		-	-	-	-
Dividends paid	20	-	-	-	-
Balance as at 30 June 2010		**28,800,000**	**7,468,075**	**(5,465,289)**	**30,802,786**

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 2010

	Notes	**2010** **$**	2009 $
Operating Activities			
Cash was provided from:			
Receipts from customers		4,142,913	5,798,548
Interest received		303	3,106
Dividends received		0	200
Other income received		25,214	23,811
Income tax refunded		12,812	114,313
Cash was disbursed to:			
Payments to suppliers		(3,690,212)	(3,663,045)
Interest paid		(545,733)	(426,145)
Income taxes paid		0	0
Net cashflows from operating activities	22	(54,703)	1,850,788
Investing activities			
Cash was provided from:			
Sale of property, plant and equipment		1,250	-
Cash was applied to:			
Purchase of property, plant and equipment		(793,173)	(2,534,899)
Payments of interest capitalised to property, plant and equipment		(1,299,542)	(1,288,958)
Purchase of biological assets		(6,585)	(1,076,448)
Net cashflow from investing activities		(2,098,050)	(4,900,305)
Financing activities			
Cash was provided from:			
Proceeds of bank borrowings		2,152,722	3,843,618
Cash was applied to:			
Repayment of bank borrowings		-	-
Payment of dividend		-	(812,050)
Net cashflows from financing activities		2,152,722	3,031,568
Net increase/(decrease) in cash and cash equivalents		(32)	(17,949)
Cash and cash equivalents at beginning of year		4,408	22,357
Cash and cash equivalents at end of the year	10	4,376	4,408

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 2010

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 6 October 2010. 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, as modified by the revaluation of biological assets and some items 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.

(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 (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.

(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. The net amount of GST recoverable from or payable to the taxation authority is included as part of receivables or payables in the balance sheet. 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.

(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. For the statement of cash flow 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.

(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.

(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 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 (i)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. 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 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. An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the entity.

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 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 balance sheet date.

2 (i)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, including; interest on bank overdraft, interest on short term and long-term borrowings, interest on finance leases and unwinding of discount on provisions.

The capitalisation rate used to determine the amount of borrowing costs capitalised was 70.4% 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. 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.

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.

1. The Company was established to grow premium grapes under a long term contractual arrangement with Villa Maria Estate Limited. This agreement is current with rights of renewal up until 2028.

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 its grapes harvested in the foreseeable future.

3. The vineyards are in two regions at four locations providing some diversity and protection against the effects of adverse climatic and geological events.

4. The vineyards are near full production and do not require additional development expenditure of any significant amount.

5. 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.

6. The wine industry's export volumes have continued to grow at a rate of 23% (moving annual total August 2010) as opposed to the projected growth in producing vineyards of only 0.5% from 2010 to 2012. This provides the company with some confidence that the supply/demand equation is close to being back in balance, paving the way for an uplift in grape prices. The Directors have taken this into account in projecting an increase in revenue in future years.

7. The Company continues to reduce its cash deficits, reflected in a decrease in operating loss before fair value adjustments. The majority of the losses reported in the past two years have been the result of fair value adjustments to the vineyards, which has had no effect on the cash flow of the business. Operating losses before fair value adjustments in the past two years have been $511,240 (2010) and $619,900 (2009). The operating loss before fair value adjustments is forecast to reduce further in 2011, with a profit being achieved from 2012.

8. The Directors have entered into discussions with the Company's bankers to provide extended banking facilities for this season and expect that these will be in place before the end of the calendar year. In the event that the required increase in funding line does not eventuate, the Directors may consider the sale of less productive assets or a Rights Issue to provide additional working capital.

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 is at the bottom of the current cycle. There remains some risk until the company obtains confirmation from its bankers for the increased funding required. The Directors consider that this risk is being prudently managed in the circumstances.

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

NZ IFRS 9 'Financial Instruments' (effective from 1 July 2013). NZ IFRS 9 addresses the classification and measurement of financial assets and is likely to affect the Company's accounting for its financial assets. The Company is yet to assess its full impact. However, all financial assets are required to be classified on the basis of the entity's business model for managing the financial assets and contractual cash flow characteristics of the financial asset.

3 (B) New Accounting Standards and Interpretations

(a) NZ IFRS 8 'Operating Segments'. NZ IFRS 8 replaced NZ IAS14 *Segment Reporting* upon its effective date. The Company concluded that the operating segments determined in accordance with NZ IFRS 8 are the same as the business segments previously identified under NZ IAS 14. NZ IFRS 8 disclosures are shown in note 6.

(b) NZ IAS 1 'Presentation of Financial Statements' Revised. The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented in a reconciliation of each component of equity and included in the new statement of comprehensive income. The statement of comprehensive income presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Company has elected to presented two linked statements.

(c) NZ IAS 23 'Borrowing costs' Revised. The revised NZ IAS 23 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. This practice is consistent with the Company's accounting treatment as the company already capitalises borrowing costs that are directly attributable to acquisition or construction of qualifying assets.

In 2008 and 2009 various amendments to NZ IFRS were issued as part of the Annual Improvements Project, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions and application dates for each amendment. The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Company.

- NZ IFRS 8 *Operating Segments:* clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker. As the Company's chief operating decision maker, the Board, does not review segment assets and liabilities, the Company has not disclosed this information.

- NZ IAS 38 *Intangible Assets:* expenditure on advertising and promotional activities is recognised as an expense when the Company either has the right to access the goods or has received the service. This amendment has no impact on the Company because it does not enter into such promotional activities.

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 2010 is $18,472,000 (2009: $18,751,000). The decrease in their fair value for the year ended 30 June 2010 is $201,177 (2009: increase of $1,953,577). (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 2010 is $37,716,000 (2009: $42,032,000). The decrease in their fair value, net of impairment losses or reversals, for the year ended 30 June 2010 is $4,316,000 (2009 $1,665,686). (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 2010 approximately 20% 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	2010	2009	2010	2009
Variable portion of long term borrowings	$530,138	$3,711	$4,402	$3,711	$4,402
	(2009: $827,416)				

		-[1]% change in interest rate			
		Impact on post tax profit		Impact on equity	
	Carrying amount	2010	2009	2010	2009
Variable portion of long term borrowings	$530,138	-$(3,711)	-$(20,338)	-$(3,711)	-$(20,338)
	(2009: $827,416)				

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:

Counter party	2010	2009
Villa Maria Estate Limited	$ 2,762,094	$ 2,643,614

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 2010		Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Trade payables		$ 458,232	-	-	-
Bank borrowings		-	-	-	$ 24,780,138

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

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.

Terra Vitae Vineyards Limited
Notes to the financial statements
For the year ended 30 June 2010

7 Other income

	2010	2009
	$	$
Sundry Income		
Profit on sale of property, plant & equipment	1,250	-
Sundry income	25,214	23,811
Total sundry income	26,464	23,811
Fair value movement in biological assets (note 14)	-	-

8 Expenses

Cost of sales		
Fertilizer	60,210	77,788
Frost Control	130,787	107,397
Pesticides	187,235	189,521
Herbicides	30,372	68,250
Irrigation Running	97,919	45,008
Labour & Contractor Costs	1,860,093	2,256,986
Machinery Running	89,852	99,600
Pellenc Tractor Maintenance	63,232	65,218
Harvesting Costs	139,731	112,899
Rates	55,923	34,373
Repairs & Maintenance	165,278	127,836
Other Vineyard Expenses	200,293	202,312
	3,080,925	3,387,187

Additional notes on income & expenses

Harvesting Income - is the value of harvesting work performed by the company for the use of the Taylors Pass and Keltern Pellenc Harvesters on non-company vineyards.

Sundry Income - is made up of rental income from the residences owned by the company.

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 - reduced 18% on 2009 year due to less late yield management required and the introduction of the Klima Machine.

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.

Rates - The increase in rates results from the first revaluation of the Higgins Road property since purchase.

Repairs & Maintenance - The increase in maintenance costs comes from the additional area now being managed, together with some track maintenance work, which is conducted every few years.

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).

Administrative Costs		
Remuneration of auditors - audit of financial statements	17,185	15,850
Bank Fees	137	593
Management Consulting	9,141	9,473
Administrative Services	54,570	67,795
Share Register Charges	19,750	18,437
Company Secretarial	30,000	30,000
Insurance	24,905	26,348
Travel Expenses	12,185	6,131
Shareholder Meeting Expenses	7,803	7,145
Other Administrative Costs	17,430	15,871
	193,106	197,643

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Operating Expenses (continued)	2010 $	2009 $
Depreciation		
Land Development	248,840	235,757
Buildings	32,540	32,698
Plant	256,667	178,006
Office Equipment	305	19
Motor Vehicles	69,394	70,571
	607,745	517,051
Finance Costs		
Interest Paid	545,733	426,145
Other Expenses		
Grape Growers Levy	30,690	29,373
Directors Fees	60,000	60,000
Legal Expenses	693	978
Vineyard Management Fee	111,275	109,200
Loss on Disposal of Biological Assets	169,169	-
	371,827	199,552
Fair Value Movement in Land		
Higgins Road	2,986,525	
	2,986,525	-
Fair Value Movement in other property, plant & equipment		
Keltern	-	-
Twyford	-	-
Taylors Pass	-	-
Seddon	-	-
Higgins Road	456,885	1,252,735
	456,885	1,252,735
Fair Value Movement in biological assets		
Keltern	481,831	217,000
Twyford	322,000	231,000
Taylors Pass	720,000	1,023,000
Seddon	295,000	589,000
Higgins Road	(1,617,654)	(106,423)
	201,177	1,953,577
Total Operating Expenses	5,362,998	4,546,703

9 Income Tax

(a) Income tax expense

	2010	2009
Current Tax		
Current tax on profits for the year	(211,246)	(1,079,616)
Adjustments in respect of prior years	(12,112)	0
Deferred tax		
Origination and reversal of temporary differences	229,960	313,844
Temporary differences not recognised (tax losses)	600,000	-
Impact of change in tax rates	(305,395)	-
	301,207	(765,772)

9 Income tax expense (continued)

	2010	2009
	$	$
(b) Numerical reconciliation of income tax expense to prima facie tax payable		
Profit/(loss) before income tax expense	(4,155,826)	(3,826,212)
Tax at the New Zealand tax rate of 30%	(1,246,748)	(1,147,864)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Fair value changes in Property, Plant & Equipment	0	375,821
Deferred tax movement (reserves)	15,499	158,432
Deferred tax movement	968,381	155,412
Impact on change in Building depreciation	202,333	-
Change in tax rate	(305,395)	-
Permanent differences	667,137	(307,573)
Income tax expense	**301,207**	**(765,772)**
Included under Current Assets		
Income tax receivable/(payable) at beginning of year	900	115,213
Adjustment for non-deductible expenses 2009	0	(12,779)
Refund of FITC (2008)	12,050	
Income Tax Expense in respect of current period	0	0
Net Income Tax Paid/(Refunded)	(12,888)	(101,534)
Income tax receivable at year end	**62**	**900**
The weighted average applicable tax rate was 30%		
(c) Imputation credit account		
Balance at beginning of year	366,467	849,297
Credit arising from transfer of credits on amalgamation	-	10,095
Tax payments/(refunds)	(12,950)	(111,845)
Credits attached to interest received	62	900
Debit arising from continuity breach due to amalgamation	-	-
Imputation credits attached to dividends paid	0	(381,980)
Balance at end of year	353,579	366,467

10 Cash and Cash Equivalents

Bank balances	4,376	4,408
Total cash and cash equivalents	4,376	4,408

11 Prepayments and Other Receivables

GST Receivable	58,728	76,158
Prepayments	6,375	21,535
Other Receivables	6,286	5,890
Total prepayments and other receivables	71,389	103,583

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12 Property, Plant and Equipment

	Land	Land development	Buildings	Plant	Office equipment	Motor vehicles	Total
	$	$	$	$	$	$	$
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)
Carrying amount	32,890,998	7,398,001	1,020,999	744,338	76	391,032	42,445,444
Year ended 30 June 2009							
Opening carrying 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 carrying amount	32,790,000	8,221,000	1,021,000	1,762,635	533	320,461	44,115,629
At 1 July 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)
Carrying amount	32,790,000	8,221,000	1,021,000	1,762,635	533	320,461	44,115,629
Year ended 30 June 2010							
Opening carrying amount	32,790,000	8,221,000	1,021,000	1,762,635	533	320,461	44,115,629
Additions	1,006,525	574,520	91,179	335,730	-	-	2,007,954
Impairment losses reversed/(recognised)							-
Revaluation increases/(decreases)	(5,193,525)	(530,680)	17,361				(5,706,844)
Depreciation		(248,840)	(32,540)	(256,667)	(305)	(69,394)	(607,746)
Closing carrying amount	28,603,000	8,016,000	1,097,000	1,841,698	228	251,067	39,808,993
At 30 June 2010							
Cost/Valuation	28,603,000	8,016,000	1,097,000	2,796,727	4,637	739,190	41,256,554
Accumulated depreciation	-	0	-	(955,029)	(4,409)	(488,123)	(1,447,560)
Carrying amount	28,603,000	8,016,000	1,097,000	1,841,698	228	251,067	39,808,994

12 Property, Plant and Equipment (continued)

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

	2010 **$**	2009 $
Cost	20,612,192	20,521,013
Accumulated depreciation	(129,974)	(101,103)
Carrying amount	20,482,218	20,419,910

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 $5,706,844 in the fair value of the land, buildings and land improvements as at 30 June 2010. 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 Crighton Stone Limited, an associate of the New Zealand Institute of Valuers under the principle of highest and best use. Crighton Stone has confirmed that the valuation can be relied upon for the purpose of these financial statements at 30 June 2010.

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 will be 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.

13 Other Financial Assets

	2010	2009
	$	$
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

	2010	2009
	$	$
Grape Vines		
Carrying amount at 1 July	18,751,000	19,543,001
Fair value gains/(losses) on grape vines during the year	(201,177)	(1,953,577)
Purchases/(Disposal) of grape vines	91,346	1,161,576
Other movements	(169,169)	-
Carrying value at 30 June	18,472,000	18,751,000

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 2010, the company had a total of 376 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 $4,094,473 (2009 $3,916,466). 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 Crighton 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

	2010	2009
	$	$
Trade payables	267,575	538,962
Accrued expenses	69,362	27,728
	336,937	566,690

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.

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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 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)
Balance at 1 July 2009	90,731	2,158	(4,880,789)	(1,004,893)	(78,988)	1,079,616	12,050	(4,780,115)
Other movements	-	-	-	-	-	-		-
Amounts charged to income statement	(30,726)	(2,158)	251,875	58,784	(202,332)	(376,636)	(12,050)	(313,243)
Amounts charged to equity	-	-	-	9,495	6,004	-	-	15,499
Balance at 30 June 2010	60,005	(0)	(4,628,914)	(936,614)	(275,316)	702,980	-	(5,077,859)

	2010	2009
	$	$
Deferred tax assets:		
- Deferred tax assets to be recovered after more than 12 months	762,985	12,050
- Deferred tax assets to be recovered within 12 months		1,172,505
	762,985	1,184,555
Deferred tax liabilities:		
- Deferred tax liabilities to be recovered after more than 12 months	(5,840,844)	(5,964,670)
- Deferred tax liabilities to be recovered within 12 months	-	-
	(5,840,844)	(5,964,670)
Deferred tax liability (net):	**(5,077,859)**	**(4,780,115)**

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.

Tax losses amounting to $600,000 (2009: $nil) have not been recognised due to uncertain future assessable income. The Company estimates that the tax effect of its recognisable losses is $702,980 (2009: $1,079,616), which is consistent with prior years, has been recognised and offset against the reported deferred tax liability and is available to be utilised against future assessable income. The ability to carrying forward losses for tax purposes is subject to the shareholders' continuity rules.

Following the Government's May 2010 budget announcement regarding the change in corporate tax rates from 30% to 28%, the Company estimates that the temporary differences anticipated to reverse after the commencement of the 2011/12 income tax year will reduce the deferred tax liability by $305,395. This adjustment has been recognised in the income tax credit in the current year.

17 Interest Bearing Liabilities

	2010	2009
Non-current	**$**	$
Secured		
Bank borrowings	(24,780,138)	(22,627,416)
Total interest bearing borrowings	(24,780,138)	(22,627,416)

The carrying amount of the above borrowing approximates its fair value. The secured term loan has a total facility amount of $25,300,000 (2009: $25,300,000) of which at balance sheet date $519,862 was available for further drawdown (2009: $2,672,584). The secured term loan facility with Rabobank matures in 2017.

The weighted average interest rate on interest bearing borrowings outstanding at 30 June 2010 was:	7.93%	7.97%

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
- 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

	2010	2009
	$	$
(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.

	2010	2009
(d) Treasury share capital	**$**	$
Movements in treasury share capital		
Purchase of treasury shares during year	-	-
Sale of treasury shares during year	-	-
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 2010 and 2009 were as follows:

	2010 **$**	2009 $
Total borrowings	24,780,138	22,627,416
Less cash and cash equivalents	4,376	4,408
Net debt	24,775,762	22,623,008
Total equity	30,802,786	37,507,755
Total capital	55,578,548	60,130,763
Gearing ratio	45%	38%

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.

	2010 **$**	2009 $
Total Tangible assets (using latest bank valuation)	67,027,036	65,619,234
Total Liabilities	(30,316,229)	(28,111,480)
Add Back Deferred Tax Liability	5,077,859	4,780,115
Total Equity	41,788,666	42,287,869
Quasi Equity Ratio	62%	64%

Terra Vitae Vineyards Limited met all bank covenants for the year ended 30 June 2010.

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 2009	812,050	0.020
Dividend paid during the year ended 30 June 2010	0	0.000

The dividends are fully imputed.

On 6 October 2010 the directors resolved that no dividend would be paid for the year ended 30 June 2010

21 Financial Instruments by Category

30 June 2010

Assets as per Balance Sheet	Loans and receivables $
Trade and other receivables	2,768,380
Cash and cash equivalents	4,376
	2,772,756

Liabilities as per Balance Sheet	Other financial liabilities at amortised cost $
Borrowings	24,780,138
Trade and other payables	458,232
	25,238,370

30 June 2009

Assets as per Balance Sheet	Loans and receivables $
Trade and other receivables	2,649,504
Cash and cash equivalents	4,408
	2,653,912

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

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

	2010 **$**	2009 $
Profit/(loss) after income taxation	**(4,457,033)**	**(3,060,440)**
Add non cash items:		
Depreciation	607,745	517,051
Other adjustments		
Movement in fair value of fixed assets	3,443,410	1,252,735
Movement in fair value of vines	201,177	1,953,577
Net loss on assets disposed	167,919	0
	4,420,251	**3,723,363**
Change in goods and services taxation	17,430	11,573
Increase (decrease) in accounts payable	(245,716)	(22,460)
(Increase) decrease in prepayments & other receivables	14,764	126,335
(Increase)/decrease in taxes receivable	837	114,313
Increase (decrease) in deferred tax liability	313,243	(765,772)
(Increase) decrease in amounts due from related parties	(118,479)	1,723,877
	(17,921)	**1,187,866**
Net cash flow from operating activities	**(54,703)**	**1,850,788**

23 Contingencies

As at 30 June 2010 the Company had no contingent liabilities or contingent assets (2009:Nil).

24 Commitments

(a) Capital commitments

As at 30 June 2010 the total capital expenditure contracted for but not provided for was $47,747 (2009:$149,034).

(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.

	2010	2009
	$	$
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	71,364	82,956
Later than five years	63,281	80,156
	163,112	191,579

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.

(b) Key management and personnel and compensation

Key management personnel compensation for the year ended 30 June 2010 and the year ended 30 June 2009 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.

	2010	2009
	$	$
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.

	2010	2009
	$	$
Purchase of shares from key management personnel		
	-	-

25 Related Party Transactions (continued)

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

	2010 **$**	2009 $
Purchases of services		
Villa Maria Estate Limited	111,275	109,200
Purchase of vines		
Vineyards Plants Limited	6,585	747,848
Sales of grapes		
Villa Maria Estate Limited	4,094,473	3,916,466

(e) Outstanding balances

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

	2010 **$**	2009 $
Receivables		
Villa Maria Estate Limited	2,762,094	2,643,614
Payables		
Villa Maria Estate Limited	121,295	137,258
	121,295	137,258

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 100% (2009: 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.

	2010	2009
Profit/(loss) attributable to equity holders of the Company - in dollars	(4,457,033)	(3,060,440)
Weighted average number of ordinary shares in issue	40,000,000	40,000,000
Basic earnings per share - in dollars	(0.11)	(0.08)

(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 32, which comprise the balance sheet as at 30 June 2010, and the income statement, statement of 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 interest in, Terra Vitae Vineyards Limited.

Opinion

In our opinion, the financial statements on pages 6 to 32:

- comply with generally accepted accounting practice in New Zealand;
- comply with New Zealand Equivalents to International Financial Reporting Standards;
- give a true and fair view of the financial position of Terra Vitae Vineyards Limited as at 30 June 2010 and its financial performance and its cash flows for the year then ended.

audit and assurance services CST NEXIA AUDIT visit us at www.cstnexia.co.nz
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INDEPENDENT AUDITOR'S REPORT Continued

Emphasis of Matter

We draw attention to Note 2 (ii) to the financial statements concerning the Company's ability to continue as a going concern. As disclosed in Note 2 (ii), the financial statements have been prepared on a going concern basis, the validity of which depends upon renegotiation of the current banking facility to increase the facility limit, sale of less productive assets or obtaining additional equity contributions through a rights issue. These funding options are currently uncertain. The financial statements do not include any adjustments that would result if the Company was unable to continue as a going concern.

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

6 October 2010

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 2010 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 6 October 2010 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 2010

Ten Largest Shareholders as at 30 June 2010

Holder	Shares Held	% of Shares
Villa Maria Estate Limited	8756361	21.89%
National Nominees Limited	1936000	4.84%
George Vjeceslav Fistonich	503240	1.26%
Custodial Services Limited #3	337000	0.84%
Custodial Services Limited #2	278921	0.70%
Hatch Mansfield Agencies Limited	227760	0.57%
T J Goodwin*A Goodwin*I R B Burgess	200000	0.50%
Sheather Family Account	173000	0.43%
Murray Hamilton Blyth & Beverley Campbell Blyth	169000	0.42%
David Nicholas Coleman	156000	0.39%
Total for top 10 Shareholders	12,737,282	31.84%

Shareholding Breakdown

Holding Range	Holders	Shares Held	% of Shares
< 25,000	162	1,450,468	3.63%
25,000 - 49,999	658	17,775,200	44.44%
50,000 - 99,999	106	6,241,250	15.60%
100,000 - 999,999	24	3,840,721	9.60%
> 1,000,000	2	10,692,361	26.73%
Totals	952	40,000,000	100.00%

Terra Vitae Vineyards Limited
Directory
For the year ended 30 June 2010

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

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Manukau 2012

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