

MARLBOROUGH WINE ESTATES GROUP LIMITED

HALF YEARLY REPORT

FOR THE SIX MONTHS ENDED

31 December 2016



MWE MARLBOROUGH
WINE ESTATES



O:TU


W H E R O
WINE OF NEW ZEALAND

Music Bay



RESERVE ROAD

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MARLBOROUGH WINE ESTATES GROUP LIMITED

Executive Chairman and CEO's Review For the six months ended 31 December 2016

General Commentary

The first half of the financial year of Marlborough Wine Estates Group Limited has seen the implementation of the group strategy of increasing market presence, creation of new distribution networks to expand into other overseas markets and continued improvements to vineyard production capacity and operating efficiency.

The Company has experienced strong and continued growth in demand for fine wines in China and around the globe. MWE has worked well with its distributors in existing markets and has been focused on expansion into other overseas markets. Our first shipment to the new USA distributor arrived in the USA at the end of October.

Sales of Bottled Wines have increased to \$911,276 for the six months ended December 2016, as compared to \$141,320 for the previous corresponding period.

Awards

MWE's products have received critical acclaim in several prestigious international wine competitions including:

- Double Gold Medal in the San Francisco International Wine Competition 2016
- Gold Medal in the Berliner Wein Trophy 2016
- Blue Gold in the Sydney International Wine Competition 2017
- Silver Medal in the Air New Zealand Wine Awards 2016

Vineyards development

The physical construction of the Donaldson Block dam was completed in January and is now awaiting local authority sign off. The dam will greatly improve the irrigation of the McKee and Donaldson blocks.

Planting in the Donaldson block is expected to begin in late 2017 and the harvest is expected to start in five years' time.

10,000 vines have been replanted during the period on existing vineyards to increase vineyard production capacity.

Expansion of product range

MWE has continued to broaden its product range. The launch of a Hawke's Bay blended red wine under our brand "Reserve Road" has been popular in both the domestic market and Asia, where there is strong demand for red wine.

November Earthquake

The 2016 Kaikoura Earthquake has caused significant damage to the Marlborough wine region. We are pleased to report that our contracted winemaking and storage facilities have proved to be resilient and the damage to MWE's wine stock was negligible.

MARLBOROUGH WINE ESTATES GROUP LIMITED

MWE has implemented further health and safety practices to ensure all staff are trained and prepared for potential natural disasters in the Marlborough region.

MPI Update

MWE understands that the dispute between the Ministry for Primary Industries (MPI) and MWE's former wine processor remains unresolved and the timing for a resolution remains uncertain. As a result, \$1.2 million of MWE's bottled wine stock still cannot be released for sale. Based on legal advice received, MWE considers it has a strong basis for claiming for a breach of contract from its former processor. However, MWE cannot ascertain the damage until the dispute between MPI and the former processor has been resolved.

OIO Update

MWE continues to work with the Overseas Investment Office (OIO) regarding the retrospective consent application, as previously outlined in the listing document. The timing for a final decision from the OIO remains uncertain. A retrospective consent will effectively cure the technical breaches of the Overseas Investment Act 2005 that occurred as part of MWE's internal restructuring to prepare for listing on the NXT Market. If the consent application is declined the OIO would then determine what action it would take in respect of the breaches. MWE has had no indication from the OIO that it would seek any materially adverse remedies.

Outlook

MWE is looking forward to the 2017 vintage harvest which will take place in the second half of the financial year. The climatic and growing conditions this year have been reasonably normal and the harvest should be in line with expectations. The fruit is developing naturally and in accordance with its seasonal growth.

MWE is forecasting a gross harvest of 1,544 tonnes. Grape supply agreements have been signed to supply Bulk Grapes from certain blocks for the 2017 vintage harvest. Included in this is a bulk grape swap deal with a reputable winery in New Zealand which will enable MWE to secure a quality red wine source and broaden its product portfolio.

MWE's key strategy is to increase sales of Bottled Wine significantly, which will be supported over time by a gradual increase in the allocation of grapes from Bulk Grape sales to Bottled Wine processing.

The opportunity in the Chinese wine market is large and MWE is well positioned and committed to growing its brand presence and sales there. In addition, MWE will continue its efforts to expand distribution into other overseas markets.

We thank you for your ongoing support for Marlborough Wine Estates Group Limited.

Min Jia
Executive Chairman

Catherine Ma
Chief Executive Officer



MARLBOROUGH WINE ESTATES GROUP LIMITED

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 31 December 2016

	Note	Unaudited 6 months ended December 2016 \$	Unaudited 6 months ended December 2015 \$	Audited 12 months ended June 2016 \$
Sales	3	911,276	2,795,537	7,423,536
Cost of sales	4	(707,326)	(2,827,384)	(6,682,743)
Gross profit		203,950	(31,847)	740,793
Interest income		7,829	6,493	21,590
Other income		54,874	13,651	30,087
Change in fair value of biological assets and agricultural produce		-	-	1,360,605
Operating expenses	5	(889,984)	(652,445)	(1,610,446)
Earnings before interest, tax, depreciation and amortisation (EBITDA)		(623,331)	(664,148)	542,629
Interest expense		(164,247)	(212,892)	(400,805)
Amortisation		(257,528)	(257,673)	(643,820)
Depreciation		(192,862)	(206,513)	(353,715)
(Loss) / profit for the period before taxation		(1,237,968)	(1,341,226)	(855,711)
Tax expense		248,608	35,930	(40,306)
(Loss) / profit for the period attributable to shareholders of the company		(989,360)	(1,305,296)	(896,017)
Other Comprehensive Income		-	-	-
Total comprehensive (loss) / income for the period attributable to the shareholders of the Company		(989,360)	(1,305,296)	(896,017)
Basic and diluted (loss) / earnings per share	8	(0.003)	(0.004)	(0.003)

The above statement of comprehensive income should be read in conjunction with the attached notes.

MARLBOROUGH WINE ESTATES GROUP LIMITED

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY For the six months ended 31 December 2016

Group	Note	Share Capital \$	Retained earnings \$	Share-based payment reserve \$	Total \$
Balance at 1 July 2015		15,000,226	5,782,930	-	20,783,156
December 2015					
Total comprehensive income for the period					
Profit for the period		-	(1,305,296)		(1,305,296)
Other comprehensive income		-	-		-
Total comprehensive income for the period		-	(1,305,296)		(1,305,296)
Transactions with owners					
Issue of ordinary shares		85,200	-		85,200
		85,200	-		85,200
Balance at 31 December 2015 (unaudited)		15,085,426	4,477,634		19,563,060
Balance at 1 July 2015		15,000,226	5,782,930	-	20,783,156
Total comprehensive income for the year					
Loss for the year		-	(896,017)	-	(896,017)
Other comprehensive income		-	-	-	-
Total comprehensive income for the year		-	(896,017)	-	(896,017)
Transactions with owners					
Issue of ordinary shares		141,400	-	-	141,400
Cash contribution from employees for shares		2,100	-	-	2,100
Share-based payment options		-	-	35,581	35,581
Share-based payment options exercised		30,900	-	(30,900)	-
Share-based payment options for employees		-	-	900	900
	10	174,400	-	5,581	179,981
Balance at 30 June 2016 (audited)		15,174,626	4,886,913	5,581	20,067,120
Total comprehensive income for the year					
Loss for the year		-	(989,360)	-	(989,360)
Other comprehensive income		-	-	-	-
Total comprehensive income for the year		-	(989,360)	-	(989,360)
Transactions with owners					
Issue of ordinary shares		-	-	-	-
Cash contribution from employees for shares		-	-	-	-
Share-based payment options	10	-	-	38,940	38,940
Share-based payment options exercised		-	-	-	-
Share-based payment options for employees		-	-	-	-
		-	-	38,940	38,940
Balance at 31 December 2016 (unaudited)		15,174,626	3,897,553	44,521	19,116,700

The above statement of changes in equity should be read in conjunction with the attached notes.

MARLBOROUGH WINE ESTATES GROUP LIMITED

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION As at 31 December 2016

	Note	Unaudited 6 months ended December 2016 \$	Unaudited 6 months ended December 2015 \$	Audited 12 months ended June 2016 \$
ASSETS				
Current assets				
Cash and bank balances		344,605	2,479,818	1,453,834
Accounts receivable		1,786,995	547,999	2,524,902
Inventory & biological work in progress	6	4,391,716	4,432,806	3,952,606
Prepayments		8,290	35,190	23,699
Deposits paid		41,610	7,720	61,610
GST receivable		77,892	4,792	-
Total current assets		6,651,198	7,508,325	8,016,651
Non-current assets				
Property, plant and equipment		14,527,402	13,826,263	14,008,027
Related party loan		7,788	13,945	7,788
Investments		74,750	72,250	72,250
Deferred tax		478,365	189,206	229,757
Intangible assets		4,266,288	4,899,177	4,522,242
Total non-current assets		19,128,318	19,000,841	18,840,064
Total assets		26,005,791	26,509,166	26,856,715
LIABILITIES				
Current liabilities				
Accounts payable		283,269	310,226	368,119
Accrued expenses		64,204	12,671	136,377
Revenue received in advance		55,860	-	-
GST payable		-	256,150	30,278
Current tax payable		269,200	236,865	154,821
Finance Lease		48,406	-	-
Interest bearing borrowings	13	-	6,100,000	6,100,000
Shareholder loan		-	30,194	-
Total current liabilities		720,939	6,946,106	6,789,595
Non-current liability				
Interest bearing borrowings		6,100,000	-	-
Finance Lease		68,152	-	-
Total non-current liabilities		6,168,152	-	-
Total liabilities		6,889,091	6,946,106	6,789,595
Total net assets		19,116,700	19,563,060	20,067,120
EQUITY				
Capital Shares	10	15,174,626	15,085,426	15,174,626
Share-based payment reserve	10	44,521	-	5,581
Retained earnings		3,897,553	4,477,634	4,886,913
Total equity		19,116,700	19,563,060	20,067,120

Signed for and on behalf of the board by:

Signature:



Executive Chairman: Min Jia

Date: 28 February 2017

Signature:



Director: Danny Chan

The above statement of financial position should be read in conjunction with the attached notes.

MARLBOROUGH WINE ESTATES GROUP LIMITED

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 31 December 2016

	Note	Unaudited 6 months ended December 2016 \$	Unaudited 6 months ended December 2015 \$	Audited 12 months ended June 2016 \$
Cash flows from operating activities				
Cash was provided from:				
Receipts from customers		1,749,337	4,211,567	6,105,884
Other revenue		62,794	13,023	35,274
GST received		301,709	-	-
Interest received		7,801	6,493	22,506
		<u>2,121,641</u>	<u>4,231,083</u>	<u>6,163,664</u>
Cash was disbursed to:				
Payment to suppliers		1,961,187	1,837,224	3,553,986
Payments to employees		487,559	294,102	579,993
GST paid		-	-	154,675
Income tax paid		-	259,814	458,645
Interest paid		164,031	214,476	402,388
		<u>2,612,777</u>	<u>2,605,616</u>	<u>5,149,687</u>
Net cash flow generated by / (used in) operating activities	12	(491,136)	1,625,467	1,013,977
Cash flows from investing activities				
Cash was provided from:				
Addition of controlling interest on acquisition of:				
Otuwhero Trustee Limited		-	-	-
Marlborough Vineyard Group Limited		-	-	-
O:Tu Investments Limited		-	-	-
Disposal of assets		-	-	-
Cash was disbursed to:				
Investment in other company		2,500	7,720	-
Payments for intangible assets		1,573	3,400	12,612
Payments for property, plant and equipment		595,680	148,198	549,109
		<u>599,753</u>	<u>159,318</u>	<u>561,721</u>
Net cash flow generated by / (used in) investing activities		(599,753)	(159,318)	(561,721)
Cash flows from financing activities				
Cash was provided from:				
Increases in shareholder advances		-	-	470,318
Proceeds from issue of shares		-	85,200	144,400
			<u>85,200</u>	<u>614,718</u>
Cash was disbursed to:				
Decreases in shareholder advances		-	-	-
		-	40,441	540,950
		-	<u>40,441</u>	<u>540,950</u>
Net cash flow generated by / (used in) financing activities		-	44,759	73,768
Net increase in cash		(1,090,889)	1,510,908	526,024
Cash and cash equivalents at the beginning of the year		1,453,834	988,556	988,556
Exchange adjustment		(18,340)	(19,646)	(60,746)
Cash and cash equivalents at the end of the year		344,605	2,479,818	1,453,834

The above statement of cash flows should be read in conjunction with the attached notes.

MARLBOROUGH WINE ESTATES GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED FINANCIAL STATEMENTS

For the six months ended 31 December 2016

1 Significant Accounting Policy

(a) General Information

These unaudited financial statements are for Marlborough Wine Estates Group Limited (the Company) and its subsidiaries (together the Group, or MWE).

The Company and its subsidiaries are incorporated and domiciled in New Zealand and are registered under the Companies Act 1993. The incorporation date of the Company is 18 March 2015.

The Company is designated as a profit-oriented entity for financial reporting purposes.

These financial statements were authorised for issue by the Board of Directors on 28 February 2017.

The principle activities of the Group are vineyard maintenance, grape production and wine making.

(b) Basis of preparation

The unaudited interim financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ("NZ GAAP"), and its interpretations and other relevant Financial Reporting Standards applicable to profit-oriented entities. The financial statements comply with International Financial Reporting Standards (IFRS).

These condensed financial statements for the six months ended 31 December 2016 have been prepared in accordance with NZIAS 34, Interim Financial Reporting and should be read in conjunction with the financial statements published in the Annual Report for the year ended 30 June 2016. They also comply with the International Accounting Standard 34 interim Financial Reporting (IAS 34).

The Company is a FMC reporting entity under the Financial Markets Conduct Act 2013. These unaudited interim financial statements have been prepared in accordance with the requirements of Financial Markets Conduct Act 2013.

(c) Changing in accounting policy and disclosures

There have been no changes in accounting policies since the last Annual Report, for detailed accounting policies please refer to the 2016 Annual Report.

2 Seasonal Business

The bulk grape sales are subject to seasonality with the grape harvest occurring once a year in April to May. All the bulk grapes sale will be recognised in the second half of the financial year and for the six months ended 31 December 2016 the bulk grape sales were \$nil (31 December 2015: \$nil, 30 June 2016 \$2,011,720).

3 Sales

	Unaudited 6 months ended December 2016	Unaudited 6 months ended December 2015	Audited 12 months ended June 2016
	\$	\$	\$
Bulk grape sales	-	-	2,011,720
Bulk wine sales	-	2,654,217	3,635,922
Bottled wine sales	911,276	141,320	1,754,870
Other sales	-	-	21,024
	<u>911,276</u>	<u>2,795,537</u>	<u>7,423,536</u>

4 Cost of sales

The group runs a vineyard and wine producing business and as a consequence has incurred \$707,326 of cost of sales for the six months ended 31 December 2016. These costs relate to growing grapes on vines and producing wine.

	Unaudited 6 months ended December 2016	Unaudited 6 months ended December 2015	Audited 12 months ended June 2016
	\$	\$	\$
Bottling & labelling	233,652	87,163	240,808
Change in inventories & biological work in progress	(439,110)	1,801,572	3,642,377
Vineyard grapes producing expenses	812,583	747,699	1,387,760
Wine purchased	-	8,083	758,086
Wine making	63,926	144,795	444,085
Other winery expenses	36,275	38,072	209,628
	<u>707,326</u>	<u>2,827,384</u>	<u>6,682,743</u>

MARLBOROUGH WINE ESTATES GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED FINANCIAL STATEMENTS

For the six months ended 31 December 2016

5 Operating expenses

	Unaudited 6 months ended December 2016 \$	Unaudited 6 months ended December 2015 \$	Audited 12 months ended June 2016 \$
Accounting expenses	2,967	59,113	80,700
Auditor's remuneration for annual audit - Deloitte	22,275	37,110	45,000
Director's fee	130,000	-	-
Consulting & advisory	87,232	43,750	365,636
Share-based payments	38,940	-	36,481
Salaries & wages	241,524	195,585	418,580
Kiwisaver contribution	3,284	-	4,597
Foreign exchange losses	15,747	26,447	67,219
Office Rent	43,971	-	62,442
Finish wine storage	11,348	-	73,126
Other expenses	292,694	290,440	456,664
	<u>889,984</u>	<u>652,445</u>	<u>1,610,446</u>

6 Inventories & biological work in progress

	Unaudited 6 months ended December 2016 \$	Unaudited 6 months ended December 2015 \$	Audited 12 months ended June 2016 \$
Wines - bottled	2,037,906	3,089,545	2,113,056
Wines - work in progress	1,104,812	243,545	1,450,372
Dry goods	176,852	139,048	129,616
Total wine in inventory and work in progress	<u>3,319,570</u>	<u>3,472,138</u>	<u>3,693,043</u>
Unharvested produce on vines	1,072,146	960,668	259,563
Total biological work in progress	<u>1,072,146</u>	<u>960,668</u>	<u>259,563</u>
Inventory & biological work in progress	<u>4,391,716</u>	<u>4,432,806</u>	<u>3,952,606</u>

Inventories are valued at the lower of cost, net realisable value or in the case of agricultural produce at the point of harvest, at fair value less costs to sell. Cost is calculated on an FIFO basis. Fair value less costs to sell is determined from average market prices in New Zealand. The total vineyard producing area was 157 hectares (31 December 2015: 157 hectares, 30 June 2016: 157 hectares).

The growth on the vines in the period from last harvest to 31 December 2016 cannot be reliably measured due to the lack of market information and the variables in completing the biological transformation process between the time of harvest and the balance date. The cost of agricultural activity in the period to 31 December 2016 has been recognised as biological work in progress for the next harvest.

7 Segment Reporting

The Group operates in the wine industry and is considered to operate in a single segment.

The Group operates in one principal geographical area - Marlborough, New Zealand. All of the Group's revenue from continuing operations from external customers and its non-current assets are sourced in this area.

For the six months ended 31 December 2016, export sales were approximately \$822,000 mainly to the Asia-Pacific region, of which \$771,960 was made to one customer who has individually accounted for greater than 10% of the Group's total sales.

	Unaudited 6 months ended December 2016 \$	Unaudited 6 months ended December 2015 \$	Audited 12 months ended June 2016 \$
Customer 1	771,960	-	1,408,186
Customer 2	-	1,905,742	1,951,762
Customer 3	-	-	991,172
Customer 4	-	-	974,527
Customer 5	-	676,430	888,680
Customer 6	-	-	769,455
Total	<u>771,960</u>	<u>2,582,172</u>	<u>6,983,782</u>

MARLBOROUGH WINE ESTATES GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED FINANCIAL STATEMENTS

For the six months ended 31 December 2016

8 Earnings and Net Tangible Assets per Share

The Group presents basic and diluted earnings per share data for ordinary shares. 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 on issue during the year, excluding ordinary shares purchased by the Company and held as treasury shares.

	Unaudited 6 months ended December 2016	Unaudited 6 months ended December 2015	Audited 12 months ended June 2016
Basic earnings per share			
(Loss) / profit attributable to equity holders of the Company (in dollars)	(989,360)	(1,305,296)	1,305,296
Weighted average number of ordinary shares on issue	290,872,000	290,426,000	290,356,070
Basic earnings per share (in dollars)	(0.003)	(0.004)	(0.003)
Diluted earnings per share			
Same earning was used for diluted earnings per share			
Weighted average number of ordinary shares used in the calculation of basic earnings per share	290,872,000	290,426,000	290,356,070
Share options	2,400,000	-	2,400,000
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	293,272,000	292,756,070	292,756,070
Diluted earnings per share (in dollars)	(0.003)	(0.004)	(0.003)
Net tangible assets (in dollars)	14,850,412	14,663,883	15,544,878
Net tangible assets per share (in dollars)	0.0511	0.0505	0.0535

9 Dividends Declared and Paid

No dividends were declared or paid relating to the Group results for the six months ended 31 December 2016 (31 December 2015: \$nil, 30 June 2016: \$nil).

10 Equity

Share capital	December 2015 Number	December 2015 \$
Balance of ordinary share capital at 1 July 2015	290,000,000	15,000,226
Ordinary shares issued during the period	-	-
Balance at 31 December 2015 (unaudited)	290,000,000	15,000,226
	June 2016 Number	June 2016 \$
Balance of ordinary share capital at 1 July 2015	290,000,000	15,000,226
Ordinary shares issued for investors during the period	707,000	141,400
Cash contribution from option holders	-	2,100
Share options exercised during the year	165,000	30,900
Balance at 30 June 2016 (audited)	290,872,000	15,174,626
	December 2016 Number	December 2016 \$
Balance of ordinary share capital at 1 July 2016	290,872,000	15,174,626
Ordinary shares issued for investors during the period	-	-
Cash contribution from option holders	-	-
Share options exercised during the period	-	-
Balance at 31 December 2016 (unaudited)	290,872,000	15,174,626

MARLBOROUGH WINE ESTATES GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED FINANCIAL STATEMENTS

For the six months ended 31 December 2016

10 Equity (continued)

	June 2016 Number	June 2016 \$
Share-based payment reserve		
Balance of ordinary share capital at 1 July 2015	-	-
Share options granted during the year	2,565,000	36,481
Share options exercised during the year	(165,000)	(30,900)
Balance at 30 June 2016 (audited)	2,400,000	5,581
	December 2016 Number	December 2016 \$
Balance of ordinary share capital at 1 July 2016	2,400,000	5,581
Share options granted during the period	-	-
Share options exercised during the period	-	-
Share options valuation movement	-	38,940
Balance at 31 December 2016 (unaudited)	2,400,000	44,521

At 31 December 2016, share capital comprised 293,272,000 authorised and issued shares (December 2015: 290,426,000, June 2016: 293,272,000). Other than the 2,400,000 shares issued under the Group's Employee Share Ownership Plan (ESOP) all issued shares are fully paid.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to vote at meetings of the Company and on any written resolution and rank equally with regards to the Company's residual assets.

For unpaid shares issued under the ESOP, until a Share is fully paid it shall have the same rights and privileges as an Ordinary Share but only in the proportion to which it has been paid up. For example if a Share is 50% paid up it will confer half of a right to vote on a poll at a meeting of shareholders and a right to receive half of the amount of any dividend paid on an Ordinary Share. However, the Shares will carry identical rights to Ordinary Shares in terms of entitlements to participate in any issue of equity (including securities convertible into equity capital) in the Company.

11 Contingent Liabilities

O:TU Investments Limited (OIL) is a wholly owned subsidiary of MWE. OIL obtained Overseas Investments Office (the OIO) consent to acquire the vineyard in Marlborough in 2013 (Original Consent).

OIL Subsequently undertook the internal restructuring in preparation for listing MWE on the NXT market, which inadvertently breached the Overseas Investment Act (Act). The breach occurred when 3% of the shares in OIL were transferred from an overseas company to Min Jia as part of the internal restructuring. The conditions of the Original Consent and the Act provide that further consent was required when Min Jia increased his ownership in OIL.

There is a risk that the OIO may seek remedies under the Act for the inadvertent breach. Remedies under the Act include:

- a fine (not exceeding \$100,000);
- a penalty (not exceeding \$300,000); or
- in the worst case, selling down/disposing of the sensitive land (not exceeding of \$13.5 million, which is the total book value of all land and vines of the Group)

OIL became aware of the breach and promptly (and voluntarily) informed the OIO of the breach, the reason for the breach and the steps OIL intends to take to remedy the breach. After discussions with the OIO it was considered that in order to remedy the breach, a retrospective consent application should be submitted. That application was filed on 15 December 2015 and is currently under review.

At the date of this document, MWE has no reason to believe the OIO will seek any further remedies from OIL in regards to this breach.

Included in the inventory balance as at 31 December 2016 there is approximately \$1,200,000 of bottled wine (Inventory) which is yet to receive certification from Ministry of Primary Industries (MPI). The Group's understanding is that the former contracted wine processor has been subject to a dispute with MPI for approximately 24 months in connection with the processes it has used to make wine and that other grape suppliers have also been affected. If the wine processor is successful in its dispute with MPI this Inventory will be certified and released to the Group for sale. The Group's view is that in these circumstances this Inventory would be realisable for its book value. If MPI are successful in the dispute, the Inventory will have to be disposed of and the value of the Inventory written down on the Company's balance sheet. Should this situation arise, the Group may have a claim against the contracted wine processor, however, the relative merits of any such claim cannot be assessed at this time.

As at the period end there were no other contingent liabilities.

MARLBOROUGH WINE ESTATES GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED FINANCIAL STATEMENTS

For the six months ended 31 December 2016

12 Notes to Cash Flow Statement

	Unaudited 6 months ended December 2016 \$	Unaudited 6 months ended December 2015 \$	Audited 12 months ended June 2016 \$
Reconciliation of net profit after tax to net cash flow from operating activities:			
Net (loss) / profit after tax	(989,360)	(1,305,296)	(896,017)
Add: Non-cash items			
Amortisation	257,528	257,673	643,820
Depreciation	192,862	206,513	353,715
Tax expense	(248,608)	(35,930)	40,306
Foreign exchange movement	18,339	19,646	60,746
Share-based payments	38,940	-	35,581
(Increase)/decrease in assets:			
(Increase) / Decrease in accounts receivables	737,907	647,963	(1,328,941)
(Increase) / Decrease in GST receivable	-	441,617	441,616
(Increase) / Decrease in tax paid	-	-	-
(Increase) / Decrease in deferred tax asset	-	-	-
(Increase) / Decrease in deposit paid	20,000	-	(61,610)
(Increase) / Decrease in inventory	(439,110)	1,801,572	2,281,772
(Increase) / Decrease in prepayments	15,409	(11,415)	76
(Increase) / Decrease in related party loan			6,157
Increase / (Decrease) in liabilities:			
Increase / (Decrease) in trade payables	(84,850)	5,728	135,568
Increase / (Decrease) in GST payable	5,471	(123,424)	(344,505)
Increase / (Decrease) in revenue received in advance	55,860	-	-
Increase / (Decrease) in tax paid	649	(259,814)	(458,646)
Increase / (Decrease) in accrued expenses	(72,172)	(19,366)	104,339
Net cash (out flows)/ inflows from operating activities	(491,136)	1,625,467	1,013,977

13 Borrowings

	Unaudited 6 months ended December 2016 \$	Unaudited 6 months ended December 2015 \$	Audited 12 months ended June 2016 \$
Loan - ICBC	6,100,000	6,100,000	6,100,000
	6,100,000	6,100,000	6,100,000
Current	-	6,100,000	6,100,000
Non-current	6,100,000	-	-
	6,100,000	6,100,000	6,100,000

The loan with Industrial Commercial Bank of China (New Zealand) Limited (ICBC) was approved to be extended from the maturity date 22 September 2016 to 30 September 2018. The loan is secured by way of registered charge over land located at Blind River Loop Road, Seddon. The loan is interest only and as such no principle repayments have been made. The interest rate at 31 December 2016 was 4.77%.

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 profit or loss over the period of the borrowings using the effective interest method.

MARLBOROUGH WINE ESTATES GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED FINANCIAL STATEMENTS

For the six months ended 31 December 2016

13 Borrowings (continued)

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

14 Capital Commitments

The Group has started the construction of a new water reservoir and is implementing an irrigation system in order to convert the relevant block of land into vineyards in the near future. By the end of December 2016, the Group incurred total costs of approximately \$570,000 in relation to this work. To complete this project, additional costs of \$250,000 are expected in the next few months.

15 Subsequent Events

There were no material events subsequent to the end of the six month period ended 31 December 2016.

16 Related Party Disclosures

(a) Identity of related party

The Group has a related party relationship with its key management personnel. All members of the Group are considered to be the related parties of the Parent, Marlborough Wine Estates Group Limited (MWE). This includes the subsidiaries identified below.

Subsidiaries	Principal Activity	Proportion of ownership	Accounting balance date	Jurisdiction
Marlborough Vineyard Group Limited	International Marketing	100%	30 June	New Zealand
Otuwhero Trustee Limited	Wine production, sales and marketing	100%	30 June	New Zealand
O:TU Investments Limited	Vineyards operation	100%	30 June	New Zealand
MB Wine Limited	Music Bay trade mark	100%	30 June	New Zealand

The group has a related party relationship with Great Esprit Limited (GEL), based in Hong Kong, a company which has a non-exclusive distribution agreement with MWE (through Otuwhero Trustee Limited). GEL is an entity largely owned by an associate of Min Jia.

The Group has a related party relationship with New Zenith International Trading (Shanghai) Co., Ltd (NZIT). Min Jia, the founder, major shareholder and director of MWE, owns NZIT in China. NZIT sells, distributes and markets MWE's wine in China. NZIT typically places orders direct with MWE, which are undertaken on the same pricing as the GEL distribution agreement. Any direct orders with MWE from NZIT off-set GEL's minimum order obligation under the GEL distribution agreement.

The Group has a related party relationship with Lily Investments Company Limited. Min Jia and Ly Lee, directors of MWE, own Lily Investment Company Limited.

The Group has a related party relationship with Blind River Irrigation Limited, the Group holds 7.8% ownership in Blind River Irrigation Limited.

The Group has a related party relationship with Otuwhero Trust, Min Jia and Ly Lee, directors of MWE, are beneficiaries of Otuwhero Trust.

(b) Transactions with related party

	Unaudited 6 months ended December 2016 \$	Unaudited 6 months ended December 2015 \$	Audited 12 months ended June 2016 \$
Transaction value			
New Zenith International Trading (Shanghai) Co., Ltd	771,960	-	1,429,210
Great Esprit Limited	-	-	-
Lily Investments Company Limited	-	-	7,602
Assets/(liability)			
New Zenith International Trading (Shanghai) Co., Ltd	1,629,859	-	1,217,705
Great Esprit Limited	-	-	-
Lily Investments Company Limited	-	-	-

MARLBOROUGH WINE ESTATES GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED FINANCIAL STATEMENTS

For the six months ended 31 December 2016

16 Related Party Disclosures (continued)

Transactions with Directors and Key Management Personnel

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the entity, either directly or indirectly. The key management personnel are the directors and senior officers of the Group.

	Unaudited 6 months ended December 2016 \$	Unaudited 6 months ended December 2015 \$	Audited 12 months ended June 2016 \$
<i>Directors' Fees</i>			
Min Jia (Executive Chairman)	50,000	-	-
Ly Lee	20,000	-	-
Jack Zhong Yin (Executive Director)	25,000	-	-
Danny Chan	20,000	-	-
Songyuan Huang	15,000	-	-
Total Directors' Fees	<u>130,000</u>	<u>-</u>	<u>-</u>
<i>Directors' Other Remuneration</i>			
Min Jia (Executive Chairman)	-	-	-
Ly Lee	-	-	-
Jack Zhong Yin (Executive Director)	21,728	-	220
Danny Chan	-	-	22,862
Songyuan Huang	-	-	22,862
Total Directors' Other Remuneration	<u>21,728</u>	<u>-</u>	<u>45,945</u>

Senior officers' compensation (excludes directors)

	Unaudited 6 months ended December 2016 \$	Unaudited 6 months ended December 2015 \$	Audited 12 months ended June 2016 \$
Short-term employee benefits	170,033	144,566	354,315
Share-based payments	17,212	-	5,561
Total senior officers' compensation (excludes directors)	<u>187,245</u>	<u>144,566</u>	<u>359,876</u>

	Unaudited 6 months ended December 2016 \$	Unaudited 6 months ended December 2015 \$	Audited 12 months ended June 2016 \$\$
Amount owed to Min Jia at the beginning of the period	-	70,632	70,632
Amount advanced by Min Jia during the period	-	-	470,318
Amount withdrawn by Min Jia during the period	-	(40,438)	(540,950)
Amount owed to Min Jia at the end of the period	<u>-</u>	<u>30,194</u>	<u>-</u>

MARLBOROUGH WINE ESTATES GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED FINANCIAL STATEMENTS

For the six months ended 31 December 2016

16 Related Party Disclosures (continued)

Amounts owing from related parties:

	Unaudited 6 months ended December 2016 \$	Unaudited 6 months ended December 2015 \$	Audited 12 months ended June 2016 \$
Blind River Irrigation Limited -loan	7,788	13,945	7,788
	<u>7,788</u>	<u>13,945</u>	<u>7,788</u>

Other related party transactions during the period

	Unaudited 6 months ended December 2016 \$	Unaudited 6 months ended December 2015 \$	Audited 12 months ended June 2016 \$
Wine purchased by shareholders and senior officers during the period	3,699	1,275	2,062
Payments reimbursed to senior officers, shareholders for business related expenses during the period	11,626	12,555	53,237
Irrigation water charged by Blind River Irrigation Limited during the period	2,095	9,322	40,094

All shareholder loan balances are interest free and are not repayable within 12 months of signing the financial statements. No amounts owed by related parties have been written off or forgiven during the year. All other related party balances are repayable within 12 months.

The loan from shareholder is unsecured and has been subordinated in favour of all other creditors of the company. The shareholder has also agreed not to demand repayment for any portion of the loan for a period of no less than 12 months following the approval of the financial statements.

17 NZX Spread Waiver

Clause 2 of Schedule 1A to the NXT Market Rules (**Rules**) states that to be eligible for Listing on the NXT Market an applicant must have at least 50 shareholders who are members of the public holding separate parcels of shares of at least a minimum holding, that together represent at least 25% of the shares on issue in the applicant.

The Company has been granted a waiver by NZX Regulation from Clause 2, Schedule 1A of the Rules, until 30 June 2017, to allow the Company to have at least 50 shareholders who are members of the public with at least a minimum holding that together represent at least 17 % of the total shares on issue, rather than 25% as ordinarily required by the Rules.

The waiver is subject to usual conditions requiring the Company to disclose the waiver in its annual and half-year report, and to monitor and report to NZX on the number and percentage of shares held by members of the public.

The implications of the waiver are that the Company may have less liquidity in trading in its shares than other companies listed on the NXT Market. A liquid market is important to ensure efficient price setting and to enable shareholders to trade.

A copy of the waiver is included on the NXT website at <https://www.nxt.co.nz/companies/MWE/instrument/MWE>.

MARLBOROUGH WINE ESTATES GROUP LIMITED

COMPANY DIRECTORY

As at 31 December 2016

Company Registration Number	5639568
Registered office	Level 3, 205 Queen Street Auckland Central New Zealand
Directors	Min Jia (Chairman) Ly Lee Jack Zhong Yin Danny Chan Songyuan Huang
Auditors	Deloitte Deloitte Centre 80 Queen Street P.O. Box 115033, Auckland 1140 New Zealand
Solicitors	Duncan Cotterill Level 2, Chartered Accountants House 50 Customhouse Quay, Wellington
Bankers	Industrial Commercial Bank of China (New Zealand) Limited ANZ Bank Limited BNZ Bank Limited
NXT Advisor	CM Partners Limited Level 26, PWC Tower, Quay Street, Auckland
Share Registrar	Link Market Services Limited Deloitte Centre, 80 Queen Street, Auckland

