

MWE

MARLBOROUGH
WINE ESTATES

2017 ANNUAL REPORT





MARLBOROUGH WINE ESTATES GROUP LIMITED

FINANCIAL STATEMENTS

For the Year Ended 30 June 2017

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MARLBOROUGH WINE ESTATES GROUP LIMITED

EXECUTIVE CHAIRMAN AND CEO'S REPORT

2017 was the first full financial year for Marlborough Wine Estates Group Limited (MWE) as an NXT listed company. During the period, MWE focused on growth and expansion of both international and domestic markets, and developing strong relationships with potential business and distribution partners.

Total sales for the financial year ended 30 June 2017 (FY17) were \$3,821,799. This was lower than sales for the previous financial year (FY16 - \$7,423,536) due to a large amount of one-off bulk wines sales in FY16.

MWE ended FY17 with a net loss after tax of \$4,381,727. This was due to a non-cash impairment loss on intangible assets, and an inventory write down. After adjusting for these transactions and impairments, the MWE's adjusted EBITDA for the year ended 30 June 2017 was \$499,054. Please refer to Appendix 1 for further details.

Major adjustments

Impairment loss

On 31 March 2015, the Group entered into a distribution agreement with Great Esprit Limited, granting them the right to distribute wine produced by the Group to China. These distribution rights were valued at \$5.15 million and were estimated to have a 10-year useful life. Because of the challenging trading conditions in China, Great Esprit Limited did not meet its minimum annual commitment to purchase bottled wine in FY17. That commitment was for \$3 million in sales, but actual sales were \$1.3 million. The Board has taken this, along with forecast economic conditions, into account and has concluded that an impairment of \$2.6 million attributable to the distribution rights is appropriate. Please refer to note 13 in the Financial Statement for further details.

Inventory write down

Included in the inventory balance as at 30 June 2017 is approximately \$1,200,000 of bottled wine which is yet to receive certification from the Ministry of Primary Industries (MPI). On 30 June 2017, management performed an impairment test on the wine in dispute, and a provision was recognised. Please refer to note 10 in the Financial Statement for further details.

Key highlights for the year ended 30 June 2017

Harvest season

The company's gross harvest tonnage was within 10% of the annual target. The Marlborough region endured two devastating storms during the harvest season which turned what was expected to be a great season into a difficult one for many vineyards. With some hard work from vineyard staff, MWE suffered only a minor crop loss and was still able to harvest some high-quality grapes.

Vineyard development

MWE completed the construction of the Donaldson Block dam in early 2017. The dam is now functional and greatly improves the irrigation of the McKee and Donaldson Blocks, where there were significant irrigation issues affecting tonnage.

With the irrigation issue now resolved, the company has shifted its investment and capital expenditure focus to new vineyard development and planting. MWE is developing and planting 5 ha of non-Sauvignon Blanc varietals in 2018, with more planned in 2019 – 2020, as well as replenishing existing blocks where vines have died.

MARLBOROUGH WINE ESTATES GROUP LIMITED

Improved sales strategy and product portfolio

Over the past year, MWE has focused on improving its product portfolio and optimising its sales strategy. The company has released a new Syrah, a Rose, and a Merlot Cabernet Sauvignon, and is looking to further improve the variety of wine products in its portfolio. The new products have proven to be popular and will assist the Company in developing markets which were previously difficult to tap into.

MWE has a continued focus on long term development of brands and premium wines, but at the same time sees an opportunity in the lower tiers of the wine markets. During FY17, the Company has released lower priced products to target some of the more competitive international markets. This has seen some success with new products and MWE will continue to review and optimise its sales strategy to ensure sustained long-term business and sales growth.

International market development

China continues to be the Company's largest export market. The growth of the Chinese wine market has, however, slowed along with Chinese economic growth generally. Competition from cheaper imports from other countries has also increased. As a result, MWE's exports to China did not grow as much as the Company and its distributor had originally hoped. The Company will continue to work with its Chinese distributor to take advantage of their large sales network, and to capitalise on any new opportunities in the market.

MWE has worked well with its US distributor to develop the US market and has secured initial orders of bottled wine. The US market is very competitive, but Marlborough Sauvignon Blanc is very well received and has exciting growth potential.

MWE started to work with a major US bulk wine importer during FY17, resulting in \$288,000 of revenue. The importer has now signed new agreements for the coming year for twice the amount of bulk wine. The deal provides cash flow for the company and also helps it establish stronger supply relationships in the competitive US market.

MWE has also shipped its first order to Japan, a market that recognises the true value of Marlborough Sauvignon Blanc.

Domestic Sales

In the year ended 30 June 2017 MWE achieved an increase of approximately 25% in domestic bottled wine sales compared to the previous financial year. This growth was mainly driven by an improved sales strategy and sales network, along with new products which have proven to be popular in the domestic markets.

Looking ahead

The year ended 30 June 2017 was a year of optimisation for MWE. The Company has a clear vision of how it can optimise and improve its product portfolio and sales strategy, and is working purposefully to realise that vision.

With a continued focus on long-term brand development and international market development, MWE is confident it can deliver significant sales growth in both international and domestic markets in the FY18 year.

Min JIA
Executive Chairman

Catherine MA
Chief Executive Officer

MARLBOROUGH WINE ESTATES GROUP LIMITED

Appendix 1

EBITDA¹ Reconciliation

	Year Ended 30 June 2017	Year Ended 30 June 2016
	\$	\$
Net loss after tax per Financial Statements	(4,381,727)	(896,017)
Plus net interest and financing cost ²	358,437	379,215
Plus/(less) tax expense (benefit)	(418,977)	40,306
Plus depreciation	405,657	353,715
Plus amortisation	516,218	643,820
EBITDA per Financial Statements	(3,520,392)	521,039
Plus loss on assets disposal ³	30,402	-
Plus inventory write down	1,293,761	-
Plus impairment loss	2,620,009	-
Plus NXT initial listing related costs ⁴	62,784	378,158
Less insurance claim settlement	(55,641)	-
Plus share based payment expense	68,131	36,481
Adjusted EBITDA	499,054	935,678

¹ EBITDA is the earnings before interest, tax, depreciation and amortisation.

² Net interest and financing cost is the net amount of interest income of \$8,473 earned by the Group and interest and financing costs of \$366,874 incurred by the Group during the year.

³ The Group made a loss of \$30,402 during the year by disposing of unproductive wine making assets.

⁴ The Group incurred expenses of \$62,784 during the year in relation to listing the company on the NXT market, and these expenses are considered to be non-recurring.

MARLBOROUGH WINE ESTATES GROUP LIMITED

ANNUAL REPORT & DIRECTOR'S RESPONSIBILITY STATEMENT

The Directors present the Annual Report including the consolidated financial statements of Marlborough Wine Estates Group Limited (the 'Company') and its subsidiaries (together the 'Group'), for the 12 months ended 30 June 2017 and the auditor's report thereon.

The Directors are responsible for ensuring that the financial statements present fairly the financial position of the Group as at 30 June 2017 and its financial performance and cash flows for the period ended on that date. The Directors consider that the financial statements of the Group 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 Group and facilitate compliance of the financial statements with the Financial Markets Conduct Act 2013. The Directors consider that adequate steps have been taken to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Signed for and on behalf of the Board by:

Signature:



Executive Chairman: Min Jia

Signature:



Director: Danny Chan

Date: 28 September 2017

Independent Auditor's Report

To the Shareholders of Marlborough Wine Estate Group Limited

Opinion

We have audited the consolidated financial statements of Marlborough Wine Estates Group Limited and its subsidiaries (the 'Group'), which comprise the consolidated statement of financial position as at 30 June 2017, and the consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements, on pages 10 to 40, present fairly, in all material respects, the consolidated financial position of the Group as at 30 June 2017, and its consolidated financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards ('NZ IFRS') and International Financial Reporting Standards ('IFRS').

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ('ISAs') and International Standards on Auditing (New Zealand) ('ISAs (NZ)'). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report.

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

We are independent of the Group in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants*, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Other than in our capacity as auditor, we have no relationship with or interests in the Company or any of its subsidiaries, except that partners and employees of our firm deal with the Company and its subsidiaries on normal terms within the ordinary course of trading activities of the business of the Company and its subsidiaries.

Audit materiality

We consider materiality primarily in terms of the magnitude of misstatement in the financial statements of the Group that in our judgement would make it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced (the 'quantitative' materiality). In addition, we also assess whether other matters that come to our attention during the audit would in our judgement change or influence the decisions of such a person (the 'qualitative' materiality). We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined materiality for the Group financial statements as a whole to be \$300,000.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
<p>Intangible assets - Distribution Rights</p> <p>As outlined in Note 13, the Group owns rights to distribute its wines to China through an acquired agreement with a related party. At 30 June 2017, distribution rights amounting to \$1.37 million (2016: \$4.51 million) are held at cost less accumulated amortisation and impairment losses.</p> <p>During the financial year, the distributor did not meet its minimum annual commitment to purchase bottled wine of \$3.0 million per annum from the Group as stipulated in the distribution agreement by only purchasing \$1.3 million of bottled wine from the Group as previously announced.</p> <p>Consistent with NZ IAS-36 <i>Impairment of Assets</i>, the Group has assessed the above matter as an indicator of impairment to the Group's distribution rights and have performed a formal impairment assessment to evaluate the recoverable amount of its distribution rights. The determination of recoverable amount involves significant judgement and estimates like sales growth and discount rates. As a result, an impairment expense of \$2.6 million was recognised.</p> <p>We have included the carrying value of the Group's distribution rights as a key audit matter as distribution rights are quantitatively significant and significant judgement and estimates are required to determine the recoverable value.</p>	<p>We evaluated the Group's assessment of indicators of impairment for the Group's distribution rights. In particular, we focused on the adverse effect of the Group's distributor not meeting the minimum annual commitment to purchase bottled wine under the distribution agreement.</p> <p>We performed procedures to evaluate the Group's formal impairment assessment by:</p> <ul style="list-style-type: none">• Obtaining an understanding of the methodology and valuation model used by the Group in determining the recoverable amount of the distribution rights.• Challenging the underlying assumptions used by the Group in preparing the valuation model. Specifically, we challenged the sales growth and discount rates used.• Consulting our internal valuation specialist to assess the reasonableness of the Group's valuation methodology and discount rates used.• Evaluating the Group's sensitivity analysis to determine the robustness of the valuation model.• Ensuring the accuracy of the comparison between carrying and recoverable amount of the distribution rights and any resulting impairment expense is appropriately recorded.

Inventory valuation

As outlined in Note 10, the Group has inventory amounting to \$2.72 million as at 30 June 2017 (2016: \$3.69 million) and is significantly comprised of bottled wine and in-progress wine. During the year, the Group has recognised \$1.29 million in provision for inventory obsolescence.

The Group measures inventory at the lower of cost and net realisable value. We have included inventory valuation as a key audit matter due to the following two matters:

- The Group exercises significant judgement in determining provisions for slow moving or obsolete inventory. In addition, specific provisions are considered where known product quality issues and products that are considered unlikely to be sold via regular distribution channels.
- As disclosed in Note 2(u)(iv), as a result of a dispute between the Ministry of Primary Industries ('MPI') and the Group's former contracted wine processor, bottled wines amounting to \$1.29 million are currently withheld by MPI in a third party storage. The Group has exercised judgement in determining that it is unable to sell the bottled wines due to the on-going dispute. As such the full amount has been written down.

We obtained an understanding of the Group's evaluation of the carrying amount of inventory at year-end including the Group's methodology for determining provision for inventory obsolescence.

We performed the following procedures to evaluate the appropriateness of the Group's valuation of inventory:

- Selecting an appropriate sample of inventory at year-end, comparing the carrying amount of inventory to its cost and net realisable value, and ensuring the correct amounts recorded in accordance with the accounting standards.
- Obtaining reliable audit evidence to support the underlying valuation of inventory.
- Challenging the provision rates used by the Group on slow moving inventory with reference to historical sales information and committed sales orders.

In addition to the above, specifically for inventory withheld by MPI, we performed the following procedures:

- Obtained an understanding of the expertise of the Group's advisors and relevant legal advice prepared for the Group in relation to the MPI matter.
- Met and discussed the MPI matter with legal and other advisors of the Group.
- Obtained up-to-date representations from legal advisors of the Group concerning the status of the MPI matter.

Other information

The directors are responsible on behalf of the Group for the other information. The other information comprises the information in the Annual Report that accompanies the consolidated financial statements and the audit report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and consider whether it is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If so, we are required to report that fact. We have nothing to report in this regard.

Directors' responsibilities for the consolidated financial statements

The directors are responsible on behalf of the Group for the preparation and fair presentation of the consolidated financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible on behalf of the Group for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and ISAs (NZ) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is located on the External Reporting Board's website at:

<https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1>

This description forms part of our auditor's report.

Restriction on use

This report is made solely to the Company's shareholders, as a body. Our audit has been undertaken so that we might state to the Company's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

Deloitte Limited

**Andrew Boivin, Partner
for Deloitte Limited**
Auckland, New Zealand
28 September 2017

This audit report relates to the consolidated financial statements of Marlborough Wine Estates Group Limited (the 'Company') and its subsidiaries (the 'Group') for the year ended 30 June 2017 included on the Company's website. The Directors are responsible for the maintenance and integrity of the Company's website. We have not been engaged to report on the integrity of the Company's website. We accept no responsibility for any changes that may have occurred to the consolidated financial statements since they were initially presented on the website. The audit report refers only to the consolidated financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these consolidated 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 consolidated financial statements and related audit report dated 28 September 2017 to confirm the information included in the audited consolidated financial statements presented on this website.



MILBOROUGH
SAUVIGNON BLANC
NEW ZEALAND WINE

MARLBOROUGH WINE ESTATES GROUP LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2017

	Note	Group Year Ended June 2017 \$	Group Year Ended June 2016 \$
Sales	3	3,821,799	7,423,536
Cost of sales	5	(3,291,906)	(6,682,743)
Gross profit		529,893	740,793
Other income	4	173,335	30,087
Change in fair value of biological assets and agricultural produce		1,175,405	1,360,605
Loss on assets disposal		(30,402)	-
Operating expenses	6	(1,454,853)	(1,610,446)
Inventory write down	10	(1,293,761)	-
Impairment loss on intangible assets	13	(2,620,009)	-
Earnings before interest, tax, depreciation and amortisation (EBITDA)		(3,520,392)	521,039
Interest income		8,437	21,590
Interest expense and financing cost		(366,874)	(400,805)
Amortisation	13	(516,218)	(643,820)
Depreciation	14	(405,657)	(353,715)
(Loss) for the period before taxation		(4,800,704)	(855,711)
Tax benefit / (expense)	7	418,977	(40,306)
(Loss) for the period attributable to shareholders of the company		(4,381,727)	(896,017)
Other Comprehensive Income		-	-
Total comprehensive (loss) for the period attributable to the shareholders of the Company		<u>(4,381,727)</u>	<u>(896,017)</u>
Basic and diluted (loss) per share	27	<u>(0.015)</u>	<u>(0.003)</u>

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

MARLBOROUGH WINE ESTATES GROUP LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2017

Group	Note	Share Capital	Retained earnings	Share-based payment reserve	Total
Balance at 30 June 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	8	141,400	-	-	141,400
Cash contribution from employees for shares	8	2,100	-	-	2,100
Share-based payment options	8 & 29	-	-	35,581	35,581
Share-based payment options exercised	8 & 29	30,900	-	(30,900)	-
Share-based payment options for employees	8 & 29	-	-	900	900
		174,400	-	5,581	179,981
Balance at 30 June 2016		15,174,626	4,886,913	5,581	20,067,120
Total comprehensive income for the year					
Loss for the year		-	(4,381,727)	-	(4,381,727)
Other comprehensive income		-	-	-	-
Total comprehensive income for the year			(4,381,727)		(4,381,727)
Transactions with owners					
Share-based payment options	8 & 29	-	-	68,131	68,131
Share-based payment options exercised		-	-	-	-
		-	-	68,131	68,131
Balance at 30 June 2017		15,174,626	505,186	73,712	15,753,524

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

MARLBOROUGH WINE ESTATES GROUP LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2017

	Note	Group June 2017 \$	Group June 2016 \$
ASSETS			
Current assets			
Cash and bank balances	9	498,821	1,453,834
Accounts receivable	12	2,003,193	2,524,902
Inventory	10	2,716,487	3,693,043
Biological work in progress	11	265,559	259,563
Prepayments		93,633	23,699
Deposits paid		41,610	61,610
Current tax receivable		1,725	-
GST receivable		29,922	-
Total current assets		5,650,950	8,016,651
Non-current assets			
Property, plant and equipment	14	14,536,760	14,008,027
Related party loan	22	8,443	7,788
Investments carried at cost	15	74,750	72,250
Deferred tax	7	648,734	229,757
Intangible assets	13	1,391,477	4,522,242
Total non-current assets		16,660,164	18,840,064
Total assets		22,311,114	26,856,714
LIABILITIES			
Current liabilities			
Accounts payable	16	238,876	368,119
Accrued expenses		92,397	136,377
GST payable		-	30,278
Revenue received in advance		22,230	-
Current tax payable		-	154,821
Interest bearing borrowings	17	6,100,000	6,100,000
Finance Lease	19	49,059	-
Total current liabilities		6,502,562	6,789,595
Non-current liabilities			
Finance lease	19	55,028	-
Total non-current liabilities		55,028	-
Total liabilities		6,557,590	6,789,595
Total net assets		15,753,524	20,067,120
EQUITY			
Capital Shares	8	15,174,626	15,174,626
Share-based payment reserve	29	73,712	5,581
Retained earnings		505,186	4,886,913
Total equity		15,753,524	20,067,120

Signed for and on behalf of the board by:

Signature: 

Executive Chairman: Min Jia

Date: 28 September 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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2017

	Note	Group Year Ended June 2017 \$	Group Year Ended June 2016 \$
Cash flows from operating activities			
Cash was provided from:			
Receipts from customers		4,769,116	6,105,884
Other revenue		95,727	35,274
GST refund		279,713	-
Interest received		8,437	22,506
		5,152,993	6,163,664
Cash was disbursed to:			
Payment to suppliers		3,550,667	3,553,986
Payments to employees		886,611	579,993
GST Paid		-	154,675
Income tax paid		268,149	458,645
Interest paid		365,223	402,388
		5,070,650	5,149,687
Net cash flow generated by operating activities	23	82,343	1,013,977
Cash flows from investing activities			
Cash was disbursed to:			
Payments for investments		2,500	-
Payments for intangible assets		5,462	12,612
Payments for property, plant and equipment		927,540	549,109
		935,502	561,721
Net cash flow (used in) investing activities		(935,502)	(561,721)
Cash flows from financing activities			
Cash was provided from:			
Increases in shareholder advances		-	470,318
Proceeds from issue of shares		-	144,400
		-	614,718
Cash was disbursed to:			
Repayment of lease obligation		83,256	-
Decreases in shareholder advances		-	540,950
		83,256	540,950
Net cash flow (used in) financing activities		(83,256)	73,768
Net (decrease) / increase in cash		(936,415)	526,024
Cash and cash equivalents at the beginning of the year		1,453,834	988,556
Exchange adjustment		(18,598)	(60,746)
Cash and cash equivalents at the end of the year		498,821	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 FINANCIAL STATEMENTS

For the year ended 30 June 2017

1 Reporting Entity

These 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 was listed on NXT market on 30 June 2016.

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 September 2017.

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

2 Summary of significant accounting policies

(a) Basis of Preparation

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

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

Historical cost convention

The consolidated financial statements have been prepared on a historical cost basis except for Biological assets and produce which have been measured at fair value. Fixed assets have been recorded at cost less accumulated depreciation.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis.

Functional and presentation currency

The financial statements are presented in New Zealand Dollars, which is the functional currency of the company and its subsidiaries.

Accounting estimates & judgements

The preparation of financial statements in conformity with NZ IFRS requires the use of certain critical accounting estimates. Refer to Note 2(u) for further information. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

MARLBOROUGH WINE ESTATES GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2017

2 Summary of significant accounting policies (continued)

(b) Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
 - potential voting rights held by the Company, other vote holders or other parties;
 - rights arising from other contractual arrangements; and
 - any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant
- activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the Consolidated Statement of Comprehensive Income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

All intra group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable NZ IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under NZ IAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

MARLBOROUGH WINE ESTATES GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2017

2 Summary of significant accounting policies (continued)

(c) Business Combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred to the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- Deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with NZ IAS 12 Income Taxes and NZ IAS 19 respectively;
- Liabilities or equity instruments related to share-based payment arrangements of the acquiree or share based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with NZ IFRS 2 at the acquisition date; and
- Assets (or disposal groups) that are classified as held for sale in accordance with NZ IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

(d) Revenue Recognition

Sales of grapes and wine

The primary source of revenue for the group is from the sales of grapes harvested and the sale of wines produced. Revenue on sales of goods is recognised when goods are delivered to and ready for use by the customer or when contractual term has been satisfied. Risks and rewards of ownership are considered passed on to the customer at the time of the delivery of the goods.

Interest income and expense

Interest income and expense are recognised on an accrual basis using the effective interest method.

Other income

Other income is recognised when the Group's right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably).

(e) Goods and Services Tax

With the exception of accounts receivable and payable, all items are stated exclusive of Goods and Services Tax. The net amount of GST recoverable from or payable to the taxation authority is included as part of current assets or current liabilities in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis.

(f) Foreign Currencies

Items included in the financial statements of the Group 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 Group's functional and presentation currency. All values are rounded to the nearest dollar.

MARLBOROUGH WINE ESTATES GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2017

2 Summary of significant accounting policies (continued)

(f) Foreign Currencies (continued)

At balance date, foreign monetary assets and liabilities are translated into the functional currency at the closing exchange rate and exchange variations arising from these translations are recognised in profit or loss.

Transaction in foreign currencies are translated into New Zealand currency at the rate of exchange ruling at the transaction date or a rate approximating that rate.

(g) Property, Plant and equipment

The cost of land, dams and roads includes all costs incurred in planting vineyards and developing vineyards, dams and irrigation systems including direct material and direct labour.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Any resulting impairment losses are recognised as an expense in profit or loss.

The Company has five classes of property, plant and equipment:

- Land, dams and roads
- Computer equipment
- Tools & equipment
- Motor vehicles
- Vines & vineyards

All items of property, plant and equipment are initially recorded at cost. All items are recorded on the cost basis less accumulated depreciation and impairment losses.

When an item of property, plant and equipment is disposed of, any gain or loss is recognised in profit or loss and is calculated as the difference between the sale price and the carrying value of the item.

Depreciation is provided for on a straight line or diminishing value basis on all tangible property, plant and equipment at depreciation rates calculated to allocate the assets' cost less estimated residual value, over their estimated useful lives. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Rates used during the year were:

- Land, dams and roads / Diminishing value / 0.0% - 14.0%
- Computer equipment / Diminishing value / 50.0%
- Tools & equipment / Diminishing value / 13.0% - 67.0%
- Motor vehicles / Diminishing value / 13.0% - 100.0%
- Vines & vineyards / Straight line / 5 - 25 years

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period the asset is derecognised.

MARLBOROUGH WINE ESTATES GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2017

2 Summary of significant accounting policies (continued)

(h) Impairment

The Group reviews the carrying value of its tangible and intangible assets and assesses whether there is any indication that an asset may be impaired at each reporting date. Where an indication of impairment exists, or when annual impairment testing of an asset is required, the Group makes a formal assessment of recoverable amounts.

Intangible assets with indefinite useful lives are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

If the recoverable amount of an asset is less than its carrying amount, the asset is written down to its recoverable amount. The write-down of the asset recorded at historical cost is recognised as an expense in profit or loss.

The carrying amount of an asset that has previously been written down to recoverable amount is increased to its current recoverable amount if there has been a change in the estimates used to determine the amount of the write-down. The increased carrying amount of the asset will not exceed the carrying amount that would have been determined if the write-down to recoverable amount had not occurred.

Reversals of impairment write downs on property, plant and equipment are accounted for in profit or loss.

(i) Trade and Other Receivables

Receivables are stated at their cost less impairment losses. Bad debts are written off in the year in which they are identified.

An allowance for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. When a trade receivable is uncollectible, it is written off against an allowance account for trade receivables.

Other receivables are initially recognised at fair value less any provision for impairments. These are classified as current assets unless the balances are expected to settle at least 12 months after balance date, in which case they are classified as non-current assets.

(j) Payables

Trade payables and other accounts payable are recognised when the Group becomes obliged to make future payments resulting from the purchase of goods and services.

(k) Financial instruments

Financial instruments are recognised in the Statement of Financial Position when the Group become party to a financial contract. They include cash balances, deposits, bank overdrafts, receivables, payables and related party balances.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

MARLBOROUGH WINE ESTATES GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2017

2 Summary of significant accounting policies (continued)

(k) Financial instruments (continued)

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

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. Loans and receivables (including trade and other receivables, bank balances and cash, and others) are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

Financial liabilities

Other financial liabilities (including borrowings and trade and other payables) are subsequently measured at amortised cost using the effective interest method.

(l) Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a first-in-first-out basis. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

(m) Common Control Transactions

A combination of entities or businesses under common control is a business combination in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the combination, and that control is not transitory.

Common control transactions are accounted for at book value at the date of the transaction with any resulting gain/loss recognised directly in equity.

(n) Income Tax

Income tax expense comprises both current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, or in other comprehensive income, in which case it is recognised in equity or other comprehensive income.

The charge for current income tax expense is based on the profit for the period adjusted for any non-assessable or disallowed items. It is calculated using the tax rates that have been enacted or are substantively enacted by the reporting date. Deferred tax is calculated on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the statement of financial position. No deferred tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

MARLBOROUGH WINE ESTATES GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2017

2 Summary of significant accounting policies (continued)

(n) Income Tax (continued)

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability settled based on tax rates that have been enacted or substantively enacted at the reporting date.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

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

The amount of income tax benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the Group will derive sufficient future assessable income to enable the benefit to be realized and comply with the conditions of deductibility imposed by law.

(o) Borrowing costs

Borrowing costs are recognised as an expense except when incurred to the extent that they are directly attributable to the acquisition, construction or production of a qualifying asset.

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset will be capitalised as part of the cost of that asset.

(p) Agriculture (biological assets other than bearer plants and biological work in progress)

All costs incurred in maintaining agricultural assets are recognised in profit or loss. Costs incurred in the current year's harvest are included in profit or loss and Statement of Financial Position as work in progress.

The fair value of picked grapes is recognised in profit or loss as a gain/loss on harvested grapes at the point of harvest. The fair value of grapes is referenced to market prices for grapes in the local area, at the time of harvest. This becomes the deemed 'cost' for inventory valuation purposes.

Unharvested grapes are biological assets and are measured at fair value less costs to sell.

(q) Fair value estimation

Some of the Group's assets and liabilities are measured at fair value for financial reporting purposes. The board of directors of the Company has determined the appropriate valuation techniques and inputs for fair value measurements.

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

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group applies an alternative valuation technique.

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date; and

Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

Level 3 inputs are unobservable inputs for the asset or liability.

The carrying value less estimated credit adjustments of trade receivables and payables is assumed to approximate its fair values due to their short-term nature.

MARLBOROUGH WINE ESTATES GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2017

2 Summary of significant accounting policies (continued)

(r) Intangible assets

i. Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

ii. Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for a prospective basis.

iii. Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, is recognised in profit or loss when the asset is derecognised.

(s) Share-based payment transactions

The grant date fair value of equity settled share based payment awards granted to employees is recognised as an expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

(t) Leases

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, the present value of minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense in the statement of financial performance. Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

The Group as lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

MARLBOROUGH WINE ESTATES GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2017

2 Summary of significant accounting policies (continued)

(u) Key sources of judgement of estimation uncertainty

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

i. Estimation of useful lives of assets (other than bearer plants) (refer to note 13 and 14)

The estimation of useful lives of assets and intangible assets has been based on historical experience and management's best estimate of the terms and conditions attached to intangible assets that arise from legal agreements. In addition, the physical condition of the assets is assessed and considered against the remaining useful life. Adjustments to useful lives are made where necessary. Useful lives and residual values are required to be re-evaluated at every balance date.

ii. Fair value of grapes at the point of harvest less cost to sell

The fair value of grapes at the point of harvest is determined by reference to market prices for each variety of grape grown in the local area at the time of harvest. The Directors' assessment of the fair value at the point of harvest is determined after reviewing the market price paid to independent grape growers.

iii. Impairment of intangible assets (refer to note 13)

The carrying amount of intangible assets are assessed at least annually to ensure that they are not impaired. This assessment requires the management to estimate the future cash flows generated by the intangible assets. Estimating cash flow entails making judgements including the expected rate of growth in revenue, expense and an appropriate discount rate to apply to the cash flows.

iv. MPI dispute

The Ministry for Primary Industries (MPI) is currently in dispute with the Group's former contracted wine processor which may have adverse implications for the Group. MPI has withheld approval from the processor for the release of sale to the Group of approximately \$1,200,000 of Bottled Wine. This stock remains held by a third-party storage company while the dispute is determined. The allegation by MPI is that the processor held insufficient records to enable proper traceability of the stock. If MPI's position is upheld the stock will be destroyed. The Group is in continuing discussions with its insurer. However, the contractor has not accepted the liability and the Group holds insufficient information at this time to form a view on whether any loss will be fully or partially covered by its insurance. On 30 June 2017, the management performed an impairment test on the bottled wine in dispute, and a provision has been recognised for the bottled wine.

v. Overseas investment office retrospective consent (refer to note 20)

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

OIL subsequently undertook the internal restructuring in preparation for listing the Group 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 James Jia as part of the internal restructuring. The conditions of the Original Consent and the Act provided that further consent was required when James 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).

MARLBOROUGH WINE ESTATES GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2017

2 Summary of significant accounting policies (continued)

(u) Key sources of judgement of estimation uncertainty (continued)

O:TU Investments Limited became aware of the breach and promptly (and voluntarily) informed the OIO of the breach, the reasons for the breach and the steps O:TU Investments Limited 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.

During the year end 30 June 2017, the application has moved close to the signing stage and no significant financial impacts were expected from the final conclusion.

This has been disclosed as a contingent liability in note 20, and therefore no amounts have been recognised in the financial statement, relating to this issue.

(v) Changes in accounting policy and disclosure

i. There have been no changes in accounting policy. Policies have been applied on a consistent basis with the previous reporting period, unless otherwise stated.

ii. New and amended standards not applied

The following new or amended standards or interpretations were issued but not yet effective for the year ended 30 June 2017. The Group is yet to assess the impact of these standards and does not expect to adopt them before their effective dates.

- NZ IFRS 9 Financial Instruments. This standard is effective for reporting periods beginning on or after 1 January 2018. The International Accounting Standards Board (IASB) issued the completed version of IFRS 9: Financial Instruments (to replace NZIAS 39: Financial Instruments: Recognition and Measurement), bringing together the classification and measurement of financial instrument, impairment and hedge accounting. NZ IFRS 9 requires financial assets to be classified into two measurement categories; those measured as at fair value and those measured at amortised cost. The determination is made at the initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contracted cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the of the NZ IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The new hedge accounting model more closely aligns hedge accounting with risk management activities undertaken by companies when hedging their financial and non-financial risks. NZ IFRS 9 introduces a new expected credit loss model for calculating the impairment of the financial assets.

- NZ IFRS 15 Revenue from Contracts with Customers. The standard replaces NZ IAS 18 Revenue and is mandatory for annual periods beginning on or after 1 January 2018. NZ IFRS 15 establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The core principle of NZ IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. An entity will recognise revenue in accordance with that core principle by applying a five-step model.

- NZ IFRS 16 Leases. Effective for annual period beginning on or after 1 January 2019. NZ IFRS 16 requires lessees to account for all leases under a single on-balance sheet model (subject to certain exemptions) in a similar way to finance leases under NZ IAS 17: Leases. Lessees will be required to recognise a liability to pay rentals with a corresponding asset, and recognise interest expense and depreciation separately. Reassessment of certain key considerations (e.g. lease term, variable rents based on an index or rate, discount rate) by the lessee is required upon certain events. Lessor accounting is substantially the same as lessor accounting under NZ IAS 17's dual classification approach.

The Directors expect to adopt the above standards and amendments when they become effective.

MARLBOROUGH WINE ESTATES GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2017

3 Sales

	Year Ended June 2017	Year Ended June 2016
	\$	\$
Bulk grape sales	1,998,919	2,011,720
Bulk wine sales	288,000	3,635,922
Bottled wine sales	1,534,880	1,754,870
Other sales	-	21,024
	<u>3,821,799</u>	<u>7,423,536</u>

4 Other Income

	Year Ended June 2017	Year Ended June 2016
	\$	\$
Lease of farmland	11,691	7,501
Lease of equipment	16,201	22,586
Compensation from customer	80,000	-
Insurance claims	55,641	-
Dividend received	8,799	-
Others	1,003	-
	<u>173,335</u>	<u>30,087</u>

The customer, New Zenith International Trading (Shanghai) Co., Ltd, agreed to pay MWE \$80,000 to compensate the loss of profit for not meeting its minimum purchase commitment in FY2017.

5 Cost of sales

The group runs a vineyard and wine producing business and as a consequence have incurred \$3,291,906 of cost of sales. These costs relate to growing grapes on vines and producing wine.

	Year Ended June 2017	Year Ended June 2016
	\$	\$
Bottling & labelling	348,690	240,808
Change in inventories & biological work in progress	(323,201)	2,281,772
Vineyard grapes producing expenses	1,440,591	1,387,760
Valuation uplift	1,175,405	1,360,605
Grape and wine purchased	153,388	758,085
Wine making	439,936	444,085
Other winery expenses	57,097	209,628
	<u>3,291,906</u>	<u>6,682,743</u>

6 Operating expenses

	Year Ended June 2017	Year Ended June 2016
	\$	\$
Accounting expenses	13,409	80,700
Auditor's remuneration for annual audit - Deloitte Limited	71,775	45,000
Consulting & advisory	249,711	365,636
Share-based payments to directors and staff	68,131	36,481
Salaries & wages	655,611	418,580
Kiwisaver contribution	6,757	4,597
Foreign exchange losses	16,006	67,219
Office Rent	38,871	62,442
Finished wine storage	50,470	73,126
Other expenses	284,112	456,665
	<u>1,454,853</u>	<u>1,610,446</u>

MARLBOROUGH WINE ESTATES GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2017

7 Taxation

	Year Ended June 2017	Year Ended June 2016
(a) Income Tax	\$	\$
Current tax	-	116,787
- current period	-	-
- prior year	-	-
Deferred tax movement	(418,977)	(76,481)
Income tax expense	(418,977)	40,306
(b) Numerical reconciliation of income tax expense to prima facie tax payable		
(Loss) / profit before taxation	(4,800,704)	(855,711)
Income tax @ 28%	(1,344,197)	(239,599)
Permanent differences	925,220	279,905
Temporary differences	-	-
Income tax (benefit) / expense	(418,977)	40,306
(c) Imputation credits are as follows:		
Balance available for use in subsequent reporting periods	619,485	462,162
(d) Deferred tax balances		
The following is the analysis of deferred tax assets/(liabilities) presented in the consolidated statement of financial position:		
	Year Ended June 2017	Year Ended June 2016
	\$	\$
Deferred tax assets	648,734	229,757
	648,734	229,757

June 2016

	Opening balance	Addition of Controlling interest	Recognised in profit or loss	Acquisitions /disposals	Closing balance
Deferred tax assets/(liabilities) in relation to:	\$	\$	\$	\$	\$
Biological assets	143,145	-	63,206	-	206,351
Accrued expenses	4,956	-	13,275	-	18,231
Property, plant & equipment	5,175	-	-	-	5,175
	153,276	-	76,481	-	229,757
Tax losses on prior period	-	-	-	-	-
	-	-	-	-	-
	153,276	-	76,481	-	229,757

June 2017

	Opening balance	Addition of Controlling interest	Recognised in profit or loss	Acquisitions /disposals	Closing balance
Deferred tax assets/(liabilities) in relation to:	\$	\$	\$	\$	\$
Biological assets	206,351	-	63,381	-	269,732
Accrued expenses	18,231	-	2,970	-	21,201
Property, plant & equipment	5,175	-	(4,760)	-	415
Current year loss	-	-	357,386	-	357,386
	229,757	-	418,977	-	648,734
Tax losses on prior period	-	-	-	-	-
	-	-	-	-	-
	229,757	-	418,977	-	648,734

MARLBOROUGH WINE ESTATES GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2017

7 Taxation (continued)

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the deferred tax benefit will be realised.

The company's year ended with net loss after tax of \$4,381,727 which was mainly due to the recognition of one-off impairment loss on intangible assets and inventory write down. Management prepared forecasts and expected the Group to be profitable in the near future.

8 Equity

Share Capital

	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	<u>290,872,000</u>	<u>15,174,626</u>

	June 2017 Number	June 2017 \$
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 year	-	-
Balance at 30 June 2017	<u>290,872,000</u>	<u>15,174,626</u>

Share-based payment reserve

	June 2016 Number	June 2016 \$
Balance of share based payment reserve 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	<u>2,400,000</u>	<u>5,581</u>

	June 2017 Number	June 2017 \$
Balance of share based payment reserve at 1 July 2016	2,400,000	5,581
Share based expenses for the year	-	68,131
Share options granted during the year	-	-
Share options exercised during the year	-	-
Balance at 30 June 2017	<u>2,400,000</u>	<u>73,712</u>

Total number of security registered as at 30 June 2017

293,272,000

At 30 June 2017, share capital comprised 293,272,000 authorised and issued shares (2016: 293,272,000). Other than the 2,400,000 shares issued under the Group's Employee Share Ownership Plan (ESOP) all issued share 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.

Proportionate rights for the holders of unpaid shares issued under 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.

Issue of shares

MWE has issued no shares (2016: 707,000 shares, \$141,000) or share options (2016: 2,565,000,000 share options) during the 12 months ended 30 June 2017.

MARLBOROUGH WINE ESTATES GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2017

9 Cash and bank balances

	Year Ended June 2017	Year Ended June 2016
	\$	\$
Cash at bank (ANZ Bank, BNZ Bank and Industrial Commercial Bank of China)	498,821	527,866
Term deposit at bank (ANZ Bank and Industrial Commercial Bank of China)	-	925,968
	<u>498,821</u>	<u>1,453,834</u>

Cash and cash equivalents comprise cash on hand, cash at bank and investments on call or in short-term deposits with an initial maturity of 3 months or less.

10 Inventories

	Year Ended June 2017	Year Ended June 2016
	\$	\$
Wines - bottled	1,133,417	2,113,055
Wines - work in progress	1,432,217	1,450,372
Dry goods	150,853	129,616
Total wine in inventory and work in progress	<u>2,716,487</u>	<u>3,693,043</u>
Impairment of Inventory		
Balance as at 1 July	-	-
Provision provided during the year	1,293,761	-
Balance as at 30 June	<u>1,293,761</u>	<u>-</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 a FIFO basis. Fair value less costs to sell is determined from average market prices in New Zealand. Total vineyard producing area was 157 hectares (30 June 2016: 157 hectares) and total output for the year was 1,450 tonnes (30 June 2016: 1,653 tonnes)

On 30 June 2017, the Group performed an annual impairment test on bottled wine inventory, taking into consideration historical data and forecast economic conditions, and believed the value of the wine should be provided for of \$1,293,761. Refer to note 2 (u(iv)).

11 Biological work in progress

	Year Ended June 2017	Year Ended June 2016
	\$	\$
Growing costs related to next harvest	<u>265,559</u>	<u>259,563</u>

The growth on the vines in the period from harvest to 30 June 2017 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 30 June 2017 has been recognised as biological work in progress for the next harvest. This assumes the cost of the agricultural activity approximates the fair value of the biological transformation that has occurred in that period. There is minimal production for the period from harvest, April 2017 to 30 June 2017, and the value is immaterial.

12 Accounts receivable

	Year Ended June 2017	Year Ended June 2016
	\$	\$
Trade receivables	2,003,193	2,524,902
Provision for doubtful debts	-	-
	<u>2,003,193</u>	<u>2,524,902</u>

MARLBOROUGH WINE ESTATES GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2017

12 Accounts receivable (continued)

The standard credit terms on sales of goods given to domestic bottled wine customers are 20th of month following the issue of invoice. Before accepting any new customer, the Group assess the potential customer's credit quality and defines credit limits by customer. For overseas and other major customers, credit quality is assessed individually. Clients with customised purchase orders might receive a different payment term, normally not longer than 90 Days.

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period. Refer to note 2(u(iv)).

As of 30 June 2017, \$0.89 million is due from New Zenith International Trading (Shanghai) Co., Ltd (NZIT), \$0.83 million is due from Marlborough Grape Producers Group Limited and \$0.33 million is due from Giesen Wine Limited. There are no other customers who represent more than 5% of the total balance of trade receivables. Included in the total receivable amount above, \$381,259 from NZIT is 0-30 days past due but not impaired, and no other material past due accounts.

Payment due schedule from major customers as of 30 June 2017

	0 - 30 days past due \$	0 - 30 days \$	31 - 90 days \$	91 days + \$
New Zenith International Trading (Shanghai) Co., Ltd	381,259	-	135,040	375,807
Marlborough Grape Producers Group Limited	-	-	298,382	459,540
Giesen Wine Limited	-	223,779	-	-

13 Intangibles

(a) Cost and accumulated amortisation

	Distribution Rights \$	Trademarks \$	Total \$
Cost:			
Balance as at 1 July 2015	5,150,565	2,885	5,153,450
Additions for the year	-	12,612	12,612
Balance at 30 June 2016	5,150,565	15,497	5,166,062
Additions for the year	-	5,462	5,462
Balance at 30 June 2017	5,150,565	20,959	5,171,524

	Distribution Rights \$	Trademarks \$	Total \$
Amortisation and impairment losses:			
Balance as at 1 July 2015	-	-	-
Amortisation for the year	643,820	-	643,820
Balance at 30 June 2016	643,820	-	643,820
Amortisation for the year	515,056	1,162	516,218
Impairment loss for the year	2,620,009	-	2,620,009
Balance at 30 June 2017	3,778,885	1,162	3,780,047

(b) Carrying amount

	Distribution Rights \$	Trademarks \$	Total \$
June 2016			
Cost	5,150,565	15,497	5,166,062
Accumulated amortisation and impairment loss	(643,820)	-	(643,820)
Balance at 30 June 2016	4,506,745	15,497	4,522,242
June 2017			
Cost	5,150,565	20,959	5,171,524
Accumulated amortisation and impairment loss	(3,778,885)	(1,162)	(3,780,047)
Balance at 30 June 2017	1,371,680	19,797	1,391,477

MARLBOROUGH WINE ESTATES GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2017

13 Intangibles (continued)

Impairment test for the distribution rights

Distribution rights represent the value attached to a distribution agreement that grants rights to distribute wine produced by the Group to China.

The distribution rights were acquired on 31 March 2015 for amount of \$5.15 million and are estimated to have a 10-year useful life. The agreement has no termination date and it shall continue to be in force. The parties may review the pricing and provisions every two years by giving the other party written notice.

On an annual basis, the recoverable amount of the distribution rights is tested for impairment based on a value-in-use model. There was no impairment loss for the distribution rights as at 30 June 2016. However as advised to the market in Group's interim update on 19 April 2017, because of the challenging trading conditions in China, Great Esprit Limited (GEL) was not able to meet its minimum annual commitment to purchase bottled wine for the year ended 30 June 2017 under its wine supply agreement with the Group. The commitment was for \$3 million of bottled wine but actual sales were \$1.3 million. The Group has taken this, and forecast economic conditions into account when performing its impairment test for the year ended 30 June 2017. The recoverable amount of the distribution rights was determined based on the following significant assumptions:

	June 2017
Sales growth (% annual growth rate)	10%
Profit before tax margin (% of sales)	15.88%
Number of years modelled	8
Pre-tax discount rate	14.78%

Management believes that the assumptions and estimates represent the most realistic assessment of future trends. Based on this assessment the carrying amount of the distribution rights exceeds its recoverable amount at the reporting date and management has concluded that an impairment of \$2.6 million attributable to the distribution rights exists.

14 Property, plant & equipment

(a) Cost and accumulated depreciation

	Land, dams & roads	Vines & Vineyards	Computer equipment	Tools & equipment	Motor vehicles	Total
	\$	\$	\$	\$	\$	\$
Cost:						
Balance at 1 July 2015	8,090,470	5,225,932	4,052	375,845	222,252	13,918,551
Additions for the year	483,573	-	4,016	61,520	-	549,109
Balance at 30 June 2016	8,574,043	5,225,932	8,068	437,365	222,252	14,467,660
Additions for the year	732,790	152,022	3,756	72,059	164,165	1,124,792
Disposals for the year	-	-	-	(246,380)	-	(246,380)
Balance at 30 June 2017	9,306,833	5,377,954	11,824	263,044	386,417	15,346,072
Accumulated Depreciation						
Balance at 1 July 2015	10,648	56,805	508	29,827	8,130	105,918
Depreciation for the year	45,862	227,214	2,414	46,427	31,798	353,715
Balance at 30 June 2016	56,510	284,019	2,922	76,254	39,928	459,633
Depreciation for the year	66,040	230,631	4,266	58,506	46,214	405,657
Disposals for the year	-	-	-	(55,978)	-	(55,978)
Balance at 30 June 2017	122,550	514,650	7,188	78,782	86,142	809,312

MARLBOROUGH WINE ESTATES GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2017

14 Property, plant & equipment (continued)

(b) Carrying amounts

	Land, dams & roads \$	Vines & Vineyards \$	Computer equipment \$	Tools & equipment \$	Motor vehicles \$	Total \$
June 2016						
Cost	8,574,043	5,225,932	8,068	437,365	222,252	14,467,660
Accumulated depreciation	(56,510)	(284,019)	(2,922)	(76,254)	(39,928)	(459,633)
Carrying amount	8,517,533	4,941,913	5,146	361,111	182,324	14,008,027

June 2017

Cost	9,306,833	5,377,954	11,824	263,044	386,417	15,346,072
Accumulated depreciation	(122,550)	(514,650)	(7,188)	(78,781)	(86,142)	(809,312)
Carrying amount	9,184,283	4,863,304	4,636	184,263	300,275	14,536,760

Land, dams and vines acquired by the Group are subject to a registered charge in favour of the ICBC Bank. This is up to the extent of the loan balance.

The Group grows and harvests grapes. Harvesting of grapes is from April to May each year. The vineyards are situated in Marlborough.

The Group leased certain of its vineyards machinery under finance leases. The Group's obligations under finance leases (see note 19) are secured by the lessors' title to the leased assets, which have a carrying amount of \$104,087 (2016: \$0).

15 Investments

MWE has invested \$2,500 in Marlborough Grape Producers Group Limited (MGP) during the year ended 30 June 2017 to participate a bulk grapes sales scheme, there is no financial return on this investment.

The Group has 7.8% ownership in Blind River Irrigation Limited and has advanced funds to the company. This gives the Group the right to draw water from Blind River Irrigation Limited. During the 12 months ended 30 June 2017, MWE has received dividend of \$8,799 from this investment.

Total Investment is \$74,750 (2016: \$72,250).

16 Accounts payable

	Year Ended June 2017 \$	Year Ended June 2016 \$
Trade payables	198,508	368,119
Other payables	40,368	-
	238,876	368,119

17 Borrowings

	Year Ended June 2017 \$	Year Ended June 2016 \$
Loan - ICBC	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

MARLBOROUGH WINE ESTATES GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2017

17 Borrowings (continued)

A subsidiary of the Group entered into a loan agreement with ICBC on 18 December 2014. 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 30 June 2017 was 4.51%. The loan was refinanced by the group and will mature on 30 September 2018. The loan undertaking requires the Group to obtain written approval from ICBC before disposing of assets with an aggregate value of over \$50,000. In the year to 30 June 2017, the group disposed of assets with a value exceeding \$50,000 and the written approval was issued at July 2017. As such, this loan was recorded as a current liability as at 30 June 2017 due to technical default. However, remedy was obtained via a letter from ICBC in July 2017.

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.

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.

18 Operating leases

	Year Ended June 2017 \$	Year Ended June 2016 \$
Leases as lessee		
Operating lease rentals are payable as follows		
Less than one year	87,116	85,667
Between one and five years	25,964	99,571
Leases as lessor		
Operating lease rentals are receivable as follows		
Less than one year	3,546	13,982
Between one and five years	-	7,092

The Group entered various non-cancellable operating lease agreements. The leases reflect normal commercial arrangement with varying terms, escalation clauses and renewal rights.

During the year ended 30 June 2017, \$20,929 was recognised as revenue and \$86,895 was recognised as expense in respect of operating leases.

19 Finance leases

	Year Ended June 2017 \$	Year Ended June 2016 \$
Leases as lessee		
Finance lease rentals are payable as follows		
Less than one year	51,104	-
Between one and five years	55,754	-
	106,858	-
less future finance charges	(2,771)	-
	104,087	-
Present value of minimum lease payments		
Disclosed as:		
Current finance lease liability	49,059	-
Non-current finance lease liability	55,028	-
	104,087	-

The Group leased certain of its vineyards machinery under finance leases. The average lease term is 2.5 years. The ownership of the leased assets will be transferred to the Group at the end of the lease terms. The Group's obligations under finance leases are secured by the lessors' title to the leased assets. Interest rates underlying all obligations under finance leases are fixed at respective contract dates ranging from 2.49% to 2.9% per annum.

MARLBOROUGH WINE ESTATES GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2017

20 Contingent Liabilities

O:TU Investments Limited (OIL) is a wholly owned subsidiary of MWE. OIL obtained Overseas Investment 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 James Jia as part of the internal restructuring. The conditions of the Original Consent and the Act provide that further consent was required when James 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 reasons 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.

During the year end 30 June 2017, the application has moved close to the conclusion and no significant financial impacts were expected from the final conclusion.

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

21 Capital Commitments

MWE has ordered 10,000 vines and committed to plant them in the coming year. Total associated cost of this planting is about \$75,000.

22 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 James Jia.

The Group has a related party relationship with New Zenith International Trading (Shanghai) Co., Ltd (NZIT). James 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.

MARLBOROUGH WINE ESTATES GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2017

22 Related Party Disclosures (continued)

The Group has a related party relationship with O:TU & Co Limited. James Jia, the founder, major shareholder and director of MWE, owns O:TU & Co Limited. In December 2014, subsidiaries of MWE obtained a performance guarantee for amount of \$4.4m from Industrial and Commercial Bank of China (New Zealand) Limited (ICBC Guarantee). In April 2016, MWE was fully released from this guarantee. The liability under ICBC Guarantee has been novated to O:TU & Co Limited which is backed by an investment company owned by James Jia.

The Group has a related party relationship with Lily Investments Company Limited. James 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 Lily Nelson Centro LP, Ly Lee, director of MWE, owns a partner in Lily Nelson Centro LP.

(b) Transactions with related party

	Total Value		Asset/(liability)	
	2017	2016	2017	2016
	\$	\$	\$	\$
New Zenith International Trading (Shanghai) Co., Ltd				
Wine Purchased from the Group	1,342,763	1,408,186	892,106	1,196,681
Other Purchase from the Group	-	21,024	-	21,024
Great Esprit Limited				
Transactions with the Group	-	-	-	-
Lily Investments Company Limited				
Office rent and other reimbursement	32,094	7,602	-	-
Lily Investments 227 Limited				
Office rent and other reimbursement	32,094	-	-	-
Lily Nelson Centro LP				
Wine Purchased from the Group	10,800	-	-	-

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.

	Total Value		Asset/(liability)	
	2017	2016	2017	2016
	\$	\$	\$	\$
Directors' Fees				
Min Jia (Executive Chairman)	95,000	-	(7,500)	-
Ly Lee	40,000	-	(3,333)	-
Jack Zhong Yin (Executive Director)	50,000	-	-	-
Danny Chan	40,000	-	(10,000)	-
Songyuan Huang	30,000	-	-	-

MARLBOROUGH WINE ESTATES GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2017

22 Related Party Disclosures (continued)

(b) Transactions with related party (continued)

	Total Value		Asset/(liability)	
	2017	2016	2017	2016
	\$	\$	\$	\$
Directors' Remuneration				
Min Jia (Executive Chairman)	-	-	-	-
Ly Lee	-	-	-	-
Jack Zhong Yin (Executive Director)	-	-	-	-
Danny Chan	-	22,862	-	-
Songyuan Huang	-	22,862	-	-

	Total Value		Asset/(liability)	
	2017	2016	2017	2016
	\$	\$	\$	\$
Share-based payments for director				
Jack Zhong Yin (Executive Director)	43,058	220	-	-

Senior officers' compensation (excludes directors)

	Year Ended June 2017	Year Ended June 2016
	\$	\$
Short-term employee benefits	371,283	354,315
Share-based payments	25,073	5,561
Total senior officers' compensation (excludes directors)	396,356	359,876

	Year Ended June 2017	Year Ended June 2016
	\$	\$
Shareholder loan - Min Jia		
Amount owed to Min Jia at 1 July	-	70,632
Amount advanced by Min Jia during the year	-	470,318
Amount withdrawn by Min Jia during the year	-	(540,950)
Amount owed to Min Jia at 30 June	-	-

	Year Ended June 2017	Year Ended June 2016
Amounts owing from related parties:		
Blind River Irrigation Limited -loan	8,443	7,788
	8,443	7,788

Other related party transactions during the year

	Year Ended June 2017	Year Ended June 2016
	\$	\$
Wine purchased by shareholders and senior officers during the year	4,473	2,062
Payments reimbursed to senior officers and shareholders for business related expenses during the year	35,760	53,237
Irrigation water charged by Blind River Irrigation Limited during the year	31,900	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.

MARLBOROUGH WINE ESTATES GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2017

23 Notes to Cash Flow Statement

	Year Ended June 2017 \$	Year Ended June 2016 \$
a) <i>Reconciliation of net profit after tax to net cash flow from operating activities:</i>		
Net (loss) / profit after tax	(4,381,727)	(896,017)
<i>Add: Non-cash items</i>		
Amortisation	516,218	643,820
Depreciation	405,657	353,715
Tax expense	(418,977)	40,306
loss on asset disposal	30,400	-
Impairment loss	2,620,009	-
Foreign exchange movement	18,598	60,746
Share-based payments	68,131	35,581
Expense offset by asset traded in	160,000	-
Other non-cash adjustment	(9,909)	-
<i>(Increase)/decrease in assets:</i>		
(Increase) / Decrease in accounts receivables	521,709	(1,328,941)
(Increase) / Decrease in GST receivable	-	441,616
(Increase) / Decrease in deposit paid	20,000	(61,610)
(Increase) / Decrease in inventory	970,560	2,281,772
(Increase) / Decrease in prepayments	(69,934)	76
(Increase) / Decrease in related party loan	(655)	6,157
<i>Increase / (Decrease) in liabilities:</i>		
Increase / (Decrease) in trade payables	(129,243)	135,568
Increase / (Decrease) in GST payable	(60,200)	(344,505)
Increase / (Decrease) in revenue received in advance	22,230	-
Increase / (Decrease) in tax paid	(156,545)	(458,646)
Increase / (Decrease) in accrued expenses	(43,979)	104,339
Net cash provided by operating activities	82,343	1,013,977

24 Financial Risk Management

The Group's activities expose it to a variety of financial risks: market risk, credit risk, liquidity risk and agricultural risk.

(a) Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates.

The Group undertakes certain transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise. Exchange rate exposures are currently not managed as the foreign currency exposure is not material enough to warrant the use of foreign exchange contracts and foreign exchange option contracts. Forward foreign exchange contracts and foreign exchange option contracts will be used in the future as the Group's foreign currency exposure increases.

The Group is exposed to interest rate risk as it borrows funds at both fixed and floating interest rates.

(b) Credit risk

Credit risk is managed on a regular basis. Credit risk arises from outstanding receivables from debtors. As part of the Group's financial risk policy, limits on exposures have been set and are monitored on a regular basis. Credit risk is therefore not significant. The Group does not require any collateral or security to support financial instruments due to the quality of the financial institutions dealt with. The maximum exposure to credit risk is to the extent of the balance of the receivable.

MARLBOROUGH WINE ESTATES GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2017

24 Financial Risk Management (continued)

(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.

(d) Agricultural risk

The Group is exposed to financial risks in respect of agricultural activities. The agricultural activities of the Group primarily consist of the ownership of vineyards to produce grapes that are then sold to both related and non-related parties for the production of wine. The Company 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 on yield and quality. These measures include consultation with experts in viticulture and frost protection measures.

(e) Cash flow risk

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. Interest payable has been calculated at balance date rates, assuming bank borrowings at balance date are held to maturity.

June 2016

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Trade Payables	368,119	-	-	-
Bank Borrowings	6,100,000	-	-	-

June 2017

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Trade Payables	238,876	-	-	-
Bank Borrowings	6,100,000	-	-	-
Finance Lease	49,059	50,392	4,636	-

The bank loan undertaking requires the Group to obtain written approval from ICBC before dispose of assets with aggregate value over \$50,000. At June 2017, the group disposed of assets with a value exceed \$50,000 and the written approval was issued at July 2017. As such, the bank borrowing was recorded as payable less than one year as at 30 June 2017.

(f) Foreign currency risk

Foreign currency denominated assets and liabilities at balance date are:

	Year Ended June 2017 \$	Year Ended June 2016 \$
Cash and cash equivalents	-	688,616
Trade & other receivables	-	68,615
Trade & other payables	-	-
Exposure at balance date	-	757,231

The Group is mainly exposed to US Dollars (USD) and Chinese Yuan (CNY). As at 30 June 2017, the Group has no assets or liabilities denominated in foreign currency. The following sensitivity is based on the foreign currency risk exposures in existence at the reporting date. The 10% sensitivity rate used represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year-end for the listed percentage change in foreign currency rates.

	June 2017		June 2016	
	NZD +10%	NZD -10%	NZD +10%	NZD -10%
	\$	\$	\$	\$
Pre-tax profit / (loss)	-	-	68,879	(88,162)

MARLBOROUGH WINE ESTATES GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2017

24 Financial Risk Management (continued)

(g) Interest rate risk

The Group is exposed to interest rate risk as it borrows funds at floating interest rates. The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowings. Hedging activities are evaluated regularly with assistance of independent advice to align with interest rate views and defined risk appetite; ensuring optimal economic strategies are applied or protecting interest expense through different interest rate cycles.

If interest rates had been 10% higher/lower and all other variables were held constant, the Group's profit for the year would decrease/increase by \$30,154. This is mainly attributable to the Group's exposure to interest rates on its variable borrowing.

(h) Categories of financial assets and liabilities

	Loans and receivables \$	Investment at cost \$	Financial liabilities at amortised cost \$	Total \$
June 2016				
Cash and bank balances	1,453,834	-	-	1,453,834
Accounts receivable	2,524,902	-	-	2,524,902
Related party loan	7,788	-	-	7,788
Investment carried at cost	-	72,250	-	72,250
Total financial assets	3,986,524	72,250	-	4,058,774
Non-financial assets				22,797,941
Total assets				26,856,715
Liabilities				
Accounts payable	-	-	368,119	368,119
Accrued expenses	-	-	136,377	136,377
Shareholder advance	-	-	-	-
Related party loan	-	-	-	-
Bank loan	-	-	6,100,000	6,100,000
Total financial liabilities	-	-	6,604,496	6,604,496
Non-financial liabilities				185,099
Total liabilities				6,789,595
June 2017				
Cash and bank balances	498,821	-	-	498,821
Accounts receivable	2,003,193	-	-	2,003,193
Related party loan	8,443	-	-	8,443
Investment carried at cost	-	74,750	-	74,750
Total financial assets	2,510,457	74,750	-	2,585,207
Non-financial assets				19,725,907
Total assets				22,311,114
Liabilities				
Accounts payable	-	-	238,876	238,876
Accrued expenses	-	-	92,397	92,397
Finance lease obligation	-	-	104,087	104,087
Related party loan	-	-	-	-
Bank loan	-	-	6,100,000	6,100,000
Total financial liabilities	-	-	6,535,360	6,535,360
Non-financial liabilities				22,230
Total liabilities				6,557,590

MARLBOROUGH WINE ESTATES GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2017

24 Financial Risk Management (continued)

(i) Capital management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year. The capital structure of the Group consists of net debt and equity of the Group.

25 Subsequent events

The Group has renewed the distribution rights (note 13) for another two-year period with New Zenith International Trading (Shanghai) Co., Ltd. The purchasing commitment from NZIT for FY2018 and FY2019 is in line with the Group's expectation as at 30 June 2017.

There have been no other subsequent events since the balance sheet date which would impact on these financial statements.

26 Going concern

During the current period, the Group's had a negative working capital of about \$851,000, due to the \$6.1m bank loan being recorded as a current liability (see note 17), there is no demand for repayment at the signing of this report and this loan will mature on 30 September 2018. Directors have made an assessment of the Group's ability to continue as a going concern and are satisfied that the Group has the resources to continue in business for the foreseeable future. On this basis, the Directors believe that the use of the Going Concern assumption in preparation of the financial statements remains appropriate.

27 Earnings per share

(a) 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.

	June 2017 Number	June 2016 Number
Number of ordinary share at 1 July	290,872,000	290,000,000
Ordinary shares issued and paid during the period	-	872,000
Number of ordinary share at 30 June	290,872,000	290,872,000
Weighted average number of ordinary shares	290,872,000	290,356,070
	Year Ended June 2017	Year Ended June 2016
(Loss) / profit attributable to equity holders of the Company (in dollars)	(4,381,727)	(896,017)
Weighted average number of ordinary shares on issue	290,872,000	290,356,070
Basic (loss) per share (in dollars)	(0.015)	(0.003)

(b) Diluted earnings per share

Same earning was used for diluted earnings per share

	Year Ended June 2017	Year Ended June 2016
Weighted average number of ordinary shares used in the calculation of basic earnings per share	290,872,000	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
Diluted (loss) per share (in dollars)	(0.015)	(0.003)

MARLBOROUGH WINE ESTATES GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2017

27 Earnings per share (continued)

(c) Net tangible assets per share

	Year Ended June 2017	Year Ended June 2016
Net tangible assets (in dollars)	20,919,637	22,334,472
Net tangible assets per share (in dollars)	0.071	0.076

28 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 year ended 30 June 2017, there were 4 customers (2016: 6 customers) who individually accounted for greater than 10% of the Group's total sales. The sales amount to these customers in total was \$3.09 million (2016: \$6.98 million).

	Year Ended June 2017 \$	Year Ended June 2016 \$
Customer 1	-	1,951,762
Customer 2	1,261,918	1,408,186
Customer 3	750,092	991,172
Customer 4	912,325	974,527
Customer 5	-	888,680
Customer 6	163,151	769,455
Total	3,087,486	6,983,782

29 Employee benefits

Share options programme (equity - settled)

On 31 January 2016, the Group established a share option programme that entitled directors and key management personnel and staff to purchase shares in the Company. Under this programme, holders of vested options are entitled to purchase shares at \$0.20 per share. The key terms and conditions related to the grants under this programme are as follows:

Grant Date	Number of instruments	Vesting conditions
2/03/2016	300,000	Fully vest in 5 years, 1/5th vest on each anniversary of the grant date subject to the holder continuing to be employed by the Group (Service Condition only). The options expire 10 years from the grant date.
3/03/2016	600,000	Fully vest in 5 years, 1/5th vest on each anniversary of the grant date subject to the holder continuing to be employed by the Group (Service Condition only). The options expire 10 years from the grant date.
27/06/2016	1,500,000	Fully vest in 5 years, 1/5th vest on each anniversary of the grant date subject to the holder continuing to be employed by the Group (Service Condition only). The options expire 10 years from the grant date.

Measurement of fair value

The fair value of the employee share options has been measured using the Black-Scholes formula. The inputs used in measurement of the fair values at grant date of the equity-settled share based payment plan were as follows.

Fair value at grant date	\$113,000
Share price at grant date	\$0.20
Exercise price	\$0.20
Expected volatility (weighted-average)	31.79%
Expected life (weighted-average)	3 years
Expected dividends	0%
Risk-free rate	2.01% - 2.47%

MARLBOROUGH WINE ESTATES GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2017

29 Employee benefits (continued)

The expected volatility in the measurement of fair value at grant date has been based on an evaluation of the historical volatility of a list of comparable listed companies as a proxy for the Company's future volatility. The Company had no trading history as at valuation date.

Reconciliation of the outstanding share options

The number and weighted-average exercise prices of share options under the share option programme were as follows:

	June 2017		June 2016	
	Number of Options	Exercise price	Number of Options	Exercise price
Outstanding at 1 July	2,400,000	\$0.20	-	-
Granted during the year	-	N/a	2,565,000	\$0.20
Forfeited during the year	-	N/a	-	N/a
Exercised during the year	-	N/a	(165,000)	\$0.20
Outstanding at 30 June	2,400,000	\$0.20	2,400,000	\$0.20
Exercisable at 30 June	480,000	\$0.20	Nil	N/A

Share-based payment reserve

	June 2017		June 2016	
	Number	\$	Number	\$
Outstanding at 1 July	2,400,000	5,581	-	-
Share options granted to senior officers and contractors	-	68,131	2,400,000	5,581
Share options granted to non-executive directors	-	-	150,000	30,000
Share options granted to employees	-	-	15,000	900
Share options exercised	-	-	(165,000)	(30,900)
Outstanding at 30 June	2,400,000	73,712	2,400,000	5,581

MARLBOROUGH WINE ESTATES GROUP LIMITED

STATUTORY INFORMATION

For the year ended 30 June 2017

1 The name of the directors holding office during the year are:

Marlborough Wine Estates Group Limited	Min Jia Ly Lee Jack Zhong Yin Danny Chan Songyuan Huang
Marlborough Vineyard Group Limited	Min Jia Catherine Ma
Otuwhero Trustee Limited	Min Jia Catherine Ma
O:Tu Investments Limited	Min Jia Catherine Ma
MB Wine Limited	Catherine Ma

2 20 largest shareholdings

The 20 largest shareholdings as at 12 September 2017 are provided in the table below.

No.	Shareholder	No. of shares	% of shares
1	Min Jia	217,317,014	74.10%
2	Mpmb Trustee Limited	25,000,000	8.52%
3	Wenhan Li	9,100,000	3.10%
4	Jing Wang	8,838,810	3.01%
5	Lizhong Huang	7,769,906	2.65%
6	Luo Lily Zhou	5,013,000	1.71%
7	Chen Liu	2,946,270	1.00%
8	Xiaoli Du	1,503,000	0.51%
9	Jack Zhong Yin	1,500,000	0.51%
10	Chenghui Fan	1,000,000	0.34%
11	Dongxia PAN	900,000	0.31%
12	First NZ Capital Securities Limited	857,731	0.29%
13	Beibei Liu	613,000	0.21%
14	Suzhi Lin	400,000	0.14%
15	Chi Yuan	330,000	0.11%
16	Jinyan Liu	310,000	0.11%
17	Anna Dai	310,000	0.11%
18	Jianguo Xie	310,000	0.11%
19	Yuanfu Dai	310,000	0.11%
20	Yun Feng Zheng	310,000	0.11%

MARLBOROUGH WINE ESTATES GROUP LIMITED

STATUTORY INFORMATION

For the year ended 30 June 2017

3 Distribution of equity securities

The total number of ordinary shares on issue as at 12 September 2017 is 293,272,000. The company has only ordinary shares on issue. Details of the distribution of ordinary shares amongst shareholders as at 12 September 2017 are set out below:

Size of holdings	No. of shareholders	% of shareholders	No. of shares held	% of shares held
Less than 5,000	212	42.06%	634,669	0.22%
5,000 to 59,999	248	49.21%	2,749,600	0.94%
60,000 to 599,999	31	6.15%	7,539,000	2.57%
600,000 to 999,999	3	0.60%	2,370,731	0.81%
1,000,000 to 9,999,999	8	1.59%	37,670,986	12.84%
10,000,000 and over	2	0.40%	242,317,014	82.63%
TOTAL	504	100.00%	293,272,000	100.00%

4 Substantial Security holders

Details of substantial security holders and their total relevant interests in not less than 5% of the total number of ordinary shares on issue in MWE as at 12 September 2017.

Name of substantial shareholders	Nature of relevant interest	No. of shares held	% of shares held
Min Jia	1. Registered Holder	217,317,014	74.10%
	2. Beneficial Owner	25,000,000	8.52%
	3. Relevant Interest	8,800,000	3.00%
Ly Lee	Beneficial Interest as wife of Min Jia	251,117,014	85.62%

5 Directors' shareholding and share dealings

There were no acquisitions nor disposals of any ordinary shares in MWE by directors during the year.

At the balance date of 30 June 2017, the following directors and senior managers of MWE hold relevant interest in the ordinary shares of MWE.

Name of substantial shareholders	Role within MWE	Nature of relevant interest	No. of shares held	% of shares held
Min Jia (James)	Executive Chairman	1. Registered Holder	217,317,014	74.10%
		2. Beneficial Owner	25,000,000	8.52%
		3. Relevant Interest*	8,800,000	3.00%
Ly Lee	Non-executive Director	Beneficial Interest as wife of James Jia	251,117,014	85.62%
Jack Zhong Yin	Executive Director	Registered Holder	1,500,000	0.51%
Danny Chan	Non-executive Director	Registered Holder	75,000	0.03%
Songyuan Huang	Non-executive Director	Registered Holder	75,000	0.03%
Wenhan Li (Eric)	Financial Controller	Registered Holder	9,100,000	3.10%

* The shares giving rise to this relevant interest have been purchased from James Jia by Eric Li, over a three-year term loan that James has advanced to Eric. The loan is secured, which gives rise to James' relevant interest.

MARLBOROUGH WINE ESTATES GROUP LIMITED

STATUTORY INFORMATION

For the year ended 30 June 2017

6 Interested Transactions

The Directors have disclosed the following transactions with the Group

(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 James Jia.

The Group has a related party relationship with New Zenith International Trading (Shanghai) Co., Ltd (NZIT). James 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 O:TU & Co Limited. James Jia, the founder, major shareholder and director of MWE, owns O:TU & Co Limited. In December 2014, subsidiaries of MWE obtained a performance guarantee for amount of \$4.4m from Industrial and Commercial Bank of China (New Zealand) Limited (ICBC Guarantee). In April 2016, MWE was fully released from this guarantee. The liability under ICBC Guarantee has been novated to O:TU & Co Limited which is backed by an investment company owned by James Jia.

The Group has a related party relationship with Lily Investments Company Limited. James 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 Lily Nelson Centro LP, Ly Lee, director of MWE, owns a partner in Lily Nelson Centro LP.

(b) Transactions with related party

	Total Value		Asset/(liability)	
	2017	2016	2017	2016
	\$	\$	\$	\$
New Zenith International Trading (Shanghai) Co., Ltd				
Wine Purchased from the Group	1,342,763	1,408,186	892,106	1,196,681
Other Purchase from the Group	-	21,024	-	21,024
Great Esprit Limited				
Transactions with the Group	-	-	-	-
Lily Investments Company Limited				
Office rent and other reimbursement	32,094	7,602	-	-

MARLBOROUGH WINE ESTATES GROUP LIMITED

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For the year ended 30 June 2017

6 Interested Transactions (continued)

	Total Value		Asset/(liability)	
	2017	2016	2017	2016
	\$	\$	\$	\$
Lily Investments 227 Limited				
Office rent and other reimbursement	32,094	-	-	-
Lily Nelson Centro LP				
Wine Purchased from the Group	10,800	-	-	-

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.

	Total Value		Asset/(liability)	
	2017	2016	2017	2016
	\$	\$	\$	\$
Directors' Fees				
Min Jia (Executive Chairman)	95,000	-	(7,500)	-
Ly Lee	40,000	-	(3,333)	-
Jack Zhong Yin (Executive Director)	50,000	-	-	-
Danny Chan	40,000	-	(10,000)	-
Songyuan Huang	30,000	-	-	-

	Total Value		Asset/(liability)	
	2017	2016	2017	2016
	\$	\$	\$	\$
Directors' Remuneration				
Min Jia (Executive Chairman)	-	-	-	-
Ly Lee	-	-	-	-
Jack Zhong Yin (Executive Director)	-	-	-	-
Danny Chan	-	22,862	-	-
Songyuan Huang	-	22,862	-	-

	Total Value		Asset/(liability)	
	2017	2016	2017	2016
	\$	\$	\$	\$
Share-based payments for director				
Jack Zhong Yin (Executive Director)	43,058	220	-	-

Senior officers' compensation (excludes directors)

	Year Ended June 2017	Year Ended June 2016
	\$	\$
Short-term employee benefits	371,283	354,315
Share-based payments	25,073	5,561
Total senior officers' compensation (excludes directors)	396,356	359,876

	Year Ended June 2017	Year Ended June 2016
	\$	\$
Shareholder loan - Min Jia		
Amount owed to Min Jia at 1 July	-	70,632
Amount advanced by Min Jia during the year	-	470,318
Amount withdrawn by Min Jia during the year	-	(540,950)
Amount owed to Min Jia at 30 June	-	-

MARLBOROUGH WINE ESTATES GROUP LIMITED

STATUTORY INFORMATION

For the year ended 30 June 2017

6 Interested Transactions (continued)

	Year Ended June 2017	Year Ended June 2016
Amounts owing from related parties:		
Blind River Irrigation Limited -loan	8,443	7,788
	<u>8,443</u>	<u>7,788</u>

Other related party transactions during the year

	Year Ended June 2017 \$	Year Ended June 2016 \$
Wine purchased by shareholders and senior officers during the year	4,473	2,062
Payments reimbursed to senior officers and shareholders for business related expenses during the year	35,760	53,237
Irrigation water charged by Blind River Irrigation Limited during the year	31,900	40,094

All shareholder and related party 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.

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.

7 Directors' Remuneration

Remuneration details of directors are provided above.

8 Directors' Loan

There is no loan made by the Group to Directors.

9 Employee

The number of employees within the Group receiving remuneration and benefits above \$100,000, as is required to be disclosed in accordance with Section 211(g) of the Companies Act 1993, is indicated in the following table:

	Year Ended June 2017 Number	Year Ended June 2016 Number
Remuneration \$100,000 - \$110,000	0	1

10 Indemnification and insurance of directors and officers

In accordance with section 162 of the Companies Act 1993 and the constitution of the company, the company has provided insurance for, and indemnity to Directors and employees of the Group and its subsidiaries for losses from actions undertaken in the course of their duties, unless the liability related to conduct involving lack of good faith.

11 Donation

There were no donations made during the year ended 30 June 2017.

MARLBOROUGH WINE ESTATES GROUP LIMITED

STATUTORY INFORMATION

For the year ended 30 June 2017

12 Governance Policies

On listing on the NXT Market on 30 June 2016, Marlborough Wine Estates Group Limited adopted a Corporate Governance Code, Audit Finance and Risk Charter, Financial Products Trading Policy, Remuneration Nomination and Health and Safety Charter and these are available on the website at www.nzmwe.com. Marlborough Wine Estates Group Limited has operated in accordance with these policies.

13 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 31 December 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>.

COMPANY DIRECTORY

For the year ended 30 June 2017

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 Limited Deloitte Centre 80 Queen Street P.O. Box 115033, Auckland 1140 New Zealand
Solicitors	Duncan Cotterill Level 2, Chartered Accountants House 50 Custom House 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, 188 Quay Street, Auckland
Share Registrar	Link Market Services Limited Deloitte Centre, 80 Queen Street, Auckland