

**MARLBOROUGH WINE ESTATES GROUP LIMITED**

**FINANCIAL RESULTS**

**FOR THE SIX MONTHS ENDED**

**31 December 2017**



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## Executive Chairman and CEO's Review For the six months ended 31 December 2017

### General Commentary

Marlborough Wine Estates Group Limited ("MWE") is pleased to release the results for the six months ended 31 December 2017. During the period, MWE has seen the implementation of the group strategy of increasing market presence, building new distribution networks to expand into other overseas markets, and continuously improving vineyard production capacity and operating efficiency.

The period has seen management focus on new distribution opportunities in other overseas markets beyond China. Entry into the US and Japanese markets is gaining good momentum with another 2 shipments of bottled wine sent to each of these markets during the period. MWE is also working closely with various contacts to explore new distribution networks and sales channels in Europe, Australia and Canada.

During the six months ended 31 December 2017, MWE has focused on improving efficiency and allocation of human and capital resources, as a result, the operating expenses were reduced to \$643,071, compared to \$889,984 for the previous corresponding period.

Due to the non-cash impairment loss on intangible assets recognised in the previous financial year, the amortisation expenses for the past half year was reduced to \$88,495, compared to \$257,528 for the previous corresponding period.

The bulk wine business achieved strong gain, with 5 containers of bulk wine sold and shipped to the US in the six months ended 31 December 2017 (31 December 2016: 0 litre). At the same time, the strong bulk wine sales provided a relatively lower gross margin percentage compared to the previous corresponding period.

### Awards

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

- Double Gold Medal in the China Wine & Spirits Awards
- Gold Medal in the China Wine & Spirits Awards

### Vineyards development

MWE completed the Donaldson Dam construction in the last financial year. Steady water supply, which had impacted on production in previous years, is now available for both the McKee and Donaldson blocks and the new dam is expected to benefit MWE's production in future years.

MWE has started the work required for the Pinot Noir planting in its Donaldson block. Marlborough Pinot Noir is proving to be an important export for New Zealand wine and the demand for it is steadily growing internationally. MWE has recognised this opportunity and initiated Pinot Noir block development. MWE will start with 5 hectares and further planting is planned for the next 2 -3 years.

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## MARLBOROUGH WINE ESTATES GROUP LIMITED

### Expansion of product range

During the six months ended 31 December 2017, MWE launched a new product, Marlborough Pinot Gris, under the O:TU Classic range. The range also includes a Marlborough Sauvignon Blanc, a Merlot Rosé and a Merlot Cabernet Sauvignon. The Classic range is a key driver of growth in the New Zealand and international markets and MWE will continue to strengthen its product range and look for new growth opportunities in the coming years.

### MPI Update

MWE understands that the dispute between the Ministry for Primary Industries (MPI) and MWE's former wine processor remains unresolved and the timing for a resolution remains uncertain. Based on legal advice received, MWE considers it has a strong basis for claiming for a breach of contract from its former processor. MWE will work closely with the different parties involved and update the market as and when more information becomes available.

### OIO Update

MWE continues to work with the Overseas Investment Office (OIO) regarding the retrospective consent application, as previously outlined in the listing document and subsequent updates. The timing for a final decision from the OIO remains uncertain. MWE will update the market when it receives the OIO's final decision.

### Outlook

MWE is looking forward to the upcoming 2018 vintage. Due to the excellent weather in the Marlborough region during the growing season, the harvest of 2018 vintage is likely to be earlier than previous years and the favourable growing conditions could also lead to high quality grapes and higher crop yield.

MWE is forecasting a gross harvest of 1,600 tonnes, an increase of 150 tonnes over the previous corresponding period. Grape supply agreements are in place to supply Bulk Grapes from some of the Company's blocks, including a Bulk Grape swap deal with a reputable winery in New Zealand which enables MWE to secure premium quality red grapes.

MWE's core strategy is to continue growing the sales of Bottled Wines and MWE will gradually allocate more of its grape production to Bottled Wine processing.

The global wine market has been strong for the past few years and the appreciation and popularity of quality New Zealand wine is growing. MWE will continue to expand its market share in China and look to invest more resources to grow sales in the US, Japan, Australia, UK and Canada. MWE has already had some early success in the US and Japanese markets and will continue to build on this strong momentum.

We thank shareholders for their ongoing support of the Marlborough Wine Estates Group Limited.

Min Jia  
Executive Chairman

Catherine Ma  
Chief Executive Officer

# MARLBOROUGH WINE ESTATES GROUP LIMITED

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 31 December 2017

	Note	Unaudited 6 months ended December 2017 \$	Unaudited 6 months ended December 2016 \$	Audited 12 months ended June 2017 \$
Sales	3	943,701	911,276	3,821,799
Cost of sales	4	(818,370)	(707,326)	(3,291,906)
Gross profit		125,331	203,950	529,893
Other income		54,874	13,651	30,087
Change in fair value of biological assets and agricultural produce		-	-	1,360,605
Gain/(Loss) on assets disposal		898	-	(30,402)
Operating expenses	5	(643,071)	(889,984)	(1,454,853)
Inventory write down		-	-	(1,293,761)
Impairment loss on intangible assets		-	-	(2,620,009)
<b>Earnings before interest, tax, depreciation and amortisation (EBITDA)</b>		(508,269)	(631,160)	(3,520,392)
Interest income		10,601	7,829	8,437
Interest expense		(147,872)	(164,247)	(366,874)
Amortisation		(88,495)	(257,528)	(516,218)
Depreciation		(220,470)	(192,862)	(405,657)
<b>(Loss) / profit for the period before taxation</b>		(954,505)	(1,237,968)	(4,800,704)
Tax expense		237,380	248,608	(418,977)
<b>(Loss) / profit for the period attributable to shareholders of the company</b>		(717,125)	(989,360)	(4,381,727)
Other Comprehensive Income		-	-	-
<b>Total comprehensive (loss) / income for the period attributable to the shareholders of the Company</b>		(717,125)	(989,360)	(4,381,727)
<b>Basic and diluted (loss) / earnings per share</b>	9	(0.002)	(0.003)	(0.015)

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

# MARLBOROUGH WINE ESTATES GROUP LIMITED

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY For the six months ended 31 December 2017

Group	Note	Share Capital \$	Retained earnings \$	Share-based payment reserve \$	Total \$
<b>Balance at 1 July 2016</b>		15,174,626	4,889,913	5,581	20,067,120
<b>December 2016</b>					
<b>Total comprehensive income for the period</b>					
Profit for the period		-	(989,360)	-	(989,360)
Other comprehensive income		-	-	-	-
<b>Total comprehensive income for the period</b>		-	(989,360)	-	(989,360)
<b>Transactions with owners</b>					
Share-based payment options		-	-	38,940	38,940
		-	-	38,940	38,940
<b>Balance at 31 December 2016 (unaudited)</b>		15,174,626	3,897,553	44,521	19,116,700
<b>Balance at 1 July 2017</b>		15,174,626	4,886,913	5,581	20,067,700
<b>Total comprehensive income for the period</b>					
Loss for the period		-	(4,381,727)	-	(4,381,727)
Other comprehensive income		-	-	-	-
<b>Total comprehensive income for the period</b>		-	(4,381,727)	-	(4,381,727)
<b>Transactions with owners</b>					
Share-based payment options		-	-	68,131	68,131
Share-based payment options exercised		-	-	-	-
		-	-	68,131	68,131
<b>Balance at 30 June 2017 (audited)</b>		15,174,626	505,186	73,712	15,753,524
<b>Total comprehensive income for the period</b>					
Loss for the period		-	(717,125)	-	(717,125)
Other comprehensive income		-	-	-	-
<b>Total comprehensive income for the period</b>		-	(717,125)	-	(717,125)
<b>Transactions with owners</b>					
Share-based payment options	11	-	-	13,194	13,194
Share-based payment options exercised		-	-	-	-
Share-based payment options for employees		-	-	-	-
		-	-	13,194	13,194
<b>Balance at 31 December 2017 (unaudited)</b>		15,174,626	(211,939)	86,906	15,049,593

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

# MARLBOROUGH WINE ESTATES GROUP LIMITED

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION As at 31 December 2017

	Note	Unaudited 6 months ended December 2017 \$	Unaudited 6 months ended December 2016 \$	Audited 12 months ended June 2017 \$
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and bank balances		466,375	344,605	498,821
Accounts receivable		805,128	1,786,995	2,003,193
Inventory	6	2,197,916	3,319,570	2,716,487
Biological work in progress	7	1,012,203	1,072,146	265,559
Prepayments		78,227	8,290	93,633
Deposits paid		41,610	41,610	41,610
GST receivable		23,167	77,892	29,922
Income Tax		-	-	1,725
<b>Total current assets</b>		<b>4,624,626</b>	<b>6,651,198</b>	<b>5,650,950</b>
<b>Non-current assets</b>				
Property, plant and equipment		14,784,228	14,527,402	14,536,760
Related party loan		8,443	7,788	8,443
Investments		72,250	74,750	74,750
Deferred tax		886,114	478,365	648,734
Intangible assets		1,304,307	4,266,288	1,391,477
<b>Total non-current assets</b>		<b>17,055,342</b>	<b>19,354,593</b>	<b>16,660,164</b>
<b>Total assets</b>		<b>21,679,968</b>	<b>26,005,791</b>	<b>22,311,114</b>
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Accounts payable		249,535	283,269	238,876
Accrued expenses		50,585	64,204	92,397
Revenue received in advance		22,230	55,860	22,230
Current tax payable		2,166	269,200	-
Finance Lease		100,947	48,406	49,059
Interest bearing borrowings	14	6,100,000	6,100,000	6,100,000
<b>Total current liabilities</b>		<b>6,525,463</b>	<b>6,820,939</b>	<b>6,502,562</b>
<b>Non-current liability</b>				
Finance Lease		104,912	68,152	55,028
<b>Total liabilities</b>		<b>6,630,375</b>	<b>6,889,091</b>	<b>6,557,590</b>
<b>Total net assets</b>		<b>15,049,593</b>	<b>19,116,700</b>	<b>15,753,524</b>
<b>EQUITY</b>				
Capital Shares	11	15,174,626	15,174,626	15,174,626
Share-based payment reserve	11	86,906	44,521	73,712
Retained earnings		(211,939)	3,897,553	505,186
<b>Total equity</b>		<b>15,049,593</b>	<b>19,116,700</b>	<b>15,753,524</b>

Signed for and on behalf of the board by:

Signature:



Executive Chairman: Min Jia

Signature:



Director: Danny Chan

Date: 28 February 2018

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

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**

For the six months ended 31 December 2017

	Note	Unaudited 6 months ended December 2017 \$	Unaudited 6 months ended December 2016 \$	Audited 12 months ended June 2017 \$
<b>Cash flows from operating activities</b>				
<i>Cash was provided from:</i>				
Receipts from customers		2,180,093	1,749,337	4,769,116
Other revenue		9,859	62,794	95,727
GST refund		203,078	301,709	279,713
Interest received		468	7,801	8,437
		2,393,498	2,121,641	5,152,993
<i>Cash was disbursed to:</i>				
Payment to suppliers		1,522,664	1,961,187	3,550,667
Payments to employees		365,768	487,559	886,611
Income tax paid		-	-	268,149
Interest paid		147,872	164,031	365,223
		2,036,304	2,612,777	5,070,650
<b>Net cash flow generated by / (used in) operating activities</b>	13	357,194	(491,136)	82,343
<b>Cash flows from investing activities</b>				
<i>Cash was provided from:</i>				
Disposal of assets		19,741	-	-
<i>Cash was disbursed to:</i>				
Investment in other company		(2,500)	2,500	2,500
Payments for intangible assets		1,326	1,573	5,462
Payments for property, plant and equipment		296,962	595,680	927,540
		295,788	599,753	935,502
<b>Net cash flow generated by / (used in) investing activities</b>		(276,047)	(599,753)	(935,502)
<b>Cash flows from financing activities</b>				
<i>Cash was disbursed to:</i>				
Repayment of lease obligation		113,558	-	83,256
<b>Net cash flow generated by / (used in) financing activities</b>		(113,558)	-	83,256
<b>Net increase in cash</b>		<b>(32,411)</b>	<b>(1,090,889)</b>	<b>(936,415)</b>
<b>Cash and cash equivalents at the beginning of the Period</b>		<b>498,821</b>	<b>1,453,834</b>	<b>1,453,834</b>
Exchange adjustment		(35)	(18,340)	(18,598)
<b>Cash and cash equivalents at the end of the period</b>		<b>466,375</b>	<b>344,605</b>	<b>498,821</b>

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

## NOTES TO THE UNAUDITED CONDENSED FINANCIAL STATEMENTS

For the six months ended 31 December 2017

### 1 Significant Accounting Policy

#### (a) General Information

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

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

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

These financial statements were authorised for issue by the Board of Directors on 28 February 2018.

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

#### (b) Basis of preparation

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

These condensed financial statements for the six months ended 31 December 2017 have been prepared in accordance with NZIAS 34, Interim Financial Reporting and should be read in conjunction with the financial statements published in the Annual Report for the year ended 30 June 2017. They also comply with the International Accounting Standard 34 interim Financial Reporting (IAS 34).

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

#### (c) Changing in accounting policy and disclosures

There have been no changes in accounting policies since the last Annual Report, for detailed accounting policies please refer to the 2017 Annual Report.

### 2 Seasonal Business

The bulk grape sales are subject to seasonality with the grape harvest occurring once a year in April to May. All the bulk grapes sale will be recognised in the second half of the financial year. For the six months ended 31 December 2017, the bulk grape sales were \$nil (31 December 2016: \$nil, 30 June 2017: \$1,998,919).

### 3 Sales

	Unaudited 6 months ended December 2017 \$	Unaudited 6 months ended December 2016 \$	Audited 12 months ended June 2017 \$
Bulk grape sales	-	-	1,998,919
Bulk wine sales	509,873	-	288,000
Bottled wine sales	433,828	911,276	1,534,880
Other sales	-	-	-
	943,701	911,276	3,821,799

### 4 Cost of sales

The group runs a vineyard and wine producing business and as a consequence has incurred \$818,370 of cost of sales for the six months ended 31 December 2017. These costs relate to growing grapes on vines and producing wine.

	Unaudited 6 months ended December 2017 \$	Unaudited 6 months ended December 2016 \$	Audited 12 months ended June 2017 \$
Bottling & labelling	221,514	233,652	348,690
Change in inventories & biological work in progress	(228,073)	(439,110)	(323,201)
Vineyard grapes producing expenses	746,644	812,583	1,440,591
Valuation uplift	-	-	1,175,405
Wine purchased	19,539	-	153,388
Wine making	31,826	63,926	439,936
Other winery expenses	26,920	36,275	57,097
	818,370	707,326	3,291,906

**NOTES TO THE UNAUDITED CONDENSED FINANCIAL STATEMENTS**
**For the six months ended 31 December 2017**
**5 Operating expenses**

	Unaudited 6 months ended December 2017 \$	Unaudited 6 months ended December 2016 \$	Audited 12 months ended June 2017 \$
Accounting expenses	2,970	2,967	13,409
Auditor's remuneration for annual audit - Deloitte	2,150	22,275	71,775
Director's fee	82,500	130,000	255,000
Consulting & advisory	149,005	87,232	249,711
Share-based payments	13,194	38,940	68,131
Salaries & wages	147,472	241,524	400,611
Kiwisaver contribution	3,910	3,284	6,757
Foreign exchange losses	35	15,747	16,006
Office Rent	16,242	43,971	38,871
Finish wine storage	44,548	11,348	50,470
Other expenses	181,045	292,694	284,112
	<u>643,071</u>	<u>889,984</u>	<u>1,454,853</u>

**6 Inventories**

	Unaudited 6 months ended December 2017 \$	Unaudited 6 months ended December 2016 \$	Audited 12 months ended June 2017 \$
Wines – bottled	1,254,257	2,037,906	1,133,417
Wines - work in progress	755,085	1,104,812	1,432,217
Dry goods	188,574	176,852	150,853
Total wine in inventory and work in progress	<u>2,197,916</u>	<u>3,319,570</u>	<u>2,716,487</u>

**Impairment of Inventory**

Balance at the beginning of the period	1,293,761	-	-
Provision provided during the period	-	-	1,293,761
Balance at the end of the period	<u>1,293,761</u>	<u>-</u>	<u>1,293,761</u>

Inventories are valued at the lower of cost, net realisable value or in the case of agricultural produce at the point of harvest, at fair value less costs to sell. Cost is calculated on an FIFO basis. Fair value less costs to sell is determined from average market prices in New Zealand. The total vineyard producing area was 157 hectares (31 December 2016: 157 hectares, 30 June 2017: 157 hectares).

**7 Biological work in progress**

	Unaudited 6 months ended December 2017 \$	Unaudited 6 months ended December 2016 \$	Audited 12 months ended June 2017 \$
Unharvested produce on vines	<u>1,012,203</u>	<u>1,072,146</u>	<u>265,559</u>
Total biological work in progress	1,012,203	1,072,146	265,559

The growth on the vines in the period from last harvest to 31 December 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 31 December 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.

**8 Segment Reporting**

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

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

For the six months ended 31 December 2017, there were 2 customers who have individually accounted for greater than 10% of the Group's total sales. The sales amount to these customers in total was \$662,880.

# MARLBOROUGH WINE ESTATES GROUP LIMITED

## NOTES TO THE UNAUDITED CONDENSED FINANCIAL STATEMENTS

For the six months ended 31 December 2017

### 8 Segment Reporting(continued)

	Unaudited 6 months ended December 2017 \$	Unaudited 6 months ended December 2016 \$	Audited 12 months ended June 2017 \$
Customer 1	182,880	771,960	1,261,918
Customer 2	480,000	-	-
Customer 3	-	-	750,092
Customer 4	-	-	912,325
Customer 5	-	-	163,151
Total	<u>662,880</u>	<u>771,960</u>	<u>3,087,486</u>

### 9 Earnings and Net Tangible Assets per Share

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

	Unaudited 6 months ended December 2017	Unaudited 6 months ended December 2016	Audited 12 months ended June 2017
<b>Basic earnings per share</b>			
(Loss) / profit attributable to equity holders of the Company (in dollars)	(717,125)	(989,360)	(4,381,727)
Weighted average number of ordinary shares on issue	290,872,000	290,426,000	290,872,000
Basic earnings per share (in dollars)	<u>(0.002)</u>	<u>(0.003)</u>	<u>(0.015)</u>
<b>Diluted earnings per share</b>			
Same earning was used for diluted earnings per share			
Weighted average number of ordinary shares used in the calculation of basic earnings per share	290,872,000	290,426,000	290,872,000
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	293,272,000
Diluted earnings per share (in dollars)	<u>(0.002)</u>	<u>(0.003)</u>	<u>(0.015)</u>
<b>Net tangible assets (in dollars)</b>	13,745,286	14,850,412	14,362,047
<b>Net tangible assets per share (in dollars)</b>	0.0473	0.0511	0.0494

### 10 Dividends Declared and Paid

No dividends were declared or paid relating to the Group results for the six months ended 31 December 2017 (31 December 2016: \$nil, 30 June 2017: \$nil).

### 11 Equity

	December 2016 Number	December 2016 \$
<b>Share capital</b>		
Balance of ordinary share capital at 1 July 2016	290,872,000	15,174,626
Ordinary shares issued during the period	-	-
Balance at 31 December 2016 (unaudited)	<u>290,872,000</u>	<u>15,174,626</u>

## NOTES TO THE UNAUDITED CONDENSED FINANCIAL STATEMENTS

For the six months ended 31 December 2017

### 11 Equity(continued)

	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 period	-	-
Balance at 30 June 2017 (audited)	<u>290,872,000</u>	<u>15,174,626</u>

	December 2017 Number	December 2017 \$
Balance of ordinary share capital at 1 July 2017	290,872,000	15,174,626
Ordinary shares issued for investors during the period	-	-
Cash contribution from option holders	-	-
Share options exercised during the period	-	-
Balance at 31 December 2017 (unaudited)	<u>290,872,000</u>	<u>15,174,626</u>

### Share-based payment reserve

	Dec 2016 Number	Dec 2016 \$
Balance of ordinary share capital at 1 July 2016	2,400,000	5,581
Share options granted during the period	-	-
Share options exercised during the period	-	-
Share options valuation movement	-	38,940
Balance at 31 December 2016 (unaudited)	<u>2,400,000</u>	<u>44,521</u>

	June 2017 Number	June 2017 \$
Balance of ordinary share capital at 1 July 2016	2,400,000	5,581
Share options granted during the period	-	-
Share options exercised during the period	-	-
Share options valuation movement	-	68,131
Balance at 30 June 2017 (audited)	<u>2,400,000</u>	<u>73,712</u>

	December 2017 Number	December 2017 \$
Balance of ordinary share capital at 1 July 2017	2,400,000	73,712
Share options granted during the period	-	-
Share options exercised during the period	-	-
Share options valuation movement	-	13,194
Balance at 31 December 2017 (unaudited)	<u>2,400,000</u>	<u>86,906</u>

At 31 December 2017, share capital comprised 293,272,000 authorised and issued shares (December 2016: 293,272,000, June 2017: 293,272,000). Other than the 2,400,000 shares issued under the Group's Employee Share Ownership Plan (ESOP) all issued shares are fully paid.

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

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

**NOTES TO THE UNAUDITED CONDENSED FINANCIAL STATEMENTS**
**For the six months ended 31 December 2017**
**12 Contingent Liabilities**

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

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

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

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

OIL became aware of the breach and promptly (and voluntarily) informed the OIO of the breach, the reason for the breach and the steps OIL intends to take to remedy the breach. After discussions with the OIO it was considered that in order to remedy the breach, a retrospective consent application should be submitted. That application was filed on 15 December 2015 and is currently under review. During the six months to 31 December 2017, the application has moved close to its conclusion and no significant financial impacts were expected from the final conclusion.

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

**13 Notes to Cash Flow Statement**

	<b>Unaudited 6 months ended December 2017 \$</b>	<b>Unaudited 6 months ended December 2016 \$</b>	<b>Audited 12 months ended June 2017 \$</b>
Reconciliation of net profit after tax to net cash flow from operating activities:			
Net (loss) / profit after tax	(717,125)	(989,360)	(4,381,727)
Add: Non-cash items			
Amortisation	88,495	257,528	516,218
Depreciation	220,470	192,862	405,657
Tax expense	(237,380)	(248,608)	(418,977)
Foreign exchange movement	35	18,339	18,598
Share-based payments	13,194	38,940	68,131
(Increase) / Decrease in assets:			
(Increase) / Decrease in accounts receivables	1,198,068	737,907	521,709
(Increase) / Decrease in GST receivable	6,755	-	-
(Increase) / Decrease in tax paid	1,725	-	-
(Increase) / Decrease in deferred tax asset	-	-	-
(Increase) / Decrease in deposit paid	-	20,000	20,000
(Increase) / Decrease in inventory	(228,073)	(439,110)	970,560
(Increase) / Decrease in prepayments	15,406	15,409	(69,934)
(Increase) / Decrease in related party loan	-	-	(655)
Increase / (Decrease) in liabilities:			
Increase / (Decrease) in trade payables	10,658	(84,850)	(129,243)
Increase / (Decrease) in GST payable	25,511	5,471	(60,200)
Increase / (Decrease) in revenue received in advance	-	55,860	22,230
Increase / (Decrease) in tax paid	2,166	649	(156,545)
Increase / (Decrease) in accrued expenses	(41,812)	(72,172)	(43,979)
<b>Net cash (out flows)/ inflows from operating activities</b>	<b>357,194</b>	<b>(491,136)</b>	<b>82,343</b>

**NOTES TO THE UNAUDITED CONDENSED FINANCIAL STATEMENTS**

For the six months ended 31 December 2017

**14 Borrowings**

	Unaudited 6 months ended December 2017 \$	Unaudited 6 months ended December 2016 \$	Audited 12 months ended June 2017 \$
Loan - ICBC	6,100,000	6,100,000	6,100,000
	<u>6,100,000</u>	<u>6,100,000</u>	<u>6,100,000</u>
Current	6,100,000	6,100,000	6,100,000
Non-current	-	-	-
	<u>6,100,000</u>	<u>6,100,000</u>	<u>6,100,000</u>

The loan with Industrial Commercial Bank of China (New Zealand) Limited (ICBC) will mature on 30 September 2018 with a 12 months extension period. For the avoidance of doubt, the extension will be granted by ICBC in its sole discretion. 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 principal repayments have been made. The interest rate at 31 December 2017 was 5.00%.

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.

**15 Capital Commitments**

The Group has reserved 25,000 vines and proposed to convert relevant block of land into vineyards in FY2018. Total cost for this development is estimated to be \$350,000.

**16 Subsequent Events**

There were no material events subsequent to the end of the six-month period ended 31 December 2017.

**17 Related Party Disclosures**
**(a) Identity of related party**

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

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

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

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

## NOTES TO THE UNAUDITED CONDENSED FINANCIAL STATEMENTS

### For the six months ended 31 December 2017

#### 17 Related Party Disclosures(continued)

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 Lily Investments 227 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, James Jia and Ly Lee, directors of MWE, owns a partner in Lily Nelson Centro LP.

The Group has a related party relationship with Lily Nelson Altro LP, James Jia and Ly Lee, directors of MWE, owns a partner in Lily Nelson Altro LP.

#### (b) Transactions with related party

	Unaudited 6 months ended December 2017 \$	Unaudited 6 months ended December 2016 \$	Audited 12 months ended June 2017 \$
<b>Transaction value</b>			
New Zenith International Trading (Shanghai) Co., Ltd	182,880	771,960	1,342,763
Lily Investments Company Limited	18,768	-	32,094
Lily Investment 227 Limited	17,868	-	32,094
Lily Nelson Centro LP	-	-	10,800
Lily Nelson Altro LP	2,970	-	-
<b>Assets/(liability)</b>			
New Zenith International Trading (Shanghai) Co., Ltd	320,233	1,629,859	892,106

#### Transactions with Directors and Key Management Personnel

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

	Unaudited 6 months ended December 2017 \$	Unaudited 6 months ended December 2016 \$	Audited 12 months ended June 2017 \$
<i>Directors' Fees</i>			
Min Jia (Executive Chairman)	22,500	50,000	95,000
Ly Lee	10,000	20,000	40,000
Jack Zhong Yin (Executive Director)	15,000	25,000	50,000
Danny Chan	20,000	20,000	40,000
Songyuan Huang	15,000	15,000	30,000
Total Directors' Fees	82,500	130,000	255,000

## NOTES TO THE UNAUDITED CONDENSED FINANCIAL STATEMENTS For the six months ended 31 December 2017

### 17 Related Party Disclosures(continued)

#### Directors' Other Remuneration

Min Jia (Executive Chairman)	-	-	-
Ly Lee	-	-	-
Jack Zhong Yin (Executive Director)	-	-	-
Danny Chan	-	-	-
Songyuan Huang	-	-	-
Total Directors' Other Remuneration	-	-	-

#### Share-based payments for director

Jack Zhong Yin (Executive Director)	8,171	21,718	43,058
Total share-based payments for director	8,171	21,718	43,058

#### Senior officers' compensation (excludes directors)

	Unaudited 6 months ended December 2017 \$	Unaudited 6 months ended December 2016 \$	Audited 12 months ended June 2017 \$
Short-term employee benefits	103,755	170,033	371,283
Share-based payments	5,023	17,212	25,073
Total senior officers' compensation (excludes directors)	108,778	187,245	396,356

#### Amounts owing from related parties:

	Unaudited 6 months ended December 2017 \$	Unaudited 6 months ended December 2016 \$	Audited 12 months ended June 2017 \$
Blind River Irrigation Limited -loan	8,443	7,788	8,443
	8,443	7,788	8,443

#### Other related party transactions during the period

	Unaudited 6 months ended December 2017 \$	Unaudited 6 months ended December 2016 \$	Audited 12 months ended June 2017 \$
Wine purchased by shareholders and senior officers during the period	3,324	3,699	4,473
Payments reimbursed to senior officers, shareholders for business related expenses during the period	1,770	11,626	35,760
Irrigation water charged by Blind River Irrigation Limited during the period	5,294	2,095	31,900

**NOTES TO THE UNAUDITED CONDENSED FINANCIAL STATEMENTS****For the six months ended 31 December 2017****17 Related Party Disclosures(continued)**

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.

Company Directory  
As at 31 December 2017

<b>Company Registration Number</b>	5639568
<b>Registered office</b>	Level 3, 205 Queen Street Auckland Central New Zealand
<b>Directors</b>	Min Jia (Chairman) Ly Lee Jack Zhong Yin Danny Chan Songyuan Huang
<b>Auditors</b>	Deloitte Deloitte Centre 80 Queen Street P.O. Box 115033, Auckland 1140 New Zealand
<b>Solicitors</b>	Duncan Cotterill Level 2, Chartered Accountants House 50 Customhouse Quay, Wellington
<b>Bankers</b>	Industrial Commercial Bank of China (New Zealand) Limited ANZ Bank Limited Bank of New Zealand
<b>NXT Advisor</b>	CM Partners Limited Level 26, PWC Tower, 188 Quay Street, Auckland 1140
<b>Share Registrar</b>	Link Market Services Limited Deloitte Centre, 80 Queen Street, Auckland