

MWE

MARLBOROUGH
WINE ESTATES

2018 ANNUAL REPORT





MARLBOROUGH WINE ESTATES GROUP LIMITED

FINANCIAL STATEMENTS

For the Year Ended 30 June 2018

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EXECUTIVE CHAIRMAN AND CEO'S REPORT

On behalf of the Board of Directors of Marlborough Wine Estates Group Limited (MWE), I am pleased to present our results for the financial year ended 30 June 2018.

Performance highlights:

- First orders of bottled wine shipped to the United Kingdom, Australia, Taiwan, and Finland.
- Growth in sales revenue to the United States, and Japan.
- Sales of bottled wine in the NZ domestic market increased by 80% compared to the previous financial year.
- OTU and Music Bay products have successfully launched in the Lower North Island region and South Island.
- Awards:
 - OTU Classic Sauvignon Blanc 2016 received a Double Gold Medal in the 5th "SAKURA" Japan Women's Wine Awards
 - OTU Sweet Sauvignon Blanc 2017 received a Double Gold medal in China Wines & Spirits Award Best Value 2018
 - OTU Prestige Sauvignon Blanc 2013 received a Double Gold medal in China Wines & Spirits Award 2017
 - OTU Classic Pinot Gris 2017 received a Gold Medal in the 5th "SAKURA" Japan Women's Wine Awards
 - OTU Classic Sauvignon Blanc 2017 received a Silver Medal and 90 points in Decanter World Wine Awards 2018

Operating Performance:

- The Company's total sales for the financial year ended 30 June 2018 (FY18) were \$3,984,984. This is slightly higher than the total sales from the previous financial year (FY17 - \$3,821,799).
- MWE ended FY18 with a net loss after tax of \$ 1,706,913, a significant reduction compared to the previous financial year (FY17 – a net loss of \$4,381,727). An impairment loss on intangible assets and an inventory write-down contributed to the loss for FY18. After adjusting for these, the Company's adjusted EBITDA for FY18 was \$492,515. Please refer to Appendix 1 for the details of the calculations.

Key adjustments

Impairment loss on Distribution Rights

Distribution rights represent the value attached to a distribution agreement with New Zenith International Trading (NZIT) that granted rights to distribute wine produced by the Group to China.

The distribution agreement was terminated on 30 June 2018. All sales to NZIT if any will be negotiated order by order in the future. Therefore, a \$1.2m impairment loss has been recognised and after this impairment, the value of the distribution agreement with NZIT is \$nil. Please refer to note 14 in the Financial Statements for details.

Inventory write down

Some aged wine in the inventory was not likely to be able to be sold at full cost. Therefore, MWE performed an annual impairment test on its bottled wine inventory, resulting in an impairment in inventory of \$152,477. Please refer to note 11 in the Financial Statement for details.

OIO Update

As shareholders will be aware, MWE has been working with the Overseas Investment Office (OIO) for a considerable time regarding a retrospective consent application following a technical breach of the Overseas Investment Act 2005 by MWE and its majority shareholder. While the matter has not yet been finally resolved, MWE is pleased to advise the market that MWE has been advised by the OIO that it will issue a warning letter and no further action will be taken on the matter. We hope that the warning letter will be issued soon and MWE will update the market when this occurs.

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Key highlights for the year ended 30 June 2018

Harvest season

The Company's gross harvest tonnage for the 2018 vintage was 1,784 tonnes of grapes, a 23% increase compared to the previous vintage (2017: 1450 tonnes). The favourable climatic and growing conditions in the Marlborough region for the 2018 vintage was an important factor in the increased harvest. MWE has invested heavily in its vineyards (irrigation, replacing dead plants, new equipment) in recent years and the yield of the vineyards has greatly improved as a result.

Due to the investment in the vineyards, including replanting and construction of dams, MWE is expected to be able to maintain and grow its gross harvest tonnage for the 2019 vintage, provided there are no major adverse weather events.

Vineyard development

As MWE no longer has any major water irrigation-related issues, the focus of vineyard development has been shifted to development of new blocks and planting of new varieties.

MWE has started the planting of 5 ha of Pinot Noir and further planting of Pinot Noir and Pinot Gris is planned for the next 2 - 3 years. Pinot Noir is proving to be an important product for international markets in recent years.

Improved sales strategy and product portfolio

MWE has gone a long way to improving the competitiveness of its product set in the retail market. In the previous financial year, MWE released new products such as Syrah, Rose and Merlot Cabernet Sauvignon. MWE launched its first batch of Pinot Noir and Pinot Gris in FY18 and will launch a new Chardonnay and Sparkling Wine product in FY19.

The company will continue to focus on long-term development of its brands and premium wines. MWE's key brands have a premium image in the market but the Company needs to improve awareness of its other brands which it is focussing on. MWE has started to participate in more local and international trade shows and events to promote its products, and MWE has also started partnering up with media companies to produce more editorials, articles and promotional material about its brands.

MWE will continue to invest more in brand building and look to grow awareness of its brands as a top priority.

International market development

MWE has been working with its distributor in China for a few years and China remains a key market for MWE. However, the premium wine market in China has not developed as quickly as expected. MWE is looking to explore new channels in China to sell more of its entry level products and to leverage its distributor's network to help find more channels and partners to work with.

MWE has continued to work with its US distributor to build a strong presence in the US market. Multiple shipments were dispatched during the last financial year and MWE is looking forward to a stronger year ahead. The US market is still number one in terms of revenue of New Zealand wine exported, and a key focus for MWE.

MWE has also expanded its working relationship with its US bulk wine importer and distributor. The importer purchased 10 containers of bulk wine from MWE from the 2017 vintage and is looking at purchasing 12 containers from the 2018 vintage. The bulk wine sales will help MWE generate more cash flow and establish a stronger working relationship with the importer/distributor.

MWE shipped more wine into Japan in FY18. On the back of receiving a double gold from an important wine award in Japan, MWE is looking to gain more market share in Japan in FY19.

MWE has shipped its first orders of bottled wine to the United Kingdom, Australia, Taiwan and Finland. The United Kingdom and Australia are significant importers of New Zealand wine. A big focus for MWE in FY19 is to grow its presence and revenue in these new markets.

MARLBOROUGH WINE ESTATES GROUP LIMITED

Domestic Sales

In FY18, MWE's domestic bottled wine sales grew by approximately 80% compared to the previous financial year. The growth was mainly driven by an improved sales strategy and sales network. The new products the Company released has also proven to be popular in domestic markets. MWE has traditionally focused on Auckland and surrounding cities but towards the end of FY18, MWE also launched its products in the lower North Island region and the South Island. MWE is expecting an even more successful year in the domestic markets in FY19.

Looking ahead

The year ended 30 June 2018 was a year of growth for MWE. MWE has firmly established itself in existing international markets, developed new international markets and achieved significant growth in its domestic market. MWE's vineyards are now operating efficiently and consistently. The Company is looking forward to a strong FY19, as it continues to focus on long-term brand development and market development. The company expects strong growth in both international and domestic markets in FY19.

Min JIA
Executive Chairman

Catherine MA
Chief Executive Officer

MARLBOROUGH WINE ESTATES GROUP LIMITED

Appendix 1 (non -GAAP financial information)

EBITDA¹ Reconciliation

	Year Ended 30 June 2018	Year Ended 30 June 2017
	\$	\$
Net loss after tax per Financial Statements	(1,706,913)	(4,381,727)
Plus net interest and financing cost ²	274,500	358,437
Plus/(less) tax expense (benefit)	(117,034)	(418,977)
Plus depreciation ³	406,802	405,657
Plus amortisation	176,991	516,218
EBITDA	(965,654)	(3,520,392)
Plus loss on assets disposal ⁴	1,308	30,402
Plus inventory write down	152,477	1,293,761
Plus impairment loss	1,194,689	2,620,009
Plus NXT initial listing related costs	-	62,784
Plus/(less) insurance claim related legal fees/ (settlement) ⁵	85,255	(55,641)
Plus share based payment expense	24,440	68,131
Adjusted EBITDA⁶	492,515	499,054

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 \$15,948 earned by the Group (2017: \$8,437) and interest and financing costs of \$290,448 incurred by the Group during the year (2017: \$366,874).

³ The depreciation consists of another \$180,838 which was classified into Cost of Sales (2017: \$230,631).

⁴ The Group made a loss of \$1,308 during the year by disposing of unproductive assets (2017: \$30,402).

⁵ The Group incurred legal expenses of \$85,255 during the year in relation to making the insurance claim for bottled wine being held by MPI.

⁶ Management has historically used Adjusted EBITDA when evaluating the operating performance for the Group. The inclusion or exclusion of certain items is necessary to provide the most accurate measure of on-going core operating results and to evaluate comparative results period over period. As such, Adjusted EBITDA excludes other non-operating expense (income) that do not relate to the on-going performance of the Group. The Group excludes the following items from EBITDA to arrive at Adjusted EBITDA:

- Loss on assets disposal which is not continuous;
- Inventory write down which is non-cash;
- Impairment loss which is non-cash;
- NXT initial listing related costs which is not continuous;
- Insurance claim related legal fees or settlement which is not continuous; and
- Share based payment expense which is non-cash.

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 2018 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 2018 and its financial performance and cash flows for the period ended on that date in accordance with NZ GAAP. 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: 31 August 2018

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 (the 'Company') and its subsidiaries (the 'Group'), which comprise the consolidated statement of financial position as at 30 June 2018, 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 11 to 42, present fairly, in all material respects, the consolidated financial position of the Group as at 30 June 2018, 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 \$77,000.

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.

Intangible assets - Distribution Rights (Note 14)

In 2015, the Group acquired a distribution right to sell its wines in China through a related party. This right is measured at cost less accumulated amortisation and impairment losses in the Group's financial statements.

Similar to last year, the distributor again did not meet its minimum annual commitment to purchase bottled wine of \$0.75 million per annum from the Group. In 2018, the distributor only purchased \$0.3 million of the Group's bottled wine. The distribution agreement was terminated on 2 August 2018.

Consistent with NZ IAS-36 *Impairment of Assets*, the Group considered the above matter as an indicator of impairment and have performed an impairment assessment to evaluate the recoverable amount of its distribution right. As a result, the Group had fully written down its distribution right and recognised an impairment expense of \$1.3 million in profit or loss.

We have included the carrying value of the Group's distribution right as a key audit matter as quantitatively significant and significant judgement is required to determine the recoverable value.

We evaluated the Group's consideration of indicators of impairment relating to its distribution right. 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; and
- the termination of the distribution agreement subsequent to year-end.

We performed procedures to evaluate the Group's formal impairment assessment by:

- Obtaining an understanding of the methodology and the judgement exercised by the Group in determining the recoverable amount of its distribution right.
- Reading the correspondence between the Group and its related party regarding the termination of the distribution agreement.
- Confirming with the Group on the termination of the said distribution right after year-end.

Finally we ensured the accuracy of the comparison between carrying and recoverable amount of the distribution right and any resulting impairment expense is appropriate recorded.

Inventory valuation (Note 11)

The Group has inventory amounting to \$3.05 million as at 30 June 2018 (2017: \$2.72 million) and is significantly comprised of bottled wine and in-progress wine. During the year, the Group has recognised \$0.02 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 significant judgement involved 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.

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 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.

Capitalisation of tax losses (Note 7)

As at 30 June 2018, the Group has recognised deferred tax assets of \$0.76 million (2017: \$0.65 million) which include primarily tax losses carried forward from the prior year of \$0.36m.

The Group's accounting policy is to recognise deferred tax assets only to the extent that it is probable that future taxable profits will be available against which the asset can be recognised. Further, tax losses carried forward from prior year are subject to IRD approval and the Group complying with shareholder continuity rules under New Zealand tax legislation.

We have included capitalisation of tax losses as a key audit matter as deferred tax asset is quantitatively material to the financial statements and the Group has not historically generated taxable profits from its operations.

We obtained an understanding of the Group's evaluation of its deferred tax assets. We performed the following procedures to evaluate the appropriateness of the Group recognition of deferred tax asset:

- challenging the reasonableness of the underlying assumptions used by the Group in their forecasts that support the generation of future taxable profits; and
- reviewing the Group's analysis of shareholder continuity and tax losses carry forward.

We also involve our internal tax specialist to review the tax calculation. We note there is shareholder continuity and tax losses can be carried forward.

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

**Brendan Lyon Partner
for Deloitte Limited**

Auckland, New Zealand
31 August 2018

This audit report relates to the consolidated financial statements of Marlborough Wine Estates Group Limited (the 'Company') for the year ended 30 June 2018 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 31 August 2018 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 2018

	Note	Group Year Ended June 2018 \$	Group Year Ended June 2017 Restated \$
Sales	3	3,984,984	3,821,799
Cost of sales	5	(2,444,433)	(2,395,357)
Gross profit		1,540,551	1,426,442
Other income	4	11,083	173,335
Interest income		15,948	8,437
Loss on assets disposal		(1,308)	(30,402)
Operating expenses	6	(1,349,652)	(1,406,628)
Interest expense and financing cost		(290,448)	(366,874)
Amortisation	14	(176,991)	(516,218)
Depreciation	15	(225,964)	(175,026)
Inventory write down	11	(152,477)	(1,293,761)
Impairment loss on intangible assets	14	(1,194,689)	(2,620,009)
(Loss) for the period before taxation		(1,823,947)	(4,800,704)
Tax (expense)/benefit	7	117,034	418,977
(Loss) for the period attributable to shareholders of the company		(1,706,913)	(4,381,727)
Other comprehensive income		-	-
Total comprehensive (loss) for the period attributable to the shareholders of the Company		(1,706,913)	(4,381,727)
Basic and diluted (loss) per share	28	(0.006)	(0.015)

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 2018

Group	Note	Share Capital	Retained earnings	Share-based payment reserve	Total
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 & 30	-	-	68,131	68,131
		-	-	68,131	68,131
Balance at 30 June 2017		15,174,626	505,186	73,712	15,753,524
Total comprehensive income for the year					
Loss for the year		-	(1,706,913)	-	(1,706,913)
Other comprehensive income		-	-	-	-
Total comprehensive income for the year			(1,706,913)		(1,706,913)
Transactions with owners					
Share-based payment options	8 & 30	-	-	24,440	24,440
		-	-	24,440	24,440
Balance at 30 June 2018		15,174,626	(1,201,727)	98,152	14,071,051

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 2018

	Note	Group June 2018 \$	Group June 2017 \$
ASSETS			
Current assets			
Cash and bank balances	9	684,251	498,821
Accounts receivable	13	1,071,235	2,003,193
Inventory	11	3,052,091	2,716,487
Biological work in progress	12	248,599	265,559
Prepayments		55,717	93,633
Current tax receivable		-	1,725
Deposits paid		-	41,610
GST receivable		81,717	29,922
Total current assets		5,193,610	5,650,950
Non-current assets			
Property, plant and equipment	15	14,695,146	14,536,760
Deposits paid		41,610	-
Related party loan	23	3,203	8,443
Investments carried at cost	16	72,250	74,750
Deferred tax	7	763,762	648,734
Intangible assets	14	21,123	1,391,477
Total non-current assets		15,597,094	16,660,164
Total assets		20,790,704	22,311,114
LIABILITIES			
Current liabilities			
Accounts payable	17	305,343	238,876
Accrued expenses		119,772	92,397
Revenue received in advance		-	22,230
Interest bearing borrowings	18	6,100,000	6,100,000
Finance Lease	20	107,860	49,059
Total current liabilities		6,632,975	6,502,562
Non-current liabilities			
Finance lease	20	86,678	55,028
Total non-current liabilities		86,678	55,028
Total liabilities		6,719,653	6,557,590
Total net assets		14,071,051	15,753,524
EQUITY			
Capital Shares	8	15,174,626	15,174,626
Share-based payment reserve	8 & 30	98,152	73,712
Retained earnings		(1,201,727)	505,186
Total equity		14,071,051	15,753,524

Signed for and on behalf of the board by:

Signature: 

Executive Chairman: Min Jia

Signature: 

Director: Danny Chan

Date: 31 August 2018

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 2018

	Note	Group Year Ended June 2018 \$	Group Year Ended June 2017 \$
Cash flows from operating activities			
Cash was provided from:			
Receipts from customers		4,758,364	4,769,116
Other revenue		11,083	95,727
GST refund		28,314	279,713
Income tax refund		3,731	-
Interest received		15,948	8,437
		4,817,440	5,152,993
Cash was disbursed to:			
Payment to suppliers		3,019,695	3,550,667
Payments to employees		758,457	886,611
Income tax paid		-	268,149
Interest paid		290,448	365,223
		4,068,600	5,070,650
Net cash flow generated by operating activities	24	748,840	82,343
Cash flows from investing activities			
Cash was disbursed to:			
Payments for investments		(2,500)	2,500
Payments for intangible assets		1,326	5,462
Payments for property, plant and equipment		437,601	927,540
		436,427	935,502
Net cash flow (used in) investing activities		(436,427)	(935,502)
Cash flows from financing activities			
Cash was provided from:			
Increases in shareholder advances		-	-
Proceeds from issue of shares		-	-
		-	-
Cash was disbursed to:			
Repayment of lease obligation	20	127,037	83,256
		127,037	83,256
Net cash flow (used in) financing activities		(127,037)	(83,256)
Net (decrease) / increase in cash		185,376	(936,415)
Cash and cash equivalents at the beginning of the year		498,821	1,453,834
Exchange adjustment		54	(18,598)
Cash and cash equivalents at the end of the year		684,251	498,821

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 2018

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 for-profit entity for financial reporting purposes.

These financial statements were authorised for issue by the Board of Directors on 31 August 2018.

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 for-profit 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 work in progress 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.

NOTES TO THE FINANCIAL STATEMENTS**For the year ended 30 June 2018****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 Financial Instruments: Recognition and Measurement, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

NOTES TO THE FINANCIAL STATEMENTS**For the year ended 30 June 2018****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 NZIAS 12 Income Taxes and NZ IAS 19 Employee Benefits 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 Share Based Payments 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 company's functional and presentation currency. All values are rounded to the nearest dollar.

NOTES TO THE FINANCIAL STATEMENTS**For the year ended 30 June 2018****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% - 13.0%
- Computer equipment / Diminishing value / 50.0%
- Tools & equipment / Diminishing value / 13.0% - 67.0%
- Motor vehicles / Diminishing value / 10.0% - 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.

NOTES TO THE FINANCIAL STATEMENTS**For the year ended 30 June 2018****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.

NOTES TO THE FINANCIAL STATEMENTS**For the year ended 30 June 2018****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.

NOTES TO THE FINANCIAL STATEMENTS**For the year ended 30 June 2018****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.

NOTES TO THE FINANCIAL STATEMENTS**For the year ended 30 June 2018****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, are 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.

NOTES TO THE FINANCIAL STATEMENTS**For the year ended 30 June 2018****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 14 and 15)

The estimation of useful lives 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. The estimation of the useful lives of fixed assets has been based on historical experience as well as lease terms. The condition of the assets is assessed at least once per year and considered against the remaining useful life. Adjustments to useful lives are made when considered necessary. The significant depreciation terms and classes of equipment are included in note 2(g).

ii. Fair value of grapes at the point of harvest less cost to sell (refer to note 10)

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 at which the Group sells the harvested grapes.

iii. Impairment of intangible assets (refer to note 14)

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.

The Group acquired distribution rights on 31 March 2015 for amount of \$5.15 million which were estimated to have a 10 years useful life.

There was an impairment loss of \$2.6 million for the distribution rights as at 30 June 2017. Due to the continuous challenging trading conditions in China, management concluded that an additional impairment of \$1.2 million was attributable to this distribution rights as at 30 June 2018. After this impairment, the value of the distribution agreement became \$nil. Refer to note 14 for disclosure of key assumptions.

iv. MPI dispute (refer to note 11)

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 and now the full amount of the affected stock has been written off.

v. Deferred tax asset (refer to note 7)

For the purposes of measuring deferred tax assets arising from continuous operation and difference in depreciation for Vines and Vineyards, the directors have reviewed the Group's performance forecast for the near future and concluded that the Group will generate sufficient profit in the near future to utilised the deferred taxed assets recognised. Therefore, it is appropriate to carry deferred tax balance forward for future use. Key assumptions used for the forecast are: 1. bottled wine and bulk wine sales would follow similar growth pattern as current. 2. Vineyards harvest tonnage would reach about 2000 tonnes and remain constant then 3. operating expenses grow at the similar rate as the sales.

NOTES TO THE FINANCIAL STATEMENTS**For the year ended 30 June 2018****2 Summary of significant accounting policies (continued)****(u) Key sources of judgement of estimation uncertainty (continued)**

vi. Overseas investment office retrospective consent (refer to note 21)

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).

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.

During the year end 30 June 2018, MWE was advised that a warning letter will be issued by OIO and no further action will be taken. MWE expects that the warning letter will be finalised soon.

This has been disclosed as a contingent liability in note 21, and therefore no amounts have been recognised in the financial statement, relating to this issue.

(v) Standards and interpretations effective in the current year

The following Standards and Amendments to NZ IFRS, which are relevant to the group's financial statements, and became mandatorily effective for the annual periods beginning on or after 1 July 2017, did not result to any material impact to the financial statements other than additional disclosures:

Amendments to NZ IAS 7: Statement of Cash Flows – requires that the users of the financial statements are able to reconcile the movements in financial liabilities (e.g. interest bearing loans and borrowings) to the cash flows from financing activities (e.g. proceeds/repayment of borrowings). The group has included a reconciliation of the movements of finance leases within note 20. This separates out the cash flow movement and other non-cash items.

(w) 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 2018.

- NZ IFRS 9 Financial Instruments. This standard is effective for reporting periods beginning on or after 1 January 2018. 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.

The Group will be required to assess for impairment loss on trade receivables at the time revenue is recognised. Currently an impairment loss is recognised when there is evidence that the Group is unlikely to recover all amounts due. Management has performed an initial assessment of the impact of NZ IFRS 9 on the measurement of expected impairment losses on adoption and, based upon the assessment to date, does not expect there to be a significant impact to the Group's provision for doubtful debts when the new standard is implemented. The impact of the new standard will continue to be assessed as it is implemented in the 2019 financial year.

NOTES TO THE FINANCIAL STATEMENTS**For the year ended 30 June 2018****2 Summary of significant accounting policies (continued)**

- 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 the following five step model.

- identify the contract(s) with the customer;

- identify the performance obligations in the contract(s);

- determine the transaction price;

- allocate the transaction price to the performance obligations in the contract(s); and

- recognise revenue when (or as) the entity satisfies a performance obligation.

Management have performed an initial assessment of the impact of NZ IFRS 15 and, based upon the assessment to date, does not expect there to be a significant impact to the recognition and measurement of revenue to when the new standard is implemented. The majority of the Group's revenue is from the sale of goods. Each of these transactions create a standard short-term performance obligation on the Group. Once the performance obligation has been performed the corresponding revenue is recognised. Pricing is not bundled for multiple performance obligations. The impact of the new standard will continue to be assessed as it is implemented in the 2019 financial year.

- 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 Group's operating lease commitments are set out in note 19. Management has performed an initial assessment of the financial impact on the Group based on leases in effect at 30 June 2018. For the year ended 30 June 2018 and based on an initial estimate of an appropriate discount rate, we calculate the new standard would have increased reported EBITDA by the amount of its current operating lease cost, which for the year ended 30 June 2018 was approximately \$118k. The impact on the statement of financial position as at 30 June 2018 would have been an increase in assets of approximately \$141K with a similar corresponding increase in liabilities. The impact of the new standard will continue to be assessed in the 2019 financial year.

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 2018

3 Sales

	Year Ended June 2018	Year Ended June 2017
	\$	\$
Bulk grape sales	2,213,280	1,998,919
Bulk wine sales	987,017	288,000
Bottled wine sales	784,687	1,534,880
	<u>3,984,984</u>	<u>3,821,799</u>

Prices of two grape sale agreements are based on the regional average price which will become available sometime in the following financial year. The group uses its best estimation of transaction prices for each agreement to record the revenue. Adjustment, if any, will be made when official regional price is published.

4 Other Income

	Year Ended June 2018	Year Ended June 2017
	\$	\$
Lease of farmland	3,546	11,691
Lease of equipment	-	16,201
Compensation from customer	-	80,000
Insurance claims	-	55,641
Dividend received	-	8,799
Others	7,537	1,003
	<u>11,083</u>	<u>173,335</u>

5 Cost of sales

The group runs a vineyard and wine producing business and as a consequence have incurred \$2,444,433 of cost of sales. These costs relate to growing grapes and producing wine.

	Year Ended June 2018	Year Ended June 2017
	\$	\$
Cost of sales	2,444,433	2,395,357

Reclassification of items in the consolidated Statement of Comprehensive Income

During the financial year, the Directors have reclassified the change in fair value of biological assets and agricultural produce, depreciation on vines & vineyards and excise duties to cost of sales to reflect the nature of these items being intricate to the cost of producing grapes and bottles wines for sale. Prior year corresponding figures have also been reclassified for consistency with current year presentation. There is no change in profit. This change has been made in order to provide users of the financial statements with a more comparable benchmark for measuring cost of sales and improve the understanding of the financials overall.

The difference arising from the reclassification is noted below:

	June 2017 As previously reported	Reclassification	June 2017 Comparative reported
	\$	\$	\$
Cost of sales	3,291,906	(896,549)	2,395,357
Change in fair value of biological assets and agricultural produce	(1,175,405)	1,175,405	-
Other expenses (refer to note 6)	284,112	(48,225)	235,887
Depreciation	405,657	(230,631)	175,026
	<u>2,806,270</u>	<u>-</u>	<u>2,806,270</u>

MARLBOROUGH WINE ESTATES GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2018

6 Operating expenses

	Year Ended June 2018	Year Ended June 2017 Restated
	\$	\$
Accounting expenses	13,540	13,409
Auditor's remuneration for annual audit - Deloitte Limited	62,875	71,775
Consulting & advisory	317,810	249,711
Share-based payments to directors and staff	24,440	68,131
Salaries & wages	475,075	655,611
Kiwisaver contribution	8,361	6,757
Foreign exchange losses	(54)	16,006
Office Rent	33,314	38,871
Finished wine storage	104,907	50,470
Other expenses (refer to note 5)	309,384	235,887
	<u>1,349,652</u>	<u>1,406,628</u>

7 Taxation

	Year Ended June 2018	Year Ended June 2017
	\$	\$
(a) Income Tax		
Current tax	-	-
- current period	-	-
- prior year	(2,006)	-
Deferred tax movement	(115,028)	(418,977)
Income tax expense	<u>(117,034)</u>	<u>(418,977)</u>
(b) Numerical reconciliation of income tax expense to prima facie tax payable		
(Loss) / profit before taxation	(1,823,947)	(4,800,704)
Income tax @ 28%	(510,705)	(1,344,197)
Permanent differences	395,677	925,220
Prior year adjustment	(2,006)	-
Income tax (benefit) / expense	<u>(117,034)</u>	<u>(418,977)</u>
(c) Imputation credits are as follows:		
Balance available for use in subsequent reporting periods	<u>615,756</u>	<u>619,485</u>
(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 2018	Year Ended June 2017
	\$	\$
Deferred tax assets	763,762	648,734
	<u>763,762</u>	<u>648,734</u>

June 2017

	Opening balance	Recognised in profit or loss	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
Tax losses on prior period	-	357,386	357,386
	<u>229,757</u>	<u>418,977</u>	<u>648,734</u>

MARLBOROUGH WINE ESTATES GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2018

7 Taxation (continued)

June 2018

	Opening balance	Recognised in profit or loss	Closing balance
	\$	\$	\$
Deferred tax assets/(liabilities) in relation to:			
Biological assets	269,732	63,620	333,352
Accrued expenses	21,201	1,617	22,818
Property, plant & equipment	415	-	415
Tax losses	357,386	49,791	407,177
	648,734	115,028	763,762

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 \$1,706,913 which was mainly due to the recognition of impairment loss on intangible assets, inventory write down. Management prepared forecasts and expects the Group to be profitable in the foreseeable future. Refer to note 2 (u(v)).

8 Equity

Share Capital

	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	290,872,000	15,174,626

	June 2018 Number	June 2018 \$
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 year	-	-
Balance at 30 June 2018	290,872,000	15,174,626

Share-based payment reserve

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

	June 2018 Number	June 2018 \$
Balance of share based payment reserve at 1 July 2017	2,400,000	73,712
Share based expenses for the year	-	24,440
Share options granted during the year	-	-
Share options exercised during the year	-	-
Balance at 30 June 2018	2,400,000	98,152

Total number of security registered as at 30 June 2018

293,272,000

MARLBOROUGH WINE ESTATES GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2018

8 Equity (continued)

At 30 June 2018, share capital comprised 293,272,000 authorised and issued shares (30 June 2017: 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 (30 June 2017: nil) or share options (30 June 2017: nil) during the 12 months ended 30 June 2018. And no existing share options has been exercised during the 12 months ended 30 June 2018 (30 June 2017: nil).

9 Cash and bank balances

	Year Ended June 2018 \$	Year Ended June 2017 \$
Cash at bank (ANZ Bank, BNZ Bank and Industrial Commercial Bank of China)	684,251	498,821
Term deposit at bank (ANZ Bank and Industrial Commercial Bank of China)	-	-
	<u>684,251</u>	<u>498,821</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 Biological asset produce

Biological assets consist of grape vines (bearer plants). Bearer plants are classified as Property, Plant and Equipment and are included as part of Vines and Vineyards in note 15. The Group grows grapes to sell and use in the production of wine, as a part of normal operations. Vineyards are located in Marlborough, New Zealand. Grapes are harvested between March and April each year.

At 30 June 2018, the Group held approximately 336 hectares of land owned by the Company in Marlborough, New Zealand (30 June 2017: 336), of which 149 hectares are planted area (30 June 2017: 149).

During the year ended 30 June 2018, the Group harvested 1,784 tonnes of grapes (30 June 2017: 1,450). The grapes harvested are recognised at fair value at the point of harvest after taking into consideration various market factors, as well as reviewing the district average price report for grapes of similar quality and variety. The fair value adjustment included in cost of sale for the 2018 harvest was \$1,517,051 (30 June 2017: \$944,774 restated). Refer to note 12 for recognition of the biological transformation between the time of harvest and balance date.

11 Inventories

	Year Ended June 2018 \$	Year Ended June 2017 \$
Wines - bottled	1,540,459	1,133,417
Wines - work in progress	1,338,210	1,432,217
Dry goods	173,422	150,853
Total wine in inventory and work in progress (net of impairment)	<u>3,052,091</u>	<u>2,716,487</u>
Impairment of Inventory		
Balance as at 1 July	1,293,761	-
Provision provided during the year	152,477	1,293,761
Inventory written off during the year	(1,293,761)	-
Balance as at 30 June	<u>152,477</u>	<u>1,293,761</u>

MARLBOROUGH WINE ESTATES GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2018

11 Inventories (continued)

Inventories are valued at the lower of cost, net realisable value. Cost is calculated on a FIFO basis.

Due to the challenging trading conditions overseas, especially in China, the Group's bottled wine sales were slower than expected. Some aged wine currently hold by the Group was not likely to be sold at full cost. On 30 June 2018, 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 was \$152,477. (30 June 2017: \$1,293,761).

12 Biological work in progress

	Year Ended June 2018	Year Ended June 2017
	\$	\$
Growing costs related to next harvest	248,599	265,559

The growth on the vines in the period from harvest to 30 June 2018 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 2018 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. The value of biological work in progress at balance date was \$248,599 (30 June 2017: \$265,559).

13 Accounts receivable

	Year Ended June 2018	Year Ended June 2017
	\$	\$
Trade receivables	1,071,235	2,003,193
Provision for doubtful debts	-	-
	<u>1,071,235</u>	<u>2,003,193</u>

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 180 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(i).

Included in the total receivable amount above, there is no material past due accounts. As of 30 June 2018, there were 4 customers who represent more than 5% of the total balance of trade receivables individually (30 June 2017: 3 customers).

Payment due schedule from major customers as of 30 June 2018	Total Receivable amount	Due in 0 - 30 days	Due in 31 - 90 days	Due in 91 days +	Past due
	\$	\$	\$	\$	\$
Customer 1	96,402	522	28,200	67,680	-
Customer 2	79,753	-	79,753	-	-
Customer 3	625,116	-	375,070	250,046	-
Customer 4	159,600	-	159,600	-	-

Payment due schedule from major customers as of 30 June 2017	Total Receivable amount	Due in 0 - 30 days	Due in 31 - 90 days	Due in 91 days +	Past due
	\$	\$	\$	\$	\$
Customer 1	892,106	-	135,040	375,807	381,259
Customer 5	757,922	-	298,382	459,540	-
Customer 6	223,779	223,779	-	-	-

MARLBOROUGH WINE ESTATES GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2018

14 Intangibles

(a) Cost and accumulated amortisation

	Distribution Rights	Trademarks	Total
Cost:	\$	\$	\$
Balance as at 1 July 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
Additions for the year	-	1,326	1,326
Balance at 30 June 2018	5,150,565	22,258	5,172,850
Amortisation and impairment losses:	\$	\$	\$
Balance as at 1 July 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
Amortisation for the year	176,991	-	176,991
Impairment loss for the year	1,194,689	-	1,194,689
Balance at 30 June 2018	5,150,565	1,162	5,151,727

(b) Carrying amount

	Distribution Rights	Trademarks	Total
	\$	\$	\$
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
June 2018			
Cost	5,150,565	22,285	5,172,850
Accumulated amortisation and impairment loss	(5,150,565)	(1,162)	(5,151,727)
Balance at 30 June 2018	-	21,123	21,123

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 years 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.

In the prior year, the recoverable amount of the distribution rights was tested for impairment based on a value-in-use model. There was an impairment loss of \$2.6 million for the distribution rights as at 30 June 2017. Because of the challenging trading conditions in China, New Zenith International Trading (Shanghai) Co., Ltd (NZIT) was not able to meet its minimum annual commitment again to purchase bottled wine for the year ended 30 June 2018 under its wine supply agreement with the Group. The commitment was for \$0.75 million of bottled wine but actual sales were \$0.3 million. The Group has terminated the distribution agreement with NZIT for FY 2019 and beyond. All future sales to NZIT if any will be negotiated order by order. As such, the future sales to NZIT cannot be forecasted with certainty. The Group has taken this and forecast economic conditions into account when performing its impairment test for the year ended 30 June 2018. The management concluded that an impairment of another \$1.2 million attributable to this distribution agreement on 30 June 2018. After this impairment, the value of the distribution agreement became \$nil. Refer to note 23 and 26.

MARLBOROUGH WINE ESTATES GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2018

14 Intangibles (continued)

The following key assumptions were used impairment test:

	June 2018	June 2017
Sales growth (% annual growth rate)	nil	10%
Profit before tax margin (% of sales)	nil	15.88%
Number of years modelled	nil	8
Pre-tax discount rate	n/a	14.78%

15 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 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
Additions for the year	103,424	155,982	9,401	164,194	208,735	641,736
Disposals for the year	-	-	-	-	(30,000)	(30,000)
Balance at 30 June 2018	9,410,257	5,533,936	21,225	427,238	565,152	15,957,808
Accumulated Depreciation						
Balance at 1 July 2016	56,510	284,019	2,922	76,254	39,928	459,633
Depreciation for the year	66,040	230,631 ¹	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
Depreciation for the year	88,014	241,117 ¹	2,374	69,955	65,621	467,081
Disposals for the year	-	-	-	-	(13,731)	(13,731)
Balance at 30 June 2018	210,564	755,767	9,562	148,737	138,032	1,262,662

¹ Of the above \$241,117 depreciation for vines and vineyards, \$180,838 was reclassified to cost of sales and the remaining \$60,279 was capitalised into biological work in progress. As they were directly attributable to grapes growing. (30 June 2017: \$230,631 was reclassified to cost of sales, refer to note 5.)

(b) Carrying amounts

	Land, dams & roads \$	Vines & Vineyards \$	Computer equipment \$	Tools & equipment \$	Motor vehicles \$	Total \$
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)	(78,782)	(86,142)	(809,312)
Carrying amount	9,184,283	4,863,304	4,636	184,262	300,275	14,536,760
June 2018						
Cost	9,410,257	5,533,936	21,225	427,238	565,152	15,957,808
Accumulated depreciation	(210,564)	(755,767)	(9,562)	(148,737)	(138,032)	(1,262,662)
Carrying amount	9,199,693	4,778,169	11,663	278,501	427,120	14,695,146

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 March to April 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 20) are secured by the lessors' title to the leased assets, which have a carrying amount of \$194,538 (2017: \$104,087).

MARLBOROUGH WINE ESTATES GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2018

16 Investments

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 2018, MWE has received no dividend from this investment (30 June 2017: \$8,799).

The \$2,500 investment in Marlborough Grape Producers Group Limited (MGP) was returned which brought the total investment to \$72,750 as at 30 June 2018 (30 June 2017: \$74,250).

17 Accounts payable

	Year Ended June 2018	Year Ended June 2017
	\$	\$
Trade payables	305,343	198,508
Other payables	-	40,368
	<u>305,343</u>	<u>238,876</u>

Trade payables are non-interest bearing and are generally settled within 30 days. As a result of their short-term nature, trade payables and accruals are not discounted. The carrying amount disclosed above is a reasonable approximation of fair value.

18 Borrowings

	Year Ended June 2018	Year Ended June 2017
	\$	\$
Loan - ICBC	6,100,000	6,100,000
	<u>6,100,000</u>	<u>6,100,000</u>
Current	6,100,000	6,100,000
Non-current	-	-
	<u>6,100,000</u>	<u>6,100,000</u>

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 2018 was 4.76%. The loan was refinanced by the group and will mature on 30 September 2018.

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.

At the signing of this report, the \$6.1 million bank loan was extended for another year and will mature on 30 September 2019 (refer to note 26).

19 Operating leases

	Year Ended June 2018	Year Ended June 2017
	\$	\$
Leases as lessee		
Operating lease rentals are payable as follows		
Less than one year	115,209	87,116
Between one and five years	27,679	25,964
Leases as lessor		
Operating lease rentals are receivable as follows		
Less than one year	-	3,546
Between one and five years	-	-

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 2018, \$3,546 (30 June 2017: \$20,929) was recognised as revenue and \$117,585 (30 June 2017 \$86,895) was recognised as expense in respect of operating leases.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2018

20 Finance leases

	Year Ended June 2018 \$	Year Ended June 2017 \$
Leases as lessee		
Finance lease rentals are payable as follows		
Less than one year	115,260	51,104
Between one and five years	90,303	55,754
	<u>205,563</u>	<u>106,858</u>
less future finance charges	<u>(11,025)</u>	<u>(2,771)</u>
	<u>194,538</u>	<u>104,087</u>
Present value of minimum lease payments		
Disclosed as:		
Current finance lease liability	107,860	49,059
Non-current finance lease liability	86,678	55,028
	<u>194,538</u>	<u>104,087</u>
Total finance lease liability:		
Outstanding at 1 July	104,087	-
New finance leases added during the year	217,488	187,343
Finance lease liability paid during the year	<u>(127,037)</u>	<u>(83,256)</u>
Outstanding at 30 June	<u>194,538</u>	<u>104,087</u>

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 10.75% per annum.

21 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 2018, MWE was advised that a warning letter will be issued by OIO and no further action will be taken. MWE expects that the warning letter will be finalised soon.

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

22 Capital Commitments

At balance date the Group had capital commitments of \$nil (30 June 2017: \$75,000).

MARLBOROUGH WINE ESTATES GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2018

23 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. This has been remained the same as last year.

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 the entities below:

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.
Lily Investments Company Limited	Min Jia and Ly Lee, directors of MWE, own Lily Investment Company Limited.
Lily Investments 227 Limited	Min Jia and Ly Lee, directors of MWE, own Lily Investment 227 Limited.
Blind River Irrigation Limited	The Group holds 7.8% ownership in Blind River Irrigation Limited.
Lily Nelson Centro LP	Min Jia and Ly Lee, directors of MWE, are ultimate beneficiaries of a trust who is a partner in Lily Nelson Centro LP.
Lily Nelson Altro LP	Min Jia and Ly Lee, directors of MWE, are ultimate beneficiaries of a trust who is a partner in in Lily Nelson Altro LP.
Lily investment 265 Trust	Min Jia and Ly Lee, directors of MWE, are beneficiaries of Lily Investment 265 Trust.
PersoVino By NOA GmbH	Jan Kux, winemaker of MWE, owns PersoVino By NOA GmbH.
Flowerzone International Ltd	Danny Chan, director of MWE, is a director and shareholder in Flowerzone International Ltd.

(b) Transactions with related party

	Total Value		Asset/(liability)	
	2018	2017	2018	2017
	\$	\$	\$	\$
Wine Sales				
New Zenith International Trading (Shanghai) Co., Ltd	300,384	1,342,763	96,402	892,106
Lily Nelson Centro LP	-	10,800	-	-
Lily Nelson Altro LP	2,970	-	-	-
Lily Investment 265 Trust	25,512	-	-	-
PersoVino By NOA GmbH	4,704	-	-	-
Flowerzone International Ltd	4,284	-	-	-
Office rent and other payments				
Lily Investments Company Limited	36,636	32,094	-	-
Lily Investment 227 Limited	35,736	32,094	-	-
Blind River Irrigation Limited (For water usage)	32,463	31,900	(18,878)	(14,810)

MARLBOROUGH WINE ESTATES GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2018

23 Related Party Disclosures (continued)

Transactions with Directors and Key Management Personnel

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

	Total Value		Asset/(liability)	
	2018	2017	2018	2017
	\$	\$	\$	\$
Directors' Fees				
Min Jia (Executive Chairman)	45,000	95,000	(3,750)	(7,500)
Ly Lee	20,000	40,000	(1,667)	(3,333)
Jack Zhong Yin (Executive Director)	34,334	50,000	-	-
Danny Chan	40,000	40,000	(30,000)	(10,000)
Songyuan Huang	30,000	30,000	-	-

	Total Value		Asset/(liability)	
	2018	2017	2018	2017
	\$	\$	\$	\$
Share-based payments for director				
Jack Zhong Yin (Executive Director)	16,264	43,058	-	-

	Year Ended	Year Ended
	June 2018	June 2017
	\$	\$
Senior officers' compensation (excludes directors)		
Short-term employee benefits	265,759	371,283
Share-based payments	8,176	25,073
Total senior officers' compensation (excludes directors)	<u>273,935</u>	<u>396,356</u>

	Year Ended	Year Ended
	June 2018	June 2017
	\$	\$
Amounts owing from related parties:		
Blind River Irrigation Limited -loan	3,203	8,443
	<u>3,203</u>	<u>8,443</u>

	Year Ended	Year Ended
	June 2018	June 2017
	\$	\$
Other related party transactions during the year		
Wine purchased by shareholders and senior officers during the year	3,324	4,473
Payments reimbursed to senior officers and shareholders for business related expenses during the year	23,897	35,760
Irrigation water charged by Blind River Irrigation Limited during the year	28,228	31,900

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.

The Group has terminated the distribution agreement with NZIT for FY 2019 and beyond. All future sales to NZIT if any will be negotiated order by order. Refer to note 14 and 26.

MARLBOROUGH WINE ESTATES GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2018

24 Notes to Cash Flow Statement

	Year Ended June 2018 \$	Year Ended June 2017 \$
a) <i>Reconciliation of net profit after tax to net cash flow from operating activities:</i>		
Net (loss) / profit after tax	(1,706,913)	(4,381,727)
<i>Add: Non-cash items</i>		
Amortisation	176,991	516,218
Depreciation	467,081	405,657
Tax expense	(117,034)	(418,977)
loss on asset disposal	1,308	30,400
Impairment loss	1,194,689	2,620,009
Foreign exchange movement	(54)	18,598
Share-based payments	24,440	68,131
Expense offset by asset traded in	-	160,000
Withholding tax adjustment	2,006	-
Other non-cash adjustment	28,315	(9,909)
<i>(Increase)/decrease in assets:</i>		
(Increase) / Decrease in accounts receivables	931,958	521,709
(Increase) / Decrease in GST receivable	(51,795)	(60,200)
(Increase) / Decrease in deposit paid	-	20,000
(Increase) / Decrease in inventory	(318,644)	970,560
(Increase) / Decrease in prepayments	37,916	(69,934)
(Increase) / Decrease in related party loan	5,240	(655)
<i>Increase / (Decrease) in liabilities:</i>		
Increase / (Decrease) in trade payables	66,466	(129,243)
Increase / (Decrease) in revenue received in advance	(22,230)	22,230
Increase / (Decrease) in tax paid	1,725	(156,545)
Increase / (Decrease) in accrued expenses	27,375	(43,979)
Net cash provided by operating activities	748,840	82,343

25 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.

(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.

(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. All financial liabilities are payable in 12 months other than lease commitment (refer to note 20).

MARLBOROUGH WINE ESTATES GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2018

25 Financial Risk Management (continued)

(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 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	-

June 2018

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Trade Payables	305,343	-	-	-
Bank Borrowings	6,172,590	-	-	-
Finance Lease	115,260	68,807	21,496	-

The Bank Borrowings will mature on 30 September 2018 with a one-year extension option. As at 30 June 2018, MWE was working with ICBC New Zealand to confirm the extension.

(f) *Foreign currency risk*

Foreign currency denominated assets and liabilities at balance date are:

	Year Ended June 2018	Year Ended June 2017
	\$	\$
Cash and cash equivalents	-	-
Trade & other receivables	9,469	-
Trade & other payables	-	-
Exposure at balance date	9,469	-

The Group is mainly exposed to Euro (EUR) and Chinese Yuan (CNY). As at 30 June 2018, the Group has a trade receivable balance of \$9,469 denominated in EUR. 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 2018		June 2017	
	NZD +10%	NZD -10%	NZD +10%	NZD -10%
	\$	\$	\$	\$
Pre-tax profit / (loss)	(861)	1,052	-	-

MARLBOROUGH WINE ESTATES GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2018

25 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 be decrease/increase by \$28,505. 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 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

	Loans and receivables	Investment at cost	Financial liabilities at amortised cost	Total
	\$	\$	\$	\$
June 2018				
Cash and bank balances	684,251	-	-	684,251
Accounts receivable	1,071,235	-	-	1,071,235
Related party loan	3,203	-	-	3,203
Investment carried at cost	-	72,250	-	72,250
Total financial assets	1,758,689	72,250	-	1,830,939
Non-financial assets				18,959,765
Total assets				20,790,704

Liabilities

Accounts payable	-	-	305,343	305,343
Accrued expenses	-	-	119,772	119,772
Finance lease obligation	-	-	194,538	194,538
Related party loan	-	-	-	-
Bank loan	-	-	6,100,000	6,100,000
Total financial liabilities	-	-	6,719,653	6,719,653
Non-financial liabilities				-
Total liabilities				6,719,653

MARLBOROUGH WINE ESTATES GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2018

25 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.

26 Subsequent events

At the signing of this report, the \$6.1 million bank loan was extended for another year and will mature on 30 September 2019. The distribution agreement with New Zenith International Trading (Shanghai) Co., Ltd was terminated for FY2019 and \$20,000 is payable to the Group as compensation for not meeting the purchase commitment in FY2018. There have been no other subsequent events since the balance sheet date which would impact on these financial statements.

27 Going concern

During the current period, the Group's had a negative working capital of about \$1.39 million, due to the \$6.1m bank loan being recorded as a current liability (see note 18), there is no demand for repayment, as at the signing of this report and this loan was extended for another year and will mature on 30 September 2019. In November 2017, O:TU Vineyards was valued at \$18.85 million based on a valuation report done by Property Advisory Limited who also provide a market review in August 2018 indicated the market value of O:TU Vineyards may increased by approximately another 5% - 15%. The market value of O:TU Vineyards are significantly higher than book value of it which is approximately \$14 million (see note 15). 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.

28 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 2018 Number	June 2017 Number
Number of ordinary share at 1 July	290,872,000	290,872,000
Ordinary shares issued and paid during the period	-	-
Number of ordinary share at 30 June	290,872,000	290,872,000
Weighted average number of ordinary shares	290,872,000	290,872,000
	Year Ended June 2018	Year Ended June 2017
(Loss) / profit attributable to equity holders of the Company (in dollars)	(1,706,913)	(4,381,727)
Weighted average number of ordinary shares on issue	290,872,000	290,872,000
Basic (loss) per share (in dollars)	(0.006)	(0.015)

(b) Diluted earnings per share

Same earning was used for diluted earnings per share

	Year Ended June 2018	Year Ended June 2017
Weighted average number of ordinary shares used in the calculation of basic earnings per share	290,872,000	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	293,272,000
Diluted (loss) per share (in dollars)	(0.006)	(0.015)

MARLBOROUGH WINE ESTATES GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2018

28 Earnings per share (continued)

(c) *Net tangible assets per share*

	Year Ended June 2018	Year Ended June 2017 Restated
Net tangible assets (in dollars)	14,049,928	14,362,047
Net tangible assets per share (in dollars)	0.048	0.049

29 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. During the financial year, majority of Group's sales were generated from supplying products to customers based in New Zealand, United States and China. At balance date, the Group held all non-current assets in Marlborough, New Zealand.

The below represents a geographical analysis of sales:

Sales	Year Ended June 2018 \$	Year Ended June 2017 \$
New Zealand	2,611,910	2,186,134
United States	984,989	298,640
China	295,680	1,277,636
Others	92,405	59,389
Total	3,984,984	3,821,799

For the year ended 30 June 2018, there were 3 customers (30 June 2017: 3 customers) who individually accounted for greater than 10% of the Group's total sales. The sales amount to these customers in total was \$2.52 million (30 June 2017: \$2.92 million). The following table shows only the amount which is greater than 10% of the Group's total sales.

	Year Ended June 2018 \$	Year Ended June 2017 \$
Customer 1	1,087,159	-
Customer 2	-	1,261,918
Customer 3	-	750,092
Customer 4	-	912,325
Customer 5	511,506	-
Customer 6	927,000	-
Total	2,525,665	2,924,335

30 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.

MARLBOROUGH WINE ESTATES GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2018

30 Employee benefits (continued)

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%

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 2018		June 2017	
	Number of Options	Exercise price	Number of Options	Exercise price
Outstanding at 1 July	2,400,000	\$0.20	2,400,000	\$0.20
Granted during the year	-	N/a	-	N/a
Forfeited during the year	-	N/a	-	N/a
Exercised during the year	-	N/a	-	N/a
Outstanding at 30 June	2,400,000	\$0.20	2,400,000	\$0.20
Exercisable at 30 June	960,000	\$0.20	480,000	\$0.20

Share-based payment reserve

	June 2018		June 2017	
	Number	\$	Number	\$
Outstanding at 1 July	2,400,000	73,712	2,400,000	5,581
Share options granted to senior officers and contractors	-	24,440	-	68,131
Outstanding at 30 June	2,400,000	98,152	2,400,000	73,712

MARLBOROUGH WINE ESTATES GROUP LIMITED

STATUTORY INFORMATION

For the year ended 30 June 2018

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 21 August 2018 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	Nzwe Limited	14,362,106	4.90%
4	Wenhan Li	9,100,000	3.10%
5	Yefan Hong	5,013,000	1.71%
6	Chen Liu	4,773,270	1.63%
7	Jing Wang	1,838,810	0.63%
8	Jack Zhong Yin	1,500,000	0.51%
9	Jiaxing Li	1,450,000	0.49%
10	Lizhong Huang	1,100,000	0.38%
11	First NZ Capital Securities Limited	757,731	0.26%
12	Beibei Liu	613,000	0.21%
13	Dongxia Pan	600,000	0.20%
14	Suzhi Lin	400,000	0.14%
15	Chi Yuan	330,000	0.11%
16	Yuanfu Dai	310,000	0.11%
=	Anna Dai	310,000	0.11%
=	Yun Feng Zheng	310,000	0.11%
=	Jianyan Liu	310,000	0.11%
=	Jianguo Xie	310,000	0.11%

MARLBOROUGH WINE ESTATES GROUP LIMITED

STATUTORY INFORMATION

For the year ended 30 June 2018

3 Distribution of equity securities

The total number of ordinary shares on issue as at 21 August 2018 is 293,272,000. The company has only ordinary shares on issue. Details of the distribution of ordinary shares amongst shareholders as at 21 August 2018 are set out below:

Size of holdings	No. of shareholders	% of shareholders	No. of shares held	% of shares held
Less than 5,000	214	42.80%	636,169	0.22%
5,000 to 59,999	246	49.20%	2,793,900	0.95%
60,000 to 599,999	27	5.40%	6,417,000	2.19%
600,000 to 999,999	3	0.60%	1,970,731	0.67%
1,000,000 to 9,999,999	7	1.40%	24,775,080	8.45%
10,000,000 and over	3	0.60%	256,679,120	87.52%
TOTAL	500	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 21 August 2018.

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 2018, 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 2018

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. This has been remained the same as last year.

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 related party relationship with the entities below:

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.
Lily Investments Company Limited	Min Jia and Ly Lee, directors of MWE, own Lily Investment Company Limited.
Lily Investments 227 Limited	Min Jia and Ly Lee, directors of MWE, own Lily Investment 227 Limited.
Blind River Irrigation Limited	The Group holds 7.8% ownership in Blind River Irrigation Limited.
Lily Nelson Centro LP	Min Jia and Ly Lee, directors of MWE, are ultimate beneficiaries of a trust who is a partner in Lily Nelson Centro LP.
Lily Nelson Altro LP	Min Jia and Ly Lee, directors of MWE, are ultimate beneficiaries of a trust who is a partner in in Lily Nelson Altro LP.
Lily investment 265 Trust	Min Jia and Ly Lee, directors of MWE, are beneficiaries of Lily Investment 265 Trust.
PersoVino By NOA GmbH	Jan Kux, winemaker of MWE, owns PersoVino By NOA GmbH.
Flowerzone International Ltd	Danny Chan, director of MWE, is a director and shareholder in Flowerzone International Ltd.

(b) Transactions with related party

	Total Value		Asset/(liability)	
	2018	2017	2018	2017
	\$	\$	\$	\$
Wine Sales				
New Zenith International Trading (Shanghai) Co., Ltd	300,384	1,342,763	96,402	892,106
Lily Nelson Centro LP	-	10,800	-	-
Lily Nelson Altro LP	2,970	-	-	-
Lily Investment 265 Trust	25,512	-	-	-
PersoVino By NOA GmbH	4,704	-	-	-
Flowerzone International Ltd	4,284	-	-	-
Office rent and other payments				
Lily Investments Company Limited	36,636	32,094	-	-
Lily Investment 227 Limited	35,736	32,094	-	-
Blind River Irrigation Limited(For water usage)	32,463	31,900	(18,878)	(14,810)

MARLBOROUGH WINE ESTATES GROUP LIMITED

STATUTORY INFORMATION

For the year ended 30 June 2018

6 Interested Transactions (continued)

Transactions with Directors and Key Management Personnel

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

	Total Value		Asset/(liability)	
	2018	2017	2018	2017
	\$	\$	\$	\$
Directors' Fees				
Min Jia (Executive Chairman)	45,000	95,000	(3,750)	(7,500)
Ly Lee	20,000	40,000	(1,667)	(3,333)
Jack Zhong Yin (Executive Director)	34,334	50,000	-	-
Danny Chan	40,000	40,000	(30,000)	(10,000)
Songyuan Huang	30,000	30,000	-	-

	Total Value		Asset/(liability)	
	2018	2017	2018	2017
	\$	\$	\$	\$
Share-based payments for director				
Jack Zhong Yin (Executive Director)	16,264	43,058	-	-

	Year Ended June 2018	Year Ended June 2017
	\$	\$
Senior officers' compensation (excludes directors)		
Short-term employee benefits	265,759	371,283
Share-based payments	8,176	25,073
Total senior officers' compensation (excludes directors)	<u>273,935</u>	<u>396,356</u>

	Year Ended June 2018	Year Ended June 2017
	\$	\$
Amounts owing from related parties:		
Blind River Irrigation Limited -loan	3,203	8,443
	<u>3,203</u>	<u>8,443</u>

	Year Ended June 2018	Year Ended June 2017
	\$	\$
Other related party transactions during the year		
Wine purchased by shareholders and senior officers during the year	3,324	4,473
Payments reimbursed to senior officers and shareholders for business related expenses during the year	23,897	35,760
Irrigation water charged by Blind River Irrigation Limited during the year	28,228	31,900

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

STATUTORY INFORMATION

For the year ended 30 June 2018

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 2018	Year Ended June 2017
	Number	Number
Remuneration \$110,000 - \$120,000	1	0

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 2018.

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 28 September 2018, 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.

COMPANY DIRECTORY

For the year ended 30 June 2018

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 (independent) Songyuan Huang (independent)
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