

**PETER LEHMANN WINES LIMITED
AND ITS CONTROLLED ENTITIES
FULL YEAR FINANCIAL STATEMENTS
TO 30 JUNE 2006**

PETER LEHMANN WINES LIMITED AND ITS CONTROLLED ENTITIES

DIRECTORS' REPORT

The directors present their report together with the consolidated financial report for the full year ended 30 June 2006 and the review report thereon.

Directors

The directors of the Company at any time during or since the end of the financial year are:

Name, Qualifications & Special Responsibilities	Age	Experience
Max LIENHARD PhD (Economics) Non-Executive Director Member of the Audit and Remuneration Committees	62	Dr Max Lienhard is Chairman & CEO of Hess Group AG. Prior to joining Hess he held positions in international marketing in the pharmaceuticals and food industries. Appointed Chairman and Director on 31 October 2003.
Paul Antony YOUNG MA (Cantab) ACA (ICAEW) FAICD Non-Executive Director Chairman of the Audit Committee Member of the Remuneration Committee	51	Paul Young is a director of Baron Partners Limited and has 22 years experience in corporate advisory work. Director of Thomas & Coffey Limited, Ambition Group Limited and Trent Capital Limited. Appointed as an Alternate Director for the Chairman on 31 October 2003. Appointed Deputy Chairman and Director 11 December 2003.
Roger Maxwell WILSON, LLB Non-Executive Director Chairman of the Remuneration Committee and Member of the Audit Committee	65	Roger Wilson has 44 years experience as a practicing solicitor specialising in commercial law. Director since March 1993. Designated as Peter Lehmann's representative in November 2002.
Kay Elaine CAREY, BCom Non-Executive Director Member of the Audit and Remuneration Committees	52	Kay Carey gained significant brand development and marketing skills internationally whilst employed by a multi-national consumer product company. Product portfolios included health and well being products and food, flavours and fragrances. Director of Australian Pork Limited. Appointed to the board in December 2004.
Douglas McCaig LEHMANN, FAICD Executive Director	54	Douglas Lehmann's formative experience in the wine industry was as a winemaker. Over the last 34 years he has developed skills in wine production, marketing and distribution as well as general management. Managing Director since March 1993.
Robert Victor EDWARDS, BCom Executive Director	60	Robert Edwards has over 22 years marketing and selling experience in the wine industry. He has been Marketing Manager with PLW since 1995. Appointed Marketing Director August 1999.
Andrew Douglas WIGAN, BSc (App Chem) Dip Oen Alternate Director	57	Chief Winemaker and leads the team of winemakers and technical staff. Appointed alternate for Robert Edwards August 1999.
Company Secretary Barbara Kay CLAPTON, BEd Grad Dip Acc FCA, FCIS	52	Chief Financial Officer & Company Secretary and leads the finance and administration team. Appointed Company Secretary 5 March 1993.

Corporate governance statement

The directors set out to develop a transparent and accountable framework from the time of the Company's formation in 1993. This direction and attitude have shaped the policies, practice and culture of Peter Lehmann Wines Limited (PLW).

The board was reconstituted following the takeover in October 2003 with many of the existing practices adopted by the current board of directors.

The Company requested removal from the Australian Stock Exchange (ASX) and this came into effect on 12 October 2004. Although PLW is no longer bound by the ASX Corporate Governance Guidelines many of the principles continue to be applied as they represent good practice and are relevant to an unlisted public company.

Board of directors & its committees

Role of the board

The directors have the overall obligation to act in the best interests of the shareholders and to protect the shareholders' investment. The board's charter is located on the Company's website.

Responsibilities of the board

The board is responsible for the strategic direction of the business, establishing goals for management and monitoring the achievement of goals directly and through its committees. Responsibility for the operation and administration is delegated to the managing director and executive management.

Matters considered by the board

The board charter defines the purpose, responsibilities and operation of the board. Issues of substance affecting PLW are considered by the full board of directors, with advice from appropriate committees and external advisers as required.

Specific matters reserved for the board -

- Review and approval of the business strategies developed by management
- Approval of financial and other reporting
- Review and approval of the operating budget and capital expenditure projects
- Monitoring the financial performance and capital management of the business
- Reviewing the risk management system and ensuring the integrity of internal controls and adherence to the codes of conduct and legal compliance program
- Monitoring senior management's performance and implementation of the business strategy
- Appointment and, where appropriate, removal of the managing director
- Ratifying the appointment and, where appropriate, the removal of the chief financial officer and company secretary.

Composition of the board

The Constitution requires a minimum of three and a maximum of ten directors. Up to five directors may be executive directors. The board's policy is for the chairman to be a non-executive director and for there to be a majority of non-executive directors.

All directors, with the exception of the managing director, are subject to election by shareholders at the first opportunity after their appointment. With the exception of the managing director, by rotation one third of the directors are required to be re-elected at each annual general meeting. New directors appointed by the board are required to seek election at the first general meeting of shareholders following their appointment.

The board presently comprises four non-executive directors, one of whom is the chairman, and two executive directors. Three of the four non-executive directors are not considered to be independent as one is an officer of a shareholder with more than 5% of the shares, one is associated with the holder of more than 5% of the shares and the third acted as a professional advisor to the Company's parent company during the year ended 30 June 2004.

The ownership of the Company whereby two shareholders control 96% of the issued shares has determined the board structure. It is not considered appropriate to set a maximum term of office for individual directors.

The composition of the board is reviewed regularly to ensure it meets its responsibilities. The board has determined that a broad portfolio of skills and experience are required to complement the specific wine industry experience of the executive directors.

All the directors are involved in the process of appointing new directors by firstly defining the characteristics required and then deciding whether the prospective appointee is best secured by way of consultancy advice or by the board's own research. A nominations committee is not considered to be appropriate given the size and culture of the business.

The board has a portfolio of skills including CEO experience, marketing, finance and capital markets, and commercial law.

Process

The board generally schedules at least 8 meetings each year at the winery and this provides directors with the opportunity to visit the production facilities and for contact with a wide group of employees. Other meetings and any extraordinary meetings may be convened at shorter notice and held at other venues or conducted by conference calls.

The chairman of the Company resides in Switzerland and in his absence some of his authority has been delegated to the deputy chairman. The deputy chairman's responsibilities include –

- leading the board, including ensuring meetings are conducted in an open and professional manner so that matters discussed are debated and analysed objectively
- providing effective leadership on formulating the board's strategy
- representing the views of the board to shareholders and the public
- conducting shareholder meetings in an open and democratic manner for shareholders to express their views and to ask questions of the board, management and external auditors
- ensuring new directors are properly briefed on the terms of their appointment and their rights, duties and responsibilities
- setting an example of the culture and values for which PLW stands.

Meeting agendas are prepared by the company secretary in conjunction with the deputy chairman and managing director. Standing items include the managing director's report, finance report, strategic matters, sales and marketing reports, governance and compliance. Board papers are circulated in sufficient time to allow effective preparation. All directors have access to the company secretary.

Each director enters into an Access and Indemnity Deed with PLW to ensure ten year access to documents after retirement from the board.

The Company has induction procedures designed to allow new board appointees to participate fully and actively in board decision-making at the earliest opportunity.

To assist in the execution of its responsibilities the board has established an audit committee and a remuneration committee. Following each audit committee meeting the board is given a verbal report by the committee chairman. Audit committee minutes are circulated to all board members.

Each director has the right to seek independent professional advice at the Company's expense after first obtaining the deputy chairman's approval. The deputy chairman has the discretion to approve expenditure without prior reference to the board or to refer the request to the board.

Board members are expected to devote sufficient time to prepare for meetings and contribute to the governance of the business.

Conflict of interest

Directors must keep the board advised, on an ongoing basis, of any interest that could potentially conflict with those of the Company. Where the board believes a significant conflict of interest exists, the director concerned does not receive the relevant board papers and does not attend the meeting whilst the item is considered.

Audit committee

A documented charter detailing the role, membership, responsibilities and reporting has been determined and is available on the Company's website. The role of the audit committee is to oversee and enhance the credibility of the financial reporting process of PLW.

The objectives of the committee include:

1. assessing the risk and control environment, reviewing accounting policies, internal controls, practices and disclosures to assist the board in making informed decisions
2. overseeing the financial reporting to ensure it is appropriate and of a high quality prior to recommending adoption of the financial statements by the board for release to shareholders
3. evaluating the audit process, particularly the scope, effectiveness and outcome.

The audit committee is comprised of non-executive directors. Committee members are financially literate, that is, have the ability to read and understand financial reports including income statements, balance sheets and statements of cash flow. The committee chairman has accounting and financial experience, is knowledgeable about financial and auditing processes and is responsible for the planning and conduct of meetings and overseeing the reporting to the board.

The audit committee meets at least twice a year to coincide with the production of published financial statements and the assessment of external audit reports. The external auditor, the managing director and chief financial officer & company secretary are invited to audit committee meetings. The committee members consult directly with the external auditor as required. This consultation may be independent of management in order to provide an opportunity for the auditor to discuss any contentious issues or raise concerns.

The audit committee reviews the performance of the external auditors on an annual basis and normally meets with them during the year to discuss the external audit, identify any significant changes which are likely to impact on the financial statements and review the fees proposed for the audit work to be performed.

The external audit firm was appointed in 1993 and the audit engagement partner was last rotated in 2004. In April 2002 the board formally advised the audit firm that PLW requires assurance and tax compliance services only. Each reporting period the external auditor provides an independence declaration in relation to the audit or review.

The audit committee addresses any matters outstanding with auditors, Australian Taxation Office, Australian Securities and Investments Commission and the Company's bank.

The Company is subject to legal and regulatory compliance with the audit committee responsible for reviewing the legal compliance program regularly. Procedures are in place to ensure compliance with label integrity, export, trademarks, liquor licence and environment requirements. The Company is cognisant of its responsibilities in relation to food safety, effective lifecycle management of packaging and paper products, and the hazard analysis critical control point methodology as applied to the wine industry.

The managing director and chief financial officer complete a detailed questionnaire regarding the financial reports and underlying internal controls and risk management system. They provide a written statement that, in all material respects, the financial reports present a true and fair view of the Company's financial condition and operational results and are in accordance with relevant accounting standards. This statement is made at half yearly intervals.

Remuneration committee

A documented charter detailing the role, membership, responsibilities and reporting has been determined and is available on the Company's website.

The committee reviews and makes recommendations to the board on the remuneration packages of directors and senior executives. It is also responsible for incentive performance policies, superannuation entitlements, retirement and termination entitlements and fringe benefits policies.

The non-executive directors form the committee with the managing director invited to attend at the discretion of the committee. The remuneration committee meets once a year and as required.

Ethical standards

All directors and employees are expected to act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the Company. PLW has codes of conduct for directors and staff and finance officers and these codes are available on the Company's website.

Risk management

Oversight of the risk management system

The board as a whole considers the major risks affecting the business. PLW has developed a risk management system to evaluate and control risks effectively to ensure opportunities are not lost, competitive advantage is enhanced, and management time is not spent reacting to issues or events. It is not intended to eliminate risk. The risk management system encompasses all financial, operational and compliance controls and risk management and is subject to regular review.

The managing director and the chief financial officer have declared, in writing to the board, that the financial reporting risk management and associated compliance and controls have been assessed to be operating effectively and efficiently. All risk assessments covered the whole financial year and the period up to the signing of the annual financial report for all material operations in the consolidated entity.

Risk profile

PLW has a simple business model with these features:-

- a single processing site
- vineyard and packaging work outsourced
- wine is sold through independent distributors except for the UK subsidiary, a commonly controlled company in the USA and retail sales through the Cellar Door
- stable workforce

Major business risks include

- *Grape intake* - The Company has long-standing arrangements with 175 independent growers.
- *Occupational health and safety* - Occupational health and safety standards and management systems are monitored and reviewed by the board to assess performance and compliance with regulations. The Company has not had any health and safety prosecutions.
- *Environmental impact* - The Company is involved in an industry which has the potential to impose environmental risks through chemical storage and handling and winery wastewater.
- *Wine Quality* - Winemakers, laboratory, cellar and maintenance staff are trained to ensure PLW complies with the highest production standards. The hazard analysis critical control point program (HACCP program) has been implemented to ensure PLW addresses food safety issues. The contract bottler is HACCP and ISO 9001 accredited.
- *Channels to market* – PLW has developed a network of quality distributors and works closely with them to promote wines with a range of buyers including wholesalers, retailers, mail order businesses, duty free operators and the restaurant trade.
- *Exchange rate movements* - PLW transacts export sales in Australian dollars, Euros, US dollars and Canadian dollars and has developed a treasury management policy to ensure personnel do not engage in unauthorised trading positions.
- *Interest rate movements* - Interest rate risk emanates from changes in market interest rates impacting on the Company's short and long term debt. This exposure is managed by combining interest rate swaps with floating rate arrangements.

Risk management and compliance and control

The board is responsible for the overall internal control framework but recognises that no cost effective internal control system will preclude all errors and irregularities. The system is based upon written procedures, policies and codes, division of responsibility, and the careful selection and training of qualified personnel.

The system provides the structure for controlling the business – planning, running the operation and monitoring activities to assess progress on achieving defined business objectives.

Key areas subject to regular reporting to the board include occupational health and safety performance, treasury operations, credit risk, insurance, legal matters and environment performance.

There are a number of committees established to oversee matters relating to operational activities - occupational health and safety, environment and enterprise conditions. These committees meet regularly with senior management who report to the board.

Financial controls and procedures are clearly defined with the operating and capital budgets used as key controls for business operations. Management regularly report monthly actual results against budgets approved by the board. Rolling forecasts for the year are regularly prepared in line with market conditions and expectations.

Convergence with Australian equivalents to International Financial Reporting Standards (AIFRS) has been a key financial reporting project during the financial year ended 30 June 2006. Details of the impact of transition from previous Australian Generally Accepted Accounting Principles (AGAAP) to AIFRS on the financial report for the financial year ended 30 June 2006 are included on note 34 to the financial statements.

Assessment of the effectiveness of risk management

In August 2003 the external auditors were engaged to provide an objective evaluation of some of the Company's internal controls which are not in the scope of the external audit.

The managing director and chief financial officer monitor compliance and control systems and report to the audit committee on weaknesses identified and remedial actions undertaken.

Communication with shareholders

The directors ensure shareholders are informed of all major developments affecting the Company.

- The half yearly report contains summarised financial information about the operations of the consolidated entity during the period. The half-year reviewed financial report is lodged with the Australian Securities and Investments Commission and sent to any shareholder who requests it. A summary of the half-year result is sent to all shareholders in February each year.
- The vintage outcome is communicated in May each year.
- PLW distributes the annual report which contains the concise report and notice of annual general meeting (AGM) in late September each year. The concise report includes relevant information about the operations of the consolidated entity during the year, changes in the state of affairs and details of future developments.
- The concise and full financial reports are lodged with the Australian Securities and Investments Commission and sent to any shareholder who requests a copy.
- The Managing Director's address to the AGM and outcome of the AGM are sent to all shareholders in November each year.
- Shareholders, who elect to do so, receive promotional information in the form of newsletters which are usually circulated twice a year.
- Shareholders may also join the electronic mailing list and receive notices of the winery's activities and promotional information.
- All announcements to the market, concise and full financial reports and annual reports are made available on the Company's website within a day of public release.

The board encourages full participation of shareholders at the annual general meeting. The shareholders are requested to vote on the appointment and aggregate remuneration of directors and changes to the Constitution. The audit engagement partner attends the AGM and is available to answer questions about the conduct of the audit and the preparation and content of the auditor's report.

Directors' meetings

The number of directors' meetings (including meetings of committees of directors) and number of meetings attended by each of the directors of the Company during the financial year are:

	Board Meetings		Audit Committee Meetings		Remuneration Committee Meetings	
	A	B	A	B	A	B
M Lienhard	1	1	-	-	-	-
P A Young	8	8	2	2	1	1
D McC Lehmann	8	8	-	-	-	-
R M Wilson	8	8	2	2	1	1
R V Edwards	8	8	-	-	-	-
K E Carey	8	8	2	2	1	1

A – Number of meetings attended

B – Number of meetings held in which the overseas director could participate or during the time the director held office during the year.

Principal activities

The principal activities of the consolidated entity during the course of the financial year were the manufacturing and sale of wine. The wine is sold in bottle and in bulk. Bottled wine is exported as well as being sold domestically.

The Company has two operating subsidiaries, Peter Lehmann Wines (UK) Ltd (formerly Peter Lehmann Wines (Europe) Ltd) and Austral Wines Pty Ltd. These companies distribute wine in Europe and buyers own brand wine respectively.

Shareholder returns

	2006	2005	2004	2003	2002
Profit for the year	\$5,748,000	\$6,434,000	\$3,830,000	\$5,419,000	\$6,915,000
Basic EPS	15.1 cents	16.9 cents	10.1 cents	14.5 cents	19.0 cents
Dividends paid/payable	\$3,151,000	\$3,531,000	\$2,088,000	\$4,095,000	\$4,088,000
Dividends per share	8.3 cents	9.3 cents	5.5 cents	9.0 cents	11.0 cents
Return on capital employed	10%	12%	7%	11%	18%

Profit amounts and earnings per share (EPS) for years 2002 to 2005 were calculated in accordance with previous Australian GAAP. The 2006 profit for the year amount has been calculated in accordance with Australian equivalents to IFRS (AIFRS). For impact on net profit on transition to AIFRS see Note 34 to financial statements.

Returns to shareholders increase through both dividends and capital growth. Dividends for 2006 were fully franked and it is expected that dividends in future years will continue to be fully franked.

Dividends

Dividends paid or declared by the Company since the end of the previous financial year were:

	Cents per share	Total amount \$000	Franked/ Unfranked	Date of payment
<i>Paid and declared during the year 2006</i>				
- Final 2005 ordinary	9.3 cents	3,531	franked	8 Nov 2005
Franked dividends declared as paid during the year were franked at the rate of 30 per cent.				
<i>Declared after end of year</i>				
- Final 2006 ordinary	8.3 cents	3,151	franked	8 Nov 2006

After the balance sheet date the 2006 dividend was proposed by the directors. The dividends have not been provided and there are no income tax consequences.

The financial effect of the 2006 dividend has not been brought to account in the financial statements for the year ended 30 June 2006 and will be recognised in subsequent financial reports.

Review of operations

Company overview

The Company experienced difficult trading conditions in the domestic market over the past year. Over-supply and retail consolidation are impacting negatively on virtually all wine producers within Australia. These difficult conditions are expected to continue over the next twelve months to two years.

The Company continues to be heavily export orientated and this year the volume shipped overseas represented 70% (2005: 62%) of sales of branded product.

The UK is the second largest wine importing market in the world and is fiercely competitive. PLW operates its own distribution company in the United Kingdom which is the Company's largest export market.

Trading

Total domestic sales of branded wine were down 13% on the corresponding period of the previous year.

Total export sales of branded wine were strong with volume increasing by 18% over that of the previous year. However, revenue was down 6% reflecting the changing global market conditions. The Company succeeded in increasing overall sales volumes of bottled wine although it is costing more in advertising and promotional support to gain access to retail shelf space.

Production

PLW crushed 13,643 tonnes for our own use (2005: 17,308) and 3,752 tonnes under contract (2005: 3,771). The total of 17,395 tonnes is a decrease of 17% on the previous year's record crush of 21,079 tonnes.

Equity

There has been no change to the capital structure of the Company during the year and it remains an unlisted public company with 454 shareholders. Swiss based Hess Group AG and founder Peter Lehmann hold 85.67% and 10.37% of the issued shares respectively.

Strategy and future performance

The global wine industry is currently experiencing very difficult times. The Company's outstanding quality wines, successful track record and strong backing places Peter Lehmann Wines well to ride through these difficulties and progress positively.

The large Australian 2006 vintage combined with the high stock ratio for the industry, suggest increases in grape prices will be remote. The Company is planning to process a similar volume in 2007 to that of the 2006 vintage.

Likely developments

The consolidated entity will continue to pursue its strategy of increasing the profitability and market share of its major business sectors during the next financial year.

Further information about likely developments in the operations of the consolidated entity and the expected results of these operations in future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the consolidated entity.

Events subsequent to reporting date

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity, in future financial years.

Remuneration report

Remuneration policies

Remuneration levels are competitively set to attract and retain appropriately qualified and experienced directors and senior executives. Remuneration packages may include a mix of fixed and performance based remuneration. Equity based remuneration has not been included since 1998.

The remuneration structures took into account:

- the overall level of remuneration for each director and executive
- the executive's ability to control performance
- the amount of incentives within each executive's remuneration

The Remuneration Committee may structure packages for executive directors and senior executives to receive bonuses based on the achievement of specific performance hurdles. The performance hurdles are generally a blend of the consolidated entity's and each relevant market. Non-executive directors do not receive any performance related remuneration.

Non-executive directors and senior executives may receive additional benefits as non-cash benefits. Non-cash benefits typically include wine allowances and motor vehicles and the Company pays fringe benefits tax on these benefits.

Total remuneration for all non-executive directors, last voted upon by shareholders at the 2001 AGM, is not to exceed \$300,000 per annum. Directors' base fees are presently \$34,000 per annum with an additional \$5,000 per annum paid to directors who chair board committees. The Chairman's fees are \$70,000 per annum.

The retirement scheme has been discontinued from 31 October 2003. Mr Roger Wilson is entitled to \$113,667 on retirement.

Individual directors and executives compensation disclosures

		Short-term			Post Employment	Total	
		Salary & Fees	Increment in Annual & Long Service Leave Entitlements	Non-Monetary Benefits	Super-annuation Contributions		Proportion of remuneration performance related
		\$	\$	\$	\$	\$	%
Directors							
Non-executive							
Dr M Lienhard	2006	70,000	-	-	-	70,000	-
Chairman	2005	70,000	-	-	-	70,000	-
P A Young	2006	39,000	-	3,393	3,900	46,293	-
Deputy Chairman	2005	39,000	-	3,175	3,510	45,685	-
R M Wilson	2006	39,000	-	4,070	3,900	46,970	-
	2005	39,000	-	4,075	3,510	46,585	-
Kay Carey	2006	34,000	-	1,531	3,400	38,931	-
Appointed 12 Dec 2004	2005	18,419	-	1,000	1,658	21,077	-
Executive							
D Mc Lehmann	2006	207,366	3,230	74,117	31,105	315,818	-
Managing Director	2005	197,491	21,277	72,795	29,624	321,187	-
R V Edwards	2006	197,174	19,146	51,450	29,576	297,346	-
Marketing Director	2005	187,785	14,074	51,751	28,168	281,778	-

		Short-term			Post Employment	Total	
		Salary & Fees	Increment in Annual & Long Service Leave Entitlements	Non-Monetary Benefits	Super-annuation Contributions		Proportion of remuneration performance related
		\$	\$	\$	\$	\$	%
Executives							
<i>The Company</i>							
H T Astrom ⁽¹⁾	2006	248,469	55,023	87,231	24,835	415,558	-
VP - EU & USA Brand Development	2005	232,141	-	83,035	23,214	338,390	-
T M Brown	2006	99,225	6,041	29,338	9,923	144,527	-
Operations Manager	2005	94,500	788	28,586	9,450	133,324	-
B K Clapton	2006	145,230	15,729	40,052	14,523	215,534	-
CFO & Company Secretary	2005	138,314	7,928	32,827	13,831	192,900	-
A D Wigan	2006	170,955	(718)	35,465	17,096	222,798	-
Chief Winemaker	2005	162,814	4,791	31,192	16,281	215,078	-
<i>Controlled entity</i>							
W I Whigham ⁽¹⁾	2006	256,688	-	22,127	25,669	304,484	-
Managing Director	2005	275,718	-	33,983	23,415	333,116	-
Peter Lehmann Wines (UK) Ltd							
Total compensation: key management personnel (Consolidated)	2006	1,507,107	98,451	348,774	163,927	2,118,259	
	2005	1,455,182	48,858	342,419	152,661	1,999,120	
Total compensation: key management personnel (Company)	2006	1,250,419	98,451	326,647	138,258	1,813,775	
	2005	1,179,464	48,858	308,436	129,246	1,666,004	

⁽¹⁾ Salary packages of the EU and UK executives have been converted to Australian dollars at the balance date exchange rates.

Environmental regulation & management

The Company's operations are subject to licence requirements under the South Australian Environment Protection Act 1993. This requires the Company to dispose of winery waste water in a manner which does not adversely impact on the surrounding land, underground water or nearby water course. The Company regularly monitors its licence requirements, with performance reported to the state regulator on a periodic basis. There have been no instances of non-compliance in relation to these licence requirements during the financial year.

Indemnification and insurance of officers

Indemnification

The Company has agreed to indemnify the current, alternate and former directors of the Company, against all liabilities to another person (other than the Company or related body corporate) that may arise from their position as directors of the Company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses.

The Company has also agreed to indemnify the current directors of its controlled entities and an officer of the Company for all liabilities to another person (other than the Company or a related body corporate) that may arise from their position, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses.

Insurance premiums

The directors have not included details of the nature of liabilities covered or the amount of the premium paid in respect of the Directors' and Officers' Liability insurance contracts, as such disclosure is prohibited under the terms of the insurance contract.

Non-audit services

During the year, KPMG, the Company's auditor, has performed certain other services in addition to their statutory duties.

The board has considered the non-audit services provided during the year by the auditor and is satisfied that the provision of those non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the audit committee to ensure they do not impact the integrity and objectivity of the auditor.
- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in Professional Standard F1 *Professional independence*, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

Details of the amounts paid to the auditor of the Company, KPMG, and its related practices for audit and non-audit services provided during the years are set out below.

<i>In thousands of AUD</i>	Consolidated	
	2006	2005
Statutory audit:		
Audit and review of the financial reports (KPMG Australia)	87	49
Audit of the financial reports (KPMG UK)	28	30
	115	79
Services other than statutory audits:		
Taxation services (KPMG Australia)	23	26

Lead auditors independence declaration

The Lead auditor's independence declaration is set out on page 12 and forms part of the directors' report for the financial year ended 30 June 2006.

Rounding off

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with the Class Order, amounts in the financial report and the directors' report thereon have been rounded off to the nearest thousand dollars, unless otherwise stated.

Signed in accordance with a resolution of the directors.



P A Young (Deputy Chairman)



D McC Lehmann (Managing Director)

Dated at Tanunda this 15th day of September 2006



Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To: the directors of Peter Lehmann Wines Limited.

I declare that, to the best of my knowledge and belief, during the full year ended 30 June 2006 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

Grant Drabsch
Partner
Adelaide
15 September 2006



KPMG, an Australian partnership, is a member of KPMG International, a Swiss non-operating association.

PETER LEHMANN WINES LIMITED AND ITS CONTROLLED ENTITIES
INCOME STATEMENTS
For the year ended 30 June 2006

<i>In thousands of AUD</i>	<i>Note</i>	Consolidated		The Company	
		2006	2005	2006	2005
Revenue	3	57,592	55,543	53,075	51,263
Cost of sales		(33,053)	(31,696)	(30,730)	(29,859)
Gross profit		24,539	23,847	22,345	21,404
Other income	3	316	161	316	161
Administration expenses		(2,478)	(2,669)	(2,314)	(2,275)
Marketing and public relations expenses		(1,581)	(1,750)	(1,534)	(1,493)
Selling and distribution expenses		(10,063)	(8,268)	(8,549)	(7,185)
Other expenses	4	(643)	(481)	(643)	(481)
Results from operating activities		10,090	10,840	9,621	10,131
Financial income		210	115	3,693	88
Financial expenses		(1,889)	(2,009)	(1,889)	(2,009)
Net financing costs/income	9	(1,679)	(1,894)	1,804	(1,921)
Profit before tax		8,411	8,946	11,425	8,210
Income tax expense	10	(2,663)	(2,629)	(2,403)	(2,451)
Profit for the year	23	5,748	6,317	9,022	5,759

The income statements are to be read in conjunction with the notes of the financial statements.

PETER LEHMANN WINES LIMITED AND ITS CONTROLLED ENTITIES
STATEMENTS OF RECOGNISED INCOME & EXPENSE
For the year ended 30 June 2006

<i>In thousands of AUD</i>	<i>Note</i>	Consolidated		The Company	
		2006	2005	2006	2005
Foreign exchange translation differences	23	<u>28</u>	<u>(130)</u>	-	-
Net income recognised directly in equity		28	(130)	-	-
Profit for the year		<u>5,748</u>	<u>6,317</u>	<u>9,022</u>	<u>5,759</u>
Total recognised income and expense for the year	23	<u>5,776</u>	<u>6,187</u>	<u>9,022</u>	<u>5,759</u>

The statements of recognised income and expenses are to be read in conjunction with the notes to the financial statements.

PETER LEHMANN WINES LIMITED AND ITS CONTROLLED ENTITIES
BALANCE SHEETS
As at 30 June 2006

<i>In thousands of AUD</i>	<i>Note</i>	Consolidated		The Company	
		2006	2005	2006	2005
Assets					
Cash and cash equivalents	11	1,040	1,545	143	732
Trade and other receivables	12	14,416	16,754	12,383	13,638
Inventories	13	54,490	56,310	54,233	56,110
Total current assets		69,946	74,609	66,759	70,480
Investments		-	15	81	96
Property, plant and equipment	18	31,022	30,062	30,970	30,034
Intangible assets	19	68	83	48	74
Biological assets	14	493	575	493	575
Total non-current assets		31,583	30,735	31,592	30,779
Total assets		101,529	105,344	98,351	101,259
Liabilities					
Trade and other payables	20	8,767	11,633	8,210	13,414
Interest-bearing loans and borrowings	21	4,176	4,000	4,176	4,000
Employee benefits	22	1,555	1,336	1,555	1,336
Income tax payable	16	600	664	600	664
Total current liabilities		15,098	17,633	14,541	19,414
Interest-bearing loans and borrowings	21	27,701	31,425	27,701	31,425
Deferred tax liabilities	17	736	508	736	508
Employee benefits	22	70	99	70	99
Total non-current liabilities		28,507	32,032	28,507	32,032
Total liabilities		43,605	49,665	43,048	51,446
Net assets		57,924	55,679	55,303	49,813
Equity					
Issued capital	23	30,624	30,624	30,624	30,624
Reserves	23	(3)	(31)	-	-
Retained earnings	23	27,303	25,086	24,679	19,189
Total equity		57,924	55,679	55,303	49,813

The balance sheets are to be read in conjunction with the notes to the financial statements.

PETER LEHMANN WINES LIMITED AND ITS CONTROLLED ENTITIES
STATEMENTS OF CASH FLOWS
For the year ended 30 June 2006

<i>In thousands of AUD</i>	<i>Note</i>	Consolidated		The Company	
		2006	2005	2006	2005
Cash flows from operating activities					
Cash receipts from customers		62,637	57,507	56,989	53,947
Cash paid to suppliers and employees		(48,325)	(48,992)	(43,092)	(45,870)
Cash generated from operations		14,312	8,515	13,897	8,077
Interest received	9	101	93	84	66
Interest paid	9	(2,313)	(2,255)	(2,313)	(2,255)
Income taxes paid	10	(2,550)	(2,677)	(2,296)	(2,499)
Net cash from operating activities	30	9,550	3,676	9,372	3,389
Cash flows from investing activities					
Proceeds from sale of property, plant & equipment		42	1	42	1
Proceeds from sale of investment		15	-	15	-
Acquisition of property, plant & equipment	18	(2,904)	(2,845)	(2,846)	(2,815)
Acquisition of intangibles	19	(59)	(76)	(41)	(64)
Net cash from investing activities		(2,906)	(2,920)	(2,830)	(2,878)
Cash flows from financing activities					
Proceeds from borrowings		-	1,500	-	1,500
Repayment of borrowings		(3,600)	-	(3,600)	-
Dividends paid	23	(3,531)	(2,088)	(3,531)	(2,088)
Net cash from financing activities		(7,131)	(588)	(7,131)	(588)
Net increase (decrease) in cash and cash equivalents		(487)	168	(589)	(77)
Effect of exchange rate fluctuations on cash held		(18)	-	-	-
Cash and cash equivalents at 1 July		1,545	1,377	732	809
Cash and cash equivalents at 30 June	11	1,040	1,545	143	732

The statements of cash flows are to be read in conjunction with the notes to the financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 Significant accounting policies

	Page
(a) Statement of compliance	19
(b) Basis of preparation	19
(c) Basis of consolidation	21
(d) Foreign currency	21
(e) Derivative financial instruments	21
(f) Property, plant and equipment	22
(g) Intangible assets	22
(h) Biological assets	22
(i) Investments	23
(j) Trade and other receivables	23
(k) Inventories	23
(l) Cash and cash equivalents	23
(m) Impairment	23
(n) Share capital	25
(o) Interest-bearing borrowings	25
(p) Employee benefits	25
(q) Trade and other payables	25
(r) Revenue and other income	25
(s) Expenses	26
(t) Income tax	26
(u) Segment reporting	27
(v) Goods and services tax	27

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Contents)

	Page
2 Segment reporting	27
3 Revenue and other income	29
4 Other expenses	29
5 Personnel expenses	29
6 Auditors' remuneration	30
7 Depreciation and amortisation costs	30
8 Foreign exchange gains and losses relating to operating activities	30
9 Net financing costs/(income)	30
10 Income taxes	31
11 Cash and cash equivalents	31
12 Trade and other receivables	31
13 Inventories	32
14 Biological assets	32
15 Investments	32
16 Current tax assets and liabilities	33
17 Deferred tax assets and liabilities	33
18 Property, plant and equipment	34
19 Intangible assets	36
20 Trade and other payables	36
21 Interest-bearing loans and borrowings	37
22 Employee benefits	38
23 Capital and reserves	38
24 Financial instruments	40
25 Operating leases	41
26 Capital and other commitments	41
27 Contingencies	42
28 Deed of cross guarantee	42
29 Consolidated entities	42
30 Reconciliation of cash flows from operating activities	43
31 Key management personnel disclosures	44
32 Non-key management personnel disclosures	46
33 Subsequent events	47
34 Explanation of transition to AIFRSs	48

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 SIGNIFICANT ACCOUNTING POLICIES

Peter Lehmann Wines Limited (the "Company") is a company domiciled in Australia. The consolidated financial report of the Company for the financial year ended 30 June 2006 comprise the Company and its subsidiaries (together referred to as the "consolidated entity").

The financial report was authorised for issue by the directors on 15 September 2006.

(a) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards ("AASBs") adopted by the Australian Accounting Standards Board ("AASB") and the *Corporations Act* 2001. International Financial Reporting Standards ("IFRS") form the basis of Australian Accounting Standards ("AASBs") adopted by the AASB, and for the purpose of this report are called Australian equivalents to IFRS, ("AIFRS") to distinguish from previous Australian GAAP. The financial reports of the consolidated entity and the Company also comply with IFRSs and interpretations adopted by the International Accounting Standards Board.

This is the consolidated entity's first financial report prepared in accordance with Australian Accounting Standards, being AIFRS and IFRS, and AASB 1 *First-Time Adoption of Australian Equivalents to International Financial Reporting Standards* has been applied. An explanation of how the transition to AIFRS has affected the reported financial position, financial performance and cash flows of the consolidated entity and the Company is provided in note 34.

(b) Basis of preparation

The financial report is presented in Australian dollars.

The entity has elected to early adopt the following accounting standards and amendments as at transition date:

- AASB 119 *Employee Benefits* (December 2004)
- AASB 2004-3 *Amendments to Australian Accounting Standards* (December 2004) amending AASB 1 *First time Adoption of Australian Equivalents to International Financial Reporting Standards* (July 2004), AASB 101 *Presentation of Financial Statements* and AASB 124 *Related Party Disclosures*
- AASB 2005-1 *Amendments to Australian Accounting Standards* (May 2005) amending AASB 139 *Financial Instruments: Recognition and Measurement*
- AASB 2005-3 *Amendments to Australian Accounting Standards* (June 2005) amending AASB 119 *Employee Benefits* (either July or December 2004)
- AASB 2005-4 *Amendments to Australian Accounting Standards* (June 2005) amending AASB 139 *Financial Instruments: Recognition and Measurement*, AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* (July 2004).
- AASB 2005-5 *Amendments to Australian Accounting Standards* (June 2005) amending AASB 1 *First time Adoption of Australian Equivalents to International Financial Reporting Standards* (July 2004), and AASB 139 *Financial Instruments: Recognition and Measurement*
- AASB 2005-6 *Amendments to Australian Accounting Standards* (June 2005) amending AASB 3 *Business Combinations*
- AASB 2006-1 *Amendments to Australian Accounting Standards* (January 2006) amending AASB 121 *The Effects of Changes in Foreign Exchange Rates* (July 2004)
- UIG 4 *Determining whether an Arrangement contains a Lease*
- UIG 5 *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation funds*

- *UIG 7 Applying the Restatement Approach under AASB 129 Financial Reporting in Hyperinflationary Economies*
- *UIG 8 Scope of AASB 2*

The following standards and amendments were available for early adoption but have not been applied by the consolidated entity in these financial statements:

- *AASB 7 Financial instruments: Disclosure* (August 2005) replacing the presentation requirements of financial instruments in AASB 132. AASB 7 is applicable for annual reporting periods beginning on or after 1 January 2007.
- *AASB 2005-9 Amendments to Australian Accounting Standards* (September 2005) requires that liabilities arising from the issue of financial guarantee contracts are recognised in the balance sheet. AASB 2005-9 is applicable for annual reporting periods beginning on or after 1 January 2006.
- *AASB 2005-10 Amendments to Australian Accounting Standards* (September 2005) makes consequential amendments to AASB 132 *Financial Instruments: Disclosures and Presentation*, AASB 101 *Presentation of Financial Statements*, AASB 114 *Segment Reporting*, AASB 117 *Leases*, AASB 133 *Earnings Per Share*, AASB 139 *Financial Instruments: Recognition and Measurement* and AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*. AASB 2005-10 is applicable for annual reporting periods beginning on or after 1 January 2007.

The consolidated entity plans to adopt AASB 7, AASB 2005-9 and AASB 2005-10 in the 2007 financial year.

The initial application of AASB 7 and AASB 2005-10 is not expected to have an impact on the financial results of the Company and the consolidated entity as the standard and the amendment are concerned only with disclosures.

The initial application of AASB 2005-9 could have an impact on the financial results of the Company and the consolidated entity as the amendment could result in liabilities being recognised for financial guarantee contracts that have been provided by the Company and the consolidated entity. However, the quantification of the impact is not known or reasonably estimable in the current financial year as an exercise to quantify the financial impact has not been undertaken by the Company and the consolidated entity to date.

The financial report is prepared on the of historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments and biological assets.

The company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 (updated by CO 05/641 effective 28 July 2005 and CO 06/51 effective 31 January 2006) and in accordance with the Class Order, amounts in the financial report and Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

The preparation of a financial report in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. These accounting policies have been consistently applied by each entity in the consolidated entity.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The accounting policies have been applied consistently to all periods presented in the consolidated financial report and in preparing an opening AIFRS balance sheet at 1 July 2004 for the purposes of the transition to Australian Accounting Standards – AIFRS.

The accounting policies have been applied consistently by all entities in the consolidated entity.

(c) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date control commences until the date control ceases.

Investments in subsidiaries are carried at their cost of acquisition in the Company's financial statements.

(ii) Transactions eliminated on consolidation

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements.

(d) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Australian dollars at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(ii) Financial statements of foreign operations

The assets and liabilities of foreign operations are translated to Australian dollars at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated to Australian dollars at rates approximating the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on retranslation are recognised directly in a separate component of equity.

(iii) Net investment in foreign operations

Exchange differences arising from the translation of the net investment in foreign operations are taken to translation reserve. They are released into the income statement upon disposal.

In respect of the foreign operation, any differences that have arisen before 1 July 2004, the date of transition to AIFRS, are presented as a separate component of equity.

(e) Derivative financial instruments

The consolidated entity uses derivative financial instruments to minimise its exposure to foreign exchange and interest rate risks arising from operating, financing and investment activities. In accordance with its treasury policy, the consolidated entity does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative financial instruments are recognised initially at fair value. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss.

The fair value of interest rate swaps is the estimated amount that the consolidated entity would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties. The fair value of forward exchange contracts is their quoted market price at the balance sheet date, being the present value of the quoted forward price.

(f) Property, plant and equipment

(i) Owned assets

Items of property, plant and equipment are stated at cost less accumulated depreciation (see below) and impairment losses (see accounting policy 1(m)).

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

(ii) Leased assets

Leases in terms of which the consolidated entity assumes substantially all of the risks and rewards of ownership are classified finance leases. Operating lease payments are accounted for as described in accounting policy (1(s)).

(iii) Subsequent costs

The consolidated entity recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probably that the future economic benefits embodied within the item will flow to the consolidated entity and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense as incurred.

(iv) Depreciation

With the exception of freehold land depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated.

The estimated useful lives in the current and comparative periods are as follows:

- buildings 50 years
- plant and equipment 3 to 50 years

The residual value, the useful life and the depreciation method applied to an asset are reassessed at least annually.

(g) Intangible assets

(i) Intangible assets

Intangible assets that are acquired by the consolidated entity are stated at cost less accumulated amortisation (see below) and impairment losses (see accounting policy 1(m)).

(ii) Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Finite life intangible assets are amortised from the date that they are available for use. The estimated useful lives in the current and comparative periods are as follows:

- computer software 3 years

(h) Biological assets

Biological assets are stated at fair value less estimated point-of-sale costs, with any resultant gain or loss recognised in the income statement. Point-of-sale costs include all costs that would be necessary to sell the assets, excluding costs necessary to get the assets to market.

Grapes and Vines

The net market value of grape vines has been determined as the difference between the vineyard values and the values of land and other vineyard improvements thereon. In determining the net market values certain assumptions have been made about the yields and market prices of grapes in future vintages, the cost of running the vineyards and quality of the grapes grown. These assumptions and estimates have been provided to the independent valuer to assist with the valuation of the vines.

(i) Investments

Financial instruments held for trading are classified as current assets and are stated at fair value, with any resultant gain or loss recognised in the income statement.

The fair value of financial instruments classified as held for trading is their quoted bid price at the balance sheet date.

Financial instruments classified as held for trading are recognised/derecognised by the consolidated entity on the date it commits to purchase/sell the investments.

Investments in other unlisted companies were carried at the lower of cost and recoverable amount as fair value is not able to be reliably determined.

(j) Trade and other receivables

Trade and other receivables are stated at their amortised cost less impairment losses (see accounting policy note 1(m)).

(k) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of harvested grapes is its fair value less estimated point-of-sale costs at the date of harvest, determined in accordance with the accounting policy for biological assets (see accounting policy 1(g)). Any change in value through the date of harvest is recognised in the income statement. Once harvested, grapes are accounted for as part of normal inventories.

The cost of inventories includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads.

The cost of inventory items that are not interchangeable is assigned based on specific identification.

All items of inventory that are deemed to be held for trading purposes have been classified as current.

(l) Cash and other cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the consolidated entity's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(m) Impairment

The carrying amounts of the consolidated entity's assets, other than biological assets (see accounting policy 1(h)), inventories (see accounting policy 1(k)), and deferred tax assets (see accounting policy 1(t)), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated (see accounting note 1(m)(i)).

An impairment loss is recognised whenever the carrying amount of an asset of its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit (group of units) on a *pro rata* basis.

(i) Calculation of recoverable amount

Impairment of all receivables is not recognised until objective evidence is available that a loss event has occurred. Receivables are individually assessed for impairment.

The recoverable amount of the consolidated entity's receivables carried at amortised cost which are of a short duration are not discounted to the present value of estimated future cash flows.

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) Reversals of impairment

An impairment loss in respect of a receivable is reversed when there is an indication that the impairment loss may no longer exist and if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss in respect to a receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss is reversed only to the extent that the asset's carrying value does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(iii) Derecognition of financial assets and liabilities

A financial asset (or where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired
- The consolidated entity retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party; or
- the consolidated entity has transferred its right to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in profit and loss.

(n) Share capital

A provision for dividends payable is recognised in the reporting period in which the dividends are declared, for the entire undistributed amount, regardless of the extent to which they will be paid in cash.

(o) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

(p) Employee benefits

(i) Long-term service benefits

The consolidated entity's net obligation in respect of long-term service benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using future expected increases in wages and salary rates included related on-costs and expected settlement dates, and is discounted using the rates attached to the Commonwealth Government bonds at the balance sheet date which have maturity dates approximating to the terms of the consolidated entity's obligations.

(ii) Wages, salaries, annual leave and non-monetary benefits

Liabilities for employee benefits for wages, salaries and annual leave that are expected to be settled within 12 months of the reporting date represent present obligations resulting from employees' service provided to reporting date, are calculated at undiscounted amounts based on remuneration wage and salary rates that the consolidated entity expects to pay as at reporting date including related on-costs, such as, workers compensation insurance and payroll tax. Non-accumulating non-monetary benefits, such as cars and free subsidised goods, are expensed based on the net marginal cost to the consolidated entity as the benefits are taken by the employees.

(iii) Defined contribution superannuation funds

Obligations for contributions to defined contribution superannuation funds are recognised as an expense in the income statement as incurred.

(q) Trade and other payables

Trade and other payables are stated at their amortised cost. Trade payables are non-interest bearing and are normally settled on 60-day terms.

(r) Revenue and other income

(i) Revenue from sale of wine

Revenue from the sale of wine is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, the costs incurred or to be incurred cannot be measured reliably, there is a risk of return of wine or there is continuing management involvement with the wine. Bottled and bulk wine revenue is recognised pursuant to sales orders and associated deliveries.

(ii) Contract revenue

Contract revenue earned from winery processing activity and laboratory analysis is recognised when the service is provided.

(s) Expenses

(i) Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease.

(ii) Net financing costs

Net financing costs comprise interest payable on borrowings using the effective interest rate method, interest receivable on funds invested, dividend income, and gains and losses on hedging instruments that are recognised in the income statement (see accounting policy 1(e)).

Borrowing costs are expensed as incurred and included in net financing costs unless they relate to qualifying assets. Qualifying assets are assets which generally take more than 12 months to get ready for their intended use or sale. In these circumstances, borrowing costs are capitalised to the cost of the assets. Where funds are borrowed generally, borrowing costs are capitalised using a weighted average capitalisation rate.

Interest income is recognised in the income statement as it accrues, using the effective interest method. Dividend income is recognised in the income statement on the date the entity's right to receive payments is established which in the case of quoted securities is ex-dividend date.

(t) Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences not provided for are the initial recognition of assets or liabilities that affect neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

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 reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Tax Consolidation

The Company and its wholly-owned Australian resident entity have formed a tax-consolidated group with effect from 1 July 2003 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is Peter Lehmann Wines Limited.

Current tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the "separate taxpayer within group" approach by reference to the carrying amounts of assets and liabilities in the separate financial statements of each entity and the tax values applying under tax consolidation.

Nature of tax funding arrangements and tax sharing arrangements

The head entity, in conjunction with the other member of the tax-consolidated group, has entered into a tax funding arrangement which sets out the funding obligations of members of the tax-consolidated group in respect of tax amounts. The tax funding arrangements require payments from the head entity equal to the current tax liability assumed by the head entity, resulting in the head entity recognising an inter-entity receivable equal in amount to the tax liability assumed. The inter-entity receivable is at call.

Contributions to fund the current tax liabilities are payable as per the tax funding arrangement and reflect the timing of the head entity's obligation to make payments for tax liabilities to the relevant tax authorities.

The head entity in conjunction with the other member of the tax-consolidated group has also entered into a tax sharing agreement. The tax sharing agreement provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement as payment of any amounts under the tax sharing agreement is considered remote.

(u) Segment reporting

A segment is a distinguishable component of the consolidated entity that is engaged in providing products and services within a particular economic environment (geographical segment) which is subject to risks and rewards that are different from those of other segments.

(v) Goods and Services Tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of the GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the Australian Taxation Office (ATO) is included as a current asset or liability on the balance sheet.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

2 SEGMENT REPORTING

Segment information is presented in the consolidated entity's geographical segments, which are the primary basis of segment reporting. The segment reporting format reflects the consolidated entity's management and internal reporting structure.

Inter-segment pricing is determined on an arm's length basis.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly income-earning assets and revenue, interest-bearing loans, borrowings and expenses, and corporate assets and expenses.

Geographical segments

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets are based on the geographical location of assets.

The consolidated entity's business segments operate geographically as follows:

- | | |
|---------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Australasia | <ul style="list-style-type: none"> ▪ Vineyards in the Barossa and Clare Valleys of South Australia ▪ Winemaking and storage facilities in the Barossa Valley, South Australia ▪ Brand management representation in the capital cities of New South Wales, Victoria and South Australia ▪ Customers in Australia and New Zealand with selling performed by distributors |
| Europe | <ul style="list-style-type: none"> ▪ Distribution company located in Kent, UK to service the UK and Irish markets ▪ Brand management representation in Continental Europe ▪ Distributors sell wines to customers in Ireland, Germany, Switzerland, Austria, Scandinavia and other European countries |
| North America | <ul style="list-style-type: none"> ▪ Distributors and agents sell wine to customers in the USA and Canada. |
| Other | <ul style="list-style-type: none"> ▪ Distributors sell wines to customers in Asia, the Pacific, Middle East, India, Mexico, Central and South America. |

	Australasia		Europe		North America		Other		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Revenue from customers - wine	22,778	24,140	23,687	22,241	8,569	7,485	1,562	840	56,596	54,706
Revenue from customers – service	830	837	166	-	-	-	-	-	996	837
Other income	316	161	-	-	-	-	-	-	316	161
Total revenue and other income	23,924	25,138	23,853	22,241	8,569	7,485	1,562	840	57,908	55,704
Segment result	5,618	6,754	3,494	4,234	3,505	2,300	457	389	13,074	13,677
Unallocated expenses									(2,984)	(2,837)
Results from operating activities									10,090	10,840
Net financing costs									(1,679)	(1,894)
Income tax expense									(2,663)	(2,629)
Profit for the period									5,748	6,317
Segment assets	96,264	99,176	5,265	6,168	-	-	-	-	101,529	105,344
Segment liabilities	8,437	10,219	2,555	3,513					10,992	13,732
Unallocated liabilities									32,613	35,933
Total liabilities	8,437	10,219	2,555	3,513	-	-	-	-	43,605	49,665
Depreciation and amortisation	1,977	1,815	36	21					2,013	1,836
Non cash net expenses other than depreciation	454	265							454	265
Capital expenditure	2,846	2,815	58	30					2,904	2,845

3 REVENUE AND OTHER INCOME

<i>In thousands of AUD</i>	<i>Note</i>	Consolidated		The Company	
		2006	2005	2006	2005
Revenue from customers – wine sales		56,596	54,706	52,245	50,426
Revenue from customers – service provision		996	837	830	837
Total revenue		57,592	55,543	53,075	51,263
Release of unused provisions		122	-	122	-
Gains from change in fair value of biological assets – crop		65	14	65	14
Gains from change in fair value of biological assets - vines		-	88	-	88
Net gain on disposal of property, plant and equipment		32	-	32	-
Other		97	59	97	59
Total other income		316	161	316	161
Total revenue and other income		57,908	55,704	53,391	51,424

4 OTHER EXPENSES

<i>In thousands of AUD</i>	<i>Note</i>	Consolidated		The Company	
		2006	2005	2006	2005
Losses from change in fair value of biological assets - vines		82	-	82	-
Licence Fee paid to ultimate parent company		506	471	506	471
Net loss on sale of property, plant and equipment		-	3	-	3
Other		55	7	55	7
		643	481	643	481

5 PERSONNEL EXPENSES

<i>In thousands of AUD</i>	<i>Note</i>	Consolidated		The Company	
		2006	2005	2006	2005
Wages & salaries		6,162	5,935	5,220	5,002
Other associated personnel expenses		719	742	610	653
Contributions to defined contribution superannuation funds		749	667	669	608
Increase in liability for annual leave		369	294	369	294
Increase in liability for long service leave		80	127	80	127
		8,079	7,765	6,948	6,684

Personnel expenses are included within the income statement within administration \$1,610,000 (2005: \$1,480,000), marketing and public relations \$740,000 (2005: \$772,000), selling and distribution \$2,967,000 (2005: \$2,897,000). Personnel expenses for the winery of \$2,762,000 (2005: \$2,616,000) are included in inventory and released through the income statement when the wine is sold.

6 AUDITORS' REMUNERATION

<i>In thousands of AUD</i>	<i>Note</i>	Consolidated		The Company	
		2006	2005	2006	2005
Audit services					
<i>KPMG Australia</i>					
Audit and review of financial reports		87	49	87	49
<i>Overseas KPMG Firms</i>					
Audit of financial reports		28	30	-	-
		115	79	87	49
Other services					
<i>KPMG Australia</i>					
Taxation services		23	26	23	26

7 DEPRECIATION AND AMORTISATION COSTS

<i>In thousands of AUD</i>	<i>Note</i>	Consolidated		The Company	
		2006	2005	2006	2005
Depreciation of property, plant and equipment					
Property	18	176	169	176	169
Plant and equipment	18	1,762	1,613	1,728	1,598
Less capitalised depreciation expense		(1,821)	(1,707)	(1,821)	(1,707)
		117	75	83	60
Amortisation of intangibles					
Computer software	19	75	54	68	51

Net depreciation and amortisation costs are included within the following expense categories on the income statements: administration \$149,000 (2005: \$111,000), marketing and public relations \$33,000 (2005: \$8,000) and selling and distribution \$10,000 (2005: \$10,000).

8 FOREIGN EXCHANGE GAINS AND LOSSES RELATING TO OPERATING ACTIVITIES

<i>In thousands of AUD</i>	<i>Note</i>	Consolidated		The Company	
		2006	2005	2006	2005
Foreign exchange gain		(316)	(3)	(316)	(3)
Foreign exchange loss		-	250	-	250
Net foreign exchange loss (gain)		(316)	247	(316)	247

Net foreign exchange gains/losses are included in selling and distribution expenses on the income statements.

9 NET FINANCING COSTS/(INCOME)

<i>In thousands of AUD</i>	<i>Note</i>	Consolidated		The Company	
		2006	2005	2006	2005
Interest income		(101)	(79)	(84)	(52)
Dividend income – controlled entity		-	-	(3,500)	-
Net gain on derivatives at fair value		(109)	(36)	(109)	(36)
Financial income		(210)	(115)	(3,693)	(88)
Interest expense		2,313	2,312	2,313	2,312
Interest capitalised to maturing inventory		(424)	(303)	(424)	(303)
Financial expenses		1,889	2,009	1,889	2,009
Net financing costs/(income)		1,679	1,894	(1,804)	1,921

10 INCOME TAXES

	<i>Note</i>	Consolidated		The Company	
		2006	2005	2006	2005
Current tax expense					
Current year		2,415	2,511	2,155	2,333
Adjustment to prior years		(40)	1	(40)	1
		2,375	2,512	2,115	2,334
Deferred tax expense					
Total income tax expense on income statement		288	117	288	117
		2,663	2,629	2,403	2,451

Numerical reconciliation between tax expense and pre-tax net profit

<i>In thousands of AUD</i>	<i>Note</i>	Consolidated		The Company	
		2006	2005	2006	2005
Profit before tax		8,411	8,946	11,425	8,210
Income tax using the domestic corporation tax rate of 30% (2005: 30%)		2,523	2,684	3,428	2,463
Increase in income tax expense due to:					
Non-deductible expenses/(income)		64	(56)	65	(13)
Overseas subsidiary loss		134	-	-	-
Utilisation of overseas subsidiary loss		(13)	-	-	-
Decrease in income tax expense due to:					
Non-assessable income		(5)	-	(1,050)	-
		2,703	2,628	2,443	2,450
Under/(over) provided in prior years		(40)	1	(40)	1
Income tax expense on pre-tax net profit		2,663	2,629	2,403	2,451

11 CASH AND CASH EQUIVALENTS

<i>In thousands of AUD</i>	<i>Note</i>	Consolidated		The Company	
		2006	2005	2006	2005
Bank balances		1,040	1,545	143	732
Cash and cash equivalents in the statements of cash flows		1,040	1,545	143	732

12 TRADE AND OTHER RECEIVABLES

<i>In thousands of AUD</i>	<i>Note</i>	Consolidated		The Company	
		2006	2005	2006	2005
Current					
Trade receivables due from controlled entities		-	-	1,597	2,079
Trade receivables due from commonly controlled entities		460	863	443	863
Other trade receivables and prepayments		13,852	15,840	10,239	10,645
Receivables due from the ultimate parent entity		5	1	5	1
Receivables due from commonly controlled entities		40	37	40	37
Fair value derivatives		59	13	59	13
		14,416	16,754	12,383	13,638

Other trade receivables are shown net of impairment losses of \$12,000 (2005: \$132,000) recognised in the current year. The reversal of the impairment amounts related to the recovery of a previously uncertain receivable.

13 INVENTORIES

<i>In thousands of AUD</i>	Consolidated		The Company	
	2006	2005	2006	2005
Packaging materials and souvenirs	395	649	395	649
Finished goods	54,095	55,661	53,838	55,461
	54,490	56,310	54,233	56,110

The carrying amounts of inventories are stated at net realisable value. Inventories are shown net of provisions for write-downs of \$34,000 (2005: \$36,000) recognised in the current year. The carrying value of inventories includes wine held for maturation and \$424,000 (2005: \$303,000) of borrowing costs have been capitalised using the weighted average cost of capital rate of 2.36% (2005: 2.31%) to the maturing wines.

The carrying value of inventories held and expected to be realised within the next twelve months is estimated at \$19,500,000 (2005: \$18,750,000).

14 BIOLOGICAL ASSETS

<i>In thousands of AUD</i>	<i>Note</i>	Consolidated		The Company	
		2006	2005	2006	2005
Carrying value of vines at 1 July		575	487	575	487
Increase/(decrease) in fair value		(82)	88	(82)	88
Carrying value of vines at 30 June		493	575	493	575

The Company has 41 hectares planted to grape vines in the premium grape growing areas of the Barossa and Clare Valleys. The vineyards yielded 290 tonnes (2005: 295 tonnes) at a market value of \$326,000 (2005: \$318,000). The crops represent 2% of the total intake of 13,643 tonnes (2005: 17,308 tonnes).

The values of the vineyards were determined by Taylor Brooke Pty Ltd, an independent valuer, as at 30 June 2006 and 30 June 2005 based on the discounted net present value of expected future cash flows. The net market value of grapes vines has been determined as the difference between the vineyard values and the values of land and other vineyards improvements thereon. In determining the net market values certain assumptions have been made about the yields and market prices of grapes in future vintages, the cost of running the vineyards and quality of grapes grown.

15 INVESTMENTS

<i>In thousands of AUD</i>	<i>Note</i>	Consolidated		The Company	
		2006	2005	2006	2005
Non-current investments					
Investments in controlled entities - at cost		-	-	81	81
Investment in unlisted securities – at cost		-	15	-	15
		-	15	81	96

16 CURRENT TAX ASSETS AND LIABILITIES

The current tax liability for the consolidated entity of \$600,000 (2005: \$664,000) and the Company of \$600,000 (2005: \$664,000) represent the amount of income taxes payable in respect of current and prior financial periods. In accordance with tax consolidation legislation, the Company as the head entity of the Australian tax-consolidated group has assumed the current tax liability initially recognised by the members in the tax-consolidated group.

17 DEFERRED TAX ASSETS AND LIABILITIES

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

Consolidated <i>In thousands of AUD</i>	Assets		Liabilities		Net	
	2006	2005	2006	2005	2006	2005
Property, plant and equipment	-	-	1,564	1,550	1,564	1,550
Biological assets	-	-	87	85	87	85
Employee benefits	(487)	(430)	-	-	(487)	(430)
Provisions	(14)	(112)	-	-	(14)	(112)
Other items	(449)	(591)	35	6	(414)	(585)
Net tax (assets)/liabilities	(950)	(1,133)	1,686	1,641	736	508

The Company <i>In thousands of AUD</i>	Assets		Liabilities		Net	
	2006	2005	2006	2005	2006	2005
Property, plant and equipment	-	-	1,564	1,550	1,564	1,550
Biological assets	-	-	87	85	87	85
Employee benefits	(487)	(430)	-	-	(487)	(430)
Provisions	(14)	(112)	-	-	(14)	(112)
Other items	(449)	(591)	35	6	(414)	(585)
Net tax (assets)/liabilities	(950)	(1,133)	1,686	1,641	736	508

Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following item:

<i>In thousands of AUD</i>	Consolidated		The Company	
	2006	2005	2006	2005
Capital loss	8	8	8	8
Overseas subsidiary tax loss	134	-	-	-
	142	8	8	8

The deductible capital loss does not expire under current tax legislation. A deferred tax asset has not been recognised in respect of this item as it is dependent upon the ability to offset against future capital gains.

The overseas subsidiary sustained a tax loss of \$134,000 for the year ended 30 June 2006. A deferred tax asset has not been recognised as it is not probable that future taxable profit will be available to utilise the tax loss.

18 PROPERTY, PLANT AND EQUIPMENT

<i>In thousands of AUD</i>	<i>Note</i>	Freehold Land & Improvement	Buildings	Plant & Equipment	Capital Works in Progress	Total
Cost						
Consolidated						
Balance at 1 July 2004		3,012	7,558	27,471	129	38,170
Acquisitions		-	19	120	2,706	2,845
Transfer of capital works		-	276	2,405	(2,681)	-
Disposals		-	-	(85)	-	(85)
Balance at 30 June 2005		3,012	7,853	29,911	154	40,930
Cost						
Consolidated						
Balance at 1 July 2005		3,012	7,853	29,911	154	40,930
Acquisitions		-	-	405	2,499	2,904
Transfer of capital works		-	157	2,210	(2,367)	-
Disposals		-	-	(527)	-	(527)
Balance at 30 June 2006		3,012	8,010	31,999	286	43,307
Cost						
The Company						
Balance at 1 July 2004		3,012	7,558	27,432	129	38,131
Acquisitions		-	19	90	2,706	2,815
Transfer of capital works		-	276	2,405	(2,681)	-
Disposals		-	-	(85)	-	(85)
Balance at 30 June 2005		3,012	7,853	29,842	154	40,861
Cost						
The Company						
Balance at 1 July 2005		3,012	7,853	29,842	154	40,861
Acquisitions		-	-	347	2,499	2,846
Transfer of capital works		-	157	2,210	(2,367)	-
Disposals		-	-	(527)	-	(527)
Balance at 30 June 2006		3,012	8,010	31,872	286	43,180
Depreciation and impairment losses						
Consolidated						
Balance at 1 July 2004		31	788	8,348	-	9,167
Depreciation charge for the year		1	168	1,613	-	1,782
Disposals		-	-	(81)	-	(81)
Balance at 30 June 2005		32	956	9,880	-	10,868
Depreciation and impairment losses						
Consolidated						
Balance at 1 July 2005		32	956	9,880	-	10,868
Depreciation charge for the year		1	175	1,762	-	1,938
Disposals		-	-	(521)	-	(521)
Balance at 30 June 2006		33	1,131	11,121	-	12,285

18 PROPERTY, PLANT AND EQUIPMENT CONTINUED

<i>In thousands of AUD</i>	<i>Note</i>	Freehold Land & Improvement	Buildings	Plant & Equipment	Capital Works in Progress	Total
Depreciation and impairment losses						
The Company						
Balance at 1 July 2004		31	788	8,322	-	9,141
Depreciation charge for the year		1	168	1,598	-	1,767
Disposals		-	-	(81)	-	(81)
Balance at 30 June 2005		32	956	9,839	-	10,827
Depreciation and impairment losses						
The Company						
Balance at 1 July 2005		32	956	9,839	-	10,827
Depreciation charge for the year		1	175	1,728	-	1,904
Disposals				(521)	-	(521)
Balance at 30 June 2006		33	1,131	11,046	-	12,210
Carrying amounts						
Consolidated						
At 1 July 2004		2,981	6,770	19,123	129	29,003
At 30 June 2005		2,980	6,897	20,031	154	30,062
At 1 July 2005		2,980	6,897	20,031	154	30,062
At 30 June 2006		2,979	6,879	20,878	286	31,022
The Company						
At 1 July 2004		2,981	6,770	19,110	129	28,990
At 30 June 2005		2,980	6,897	20,003	154	30,034
At 1 July 2005		2,980	6,897	20,003	154	30,034
At 30 June 2006		2,979	6,879	20,826	286	30,970

Security

The bank holds a first ranking mortgage debenture charge over all the assets and undertakings of the consolidated entity.

Contractual commitments for the acquisition of property, plant and equipment

At 30 June 2006 the Company has commitments for plant and equipment of \$88,000 (2005: \$120,000).

19 INTANGIBLE ASSETS

<i>In thousands of AUD</i>	<i>Note</i>	Consolidated		The Company	
Cost					
Balance at 1 July 2004		151		151	
Acquisitions		76		64	
Disposals		-		-	
Balance at 30 June 2005		227		215	
Balance at 1 July 2005		227		215	
Acquisitions		59		41	
Disposals		(22)		(22)	
Balance at 30 June 2006		264		234	
Amortisation and impairment losses					
Balance at 1 July 2004		90		90	
Amortisation charge for the year		54		51	
Disposals		-		-	
Balance at 30 June 2005		144		141	
Amortisation and impairment losses					
Balance at 1 July 2005		144		141	
Amortisation charge for the year		75		68	
Disposals		(23)		(23)	
Balance at 30 June 2006		196		186	
Carrying amounts					
At 1 July 2004		61		61	
At 30 June 2005		83		74	
At 1 July 2005		83		74	
At 30 June 2006		68		48	

The consolidated entity uses computer software in its operations and for financial reporting purposes. The software licences are capitalised and amortised over their expected useful lives.

20 TRADE AND OTHER PAYABLES

<i>In thousands of AUD</i>	<i>Note</i>	Consolidated		The Company	
		2006	2005	2006	2005
Trade payables and accrued expenses		8,128	11,002	7,145	9,552
Fair value derivatives		5	69	5	69
Accrued expenses due to ultimate parent entity		506	470	506	470
Accrued expenses owing to controlled entities		-	-	497	3,282
Accrued expenses due to commonly controlled entities		128	92	57	41
		8,767	11,633	8,210	13,414

21 INTEREST-BEARING LOANS AND BORROWINGS

This note provides information about the contractual terms of the consolidated entity's interest-bearing borrowings. For more information about the consolidated entity's exposure to interest rate and foreign currency risk, see note 24.

<i>In thousands of AUD</i>	<i>Note</i>	Consolidated		The Company	
		2006	2005	2006	2005
Current liabilities					
Bank bills		4,176	4,000	4,176	4,000
Non-current liabilities					
Bank bills		27,701	31,425	27,701	31,425
Financing facilities					
Multi option facility		7,000	5,000	7,000	5,000
Bank loans/leases		550	550	550	550
Bill acceptance facility		31,700	31,700	31,700	31,700
		39,250	37,250	39,250	37,250
Facilities utilised at reporting date					
Multi option facility		4,176	4,000	4,176	4,000
Bank loans/leases		-	-	-	-
Bill acceptance facility		27,701	31,425	27,701	31,425
		31,877	35,425	31,877	35,425
Facilities not utilised at reporting date					
Multi option facility		2,824	1,000	2,824	1,000
Bank loans/leases		550	550	550	550
Bill acceptance facility		3,999	275	3,999	275
		7,373	1,825	7,373	1,825

Financing arrangements

Multi Option Facility

The \$7,000,000 line incorporates an overdraft and commercial bill facility. The facility is subject to annual review. Interest is charged at prevailing market rates. The weighted average overdraft interest rate as at 30 June 2006 was 9.95% (2005: 9.95%).

Bill Acceptance Facility and Bank Leases

The facility is reviewed annually and is on a rolling two year term.

The Company and consolidated entity has entered into interest rate swaps for \$12,900,000 with a weighted average interest rate at 30 June 2006 of 5.84% (2005: 5.71%). The weighted average interest rate for the other bills subject to prevailing market rates at 30 June 2006 was 5.95% (2005: 5.73%). The resultant rate when the effect of the interest rate swaps is incorporated into the total weighted average interest rate as at 30 June 2006 was 5.85% (2005: 5.74%), for the Company and consolidated entity.

The current lease facility was unused at 30 June 2006 (2005: nil).

Security

Registered first ranking mortgage debenture over all the assets and undertakings of Peter Lehmann Wines Limited up to \$41,650,000 (2005: \$37,250,000).

In addition, the Company and its controlled entities are parties to a Deed of Cross Guarantee under which each company guarantees the debts of the others.

22 EMPLOYEE BENEFITS

<i>In thousands of AUD</i>	<i>Note</i>	Consolidated		The Company	
		2006	2005	2006	2005
Current					
Liability for annual leave		625	488	625	488
Liability for long service leave		930	848	930	848
		1,555	1,336	1,555	1,336
Non Current					
Liability for long service leave		70	99	70	99
Total employee benefits		1,625	1,435	1,625	1,435

23 CAPITAL AND RESERVES

Reconciliation of movement in capital and reserves attributable to equity holders of the parent

Consolidated

<i>In thousands of AUD</i>	<i>Note</i>	Share capital	Translation reserve	Retained earnings	Total equity
Balance at 1 July 2004		30,624	99	20,857	51,580
Total recognised income and expense		-	(130)	6,317	6,187
Dividends to shareholders		-	-	(2,088)	(2,088)
Balance at 30 June 2005		30,624	(31)	25,086	55,679
Balance at 1 July 2005		30,624	(31)	25,086	55,679
Total recognised income and expense		-	28	5,748	5,776
Dividends to shareholders		-	-	(3,531)	(3,531)
Balance at 30 June 2006		30,624	(3)	27,303	57,924

The Company

<i>In thousands of AUD</i>	<i>Note</i>	Share capital	Translation reserve	Retained earnings	Total equity
Balance at 1 July 2004		30,624	-	15,518	46,142
Total recognised income and expense		-	-	5,759	5,759
Dividends to shareholders		-	-	(2,088)	(2,088)
Balance at 30 June 2005		30,624	-	19,189	49,813
Balance at 1 July 2005		30,624	-	19,189	49,813
Total recognised income and expense		-	-	9,021	9,021
Dividends to shareholders		-	-	(3,531)	(3,531)
Balance at 30 June 2006		30,624	-	24,679	55,303

Share capital

<i>In thousands of shares</i>	The Company	
	2006	2005
Ordinary shares on issue at 30 June – fully paid	37,969	37,969

Effective 1 July 1998, the Company Law Review Act abolished the concept of par value shares and the concept of authorised capital. Accordingly, the Company does not have authorised capital or par value in respect of its issued shares.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

23 CAPITAL AND RESERVES continued

Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of the foreign operation where its functional currency is different to the presentation currency of the reporting entity.

Dividends

Dividends recognised in the current year by the Company are:

<i>In thousands of AUD</i>	Cents per Share	Total amount	Franked/unfranked	Date of payment
2006	9.3	3,531	Franked	8 November 2005
2005	5.5	2,088	Franked	8 November 2004

Franked dividends paid during the year were franked at the tax rate of 30%.

After the balance sheet date the following dividends were proposed by the directors. The dividends have not been provided. The declaration and subsequent payment of dividends has no income tax consequences.

<i>In thousands of AUD</i>	Cents per Share	Total amount	Franked/unfranked	Date of payment
2007	8.3	3,151	Franked	8 November 2006

The financial effect of these dividends has not been brought to account in the financial statements for the financial year ended 30 June 2006 and will be recognised in subsequent financial reports.

Dividends

<i>In thousands of AUD</i>	The Company	
	2006	2005
30 per cent franking credits available to shareholders of Peter Lehmann Wines Limited for subsequent financial years.	11,792	10,272

The above available amounts are based on the balance of the dividend franking account at year-end adjusted for franking credits that will arise from the payment of current tax liabilities.

The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends. The impact on the dividend franking account of dividends proposed after the balance sheet date but not recognised as a liability is to reduce it by \$1,351,000 (2005: \$1,513,000). In accordance with the tax consolidation legislation, the Company as the head entity in the tax-consolidated group has also assumed the benefit of \$280,000 (2005: \$157,000) franking credits.

24 FINANCIAL INSTRUMENTS

Exposure to credit, interest rate and currency risks arises in the normal course of the Company's and the consolidated entity's business. Derivative financial instruments are used to hedge exposure in fluctuations in foreign exchange rates and interest rates.

Credit risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. The consolidated entity does not require collateral in respect of financial assets.

Concentration of credit risk on trade receivables exists in respect of the Company. As at 30 June 2006, 72% (2005: 72%) of the Company's trade receivables (excluding controlled and associated entities) was owed by 6 customers (2005: 5).

The consolidated entity does trade with some large Australian wineries and UK retailers that represent material exposure. However the long term associations and close trading relationships provide an acceptable level of comfort.

The Company takes out trade credit insurance on certain overseas debts to reduce its risk.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the balance sheet.

Interest rate risk

The Company and consolidated entity adopts a policy of ensuring that up to 50 percent of its exposure to changes in interest rates on borrowings is on a fixed rate basis. Interest rate swaps, denominated in Australian dollars, have been entered into to achieve an appropriate mix of fixed and floating rate exposure in accordance with the consolidated entity's policy. The swaps mature over the next 3 years and the fixed rate swap rates range between 5.62% to 6.07%. At 30 June 2006, the Company and consolidated entity had interest rate swaps with a notional contract amount of \$12,900,000 (30 June 2005: \$12,900,000).

The Company and consolidated entity classifies interest rate swaps as derivatives held for trading and states them at fair value. The fair value of swaps at 1 July 2004 was adjusted against the opening balance of retained earnings at that date.

The net fair value of swaps for both the Company and consolidated entity at 30 June 2006 was \$54,000 (30 June 2005: \$56,000) comprising assets of \$59,000 (30 June 2005: \$13,000) and liabilities of \$5,000 (30 June 2005: \$69,000). These amounts were recognised as fair value derivatives.

Foreign currency risk

The Company and consolidated entity is exposed to foreign currency risk on sales and purchases that are denominated in a currency other than Australian dollars. The currencies giving rise to the risk are: British Pounds, Euro, US Dollars and Canadian Dollars.

The Company and consolidated entity may use forward exchange contracts to minimise the foreign currency risk arising from trade sale transactions. The forward exchange contracts have maturities of less than one year after the balance sheet date.

In respect of other monetary assets held in currencies other than Australian dollars, the consolidated entity ensures that the net exposure is kept to an acceptable level, by selling foreign currencies at spot rates where necessary to address short-term imbalances.

Recognised assets and liabilities

Changes in the fair value of forward exchange contracts that economically hedge monetary assets and liabilities in foreign currencies and for which no hedge accounting is applied are recognised in the income statement. Both the changes in fair value of the forward contracts and the foreign exchange gains and losses relating to the monetary items are recognised as part of "net financing costs" (see note 9).

Derivatives

All derivatives are recognised at their fair value at reporting date. Forward exchange contracts are marked to market either using listed market prices. For interest rate swaps broker quotes are used.

Receivables and Payables

Receivables and payables have a remaining life of less than one year and the notional amount is deemed to reflect the fair value. All other receivables and payables are discounted to determine their fair value.

Interest-bearing loans and borrowings

Fair value is calculated based on discounted expected future principal and interest cash flows.

25 OPERATING LEASES

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

<i>In thousands of AUD</i>	Consolidated		The Company	
	2006	2005	2006	2005
Less than one year	526	555	484	512
Between one and five years	578	871	536	851
More than five years	-	-	-	-
	1,104	1,426	1,020	1,363

The consolidated entity leases motor vehicles and computer equipment under operating leases. The leases typically run for a period of three years. Lease payments remain constant throughout the term of the lease.

The Company leases the Cellar Door facility with a five year lease term, with an option to renew the lease after date. Lease payments are increased annually in line with the consumer price index.

The consolidated entity has a lease agreement for the office in Kent until 31 December 2008 with a right to sublease. The lease payments remain constant throughout the lease.

During the financial year ended 30 June 2006, \$558,000 was recognised as an expense in the income statement in respect of operating leases (2005: \$555,000).

26 CAPITAL AND OTHER COMMITMENTS

<i>In thousands of AUD</i>	Consolidated		The Company	
	2006	2005	2006	2005
Capital expenditure commitments				
<i>Plant and equipment</i>	88	120	88	120

27 CONTINGENCIES

The directors are of the opinion that provisions are not required in respect of these matters, as it is not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.

Deed of Cross Guarantee

Under the terms of the Deed of Cross guarantee the Company has guaranteed the debts of subsidiaries. No deficiencies in net assets for these subsidiaries existed at reporting date.

Environment

The Company is involved in an industry which has the potential to impose environmental risks through chemical storage and handling and winery wastewater. Strict controls are in place to ensure that chemicals are stored and handled carefully, hazardous by-products are disposed of safely and winery wastewater is managed in accordance with the South Australian Environment Protection Act. However, the Company's operations are subject to rapidly changing environmental legislation.

Litigation

The directors are aware of potential legal action being taken by a third party regarding the terms of a contract. The action and possible cost are not covered by the Company's insurance cover. The quantum of the action is estimated at \$46,000, (2005: Nil). In the directors' opinion, disclosure of any further information about the matter would be prejudicial to the interests of the Company.

28 DEED OF CROSS GUARANTEE

Pursuant to ASIC class Order 98/1418 (as amended) dated 13 August 1998, the wholly-owned subsidiary Austral Wines Pty Ltd is relieved from the *Corporations Act 2001* requirements for preparation, audit and lodgement of financial reports, and directors' report.

It is a condition of the Class Order that the Company and each of the subsidiaries enter into a Deed of Cross Guarantee. The effect of the Deed is that the Company guarantees to each creditor payment in full of any debt in the event of winding up of any of the subsidiaries under certain provisions of the *Corporations Act 2001*. If a winding up occurs under other provisions of the Act, the Company will only be liable in the event that after six months any creditor has not been paid in full. The subsidiaries have also given similar guarantees in the event that the Company is wound up. The subsidiaries subject to the Deed are:

- Austral Wines Pty Ltd
- Peter Lehmann Wines (UK) Ltd (formerly Peter Lehmann Wines (Europe) Ltd)

The closed group of entities subject to the Deed of Cross Guarantee is the same as the consolidated group.

29 CONSOLIDATED ENTITIES

	Country of incorporation	Ownership interest	
		2006	2005
Ultimate parent entity			
Hess Group AG	Switzerland	100%	100%
Immediate parent entity			
Hess Group Australia Pty Ltd	Australia	85.67%	85.67%
Parent entity of the consolidated entities			
Peter Lehmann Wines Limited	Australia		
Subsidiaries			
Austral Wines Pty Ltd	Australia	100%	100%
Peter Lehmann Wines (UK) Ltd	United Kingdom	100%	100%

30 RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

<i>In thousands AUD</i>	<i>Note</i>	Consolidated		The Company	
		2006	2005	2006	2005
Cash flows from operating activities					
Operating profit after income tax		5,748	6,434	9,022	5,876
Add/(less) items classified as investing/financing activities:					
(Profit)/loss on sale of non-current assets		(32)	3	(32)	3
Add/(less) non-cash items:					
Amounts set aside to provisions		315	383	315	383
Depreciation and amortisation expense		192	129	151	111
Decrease/(increase) in fair value of derivatives		(109)	(36)	(109)	(36)
SGARA (income)/loss capitalised to vines		82	(88)	82	(88)
(Decrease)/increase in income taxes payable		(64)	(164)	(64)	(164)
Net cash provided by operating activities before change in assets and liabilities		6,132	6,661	9,365	6,085
Change in assets and liabilities during the financial year:					
(Increase)/decrease in inventories		3,643	(1,064)	3,699	(990)
(Increase)/decrease in prepayments and other debtors		113	(231)	(712)	(348)
(Increase)/decrease in trade debtors		2,149	(929)	1,283	79
(Increase)/decrease in loans to related entities		1,032	665	(1,837)	671
(Decrease)/increase in trade creditors		(3,500)	(1,341)	(2,407)	(2,023)
(Decrease)/increase in provisions		(246)	(252)	(246)	(252)
(Decrease)/increase in deferred taxes payable		227	167	227	167
Net cash provided by operating activities		9,550	3,676	9,372	3,389

31 KEY MANAGEMENT PERSONNEL DISCLOSURES

The following were key management personnel of the consolidated entity at any time during the reporting period and unless otherwise indicated were key management personnel for the entire period.

Non-executive directors

M Lienhard (Chairman)
P A Young (Deputy Chairman)
R M Wilson
K E Carey

Executive directors

D McC Lehmann (Managing Director)
R V Edwards (Marketing Director)

Executives

A D Wigan (Chief Winemaker)
B K Clapton (Chief Financial Officer)
W I Whigham (Managing Director, Peter Lehmann Wines (UK) Ltd)
H T Astrom (Vice President – European Brand Development)
T M Brown (Operations Manager)

The key management personnel compensation included in 'personnel expenses' (see note 5) are as follows:

<i>In thousands AUD</i>	Note	Consolidated		The Company	
		2006	2005	2006	2005
Short-term employee benefits		1,954	1,846	1,675	1,536
Post employment benefits		164	153	138	129
		2,118	1,999	1,813	1,665

Individual directors and executives compensation disclosures

		Short-term			Post Employment	Total	Proportion of remuneration performance related
		Salary & Fees	Increment in Annual & Long Service Leave Entitlements	Non-Monetary Benefits	Super-annuation Contributions		
		\$	\$	\$	\$	\$	%
Directors							
Non-executive							
Dr M Lienhard	2006	70,000	-	-	-	70,000	-
Chairman	2005	70,000	-	-	-	70,000	-
P A Young	2006	39,000	-	3,393	3,900	46,293	-
Deputy Chairman	2005	39,000	-	3,175	3,510	45,685	-
R M Wilson	2006	39,000	-	4,070	3,900	46,970	-
	2005	39,000	-	4,075	3,510	46,585	-
Kay Carey	2006	34,000	-	1,531	3,400	38,931	-
Appointed 12 Dec 2004	2005	18,419	-	1,000	1,658	21,077	-
Executive							
D Mc Lehmann	2006	207,366	3,230	74,117	31,105	315,818	-
Managing Director	2005	197,491	21,277	72,795	29,624	321,187	-
R V Edwards	2006	197,174	19,146	51,450	29,576	297,346	-
Marketing Director	2005	187,785	14,074	51,751	28,168	281,778	-

31 KEY MANAGEMENT PERSONNEL DISCLOSURES continued

		Short-term			Post Employment	Total	
		Salary & Fees	Increment in Annual & Long Service Leave Entitlements	Non-Monetary Benefits	Super-annuation Contributions		Proportion of remuneration performance related
		\$	\$	\$	\$	\$	%
Executives							
<i>The Company</i>							
H T Astrom ⁽¹⁾	2006	248,469	55,023	87,231	24,835	415,558	-
VP - EU & USA Brand Development	2005	232,141	-	83,035	23,214	338,390	-
T M Brown	2006	99,225	6,041	29,338	9,923	144,527	-
Operations Manager	2005	94,500	788	28,586	9,450	133,324	-
B K Clapton	2006	145,230	15,729	40,052	14,523	215,534	-
CFO & Company Secretary	2005	138,314	7,928	32,827	13,831	192,900	-
A D Wigan	2006	170,955	(718)	35,465	17,096	222,798	-
Chief Winemaker	2005	162,814	4,791	31,192	16,281	215,078	-
<i>Controlled entity</i>							
W I Whigham ⁽¹⁾	2006	256,688	-	22,127	25,669	304,484	-
Managing Director	2005	275,718	-	33,983	23,415	333,116	-
Peter Lehmann Wines (UK) Ltd							
Total compensation: key management personnel (Consolidated)	2006	1,507,107	98,451	348,774	163,927	2,118,259	
	2005	1,455,182	48,858	342,419	152,661	1,999,120	
Total compensation: key management personnel (Company)	2006	1,250,419	98,451	326,647	138,257	1,813,775	
	2005	1,179,464	48,858	308,436	129,246	1,666,004	

⁽¹⁾ Salary packages of the EU and UK executives have been converted to Australian dollars at the balance date exchange rates.

Key management personnel contracts with the Company or its controlled entities

No director has entered into a material contract with the Company or the consolidated entity since the end of the previous financial year and there were no material contracts involving directors' interests existing at year-end.

Other key management personnel transactions with the Company or its controlled entities

From time to time directors and executives of the Company and its controlled entities, purchase wine from the consolidated entity. These purchases are on the same terms and conditions as those entered into by employees.

31 KEY MANAGEMENT PERSONNEL DISCLOSURES continued

Equity holdings and transactions

The movement during the reporting period in the number of ordinary shares of Peter Lehmann Wines Limited held, directly, indirectly or beneficially, by each specified director and specified executive, including their personally-related entities as follows:

	Held at 1 July 2005	Purchases	Sales	Held at 30 June 2006 Direct
Director				
M Lienhard	-	-	-	-
P A Young	-	-	-	-
R M Wilson	35,000	-	-	35,000
K E Carey	-	-	-	-
D Mc Lehmann	-	-	-	-
R V Edwards	-	-	-	-
	Held at 1 July 2005	Purchases	Sales	Held at 30 June 2006 Direct
Executive				
H T Astrom	-	-	-	-
T M Brown	-	-	-	-
B K Clapton	-	-	-	-
W I Whigham	-	-	-	-
A D Wigan	10,000	-	-	10,000

32 NON-KEY MANAGEMENT PERSONNEL DISCLOSURES

The consolidated entity has a related party relationship with the ultimate parent entity and its subsidiaries (see note 29) and with its key management personnel (see note 31).

Other related party transactions

Ultimate parent entity

Hess Group AG provides trade mark and know how expertise in the normal course of business and on normal terms and conditions. A licence fee is payable for the use of the trade mark.

Wholly-owned controlled entities

The Company sells wine to Peter Lehmann Wines (UK) Ltd (formerly Peter Lehmann Wines (Europe) Ltd) for distribution in the UK market. The Company also sells wine to Austral Wines Pty Ltd for sale to customers who distribute the wine under their own label. The financial effect of these transactions has been eliminated on consolidation.

Peter Lehmann Wines (UK) Ltd distributes wines for other members of the controlling entity's group in the UK in the normal course of business and on normal terms and conditions. The other entities are Hess Collection Wines, Glen Carlou Wines and Bodega Colomé.

Commonly Controlled Entities

The Company sells wine to Hess Collection Wines, an entity also controlled by Hess Group AG, for distribution in the USA in the normal course of business and on normal terms and conditions.

The Company provides representation services for Hess Collection Wines, Glen Carlou Wines and Bodega Colomé in Europe. Service fees are earned on a usage basis from Hess Collection Wines, Glen Carlou and Bodega Colomé. Services are provided in the normal course of business and the fees charged are on normal terms and conditions.

Hess AG, a subsidiary of the controlling entity, provides administrative support and this is charged to the Company on normal terms and conditions.

The aggregate amounts included in the profit before income tax expense that resulted from transactions with other related parties are:

<i>In thousands of AUD</i>	Consolidated		The Company	
	2006	2005	2006	2005
Revenue from sale of goods – wholly-owned controlled entities	-	-	8,719	11,665
Revenue from sale of goods – commonly controlled entity	4,975	4,717	4,349	4,717
Revenue from service fees – commonly controlled entities	292	292	292	292
Licence fee paid – controlling entity	506	471	506	471
Service fee paid – commonly controlled entity	291	218	291	218
Dividend from wholly owned subsidiary	-	-	3,500	-

Amounts owing to or by other related parties are:

<i>In thousands of AUD</i>	Consolidated		The Company	
	2006	2005	2006	2005
Receivables – Current				
Controlling entity	5	1	5	1
Wholly owned controlled entities	-	-	1,597	2,079
Commonly controlled entities	500	900	483	900
	505	901	2,085	2,980
Payables – Current				
Ultimate parent entity	506	470	506	470
Wholly-owned controlled entities	-	-	497	3,282
Commonly controlled entities	128	92	57	41
	634	562	1,060	3,793

33 SUBSEQUENT EVENTS

There have been no events subsequent to balance date which would have a material effect on the consolidated entity's financial statements at 30 June 2006.

34 EXPLANATION OF TRANSITION TO AIFRSs
Reconciliation of equity

		Consolidated						The Company					
		Previous GAAP	Effect of transition to AIFRSs	AIFRSs	Previous GAAP	Effect of transition to AIFRSs	AIFRSs	Previous GAAP	Effect of transition to AIFRSs	AIFRSs	Previous GAAP	Effect of transition to AIFRSs	AIFRSs
		1 July 2004			30 June 2005			1 July 2004			30 June 2005		
<i>In thousands of AUD</i>	<i>Note</i>												
Assets													
Cash and cash equivalents		1,377		1,377	1,545		1,545	809		809	732		732
Trade and other receivables	a,f,d	15,833	142	15,975	16,812	(58)	16,754	13,596	142	13,738	13,696	(58)	13,638
Inventories	e	34,221	19,370	53,591	42,287	14,023	56,310	34,096	19,370	53,466	42,087	14,023	56,110
Income tax receivables		17	-	17	-		-	-	-	-	-		-
Total current assets		51,448	19,512	70,960	60,644	13,965	74,609	48,501	19,512	68,013	56,515	13,965	70,480
Inventories	e	19,370	(19,370)	-	14,023	(14,023)	-	19,370	(19,370)	-	14,023	(14,023)	-
Other investments		15		15	15		15	96	-	96	96		96
Deferred tax assets	c	1,241	(1,241)	-	1,133	(1,133)	-	1,241	(1,241)	-	1,133	(1,133)	-
Property, plant and equipment	b	29,066	(61)	29,005	30,145	(83)	30,062	29,053	(61)	28,992	30,108	(74)	30,034
Biological assets		486		486	575		575	486		486	575		575
Intangible assets	b	-	61	61	-	83	83	-	61	61	-	74	74
Total non-current assets		50,178	(20,611)	29,567	45,891	(15,156)	30,735	50,246	(20,611)	29,635	45,935	(15,156)	30,779
Total assets		101,626	(1,099)	100,527	106,535	(1,191)	105,344	98,747	(1,099)	97,648	102,450	(1,191)	101,259

34 EXPLANATION OF TRANSITION TO AIFRSs (continued)
Reconciliation of equity (continued)

		Consolidated						The Company					
		Previous GAAP	Effect of transition to AIFRSs	AIFRSs	Previous GAAP	Effect of transition to AIFRSs	AIFRSs	Previous GAAP	Effect of transition to AIFRSs	AIFRSs	Previous GAAP	Effect of transition to AIFRSs	AIFRSs
		1 July 2004			30 June 2005			1 July 2004			30 June 2005		
<i>In thousands of AUD</i>	<i>Note</i>												
Liabilities													
Trade and other payables	f	12,398	60	12,458	11,565	69	11,633	14,957	60	15,017	13,346	69	13,414
Interest-bearing loans and borrowings	d	4,000		4,000	4,000		4,000	4,000		4,000	4,000		4,000
Employee benefits	e	1,246		1,246	1,336		1,336	1,246		1,246	1,336		1,336
Income tax payable		828		828	664		664	828		828	664		664
Total current liabilities		18,472	60	18,532	17,565	69	17,633	21,031	60	21,091	19,346	69	19,414
Interest-bearing loans and borrowings	d	30,200	(234)	29,966	31,700	(275)	31,425	30,200	(234)	29,966	31,700	(275)	31,425
Deferred tax liabilities	c	1,315	(924)	391	1,374	(866)	508	1,315	(924)	391	1,374	(866)	508
Employee benefit		58		58	99		99	58		58	99		99
Total non-current liabilities		31,573	(1,158)	30,415	33,173	(1,141)	32,032	31,573	(1,158)	30,415	33,173	(1,141)	32,032
Total liabilities		50,045	(1,098)	48,947	50,738	(1,073)	49,665	52,604	(1,098)	51,506	52,519	(1,073)	51,446
Net assets		51,581	(1)	51,580	55,797	(118)	55,679	46,143	(1)	46,142	49,931	(118)	49,813
Equity													
Issued capital		30,624		30,624	30,624		30,624	30,624		30,624	30,624		30,624
Reserves		99		99	(31)		(31)	-		-	-		-
Retained earnings	a,f,g	20,858	(1)	20,857	25,204	(118)	25,086	15,519	(1)	15,518	19,307	(118)	19,189
Total equity		51,581	(1)	51,580	55,797	(118)	55,679	46,143	(1)	46,142	49,931	(118)	49,813

34 EXPLANATION OF TRANSITION TO AIFRSs (continued)
Reconciliation of equity (continued)

Reconciliation of profit for 2005

	<i>Note</i>	Consolidated			The Company		
		Previous GAAP	Effect of transition to AIFRSs	AIFRSs	Previous GAAP	Effect of transition to AIFRSs	AIFRSs
<i>In thousands of AUD</i>		30 June 2005			30 June 2005		
Revenue		55,543		55,543	51,263		51,263
Cost of sales		(31,696)		(31,696)	(29,859)		(21,859)
Gross profit		23,847		23,847	21,404		21,404
Operating income		161		161	161		161
Selling and distribution expenses		(8,268)		(8,268)	(7,185)		(7,185)
Administrative expenses	(a)	(2,537)	(132)	(2,669)	(2,143)	(132)	(2,275)
Other operating expenses		(2,231)		(2,231)	(1,974)		(1,974)
Results from operating activities		10,972	(132)	10,840	10,263	(132)	10,131
Financial income		93	22	115	66	22	88
Financial expenses		(1,952)	(57)	(2,009)	(1,952)	(57)	(2,009)
Net financing costs	(f)	(1,859)	(35)	(1,894)	(1,886)	(35)	(1,921)
Profit before tax		9,113	(167)	8,946	8,377	(167)	8,210
Income tax expense		(2,679)	50	(2,629)	(2,501)	50	(2,451)
Profit after tax		6,434	(117)	6,317	5,876	(117)	5,759

34 EXPLANATION OF TRANSITION TO AIFRSs continued

As stated in significant accounting policies note 1(a), these are the consolidated entity's first consolidated financial statements prepared in accordance with AIFRSs.

The policies set out in the significant accounting policies section of this report have been applied in preparing the financial statements for the financial year ended 30 June 2006, the comparative information presented in these financial statements for the financial year ended 30 June 2005 and in the preparation of an opening AIFRS balance sheet at 1 July 2004 (the consolidated entity's date of transition).

In preparing its opening AIFRS balance sheet, the consolidated entity has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (previous Generally accepted Accounting Principles (GAAP)). An explanation of how the transition from previous GAAP to AIFRSs has affected the consolidated entity's financial position, financial performance and cash flows is set out in the tables and notes that accompany the tables.

Translation differences that arose prior to the date of transition to AIFRSs in respect of the foreign entity have been presented as a separate component of equity. On disposal of the foreign operation, the relative cumulative translation difference will be transferred to the income statement as part of the gain or loss on disposal. The exemption available under AIFRS has not been utilised.

Notes to the reconciliation of equity

(a) Trade Receivables

Under AIFRS's receivables are carried at amortised cost with impairment only being recognised where there is objective evidence. Any impaired receivables are measured at the present value of their estimated future cash flows to the consolidated entity. Under previous GAAP receivables were carried at their estimated recoverable amount.

The effect of recognising receivables in accordance with AIFRS has resulted in a reduction of the provision for doubtful debts account at 1 July 2004 of \$336,000 and increasing retained earnings by \$235,200 (\$336,000 less related deferred tax of \$100,800). In the year ended 30 June 2005 the provision for doubtful debts was \$132,000 resulting in a charge to profit of \$92,400 (\$132,000 less related deferred tax expense of \$39,600).

(b) Intangibles

In accordance with AIFRS's items of computer software are reported as intangible assets where they are separable from computer hardware. Under previous GAAP these items were classified as property, plant and equipment. The consolidated entity has not changed the rate of amortisation on these assets. As a result of the reclassification on 1 July 2004 \$61,000 was reclassified from property, plant and equipment to intangible assets (30 June 2005: \$83,000).

(c) Deferred Tax Assets and Liabilities

Upon transition to AIFRS's an assessment of the consolidated entities asset and liability tax bases was undertaken to comply with the new balance sheet approach. The deferred tax liability was increased by \$223,000 at 1 July 2004 and 30 June 2005.

In accordance with AIFRS's deferred taxation assets are able to be off-set where the deferred tax balances relate to taxation levied by the same taxation authority. Under previous Australian GAAP deferred tax balances were required to be reported separately. This has resulted in the reclassification of \$1,241,000 of deferred tax assets to deferred tax liability at 1 July 2004 and \$1,133,000 at 30 June 2005.

(d) Interest Bearing Loans

In accordance with AIFRS's interest bearing loans are recorded at their fair value. Under previous Australian GAAP the consolidated entity reported the interest bearing loans gross of the related prepaid interest which was amortised over the period of the loan. In stating the loans at fair value, prepaid interest is off-set against the face value of the loan to represent fair value. This results in a reclassification of \$234,000 of prepaid interest to Interest Bearing Liabilities at 1 July 2004 and \$275,000 at 30 June 2005.

(e) Inventory

In accordance with AIFRS's the consolidated entity has classified all inventory as current, being part of a readily identifiable operating cycle and hold for sale at reporting date for the consolidated entity. Under previous Australian GAAP, inventory expected to be realised within 12 months of reporting date was classified as current. As a result of this change, the consolidated entity has reclassified \$19,370,000 of inventory to current at 1 July 2004 and \$14,023,000 at 30 June 2005.

(f) Derivative Instruments

In accordance with AASB's, all derivative financial instruments have been recognised at their fair value at reporting date. Under previous GAAP, all derivatives were recognised at cost. The effect of measuring derivatives at fair value at 1 July 2004 has decreased the *Fair Value of Derivatives* by \$19,100 within bot other receivables and other payables; and decreased Retained Earnings by \$13,400 (\$19,100 less related deferred tax of \$5,700). Subsequent to the initial recognition of derivatives at fair value, the measurement of the movement in derivatives is recorded within the periods profit as a Net Financing Cost. For the year ended 30 June 2005 the impact was to increase net profit by \$25,300 (\$36,200 less related tax expense of \$10,900).

(g) An analysis of impact on opening retained earnings at 1 July 2004 of the both the Company and consolidated entity

<i>In thousands of AUD</i>	<i>Note</i>	Consolidated	The Company
Australian GAAP retained earnings		20,858	15,519
Reverse receivable provision	a	235	235
Deferred tax	c	(223)	(223)
Derivatives	f	(13)	(13)
AIFRS retained earnings		20,857	15,518

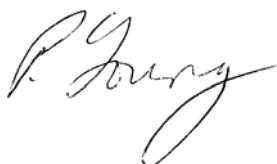
DIRECTORS' DECLARATION

1. In the opinion of the directors of Peter Lehmann Wines Limited ("the Company"):
 - (a) the financial statements and notes set out on pages 13 to 52, are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the financial position of the Company and consolidated entity as at 30 June 2006 and of their performance, as represented by the results of their operations and their cash flows, for the financial year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and
 - (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

2. There are reasonable grounds to believe that the Company and the controlled entities identified in Note 28 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and those controlled entities pursuant to ASIC Class Order 98/1418.

Dated at Tanunda this 15th day of September 2006

Signed in accordance with a resolution of the Directors:



P A Young (Deputy Chairman)



D McC Lehmann (Managing Director)



INDEPENDENT AUDIT REPORT TO THE MEMBERS OF PETER LEHMANN WINES LIMITED

Scope

We have audited the financial report of Peter Lehmann Wines Limited ("the Company") for the financial year ended 30 June 2006, consisting of the income statements, statements of recognised income and expense, balance sheets, statements of cash flows, accompanying notes 1 to 34, and the directors' declaration set out on pages 13 to 53. The financial report includes the consolidated financial statements of the consolidated entity, comprising the Company and the entities it controlled at the end of the year or from time to time during the financial year. The Company's directors are responsible for the financial report. The directors are also responsible for preparing the relevant reconciling information regarding the adjustments required under Australian Accounting Standard AASB 1 *First-time Adoption of Australian equivalents to International Financial Reporting Standards*. We have conducted an independent audit of the financial report in order to express an opinion on it to the members of the Company.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Australian Accounting Standards and other mandatory professional reporting requirements in Australia and statutory requirements so as to present a view which is consistent with our understanding of the Company's and the consolidated entity's financial position, and performance as represented by the results of its operations and its cash flows.

The audit opinion expressed in this report has been formed on the above basis.

Audit opinion

1. In our opinion, the financial report of Peter Lehmann Wines Limited is in accordance with:
 - (a) the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2006 and of its performance for the financial year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and
 - (b) other mandatory financial reporting requirements in Australia.

KPMG

Grant Drabsch
Partner

Dated in Adelaide on this the 15th day of September 2006



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