

**PETER LEHMANN WINES LIMITED
AND ITS CONTROLLED ENTITIES
HALF YEAR FINANCIAL STATEMENTS
TO 31 DECEMBER 2005**

PETER LEHMANN WINES LIMITED AND ITS CONTROLLED ENTITIES

Directors' Report

The directors present their report together with the consolidated financial report for the half year ended 31 December 2005 and the review report thereon.

Directors

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

Name	Period of directorship
Non-executive	
Dr Max Lienhard	Director and Chairman since 31 October 2003
Mr Paul Young	Director and Deputy Chairman since 11 December 2003. (Appointed Alternate Director for Dr Max Lienhard on 31 October 2003)
Mr Roger Wilson	Director since 5 March 1993
Mrs Kay Carey	Director since 12 December 2004
Executive	
Mr Douglas Lehmann	Managing Director since 5 March 1993
Mr Robert Edwards	Director since 2 August 1999

Review of Operations

Company Overview

The global wine industry remains extremely competitive as supply from the wine producing countries continues to exceed demand from consumers. The supply imbalance combined with the increasing influence of large retailers has put pressure on margins.

Compared with the previous corresponding period the Company increased its sales revenue by 14% to \$31.1M. Reduced margins and higher selling expenses resulted in an after tax profit of \$3M compared with the previous corresponding period's \$3.3M.

Trading

Total branded sales grew by 10% and 12% in volume and revenue respectively over the previous corresponding period.

- Difficult trading conditions were experienced in the key Australian market and volume decreased by 23% and revenue by 17%.
- Sales to the UK market, the Company's largest export market, increased by 29% and 17% in volume and revenue terms. The large UK supermarkets dominate the market and it is extremely price sensitive.
- Sales to Europe recovered with increases of 57% and 47% in volume and revenue being recorded.
- Growth in the North American markets continues with a volume increase of 45% and revenue up 39% over the corresponding previous 6 month period.

Strategy and future performance

The Company is expecting to sustain sales growth over the coming years as it has good volumes of higher quality wine available. Continued pressure on margins over the next 2 to 3 years is anticipated as producers compete to get their wines to consumers.

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

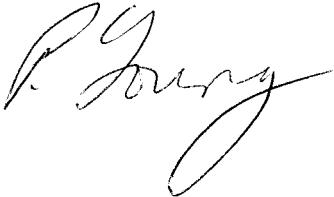
The lead auditor's independence declaration is set out on page 3 and forms part of the directors' report for the half year ended 31 December 2005.

Rounding off

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

Dated at Tanunda, this 23rd day of February 2006.

Signed in accordance with a resolution of the directors:



Paul Young
Deputy Chairman



Douglas Lehmann
Managing Director

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 half-year ended 31 December 2005 there have been:

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



KPMG



Grant Drabsch
Partner
Adelaide
23 February 2006

**CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT
FOR THE SIX MONTHS ENDED 31 DECEMBER 2005**

	NOTE	2005 \$'000	2004 \$'000
Revenue		31,096	27,178
Cost of sales		<u>(17,518)</u>	<u>(15,328)</u>
Gross profit		13,578	11,850
Other operating income		56	73
Administration expenses		(1,534)	(1,388)
Marketing and public relations		(998)	(883)
Selling and distribution expenses		(5,443)	(3,822)
Other operating expenses		<u>(332)</u>	<u>(232)</u>
Operating profit before interest and tax		5,327	5,598
Financial income		247	51
Financial expenses		<u>(1,208)</u>	<u>(1,054)</u>
Net financing costs		(961)	(1,003)
Profit before tax		4,366	4,595
Income tax expense		<u>(1,344)</u>	<u>(1,327)</u>
Profit for the period		3,022	3,268
Basic earnings per share attributable to ordinary equity holders	7	8.0 cents	8.6 cents
Diluted earnings per share attributable to ordinary equity holders	7	8.0 cents	8.6 cents

**CONDENSED CONSOLIDATED INTERIM STATEMENT OF RECOGNISED INCOME & EXPENSE
FOR THE SIX MONTHS ENDED 31 DECEMBER 2005**

	NOTE	2005 \$'000	2004 \$'000
Foreign exchange translation differences		(63)	98
Net income recognised directly in equity		(63)	98
Profit for the period		3,022	3,268
Total recognised income and expense for the period attributable to equity holders of the parent		2,959	3,366

**CONDENSED CONSOLIDATED INTERIM BALANCE SHEET
AS AT 31 DECEMBER 2005**

NOTE	31 December 2005 \$'000	30 June 2005 \$'000
CURRENT ASSETS		
Cash and cash equivalents	2,059	1,545
Trade and other receivables	15,749	15,751
Inventories	50,087	56,310
Other assets	1,076	1,003
Total current assets	68,971	74,609
NON-CURRENT ASSETS		
Other investments	15	15
Property, plant and equipment	30,259	30,080
Biological assets	575	575
Intangible assets	71	68
Total non-current assets	30,920	30,738
TOTAL ASSETS	99,891	105,347
CURRENT LIABILITIES		
Trade and other payables	6,999	11,636
Interest-bearing loans and borrowings	3,483	4,000
Employee benefits	1,423	1,336
Income tax payable	808	664
Total current liabilities	12,713	17,636
NON-CURRENT LIABILITIES		
Interest-bearing loans and borrowings	31,471	31,425
Deferred tax liabilities	281	286
Employee benefits	96	99
Total non-current liabilities	31,848	31,810
TOTAL LIABILITIES	44,561	49,446
NET ASSETS	55,330	55,901
EQUITY		
Issued capital	30,624	30,624
Reserves	(94)	(31)
Retained profits	24,800	25,308
TOTAL EQUITY	55,330	55,901

**CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2005**

	31 December 2005 \$'000	31 December 2004 \$'000
Cash flows from operating activities		
Cash receipts from customers	33,468	28,885
Cash paid to suppliers and employees	(25,466)	(24,194)
Cash generated from operations	8,002	4,691
Interest paid	(1,212)	(1,137)
Income taxes paid	(1,205)	(1,340)
Interest received	53	39
Net cash from operating activities	5,638	2,253
Cash flows from investing activities		
Proceeds from sale of non-current assets	22	1
Acquisition of property, plant & equipment	(1,115)	(713)
Net cash from investing activities	(1,093)	(712)
Cash flows from financing activities		
Proceeds from issue of shares		
Proceeds from borrowings	-	500
Repayment of borrowings	(500)	-
Dividends paid	(3,531)	(2,088)
Net cash from financing activities	(4,031)	(1,588)
Net increase (decrease) in cash and cash equivalents	514	(47)
Cash and cash equivalents at 1 July	1,545	1,377
Cash and cash equivalents at 31 December	2,059	1,330

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1 SIGNIFICANT ACCOUNTING POLICIES

Peter Lehmann Wines Limited (the "Company") is a company domiciled in Australia. The condensed consolidated interim financial report of the Company for the six months ended 31 December 2005 comprise the Company and its subsidiaries (together referred to as the "consolidated entity").

The condensed consolidated interim financial report was authorised for issue on 23 February 2006.

(a) Statement of Compliance

The condensed consolidated interim financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards, Urgent Issues Group interpretations 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 adopted by the AASB, being Australian equivalents to IFRS, ("AIFRS").

This is the consolidated entity's first AIFRS condensed consolidated interim financial report for part of the period covered by the first AIFRS annual financial report and AASB 1 *First time adoption of Australian equivalents to International Financial Reporting Standards*. The condensed consolidated interim financial report does not include all of the information required for a full annual financial report.

The interim financial report is to be read in conjunction with the most recent annual financial report, however, the basis of their preparation is different to that of the most recent annual financial report due to the first time adoption of AIFRSs. This report must be read in conjunction with any public announcements made by Peter Lehmann Wines Limited during the half year in accordance with continuous disclosure obligations arising under the Corporations Act 2001.

An explanation of how the transition to AIFRSs has affected the reported financial position, financial performance and cash flows of the consolidated entity is provided in note 10. This note includes reconciliations of equity and profit or loss for comparative periods reported under Australian GAAP (previous GAAP) to those reported for those periods under AIFRSs.

(b) Basis of Preparation

The financial report is presented in Australian dollars.

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 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 an interim financial report in conformity with AASB 134 *Interim Financial Reporting* requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses.

These 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.

This condensed consolidated interim financial report has been prepared on the basis of AIFRSs in issue that are effective or available for early adoption at the consolidated entity's first AIFRS interim reporting date, 31 December 2005. Based on these AIFRSs, the board of directors have made assumptions about the accounting policies expected to be adopted (accounting policies) when the first AIFRS annual report is prepared for the year ended 30 June 2006. The entity has elected to early adopt revised accounting standard AASB 119 *Employee Entitlements* in these interim financial statements.

The Australian Accounting Standards and UIG Interpretations that will be effective or available for voluntary early adoption in the annual financial statements for the year ended 30 June 2006 are still subject to change therefore cannot be determined with certainty. Accordingly, the accounting policies for that year that are relevant to this interim financial information will be determined only when the first AIFRS financial statements are prepared at 30 June 2006.

The preparation of the condensed consolidated interim financial report in accordance with AASB 134 resulted in changes to the accounting policies as compared with the most recent annual financial statements prepared under previous GAAP. The accounting policies set out below have been applied consistently to all periods presented in these condensed consolidated interim financial statements. They also have been applied in preparing an opening AIFRS balance sheet as 1 July 2004 for the purposes of the transition to Australian Accounting Standards – AIFRSs, as required by AASB 1. The impact of the transition from previous GAAP to AIFRS is explained in note 10.

The accounting policies have been applied consistently throughout the consolidated entity for purposes of this condensed consolidated interim financial report.

The entity did not prepare interim financial statements for the period ending 31 December 2004.

(c) Basis of Consolidation
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.

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 condensed consolidated interim financial statements.

(d) Foreign Currency
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.

Financial statements of foreign operations

The assets and liabilities of foreign operations generally 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.

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 (see note 10).

(e) Derivative financial instruments

The consolidated entity uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operational, 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 cost. 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 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

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.

Leased assets

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

Depreciation

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. Peter Lehmann Wines reassess residual values on an annual basis. The estimated useful lives in the current and comparative periods are as follows:

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

(g) 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.

(h) 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. Goodwill and intangible assets with an indefinite useful life are systematically tested for impairment at each annual balance sheet date. Other 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

(i) Investments

Financial instruments held by the consolidated entity in an unquoted equity are carried at cost as the fair value cannot be reliably measured. If there is objective evidence that an impairment loss has been incurred it is recognised in the income statement.

(j) Trade and other receivables

Trade and other receivables are stated at their 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(h)). 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.

(l) Cash and other cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with an original maturity of three months or less. 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

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 net selling price 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 held-to-maturity security or receivable carried at amortised cost is reversed if there has been a change in the estimates used to determine the recoverable amount.

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

(n) Share capital

Dividends are recognised as a liability in the period in which they are declared.

(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, other than pension plans, 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 the projected unit credit method and is discounted to its present value. The discount rate is the yield at the balance sheet date on government bonds that 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 represent present obligations resulting from employee's services provided to reporting date, 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 plans

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

(q) Trade and other payables

Trade and other payables are stated at cost.

(r) Revenue

(i) Sale of Goods

Revenue from the sale of goods 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 goods or there is continuing management involvement with the goods.

(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. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

(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, foreign exchange gains and losses, 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 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 and dividend income is recognised in the income statement when received.

(t) Income tax

Income tax on the income statement for the periods presented 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.

(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 condensed consolidated interim financial statements in respect of the consolidated entity's geographical segments, which are the primary basis of segment reporting. The business 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 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 AustraliaWinemaking and storage facilities in the Barossa Valley, South AustraliaBrand management representation in the capital cities of Queensland, New South Wales, Victoria and South AustraliaCustomers 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 marketsSales and brand management representation in Continental EuropeDistributors 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 and the Pacific |

	Australasia		Europe		North America		Other		Consolidated	
	2005 \$000's	2004 \$000's	2005 \$000's	2004 \$000's	2005 \$000's	2004 \$000's	2005 \$000's	2004 \$000's	2005 \$000's	2004 \$000's
Segment Revenue	12,041	12,625	13,242	10,467	5,231	3,749	638	410	31,152	27,251
Segment Result	3,036	3,742	1,964	2,024	1,979	1,275	178	177	7,158	7,218
Unallocated expenses									1,831	1,620
Operating profit									5,327	5,598
Net financing costs									961	1,003
Income tax expense									1,344	1,327
Profit for the period									3,022	3,268

3 WRITE-DOWN OF INVENTORY

During the six months ended 31 December 2005 the consolidated entity recognised a write-down of finished goods inventory of \$48,000 related to obsolete product. There were no write-downs of inventory recognised during the six months ended 31 December 2004.

4 INCOME TAXES

Current tax

Current tax expense for the interim periods presented is the expected tax payable on the taxable income for the period, calculated as the estimated average annual effective income tax rate applied to the pre-tax income of the interim period.

Current tax for current and prior periods is classified as a current liability to the extent that it is unpaid. Amounts paid in excess of amounts owed are classified as a current asset.

Deferred tax

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 the estimated average annual effective income tax rate for the interim periods presented.

The primary components of the entity's deferred tax assets include temporary differences related to employee benefits and other items.

The primary components of the entity's deferred tax liabilities include temporary differences related to property, plant and equipment, biological assets, and inventories.

Deferred tax expense arises from the origination and reversal of temporary differences and the effects of changes in tax rates. The primary component of deferred tax expense for the six months ended 31 December 2005 is related to an increase in deferred tax liabilities, relating primarily to property, plant and equipment.

5 PROPERTY, PLANT AND EQUIPMENT

Acquisitions and disposals

During the six months ended 31 December 2005, the consolidated entity acquired assets with a cost of \$1,115,000 (six months ended 31 December 2004: \$713,000). Assets with a net book value of \$nil were disposed of during the six months ended 31 December 2005 (six months ended 31 December 2004: \$1,000) resulting in a gain on disposal of \$22,000 (six months ended 31 December 2004: gain of \$nil).

Capital commitments

During the six months ended 31 December 2005, the consolidated entity entered into a contract to purchase property, plant and equipment for \$165,000 (six months ended 31 December 2004: \$360,000).

6 CAPITAL AND RESERVES

Dividends

The following dividends were paid by the consolidated entity.

For the six months ended 31 December 2005	2005 \$'000	2004 \$'000
\$0.093 per qualifying ordinary share (2004: \$0.055)	3,531	2,088

7 EARNINGS PER SHARE

Basic earnings per share and diluted earnings per share

The calculation of basic earnings per share and diluted earnings per share for the six months ended 31 December 2005 was based on the profit attributable to ordinary shareholders of \$3,022,000 (six months ended 31 December 2004: \$3,268,000) and number of ordinary shares outstanding during the six months ended 31 December 2005 of 37,968,933 (six months ended 31 December 2004: 37,968,933).

8 FINANCIAL INSTRUMENTS

Fluctuations in interest rates

The 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 AUD, 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 5.26 percent to 6.07 percent.

The net fair value of swaps at 31 December 2005 was \$36,000 (30 June 2005: \$57,000) comprising assets of \$4,000 (30 June 2005: \$13,000) and liabilities of \$40,000 (30 June 2005: \$70,000). These amounts were recognised as derivatives measured at fair value.

At 31 December 2005, the consolidated entity had interest rate swaps with a notional contract amount of \$15,700,000 (30 June 2005: \$12,900,000).

Fluctuations in foreign currency

The consolidated entity is exposed to foreign currency risk on sales and purchases that are denominated in a currency other than AUD. The currencies giving rise to the risk are: Pounds Sterling, Euros, US Dollars and Canadian Dollars.

The consolidated entity may use forward exchange contracts to hedge 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 AUD, 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.

The net fair value of forward exchange contracts at 31 December 2005 was a payable of \$19,000 (30 June 2005: receivable \$2,000).

Estimation of fair values

Derivatives

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.

9 RELATED PARTIES

Transactions with key management personnel

Key management personnel receive compensation in the form of short-term employee benefits and post-employment benefits. Key management personnel received total compensation of \$1,034,000 for the six months ended 31 December 2005 (six months ended 31 December 2004: \$998,000).

Controlling entity

Hess Group AG, the controlling entity of the Company, provides trade mark and know how expertise on 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 (Europe) Ltd for distribution in the European 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.

Commonly Controlled Entities

Wine is sold 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 to other members of the controlling entity's group. Service fees are earned on a usage basis from Hess Collection Wines, Glen Carlou Wines 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.

10 EXPLANATION OF TRANSITION TO AIFRSs

As noted in note 1(a), these are the consolidated entity's first condensed consolidated interim financial statements for part of the period covered by the first AIFRS annual consolidated financial statements prepared in accordance with Australian Accounting Standards – AIFRSs.

The accounting policies in note 1 have been applied in preparing the condensed consolidated interim financial statements for the six months ended 31 December 2005, the comparative information for the six months ended 31 December 2004, the financial statements for the year ended 30 June 2005 and 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, comparative information for the six months ended 31 December 2004 and financial statements for the year ended 30 June 2005, the consolidated entity has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (previous 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 following tables and the notes that accompany the tables.

Notes to the condensed consolidated interim financial statements

10 Explanation of transition to AIFRSs (continued)
Reconciliation of equity

In thousands of AUD	Note	Previous	Effect of		Previous	Effect of		Previous	Effect of	
		GAAP	transition to	AIFRSs	GAAP	transition to	AIFRSs	GAAP	transition to	AIFRSs
		1 July 2004	1 July 2004	1 July 2004	31 Dec 2004	31 Dec 2004	31 Dec 2004	30 June 2005	30 June 2005	30 June 2005
Assets										
Cash and cash equivalents		1,377		1,377	1,682		1,682	1,545		1,545
Trade and other receivables	a,f,d	15,833	142	15,975	16,453	106	15,831	16,812	(58)	16,754
Inventories	e	34,221	19,370	53,591	27,474	20,659	48,133	42,287	14,023	56,310
Income tax receivables		17		17	-		-	-		-
Total current assets		51,448	19,512	70,960	45,609	20,765	66,374	60,644	13,965	74,609
Inventories	e	19,370	(19,370)	-	20,659	(20,659)	-	14,023	(14,023)	-
Other investments		15		15	15		15	15		15
Deferred tax assets	c	1,241	(1,241)	-	1,241	(1,241)	-	1,133	(1,133)	-
Property, plant and equipment	b	29,066	(61)	29,005	28,921	(79)	28,842	30,148	(68)	30,080
Biological assets		486		486	486		486	575		575
Intangible assets	b	-	61	61	-	79	79	-	68	68
Total non-current assets		50,178	(20,611)	29,567	51,322	(21,900)	29,422	45,894	(15,156)	30,738
Total assets		101,626	(1,099)	100,527	96,931	(1,135)	95,796	106,538	(1,191)	105,347

Notes to the condensed consolidated interim financial statements

10 Explanation of transition to AIFRSs (continued)
Reconciliation of equity (continued)

In thousands of AUD	Note	Previous	Effect of		Previous	Effect of		Previous	Effect of	
		GAAP	transition to	AIFRSs	GAAP	transition to	AIFRSs	GAAP	transition to	AIFRSs
		1 July 2004	1 July 2004	1 July 2004	31 Dec 2004	31 Dec 2004	31 Dec 2004	30 June 2005	30 June 2005	30 June 2005
Liabilities										
Bank overdraft		-		-	352		352	-		-
Trade and other payables	f	12,398	60	12,458	5,658	74	5,732	11,568	69	11,636
Interest-bearing loans and Borrowings	d	4,000		4,000	4,000		4,000	4,000		4,000
Employee benefits		1,246		1,246	1,286		1,286	1,336		1,336
Income tax payable		828		828	830		830	664		664
Total current liabilities		18,472	60	18,532	12,126	74	12,200	17,568	69	17,636
Interest-bearing loans and Borrowings	d	30,200	(234)	29,966	30,700	(240)	30,460	31,700	(275)	31,425
Deferred tax liabilities	c	1,315	(1,146)	169	1,315	(1,159)	156	1,374	(1,088)	286
Employee benefit		58		58	99		99	99		99
Total non-current liabilities		31,573	(1,380)	30,193	32,114	(1,399)	30,715	33,173	(1,363)	31,810
Total liabilities		50,045	(1,320)	48,725	44,240	(1,325)	42,915	50,741	(1,295)	49,446
Net assets		51,581	221	51,802	52,691	190	52,881	55,797	104	55,901
Equity										
Issued capital		30,624		30,624	30,624		30,624	30,624		30,624
Reserves		99		99	1		1	(31)		(31)
Retained earnings	a,f	20,858	221	21,079	22,066	190	22,256	25,204	104	25,308
Total equity		51,581	221	51,802	52,691	190	52,881	55,797	104	55,901

Notes to the reconciliation of equity

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.

Reconciliation of profit

In thousand of AUD	Note	For the six months ended 31 December 2004			For the year ended 30 June 2005		
		Previous GAAP	Effect of transition to AIFRSs	AIFRSs	Previous GAAP	Effect of transition to AIFRSs	AIFRSs
Revenue		27,178		27,178	55,543		55,543
Cost of sales		(15,328)		(15,328)	(31,696)		(31,696)
Gross profit		11,850		11,850	23,847		23,847
Other operating income		73		73	161		161
Distribution expenses		(3,822)		(3,822)	(8,268)		(8,268)
Administrative expenses	a	(1,388)		(1,388)	(2,537)	(132)	(2,669)
Other operating expenses		(1,115)		(1,115)	(2,231)		(2,231)
Operating profit before financing costs		5,598		5,598	10,972	(132)	10,840
Financial income		47	4	51	93	22	115
Financial expenses		(1,007)	(47)	(1,054)	(1,952)	(57)	(2,009)
Net financing costs	f	(960)	(43)	(1,003)	(1,859)	(35)	(1,894)
Profit before tax		4,638	(43)	4,595	9,113	(167)	8,946
Income tax expense		(1,342)	15	(1,327)	(2,679)	50	(2,629)

Reconciliation of profit continued

	Note	For the six months ended 31 December 2004			For the year ended 30 June 2005		
		Previous GAAP	Effect of transition to AIFRSs	AIFRSs	Previous GAAP	Effect of transition to AIFRSs	AIFRSs
In thousand of AUD							
Profit after tax		3,296	(28)	3,268	6,434	(117)	6,317
Basic earnings per share (AUD)	7	8.6 cents	-	8.6 cents	16.9 cents	(0.3 cents)	16.6 cents
Diluted earnings per share (AUD)	7	8.6 cents	-	8.6 cents	16.9 cents	(0.3 cents)	16.6 cents

(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 \$335,000 and increasing retained earnings by \$234,500 (\$335,000 less related deferred tax of \$100,500). 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 (31 December 2004: \$79,000, 30 June 2005: \$68,000).

(c) Deferred Tax Assets and Liabilities

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, \$1,241,000 at 31 December 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, \$240,000 at 31 December 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 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, \$20,659,000 at 31 December 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 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. The impact on the period ended 31 December 2004 was to decrease profit by \$30,900 (\$44,200 less related tax benefit of \$13,300) resulting in derivatives at fair value as a liability of \$30,100, for the year ended 30 June 2005 the impact was to increase profit by \$25,300 (\$36,200 less related tax expense of \$10,900).

DIRECTORS' DECLARATION

In the opinion of the directors of Peter Lehmann Wines Limited ("the Company"):

1. the financial statements and notes, set out on pages 4 to 22, are in accordance with the Corporations Act 2001, including:
 - (a) giving a true and fair view of the financial position of the consolidated entity as at 31 December 2005 and of its performance, as represented by the results of its operations and its cash flows, for the half year ended on that date; and
 - (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001; and
2. There are reasonable grounds to believe that the Company will be able to pay its debts as and when become due and payable.

Dated at Tanunda this 23rd day of February 2006

Signed in accordance with a resolution of the Directors:



P A Young (Deputy Chairman)



D McC Lehmann (Managing Director)

INDEPENDENT REVIEW REPORT TO THE MEMBERS OF PETER LEHMANN WINES LIMITED

Scope

We have reviewed the financial report of Peter Lehmann Wines Limited ("the Company") for the half-year ended 31 December 2005, consisting of the condensed consolidated interim statements of income, balance sheet, changes in recognised income and expense, cash flows, accompanying notes (1 to 10) and the directors' declaration (set out on pages 4 to 23). 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 half-year or from time to time during the half-year. The company's directors are responsible for the financial report including the relevant reconciling information regarding adjustments required under the Australian Accounting Standard AASB1 *First-Time Adoption of Australian equivalents to International Financial Reporting Standards*.

We have performed an independent review of the financial report in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and other mandatory financial reporting requirements in Australia and statutory requirements, so as to present a view which is consistent with our understanding of the consolidated entity's financial position, and performance as represented by the results of its operations and its cash flows and in order for the company to lodge the financial report with the Australian Securities and Investments Commission.

Our review has been conducted in accordance with Australian Auditing Standards applicable to review engagements. A review is limited primarily to inquiries of company personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance is less than given in an audit. We have not performed an audit and, accordingly we do not express an audit opinion.

Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Peter Lehmann Wines Limited is not in accordance with:

- (a) the Corporations Act 2001, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2005 and of its performance for the half-year ended on that date; and
 - (ii) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting*, and the Corporations Regulations 2001; and
- (b) other mandatory financial reporting requirements in Australia.



KPMG



Grant Drabsch
Partner
Adelaide
23 February 2006