



*Oyster Bay*

MARLBOROUGH

Vineyards Limited

ANNUAL REPORT 2004



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## CHAIRMAN'S REPORT ON BEHALF OF DIRECTORS

It gives me much pleasure to present this fifth annual report on the activities of Oyster Bay Marlborough Vineyards Limited for the year ended 30 June 2004.

The Company recorded a profit of \$1,224,602 or 13.6 cents per share for the year compared with a loss last year of \$379,724.

Revenue from grape sales totaled \$6,544,776 compared with \$2,346,230 last year.

Operating expenses including depreciation, and interest of \$807,059, totalled \$4,889,439. These compared with \$2,818,151 (interest \$48,502) in the prior year.

The Company provided for deferred tax at \$442,292 representing the timing differences between the accounting and tax treatment of the capitalisation of certain lease and other costs associated with vineyard developments.

Your Directors consider this to have been a most satisfactory year. The company harvested 3,155 tonnes of good quality fruit. Our price negotiations with Delegat's Wine Estate Limited resulted in an average price of \$2,086 per tonne across all three vineyards and all varieties. The vineyards were managed to highest standards and operating costs were well managed.

In the circumstances, and remembering that extraordinary weather conditions denied the profit we had expected last year, the Directors concluded that the company should declare a maiden dividend of 13 cents a share, unimputed. This will be paid on 5 November 2004 to shareholders on the record as at 29 October 2004.

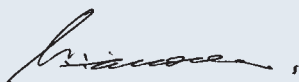
The notes to this year's accounts disclose that during the year the company had its land and vineyards revalued, resulting in a new value of \$45 million, compared with the \$30.4 million previously recorded in the accounts. This new valuation is based on the "earnings" potential of the assets. Obviously our leased vineyards had to be valued on this basis, and the Directors were of the view that this was the appropriate benchmark for the freehold vineyards and land as well.

New Zealand's adoption of International Financial Reporting Standards from 2007 onwards means that the Company will have to adopt a consistent basis for valuation of its land and vineyards and reflect that value in the Financial Statements. This will provide an opportunity to determine whether current land values in Marlborough reflect the earnings capability of the vineyards and are appropriate for the Company.

Your Directors continue to seek opportunities to acquire or lease additional land or developed vineyards, which do arise from time to time. For any substantial purchase or lease however, the company would need to raise additional capital as well as increase its borrowings. We have signaled to shareholders on previous occasions that we would only bring a new opportunity forward for consideration if we were satisfied that the investment would be accretive in earnings terms.

We have an excellent estate, which we can expect to generate satisfactory returns into the future. Next year, Fault Lake vineyard will reach its full production potential, and the Wairau River vineyard will be in full production for the 2006 harvest. We have completed the replanting of the remaining hectares of phylloxera affected vines this spring, and the new vines are expected to come into production in 2007.

Our confidence in the estate is reinforced by our confidence in the Delegat's management team who continue to manifest the highest standards of viticulture and cost management.



W J Falconer CNZM  
CHAIRMAN

## BOARD OF DIRECTORS

The Board of Directors oversees the development and operations of Oyster Bay Marlborough Vineyards Limited. The Board of Directors comprises a balance of commercial experience and viticulture expertise. The constitution provides for a maximum of five Directors and requires that at least three of these Directors shall always be Independent Directors and that a maximum of two Directors may be Associated Persons with Delegat's Wine Estate Limited. Pursuant to its Cornerstone Shareholding, Delegat's Wine Estate Limited has the right to appoint one Director to the Board of Directors for so long as it holds a minimum of 20% of the capital of Oyster Bay Marlborough Vineyards Limited. Delegat's Wine Estate Limited is entitled to vote on the appointment of other Directors.

The following are the Directors of Oyster Bay Marlborough Vineyards Limited.

### Chairman of Directors

#### William Falconer, CNZM LL.B

Bill Falconer is Chairman of Hellaby Holdings Limited, Restaurant Brands NZ Limited, Kiwifruit International Limited and the New Zealand Meat Industry Association. He is also a Director of Tower Limited, the New Zealand Symphony Orchestra and Westfield Trust (NZ) Limited.

### Director

#### The Hon Ruth Richardson LL.B (Hons)

After her time as an architect of major reforms to the New Zealand economy as Minister of Finance from 1990 – 1993, Ruth Richardson established her own strategic and economic policy advice consultancy helping many countries undertake reform initiatives. She now has considerable involvement in the local and international business community being the Chairman of Jade Software Corporation, i-cap mezzanine partners Limited, i-cap equity partners Limited, the Kula Fund, and a Director of the Centre for Independent Studies, Mont Pelerin Society, New Zealand Merino Company Limited, Synlait Limited and LECG Corporation.

### Director

#### John Maasland, MA (Law) (Cambridge)

John's commercial career has included Executive and Directorship roles at ICI, Morrison PIM Holdings and Wilson & Horton Holdings Limited. He is currently Chairman of Carter Holt Harvey Limited and the New Zealand Radio Network. He is also a Director of APN News and Media Limited, Macquarie Goodman New Zealand Limited, Woosh Wireless Limited, Gould Holdings and the Auckland Regional Chamber of Commerce.

His involvement in the community sector includes being a Trustee and Chairman of the Royal New Zealand Ballet, Chairman of the South Auckland Health Foundation and the Auckland War Memorial Museum Fundraising Advisory Board.

### Director

#### Jim Delegat

Mr Delegat is the Managing Director of Delegat's Wine Estate Limited. He has been involved in the New Zealand wine industry all his working life and is thoroughly experienced in every aspect of the business. For 12 years, until 1996, he served on the Board of the Wine Institute of New Zealand. Mr Delegat is one of only a handful of second generation family wine producers in the country. He has committed Delegat's Wine Estate Limited to furthering its successful formula of advanced viticulture, leading winemaking technology and modern brand marketing. Mr Delegat is a member of the Institute of Directors.

### Director

#### Robert Wilton, M.Com (Hons), ACA

Mr Wilton is the non-executive Chairman of Delegat's Group Limited with specific responsibilities for the financial management of the company. He is also a Senior Lecturer and past Head of Department, Department of Accounting and Finance within The University of Auckland Business School and is a member of the Institute of Chartered Accountants of New Zealand and the Institute of Directors. Mr Wilton brings to the Board considerable experience in business, particularly through Merchant and Investment Banking and is a past Chairman of the New Zealand Venture Capital Association.

### Alternate Director for Jim Delegat and Robert Wilton

#### Rosemari Delegat

Ms Delegat is an Executive Director of Delegat's Wine Estate Limited. Since the 1980's she led the company's drive into export markets and continues to play an important role in export marketing and the representation of the company at international wine trade exhibitions. Rosemari represents Delegat's Wine Estate Limited on all export committees attached to the Wine Institute of New Zealand and from 1987-1990 was the inaugural Chairperson of a special United Kingdom exporting group. Rosemari is a member of the Institute of Directors.

## STATUTORY DISCLOSURE

### Interest Register

The Company maintains an interest register. Details of all entries in the register are outlined in Note 14, Related Party Information.

### Insurance of Officers and Directors

The Company maintains Directors and Officers liability insurance.

### Remuneration

The Company has no employees as all work undertaken on the vineyard is carried out by Delegat's Wine Estate Limited under contract.

Director's remuneration is disclosed in Note 14, Related Party Information.

### Donations

The Company made no donations during the year.

## DIRECTORS' RESPONSIBILITY STATEMENT

The Directors are responsible for ensuring that the financial statements give a true and fair view of the financial position, financial performance and cash flows for the Company as at 30 June 2004.

The Directors consider that the financial statements of the Company have been prepared using appropriate accounting policies, consistently applied and supported by reasonable judgements and estimates and that all relevant financial reporting and accounting standards have been followed.

The Directors believe that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the Company and the compliance of the financial statements with the Financial Reporting Act 1993.

The Directors consider they have taken adequate steps to safeguard assets of the Company.

The Directors have pleasure in presenting the following financial statements for the year ended 30 June 2004.

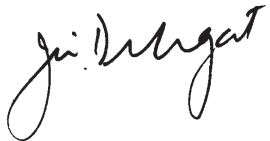
The Board of Directors of the Company authorised these financial statements for issue on 24 August 2004.

For, and on behalf of, the Board.



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W J Falconer  
CHAIRMAN



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J N Delegat  
DIRECTOR

24 August 2004

## STATEMENT OF FINANCIAL PERFORMANCE

For the Year Ended 30 June 2004

	Notes	2004	2003
<b>Operating Revenue</b>			
Grape Sales		6,544,776	2,346,230
Interest Received		11,557	7,724
Other Revenue		–	84,473
		6,556,333	2,438,427
Operating Expenses	2	(4,082,380)	(2,769,649)
<b>Operating Surplus/(Deficit) before Interest and Income Tax</b>		2,473,953	(331,222)
Interest Expensed	2	(807,059)	(48,502)
<b>Operating Surplus/(Deficit) before Income Tax</b>		1,666,894	(379,724)
Income Tax	7	(442,292)	–
<b>Operating Surplus/(Deficit) after Income Tax</b>		1,224,602	(379,724)

## STATEMENT OF MOVEMENTS IN EQUITY

For the Year Ended 30 June 2004

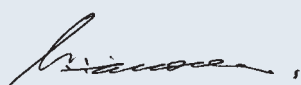
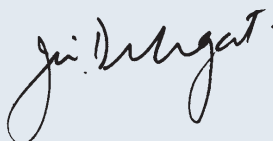
	Notes	2004	2003
Equity at Beginning of Year		16,590,559	16,970,283
Operating Surplus/(Deficit) after Income Tax		1,224,602	(379,724)
<b>Equity at End of Year</b>		17,815,161	16,590,559

## STATEMENT OF FINANCIAL POSITION

For the Year Ended 30 June 2004

	Notes	2004	2003
<b>Equity</b>			
Share Capital	3	18,000,000	18,000,000
Retained Earnings	4	(184,839)	(1,409,441)
<b>Total Equity</b>		<b>17,815,161</b>	<b>16,590,559</b>
<b>Liabilities</b>			
<b>Non-Current Liabilities</b>			
Deferred Tax Liability	6	442,292	–
Borrowings	12	18,000,000	14,100,000
<b>Total Non-Current Liabilities</b>		<b>18,442,292</b>	<b>14,100,000</b>
<b>Current Liabilities</b>			
Payables and Accruals	8	240,386	572,302
Amounts Owed to Related Parties		93,055	413,083
<b>Total Current Liabilities</b>		<b>333,441</b>	<b>985,385</b>
<b>Total Liabilities</b>		<b>18,775,733</b>	<b>15,085,385</b>
<b>Total Equity and Liabilities</b>		<b>36,590,894</b>	<b>31,675,944</b>
<b>Assets</b>			
<b>Non-Current Assets</b>			
Property, Plant and Equipment	9	33,550,787	30,319,577
<b>Total Non-Current Assets</b>		<b>33,550,787</b>	<b>30,319,577</b>
<b>Current Assets</b>			
Cash and Bank Balances		1,993,380	461,923
Accounts Receivable	11	238,496	252,799
Amounts Owed from Related Parties		36,589	60,902
Inventories – Raw Materials		16,398	19,475
Growing Costs Relating to the Next Harvest		755,244	561,268
<b>Total Current Assets</b>		<b>3,040,107</b>	<b>1,356,367</b>
<b>Total Assets</b>		<b>36,590,894</b>	<b>31,675,944</b>

For, and on behalf of, the Board who authorised the issue of financial statements on 24 August 2004.


W J Falconer  
DIRECTOR

J N Delegat  
DIRECTOR

## STATEMENT OF CASH FLOWS

For the Year Ended 30 June 2004

	Notes	2004	2003
<b>Operating Activities</b>			
<b>Cash was Provided from</b>			
Receipts from Customers		6,544,776	2,372,572
Interest Received		11,557	7,724
		<u>6,556,333</u>	<u>2,380,296</u>
<b>Cash was Applied to</b>			
Payments to Suppliers		(3,699,076)	(2,475,268)
Interest Paid		(807,059)	(48,502)
Net GST Paid		98,503	34,341
		<u>(4,407,632)</u>	<u>(2,489,429)</u>
<b>Net Cash Inflows/(Outflows) from Operating Activities</b>		<u>2,148,701</u>	<u>(109,133)</u>
<b>Investing Activities</b>			
<b>Cash was Provided from</b>			
Proceeds from Sale of Plant and Equipment		104,600	325
		<u>104,600</u>	<u>325</u>
<b>Cash was Applied to</b>			
Purchase of Property, Plant and Equipment		(3,983,049)	(6,955,835)
Capitalised Interest		(638,795)	(728,738)
		<u>(4,621,844)</u>	<u>(7,684,573)</u>
<b>Net Cash Inflows/(Outflows) from Investing Activities</b>		<u>(4,517,244)</u>	<u>(7,684,248)</u>
<b>Financing Activities</b>			
<b>Cash was Provided from</b>			
Proceeds from Borrowings		3,900,000	7,850,000
		<u>3,900,000</u>	<u>7,850,000</u>
<b>Net Cash Inflows/(Outflows) from Financing Activities</b>		<u>3,900,000</u>	<u>7,850,000</u>
<b>Net Increase/(Decrease) in Cash Held</b>		1,531,457	56,619
Cash at Beginning of Year		461,923	405,304
		<u>1,993,380</u>	<u>461,923</u>
<b>Cash at End of Year</b>		<u>1,993,380</u>	<u>461,923</u>

The accompanying notes form part of these financial statements.

## STATEMENT OF CASH FLOWS

For the Year Ended 30 June 2004

	Notes	2004	2003
<b>Reconciliation with Operating Surplus</b>			
<b>Reported Surplus after Tax</b>		1,224,602	(379,724)
<b>Items not Involving Cash Flows</b>			
Amortisation Expense		2,584	–
Deferred Taxation Expense Movement		442,292	–
Depreciation Expense		655,745	398,394
		1,100,621	398,394
<b>Impact of Changes in Working Capital Items</b>			
Payables and Accruals		(557,589)	96,486
Accounts Receivable		38,617	(19,169)
Inventories – Raw Materials		3,076	456
Growing Costs Relating to Next Harvest		(193,975)	(237,742)
		(709,871)	(159,969)
<b>Items Classified as Investing or Financing Activities</b>			
Working Capital Movements related to Purchase of Fixed Assets		533,349	81,513
Working Capital Movements related to Capitalised Interest		–	(49,347)
		533,349	32,166
<b>Net Cash Inflows/(Outflows) from Operating Activities</b>		2,148,701	(109,133)

## STATEMENT OF ACCOUNTING POLICIES

For the Year Ended 30 June 2004

The financial statements are for the reporting entity Oyster Bay Marlborough Vineyards Limited, an issuer in terms of the Securities Act 1978. The financial statements have been prepared in accordance with the requirements of the Companies Act 1993 and the Financial Reporting Act 1993.

The financial statements have been prepared on a historical cost basis, as modified by the revaluation of certain assets as identified in specific accounting policies below.

### Revenue

Revenue includes grape sales and other revenues received and receivable in the ordinary course of business.

### Taxation

The tax expense recognised for the year is based on the accounting deficit, adjusted for permanent differences between accounting and tax rules.

The impact of all timing differences between accounting and taxable income is recognised as a deferred tax liability or asset. This is the comprehensive basis for the calculation of deferred taxation under the liability method.

A deferred tax asset, or the effect of losses carried forward that exceed the deferred tax liability, is recognised in the financial statements only where there is virtual certainty that the benefit of the timing differences, or losses, will be utilised.

### Goods and Services Tax (GST)

The Statement of Financial Performance and Statement of Cash Flows have been prepared so that all components are stated net of GST. All items in the Statement of Financial Position are stated net of GST, with the exception of receivables and payables which include GST invoiced.

### Foreign Currencies

Transactions denominated in a foreign currency are recorded at the exchange rate in effect at the date of the transaction. Foreign currency receivables and payables at balance date are translated at exchange rates current at balance date. Exchange gains and losses are brought to account in determining the surplus for the year.

### Fixed Assets

The cost of purchased fixed assets is the value of the consideration given to acquire the assets and the value of other directly attributable costs which have been incurred in bringing the assets to the location and condition necessary for their intended service.

Development costs for new vineyards include direct materials, direct labour, operating lease and financing costs that are directly attributable to the project and an allocation of overhead costs. Capitalisation of costs continue until the vineyard is considered to be in commercial production, ordinarily a period of three years after the planting of vines.

### Accounts Receivable

Accounts receivable are stated at estimated realisable value after providing against debts where collection is doubtful.

### Inventories

Inventories are stated at the lower of cost or net realisable value determined on a first-in first-out basis.

### Growing Costs

Harvesting of the grape crop is ordinarily performed in late March/early April.

Costs incurred in growing the grapes for each harvest are recognised in the period of the harvest. Costs incurred subsequent to the current year's harvest, for growing grapes for the next harvest are capitalised on the Statement of Financial Position and expensed in that period when the harvest occurs.

### Depreciation

Depreciation of fixed assets, other than land, is charged on a straight line basis so as to write off the cost of the fixed assets to their expected residual value over their estimated useful lives. The estimated useful lives are as follows:

Buildings _____	10 - 50 years
Motor Vehicles _____	3 - 10 years
Plant and Equipment _____	3 - 10 years
Vineyards _____	15 - 30 years

Depreciation on vineyard development commences when the vineyard is considered to be in commercial production.

### Leased Assets

Leases under which all the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Operating lease costs that are directly attributable to bringing a new vineyard to working condition for its intended use are included in the cost of the vineyard up until the time the vineyard becomes commercially productive. The accumulated amount is then amortised over the remaining life of the lease.

All other operating lease payments are recognised in the periods the amounts are payable.

### Financial Instruments

Financial instruments carried on the Statement of Financial Position include cash and bank balances, investments, receivables, trade creditors and borrowings. These instruments are carried at their estimated fair value. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

Financial instruments that are designated as hedges of specific items are recognised on the same basis as the underlying hedged item. Financial instruments, designed as hedges, but that do not constitute hedges are stated at market value and any resultant gain or loss is recognised in the Statement of Financial Performance.

### Statement of Cash Flows

The following are the definitions of the terms used in the Statement of Cash Flows:

- Cash is considered to be cash on hand and current accounts in banks, net of overdrafts.
- Investing activities are those activities relating to the acquisition, holding and disposal of fixed assets and investments. Investments include securities not falling within the definition of cash.
- Financing activities are those activities that result in changes in the size and composition of the capital structure. This includes both equity and debt not falling within the definition of cash. Dividends paid in relation to the capital structure are included in financing activities.
- Operating activities include all transactions and other events that are not investing or financing activities.

### Changes in Accounting Policies

There have been no changes in accounting policies.

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2004

### 1. Segmental Analysis

No segmental analysis of results has been prepared as the Company operates in only one industry being the production of grapes in New Zealand. All results for the year are from operating activities and are reported in New Zealand dollars. There have been no activities discontinued during the year:

	2004	2003
<b>2. Operating Expenses</b>		
Operating expenses include:		
<b>Depreciation of Property, Plant and Equipment</b>		
Vineyard Development	381,490	227,394
Buildings	48,765	1,644
Plant and Equipment	175,804	58,865
Motor Vehicles	49,686	64,791
Total Depreciation	655,745	352,694
Rental Expense on Operating Leases	169,340	79,975
Interest Expense	807,059	48,502
<b>Research and Development Activities</b>		
Research Expenditure	–	3,054
<b>Governance Expenses</b>		
Directors' Fees	60,000	60,000
<b>Auditor's Fees</b>		
Audit Fees	18,000	15,500
Fees for Other Services Provided by the Auditors	4,000	6,000
<b>3. Share Capital</b>		
Ordinary Shares	18,000,000	18,000,000
	18,000,000	18,000,000

At 30 June 2004 there are 9,000,000 issued and fully paid ordinary shares. All ordinary shares rank equally with one vote attached to each fully paid ordinary share.

	2004	2003
<b>4. Retained Earnings</b>		
Balance at Beginning of Year	(1,409,441)	(1,029,717)
Operating Surplus/(Deficit) after Income Tax	1,224,602	(379,724)
<b>Balance at End of Year</b>	(184,839)	(1,409,441)

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2004

### 5. Imputation Balances

At 30 June 2004 the balance in the Company's imputation credit account (representing the maximum amount of tax credits available to be attached to future dividends paid by the Company) amounted to \$465 (2003 \$465).

	2004	2003
<b>6. Deferred Tax Liability</b>		
Balance at Beginning of Year	–	–
On Deficit/(Surplus) for Year	442,292	468,740
Not Recognised	–	(468,740)
<b>Balance at End of Year</b>	<b>442,292</b>	<b>–</b>

### 7. Income Tax

Surplus/(Deficit) before Tax	1,666,894	(379,724)
Permanent Differences	24,142	(23,890)
Surplus/(Deficit) Subject to Tax	1,691,036	(403,614)
Income Tax Charge/(Benefit) at 33%	558,042	(133,193)
Tax Losses not Recognised	–	133,193
Recognition of Net Prior Period Tax Asset	(115,750)	–
	442,292	–

#### Comprising

Estimated Current Period Tax Assessment	–	601,933
Deferred Income Tax Liability	442,292	(468,740)
	442,292	133,193
Less: Amounts not Recognised		
Estimated Current Period Tax Assessment	–	(601,933)
Deferred Income Tax Liability	–	468,740
	442,292	–

The Company estimates that the tax effect of its losses is \$2,243,103 (2003 \$1,326,181) to be carried forward and utilised against future assessable income. The ability to carry forward losses is subject to the shareholder continuity rules.

	2004	2003
<b>8. Payables and Accruals</b>		
<b>Current</b>		
Trade Creditors	156,033	376,650
Accrued Expenses	84,353	195,652
	240,386	572,302

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2004

### 9. Property, Plant and Equipment

	2004			2003		
	Cost	Accumulated Depreciation	Book Value	Cost	Accumulated Depreciation	Book Value
Land – Fault Lake	1,956,316	–	1,956,316	1,956,316	–	1,956,316
Land – Oyster Bay	6,440,000	–	6,440,000	6,440,000	–	6,440,000
Vineyard Improvements						
– Oyster Bay	9,607,951	(1,402,221)	8,205,730	9,565,888	(1,044,890)	8,520,998
– Fault Lake	7,721,866	(23,971)	7,697,895	7,096,066	–	7,096,066
– Wairau River	6,378,689	–	6,378,689	3,788,914	–	3,788,914
Buildings	1,236,521	(56,125)	1,180,396	59,456	(7,360)	52,096
Plant and Equipment	1,887,581	(446,857)	1,440,724	1,581,328	(281,928)	1,299,400
Motor Vehicles	480,646	(253,913)	226,733	651,646	(284,826)	366,820
Capital Work in Progress	24,304	–	24,304	798,967	–	798,967
	35,733,874	(2,183,087)	33,550,787	31,938,581	(1,619,004)	30,319,577

The Company is restricted in its ability to subdivide, lease, sell or otherwise part with possession or control of the Land except in relation to a sale or lease to Delegat's Wine Estate Limited under a Long Term Co-Operation Agreement.

During the year ended 30 June 2002, the Company purchased, leased and commenced the development of the Fault Lake and Wairau River Vineyards. As stated in the accounting policies, finance costs that are directly attributable to the cost of an asset are included in the initial cost. The finance costs capitalised during the year to 30 June 2004 amounted to \$549,328 (2003 \$778,084).

Land and Vineyard Improvements on the Company's vineyards were assessed on 14 July 2004, by independent registered valuers Logan Stone Limited, to have a value of \$45,010,000. This valuation was determined on an income basis and was completed in accordance with the New Zealand Institute of Valuers Valuation Standard Number 3 – Valuation for Financial Statements and Practice Standard Number 3 – The Valuation of Rural Properties.

### 10. Commitments

	2004	2003
The following amounts have been committed to by the Company, but not recognised in the financial statements:		
<b>Operating Leases</b>		
Non Cancellable Operating Lease Commitments:		
Within one year	571,181	571,335
One to two years	545,759	536,995
Two to five years	1,615,368	1,610,986
Beyond five years	12,451,198	12,988,193
	15,183,506	15,707,509
<b>Capital Expenditure</b>		
Amounts Committed to Capital Expenditure	245,526	1,770,935
	245,526	1,770,935

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2004

### 11. Accounts Receivable

	2004	2003
<b>Current</b>		
Trade Receivables	11,595	4,960
Prepayments	154,988	34,661
GST	71,448	212,713
Tax Receivable	465	465
	<hr/>	<hr/>
	238,496	252,799

### 12. Borrowings

<b>Non-Current</b>		
Secured Term Loan	18,000,000	14,100,000
	<hr/>	<hr/>
	18,000,000	14,100,000

The Company arranged an \$18,000,000 term loan facility, to finance the development of the Fault Lake and Wairau River Vineyards. The term loan matures on 31 December 2005 being the scheduled date of completion for the developments. Prior to maturity of the facility the Company will review its financing requirements and secure the necessary facilities.

At 30 June 2004 the Company had utilised \$18,000,000 of the facility. The term loan has an interest rate at 30 June 2004 of 7.5%.

The term loan is secured by a first mortgage over the Oyster Bay Vineyard and the freehold portion of the Fault Lake Vineyard, a debenture from the Company and a Deed of Assignment over the Vineyard Management and Administration Agreement, Fixed Price Development Agreement and Grape Purchase Agreements relating to Oyster Bay Vineyard, Fault Lake Vineyard and Wairau River Vineyard.

### 13. Financial Instruments

#### Credit Risk

The Company incurs credit risk from transactions with trade receivables and financial institutions in the normal course of its business. The Company has a credit policy which restricts the exposure to individual trade receivables and the Board of Directors does review its exposure to trade receivables. The Company deals with Deleat's Wine Estate Limited in the normal course of business, as outlined in the Related Parties disclosures, and the Board believes the credit risk is satisfactory. The Company does not have any other significant concentrations of credit risk. Amounts owed by trade receivables are unsecured.

The Company does not require any collateral or security to support transactions with financial institutions. The counterparties used for banking and finance activities are financial institutions with high credit ratings.

#### Fair Values

The estimated fair values of the financial assets and liabilities (consisting of cash at bank, receivables and trade creditors) are equivalent to their carrying values.

#### Currency Risk

The Company has no transactions subject to foreign currency exchange rate changes.

#### Interest Rate Risk

The Company has a policy of utilising short term interest rate periods to manage its term borrowings. The Company incurs interest rate risk from borrowings from financial institutions in the normal course of its business.

The interest rate on the term borrowings was reviewed on 4 September 2003 and was set at 7.5%.

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2004

### 14. Related Party Information

#### General

Delegat's Wine Estate Limited is the major shareholder of Oyster Bay Marlborough Vineyards Limited. Delegat's Wine Estate Limited is 100% owned by Delegat's Group Limited.

#### Related Party Transactions and Balances

#### Key Management Personnel and Members of the Board of Directors

The Company maintains an interests register in which members of the Board record all parties and transactions in which they may have a potential or actual self-interest. During the year the Company undertook transactions with Directors as detailed below:

	2004	2003
Directors were paid Directors' Fees as follows:		
Mr WJ Falconer	25,000	25,000
Mr J Maasland	17,500	17,500
Hon RM Richardson	17,500	17,500

	2004	2003
Directors hold the following number of shares in Oyster Bay Marlborough Vineyards Limited:		
Mr JN Delegat	5,000	5,000
Ms RS Delegat	5,000	5,000
Mr WJ Falconer	65,000	50,000
Mr J Maasland	5,000	5,000
Hon RM Richardson	5,000	5,000
Mr RL Wilton	10,000	10,000
Mr RL Wilton, Mrs S Wilton and N Dangen	5,000	5,000

Mr RL Wilton and Mr JN Delegat, both Directors, and Ms RS Delegat, an Alternate Director, are Directors of Delegat's Group Limited and Delegat's Wine Estate Limited.

#### Other Related Parties

Delegat's Wine Estate Limited provided accounting and administrative services to the Company during the year, under a Vineyard Management and Administration Agreement. The Company reimburses any costs incurred by Delegat's Wine Estate Limited in performing services required by the management plan. The Company incurred \$233,780 (2003 \$228,887) for these services, of which \$nil (2003 \$42,754) remains outstanding between the companies at balance date and is included in Current Liabilities.

During the year ended 30 June 2002, Oyster Bay Marlborough Vineyards Limited entered into a Fixed Price Vineyard Development Agreement with Delegat's Wine Estate Limited which required Delegat's Wine Estate Limited to develop 146 hectares; namely the Fault Lake Vineyard in accordance with a development plan. Oyster Bay Marlborough Vineyards Limited was to pay Delegat's Wine Estate Limited \$4,477,000 (plus GST) by progress payments each month against certified completion of work for the previous month. As at 30 June 2004 Oyster Bay Marlborough Vineyards Limited has been invoiced \$4,477,000 (2003 \$4,426,732), of which \$nil (2003 \$106,875) remains outstanding at balance date. The Fixed Price Development Agreement has been concluded.

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2004

During the year ended 30 June 2002, Oyster Bay Marlborough Vineyards Limited entered into a Fixed Price Vineyard Development Agreement with Delegat's Wine Estate Limited which requires Delegat's Wine Estate Limited to develop 131 hectares; namely the Wairau River Vineyard in accordance with a development plan. During the year ended 30 June 2004, an additional 3.66 hectares has been incorporated into this agreement. Oyster Bay Marlborough Vineyards Limited is to pay Delegat's Wine Estate Limited \$4,234,428 (plus GST) by progress payments each month against certified completion of work for the previous month. As at 30 June 2004 Oyster Bay Marlborough Vineyards Limited has been invoiced \$3,988,022 (2003 \$2,760,611), of which \$1,973 (2003 \$263,454) remains outstanding at balance date.

Oyster Bay Marlborough Vineyards Limited has entered into Grape Purchase Agreements with Delegat's Wine Estate Limited which requires Delegat's Wine Estate Limited to purchase, at market value, all grapes produced by Oyster Bay Marlborough Vineyards Limited. Oyster Bay Marlborough Vineyards Limited received \$6,544,776 (2003 \$2,346,230) from Delegat's Wine Estate Limited for the 2004 grape harvest, of which none was outstanding at 30 June 2004 (2003 \$nil).

No amounts owed by related parties have been written off or forgiven during the year.

### 15. Contingent Liabilities

At 30 June 2004 the Company has no contingent liabilities (2003 \$nil).

### 16. Events Occurring after Balance Date

There have been no material events subsequent to balance date that would affect these financial statements.

### 17. Comparison of Actual Results to Explanatory Note

Oyster Bay Marlborough Vineyards Limited issued prospective information in an Explanatory Note on 27 September 2001 to support the acquisition, lease and development of the Fault Lake and Wairau River Vineyards. A comparison of the actual results with those projected follows below.

	Actual	Explanatory Note
<b>Summary of Statement of Financial Performance</b>		
<b>For the Year Ended 30 June 2004</b>		
Grape Sales	6,544,776	6,465,370
Interest Received	11,557	–
Less: Operating Expenses	(3,426,635)	(2,992,587)
Less: Depreciation	(655,745)	(800,255)
Operating Surplus/(Deficit) before Income Tax	2,473,953	2,672,528
Interest Expense	(807,059)	(671,978)
Income Tax	(442,292)	(660,181)
<b>Operating Surplus/(Deficit) after Income Tax</b>	<b>1,224,602</b>	<b>1,340,368</b>

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2004

	Actual	Explanatory Note
<b>Summary of Statement of Financial Position</b>		
<b>As at 30 June 2004</b>		
Share Capital	18,000,000	18,000,000
Retained Earnings	(184,839)	(751,306)
<b>Total Equity</b>	<b>17,815,161</b>	<b>17,248,694</b>
Non-Current Assets	33,550,787	35,851,882
Current Assets	3,040,107	718,221
<b>Total Assets</b>	<b>36,590,894</b>	<b>36,570,103</b>
Less: Current Liabilities	333,441	1,588,962
Non-Current Liabilities	18,442,292	17,732,447
<b>Net Assets</b>	<b>17,815,161</b>	<b>17,248,694</b>
<b>Summary of Statement of Cash Flows</b>		
<b>For the Year Ended 30 June 2004</b>		
Operating Activities	2,148,701	
Investing Activities	(4,517,244)	
Financing Activities	3,900,000	
<b>Net Increase/(Decrease) in Cash and Bank Balances</b>	<b>1,531,457</b>	

## AUDITOR'S REPORT

To the Shareholders of Oyster Bay Marlborough Vineyards Limited



**PricewaterhouseCoopers**  
PricewaterhouseCoopers Tower  
188 Quay Street  
Private Bag 92162  
Auckland, New Zealand  
DX CP24073  
Telephone +64 9 355 8000  
Facsimile +64 9 355 8001

We have audited the financial statements on pages 5 to 16. The financial statements provide information about the past financial performance and cash flows of the Company for the year ended 30 June 2004 and its financial position as at that date. This information is stated in accordance with the accounting policies set out on page 9.

### Directors' Responsibilities

The Company's Directors are responsible for the preparation and presentation of the financial statements which give a true and fair view of the financial position of the Company as at 30 June 2004 and its financial performance and cash flows for the year ended on that date.

### Auditor's Responsibilities

We are responsible for expressing an independent opinion on the financial statements presented by the Directors and reporting our opinion to you.

### Basis of Opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- (a) the significant estimates and judgements made by the Directors in the preparation of the financial statements; and
- (b) whether the accounting policies are appropriate to the circumstances of the Company, consistently applied and adequately disclosed.

We conducted our audit in accordance with generally accepted auditing standards in New Zealand. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

We have no relationship with or interests in the Company other than in our capacity as auditors and tax advisers.

### Unqualified Opinion

We have obtained all the information and explanations we have required.

In our opinion:

- (a) proper accounting records have been kept by the Company as far as appears from our examination of those records; and
- (b) the financial statements on pages 5 to 16:
  - (i) comply with generally accepted accounting practice in New Zealand; and
  - (ii) give a true and fair view of the financial position of the Company as at 30 June 2004 and its financial performance and cash flows for the year ended on that date.

Our audit was completed on 31 August 2004 and our unqualified opinion is expressed as at that date.

A handwritten signature in cursive script that reads 'PricewaterhouseCoopers'.

Chartered Accountants  
AUCKLAND

## INDEPENDENT VITICULTURAL CONSULTANT'S REPORT



18 August 2004

The Chairman of Directors  
Oyster Bay Marlborough Vineyards Limited  
PO Box 91 681  
Auckland Mail Centre  
AUCKLAND

Dear Sir

### Annual Review: Oyster Bay Marlborough Vineyards Limited

In my role as the Independent Viticulturist to Oyster Bay Marlborough Vineyards Limited ("OBMVL"), I provide you with a review of the development and performance of the vineyards owned and being developed by the Company in the period ending 30 June 2004.

### Vineyard Performance

All three vineyards are being managed to good commercial standards.

For the 2004 harvest the three vineyards generated a total yield of 3,155 tonnes, about 3.5% above projections, with the individual vineyards producing: Oyster Bay 2,605 tonnes; Fault Lake 421 tonnes; Wairau River 129 tonnes. This result compares well with the performance of other vineyards in the region and was achieved despite a reduction in yield at Fault Lake because of spring frosts within areas of this vineyard.

The revenue from fruit sales was favourably influenced by the overall fruit quality at harvest, meeting the requirements specified by Delegat's Wine Estate Limited ("DWE").

### Vineyard Development

The vineyard developments are nearly completed and have been established to a high standard.

The only remaining item for completion of the three original development agreements is the supply and installation of the foliage wires at Stage II of Wairau River scheduled for completion in the third quarter of this year. In addition there is a 3.5 ha extension to one block of this vineyard on further land made available by the landowner for planting later this year.

The remaining three vineyard blocks of "own-roots" vines in the original Oyster Bay Vineyard have declined strength and cropping performance because of phylloxera damage and are being replanted during the 2004 winter. This replanting is appropriate and will complete the planned replanting noted in the Prospectus for the Company.

### Summary

The overall yield and fruit quality results of these vineyards were very satisfactory and consistent with the performance of similar vineyards within the region.

In my opinion, DWE continue to develop and manage the vineyards of OBMVL to a high commercial standard.

Yours sincerely  
Vine to Wine to Market Ltd

DAVID JORDAN (PhD, BHortSci)  
VITICULTURIST

## VALUATION REPORT

**LOGAN STONE**

STRATEGIC PROPERTY SOLUTIONS

Valn Ref: 6771

14 July 2004

The Directors  
Oyster Bay Marlborough Vineyards Ltd  
PO Box 91-681  
AUCKLAND MAIL CENTRE

Attention: Christine Pears

**VALUATIONS – MARLBOROUGH VINEYARD PROPERTIES**

In accordance with your instructions, we inspected the Marlborough vineyards situated in the Wairau Valley on 1 July 2004 to assess the market value for financial reporting purposes.

A detailed property report together with copies of the Computer Freehold Register, a locality plan and resource consents have not been provided as per your instruction. This is available if required. The valuation has been completed in accordance with the New Zealand Institute of Valuers Valuation Standard Number 3 – *Valuation for Financial Statements* and Practice Standard Number 3 – *The Valuation of Rural Properties*.

**Valuation – Oyster Bay Vineyard**

As at 1 July 2004 we assess the market value based on an Income Valuation Approach to be **Twenty Eight Million Two Hundred and Ninety Thousand Dollars (\$28,290,000)**

**Valuation – Fault Lake Vineyard (Freehold)**

As at 1 July 2004, we assess the market value based on an Income Valuation Approach to be **Three Million Nine Hundred Thousand Dollars (\$3,900,000)**

**Valuation – Fault Lake Vineyard (Leasehold)**

As at 1 July 2004, we assess the market value based on an Income Valuation Approach to be **Six Million Five Hundred Thousand Dollars (\$6,500,000)**

**Valuation – Wairau River Vineyard (Leasehold)**

As at 1 July 2004, we assess the market value based on an Income Valuation Approach to be **Six Million Three Hundred and Twenty Thousand Dollars (\$6,320,000)**

The above valuation is plus Goods and Services Tax (if any).

*This valuation has been prepared for the person to whom it is addressed for the purposes referred to in the valuation and no other person should rely upon this report for any purpose without reference to the valuer undersigned, and should some other person do so without reference to the undersigned then that person does so at his own risk.*

Yours faithfully

LOGAN STONE LTD



Boyd A Gross  
B Agr (Rural Val), Val Dip Bus Std, ANZIV, SNZPI

Registered Valuers • Property Managers • Strategists • Arbitrators

301 Queen Street East Box 914 Hastings New Zealand • [valuers@loganstone.co.nz](mailto:valuers@loganstone.co.nz) • Telephone +64 6 876 6401 • Facsimile +64 6 876 3543[www.loganstone.co.nz](http://www.loganstone.co.nz)

## SHAREHOLDERS' INFORMATION

### Twenty Largest Shareholders as at 24 August 2004

Holder	Shares Held	% of Shares
Delegat's Wine Estate Limited	2,932,500	32.58
David Hugo Rankin	315,010	3.50
Peter Wayne Maurice Yealands	240,750	2.68
Mr Warren Fraser Sanderson and Mrs Elizabeth Ann Sanderson	120,000	1.33
Forbar Custodians Limited	116,819	1.30
Dorothy Mary Franks Wilson	103,682	1.15
John Ross Elliot and Toni Elliot	100,000	1.11
David Herlihy Russell and Marie Anne Russell	100,000	1.11
William John Hogg	65,800	0.73
William John Falconer	65,000	0.72
Tetsuya Holdings Limited	60,000	0.66
Investment Custodial Services Limited	60,000	0.66
Custodial Services Limited	60,000	0.66
Gerhardus Franciscus Slebos	51,000	0.57
Annette Sylvia Presley	50,000	0.56
GT Nominees Limited	50,000	0.56
Stokesay Holdings Limited	44,000	0.49
ASB Nominees Limited	40,000	0.44
Investment Custodial Services Limited	37,653	0.42
Mr Andrew Alexander Craig	35,000	0.39
<b>Total for Top 20</b>	<b>4,647,214</b>	<b>51.62</b>

### Distribution of Ordinary Shares

Holder	Holders	Shares Held	% of Shares
1 - 5,000	716	3,206,445	35.63
5,001 - 10,000	71	671,195	7.46
10,001 - 100,000	40	1,293,599	14.37
100,001 plus	6	3,828,761	42.54
<b>Total</b>	<b>833</b>	<b>9,000,000</b>	<b>100.00</b>

## DIRECTORY

### Board of Directors

William Falconer (Chairman)

Jim Delegat

John Maasland

Hon Ruth Richardson

Robert Wilton

Rosemari Delegat (*Alternate Director for Jim Delegat and Robert Wilton*)

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### Registered Office

Level 1, 16 Viaduct Harbour Avenue

Maritime Square, Auckland

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### Management Office

PO Box 91 681, Auckland Mail Centre, Auckland

Telephone 64 9 359 7300, Facsimile 64 9 359 7359

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### Independent Viticultural Consultant

Vine to Wine to Market Limited

7 Ewen Alison Avenue, Devonport

PO Box 32 170, Auckland

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### Banker

Westpac Banking Corporation

318 Lambton Quay

PO Box 691, Wellington

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### Auditor

PricewaterhouseCoopers

188 Quay Street

Private Bag 92 162, Auckland

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### Share Registrar

BK Registries

PO Box 384, Ashburton

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### Solicitor

Kensington Swan

18 Viaduct Harbour Avenue

Private Bag 92 101, Auckland

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