



Oyster Bay

MARLBOROUGH

Vineyards Limited

INTERIM REPORT DECEMBER 2006

CHAIRMAN'S REPORT TO SHAREHOLDERS

The Directors are pleased to present the financial results of Oyster Bay Marlborough Vineyards Limited ("the Company") for the six months ended 31 December 2006.

Operating Performance

The Company has recorded a net deficit of \$697,000 for the six months ended 31 December 2006, compared with a deficit of \$927,000 for the same period last year. The Company's operating revenues occur in the second half of the financial year following the sale of its annual grape harvest. This half year result reflects an operating deficit before non-recurring items and income tax of \$1,112,000 (last year \$1,011,000), less a reduction in the Company's deferred tax liability of \$343,000. This result includes a credit of \$72,000 relating to recovery of costs incurred in responding to the partial takeover offer for the Company's share pursued during the last financial year.

Operating expenses at \$296,000 for the six months were ahead of the \$249,000 recorded for the corresponding period in the previous year. The increase in the operating deficit before non-recurring items is explained by higher interest costs, \$843,000 relative to the previous year (\$764,000).

The reciprocal claims between the Company and Peter Yealands Investments Limited advised in the preliminary announcement to the market on 15 February remain unresolved though some progress is being made. Since then NZX Discipline has awarded costs of \$54,000 in the Company's favour as regards the action determined by that body.

The vineyards continue to be managed to a high standard, as confirmed in the reports of the independent advisor, Dr David Jordan. The weather conditions in December have resulted in a variable fruit set, predominantly in Sauvignon Blanc, which could result in a decline in yields. Conditions since December have been more favourable albeit variable. Although a challenging season climatically, the vines are in excellent health and we continue to monitor the yield estimates.

At the time of preparing this report, prices for the 2007 harvest are still under negotiation. In consequence Deleat's interim payment against this harvest has been made by reference to last year's revenue in accordance with the grape purchase agreements.



W J Falconer CNZM, LLB
CHAIRMAN

The unaudited financial statements for the six months to 31 December 2006 have been prepared in accordance with Financial Reporting Standard Number 24 and should be read in conjunction with the published financial statements for the year ended 30 June 2006. There have been no changes in accounting policy since 30 June 2006.

STATEMENT OF FINANCIAL POSITION

As at 31 December 2006

	Unaudited Dec-06 \$000	Audited Jun-06 \$000	Unaudited Dec-05 \$000
Equity			
Share Capital (\$2 fully paid)	18,000	18,000	18,000
Retained Earnings	(1,113)	484	(1,363)
Total Equity	16,887	18,484	16,637
Liabilities			
Non-Current Liabilities			
Deferred Tax Liability	839	1,182	380
Borrowings	16,800	18,000	18,000
Total Non-Current Liabilities	17,639	19,182	18,380
Current Liabilities			
Borrowings	4,218	–	4,310
Payables and Accruals	504	495	446
Amounts Owed to Related Parties	176	95	236
Total Current Liabilities	4,898	590	4,992
Total Equity and Liabilities	39,424	38,256	40,009
Assets			
Non-Current Assets			
Property, Plant & Equipment	33,399	33,974	34,403
Total Non-Current Assets	33,399	33,974	34,403
Current Assets			
Cash and Bank Balances	6	2,639	8
Accounts Receivable	608	416	844
Amounts Owed to Related Parties	101	88	161
Inventories – Raw Materials	–	9	76
Growing Costs Relating to Next Harvest	5,310	1,130	4,517
Total Current Assets	6,025	4,282	5,606
Total Assets	39,424	38,256	40,009

STATEMENT OF MOVEMENTS IN EQUITY

For the six months ended 31 December 2006

	Unaudited Dec-06 6 Months \$000	Audited Jun-06 12 Months \$000	Unaudited Dec-05 6 Months \$000
Equity at Beginning of Period	18,484	17,564	17,564
Recognised revenues and expenses			
Net (Deficit)/Surplus after Income Tax	(697)	920	(927)
Other movements			
Distribution to Owners	(900)	–	–
Equity at End of Period	16,887	18,484	16,637

STATEMENT OF FINANCIAL PERFORMANCE

For the six months ended 31 December 2006

	Unaudited Dec-06 6 Months \$000	Audited Jun-06 12 Months \$000	Unaudited Dec-05 6 Months \$000
Operating Revenue			
Grape Sales	–	10,668	–
Interest Received	27	2	2
	27	10,670	2
Operating Expenses	(296)	(6,691)	(249)
Operating (Deficit)/Surplus before Interest, Non-Recurring Costs & Income Tax	(269)	3,979	(247)
Interest Expense	(843)	(1,755)	(764)
Operating (Deficit)/Surplus before Non-Recurring Costs & Income Tax	(1,112)	2,224	(1,011)
NZX Discipline Expenses	(78)	(141)	–
Takeover and Complaint Related Expenses	(150)	(694)	(250)
Insurance Recovery	300	–	–
Operating (Deficit)/Surplus before Income Tax	(1,040)	1,389	(1,261)
Income Tax Credit/(Expense)	343	(469)	334
Net (Deficit)/Surplus after Income Tax	(697)	920	(927)

STATEMENT OF CASH FLOWS

For the six months ended 31 December 2006

	Unaudited Dec-06 6 Months \$000	Audited Jun-06 12 Months \$000	Unaudited Dec-05 6 Months \$000
Operating Activities			
Total Operating Receipts	(91)	10,668	–
Total Operating Payments	(4,590)	(9,109)	(5,496)
Net Cash Flows from Operating Activities	(4,681)	1,559	(5,496)
Investing Activities			
Total Investing Receipts	–	–	–
Total Investing Payments	(70)	(207)	(90)
Net Cash Flows from Investing Activities	(70)	(207)	(90)
Financing Activities			
Total Financing Receipts	3,018	6,914	4,307
Total Financing Payments	(900)	(6,914)	–
Net Cash Flows from Financing Activities	2,118	–	4,307
Net (Decrease)/Increase in Cash Held	(2,633)	1,352	(1,279)
Cash at Beginning of Period	2,639	1,287	1,287
Cash at End of Period	6	2,639	8
Reconciliation with Operating (Deficit)/Surplus			
Reported Operating (Deficit)/Surplus after Tax	(697)	920	(927)
Items not Involving Cash Flows	297	1,441	418
Impact of Changes in Working Capital Items	(4,287)	(864)	(4,864)
Items Classified as Investing or Financing Activities	6	62	(123)
Net Cash Flows from Operating Activities	(4,681)	1,559	(5,496)

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 31 December 2006

The financial statements are for the reporting entity Oyster Bay Marlborough Vineyards Limited, an issuer in terms of the Securities Act 1978. The unaudited interim financial statements have been prepared in accordance with the requirements of the Companies Act 1993 and the Financial Reporting Standard No 24 'Interim Financial Statements', issued by the New Zealand Institute of Chartered Accountants, and are presented in New Zealand dollars. These financial statements should be read in conjunction with the financial statements and related notes included in the Company's Annual Report for the year ended 30 June 2006.

Impact Of Adopting New Zealand Equivalents To International Financial Reporting Standards

In December 2002, the New Zealand Accounting Standards Review Board determined that all New Zealand reporting entities will be required to adopt New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) for reporting periods beginning on or after 1 January 2007, with the option of early adoption for periods beginning on or after 1 January 2005.

The Company does intend to implement NZ IFRS in its annual financial statements for the year ended 30 June 2008, with comparative balances to 30 June 2007. The year ended 30 June 2007 is the year of transition to NZ IFRS. The transition date will be 1 July 2006 when the Company will restate amounts reported under previous New Zealand accounting standards (NZ GAAP) using NZ IFRS. This requires a restatement of opening balances as at 1 July 2006, with initial transitional adjustments recognised retrospectively and against retained earnings at that date.

In late 2005 the Company established a project team to plan for the transition to NZ IFRS and identify the impacts of its implementation. To date the project team has completed a high level review and identified a number of key accounting policies that will be required to move from NZ GAAP to NZ IFRS. At reporting date the Company does not consider it can with certainty reliably estimate the full impact of these changes. The review to date has identified a number of key accounting policies that will be required to move from NZ GAAP to NZ IFRS which are set out below:

I. Accounting for biological assets

Under current accounting policy, the Company accounts for the costs incurred in growing the grapes for each harvest 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. Consistent with the Company's accounting policy, inventories are valued at the lower of cost or net realisable value.

Under NZ IFRS the Company will be required to account for biological assets (vines) and agricultural produce (grapes) at fair value. Fair value is defined as the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm length transaction. Fair value is determined by reference to a price quoted in an active market.

In the absence of an active market, fair value is referenced to recent market transactions, discounted cash flow models or in exceptional circumstances, cost.

The Company does not consider any adjustment required for agricultural produce will be material. There will be an initial impact on retained earnings on implementation of NZ IFRS as the Company expects the fair value of biological assets (vines) will exceed its historical cost. Until valuations determining the fair value of the vines are obtained the financial impact cannot be reliably estimated.

2. Fair Value as Deemed Cost

Under NZ IFRS, the Company may elect to measure an item of property, plant and equipment at the date of transition to NZ IFRS at its:

- a historic cost;
- b fair value and use that value as its deemed cost going forward; or
- c fair value and review that value annually.

The Company has identified that the land at Fault Lake and Oyster Bay vineyards has a fair value significantly different to the historic cost recorded under current NZ GAAP. The Company is working through the process of determining the appropriate methodology to adopt for reporting under NZ IFRS.

3. Income Tax

A 'balance sheet' approach to tax effect accounting is followed under NZ IFRS, replacing the current 'statement of financial performance' approach. This approach recognises deferred tax balances when there is a difference between the carrying value of an asset or liability and its tax base. Under NZ IFRS a deferred tax asset is recognised to the extent it is probable there will be a taxable profit against which a deductible temporary difference can be used. The benchmark for recording a deferred tax asset has lowered from 'virtual certainty' under NZ GAAP to 'probable'. Probable is considered to mean 'more likely than not'.

The impacts of the move to NZ IFRS on the deferred tax position are expected to be:

- a Under NZ IAS 41 biological assets must be re-valued to fair value at year-end. The tax base of the asset will remain as cost and therefore will be different from the accounting value. The deferred tax impact of this difference will be recognised in the Statement of Financial Performance.
- b Under NZ IAS 41 agricultural produce must be valued at fair value. The tax base of the asset will remain as cost and therefore will be different from the accounting value. The deferred tax impact of this difference will be recognised in the Statement of Financial Performance.

4. Financial Instruments

Under NZ GAAP, any gains and losses on derivative instruments that are designated as hedges of specific items are accounted for on the same basis as the underlying hedged item. The net differential paid or received, in respect of that derivative, is recognised in the Statement of Financial Performance. The fair value of derivative instruments is disclosed in the Notes to the Financial Statements.

Under NZ IFRS there is a requirement to recognise the fair value of all derivative instruments in the Statement of Financial Position. If the instrument does not meet the requirements for hedge accounting then any market movements will be recognised in the Statement of Financial Performance. If a derivative instrument does not qualify for hedge accounting then any mark to market movements will be recognised directly within the Statement of Movements in Equity, then released to the Statement of Financial Performance in accordance with the movements in the underlying hedged instrument. As there are no currently held open derivative financial instruments covering 30 June 2007 there are no differences between NZ GAAP and NZ IFRS to be accounted for.

Further Impacts

The areas identified above should not be taken as an exhaustive list of all differences between NZ GAAP and NZ IFRS. The impacts discussed are based on management's current interpretation of the standards that have been released to date. There is potential for the significance of the impact to change when the Company prepares its first set of NZ IFRS financial statements due to changes in the standards, changes in the business or changes in management's interpretation of the standards.

The above differences from current accounting policy have not been fully quantified as at this stage the Company is unable to reliably quantify all the effects. On adoption of NZ IFRS the majority of the transitional adjustments required will be made, retrospectively against opening retained earnings.

As we progress towards 30 June 2008 the Company will continue to provide users of the financial statements with updated information about the likely impacts of NZ IFRS on the Company's earnings, cash flows and financial position.

Changes in Accounting Policies

The accounting policies used in the preparation of the unaudited financial statements are consistent with those used in the preparation of the audited financial statements for the year ended 30 June 2006. There have been no changes in accounting policy since 30 June 2006.

Contingent Assets

The Company considers \$305,000 of expenses in relation to takeover and panel hearings and complaints to NZX by Peter Yealands Investments Limited (PYIL), to be recoverable from PYIL. The Company considers it is likely mediation or court action will be required to reach a final determination on recovery of these costs and no amount has been recognised in the financial statements. In addition the Company has a claim against PYIL for \$198,000 of costs in consequence of NZX Discipline finding in the Company's favour in its consideration of PYIL's application for a review of a prior NZX decision. (2006: contingent assets \$305,000).

Contingent Liabilities

At 31 December 2006 the Company has received claims from PYIL arising from the takeover process and subsequent High Court proceedings. The Company continues to dispute claims made by PYIL and considers that it is likely mediation or court action will be required to reach a final determination. Given the uncertainty concerning the Company's liability in regard to the claims and any required payment, no amount has been recognised in the financial statements. Claims amounting to \$329,000 have been received by the Company at balance date. (2006: contingent liabilities \$325,000).

Other Disclosures

	Unaudited Dec-06 6 Months \$000	Unaudited Dec-05 6 Months \$000
Operating deficit before income tax includes:		
Leasing and renting expenses	476	283
Depreciation	615	500
Earnings per share (basic cents per share)	(7.7)	(10.3)
Return on assets	(0.68%)	(0.62%)
Return on equity	(4.13%)	(5.57%)
Debt to equity ratio	133.46%	140.48%

NOTES



Fault Lake Vineyard

