

Oyster Bay

MARLBOROUGH

Vineyards Limited

**OYSTER BAY MARLBROUGH VINEYARDS LIMITED**

**CHAIRMAN'S REPORT FOR THE YEAR ENDED 30 JUNE 2008**

It gives me much pleasure to report that the company made a profit after tax for the year ended 30 June 2008 of \$2,813,000, compared with the \$1,306,000 made last year, equating to 31.26 cents a share.

This resulted from an excellent growing season in which the company produced a total of 7,193 tonnes of grapes across all varieties – an increase of 71 per cent on last year. Average grape prices were \$2,175 per tonne, a decrease of 4.3 per cent on the prior year, but producing total revenue of \$15,647,000, an increase of 64 per cent over last year.

Total operating expenses were \$8,885,000, an increase of 24 per cent over the prior year, reflecting principally increased labour, contractor and frost protection costs, and increased rentals for the company's leasehold properties.

Interest expense increased by 10 per cent to \$1,972,000, but tax expenses amounted to \$2,150,000 compared with the tax credit of \$1,037,000 recorded last year. Legal costs of the matters still before the courts totalled \$104,000 for the year.

Overall the year was most satisfactory, though it must be said that due to heavy spring flowering, vine yields were abnormally high. After excellent summer growing conditions, adverse weather in late March and early April caused lower than expected fruit maturity and crop condition, which took the edge off prices.

In the circumstances directors decided to distribute a dividend of 20 cents a share – a total of \$1.8 million - compared with 5 cents a share last year. This was paid on 14 November to shareholders appearing on the record on 31 October 2008.

Given the company's history of distributing near the full amount of its surplus in previous years, let me explain the rationale behind this decision.

At the Annual General Meeting last year I talked about the objective of Oyster Bay growing so that it continues to be one of the major vineyards in New Zealand. I referred to several factors which make this a valid objective for the company – its sustained excellence in viticultural practice, its competitive cost structure, and the capital support for future growth it may expect from its major shareholder, Delegat's Wine Estate.

This year's out turn confirms that our vineyards have excellent yield potential and are managed well. Good properties in Marlborough have been coming on to the market during the course of this year, though prices have not been at levels which would promise good investment returns. The company has no proposition to place before shareholders at this time, nor will the directors bring an investment to shareholders unless they believe that it represents good value.

The Directors concluded however, that it would be prudent for the company to retain about a third of the year's profits and move forward with a small capital reserve rather than none, not just to cover the possibility of a further investment, but also in recognition of the totally uncertain conditions which confront the New Zealand economy at the present time.

We have already invested some of the reserve in frost protection windmills in our most exposed areas, but we expect this to be more than offset by savings in frost protection costs, which totalled \$888,000 last year.

I must say that it is exceptionally annoying that much of the reserve may be eaten away by the legal costs we are continuing to incur in relation to the several matters before the Courts between the company and Peter Yealands Investments Limited. The outstanding costs and compensation issues could and should have been resolved over a year ago. The claim that the company has acted in a manner oppressive to the minorities is ill-founded. Mr Yealands was quoted in the media a couple of months ago as saying that all he wants from the Court proceedings is the truth, then it will be over. He can have the truth anytime, for free, without needing the company to spend your money, or to spend his own on lawyers.

As to the future, the world is facing economic conditions of unprecedented severity, and the only thing we can be certain of is that the future is uncertain. No-one knows what will happen next. Everyone is waiting for a signal as to whether things will get better or worse, and most are doing nothing in the interim.

Your directors do not have any insights except to say that the industry of which we form part is pretty hardy, and seems to endure most economic downturns. The surplus production which resulted from last year's bumper vintage seems to be working its way through the system, but there will likely be some further rationalisation within the industry. Our company is fortunate that its total production is contracted to Deleat's. This is not the time to be on the spot market. And we are fortunate that the Oyster Bay brand is well established on international markets as well as at home. So our winemaker and we are in that segment of the market which is best placed to survive, and maybe even flourish in different circumstances.

We will contribute to this by ensuring that our manager continues to manage the vineyards to the highest standards, and to keep a rigorous control over costs and quality.

May I conclude by thanking our managers for a job well done, our independent adviser, Dr David Jordan, and my colleagues on the Board for their unfailing attention to the company's affairs.

ENDS

Announcement authorised by:  
Bill Falconer  
Chairman

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