



THE NEW ZEALAND WINE COMPANY
LIMITED

5 March 2008

Directors' Report

Half Yearly Report for the Six Months Ended 31 December 2007

The Directors of The New Zealand Wine Company Limited (NZWC) are pleased to present their 2008 Interim Results.

Financial Reporting

NZWC accounts for the 31 December 2007 half year were prepared under NZ IFRS (New Zealand equivalents to International Financial Reporting Standards) for the first time. This is the first step in the transition from reporting under the previous NZ GAAP for the financial year ending 30 June 2008.

Changes to the NZWC financial statements being reported for the half year, under NZ IFRS, are summarised in the following Income Statement and Balance Sheet tables. The additional information in the tables is supplied for the Users benefit to show the NZ IFRS figures compared to the previous NZ GAAP equivalent figures along with explanatory notes for the material NZ IFRS adjustments, and they highlight some significant variations when compared to the earnings reported under the previous NZ GAAP.

NZWC Directors announce an unaudited net profit after tax of \$1,029,000 (\$676,000 NZ GAAP) for the 31 December 2007 half year. This represents a 180% increase in earnings (46% NZ GAAP) on the \$368,000 (\$462,000 NZ GAAP) for the same period in 2006.

The 2007 net earnings after tax include an unrealised foreign exchange gain of \$459,000 relating to the valuation of forward exchange contracts at "fair value" as at balance date. Unrealised foreign exchange gains/losses for future periods were not reported in the 2006 net earnings after tax under the previous NZ GAAP.

Total shareholders equity as at 31 December 2007 of \$21,636,000 under NZ GAAP has reduced to \$20,674,000 under NZ IFRS, for a net reduction of \$962,000 primarily from deferred tax adjustments under NZ IFRS. With 8,668,899 shares on issue net tangible assets have reduced from \$2.49 under the previous NZ GAAP to \$2.38 under NZ IFRS.

Sales

Revenue for the six months of \$5,601,000 represents an increase of 5% on the \$5,335,000 for the same period in 2006. While sales volume increased by 25% revenue has been adversely affected by the continued strength of the NZD.

The 2008 financial year is a watershed year for NZWC as revenues previously received under a three year contract with Delegat's wines, to process around 1,400 tonnes of grapes annually, ceased in the 2007 half year. The revenues are being progressively replaced with NZWC sales and there will be no significant comparable financial impact until the second half of the current financial year.

Foreign Exchange

NZD foreign exchange risk management remains a key focus for the Board with Management who continue to work to implement risk management strategies aimed at mitigating the continued strength of the NZD against the USD, GBP and AUD. NZWC is not alone as the prolonged period of NZD strength has also damaged many other New Zealand exporters. Increases in offshore wine prices have not been sufficient to counter the current strength of the NZD against the USD at around 0.80 and the GBP at around 0.40. When coupled with the expected market prices of grapes in Marlborough for the forthcoming harvest, NZWC is having to progressively implement appropriate wine price increases in its respective export markets.

Vintage 2007

The majority of NZWC vintage 2007 wines have been released and have been well received in the market place.

NZWC carboNZero® certification from Landcare Research continues to be an important sustainability initiative for the company and has been very well received in our offshore markets, particularly in the United Kingdom. NZWC has obtained new wine listings with a number of UK retailers as a direct result of the carboNZero® certification. Management continue to work with Landcare Research to expand the scope of the carboNZero® certification.

Outlook

Projected sales volumes for the second half of the 2008 financial year are on target and the underlying net tax paid earnings for the full June 2008 year, under previous NZ GAAP, is expected to increase by up to 5% over the June 2007 year. Net earnings after tax for the full year to 30 June 2008 under NZ IFRS financial reporting standards are very difficult for an agricultural exporting company to meaningfully project and the second half of the full year will continue to be dependent on current interest rates and the strength of the NZD.

The impact of the significant 19 October 07 frost on the expected grape harvest has been minimal and did not impact on our Sauvignon Blanc grapes through strategic investment in wind machines and the use of helicopters. The growing season has subsequently been good and Directors anticipate average to above-average yields if conditions remain favourable, and current sampling indicates an increased intake of NZWC fruit by 10 to 15% over the 2007 vintage harvest of 2,251 tonnes.

Directors consider the future outlook remains positive for the company, thus providing a sound financial platform for the future. The Board continues to work closely with Management to implement a growth strategy to deliver improvements in margins and earnings to increase shareholder value. The prolonged strength of the NZD against export market currencies is beyond our control and is very frustrating to deal with when other revenues and costs are being controlled on budget.

Dividend

The Directors have declared an unchanged fully imputed interim dividend of 3 cents per share for the half year to 31 December 2007 which will be paid on 4 April 2008, with a record date of 20 March 2008. The Directors remain committed to increasing dividend payments and will review the final dividend with the full year result, based upon a view of sustainable underlying earnings growth.

A full copy of the Half Yearly Report for the six months ended 31 December 2007 and the Directors' Report with comparative summary financial tables and explanatory notes is available on the NZWC web site, at: <http://www.nzwineco.co.nz/financial.aspx>.

For and on behalf of the Board of Directors

Alton Jamieson
Chairman

5 March 2008

The New Zealand Wine Company Limited

Impact of the Adoption of New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS)

As outlined in the 2007 Annual Report the Company is required to adopt the NZ Equivalents to International Financial Reporting Standards (NZ IFRS) for the financial year ended 30 June 2008. These interim financial statements, prepared for the half year ended 31 December 2007, represent the first financial statements prepared under NZ IFRS by the Company and for the benefit of shareholders and other users we have included a comprehensive explanation of the significant impacts that the required changes to accounting standards, and our associated accounting policies, have had on the Company's reported results and financial position. It is important to note that the accounting policies adopted in the preparation of these interim financial statements and the re-statement of the comparative information may change prior to the preparation of the 2008 Annual Report due to any further changes in the Standards or in their interpretation.

Income Statement

	Unaudited 6 months 31 Dec 2007 under previous NZ GAAP \$000s	Unaudited 6 months 31 Dec 2007 NZ IFRS Adjustments \$000s	Unaudited 6 months 31 Dec 2007 under NZ IFRS \$000s	Unaudited 6 months 31 Dec 2006 under NZ IFRS \$000s	Unaudited 12 months 30 Jun 2007 under NZ IFRS \$000s
Revenue from sale of goods	5,465	0	5,465	5,325	10,325
Revenue from rendering of services	85	0	85	0	951
Vineyard revenue - harvested grapes	0	0	0	0	1,230
Interest revenue	51	0	51	10	22
Revenue	5,601	0	5,601	5,335	12,528
Excise duty	(313)	0	(313)	(321)	(582)
Cost of sales	(3,339)	25	(3,314)	(3,123)	(6,948)
<i>Other income</i>					
Foreign exchange gains/(losses)	426	0	426	(73)	(274)
Change in fair value of financial assets	0	506	506	10	3
Gain on biological assets	0	923	923	826	551
Vineyard expenses	0	(923)	(923)	(964)	(1,429)
Distribution expenses	(99)	0	(99)	(63)	(117)
Marketing expenses	(433)	0	(433)	(507)	(896)
Administrative expenses	(484)	(4)	(488)	(429)	(963)
Finance costs	(350)	0	(350)	(143)	(378)
Profit before income tax	1,009	527	1,536	548	1,495
Income tax expense	(333)	(174)	(507)	(180)	(374)
Profit for the period	676	353	1,029	368	1,121

Earnings per share	7.8	4.1	11.9	4.3	12.9
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Profit for the period as previously reported				462	960
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Explanation of NZ IFRS Adjustments:

- Vineyard revenue** – the revenue shown for the year ended 30 June 2007 of \$1,230,000 is the unrealised value of harvested grapes from the company's owned and leased vineyards for the 2007 vintage valued at "fair value", representing market value. The reason that there is no revenue in the half year is because the grape harvest occurs in the second half of the financial year. These grapes were previously transferred to the winery at their cost, and vineyard revenue recorded for this amount, and any profit was realised upon their eventual sale as wine. The valuation of these grapes at market value, as required by NZ IFRS, results in adjustments to vineyard revenue and subsequently to cost of sales.
- Change in fair value of financial assets** – the other income shown for the current half year of \$506,000 includes unrealised income of \$42,000 relating to the valuation of interest rate swaps at "fair value" and unrealised gains/losses of \$459,000 relating to the valuation of forward foreign exchange contracts at "fair value" at balance date. What this means is that if the Company were to "cash in" all of its outstanding interest rate swaps and forward foreign exchange contracts at 31 December 2007 it would have received \$42,000 and \$459,000 respectively for these from the bank. Under the previous accounting policies the interest rate swap benefit would only be accounted for as the interest savings were realised in future periods. In relation to the forward foreign exchange contracts, under the previous accounting policies the export sales in future periods would be recorded at the realised forward contract rates into New Zealand dollars, not at the unrealised spot rate as is required by NZ IFRS, and as such this is bringing forward revenue for future sales. Such unrealised entries at balance date reverse on the opening of the next financial period. These unrealised gains/losses are revalued at their "fair value" on a continuous basis until either financial instrument maturity, translation into New Zealand dollars or the next balance date occurs.

3. **Gain on biological assets** – under NZ IFRS grape vines are classified as “biological assets”. Any movement in the value of the vines during the period is required to be taken through the profit and loss (Income Statement). Under NZ IFRS the Company has adopted a policy of capitalising the costs incurred to date, pre-veraison, in producing the current year’s grapes for commercial harvest, subject to any impairment, and thereby recognising this as an unrealised gain on the vine valuation of \$923,000, in accordance with NZ IAS 41. At harvest the recognised half-year gain is reversed and the full harvest value is recognised as unrealised Vineyard revenue. At 30 June the vines (post-harvest) are valued by an independent valuer to determine the gain/loss on previous carrying value. It should be noted that these revaluation gains/losses are unrealised within the Income Statement and were formerly recorded under NZ GAAP as part of the Asset revaluation reserve, included in Shareholder’s Equity.
4. **Vineyard expenses** – the costs shown for the current half year of \$923,000 are the costs incurred to 31 December 2007 for the production of grapes to be harvested in approximately March/April of the following year. These costs were previously included in “Other current assets” as prepayments until transferred at harvest to Inventory at cost.

Balance Sheet

	Unaudited 31 Dec 2007 under previous NZ GAAP \$000s	Unaudited 31 Dec 2007 NZ IFRS Adjustments \$000s	Unaudited 31 Dec 2007 under NZ IFRS \$000s	Unaudited 31 Dec 2006 under NZ IFRS \$000s	Unaudited 30 Jun 2007 under NZ IFRS \$000s
CURRENT ASSETS					
CASH AND CASH EQUIVALENTS	1,319		1,319	1,501	1,637
TRADE AND OTHER RECEIVABLES	2,664		2,664	2,145	3,725
OTHER FINANCIAL ASSETS	0	501	501	25	0
INVENTORIES	6,886	(213)	6,673	4,892	7,614
CURRENT TAX ASSETS	0		0	74	158
OTHER CURRENT ASSETS	1,147	(923)	224	291	611
TOTAL CURRENT ASSETS	12,016	(635)	11,381	8,928	13,745
NON-CURRENT ASSETS					
PROPERTY, PLANT & EQUIPMENT	23,145	(8,154)	14,991	14,487	14,528
BIOLOGICAL ASSETS	0	9,077	9,077	7,438	8,154
INTANGIBLE ASSETS	19		19	26	23
INVESTMENTS	10		10	10	10
OTHER NON-CURRENT ASSETS	136	(4)	132	140	127
TOTAL NON-CURRENT ASSETS	23,310	919	24,229	22,101	22,842
TOTAL ASSETS	35,326	284	35,610	31,029	36,587
CURRENT LIABILITIES					
TRADE AND OTHER PAYABLES	878	1	879	1,026	2,159
LOANS AND BORROWINGS	1,446		1,446	837	1,414
CURRENT TAX PAYABLES	142	174	316	0	0
TOTAL CURRENT LIABILITIES	2,466	175	2,641	1,863	3,573
NON-CURRENT LIABILITIES					
LOANS AND BORROWINGS	10,291		10,291	8,039	11,025
DEFERRED TAX LIABILITIES	933	1,071	2,004	2,076	2,002
TOTAL NON-CURRENT LIABILITIES	11,224	1,071	12,295	10,115	13,027
TOTAL LIABILITIES	13,690	1,246	14,936	11,978	16,600
EQUITY					
SHARE CAPITAL	9,596		9,596	9,596	9,596
RESERVES	7,869	(3,290)	4,579	4,132	4,575
RETAINED EARNINGS	4,171	2,328	6,499	5,323	5,816
TOTAL EQUITY	21,636	(962)	20,674	19,051	19,987
TOTAL	35,326	284	35,610	31,029	36,587

Explanation of NZ IFRS Adjustments:

1. **Other financial assets** – the balance shown at 31 December 2007 of \$501,000 is the outstanding financial derivatives including interest rate swaps and forward foreign exchange contracts, at “fair value” at balance date – this is a new asset category required under NZ IAS 39.
2. **Inventories** – the adjustment of \$213,000 relates to the grapes being valued at “fair value” under NZ IAS 41 as the deemed cost instead of actual cost as previously. The wine inventories held at transition to NZ IFRS had to be restated to “fair value” from actual cost as though NZ IAS 41 had always applied. The corresponding adjustment was made in Retained earnings.
3. **Other current assets** – the adjustment of \$923,000 relates to the vineyard expenses incurred towards the next harvest that were previously treated as prepayments (other current assets) and must now be expensed as Vineyard expenses as incurred under NZ IFRS.
4. **Biological assets** – the adjustment of \$9,077,000 consists of the reclassification of grape vines out of “property, plant & equipment” of \$8,154,000 and the capitalisation of current half year vineyard costs of \$923,000. Under NZ IFRS grape vines are deemed to be a severable asset from the integrated vineyard land and improvements. These are required to be classified separately as a non-current asset under NZ IAS 41.
5. **Deferred tax liabilities** – the adjustment of \$1,071,000 results primarily from the requirement under NZ IFRS to bring to account a deferred tax liability in relation to the revaluation of biological assets. This liability was not previously recognised and will never be realised in full under current NZ tax legislation.
6. **Reserves** – the adjustment shown in reserves of \$3,290,000 includes the asset revaluation reserve which related to vines of \$3,268,000 which was required to be transferred to retained earnings upon transition from NZ GAAP to NZ IFRS. This is because NZ IAS 41 requires movements in the value of vines (“biological assets”) be taken through the profit and loss (Income Statement).
7. **Retained earnings** – in accordance with NZ IFRS 1 “First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards” all entries arising from the transition from NZ GAAP to NZ IFRS are required to adjust through opening retained earnings. The net total of all the adjustments outlined above is \$2,328,000.