# PALLISER ESTATE

ANNUAL REPORT YEAR ENDING 30 JUNE 2020

# Directory

| | |
|---|---|
| Directors | A R Meehan, ONZM, Chairman<br>A G Beech – Resigned 8 October 2019<br>S R Tyler<br>J D Auld<br>S L Meikle – Appointed 8 October 2019 |
| Chief Executive Officer | P M Goodwin |
| Winemaker and Viticulturalist | M G D McMaster |
| Share Registry | Computershare Investor Services Limited<br>Level 2, 159 Hurstmere Road<br>Takapuna, Auckland 0622 |
| Registered Office and Address for Service | Lawson Avery Limited<br>Chartered Accountants<br>11 Cole Street<br>PO Box 145<br>Masterton 5810 |
| Banker | ANZ |
| Auditor | Grant Thornton New Zealand Audit Partnership |
| Solicitor | Morrison Kent |

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## FINANCIALS

| | | | | |
|---|---|---|---|---|
| Gross Profit: | $1.2m | = | | 2019 |
| Operating Profit: | $384k | ▲ | 70% | 2019 |
| Expenses: | $1.2m | ▼ | 5% | 2019 |

## SALES

| Domestic | | | Export | | |
|---|---|---|---|---|---|
| 13,572 cases | ▼ | 16% | 15,523 cases | ▼ | 26% |
| $2.2m | ▼ | 9% | $1.7m | ▼ | 26% |

## SALES BY MARKET

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| 27% | NZ Negociants | $1.09m | 27% | ▼ | 7% | UK | $0.27m | 29% | ▼ |
| 28% | NZ Direct | $1.10m | 19% | ▲ | 3% | Denmark | $0.11m | 26% | ▼ |
| 9% | Australia | $0.35m | 52% | ▼ | 8% | USA | $0.31m | 19% | ▲ |

## 2020 VINTAGE BREAKDOWN

| | | | |
|---|---|---|---|
| 480 Tonnes | 13% ▲ | 35,437 cases | |
| Riesling | 10T | 608 cases | 2% |
| Pinot Gris | 46T | 3.577 cases | 10% |
| Chardonnay | 63T | 4,266 cases | 12% |
| Pinot Noir | 201T | 12,700 cases | 36% |
| Sauvignon Blanc | 160T | 12,134 cases | 34% |
| Bubbly | | 550 cases | 1% |
| Rosé | | 1,602 cases | 5% |

# Directors' and Chief Executive's Report for the Year Ended 30 June 2020

Your Directors are pleased to present the annual report for Palliser Estate Wines of Martinborough Ltd, which includes the company's financial statements for the year ended 30 June 2020.

## FINANCIAL PERFORMANCE

Eight months into 2019/20 – the fourth full year of Palliser's 'rebuild' journey – our performance was tracking well and we were expecting to achieve our financial targets. Then the COVID-19 pandemic arrived, throwing markets into disarray and affecting lives and livelihoods in New Zealand and around the world.

As we witnessed the global effects of COVID-19, our hopes of a profitable year inevitably faded. However, we're delighted to report that in the last four months of the year sales were higher than expected and with costs significantly lower we delivered a pre-tax profit of $418,664. This result is a real vindication of the progress we've made in the past four years, and has enabled us to remain in a strong financial position.

We'd like to thank you, our shareholders, for your outstanding support during the COVID-19 lockdown, especially through your direct sales via the shareholder network. Your efforts drove shareholder sales up by 40% on last year.

We're also extremely proud of the entire Palliser team, who rallied to complete the 2020 harvest while complying with the COVID-19 Alert Level 4 restrictions. We took our responsibilities as an 'essential service' very seriously, operating within very strict guidelines to ensure our staff and community were kept safe.

## HIGHLIGHTS THIS YEAR

- Profit before tax of $418,664.
- Great shareholder support during COVID-19 lockdown; shareholder sales up 40%, the highest in 10 years.
- Outstanding effort by the Palliser team; harvest completed under challenging lockdown restrictions.
- $12-per-case increase, to $143 (an increase of $33 per case since 2015).
- 4% decrease in cost of sales.
- Wharekauhau and Winery vineyards awarded BioGrow organic certification; Om Santi vineyard completing second year of certification process. 25% of vineyards now under organic management, with plans for all by 2025.

# Directors' and Chief Executive's Report for the Year Ended 30 June 2020 *cont.*

- 2020 harvest - good yields and quality fruit; a successful vintage in difficult conditions.
- Vineyard expenses below budget despite higher wage rates, spray requirements and repair and maintenance costs.
- 24% reduction in distributor advertising and promotional expenditure.
- Successful launch of the 2019 wines, the first vintage with Guy McMaster as Winemaker.
- Cellar Door sales up 3% despite nine-week closure then three weeks' reduced opening hours.
- Direct sales up 27% in the first full year of employing Direct Sales Manager.

## JOURNEY AND OUTLOOK

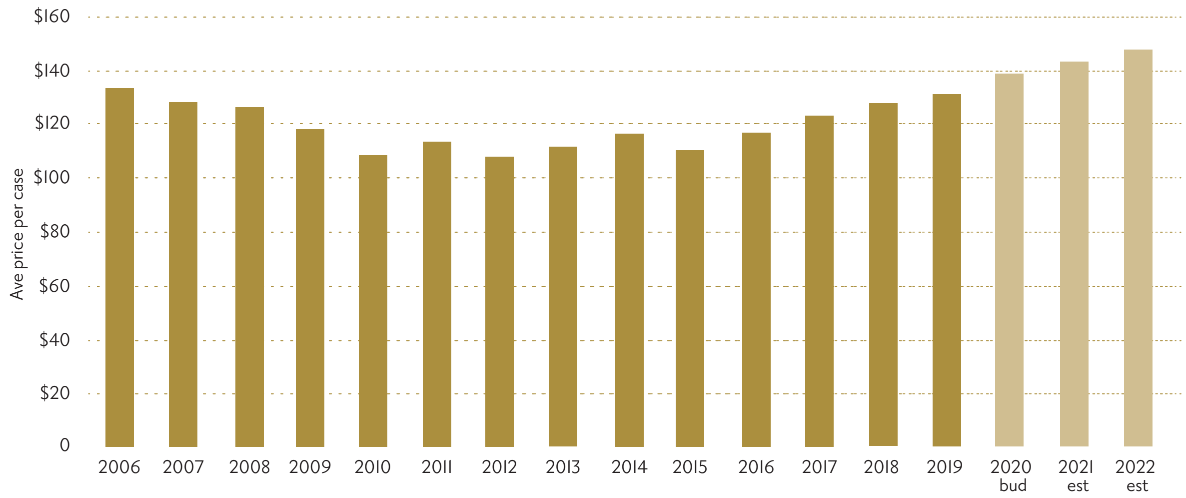
In the months before COVID-19 arrived, our journey towards greater value was on track. However, as it did for so many businesses, the pandemic affected our domestic and international sales, with those in the United Kingdom and Australia taking the biggest hits due to our on-premises (restaurant) focus. We're fortunate that the market diversification we've developed in recent years – in terms of product and channel mix – helped to smooth the impacts.

As markets slowly move out of lockdown we expect to see positive change, but the timing of a full market and economic recovery – owing perhaps to the development of a vaccine or cure – remains uncertain. We certainly don't expect a full recovery in the coming year.

With this in mind we've taken a conservative approach to our forecasts for 2020/21. We believe we're in good shape, with a healthy balance sheet, a positive cash position and good market/channel diversification, and despite the challenges our outlook remains bright.

Our target continues to be a 5% or higher return on assets. Based on average production, we aim to achieve this through increasing our per-case price to $150 while controlling expenditure. We've already made great progress: since 2015 we've increased the average case price by $33 to $143 per case, which is the highest since 2004.

# Directors' and Chief Executive's Report for the Year Ended 30 June 2020 *cont.*




We're also focused on maintaining market share in our current markets, securing at least one more solid, profitable market and increasing sale volumes. Allowing for the impacts of COVID-19, we forecast a total 34,500 case sales in 2021, up 19% on 2020. We'll need to increase this figure to at least 37,000 in 2022 if we're to get back on track to achieving our targets.

We continue to explore opportunities to evolve our business, including different ways of going to market. For example, we've recently signed an agreement with an Australian wine management business that will enable us to access channels and markets in which we've not had a strong presence. We're optimistic that, over time, this new arrangement will result in sales of at least 5,000 cases per annum in the key markets of Australia, China and the United States.

We remain focused on maximising our high-margin sales channels, in particular sales directly to customers in person and online. In the coming year we'll implement a customer relationship management system to help facilitate and grow these sales, and in the upcoming season we're planning to offer a new food service at the Cellar Door. This should help to improve both Cellar Door sales and the customer and brand experience.

# Directors' and Chief Executive's Report for the Year Ended 30 June 2020 *cont.*

## 2020 VINTAGE.

The 2020 vintage – the 31st for Palliser Estate – was very successful, especially given the extraordinary circumstances in which the team was required to operate. We harvested 480 tonnes of fruit, which was up 13% on the previous year and 12% on the long-term average. The quality of all varieties is very high, so we're excited that something positive will come out of 2020!

## HEALTH AND SAFETY

Palliser's Directors and Chief Executive (as Officers under the Health and Safety at Work Act 2015) are committed to the health and safety of Palliser's employees, contractors and visitors.

We've successfully implemented procedures that meet our obligations under the Act, operate a continual improvement and monitoring system, and are proud to have a culture in which health and safety is the foundation of everything we do. During the COVID-19 outbreak we implemented robust rules and procedures to ensure our staff remained safe, and can report there were no health and safety incidents during the year.

## DIVIDENDS AND SHARE LIQUIDITY

A dividend of 20 cents per share was paid in the 2019/20 financial year, bringing the total dividends paid since 1994 to $8 million, or about $1.90 per share.

To help raise the shares' visibility and highlight their true value, we moved trading platforms this year, from ShareMart to Unlisted. While the new arrangement is still not ideal in terms of liquidity and attributing value, Unlisted is more active and has more listings. That said, the Board is acutely aware that the only way to increase Palliser's liquidity and enhance its value is through a significantly improved financial performance.

Although the year's financial performance was pleasing and the company is still in a positive cash position, we're mindful of the uncertain economic environment and will delay any decisions on a further dividend payment until after the 2021 harvest.

## DIRECTORS

In accordance with the company's constitution, Director Andrew Meehan retires by rotation and, being eligible, offers himself for re-election to the Board.

# Directors' and Chief Executive's Report for the Year Ended 30 June 2020 *cont.*

## OUR THANKS TO THE TEAM

Once again, we thank all our loyal shareholders, our small, dedicated team and all the Board members for their support and ongoing service during a year of much uncertainty.

We're frustrated that events beyond our control have derailed our progress somewhat. However, while the economic outlook is uncertain, we believe Palliser is in a good position to continue its journey of increasing value in the 'new normal', post-COVID-19 environment.

We look forward to seeing you at the AGM, at 11am on Sunday 8 November 2020. Given the past year we all deserve a wine, a get together and a chance to celebrate it nearly being over!.

For, and on behalf of, the Board

Andrew Meehan ONZM
Chairman

Pip Goodwin
Chief Executive

# Viticulture and Winemaking Report for the Year ended 30 June 2020

**The 2020 harvest will be remembered as beginning with a wonderful flowering, followed by drought conditions in February and March and torrential rain in late March. And of course there was COVID-19.**

Growth in the vines got off to a good start despite seven frost events – triple the number in the previous season. Fortunately there was no damage caused, the fierce equinoctial winds that often affect vine growth didn't materialise, and settled, warm weather during flowering resulted in a good number of bunches with uniform berry size. This set up the vines to produce an above-average-sized harvest, despite Sauvignon Blanc numbers being below average.

The weather cooled from mid-December to mid-January. While this signalled a likely late harvest, hot and dry weather in February and March brought drought conditions that shortened our normal 115-day flowering-to-harvest timeframe to 106 days. This was very much in line with the past two seasons' performance, and suggests a trend in global warming. The main harvest started on 6 March and was completed on 31 March. Fortunately it was 95% complete by the time 198 millilitres of rain started falling on 27 March!

Financially, the vineyard had another good year. Our operating costs were slightly under budget, despite increased expenditure on fuel due to the higher number of frosts and spray rounds and the impacts of higher labour charges with the increased minimum wage. Our cost per hectare is now lower than some comparable vineyards in our region and Hawke's Bay.

The COVID-19 pandemic inevitably presented us with problems, so we were greatly relieved when the Government classified the wine industry as an essential service so we could complete harvest. As part of our compliance with the Alert Level 4 restrictions, we isolated our three overseas interns (including our assistant winemaker) in a house in Martinborough and restricted access to the winery to fruit receival only. The vineyard and winery teams worked extremely hard in these challenging times; they were all 'Characters of Excellence' and can be very proud of their contribution to what are some great wines.

In total, we processed 480 tonnes of grapes. The yields of Pinot Noir, Chardonnay and Pinot Gris were above long-term averages, while those of Riesling and Sauvignon Blanc were below. We're pleased to report that the wine quality is good: the Pinot Noir is showing ripe red and dark fruits with abundant tannin; the Chardonnay is the strongest we've seen for many years; the Pinot Gris and Riesling are classic examples of the varieties; the Sauvignon Blanc has a nice balance of tropical and herbaceous notes; and the Rose is a star in the making. The Griffin base wine has more texture than ever, and showing very good potential.

# Viticulture and Winemaking Report for the Year Ended 30 June 2020 *cont.*

Palliser continued its investment in new wine-making equipment in 2019, with another two custom-made pinot fermenters to support our strategy of improving the quality of the Palliser Estate and Single Vineyard wines. We also adopted a new oak regime, matching barrel coopers to vineyard sites and clones in each vineyard with the aim of producing more elegant wines that express the sites rather than the coopers' oak. And we invested in new winery software that links directly to our accountancy package and stock system – a move that, for the winery team, is a vast time-saving improvement on the previous manual reporting system.

Our assistant winemaker, Haidee Johnson, has completed her first year with Palliser Estate. She's already had a significant impact on the business through implementing a winery software program, developing a laboratory manual and improved wine cellar management practices. These initiatives have provided us with more freedom in winemaking decisions, which has translated to a continued lift in quality. Haidee is Wairarapa's representative on the National Young Winemakers Committee, is an assistant wine judge and has recently been appointed to the Wairarapa Winegrowers Committee.

In September 2019 I worked in a Champagne house in France as part of a marketing trip. We implemented the lessons learned in the 2020 harvest, and the resulting base wine looked very exciting as it went into bottles for its secondary fermentation. Now we only have to wait three years to see if we can taste the difference!

The 2019 Palliser Estate Chardonnay and Pinot Noir both received 5 stars from wine critic Michael Cooper. This was a pleasing confirmation that the changes we've made are moving us in the right direction, and reflected the hard work of the whole Palliser team and continued support from the Board. We're on a journey of crafting elegant wines that reflect the sites they come from, the seasons in which they were harvested and the passion of the Palliser team. Farming the vineyards organically with minimal intervention in the winery gives integrity to that journey.

In sad news, David Ross – the much loved partner of Lesley Just, our Accounts Manager – died recently. David worked part-time in the vineyard for a number of years driving tractors. He was a wonderful man, always smartly dressed and sporting a smile and a quick wit. He's missed by us all.

## Viticulture and Winemaking Report for the Year Ended 30 June 2020 *cont.*

### LOOKING FORWARD

By the time of the 2021 vintage, Palliser's Winery and Om Santi Vineyards will have joined the Wharekauhau Vineyard in being fully certified as organic. This means the Single Vineyard Pinot Noir and Chardonnay wines can be certified organic. We've decided to delay converting part of the Pencarrow vineyard to organic due to the costs of buying another under-vine weeder and the uncertainty of COVID-19's economic impacts. However, we're confident that we're still on track to having 100% of our vineyards under organic conversion by 2025.

We're mindful that some of the vineyards' plant and equipment are approaching the end of their economic lives and will need to be replaced in the short to medium term. We intend to budget for this in a staggered fashion to prevent repairs and maintenance escalating.

In a new development – and with climate change front of mind – we're planting Syrah in part of the Pinnacles vineyard. Recent Syrah vintages at other Martinborough vineyards have received strong reviews, pointing to an exciting future for this variety.

In closing, thanks go to the vineyard and winery team for all their hard work in a challenging year, and to Pip Goodwin and the Board for their continued support as we move Palliser in a new and productive direction.

Guy McMaster
Winemaker and Viticulturalist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# Independent Auditor's Report

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## To the Shareholders of Palliser Estate Wines of Martinborough Limited

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the financial statements of Palliser Estate Wines of Martinborough Limited (the "Company") on pages 19 to 56 which comprise the statement of financial position as at 30 June 2020, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 30 June 2020 and its financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) issued by the New Zealand Accounting Standards Board.

#### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our firm carries out other assignments for the Company in the area of assurance services. The firm has no other interest in the Company.

#### Other Information

The Directors are responsible for all other information included in the Company's annual report. The other information comprises Key Performance Indicators, Director, Chief Executive, Viticulture and Winemaker reporting, Comparative Financial Review, Statutory Information, Contributors, Distributors information, included in the annual report, but does not include the financial statements and our auditor's report thereon.

# Independent Auditor's Report

Our opinion on the financial statements does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Directors' responsibilities for the Financial Statements

The Directors are responsible on behalf of the Company for the preparation and fair presentation of the financial statements in accordance with New Zealand equivalents to International Financial Reporting Standards issued by the New Zealand Accounting Standards Board, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible on behalf of the Company for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

## Auditor's responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (NZ) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (NZ), we exercise professional judgement and maintain professional scepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for the our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entities internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the use of the going concern basis of accounting by those charged with governance and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If the we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the our opinion. Our conclusions are based on the audit evidence obtained up to the date of the auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during the audit.

## Restriction on use of our report

This report is made solely to the Company's shareholders, as a body. Our audit work has been undertaken so that we might state to the Company's shareholders, as a body those matters which we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders, as a body, for our audit work, for this report or for the opinion we have formed.

**Grant Thornton New Zealand Audit Partnership**

Grant Thornton

K Price
Partner
Auckland

**15 September 2020**

# Statement of Comprehensive Income for the Year Ended 30 June 2020

This statement is to be read in conjunction with the notes on pages 26 to 56.

| | 2020<br>$ | 2019<br>$ |
|---|---|---|
| Revenue (Note 3) | 3,994,509 | 4,863,065 |
| Cost of Sales | 2,833,709 | 3,665,990 |
| Gross Profit | 1,160,800 | 1,197,075 |
| Covid 19 wage subsidy | 116,674 | - |
| Other Income (Note 4) | 297,812 | 283,003 |
| | 1,575,286 | 1,480,078 |
| **Less Expenses:** | | |
| Administration and Marketing | 1,016,582 | 1,019,859 |
| Other | 174,852 | 234,371 |
| Operating Expenses (Note 5) | 1,191,434 | 1,254,230 |
| **Operating Profit** | 383,852 | 225,848 |
| Fair Value Grape Write Up/(Down) | 34,812 | (131,246) |
| Restructuring Costs | - | (251,470) |
| **Profit Before Taxation** | 418,664 | (156,868) |
| Income Tax Expense (Note 6) | (458,412) | 22,158 |
| **Profit/(Loss) for the Year Attributable to Owners of the Company** | 877,076 | (179,026) |
| Other Comprehensive income that may subsequently be classified to the Profit or Loss | | |
| Revaluation gain | - | 103,880 |
| Total Comprehensive Income/(Loss) for the Year Attributable to Owners of the Company | 877,076 | (75,146) |
| Earnings per share (Note 7) | | |
| Basic and fully diluted earnings per share (cents) | 20.80 | (1.79) |

# Statement of Changes in Equity for the Year Ended 30 June 2020

This statement is to be read in conjunction with the notes on pages 26 to 56.

| | Share Capital $ | Retained Earnings $ | Revaluation Reserve $ | Total Equity $ |
|---|---|---|---|---|
| Balance 1 July 2018 | 6,459,798 | 8,089,089 | 94,484 | 14,643,371 |
| Profit/(Loss) for the year | - | (179,026) | - | (179,026) |
| Other Comprehensive Income | - | - | 103,880 | 103,880 |
| Total Comprehensive Income/(Loss) for the Year | - | (179,026) | 103,880 | (75,146) |
| Transactions with Owners of the Company | | | | |
| Dividends Paid (Note 27) | - | - | - | - |
| Total Contributions by and Distributed to Owners of the Company | - | - | - | - |
| Share Capital paid | 31,637 | - | - | 31,637 |
| Balance 30 June 2019 (Note 16) | 6,491,435 | 7,910,063 | 198,364 | 14,599,862 |
| Balance 1 July 2019 | 6,491,435 | 7,910,063 | 198,364 | 14,599,862 |
| Profit/(Loss) for the year | - | 877,076 | - | 877,076 |
| Other Comprehensive Income | - | - | - | - |
| Total Comprehensive Income/(Loss) for the Year | - | 877,076 | - | 877,076 |
| Transactions with Owners of the Company | | | | |
| Dividends Paid (Note 27) | - | (842,052) | - | (842,052) |
| Total Contributions by and Distributed to Owners of the Company | - | (842,052) | - | (842,052) |
| Share Capital paid | - | - | - | - |
| Balance 30 June 2020 (Note 16) | 6,491,435 | 7,945,087 | 198,364 | 14,634,886 |

# Statement of Financial Position as at 30 June 2020

This statement is to be read in conjunction with the notes on pages 26 to 56.

| | 2020<br>$ | 2019<br>$ |
|---|---|---|
| **Current Assets** | | |
| Cash and Cash Equivalents | 603,606 | 624,333 |
| ANZ Bank Term Deposit | - | 636,363 |
| GST Refund Due | 17,011 | 13,082 |
| Tax Refund Due | - | 79,436 |
| Trade and Other Receivables (Note 8) | 533,174 | 885,448 |
| Forward Currency Contracts (Note 9) | 4,171 | 4,989 |
| Prepaid Expenses | - | 1,328 |
| Work in Progress | 98,756 | 80,174 |
| Stock on Hand (Note 10) | 3,790,712 | 3,231,606 |
| | 5,047,430 | 5,556,759 |
| **Non Current Assets** | | |
| Trade and Other Receivables (Note 8) | 8,823 | 11,671 |
| Property, Plant and Equipment (Note 11) | 11,062,825 | 11,103,524 |
| Intangible Assets (Note 13) | 56,247 | 65,562 |
| Investments | 6,868 | 6,868 |
| | 11,134,763 | 11,187,625 |
| **Total Assets** | 16,182,193 | 16,744,384 |

**Continued next page...**

# Statement of Financial Position as at 30 June 2020 *cont.*

This statement is to be read in conjunction with the notes on pages 26 to 56.

| | 2019 $ | 2018 $ |
|---|---|---|
| **Current Liabilities** | | |
| Trade and Other Payables (Note 14) | 462,574 | 503,298 |
| Current Portion Term Loans (Note 15) | 4,375 | - |
| Tax Payment Due | 467 | - |
| | 467,416 | 503,298 |
| **Non Current Liabilities** | | |
| Term Loans (Note 15) | 2,085 | - |
| Deferred Tax (Note 6) | 1,077,806 | 1,641,224 |
| | 1,079,891 | 1,641,224 |
| **Total Liabilities** | 1,547,307 | 2,144,522 |
| **Equity** | | |
| Share Capital (Note 16) | 6,491,435 | 6,491,435 |
| Retained Earnings | 7,945,087 | 7,910,063 |
| Revaluation Reserve | 198,364 | 198,364 |
| **Total Equity** | 14,634,886 | 14,599,862 |
| **Total Liabilities & Equity** | 16,182,193 | 16,744,384 |

Director
A R Meehan

Director
S R Tyler

The Board of Directors of Palliser Estate Wines of Martinborough Limited authorised these financial statements on 15 September 2020.

# Statement of Cashflows for the Year Ended 30 June 2020

This statement is to be read in conjunction with the notes on pages 26 to 56.

| | 2020<br>$ | 2019<br>$ |
|---|---|---|
| **Cash Flows From Operating Activities** | | |
| Cash was received from: | | |
| Receipts from customers | 4,307,541 | 4,856,307 |
| Interest received | 4,112 | 24,769 |
| Dividend received | 29,851 | - |
| Sundry receipts | 354,728 | 255,274 |
| GST received | 12,876 | - |
| | 4,709,108 | 5,136,350 |
| Cash was applied to: | | |
| Payments to suppliers and employees | (4,212,479) | (4,660,231) |
| Income tax paid | (25,107) | (60,577) |
| Interest paid | 1 | - |
| GST paid | - | (27,260) |
| | (4,237,585) | (4,748,068) |
| Net Cash from Operating Activities | 471,523 | 388,282 |
| **Cash Flows From Investing Activities** | | |
| Cash was received from: | | |
| Matured Term deposit | 636,363 | - |
| Disposal of Property, Plant and Equipment | 57,474 | 23,113 |
| | 693,837 | 23,113 |
| Cash was applied to: | | |
| Purchases of Property, Plant and Equipment | (352,929) | (428,935) |
| Purchases of intangible assets | (1,355) | - |
| Purchases of term deposit | - | (14,673) |
| | (354,284) | (443,608) |
| Net Cash from/(to) Investing Activities | 339,553 | (420,495) |

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# Statement of Cashflows for the Year Ended 30 June 2020 *cont.*

This statement is to be read in conjunction with the notes on pages 26 to 56.

| | 2020 $ | 2019 $ |
|---|---|---|
| **Cash Flows From Financing Activities** | | |
| Cash was received from: | | |
| Employee loans repaid | 3,785 | 28,778 |
| Term loan advanced | 9,669 | - |
| | 13,454 | 28,778 |
| Cash was applied to: | | |
| Term loan repaid | (3,205) | - |
| Dividend paid | (842,052) | - |
| | (845,257) | - |
| Net Cash from/(to) Financing Activities | (831,803) | 28,778 |
| Cash Surplus/(Deficit) for the year | (20,727) | (3,435) |
| **Represented By:** | | |
| Opening cash and cash equivalents | 624,333 | 627,768 |
| Closing cash and cash equivalents | 603,606 | 624,333 |
| Movement for the year | (20,727) | (3,435) |

**Continued next page...**

# Statement of Cashflows for the Year Ended 30 June 2020 *cont.*

This statement is to be read in conjunction with the notes on pages 26 to 56.

| | 2020 $ | 2019 $ |
|---|---|---|
| **Reconciliation of Surplus after Taxation to Cash Flow from Operating Activities** | | |
| Total Comprehensive Income for the Year | 877,076 | (75,146) |
| **Plus Non-Cash Items** | | |
| Depreciation & Amortisation | 293,424 | 312,011 |
| Loss on disposal of Property, Plant & Equipment | - | 8,129 |
| Capital Gain on sale | - | (2,080) |
| Employee share based payments | - | 550 |
| Employee Bonus shares | - | 9,087 |
| Disposal of Vines | 31,605 | 64,689 |
| Change in Fair Value of Vines | - | (103,880) |
| | 1,202,105 | 213,360 |
| **Add/(Deduct) Movement in Working Capital** | | |
| (Increase)/Decrease in GST | (3,929) | (27,478) |
| Decrease/(Increase) in prepaid expenses | 1,328 | 10,859 |
| Decrease/(Increase) in trade and other receivables | 351,337 | 24,126 |
| (Increase)/Decrease in forward currency contracts | 818 | (9,550) |
| Decrease/(Increase) in stock & WIP | (577,688) | 109,715 |
| Increase/(Decrease) in trade and other payables | (40,724) | 106,587 |
| Decrease/(Increase) in provision for tax | (483,520) | (38,420) |
| | (752,378) | 175,839 |
| **Less Items Classified As Investing Activities** | | |
| (Increase)/Decrease in Property, Plant and Equipment payable | 21,796 | (24,539) |
| | 21,796 | (24,539) |
| Net Cash from Operating Activities | 471,523 | 364,660 |

# Notes to the Financial Statements for the Year Ended 30 June 2020

## NOTE 1: STATEMENT OF ACCOUNTING POLICIES

In these financial statements the reporting entity is Palliser Estate Wines of Martinborough Limited (the 'company'). The principal activity of the company is to produce and sell wines from grapes grown in New Zealand. The company is a limited liability company incorporated and domiciled in New Zealand.

These financial statements were approved for issue by the Board of Directors on 15 September 2020. The company's owners do not have the power to amend these financial statements once issued.

The company is registered in New Zealand under the Companies Act 1993. The company is a reporting entity and complies with the Financial Markets Conduct Act 2013. Company shares are traded on Sharemart an unlisted unlicensed financial product market operating under an exemption from the Financial Markets Conduct Act 2013.

### Basis of Preparation

These financial statements are presented in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP). For the purposes of complying with NZ GAAP the company is a for-profit entity. The financial statements comply with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and other Financial Reporting Standards applicable to profit-oriented entities. They have been prepared in accordance with the Tier 1 for profit reporting requirements set out by the New Zealand Accounting Standards Board. They also comply with International Financial Reporting Standards (IFRS). These financial statements are rounded to the nearest dollar.

These financial statements have been prepared on the basis the company is a going concern.

Certain comparative amounts have been reclassified to conform to the current year's presentation.

### Measurement Basis

The measurement basis adopted in the preparation of these financial statements is historical cost, with the exception of the revaluation of vines and certain financial instruments as identified in the particular accounting policies below.

### Standards Issued that came into effect in the Current Year

NZ IFRS 16 "Leases" (NZIFRS 16), effective for the company 1 July 2019. NZ IFRS 16 "Leases" replaces NZ IAS 17 "Leases" along with three interpretations (IFRIC 4 'Determining whether an arrangement contains a lease', SIC 'Operating lease incentives' and SIC 27 'Evaluating the substance of transactions involving the legal form of a lease'). NZ IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets. The company has elected to apply the low-value asset exemption to all its leases, therefore no adjustment has been required with the initial application and lease expenses have been recognised under the Statement of Comprehensive Income.

### Standards Issued but Not Yet Effective

At the date of authorisation of these financial statements, certain new standards and amendments to and interpretations of existing standards had been issued that were not yet effective at the reporting date, and have not been applied in the preparation of these financial statements. Management anticipates that all of the pronouncements will be adopted, if applicable, in the accounting policies for the first period beginning after the effective date of the pronouncements.

Information on new standards and interpretations that are expected to be relevant is included below:

Amendments to NZ IAS 1 and NZ IAS 8 Definition of material (effective for the company from 1 July 2020)

The amendments are intended to make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. The concept of 'obscuring' material information with immaterial information has been included as part of the new definition. The threshold for materiality influencing users has been changed from 'could influence' to 'could reasonably be expected to influence'. The definition of material in IAS 8 has been replaced by a reference to the definition of material in IAS 1. In addition, the IASB amended other Standards and the Conceptual Framework that contain a definition of material or refer to the term 'material' to ensure consistency. The amendments are applied prospectively for annual periods beginning on or after 1 January 2020, with earlier application permitted.

Based on management's assessment to date, the standard is not expected to have a material impact on the company.

## Particular Accounting Policies

The following particular accounting policies, which significantly affect the measurement of financial performance, financial position and cash flows have been applied.

**Revenue from Sales of Goods**

Recognition of revenue occurs when the performance obligation to the customer is satisfied. Satisfaction of performance obligation occurs on transfer of a promised good to the customer and when the customer obtains control of that good. Revenue from the sale of wine is recognised when control of the wine has passed to the buyer and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

**Dividend Revenue**

Dividends are recognised as other income in the Statement of Comprehensive Income at the time the right to receive payment is established.

**Interest Income**

Interest income is recognised as other income in the Statement of Comprehensive Income as earned using the effective interest method.

**WET rebate**

The WET (wine equalisation tax) rebate is recognised as other income in the Statement of Comprehensive Income when it is probable that the economic benefits will flow to the company and the revenue and costs can be measured reliably.

**Goods and Services Tax**

The Statement of Comprehensive Income and the Statement of Cash Flows have been prepared so that all components are stated exclusive 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.

**Depreciation**

Depreciation is provided on Property, Plant and Equipment using the straight-line basis or diminishing-value basis, at rates sufficient to write them off over their expected useful lives. The expected useful lives are as follows:

| | |
|---|---|
| Buildings(straight line) | 10-100 years |
| Vineyard Equipment(straight line & diminishing value) | 2-17 years |
| Winery Equipment(straight line & diminishing value) | 2-34 years |
| Motor Vehicles(straight line) | 4-8 years |
| Office Equipment(straight line & diminishing value) | 1-15 years |

Depreciation is the difference between the cost and residual value of an asset. No depreciation is provided on land, vines or vine support structures as the residual value and cost is considered to be the same. The basis of depreciation represents the method that best reflects the decline in future economic service potential of the asset class.

**Foreign Currency Transactions**
The functional and presentation currency is New Zealand dollars (NZD). Foreign currency transactions are translated into NZD using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss within the Statement of Comprehensive Income.

**Foreign Exchange Contracts**
Foreign exchange contracts are initially recognised at fair value on the dates the contracts are entered into and are subsequently re-measured at fair value, as determined by the bank's mark-to-market measurement. Changes in the fair values of these derivative instruments are recognised immediately in profit or loss within the Statement of Comprehensive Income. Hedge accounting has not been applied for foreign exchange contracts.

**Capital Risk Management**
The company's objectives when managing capital are to safeguard the company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

**Income Tax**
The income tax expense recognised in profit or loss within the Statement of Comprehensive Income is the estimated income tax payable in the current reporting period, adjusted for any differences between the estimated and actual income tax payable in prior periods.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the statement of financial position. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax assets are realised or the deferred income tax liability is settled.

**Cash and Cash Equivalents**
Cash and cash equivalents include cash on hand, deposits held at call with financial institutions, other short term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts without a right of set off are shown within borrowings in current liabilities in the Statement of Financial Position.

**Trade Receivables**
Trade receivables are recognised initially at fair value and subsequently measured at amortised cost. The collectability of trade receivables is reviewed on an on-going basis. Receivables that are known to be uncollectible are written off. The simplified approach to measure expected credit losses using a lifetime expected credit loss provision under NZIFRS 9 has been applied. The current lifetime expected credit loss from trade receivables is nil (2019:nil).

**Government Grants**
Government grants related to income are recognised in the Statement of Comprehensive Income separately on a systematic basis over the periods in which the company recognises as expenses the related costs for which the grants are intended to compensate.

**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 selling expenses. The cost includes direct materials, labour, and production overheads. Grapes harvested are

# Notes to the Financial Statements for the Year Ended 30 June 2020 *cont.*

measured at fair value less estimated point-of-sale costs at point of harvest; this measure is used as the 'deemed cost'. After harvest the grapes are treated as inventory.

**Unquoted Equity Investments**
NZ IRFS 9 requires all equity investments to be measured at fair value. The company has made the election to classify the Unquoted Equity Investments as at Fair Value through Profit and Loss (FVTPL). Under this category fair value changes and dividends are recognised in profit or loss.

**Property, Plant and Equipment**
All property, plant and equipment (except bearer plants as discussed below) is shown at cost, less any accumulated depreciation and impairment losses. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost can be measured reliably. All other repair and maintenance expenditure is charged to profit or loss within the Statement of Comprehensive Income during the reporting period in which it is incurred.

Bearer plants (vines) fall within the scope of NZ IAS 16 Property, Plant and Equipment. The vines have been measured using the revaluation model. Vines are not depreciated as they are held at fair value with residual values not expected to be less than carrying values. The vines have been revalued to fair value as determined by Director's valuation at 30 June 2020 and by an independent valuer at 30 June 2019. Where the revaluation results in an increase in the carrying amount, the increase is recognised in Other Comprehensive Income and accumulated in equity under Revaluation Reserve. However the increase is recognised in profit or loss within the Statement of Comprehensive Income to the extent that it reverses a revaluation decrease previously recognised in profit or loss. Where the revaluation results in a decrease in the carrying amount, the decrease is recognised in other comprehensive income to the extent of any credit balance existing in the revaluation surplus. The grapes produced remain in the scope of NZ IAS 41 Agriculture and are measured at fair value less costs to sell. Grapes are reclassified as inventory upon harvest.

**Intangible Assets**
Trademark protection represents the net cost of trademark protection. A trademark has unlimited life because it can be renewed in perpetuity. Trademark protection is reviewed annually for impairment or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For the purposes of impairment testing, trademark protection is allocated to cash-generating units. Any impairment is recognised as an expense in profit or loss within the Statement of Comprehensive Income.

The website upgrade has a finite useful life and is carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost over the estimated useful life (four years). Amortisation is included in cost of sales in the Statement of Comprehensive Income.

**Impairment of other assets**
The carrying amount of the company's assets, other than inventories, is reviewed at each reporting date to determine whether there is any indication of impairment. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

**Financial Assets**
Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with NZ IFRS 15, all financial assets are measured at fair value adjusted for transaction costs(where applicable). Financial assets, other than those designated and effective as hedging instruments, are classified into the following categories:

-amortised cost

-fair value through profit or loss (FVTPL)

-fair value through other comprehensive income (FVOCI).

# Notes to the Financial Statements for the Year Ended 30 June 2020 *cont.*

In the period presented the company does not have any financial assts categorised as FVOCI. The classification is determined by both the entity's business model for managing the financial asset and the contractual cash flow characteristics of the financial asset.

All income and expenses relating to financial assets that are recognised in the Statement of Comprehensive Income are presented within finance costs, finance income or other financial items, except for impairment of trade receivables which is presented within other expenses.

**Impairment of Financial Assets**

NZIFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS39. The expected credit loss model requires the company to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. NZIFRS 9 requires the company to measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses if the credit risk on that financial instrument has increased significantly since initial recognition. If the credit risk on the financial instrument has not increased significantly since initial recognition the company is required to measure the loss allowance for the financial instrument at an amount equal to 12-month expected credit loss. NZIFRS 9 also requires a simplified approach for measuring the loss allowance at an amount equal to lifetime expected credit loss for trade receivables.

**Operating Leases**

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease. Associated costs, such as maintenance and insurance, are expensed as incurred. The company has no right to use assets for recognition of lease assets and lease liabilities in the Statement of Financial Position.

**Financial Liabilities**

The company's financial liabilities include borrowings, trade and other payables. Financial Liabilities are initially measured at fair value and where applicable adjusted for transaction costs unless the company designated a financial liability at fair value through profit or loss. Subsequently, financial liabilities are measured at amortised cost using the effective interest method except for derivatives and financial liabilities designated at FVTPL, which are carried subsequently at fair value with gains or losses recognised in the Statement of Comprehensive Income (other than derivatives financial instruments that are designated and effective as hedge instruments).

All interest related charges and if applicable changes in an instrument's fair value that are reported in the Statement of Comprehensive Income are included within finance costs or finance income.

Trade and Other Payables represent liabilities for goods and services provided to the company prior to the end of the reporting period that are unpaid. Some amounts are secured but all are usually paid within 30 days of recognition.

**Employee Benefits**

Liabilities for wages and salaries, including non monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

The liability for employee entitlements is carried at the present value of the estimated future cash flows.

**Dividends**

Provision is made for the amount of any dividend declared on or before the end of the reporting period but not distributed at the reporting date.

Dividend distributions to the company shareholders are recognised as a liability in the company's financial statements in the period in which the dividends are approved by the company's Directors.

**Segment Reporting**

Operating segments have been identified based on the information provided to the chief operating decision maker – being the Chief Executive Officer. The company has only a single reporting segment (see note 17).

**Statement of Cash Flows**

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

(a) Cash and cash equivalents are considered to be cash on hand and current accounts in banks.

(b) Investing activities are those activities relating to the acquisition, holding and disposal of fixed assets and of investments. Investments can include securities not falling within the definition of cash.

(c) Financing activities are those activities that result in changes to the size and composition of the capital structure of the company. 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.

(d) Operating activities include all transactions and other events that are not investing or financing activities.

**Changes in Accounting Policies**

There have been no other changes in accounting policies other than the adoption of NZ IFRS 16. All other policies have been applied on bases consistent with those used in the previous reporting period.

## NOTE 2: CRITICAL ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

These financial statements are prepared in accordance with NZ IFRS. There are a number of critical accounting treatments that include subjective judgements and estimates that may affect the reported assets and liabilities in the financial statements. Explanations of the judgements and estimates made by the company having the most significant effects on the amounts recognised in the financial statements are set out below.

### Fair Value of Vines

The fair value of the vines has been established by independent valuation of vines at 30 June 2019, with adjustments at reporting date-Director's valuation. The Directors have taken into consideration the change in the current and future productivity of the vines and the current economic climate. The Directors have extensive knowledge of the wine industry and believe they have the necessary skill set to ensure that the carrying amount does not differ materially from that which would be determined using an independent expert valuer. Refer to note 19 for estimates and judgements applied.

### Fair Value of Agricultural Produce

The Directors carried out an assessment of the fair value per tonne of grapes, which is based on the quality of the grapes produced by the company, with reference to market prices for each variety of grape. This requires judgement and estimation by Directors. Refer note 12 and note 19.

Notes to the Financial Statements for the Year Ended 30 June 2020 *cont.*

## NOTE 3: REVENUE

| | 2020<br>$ | 2019<br>$ |
|---|---|---|
| Bottled Wine New Zealand sales | 2,183,957 | 2,410,568 |
| Bottled Wine Export sales | 1,680,616 | 2,275,057 |
| Bulk Wine, Grape sales | - | 63,620 |
| Toast Martinborough Income | 65,058 | 55,628 |
| Food sales | 52,682 | 52,345 |
| Winemaking Services | - | 2,840 |
| Merchandise sales | 3,386 | 3,007 |
| Event /Visa WOAP | 2,213 | - |
| Wine Experiences | 6,597 | - |
| Total Revenue | 3,994,509 | 4,863,065 |

## NOTE 4: OTHER INCOME

| | 2020<br>$ | 2019<br>$ |
|---|---|---|
| Interest | (421) | 24,800 |
| Dividend Received | 29,851 | - |
| WET rebate | 155,531 | 165,696 |
| Foreign exchange gain | 1,697 | 5,113 |
| Sales gain Overseas currency | 4,465 | - |
| Depreciation Recovered | 46,162 | 20,966 |
| Other | 60,527 | 66,428 |
| Total other income | 297,812 | 283,003 |

Notes to the Financial Statements for the Year Ended 30 June 2020 *cont.*

## NOTE 5: OPERATING EXPENSES

| | 2020<br>$ | 2019<br>$ |
|---|---|---|
| Expenses include the following; | | |
| Disposal of Vines | 31,605 | 64,689 |
| Loss on disposal of Property, Plant and Equipment | - | 8,129 |
| Depreciation | | |
| Motor vehicles | 15,631 | 15,517 |
| Vineyard equipment | 78,802 | 83,826 |
| Grape harvesting equipment | 30,482 | 30,482 |
| Winery equipment | 111,718 | 119,282 |
| Vineyard development | 36 | 39 |
| Office equipment | 15,405 | 12,736 |
| Buildings | 76,843 | 60,425 |
| Total depreciation | 328,917 | 322,307 |
| Directors' fees | 60,156 | 51,625 |
| Auditor's remuneration | | |
| Audit services | 24,982 | 21,594 |
| Other assurance services* | 1,600 | 1,600 |

*Other assurance services being the Share Registry Audit.

Employee salary and wages paid during the year totalled $1,536,274 (2019:$1,770,861).

## NOTE 6: TAXATION

| | 2020 $ | 2019 $ |
|---|---|---|
| The taxation provision has been calculated as follows: | | |
| Profit before taxation | 418,664 | (156,868) |
| Taxation on profits for the year@28% (2019 28%) | 117,226 | (43,923) |
| Expenses not deductible-building depreciation tax adjustment | (493,452) | - |
| Expenses not deductible-other | (82,186) | 66,081 |
| Taxation charge as per the Statement of Comprehensive Income | (458,412) | 22,158 |
| Represented by: | | |
| Current income tax | 105,006 | (22,262) |
| Deferred income tax | (563,418) | 44,420 |
| | (458,412) | 22,158 |

The Government will be re-introducing commercial and industrial building depreciation from the 2021/2022 year. This law change has given rise to a deferred tax asset of $493,452 for the 2020 year.

The deferred tax charge in the Statement of Comprehensive Income comprises the following temporary differences:

| | 2020 $ | 2019 $ |
|---|---|---|
| WET rebate | (4,961) | (9,277) |
| Revaluation of vines | (780) | 20,859 |
| Depreciation & Amortisation | (571,723) | 31,811 |
| Revaluation of stock | 21,213 | 6,876 |
| Audit fee accrual | 434 | 490 |
| Bonus accrual | 1,086 | (9,876) |
| Annual leave accrual | (8,685) | 3,540 |
| Total temporary differences | (563,418) | 44,420 |

The deferred tax charge in the Statement of Comprehensive Income comprises the following temporary differences:

| DEFERRED TAX | 2020 $ | 2019 $ |
|---|---|---|
| Opening balance | 1,641,224 | 1,596,804 |
| Temporary differences for period | (563,418) | 44,420 |
| Closing balance | 1,077,806 | 1,641,224 |

| The deferred tax closing balance comprises the following temporary differences: | | |
|---|---|---|
| WET rebate | 41,868 | 46,829 |
| Depreciation & Amortisation | 179,642 | 751,370 |
| Revaluation of stock | 29,881 | 8,668 |
| Audit fee accrual | (5,824) | (6,258) |
| Revaluation of vines | 869,976 | 870,753 |
| Bonus accrual | (8,790) | (9,876) |
| Annual leave accrual | (28,947) | (20,262) |
| Closing balance | 1,077,806 | 1,641,224 |

## NOTE 7: EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the company by the weighted average number of ordinary shares during the reporting period. No financial instruments have been issued by the company that would dilute the shares currently on issue.

| | 2020 $ | 2019 $ |
|---|---|---|
| Total Comprehensive Income/(Loss) | 877,076 | (75,146) |
| Weighted average number of ordinary shares | 4,216,734 | 4,209,682 |
| Earnings per share (Basic=Diluted) cents | 20.80 | (1.79) |

## NOTE 8: TRADE AND OTHER RECEIVABLES

| | 2020 $ | 2019 $ |
|---|---|---|
| Trade receivables | 380,867 | 709,832 |
| Receivables from related parties | - | 120 |
| Employee loans | 2,778 | 3,715 |
| Other receivables | 149,529 | 171,781 |
| Current trade and other receivables | 533,174 | 885,448 |
| Non-current portion of employee loans | 8,823 | 11,671 |
| | 541,997 | 897,119 |
| Neither past due nor impaired | 530,402 | 793,494 |
| Past due but not impaired* | 11,595 | 103,625 |
| Individually impaired | - | - |
| | 541,997 | 897,119 |
| *Past due debtors | | |
| 0-30 days | 330 | 102,915 |
| 31-60 days | - | 710 |
| Greater than 60 days | 11,265 | - |
| | 11,595 | 103,625 |

## NOTE 9: FORWARD CURRENCY CONTRACTS

| | 2020 $ | 2019 $ |
|---|---|---|
| Unrealised gains on forward contracts | 4,171 | 4,989 |

The fair value is measured by the ANZ bank's determination of the 30 June mark-to-market values.

The company has contracts to buy USD 40,964 (2019: 53,312), GBP nil (2019: 43,690) and AUD nil (2019: 189,385).

# Notes to the Financial Statements for the Year Ended 30 June 2020 *cont.*

## NOTE 10: STOCK ON HAND

| | 2020<br>$ | 2019<br>$ |
|---|---|---|
| Stock on hand comprises: | | |
| Finished stock | 1,722,143 | 1,585,464 |
| Bulk wine | 2,000,605 | 1,559,475 |
| Dry stock | 67,964 | 86,667 |
| | 3,790,712 | 3,231,606 |

Inventories recognised as an expense during the year amounted to $1,781,058 (2019:$2,706,630).

## WORK IN PROGRESS

| | 2020<br>$ | 2019<br>$ |
|---|---|---|
| | 98,756 | 80,174 |

Work in progress comprises vineyard expenses incurred to reporting date that relate to capitalised costs associated with the subsequent seasons harvest.

## NOTE 11: PROPERTY, PLANT AND EQUIPMENT

| | 2020<br>$ | 2019<br>$ |
|---|---|---|
| Land | 2,637,992 | 2,637,992 |
| Buildings | 1,661,576 | 1,691,009 |
| Winemaking equipment | 495,465 | 477,319 |
| Vineyard development | 2,241,839 | 2,241,875 |
| Grape harvesting equipment | 135,076 | 165,558 |
| Vineyard equipment | 350,151 | 396,330 |
| Vehicles | 58,958 | 37,430 |
| Vines | 3,411,276 | 3,400,000 |
| Office and cellar sales equipment | 70,492 | 56,011 |
| Total | 11,062,825 | 11,103,524 |

# Notes to the Financial Statements for the Year Ended 30 June 2020 *cont.*

## NOTE 11: PROPERTY, PLANT AND EQUIPMENT, cont.

| 30 June 2020 | Land (cost) $ | Buildings (cost) $ | Winemaking Equipment (cost) $ | Vineyard Development (cost) $ | Grape Harvesting Equipment (cost) $ |
|---|---|---|---|---|---|
| Opening cost | 2,637,992 | 2,756,443 | 3,109,329 | 2,272,669 | 358,611 |
| Opening accumulated revaluation | - | - | - | - | - |
| Opening accumulated depreciation | - | (1,065,434) | (2,632,010) | (30,794) | (193,053) |
| Opening net book value | 2,637,992 | 1,691,009 | 477,319 | 2,241,875 | 165,558 |
| Additions | - | 47,410 | 130,292 | - | - |
| Revaluation this year | - | - | - | - | - |
| Net disposal | - | - | (428) | - | - |
| Depreciation | - | (76,843) | (111,718) | (36) | (30,482) |
| Closing net book value | 2,637,992 | 1,661,576 | 495,465 | 2,241,839 | 135,076 |
| Closing cost | 2,637,992 | 2,803,853 | 2,919,552 | 2,272,669 | 358,611 |
| Closing accumulated revaluation | - | - | - | - | - |
| Closing accumulated depreciation | - | (1,142,277) | (2,424,087) | (30,830) | (223,535) |
| Closing net book value | 2,637,992 | 1,661,576 | 495,465 | 2,241,839 | 135,076 |

| 30 June 2019 | Land (cost) $ | Buildings (cost) $ | Winemaking Equipment (cost) $ | Vineyard Development (cost) $ | Grape Harvesting Equipment (cost) $ |
|---|---|---|---|---|---|
| Opening cost | 2,637,992 | 2,575,292 | 3,065,095 | 2,272,669 | 358,611 |
| Opening accumulated revaluation | - | - | - | - | - |
| Opening accumulated depreciation | - | (1,005,009) | (2,590,543) | (30,755) | (162,571) |
| Opening net book value | 2,637,992 | 1,570,283 | 474,552 | 2,241,914 | 196,040 |
| Additions | - | 181,151 | 122,430 | - | - |
| Revaluation this year | - | - | - | - | - |
| Net disposal | - | - | (381) | - | - |
| Depreciation | - | (60,425) | (119,282) | (39) | (30,482) |
| Closing net book value | 2,637,992 | 1,691,009 | 477,319 | 2,241,875 | 165,558 |
| Closing cost | 2,637,992 | 2,756,443 | 3,109,329 | 2,272,669 | 358,611 |
| Closing accumulated revaluation | - | - | - | - | - |
| Closing accumulated depreciation | - | (1,065,434) | (2,632,010) | (30,794) | (193,053) |
| Closing net book value | 2,637,992 | 1,691,009 | 477,319 | 2,241,875 | 165,558 |

# Notes to the Financial Statements for the Year Ended 30 June 2020 *cont.*

## NOTE 11: PROPERTY, PLANT AND EQUIPMENT, cont.

| 30 June 2020 | Vineyard Equipment (cost) $ | Vehicle (cost) $ | Vines (revalution) $ | Office & Cellar Sales Equipment (cost) $ | Total $ |
|---|---|---|---|---|---|
| Opening cost | 2,532,111 | 83,423 | 3,201,636 | 251,089 | 17,203,303 |
| Opening accumulated revaluation | - | - | 198,364 | | 198,364 |
| Opening accumulated depreciation | (2,135,781) | (45,993) | - | (195,078) | (6,298,143) |
| Opening net book value | 396,330 | 37,430 | 3,400,000 | 56,011 | 11,103,524 |
| Additions | 32,622 | 48,043 | 42,880 | 29,886 | 331,133 |
| Revaluation this year | - | - | - | - | - |
| Net disposal | - | (10,884) | (31,604) | - | (42,916) |
| Depreciation | (78,801) | (15,631) | - | (15,405) | (328,916) |
| Closing net book value | 350,151 | 58,958 | 3,411,276 | 70,492 | 11,062,825 |
| Closing cost | 2,564,733 | 92,934 | 3,212,912 | 280,975 | 17,144,231 |
| Closing accumulated revaluation | - | - | 198,364 | - | 198,364 |
| Closing accumulated depreciation | (2,214,582) | (33,976) | - | (210,483) | (6,279,770) |
| Closing net book value | 350,151 | 58,958 | 3,411,276 | 70,492 | 11,062,825 |

| 30 June 2019 | Vineyard Equipment (cost) $ | Vehicle (cost) $ | Vines (revalution) $ | Office & Cellar Sales Equipment (cost) $ | Total $ |
|---|---|---|---|---|---|
| Opening cost | 2,485,754 | 119,214 | 3,256,964 | 230,937 | 17,002,528 |
| Opening accumulated revaluation | - | - | 94,484 | - | 94,484 |
| Opening accumulated depreciation | (2,087,758) | (66,267) | - | (189,120) | (6,132,023) |
| Opening net book value | 397,996 | 52,947 | 3,351,448 | 41,817 | 10,964,989 |
| Additions | 82,207 | 31,074 | 9,361 | 27,246 | 453,469 |
| Revaluation this year | - | - | 103,880 | - | 103,880 |
| Net disposal | (47) | (31,074) | (64,689) | (316) | (96,507) |
| Depreciation | (83,826) | (15,517) | - | (12,736) | (322,307) |
| Closing net book value | 396,330 | 37,430 | 3,400,000 | 56,011 | 11,103,524 |
| Closing cost | 2,532,111 | 83,423 | 3,201,636 | 251,089 | 17,203,303 |
| Closing accumulated revaluation | - | - | 198,364 | - | 198,364 |
| Closing accumulated depreciation | (2,135,781) | (45,993) | - | (195,078) | (6,298,143) |
| Closing net book value | 396,330 | 37,430 | 3,400,000 | 56,011 | 11,103,524 |

At 22 March 2019 Directors obtained a fair value appraisal of some of the company assets by Logan Stone. The valuation for fair value of the assets valued was $13.2m, comprising land $6.0m, buildings $2.1m, vines $3.4m, other $1.7m. The coolstore in Broadway Street was not valued, it's Rating Valuation is $260,000. These assets are carried at historical cost in the financial statements. Were these assets revalued it would result in an increase in the net assets by $3,184,087, which would result in a net asset backing per share of $4.59.

## NOTE 12: BIOLOGICAL ASSETS

| | 2020<br>$ | 2019<br>$ |
|---|---|---|
| Carrying amount of Vines if cost model had been used | 2,329,495 | 2,462,853 |
| Number of vines owned | 181,584 | 181,287 |
| Tonnes of grapes crushed – own vineyards | 480 | 411 |

The fair value of grapes harvested at point of harvest has been determined by the Board and management with reference to market prices and consideration of the quality of the harvested grapes.

The fair value less estimated point-of-sale costs of grapes harvested during the period, determined at point of harvest, is $1,219,106 (2019: $1,027,444).

The fair value of the vines has been established by Director's valuation at 30 June 2020. Refer to Note 19 for assumptions used in Director's Valuation.

## NOTE 13: INTANGIBLE ASSETS

| | Trademark Protection $ | Website $ | Total $ |
|---|---|---|---|
| **30 June 2020** | | | |
| Opening cost | 45,110 | 42,681 | 87,791 |
| Opening accumulated amortisation | - | (22,229) | (22,229) |
| Opening net book value | 45,110 | 20,452 | 65,562 |
| Additions | 1,355 | - | 1,355 |
| Net disposals | - | - | - |
| Amortisation | - | (10,670) | (10,670) |
| Closing net book value | 46,465 | 9,782 | 56,247 |
| Closing cost | 46,465 | 42,681 | 89,146 |
| Closing accumulated amortisation | - | (32,899) | (32,899) |
| Closing net book value | 46,465 | 9,782 | 56,247 |
| **30 June 2019** | | | |
| Opening cost | 45,110 | 42,681 | 87,791 |
| Opening accumulated amortisation | - | (11,559) | (11,559) |
| Opening net book value | 45,110 | 31,122 | 76,232 |
| Additions | - | - | - |
| Net disposals | - | - | - |
| Amortisation | - | (10,670) | (10,670) |
| Closing net book value | 45,110 | 20,452 | 65,562 |
| Closing cost | 45,110 | 42,681 | 87,791 |
| Closing accumulated amortisation | - | (22,229) | (22,229) |
| Closing net book value | 45,110 | 20,452 | 65,562 |

## NOTE 14: TRADE AND OTHER PAYABLES

| | 2020<br>$ | 2019<br>$ |
|---|---|---|
| Trade creditors | 270,422 | 305,475 |
| Related party payables | 71,033 | 75,541 |
| Other payables | 121,119 | 122,282 |
| | 462,574 | 503,298 |

## NOTE 15: TERM LOANS

| | 2020<br>$ | 2019<br>$ |
|---|---|---|
| Current portion of term loans | | |
| South Wairarapa District Council Loan | 3,460 | - |
| Heart Saver NZ Limited | 915 | - |
| | 4,375 | - |

During the year the company entered into a rent to own contract with HeartSaver NZ limited for a defibrillator. During the term of the arrangement Heart Saver NZ Limited remains the lawful owner of the defibrillator. At the end of the rental period of 36 months the legal ownership transfers to the company.

During the year the company entered into a loan agreement with the South Wairarapa District Council. The loan repayment period is 24 months with monthly interest free payments of $288.37 (Note 22).

| 2020 | South Wairarapa District Council Loan<br>$ | Heart Saver NZ Limited<br>$ | Total<br>$ |
|---|---|---|---|
| Advances | 6,920 | 2,744 | 9,664 |
| Repayments | ( 2,595) | ( 609) | ( 3,204) |
| Interest charged | - | - | - |
| Transfer to current portion | ( 3,460) | ( 915) | ( 4,375) |
| | 865 | 1,220 | 2,085 |

| 2019 | South Wairarapa District Council Loan<br>$ | Heart Saver NZ Limited<br>$ | Total<br>$ |
|---|---|---|---|
| Advances | - | - | - |
| Repayments | - | - | - |
| Interest charged | - | - | - |
| Transfer to current portion | - | - | - |
| | - | - | - |

## NOTE 16: SHARE CAPITAL

| | 2020 | 2019 | 2020 | 2019 |
|---|---|---|---|---|
| | number | | $ | $ |
| Opening share capital | 4,216,734 | 4,201,191 | 6,491,435 | 6,459,798 |
| Share capital issued | - | 15,543 | - | 31,637 |
| Closing share capital | 4,216,734 | 4,216,734 | 6,491,435 | 6,491,435 |

All the shares above are of an identical class. Dividend entitlements are attached on a proportionate basis to the extent to which the shares have been paid.

All ordinary shares rank equally, with one vote attached to each fully paid ordinary share. None of the above shares are held by the company. The shares have no par value.

There were no shares issued during the year.

# Notes to the Financial Statements for the Year Ended 30 June 2020 *cont.*

## NOTE 17: SEGMENTAL REPORTING

Palliser Estate Wines of Martinborough Limited operates as a single reportable segment, its business being to produce and sell wines from grapes grown in New Zealand. All the company's costs and assets are managed at a company wide level.

Revenue from external customers has been identified on the basis of the customers' geographical locations.

| | 2020<br>$ | 2019<br>$ |
|---|---|---|
| New Zealand | 2,313,892 | 2,588,008 |
| Australia | 350,533 | 723,714 |
| United States America | 311,559 | 262,730 |
| United Kingdom | 265,995 | 373,815 |
| Denmark | 114,429 | 154,655 |
| Korea | 94,006 | 67,182 |
| United Arab Emirates | 86,595 | 40,248 |
| Hong Kong | 81,613 | 101,837 |
| Canada | 72,089 | 39,615 |
| Japan | 53,660 | 52,877 |
| Netherlands | 49,632 | 63,800 |
| Switzerland | 19,454 | 118,068 |
| Other | 181,052 | 276,516 |
| Total | 3,994,509 | 4,863,065 |

All non-current assets are located in New Zealand.

Revenues from transactions with single external customers that amounted to 10% or more of revenue.

| | 2020<br>$ | 2019<br>$ |
|---|---|---|
| Customer A | 1,723,326 | 2,206,928 |

Notes to the Financial Statements for the Year Ended 30 June 2020 *cont.*

## NOTE 18: IMPUTATION CREDIT ACCOUNT

| | 2020 | 2019 |
|---|---|---|
| | $ | $ |
| Imputation credits available for distribution to shareholders as at 30 June. | | |
| Amount available as at 1 July | 2,804,784 | 2,744,207 |
| Net movement during the reporting period | (316,459) | 60,577 |
| Amount available as at 30 June | 2,488,325 | 2,804,784 |

## NOTE 19: FINANCIAL INSTRUMENTS

| **2020** | **Financial Assets at Amortised Cost $** | **Financial Assets at Fair Value through Profit and Loss $** | **Total $** |
|---|---|---|---|
| Cash and cash equivalents | 603,606 | - | 603,606 |
| Forward exchange contracts | 4,171 | - | 4,171 |
| Trade and other receivables | 541,997 | - | 541,997 |
| Investments | - | 6,868 | 6,868 |
| Total Financial Assets | 1,149,774 | 6,868 | 1,156,642 |

| | **Financial Liabilities at Fair value through Profit or Loss $** | **Financial Liabilities at Amortised Cost $** | **Total $** |
|---|---|---|---|
| Trade and other payables | - | 298,996 | 298,996 |
| Term Loans | - | 6,460 | 6,460 |
| Total Financial Liabilities | - | 305,456 | 305,456 |

| **2019** | **Financial Assets at Amortised Cost $** | **Financial Assets at Fair Value through Profit and Loss $** | **Total $** |
|---|---|---|---|
| Cash and cash equivalents | 624,333 | - | 624,333 |
| ANZ Bank term deposit | 636,363 | - | 636,363 |
| Forward exchange contracts | 4,989 | - | 4,989 |
| Trade and other receivables | 897,119 | - | 897,119 |
| Investments | - | 6,868 | 6,868 |
| Total Financial Assets | 2,162,804 | 6,868 | 2,169,672 |

| | **Financial Liabilities at Fair value through Profit or Loss $** | **Financial Liabilities at Amortised Cost $** | **Total $** |
|---|---|---|---|
| Trade and other payables | - | 363,251 | 363,251 |
| Total Financial Liabilities | - | 363,251 | 363,251 |

# Notes to the Financial Statements for the Year Ended 30 June 2020 *cont.*

The following table presents financial assets and liabilities measured at fair value in the Statement of Financial Position in accordance with the fair value hierarchy. This hierarchy groups financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair values of the financial assets and liabilities. The fair value hierarchy has the following levels:

-Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;

-Level 2: Inputs other than quoted prices included within level 1 that are observable for asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

-Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

The financial assets and liabilities measured at fair value in the Statement of Financial Position are grouped into the fair value hierarchy as follows:

| **2020** | **Level 1<br>$** | **Level 2<br>$** | **Level 3<br>$** |
|---|---|---|---|
| **Current Assets** | | | |
| Forward Currency Contracts | - | 4,171 | - |
| **Investments** | | | |
| Unquoted equity instruments | - | - | 6,868 |
| **Property Plant and Equipment** | | | |
| Vines | - | - | 3,411,276 |
| Net Fair Value | - | 4,171 | 3,418,144 |

| **2019** | **Level 1<br>$** | **Level 2<br>$** | **Level 3<br>$** |
|---|---|---|---|
| **Current Assets** | | | |
| Forward Currency Contracts | - | 4,989 | - |
| **Investments** | | | |
| Unquoted equity instruments | - | - | 6,868 |
| **Property Plant and Equipment** | | | |
| Vines | - | 3,400,000 | - |
| Net Fair Value | - | 3,404,989 | 6,868 |

Vines are included in Level 3 in 2020 as the fair value of the vines has been determined by Director's valuation.

# Notes to the Financial Statements for the Year Ended 30 June 2020 *cont.*

The company has a policy of valuing the vines every second year by an independent valuer unless there are indications of a significant change. There has been no change in current or future productivity of vines. There is no market evidence to indicate any change in vine value. It is the judgement of Directors that the vine values are unchanged from values established by independent valuation dated March 2019. Adjustments are made for any additional vine plantings and disposals. The Directors believe that having the vines revalued by an independent valuer at 30 June 2020 would not result in a more meaningful value or provide more useful information to stakeholders, than the approach used by the Directors in their valuation.

Vines are included in Level 2 in the 2019 comparison as the fair value of these was determined by an independent valuation using valuation techniques which use inputs based on prices which are indirectly derived from market observable prices. The independent valuation carried out by "Logan Stone" was based on the market transactions that occurred in the Wairarapa for vineyard properties, transactions of other land uses and other winegrowing areas have also been taken into consideration, with adjustments reflecting the location, standard of improvements, plantings, mixed age of plants and productive capacities.

a) Nature of activities and management policies with respect to financial instruments.

**Credit Risk**

In the normal course of business, the company incurs credit risk from trade receivables, transactions with financial institutions and employee loans. The company does not require collateral or security to support financial instruments. The company does not expect the non-performance of any obligations at the reporting date. The maximum credit risk is the carrying value of the financial asset.

**Foreign Exchange Risk**

Forward exchange contracts are entered into to manage foreign exchange risk on future sales receipts as a result of adverse foreign exchange fluctuations. The company is not using hedge accounting for any contracts outstanding at the reporting date. While foreign exchange rates do impact New Zealand dollar sales receipts, the company is not materially exposed to exchange gains and losses over the short term. The company has reasonable geographical diversity to spread foreign exchange risk and accounts receivable are collected promptly.

**Liquidity Risk**

Liquidity risk is the risk arising from the company not being able to meet its obligations. The company manages its liquidity risk by maintaining adequate reserves and banking facilities by continuously monitoring forecast and actual cash flows and matching profiles of financial liabilities.

The table below summarises the company's exposure to foreign currency exchange rate risk as at period end. Included in the table are the company's financial instruments at carrying amounts, categorised by currency.

# Notes to the Financial Statements for the Year Ended 30 June 2020 *cont.*

| 2020 | Total $ | NZD $ | AUD $ | GBP $ | EURO $ | USD $ | CAD $ |
|---|---|---|---|---|---|---|---|
| Cash and cash equivalents | 603,606 | 487,036 | 4,649 | 65,772 | 4,025 | 42,124 | - |
| ANZ Bank term deposit | - | - | - | - | - | - | - |
| Forward exchange contracts | 4,171 | - | - | - | - | 4,171 | - |
| Trade and other receivables | 541,997 | 336,041 | 184,278 | - | - | 21,678 | - |
| Investments | 6,868 | 6,868 | - | - | - | - | - |
| Total Financial Assets | 1,156,642 | 829,945 | 188,927 | 65,772 | 4,025 | 67,973 | |
| Trade and other payables | 298,996 | 288,158 | 10,758 | 80 | - | - | - |
| Term Loans | 6,460 | 6,460 | - | - | - | - | |
| Total Financial Liabilities | 305,456 | 294,618 | 10,758 | 80 | - | - | - |
| Net Financial Position | 851,186 | 535,327 | 178,169 | 65,692 | 4,025 | 67,973 | - |

| 2019 | Total $ | NZD $ | AUD $ | GBP $ | EURO $ | USD $ | CAD $ |
|---|---|---|---|---|---|---|---|
| Cash and cash equivalents | 624,233 | 386,592 | 124,588 | 88,055 | 1,630 | 23,368 | - |
| ANZ Bank term deposit | 636,363 | 636,363 | - | - | - | - | - |
| Forward exchange contracts | 4,989 | - | 1,767 | 2,051 | - | 1,171 | - |
| Trade and other receivables | 896,939 | 491,993 | 259,785 | 82,684 | 2,495 | 59,982 | - |
| Investments | 6,868 | 6,868 | - | - | - | - | - |
| Total Financial Assets | 2,169,392 | 1,521,816 | 386,140 | 172,790 | 4,125 | 84,521 | |
| Trade and other payables | 363,251 | 362,640 | - | - | - | - | 611 |
| Total Financial Liabilities | 363,251 | 362,640 | - | - | - | - | 611 |
| Net Financial Position | 1,806,141 | 1,159,176 | 386,140 | 172,790 | 4,125 | 84,521 | (611) |

**Price Risk**

Palliser is exposed to price risk as a result of the competitive market steering the selling price of wine. If sales prices were to fall by 5% or increase by 5% then this would have the following impact:

| | 2020<br>$ | 2019<br>$ |
|---|---|---|
| Actual Revenue | 3,994,509 | 4,863,065 |
| 5% Decrease | 3,794,784 | 4,619,912 |
| 5% Increase | 4,194,234 | 5,106,218 |

**b) Fair Values**

The estimated fair values of the company's financial assets and liabilities approximate their carrying values.

## NOTE 20: RISK MANAGEMENT STRATEGIES RELATED TO AGRICULTURE ACTIVITY

Frost protection is provided on all vineyards to protect against the risk of crop loss or damage due to frosts. An established programme is run to reduce and mitigate the effects of diseases, weeds and other pests on the health and production of the vines.

Notes to the Financial Statements for the Year Ended 30 June 2020 *cont.*

## NOTE 21: RISK SENSITIVITY

The table below summarises the pre-tax sensitivity of financial assets and liabilities to changes in the key risk variable, being currency risk. This details movement in profit or loss within the Statement of Comprehensive Income given a 10% shift in the NZD against all currencies held. The 10% sensitivity rate used represents management's assessment of the reasonably possible change in foreign exchange rates.

| 2020 | Carrying Amount $ | Currency Risk -10% | 10% |
|---|---|---|---|
| Cash and cash equivalents | 603,606 | 12,952 | (10,597) |
| ANZ Bank term deposit | - | - | - |
| Forward exchange contracts | 4,171 | 7,083 | (5,795) |
| Trade and other receivables | 541,997 | 22,884 | (18,723) |
| Investments | 6,868 | - | - |
| Total Financial Assets | 1,156,642 | 42,919 | (35,115) |
| Trade and other payables | 298,996 | 1,204 | (985) |
| Term Loans | 6,460 | - | - |
| Forward exchange contracts | - | - | - |
| Total Financial Liabilities | 305,456 | 1,204 | (985) |
| Net Financial Position | 851,186 | 41,715 | (34,130) |

| 2019 | Carrying Amount $ | Currency Risk -10% | 10% |
|---|---|---|---|
| Cash and cash equivalents | 624,333 | 26,405 | (21,604) |
| ANZ Bank term deposit | 636,363 | - | - |
| Forward exchange contracts | 4,989 | - | - |
| Trade and other receivables | 897,119 | 44,994 | (36,813) |
| Investments | 6,868 | - | - |
| Total Financial Assets | 2,169,672 | 71,399 | (58,417) |
| Trade and other payables | 363,251 | 68 | (55) |
| Forward exchange contracts | - | 40,046 | (32,764) |
| Total Financial Liabilities | 363,251 | 40,114 | (32,819) |
| Net Financial Position | 1,806,421 | 31,285 | (25,598) |

Notes to the Financial Statements for the Year Ended 30 June 2020 *cont.*

## NOTE 22: MATURITY ANALYSIS

The table below analyses the company's financial liabilities into relevant maturity groupings based on the remaining period from the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due equals their carrying values as the impact of discounting is not significant.

| **2020** | **less than 6 months $** | **6 - 12 months $** | **greater than 12 months $** |
|---|---|---|---|
| Trade and other payables | 298,768 | 137 | 91 |
| Term Loans | 2,188 | 2,187 | 2,085 |
| Total Financial Liabilities | 300,956 | 2,324 | 2,176 |

| **2019** | **less than 6 months $** | **6 - 12 months $** | **greater than 12 months $** |
|---|---|---|---|
| Trade and other payables | 363,095 | 156 | - |
| Total Financial Liabilities | 363,095 | 156 | - |

Notes to the Financial Statements for the Year Ended 30 June 2020 *cont.*

## NOTE 23: RELATED PARTY TRANSACTIONS

The company purchased fuel, road user charges, vehicle maintenance and other minor purchases from Martinborough Automotive Limited, of which Ms P M Goodwin's partner is related. These transactions amount to $7,836 (2019: $5,299).

The company was provided with accounting and consultancy services during the year by the accounting firm of Lawson Avery Limited of which Mr A G Beech is a director (note Mr AG Beech retired as a Director of the company on 8 October 2019). These transactions amount to $77,059 for the year (2019: $83,107).

During the year the company reimbursed Mr J D Auld travel and other expenses of $2,153 (2019 $3,668).

| | 2020 | 2019 |
|---|---|---|
| | $ | $ |
| Trade and other receivables include: | | |
| Key management personnel | - | 120 |
| Other related parties | - | - |
| Trade and other payables include: | | |
| Key management personnel | 57,342 | 60,232 |
| Other related parties | 13,691 | 15,309 |
| **Key Management Compensation** | | |
| Short-term employee benefits | 355,359 | 674,150 |

## NOTE 24: COMMITMENTS

There were no commitments for capital expenditure at the reporting date (2019: Nil).

Notes to the Financial Statements for the Year Ended 30 June 2020 *cont.*

## NOTE 25: OPERATING LEASES

A lease commitment exists for the photocopier, water cooler and Eftpos payment services

| | 2020<br>$ | 2019<br>$ |
|---|---|---|
| Less than a year | 3,434 | 4,190 |
| Between one and five years | 2,966 | 1,253 |
| More than five years | - | - |
| Total | 6,400 | 5,443 |

| | 2020<br>$ | 2019<br>$ |
|---|---|---|
| Total operating lease payments recognised as an expense | 5,316 | 5,969 |

## NOTE 26: CONTINGENT LIABILITIES AND CONTINGENT ASSETS

No contingent liabilities or contingent assets are known to exist at the reporting date (2019: Nil).

## NOTE 27: DIVIDEND

A dividend on ordinary shares of 20 cents per share was paid on 7 August 2019 to shareholders on the share register on 5 July 2019 (2019: nil).

## NOTE 28: BANK SECURITIES

The ANZ Bank holds the following securities:

-First charge registered mortgage over 12.23ha

-General Security Agreement (priority amount $1,800,000)

-Specific Security Agreement over plant & equipment.

The company is not subject to the maintenance of any external financial covenants.

## NOTE 29: COVID-19

Covid-19 has impacted the current year's sales results significantly reducing sales in the last four months of the period. Future uncertainties due to the Covid-19 pandemic has meant management has taken a conservative approach to the 2020/21 forecast.

As a primary industry the company is considered an essential service and therefore able to operate aspects of the business at all levels of lockdown in New Zealand, Covid-19 is expected to have a lasting significant economic impact on New Zealand with uncertainty as to how this may impact the Company in the future. When making future business decisions both management and Directors are giving consideration to these significant uncertainties.

## NOTE 30: MANAGING CAPITAL

Management's objective is to ensure the company continues as a going concern and to maintain optimal returns to shareholders and benefits for other stakeholders. The company aims to maintain a capital structure which provides flexibility to enable future growth.

## NOTE 31: RECONCILIATION OF CASHFLOWS FROM FINANCING ACTIVITIES

The changes in the company's liabilities arising from financing activities can be classified as follows;

| | Employee Loans<br>$ | Dividends Payable<br>$ |
|---|---|---|
| Liability at 1 July 2019 | (15,385) | - |
| Non Cash | | |
| Dividends declared | | 842,052 |
| Employee loans issued | - | |
| Cash flows | | |
| Employee loans repaid | 3,785 | |
| Dividends paid | | (842,052) |
| Balance 30 June 2020 | (11,600) | |

| | Employee Loans<br>$ | Dividends Payable<br>$ |
|---|---|---|
| Liability at 1 July 2018 | (22,163) | - |
| Non Cash | | |
| Dividends declared | | - |
| Employee loans issued | (22,000) | |
| Cash flows | | |
| Employee loans repaid | 28,778 | |
| Dividends paid | | - |
| Balance 30 June 2019 | (15,385) | - |

# Comparative Financial Review for the Years Ending 30 June

| | 2020 | 2019 | 2018 | 2017 | 2016 |
|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 |
| Income Statement Data | | | | | |
| Total Sales Revenue | 3,995 | 4,864 | 5,054 | 4,612 | 4,542 |
| Surplus from Operations | 1,611 | 1,480 | 1,432 | 1,147 | 1,205 |
| Taxation | (458) | 22 | 107 | 72 | 31 |
| Net Surplus/(Deficit) for the Year | 877 | (75) | 202 | 154 | 87 |
| Earnings per Share (cents) | 20.80 | (1.79) | 4.81 | 3.66 | 2.08 |
| Dividends per Share (cents) | 20.00 | - | 10.00 | 5.00 | 10.00 |
| Statement of Financial Position Data | | | | | |
| Current Assets | 5,047 | 5,556 | 5,597 | 5,822 | 5,884 |
| Current Liabilities | 467 | 503 | 419 | 422 | 424 |
| Working Capital Ratio | 10.81 | 11.05 | 13.36 | 13.80 | 13.88 |
| Non-Current Assets | 11,135 | 11,188 | 11,062 | 11,025 | 10,946 |
| Total Assets | 16,182 | 16,744 | 16,659 | 16,847 | 16,830 |
| Non-Current Liabilities | 1,080 | 1,641 | 1,597 | 1,573 | 1,528 |
| Total Liabilities | 1,547 | 2,144 | 2,016 | 1,995 | 1,952 |
| Total Shareholder's Equity | 14,635 | 14,600 | 14,643 | 14,852 | 14,878 |
| Net Surplus/(Deficit) % of Shareholder's Equity | 5.99% | -0.51% | 1.38% | 1.04% | 0.58% |
| Total Loans | 6 | - | - | - | - |
| Gearing Ratio % [1] | 0.04% | - | - | - | - |
| Shareholder's Equity % of Total Assets | 90.44% | 87.20% | 87.90% | 88.16% | 88.40% |
| Number of Shares at year end | 4,216,734 | 4,216,734 | 4,201,191 | 4,197,868 | 4,188,778 |

Notes:

[1] Gearing Ratio is Total Loans as a percentage of Total Liabilities plus Total Shareholders Equity

# Statutory Information for the Year Ended 30 June 2020

## 1. CHANGES IN CAPITAL

There was no change in capital during the year.

## 2. DIVIDEND

A dividend on ordinary shares of 20 cents per share was paid on 7 August 2019 to shareholders on the share register on 5 July 2019.

## 3. DIRECTORS

In accordance with the company's constitution, Mr A R Meehan retires by rotation and, being eligible, offers himself for re-election to the Board.

## 4. AUDITOR

In accordance with Section 200 of the Companies Act 1993, the auditor, Grant Thornton, continues in office.

## 5. INTERESTS REGISTER

**Transactions**

Various related party transactions were conducted during the year as more particularly described in Note 23 on page 53 of the annual report.

The company has Directors' and Officers' Liability Insurance.

**Loans to Directors**

There were no loans by the company to Directors.

Statutory Information for the Year Ended 30 June 2020

## 6. DIRECTORS' REMUNERATION

The shareholders approved Directors' fees not exceeding $63,000 per annum to be divided amongst the Directors. During the year the Board of Directors approved the following remuneration for the Directors of the Company:

| | 2020 | 2019 |
|---|---|---|
| A R Meehan | 20,392 | 17,500 |
| A G Beech | 2,844 | 11,375 |
| S R Tyler | 13,255 | 11,375 |
| J D Auld | 13,255 | 11,375 |
| S L Meikle | 10,411 | - |

## 7. EMPLOYEES' REMUNERATION

Remuneration and other benefits of $100,000 or more received by employees in their capacity as employees were as follows:

| | No. of Employees |
|---|---|
| $100,001-$110,000 | 1 |
| $150,001-$160,000 | 1 |
| $190,001-$200,000 | 1 |

# Statutory Information for the Year Ended 30 June 2020

## 8. SHAREHOLDING BREAKDOWN

| Shareholding as at 30 June 2020 | Number of Shareholders | Total Shares Held | % of Share Capital |
|---|---|---|---|
| 1-9,999 | 157 | 877,607 | 20.81% |
| 10,000-49,999 | 42 | 712,501 | 16.90% |
| 50,000-99,999 | 7 | 586,417 | 13.91% |
| 100,000-499,999 | 8 | 2,040,209 | 48.38% |
| | 214 | 4,216,734 | 100.0% |

## 9. DIRECTORS' SHAREHOLDING

Shares held at 30 June 2020 (including beneficial interests):

| | | |
|---|---|---|
| A R Meehan | 16,190 | shares fully paid |
| S R Tyler | 5,000 | shares fully paid |
| J D Auld | 5,000 | shares fully paid |
| S L Meikle | 1,000 | shares fully paid |

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