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# PETER LEHMANN WINES LIMITED

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## DIRECTORS' REPORT

The directors present their report together with the financial report of Peter Lehmann Wines Limited ("the Company") and of the consolidated entity, being the Company and its controlled entities, for the year ended 30 June 2002 and the auditor's report thereon.

### Directors

The directors of the Company at any time during or since the end of the financial year are:

<b>Name, Qualifications &amp; Special Responsibilities</b>	<b>Age</b>	<b>Experience</b>
Richard Anthony Fountayne ENGLAND FCA, MAICD Non-Executive Director Member of the Audit and Remuneration Committees	52	Chartered Accountant in public practice with 30 years in management advisory work. Chairman of Tower Trust Limited, GroPep Limited, Ruralco Holdings Limited, and Director of Healthscope Limited. Director since June 1998. Appointed Chairman October 1999.
Peter Leon LEHMANN, AM Deputy Chairman Executive Director	72	Peter Lehmann has 55 years experience in the wine industry and is renowned for his strong and enduring relationships with the independent Barossa grape growers as well as commitment to producing top quality wines. Deputy Chairman and Director since March 1993.
Douglas McCaig LEHMANN, FAICD Managing Director Executive Director	50	Douglas Lehmann's formative experience in the wine industry was as a winemaker. Over the last 30 years he has developed skills in wine production, marketing and distribution as well as general management. Managing Director since March 1993.
Harold William George TILLEY, BEC, ASA, ABIA Non-Executive Director Chairman of the Audit Committee Member of Remuneration Committee	65	Harold Tilley has 45 years experience in the capital markets and has specialist skills in the financing of well managed small and medium sized growth businesses. Director since May 1993.
Roger Maxwell WILSON, LLB Non-Executive Director Chairman of the Remuneration Committee and Member of the Audit Committee	61	Roger Wilson has 40 years experience as a practicing solicitor specialising in commercial law. Director since March 1993.
Neil Charles LISTER, BEc Non-Executive Director Member of the Audit and Remuneration Committees	55	Neil Lister has over 30 years in the food industry in Australia, Asia and the UK with a strong marketing and strategic focus. Formerly CEO of The Uncle Toby's Company he is currently a director of Goodman Fielder Ltd and the Peanut Company of Australia Ltd. Appointed Director August 1999.
Robert Victor EDWARDS, BCom Executive Director	56	Robert Edwards has over 20 years marketing and selling experience in the wine industry. He has been Marketing Manager with PLW since 1995. Appointed Marketing Director August 1999.

# PETER LEHMANN WINES LIMITED

Name, Qualifications & Special Responsibilities	Age	Experience
Margaret Elizabeth LEHMANN, BA, Dip Ed Alternate Director	59	Responsible for liaising with the media and winery functions. Appointed alternate for Peter Lehmann March 1994.
Andrew Douglas WIGAN, BSc (App Chem) Dip Oen Alternate Director	53	Chief Winemaker and leads the team of winemakers and technical staff. Appointed alternate for Robert Edwards August 1999.

## Directors' Meetings

The number of directors' meetings (including meetings of committees of directors) and number of meetings attended by each of the directors of the Company during the financial year are:

	Board Meetings		Audit Committee Meetings		Remuneration Committee Meetings	
	A	B	A	B	A	B
R A F England	16	16	3	3	3	3
P L Lehmann <sup>(1)</sup>	13	14	-	-	-	-
D McC Lehmann	15	16	-	-	-	-
N C Lister	16	16	3	3	3	3
H W G Tilley	16	16	3	3	3	3
R M Wilson	16	16	3	3	3	3
R V Edwards <sup>(2)</sup>	14	15	-	-	-	-
M E Lehmann <sup>(1)</sup>	2	2	-	-	-	-
A D Wigan <sup>(2)</sup>	1	1	-	-	-	-

A – Number of meetings attended

B – Number of meetings held during the time the director held office during the year.

<sup>(1)</sup> M E Lehmann attended 2 directors' meetings as an alternate for Peter Lehmann

<sup>(2)</sup> A D Wigan attended 1 directors' meeting as an alternate for Robert Edwards

## Principal Activities

The principal activities of the consolidated entity during the course of the financial year were the manufacturing and sale of wine. The wine is sold in bottle and in bulk. Bottled wine is exported as well as being sold domestically. The consolidated entity has continued its investment in vineyard development.

The Company has two subsidiaries, Peter Lehmann Wines (Europe) Ltd and Austral Wines Pty Ltd. These companies distribute wine in Europe and buyers own brand wine respectively.

## Consolidated Result

The consolidated operating profit after tax for the year was \$6,915,000 (2001: \$6,195,000).

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# PETER LEHMANN WINES LIMITED

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## Review of Operations

This year demonstrated the strength of Peter Lehmann Wines Limited (PLW) and the benefits of our focus on quality wine.

Operating profit after tax was up 12% to \$6.9 million on 7% higher sales of \$43.7 million.

Compared to last year:

- Case sales, revenue and profit increased
- Export revenue for the Peter Lehmann brand increased by 16%

In a very competitive domestic market PLW grew its case sales by 6% in volume with revenue from these sales up by 8% reflecting the growing strength of the Peter Lehmann brand. Growth in distribution, continuing support from our national distributor, Samuel Smith & Son, and sound marketing from PLW contributed to the result.

During 2001 we decided to focus our marketing efforts more strongly on our own brands in the important UK and EU markets. As a result in the first half of 2001/02 we discontinued distributing for two of the three companies we were representing. While that decision had a modest impact on revenue it is having a very positive effect on the sales of our own wines.

Total export case sales of Peter Lehmann wines were up 12% while revenue was up 16%. This year export sales of Peter Lehmann wines accounted for over 54% of the brand's case sales.

The UK, our biggest export market, accounted for over 30% of our total branded case sales, with PLW selling 9% more cases for a 13% increase in revenue. Together with the UK, the rest of Europe makes up 43% of our total branded cases sales. Working closely to support our distributors in continental Europe saw sales increase 22% over the previous year.

In the UK and Europe PLW launched a new mid priced range under the Weighbridge label. Market response has been positive and we expect Weighbridge to play an increased role in our continuing growth in the region.

The company appointed a new distributor in British Columbia in Canada in the second half of the year which has resulted in increased sales volume in a market that PLW believes has significant growth potential. Sales also showed moderate increases in the Asia-Pacific region.

The USA is an important market for PLW and performed to expectations over the past twelve months. The company expects to see significant growth in this market over the next year.

This year PLW processed a record total crush of 17,037 tonnes, up 11% on the 2001 crush of 15,371 tonnes. The total intake was 11,528 tonnes (2001: 10,157 tonnes) with contract crushing at 5,509 tonnes (2001: 5,214 tonnes).

## Dividends

Dividends paid or declared by the Company since the end of the previous financial year were:

A final fully franked dividend at 6.75 cents per share amounting to \$2,357,000 in respect of the year ended 30 June 2001, was paid on 5 October 2001.

In respect of the current financial year:	\$'000
An interim fully franked dividend (at the 30% rate) of 3.5 cents per share in respect of the year ended 30 June 2002 was paid on 8 April 2002.	1,302

The directors recommend a final fully franked dividend (at the 30% rate) of 7.5 cents per share for the year ended 30 June 2002 payable 4 October 2002.	<u>2,786</u>
	<b><u>4,088</u></b>

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## **State of Affairs**

Land, critical to the implementation of the winery expansion plans, was acquired. The Company continued its upgrading of winery and storage facilities during the year.

The consolidated entity extended its borrowings by a net amount of \$6,500,000. These funds were used for the acquisition of property, plant and equipment as noted above and additional working capital requirements, particularly for holding wine for future sales.

During the year ended 30 June 2002 equity increased by 2,200,000 shares following the issue of shares pursuant to a placement. The shares were issued at \$3.10 each for proceeds of \$6,820,000.

## **Events Subsequent to Balance Date**

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operation of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity, in future financial years.

## **Likely Developments**

The Company will continue to pursue its strategy of increasing the profitability and market share of its major business sectors during the next financial year. The major expansion of the winery complex is underway with the project to be completed by the 2003 vintage.

## **Employee Share Plan**

Under employee share plans the consolidated entity provided 15,043 fully paid shares to 49 employees resident in Australia and 3,760 fully paid shares to 6 employees resident in the UK.

## **Environmental Regulation**

The Company's operations are subject to licence requirements under the South Australian Environment Protection Act 1993. This requires the Company to dispose of winery waste water in a manner which does not adversely impact on the surrounding land, underground water or nearby water course. The Company regularly monitors its licence requirements, with performance reported to the state regulator on a periodic basis. There have been no instances of non-compliance in relation to these licence requirements during the financial year.

## **Directors' and Senior Executives' Emoluments**

### ***Policy***

The remuneration committee, consisting of non-executive directors, advises the Board on remuneration policies and practices generally, and makes specific recommendations on remuneration packages applicable to board members and senior executives of the consolidated entity.

The broad remuneration policy is to ensure the remuneration package properly reflects the person's duties and responsibilities. Remuneration packages are set at levels that are intended to attract and retain executives capable of managing the consolidated entity's operations.

Remuneration of non-executive directors is determined by the Board within the maximum amount approved by the shareholders from time to time. The Board undertakes an annual review of its performance. Non-executive directors do not receive any performance related remuneration.

Executive remuneration is reviewed annually by the committee having regard to performance, relevant comparative information and the size of the organisation. Independent advice is sought when required.

Executive directors and senior executives may receive bonuses based on the achievement of specific goals related to the performance of the consolidated entity. The ability to exercise existing executive options was made conditional on the consolidated entity achieving certain performance hurdles.

# PETER LEHMANN WINES LIMITED

## **Emoluments**

Details of the nature and amount of each major element of the emoluments of each director of the Company and each of the 4 named officers of the consolidated entity receiving the highest emolument are:

	Base Emolument	Bonuses	Non-Cash and Other Benefits	Superannuation Contributions	Total
	\$	\$	\$	\$	\$
Non-executive Directors of the Company					
R A F England	70,000	0	3,118	7,000	80,118
N C Lister	40,000	0	3,174	4,000	47,174
H W G Tilley	40,000	0	3,098	4,000	47,098
R M Wilson	40,000	0	3,228	4,000	47,228
Executive Directors of the Company					
D McC Lehmann	195,000	0	60,851	27,391	283,242
P L Lehmann	117,057	0	30,482	-	147,539
R V Edwards	193,646	0	37,427	26,296	257,369
Executives of the Company					
B K Clapton	131,427	0	32,327	12,789	176,543
A D Wigan	151,188	0	31,245	14,616	197,049
H T Astrom	171,876	0	73,098	17,292	262,266
Executives of the Consolidated Entity					
W I Whigham	241,389	0	23,517	24,138	289,044

Under the terms of the Service Agreement with Peter Lehmann retirement benefits are payable on termination in certain circumstances.

Under the Corporations Act 2001 the non-executive directors are entitled to compensation on retirement or loss of office. This benefit is payable for past services and is not to exceed the total remuneration paid to the director in the three year period up to retirement.

Executive officers are those involved in the strategic direction, general management or control of business at a company or operating division level. This group numbers four in total.

Non-cash and other benefits comprise motor vehicles at their salary package value, an allowance for the promotion of the Company's wine, location allowances and Fringe Benefits Tax on relevant fringe benefits.

The salary packages of the executive resident in the UK and the executive domiciled in Switzerland have been converted to Australian dollars at the average exchange rate during the financial year.

## **Options**

No options were granted during or since the end of the financial year. Options have not been granted since 1998.

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## **Shares under option**

Unissued ordinary shares of Peter Lehmann Wines Limited under option at the date of this report are as follows:

Year of Grant	Exercise Period	Exercise Price	No of Options
1997	12/12/00 – 12/12/02	\$2.01	37,500
1998	1/1/02 – 31/12/03	\$2.01	75,000
1996	29/11/99 – 29/11/06	\$1.22	65,000
1997	12/12/00 – 12/12/07	\$2.01	172,500
1998	1/1/02 – 31/12/08	\$2.01	420,000

The ability to exercise the options was made conditional upon the achievement of certain performance hurdles. The options do not entitle the holder to participate in any share issue of the Company.

The outstanding options have been classified as potential ordinary shares and included in the calculation of the diluted earnings per share. Thus the effect of the options on the financial performance of the Company is reflected in diluted earnings per share.

## **Directors' Interest**

The relevant interest of each director in the share capital of the Company, as notified by the directors to the Australian Stock Exchange at the date of this report is as follows:

Director	Shares		Options
	Directly Held	Indirectly held	
R A F England	44,559	8,072	-
P L Lehmann	5,928,278	516,792	-
D McC Lehmann	66,981	-	225,000
N C Lister	18,235	-	-
H W G Tilley	93,036	-	-
R M Wilson	21,415	13,585	-
R V Edwards	-	56,415	100,000

## **Indemnification and Insurance of Officers**

### **Indemnification**

The Company has agreed to indemnify the following current directors of the Company, Mr R A F England, Mr P L Lehmann, Mr D McC Lehmann, Mr N C Lister, Mr H W G Tilley, Mr R M Wilson and Mr R V Edwards, and Mr C Millard, a former director, against all liabilities to another person (other than the Company or related body corporate) that may arise from their position as directors of the Company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses.

The Company has also agreed to indemnify the current directors of its controlled entities and an officer of the Company for all liabilities to another person (other than the Company or a related body corporate) that may arise from their position, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses.

### **Insurance Premiums**

The directors have not included details of the nature of liabilities covered or the amount of the premium paid in respect of the Directors' and Officers' Liability insurance contracts, as such disclosure is prohibited under the terms of the insurance contract.

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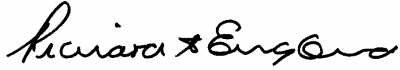
# PETER LEHMANN WINES LIMITED

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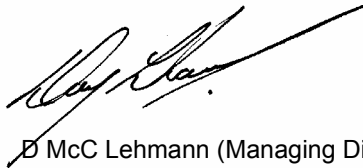
## Rounding Off

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with the Class Order, amounts in the financial report and the directors' report thereon have been rounded off to the nearest thousand dollars unless otherwise stated.

Signed in accordance with a resolution of the directors.



R A F England (Chairman)



D McC Lehmann (Managing Director)

Dated at Tanunda this thirteenth day of September 2002

# PETER LEHMANN WINES LIMITED

## STATEMENTS OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2002

	NOTE	CONSOLIDATED		THE COMPANY	
		2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000
Revenue from ordinary activities	3	<b>45,179</b>	42,152	<b>39,919</b>	35,912
Expenses from ordinary activities, excluding borrowing costs expense	4	<b>(34,525)</b>	(32,323)	<b>(30,364)</b>	(26,735)
Borrowing costs expense	4	<b>(787)</b>	(723)	<b>(786)</b>	(722)
<b>Profit from ordinary activities before income tax expense</b>		<b>9,867</b>	9,106	<b>8,769</b>	8,455
Income tax expense relating to ordinary activities	6(a)	<b>(2,952)</b>	(2,911)	<b>(2,635)</b>	(2,704)
<b>Profit from ordinary activities after related income tax expense</b>	22	<b>6,915</b>	6,195	<b>6,134</b>	5,751
<b>Non-owned transaction changes in equity</b>					
Decrease in equity on the initial adoption of AASB 1041					
<i>Revaluation of Non-Current Assets and AASB 1037 Self Generating and Regenerating Assets</i>					
Decrease in asset revaluation reserve	21	-	(1,482)	-	(1,482)
Decrease in retained earnings	22	-	(103)	-	(103)
Net exchange difference relating to self-sustaining foreign operations	21	<b>(28)</b>	164	-	-
Total revenues, expenses and valuation adjustments to members of the parent entity recognised directly in equity		<b>(28)</b>	(1,421)	-	(1,585)
<b>Total changes in equity from non-owner related transactions attributable to members of the parent entity</b>	23	<b>6,887</b>	4,774	<b>6,134</b>	4,166
Basic earnings per share	8	<b>19.02 cents</b>	18.14 cents		
Diluted earnings per share	8	<b>18.81 cents</b>	18.11 cents		

The statements of financial performance are to be read in conjunction with the notes to and forming part of the financial statements

# PETER LEHMANN WINES LIMITED

## STATEMENTS OF FINANCIAL POSITION AS AT 30 JUNE 2002

	NOTE	CONSOLIDATED		THE COMPANY	
		2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000
<b>CURRENT ASSETS</b>					
Cash		1,991	1,178	758	2
Receivables	10	14,423	10,621	12,467	9,078
Inventories	11	31,508	24,230	31,351	24,030
Other	12	544	454	487	408
<b>Total current assets</b>		<b>48,466</b>	36,483	<b>45,063</b>	33,518
<b>NON-CURRENT ASSETS</b>					
Inventories	11	14,520	13,101	14,520	13,101
Other financial assets	13	34	23	104	104
Property, plant and equipment	14	21,105	15,943	21,079	15,905
Grape Vines	15	994	966	994	966
Deferred tax assets	6	487	431	487	431
<b>Total non-current assets</b>		<b>37,140</b>	30,464	<b>37,184</b>	30,507
<b>TOTAL ASSETS</b>		<b>85,606</b>	66,947	<b>82,247</b>	64,025
<b>CURRENT LIABILITIES</b>					
Payables	16	13,367	11,905	14,588	12,713
Interest bearing liabilities	17	3,410	3,764	3,410	3,764
Current tax liabilities	6	1,132	1,283	984	1,232
Provisions	19	3,792	3,197	3,792	3,197
<b>Total current liabilities</b>		<b>21,701</b>	20,149	<b>22,774</b>	20,906
<b>NON-CURRENT LIABILITIES</b>					
Payables	16	500	-	500	-
Interest bearing liabilities	17	18,000	11,110	18,000	11,110
Deferred tax liabilities	6	1,104	933	1,104	933
Provisions	19	51	60	51	60
<b>Total non-current liabilities</b>		<b>19,655</b>	12,103	<b>19,655</b>	12,103
<b>TOTAL LIABILITIES</b>		<b>41,356</b>	32,252	<b>42,429</b>	33,009
<b>NET ASSETS</b>		<b>44,250</b>	34,695	<b>39,818</b>	31,016
<b>EQUITY</b>					
Contributed equity	20	29,067	22,311	29,067	22,311
Reserves	21	213	241	-	-
Retained profits	22	14,970	12,143	10,751	8,705
<b>TOTAL EQUITY</b>	23	<b>44,250</b>	34,695	<b>39,818</b>	31,016

The statements of financial position are to be read in conjunction with the notes to and forming part of the financial statements

# PETER LEHMANN WINES LIMITED

## STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2002

	NOTE	CONSOLIDATED		THE COMPANY	
		2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Cash receipts in the course of operations		<b>43,509</b>	42,483	<b>39,044</b>	37,262
Cash payments in the course of operations		<b>(41,963)</b>	(38,181)	<b>(37,756)</b>	(33,608)
Interest received	3	<b>77</b>	95	<b>46</b>	55
Borrowing costs paid	4	<b>(999)</b>	(945)	<b>(998)</b>	(944)
Income taxes paid		<b>(2,988)</b>	(2,906)	<b>(2,768)</b>	(2,607)
<b>NET CASH PROVIDED BY/(USED IN) OPERATING ACTIVITIES</b>	29(ii)	<b>(2,364)</b>	546	<b>(2,432)</b>	158
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Payment for property, plant & equipment		<b>(6,457)</b>	(2,725)	<b>(6,446)</b>	(2,716)
Payment for investments		-	(14)	-	(14)
Proceeds from sale of non-current assets		<b>1</b>	-	<b>1</b>	-
<b>NET CASH USED IN INVESTING ACTIVITIES</b>		<b>(6,456)</b>	(2,739)	<b>(6,445)</b>	(2,730)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Proceeds from issue of shares	20	<b>6,756</b>	3,514	<b>6,756</b>	3,514
Proceeds from borrowings		<b>7,000</b>	5,200	<b>7,000</b>	5,200
Repayment of borrowings		<b>(415)</b>	(2,660)	<b>(415)</b>	(2,660)
Dividends paid		<b>(3,659)</b>	(2,881)	<b>(3,659)</b>	(2,881)
<b>NET CASH PROVIDED BY/USED IN FINANCING ACTIVITIES</b>		<b>9,682</b>	3,173	<b>9,682</b>	3,173
<b>NET INCREASE (DECREASE) IN CASH HELD</b>		<b>862</b>	980	<b>805</b>	601
<b>CASH AT THE BEGINNING OF THE FINANCIAL YEAR</b>		<b>1,129</b>	149	<b>(47)</b>	(648)
<b>CASH AT THE END OF THE FINANCIAL YEAR</b>	29(i)	<b>1,991</b>	1,129	<b>758</b>	(47)

The statements of cash flows performance are to be read in conjunction with the notes to and forming part of the financial statements

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# PETER LEHMANN WINES LIMITED

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2002

### 1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The significant policies which have been adopted in the preparation of this financial report are:

**a) *Basis of Preparation***

The financial report is a general purpose financial report which has been prepared in accordance with Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

It has been prepared on the basis of historical costs and except where stated, does not take into account changing money values or fair values of non-current assets.

These accounting policies have been consistently applied by each entity in the consolidated entity and, except where there is a change in accounting policy, are consistent with those of the previous year.

**b) *Principles of Consolidation***

The consolidated accounts of the economic entity include the financial statements of the Company, being the parent entity, and its controlled entities ("the consolidated entity"). The balances, and effects of transactions, between controlled entities included in the consolidated financial statements have been eliminated.

**c) *Revenue Recognition – Note 3***

*Sales Revenue*

Sales revenue comprises revenue earned (net of returns, discounts, trade allowances and duties and taxes paid) from the provision of products and services to entities outside the consolidated entity. Revenue is recognised for the major business activities as follows:

*Bottled and Bulk Wine*

Revenue is recognised pursuant to sales orders and associated deliveries. In some instances the volume to be delivered is estimated and the revenue recorded is adjusted to reflect volume delivered within the reporting period.

*Contract Services*

Contract revenue is recognised when the service is provided.

*Interest Income*

Interest income is recognised when it is received.

*Sale of non-current assets*

The gross proceeds of asset sales are included as revenue. The gain or loss on disposal of assets is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal.

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# PETER LEHMANN WINES LIMITED

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**d) Goods and services tax**

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Tax Office (ATO). In these circumstances the GST is recognised as part of the cost acquisition of the asset or as part of an item of the expense.

Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

**e) Foreign Currency Transactions**

Foreign currency transactions are translated to Australian currency at the rates of exchange ruling at the dates of the transactions. Amounts receivable and payable in foreign currencies at balance date are translated at the rates of exchange ruling on that date.

**Translation of Controlled Foreign Entities**

The assets and liabilities of an overseas controlled entity that is a self-sustaining foreign operation is translated at the rate of exchange ruling at balance date. Equity items are translated at historical rates. The statement of financial performance is translated at a weighted average rate for the year. Exchange differences arising on translation are taken directly to the foreign currency translation reserve.

**f) Borrowing Costs**

Borrowing costs include interest, amortisation of discounts or premiums relating to borrowings, amortisation of ancillary costs incurred in connection with arrangement of borrowings and lease finance charges. Borrowing costs are expensed as incurred unless they relate to qualifying assets. Qualifying assets are assets which generally take more than 12 months to get ready for their intended use or sale. In these circumstances, borrowing costs are capitalised to the cost of the assets. Where funds are borrowed specifically for the acquisition, construction or production of a qualifying asset, the amount of borrowing costs capitalised is those incurred in relation to that borrowing, net of any interest earned on those borrowings. Where funds are borrowed generally, borrowing costs are capitalised using a weighted average capitalisation rate.

**g) Taxation - Note 6**

**Income Tax**

The consolidated entity adopts the income statement liability method of tax effect accounting.

Income tax expense is calculated on operating profit adjusted for permanent differences between taxable and accounting income. The tax effect of timing differences, which arise from items being brought to account in different periods for income tax and accounting purposes, is carried forward in the statement of financial position as a future income tax benefit or a provision for deferred income tax.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt.

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**h) Acquisitions of Assets**

All assets acquired including property, plant and equipment and intangibles other than goodwill are initially recorded at their cost of acquisition at the date of acquisition, being the fair value of the consideration provided plus incidental costs directly attributed to the acquisition.

The cost of assets constructed or internally generated by the consolidated entity, include the cost of materials and direct labour. Incidental costs are also capitalised to the asset. Costs attributable to feasibility and alternative approach assessments are expensed as incurred.

**i) Receivables - Note 10**

*Trade Debtors*

Trading terms vary between 30 and 180 days depending upon the market into which the wine is sold with settlement usually occurring within 60 days. Sales of vintage bulk wine are made in March with payments due at the end of April, June and September. The amount owing to the Company at balance date from the sale of such material is 8% of the total outstanding by customers to the consolidated entity (2001: 7%).

*Doubtful Debts*

The collectibility of debts is assessed at balance date and specific provision is made for any doubtful accounts. In addition, a general provision is maintained by the parent entity.

**j) Inventories - Note 11**

Inventories are carried at the lower of cost and net realisable value.

*Manufacturing Activities*

Costs include grapes, materials, direct labour, other direct variable costs and allocated production overheads necessary to bring inventories to their present condition and location.

*Net Realisable Value*

Net realisable value is determined on the basis of each inventory line's normal selling pattern. Expenses of marketing, selling and distribution to customers are estimated and are deducted to establish net realisable value.

*Maturation of Wine*

Generally red wine is matured for a period of two years or more prior to its release. This wine forms the substantial portion of the non-current inventory. Borrowing costs are capitalised to wine which is generally held for more than 12 months as set out in Note 1f).

*Stock Writedowns*

The inventories have been reviewed for slow moving items and a provision made for possible writedown of the relevant items.

**k) Investments**

*Controlled entities*

Investments in controlled entities are carried in the Company's financial statements at the lower of cost and recoverable amount.

*Other entities*

Investments in other unlisted companies are carried at the lower of cost and recoverable amount, being a directors' valuation based on the market values at the time of the valuation. Dividends are brought to account as they are received.

**l) Recoverable amount of non-current assets valued on cost basis**

The carrying amount of non-current assets valued on the cost basis, are reviewed to determine whether they are in excess of their recoverable amount at balance date. If the carrying amount of a non-current asset exceeds its recoverable amount, the asset is written down to the lower amount. The write-down is recognised as an expense in the net profit or loss in the reporting period in which it occurs.

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# PETER LEHMANN WINES LIMITED

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Where a group of assets working together supports the generation of cash inflows, recoverable amount is assessed in relation to that group of assets.

In assessing recoverable amounts of non-current assets the relevant cash flows have not been discounted to their present value, except where specifically stated.

## ***m) Depreciation and amortisation***

### *Useful lives*

Items of property, plant and equipment, excluding freehold land, are depreciated/amortised over their estimated useful lives using the straight line method over their estimated useful lives.

Assets are depreciated or amortised from the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and held ready for use.

Depreciation rates and methods are reviewed annually for appropriateness. When changes are made, adjustments are reflected prospectively in current and future periods only.

The depreciation rates used for each class of asset are as follows:-

- Buildings 2%
- Plant and equipment 2% - 20%
- Leased plant and equipment 3% - 20%

## ***n) Leased Assets***

Leases of plant and equipment under which the Company or its controlled entities assume substantially all the risks and benefits of ownership are classified as finance leases. Other leases are classified as operating leases. Payments made under operating leases are expensed on a straight line basis over the term of the lease.

## ***o) Accounts Payable - Note 16***

Liabilities are recognised for amounts to be paid in the future for goods or services received. Trade creditors are generally settled within 60 days. The Company purchases its grape intake predominantly in March with settlement taking place at the end of April, June and September. The amount owing by the Company at balance date for such material is 42% of the trade creditors of the consolidated entity (2001: 44%).

## ***p) Interest bearing liabilities - Note 17***

Bills of exchange and bank loans are carried on the statement of financial position at their principal amounts. The interest is amortised over the period to maturity.

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# PETER LEHMANN WINES LIMITED

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**q) Employee Entitlements - Note 26**

*Wages, Salaries, and Annual Leave*

The provisions for employee entitlements to wages, salaries and annual leave represents the amount which the economic entity has a present obligation to pay resulting from employees' services provided up to the reporting date. The provisions have been calculated at undiscounted amounts based on current wage and salary rates and include related on-costs.

*Long Service Leave*

The provision for employees' entitlements to long service leave represents the present value of the estimated future cash outflows to be made by the employer resulting from employees' services provided up to the reporting date.

Liabilities for employee entitlements which are not expected to be settled within twelve months are discounted using the rates attaching to national government securities at balance date, which most closely match the terms of maturity of the related liabilities.

In determining the liability for employee entitlements, consideration has been given to future increases in wage and salary rates, and the economic entity's experience with staff departures. Related on-costs have also been included in the liability.

*Superannuation Plan*

The Company contributes to employee superannuation funds. Contributions are charged against income as they are made.

*Employee Share Plan*

The Company provided ordinary shares to a number of employees during the year. Further information is set out in Note 26 to the financial statements.

**r) Number of employees**

The number of employees measured on a full time equivalent basis at 30 June 2002 was 69 (2001: 58)

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# PETER LEHMANN WINES LIMITED

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## 2 CHANGES IN ACCOUNTING POLICY

### *Earnings per share*

The consolidated entity has applied AASB 1027: Earnings Per Share (issued June 2001) for the first time from 1 July 2001.

Basic and diluted earnings per share ("EPS") for the comparative period ended 30 June 2001 have been adjusted so that the basis of calculation used is consistent with the current period.

### *Basic earnings per share*

Basic EPS earnings are calculated on net profit or loss and do not exclude any extraordinary items.

### *Diluted earnings per share*

Diluted EPS earnings are now calculated by only adjusting the basic EPS earnings for the after tax effect of financing costs and the effect of conversion to ordinary shares associated with dilutive potential ordinary shares, rather than including the notional earnings on the funds that would have been received by the entity had the potential ordinary shares been converted.

The diluted EPS weighted average number of shares now includes the number of ordinary shares assumed to be issued for no consideration in relation to dilutive potential ordinary shares, rather than the total number of dilutive potential ordinary shares. The number of ordinary shares assumed to be issued for no consideration represents the difference between the number that would have been issued at the exercise price and the number that would have been issued at the average market price.

The identification of dilutive potential ordinary shares is based on net profit or loss from continuing ordinary operations, not net profit or loss before extraordinary items and is applied on a cumulative basis, taking into account the incremental earnings and incremental number of shares for each series of potential ordinary share.

### *Segment reporting*

The consolidated entity has applied the revised AASB 1005 Segment Reporting (issued in August 2000) for the first time from 1 July 2001.

As the consolidated entity makes and sells wine it operates predominantly in one business segment. Customers are located in different regions and the consolidated entity has adopted geographical segments for its primary segment reporting.

# PETER LEHMANN WINES LIMITED

	CONSOLIDATED		THE COMPANY	
	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000
<b>3 REVENUE FROM ORDINARY ACTIVITIES</b>				
<b>Revenue from operating activities</b>				
Sale of goods	43,720	40,540	38,491	34,367
Rendering of services	1,042	1,155	1,042	1,128
Other Revenue				
Revenue recognised for vine valuation	26	85	26	85
Revenue recognised for grapes harvested	193	243	193	243
Rent received	2	7	2	7
Interest – other parties	77	95	46	55
Sundry income	119	27	119	27
<b>Total revenue from ordinary activities</b>	<b>45,179</b>	<b>42,152</b>	<b>39,919</b>	<b>35,912</b>
<b>4 PROFIT FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE</b>				
Profit from ordinary activities before income tax has been arrived at after charging/(crediting) the following items:				
Costs of goods sold	25,709	24,449	23,105	20,212
Administration expenses	2,284	2,606	2,179	1,837
Marketing and public relations	888	849	888	849
Selling and distribution expenses	5,616	4,322	4,164	3,804
Sundry expenses	28	97	28	33
Expenses from ordinary activities, excluding borrowing costs expense	<b>34,525</b>	<b>32,323</b>	<b>30,364</b>	<b>26,735</b>
Borrowing costs:				
- other parties	999	945	998	944
- less: capitalised borrowing costs	(212)	(222)	(212)	(222)
Borrowing costs expensed	<b>787</b>	<b>723</b>	<b>786</b>	<b>722</b>
Depreciation of:				
- property	101	90	101	90
- plant and equipment	1,190	952	1,170	933
- less: capitalised depreciation expense	(1,146)	(942)	(1,146)	(942)
	<b>145</b>	<b>100</b>	<b>125</b>	<b>81</b>
Net expense from movement in provision for:				
- doubtful trade debts	24	12	24	12
- employee entitlements	361	373	361	373
- stock writedown	(99)	141	(99)	141
Operating lease rental expense	391	349	391	313
Net gain on sales of property, plant & equipment	-	-	-	-

# PETER LEHMANN WINES LIMITED

	CONSOLIDATED		THE COMPANY	
	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000
<b>5 AUDITORS' REMUNERATION</b>				
Audit Services:				
Auditors of the Company – KPMG				
Audit and review of the financial reports	64	53	45	38
Accounting advice	-	3	-	3
Other services:				
KPMG related practices				
Taxation services – compliance	12	11	12	11
Accounting assistance	-	31	-	31
Total auditors' remuneration	<b>76</b>	98	<b>57</b>	83
<b>6 TAXATION</b>				
<b>(a) Income Tax Expense</b>				
Prima facie income tax expense calculated at 30% (2001: 34%) on the profit from ordinary activities	2,960	3,096	2,631	2,875
Increase/decrease in income tax due to non-deductible items	13	(1)	3	(1)
Restatement of deferred tax balances due to change in company tax rate	-	(170)	-	(170)
Overseas tax rate differential	(23)	(15)	-	-
Income tax under/(over) provided in prior year	2	1	1	-
Income tax expense attributable to operating profit	<b>2,952</b>	2,911	<b>2,635</b>	2,704
<b>(b) Provision for Current Income Tax</b>				
Movements during the year:				
Balance at beginning of year	1,283	1,315	1,232	1,172
Income tax paid	(2,988)	(2,906)	(2,769)	(2,607)
Current year's income tax expense on operating profit	2,817	2,873	2,501	2,667
Under/(Over) provision in prior year	20	1	20	-
	<b>1,132</b>	1,283	<b>984</b>	1,232

# PETER LEHMANN WINES LIMITED

	CONSOLIDATED		THE COMPANY	
	2002	2001	2002	2001
	\$'000	\$'000	\$'000	\$'000
<b>6 TAXATION continued</b>				
<b>(c) Deferred Tax Liabilities</b>				
<b>Provision for Deferred Income Tax</b>				
Provision for deferred income tax comprises the estimated expense at the applicable rate of 30%, (2001: 34%) on the following items:				
Difference in depreciation and amortisation of property, plant & equipment for accounting and income tax purposes.	<b>964</b>	857	<b>964</b>	857
SGARA income on grape harvest	<b>130</b>	73	<b>130</b>	73
Expenditure currently deductible but deferred and amortised for accounting purposes	<b>10</b>	3	<b>10</b>	3
	<b>1,104</b>	933	<b>1,104</b>	933
<b>(d) Deferred Tax Assets</b>				
<b>Future Income Tax Benefit</b>				
Future income tax benefit comprises the estimated future benefit at the applicable rate of 30%, (2001: 34%) on the following items:				
Provisions & accrued employee entitlements not currently deductible	<b>432</b>	408	<b>432</b>	408
Sundry items	<b>55</b>	23	<b>55</b>	23
	<b>487</b>	431	<b>487</b>	431

The potential future income tax benefits will be obtained if:

1. the relevant entities derive future assessable income of a nature and an amount sufficient to enable the benefit to be realised;
2. the relevant entities continue to comply with the conditions for deductibility imposed by the law; and
3. no changes in tax legislation adversely affect the relevant entities in realising the benefit.

# PETER LEHMANN WINES LIMITED

## 7 DIVIDENDS

Dividends recognised by the Company are:

	Cents per share	Total amount \$'000	Date of payment	Tax rate for franking credit	Percentage franked
<b>2002</b>					
Interim – ordinary	3.5	1,302	8 April 2002	30%	100%
Final – ordinary	<u>7.5</u>	<u>2,786</u>	4 October 2002	30%	100%
Total franked amount	<u>11.0</u>	<u>4,088</u>			
<b>2001</b>					
Interim – ordinary	3.25	1,135	11 May 2001	34%	100%
Final – ordinary	<u>6.75</u>	<u>2,357</u>	5 October 2001	30%	100%
Total franked amount	<u>10.0</u>	<u>3,492</u>			

### THE COMPANY

2002 \$'000	2001 \$'000
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#### DIVIDEND FRANKING ACCOUNT

30% franking credits available to shareholders of Peter Lehmann Wines Limited for subsequent financial years

<b>11,995</b>	9,194
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The above available amounts are based on the balance of the dividend franking account at year-end adjusted for:

- (a) franking credits that will arise from the payment of the amount of the provision for income tax
- (b) franking debits that will arise from the payment of dividends recognised as a liability at the year-end
- (c) franking credits that will arise from the receipt of dividends recognised as receivables at the year end
- (d) franking credits that the entity may be prevented from distributing in subsequent years

The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends.

From 1 July 2002 the New Business Tax System (Imputation) Act 2002 requires measurement of franking credits based on the amount of income tax paid, rather than on after-tax profits.

As a result the “franking credits available” were converted from \$11,995,000 to \$5,141,000 at 1 July 2002.

This change in the basis of measurement does not change the value of franking credits to shareholders who may be entitled to franking credit benefits.

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# PETER LEHMANN WINES LIMITED

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8 EARNINGS PER SHARE	2002 \$'000	2001 \$'000
Earnings used in calculations	6,915	6,195
<b>Basic earnings per share</b>		
Weighted average number of ordinary shares	<b>36,358,659</b>	34,146,699
Basic earnings per share	<b>19 cents</b>	18.1 cents
<b>Diluted earnings per share</b>		
820,000 options (2001: 845,000) outstanding under the Executive Option Plan have been classified as potential ordinary shares and included in the calculation of the diluted earnings per share. Further details of these securities are contained in Note 26.		
Weighted average number of ordinary shares	<b>36,358,659</b>	34,146,699
Effect of executive options on issue	<b>395,653</b>	172,182
Number for diluted earnings per share	<b>36,754,312</b>	34,318,881
Diluted earnings per share	<b>18.8 cents</b>	18.1 cents

# PETER LEHMANN WINES LIMITED

## 9 SEGMENT REPORTING

### *Geographical segments*

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets are based on the geographical location of assets.

The consolidated entity's business segments operate geographically as follows:

- |             |  |
|-------------|--|
| Australasia | <ul style="list-style-type: none"> <li>▪ Vineyards in the Barossa and Clare Valleys of South Australia</li> <li>▪ Winemaking and storage facilities in the Barossa Valley, South Australia</li> <li>▪ Brand management representation in the capital cities of Queensland, New South Wales, Victoria and South Australia</li> <li>▪ Customers in Australia and New Zealand with selling performed by distributors</li> </ul> |
| Europe      | <ul style="list-style-type: none"> <li>▪ Distribution company located in Kent, UK to service the UK and Irish markets</li> <li>▪ Sales and brand management representation in continental Europe</li> <li>▪ Distributors sell wines to customers in Ireland, Germany, Switzerland, Austria, Scandinavia and other European countries</li> </ul>  |
| Other       | <ul style="list-style-type: none"> <li>▪ Distributors sell wines to customers in the USA, Canada, Asia and the Pacific</li> </ul>  |

	Australasia		Europe		Other		Consolidated	
	2002 \$000's	2001 \$000's	2002 \$000's	2001 \$000's	2002 \$000's	2001 \$000's	2002 \$000's	2001 \$000's
Segment Revenue	22,629	20,270	18,220	18,234	4,330	3,655	45,179	42,152
Segment Result	6,439	6,413	4,347	3,449	2,152	1,876	12,938	11,738
Unallocated corporate expenses							3,071	2,632
Profit from ordinary activities							9,867	9,106
Income tax expense							2,952	2,911
Profit from ordinary activities after tax							6,915	6,195
Depreciation	1,271	1,023	20	19	0	0	1,291	1,042
Non Cash net expenses other than depreciation	260	441	0	0	0	0	260	441
Segment Assets	79,356	61,932	6,250	5,015			85,606	66,947
Segment Liabilities	16,379	14,215	3,567	3,163			19,946	17,378
Unallocated liabilities							21,410	14,874
Total liabilities							41,356	32,252
Acquisition of Non-current assets	6,447	2,716	7	9			6,454	2,725

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items mainly comprise income earning assets and revenue, interest bearing loans, borrowings and expenses, and corporate assets and expenses.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

The Australasia segment sells wine to the Europe segment and the intersegment revenue of \$7,473,000 (2001: \$7,018,000) has been eliminated in the reported Segment Revenue.

# PETER LEHMANN WINES LIMITED

	<b>CONSOLIDATED</b>		<b>THE COMPANY</b>	
	<b>2002</b>	2001	<b>2002</b>	2001
	<b>\$'000</b>	\$'000	<b>\$'000</b>	\$'000
<b>10 RECEIVABLES</b>				
<i>Current</i>				
Trade debtors	<b>14,686</b>	10,860	<b>10,230</b>	7,365
Less: Provision for doubtful trade debtors	<b>(336)</b>	(312)	<b>(336)</b>	(312)
	<b>14,350</b>	10,548	<b>9,894</b>	7,053
Other debtors	<b>73</b>	73	<b>28</b>	1
Amounts owing by controlled entities	<b>-</b>	-	<b>2,545</b>	2,024
	<b>14,423</b>	10,621	<b>12,467</b>	9,078
<b>11 INVENTORIES</b>				
<i>Current</i>				
Packaging materials & souvenirs – at cost	<b>818</b>	451	<b>818</b>	451
Finished goods - at cost	<b>30,737</b>	23,925	<b>30,580</b>	23,725
	<b>31,555</b>	24,376	<b>31,398</b>	24,176
Less: Provision for writedown	<b>(47)</b>	(146)	<b>(47)</b>	(146)
	<b>31,508</b>	24,230	<b>31,351</b>	24,030
<i>Non-Current</i>				
Finished goods - at cost	<b>14,520</b>	13,101	<b>14,520</b>	13,101
	<b>14,520</b>	13,101	<b>14,520</b>	13,101
<b>TOTAL INVENTORIES</b>	<b>46,028</b>	37,331	<b>45,871</b>	37,131
Borrowing costs of \$212,000 (2001:\$222,000) have been capitalised to non-current inventory.				
<b>12 PREPAYMENTS</b>	<b>544</b>	454	<b>487</b>	408
<b>13 OTHER FINANCIAL ASSETS</b>				
<i>Non-Current</i>				
Shares in controlled entities	<b>-</b>	-	<b>81</b>	81
Other corporations unlisted shares at cost	<b>23</b>	23	<b>23</b>	23
Employee shares held in escrow	<b>11</b>	-	<b>-</b>	-
	<b>34</b>	23	<b>104</b>	104
Refer Note 24 for particulars in relation to controlled entities.				

# PETER LEHMANN WINES LIMITED

	NOTE	CONSOLIDATED		THE COMPANY	
		2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000
<b>14 PROPERTY, PLANT &amp; EQUIPMENT</b>					
Freehold land and improvements					
At Cost		<b>3,284</b>	1,050	<b>3,284</b>	1,050
Less: Accumulated depreciation		<b>(27)</b>	(25)	<b>(27)</b>	(25)
		<b>3,257</b>	1,025	<b>3,257</b>	1,025
Buildings					
At Cost		<b>4,577</b>	4,212	<b>4,577</b>	4,212
Less: Accumulated depreciation		<b>(524)</b>	(426)	<b>(524)</b>	(426)
		<b>4,053</b>	3,786	<b>4,053</b>	3,786
Plant and equipment					
At Cost		<b>19,049</b>	15,778	<b>18,922</b>	15,658
Less: Accumulated depreciation		<b>(5,862)</b>	(4,700)	<b>(5,761)</b>	(4,618)
		<b>13,187</b>	11,078	<b>13,161</b>	11,040
Capital Works in Progress					
At Cost		<b>608</b>	54	<b>608</b>	54
<b>TOTAL PROPERTY, PLANT &amp; EQUIPMENT</b>					
- net book value		<b>21,105</b>	15,943	<b>21,079</b>	15,905

## Valuations

The independent valuation of the Company's freehold land and buildings carried out as at 30 June 2002 on the basis of open market values for existing use resulted in a valuation of land of \$2,748,000 and buildings of \$4,953,000. The major difference between the carrying value of the land relates to the acquisition of the property north of the winery complex. This land has significant strategic value to the Company as it provides access to a public road, vacant land for future expansion and an area for the storage of treated wastewater. Accordingly, given the strategic value of the land, the directors have assessed the carrying value to be recoverable based on the future economic benefits. As land and buildings are recorded at cost, the valuation has not been brought to account.

# PETER LEHMANN WINES LIMITED

## 14 PROPERTY, PLANT & EQUIPMENT continued

### Reconciliations

Reconciliations of the carrying amount of vines and of each class of property, plant and equipment at the beginning and end of the current financial year are set out below:

	\$000's				
	Freehold Land & Improvement	Buildings	Plant & Equipment	Capital Works in Progress	Total
<b>Consolidated</b>					
Carrying amount at 1 July	1,025	3,786	11,078	54	15,943
Additions	2,235	165	3,285	772	6,457
Transfer from capital works		200	18	(218)	-
Disposals			(4)		(4)
Depreciation	(3)	(98)	(1,190)		(1,291)
Carrying amount at 30 June	3,257	4,053	13,187	608	21,105
<b>Parent Entity</b>					
Carrying amount at 1 July	1,025	3,786	11,040	54	15,905
Additions	2,235	165	3,274	772	6,446
Transfer from Capital Works		200	18	(218)	-
Disposals			(1)		(1)
Depreciation	(3)	(98)	(1,170)		(1,271)
Carrying amount at 30 June	3,257	4,053	13,161	608	21,079

	NOTE	CONSOLIDATED		THE COMPANY	
		2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000
<b>15 GRAPE VINES</b>					
At independent valuation		<b>994</b>	966	<b>994</b>	966

Peter Lehmann Wines has 71 hectares planted to grape vines in the premium grape growing areas of the Barossa and Clare Valleys. The values of the vineyards were determined by Taylor Brooke Pty Ltd as at 30 June 2000, 30 June 2001 and 30 June 2002 based on the discounted net present value of expected future cashflows. The net market value of grape vines has been determined as the difference between the vineyard values and the values of land and other vineyard improvements thereon. In determining the net market values certain assumptions have been made about the yields and market prices of grapes in future vintages, the cost of running the vineyards and quality of the grapes grown.

# PETER LEHMANN WINES LIMITED

	NOTE	CONSOLIDATED		THE COMPANY	
		2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000
<b>16 ACCOUNTS PAYABLE</b>					
<i>Current</i>					
Trade creditors		11,430	10,389	11,065	9,731
Other creditors and accruals		1,937	1,516	1,409	1,085
Amounts owing to controlled entities		-	-	-	1,897
		<b>13,367</b>	11,905	<b>14,588</b>	12,713
<i>Non Current</i>					
Other creditors and accruals		500	-	500	-
<b>17 INTEREST BEARING LIABILITIES</b>					
<i>Current</i>					
Multi option facility Overdraft – secured	18	-	49	-	49
Multi option facility – Bills secured	18	3,000	3,300	3,000	3,300
Commercial bills – secured	18	410	415	410	415
		<b>3,410</b>	3,764	<b>3,410</b>	3,764
<i>Non Current</i>					
Commercial bills – secured	18	18,000	11,110	18,000	11,110
<b>18 FINANCING ARRANGEMENTS</b>					
The consolidated entity has access to the following lines of credit:					
Total facilities available:					
Multi-option facility		4,000	4,000	4,000	4,000
Bank loans/leases		500	500	500	500
Bill acceptance facility		21,535	19,015	21,535	19,015
		<b>26,035</b>	23,515	<b>26,035</b>	23,515
Facilities utilised at balance date:					
Multi-option facility		3,000	3,349	3,000	3,349
Bank loans/leases		-	-	-	-
Bill acceptance facility		18,410	11,525	18,410	11,525
		<b>21,410</b>	14,874	<b>21,410</b>	14,874
Facilities not utilised at balance date:					
Multi-option facility		1,000	651	1,000	651
Bank loans/leases		500	500	500	500
Bill acceptance facility		3,125	7,490	3,125	7,490
		<b>4,625</b>	8,641	<b>4,625</b>	8,641

## Multi Option Facility

The \$4M line incorporates an overdraft and commercial bill facility. The facility is subject to annual review. Interest is charged at prevailing market rates. The weighted average overdraft interest rate as at 30 June 2002 was 9.85% (2001: 9.85%)

## Bill Acceptance Facility

The facility is reviewed annually and is on a rolling two year term. The weighted average interest rate as at 30 June 2002 was 5.15% (2001: 5.37%)

# PETER LEHMANN WINES LIMITED

## Bank Loans/Leases

Various bank loans have been consolidated into Bill Acceptance Facilities with the pre-existing instalment payment schedules and approved terms retained.

Lease commitments were completed in March 2000. The current lease facility was unused at 30 June 2002.

## Security

Registered first ranking mortgage debenture over all the assets and undertakings of Peter Lehmann Wines Limited up to \$26,035,000 (2001: \$23,515,000).

In addition, the Company and its subsidiaries are parties to a Deed of Cross Guarantee under which each company guarantees the debts of the others.

	NOTE	CONSOLIDATED		THE COMPANY	
		2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000
<b>19 PROVISIONS</b>					
<i>Current</i>					
Final dividend	7	2,786	2,357	2,786	2,357
Employee entitlements		1,006	840	1,006	840
		<b>3,792</b>	<b>3,197</b>	<b>3,792</b>	<b>3,197</b>
<i>Non-Current</i>					
Employee entitlements		51	60	51	60
<b>20 CONTRIBUTED EQUITY</b>					
<i>Issued and Paid Up Capital</i>					
37,148,933 (2001 – 34,923,933) ordinary shares, fully paid		29,067	22,311	29,067	22,311
<b>Movements in ordinary share capital</b>					
Balance at the beginning of the financial year		22,311	18,797	22,311	18,797
Shares issued					
Shares issued from Share Purchase Plan		-	3,527	-	3,527
Share placement		6,820	-	6,820	-
Transaction costs arising from issue for cash pursuant to share purchase plan		-	(13)	-	(13)
Transaction costs arising from issue for cash pursuant to share placement		(95)	-	(95)	-
Shares issued from exercise of options		31	-	31	-
		<b>29,067</b>	<b>22,311</b>	<b>29,067</b>	<b>22,311</b>

# PETER LEHMANN WINES LIMITED

	NOTE	CONSOLIDATED		THE COMPANY	
		2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000
<b>21 RESERVES</b>					
Foreign currency translation		<b>213</b>	241	-	-
<b>Movements during year</b>					
<i>Asset revaluation</i>					
Balance at beginning of year		-	1,482	-	1,482
Net effect on initial adoption of AASB 1041		-	(1,482)	-	(1,482)
<i>Revaluation of Non-Current Assets and AASB 1037 Self Generating and Regenerating Assets</i>					
Balance at end of year		-	-	-	-
<i>Foreign Currency Translation</i>					
Balance at beginning of year		<b>241</b>	77	-	-
Translation adjustment on controlled foreign entity's financial statements		<b>(28)</b>	164	-	-
		<b>213</b>	241	-	-

## Nature and purpose of reserves

### *Asset Revaluation*

The asset revaluation reserve included the net revaluation increments and decrements arising from the revaluation of non-current assets. The revaluations were written back in 2001 as the Company has elected to record property, plant and equipment at cost.

### *Foreign currency reserve*

The foreign currency translation reserve records the foreign currency differences arising from the translation of self-sustaining foreign operations. Refer to accounting policy Note 1(e).

	NOTE	CONSOLIDATED		THE COMPANY	
		2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000
<b>22 RETAINED PROFITS</b>					
Retained profits at beginning of year		<b>12,143</b>	9,543	<b>8,705</b>	6,549
Net profit attributable to members of the parent entity		<b>6,915</b>	6,195	<b>6,134</b>	5,751
Net effect of initial adoption of AASB 1041		-	(103)	-	(103)
<i>Revaluation of Non-Current Assets and AASB 1037 Self Generating and Regenerating Asset.</i>					
Dividends		<b>(4,088)</b>	(3,492)	<b>(4,088)</b>	(3,492)
Retained profits at the end of the year		<b>14,970</b>	12,143	<b>10,751</b>	8,705

# PETER LEHMANN WINES LIMITED

	NOTE	CONSOLIDATED		THE COMPANY	
		2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000
<b>23 TOTAL EQUITY RECONCILIATION</b>					
Total equity at beginning of year		34,695	29,899	31,016	26,828
Total changes in equity recognised in the statement of financial performance		6,887	4,774	6,134	4,166
Transactions with owners as owners					
Contributions of equity		6,756	3,514	6,756	3,514
Dividends		(4,088)	(3,492)	(4,088)	(3,492)
Total equity at end of year		44,250	34,695	39,818	31,016
<b>24 PARTICULARS IN RELATION TO CONTROLLED ENTITIES</b>					
Name	Class of Shareholding	Percentage Ownership	Amount of Investment	Contribution to Consolidated Profit	
		2002 %	2002 \$'000	2002 \$'000	2001 \$'000
Peter Lehmann Wines Limited				6,134	5,751
Controlled entities:					
Peter Lehmann Wines (Europe) Ltd	ORD	100	81	254	131
Austral Wines Pty Ltd	ORD	100	-	527	313
			81	6,915	6,195

All entities are incorporated in Australia, except Peter Lehmann Wines (Europe) Ltd which is incorporated in the UK. The ultimate parent entity is Peter Lehmann Wines Limited.

Peter Lehmann Wines (Europe) Ltd and Austral Wines Pty Ltd have entered into a Deed of Cross Guarantee with Peter Lehmann Wines Limited. In accordance with a Class Order Austral Wines Pty Ltd is granted relief from specific accounting and financial reporting requirements.

## 25 FINANCIAL INSTRUMENTS DISCLOSURE

### Interest Rate Risk

Interest rate risk emanates from changes in market interest rates impacting on the economic entity's short and long term debt. This exposure is managed by combining fixed, capped and range rate facilities with floating rate arrangements. These are set out in Note 18.

### Foreign Exchange Risk

The Company's sales commitments are transacted predominantly in Australian dollars.

Transactions between the UK subsidiary and its customers are predominantly in the supplier's currency. The UK subsidiary translates transactions denominated in foreign currencies (Australian dollars and US dollars) into sterling at the rate ruling at the date of settlement of transaction. Amounts receivable and payable in foreign currencies at balance date are translated at the rate ruling at that date.

### Credit Risk

Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted.

The credit risk on financial assets of the consolidated entity which have been recognised on the statement of financial position, is the carrying amount, net of any provision for doubtful debts.

# PETER LEHMANN WINES LIMITED

The consolidated entity minimises concentrations of credit risk by undertaking transactions with a large number of customers in various countries. The parent entity takes out insurance on certain overseas debts to reduce its credit risk.

The consolidated entity operates under a board approved credit risk policy for the granting, management and reporting of credit risk exposures. The consolidated entity does trade with some large Australian wineries and UK retailers that represent material exposure. However the long term associations and close trading relationships provide an acceptable level of comfort.

	NOTE	CONSOLIDATED		THE COMPANY	
		2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000
<b>26 EMPLOYEE ENTITLEMENTS</b>					
<b>Aggregate employee entitlements including on-costs</b>					
- Current		1,006	840	1,006	840
- Non-Current		51	60	51	60
		<b>1,057</b>	<b>900</b>	<b>1,057</b>	<b>900</b>

The present value of employee entitlements not expected to be settled within 12 months of balance date have been calculated using the following weighted averages:

Assumed rate of increase in wage and salary rates	4%	4%	4%	4%
Discount rate	5%	6%	5%	6%
Settlement term (years)	10	10	10	10

## Employee Share Plans

Under the Exempt Employee Share Plan the Company provided 15,043 fully paid ordinary shares in the capital of the Company to 49 employees at a cost of \$49,000. Under the terms of the plan the shares are to be held in custody for 3 years for employees resident in Australia.

Peter Lehmann Wines (Europe) Ltd has established an Employee Share Ownership Plan and 3,760 Peter Lehmann Wines Limited shares were allocated to 6 employees located in the UK. Under the terms of the plan the shares are to be held in escrow for 2 years. Refer Note 13.

## Executive Option Plan

Unissued ordinary shares of the Company under option at balance date are:

Exercise Period	Exercise Price	No of Options
12/12/00 – 12/12/02	\$2.01	37,500
1/1/02 – 31/12/03	\$2.01	75,000
29/11/99 – 29/11/06	\$1.22	115,000
12/12/00 – 12/12/07	\$2.01	172,500
1/1/02 – 31/12/08	\$2.01	<u>420,000</u>
		<u>820,000</u>

All options expire on the earlier of their expiry date or termination of the employee's employment. In addition, the exercise of the options was made conditional on the consolidated entity achieving certain performance hurdles.

The market value of shares under these options at 30 June 2002 was \$3.85 (2001: \$2.56)

No options expired during the year ended 30 June 2002. An executive exercised 25,000 options in August 2001.

# PETER LEHMANN WINES LIMITED

	<b>CONSOLIDATED</b>		<b>THE COMPANY</b>	
	<b>2002</b>	2001	<b>2002</b>	2001
	<b>\$'000</b>	\$'000	<b>\$'000</b>	\$'000
<b>27 COMMITMENTS</b>				
<b>Capital Expenditure Commitments</b>				
Contracted but not provided for and payable not later than one year	<b>3,418</b>	-	<b>3,418</b>	-

### Superannuation Commitments

The Company contributes to employee superannuation funds at various percentages of employees' gross salaries. Employees are entitled to benefits on retirement, disability or death. The funds provide benefits on an accumulation basis for all employees. The Company is under no legal obligation to make up any shortfall in the funds' assets to meet payments due to employees.

### Operating Lease Commitments

Future operating lease rental of the cellar door outlet for 2002/03, not provided for in the financial statements, is \$144,000 per annum. The lease is for a period of 5 years to 22 April 2003 with a right of renewal for another two 5 year terms. Refer to Note 32 Related Parties.

	<b>CONSOLIDATED</b>		<b>THE COMPANY</b>	
	<b>2002</b>	2001	<b>2002</b>	2001
	<b>\$'000</b>	\$'000	<b>\$'000</b>	\$'000
Future operating lease rentals for motor vehicles, computers and UK office not provided for in the financial statements are payable as follows:				
not longer than one year	<b>314</b>	206	<b>260</b>	194
longer than one year but not longer than two years	<b>268</b>	153	<b>215</b>	153
longer than two years but not longer than five years	<b>66</b>	35	<b>12</b>	-
	<b>648</b>	394	<b>486</b>	347

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# PETER LEHMANN WINES LIMITED

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## 28 CONTINGENT LIABILITIES

The details and estimated maximum amounts of contingent liabilities that may become payable are set out below. The directors are of the opinion that provisions are not required in respect of these matters, as it is not probably that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.

### **Environmental**

The Company is involved in an industry which has the potential to impose environmental risks through chemical storage and handling and winery wastewaters. Strict controls are in place to ensure that chemicals are stored and handled carefully, hazardous by-products are disposed of safely and that winery wastewater is managed in accordance with the Environment Protection Act. However, the Company's operations are subject to rapidly changing environmental legislation.

The directors are not aware of any current breaches of legislation which are material in nature and have no reason to believe that any possible legal or remedial action required would result in a material cost or loss to the consolidated entity.

### **Deed of cross guarantee**

Peter Lehmann Wines Limited, Peter Lehmann Wines (Europe) Ltd and Austral Wines Pty Ltd are parties to a Deed of Cross Guarantee under which each company guarantees the debts of the others. Lehmann Wines Pty Ltd has been formed and acts as trustee to represent the interests of the creditors of the closed group. The Deed of Cross Guarantee was approved by the Australian Securities and Investments Commission on 18 June 1999. By entering into the deed, the wholly-owned entity incorporated in Australia has been relieved from the requirements to prepare a financial report and directors' report under Class Order 98/1418.

### **Indemnities**

Indemnities have been provided to directors, (current, former and alternate) and an executive officer of the Company and directors of subsidiary companies in respect of liabilities to third parties arising from their positions, except where the liability arises out of conduct involving a lack of good faith. No monetary limit applies to these agreements and there are no known obligations outstanding at 30 June 2002.

# PETER LEHMANN WINES LIMITED

		CONSOLIDATED	2001	THE COMPANY	2001
	NOTE	2002	2001	2002	2001
		\$'000	\$'000	\$'000	\$'000
<b>29 NOTES TO THE STATEMENTS OF CASH FLOWS</b>					
<b>(i) RECONCILIATION OF CASH</b>					
For the purposes of the Statements of Cash Flows, cash includes cash on hand and at bank, net of outstanding bank overdrafts. Cash at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the statement of financial position as follows:					
Cash		1,991	1,178	758	2
Bank overdraft	17	-	(49)	-	(49)
		<b>1,991</b>	<b>1,129</b>	<b>758</b>	<b>(47)</b>
<b>(ii) RECONCILIATION OF OPERATING PROFIT AFTER INCOME TAX TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>					
Operating profit after income tax		6,915	6,195	6,134	5,751
Add/(less) items classified as investing/financing activities:		-	-	-	-
Add/(less) non-cash items:					
Amounts set aside to provisions		286	526	286	526
Depreciation		1,291	1,042	1,271	1,023
SGARA income capitalised to vines		(26)	(85)	(26)	(85)
(Decrease)/increase in income taxes payable		(151)	(32)	(248)	60
Net cash provided by operating activities before change in assets and liabilities		8,315	7,646	7,417	7,275
Change in assets and liabilities during the financial year:					
(Increase)/decrease in inventories		(8,599)	(9,731)	(8,641)	(9,636)
(Increase)/decrease in prepayments and other debtors		(90)	(308)	(106)	(245)
(Increase)/decrease in trade debtors		(3,826)	(1,428)	(2,865)	(498)
(increase)/decrease in other assets		(11)	-	-	-
(Increase)/decrease in loans to controlled entities		-	-	(304)	(587)
(Decrease)/increase in trade creditors		1,964	4,382	2,157	4,028
(Decrease)/increase in provisions		(204)	(217)	(204)	(217)
(Decrease)/increase in deferred taxes payable		114	38	114	38
(Decrease)/increase in foreign currency translation reserves		(27)	164	-	-
Net cash provided by operating activities		<b>(2,364)</b>	<b>546</b>	<b>(2,432)</b>	<b>158</b>
<b>(iii) FINANCING FACILITIES</b>					
Refer Note 18					

# PETER LEHMANN WINES LIMITED

## 30 DIRECTORS' REMUNERATION

**THE COMPANY**  
2002      2001

The number of directors of the Company, including executive directors, who received or in respect of whom income is due and receivable, from the Company within the following bands is:

\$ 30,000 - \$ 39,999	-	-	2
\$ 40,000 - \$ 49,999	-	-	1
\$ 50,000 - \$ 59,999	3	-	1
\$ 80,000 - \$ 89,999	1	-	-
\$140,000 - \$149,999	1	-	1
\$260,000 - \$269,999	1	-	1
\$280,000 - \$289,999	1	-	1

<b>CONSOLIDATED</b>		<b>THE COMPANY</b>	
2002	2001	2002	2001
\$	\$	\$	\$

Total income paid or payable, or otherwise made available to all directors of the Company and controlled entities from the Company or any related party.

	<b>1,253,847</b>	1,195,752	<b>931,792</b>	879,623
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Directors' income includes an allocation of insurance premiums paid by the Company in respect of directors' and officers' liabilities and legal expenses insurance contracts, in accordance with common commercial practice.

<b>CONSOLIDATED</b>		<b>THE COMPANY</b>	
2002	2001	2002	2001

## 31 EXECUTIVES' REMUNERATION

Executive officers are those officers involved in the strategic direction, general management or control of business at a company or operating division level.

The number of executive officers of the Company and controlled entity whose income from the Company or related parties, and from entities in the consolidated entity, falls within the following bands:

\$170,000 - \$179,999	1	-	1	-
\$180,000 - \$189,999	-	1	-	1
\$200,000 - \$209,999	1	1	1	1

Total income received, or due and receivable, by the executive officers of the Company and of controlled entities whose income exceeds \$100,000

	<b>379,884</b>	395,169	<b>379,884</b>	395,169
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Executives' income includes an allocation of insurance premiums paid by the Company in respect of directors and officers' liabilities and legal expenses, insurance contracts, in accordance with common commercial practice.

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# PETER LEHMANN WINES LIMITED

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## 32 RELATED PARTIES

The names of each person holding the position of director of Peter Lehmann Wines Limited during the financial year are Messrs P L Lehmann, R A F England, D McC Lehmann, H W G Tilley, R M Wilson, N C Lister and R V Edwards.

### Directors' holdings of shares and share options

The interests of directors of the reporting entity and their director-related entities in shares and share options within the consolidated entity at year end are set out below.

	2002	2001
	<u>Number held</u>	<u>Number held</u>
Ordinary shares	6,765,575	6,311,717
Options over ordinary shares	375,000	375,000

### Directors' Transactions in shares and share options

Directors' transactions in shares have been notified to the Australian Stock Exchange in accordance with the listing rules.

No options to unissued shares under the Executive Option Plan were granted during the year ended 30 June 2002.

Details of Directors' remuneration and superannuation are set out in Note 30.

Apart from the details disclosed in this note, no director has entered into a material contract with the Company.

The Company sells wine to Peter Lehmann Wines (Europe) Ltd for distribution in the European market. The Company also sells wine to Austral Wines Pty Ltd for sale to customers who distribute the wine under their own label.

The Company leases the cellar door outlet from Elmar Nominees Pty Ltd, a company controlled by Peter Lehmann. The five year lease was entered into in 1993 and disclosed in the Prospectus. It expired in April 1998. The lease was renegotiated and approved by shareholders at a meeting on 27 March 1998. The new five year lease with a rent of \$130,000 per annum, subject to annual CPI adjustments, became effective on 23 April 1998. The amount paid to Elmar Nominees Pty Ltd was \$144,000 (2001: \$137,000).

The Company purchased grapes from Peter and Margaret Lehmann. The grapes were purchased at the same rate as paid to other growers and cost \$31,000 (2001: \$93,000). The Company purchased grapes from Elmar Trust, a trust controlled by Peter Lehmann. The grapes were purchased at the same rate as paid to other growers and cost \$74,000 (2001: \$146,000).

The Company purchased grapes from Ebenezer Vineyard Pty Ltd, a company in which Peter Lehmann has an interest. The grapes were purchased at the same rate as paid to other growers and cost \$369,000. (2001: \$28,000).

The Company crushed grapes from Runyon Investments Pty Ltd, a Company controlled by Peter and Margaret Lehmann. The crushing charge was at normal commercial rates and amounted to \$4,000 (2001: \$4,000).

The Company acquired a two hectare (5 acre) property adjoining the winery land for \$150,000 from Peter and Margaret Lehmann. The land acquisition was subject to an independent assessment.

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# PETER LEHMANN WINES LIMITED

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A Service Agreement was signed with Peter Lehmann on 11 December 1998. Under the terms of the Agreement retirement benefits payable on termination in certain circumstances total \$390,000.

A director of the Company, Roger Wilson, is a consultant to a law firm which provided legal advice to the Company. He has no interest or entitlement to the fees paid.

From time to time directors of the Company or its controlled entities, purchase wine from the consolidated entity. These purchases are on the same terms and conditions as those entered into by employees.

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# PETER LEHMANN WINES LIMITED

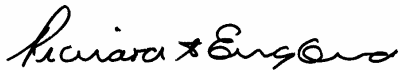
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## DIRECTORS' DECLARATION

1. In the opinion of the directors of Peter Lehmann Wines Limited:
  - a) the financial statements and notes, set out on pages 8 to 36, are in accordance with the Corporations Act 2001, including:
    - (i) giving a true and fair view of the financial position of the Company and consolidated entity as at 30 June 2002 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date; and
    - (ii) complying with Accounting Standards and the Corporations Regulations 2001; and
  - b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. There are reasonable grounds to believe that the Company and the subsidiaries identified in Note 24 will be able to meet any obligations or liabilities to which they are or may become subject by virtue of the Deed of Cross Guarantee between the Company and those subsidiaries pursuant to ASIC Class Order 98/1418.

Dated at Tanunda this 13th day of September 2002

Signed in accordance with a resolution of the Directors:



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R A F England (Chairman)



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D McC Lehmann (Managing Director)

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# PETER LEHMANN WINES LIMITED

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## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PETER LEHMANN WINES LIMITED

### SCOPE

We have audited the financial report of Peter Lehmann Wines Limited for the financial year ended 30 June 2002, consisting of the statements of financial performance, statements of financial position, statements of cash flows, accompanying notes 1 to 32, and the directors' declaration set out on pages 8 to 37. The financial report includes the consolidated financial statements of the consolidated entity, comprising the Company and the entities it controlled at the end of the year. The Company's directors are responsible for the financial report. We have conducted an independent audit of this financial report in order to express an opinion on it to the members of the Company.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements in Australia and statutory requirements so as to present a view which is consistent with our understanding of the Company's and the consolidated entity's financial position, and performance as represented by the results of their operations and their cash flows.

The audit opinion expressed in this report has been formed on the above basis.

### AUDIT OPINION

In our opinion, the financial report of Peter Lehmann Wines Limited is in accordance with:

- (a) the Corporations Act 2001, including;
  - (i) giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2002 and of their performance for the year ended on that date; and
  - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) other mandatory professional reporting requirements in Australia.

*KPMG*

KPMG



G SAVAGE  
Partner  
Adelaide

13 September 2002