

Australian Vintage Ltd - Appendix 4E

Preliminary final report for the year ended 30 June 2019 as required by listing rule 4.3A

RESULTS FOR ANNOUNCEMENT TO THE MARKET

Revenue and net profit (All comparisons to year ended 30 June 2018)		Movement %	Amount \$'000
Total operating revenue	<i>Up</i>	7.9%	269,166
Net profit	<i>Up</i>	5.6%	8,123

Dividend information	Date dividend paid / payable	Amount per security ¢	Amount franked at 30% tax rate
Final dividend – year ended 30 June 2019 (determined subsequent to balance date) ⁽¹⁾	8 November 2019	2.0	100%
Final dividend – year ended 30 June 2018	9 November 2018	1.5	100%

⁽¹⁾ The record date for determining an entitlement to receipt of the final dividend is 18th October 2019. The Australian Vintage Ltd Dividend Re-investment Plan is not in operation for the 30 June 2019 final dividend (2018: in operation).

	2019 \$	2018 \$
Net tangible assets per security	0.78	0.75

Additional Appendix 4E disclosure requirements can be found in the Financial Report which contains the Director's Report and the 30 June 2019 Financial Statements and accompanying notes.

This Appendix 4E is based on the 30 June 2019 Financial Statements which have been audited by Deloitte Touche Tohmatsu.



AUSTRALIAN VINTAGE LTD

FINANCIAL REPORT FOR THE YEAR ENDED

30 JUNE 2019

(ACN: 052 179 932 ASX REFERENCE: AVG)

Directors' report

For the financial year ended 30 June 2019

The Directors of Australian Vintage Ltd submit herewith the annual financial report for the financial year ended 30 June 2019. In order to comply with the provisions of the Corporations Act 2001, the Directors report as follows:

Directors

The names and particulars of the Directors of the Company during or since the end of the financial year are:

Richard H Davis B. Ec, Age 63

(Chairman - appointed 1st June 2015, Non-Executive) Director since 5 May 2009.

Chairman of Monash IVF Group Limited and Director (and previously CEO) of InvoCare Limited where he previously spent almost 20 years growing and managing the business. Former accounting partner for a national accounting firm.

Neil A McGuigan B. App. Sc. (OENO), Age 61

(Chief Executive Officer) Director since 21 July 2010.

Neil was previously the General Manager of Production and Wine Supply at Australian Vintage Ltd. He was appointed as a director and as the CEO on 21 July 2010. Neil has over 37 years' experience in the wine industry. He previously worked at the then privately owned Briar Ridge before leaving in 2000 to run Rothbury Estate and its satellites in the Upper Hunter, Cowra and Mudgee for the Foster's Group.

John D Davies FCA, Dip. Bus S, Age 66

(Non-Executive) Director since 28 January 2015

Fellow of the Institute of Chartered Accountants having worked for 36 years with Ernst & Young. John was elected to Ernst & Young's Asia Pacific Board of Partners for a 6 year period until his retirement in 2011. During his career he provided professional services to many of Australia's leading wine companies and he also owns a commercial vineyard in central Victoria. Chairman of the Audit Committee.

Naseema Sparks AM, Age 66

(Non-Executive) Director since 28 January 2015

Currently Chairperson of Sniip. Non-Executive Director of Arq Group (previously known as Melbourne IT Limited) and AIG Australia. Former Chairperson of Deals Direct Group with extensive experience in marketing and digital media after a successful career with M&C Saatchi, one of Australia's largest and most successful advertising businesses. Naseema holds post graduate market and research qualifications and an MBA from Melbourne Business School. In 2016 was awarded a Member of the Order of Australia in recognition to significant service to business and commerce and to women through advancing female participation and retention in the workforce. Chairperson of the Remuneration Committee.

Peter J Perrin, Age 61

(Non-Executive) Director since 28 March 2017

General Manager of Torbreck Vintners. Trustee of The Wolf Blass Foundation. 35 years' experience in the sales and marketing of premium Australian wines both in Australia and overseas. Chairman of the Risk Committee.

Jiang Yuan (Dixon), Age 42

(Non-Independent, Non-Executive) Director since 7 June 2017

Founder of www.yesmywine.com, based in China.

Well known for pioneering data analytics and an innovator in imported wines in China, Dixon has considerable experience in distribution and selling of wine into Asia.

Directors' report

For the financial year ended 30 June 2019

Directorships of other listed companies

Directorships of other listed companies held by Directors in the 3 years immediately before the end of the financial year are as follows:

Name	Company	Period of Directorship
Richard H Davis	InvoCare Limited	Since 2012
	Monash IVF Group Limited	Since 2014
Naseema Sparks	Arq Group (previously known as Melbourne IT Limited)	Since 2012
	Sniip	Since 2017
	IncentiaPay	2017 to 2019
	Grays e-Commerce Group Limited	2014 to 2016
	PMP Limited	2010 to 2017

Company Secretary

Michael H Noack (appointed 23 November 2005)

B Accountancy (University of South Australia), Fellow of ASCPA, Graduate Diploma in Systems Analysis (University of South Australia) and Fellow of the Chartered Secretaries Australia. Michael has been with Australian Vintage Ltd since the merger in 2002 and was previously Chief Financial Officer and Company Secretary of Simeon Wines Limited. Michael has been the Chief Financial Officer since 2002.

Principal activities

The consolidated entity's principal activities in the course of the financial year were wine making, wine marketing and vineyard management.

Changes in state of affairs

During the financial year there was no significant change in the state of affairs of the consolidated entity other than that referred to in the financial statements or notes thereto.

Environmental regulations

The consolidated entity holds licences issued by the Environmental Protection Authorities in various states which specify limits associated with the discharge of winery waste. There have been no known breaches of the licence conditions.

Dividends

In respect of the financial year ended 30 June 2019, a fully franked dividend of 2.0 cents per share has been declared and will be paid on 8th November 2019. In respect of the financial year ended 30 June 2018, a fully franked dividend of 1.5 cents per share was paid on the 9th November 2018.

Directors' report

For the financial year ended 30 June 2019

Review of operations and future developments

Key Points

- EBITs (Earnings before Interest, Tax and SGARA) up 30% to \$21.7 million
- Net Profit after Tax (NPAT) and before SGARA improved 48% to \$11.9 million
- 2019 vintage conditions impacted result by negative \$4.9 million compared to prior period
- NPAT up 6% to \$8.1 million
- Cash Flow from Operating Activities positive \$23.6 million
- Net Debt of \$72.4 million compared to \$77.2 million as at 30 June 2018
- Revenue up \$19.7 million to \$269.2 million
- Sales of McGuigan, Tempus Two and Nepenthe up 10%
- 2.0 cent per share fully franked final dividend, up 33% on prior period

The significant improvement in our underlying business result shows that our key, long-term strategies are correct. The Net Profit after tax and before SGARA improved 48% to \$11.9 million mainly due to a significant improvement in the contribution from our UK/Europe segment. Unfortunately, this improvement in our underlying business did not filter through to the bottom line due to the poor 2019 vintage, which resulted in our SGARA being down \$4.9 million against last year and \$6.9 million against expectation.

Our financial position continues to improve with net borrowings of \$72.4 million at 30 June 2019, the lowest it has been since this company was formed back in 2002. With a reduced capital spend planned for FY20, we expect net debt to continue to decrease and, as a result, the Board has declared a fully franked dividend of 2 cents per share, the highest payout ratio since this Company was formed. The Company's operating cash flow was positive \$23.6 million against \$26.7 million last year. The slight decline in operating cash flow was due to unplanned bulk wine purchases of \$9.4 million to cover the shortfall from this year's vintage.

The continued focus on our three core brands, McGuigan, Tempus Two and Nepenthe has resulted in their continued growth, with sales increasing by 10% during the year. In the UK, McGuigan sales grew by 13% and Tempus Two by 14%. McGuigan is the third largest global brand in the UK market. The business has good momentum and, together with our organisational talent, operational efficiencies, brands and customer partnerships we are confident that our business will continue to grow.

The unswerving emphasis we place on driving wine quality has again been rewarded with the company's wines continuing to win awards at well-respected global wine competitions. At the recent 2019 International Wine Challenge, held in London, McGuigan was awarded White Winemaker of the Year. This is now the fourth time we have won this award, which is unprecedented for an Australian wine company.

Key Segment Highlights

- Australasia/ North America reported a 7% EBIT growth to \$7.9 million. Strong growth in Australia with sales up 6%, New Zealand up 42% and Asia up 24% contributed to the growth of this segment. Sales to North America were down 11% due mainly to lower than expected sales in Canada.
- UK/Europe reported a significant 94% EBIT growth to \$10.9 million mainly due to the improvement in sales mix, focus on growing independents and the ongoing sales growth of the relatively new generic Shy Pig brand. Favourable foreign currency during the year provided an extra \$2.8 million to the EBIT.
- Cellar Door reported a 39% EBIT decline to \$1.0 million mainly due to decreased visitor numbers in the Hunter Valley where our two key cellar doors are located.
- Australasia/North America Bulk and Processing EBIT improved by \$1.8 million due to the removal of a significant portion of loss-making bulk wine sales.

Vineyard Segment (including SGARA) EBIT declined by \$6.9 million mainly due to the poor 2019 vintage. Against expectation our yield from our owned and leased vineyards fell by 12,600 tonnes and against last year it was 7,900 tonnes down. The frost and the significant heat contributed to the poor 2019 yield.

Directors' report

For the financial year ended 30 June 2019

Review of operations and future developments (continued)

Sales

Revenue for the year increased 8% or \$19.7 million due to the continued growth in our branded products.

Total Sales by Segment

	12 Months to		Change	
	30/06/19 \$000	30/06/18 \$000	Variation \$000	%
Australasia/North America Packaged	105,870	98,166	7,704	8
UK/Europe	121,180	104,961	16,219	15
Cellar Door	9,441	10,588	(1,147)	(11)
Australasia/North America bulk & processing	27,644	30,198	(2,554)	(8)
Vineyards	5,031	5,563	(532)	(10)
	269,166	249,476	19,690	8

Australasia/North America

Australasia/North America packaged sales were up 8% on last year with most of the growth coming from increased branded sales. Cask sales improved by 1% during the year against a long-term trend of declining sales.

Sales within the Australasia/North America packaged segment: -

	Sales (\$000)	
	FY19	FY18
Australia	78,105	73,906
New Zealand	5,623	3,973
Asia	14,226	11,431
North America	7,916	8,856
Australasia/North America	105,870	98,166

Australia has experienced both an increase in sales and shift in mix to higher-priced, premium products. Sales of the McGuigan brand continued its growth with sales up 8% and the higher priced Tempus Two and Nepenthe brand sales improving by 6%. Five years ago, Tempus Two sales represented 10% of total Company bottled sales in Australia and are now 18%. Sales of lower margin products such as Miranda declined 9% during the year.

Sales to New Zealand have improved significantly due to the outstanding performance of the McGuigan Private Bin range which grew 45%.

Sales to Asia have grown by 24% with McGuigan up 23% and Tempus Two up 25%. This performance is against a 7% increase for the entire Australian wine industry for sales to Asia.

North America sales are down 11% on the back of significant growth in previous periods. Over the last 2 years, sales to North America have grown by 19%. In the United States, sales to our distributor, Palm Bay remained small with little volume growth over the last 12 months. The United States remains a challenging market for Australian wines.

UK/Europe

UK/Europe sales were up 15% on last year with the McGuigan brand continuing to grow in all parts of the UK market. Mix is improving with the ongoing increase in sales of the higher priced McGuigan Black Label and Reserve ranges, which now represents 40% of all sales compared to 30% in FY17. The McGuigan brand has grown 13% in FY19 with the less known generic Shy Pig brand growing 16%. Lower volume brands, Tempus Two and Nepenthe, have increased sales by 36% and 14% respectively. The GBP positively impacted sales by \$4.7 million when compared to the previous period.

EBITS and Net Profit

EBITS (Earnings before Interest, Tax and SGARA) improved by 30% to \$21.7 million.

Net Profit after tax improved by 6% to \$8.1 million even allowing for a significant decrease in SGARA due to the poor crop from our owned and leased vineyards.

The UK/Europe segment contribution increased by 94% due to the ongoing improved sales mix through the expansion of the McGuigan Black Label and Reserve brands and the added focus on growing our sales footprint in all channels. When compared to the previous period, the favourable GBP added \$2.8 million to the contribution of the UK/Europe segment.

Directors' report
For the financial year ended 30 June 2019

Review of operations and future developments (continued)

EBITS and Net Profit (continued)

Australasia / North America Packaged EBIT increased by 7% mainly due to an increase in the contribution from the Australia, New Zealand and Asian divisions. North America contribution decreased due to reduced sales.

	EBIT (\$'000)	
	FY19	FY18
Australia	4,767	4,418
New Zealand	889	748
Asia	1,684	1,563
North America	565	653
Australasia/North America	7,905	7,382

Group Net Profit

PROFIT	12 Months to		Change	
	30/06/19 \$'000	30/06/18 \$'000	\$'000	%
Australasia/North America Packaged	7,905	7,382	523	7
UK/Europe	10,919	5,614	5,305	94
Cellar Door	991	1,617	(626)	(39)
Australasia/North America bulk & processing	1,307	(470)	1,777	378
Vineyard Management/Prior year grape price adjustments	609	2,606	(1,997)	(77)
EBITS	21,731	16,749	4,982	30
Finance costs	(4,059)	(5,031)	972	(19)
Interest received	25	16	9	56
Tax	(5,759)	(3,642)	(2,117)	(58)
Net Profit (after tax and before SGARA)	11,938	8,092	3,846	48
SGARA	(5,450)	(569)	(4,881)	(858)
Tax on SGARA	1,635	171	1,464	858
SGARA (after Tax)	(3,815)	(398)	(3,417)	858
Net Profit (after Tax)	8,123	7,694	429	6

Capital Expenditure

Over the last 2 years the Company has invested \$35.6 million in various capital projects including \$11 million on a new packaging line and various long-term investments in winemaking, plus a premium winery at our Buronga winery facility. The return on investment on the new packaging line is currently lower than expected but above cost of funding. Over time and with increased throughput the expected target of 12 % will be met.

The premium winery, at a total cost of \$10.0 million, will be operational next year and all our premium grapes will be processed at Buronga in 2020. We remain confident that the target return of 15% will be achieved on this investment.

For FY20, our total capital expenditure is expected to be \$12.0 million with \$4.0 million to be spent on the completion of the premium winery and the balance on further vineyard development and normal capital replacement programs.

Cash Flow and Financial Position

The cash flow from operating activities was \$23.6 million, \$3.1 million below the previous period. The decline in operating cash flow was due to the poor 2019 vintage, which required the Company to purchase \$9.7 million of bulk wine. This purchase of wine was essential to meet our future sales forecasts.

The Company's net debt position declined by \$4.8 million to \$72.4 million and the gearing ratio is at a comfortable 24% (26% as at 30 June 2018).

During June 2019, we extended the existing banking facility to September 2022.

Directors' report

For the financial year ended 30 June 2019

Review of operations and future developments (continued)

Outlook

The Company continues to focus on its three key strategies -

- Grow export business
- Increase branded sales
- Focus on cost control

These strategies, together with a focus on growing our three key brands, McGuigan, Tempus Two and Nepenthe, have significantly contributed to our growth in our core business. This is reflected by the 48% growth in Net profit (after tax and before SGARA).

The cash flow from operating activities remains strong and with a decline in FY20 capital spend we expect our debt to decrease significantly in the near future.

Our major brands continue to perform well with sales of the McGuigan brand increasing by 11% and our higher priced brand, Tempus Two, increasing by 9%. We will continue to improve our mix of sales and focus on premiumisation of our brands.

The UK has performed exceptionally well in an environment that has seen total volume of Australian wine sales to the UK decline by 4%. The Company will be investing more on advertising and marketing in the UK to keep this momentum going.

Our recent growth in Asia has been above industry average and the Company continues to work hard with our key distributors.

In 2019 the Company invested \$16.2 million on capital projects covering winery and packaging equipment. This brings the total capital spend over the last two years to \$35.6 million. In the next 12 months our total capital is expected to drop to \$12.0 million which, under normal vintage conditions, will mean that our net debt should decrease significantly.

Australian Vintage has transformed over the last 12 years from a bulk wine company to a quality and well respected branded wine business. This global transformation will continue with the premiumisation of our sales mix.

The Company, together with the entire wine industry will have several challenges in the next 12 months, including Brexit, the drought and the increasing cost of grapes and wine processing. This is in an environment where retail prices of wine have remained relatively flat.

The poor 2019 vintage has meant that the processing cost of our wine has increased due to the lower than expected utilisation of our Buronga winery. This will impact our margins in FY20. A normal 2020 vintage will more than offset the higher cost of the 2019 wine through a significant improvement in SGARA.

A further market update will be provided at our Annual General meeting in November 2019.

As part of our ongoing confidence in the medium to long term outlook of Australian Vintage, the board has agreed to pay a fully franked dividend of 2.0c per share. This dividend reflects a payout ratio of 70% and is based on an improved operating cash flow and reduced FY20 capital spend. This dividend will be paid to all shareholders on 8 November 2019 and the Record Date to establish shareholder dividend entitlements is 18 October 2019. The Company's Dividend Reinvestment Plan (DRP) will be suspended for the dividend payable on 8 November 2019.

Material business risks

The Group has an established risk committee, which monitors risks to the business on an ongoing basis and ensures they are identified in a timely manner and managed accordingly. Below are those risks that AVL considers of greatest materiality to the business, and existing mitigations against these risks.

Material business risk	Details of risk	Mitigation strategies in place
Constrained grape supply	<p>AVL's ability to fulfil demand, in particular growing demand for wine, is restricted by the availability of grapes. Climate change, agricultural and other factors, such as disease, pests, extreme weather conditions, water scarcity and competing land use, create increased risk that AVL will be unable to fulfil demand.</p> <p>To the extent that any of the foregoing impact the quality and quantity of grapes available to AVL for the production of wine, the financial prospects of operations could be adversely affected, both in the year of harvest and in future periods.</p>	<ul style="list-style-type: none"> • Long-term vintage planning and ongoing integrated business planning processes. • Where possible, balanced grape intake between owned/leased vineyards and third party suppliers. • Multi-regional growing and sourcing. • Innovative agronomic practices. • Strong grower relationships and defined agreements. • Innovation investment, including collaboration with research institutes on climate change adaption and water efficiency research

Review of operations and future developments (continued)

Material business risk	Details of risk	Mitigation strategies in place
Brand reputation	<p>The strength of AVL's portfolios of brands is key to the success of the business. As a brand-led organisation, managing the reputation of brands is critical to AVL's ongoing success.</p> <p>Failure to protect and effectively manage brands could have significant reputational and financial repercussions.</p>	<ul style="list-style-type: none"> • Brand portfolio and product strategy, including portfolio rationalisation, prioritisation and targeted investment in consumer marketing. • Consumer insights supporting the monitoring and awareness of brand health and consumer trends. • Product pricing strategy. • Corporate Responsibility program.
Loss of key leadership and talent	<p>AVL's ability to deliver on strategic targets is reliant on attracting and retaining experienced, skilled and motivated talent in core functions such as winemaking, sales, marketing and finance.</p> <p>Inability to retain key leaders and talent can impact relationships with AVL's key partners, result in lost business knowledge, increase risk of employee burnout and hamper the business' ability to deliver on key initiatives.</p>	<ul style="list-style-type: none"> • Talent review and succession planning processes. • Employee safety (including health and wellbeing) program. • Incentive and reward programs aligned to AVL's vision and growth behaviours.
Partner performance	<p>AVL relies on a number of key partners (suppliers, distributors, retailers) to support delivery of key strategic initiatives. The performance of these partners, and/or their market concentration and power, could have a significant impact on AVL's ability to deliver these initiatives.</p>	<ul style="list-style-type: none"> • Defined and pre-approved terms of engagement. • Investment in strong partner relationships. • Joint business planning processes to support and align internal and partner incentives. • Regular performance reviews.
Changing laws and government regulations	<p>AVL operates in a highly regulated industry in many of the markets in which it makes and sells wine. Each of these markets have differing regulations that govern many aspects of AVL's operations, including taxation, production, manufacturing, pricing, marketing, advertising, distribution and sales of wine.</p> <p>Remaining compliant with and abreast of changes to such regulations requires diligent and ongoing monitoring by the business. Additionally, changes and additional regulations can significantly impact the nature of operations in these markets.</p>	<ul style="list-style-type: none"> • Company-wide policies, standards and procedures. • AVL's compliance framework. • Business Continuity Plans. • Specialised and experienced resources and teams. • Executive Leadership Team oversight via the Risk Committee. • Relationships and engagement (where relevant) with key government, industry advocacy and regulatory bodies.
Significant business disruption	<p>AVL's scope of operations exposes it to a number of business disruption risks, such as environmental catastrophes, natural and man-made hazards and incidents or politically motivated violence.</p> <p>Significant business disruption could result in AVL's sites or employees being harmed or threatened, loss of key infrastructure, inventory shortages or loss, customer dissatisfaction, or financial and reputation loss.</p>	<ul style="list-style-type: none"> • Dedicated health and safety team oversight, audit programs and training. • Preventative repair and maintenance program. • Comprehensive insurance program.
Foreign exchange	<p>AVL is exposed to foreign exchange risk from a number of sources, namely from the export of Australian produced wine to offshore markets. Foreign exchange rate movements impact AVL's earnings.</p>	<ul style="list-style-type: none"> • Active foreign exchange hedging strategy. • Partial natural hedges (purchases and sales within the same currency) where possible.
Cyber security	<p>Data/information security is essential to protect business critical intellectual property and privacy of data. Continuing advances in technology, systems and communication channels mean increasing amounts of private and confidential data are now stored electronically. This, together with increasing cyber-crime, heightens the need for robust data security measures.</p>	<ul style="list-style-type: none"> • Information Security Policy, supporting framework and specialised resources. • Restricted and segregated management of sensitive business/supplier/customer data. • Periodic employee training and alerts to ensure secure handling of sensitive data. • Crisis management and IT Disaster Recovery Plans.
Infrastructure supporting growth	<p>The business relies on IT infrastructure, systems and processes to support ongoing business growth. Where such infrastructure cannot efficiently support the changing needs of the business, there is risk of process inefficiency and/or error increasing costs, processing time and damaging business reputation.</p>	<ul style="list-style-type: none"> • Defined IT roadmap and strategy approved by the Board/Executive Leadership Team. • IT policies and supporting procedures (security, change management, project management, etc.). • Documentation and mapping of key processes and controls across the business.

Directors' report

For the financial year ended 30 June 2019

Directors' meetings

The following table sets out the number of Directors' meetings (including meetings of Committees of Directors) held during the financial year and the number of meetings attended by each Director (while they were a Director or Committee Member).

During the financial year the company held 11 Board Meetings, 2 Audit Committee Meetings, 2 Risk Committee Meetings and 2 Remuneration Committee meetings.

Directors'	Board Meetings Attended	Audit Committee Attended	Risk Committee Attended	Remuneration Committee Attended
Richard H Davis	11	2	2	2
Neil A McGuigan	11	2	2	2
John D Davies	11	2	2	2
Naseema Sparks	10	2	1	2
Peter J Perrin	11	2	2	2
Jiang Yuan	9	0	0	0
Total Meetings Held	11	2	2	2

Directors' shareholdings

The following table sets out each Director's relevant interest in shares and options in shares of the Company as at the date of this report.

	Fully Paid Ordinary Shares	Executive Performance Rights and Options
Richard Davis	110,000	-
Neil McGuigan	1,005,000	4,500,000
John D Davies	400,000	-
Naseema Sparks	43,240	-
Peter Perrin	121,174	-
Jiang Yuan	39,055,527	-

Details of unissued shares or interests under option / performance right as at the date of this report are:

Issuing Entity	Number of shares under option / right	Class of shares	Exercise price of option / right	Expiry date of option / right
Australian Vintage Ltd	2,295,000	Ordinary	\$0.376	1 November 2020
Australian Vintage Ltd	3,568,000	Ordinary	\$0.528	1 November 2021
Australian Vintage Ltd	3,800,000	Ordinary	\$0.439	1 November 2022
	9,663,000			

Directors' report

For the financial year ended 30 June 2019

Remuneration report

For the purpose of the disclosure Key Management Personnel (KMP) are defined as an individual who is responsible for strategic planning, management and performance of a division or function and reports directly to the Chief Executive Officer.

Key Management Personnel for the year comprised:

Name	Position	Dates
<u>Non-executive Directors</u>		
Richard H Davis	Chairman	Full Year
John D Davies	Non-executive Director	Full Year
Naseema Sparks	Non-executive Director	Full Year
Peter Perrin	Non-executive Director	Full Year
Jiang Yuan	Non-executive Director	Full Year
<u>Executives</u>		
Neil McGuigan ⁽¹⁾	Chief Executive Officer ('CEO')	Full Year
Mike Noack	Company Secretary & Chief Financial Officer	Full Year
Cameron Ferguson	Chief Operating Officer, Australasia / North America	Full Year
Julian Dyer	Chief Operating Officer, UK/Europe	Full Year

⁽¹⁾ On the 29th July 2019 it was announced Neil McGuigan will resign as CEO, effective 20th November 2019. Craig Garvin will commence as CEO on the 21st November 2019. Further information on this announcement can be accessed at: <https://www.asx.com.au/asxpdf/20190729/pdf/446vyhzw1sy426.pdf>

Remuneration Committee and Director Compensation

The Remuneration Committee reviews the fee levels for Non-Executive Directors from time to time utilising appropriate remuneration benchmark data from comparable Australian ASX listed companies of similar size as a guide to independent market levels of remuneration such positions attract. For the year ended 30 June 2019, the Remuneration Committee formed the view that Non-Executive Director compensation is aligned with the market. Shareholders have approved a pool of funds up to \$600,000 per annum to compensate all Non-Executive Directors remuneration for their ordinary services as Directors.

The current level of Non-Executive Director compensation sits comfortably within the pool of funds approved by the Shareholders.

Remuneration Components for Non-Executive Directors

Non-executive Directors receive remuneration in cash, superannuation and wine which has no variable component.

Remuneration Committee and Executive Compensation

The Remuneration Committee reviews the compensation package for the Chief Executive Officer on an annual basis and makes recommendations to the Board for approval.

The Chief Executive Officer reviews the compensation packages of all other Executives and makes recommendations to the Remuneration Committee for approval.

Compensation packages are reviewed and determined with due regard to current market rates and are benchmarked against comparable industry salaries, as well as utilising appropriate remuneration benchmark data from comparable Australian ASX listed companies of similar size as a guide. Remuneration packages are set at levels that are intended to attract and retain executives capable of managing the consolidated entity's diverse operations.

Remuneration Objectives & Principles

Remuneration objectives and principles with respect to both the Chief Executive Officer and Executive compensation are as follows:

1. To provide a fair and reasonable remuneration structure for all employees
2. To provide attractive rewards and incentives to retain key individuals
3. To link senior executive rewards to accretion in shareholder wealth
4. The remuneration strategy must be easily understood by the Board, management and shareholders and must:
 - a) Reinforce organisation strategy and the objectives of the five-year plan
 - b) Facilitate corporate values and behaviours identified as core to the culture
 - c) Be proactive and dynamic so as to reflect changes in trends and future business opportunities

Directors' report

For the financial year ended 30 June 2019

Remuneration report (continued)

The below represents a target pay mix for the Chief Executive Officer and other Executives.

Executive Total Reward Framework		
50% for CEO 60% for other Executives	At Risk Remuneration	
	Variable Cash Incentive 25% for CEO 20% for other Executives	Deferred Equity Incentive 25% for CEO 20% for other Executives
Comprises:	A Variable Cash opportunity targeting:	From 1 st July 2018, comprises a deferred equity scheme targeting:
<ul style="list-style-type: none"> Cash salary (base); Salary sacrificed items; Company motor vehicles; Allowances; and Employer superannuation contributions in line with statutory obligations. 	<ul style="list-style-type: none"> 25% of Total Remuneration for the CEO 20% of Total Remuneration for other Executives 	<ul style="list-style-type: none"> 25% of Total Remuneration for the CEO 20% of Total Remuneration for other Executives.

Remuneration Components

The Chief Executive Officer and other KMP compensation packages consist of the below three components:

- Fixed Remuneration
- Variable Cash Incentive
- Deferred Equity Incentive

1. Fixed Remuneration

This component is not performance linked and generally consists of salary, motor vehicle, wine allowance and post-employment superannuation entitlement (where applicable). The base amount for the Chief Executive Officer ('CEO') is reviewed annually by the Remuneration Committee. The base amount for other Executives is reviewed by the CEO, who makes recommendations to the Remuneration Committee for approval. Any adjustments made during the year will either be as a result of market rate changes in order for the Company to remain competitive or to reflect any changes in level of responsibility.

2. Variable Cash Incentive

Variable Cash incentive payments take into account the extent to which specific financial and operating targets are achieved during the financial year. The targets consist of a number of key performance indicators ('KPIs') covering both financial and non-financial measures of performance. Non-financial measures may include items such as corporate risk control and work health and safety outcomes, as well as related organisational behaviours that may impact culture.

Annual targets will be agreed between the Board, CEO and executives. The structure is as follows:

Variable Cash Incentive				Type of Award
CEO/CFO	COO's	Key Management Personnel		
Financial	60%	35%	55%	Cash Payment
Behaviours	15%	15%	15%	
Operations/Divisional	25%	50%	30%	
	100%	100%	100%	

The primary measure is performance against financial targets (in particular EBITs, (Earnings before interest, tax and Self-Generating and Regenerating Assets income ('SGARA')). Company Performance is set at a minimum of 90% achievement of the financial year budget and is the first gate to determine the incentive opportunity to be made available for individual assessment. The Remuneration Committee may, from time to time, elect to make exceptions to this principle in the event of extraordinary circumstances and in the circumstances where an incentive payment may support retention of critical talent.

Due to the organisation's ability to exceed its financial year budget, the Variable Cash incentive can be assessed to a maximum of 120% achievement. Objectives and performance indicators are determined annually as follows:

- Chief Executive Officer – by the Remuneration Committee and approved by the Board, following consultation with the CEO
- Key Management Personnel – by the CEO and approved by the Remuneration Committee, following consultation with each Executive member

For the purpose of determining eligibility for payment of variable cash incentives, corporate financial and behavioural objectives as well as individual performance is assessed against set performance targets agreed each year.

Directors' report

For the financial year ended 30 June 2019

Remuneration report (continued)

The table below shows the maximum Variable Cash Incentive payments for FY19, the breakdown between financial and operational key performance indicator targets and the actual percentage of the maximum Variable Cash incentive achieved:

	2019	2019	Key Performance Targets			2019 % of maximum granted
	Minimum Bonus	Maximum Bonus ⁽¹⁾	Financial	Behaviours	Operational	
	\$	\$				
Neil McGuigan	0	306,000	60%	15%	25%	81%
Michael Noack	0	137,359	60%	15%	25%	83%
Cameron Ferguson	0	160,610	35%	15%	50%	81%
Julian Dyer	0	155,915	35%	15%	50%	92%

⁽¹⁾ Maximum bonus is based on achievement of 120% of financial target.

3. Deferred Equity Incentive

From the 1st July 2018 – Deferred Equity Incentive

At the beginning of each financial year the Board will determine the maximum number of Performance Rights that each executive will be entitled to. If the target Return on Capital Employed ⁽¹⁾ ('ROCE' - defined as EBIT divided by capital employed where capital employed is total assets less current liabilities.) is achieved for that financial year then those Performance Rights will be converted to AVG shares, which will be escrowed for a period of 3 years.

The target ROCE is:

- For FY19 the target ROCE was in the range of 4.2% to 5.1%.
- For FY20 the target ROCE is in the range 4.3% to 5.7%.

Over the next 5 years, and subject to normal agricultural risks, the target ROCE is expected to increase to high single digit returns.

It is planned that the shares will be purchased on market. However, this will be a year by year decision based on future cash flow projections. The Board will have discretion to release the shares from escrow, if for example, the Executive is a good leaver. The dividends received from the shares will be paid to the Executives.

Certain conditions apply to the issue of the incentives as follows:

- No retesting - there will be no retest applied to the Deferred Equity award other than if a bad leaver.
- Bad Leaver - In the case of a bad leaver, no shares will be transferred. The shares will remain in the Trust to be used in future Deferred Equity awards.
- Clawback - there will be no clawback unless specifically stated.
- Control Event - the Board has the discretion to determine the treatment of any award on a change of control event. If a change of control event occurs during the 12 month performance period, Executives will receive at least a pro-rata payment of the total award.
- Cessation of Employment - during a performance period, should an executive resign, or be terminated, no automatic award will be provided. AVL will have regard to performance against target and the performance period elapsed in determining any award.

There were 1,651,366 Performance Rights issued on the Deferred Equity Incentive during the year (2018 : n/a). As the minimum target ROCE was not reached, none of these rights will be converted into shares and the rights have been cancelled.

Prior to 1st July 2018 – Performance Rights and Options Plan

Established in August 2012, this plan provided a right to an issue of shares. This right or option was subject to the achievement of Earnings per share ('EPS') and Total Shareholder Return ('TSR') hurdles until the vesting date and the satisfaction of continuous employment criteria. The plan was available to selected senior management as approved by the Board. Rights and options can be exercised if the following criteria are met:

Options issued FY16 (exercise price \$0.376):

- 20% of options will vest if continuous employment is maintained up to 1st July 2019.
- 40% of the options are subject to an EPS hurdle. If the EPS Compound Annual Growth Rate ('CAGR') for the three years FY16 to FY18 inclusive is less than 7.5% no options will vest under this performance condition. If the EPS CAGR is between 7.5% and 15% vesting occurs on a straight line between 25% and 100%.
- 40% of the options are subject to a Total Shareholder Return (TSR) hurdle. If TSR for the three years FY16 to FY18 is less than 10%, no options will be vested under this performance condition. If the TSR is between 10% and 15% vesting occurs in a straight line between 25% and 100%.

Directors' report

For the financial year ended 30 June 2019

Remuneration report (continued)

3. Deferred Equity Incentives (continued)

Options issued FY17 (exercise price \$0.528):

- 30% of options will vest if continuous employment is maintained up to 1st July 2020.
- 30% of the options are subject to an EPS hurdle. If the EPS CAGR for the three years FY17 to FY19 inclusive is less than 7.5% no options will vest under this performance condition. If the EPS CAGR is between 7.5% and 15% vesting occurs in a straight line between 25% and 100%.
- 40% of the options are subject to a TSR hurdle. If TSR for the three years FY17 to FY19 is less than 10%, no options will be vested under this performance condition. If the TSR is between 10% and 15% vesting occurs in a straight line between 25% and 100%.

Options issued FY18 (exercise price \$0.4387):

- 50% of the options are subject to an EPS hurdle. If the EPS CAGR for the three years FY18 to FY20 inclusive is less than 10% no options will vest under this performance condition. If the EPS CAGR is between 10% and 20% vesting occurs in a straight line between 25% and 100%.
- 50% of the options are subject to a TSR hurdle. If TSR for the three years FY18 to FY20 is less than 15%, no options will be vested under this performance condition. If the TSR is between 15% and 20% vesting occurs in a straight line between 25% and 100%.

As this Performance Rights and Option Plan ceased on 30th June 2018, there were no share options issued during the year (2018: 2,500,000) to Key Management Personnel as part of their remuneration. No shares were issued during or since the end of the financial year as a result of the exercise of performance rights or options under this Plan.

Key Management Personnel equity, option and performance rights

As at the date of this report, Key Management Personnel hold the following performance rights and options:

Key management personnel		Number granted	Exercise price	Grant date	Expiry date
Neil McGuigan	Options	1,200,000	\$0.376	17 November 2015	1 November 2020
	Options	2,000,000	\$0.528	23 November 2016	1 November 2021
	Options	1,300,000	\$0.439	20 November 2017	1 November 2022
Mike Noack	Options	270,000	\$0.376	4 December 2015	1 November 2020
	Options	284,000	\$0.528	19 December 2016	1 November 2021
	Options	400,000	\$0.439	20 December 2017	1 November 2022
Cameron Ferguson	Options	240,000	\$0.376	4 December 2015	1 November 2020
	Options	284,000	\$0.528	19 December 2016	1 November 2021
	Options	400,000	\$0.439	20 December 2017	1 November 2022
Julian Dyer	Options	240,000	\$0.376	4 December 2015	1 November 2020
	Options	284,000	\$0.528	19 December 2016	1 November 2021
	Options	400,000	\$0.439	20 December 2017	1 November 2022
TOTAL		7,302,000			

Directors' report
For the financial year ended 30 June 2019

Remuneration report (continued)

Key Management Personnel equity, option and performance rights (continued)

Fully paid ordinary shares issued by Australian Vintage Ltd and held by key management personnel are as follows:

2019	Balance at 1/7/18 No.	Granted as remuneration No.	Received on exercise of options No.	Net other change No.	Balance at 30/6/19 No.	Balance held nominally No.
Non-executive Directors						
Richard H Davis	110,000	-	-	-	110,000	-
John Davies	300,000	-	-	100,000	400,000	-
Naseema Sparks	23,720	-	-	19,520	43,240	-
Peter Perrin	70,400	-	-	50,774	121,174	-
Jiang Yuan	35,939,389	-	-	3,116,138	39,055,527	-
Executives						
Neil McGuigan	1,005,000	-	-	-	1,005,000	-
Michael Noack	320,352	-	-	102	320,454	-
Cameron Ferguson	100,000	-	-	-	100,000	-
Julian Dyer	-	-	-	-	-	-
	37,868,861	-	-	3,286,534	41,155,395	-

Performance Rights and Options issued by Australian Vintage Ltd and held by key management personnel are as follows:

2019	Balance @ 1/7/18 No.	Granted as remuneration No.	Exercised No.	Expired / Cancelled	Bal @ 30/6/19 No.	Bal Vested @ 30/6/19 No.	Vested but Not exercisable No.	Vested and exercisable No.	Options Vested during the year No.
Neil McGuigan	5,300,000	488,630	-	(1,288,630)	4,500,000	800,000	-	800,000	800,000
Michael Noack	1,134,000	262,877	-	(442,877)	954,000	180,000	-	180,000	180,000
Cameron Ferguson	1,084,000	241,299	-	(401,299)	924,000	160,000	-	160,000	160,000
Julian Dyer	1,084,000	216,046	-	(376,046)	924,000	160,000	-	160,000	160,000
	8,602,000	1,208,852	-	(2,508,852)	7,302,000	1,300,000	-	1,300,000	1,300,000

Directors' report
For the financial year ended 30 June 2019

Remuneration report (continued)

Key Management Personnel Remuneration

The following table discloses the remuneration for Key Management Personnel of the Company:

2019	Short-term benefits				Post Employment		Share based payments			Total
	Salary & Fees	Bonus	Other	Non – Monetary ^(a)	Super - annuation	Other	Cash Settled	Equity Settled Options ^(b)	Equity Settled Shares	
	\$	\$	\$	\$	\$	\$	\$	\$	\$	
Non-executive directors										
Richard Davis	107,763	-	-	2,000	10,237	-	-	-	-	120,000
John Davies	71,233	-	-	2,000	6,767	-	-	-	-	80,000
Naseema Sparks	71,233	-	-	2,000	6,767	-	-	-	-	80,000
Peter Perrin	71,233	-	-	2,000	6,767	-	-	-	-	80,000
Jiang Yuan	79,358	-	-	-	3,209	-	-	-	-	82,567
Sub-total	400,820	-	-	8,000	33,747	-	-	-	-	442,567
Executives										
Neil McGuigan	750,841	237,150	-	1,200	15,250	-	-	63,894	-	1,068,335
Michael Noack	396,182	114,180	-	89,176	25,000	-	-	15,498	-	640,036
Cameron Ferguson	391,507	129,292	-	26,200	37,193	-	-	15,045	-	599,237
Julian Dyer	381,210	142,922	-	-	18,486	-	-	15,045	-	557,663
Sub-total	1,919,740	623,544	-	116,576	95,929	-	-	109,482	-	2,865,271
TOTAL	2,320,560	623,544	-	124,576	129,676	-	-	109,482	-	3,307,838

2018	Short-term benefits				Post Employment		Share based payments			Total
	Salary & Fees	Bonus	Other	Non – Monetary ^(a)	Super - annuation	Other	Cash Settled	Equity Settled Options ^(b)	Equity Settled Shares	
	\$	\$	\$	\$	\$	\$	\$	\$	\$	
Non-executive directors										
Richard Davis	107,763	-	-	2,000	10,237	-	-	-	-	120,000
Perry R Gunner ^(c)	11,872	-	-	2,000	1,128	132,800	-	-	-	147,800
John Davies	71,233	-	-	2,000	6,767	-	-	-	-	80,000
Naseema Sparks	71,233	-	-	2,000	6,767	-	-	-	-	80,000
Peter Perrin	71,233	-	-	2,000	6,767	-	-	-	-	80,000
Jiang Yuan	73,709	-	-	-	2,980	-	-	-	-	76,689
Sub-total	407,043	-	-	10,000	34,646	132,800	-	-	-	584,489
Executives										
Neil McGuigan	745,773	288,000	-	1,200	17,525	-	-	130,541	-	1,183,039
Michael Noack	380,635	120,703	-	89,176	25,000	-	-	26,531	-	642,045
Cameron Ferguson	330,308	128,029	-	26,200	31,379	-	-	25,486	-	541,402
Julian Dyer	302,736	132,217	-	-	19,727	-	-	25,486	-	480,166
Sub-total	1,759,452	668,949	-	116,576	93,631	-	-	208,044	-	2,846,652
TOTAL	2,166,495	668,949	-	126,576	128,277	132,800	-	208,044	-	3,431,141

^(a) Non-monetary items include provision of motor vehicle, insurance and wine benefits and applicable fringe benefits tax.

^(b) Amortisation of share rights and options granted over the vesting period.

^(c) Retired 30 August 2017. Other post-employment benefit is contractual payment made on retirement. No other Directors have a contractual payment on retirement.

No director or executive appointed during the period received a payment as part of his or her consideration for agreeing to the position.

Directors' report
For the financial year ended 30 June 2019

Remuneration report (continued)

Company Performance

The tables below set out summary information about the Group's earnings and movements in shareholder wealth for the five years to 30 June 2019:

	30 June 2015 \$ M	30 June 2016 \$ M	30 June 2017 \$M	30 June 2018 \$M	30 June 2019 \$M
Operating Cash Flow	2.1	6.5	14.0	26.7	23.6
Total Revenue	230.9	242.7	226.5	249.5	269.2
EBITS (before one off items) ⁽¹⁾	13.9	15.8	9.9	16.7	21.7
EBIT	17.5	3.2	11.3	16.2	16.3
EBIT (before one off items)	16.7	16.4	11.3	16.2	16.3
Net Profit/(Loss) after tax	9.4	(2.2)	4.3	7.7	8.1
Net Profit/(Loss) after tax before one off items	7.1	7.0	4.3	7.7	8.1

⁽¹⁾ EBITS is earnings before interest, tax and SGARA.

	30 June 2015	30 June 2016	30 June 2017	30 June 2018	30 June 2019
Earnings per share - cents	4.0	(0.9)	1.8	2.8	2.9
Dividends declared - cents	Nil	1.5	1.0	1.5	2.0
Market capitalisation - \$ million	84.8	131.2	117.1	151.4	134.7
Enterprise value (debt + equity) - \$ million	373.2	373.9	372.3	377.8	379.3
Share price at start of year - \$ per share	0.320	0.365	0.565	0.425	0.545
Share price at end of year - \$ per share	0.365	0.565	0.425	0.545	0.480

Directors' report

For the financial year ended 30 June 2019

Remuneration report (continued)

Service Agreements of Key Management Personnel

Compensation and other terms of employment for Key Management Personnel (excluding Non-Executive Directors) are formalised in service agreements or letters of appointment. Termination benefits disclosed below do not apply in cases of misconduct or other specified circumstances.

Neil McGuigan

- (i) Term of agreement – no specified term.
- (ii) Compensation includes:
 - a. Base salary, superannuation and wine allowance.
 - b. Variable Cash incentive - entitlement to a bonus subject to certain key performance criteria. Key performance criteria include defined financial (including company profitability), commercial and behavioural targets.
 - c. Deferred Equity - entitlement to an issue of Performance Rights. The Performance Rights are subject to meeting set ROCE and are subject to certain conditions.
- (iii) If Mr McGuigan's employment is terminated by the Company, the Company must pay the equivalent of one year's total remuneration (excluding Variable Cash incentive). Mr McGuigan may resign by providing 6 months written notice to the Company or a lesser period as agreed by the company.

Michael Noack

- (i) Term of agreement - no specified term.
- (ii) Compensation includes:
 - a. Base salary, superannuation, life/trauma insurance, motor vehicle allowance and wine allowance.
 - b. Variable Cash incentive - entitlement to a bonus subject to certain key performance criteria. Key performance criteria include defined financial (including company profitability), commercial and behavioural targets.
 - c. Deferred Equity - entitlement to an issue of Performance Rights. The Performance Rights are subject to meeting set ROCE and are subject to certain conditions.
- (iii) If Mr Noack's employment is terminated by the company, the company must pay Mr Noack the equivalent of one year's total remuneration (excluding Variable Cash incentive). Mr Noack may resign by providing 3 months written notice to the Company or a lesser period as agreed by the company.

Cameron Ferguson

- (i) Term of agreement - no specified term.
- (ii) Compensation includes:
 - a. Base salary, superannuation, motor vehicle allowance and wine allowance.
 - b. Variable Cash incentive - entitlement to a bonus subject to certain key performance criteria. Key performance criteria include defined financial (including company profitability), commercial and behavioural targets.
 - c. Deferred Equity - entitlement to an issue of Performance Rights. The Performance Rights are subject to meeting set ROCE and are subject to certain conditions.
- (iii) If Mr Ferguson's employment is terminated by the company, the company must pay Mr Ferguson the equivalent of one year's total remuneration (excluding Variable Cash incentive). If Mr Ferguson's employment is terminated by the Company, the Company may restrain Mr Ferguson from working for a Business in Competition/Company customer for a period of up to 3 months. The Company will pay Base Salary for the period in which the restraint is enforced. Mr Ferguson may resign by providing 6 months written notice to the Company or a lesser period as agreed by the company.

Julian Dyer

- (i) Term of agreement - no specified term.
- (ii) Compensation includes:
 - a. Base salary and United Kingdom pension payment.
 - b. Variable Cash incentive - entitlement to a bonus subject to certain key performance criteria. Key performance criteria include defined financial (including company profitability), commercial and behavioural targets.
 - c. Deferred Equity - entitlement to an issue of Performance Rights. The Performance Rights are subject to meeting set ROCE and are subject to certain conditions.
- (iii) If Mr Dyer's employment is terminated by the company, the company must pay Mr Dyer the equivalent of one year's total remuneration (excluding Variable Cash incentive). If Mr Dyer's employment is terminated by the Company, the Company may restrain Mr Dyer from working for a Business in Competition/Company customer for a period of up to 3 months. The Company will pay Base Salary for the period in which the restraint is enforced. Mr Dyer may resign by providing 6 months written notice to the Company or a lesser period as agreed by the company.

Directors' report

For the financial year ended 30 June 2019

Non-audit services

The Directors are satisfied that the provision of non-audit services, during the year, by the auditor (or by another person or firm on the auditor's behalf) is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The Audit Committee, in conjunction with the Chief Financial Officer, assesses the provision of non-audit services by the auditors to ensure that the auditor independence requirements of the Corporation Act 2001 in relation to the audit are met.

Details of amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in note 21 to the financial statements.

The directors are of the opinion that the services as disclosed in note 21 to the financial statements do not compromise the external auditor's independence, based on advice received from the Audit Committee, for the following reasons:

- All non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor, and
- none of the services undermine the general principles relating to auditor independence as set out in Code of Conduct APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional & Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risks and rewards.

Auditors' independence declaration

The Auditors independence declaration is included on page 20.

Indemnification of officers and auditors

During the financial year, the Company paid a premium in respect of a contract insuring the Directors of the Company (as named previously), the Company Secretaries and all Executive Officers of the Company and of any related Body Corporate against a liability incurred as a Director, Secretary or Executive officer to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium. The Company has not otherwise, during or since the financial year, indemnified or agreed to indemnify an officer or auditor of the Company or of any related body corporate against a liability incurred as such an officer or auditor.

Rounding off of amounts

The Company is a company of the kind referred to in ASIC Corporations (Rounding in Financial / Directors Reports) instrument 2016/191, dated 24 March 2016, and in accordance with that Corporations Instrument, amounts in the Directors' Report and the Financial Report have been rounded off to the nearest thousand dollars, unless otherwise indicated.

Subsequent Events

In respect of the financial year ended 30 June 2019 a fully franked dividend of 2.0 cents per share was declared on the 28th August 2019 and will be paid on the 8th November 2019.

There have been no other matters or circumstances, other than that referred to in note 26 to the financial statements, that have arisen since the end of the financial year, that have significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

Signed in accordance with a resolution of the Directors made pursuant to section 298(2) of the Corporations Act 2001.

On behalf of the Directors



Richard Davis
Chairman
28th August 2019



Neil McGuigan
Chief Executive Officer
28th August 2019

28 August 2019

The Board of Directors
Australian Vintage Ltd
275 Sir Donald Bradman Drive
COWANDILLA SA 5033

Dear Board Members

Australian Vintage Ltd

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Australian Vintage Ltd.

As lead audit partner for the audit of the financial statements of Australian Vintage Ltd for the financial year 30 June 2019, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours faithfully

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU



Penny Woods
Partner
Chartered Accountants

Independent Auditor's Report to the members of Australian Vintage Ltd

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Australian Vintage Ltd (the "Company") and its subsidiaries (the "Group"), which comprises the consolidated statement of financial position as at 30 June 2019, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the Group's financial position as at 30 June 2019 and of its financial performance for the year then ended; and
- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's *APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
<p><i>Carrying value of goodwill and property, plant and equipment associated with the bulk wine and processing cash generating unit</i></p> <p>In assessing the recoverable amounts of assets, focus is given to the bulk wine and processing operations, being the cash generating unit (CGU) with the greatest asset allocation of the Group including goodwill of \$37.7 million and the most significant portion of property, plant and equipment of \$65.9 million (see Note 10).</p> <p>Evaluation of the recoverable amount of goodwill and property, plant and equipment requires significant judgement in determining the key assumptions supporting the expected future cash flows of the bulk wine and processing CGU including:</p> <ul style="list-style-type: none"> • processed volume growth, • processing margin, and • discount rate. 	<p>In conjunction with valuation specialists, our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> • obtaining an understanding of the Group’s process for assessing the carrying value of goodwill and property, plant and equipment, including obtaining an understanding of key controls associated with the preparation of the valuation models used to assess the CGU and the appropriateness of the model; • agreeing the model inputs to the Board approved budget forecasts; • assessing historical budgeting accuracy; • assessing the appropriateness of assets and liabilities allocated to the model; • assessing forecast processed volume growth, with reference to processing capacity; • challenging management’s assessment of the forecast processing margin, with reference to external market rates; • challenging the components of the discount rate against independent rates and assessing if the overall rate used is within an acceptable range; and • performing sensitivity analysis to the forecast cash flows to quantify the impact of reasonable changes in processing margin, discount rate and processed volume growth, being the factors with the most significant impact on recoverable value. <p>We also assessed the appropriateness of the disclosures in Notes 10 and 11 to the financial statements.</p>

Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
<p><i>Recognition of revenue tax losses</i></p> <p>As at 30 June 2019 the Group has recognised \$29.4 million of deferred tax assets and \$36.3 million tax losses relating to revenue tax losses as disclosed in Note 4.</p> <p>Deferred tax assets are only recognised to the extent that it is probable that sufficient future taxable profits will be generated in order for the benefits of the revenue tax losses to be realised. These benefits are realised by reducing tax payable on future taxable profits.</p> <p>Significant judgement is required to assess whether there will be sufficient future taxable profits to utilise the recognised deferred tax assets.</p>	<p>Our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> • assessing management’s judgements relating to the forecasts of future taxable profit and evaluated the reasonableness of the assumptions underlying the preparation of the forecast, • assessing whether the cash flows are consistent with those contained in the models used for impairment analysis; • assessing historical budgeting accuracy; and • applying sensitivity analysis to the forecast taxable profits. <p>We also assessed the appropriateness of the disclosures in Note 4 to the financial statements.</p>

Other Information

The directors are responsible for the other information. The other information comprises the Directors’ Report, which we obtained prior to the date of this auditor’s report, and also includes the following information which will be included in the Group’s annual report (but does not include the financial report and our auditor’s report thereon): Board of Directors Report, Chairman’s Report, Chief Executive Officer’s Report, Company Profile, Corporate Governance Statement and Shareholders’ Information which are expected to be made available to us after that date.

Our opinion on the financial report does not cover the other information and accordingly we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor’s report, 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.

When we read the Board of Directors, Chairman’s Report, Chief Executive Officer’s Report, Company Profile, Corporate Governance Statement and Shareholders’ Information, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and use our professional judgement to determine the appropriate action.

Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group 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 Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is 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 the Australian Auditing Standards 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 this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group's audit. We remain solely responsible for our audit opinion.

We communicate with the directors 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 our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 11 to 18 of the Director's Report for the year ended 30 June 2019.

In our opinion, the Remuneration Report of Australian Vintage Ltd, for the year ended 30 June 2019, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU



Penny Woods
Partner
Chartered Accountants
Adelaide, 28 August 2019

Directors' declaration

The Directors declare that:

- (a) In the Directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable;
- (b) the attached financial statements are in compliance with International Financial Reporting Standards as stated in note 1 to the financial statements;
- (c) In the Directors' opinion, the attached Financial Statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving true and fair view of the financial position and performance of the consolidated entity; and
- (d) The Directors' have been given the declarations required by s.295A of the Corporations Act 2001.

At the date of this declaration, the Company is within the class of companies affected by *ASIC Corporations (wholly owned companies) Instrument 2016/78*. The nature of the deed of cross guarantee is such that each company which is party to the deed guarantees to each creditor payment in full of any debt in accordance with the deed of cross guarantee.

In the Director's opinion, there are reasonable grounds to believe that the Company and the companies to which the *ASIC Corporations (wholly owned companies) Instrument 2016/785* applies, as detailed in note 23 to the Financial Statements will, as a group, be able to meet any obligations or liabilities to which they are or may become, subject by virtue of the deed of cross guarantee.

Signed in accordance with a resolution of the Directors made pursuant to s.295(5) of the Corporations Act 2001.

On behalf of the Directors



Richard Davis
Chairman
28th August 2019



Neil McGuigan
Chief Executive Officer
28th August 2019

Consolidated statement of profit or loss and other comprehensive income
For the financial year ended 30 June 2019

		2019	Restated 2018
	Note	\$'000	\$'000
Revenue	3	269,166	249,476
Cost of sales	3	(194,296)	(182,929)
Gross Profit		74,870	66,547
Fair value (loss) / gain on grapes picked		(5,450)	(569)
Other income	3	957	590
Distribution expenses		(14,338)	(13,179)
Sales and marketing expenses		(31,365)	(29,206)
Administration expenses		(8,368)	(7,987)
Finance costs	3	(4,059)	(5,031)
Profit before tax		12,247	11,165
Income tax expense	4	(4,124)	(3,471)
Net Profit for the year		8,123	7,694
Other comprehensive income / (loss), net of income tax:			
<i>Items that may be subsequently classified to profit or loss:</i>			
Change in fair value of hedging instruments		231	(254)
Exchange differences arising on translation of foreign operations		72	134
Other comprehensive profit / (loss) for the year, net of income tax		303	(120)
Total comprehensive income for the year		8,426	7,574
Earnings Per Share:			
Basic (cents per share)	5	2.9	2.8
Diluted (cents per share)	5	2.8	2.7

The above consolidated statement of profit or loss and other comprehensive income should be read along with the accompanying notes.

Consolidated statement of financial position
As at 30 June 2019

	Note	2019 \$'000	2018 \$'000
Current Assets			
Cash and cash equivalents	6	8,057	7,712
Trade and other receivables	7	49,357	47,546
Inventories	8	156,346	139,882
Other financial assets	15	57	-
Total Current Assets		213,817	195,140
Non-Current Assets			
Inventories	8	34,268	52,164
Other financial assets	15	816	362
Property, plant and equipment	9	117,482	109,095
Goodwill and other intangible assets	10	50,249	50,418
Deferred tax assets	4	29,380	33,597
Total Non-Current Assets		232,195	245,636
Total Assets		446,012	440,776
Current Liabilities			
Trade and other payables	12	59,353	55,523
Borrowings	14	470	503
Other financial liabilities	15	331	477
Provisions	13	5,933	5,539
Income received in advance		88	596
Total Current Liabilities		66,175	62,638
Non-Current Liabilities			
Borrowings	14	79,965	84,435
Other financial liabilities	15	321	15
Provisions	13	720	795
Total Non-Current Liabilities		81,006	85,245
Total Liabilities		147,181	147,883
Net Assets		298,831	292,893
Equity			
Capital and reserves			
Issued capital	16	465,490	463,961
Reserves	18	2,443	1,989
Accumulated losses		(169,102)	(173,057)
Total Equity		298,831	292,893

The above consolidated statement of financial position should be read along with the accompanying notes.

Consolidated statement of changes in equity
For the financial year ended 30 June 2019

	Share capital	Equity - settled employee benefits reserve	Hedging reserve	Foreign currency translation reserve	Accumulated losses	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 30 June 2017	463,009	1,698	46	85	(177,995)	286,843
Profit for the period	-	-	-	-	7,694	7,694
Net gain on interest rate swaps	-	-	215	-	-	215
Net loss on foreign exchange hedges	-	-	(578)	-	-	(578)
Exchange differences arising on translation of foreign operations	-	-	-	191	-	191
Income tax relating to components of other comprehensive income	-	-	109	(57)	-	52
Total comprehensive income for the period	-	-	(254)	134	7,694	7,574
Share issues	984	-	-	-	-	984
Share issue costs	(46)	-	-	-	-	(46)
Tax consequences	14	-	-	-	-	14
Dividend paid	-	-	-	-	(2,756)	(2,756)
Recognition of share based payments	-	280	-	-	-	280
Balance at 30 June 2018	463,961	1,978	(208)	219	(173,057)	292,893
Profit for the period	-	-	-	-	8,123	8,123
Net (loss) on interest rate swaps	-	-	(645)	-	-	(645)
Net gain on foreign exchange hedges	-	-	975	-	-	975
Exchange differences arising on translation of foreign operations	-	-	-	103	-	103
Income tax relating to components of other comprehensive income	-	-	(99)	(31)	-	(130)
Total comprehensive income for the period	-	-	231	72	8,123	8,426
Share issues	1,543	-	-	-	-	1,543
Share issue costs	(21)	-	-	-	-	(21)
Tax consequences	7	-	-	-	-	7
Dividend paid	-	-	-	-	(4,168)	(4,168)
Recognition of share based payments	-	151	-	-	-	151
Balance at 30 June 2019	465,490	2,129	23	291	(169,102)	298,831

The above consolidated statement of changes in equity should be read along with the accompanying notes.

Consolidated statement of cash flows
For the financial year ended 30 June 2019

	Note	2019 \$'000	2018 \$'000
Cash flows from operating activities			
Receipts from customers		283,647	276,850
Other payments to suppliers and employees		(256,168)	(245,220)
Cash generated from operations		27,479	31,630
Interest and other costs of finance paid		(3,886)	(4,963)
Net cash provided by operating activities	6 (a)	23,593	26,667
Cash flows from investing activities			
Payments for property, plant and equipment		(16,177)	(19,383)
Payments for intangibles		-	(191)
Proceeds from sale of property, plant & equipment		78	314
Net cash used in investing activities		(16,099)	(19,260)
Cash flows from financing activities			
Share issue costs		(21)	(46)
Dividends paid		(2,625)	(1,772)
Repayment of borrowings	6 (c)	(4,503)	(493)
Net cash used in financing activities		(7,149)	(2,311)
Net increase / (decrease) in cash and cash equivalents		345	5,096
Cash and cash equivalents at the beginning of the financial year		7,712	2,616
Cash and cash equivalents at the end of the financial year		8,057	7,712

The above consolidated statement of cash flows should be read along with the accompanying notes.

Notes to the financial statements

For the financial year ended 30 June 2019

Note 1: About this report

General information

Australian Vintage Ltd (the 'Company') is a for-profit entity, incorporated and domiciled in Australia and limited by shares which are traded on the Australian Securities Exchange (trading under the ticker code 'AVG'). The consolidated financial report comprises the Company and its controlled entities (the 'Group') and was authorised for issue by the Board of Directors on 28 August 2019. The Directors have the power to amend and reissue the financial report.

The Group's registered office is 275 Sir Donald Bradman Drive, Cowandilla SA 5033 and its principal activities are wine making, wine marketing, and vineyard management.

Basis of preparation

This financial report:

- is a general purpose financial report;
- has been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB'), International Financial Reporting Standards ('IFRSs') and the *Corporations Act 2001*;
- has been prepared on a historical cost basis except for those items measured at fair value, as detailed in the policies that follow;
- is presented in Australian dollars, which is the Group's functional and presentational currency, with all values rounded to the nearest thousand, as permitted under *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191* unless otherwise stated;
- includes foreign currency transactions that are translated into the Group's functional currency using the prevailing exchange rate at the date of the transaction;
- where required, presents restated comparative information to enhance comparability; and
- has been prepared on a going concern basis.

Basis of consolidation

The consolidated financial report incorporates the financial report of the Company and its subsidiaries. Subsidiaries are entities over which the Company has control. A list of such entities is provided in Note 23. The Company controls an entity when it has:

- power to direct the activities of the entity, through voting rights;
- exposure to variable returns from its involvement with the entity; and
- the ability to use its power to affect its returns.

Total comprehensive income of subsidiaries is attributed to the owners of the Company. All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation. All amounts referenced in these financial statements and the accompanying notes are the Consolidated Group figures, unless otherwise indicated.

Significant accounting estimates and judgements

Management has identified the following critical accounting policies where significant judgements, estimates and assumptions are made. Actual results may differ from these estimates and may materially affect financial results or the financial position reported in future periods. Further information on policies where critical estimates and judgements are made, are listed within the following notes:

- Key assumptions used in impairment testing for goodwill and other intangible assets (note 11)
- Recognition of income tax losses (note 4)

New and amended standards adopted by the Group

The Group adopted a number of new accounting standards and amendments for the first time for the annual reporting period commencing 1 July 2018. Those which had a significant impact on the Group are detailed below.

AASB 15 Revenue from Contracts with Customers

AASB 15 replaces *AASB 118 Revenue* and *AASB 111 Construction Contracts*. The new standard replaces the existing notion of risk and rewards with the notion of control to recognise when goods have been transferred to a customer.

The Group adopted AASB 15 using the retrospective method, restating comparatives. The adoption of AASB 15 has resulted in a change in the Group's policy for revenue recognition, which is detailed in note 3. The only impact of adopting the new standard is that some rebates paid to customers are now recorded as a net reduction in the transaction price of the sale they relate to. Previously the rebates were recorded as a cost of goods sold. Accordingly, there is no impact on profit on adopting AASB 15 and no impact on the Group's consolidated statement of financial position. A summary of the restatements made to comparatives is shown in the table below:

Consolidated statement of profit or loss and other comprehensive income – for the year ended 30 June 2018 (\$'000)

	As originally presented	AASB 15 Restatement	Restated
Revenue	264,613	(15,137)	249,476
Cost of sales	(198,066)	15,137	(182,929)
Gross profit	66,547	-	66,547

AASB 9 Financial Instruments

AASB 9 replaces the provisions of AASB 139 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. The Group adopted AASB 9 without restating comparatives, as is allowed under the transition options. The adoption of AASB 9 has resulted in the following impacts on the Group:

Impairment of trade receivables

The Group now assesses debts based on an expected credit loss model, which is detailed further in the policy for impairment of trade receivables (note 25). This did not result in any material adjustments to the Group's provision for doubtful debts.

Notes to the financial statements

For the financial year ended 30 June 2019

Note 1: About this report (continued)

Hedge accounting

The Group has reassessed existing hedging relationships and updated the Group's policy (note 25) and hedge documentation to be compliant with AASB 9. This did not result in any changes to the underlying substance of the Group's hedging relationships, or adjustments to any related financial assets or liabilities.

Classification and measurement

The Group has assessed the categories in which financial instruments should be recorded under AASB 9. No significant changes in the classification or measurement resulted from adopting AASB 9.

The Group did not restate comparatives in adopting AASB 9 and there is no significant impact on the balance sheet or the profit and loss of the Group as a result on adopting AASB 9.

New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2019 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below.

AASB 16 Leases

AASB 16 will replace the current standard on lease accounting, AASB 117 *Leases*. AASB 16 introduces a single lessee accounting model and requires the lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligations to make lease payments.

To date, the Group has reviewed all existing lease contracts, as well as service and other supplier agreements to determine which contracts across the business meet the definition of a lease under AASB 16. The Group will adopt AASB 16 when it becomes mandatory on 1 July 2019 and will take transition using the modified retrospective approach. The standard will be applied to all leases except leases of intangible assets (water licenses). Right-of-use assets relating to vineyard leases will be measured under Option 1, retrospectively as if AASB 16 had applied from the commencement of the lease. All other non-vineyard leases will be measured under Option 2, equal to the lease liability at the date of adoption. Comparatives will not be restated and cumulative differences in profit and loss will be adjusted in opening retained earnings.

The Group has assessed the financial impacts of transitioning to AASB 16 to be as follows:

Impact on the consolidated statement of financial position (as at 1 July 2019):

- Right-of-use asset: \$44m
- Lease liability: (\$50m)
- Deferred tax asset: \$2m
- Increase in opening accumulated losses: \$4m

Impact on profit and loss for the year ended 30 June 2020:

There will be a change in the presentation of the Consolidated statement of profit or loss and other comprehensive income, with \$9m of operating lease expenses being replaced with \$6m of amortisation expense and \$3.7m of interest expense. Of total interest charges, \$3.4m will be capitalised under AASB 102, as it relates to leases of vineyards used for producing grapes which are qualifying assets. The impact on FY20 EBIT and profit before tax ('PBT') is summarised in the table below (negative values are a reduction in profit).

	\$M
Vineyard leases (SGARA - includes capitalised interest)	(0.5)
Non vineyard leases	0.1
TOTAL EBIT impact	(0.4)
Interest expense (net of amounts capitalised under AASB 102)	(0.3)
TOTAL PBT impact	(0.7)

There are no significant impacts expected on the classification of cashflows.

Notes to the financial statements

For the financial year ended 30 June 2019

Note 2: Segment information

Accounting policy– segment reporting

Operating segments are determined based on the reporting to the Chief Operating Decision Maker ('CODM'). The Group's CODM, who is responsible for allocating resources and assessing the performance of the Group has been identified as the Chief Executive Officer ('CEO').

The CODM assesses the performance of the Group by the following five identified segments:

- Australasia / North America packaged: supplies packaged wine within Australia, New Zealand, Asia and North America through retail and wholesale channels.
- UK / Europe: supplies packaged and bulk wine in the United Kingdom and Europe through retail and distributor channels.
- Cellar door: supplies wine direct to the consumer through regional outlets.
- Australasia / North America bulk wine and processing: supplies bulk wine, grapes, concentrate and winery processing services throughout Australia, New Zealand, Asia and North America.
- Vineyards: provides vineyard management and maintenance services within Australia. This segment includes fair value gains and losses resulting from the harvest of grapes from AVL's owned and leased vineyards.

The accounting policies of the reportable segments are the same as the Group's accounting policies noted in these financial statements. Interest income and finance cost are not allocated to segments, as this type of activity is driven by the central treasury function, which manages the cash position of the Group. The segment information provided to the CODM, which is reviewed on at least a monthly basis is as follows:

Revenue and profit information by segment

	Revenue 2019 \$'000	Restated Revenue 2018 \$'000	Profit before tax 2019 \$'000	Profit before tax 2018 \$'000
Australasia / North America packaged	105,870	98,166	7,905	7,382
UK / Europe	121,180	104,961	10,919	5,614
Cellar door	9,441	10,588	991	1,617
Australasia / North America bulk wine and processing	27,644	30,198	1,307	(470)
Vineyards	5,031	5,563	(4,841)	2,037
Total	269,166	249,476	16,281	16,180
Net interest expense - Corporate			(4,034)	(5,015)
Profit before tax			12,247	11,165

Geographical breakdown of revenues

	2019 \$'000	Restated 2018 \$'000
Australia	105,245	101,632
UK / Europe	121,180	104,961
North America	16,064	15,719
Asia	20,047	21,791
Other	6,630	5,373
	269,166	249,476

The Group has two major customers (2018: two) who individually account for greater than 10% of annual sales, one each within the Australasia / North America packaged and the UK / Europe segments. The total sales for these customers in 2019 is \$79.8 million (restated 2018: \$71.6 million).

Notes to the financial statements

For the financial year ended 30 June 2019

Note 3: Revenue and expenses

Accounting policy - revenue

Revenue is measured based on the consideration to which the group expects to be entitled in a contract with a customer. The group recognises revenue when it transfers control of a product or service to a customer. The transaction price is net of rebates and discounts.

- Sale of goods is the sale of bottled and bulk wine and wine products to wholesale and retail customers. There is one performance obligation associated with the sale of goods, being the delivery of the product to the location specified in the agreement with the customer. Accordingly, revenue is recognised at the point in time at which control of the product is passed from the Group to the customer. This is typically by way of delivery to the customer's warehouse for wholesale customers, or at the point of sale at a cellar door outlet for a retail customer.
- Contract processing involves manufacturing a wine product based on the agreed specifications required by the customer. There is one performance obligation, being the delivery of the completed wine product to the site or location in the agreement with the customer. Accordingly, revenue is recognised at a point in time once control of the completed product has passed to the customer.
- Vineyard services is the development of customer's vineyards. This involves planting vines and installing trellising and irrigation. Typically, there are multiple performance obligations within a customer agreement, which are grouped in stages. Revenue is recognised at a point in time when a stage of development is completed and there is objective evidence of acceptance by the customer that the work has been completed to the agreed specifications and standard.

Any amounts received from customers prior to the performance obligations being completed are recorded as Income received in advance and held on the balance sheet, until the relevant performance obligations have been completed in line with the policies above.

Accounting policy – consumption taxes

Revenues, expenses and assets are recognised net of consumption taxes. Receivables and payables are recorded gross of consumption taxes, with the net amount of consumption taxes recoverable from, or payable to the relevant tax authority recorded on the balance sheet. Cash flows are presented on a gross basis, with any consumption taxes relating to investing or financing activities being recorded in operating cash flows.

	2019 \$'000	Restated 2018 \$'000
(a) Revenue from contracts with customers		
Sale of goods	262,665	242,834
Contract processing	2,206	1,079
Rendering contract vineyard services	4,295	5,563
	269,166	249,476
(b) Cost of goods sold		
Cost of goods sold	194,735	185,382
Amounts related to prior year SGARA change	(439)	(2,453)
	194,296	182,929
(c) Other income		
Wine equalisation tax rebate	350	500
Gain / (Loss) on unrealised foreign exchange	157	(587)
Other rebates	150	594
Rental income	78	76
Gain / (Loss) on disposal of property, plant and equipment	34	(92)
Interest income	25	16
Other	163	83
	957	590
(d) Disclosure of specific expenses		
Employee benefits expense	38,973	36,706
Superannuation expense	2,867	2,694
Operating lease rental expense	8,168	6,705
Depreciation and amortisation	7,914	7,496

Notes to the financial statements

For the financial year ended 30 June 2019

Note 3: Revenue and expenses (continued)

(e) Finance costs

Accounting policy – borrowing costs

Borrowing costs incurred for the production or construction of a qualifying asset are added to the cost base of the asset during the time the asset is being prepared for its intended use. Other borrowing costs are expensed as incurred.

	2019	2018
	\$'000	\$'000
Interest on bank overdrafts and loans	3,766	4,695
Interest on obligations under finance lease	260	289
Unwinding of discounts	33	47
	4,059	5,031

Note 4: Income taxes

Accounting policy – income taxes

Income tax expense is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities. This is calculated based on tax laws enacted or substantively enacted by the reporting date.

Deferred tax liabilities are recognised for taxable temporary differences. Deferred income tax assets are recognised for deductible temporary Differences, to the extent it is probable there will be sufficient future profits in the Group to utilise them against. Deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the way the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Tax consolidation

The company and all its wholly owned Australian resident entities are part of a tax-consolidated group under Australian taxation law. Australian Vintage Ltd is the head entity in the tax-consolidated group. The members of the tax-consolidated group are identified in note 23.

Current tax liabilities and assets, and deferred tax assets arising from unused tax losses and relevant tax credits of the members of the tax-consolidated group are recognised by the company (as head entity in the tax-consolidated group).

Entities within the tax-consolidated group have entered into a tax funding arrangement and a tax-sharing agreement with the head entity. Under the terms of the tax funding arrangement, Australian Vintage Ltd and each of the entities in the tax-consolidated group have agreed to pay a tax equivalent payment to or from the head entity, based on the current tax liability or current tax asset of the entity.

Significant accounting estimates and judgement – recognition of income tax losses

The Group has recognised deferred tax assets in relation to unused tax losses and temporary differences as at the end of the reporting period. The recognition of deferred tax assets is after considering whether it is probable that the Group will have sufficient taxable profit in the foreseeable future and against which the deferred tax assets can be recovered.

The assessment of whether there will be sufficient taxable profit is subject to a level of judgement and if the actual conditions vary to the assumptions adopted, the carrying value of the asset would need to be reassessed.

	2019	2018
	\$'000	\$'000
(a) Income tax recognised in profit or loss		
Income tax comprises		
Current tax expense	-	-
Net deferred tax expense	4,094	3,414
(Over) / Under provision from prior year	30	57
	4,124	3,471

Notes to the financial statements
For the financial year ended 30 June 2019

Note 4: Income taxes (continued)

	2019 \$'000	2018 \$'000
(b) Reconciliation of income tax expense to prima facie tax payable		
Accounting profit before tax	12,247	11,165
Tax at the Australian Corporate tax rate of 30%	3,674	3,350
Non-deductible expenses	73	121
(Over) / Under provision from prior year	377	-
Total tax expense / (benefit)	4,124	3,471
(c) Income tax recognised in other comprehensive income	(123)	66

(d) Deferred tax assets and liabilities

2019 composition and movement schedule	Opening Balance \$'000	Charged to Income \$'000	Charged to Equity \$'000	Acquisitions/ Disposals \$'000	Closing Balance \$'000
Gross deferred tax liabilities:					
Inventories	(4,305)	452	-	-	(3,853)
Intangibles	(1,471)	(159)	-	-	(1,630)
Property, plant and equipment	(7,252)	(10)	-	-	(7,262)
Other	(25)	(1)	-	-	(26)
	(13,053)	282	-	-	(12,771)
Gross deferred tax assets:					
Inventories	694	1,237	-	-	1,931
Trade and other payables	1,343	(104)	-	-	1,239
Provisions	2,237	(57)	-	-	2,180
Tax losses	41,674	(5,368)	-	-	36,306
Other	702	(84)	(123)	-	495
	46,650	(4,376)	(123)	-	42,151
Net deferred tax asset	33,597	(4,094)	(123)	-	29,380

2018 composition and movement schedule	Opening Balance \$'000	Charged to Income \$'000	Charged to Equity \$'000	Acquisitions/ Disposals \$'000	Closing Balance \$'000
Gross deferred tax liabilities:					
Inventories	(5,538)	1,233	-	-	(4,305)
Intangibles	(1,552)	81	-	-	(1,471)
Property, plant and equipment	(7,269)	17	-	-	(7,252)
Other	(29)	4	-	-	(25)
	(14,388)	1,335	-	-	(13,053)
Gross deferred tax assets:					
Inventories	1,243	(549)	-	-	694
Trade and other payables	1,146	197	-	-	1,343
Provisions	2,428	(191)	-	-	2,237
Tax losses	46,009	(4,335)	-	-	41,674
Other	507	129	66	-	702
	51,333	(4,749)	66	-	46,650
Net deferred tax asset	36,945	(3,414)	66	-	33,597

There are no unrecognised revenue tax losses relating to the Group. The Group has not recognised \$1,666,402 (2018: \$1,666,402) of capital losses.

Notes to the financial statements

For the financial year ended 30 June 2019

Note 5: Earnings per share

Accounting policy – earnings per share

Basic earnings per share is determined by dividing net profit attributable to equity holders of the Group, by the weighted average number of ordinary shares outstanding during the year. Diluted earnings per share uses an adjusted weighted average number of ordinary shares in the same calculation, which assumes the conversion of all dilutive potential ordinary shares.

	2019	2018
Weighted average number of ordinary shares ('000) used in calculating basic earnings per share	279,670	277,011
Weighted average number of ordinary shares ('000) used in calculating diluted earnings per share	289,982	281,675
	2019	2018
	\$'000	\$'000
Profit / (Loss) for the year	8,123	7,694
Basic earnings per share (cents per share)	2.9	2.8
Diluted earnings per share (cents per share)	2.8	2.7

Notes to the financial statements

For the financial year ended 30 June 2019

Note 6: Notes to the cash flow statement

Accounting policy – cash and cash equivalents

Cash comprises cash on hand, term deposits and deposits held on demand with financial institutions. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and have an original maturity of less than 3 months. Bank overdrafts are presented as current liabilities on the balance sheet.

(a) Reconciliation of profit / (loss) for the period to net cash flows from operating activities

	2019 \$'000	2018 \$'000
Profit from ordinary activities after income tax	8,123	7,694
Depreciation and amortisation of non-current assets	7,914	7,496
Loss / (Gain) on sale of non-current assets	(34)	92
Share based payments	151	280
Net cash provided by operating activities before net changes in assets and liabilities	16,154	15,562
<i>Changes in assets and liabilities, net of effects from acquisition and disposal of businesses</i>		
(Increase) / decrease in trade and other receivables	225	(5,329)
(Increase) / decrease in inventories	1,432	2,553
(Increase) / decrease other assets	(2,036)	268
(Increase) / decrease deferred tax assets	4,217	4,956
Increase / (decrease) trade and other payables	3,830	9,055
Increase / (decrease) in provisions and other liabilities	319	(266)
Other	(548)	(132)
Net cash provided by operating activities	23,593	26,667

(b) Net debt reconciliation

Cash and cash equivalents	8,057	7,712
Borrowings (current)	(470)	(503)
Borrowings (non-current)	(79,965)	(84,435)
Net debt	(72,378)	(77,226)

(c) Reconciliation of movements in liabilities from financing activities to cash flows from financing activities

	Liabilities from financing activities				Total \$'000
	Finance leases due within 1 year \$'000	Finance leases due after 1 year \$'000	Borrowings due within 1 year \$'000	Borrowings due after 1 year \$'000	
Balances at 30 June 2017	(551)	(4,880)	-	(80,000)	(85,431)
Cash flows	551	-	-	-	551
Non-cash movements	(503)	445	-	-	(58)
Balances at 30 June 2018	(503)	(4,435)	-	(80,000)	(84,938)
Cash flows	503	-	-	4,000	4,503
Non-cash movements	(470)	470	-	-	-
Balances at 30 June 2019	(470)	(3,965)	-	(76,000)	(80,435)

Non-cash movements include interest payments which are presented as operating cash flows in the statement of cash flows.

Notes to the financial statements

For the financial year ended 30 June 2019

Note 7: Trade and other receivables

Accounting policy – trade and other receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. The average credit period granted to customers for trade receivables is 60 days (2018: 57 days) and therefore are all classified as current. Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. Details about the Group's impairment policies and the calculation of the loss allowance are provided in note 25.

	2019	2018
	\$'000	\$'000
Trade receivables	44,638	44,579
Loss allowance	(144)	(7)
	44,494	44,572
Prepayments	4,056	2,020
Other receivables	807	954
	49,357	47,546

Note 8: Inventories

Accounting policy – inventories

Inventories are valued at the lower of cost and net realisable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventory on hand by the method most appropriate to each class of inventory, with the majority being valued on a first in first out basis. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and estimated costs necessary to make the sale.

Accounting policy – produce extracted from vines

Produce harvested from vines owned by the Group are measured as revenue at fair value less estimated costs to sell at the point of harvest (including production costs). A gain or loss arising from a change in fair values less estimated costs to sell is included in profit or loss in the period in which the gain/loss arises. The agricultural produce is recorded within inventories and is converted to wine products.

Inventory is assessed for obsolescence on an ongoing basis and adjusted to net realisable value as required. The assessment considers the quality, age and saleability of the inventory on hand.

	2019	2018
	\$'000	\$'000
Current		
Bulk wine	101,224	93,990
Bottled wine	42,827	36,150
Work in progress	7,363	6,153
Consumables and raw materials	4,932	3,589
	156,346	139,882
Non-current		
Bulk wine	31,780	50,261
Bottled wine	2,254	1,903
Consumables and raw materials	234	-
	34,268	52,164

The cost of inventory recognised as an expense (or cost of sales) during the year in respect of continuing operations was \$184 million (2018: \$173 million).

Notes to the financial statements

For the financial year ended 30 June 2019

Note 9: Property, plant and equipment

Accounting policy – property, plant and equipment

Property, plant and equipment are shown at historical cost, less accumulated depreciation and impairment losses. Cost includes expenditure that is directly related to the acquisition of the asset and bringing it to its condition of use.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any replaced part is derecognised. All repairs and maintenance charges are expensed in profit and loss in the period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight line and diminishing value methods using the following useful lives for each asset class:

- Buildings 50 years
- Vineyard improvements 15-20 years
- Plant and equipment 5-33 years
- Plant and equipment under lease 5-15 years
- Vines 30 years

The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis. Depreciation related to wineries, production and some vineyards is capitalised into inventory.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease. The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit and loss.

As at 30 June 2019 (\$'000)

	<i>Freehold land</i>	<i>Vineyard improvements</i>	<i>Vines</i>	<i>Plant and equipment</i>	<i>Leased plant and equipment</i>	<i>Buildings</i>	<i>Work in progress</i>	<i>Total</i>
At cost	12,876	16,279	29,704	124,296	6,340	21,782	7,888	219,165
Accumulated depreciation	-	(10,460)	(20,719)	(63,145)	(710)	(6,649)	-	(101,683)
Net book value	12,876	5,819	8,985	61,151	5,630	15,133	7,888	117,482

Reconciliations

Carrying amount at 1 July 2018	12,868	5,082	9,590	51,178	5,854	14,095	10,428	109,095
Additions	-	132	-	4,942	-	461	10,642	16,177
Disposals	-	-	-	(44)	-	-	-	(44)
Transfers	8	1,360	223	10,515	-	1,076	(13,183)	-
Depreciation	-	(755)	(828)	(5,439)	(224)	(499)	-	(7,745)

Carrying amount at 30 June 2019

	12,876	5,819	8,985	61,152	5,630	15,133	7,888	117,482
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As at 30 June 2018 (\$'000)

	<i>Freehold land</i>	<i>Vineyard improvements</i>	<i>Vines</i>	<i>Plant and equipment</i>	<i>Leased plant and equipment</i>	<i>Buildings</i>	<i>Work in progress</i>	<i>Total</i>
At cost	12,868	14,786	29,481	113,400	6,340	19,632	10,428	206,935
Accumulated depreciation	-	(9,704)	(19,891)	(62,222)	(486)	(5,537)	-	(97,840)
Net book value	12,868	5,082	9,590	51,178	5,854	14,095	10,428	109,095

Reconciliations

Carrying amount at 1 July 2017	12,868	5,508	10,644	47,870	6,078	13,813	527	97,308
Additions	-	225	-	8,922	-	189	10,046	19,382
Disposals	-	-	(141)	(266)	-	-	-	(407)
Transfers	-	69	-	(467)	-	543	(145)	-
Depreciation	-	(720)	(913)	(4,881)	(224)	(450)	-	(7,188)

Carrying amount at 30 June 2018

	12,868	5,082	9,590	51,178	5,854	14,095	10,428	109,095
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Notes to the financial statements

For the financial year ended 30 June 2019

Note 10: Intangible assets

Accounting policy – goodwill and business combinations

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date fair value of the identifiable assets acquired and the liabilities assumed.

Goodwill is not amortised but is tested for impairment annually or more frequently if impairment indicators are identified. On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Accounting policy – water licenses

Water allocations with permanent rights are measured at cost on the date of acquisition. Water licences have an indefinite useful life and are not subject to amortisation. Water allocations with permanent rights are assessed for impairment in each reporting period, with reference to current market prices. Water allocations with temporary rights are expensed in the year of purchase.

Accounting policy – brand names

Brand names are assessed to have an indefinite useful life and are not amortised. Each period, the useful life of this type of asset is reviewed to determine whether events and circumstances continue to support an indefinite useful life assessment for the asset. Such assets are tested for impairment at least annually or more frequently if impairment indicators are identified.

Accounting policy – software

Costs incurred in acquiring software that will contribute to future period financial benefits through revenue generation and/or cost reduction is capitalised as intangible assets. Costs capitalised include external direct costs of materials and service and direct payroll related costs of employees' time spent on the project. Amortisation is calculated on a straight-line basis for the estimated useful life of the software, which for current software assets held is 10 years. IT development costs include only those costs directly attributable to the development phase and are only recognised following completion of technical feasibility and where the Group has an intention and ability to use the asset.

As at 30 June 2019 (\$'000)

	<i>Goodwill</i>	<i>Water licenses</i>	<i>Brand names</i>	<i>Software</i>	<i>Total</i>
At cost	44,085	7,554	4,828	3,993	60,460
Accumulated impairment losses	(6,400)	-	-	-	(6,400)
Accumulated amortisation	-	-	-	(3,811)	(3,811)
Net book value	37,685	7,554	4,828	182	50,249
Reconciliations					
Carrying amount at 1 July 2018	37,685	7,554	4,828	351	50,418
Additions	-	-	-	-	-
Disposals	-	-	-	-	-
Transfers	-	-	-	-	-
Amortisation	-	-	-	(169)	(169)
Carrying amount at 30 June 2019	37,685	7,554	4,828	182	50,249

As at 30 June 2018 (\$'000)

	<i>Goodwill</i>	<i>Water licenses</i>	<i>Brand names</i>	<i>Software</i>	<i>Total</i>
At cost	44,085	7,554	4,828	3,993	60,460
Accumulated impairment losses	(6,400)	-	-	-	(6,400)
Accumulated amortisation	-	-	-	(3,642)	(3,642)
Net book value	37,685	7,554	4,828	351	50,418
Reconciliations					
Carrying amount at 1 July 2017	37,685	7,554	4,828	468	50,535
Additions	-	-	-	191	191
Disposals	-	-	-	-	-
Transfers	-	-	-	-	-
Amortisation	-	-	-	(308)	(308)
Carrying amount at 30 June 2018	37,685	7,554	4,828	351	50,418

Notes to the financial statements

For the financial year ended 30 June 2019

Note 11: Impairment testing

Accounting policy - impairment testing

Goodwill and brand name assets are tested annually for impairment. Other assets are tested for impairment when there are triggers present that indicate the carrying value of the assets may not be recoverable. The Group's Goodwill is allocated in full to the bulk wine and processing CGU and the brand name asset is allocated in full to the Nepenthe brand name CGU.

The Group tests for impairment by determining the recoverable amount of each cash generating unit ('CGU') and compares this to its carrying value. The recoverable amount of each CGU is determined based on value-in-use calculations. These calculations use profit and loss forecasts from the Group's board approved 5-year plan for a period of 5 years and a terminal value applied to the cashflows. An impairment charge is recorded if the recoverable amount of a CGU is less than the carrying value of the assets of any CGU.

Significant accounting estimates and judgements – key assumptions used for value-in-use calculations

The following assumptions are significant to the value-in-use calculations. These assumptions are continually evaluated by management based on historical and other factors to ensure they remain up to date and appropriate.

	Terminal growth rate		Discount rate ⁽¹⁾	
	2019 %	2018 %	2019 %	2018 %
Nepenthe brand name CGU	2.5	2.5	14.3	17.0
All other CGUs	2.5	2.5	11.6	12.0

(1) Pre-tax weighted average cost of capital

Sensitivity analysis on key assumptions

Management has performed sensitivity analysis over the key assumptions listed above and has not identified any reasonably possible changes in them, which would cause the Group's assets to be impaired.

Due to the Group being an integrated wine producer, there are internal revenues used in the value-in-use models where certain CGUs provide services to other business units of the Group. The most significant relates to the Simeon bulk wine processing CGU, which manufactures the wine for the AVL Group. The internal revenues of the Simeon CGU are recorded as costs in the impairment models of the other Group CGUs that use these services. Management has benchmarked the internal processing rates used to market rates, to ensure they are accurate and appropriate. Sensitivity has been performed and the processing rates can be reduced by 25% with there still being material headroom in the model.

Note 12: Trade and other payables

Accounting policy – trade and other payables

Trade payables represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are paid in the average credit period of 45 days (2018: 40 days) granted by suppliers. Other payables to the Group represent accruals, volume and marketing rebates payable to customers and consumption tax payable to the relevant tax authorities. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

	2019 \$'000	2018 \$'000
Trade payables	41,417	37,542
Other payables	17,936	17,981
	59,353	55,523

Notes to the financial statements

For the financial year ended 30 June 2019

Note 13: Provisions

Accounting policy - provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation. Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

Short term employee benefit obligations include liabilities for salaries, wages and annual leave and are expected to be settled within the next 12 months. Short term employee benefit provisions also include long service leave amounts for those employees who have reached their legal present entitlement. They are measured at the amount expected to be paid to settle the liability.

Long term employee benefit obligations consist of probability estimates of long service leave amounts, for employees who have not yet reached their legal present entitlement.

Onerous contracts provisions are recognised when the Group has a contract for which the expected benefits to the Group are less than the unavoidable cost of meeting the Group's obligations under the contract.

	2019	2018
	\$'000	\$'000
Current		
Employee benefits	5,707	5,356
Onerous contracts	226	183
	5,933	5,539
Non-current		
Employee benefits	720	587
Onerous contracts	-	208
	720	795

Note 14: Borrowings and leases

Accounting policy - borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

Accounting policy - leases

Leases of property, plant and equipment where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in current and non-current Borrowings. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the profit or loss over the lease period to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

	2019	2018
	\$'000	\$'000
Current		
Lease liability	470	503
	470	503
Non-current		
Lease liability	3,965	4,435
Bank loan - commercial bills	76,000	80,000
	79,965	84,435

Notes to the financial statements

For the financial year ended 30 June 2019

Note 14: Borrowings and leases (continued)

Undrawn facilities available to the Group

Details of undrawn debt facilities with National Australia Bank are listed in Financial Risk Management, note 25.

Compliance with loan covenants

The Group has complied with the financial covenants of its borrowing facilities during the 2019 and 2018 reporting periods.

Assets pledged as security

100% of the Group's inventory, trade receivables and property, plant and equipment (2018: 100%) have been pledged as security to National Australia Bank under the Facilities Agreement in relation to the bank loans noted above.

Interest rates

The commercial bills are subject to a variable interest rate. The current weighted average interest rate on the bills is 3.32% (2018: 4.21%).

Finance lease commitments

The following sets out the commitments to future lease payments relating to finance leases, which are recognised as liabilities:

Within one year	705	763
Later than one year but not later than five years	2,820	2,820
Later than five years	1,802	2,507
<i>Minimum lease payments</i>	<u>5,327</u>	<u>6,090</u>
Future interest charge	(892)	(1,152)
	<u>4,435</u>	<u>4,938</u>

Operating lease commitments

The following sets out the commitments to future lease payments relating to operating leases, which are not recognised as liabilities:

Minimum lease payments		
- not longer than 1 year	9,489	6,512
- longer than 1 year and not longer than 5 years	29,261	13,168
- longer than 5 years	38,776	50
	<u>77,526</u>	<u>19,730</u>

Capital expenditure commitments

The Group is contractually committed to the following future capital expenditure at balance date, for which no liability is recognised.

Property, Plant and Equipment – no longer than 1 year	2,504	2,049
	<u>2,504</u>	<u>2,049</u>

Notes to the financial statements

For the financial year ended 30 June 2019

Note 15: Other financial assets and liabilities

	2019 \$'000	2018 \$'000
Current assets		
Derivative financial instruments – foreign currency forward contracts	57	-
	57	-
Non-current assets		
Investments	178	178
Prepaid borrowing costs	35	184
Derivative financial instruments – foreign currency forward contracts	603	-
	816	362
Current liabilities		
Derivative financial instruments – interest rate swaps	331	7
Derivative financial instruments – foreign currency forward contracts	-	470
	331	477
Non-current liabilities		
Derivative financial instruments – interest rate swaps	321	-
Derivative financial instruments – foreign currency forward contracts	-	15
	321	15

The derivative financial instruments above relate to the Group's hedge accounting arrangements. Additional information on the Group's risk management and hedge accounting policies are detailed in Note 25.

Note 16: Share capital

Accounting policy – share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

	2019		2018	
	\$'000	Number	\$'000	Number
Fully paid ordinary share capital				
Beginning of financial year	463,961	277,838,771	463,009	275,568,321
Dividend reinvestment plan	1,543	2,869,300	984	2,270,450
Share issue costs	(21)	-	(46)	-
Tax consequences of share issue costs	7	-	14	-
End of financial year	465,490	280,708,071	463,961	277,838,771

All shares have equal rights to voting and dividends. The Group's shares have no par value.

Notes to the financial statements

For the financial year ended 30 June 2019

Note 17: Dividends

	2019		2018	
	Cents per share	Total \$'000	Cents per share	Total \$'000
2018 final dividend (2018: 2017 final dividend) – 100% franked at a tax rate of 30%	1.5	4,168	1.0	2,756
		4,168	1.0	2,756
Adjusted franking account balance		4,458		6,244

In respect of the financial year ended 30 June 2019, a 100% franked dividend (at a tax rate of 30%) of 2.0 cents per share will be paid on 8th November 2019.

Note 18: Reserves

	2019 \$'000	2018 \$'000
Employee equity-settled benefits (i)	2,129	1,978
Hedging reserve (ii)	23	(208)
Foreign currency translation reserve (iii)	291	219
	2,443	1,989

Nature and purpose of reserves

- (i) The employee equity-settled benefits reserve arises on the granting of shares, performance rights and share options to directors and employees. The fair value of share based payments provided to directors and employees of the Group are recorded within the reserve account and amounts are released into issued capital as options are exercised. Further details on share based payments are made in Note 20.
- (ii) The hedging reserve represents hedging gains and losses recognised on the effective portion of cash flow hedges. The cumulative deferred gain or loss on the hedge is recognised in the profit and loss when the hedge transaction impacts the profit or loss.
- (i) The foreign currency translation reserve contains exchange differences relating to the translation from the functional currencies of the Group's foreign controlled entities into Australian dollars.

Note 19: Key management personnel compensation

The aggregate compensation of the key management personnel of the Group and the company is set out below:

	2019 \$	2018 \$
Short-term employee benefits	3,068,680	2,962,020
Post-employment benefits	129,676	261,077
Share based payments	109,482	208,044
Termination benefits	-	-
	3,307,838	3,431,141

Notes to the financial statements

For the financial year ended 30 June 2019

Note 20: Executive performance rights and share option plan

The following share based payments arrangements were in existence during the current and prior reporting periods.

From the 1st July 2018 – Deferred Equity Incentive

At the beginning of each financial year the board will determine the maximum number of Performance Rights that each executive will be entitled to as Deferred Equity. If the target ROCE is achieved for that financial year then those Performance Rights will be converted to AVG. These shares will be escrowed for a period of 3 years. There were 1,651,336 rights issued in the current year under this plan to employees (2018: n/a) and all of these options were cancelled during the year as the target ROCE was not reached.

Prior to 30th June 2018 - Performance Rights and Option Plan

Established in August 2012 and ceased in June 18, this long-term incentive provided either a right to an issue of shares or an option to purchase shares. These rights and options are subject to the achievement of set growth rates in earnings per share over a 4-year period up until the vesting date and continuous employment which are assessed annually. The plan was available to senior management as approved by the board. There were no options issued in the current year under this plan to employees as the plan ceased (2018: 4,100,000). These rights and options were priced using a binomial option pricing model.

The table below summarises all rights and options on issue:

	2019 Number	2018 Number
Balance at the beginning of the financial year (i)	11,193,000	8,802,912
Granted during the financial year (ii)	1,651,336	4,100,000
Exercised during the financial year	-	-
Lapsed/cancelled during the financial year (iii)	(3,181,336)	(1,709,912)
Balance at the end of the financial year (iv)	9,663,000	11,193,000

(i) Balance at the Beginning of the Financial Year

	No.	Vested No.	Unvested No.	Grant Date	Vesting Date	Expiry Date	Exercise Price \$
2019							
Options issued 17 November 15	2,000,000	-	2,000,000	17/11/15	31/08/18	01/11/20	0.376
Options issued 4 December 15	1,825,000	-	1,825,000	04/12/15	31/08/18	01/11/20	0.376
Options issued 23 November 16	2,000,000	-	2,000,000	23/11/16	31/08/19	01/11/21	0.528
Options issued 19 December 16	1,568,000	-	1,568,000	19/12/16	31/08/19	01/11/21	0.528
Options issued 20 November 17	1,300,000	-	1,300,000	20/11/17	31/08/20	01/11/22	0.4387
Options issued 20 December 17	2,500,000	-	2,500,000	20/12/17	31/08/20	01/11/22	0.4387
	11,193,000	-	11,193,000				

(ii) Granted during the Financial Year

	No.	Vested No.	Unvested No.	Grant Date	Vesting Date	Expiry Date	Exercise Price \$
2019							
Rights issued 7 January 19	1,651,336	-	1,651,336	07/01/19	30/06/19	31/10/19	Nil
	1,651,336	-	1,651,336				

The weighted average fair value of the rights granted during the financial year is \$0.465 (2018 issued options: \$0.099). Rights issued during the year were priced using a binomial option pricing model.

	No.	Grant date share price	Exercise Price	Expected Volatility	Option Life (days)	Dividend Yield	Risk-free interest rate
Rights grant date							
Rights issued 7 January 19	1,651,336	0.47	Nil	31.3%	174	2.20%	1.50%

Notes to the financial statements
For the financial year ended 30 June 2019

Note 20: Executive performance rights and share option plan (continued)

(iii) Lapsed/cancelled during the Financial Year

2019	No.	Vested No.	Unvested No.	Grant Date	Vesting Date	Expiry Date	Exercise Price \$
Options issued 17 November 15	800,000	-	800,000	17/11/15	31/08/18	01/11/20	0.376
Options issued 4 December 15	730,000	-	730,000	04/12/15	31/08/18	01/11/20	0.376
Rights issued 7 January 19	1,651,336	-	1,651,336	07/01/19	30/06/19	31/10/19	Nil
	<u>3,181,336</u>	<u>-</u>	<u>3,181,336</u>				

(iv) Balance at End of Financial Year

2019	No.	Vested No.	Unvested No.	Grant Date	Vesting Date	Expiry Date	Exercise Price \$
Options issued 17 November 15	1,200,000	800,000	400,000	17/11/15	31/08/18	01/11/20	0.376
Options issued 4 December 15	1,095,000	730,000	365,000	04/12/15	31/08/18	01/11/20	0.376
Options issued 23 November 16	2,000,000	-	2,000,000	23/11/16	31/08/19	01/11/21	0.528
Options issued 19 December 16	1,568,000	-	1,568,000	19/12/16	31/08/19	01/11/21	0.528
Options issued 20 November 17	1,300,000	-	1,300,000	20/11/17	31/08/20	01/11/22	0.4387
Options issued 20 December 17	2,500,000	-	2,500,000	20/12/17	31/08/20	01/11/22	0.4387
	<u>9,663,000</u>	<u>1,530,000</u>	<u>8,133,000</u>				

Note 21: Remuneration of auditors

	2019 \$	2018 \$
Auditor of the parent company		
Audit or review of financial report	408,600	393,800
Other services – other audit services	61,901	36,015
Other services – taxation compliance	59,451	35,910
	<u>529,952</u>	<u>465,725</u>

The auditor of Australian Vintage Ltd is Deloitte Touche Tohmatsu.

Note 22: Contingent liabilities

	2019 \$'000	2018 \$'000
Bank guarantees	1,446	1,472

Notes to the financial statements
For the financial year ended 30 June 2019

Note 23: Subsidiaries

Name of entity	Country of Incorporation	Ownership of Interest	
		2019 %	2018 %
Parent Entity			
Australian Vintage Ltd	Australia		
Controlled Entity			
Simeon Wines Pty Ltd (1)	Australia	100	100
Vintners Australia Pty Limited (1)	Australia	100	100
Barossa Valley Wine Company Pty Limited (1)	Australia	100	100
Coldridge Development Pty Limited (1)	Australia	100	100
McGuigan Simeon Wines Pty Ltd (1)	Australia	100	100
Mourquong Pty Limited (1)	Australia	100	100
Buronga Hill Pty Limited (1)	Australia	100	100
Austvin Pty Ltd (1)	Australia	100	100
Australian Flavours Pty Limited (1)	Australia	100	100
Austvin Holdings Pty Limited (1)	Australia	100	100
Australian Vintage (Domestic) Pty Ltd (1)	Australia	100	100
Miranda Wines Pty Limited (1)	Australia	100	100
Miranda Wines (Leasing) Pty Limited (1)	Australia	100	100
Miranda Family Investments Pty Limited (1)	Australia	100	100
Miranda Wines Holdings Pty Ltd (1)	Australia	100	100
Australian Vintage (Europe) Limited	United Kingdom	100	100
MGW Executive Options Pty Limited (1)	Australia	100	100

(1) These wholly owned controlled entities have entered into a deed of cross guarantee with Australian Vintage Ltd pursuant to ASIC Corporations (wholly owned companies) Instrument 2016/785 and are relieved from the requirement to prepare and lodge an audited financial report.

As a condition of this Instrument, Australian Vintage Ltd has guaranteed to pay any deficiency in the event of winding up of any of its controlled entities. The controlled entities have also given a similar guarantee in the event Australian Vintage Ltd is wound up.

These wholly owned controlled entities all form part of the tax consolidated group. Australian Vintage Ltd is the head entity within the tax consolidated group.

Set out below is a condensed consolidated statement of financial position for the Closed Group.

	2019 \$'000	2018 \$'000
Current Assets	213,768	195,072
Non-Current Assets	232,195	245,636
Total Assets	445,963	440,708
Current Liabilities	66,166	62,611
Non-Current Liabilities	81,006	85,245
Total Liabilities	147,172	147,856
Net Assets	298,791	292,852
Equity	298,791	292,852

The profit and loss of the Closed Group is the same as the Group, as presented in the primary Consolidated statement of profit or loss and other comprehensive income.

Notes to the financial statements

For the financial year ended 30 June 2019

Note 24: Related party transactions

Balances and transactions between the Group and its subsidiaries, which are related parties of the Group are eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

Equity interests in related parties

Details of the percentage of ordinary shares held in controlled entities are disclosed in note 23 to the financial statements.

Key management personnel remuneration

Details of key management personnel compensation are disclosed in note 19 to the financial statements.

Other transactions with related parties

- (i) During the year the Group entered into the following transactions with Woodhubs Pty Ltd and HVV Management Pty Ltd (entities associated with Neil McGuigan):
 - (a) The Group charged rent to the value of \$9,063 (2018: \$8,877) on normal commercial terms.
 - (b) In the prior year, the Group sold concentrate to the value of \$3,212 (2018: \$1,565) on normal commercial terms.
- (ii) During the year the Group sold packaged wine to Vintage China (entity associated with Jiang Yuan) to the value of \$670,942 (2018: \$926,969) on normal commercial terms.

Notes to the financial statements

For the financial year ended 30 June 2019

Note 25: Financial risk management

This note explains the Group's exposure to financial risks and how these risks could affect the Group's future financial performance. Current year profit and loss information has been included where relevant to add further context.

The Group is exposed to certain financial risks including market risk (foreign exchange rates, interest rates), credit risk and liquidity risk. The Group's risk management policies seek to minimise exposure to these risks, where they are material to the Group's operations.

The Group finance team assesses the risk in these areas and evaluates the potential option to minimise the potential impact on the Group. Examples of these risks and management's responses to them are detailed within this note and include entering into derivative financial instrument contracts to offset exposure to foreign currency risk and to variable interest rate risk. The Group does not enter into derivative financial instrument contracts for the purpose of speculating and generally due to this, hedge accounting is able to be applied on such arrangements.

The Board is responsible for approving the Group's risk management policies and the responses to the identified financial risks. See the sections that follow for more detailed information on each area of financial risk.

(a) Financial instruments

As this is the first year the Group has adopted AASB 9, the policies below have been updated to reflect this. There have been no significant changes of the classification of any assets or liabilities on the transition to AASB 9.

Accounting policy – financial instruments

Financial assets at amortised cost

Financial assets at amortised cost are those items that are held with the objective of collecting contractual cash flows. These mainly comprise trade receivables, which consist of principal payments contracted to fall on specified dates per the relevant contract. Refer to the accounting policies for the specific asset classes within this category for further details.

Derivative financial instruments

The Group enters into foreign exchange forward contracts and interest rate swaps in line with the Group's risk management policies in relation to market risk, which are detailed within the sections that follow. Derivatives are initially recognised at fair value when they are entered into and revalued to fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event, the timing of the recognition in profit or loss depends on the nature of the hedge relationship. Supply contracts entered by the Group which contain embedded derivatives, which meet the requirements of the 'own-use' exemption under AASB 9 are accordingly not treated as derivatives and expensed to profit and loss as the relevant goods or services are supplied to the Group.

Liabilities at amortised cost

Liabilities at amortised cost consist of trade and other payables and the Group's borrowings. There have been no changes in the classification of financial liabilities from AASB 139 to AASB 9. Refer to the accounting policies for the specific asset classes within this category for further details.

Accounting policy – hedge accounting

Hedge accounting is applied to all the Group's derivative financial instruments provided the requirements of AASB 9 are met. As the Group only enters into derivative contracts for hedging purposes, at any given time all derivatives should meet this requirement. The Group has cashflow hedges in relation to the highly probable forecast variable interest payments on its bank loans and highly probable forecast sales and expenses that are denominated in a foreign currency. Hedging relationships are formally documented at their inception.

The table below summarises the financial assets and liabilities held by the Group at balance date.

Financial assets	2019	2018
<i>Classifications under AASB 9 (2018: AASB 139)</i>	\$'000	\$'000
Financial assets at amortised cost		
Trade and other receivables	45,301	45,526
Cash and cash equivalents	8,057	7,712
Derivative financial instruments		
Used for hedging	660	-
Financial assets at fair value through profit and loss ('FVTPL')	178	-
<i>Classifications under AASB 139</i>		
Available for sale	-	178
Total	54,196	53,416

Notes to the financial statements

For the financial year ended 30 June 2019

Note 25: Financial risk management (continued)

	2019 \$'000	2018 \$'000
Financial liabilities		
<i>Classifications under AASB 9</i>		
Liabilities at amortised cost		
Trade and other payables	59,353	55,523
Borrowings	80,435	84,938
Derivative financial instruments		
Used for hedging	652	492
<i>Classifications under AASB 139</i>		
No changes in classifications on adoption of AASB 9		
Total	140,440	140,953

Fair value measurements

Most of the Group's financial assets and liabilities are measured at amortised cost. Derivative financial instruments are the only significant financial assets and liabilities that are measured at fair value. Details on the methods used to value the Group's derivative financial instruments are noted below.

Forward Exchange Contracts ('FECs')

FECs are measured using models which utilise inputs such as quoted foreign currency exchange rates, the date of maturity of each contract and foreign currency futures curves. Credit risk on these contracts is considered in the valuation and is generally not material. In the fair value hierarchy referred to in AASB 13, these are Level 2 valuations.

Interest rate swaps

Interest rate swaps are measured using models which utilise inputs such as quoted interest rates, the date of maturity of each contract and interest rate futures curves. Credit risk on these contracts is considered in the valuation and is generally not material in the fair value hierarchy referred to in AASB 13, these are Level 2 valuations.

(b) Market risk

(i) Foreign exchange risk

Description of risk

The Group's activities, including sales of wine products overseas denominated in foreign currencies exposes it to foreign exchange risk. The key currencies relevant to the Group's foreign exchange risk are the British Pound ('GBP'), Canadian Dollar ('CAD'), United States Dollars ('USD'), New Zealand Dollar ('NZD') and Euro ('EUR'). This risk is due to forecast transactions denominated in these currencies, which is different to the Group's functional and presentational currency of Australian Dollars ('AUD'), as well as assets and liabilities recognised on the balance sheet which are denominated in these foreign currencies.

Management of risk

The Group manages this risk by entering into Forward Exchange Contracts ('FECs') to fix the conversion of foreign denominated cashflows into AUD. This activity is governed by the Board approved Foreign Exchange Management Policy. The key details of this policy are as follows (applied to forecast net revenues and expenses of highly probable foreign denominated transactions):

- 25-75% of net exposure for the next 12 months
- 0-50% of net exposure for between 1 year and 2 years
- 0-25% of net exposure for between 3 years and 4 years

The Group's exposure to foreign currency risk at the end of the reporting period, expressed in AUD is as follows:

2019 (AUD \$'000)	USD	GBP	EUR	CAD	Total
Cash	62	5,550	29	188	5,829
Trade receivables	213	10,751	869	2,111	13,944
Trade payables	(760)	(8,250)	(20)	-	(9,030)
Foreign currency forwards (buy foreign currency – cash flow hedges)	-	816	104	(260)	660

Notes to the financial statements

For the financial year ended 30 June 2019

Note 25: Financial risk management (continued)

2018 (AUD \$'000)	USD	GBP	EUR	CAD	Total
Cash	9	3,688	976	14	4,687
Trade receivables	430	10,412	695	1,667	13,204
Trade payables	(647)	(5,832)	(1,717)	-	(8,196)
Foreign currency forwards (buy foreign currency – cash flow hedges)	-	(278)	(189)	(18)	(485)

Effects of hedge accounting on the financial position and performance

The effects of FEC's on the Group's financial position and performance are as follows:

	2019 (AUD \$'000 – unless stated otherwise)	2018 (AUD \$'000 – unless stated otherwise)
Carrying amount of asset / (liability)	660	(485)
Notional amount (GBP)	28,250	17,000
Notional amount (EUR)	8,670	3,410
Notional amount (CAD)	11,850	3,700
Maturity date	Jul '19 – May '22	Jul '18 – Dec '19
Hedge ratio	1:1	1:1
Change in fair value of outstanding hedging instruments since 1 July	1,145	(1,165)
Change in value of hedged item used to determine hedge effectiveness	(1,145)	1,165
Weighted average hedged rate for the year (GBP)	GBP 0.54: AUD 1	GBP 0.56: AUD 1
Weighted average hedged rate for the year (EUR)	EUR 0.60: AUD 1	EUR 0.65: AUD 1
Weighted average hedged rate for the year (CAD)	CAD 0.94: AUD 1	CAD 0.98: AUD 1

Sensitivity

Below is a sensitivity analysis on the Group's profit and cash flow hedge reserve in the case of a strengthening or weakening of the AUD against the significant foreign currencies the Group deals in.

2019 (AUD \$'000)	USD	GBP	EUR	CAD
<i>Impact on profit (pre-tax)</i>				
AUD strengthened by 10% against each referenced currency	44	(732)	(80)	(209)
AUD weakened by 10% against each referenced currency	(54)	895	98	255
<i>Impact on cash flow hedge reserve</i>				
AUD strengthened by 10% against each referenced currency	-	(5,136)	(1,412)	(1,292)
AUD weakened by 10% against each referenced currency	-	5,136	1,412	1,292
2018 (AUD \$'000)				
<i>Impact on profit (pre-tax)</i>				
AUD strengthened by 10% against each referenced currency	19	(752)	4	(153)
AUD weakened by 10% against each referenced currency	(23)	919	(5)	187
<i>Impact on cash flow hedge reserve</i>				
AUD strengthened by 10% against each referenced currency	-	(3,036)	(536)	(380)
AUD weakened by 10% against each referenced currency	-	3,036	536	380

(i) *Interest rate risk*

Description of risk

The Group's main interest rate risk arises from long-term borrowings with variable rates, which expose the Group to cash flow interest rate risk. Group policy is to maintain at least 50% of its borrowings at fixed rate using floating-to-fixed interest rate swaps to achieve this when necessary. Generally, the Group enters into long-term borrowings at floating rates and swaps them into fixed rates that are lower than those available if the Group borrowed at fixed rates directly.

Management of risk

Swaps currently in place cover approximately 66% (2018 – 75%) of the variable loan principal outstanding. The fixed interest rates of the swaps range between 2.04% and 2.08% (2018 – 1.89% and 2.29%). The swap contracts require settlement of net interest receivable or payable depending on the contractual terms of the agreement, which is generally between 30 and 90 days. The settlement dates coincide with the dates on which interest is payable on the underlying debt.

Notes to the financial statements

For the financial year ended 30 June 2019

Note 25: Financial risk management (continued)

Effects of hedge accounting on the financial position and performance

The effects of the interest rate swaps on the Group's financial position and performance are as follows:

	2019 (AUD \$'000)	2018 (AUD \$'000)
Carrying amount of asset (liability)	(652)	(7)
Notional amount	50,000	60,000
Maturity date	Jul '19 – Feb '22	Jul '18 – Dec '18
Hedge ratio	1:1	1:1
Change in fair value of outstanding hedging instruments since 1 July	(652)	215
Change in value of hedged item used to determine hedge effectiveness	652	(215)

Note: the swaps in place at 30 June 2018 matured and were replaced with the swaps detailed in the 2019 column. The cumulative change in value refers to the change in fair value of the swaps held at 30 June 2019 from their day 1 value of zero.

Sensitivity

Profit or loss of the Group would be impacted by changes in interest rates as it relates to the unhedged portion of the Group's borrowings, which attracts variable interest. If interest rates were 50 basis points higher/lower, profit would have decreased/increased by \$0.1m (2018: \$0.2m).

(c) Credit risk

Description of risk

The Group's is exposed to credit risk from the following sources: credit extended to customers by way of sale of goods on normal trading terms and counterparty credit risk with respect to financial institutions where the Group holds bank loans, cash deposits and derivative financial instruments.

Management of risk

Financial institutions: The Group only deals with financial institutions with an investment grade credit rating and any banking arrangements require approval from the Board. The Group's banker is National Australia Bank, which has a strong long-term credit rating of AA-

Trading: The Group has a significant number of customers from trading, which are spread across several country jurisdictions. Group management has a dedicated credit team who are responsible for performing credit worthiness reviews on every customer before credit is granted to them in line with the Group's credit policy. The Group only extends credit when such checks are performed, and the Group is satisfied any credit granted to the customer will be payable by that party. Where required by the policy, credit guarantee insurance may be taken out. Aging of debtor balances and assessments of recoverability of the Group's debtor book is reported to the Board on a monthly basis for their review.

Impairment of financial assets – trade receivables

The Group applies the AASB 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics.

The expected loss rates are based on grouping customers of a similar geography and business type and estimating a loss rate by analysing past write-offs from the previous 4 years including the current financial year. The impact of the aging of debtors is not considered to be key in the determination of expected credit loss rates. The basis for the Group's calculation is summarised below:

	Expected loss rate %	2019 Gross carrying amount (\$'000)	Provision (\$'000)
Domestic (no history of write offs)	0.00%	17,792	-
Domestic (other)	0.25%	5,220	(14)
Export (no history of write offs)	0.00%	8,000	-
Export (other)	0.89%	6,572	(58)
Bulk	1.34%	5,413	(72)
Other	0.00%	1,641	-
Total		44,638	(144)

The Group has not restated the 30 June 2018 comparatives for the change in methodology in calculating the provision. The table below reconciles the closing loss allowance to the opening balance at the start of the year:

Notes to the financial statements
For the financial year ended 30 June 2019

Note 25: Financial risk management (continued)

	2019 \$'000	2018 \$'000
Movement in the allowance of doubtful debts		
Balance at the beginning of the year (calculated under AASB 139)	(7)	(4)
Adjustment for recalculation of loss allowance on adopting AASB 9	(154)	-
Impairment recognised on receivables	-	(173)
Amounts written off as not collectable	17	170
Balance at the end of the year	(144)	(7)

(d) Liquidity risk

Ultimate responsibility for liquidity risk management rests with the board of directors who have built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements.

The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Included below is a listing of additional undrawn facilities that the Group has at its disposal to further reduce liquidity risk.

	2019 \$'000	2018 \$'000
Total facilities		
Bank overdrafts	5,000	5,000
Bank facilities	102,935	113,438
	107,935	118,438
Used at 30 June		
Bank overdrafts	-	-
Bank facilities	82,162	86,657
	82,162	86,657
Unused at 30 June		
Bank overdrafts	5,000	5,000
Bank facilities	20,773	26,781
	25,773	31,781

The following table details the Group's financial liabilities that will be settled on a gross basis and their maturities. The amounts disclosed below are undiscounted contractual cashflows. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest rates or foreign exchange rates, as is relevant. Contractual obligations that are settled on a net-basis are presented as net cashflows. The bank facilities above are inclusive of the bank guarantee that is disclosed in note 22.

2019 (\$'000)	< 1 month	1-3 months	3-12 months	1-5 years	5 years +	Total	Carrying amount of (asset) / liability
Non-derivatives							
Trade and other payables	29,676	29,677	-	-	-	59,353	59,353
Bank facilities	165	329	1,482	78,860	-	80,836	76,000
Lease liabilities	59	118	529	4,621	-	5,327	4,435
Total non-derivatives	29,900	30,124	2,011	83,481	-	145,516	139,788
Derivatives							
Forward exchange contracts	24	25	(114)	(595)	-	(660)	(660)
Interest rate swaps	11	82	247	228	-	568	652
Total Derivatives	35	107	133	(367)	-	(92)	(8)

Notes to the financial statements
For the financial year ended 30 June 2019

Note 25: Financial risk management (continued)

2018 (\$'000)	< 1 month	1-3 months	3-12 months	1-5 years	5 years +	Total	Carrying amount of (asset) / liability
Non-derivatives							
Trade and other payables	23,092	32,431	-	-	-	55,523	55,523
Bank facilities	234	245	599	80,231	-	81,309	80,000
Lease liabilities	59	118	528	2,877	2,507	6,089	4,938
Total non-derivatives	23,385	32,794	1,127	83,108	2,507	142,921	140,461
Derivatives							
Forward exchange contracts	82	59	329	15	-	485	485
Interest rate swaps	4	2	1	-	-	7	7
Total Derivatives	86	61	330	15	-	492	492

Note 26: Events after the reporting period

On 29 July 2019 it was announced Neil McGuigan will resign as CEO, effective 20th November 2019. Craig Garvin will commence as CEO on the 21st November 2019. Further information on this announcement can be accessed at: <https://www.asx.com.au/asxpdf/20190729/pdf/446vyhzw1sy426.pdf>
In addition, refer to note 17 for details of the final dividend recommend by the directors, which occurred after balance date.

There have been no other matters or circumstances, other than that referred to in the financial statements or notes thereto, that have arisen since the end of the financial year, that have significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

Note 27: Parent entity

The ultimate parent company of the Group is Australian Vintage Ltd. The below tables detail the financial position at balance date, the profit and loss for the 2019 financial year and other information regarding the parent entity.

Financial Position

	2019 \$'000	2018 \$'000
Assets		
Current assets	210,445	195,797
Non-current assets	255,525	260,293
Total assets	465,970	456,090
Liabilities		
Current liabilities	61,879	58,089
Non-current liabilities	143,392	161,712
Total liabilities	205,271	219,801
Net Assets	260,699	236,289
Equity		
Issued Capital	465,490	463,961
Accumulated Losses	(229,365)	(229,365)
Profit reserve	22,498	-
Equity settled employee benefits	2,130	1,978
Hedging	23	(208)
Foreign currency translation	(77)	(77)
Total equity	260,699	236,289

Profit and loss

	Year ended 30 June 2019 \$'000	Year ended 30 June 2018 \$'000
Profit / (Loss) for the year	22,498	(2,535)
Other comprehensive income/(Loss)	231	(254)
Total comprehensive income	22,729	(2,789)

The contingent liabilities and capital commitments of the parent entity are the same as those of the Group, which are detailed in note 22 and note 9, respectively. The parent entity has entered into a deed of cross guarantee with subsidiaries as indicated in note 23.