AUSTRALIAN VINTAGE LTD
ACN 052 179 932

Appendix 4D

For the half-year ended 31 December 2019 (listing rule 4.2)

RESULTS FOR ANNOUNCEMENT TO THE MARKET

Statutory financial metrics **(All comparisons to half-year ended 31 December 2018)**		**Movement %**	**Amount** **$'000**
Total operating revenue	*Down*	*4.2%*	*137,013*
Net profit	*Down*	*9.6%*	*5,863*

Other financial metrics			
Net profit before SGARA	*Up*	*1.5%*	*7,131*
SGARA (net of tax)			*(1,268)*
Net profit			*5,863*

Dividend information	**Date dividend paid / payable**	**Amount per security ¢**	**Amount franked at 30% tax rate**
Interim dividend – half-year ended 31 December 2019	n/a	nil	n/a
Final dividend – year ended 30 June 2019	6 November 2019	2.0	100%
Interim dividend – half-year ended 31 December 2018	n/a	nil	n/a

	2019 **$**	**2018** **$**
Net tangible assets per security **^**	0.77	0.77

^ *note:* *the Group has adopted AASB 16 Leases during the period. As a result the Group has recognised significant lease liabilities and right-of-use assets on the balance sheet. The net tangible assets used in the net tangible assets per security calculation for 2019 includes both the right-of-use assets and lease liabilities.*

Additional Appendix 4D disclosure requirements can be found in the Financial Report that follows which contains the Director's Report and the 31 December 2019 half-year Financial Statements and accompanying notes.

Directors' Report

The directors of Australian Vintage Ltd submit herewith the financial report of Australian Vintage Ltd and it's subsidiaries for the half-year ended 31 December 2019.

The names of the directors of the company during or since the end of the half-year are:

Richard H. Davis
Craig Garvin (appointed 20 November 2019)
Neil McGuigan (retired 20 November 2019)
John D. Davies
Naseema Sparks
Peter Perrin
Jiang Yuan

REVIEW OF OPERATIONS AND FUTURE DEVELOPMENTS

Key Points

- Net Profit after Tax (NPAT) and before SGARA improved 2% to $7.1 million
- EBITS (Earnings before Interest, Tax and SGARA) down 7% to $11.8 million with higher cost of 2019 vintage negatively impacting result by $1.5 million
- NPAT down 10% to $5.9 million
- Cash Flow from Operating Activities positive $5.6 million after spending $10.1 million on bulk wine purchases
- Net Debt of $77.8 million compared to $79.8 million as at 30 June 2019 and $72.4 million at December 2018
- Revenue down by $6.1 million to $137.0 million
- Sales of McGuigan, Tempus Two and Nepenthe up 2%
- In line with previous years, no interim dividend

The first half of this financial year has seen a mixed result for the AVL business with the UK continuing to grow, against a market trend showing Australian wine exports to this market declining, and sales to Asia and North America performing below expectation. Sales and contribution from Australia are in line with last year even after allowing for $0.5 million in restructure costs and an additional $0.8 million in wine costs resulting from the 2019 vintage.

In the UK we have seen sales of the McGuigan brand increase by 9% but what is even more pleasing is that most of this growth has come as a result of improved sales mix. Sales of the higher priced McGuigan Black Label and Reserve ranges have increased by 14%. Our growth in the UK market is not finished but it will require further investment in marketing and advertising.

We have challenges in the Asian and North American markets. However, both these markets are currently not a significant part of our business with China representing about 3% and North America representing about 3%.

In mainland China, our main distributor has made significant changes to senior management resulting in a change in working capital management practices. This has resulted in fewer orders during the 6 month period to December 2019. Excluding mainland China, Asian sales are up 19% with sales to Singapore, Malaysia and Taiwan growing significantly. Whilst the next six months will be challenging, we are putting in place strategies to improve our long-term performance in the Chinese market. In North America, particularly Canada, we have seen sales decrease by 21% against total Australian wine export sales volumes to Canada declining by 25%. We have implemented short term strategies to reinvigorate the McGuigan brand in Canada.

The Net Profit after Tax decreased by $0.6 million to $5.9 million with the favourable performance of the UK/Europe segment more than offset by the performance of the Asian and North American divisions, the higher cost of the 2019 vintage, which impacted our result by $1.1 million after tax and the higher cost of water which impacted our result by $0.8 million after tax.

This year's vintage is underway and early indications are that yields may be slightly down on expectation but up on last year. The Company's ongoing desire to make great quality wine has again been rewarded with the Company's wines continuing to win awards at well-respected global wine competitions. At the recent China Wine and Spirits Awards the McGuigan 2016 Shortlist Shiraz was awarded a trophy for the Barossa Valley Wine of the Year.

We continue to focus on our three core brands, McGuigan, Tempus Two and Nepenthe but at the same time we will now increase focus on the Barossa Valley Wine Company brand which has seen sales increase by 17% off a low base.

Segment Summary

- Australasia/North America reported a 32% EBIT decline to $3.6 million. Australian sales up 1% with EBIT in line with prior period, New Zealand sales down 18% and EBIT down 30% and Asia sales down 34% and EBIT down 78%. Sales to North America were down 21% and EBIT down $0.5 million. The higher 2019 vintage cost impacted the result by $0.8 million.

- UK/Europe reported a 6% Sales and EBIT growth to $6.7 million due to the improvement in sales mix and the continued focus on growing the independent business. Favourable foreign exchange during the half year provided an extra $1.9 million to the EBIT whilst the higher 2019 vintage cost added a further $0.7 million to the cost base.

- Vineyard Segment (including SGARA) EBIT declined by $1.2 million as a result of the higher cost of water. At this stage yields are expected to be above last year but down on original expectations.

Segment Summary (cont'd)

- Cellar Door reported a 40% EBIT decline to $0.5 million due to the ongoing decrease in visitor numbers in the Hunter Valley where our two key cellar doors are located.

- Australasia/North America Bulk and Processing EBIT improved by $1.0 million due to increased sales and margins from our Austflavour business and some contract packing at the Merbein packaging facility.

Sales

Total Company revenue for the half year decreased 4% or $6.1 million due mainly to the decline in sales to the Asian and North American markets, reduced loss making bulk wine sales and reduced vineyard management income.

Total Sales by Segment

	6 Months to		Change	
	31/12/19 $000	31/12/18 $000	$000	%
Australasia/North America Packaged	54,077	57,782	(3,705)	(6)
UK/Europe	66,074	62,487	3,587	6
Cellar Door	4,632	5,168	(536)	(10)
Australasia/North America bulk & processing	12,163	14,371	(2,208)	(15)
Vineyards	67	3,256	(3,189)	(98)
Total	**137,013**	**143,064**	(6,051)	(4)

Australasia/North America

Australasia/North America packaged sales were down by 6% on prior period due to below expected performance from the Asian and North American markets.

	Sales ($000)	
	31/12/19	31/12/18
Australia	43,183	42,795
New Zealand	2,534	3,089
Asia	5,220	7,948
North America	3,140	3,950
	54,077	57,782

Australian sales increased by 1% with the higher priced Tempus Two brand growing 31%. McGuigan sales declined by 2% and Nepenthe sales declined by 9% due to promotion phasing. Cask sales decreased by 3% due mainly to repricing of our cask products.

New Zealand sales decreased 18% on the back of a 42% increase in FY19. Sales for the second half are expected to recover.

Asia sales are down 34% with sales to mainland China down 64%. Excluding mainland China, Asian sales were up 19% with sales to Singapore up 34%, Malaysia up 88% and Taiwan up 32%.

North America sales are down 21% with McGuigan sales down 30%. Short term strategies have been implemented to recover lost sales.

UK/Europe

UK/Europe sales were up 6% on prior period due to improved sales of the McGuigan brand. Mix is improving with the ongoing increase in sales of the higher priced McGuigan Black Label and Reserve ranges, which now represents 44% of all sales compared to 30% in FY17. The McGuigan brand has grown 9% with Tempus Two growing 37% off a low base. The less known generic Shy Pig brand declined in sales by 6%.

	Sales ($000)	
	31/12/19	31/12/18
UK	59,673	55,916
Ireland	5,409	5,530
Europe	992	1,041
	66,074	62,487

EBITS and Net Profit

EBITS (Earnings before Interest, Tax and SGARA) decreased by 7% to $11.8 million with the higher cost of 2019 vintage negatively impacting the result by $1.5 million.

Net Profit after Tax decreased by 10% to $5.9 million due to the higher cost of the 2019 vintage and additional water costs which impacted SGARA for the half year. This was partially offset by the favourable exchange rates.

Australasia / North America Packaged EBIT decreased by 32% due mainly to the performance of Asia and North American divisions. Also contributing to the decline in EBIT was the $0.8 million impact from the higher cost of the 2019 vintage and the $0.5 million incurred on restructure costs.

	EBIT ($000)	
	31/12/19	**31/12/18**
Australia	3,157	3,182
New Zealand	441	627
Asia	269	1,222
North America	(267)	229
	3,600	5,260

The UK/Europe segment contribution increased by 6% 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 $1.9 million to the contribution of the UK/Europe segment.

	EBIT ($000)	
	31/12/19	**31/12/18**
UK	5,225	4,613
Ireland	1,294	1,520
Europe	204	233
	6,723	6,366

Group Net Profit

	6 Months to		Change	
	31/12/19 $000	**31/12/18 $000**	**$000**	**%**
Australasia/North America Packaged	3,600	5,260	(1,660)	(32)
UK/Europe	6,723	6,366	357	6
Cellar Door	486	810	(324)	(40)
Australasia/North America bulk & processing	892	(81)	973	1,201
Vineyard Management	67	262	(195)	(74)
EBITS	**11,768**	**12,617**	**(849)**	**(7)**
Finance costs	(1,677)	(2,076)	399	19
Interest expense (from change in accounting for leases - AASB 16)	(191)	-	(191)	-
Interest received	2	38	(36)	(95)
Tax	(2,771)	(3,554)	783	22
Net Profit (after Tax and before SGARA)	**7,131**	**7,025**	**106**	**2**
SGARA	(1,811)	(770)	(1,041)	(135)
Tax on SGARA	543	231	312	135
SGARA (after Tax)	(1,268)	(539)	(729)	(135)
Net Profit (after Tax)	**5,863**	**6,486**	**(623)**	**(10)**

Capital Expenditure

Over the last two years the Company has invested $35.6 million in various capital projects including $11.0 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 packaging line is currently lower than expected but above cost of funding. Over time and with increased throughput, the expected target of 12% should be met.

The premium winery, at a total cost of $10.0 million, is operational this year and based on full utilisation, is on target to achieve a 15% return on investment. For FY20, our total capital expenditure is on track to be around $12.0 million with $4.0 million already spent on the completion of the premium winery.

Cash Flow and Financial Position

The cash flow from operating activities was $5.6 million, $5.3 million below the prior period. The decline in operating cash flow was due to the poor 2019 vintage, which required the Company to purchase a further $10.1 million of bulk wine ($3.2 million in prior period). This purchase of wine was essential to meet our future sales forecasts.

The Company's net debt position is at $77.8 million and the gearing ratio is at a comfortable 26% (27% as at 31 December 2018).

Outlook

Our financial position remains sound and considering the fact that $10.1 million was spent on purchasing bulk wine in the period, the $5.6 million positive operating cash flow reflects a strong underlying business.

With a significant focus on the UK/Europe business we have seen contribution from this segment continue to grow against a market trend showing Australian wine exports to this market decline. We remain focused on improving the sales mix and increasing our footprint in the UK market. Our growth in the UK is not finished but it will require further investment in marketing and advertising.

We have challenges in the key markets of Asia and North America. In mainland China, taking into account the impact of the Coronavirus, we are not expecting any significant sales for the next 6 months. However, we are putting in place strategies to improve our long-term performance in the China market. It is also important to understand that mainland China is only a small, but important part of our business. In the six months to December 2018 China only represented 3% of our total business. Other markets within Asia, such as Singapore and Malaysia, are performing well.

In North America, particularly Canada, we have implemented strategies which should improve our sales going forward. However, both United States and Canada have become challenging markets for Australian wine as indicated by the recent decline in export sales to those regions. Improving sales and contribution will be challenging.

As previously advised, the higher cost of the 2019 vintage will impact our margins. For the six months to December 2019 the impact was $1.5 million. For the second half we expect the impact to be greater as we move into more 2019 vintage wine sales, but with improved mix and favourable exchange rates, we expect to negate the impact of the higher wine costs on margins.

As a result of the recent fires in the Adelaide hills, one of our vineyards received minor damage which will result in a reduced crop and together with the extreme heat early in the summer, this year's vintage will again be challenging. However, at this stage we remain confident that our tonnes from our owned and leased vineyards will be up on last year. This will result in increased winery throughput and lower 2020 vintage wine costs.

In late January 2020, the Company entered into a long-term lease on the Jubilee Park vineyard. This 220 hectare Riverland vineyard is planted to 75% reds and will add approximately 4,000 tonnes to our Buronga Hill winery crush resulting in further efficiencies and a reduction in future bulk wine purchases.

Ignoring the impact of the new accounting standard on leases and taking into account our current knowledge of the 2020 vintage and assuming no material change to current exchange rates, we are expecting our net profit after tax to be up on last year by 20% to 25%.

INDEPENDENCE DECLARATION BY AUDITOR

The auditor's independence declaration is included on page 6.

ROUNDING OFF OF AMOUNTS

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

Signed in accordance with a resolution of directors pursuant to section 306(3) of the Corporations Act 2001.

On behalf of the Directors

Richard Davis	Craig Garvin
Chairman	Chief Executive Officer

Sydney, 26th February 2020

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Auditor's Independence Declaration to the Directors of Australian Vintage Limited

As lead auditor for the review of the half-year financial report of Australian Vintage Limited for the half-year ended 31 December 2019, I declare to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Australian Vintage Limited and the entities it controlled during the financial period.

Ernst & Young

Mark Phelps
Partner
Adelaide
26 February 2020

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Independent Auditor's Review Report to the Members of Australian Vintage Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the accompanying half-year financial report of Australian Vintage Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 31 December 2019, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half-year financial report of the Group is not in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the consolidated financial position of the Group as at 31 December 2019 and of its consolidated financial performance for the half-year ended on that date; and

b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Directors' Responsibility for the Half-Year Financial Report

The directors of the Company are responsible for the preparation of the half-year 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 half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's consolidated financial position as at 31 December 2019 and its consolidated financial performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Ernst & Young

Mark Phelps
Partner
Adelaide
26 February 2020

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; and

(b) 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 a true and fair view of the financial position and performance of the consolidated entity.

Signed in accordance with a resolution of the directors made pursuant to section 303(5) of the Corporations Act 2001.

On behalf of the Directors

Richard Davis Chairman	Craig Garvin Chief Executive Officer

Sydney, 26th February 2020

Consolidated statement of profit or loss and other comprehensive income

For the half-year ended 31 December 2019

	NOTE	2019 $'000	2018 $'000
Revenue	2	137,013	143,064
Cost of sales		(96,894)	(102,724)
Gross Profit		40,119	40,340
Fair value (loss) on grapes picked		(1,811)	(770)
Other income	2	1,018	573
Distribution expenses		(7,333)	(7,664)
Sales and marketing expenses		(17,254)	(16,484)
Administration expenses		(4,782)	(4,110)
Finance costs		(1,866)	(2,076)
Profit before income tax		**8,091**	**9,809**
Income tax expense		(2,228)	(3,323)
Net Profit for the period		**5,863**	**6,486**
Other comprehensive loss, net of income tax:			
Items that may be reclassified subsequently to profit or loss:			
Change in fair value of hedging instruments		(831)	110
Exchange differences arising on translation of foreign operations		83	25
Other comprehensive income / (loss) for the period, net of income tax		**(748)**	**135**
Total comprehensive income for the period		**5,115**	**6,621**
Earnings per share:			
Basic (cents per share)		2.1	2.3
Diluted (cents per share)		2.0	2.3

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

Consolidated statement of financial position

For the half-year ended 31 December 2019

	Note	31 December 2019 $'000	30 June 2019 $'000
Current Assets			
Cash and cash equivalents		11,214	8,057
Trade and other receivables		55,691	49,357
Inventories		140,403	156,346
Other		-	57
Total Current Assets		***207,308***	***213,817***
Non-Current Assets			
Inventories		26,763	34,268
Other financial assets	5	947	816
Property, plant and equipment		115,939	117,482
Goodwill and other intangible assets		50,119	50,249
Deferred tax assets		29,242	29,380
Right-of-use assets		47,973	-
Total Non-Current Assets		***270,983***	***232,195***
Total Assets		***478,291***	***446,012***
Current Liabilities			
Trade and other payables		33,809	59,353
Borrowings		-	470
Lease liabilities		5,946	-
Other financial liabilities	5	586	331
Provisions		4,920	5,933
Income received in advance		293	88
Total Current Liabilities		***45,554***	***66,175***
Non-Current Liabilities			
Borrowings		89,000	79,965
Lease liabilities		47,693	-
Other financial liabilities	5	567	321
Provisions		700	720
Total Non-Current Liabilities		***137,960***	***81,006***
Total Liabilities		***183,514***	***147,181***
Net Assets		***294,777***	***298,831***
Equity			
Issued capital		465,490	465,490
Reserves		2,188	2,443
Accumulated losses		(172,901)	(169,102)
Total Equity		***294,777***	***298,831***

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

Consolidated statement of changes in equity
For the half-year ended 31 December 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 1 July 2019	**465,490**	**2,129**	**23**	**291**	**(169,102)**	**298,831**
Effect of adoption of new accounting standards	-	-	-	-	(4,048)	(4,048)
Balance at 1 July 2019 (restated)	**465,490**	**2,129**	**23**	**291**	**(173,150)**	**294,783**
Profit for the period	-	-	-	-	5,863	5,863
Net gain on interest rate swaps	-	-	5	-	-	5
Net loss on foreign exchange hedges	-	-	(1,193)	-	-	(1,193)
Exchange differences arising on translation of foreign operations	-	-	-	119	-	119
Income tax relating to components of other comprehensive income	-	-	357	(36)	-	321
Total comprehensive income for the period	**-**	**-**	**(831)**	**83**	**5,863**	**5,115**
Transactions with owners in their capacity as owners						
Purchase and issuance of treasury shares to employees	-	(33)	-	-	-	(33)
Dividend paid	-	-	-	-	(5,614)	(5,614)
Recognition of share based payments	-	526	-	-	-	526
Balance at 31 December 2019	**465,490**	**2,622**	**(808)**	**374**	**(172,901)**	**294,777**

	Share capital	Equity - settled employee benefits reserve	Hedging reserve	Foreign currency translation reserve	Accumulated losses	Total
Balance at 1 July 2018	**463,961**	**1,978**	**(208)**	**219**	**(173,057)**	**292,893**
Profit for the period	-	-	-	-	6,486	6,486
Exchange differences arising on translation of foreign operations	-	-	-	36	-	36
Valuation of foreign exchange hedges	-	-	218	-	-	218
Valuation of interest rate swaps	-	-	(61)	-	-	(61)
Income tax relating to components of other comprehensive income	-	-	(47)	(11)	-	(58)
Total comprehensive income for the period	**-**	**-**	**110**	**25**	**6,486**	**6,621**
Transactions with owners in their capacity as owners						
Dividends paid	-	-	-	-	(4,168)	(4,168)
Issue of shares	1,544	-	-	-	-	1,544
Share issue costs	(15)	-	-	-	-	(15)
Recognition of share based payments	-	146	-	-	-	146
Balance at 31 December 2018	**465,490**	**2,124**	**(98)**	**244**	**(170,739)**	**297,021**

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

Consolidated statement of cash flows
For the half-year ended 31 December 2019

	2019 $'000	2018 $'000
Cash Flows from Operating Activities		
Receipts from customers	138,644	144,522
Payments to suppliers and employees	(129,085)	(131,729)
Cash generated from operations	9,559	12,793
Interest paid (commercial bills)	(1,948)	(1,893)
Interest paid (resulting from leases under AASB 16)	(2,055)	-
Interest received	2	38
Net cash provided by operating activities	5,558	10,938
Cash Flows from Investing Activities		
Payment for property, plant and equipment	(7,071)	(10,867)
Proceeds from sale of property, plant and equipment	47	29
Net cash used in investing activities	(7,024)	(10,838)
Cash Flows from Financing Activities		
Share issue costs	-	(21)
Dividends paid	(5,614)	(2,624)
Repayments of lease liabilities	(2,763)	-
Net proceeds from borrowings	13,000	4,221
Net cash provided by financing activities	4,623	1,576
Net increase in cash and cash equivalents	***3,157***	***1,676***
Cash and cash equivalents at the beginning of the period	***8,057***	***7,712***
Cash and cash equivalents at the end of the period	***11,214***	***9,388***

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

Notes to the financial statements
For the half-year ended 31 December 2019

NOTE 1: ABOUT THIS REPORT

General information

Australian Vintage Ltd 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 interim condensed consolidated financial statements of Australian Vintage Ltd (the 'Company') and its subsidiaries (collectively, the 'Group') for the six months ended 31 December 2019 (herein referred to as the 'half-year financial report') were authorised for issue in accordance with a resolution of the directors on 26 February 2020.

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 general purpose half-year financial report has been prepared in accordance with AASB 134 *Interim Financial Reporting* and the Corporations Act 2001. The half-year financial report does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial report for the year ended 30 June 2019.

Accounting policies, significant accounting estimates and judgements

The accounting policies, significant accounting estimates and judgements adopted in the preparation of the half-year financial report are consistent with those followed in the preparation of the Group's annual financial report for the year ended 30 June 2019, except for the adoption of new standards effective as of 1 July 2019. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The Group applies, for the first time, AASB 16 Leases. The nature and impact of adopting AASB 16 is disclosed below. Several other amendments and interpretations apply for the first time in 2019, but do not have a significant impact on the half-year financial report.

AASB 16 Leases

Overview

AASB 16 replaces the current standard on lease accounting, AASB 117 *Leases and* AASB Interpretation 4 *Determining Whether an Arrangement contains a Lease*. 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.

Transition and initial impact

The Group adopted AASB 16 using the modified retrospective method of adoption with the date of initial application of 1 July 2019. The Group applied AASB 16 to all leases except leases of intangible assets (water licenses). Right-of-use assets relating to vineyard leases are initially measured under Option 1, retrospectively as if AASB 16 had applied from the commencement of the lease. All other non-vineyard leases are initially measured under Option 2, equal to the lease liability at the date of adoption. Comparatives were not restated and the cumulative difference between the lease liability and Right-of-use assets for vineyard leases at adoption date is adjusted in opening retained earnings.

The Group applied the following practical expedients in the transition to AASB 16:

- single discount rate to a portfolio of leases which share similar characteristics
- use of hindsight to determine the lease term of vineyard leases
- exemptions for short-term leases and leases of low-value assets (see further details in accounting policy below)
- election not to separate non-lease components from lease components for vehicle leases
- election not to include the initial direct costs of vineyard leases, where the original contract commenced many years ago and it is not practical to source such information

The impact on the Group's consolidated statement of financial position (as at 1 July 2019) is as follows. The Group's right-of-use assets and lease liabilities at 1 July 2019 are comprised of the new balances brought on as a result of adopting AASB 16, and the existing finance lease liabilities and plant & equipment, which were previously already recorded on the balance sheet.

	Impact of adopting AASB 16	**Existing finance leases**	**TOTAL as at 1 July 2019**
	$'000	**$'000**	**$'000**
Right-of-use assets	44,402	4,859	**49,261**
Lease liabilities	(50,184)	(4,435)	**(54,619)**
Deferred tax asset	1,735		
Retained earnings	(4,047)		

Notes to the financial statements
For the half-year ended 31 December 2019

NOTE 1: ABOUT THIS REPORT (CONTD.)
AASB 16 Leases (Contd.)

The lease liabilities as at 1 July 2019 can be reconciled to the operating lease commitments of the Group disclosed in the 30 June 2019 financial statements as follows:

	$'000
Operating lease commitments at 30 June 2019	77,526
Impact of discounting at the interest rate implicit in the lease (vineyard leases) and AVL's incremental borrowing rate (all other leases)	(24,437)
Leases of intangible assets that are not recognised as lease liabilities under AASB 16	(2,840)
Short term leases (<12 months) not recognised as a lease liability under AASB 16	(65)
Additional lease liabilities recognised on adoption of AASB 16 at 1 July 2019	**50,184**
Carrying value of existing finance leases at 30 June 2019	4,435
Balance of lease liabilities at 1 July 2019	**54,619**

Amounts recognised in balance sheet and profit and loss for the half-year ended 31 December 2019

Set out below, are the carrying amounts of the Group's right-of-use assets and lease liabilities and the movements during the half-year ended 31 December 2019.

	Right-of-use assets					***Lease liabilities***
	Vineyards	*Property*	*Equipment ^*	*Vehicles*	*TOTAL*	
($'000)						
As at 1 July 2019	38,376	4,404	5,537	944	49,261	54,619
Additions	-	1,124	502	156	1,782	1,782
Amortisation expense	(1,771)	(738)	(306)	(255)	(3,070)	-
Interest expense	-	-	-	-	-	2,055
Lease payments	-	-	-	-	-	(4,817)
As at 31 December 2019	**36,605**	**4,790**	**5,733**	**845**	**47,973**	**53,639**

*^ **note:** the equipment class includes leases previously accounted for as finance leases under AASB 117*

New accounting policies

Set out below are the new accounting policies of the Group upon adoption of AASB 16. The accounting policies below are applicable to the Group as a lessee. The Group does not currently have any significant contracts acting as a lessor.

Accounting policy – leases

Identification of a lease

The Group reviews all relevant arrangements and contracts entered into to determine if it contains a lease. Under AASB 16, a lease exists if the arrangement or contract grants the Group the rights to control the use of an identified asset in exchange for consideration for a specified time period.

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment assessments under AASB 136 *Impairment of Assets*.

Lease liabilities

At the commencement date of the lease the Group recognises lease liabilities, measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable,

Notes to the financial statements
For the half-year ended 31 December 2019

NOTE 1: ABOUT THIS REPORT (CONTD.)

AASB 16 Leases (Contd.)

and excludes variable lease payments that depend on an index. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the rate implicit in the lease. If this is not readily determinable, the Group's incremental borrowing rate at the lease commencement date is used. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Lease recognition exemptions and scope exclusions

The Group applies the short-term lease recognition exemption for any leases that have a lease term of 12 months or less. The Group also applies the low-value asset recognition exemption, for leases of assets that are deemed to be low-value under the rules of AASB 16. In addition, the Group does not apply AASB 16 to leases of intangible assets such as water licenses, as is permitted under the standard. Payments for these exempt and excluded leases are recognised in profit or loss on a straight line basis over the term of the lease.

Significant accounting estimates and judgements – determining lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has the option, under some of its leases for additional terms, the most significant of which are vineyard leases for which some have extension options of 5 years. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

NOTE 2: REVENUE AND EXPENSES

		2019 $'000	2018 $'000
(a)	**Revenue from contracts with customers**		
	Sale of goods	136,099	139,118
	Contract processing	847	690
	Rendering contract vineyard services	67	3,256
		137,013	**143,064**
(b)	**Other income**		
	Dividend income from investments held at fair value through profit and loss	697	-
	Wine equalisation tax rebate	175	175
	(Loss) / Gain on unrealised foreign exchange	(88)	125
	Other rebates	128	90
	Rental income	38	39
	Gain on disposal of property, plant and equipment	41	27
	Interest income	2	38
	Other	25	79
		1,018	**573**
(c)	**Specific expenses**		
	Depreciation and amortisation (excluding amortisation as a result of AASB 16)	3,875	3,792
	Restructuring costs	525	-
	Chief Executive Officer transition costs	169	158

Notes to the financial statements
For the half-year ended 31 December 2019

NOTE 3: SEGMENT INFORMATION

The following table presents revenue and profit information for the Group's operating segments for the six months ended 31 December 2019 and 2018, respectively:

	Revenue		Profit before tax	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
Australasia / North America packaged	54,077	57,782	3,600	5,260
UK / Europe	66,074	62,487	6,723	6,366
Cellar door	4,632	5,168	486	810
Australasia / North America bulk wine and processing	12,163	14,371	892	(81)
Vineyards	67	3,256	(1,744)	(508)
Total	**137,013**	**143,064**	**9,957**	**11,847**
Unallocated corporate expenses				
Interest expense (commercial bills)			(1,675)	(2,038)
Interest expense (resulting from leases under AASB 16) ^			(191)	-
Profit before tax			**8,091**	**9,809**

^ note: *net of interest capitalised to inventory under AASB 102*

Set out below is the disaggregation of the Group's revenue from contracts with customers:

	For the six months ended 31 December 2019					
Segments	**Australasia / North America packaged**	**UK / Europe**	**Cellar door**	**Australasia / North America bulk wine and processing**	**Vineyards**	**TOTAL**
	$'000	$'000		$'000	$'000	$'000
Type of goods or service						
Sale of goods	54,077	66,074	4,632	11,316	-	136,099
Contract processing	-	-	-	847	-	847
Rendering of vineyard services	-	-	-	-	67	67
	54,077	**66,074**	**4,632**	**12,163**	**67**	**137,013**
Geographical breakdown						
Australia	43,183	-	4,632	7,222	67	**55,104**
UK / Europe	-	66,074	-	-	-	**66,074**
Asia	5,220	-	-	1,751	-	**6,971**
North America	3,140	-	-	2,651	-	**5,791**
Other	2,534	-	-	539	-	**3,073**
	54,077	**66,074**	**4,632**	**12,163**	**67**	**137,013**

Notes to the financial statements
For the half-year ended 31 December 2019

NOTE 3: SEGMENT INFORMATION (CONTD.)

	For the six months ended 31 December 2018					
Segments	**Australasia / North America packaged**	**UK / Europe**	**Cellar door**	**Australasia / North America bulk wine and processing**	**Vineyards**	**TOTAL**
	$'000	**$'000**		**$'000**	**$'000**	**$'000**
Type of goods or service						
Sale of goods	57,782	62,487	5,168	13,681	-	**139,118**
Contract processing	-	-	-	690	-	**690**
Rendering of vineyard services	-	-	-	-	3,256	**3,256**
	57,782	62,487	5,168	14,371	3,256	**143,064**
Geographical breakdown						
Australia	42,795	-	5,168	5,621	3,256	**56,840**
UK / Europe	-	62,487	-	-	-	**62,487**
Asia	7,948	-	-	1,991	-	**9,939**
North America	3,950	-	-	5,985	-	**9,935**
Other	3,089	-	-	774	-	**3,863**
	57,782	62,487	5,168	14,371	3,256	**143,064**

NOTE 4: DIVIDENDS

	2019		**2018**	
	Cents per share	**Total $'000**	**Cents per share**	**Total $'000**
2019 final dividend (2018: 2018 final dividend) – 100% franked at a tax rate of 30%	2.0	5,614	1.5	4,168

No dividend was declared in respect of the half-year ended 31 December 2019 (2018: nil).

Notes to the financial statements
For the half-year ended 31 December 2019

NOTE 5: OTHER FINANCIAL ASSETS AND LIABILITIES

Set out below is a summary of the Group's Other financial assets and liabilities.

	31 December 2019	30 June 2019
	$'000	**$'000**
Current assets		
Derivative financial instruments – foreign currency forward contracts	-	57
	-	**57**
Non-current assets		
Loan receivable	657	-
Investments held at fair value through profit and loss	198	178
Prepaid borrowing costs	92	35
Derivative financial instruments – foreign currency forward contracts	-	603
	947	**816**
Current liabilities		
Derivative financial instruments – interest rate swaps	296	331
Derivative financial instruments – foreign currency forward contracts	290	-
	586	**331**
Non-current liabilities		
Derivative financial instruments – interest rate swaps	351	321
Derivative financial instruments – foreign currency forward contracts	216	-
	567	**321**

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 forward 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 forward 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.

NOTE 6: OTHER

Contingent liabilities

There have been no material changes in contingent liabilities from those disclosed in the Group's 30 June 2019 Annual Report.

Events after the reporting period

There have been no matters or circumstances, other than those referred to in the half-year report or notes thereto, that have arisen since 31 December 2019, 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.