PRINCE HILL WINES LIMITED
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Preliminary Final Report of

Prince Hill Wines Limited

for the Financial Year Ended 30 June 2010

ABN 99 000 094 995

This Preliminary Final Report is provided to the Australian Securities Exchange (ASX) under ASX Listing Rule 4.3A.

Current Reporting Period:	Financial Year ended 30 June 2010
Previous Reporting Period	Financial Year ended 30 June 2009

PRELIMINARY FINAL REPORT
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010

RESULTS FOR ANNOUNCEMENT TO THE MARKET

The preliminary financial report is in the process of being audited. No matters have arisen which would result in a dispute or qualification.

	Notes	2010	2009	$ Change	% Change
Revenue from ordinary activities	1	1,415,181	2,430,012	(1,014,831)	(41.76%)
Net loss before tax, interest, depreciation, subsidiary disposals and Impairments	2	852,697	1,473,939	(621,242)	(42.15%)
Net loss from ordinary activities attributable to members	3	3,743,152	1,561,825	2,181,327	139.67%
Net loss after tax attributable to members	3	3,743,152	1,561,986	2,181,166	139.64%
Net tangible assets per security	4	0.001	0.026		
Earnings per Share	4	(0.02)	(0.02)		

No dividends have been declared or are expected to be declared.

Notes to Results for Announcement to the Market

1. The group increased its market share, despite the current oversupply in the wine market, as overall case sales (in 9 litre case equivalents) increased by 18.5 percent to 27,785 cases for the twelve months (2009: 23,431 cases).

   Revenue has decreased as a result of the disposal of The Wine List Pty Ltd effective 28 February 2009.

   The pursuit of international opportunities has also been difficult and new and incremental sales have not eventuated with export sales declining to 886 cases (2009: 2,684 cases).

2. Various changes to the company in relation to management and its operations have significantly reduced the trading losses compared to the prior year by $621,242 from $1,473,939 to $852,697.

3. Net loss before and after tax attributable to members has deteriorated due to the impairment losses of $2,388,643 incurred as a result of the failed winery sale to Great Southern Beverage Pty Ltd and subsequent resale of the vineyard and winery to CN Wine (Australia) Pty Ltd.

4. Net tangible assets per security decreased due to the operating losses incurred during the year ($3,743,152). The reduction in net tangible assets was partially offset by a rights issue that was conducted during the period. The rights issue realised $382,823 net of transaction costs. Coonawarra Australia Property Trust participated in the rights issue by converting debt of $150,000 to shares. This enabled the Group to both reduce its borrowings and interest expenses.

   The rights issue was offered on the basis of two new shares for every share held at $0.005 per new share. The number of issued shares increased from 124,638,407 to 204,790,673, an increase of 80,152,266 as a result of the rights issue.

   The rights issue has maintained the Earnings per Share in line with the prior year.

Operations Review

The year to 30 June 2010 continued to be another difficult period for the company. The following major events occurred in the year to 30 June 2010:

- The Group conducted a rights issue during the period to raise additional working capital while it completed the winery sale transaction, the Rights Issue raised $382,823 net of transaction costs;
- Coonawarra Australia Property Trust lending $1,433,234 at commercial rates of interest to provide working capital;
- The winery and vineyards at Mudgee, NSW, subject to a non-conditional contract signed on 29 September 2008 for $5.5m (inclusive of GST) with Great Southern Beverage Pty Ltd was terminated on the 9 March 2010. The group received a total of $550,000 consideration from this sale transaction;
- The Group is taking further steps to enforce all its legal rights under the sale agreement with Great Southern Beverage Pty Ltd;
- A contract was exchanged with CN Wine (Australia) Pty Ltd on the 30 June 2010 for the sale of the vineyard and winery located at 1220 Castlereagh Highway, Apple Tree Flat, Mudgee, New South Wales for $2,300,000 resulting in a total impairment of the winery sale receivable of $2,388,643;
- A small crush of 79 tonnes occurred at the winery in Mudgee during the year, only 52 tonnes of grapes were harvested from Prince Hill's own vineyards due to poor weather conditions;
- Stock impairment of $260,373 for the year.

Various announcements regarding the sale of the vineyard, winery and function centre located at 1220 Castlereagh Highway, Apple Tree Flat, Mudgee New South Wales to Great Southern Beverage Company Pty Ltd (ACN 132 761 392) were made during the year. A total of $550,000 as a non refundable deposit ($247,500 of which has been borrowed by Great Southern Beverage Pty Ltd from Coonawarra Australia Property Trust under a secured interest bearing loan) was received prior to the Notice of Termination being issued on the 9 March 2010. A subsequent exchange of contracts was made with CN Wine (Australia) Pty Ltd on the 30 June 2010 for $2,300,000 which settled on the 12 August 2010 allowing the NAB bank borrowings of $768,000 to be repaid in full. In addition $1,300,000 was also repaid to Coonawarra Australia Property Trust on 31 August 2010.

Despite the difficult economic and industry conditions the Group has reduced the operating loss before tax, interest, depreciation, subsidiary disposals and impairments by $621,242 to $852,697, down from $1,473,939. The improvements are due to reductions in management expenses and other operating costs through the rationalisation of the business operations.

Revenue has decreased as a result of the disposal of The Wine List Pty Ltd effective 28 February 2009 and the difficult trading conditions being experienced in the wine industry.

The pursuit of international opportunities has also been difficult and new and incremental sales have not eventuated with export sales declining to 886 cases (2009: 2,684 cases).

The group increased its market share, despite the current oversupply in the wine market, as overall case sales (in 9 litre case equivalents) increased by 18.5 percent to 27,785 cases for the twelve months (2009: 23,431 cases).

Negative impacts on the performance of the business included:

- Case sales continued to be well below planned volumes of over 40,000 cases for the year due mainly to the disappointing performance of the national agents acting on behalf of the Group;
- Overall decline in the gross profit margin from packaged wines.

External factors also contributed to the company's poor performance over the past year, namely:

- The oversupply across all markets, impacting sales and margins from sales into traditional channels
- Continuing consolidation of distribution and retail channels.

The consolidated loss of the Group after providing for income tax and after minority interest amounted to $3,743,152 (2009: $1,561,986) after impairment losses of $2,649,016 (2008: $508,729) and finance costs of $181,260 (2009: $135,503).

The difficult industry conditions are likely to continue for the next couple of years as the industry continues to face large vintages, sales of surplus assets from the major players and significant discounting by the major players as they struggle to recover lost marketing share for some of their recognised brands. Management continues to strive to improve operating results and achieve at least a breakeven result.

Prince Hill Wines continues to seek opportunities to merge or restructure the business.

Significant Events Since Balance Sheet Date

No other matters or circumstances have arisen since the end of the financial year which 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.

Prince Hill Wines Limited

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Consolidated Statement of Comprehensive Income

For the Year Ended 30 June 2010

	Note	2010 $	2009 $
Revenue	3(a)	**1,415,181**	2,430,012
Cost of sales	4(a)	**(1,614,009)**	(3,170,795)
Gross profit / (loss)		**(198,828)**	(740,783)
Other revenue	3(b)	**142,142**	339,143
Marketing expenses		**(47,910)**	(58,252)
Corporate expenses		**(576,405)**	(618,134)
Management Expenses		**(228,000)**	(374,617)
Impairment of inventory		**(260,373)**	(458,729)
Impairment of winery sale receivable	4(a)	**(2,388,643)**	-
Impairment of plant and equipment		**-**	(50,000)
Other expenses		**(3,875)**	(32,473)
Finance expenses	4(a)	**(181,260)**	(135,503)
Profit on disposal of subsidiary	12(b)	**-**	567,523
Loss before income tax		**(3,743,152)**	(1,561,825)
Income tax expense		**-**	(161)
Loss for the period		**(3,743,152)**	(1,561,986)
Other comprehensive income			
		-	-
Total comprehensive income (loss) for the period		**(3,743,152)**	(1,561,986)
Loss attributable to:			
Members of the parent entity		**(3,743,152)**	(1,561,986)
		(3,743,152)	(1,561,986)
Total comprehensive income (loss) attributable to:			
Members of the parent entity		**(3,743,152)**	(1,561,986)
		(3,743,152)	(1,561,986)
Earnings per share			
From continuing and discontinued operations:			
Basic earnings per share (cents)		**(0.02)**	(0.02)
From continuing operations:			
Basic earnings per share (cents)		**(0.02)**	(0.02)

Prince Hill Wines Limited

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Consolidated Statement of Financial Position

As At 30 June 2010

	Note	2010 $	2009 $
ASSETS			
Current assets			
Cash and cash equivalents	6	**23,041**	112,688
Trade and other receivables	7	**96,457**	120,331
Inventories	8	**440,637**	834,888
Prepayments	9	**4,079**	5,540
Winery sale receivable	10	**2,211,421**	4,620,000
Total current assets		**2,775,635**	5,693,447
Non-current assets			
Property, plant and equipment	11	**112,567**	148,679
Total non-current assets		**112,567**	148,679
TOTAL ASSETS		**2,888,202**	5,842,126
LIABILITIES			
Current liabilities			
Trade and other payables	14	**350,072**	398,954
Borrowings	15	**2,204,797**	1,754,475
Provisions	16	**16,866**	28,409
Total current liabilities		**2,571,735**	2,181,838
Non-current liabilities			
Borrowings	15	**12,622**	17,501
Provisions	16	**37,079**	15,692
Total non-current liabilities		**49,701**	33,193
TOTAL LIABILITIES		**2,621,436**	2,215,031
NET ASSETS		**266,766**	3,627,095
EQUITY			
Issued capital	17	**36,471,926**	36,089,103
Reserves	18	**-**	15,000
Accumulated Losses		**(36,205,160)**	(31,909,485)
Parent interest		**266,766**	4,194,618
Minority equity interest		**-**	(567,523)
TOTAL EQUITY		**266,766**	3,627,095

The accompanying notes form part of these financial statements

Prince Hill Wines Limited

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Consolidated Statement of Changes in Equity

For the Year Ended 30 June 2010

2010

	Note	Ordinary Shares $	Accumulated Losses $	Option Reserve $	Total $
1 July		**36,089,103**	**(32,477,008)**	**15,000**	**3,627,095**
Total comprehensive income (loss) for the period		**-**	**(3,743,152)**	**-**	**(3,743,152)**
Transaction costs	17	**(17,937)**	**-**	**-**	**(17,937)**
Reclassification of unexercised share options to retained earnings	18	**-**	**15,000**	**(15,000)**	**-**
Issue of shares	17	**400,760**	**-**	**-**	**400,760**
Sub-total		**382,823**	**(3,728,152)**	**(15,000)**	**(3,360,329)**
Balance at 30 June 2010		**36,471,926**	**(36,205,160)**	**-**	**266,766**

2009

	Note	Ordinary Shares $	Accumulated Losses $	Option Reserve $	Total $
Balance at 1 July		36,094,103	(30,915,022)	15,000	5,194,081
(Loss) attributable to members		-	(1,561,986)	-	(1,561,986)
Transaction costs	17	(5,000)	-	-	(5,000)
Sub-total		(5,000)	(1,561,986)	-	(1,566,986)
Balance at 30 June 2009		36,089,103	(32,477,008)	15,000	3,627,095

Prince Hill Wines Limited

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Consolidated Statement of Cash Flows

For the Year Ended 30 June 2010

	Note	2010 $	2009 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		**1,503,429**	3,089,539
Payments to suppliers and employees		**(2,335,489)**	(3,898,063)
Interest received		**215**	-
Interest paid		**(185,223)**	(121,212)
Finance costs		**(20,106)**	-
Net cash provided by (used in) operating activities	25	**(1,037,174)**	(929,736)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from winery sale receivable	10	**110,000**	380,000
Purchase of property, plant and equipment		**-**	(850)
Loans to related parties - payments made		**-**	(165,852)
Proceeds from sale of plant and equipment		**-**	1,709
Net cash provided by (used in) investing activities		**110,000**	215,007
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	17	**400,760**	-
Proceeds from borrowings		**-**	28,200
Repayment of borrowings	15	**(275,000)**	-
Payment of finance lease liabilities		**(7,309)**	(28,203)
Payment of transaction costs	17	**(17,937)**	-
Loans from related parties - proceeds from payments	15	**737,013**	-
Net cash provided by (used in) financing activities		**837,527**	(3)
Net increase (decrease) in cash held		**(89,647)**	(714,732)
Cash and cash equivalents at beginning of financial year		**112,688**	827,420
Cash and cash equivalents at end of financial year	6	**23,041**	112,688

The accompanying notes form part of these financial statements

1 Summary of Significant Accounting Policies

(a) General information

This financial report includes the consolidated financial statements and notes of Prince Hill Wines Limited and controlled entities (the Group)..

(b) Basis of preparation

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions to which they apply. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards. Material accounting policies adopted in the preparation of this financial report are presented below. They have been consistently applied unless otherwise stated.

The financial report has been prepared on an accruals basis and is based on historical costs modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

(c) Adoption of New and Revised Accounting Standards

During the current year the Group adopted all of the new and revised Australian Accounting Standards and Interpretations applicable to its operations which became mandatory.

The adoption of these standards has impacted the recognition, measurement and disclosure of certain transactions. The following is an explanation of the impact the adoption of these standards and interpretations has had on the financial statements of Prince Hill Wines Limited.

(i) AASB 101: Presentation of Financial Statements

In September 2007 the Australian Accounting Standards Board revised AASB 101 and as a result, there have been changes to the presentation and disclosure of certain information within the financial statements. Below is an overview of the key changes and the impact on the Group's financial statements.

Disclosure impact

Terminology changes - The revised version of AASB 101 contains a number of terminology changes, including the amendment of the names of the primary financial statements.

Reporting changes in equity - The revised AASB 101 requires all changes in equity arising from transactions with owners in their capacity as owners to be presented separately from non-owner changes in equity. Owner changes in equity are to be presented in the consolidated statement of changes in equity, with non-owner changes in equity presented in the consolidated statement of comprehensive income. The previous version of AASB 101 required that owner changes in equity and other comprehensive income be presented in the consolidated statement of changes in equity.

Statement of comprehensive income - The revised AASB 101 requires all income and expenses to be presented in either one statement, the consolidated statement of comprehensive income, or two statements, a separate income statement and a consolidated statement of comprehensive income. The previous version of AASB 101 required only the presentation of a single income statement.

1 Summary of Significant Accounting Policies continued

(c) Adoption of New and Revised Accounting Standards continued

(i) AASB 101: Presentation of Financial Statements continued

The Group's financial statements now contain a consolidated statement of comprehensive income.

Other comprehensive income - The revised version of AASB 101 introduces the concept of 'other comprehensive income' which comprises of income and expenses that are not recognised in profit or loss as required by other Australian Accounting Standards. Items of other comprehensive income are to be disclosed in the consolidated statement of comprehensive income. Entities are required to disclose the income tax relating to each component of other comprehensive income. The previous version of AASB 101 did not contain an equivalent concept.

(d) Comparatives

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

Two comparative periods are presented for the statement of financial position when the Group:

I Applies an accounting policy retrospectively;

II Makes a retrospective restatement of items in is finanical stattements; or

III Reclassifies items in the financial statements.

We have determined that only one comparative period for the statement of financial position was required for the current reporting period as the application of the new accounting standards have had no material impact on the previously presented primary financial statements that were presented in the prior year financial statements.

(e) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of manufactured products includes direct materials, direct labour and an appropriate portion of variable and fixed overheads. Overheads are applied on the basis of normal operating capacity. Costs are assigned on the basis of weighted average costs.

(f) Property, plant and equipment

Each class of property, plant and equipment is carried at cost or fair value as indicated less, where applicable, any accumulated depreciation and impairment losses.

Plant and equipment

Plant and equipment are measured on the cost basis less depreciation and impairment losses.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the assets employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

1 Summary of Significant Accounting Policies continued

(f) Property, plant and equipment continued

Depreciation

The depreciable amount of all fixed assets including buildings and capitalised leased assets, but excluding freehold land, is depreciated on a straight-line basis over the asset's useful life to the Group commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation rates used for each class of depreciable assets are:

Class of Fixed Asset	
Plant and Equipment	20%
Furniture, Fixtures and Fittings	10%
Motor Vehicles	20%
Computer Software	33%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

(g) Financial Instruments

Recognition and Initial Measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions to the instrument. For financial assets, this is the equivalent to the date that the the Group commits itself to either purchase or sale of the asset (ie trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transactions costs, except where the instrument is classified 'at fair value through profit or loss', in which case transaction costs are expensed to profit or loss immediately.

Classification and Subsequent Measurement

Finance instruments are subsequently measured at either of fair value, amortised cost using the effective interest rate method, or cost. Fair value represents the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties. Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.

Amortised cost is calculated as:

- the amount in which the financial asset or financial liability is measured at initial recognition;
- less principal repayments;
- plus or minus the cumulative amortisation of the difference, if any, between the amount initially recognised and the maturity amount calculated using the *effective interest method*; and
- less any reduction for impairment.

1 Summary of Significant Accounting Policies continued

(g) Financial Instruments continued

The *effective interest method* is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that exactly discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense in profit or loss.

The Group does not designate any interests in subsidiaries, associates or joint venture entities as being subject to the requirements of accounting standards specifically applicable to financial instruments.

(i) *Financial assets at fair value through profit or loss*

Financial assets are classified at 'fair value through profit or loss' when they are either held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss.

(ii) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost.

(iii) *Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Group's intention to hold these investments to maturity. They are subsequently measured at amortised cost.

(iv) *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets that are either not suitable to be classified into other categories of financial assets due to their nature, or they are designated as such by management. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

(v) *Financial liabilities*

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost.

(i) Financial assets at fair value through profit and loss

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management and within the requirements of AASB 139: Recognition and Measurement of Financial Instruments. Derivatives are also categorised as held for trading unless they are designated as hedges. Realised and unrealised gains and losses arising from changes in the fair value of these assets are included in the consolidated statement of comprehensive income in the period in which they arise.

1 Summary of Significant Accounting Policies continued

(g) Financial Instruments continued

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method.

(iii) Held-to-maturity investments

These investments have fixed maturities, and it is the Group's intention to hold these investments to maturity. Any held-to-maturity investments held by the Group are stated at amortised cost using the effective interest rate method.

(iv) Available-for-sale financial assets

Available-for-sale financial assets include any financial assets not included in the above categories. Available-for-sale financial assets are reflected at fair value. Unrealised gains and losses arising from changes in fair value are taken directly to equity.

(v) Financial liabilities

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

(vi) Fair value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

(vii) Impairment

At each reporting date, the Group assess whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in the statement of financial performance.

(h) Investments (financial assets)

(i) Available-for-sale financial assets

Investments are classified as available-for-sale financial assets. Available-for-sale financial assets are reflected at fair value unless their fair value cannot be reliably measured. Unrealised gains and losses arising from changes in fair value are taken directly to equity.

(ii) Fair value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

1 Summary of Significant Accounting Policies continued

(h) Investments (financial assets) continued

(iii) Recognition

Financial assets are initially measured at cost of trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below.

(i) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the consolidated statement of financial position.

(j) Employee benefits

Provision is made for the company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled. Employee benefits payable later than one year have been measured at present value of the estimated future cash outflows to be made for those benefits. Those cashflows are discounted using market yields on national government bonds with terms to maturity that match the expected timing of cashflows.

(k) Provisions

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

(l) Income taxes

The income tax expense (revenue) for the year comprises current income tax expense (income) and deferred tax expense (income).

Current income tax expense charged to the profit or loss is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantially enacted, as at reporting date. Current tax liabilities (assets) are therefore measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses.

Current and deferred income tax expense (income) is charged or credited directly to equity instead of the profit or loss when the tax relates to items that are credited or charged directly to equity.

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively

1 Summary of Significant Accounting Policies continued

(l) Income taxes continued

enacted at reporting date. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, branches, associates, and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

Current assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where a legally enforceable right of set-off exists, the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

(m) Revenue

Revenue is measured at the fair value of the consideration received or receivable after taking into account any trade discounts and volume rebates allowed. Any consideration deferred is treated as the provision of finance and is discounted at a rate of interest that is generally accepted in the market for similar arrangements. The difference between the amount initially recognised and the amount ultimately received is interest revenue.

Revenue from the sale of goods is recognised at the point of delivery as this corresponds to the transfer of significant risks and rewards of ownership of the goods and the cessation of all involvement in those goods.

Interest revenue is recognised using the effective interest rate method, which, for floating rate financial assets, is the rate inherent in the instrument. Dividend revenue is recognised when the right to receive a dividend has been established.

Revenue recognition relating to the provision of services is determined with reference to the stage of completion of the transaction at the reporting date and where the outcome of the contract can be estimated reliably. Stage of completion is determined with reference to the services performed to date as a percentage of total anticipated services to be performed. Where the outcome cannot be estimated reliably, revenue is recognised only to the extent that related expenditure is recoverable.

All revenue is stated net of the amount of goods and services tax (GST).

(n) Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

1 Summary of Significant Accounting Policies continued

(n) Borrowing Costs continued

All other borrowing costs are recognised in income in the period in which they are incurred.

(o) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the consolidated statement of financial position are shown inclusive of GST.

Cash flows are presented in the consolidated statement of cash flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

(p) Basis of consolidation

A list of controlled entities is contained in Note 12 to the financial statements.

All inter-group balances and transactions between entities in the the Group, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with those adopted by the parent entity.

A controlled entity is an entity over which Prince Hill Wines Limited has the power to govern the financial and operating policies so as to obtain benefits from its activities. In assessing the power to govern, the existence and effect of holdings of actual and potential voting rights are considered.

All inter-group balances have and transactions between entities in the consolidated group, including any unrealised profits or losses have been eliminated on consolidation. Minority interests, being that portion of the profit or loss and net assets of subsidies attributable to equity interests held by persons outside the Group, are shown separately within the equity section of the Consolidated statement of Financial Position and Consolidated Statement of Comprehensive Income.

(q) New Accounting Standards for Application in Future Periods

The AASB has issued new and amended accounting standards and interpretations that have mandatory application dates for future reporting periods. the Group has decided against early adoption of these standards. A discussion of those future requirements and their impact on the Group follows:

- AASB 9: Financial instruments and AASB 2009-11: Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12] (applicable for annual reporting periods commencing on or alter 1 January 2013).

  These standards are applicable retrospectively and amend the classification and measurement of financial assets. The Group has not yet determined the potential impact on the financial statements.

  The changes made to accounting requirements include:

  – simplifying the classifications of financial assets into those carried at amortised cost and those carried at fair value;

1 Summary of Significant Accounting Policies continued

(q) New Accounting Standards for Application in Future Periods continued

- simplifying the requirements for embedded derivatives;
- removing the tainting rules associated with held-to-maturity assets;
- removing the requirements to separate and fair value embedded derivatives for financial assets carried at amortised cost;
- allowing an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument; and
- reclassifying financial assets where there is a change in an entity's business model as they are initially classified based on:

  (a) the objective of the entity's business model for managing the financial assets; and
  (b) the characteristics of the contractual cash flows.

- AASB 124: Related Party Disclosures (applicable for annual reporting periods commencing on or after 1 January 2011)

  This standard removes the requirement for government related entities to disclose details of all transactions with the government and other government related entities and clarifies the definition of a related party to remove inconsistencies and simplify the structure of the standard. No changes are expected to materially affect the Group.

- AASB 2009-4: Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 2 and AASB 138 and AASB Interpretations 9 & 16] (applicable for annual reporting periods commencing from 1 July 2009) and AASB 2009-5: Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 101, 107, 117, 118, 136 & 139] (applicable for annual reporting periods commencing from 1 January 2010).

  These standards detail numerous non-urgent but necessary changes to accounting standards arising from IASB's annual improvements project. No changes are expected to materially affect the Group.

- AASB 2009-8: Amendments to Australian Accounting Standards — Group Cash-settled Share-based Payment Transactions [AASB 2] (applicable for annual reporting periods commencing on or after 1 January 2010).

  These amendments clarify the accounting for group cash-settled share-based payment transactions in the separate or individual financial statements of the entity receiving the goods or services when the entity has no obligation to settle the share-based payment transaction. The amendments incorporate the requirements previously included in Interpretation 8 and interpretation 11 and as a consequence, these two Interpretations are superseded by the amendments. These amendments are not expected to impact the Group.

- AASB 2009-9: Amendments to Australian Accounting Standards — Additional Exemptions for First-time Adopters [AASB 1] (applicable for annual reporting periods commencing on or after

1 Summary of Significant Accounting Policies continued

(q) New Accounting Standards for Application in Future Periods continued

1 January 2010).

These amendments specify requirements far entities using the full cost method in place of the retrospective application of Australian Accounting Standards for oil and gas assets, and exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with Interpretation 4 when the application of their previous accounting policies would have given the same outcome. These amendments are not expected to impact the Group.

- AASB 2009-10: Amendments to Australian Accounting Standards — Classification of Rights Issues [AASB 132] (applicable for annual reporting periods commencing on or after 1 February 2010).

These amendments clarify that rights, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount in any currency are equity instruments if the entity offers the rights, options or warrants pro-rata to all existing owners of the same class of its own non-derivative equity instruments. These amendments are not expected to impact the Group.

- AASB 2009-12: Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052] (applicable for annual reporting periods commencing on or after 1 January 2011).

This standard makes a number of editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of International Financial Reporting Standards by the IASB. The standard also amends AASB 8 to require entities to exercise judgment in assessing whether a government and entities known to be under the control of that government are considered a single customer for the purposes of certain operating segment disclosures. These amendments are not expected to impact the Group.

- AASB 2009-13: Amendments to Australian Accounting Standards arising from Interpretation 19 [AASB 1] (applicable for annual reporting periods commencing on or alter 1 July 2010).

This standard makes amendments to AASB 1 arising from the issue of Interpretation 19. The amendments allow a first-time adopter to apply the transitional provisions in Interpretation 19. This standard is not expected to impact the Group.

- AASB 2009-14: Amendments to Australian Interpretation — Prepayments of a Minimum Funding Requirement [AASB Interpretation 14] (applicable for annual reporting periods commencing on or after 1 January 2011).

This standard amends Interpretation 14 to address unintended consequences that can arise from the previous accounting requirements when an entity prepays future contributions into a defined benefit pension plan.

- AASB Interpretation 19: Extinguishing Financial Liabilities with Equity Instruments (applicable for annual reporting periods commencing on or after 1 July 2010).

This Interpretation deals with how a debtor would account for the extinguishment of a liability through the issue of equity instruments. The Interpretation states that the issue of equity should be treated as the consideration paid to extinguish the liability, and the equity instruments issued should be recognised at their fair value unless fair value cannot be measured reliably in which

1 Summary of Significant Accounting Policies continued

(q) New Accounting Standards for Application in Future Periods continued

case they shall be measured at the fair value of the liability extinguished. The Interpretation deals with situations where either partial or full settlement of the liability has occurred. This Interpretation is not expected to impact the Group.

The Group does not anticipate early adoption of any of the above accounting standards.

(r) Critical accounting estimates and judgments

The directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and based on current trends and economic data, obtained both externally and within the Group.

2 Earnings per share

(a) Reconciliation of Earnings to Loss

	2010	2009
	$	$
(Loss) attributable to members	**(3,743,152)**	(2,129,508)
(Loss) attributable to minority equity interest	**-**	567,523
Earnings used to calculate basic EPS	**(3,743,152)**	(1,561,985)
Earnings used in calculation of dilutive EPS	**(3,743,152)**	(1,561,985)

(b) Reconciliation of Earnings to Loss from Continuing Operations

	2010	2009
	$	$
(Loss) from continuing operations		
(Loss) from continuing operations	**(3,743,152)**	(1,605,276)
Earnings used to calculate basic EPS from continuing operations	**(3,743,152)**	(1,605,276)
Earnings used in the calculation of dilutive EPS from continuing operations	**(3,743,152)**	(1,605,276)

(c) Reconciliation of Earnings to Loss from Discontinuing Operations

	2010	2009
	$	$
(Loss) from discontinuing operations	**-**	(524,232)
(Loss) attributable to minority equity interest	**-**	172,997
Earnings used to calculated basic EPS from discontinuing operations	**-**	(351,235)

(d) Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS

	2010	2009
Weighted average number of ordinary shares outstanding during the year - No.used in calculating basic EPS	**151,008,712**	124,638,407
Weighted average number of options outstanding	**6,539,178**	15,600,000
Weighted average number of ordinary shares outstanding during the year used in calculating dilutive EPS	**157,547,890**	140,238,407

(e) Diluted earnings per share is not reflected for discontinuing operations as the result is anti-dilutive in nature.

3 Revenue

(a) Revenue breakup

	2010 $	2009 $
Sales revenue		
- Sale of goods	**1,402,126**	2,217,911
- Services revenue	**13,055**	212,101
Total Revenue	**1,415,181**	2,430,012

(b) Other Income breakup

	2010 $	2009 $
Other Income		
- Gain on sale of winery	**129,947**	229,659
- Revenue - interest	**215**	14,764
- Gain on sale of subsidiary	**-**	50,637
- Recoveries	**11,980**	44,083
Other Income	**142,142**	339,143

	2010 $	2009 $
Interest revenue from:		
other related parties	**-**	8,260
bank interest and interest charged on trade and other receivables	**215**	6,504
Total interest revenue on financial assets not at fair value through profit or loss	**215**	14,764

Prince Hill Wines Limited

ABN: 99 000 094 995

Notes to the Financial Statements

For the Year Ended 30 June 2010

4 Profit / (Loss) for the Year

(a) Expenses

	2010	2009
	$	$
Cost of sales	**1,614,009**	3,170,795
Interest expense on financial liabilities not at fair value through profit or loss:		
external	**181,260**	135,503
Total interest expense	**181,260**	135,503
Impairment of inventory	**260,373**	458,729
Impairment of winery sale receivable	**2,388,643**	-
Bad and doubtful debts		
Bad debts	**(4,486)**	(11,558)
Total bad and doubtful debts	**(4,486)**	(11,558)

5 Tax

(a) Future income tax benefits not brought to account

Deferred tax assets not brought to account, the benefits of which will only be realised if the conditions for deductibility set out in Note 1(l) occur:

	Note	2010	2009
		$	$
- temporary differences		**17,502**	17,314
- tax losses:			
- operating losses		**7,586,421**	7,158,629
- capital losses		**863,044**	185,435
		8,466,967	7,361,378

6 Cash and cash equivalents

(a) Detailed table

	2010	2009
	$	$
Cash on hand	**1,751**	1,754
Cash at bank	**21,290**	110,934
	23,041	112,688

(b) Effective Interest Rate

The effective interest rate on short-term bank deposits was 0.5% (2009: 0.1%); these deposits have an average maturity of 20 days.

6 Cash and cash equivalents continued
(c) Reconciliation of Cash

	Note	2010 $	2009 $
Cash at the end of the financial year as shown in the consolidated statement of cash flows is reconciled to items in the consolidated statement of financial position as follows:			
Cash and cash equivalents		**23,041**	112,688
		23,041	112,688

7 Trade and other receivables

	Note	2010 $	2009 $
CURRENT			
Trade receivables		**94,382**	85,314
Provision for impairment of receivables		**(962)**	(12,000)
		93,420	73,314
Other receivables		**3,037**	47,017
		96,457	120,331

(a) Provision for Impairment of receivables

Current trade receivables are non-interest bearing loans and are generally on 30 to 60 day terms. A provision is recognised when there is objective evidence that an individual trade receivable is impaired. These amounts have been included in the other expense item.

Movement in provision for impairment of receivables is as follows:

	Opening balance 1 July 2009 $	Charge for the year $	Amounts written off $	Closing balance 30 June 2010 $
(i) Current trade receivables	12,000	(17,579)	6,541	962
	12,000	(17,579)	6,541	962

There are no balances within trade and other receivables that contain assets that are not doubtful and are past due. It is expected that these balances will be received when due. Doubtful assets are provided for in full.

7 Trade and other receivables continued

(b) Credit risk - Trade and Other Receivables

These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

(c) Credit risk - Trade and Other Receivables

	Gross amount	Past due and impaired	< 30	31-60	61-90	> 90	Within initial trade terms
	$	$	$	$	$	$	$
2010							
Trade and term receivables	**94,382**	**962**	**259**	**102**	**604**	**-**	**92,455**
Total	**94,382**	**962**	**259**	**102**	**604**	**-**	**92,455**
2009							
Trade and term receivables	85,314	10,400	206	-	206	-	74,502
Total	85,314	10,400	206	-	206	-	74,502

8 Inventories

	Note	2010	2009
		$	$
CURRENT			
Raw materials and stores		**9,934**	56,037
Finished goods		**430,703**	778,851
		440,637	834,888

9 Other Assets

	2010	2009
	$	$
CURRENT		
Prepayments	**4,079**	5,540
	4,079	5,540

10 Winery sale receivable

	2010 $	2009 $
Winery sale receivable	**2,211,421**	4,620,000
	2,211,421	4,620,000

The Group exchanged contracts with CN Wine (Australia) Pty Ltd on the 30 June 2010 for the sale of the vineyard and winery located at 1220 Castlereagh Highway, Apple Tree Flat, Mudgee, New South Wales for $2,300,000. The winery sale receivable is written down to its net realisable value after deducting selling costs.

Previously the Group exchanged contracts on the 30 September 2008 with Great Southern Beverage Pty Ltd for the sale of the vineyard and winery for $5,500,000. When the purchasor did not complete the transaction on the 18 February 2010 the group issued a "Notice of Termination of Contract" to Great Southern Beverage on the 9 March 2010.

The Statement of Comprehensive Income includes the impairment losses as a result of the failed contract with Great Southern Beverage Pty Ltd and the instalments received as a result of the failed sale are recognised in Other Income. The Statement of Cashflows includes the instalment receipts from Great Southern Beverage Pty Ltd.

11 Property, plant and equipment

(a) Property Plant and Equipment

	2010 $	2009 $
Plant and equipment		
At cost	**290,755**	759,898
Accumulated depreciation	**(198,475)**	(637,746)
Total plant and equipment	**92,280**	122,152
Leased plant and equipment		
Capitalised leased assets	**41,864**	41,864
Accumulated depreciation	**(21,577)**	(15,337)
Total leased plant and equipment	**20,287**	26,527
Total property, plant and equipment	**112,567**	148,679

11 Property, plant and equipment continued

(b) Movements in Carrying Amounts

Movement in the carrying amount for each class of property, plant and equipment between the beginning and the end of the current financial year

	Plant & Equipment Leased from External Parties	Plant and Equipment	Total
	$	$	$
Balance at the beginning of year	26,526	122,152	148,678
Depreciation expense	(6,239)	(29,872)	(36,111)
Carrying amount at the end of year	20,287	92,280	112,567

12 Controlled Entities

Name	Country of incorporation	Percentage Owned (%)* 2010	Percentage Owned (%)* 2009
Parent Entity:			
Prince Hill Wines Limited (ASX: PHW)	Australia		
Subsidiaries of parent entity:			
Prince Hill Wine Services Pty Ltd	Australia	**100%**	100%
Prince Hill Cellars Pty Ltd	Australia	**100%**	100%
The Wine List Pty Ltd	Australia	**0%**	0%

* Percentage of voting power is in proportion to ownership

(a) Acquisitions - Disposals of Controlled Entities

The group did not acquire or dispose any entities during the year. The group disposed of The Wine List Pty Ltd during the prior financial year.

(b) Disposal of Controlled Entities

On 28 February 2009, the Group disposed of its 67% interest in The Wine List Pty Ltd to the Watson Wine Group Pty Ltd (WWG) a related party of director, Rex Watson. An operating profit of $ 50,637 after income tax was attributable to members of the parent company from the disposal. The disposal also wroteback WWG's share of the losses ($567,523) incurred by The Wine List Pty Ltd which had been previously recognised by the Group. No remaining interest in the entity was held by any member of the Group.

13 Contingent Liabilities and Contingent Assets

(a) Contingent Assets

Prince Hill Wine Service Pty Ltd is in the process of issuing a claim against Great Southern Beverage Pty Ltd (ACN 132 761 392) due to the its failure to complete the unconditional contract for the purchase of the vineyard and winery located at 1220 Castlereagh Highway, Apple Tree Flat, Mudgee New South Wales by the 9 March 2010.

The Group is pursuing its legal rights but it is not practicable to estimate the value of any recovery.

(b) Contingent Liabilities

The group has no contingent liabilites and there has been no change in contingent liabilities since the last annual reporting date.

14 Trade and other payables

	2010 $	2009 $
CURRENT		
Unsecured liabilities		
Trade payables	**170,150**	206,166
Other payables	**28,909**	92,811
Amount payable to:		
- other related parties	**151,013**	99,977
	350,072	398,954

15 Borrowings

(a) Borrowings

The bank borrowings expire on 12 August 2010. Agreement has been reached with the company's bankers to repay the borrowings on 12 August 2010 on settlement of the winery sale.

The related party borrowings have no expiry date. Agreement has been reached with the company's related party, Coonawarra Australia Property Trust, to repay $1,300,000 on the 31 August upon settlement of the winery sale.

(b) Current Borrowings

	2010 $	2009 $
CURRENT		
Unsecured liabilities		
Related party borrowings	**-**	705,483
	-	705,483
Secured liabilities		
Finance lease obligation	**3,563**	5,992
Bank borrowings	**768,000**	1,043,000
Related party borrowings	**1,433,234**	-
	2,204,797	1,754,475

15 Borrowings continued

(c) Non Current Borrowings

	Note	2010 $	2009 $
NON-CURRENT			
Secured liabilities			
Finance lease obligation		**12,622**	17,501
		12,622	17,501

(d) Total current and non-current secured liabilities

	2010 $	2009 $
Finance lease obligations	**16,184**	23,493
Bank borrowings	**768,000**	1,043,000
Related party borrowings	**1,433,234**	-
	2,217,418	1,066,493

(e) The carrying amounts of non-current assets pledged as security are:

	2010 $	2009 $
Floating charge over winery sale receivable	**2,211,421**	4,620,000
	2,211,421	4,620,000

(f) Borrowings

Bank borrowings have been drawn under a Floating Rate Bill Facility. The facility balance of $768,000 is due on 12 August 2010 (date of settlement of winery sale) and incurs variable interest at 7.977% payable monthly in arrears (2009: 3.9%).

The related party loans are drawn as an at call facility. The facility balance has $1,300,000 due to be repaid on the 31 August 2010 (upon settlement of winery sale) and incurs fixed interest of 11.5% accruing each month.

(g) Collateral Provided

The bank borrowings are secured by a registered first mortgage over the freehold properties owned by the company and the winery sale receivable.

The related party borrowings are secured by a second mortgage over the freehold properties owned by the company and the winery sale receivable.

Lease liabilities are secured by the underlying leased assets.

16 Provisions

(a) Movement in carrying amounts

	Employee entitlements $	Total $
Opening balance at 1 July 2009	**44,101**	**44,101**
Additional provisions	**36,390**	**36,390**
Amounts used	**(26,546)**	**(26,546)**
Balance at 30 June 2010	**53,945**	**53,945**

(b) Analysis of Total Provisions

	2010 $	2009 $
Current	**16,866**	28,409
Non-current	**37,079**	15,692
	53,945	44,101

(c) Provision for Employee Entitlements

Provisions have been recognised for employee entitlements relating to long service leave and annual leave. The measurement and recognition criteria relating to employee benefits has been included in Note 1 to this report.

17 Issued Capital

(a) Total issued capital

	2010 $	2009 $
204,790,673 (2009: 124,638,407) Ordinary Shares	**36,471,926**	36,089,103
Total	**36,471,926**	36,089,103

A Rights Issue increased Issued capital by $400,760. The capital raising was reduced by $17,937 for transaction costs associated with the capital raising.

(b) Ordinary Shares

	2010 No.	2009 No.
At the beginning of reporting period	**124,638,407**	124,638,407
Shares issued during the year		
Rights Issue	**80,152,266**	-
At reporting date	**204,790,673**	124,638,407

17 Issued Capital continued

(b) Ordinary Shares continued

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held.

At the shareholders meetings, each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

(c) Options

(i) For information relating to Prince Hill Wines Limited employee option plan, including details of options lapsed during the financial year refer to Note 18.

(ii) For information relating to share options issued to and lapsed by key management personnel during the financial year, refer to Note 18.

(d) Capital Management

Management controls the capital of the Group in order to maintain a good debt to equity ratio and ensure that it can fund its operations as going concern.

The Group's debt and capital includes ordinary capital and financial liabilities.

There are no externally imposed capital requirements.

Management effectively manages the Group's capital by assessing the Group's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of debt levels and share issues.

Due to the current economic conditions of the wine industry and the failed sale transaction with Great Southern Beverage Pty Ltd, there have been forced changes in the strategy adopted by management in regards to the gearing ratio's adopted by management.

The gearing ratio for the year ended 30 June 2010 and 30 June 2009 are as follows:

	Note	2010 $	2009 $
Total borrowings		**2,217,419**	1,771,976
Less Cash and cash equivalents	6	**(23,041)**	(112,688)
Net debt		**2,194,378**	1,659,288
Total equity		**266,766**	3,627,095
Total capital		**2,461,144**	5,286,383
Gearing ratio		**89.00 %**	31.00 %

18 Options

(a) Options to take up shares in the company had been granted as follows, there are no outstanding options to take up shares in the company as at 30 June 2010:

	Grant Date	Date of Expiry	Exercise Price	Number under Option
Option Holders				
Southern Cross Equities	7 April 2004	30 November 2009	$0.26	1,200,000
Southern Cross Equities	7 April 2004	30 November 2009	$0.30	600,000
Bacchus Strategic Developments Group	7 April 2004	30 November 2009	$0.26	3,500,000
Bacchus Strategic Developments Group	7 April 2004	30 November 2009	$0.30	1,800,000
Coonawarra Premium Vineyards Limited as Trustee for Coonawarra Australia Property trust	11 May 2007	30 November 2009	$0.10	3,000,000
Total				**10,100,000**

19 Capital and Leasing Commitments

(a) Finance Lease Commitments

		2010 $	2009 $
Payable - minimum lease payments			
- not later than 12 months		**5,038**	7,416
- between 12 months and 5 years		**14,263**	20,560
Minimum lease payments		**19,301**	27,976
Less future finance changes		**(3,116)**	(4,482)
Present value of minimum lease payments	15	**16,185**	23,494

The finance lease relate to motor vehicles used in winery and cellar door operations.

20 Financial instruments

(a) Financial Risk Management

The Group's financial instruments consist mainly of deposits with banks, accounts receivable and payable, loans to and from subsidiaries, bills and leases.

The totals for each category of financial instruments, measured in accordance with AASB 139 as detailed in the accounting policies to these financial statements, are as follows:

	2010	2009
	$	$
Financial Assets		
Cash and cash equivalents	**23,041**	112,688
Loans and receivables	**2,307,878**	4,740,331
	2,330,919	4,853,019
Financial Liabilities		
Financial liabilities at amortised cost		
- Trade and other payables	**350,072**	1,754,475
- Borrowings	**2,217,419**	1,771,976
	2,567,491	3,526,451

(b) Financial Risk Management Policies

The Group provides treasury services to the business, co-ordinates access to domestic and international financial markets, and manages the financial risks relating to the operations of the consolidated group. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes. The use of financial derivatives is governed by the Group’s policies approved by the Board of directors of the Group, which provide written principles on the use of financial derivatives. Compliance with policies and exposure limits is reviewed by the Board on a continuous basis. The Group’s activities expose it primarily to the financial risks of changes in interest rates. The Group does not enter into derivative financial instruments to manage its exposure to interest rate risk.

(c) Specific Financial Risk Exposures and Management

The main risks the Group is exposed to through its financial instruments are interest rate risk and liquidity risk.

(d) Interest rate risk

Exposure to interest rate risk arises on financial assets and financial liabilities recognised at reporting date whereby a future change in interest rates will affect future cash flows or the fair value of fixed rate financial instruments. The Group is also exposed to earnings volatility on floating rate instruments.

(e) Liquidity risk

Liquidity risk arises from the possibility that the Group might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities. The Group manages risk through the following mechanisms:

- preparing forward looking cash flow analysis in relation to its operational, investing and financial activities

20 Financial instruments continued

(e) Liquidity risk continued

- monitoring undrawn credit facilities
- obtaining funding from a variety of sources
- maintaining a reputable credit risk profile
- managing credit risk related to financial assets
- investing only in surplus cash with major financial institutions
- comparing the maturity profile of financial liabilities with the realisation profile of financial assets

(f) Liquidity Risk - financial assets pledged as collateral

Financial assets pledged as collateral

Certain financial assets have been pledged as security for debt and their realisation into cash may be restricted subject to terms and conditions attached to the relevant debt contracts. Refer to Note 15: Borrowings for further details.

21 Segment information

(a) Identification of reportable segments

The Directors have considered the requirements of AASB 8 Operating Segments and the internal reports that are reviewed by the chief operating deciscion maker (the Board) in allocating resources and have concluded that at this time there are no separately identifiable segments. The group remains focussed on ensuring the results of the wine business improve.

22 Interests of Key Management Personnel

(a) Totals of remuneration paid

Refer to the Remuneration Report contained in the Directors Report for details of the remuneration paid or payable to each member of the Group's key management personnel for the year ended 30 June 2010.

The totals of remuneration paid to key management personnel of the company and the Group during the year are as follows:

	2010	2009
	$	$
Short-term employee benefits	**249,320**	302,736
Post-employment benefits	**33,963**	26,457
Termination benefits	**-**	17,509
	283,283	346,702

22 Interests of Key Management Personnel continued

(b) Options and Rights Holdings

There were no options granted during the financial year to the directors or any of the five most highly remunerated officers as part of their remuneration. The listed individuals each have a relevant interest in the options.

The 86,500,685 shares and 3,000,000 options are all held by Australian Executor (SA) Trust Limited as custodian for Coonawarra Australia Property Trust, a related party.

The number of options over ordinary shares held by each key management personnel of the Group during the financial year is as follows:

	Balance at beginning of year	Expired options	Balance at end of year
30 June 2010			
Rex Watson	3,000,000	(3,000,000)	-
Andrew Parkinson	3,000,000	(3,000,000)	-

	Balance at beginning of year	Other changes during the year	Balance at end of year
30 June 2009			
Rex Watson	3,000,000	-	3,000,000
Andrew Parkinson	3,000,000	-	3,000,000

(c) Key Management Personnel Shareholdings

All shares listed below are held in trust by Australian Executor (SA) Trust Limited as custodian for Coonawarra Australian Property Trust, a related party.

The number of ordinary shares in Prince Hill Wines Limited in which a relevant interest is held by each key management personnel of the Group during the financial year is as follows:

	Balance at beginning of year	Granted as remuneration during the year	Issued on exercise of options during the year	Other changes during the year	Balance at end of year
30 June 2010					
Rex Watson	56,500,685	-	-	30,000,000	86,500,685
Andrew Parkinson	56,500,685	-	-	30,000,000	86,500,685

22 Interests of Key Management Personnel continued

(c) Key Management Personnel Shareholdings continued

	Balance at beginning of year	Granted as remuneration during the year	Issued on exercise of options during the year	Other changes during the year	Balance at end of year
30 June 2009					
Rex Watson	56,500,685	-	-	-	56,500,685
Andrew Parkinson	56,500,685	-	-	-	56,500,685

(d) Other Key Management Personnel Transactions

There have been no other transactions involving equity instruments other than those described in the tables above. For details of other transactions with key management personnel, refer to Note 24: Related Party Transactions.

For details of loans to key management personnel, refer to Note 7: Trade and Other Receivables.

23 Auditors' Remuneration

	2010 $	2009 $
Remuneration of the auditor of the parent entity for:		
- auditing or reviewing the financial report	**33,000**	39,750

24 Related party transactions

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

Transaction with related parties:

	2010 $	2009 $
During the financial year the Group paid fees to Coonawarra Vineyard Management Services Pty Ltd (CVMS), a related entity of former director, Rex Watson. These fees were in respect of management services (including administration, finance, accounting, sales and marketing) provided to the consolidated entity for the financial year. These fees were charged to Prince Hill Wines at cost with CVMS not making any profit margin on the fees. In this respect, the fees are at a discount to normal commercial terms and conditions.	**(229,731)**	(311,238)
The Coonawarra Australia Property Trust has lent the Group the funding to pay for its operational losses and in the prior year an installment for the Winery sale. The interest charges were on third party commercial terms and conditions.	**(1,433,234)**	(705,842)
During the financial year the Group purchased bulk wine, finished wine and bottling services from the Watson Wine Group, a related entity of former director, Rex Watson. These charges were calculated on the basis of cost recovery and do not include any profit element.	**(572,652)**	(903,024)
During the financial year the Group sold finished wine and other wine services to the Watson Wine Group, a related entity of former director, Rex Watson. These charges were on third party commercial terms and conditions.	**22,520**	47,741
During the financial year the Group was charged commission by The Wine List Pty Ltd (TWL), a related entity of former director, Rex Watson. These charges were on third party commercial terms and conditions. Further, TWL recharged wine selling costs incurred on behalf of the Group. These charges were calculated on the basis of cost recovery and do not include any profit element.	**(209,818)**	(165,501)
During the financial year the Group sold finished wine and other wine services to the The Wine List Pty Ltd, a related entity of former director, Rex Watson. These charges were on third party commercial terms and conditions.	**468,398**	104,046
During the financial year the Group was recharged insurance services from the Coonawarra Premium Vineyards Limited, a related entity of former director, Rex Watson. These charges were calculated on the basis of cost recovery and do not include any profit element.	**(55,695)**	(52,666)

25 Cash Flow Information

(a) Reconciliation of Cash Flow from Operations with Loss after Income Tax

	2010	2009
	$	$
Net (loss) for the period	**(3,743,152)**	(1,561,986)
Cash flows excluded from profit attributable to operating activities		
Non-cash flows in profit		
Depreciation	**36,111**	102,959
Impairment of property, plant and equipment	**2,388,643**	50,000
Impairment of receivables	**(4,486)**	(11,558)
Impairment of inventory	**260,373**	458,729
Net gain on disposal of property, plant and equipment	**(129,947)**	(228,863)
Net gain/(loss) on disposal of controlled entity	**-**	(50,637)
Share of associated companies net profit after income tax and dividends	**-**	(567,523)
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries		
(Increase)/decrease in trade and term receivables	**80,017**	178,991
(Increase)/decrease in prepayments	**1,462**	23,597
(Increase)/decrease in inventories	**133,879**	29,121
Increase/(decrease) in trade payables and accruals	**(56,795)**	658,256
Increase/(decrease) in provisions	**(3,279)**	(10,822)
	(1,037,174)	(929,736)

(b) Loan Facilities

	2010	2009
	$	$
Loan facilities unutilised	**-**	-
Loan facilities utilised	**768,000**	1,043,000
	768,000	1,043,000

Funds have been drawn under a Floating Rate Bill Facility. The facility balance of $768,000 is due on 12 August 2010 (date of settlement of winery sale) and bears a variable interest at 8.0% payable monthly in arrears (2009: 3.9%).

26 Parent Company information

(a) Prince Hill Wines Limited Parent Company Information

(i) Parent Entity

	2010 $	2009 $
Assets		
Current assets	**2,636**	8,239
Non-current assets	**4,102,412**	3,788,651
Total Assets	**4,105,048**	3,796,890
Liabilities		
Current liabilities	**19,713**	27,162
Non-current liabilities	**-**	-
Total Liabilities	**19,713**	27,162
Reserves	**-**	-
Financial Performance		
Loss for year	**67,212**	35,054
Other Comprehensive Income	**-**	-
Total Comprehensive Income	**67,212**	35,054

(ii) Guarantees

Prince Hill Wines Limited has no guarantees in relation to the debts of its subsidiaries.

(iii) Contingent Assets and Liabilities

Prince Hill Wines Limited has no contingent assets and liabilities.

(iv) Capital Committments

Prince Hill Wines Limited has no capital committments for the acquisition of property, plant or equipment.

27 Events after the end of the reporting period

As contracted, the winery sale settled on the 12 August 2010 and subsequently the National Australia Bank Bill facility was paid in full.

	2010 $	2009 $
Winery sale receivable	**2,211,421**	-
Bank Borrowings	**(768,000)**	-
Net cash flows	**1,443,421**	-

27 Events after the end of the reporting period continued

There has not been any other matter or circumstance, other than that referred to in the financial statements or notes thereto, that has arisen since the end of the financial year, that has 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.

(a) The financial report was authorised for issue on 31 August 2010 by the Board of directors.

28 Company Details

(a) Registered office

The registered office of the company is:
Prince Hill Wines Limited
235 Glen Osmond Road
Frewville SA 5063

(b) Principal place of business

The principal place of business is:
Prince Hill Wines
1220 Castlereagh Highway
Mudgee NSW 2850