

Southcorp Wines Europe Limited

**Directors' report and financial
statements**

Registered number 2808255

30 June 2003



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Directors' report

The directors present their annual report and audited financial statements for the year ended 30 June 2003.

Principal activities

The principal activity of the company is the importation and distribution of Australian, Californian and French wines.

Business review

During the year ended 30 June 2003, the company suffered a trading loss as a result of reduced volumes and increased costs of business. The fall in volume was driven by the full year impact of a decision to move away from low margin and customers' own label brands during the previous year. Cost of business increased predominantly as a result of competitive market conditions and economic difficulties and a trend towards heavier discounting. Despite these conditions, there is continued growth in the demand for premium Australian wines in the UK and Europe and it is anticipated that the level, and profitability of the business will increase in future years. The directors are also focused on improving the cost structure of the business which will improve profitability over the next few years.

The results for the year are shown in the profit and loss account on page 4.

Dividends

Dividends of £Nil (2002: £10,644,000) were declared and paid during the year.

Directors and directors' interests

The directors who held office during the year and up to the date of this report were as follows:


M Micheli	(resigned 14 February 2003)
C Howes	
P Cleaves	(resigned 28 April 2003)
J Wilkinson	(appointed 17 December 2002)
S McClintock	(appointed 2 July 2003)

The directors who held office at the end of the financial period had no disclosable interests in the shares of the company or any other group companies, as recorded in the register of directors' share and debenture interests.

Auditor

Pursuant to section 386 of the Companies Act 1985, the company has dispensed with the obligation to appoint auditors annually. Accordingly, KPMG LLP will remain as auditor of the company.

By order of the board



C Howes
Director

Grange House
15 Church Street
Twickenham
TW1 3NL

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.



KPMG LLP

Arlington Business Park
Theale
Reading
Berkshire RG7 4SD

Report of the independent auditors to the members of Southcorp Wines Europe Limited

We have audited the financial statements on pages 4 to 14

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 2, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditor, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the director in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 30 June 2003 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

A handwritten signature in black ink that reads 'KPMG LLP' with a long horizontal line underneath.

KPMG LLP
Chartered Accountants
Registered Auditor

25 March 2004

Profit and loss account
for the year ended 30 June 2003


	<i>Note</i>	2003 £000	2002 £000
Turnover	2	105,217	146,690
Cost of sales		(87,414)	(120,748)
		<hr/>	<hr/>
Gross profit		17,803	25,942
Administrative expenses		(17,977)	(15,931)
Distribution expenses		(2,807)	(1,765)
Other operating income		16	14
		<hr/>	<hr/>
Operating (loss)/profit		(2,965)	8,260
Interest receivable and similar income	6	430	1,061
Interest payable	7	(507)	(4,208)
		<hr/>	<hr/>
(Loss)/profit on ordinary activities before taxation	3-5	(3,042)	5,113
Tax on profit/(loss) on ordinary activities	8	829	(864)
		<hr/>	<hr/>
(Loss)/profit for the financial year		(2,213)	4,249
Retained profit/(loss) at beginning of year		(759)	5,636
Dividends		-	(10,644)
		<hr/>	<hr/>
Retained (loss) at end of year		(2,972)	(759)
		<hr/>	<hr/>

The company has no recognised gains or losses other than the profit for the year and the above amounts represent the results of continuing operations.

Balance sheet
at 30 June 2003

	<i>Note</i>	2003	2002
		£000	£000
Fixed assets			
Tangible assets	9	680	376
Current assets			
Stocks	10	12,530	9,749
Debtors	11	43,493	76,114
Cash at bank and in hand		4,445	7,953
		<hr/>	<hr/>
Creditors: amounts falling due within one year	13	60,468 (43,787)	93,816 (94,941)
		<hr/>	<hr/>
Net current assets/(liabilities)		16,681	(1,125)
Creditors : amounts falling due after more than one year	14	(323)	-
		<hr/>	<hr/>
Net assets/(liabilities)		17,038	(749)
		<hr/>	<hr/>
Capital and reserves			
Called up share capital	15	23	10
Share premium	16	19,987	-
Profit and loss account	16	(2,972)	(759)
		<hr/>	<hr/>
Shareholders' funds/(deficit)	17	17,038	(749)
		<hr/>	<hr/>

These financial statements were approved by the board of directors on 25 March 2004 and were signed on its behalf by:


C Howes
Director

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules.

Cash flow

Under Financial Reporting Standard 1 the company is exempt from the requirement to prepare a cash flow statement on the grounds that it is a wholly owned subsidiary undertaking of Southcorp Limited and it is included within the consolidated financial statements of that company.

Related parties

The company is also taking advantage of the exemption which is available under Financial Reporting Standard 8, for subsidiaries more than 90% owned, not to disclose transactions with other group undertakings. There were no other related party transactions in the year requiring separate disclosure.

Fixed assets and depreciation

Depreciation is provided by the company to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives.

Leasehold improvements	20% per annum
Computer equipment	25% per annum
Fixtures and fittings	10% per annum

Stocks

Stocks are stated at the lower of purchase cost and net realisable value.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

Leases

The rental charges for operating leases are charged to the profit and loss account on a straight line basis over the life of the lease.

Notes (continued)

1 Accounting policies (continued)

Taxation

The charge for taxation is based on the profit for the period and takes into account deferred taxation. Deferred tax is recognised without discounting in respect of all timing differences between the treatment of items for taxation and accounting purposes which have arisen but not reversed by balance sheet date unless as otherwise required by FRS 19.

Turnover

Turnover represents the amounts (excluding value added tax) derived from the provision of goods and services to customers during the period. Turnover is reported net of discounts and allowances provided to customers.

Sales are recognised at the time ownership transfers to the customer; either on shipment or despatch.

A provision is made for promotional discounts due to customers based on an estimate of qualifying sales made by each customer during the period, hence reducing turnover.

Pensions

The company pays contributions into a group personal pension plan and into certain employees' personal pension plans. The amount charged to the profit and loss account in respect of pension costs represents the contributions payable in the period. The difference between contributions payable and contributions paid is shown as a prepayment or accrual in the balance sheet as appropriate.

2 Analysis of turnover

In the opinion of the directors the turnover and profit on ordinary activities before taxation relates to the principal activity, being the importation and distribution of wines.

	2003 £000	2002 £000
UK and Ireland	74,058	115,053
Rest of World	31,159	31,637
	<hr/> 105,217 <hr/>	<hr/> 146,690 <hr/>

3 (Loss)/profit on ordinary activities before taxation

	2003 £000	2002 £000
<i>(Loss)/profit on ordinary activities before taxation is stated after charging:</i>		
Auditors' remuneration:		
Audit	92	46
Other services	7	-
Depreciation	123	105
Hire of plant and machinery – rentals payable under operating leases	90	136
Hire of other assets - operating leases	211	341
Loss on disposal of fixed assets	123	5
	<hr/>	<hr/>

The auditors' remuneration includes audit fees for all Southcorp group companies in the UK.

Notes (continued)

4 Remuneration of directors

	2003 £000	2002 £000
Directors' emoluments	446	447
Company contributions to money purchase pension schemes	22	43
Compensation for loss of office	550	-
	<u>1018</u>	<u>490</u>

The aggregate of emoluments of the highest paid director was £222,000 (2002: £318,000) and company pension contributions of £Nil (2002: £43,000) were made to a money purchase scheme on his behalf. In 2003 the highest paid director also received £550,000 compensation for loss of office, including an element in lieu of company pension contributions.

Retirement benefits were accruing to the following number of directors under:

	Number of directors 2003	2002
Money Purchase Schemes	<u>2</u>	<u>1</u>

5 Staff numbers and costs

The average number of persons employed by the company (including directors) during the period, analysed by category, was as follows:

	Number of employees 2003	2002
Administration	31	30
Selling	56	49
	<u>87</u>	<u>79</u>

The aggregate payroll costs of these persons were as follows:

	2003 £000	2002 £000
Wages and salaries	4,618	4,219
Social security costs	479	428
Other pension costs	542	224
	<u>5,639</u>	<u>4,871</u>

Notes (continued)

6 Interest receivable and similar income

	2003 £000	2002 £000
Receivable from group undertakings	420	982
Other	10	79
	<u>430</u>	<u>1,061</u>

7 Interest payable

	2003 £000	2002 £000
On bank loans and overdraft	507	4,178
On all other loans	-	30
	<u>507</u>	<u>4,208</u>

8 Taxation

Analysis of (credit)/charge in period

	2003 £000	2002 £000
<i>UK corporation tax</i>		
Total current tax	(811)	1,338
<i>Deferred tax</i>		
Origination/reversal of timing differences	(18)	(101)
Adjustment in respect of previous years	-	(373)
	<u>(18)</u>	<u>(474)</u>
Tax (credit)/charge on (loss)/profit on ordinary activities	<u>(829)</u>	<u>864</u>

Notes (continued)

8 Taxation (continued)

Factors affecting the tax (credit)/charge for the current period

The current tax credit for the period is lower (2002: charge is lower) than the standard rate of corporation tax in the UK (30%, 2002 : 30%). The differences are explained below.

	2003 £000	2002 £000
<i>Current tax reconciliation</i>		
(Loss)/profit on ordinary activities before tax	(3,042)	5,113
	<hr/>	<hr/>
Current tax at 30% (2002:30%)	(913)	1,534
<i>Effects of:</i>		
Expenses not deductible for tax purposes	72	80
Depreciation in excess of capital allowances	30	6
Income non assessable for tax purposes	-	(10)
Utilisation of tax losses (group relief)	-	(141)
Adjustments to tax charge in respect of previous periods	-	(131)
	<hr/>	<hr/>
Total current tax (credit)/charge (see above)	(811)	1,338
	<hr/> <hr/>	<hr/> <hr/>

9 Tangible fixed assets

	Leasehold improvements £000	Computer equipment £000	Fixtures and fittings £000	Total £000
<i>Cost</i>				
At beginning of year	334	121	196	651
Additions	195	24	335	553
Disposals	(170)	-	(80)	(250)
	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	359	145	451	954
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<i>Depreciation</i>				
At beginning of year	128	89	58	275
Charge for year	65	12	46	123
Disposals	(95)	-	(28)	(123)
	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	98	101	76	274
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<i>Net book value</i>				
At 30 June 2003	261	44	375	680
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 30 June 2002	206	32	138	376
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Notes (continued)

10 Stocks

	2003 £000	2002 £000
Raw materials and consumables	-	231
Finished goods	12,530	9,518
	<u>12,530</u>	<u>9,749</u>

11 Debtors

	2003 £000	2002 £000
Trade debtors	39,142	74,309
Amounts owed by group undertakings	-	3
Corporation tax recoverable	2,054	-
Other debtors	1,572	1,220
Prepayments	707	582
Deferred tax asset (see note 12)	18	-
	<u>43,493</u>	<u>76,114</u>

12 Deferred tax asset

	£000
At the start of the year	-
Credit in the profit and loss account	18
	<u>18</u>
At the end of the year	<u>18</u>

The elements of deferred taxation are as follows:

	2003 £000	2002 £000
Difference between accumulated depreciation and amortisation and capital allowances	(50)	(23)
Other timing differences	28	23
Tax losses	40	-
	<u>18</u>	<u>-</u>
Deferred tax asset	<u>18</u>	<u>-</u>

Notes (continued)

13 Creditors: amounts falling due within one year

	2003 £000	£000	2002 £000	£000
Trade creditors		18,907		14,819
Amounts owed to group undertakings		22,749		73,751
Corporation tax	-		1,303	
Other taxes and social security	779		1,124	
Other creditors	692		3,310	
		1,471		5,737
Accruals and deferred income		660		634
		43,787		94,941

14 Creditors: amounts falling due after more than one year

	2003 £000	2002 £000
Other creditors	323	-

15 Called up share capital

	2003 £000	2002 £000
Authorised		
87,500 (2002: 100,000) ordinary shares of £1 each	87	100
12,500 "Class B" ordinary shares of £1 each	13	-
	100	100
Allotted, called up and fully paid		
10,000 ordinary shares of £1 each	10	10
12,500 "Class B" ordinary shares of £1 each	13	-
	23	10

On 22 July 2002, the existing authorised share capital of 100,000 ordinary shares of £1 each was subdivided into 87,500 ordinary shares of £1 each and 12,500 "Class B" ordinary shares of £1 each. On 31 July 2002, the 12,500 "Class B" ordinary shares were allotted for cash consideration of £1,600 per share (a total of £20 million) giving £12,500 additional share capital and £19,987,500 share premium.

Notes (continued)

16 Reserves

	Share premium £000	Profit and loss account £000
At beginning of year	-	(759)
Loss for the year	-	(2,213)
Premium on issue of shares (note 15)	19,987	-
	<hr/>	<hr/>
At end of year	19,987	(2,972)
	<hr/>	<hr/>

17 Reconciliation of movements in shareholders' funds

	2003 £000	2002 £000
(Loss)/profit for the financial year	(2,213)	4,249
New shares issued	20,000	-
Dividend declared and paid	-	(10,644)
	<hr/>	<hr/>
Movement in shareholders' funds for the year	17,787	(6,395)
Opening shareholders' funds	(749)	5,646
	<hr/>	<hr/>
Closing shareholders' funds	17,038	(749)
	<hr/>	<hr/>

18 Contingent liabilities

The company has a contingent liability of £5,000,000 (2002: £5,000,000) in respect of guarantees issued by the bank in favour of HM Customs and Excise in respect of deferred customs duty and £50,000 (2002: £50,000) in favour of the Intervention Board of Agricultural Produce for importation of wine. No security has been provided by the company in respect of these guarantees.

19 Commitments

Annual commitments under non-cancellable operating leases are as follows:

	2003		2002	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Operating leases which expire:				
Within one year	-	50	-	-
In the second to fifth years inclusive	-	40	-	-
Over five years	211	-	341	158
	<hr/>	<hr/>	<hr/>	<hr/>
	211	90	341	158
	<hr/>	<hr/>	<hr/>	<hr/>

The company had no capital commitments at the end of the financial year (2002: £Nil).

Notes *(continued)*

20 Pension scheme

The pension cost charge represents contributions payable by the company into the company's group personal pension plan and into certain employees' personal pension plans and amounted to £542,000 (2002: £224,000) in the period. Contributions payable to these funds at 30 June 2003 were £66,000 (2002: £71,000)

21 Ultimate parent company and parent undertaking of larger group of which the company is a member

The company is a subsidiary undertaking of Southcorp International Investments Pty Limited, a company incorporated in Australia.

The ultimate parent and controlling party is Southcorp Limited, a company incorporated in Australia. The only group in which the results of the company are consolidated is that headed by Southcorp Limited. The consolidated financial statements of this company are available to the public from 403 Pacific Highway, Artarmon, NSW 2064, Australia.