ALEXANDERS J CORP
Form 4
October 14, 2010

FORM 4

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL

OMB Number:	3235-0287
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(Print or Type Responses)

1. Name and Address of Reporting Person *
DUNCAN E TOWNES

(Last) (First) (Middle)

C/O SOLIDUS COMPANY, L.P., 4015 HILLSBORO PIKE, SUITE 214

(Street)

NASHVILLE, TN 37215

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
ALEXANDERS J CORP [JAX]

3. Date of Earliest Transaction (Month/Day/Year)
10/12/2010

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director
_____ 10% Owner
_____ Officer (give title below)
_____ Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	10/12/2010		S (1)		1,000	D	$ 4.509 (2)	439,246	I	See footnote (3)
Common Stock	10/13/2010		S (1)		4,000	D	$ 4.5575 (4)	435,246	I	See footnote (3)
Common Stock								5,208	D	
Common Stock								4,800	I	By Spouse

Common Stock	2,160	I	By Parent

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Own Follo Repo Trans (Instr
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares		

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
DUNCAN E TOWNES C/O SOLIDUS COMPANY, L.P. 4015 HILLSBORO PIKE, SUITE 214 NASHVILLE, TN 37215	X			

Signatures

/s/ Jonathan D. Stanley, Attorney-in-Fact for E. Townes Duncan	10/14/2010
**Signature of Reporting Person	Date

Explanation of Responses:

***** If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

****** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) The sales reported were effected pursuant to a Rule 10b5-1 trading plan adopted by Solidus Partners, L.P. on September 2, 2010.

(2) This price represents the weighted average sale price of multiple transactions on the reported date at prices that ranged between $4.50 and $4.51. Detailed information regarding the number of shares sold at each separate price will be provided upon request by the Commission staff, the issuer, or a security holder of the issuer.

(3) Represents the shares held directly by Solidus Company, L.P. (Solidus), a Tennessee limited partnership. Mr. Duncan is the Chief Executive Officer of Solidus General Partner, LLC, which is the general partner of Solidus. Mr. Duncan disclaims beneficial ownership of any such shares that do not reflect his proportionate interest in Solidus.

(4) This price represents the weighted average sale price of multiple transactions on the reported date at prices that ranged between $4.42 and $4.90. Detailed information regarding the number of shares sold at each separate price will be provided upon request by the Commission staff, the issuer, or a security holder of the issuer.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. ----------- ----------- NET INCREASE/(DECREASE) IN CASH HELD 1,997 17,821 Cash at the beginning of the financial year 38,087 19,786 Exchange rate adjustments to cash held at the beginning of the financial year 74 480 ----------- ----------- CASH AT THE END OF THE FINANCIAL YEAR 40,158 38,087 =========== =========== The statements of cash flows are to be read in conjunction with the accompanying notes. CONSOLIDATED 2002 2001 Notes $'000 $'000 ------- ----------- ----------- RECONCILIATION OF CASH Cash at the end of the financial year as shown in the statements of cash flows is reconciled to the related items in the balance sheets as follows: Cash 7 43,553 39,665 (Less) overdraft (3,395) (1,578) ----------- ----------- 40,158 38,087 =========== =========== Page 3 NOTES TO THE FINANCIAL STATEMENTS -------------------------------- NOTE 1. STATEMENT OF ACCOUNTING POLICIES The significant policies which have been adopted in the preparation of these general purpose financial statements are: BASIS OF PREPARATION The financial statements of the parent entity, BRL Hardy Limited, and the consolidated financial statements of the economic entity have been drawn up in accordance with the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board and Urgent Issues Group Consensus Views. They have been prepared on the basis of historical costs except where stated. As a result of applying the revised Accounting Standard AASB 1018 "Statement of Financial Performance", revised AASB 1034 "Financial Report Presentation and Disclosures" and AASB 1040 "Statement of Financial Position" for the first time in the 2001 financial year, a number of comparative amounts were represented or reclassified to ensure comparability with the current reporting period. PRINCIPLES OF CONSOLIDATION The consolidated financial statements comprise the financial statements of BRL Hardy Limited and its controlled entities. Inter-company balances and transactions have been eliminated. Where a controlled entity has been acquired during the year, its results are included in consolidated profit from the date of acquisition. Where a controlled entity has been disposed of during the year, its results are excluded from consolidated profit from the date of disposal. Outside equity interests in the results and equity of controlled entities are shown separately in the consolidated statements of financial performance and financial position respectively. Investments in associates are accounted for in the consolidated financial statements using the equity method. Under this method, the consolidated entity's share of the profits or losses of associates is recognised in the consolidated statement of financial performance, and its share of movements in reserves is recognised in consolidated reserves. Associates are those entities over which the consolidated entity exercises significant influence, but not control. INVENTORIES Inventories are stated at the lower of cost or net realisable value. Cost includes direct materials, direct labour and an appropriate proportion of variable and fixed overhead expense and borrowing costs which are allocated on the basis of normal operating capacity. Costs are assigned to individual items of inventory mainly on the basis of average costs. Harvested grapes are included in inventories in the period of harvest at net market value. Wine and spirit stocks include both work in process and finished goods. GRAPE VINES Grape vines are valued at net market value. The net market value of grape vines is determined as the difference between the vineyard values and the values of the land and other vineyard improvements thereon. In determining the net market values, the directors have made certain assumptions about the yields and market prices of grapes in current and future vintages, the costs of running the vineyards and the quantity and quality of grapes growing on the vines at each balance date. The values of vineyards are based on the discounted net present values of expected future cash flows. Page 4 NOTES TO THE FINANCIAL STATEMENTS -------------------------------- NOTE 1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED) DEPRECIATION Depreciation of buildings, plant, machinery and equipment is provided at rates estimated to ensure that the cost of each item will be charged against profit over its expected useful life. Straight line and reducing balance methods of depreciation are used. The expected useful lives are as follows: Buildings 33 - 75 years Plant machinery and equipment - Vineyard improvements 20 - 50 years - Stainless steel storage 33 years - Oak barrels 4 - 5 years - Other 3 - 20 years REVENUE Amounts disclosed as revenue are net of returns, trade allowances, duties and taxes

paid. INVESTMENTS Interests in listed and unlisted securities, other than controlled entities and associates in the consolidated financial statements, are brought to account at cost. Dividend income is recognised in the statement of financial performance when receivable. FOREIGN CURRENCY TRANSLATION Foreign currency purchase transactions are translated to Australian currency at the rates of exchange ruling at the dates of the transactions. Foreign currency sales transactions are translated at average exchange rates for the year. Amounts receivable and payable in foreign currencies are translated at the rates of exchange at balance date, and the resulting exchange differences are brought to account in determining the profit for the year. The accounts of integrated controlled entities are translated using the temporal method and exchange differences arising on consolidation are taken to the consolidated statement of financial performance. The accounts of self-sustaining controlled entities are translated using the current rate method and exchange differences arising on translation are taken directly to the foreign currency translation reserve. DERIVATIVES Gains and losses on derivatives used as hedges are accounted for on the same basis as the underlying physical exposures they are hedging. Accordingly, hedging gains and losses are included in the statement of financial performance when the gains and losses arising on the related physical exposures are recognised in the statement of financial performance. Gains and losses on interest rate futures contracts, swaps and options are deferred and recognised in the statement of financial performance over the life of the underlying hedged borrowing. Gains and losses on forward foreign exchange contracts and options intended as a specific hedge against expected future transactions are deferred and are recognised when those transactions occur. EMPLOYEE ENTITLEMENTS Liabilities for employees' entitlements to wages, salaries and annual leave are accrued on the basis of current wage and salary rates. Liabilities for long service leave are accrued in respect of all employees at the present values of future amounts expected to be paid, after allowing for projected increases in wage and salary rates. Present values are calculated using discount rates based on government guaranteed securities with appropriate terms to maturity. SUPERANNUATION Contributions to employee superannuation funds are charged as an expense on an accrual basis. In relation to the defined benefits payable under the BRL Hardy Superannuation Fund, in the event of a shortfall in the net market value of fund assets when compared to members' vested entitlements, the parent entity has an obligation to provide for the present value of the shortfall to the extent that a present obligation exists to rectify the financial position of the fund. INCOME TAX Tax effect accounting procedures are followed whereby the income tax expense in the statement of financial performance is matched with the accounting profit after allowing for permanent differences. Legislation reducing the company tax rate from 36% to 34% in respect of the 2000-2001 income tax year and then to 30% from the 2001-2002 income tax year was announced on 21 September 1999. As a consequence, deferred tax balances were restated at 31 December 2000 using the rate of 30%. No future tax benefit in relation to tax losses is carried forward as an asset unless the benefit is virtually certain of realisation. The tax benefit arising from legislation providing accelerated write-offs for certain new vineyard development expenditure has been recognised during the year. The corresponding deferred tax liability has been brought to account at present values. Page 5 NOTES TO THE FINANCIAL STATEMENTS -------------------------------- NOTE 1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED) LEASED PLANT AND EQUIPMENT Finance leases are capitalised with a lease asset and corresponding liability being recorded at the inception of the lease. Capitalised lease assets are amortised on a straight line basis over the term of the relevant lease, or where it is likely the economic entity will obtain ownership of the asset, over the life of the asset. Lease liabilities are reduced by repayments of principal. The interest component of the lease payments is charged to the statement of financial performance. Payments made under operating leases are charged against profit as incurred. GOODWILL Goodwill, representing the excess of the purchase consideration plus incidental expenses over the fair value of the identifiable net assets acquired arising upon the acquisition of a business entity, is amortised on a straight line basis over the period of time during which benefits are expected to arise, but not longer than 20 years. NON-CURRENT ASSETS Revaluation: ----------- Land is valued at fair market value. Revaluation increments and decrements are taken directly to the asset revaluation reserve, except that, to the extent that a decrement exceeds previous revaluations carried in the asset revaluation reserve, it is recognised as an expense in the statement of financial performance. Land revaluations occur with sufficient regularity to ensure that the carrying amount does not materially differ from its fair value at the reporting date. Potential tax on capital gains is not taken into account in determining revaluation amounts unless there is an intention to sell the assets concerned. Recoverable amount: ------------------ The carrying values of non-current assets are reviewed annually to ensure they do not exceed their recoverable amount. Expected net cash flows used in determining recoverable amounts of non-current assets have not been discounted to their present value. Vineyard developments:

-------------------- Development costs for new vineyards, which include direct materials, direct labour and allocations of overhead and borrowing costs, are capitalised and recorded as capital work in progress. Capitalisation of costs continues until the vineyard is considered to be in commercial production, ordinarily a period of three years after the planting of vines. BRAND NAMES Only purchased brand names are included in the accounts. These are included at cost. The directors consider that these brand names are identifiable assets which, under responsible stewardship, do not ordinarily diminish in value over time and their useful lives are indeterminable. Accordingly, no amortisation is necessary. Nevertheless, the value of these brand names is reviewed annually to ensure the directors are satisfied that there is no diminution in value. CASH For the purpose of the statements of cash flows, cash includes deposits at call which are readily convertible to cash on hand, net of outstanding bank overdrafts. EARNINGS PER SHARE Basic earnings per share: Basic earnings per share is determined by dividing the net profit attributable to members of BRL Hardy Limited by the weighted average number of ordinary shares outstanding during the financial year. Diluted earnings per share: Diluted earnings per share adjusts the figures used in the determination of basic earnings per share by taking into account amounts unpaid on ordinary shares and any effect on earnings per share that would arise from the exercise of outstanding options and entitlements to additional shares. JOINT VENTURES The proportion of assets, liabilities and expenses attributable to the interests of BRL Hardy Limited in joint venture operations has been incorporated in the parent entity financial statements. Interests in joint venture entities are included in the consolidated financial report by applying the equity method. Page 6 NOTES TO THE FINANCIAL STATEMENTS -------------------------------- NOTE 1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED) TRADE DEBTORS Trade debtors are recognised as amounts receivable as at settlement. Collectability of trade debtors is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off. A provision for doubtful debts is raised where some doubt as to collection exists. TRADE AND OTHER CREDITORS Trade and other creditors represent liabilities for goods and services provided to the economic entity prior to the end of the financial year and which are unpaid. BORROWING COSTS Borrowing costs attributable to assets that necessarily take a substantial period of time to get ready for intended use or sale are capitalised into the value of the assets. The amounts capitalised into qualifying assets are disclosed in Note 3 using a weighted average interest rate of 6.1% for the 2002 financial year (2001: 6.1%). INTEREST BEARING LIABILITIES Interest bearing liabilities are carried at their principal amounts which represent the present value of future cash flows associated with servicing the debt. Interest is accrued over the period it becomes due and is recorded as part of other creditors. DIVIDENDS Dividends are only provided for when the amount of the dividend is declared, determined or publicly recommended by the directors. ROUNDING OF AMOUNTS The company is of a kind referred to in Class Order 98/0100 issued by the Australian Securities & Investments Commission relating to "rounding off" amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar. COMPARATIVE INFORMATION Where necessary, comparative information has been reclassified to facilitate comparisons. Page 7 NOTES TO THE FINANCIAL STATEMENTS -------------------------------- NOTE 2. REVENUE CONSOLIDATED 2002 2001 $'000 $'000 ----------- ----------- REVENUE FROM OPERATING ACTIVITIES Sales revenue 854,142 757,608 ----------- ----------- OTHER REVENUE Interest 859 778 Dividends 1,113 864 Proceeds from sale of property, plant and equipment 2,184 2,581 Exchange gains 1,875 2,162 Self-generating and regenerating assets 3,288 3,908 Functions 2,220 1,716 Sundry 4,655 1,760 ----------- ----------- 16,194 13,769 =========== =========== NOTE 3. OPERATING PROFIT CONSOLIDATED 2002 2001 $'000 $'000 ----------- ----------- Operating profit been determined after: CHARGING AS EXPENSE Borrowing costs attributable to: - Other persons 30,457 25,096 - Interest paid on capitalised leases 2 7 ----------- ----------- 30,459 25,103 ----------- ----------- Less: Interest capitalised - developing vineyards 1,267 701 Less: Interest capitalised - inventory 3,919 2,012 ----------- ----------- 5,186 2,713 ----------- ----------- Borrowing costs 25,273 22,390 =========== =========== Depreciation of: - Buildings 2,394 2,011 - Plant and equipment 24,053 21,214 Amortisation of leased assets 50 188 Provisions: - Employee entitlements 13,020 10,637 - Net bad and doubtful debts 845 637 Amortisation of goodwill 708 638 Write down of inventory to net realisable value 6,685 6,139 Rental expense on operating leases 8,950 8,342 Exchange losses - 38 Loss on sale of non-current assets: - Property, plant and equipment 580 300 CREDITING AS INCOME Profit on sale of non-current assets: - Property, plant and equipment 453 288 =========== =========== Page 8 NOTES TO THE FINANCIAL STATEMENTS -------------------------------- NOTE 4. INCOME TAX CONSOLIDATED 2002 2001 $'000 $'000 ----------- ----------- INCOME TAX EXPENSE Profit from ordinary activities before income tax expense 119,353 101,858 ===========

=========== Prima facie income tax expense on operating profit - calculated at the Australian rate of 30% 35,806 30,557 ----------- ----------- Increase in income tax expense due to: - Depreciation 645 502 - Tax losses not taken up 532 118 - Non deductible entertainment 401 322 - Higher tax rates in overseas jurisdictions 2,231 144 - Other items 697 996 ----------- ----------- 4,506 2,082 ----------- ----------- Decrease in income tax expense due to: - Tax exempt dividend income - 286 - Imputation credits received 546 - - Property, plant and equipment allowances 933 977 - Uniform capital allowance 218 - - Other items 2,458 1,234 ----------- ----------- 4,155 2,497 ----------- ----------- Add/(less): - Adjustment to prior year provisions (966) (443) ----------- ----------- Income tax expense 35,191 29,699 =========== =========== $1.1m of the future income tax benefit shown in Note 16 is attributable to tax losses. This benefit for tax losses will only be obtained if: (i) the consolidated entity derives future assessable income of a nature and an amount sufficient to enable the benefit from the deductions for the losses to be realised; or (ii) the losses are transferred to an eligible entity in the consolidated entity; (iii) the consolidated entity continues to comply with the conditions for deductibility imposed by tax legislation; and (iv) no changes in tax legislation adversely affect the consolidated entity in realising the benefit from the deductions for the losses. NOTE 5. DIVIDENDS CONSOLIDATED 2002 2001 $'000 $'000 ----------- ----------- DIVIDENDS PROVIDED FOR OR PAID BRL Hardy Limited Interim dividend paid - fully franked 17,539 14,039 Final dividend provided - fully franked (Note 21) - 19,000 Dividends underprovided/(overprovided) 37 (9) ----------- ----------- TOTAL DIVIDENDS PROVIDED FOR OR PAID 17,576 33,030 =========== =========== NOTE 6. DIVIDEND FRANKING ACCOUNT From 1 July 2002 the New Business Tax System (Imputation) Act 2002 requires measurement of franking credits based on the amount of income tax paid, rather than on after tax profits. This change in the basis of measurement does not change the value of franking credits to shareholders who may be entitled to franking credit benefits. CONSOLIDATED 2002 2001 $'000 $'000 ----------- ----------- Class C franking account (30%) 20,243 14,940 =========== =========== Page 9 NOTES TO THE FINANCIAL STATEMENTS --------------------------------- NOTE 7. CASH ASSETS CONSOLIDATED 2002 2001 $'000 $'000 ----------- ----------- Cash at bank and on hand 43,553 39,665 =========== =========== NOTE 8. RECEIVABLES CONSOLIDATED 2002 2001 $'000 $'000 ----------- ----------- CURRENT Trade debtors 180,450 143,396 (Less): provision for doubtful debts (3,336) (2,591) Other debtors 26,523 17,447 Deferred foreign exchange losses 11,634 22,791 ----------- ----------- 215,271 181,043 =========== =========== NON-CURRENT Deferred foreign exchange losses 9,495 43,617 Loans to other entities 871 925 ----------- ----------- 10,366 44,542 ----------- ----------- TOTAL RECEIVABLES 225,637 225,585 =========== =========== NOTE 9. INVENTORIES CONSOLIDATED 2002 2001 $'000 $'000 ----------- ----------- CURRENT Raw materials and stores 12,778 11,125 Wine and spirit stocks 419,718 314,667 Borrowing expenses capitalised 5,861 3,005 ----------- ----------- 438,357 328,797 =========== =========== NON-CURRENT Wine and spirit stocks 111,448 106,955 Borrowing expenses capitalised 8,381 7,318 ----------- ----------- 119,829 114,273 ----------- ----------- TOTAL INVENTORIES 558,186 443,070 =========== =========== NOTE 10. OTHER CURRENT ASSETS CONSOLIDATED 2002 2001 $'000 $'000 ----------- ----------- PREPAYMENTS 12,109 4,977 =========== =========== Page 10 NOTES TO THE FINANCIAL STATEMENTS --------------------------------- NOTE 11. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD CONSOLIDATED 2002 2001 $'000 $'000 ----------- ----------- SUMMARIES OF INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD Summary of carrying value of equity accounted investments: Carrying value of investments in associated entities 8,938 8,826 Carrying value of investment in joint venture partnerships 224,638 222,672 ----------- ----------- Total carrying value of equity accounted investments 233,576 231,498 =========== =========== Summary of results attributable to equity accounted investments: Operating profit in associates after income tax 287 487 Operating profit in joint venture partnerships before income tax 22,993 1,798 ----------- ----------- Share of net profits of associates and joint venture partnerships 23,280 2,285 =========== =========== INVESTMENTS IN ASSOCIATED ENTITIES Name of entity: Principal activity: Ownership interest: -------------- ------------------ ------------------ Barossa Valley Estate Ltd. Wine manufacturers 50% 4,869 5,125 Brookland Valley Estate Pty. Ltd. Wine manufacturers 50% 3,527 3,206 Churchill Cellars Ltd. Wine marketers 20% 468 436 Medallion Wine Marketing Inc. Wine marketers 25% (2001: 18%) 74 59 ----------- ----------- TOTAL INVESTMENTS IN ASSOCIATES ACCOUNTED FOR USING THE EQUITY METHOD 8,938 8,826 =========== =========== MOVEMENT IN CARRYING AMOUNT OF INVESTMENT IN ASSOCIATED ENTITIES Carrying amount of investments at beginning of the financial year 8,826 5,993 Add/(less): - Share of operating profit after income tax 287 487 - Share of dividend (175) (90) - Acquisition of ownership interest - 2,436

----------- ----------- Carrying amount of investments at the end of the financial year 8,938 8,826 =========== =========== SHARE OF RESULTS ATTRIBUTABLE TO ASSOCIATED ENTITIES Operating profit before income tax 408 693 Income tax expense (121) (206) ----------- ----------- Operating profit after income tax 287 487 =========== =========== SHARE OF RESERVES ATTRIBUTABLE TO ASSOCIATED ENTITIES Retained profits at the beginning of the financial year 767 280 Current year operating profit after income tax 287 487 ----------- ----------- Retained profits at the end of the financial year 1,054 767 =========== =========== The voting power in each associate is equal to the proportion of shares held. There are no significant accounting policy dissimilarities. Page 11 NOTES TO THE FINANCIAL STATEMENTS -------------------------------- NOTE 11. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED) CONSOLIDATED 2002 2001 $'000 $'000 ----------- ----------- INVESTMENTS IN JOINT VENTURE PARTNERSHIPS Name of entity: Principal activity: Ownership interest: ------------- ----------------- ------------------ Pacific Wine Partners, LLC Wine manufacturers and marketers 50% 224,638 222,672 =========== =========== MOVEMENT IN CARRYING AMOUNT OF INVESTMENTS IN JOINT VENTURE PARTNERSHIPS Carrying amount of investments at beginning of the financial year 222,672 - Add/(less): - Share of operating profit before income tax 22,993 1,798 - Revaluation of investment at period end foreign exchange rate (21,027) - - Acquisition of ownership interest - 220,874 ----------- ----------- Carrying amount of investments at the end of the financial year 224,638 222,672 =========== =========== SHARE OF JOINT VENTURE PARTNERSHIP'S REVENUES, EXPENSES AND RESULTS Revenues 103,681 29,507 Expenses (80,688) (27,709) ----------- ----------- Operating profit before income tax 22,993 1,798 =========== =========== BRL Hardy (USA) Inc., a 100% owned subsidiary within the consolidated entity and the direct investor in Pacific Wine Partners, LLC is liable for 50% of the partnership's tax liability. As a consequence, the share of operating profit is disclosed only as before income tax. Applicable income tax is included in consolidated income tax expense. SHARE OF RESERVES ATTRIBUTABLE TO JOINT VENTURE PARTNERSHIPS Retained profits at the beginning of the financial year 1,798 - Current year operating profit before income tax 22,993 1,798 ----------- ----------- Retained profits at the end of the financial year 24,791 1,798 =========== =========== The income tax attributable to the current year share of operating profit included within the consolidated income tax expense is $9.1 million (2001: $0.8 million). SHARE OF JOINT VENTURE PARTNERSHIP'S ASSETS AND LIABILITIES Total assets 252,531 248,729 Total liabilities 27,893 26,057 ----------- ----------- Net assets 224,638 222,672 =========== =========== The voting power in the joint venture partnership is equal to the proportion of shares held. NOTE 12. OTHER FINANCIAL ASSETS CONSOLIDATED 2002 2001 $'000 $'000 ----------- ----------- NON-TRADED INVESTMENTS - AT COST Shares in other corporations 26,452 26,194 ----------- ----------- Total other investments 26,452 26,194 =========== =========== Shares in other corporations include the parent entity's non-voting preference shares in GSI Holdings Pty Ltd, trading as GS Millenium Fund, which is the holder of 10,384,366 units in the International Wine Investment Fund. NOTE 13. GRAPE VINES CONSOLIDATED 2002 2001 $'000 $'000 ----------- ----------- Net market value of grape vines and fruit on vine 43,676 38,811 =========== =========== BRL Hardy has, for self-generating and regenerating assets purposes, approximately 2,107 hectares (2001: 1,927) of bearing grape vines located in the principal wine producing regions of Australia, and also has vineyards in France and New Zealand totalling approximately 211 hectares (2001: 221). Page 12 NOTES TO THE FINANCIAL STATEMENTS -------------------------------- NOTE 14. PROPERTY, PLANT AND EQUIPMENT CONSOLIDATED 2002 2001 $'000 $'000 ----------- ----------- Freehold land ------------- At independent valuation, 2001 59,240 57,652 At cost 6,007 - ----------- ----------- Total freehold land 65,247 57,652 ----------- ----------- Buildings --------- At cost 111,742 94,195 (Less): accumulated depreciation (11,086) (8,626) Capital work in progress 9,133 8,644 ----------- ----------- Total buildings 109,789 94,213 ----------- ----------- Plant, equipment and motor vehicles ---------------------------------- At cost 337,687 264,294 (Less): accumulated depreciation (104,481) (84,209) Capital work in progress 25,731 44,391 Borrowing expenses capitalised in work in progress 645 667 ----------- ----------- Total plant, equipment and motor vehicles 259,582 225,143 ----------- ----------- Total property, plant and equipment 434,618 377,008 =========== =========== RECONCILIATIONS Reconciliations of the carrying amount of each class of property, plant and equipment at the beginning and end of the current financial year are set out below: PLANT, FREEHOLD EQUIPMENT AND LAND BUILDINGS MOTOR VEHICLES TOTAL $'000 $'000 $'000 $'000 ----------- ----------- ------------- --------- CONSOLIDATED - 2002 Carrying amount at the beginning of the financial year 57,652 94,213 225,143 377,008 Reclassification 23 (2) (21) - Additions 5,926 17,847 58,927 82,700 Disposals - (371) (1,954) (2,325) Depreciation/amortisation expense - (2,397)

(24,100) (26,497) Foreign currency exchange differences 1,646 499 1,587 3,732 ----------- ----------- -------------- --------- Carrying amount at the end of the financial year 65,247 109,789 259,582 434,618 =========== =========== ============== ========= CONSOLIDATED - 2001 Carrying amount at the beginning of the financial year 39,128 78,878 193,225 311,231 Transfer to grape vines - - (2,287) (2,287) Reclassification 245 73 (318) - Additions 12,327 17,072 57,991 87,390 Disposals - (29) (2,699) (2,728) Revaluation increments 5,797 - - 5,797 Depreciation/amortisation expense - (1,991) (21,422) (23,413) Foreign currency exchange differences 155 210 653 1,018 ----------- ----------- -------------- --------- Carrying amount at the end of the financial year 57,652 94,213 225,143 377,008 =========== =========== ============== ========= VALUATIONS OF LAND The basis of the valuations of land at 31 December 2001 is fair value, based on independent valuations. Page 13 NOTES TO THE FINANCIAL STATEMENTS --------------------------------- NOTE 15. INTANGIBLES CONSOLIDATED 2002 2001 $'000 $'000 ----------- ----------- GOODWILL Goodwill 13,034 12,999 (Less): accumulated amortisation (3,503) (2,788) ----------- ----------- 9,531 10,211 ----------- ----------- BRAND NAMES Brand names at cost 19,033 17,969 ----------- ----------- TOTAL INTANGIBLES 28,564 28,180 =========== =========== NOTE 16. DEFERRED TAX ASSETS CONSOLIDATED 2002 2001 $'000 $'000 ----------- ----------- Future income tax benefit 8,096 5,752 =========== =========== NOTE 17. PAYABLES CONSOLIDATED 2002 2001 $'000 $'000 ----------- ----------- CURRENT Trade creditors 54,250 46,911 Other creditors 74,238 56,181 Deferred foreign exchange hedge payable 11,634 22,791 ----------- ----------- 140,122 125,883 ----------- ----------- NON-CURRENT Deferred foreign exchange hedge payable 10,338 43,617 ----------- ----------- 10,338 43,617 ----------- ----------- TOTAL PAYABLES 150,460 169,500 =========== =========== Page 14 NOTES TO THE FINANCIAL STATEMENTS --------------------------------- NOTE 18. INTEREST BEARING LIABILITIES CONSOLIDATED 2002 2001 $'000 $'000 ----------- ----------- CURRENT Secured: ------- Commercial bills 557 - Bank advances 94 - Loans from other entities 1,811 - ------------ ----------- 2,462 - ----------- ----------- Unsecured: --------- Commercial bills 96,443 17,042 Bank advances 38,415 177,943 Lease liabilities (Note 30) - 56 Loans from other entities 6,169 6,721 ----------- ----------- 141,027 201,762 ----------- ----------- 143,489 201,762 =========== =========== NON-CURRENT Unsecured: --------- Commercial bills 447,824 285,000 Bank advances 15,584 8,530 ----------- ----------- 463,408 293,530 =========== =========== TOTAL INTEREST BEARING LIABILITIES 606,897 495,292 =========== =========== FINANCING ARRANGEMENTS Access was available at balance date to the following lines of credit: Total facilities: ---------------- Bank advances 62,456 217,916 Other bank facilities 730,374 432,942 ----------- ----------- 792,830 650,858 ----------- ----------- Used at balance date: -------------------- Bank advances 44,501 186,473 Other bank facilities 586,461 331,561 ----------- ----------- 630,962 518,034 ----------- ----------- Unused at balance date: --------------------- Bank advances 17,955 31,443 Other bank facilities 143,913 101,381 ----------- ----------- 161,868 132,824 ----------- ----------- The bank facilities may be drawn at any time on appropriate notice, subject to meeting the facility contract conditions and undertakings, and have maturities up to 8 years (2001:9). Interest rates on facilities are variable (refer Note 36). SECURITY FOR BORROWINGS Bank advances to joint venture entities are secured by way of first charge or mortgage over certain assets of those entities. Page 15 NOTES TO THE FINANCIAL STATEMENTS --------------------------------- NOTE 19. CURRENT TAX LIABILITIES CONSOLIDATED 2002 2001 $'000 $'000 ----------- ----------- Provision for income tax 4,007 9,392 =========== =========== NOTE 20. DEFERRED TAX LIABILITIES CONSOLIDATED 2002 2001 $'000 $'000 ----------- ----------- Provision for deferred income tax 59,402 43,673 =========== =========== NOTE 21. PROVISIONS CONSOLIDATED 2002 2001 $'000 $'000 ----------- ----------- CURRENT Employee entitlements 8,763 7,652 Dividend (Note 5) - 19,000 ----------- ----------- 8,763 26,652 ----------- ----------- NON-CURRENT Employee entitlements 4,060 3,760 ----------- ----------- TOTAL PROVISIONS 12,823 30,412 =========== =========== AGGREGATE EMPLOYEE ENTITLEMENTS Current employee entitlements 8,763 7,652 Non-current employee entitlements 4,060 3,760 ----------- ----------- 12,823 11,412 ----------- ----------- EMPLOYEE NUMBERS Full time equivalent employees as at the end of the financial year 1,871 1,716 =========== =========== Page 16 NOTES TO THE FINANCIAL STATEMENTS --------------------------------- NOTE 22. SHARE CAPITAL - BRL HARDY LIMITED CONSOLIDATED 2002 2001 $'000 $'000 ----------- ----------- (a) PAID UP CAPITAL Ordinary shares fully paid 515,932 474,267 =========== =========== Movements in issued and paid up ordinary share capital during the past three years were as follows: NUMBER ISSUE PRICE OF SHARES $ $'000 ----------- ----------- ----------- BALANCE AT 31 DECEMBER 2000 152,637,933 302,008 20 April 2001 Dividend reinvestment plan issues (Note 22(a)(i)) 1,666,768 $ 9.19 15,323 1 January 2001 to 31 December 2001

Option plan issues (Note 22(b)(i)) 469,900 $ 2.80 1,316 (Note 22(b)(ii)) 571,300 $ 3.72 2,125 (Note 22(b)(iii)) 546,200 $ 5.11 2,791 (Note 22(b)(iv)) 68,500 $ 6.61 453 (Note 22(b)(v)) 11,100 $ 7.45 83 (Note 22(b)(ix)) 117,510 $ 3.40 399 (Note 22(b)(x)) 23,400 $ 9.30 218 Consideration for options 2 16 October 2001 Dividend reinvestment plan issues (Note 22(a)(i)) 851,357 $ 9.63 8,199 23 October 2001 Rights issue (net of $3.5m costs) (Note 22(a)(ii)) 15,579,278 $ 9.30 141,350 ----------- ----------- BALANCE AT 31 DECEMBER 2001 172,543,246 474,267 8 April 2002 Dividend reinvestment plan issues (Note 22(a)(i)) 1,813,495 $ 10.51 19,036 1 January 2002 to 31 December 2002 Option plan issues (Note 22(b)(ii)) 566,900 $ 3.72 2,109 (Note 22(b)(iii)) 246,700 $ 5.11 1,261 (Note 22(b)(iv)) 137,500 $ 6.61 909 (Note 22(b)(v)) 16,800 $ 7.45 125 (Note 22(b)(ix)) 55,770 $ 3.40 190 (Note 22(b)(x)) 49,100 $ 9.30 456 (Note 22(b)(x)) 4,207 $ 9.30 39 Consideration for options 1 8 October 2002 Dividend reinvestment plan issues (Note 22(a)(i)) 2,286,844 $ 7.68 17,539 ----------- ----------- BALANCE AT 31 DECEMBER 2002 177,720,562 515,932 =========== =========== (i) Dividend reinvestment plan: The company has a dividend reinvestment plan (DRP) under which holders of fully paid ordinary shares may elect to have all or part of their dividend entitlements satisfied by the issue of new ordinary shares in lieu of payment in cash. Shares are issued under the DRP at a discount (currently 5%) to the market price. The company appointed Deutsche Bank AG as underwriter of the DRP for the dividends paid in 2002 so that any dividends not taken up as shares under the DRP were taken up by the underwriter or its nominees at the same price. The interim dividend declared in September 2001 was not underwritten. (ii) Rights issue: The company made a renounceable rights issue to shareholders in September 2001 on a one for 10 basis at an issue price of $9.30 per new share. The issue was underwritten by Deutsche Bank AG and the allotment of new shares was made on 23 October 2001. In March 2002, the company issued a small number of rights issue shares to overseas shareholders whose acceptances had been received in 2002. Page 17 NOTES TO THE FINANCIAL STATEMENTS --------------------------------- NOTE 22. SHARE CAPITAL - BRL HARDY LIMITED (CONTINUED) (b) THE BRL HARDY OPTION PLAN (OPTION PLAN) Participation in the company's option plan is offered to all permanent employees, ordinarily on an annual basis. Options issued under the option plan are over unissued ordinary shares and expire 59 months (for options issued in 2000 or earlier) and 60 months (for options issued in 2001 and later) after the issue date. Options may not be exercised earlier than 36 months after issue, unless the employee's employment ceases sooner, provided that any preconditions to their exercise have also been met. (i) 2 June 2001 ($2.80) options: During 2001, 469,900 ordinary shares were issued at $2.80 on the exercise of options granted in July 1996 under the option plan. All preconditions for the exercise of these options had been met. At 31 December 2000 there were 484,400 unissued ordinary shares remaining under these options. The options expired on 2 June 2001. There were 14,500 unexercised options that expired under the rules of the option plan on the expiry date. (ii) 22 July 2002 ($3.72) options: During 2002, 566,900 (2001: 571,300) ordinary shares were issued at $3.72 on the exercise of options granted on 22 August 1997 under the option plan. All preconditions for the exercise of these options had been met. At 31 December 2001, there were 575,900 (2000: 1,147,200) unissued ordinary shares remaining under these options. The options expired on 22 July 2002. There were 9,000 unexercised options that expired under the rules of the option plan on the expiry date. (iii) 28 July 2003 ($5.11) options: During 2002, 246,700 (2001: 546,200) ordinary shares were issued at $5.11 on the exercise of options granted on 28 August 1998 under the option plan. All preconditions for the exercise of these options have been met. At 31 December 2002, there were 992,600 (2001: 1,239,300) unissued ordinary shares remaining under these options. The options expire on 28 July 2003. (iv) 27 July 2004 ($6.61) options: During 2002, 137,500 (2001: 68,500) ordinary shares were issued at $6.61 on the exercise of options granted on 27 August 1999 under the option plan. All preconditions for the exercise of these options have been met. At 31 December 2002, there were 2,822,500 (2001: 2,960,000) unissued ordinary shares remaining under these options. The options expire on 27 July 2004. (v) 24 October 2005 ($7.45) options: On 24 November 2000, the company issued 2,315,500 options to 1,148 eligible employees and/or associates under the option plan. These included 196,000 options issued to executive directors or their associates as approved by special resolution at the Annual General Meeting of the company held on 4 May 2000. During 2002, 16,800 (2001: 11,100) ordinary shares were issued at $7.45 on the early exercise (refer Note 22(b)(ix)) of options granted on 24 November 2000 under the option plan. These options will not become otherwise exercisable until 24 November 2003, but all other preconditions to their exercise have been met. At 31 December 2002, there were 2,287,600 (2001: 2,304,400) unissued ordinary shares remaining under these options. The options expire on 24 October 2005. (vi) 8 November 2006 ($10.13) options: On 9 November 2001 and 7 December 2001 the company issued 2,545,300 options to 1,376 eligible employees and/or associates under the option plan. In addition, a further 7,050 options were issued in

February and April 2002. The total options issued (2,552,350) included 260,000 options issued to executive directors or their associates as approved by special resolution at the Annual General Meeting of the company held on 3 May 2001. These options may be exercised after 9 November 2004 at an exercise price of $10.13. All other preconditions to their exercise have been met. At 31 December 2002, there were 2,552,350 (2001: 2,545,300) unissued ordinary shares remaining under these options. The options expire on 8 November 2006. (vii) 23 September 2007 ($8.08) options: On 24 September 2002 the company issued 2,913,000 options to 1,529 eligible employees and/or associates under the option plan. These included 280,000 options issued to executive directors or their associates as approved by resolution at the Annual General Meeting of the company held on 2 May 2002. The options may be exercised after 24 September 2005 at an exercise price of $8.08 per share. At 31 December 2002, there were 2,913,000 unissued ordinary shares remaining under these options. The options expire on 23 September 2007. (viii) Early exercise: Where the exercise period for an option has not commenced and all other preconditions for exercise have been met but the employee's employment ceases, the options may then be exercised at any time before the expiry date, even if the date of exercise might be earlier than otherwise permitted under the option plan. (ix) Additional shares ($3.40): During 2002, 55,770 (2001: 117,510) additional ordinary shares were issued at $3.40 in connection with the exercise of options. Under the option plan, optionholders were entitled to apply for additional shares as a result of the rights issue in 1997. The entitlement was for one additional share at the rights issue price of $3.40 per share for every 10 options held at the time of the rights issue. The additional shares could only be taken up when exercising options and lapsed if not taken up. During 2002, the entitlements to 1,820 (2001: 1,560) additional shares lapsed. At 31 December 2002, there were no further entitlements to unissued additional shares at $3.40. Page 18 NOTES TO THE FINANCIAL STATEMENTS -------------------------------- NOTE 22. SHARE CAPITAL - BRL HARDY LIMITED (CONTINUED) (b) THE BRL HARDY OPTION PLAN (CONTINUED) (x) Additional shares ($9.30): During 2002, 49,100 (2001: 23,400) additional ordinary shares were issued at $9.30 in connection with the exercise of options. Under the option plan, optionholders are entitled to apply for additional shares as a result of the rights issue in 2001. The entitlement is for one additional share at the rights issue price of $9.30 per share for every 10 options held at the time of the rights issue. The additional shares can only be taken up when exercising options and lapse if not taken up. During 2002, the entitlements to 57,250 (2001: 8,500) additional shares lapsed. At 31 December 2002, the number of unissued additional shares at $9.30 was 610,270 (2001: 716,620). (c) THE NON-EXECUTIVE DIRECTORS' OPTION PLAN ('NED PLAN') (i) 23 September 2007 ($8.08) options: On 24 September 2002 the company issued options under the NED Plan which was approved by shareholders at the Annual General Meeting on 2 May 2002. Except for M.R. Davison, who elected to forfeit the options, the option price of $0.937 has been paid to the company by all non-executive directors who participated in the NED Plan. The options may be exercised from 24 September 2002 at an exercise price of $8.08 per share. At 31 December 2002, there were 92,818 unissued ordinary shares remaining under these options. The options expire on 23 September 2007. NOTE 23. RESERVES AND RETAINED PROFITS CONSOLIDATED 2002 2001 $'000 $'000 ----------- ----------- (a) RESERVES Asset revaluation reserve 16,595 16,820 General reserve 101 15 Foreign currency translation reserve 872 577 ----------- ----------- 17,568 17,412 =========== =========== MOVEMENTS Asset revaluation reserve: ------------------------ Balance at the beginning of the financial year 16,820 10,142 Add/(less): 2001 revaluation - 6,678 Amendment to prior valuation (225) - ----------- ----------- Balance at the end of the financial year 16,595 16,820 ----------- ----------- General reserve: -------------- Balance at the beginning of the financial year 15 17 Add/(less): Share option consideration 87 - Transfer to paid up capital on issue of shares (1) (2) ----------- ----------- Balance at the end of the financial year 101 15 ----------- ----------- Foreign currency translation reserve: ----------------------------------- Balance at the beginning of the financial year 577 (319) Current year movement 295 896 ----------- ----------- Balance at the end of the financial year 872 577 ----------- ----------- (b) RETAINED PROFITS Retained profits at the beginning of the financial year 179,560 140,378 Net profit attributable to members of BRL Hardy Limited 84,338 72,212 Dividends provided for or paid (Note 5) (17,576) (33,030) ----------- ----------- Retained profits at the end of the financial year 246,322 179,560 =========== =========== Page 19 NOTES TO THE FINANCIAL STATEMENTS -------------------------------- NOTE 24. REMUNERATION OF DIRECTORS AND EXECUTIVES CONSOLIDATED 2002 2001 ---------- ---------- DIRECTORS The number of directors, including executive directors, who received or in respect of whom income is due and receivable from the parent entity or its controlled entities including retirement benefits not required to be approved in general meeting within the following bands is: $80,000 - $89,999 3 3 $100,000 - $109,999 - 1 $110,000 - $119,999 1 - $130,000 - $139,999 1 - $150,000 - $159,999 - 1 $170,000 - $179,999 1 - $180,000 -

$189,999 - 1 $580,000 - $589,999 - 1 $590,000 - $599,999 1 - $610,000 - $619,999 1 - $630,000 - $639,999 - 1 $1,210,000 - $1,219,999 - 1 $1,330,000 - $1,339,999 1 - $ $ Total income received or due and receivable by the directors of the parent entity from the parent entity and its controlled entities: 3,223,944 3,137,418 ---------- ---------- Benefits received by directors on the grant of options under the BRL Hardy Option Plan as valued under Division 13A of the Income Tax Assessment Act are included above. Information about options granted to and exercised by executive directors during the period January 2001 to December 2002 is set out in Note 32. Motor vehicles and wine allowances are included at their salary package values. Options issued to non-executive directors during the year are not included as a benefit since the Option Price paid is equal to the market value of an Option. Page 20 NOTES TO THE FINANCIAL STATEMENTS -------------------------------- NOTE 24. REMUNERATION OF DIRECTORS AND EXECUTIVES (CONTINUED) CONSOLIDATED 2002 2001 ---------- ---------- EXECUTIVES The number of executive officers, excluding executive directors, who received or in respect of whom income is due and receivable, including retirement benefits, which equals or exceeds $100,000 from the parent entity and controlled entities, within the following bands is: $100,000 - $109,999 9 10 $110,000 - $119,999 12 13 $120,000 - $129,999 5 6 $130,000 - $139,999 5 1 $140,000 - $149,999 3 2 $150,000 - $159,999 1 - $160,000 - $169,999 1 3 $170,000 - $179,999 2 3 $180,000 - $189,999 5 2 $200,000 - $209,999 1 4 $210,000 - $219,999 2 - $240,000 - $249,999 - 1 $260,000 - $269,999 1 - $320,000 - $329,999 1 2 $330,000 - $339,999 1 - $350,000 - $359,999 1 - $360,000 - $369,999 - 2 $380,000 - $389,999 1 - $ $ Total income received or due and receivable by executive officers of the parent entity: 7,949,548 7,564,466 ---------- ---------- Benefits received by executive officers on the grant of options under the BRL Hardy Option Plan as valued under Division 13A of the Income Tax Assessment Act are included above. Motor vehicles and wine allowances are included at their salary package values. Information about the options granted to employees is set out in Note 22 (b)(vi)-(viii). There were 654,000 options granted to executive officers (with income of at least $100,000) during the year ended 31 December 2002 (2001: 565,000). None of these options have been exercised. Amounts paid to executive officers who worked wholly or mainly outside Australia during the reporting period are excluded from the above disclosures. Page 21 NOTES TO THE FINANCIAL STATEMENTS -------------------------------- NOTE 25. REMUNERATION OF AUDITORS CONSOLIDATED 2002 2001 $ $ ----------- ---------- Amounts received, or due and receivable, by the auditors for auditing the accounts and consolidated accounts of BRL Hardy Limited and the accounts of its controlled entities, and for other services: PricewaterhouseCoopers: ---------------------- Audit or review of financial reports 408,522 335,255 Other assurance services 511,291 506,619 Taxation services 423,048 136,399 Other taxation advisory services 650,000 45,979 Other services 63,744 32,614 ---------- ---------- 2,056,605 1,056,866 ========= ========= All audit fees for controlled Australian entities are borne by the parent entity. NOTE 26. RECONCILIATION OF NET CASH INFLOW FROM OPERATING ACTIVITIES TO OPERATING PROFIT AFTER INCOME TAX CONSOLIDATED 2002 2001 $'000 $'000 ----------- ----------- Operating profit after income tax 84,162 72,159 Depreciation and amortisation 26,497 23,413 Goodwill written off 708 638 Share of net profits of associates and joint venture partnerships (23,280) (2,285) Net (profit)/loss on disposal of property, plant and equipment 127 12 Valuation of grape vines and grapes (SGARA) (3,288) (3,908) Provision for doubtful debts 745 508 Capitalised interest (5,186) (2,713) Changes in operating assets - (increase)/decrease - receivables (46,076) 6,781 - inventories (109,895) (78,309) - prepayments (7,132) 788 - future income tax benefit (1,038) (1,892) Changes in operating liabilities - increase/(decrease) - payables 26,084 (7,717) - provisions 12,425 14,367 ----------- ----------- NET CASH INFLOW FROM OPERATING ACTIVITIES (45,147) 21,842 =========== =========== NOTE 27. OUTSIDE EQUITY INTERESTS CONSOLIDATED 2002 2001 $'000 $'000 ----------- ----------- Outside equity interests in controlled entities comprise: Share capital 628 628 Equity held in partnerships 350 350 Retained profits 78 254 ----------- ----------- TOTAL OUTSIDE EQUITY INTERESTS 1,056 - 1,232 =========== =========== Page 22 NOTES TO THE FINANCIAL STATEMENTS -------------------------------- NOTE 28. JOINT VENTURES JOINT VENTURE OPERATIONS BRL Hardy Limited has entered into several joint venture arrangements, to develop and operate vineyards: Participating interest ---------------------- The Wegman/BRL Hardy Joint Venture Development 25% Elgin Valley Vineyards Joint Venture No. 1 75% The Gartner/BRL Hardy Coonawarra Joint Venture 50% The Pemberton Vineyards Joint Venture 50% The Ausvine Coonawarra Joint Venture 19% The Huntfield/BRL Hardy Joint Venture 50% The Martin/BRL Hardy Joint Venture 49.3% The Willunga Basin Water Users Group Joint Venture 18% BRL Hardy Limited's share of the assets employed in joint ventures is included in the financial statements as follows: CONSOLIDATED 2002 2001 $'000 $'000 ----------- ----------- FREEHOLD LAND At independent valuation, 2001 6,260 6,260 At cost 257 - ----------- ----------- TOTAL FREEHOLD LAND 6,517 6,260 ----------- ----------- BUILDINGS At cost 173 173 (Less): accumulated depreciation (55) (49) ----------- ----------- TOTAL BUILDINGS 118 124 PLANT AND EQUIPMENT At cost 5,340 3,969 (Less): accumulated depreciation (403) (276) Capital work in progress - 1,788 ----------- ----------- TOTAL PLANT AND EQUIPMENT 4,937 5,481 ----------- ----------- TOTAL PROPERTY, PLANT AND EQUIPMENT 11,572 11,865 =========== =========== GRAPE VINES 3,435 3,506 ----------- ----------- OPERATING PROFIT Contribution to operating profit by joint ventures 73 1,149 ----------- ----------- JOINT VENTURE ENTITY BRL Hardy Limited has a 50% interest in the Brookland Valley Estate Joint Venture which makes and markets wine. CONSOLIDATED Movement in carrying amount of investment: -- Carrying amount at the beginning of the financial year 3,207 3,013 Share of operating profits after tax 320 194 ----------- ----------- Carrying amount at the end of the financial year 3,527 3,207 =========== =========== Contingent liabilities and capital expenditure commitments relating to the joint ventures are included in Notes 29 and 30. Page 23 NOTES TO THE FINANCIAL STATEMENTS -------------------------------- NOTE 29. CONTINGENT LIABILITIES CONSOLIDATED 2002 2001 $'000 $'000 ----------- ----------- Service agreements under which termination benefits may, in certain circumstances, become payable to directors and senior executives. 5,855 5,295 ----------- ----------- There are no contingent liabilities with respect to the economic entity's share of associates and investments in joint venture partnerships. - - ----------- ----------- The company is jointly and severally liable for all the liabilities of the Brookland Valley Joint Venture. NOTE 30. COMMITMENTS FOR EXPENDITURE CONSOLIDATED 2002 2001 $'000 $'000 ----------- ----------- CAPITAL EXPENDITURE Total capital expenditure contracted for at balance date but not provided for in the financial statements: - not later than 1 year 19,300 32,352 ----------- ----------- CAPITAL EXPENDITURE - JOINT VENTURES Total capital expenditure contracted for at balance date but not provided for in the financial statements: - not later than 1 year - - ----------- ----------- CAPITAL EXPENDITURE - ASSOCIATES AND JOINT VENTURE PARTNERSHIPS Total capital expenditure contracted for at balance date but not provided for in the financial statements: - not later than 1 year 2,323 1,690 ----------- ----------- FINANCE LEASE COMMITMENTS Lease commitments in respect of capitalised finance leases are payable as follows: - not later than 1 year - 56 - later than 1 year but not later than 5 years - - ----------- ----------- - 56 Less: future finance charges - - ----------- ----------- - 56 ----------- ----------- Comprising lease liabilities: - Current - 56 - Non-current - - ----------- ----------- - 56 ----------- ----------- RENTAL COMMITMENTS Analysis of non-cancellable rental commitments not provided for in the financial statements: - not later than 1 year 8,926 8,052 - later than 1 year but not later than 5 years 28,866 26,060 - greater than 5 years 19,096 18,228 ----------- ----------- 56,888 52,340 =========== =========== Page 24 NOTES TO THE FINANCIAL STATEMENTS -------------------------------- NOTE 31. SUPERANNUATION COMMITMENTS The economic entity contributes to a number of superannuation funds which provide benefits for employees and their dependants on retirement, disability or death. The funds comprise one fund sponsored by the economic entity and a number of multi-employee industry funds. 2002 2001 $'000 $'000 ----------- ----------- THE BRL HARDY SUPERANNUATION FUND The financial position of the economic entity's defined benefit and accumulation plan measured as at 30 June is as follows: Present value of employees' accrued benefits 22,164 19,295 Net market value of assets held by the fund to meet future benefit payments 24,593 22,240 ----------- ----------- Excess of assets held to meet future benefits payments 2,429 2,945 =========== =========== Employer contributions to the fund 5,159 2,791 =========== =========== Vested benefits 24,441 22,045 =========== =========== The BRL Hardy Superannuation Fund provides cumulative and defined benefits. Defined lump sum benefits are based on years of service and final average salary and contributions are part legally enforceable. Employer contributions for accumulation benefits are legally enforceable. An actuarial review of the BRL Hardy Superannuation Fund as at 1 July 2000 was completed by L.McMahon BA, FIAA. Based on calculations made as part of this assessment and subsequently, the directors are of the view that the assets of the fund were sufficient to satisfy all benefits that would have been vested under the fund in the event of termination of the fund or termination of the employment of each employee as at 30 June 2002, being the fund's last balance date. However, it is believed that the poor financial performance of the fund's assets since 30 June 2002 may have resulted in a shortfall if the fund had been terminated or the employment of each employee had been terminated as at 31 December 2002. The financial position of the fund is being monitored by the directors, and provision is being made by the economic entity to ensure that there will be no shortfall at 30 June 2003 (the fund's next balance date), after taking into account the financial performance of the fund's assets to that date. INDUSTRY FUNDS The multi-employee industry funds provide accumulation benefits where the basis of contribution is an enforceable employer contribution based on a percentage of the member's wage. The industry funds to which contributions were made by the economic entity are: - Statewide Superannuation Trust - Host-Plus Superannuation - Superannuation Trust of Australia Page 25 NOTES TO THE FINANCIAL STATEMENTS -------------------------------- NOTE 32. RELATED PARTIES DIRECTORS AND DIRECTOR-RELATED ENTITIES (i) The names of persons who were directors of the parent entity during the financial year are: I.J. Pendrigh AM M.R. Davison R.H. Searby QC R.G. Chabrel Sir James G. Hardy OBE A.W. Whatmore S.B. Millar A.M. Kennedy D.Woods CONSOLIDATED 2002 2001 $'000 $'000 ----------- ----------- (ii) Loans to directors S.B. Millar - - A.M. Kennedy - - - - ----------- ----------- (Note 8) - - =========== =========== Secured loans were made to Messrs Millar and Kennedy by the parent entity (then Berri Renmano Limited) in 1991, prior to the appointment of either of them as directors. Monthly repayments included interest at the rate of 5.75% per annum and were secured by a lien over units issued by The International Wine Investment Fund. The loans were for a period of 10 years and were repaid at 30 June 2001. CONSOLIDATED 2002 2001 $'000 $'000 ----------- ----------- Loan repayments received - 13,245 Interest received - 381 (iii) Directors' holdings of shares and share options The directors were involved in share and option transactions which are summarised below. The shareholdings include all shares held beneficially by directors and director-related entities. NUMBER OF SHARES --- BALANCE PURCHASES OPTIONS DISPOSALS BALANCE 31.12.01 EXERCISED 31.12.02 -------- --------- --------- --------- -------- I.J. Pendrigh AM 155,182 8,000 - (8,000) 155,182 R.G. Chabrel (1) 17,717 169 - - 17,886 S.B. Millar 115,024 73,131 82,600 (51,546) 219,209 M.R. Davison (1) - - 15,000 (15,000) - Sir James G. Hardy OBE 368,840 - - - 368,840 A.M. Kennedy 250,547 5,032 50,000 (30,000) 275,579 R.H. Searby QC 43,034 1,018 - - 44,052 A.W. Whatmore 66,350 - - - 66,350 D.Woods 126,750 5,000 50,000 (85,967) 95,783 NUMBER OF SHARES --- BALANCE PURCHASES OPTIONS DISPOSALS BALANCE 31.12.00 EXERCISED 31.12.01 -------- --------- --------- --------- -------- I.J. Pendrigh AM 91,074 18,508 80,000 (34,400) 155,182 R.G. Chabrel (1) 6,357 10,760 66,600 (66,000) 17,717 S.B. Millar 233,017 25,833 4,000 (147,826) 115,024 M.R. Davison (1) - 2,000 20,000 (22,000) - Sir James G. Hardy OBE 365,173 3,667 - - 368,840 A.M. Kennedy 196,906 8,641 65,000 (20,000) 250,547 R.H. Searby QC 25,611 7,423 20,000 (10,000) 43,034 A.W. Whatmore 38,500 7,850 20,000 - 66,350 D.Woods 105,000 26,750 50,000 (55,000) 126,750 Notes: (1) Messrs R.G. Chabrel and M.R. Davison are also directors of Berren Asset Management Limited, the manager of The International Wine Investment Fund, which had relevant interests in 18,555,094 (2001: 20,538,581) fully paid ordinary shares and exchange-traded bought call options over 4,450,000 (2001: nil) fully paid ordinary shares of the parent entity at 31 December 2002. At 31 December 2002 directors and director-related entities held in aggregate 1,242,881 ordinary shares, 188,200 July 2003 ($5.11) options, 485,000 July 2004 ($6.61) options, 197,000 October 2005 ($7.45) options, 261,000 November 2006 ($10.13) options, and 280,000 September 2007 ($8.08) options. At 31 December 2001 directors and director-related entities held in aggregate 1,143,444 ordinary shares, 97,600 July 2002 ($3.72) options, 273,200 July 2003 ($5.11) options, 500,000 July 2004 ($6.61) options, 196,000 October 2005 ($7.45) options and 260,000 November 2006 ($10.13) options. The number of options granted during the year to executive directors under the BRL Hardy Option Plan and the terms and conditions under which they were granted were approved by resolution at the annual general meeting of the company (see Note 22(b)(vi)-(viii) for the terms and conditions applicable to these options). During 2002, 92,818 September 2007 ($8.08) options were issued to non-executive directors under the NED Plan (see Note 22(c)). Page 26 NOTES TO THE FINANCIAL STATEMENTS -------------------------------- NOTE 32. RELATED PARTIES (CONTINUED) (iv) Other transactions with directors and director-related entities The parent entity has retained the services of Sir James G. Hardy OBE as a consultant for the marketing of its products. The parent entity also pays an annuity and royalties on the sale of wine under the Sir James brand to Sir James Hardy and the J.G. Hardy Retirement Fund in consideration of the granting of a licence to register and use the trade mark 'Sir James'. The amounts paid or accrued are included in the remuneration of directors disclosed in Note 24. Mr R.G. Chabrel is a director and active member of CCW Co-operative Limited (CCW) which supplies grapes to the parent entity on commercial terms. An entity associated with Mr Chabrel holds 300 shares in CCW, and supplied grapes to the parent entity through CCW. Entities associated with Messrs R.G. Chabrel and M.R. Davison sold 285 tonnes of grapes in 2002 (2001: 109) to the parent entity on commercial terms and conditions under an agreement dated 12 December 1996. Other transactions entered into during the year with the directors or their director-related entities were within normal employee, customer, shareholder or supplier relationships on terms and conditions no more favourable than those available to other employees, customers, shareholders or suppliers. OTHER ENTITIES (i) Barossa Valley Estate Ltd. (BVE) The parent entity holds 50% of the issued shares of BVE. The parent entity provides packaging services to BVE at commercial rates and is sole distributor of BVE's wines purchased at commercial rates. (ii) Brookland Valley Estate Pty. Ltd. The parent entity holds 50% of the issued shares in Brookland Valley Estate Pty. Ltd. The parent entity purchases wine from Brookland Valley Estate Pty. Ltd. at commercial rates and provides winemaking, packaging and distribution services at commercial rates. (iii) Churchill Cellars Ltd. The parent entity holds 20% of the issued shares in Churchill Cellars Ltd. The parent entity sells wine at commercial rates to Churchill Cellars Ltd. (iv) Medallion Wine Marketing Inc. The parent entity holds 25% (2001: 18%) of the issued shares in Medallion Wine Marketing Inc. The parent entity sells wine at commercial rates to Medallion Wine Marketing Inc. (v) Pacific Wine Partners, LLC BRL Hardy (USA) Inc., a 100% owned subsidiary within the consolidated entity, holds 50% of the issued shares in Pacific Wine Partners, LLC. The parent entity sells wine at commercial rates to Pacific Wine Partners, LLC. (vi) Nobilo Wines Limited (NWL) Page 27 NOTES TO THE FINANCIAL STATEMENTS -------------------------------- NOTE 32. RELATED PARTIES (CONTINUED) OTHER ENTITIES (CONTINUED) The aggregate of each different type of transaction with related parties, other than wholly owned controlled entities and transactions with directors set out in Note 32, were as follows: CONSOLIDATED 2002 2001 $'000 $'000 ----------- ----------- Outgoings: --------- Purchases of wine 9,789 9,366 Crushing/contract processing expenses 6 269 Marketing 5,527 680 Investment - 2,436 Purchase of grapes 451 145 Recharges (net) 301 - Loans 599 602 Exchange rate adjustments (net) 1,219 - Inflows: ------- Sale of wine 41,463 17,079 Contract crushing 393 218 Dividends 124 90 Management 68 64 Marketing 130 16 Packaging expenses 1,047 1,288 Recharges (net) - 559 Loans - 31 Interest 33 26 Exchange rate adjustments (net) - 1,779 Other 27 25 SUPERANNUATION FUND Information relating to superannuation funds is set out in Note 31. Page 28 NOTES TO THE FINANCIAL STATEMENTS -------------------------------- NOTE 33. PARTICULARS IN RELATION TO CONTROLLED ENTITIES Investment Class Holding 2002 2001 Incorporated of Share % $ $ ------------ ------------- ------- ------------ ------------ PARENT ENTITY BRL Hardy Limited SA CONTROLLED ENTITIES Vineyards (Australasia) Pty. Ltd. SA Ord. 100 48,500 48,500 BRL Hardy Finance Pty. Ltd. SA Ord. 100 176,863,773 176,863,773 - BRL Hardy (USA) Inc. (3) USA Ord. 20 Fixed Rate Pref. 100 - BRL Hardy Investments (USA) Inc. USA Ord. 100 - BRL Hardy (USA) Inc. (3) USA Ord. 80 - Hardy TransTasman LLP (6) VIC Ord. 1 Thomas Hardy Hunter River Pty. Ltd. SA Ord. 100 2,553 2,553 The Stanley Wine Company Pty. Ltd. SA Ord. 100 5,583,804 5,583,804 Houghton Wines (Western Australia) Pty. Ltd. WA Ord. 100 9,946,706 9,946,706 - The WA Winegrowers Association Pty. Ltd. WA Ord. 100 10% Cum. Pref 100 International Cellars (Aust) Pty. Ltd. ACT Ord. 100 9,366,029 9,366,029 - Walter Reynell & Sons Wines Pty. Ltd. SA Ord. 100 BRL Hardy (Canada) Limited (1) Canada Ord. 100 1 1 BRL Hardy Europe Limited (2) UK Ord. 100 3,659,689 3,659,689 BRL Hardy (Investments) Limited (2) UK Ord. 100 21,738,641 21,738,641 La Baume SA (4) France Ord. 90 5,647,738 5,647,738 Nobilo Wine Group Limited (5) NZ Ord. 100 36,796,774 36,802,097 - Nobilo Vintners Limited (5) NZ Ord. 100 - Valleyfield Vineyard Partnership (5) NZ Ord. 60 - Mohaka Vineyard Partnership (5) NZ Ord. 90 - Selaks Wines Limited (5) NZ Ord. 100 - National Liquor Distributors Limited (5) NZ Ord. 100 - Hardy TransTasman LLP (6) VIC Ord. 99 ------------ ------------ (Note 12) 269,654,208 269,659,531 ============ ============ (1) Audited by PricewaterhouseCoopers in Canada. (2) Audited by PricewaterhouseCoopers in the United Kingdom. (3) Audited by PricewaterhouseCoopers in Australia (2001: audited by PricewaterhouseCoopers in the United States of America). (4) Audited by PricewaterhouseCoopers in France. (5) Audited by PricewaterhouseCoopers in New Zealand. (6) Incorporated 30 December 2002 Page 29 NOTES TO THE FINANCIAL STATEMENTS -------------------------------- NOTE 34. STATEMENT OF OPERATIONS OF SEGMENTS The economic entity operates predominantly in the wine making and marketing industry. Inter-segment pricing is on commercial terms and inter-segment sales are disclosed based on the geographical location of the segment acquiring wine products. Unallocated and inter- North Rest of segment Australasia Europe America the world eliminations Consolidated $'000 $'000 $'000 $'000 $'000 $'000 ---------- ---------- --------- ---------- ----------- ------------ 31 DECEMBER 2002 REVENUE (BY LOCATION OF CUSTOMER) Sales to external customers 401,890 377,629 55,659 18,964 - 854,142 Inter-segment sales 18,903 268,102 - - (287,005) - ---------- ---------- --------- ---------- ----------- ------------ Total sales revenue 420,793 645,731 55,659 18,964 (287,005) 854,142 Share of net profits of associates and joint venture partnerships 226 - 23,054 - - 23,280 Other revenue 14,333 1,859 2 - - 16,194 ---------- ---------- --------- ---------- ----------- ------------ TOTAL SEGMENT REVENUE 435,352 647,590 78,715 18,964 (287,005) 893,616 ---------- ---------- --------- ---------- ----------- ------------ SEGMENT RESULT (BY LOCATION OF CUSTOMER) Profit from ordinary activities before interest and tax 46,297 74,079 32,444 1,739 (9,933) 144,626 Borrowing costs (11,975) (8,899) (3,715) (684) - (25,273) ----------- ---------- --------- ----------- ------------ ------------- PROFIT FROM ORDINARY ACTIVITIES BEFORE TAX 34,322 65,180 28,729 1,055 (9,933) 119,353 ----------- ---------- --------- ----------- ------------ Income tax expense (35,191) ------------- NET PROFIT 84,162 ============= Segment assets (by physical location) 1,282,776 197,848 226,199 - (92,356) 1,614,467 ----------- ---------- --------- ----------- ------------ ------------- Segment liabilities (by physical location) 750,873 134,505 40,712 - (92,501) 833,589 ----------- ---------- --------- ----------- ------------ ------------- Acquisition of property, plant and equipment and intangibles (by physical location) 80,512 3,250 - - - 83,762 ----------- ---------- --------- ----------- ------------ ------------- Depreciation and amortisation of segment assets (by physical location) 24,680 1,817 - - - 26,497 ----------- ---------- --------- ----------- ------------ ------------- Other non-cash expenses (by location of assets) 1,602 189 - - - 1,791 ----------- ---------- --------- ----------- ------------ ------------- Investments in associates/other investees accounted for by the equity method (by location of assets) 8,396 - 225,180 - - 233,576 ----------- ---------- --------- ----------- ------------ ------------- 31 DECEMBER 2001 REVENUE (BY LOCATION OF CUSTOMER) Sales to external customers 357,556 323,453 56,412 20,187 - 757,608 Inter-segment sales 701 212,605 12,890 - (226,196) - ----------- ---------- --------- ----------- ------------ ------------- Total sales revenue 358,257 536,058 69,302 20,187 (226,196) 757,608 Share of net profits of associates and joint venture partnerships 464 - 1,821 - - 2,285 Other revenue 10,616 2,151 1,002 - - 13,769 ----------- ---------- --------- ----------- ------------ ------------- TOTAL SEGMENT REVENUE 369,337 538,209 72,125 20,187 (226,196) 773,662 ----------- ---------- --------- ----------- ------------ ------------- SEGMENT RESULT (BY LOCATION OF CUSTOMER) Profit from ordinary activities before interest and tax 46,794 71,589 5,282 1,776 (1,193) 124,248 Borrowing costs (10,324) (7,629) (3,412) (1,025) - (22,390) ----------- ---------- --------- ----------- ------------ ------------- PROFIT FROM ORDINARY ACTIVITIES BEFORE TAX 36,470 63,960 1,870 751 (1,193) 101,858 ----------- ---------- --------- ----------- ------------ Income tax expense (29,699) ------------- NET PROFIT 72,159 ============= Segment assets (by physical location) 1,117,526 156,617 226,508 - (79,911) 1,420,740 ----------- ---------- --------- ----------- ------------ ------------- Segment liabilities (by physical location) 533,935 101,160 169,718 - (56,544) 748,269 ----------- ---------- --------- ----------- ------------ ------------- Acquisition of property, plant and equipment and intangibles (by physical location) 76,147 11,312 237 - - 87,696 ----------- ---------- --------- ----------- ------------ ------------- Depreciation and amortisation of segment assets (by physical location) 21,945 1,319 149 - - 23,413 ----------- ---------- --------- ----------- ------------ ------------- Other non-cash expenses (by location of assets) 1,139 180 - - - 1,319 ----------- ---------- --------- ----------- ------------ ------------- Investments in associates/other investees accounted for by the equity method (by location of assets) 8,332 - 223,166 - - 231,498 ----------- ---------- --------- ----------- ------------ ------------- Page 30 NOTES TO FINANCIAL STATEMENTS ----------------------------- NOTE 35. EARNINGS PER SHARE CONSOLIDATED 2002 2001 $'000 $'000 ----------- ----------- Basic earnings per share 48.2 cents 45.5 cents Diluted earnings per share 47.7 cents 44.7 cents Weighted average number of shares used as the denominator: Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share 175,087,735 158,622,020 Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share 176,993,717 161,673,629 In 2002, 2,552,350 (2001:2,545,300) $10.13 options (see Note 22(b)(v)) were excluded from the diluted earnings per share calculation as the exercise price of these options did not exceed the average market price. NOTE 36. FINANCIAL INSTRUMENTS Derivative financial instruments are used by the economic entity to hedge against risks arising from changes in foreign exchange rates and interest rates. Instruments used include forward foreign exchange contracts, interest rate swaps, forward rate agreements and options. The economic entity does not undertake speculative trading in these instruments. All derivative transactions are undertaken to hedge the risks relating to existing or expected physical positions. Consequently, any gain or loss under derivative transactions arising as a result of foreign currency or interest rate movement is recognised when the underlying physical transaction occurs. FOREIGN EXCHANGE RISK The economic entity enters into foreign exchange contracts to hedge the exchange rate risk on expected future receivables and payables denominated in foreign currencies. The economic entity is a substantial exporter and distributor of wines into world markets and is expecting significant growth in its international business in the future, as product availability expands and world markets develop. One of the key determinants of market growth is the ability to provide quality product at appropriate prices in each market with certainty as to both supply and price over time. Accordingly, the economic entity has established a board-approved risk management policy for the identification, management and reporting of exposure to foreign currency exchange rate transactions. The principal purposes of the foreign currency hedging activities are to minimise the volatility of the profit and cash flows arising from changes in exchange rates, to protect the entity from adverse exchange rate shock, to avoid positions which may threaten market competitiveness and to protect the entity's viability. The policy outlines maximum and minimum proportions of expected future transactions that may be covered in any period and limits the maximum forward cover to 63 months. The amounts of anticipated future foreign currency sales and purchases are forecast taking into account market conditions, commitments from customers and experience. Hedging is only effected after considering the level of currency exposures, historical exchange rates, financial market volatility and expected future currency rate movements. Page 31 NOTES TO THE FINANCIAL STATEMENTS -------------------------------- NOTE 36. FINANCIAL INSTRUMENTS (CONTINUED) FOREIGN EXCHANGE RISK (CONTINUED) The following table sets out the gross value to be received or paid under foreign currency derivative contracts at 31 December 2002, based on the contract forward rates or in the case of options the strike rates, within the maturity bands for the settlement dates of the contracts: CONSOLIDATED 2002 2001 $'000 $'000 ----------- ----------- EXPORTS Sell English pounds (GBP)/buy Australian dollars (AUD): 0 - 12 months 163,470 150,493 13 - 24 months 143,199 158,781 25 - 36 months 134,746 132,022 37 - 48 months 75,289 112,393 49 - 63 months 11,177 49,726 ----------- ----------- 527,881 603,415 ----------- ----------- Sell American dollars (USD)/buy AUD: 0 - 12 months 54,708 59,463 13 - 24 months 70,650 69,499 25 - 36 months 63,599 85,027 37 - 48 months 37,009 83,957 49 - 63 months 24,707 20,538 --------- --------- 250,673 318,484 --------- --------- Sell Canadian dollars (CAD)/buy AUD: 0 - 12 months 14,744 18,114 13 - 24 months 16,019 14,850 25 - 36 months 12,077 16,019 37 - 48 months 6,439 12,077 49 - 63 months 1,880 3,932 --------- --------- 51,159 64,992 --------- --------- Sell New Zealand dollar (NZD)/buy AUD: 0 - 12 months 9,000 10,002 13 - 24 months 9,019 7,718 25 - 36 months 8,183 4,468 37 - 48 months 5,772 3,215 49 - 63 months 1,660 804 --------- --------- 33,634 26,207 --------- --------- Sell Euro dollars (EUR)/buy AUD: 0 - 12 months 41,826 18,222 13 - 24 months 41,451 17,376 25 - 36 months 38,994 14,470 37 - 48 months 26,605 12,013 49 - 63 months 11,049 6,566 --------- --------- 159,925 68,647 --------- --------- Sell CAD, USD and GBP/buy NZD: 0 - 12 months 12,356 8,751 13 - 24 months 8,940 5,515 25 - 36 months 3,768 1,720 --------- --------- 25,064 15,986 --------- --------- Sell other currencies/buy AUD: 0 - 12 months - - --------- --------- Total exports 1,048,336 1,097,731 ========= ========= IMPORTS Sell AUD/buy other currencies: 0 - 12 months 297 - --------- --------- Sell NZD/buy AUD: 0 - 12 months - 336 --------- --------- Total imports 297 336 ========= ========= FINANCING Sell American dollars (USD)/buy AUD: 49 - 63 months 132,375 - ========= ========= Page 32 NOTES TO THE FINANCIAL STATEMENT ------------------------------- NOTE 36. FINANCIAL INSTRUMENTS (CONTINUED) FOREIGN EXCHANGE RISK (CONTINUED) The effective exchange rates of the contracts have not been disclosed because the information is commercially sensitive. In any event, the actual settlement rates on certain option contracts cannot be determined with any accuracy until the date of settlement or some other future time or as a result of some other future event. Where the contracts are hedging expected future sales or purchases, any gains or losses arising on the contracts, together with the costs of the contracts, will be recognised in the financial statements at the time the underlying transactions occur. The net unrecognised loss on these contracts, on a mark-to-market basis, at 31 December 2002 was $41,372,779 (2001: loss $67,447,000). INTEREST RATE RISK The economic entity uses interest rate contracts to hedge against movements in interest rates on its short term and long term debt. The key purpose of interest rate hedging activities is to minimise the volatility of the economic entity's profit and net cash flows arising from changes in interest rates. The terms of the interest rate contracts are intended to match the maturity profile of the underlying debt. The economic entity uses swaps, forward rate agreements and options to hedge its exposure. It operates under a board-approved risk management policy that allows it to cover certain percentages of its exposure out to 48 months. In addition, specific interest rate cover has been taken for amounts with maturities ranging up to 8 years. Hedging is only effected after taking into account expected debt, financial market volatility, historical rates and alternative methods of funding. As these interest rate contracts are hedging expected debt, any unrealised gains and losses on the contracts, together with the costs of the contracts, will be recognised in the financial statements at the time the underlying transactions occur. The net unrecognised loss on these contracts, on a mark-to-market basis, as at 31 December 2002 was $11,997,999 (2001: loss $3,985,788). The economic entity's exposure to interest rate risk and the effective average interest rate for classes of financial assets and financial liabilities by period in which they are contracted to mature or be repriced is set out below: FIXED INTEREST MATURING IN: ------------------------------------ 2002 FLOATING NON INTEREST 1 YEAR OVER 1 YEAR OVER INTEREST RATE OR LESS TO 5 YEARS 5 YEARS BEARING TOTAL NOTES $'000 $'000 $'000 $'000 $'000 $'000 ----- -------- --------- ----------- ---------

---------- --------- FINANCIAL ASSETS Cash assets 7 43,553 - - - - 43,553 Receivables 8 - - - - 225,637 225,637 Other financial assets - investments 12 - - - - 26,452 26,452 -------- --------- ---------- --------- --------- --------- 43,553 - - - 252,089 295,642 -------- --------- ---------- --------- --------- --------- Weighted average interest rate (pa) 3.73% - - - - -------- --------- ---------- --------- ---------- FINANCIAL LIABILITIES Trade and other creditors 17 - - - - 150,460 150,460 Commercial bills 18 - 282,285 217,539 45,000 - 544,824 Bank advances 18 - 38,509 15,584 - - 54,093 Other loans 18 - 7,980 - - - 7,980 -------- --------- ---------- --------- --------- --------- - 328,774 233,123 45,000 150,460 757,357 -------- --------- ---------- --------- --------- --------- Weighted average interest rate (pa) - 4.92% 6.09% 6.27% - -------- --------- ---------- --------- ---------- Page 33 NOTES TO THE FINANCIAL STATEMENTS -------------------------------- NOTE 36. FINANCIAL INSTRUMENTS (CONTINUED) FIXED INTEREST MATURING IN: ------------------------------------ 2001 FLOATING NON INTEREST 1 YEAR OVER 1 YEAR OVER INTEREST RATE OR LESS TO 5 YEARS 5 YEARS BEARING TOTAL NOTES $'000 $'000 $'000 $'000 $'000 $'000 ----- -------- --------- ---------- --------- ---------- --------- FINANCIAL ASSETS Cash assets 7 39,665 - - - - 39,665 Receivables 8 - - - - 225,585 225,585 Other financial assets - investments 12 - - - - 26,194 26,194 -------- --------- ---------- --------- --------- --------- 39,665 - - - 251,779 291,444 -------- --------- ---------- --------- ---------- --------- Weighted average interest rate (pa) 3.52% - - - - -------- --------- ---------- --------- ---------- FINANCIAL LIABILITIES Trade and other creditors 17 - - - - 169,500 169,500 Commercial bills 18 - 157,042 55,000 90,000 - 302,042 Bank advances 18 - 177,943 8,530 - - 186,473 Other loans 18 - 6,721 - - - 6,721 Lease liabilities 18 - 56 - - - 56 -------- --------- ---------- --------- --------- --------- - 341,762 63,530 90,000 169,500 664,792 -------- --------- ---------- --------- ---------- --------- Weighted average interest rate (pa) - 4.57% 6.12% 6.22% - - -------- --------- ---------- --------- ---------- --------- CREDIT RISK EXPOSURES On-balance sheet financial instruments: -------------------------------------- The credit risk on financial assets, excluding investments, of the economic entity which have been recognised on the statement of financial position, is the carrying amount, net of any provision for doubtful debts. The economic entity minimises concentration of credit risk by undertaking transactions with a large number of customers in various countries. The parent entity also takes out insurance on certain overseas debts to reduce its credit risk. Off-balance sheet financial instruments: -- The economic entity operates under a risk management policy which determines the levels of hedging, the types of financial instruments that can be used, the authorisation limits and counterparty risk. The results of hedging are monitored to maintain financial control over the application of the policy. There was no material counterparty risk exposure to the economic entity at 31 December 2002 or 2001. Page 34 NOTES TO THE FINANCIAL STATEMENTS -------------------------------- NOTE 36. FINANCIAL INSTRUMENTS (CONTINUED) NET FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES Net fair values of financial assets and liabilities are determined by the economic entity on the following bases: On-balance sheet: ---------------- The net fair value of cash and cash equivalents, non-interest bearing monetary financial assets and liabilities and other financial assets and liabilities approximates their carrying value. Unlisted equity investments have been assessed based on the underlying net assets and future maintainable earnings. Off-balance sheet: ----------------- The valuation of off-balance sheet financial instruments reflects the estimated amounts which the economic entity would have to pay or receive to terminate the contracts (net of transaction costs) or replace the contracts at their current market rates as at reporting date. This is based on independent market quotations and determined using standard valuation techniques. NET FAIR VALUES Financial assets and liabilities included in current and non-current assets and liabilities in the statement of financial position are carried at amounts that approximate net fair value. NOTE 37. SIGNIFICANT EVENT OCCURRING AFTER REPORTING DATE On 17 January 2003, BRL Hardy Limited ("BRL" or "the Company") and Constellation Brands, Inc. ("Constellation") announced that they had entered into an Implementation Deed ("ID") to merge the respective businesses through two schemes of arrangement pursuant to Part 5.1 of the Corporations Act 2001. Under the merger proposal: - a wholly owned subsidiary of Constellation will acquire all of the shares in BRL by way of the scheme of arrangement ("Share Scheme"); and - all of the options over shares in BRL ("Options") granted pursuant to the BRL Hardy Option Plan ("Option Plan") will be cancelled by way of scheme of arrangement ("Option Scheme"). Pursuant to the Share Scheme, the consideration offered to the shareholders in BRL ("BRL Shareholders") for each BRL share held is either: - cash of $10.50 per share; or - Constellation shares; or - any combination of cash and Constellation shares. Pursuant to the Option Scheme, the consideration offered to BRL optionholders ("Optionholders") for each option is: - the cash amount equal to the difference between $10.50 and the exercise price of the Options; and - an additional cash amount of $0.12 for Options on issue as at 19 September 2001. The Share

Scheme and the Option Scheme were both approved by the requisite majorities of BRL Shareholders and Optionholders at general meetings held on 20 March 2003 and final approval was granted by the Supreme Court of South Australia on 27 March 2003, which is the effective date for both schemes, on which date trading in BRL shares ceased on the Australian Stock Exchange (ASX). BRL has become a wholly owned subsidiary of Constellation and will be delisted from the ASX after the schemes have been implemented according to their terms. The financial effects of the above transaction have not been brought to account at 31 December 2002, as it related to an event occurring after reporting date which does not relate to conditions existing at 31 December 2002. Page 35 NOTES TO THE FINANCIAL STATEMENTS -------------------------------- NOTE 38. RECONCILIATIONS TO U.S. GAAP BRL Hardy Limited prepares its consolidated financial statements in accordance with generally accepted accounting principles in Australia ("A GAAP"). A GAAP differs in certain material respects from generally accepted accounting principles in the United States ("U.S. GAAP"), as they relate to the Company. These differences and the effect of the adjustments necessary to present BRL Hardy Limited's consolidated net profit attributable to members, shareholders' equity and cash flows in accordance with U.S. GAAP as at 31 December 2002 and 2001 and for the years then ended, are detailed below. CONSOLIDATED 2002 2001 $'000 $'000 ----------- ----------- (i) NET PROFIT ATTRIBUTABLE TO MEMBERS Net profit attributable to members in accordance with A GAAP 84,338 72,212 ----------- ----------- U.S. GAAP adjustments: (a) Superannuation 1,272 (204) (b) Stock compensation (311) (3,023) (c) Insurance receivable (9,148) - (d) Capitalisation of borrowing costs to inventory (3,918) (2,012) (e) Grape vines and inventory (507) (2,346) (f) Goodwill 708 - (g) Revenue recognition (444) - (h) Purchase accounting for Nobilo - (1,141) (i) Derivative instruments 16,811 (28,471) (i) Hedge of net investments - FRPS mark to market (3,518) - (j) Investment in GSI Holdings (1,897) (1,298) (k) Deferred income taxes (610) (936) (k) Tax impact of U.S. GAAP adjustments 405 10,642 ----------- ----------- Total U.S. GAAP adjustments to net profit attributable to members (1,157) (28,789) ----------- ----------- Net profit attributable to members in accordance with U.S. GAAP 83,181 43,423 =========== =========== CONSOLIDATED 2002 2001 $ $ ----------- ----------- EARNINGS PER SHARE Basic net profit attributable to members per share in accordance with U.S. GAAP $0.48 $0.28 =========== =========== Diluted net profit attributable to members per share in accordance with U.S. GAAP $0.48 $0.28 =========== =========== Basic weighted average number of shares outstanding 171,774,892 154,648,864 Diluted weighted average number of shares outstanding 173,680,874 157,700,473 Page 36 NOTE TO THE FINANCIAL STATEMENTS ------------------------------- NOTE 38. RECONCILIATIONS TO U.S. GAAP (CONTINUED) (ii) SHAREHOLDERS' EQUITY CONSOLIDATED 2002 2001 $'000 $'000 ----------- ----------- Shareholders' equity in accordance with A GAAP 780,878 672,471 ----------- ----------- U.S. GAAP adjustments: (a) Superannuation 3,576 2,304 (c) Insurance receivable (9,148) - (d) Capitalisation of borrowing costs to inventory (14,241) (10,323) (e) Grape vines (5,602) (4,532) (e) Inventory (3,116) (3,679) (f) Goodwill 708 - (g) Revenue recognition (444) - (h) Purchase accounting for Nobilo (970) (970) (i) Derivative instruments (53,439) (70,838) (i) Hedge of net investments - FRPS mark to market (1,520) - (j) Investment in GSI Holdings (22,380) (24,370) (k) Deferred income taxes (7,087) (6,477) (k) Tax impact of U.S. GAAP adjustments C/F 26,529 26,384 (l) Revaluation of property, plant and equipment (16,595) (16,818) (m) Minority interest (1,056) (1,232) (n) Dividends - 19,000 ----------- ----------- Total U.S. GAAP adjustments to shareholders' equity (104,785) (91,551) ------------ ----------- Shareholders' equity in accordance with U.S. GAAP 676,093 580,920 ============ =========== (iii) CHANGES IN U.S. GAAP SHAREHOLDERS' EQUITY Shareholders' equity at the beginning of the year 580,920 395,109 Net profit attributable to members 83,181 43,423 Other comprehensive income: Movement in foreign currency translation 295 896 (i) Hedge of net investments - reversal of amounts in foreign currency translation 1,998 - (i) SFAS 133 transition liability, net of tax - (2,492) (i) Current period movement in transition liability, net of tax 412 525 ------------ ----------- Total comprehensive income 85,886 42,352 ------------ ----------- (b) Additional paid in capital - employee stock compensation 311 3,023 (j) (Purchase)/Sale of BRL shares by the IWIF 3,205 (3,139) Issuance of shares for cash (change in issued share capital) 41,665 172,259 Dividends (35,894) (28,684) ------------ ----------- Shareholders' equity at the end of the year 676,093 580,920 ============ =========== Page 37 NOTES TO THE FINANCIAL STATEMENTS -------------------------------- NOTE 38. RECONCILIATIONS TO U.S. GAAP (CONTINUED) (a) Superannuation The Company recognises defined benefit superannuation expense on an accrual basis in accordance with actuarial recommendations. Under U.S. GAAP, SFAS 87 "Employers' Accounting for Pensions" requires superannuation expense to be recognised on an accrual basis over the service period of the employees. Superannuation expense is determined using actuarial assumptions and includes service costs, interest costs and expected return on plan assets. The difference between the cumulative expense recognised in prior periods and the contributions made by the Company is reflected as either a prepaid asset or liability in the statement of financial position. For the purpose of preparing these statements, the Company adopted the provisions of SFAS 87 effective 1 January 2000, the beginning of the first period for which U.S. GAAP financial information has been presented. It was not feasible for the Company to adopt SFAS 87 at 1 January 1989, the standard's effective date for the Company. On 1 January 2000, the Company recognised a transition asset of $2.3 million and a deferred tax liability of $0.7 million with corresponding adjustments to shareholders' equity. The remaining unrecognised transition asset will be recognised during the next four years. The reconciliations include adjustments to reflect the prepaid pension asset, to recognise pension benefits (expense) in the statement of financial performance in accordance with U.S. GAAP offset by the reversal of the pension expense of $3.6 million and $1.9 million recorded under A GAAP in 2002 and 2001 respectively. (b) Stock compensation The Company grants options to permanent employees, executive directors and employees of associates under the BRL Hardy Option Plan. The options vest upon grant and are exercisable three years after grant if the weighted average market price of an ordinary share increases by 10% over the exercise price of the option. In 2001 the Company granted ordinary shareholders and option holders renounceable rights on a one for ten basis to purchase additional shares at $9.30 per new share. The rights granted to the option holders become exercisable if the preconditions for the exercise of the related options have been met. Under A GAAP, no compensation costs are recognised in the financial statements for shares and options granted to employees. The Company has elected to account for the plan in accordance with APB 25 "Accounting for Stock Issued to Employees" (APB 25) for U.S. GAAP purposes. Under APB 25, options granted under the plan are considered variable until the weighted average market price increases by 10% over the exercise price, at which time the compensation element becomes fixed. For variable plans compensation expense is recognised as the difference between the market price of an ordinary share and the exercise price of the option over the vesting period. Under U.S. GAAP, compensation expense is also recognised for the renounceable rights granted to employees, in a similar manner to that described above. The reconciliations include adjustments to recognise compensation cost under U.S. GAAP and the corresponding increase to paid in capital. (c) Insurance Receivable In 2002 the Company recognised an insurance receivable for loss of inventory and related costs resulting from faulty taps provided by a third party vendor. Under A GAAP, a receivable is recorded when recovery is considered more likely than less likely to be received. Under U.S. GAAP, an insurance receivable for losses incurred is recognised in the statement of financial performance only when realisation of the claim is deemed likely to be received. Insurance receivables for losses not yet recognised in the consolidated financial statements are recognised when received. The reconciliation includes adjustments to reverse the insurance receivables and income recognised under A GAAP in 2002. (d) Capitalisation of borrowing costs to inventory The Company capitalises interest costs to wine stocks that take greater than twelve months to be prepared for sale in accordance with the requirements of AASB 1036 "Borrowing Costs". Under U.S. GAAP, interest costs are not capitalised to inventory unless the inventory is constructed or produced as a discrete project for which costs are separately accumulated and where construction of the asset takes considerable time and entails substantial expenditures. The preparation and ageing process for wine stocks does not meet this criteria. The reconciliations include adjustments to remove the amount of interest capitalised to inventory and to reverse the net impact to profits. (e) Grape vines and inventory Effective 1 January 2000 the Company changed its accounting policy for grape vines from historical cost to net market value in accordance with AASB 1037 "Self-Generating and Regenerating Assets". Any change in market value is recognised in the statement of financial performance. At harvest the fruit is transferred to inventory at net market value. Under U.S. GAAP, grape vines and inventory are recorded at acquisition or production cost. The reconciliations include adjustments to reverse the cumulative effect of the adoption of AASB 1037 in 2000; to restore the historical carrying value of the assets; to reverse the mark-to-market impacts on the statement of financial performance; and to include depreciation of the grape vines. Page 38 NOTES TO THE FINANCIAL STATEMENTS -------------------------------- NOTE 38. RECONCILIATIONS TO U.S. GAAP (CONTINUED) (f) Goodwill amortisation Under A GAAP, goodwill is amortised on a straight line basis over the period of time during which benefits are expected to arise but no longer than twenty years. Under U.S. GAAP, the Company would have been required to cease amortising goodwill effective 1 January 2002 as goodwill is no longer amortised but is reviewed annually for impairment in accordance with the requirements of SFAS No. 142 "Goodwill and Other Intangible Assets". The Company's assessment of the carrying value of goodwill did not indicate an impairment in its carrying value. The reconciliations include an adjustment to reverse the amortisation expense recognized under A GAAP in 2002. (g) Revenue recognition The Company recognises revenue for domestic sales upon despatch to the customer. Under U.S. GAAP, SAB 101 "Revenue Recognition in Financial Statements" revenue cannot be recognised until legal title and the risks and rewards of ownership have been transferred. The reconciliations include adjustments to reverse the revenue recognised under A GAAP; to reverse the corresponding trade debtors; to restore inventory; and to reverse the cost of sales. In the normal course of business the Company provides customers with volume and quantity discounts, retail display allowances and cooperative advertising allowances. The cost of these programs are recognised in selling, distribution and marketing expenses in the statement of financial performance. Under U.S. GAAP and in accordance with EITF 01-09 "Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)" these expenditures have been reclassified as a reduction of revenue. In applying EITF 01-09 the Company's total revenues for the years ended 31 December 2002 and 2001 would be reduced by $88.9 million and $56.8 million, respectively, with corresponding decreases to selling, distribution and marketing expenses. This difference in treatment does not impact net profit attributable to members or shareholders' equity. (h) Purchase accounting for Nobilo During 2000, the Company purchased in several stages the remaining 75% interest in Nobilo Wine Group Limited for $4.6 million and 4.1 million BRL Hardy shares. Under A GAAP, the fair value of the 4.1 million shares issued as purchase consideration was determined at each share exchange date. The costs of the acquisition are allocated to the assets and liabilities acquired, including inventory, using the purchase method and measured at their estimated fair values. A GAAP is not prescriptive in the method used to determine the fair values of individual assets and liabilities acquired. Under U.S. GAAP, the fair value of securities issued for purchase consideration is equal to the market price of the shares a few days before and after the date the terms of the acquisition are agreed to and announced. The purchase price is allocated to the assets acquired and liabilities assumed based on their estimated fair values. APB 16 "Business Combinations" provides that the fair value of finished goods inventory is calculated as the estimated selling price less the sum of costs of disposal and a reasonable profit allowance for the selling effort of the acquiring entity. The fair value of work in process inventory is calculated as the estimated selling price of finished goods less the sum of costs to complete, costs of disposal, and a reasonable profit allowance for the completing and selling effort of the acquiring entity based on profit for similar finished goods. The reconciliations include adjustments to reflect the increased purchase cost under U.S. GAAP, resulting from the difference in the method used in determining the fair value of the shares issued, the difference in the fair value of the inventory acquired and the recognition of derivative contracts at fair value, net of goodwill amortisation. (i) Derivative instruments The Company enters into forward foreign exchange contracts and options to hedge the exchange rate risk on foreign currency receivables and payables and on anticipated foreign currency sales and purchases. Gains and losses on forward foreign exchange contracts that qualify for hedge accounting are accounted for on the same basis as the underlying physical exposures being hedged. Foreign currency receivables and payables that are hedged under forward foreign exchange contracts are translated at the end of the reporting period at the exchange rate fixed in the hedge contract. Gains or losses on foreign currency receivables and payables are recognised currently in the statement of financial performance. Gains or losses arising on forward foreign exchange options and contracts intended as hedges of anticipated transactions are deferred and recognised when the underlying transactions occur. As at 31 December 2002, the Company recognised on the statement of financial position for the first time, deferred gains and losses arising from forward foreign exchange options and contracts intended as hedges of anticipated transactions as a net asset or liability with a corresponding equal and opposite net asset or liability in accordance with AASB 1012 "Foreign Currency Translation". The Company enters into interest rate contracts, swaps and options to hedge against movements in interest rates and to minimise the volatility of the Company's profit and net cash flows arising from changes in interest rates. The terms of the interest rate contracts are intended to match the maturity profile of the underlying debt. The cash flows required under interest rate swaps are settled on a net basis and either recognised in the statement of financial performance as interest expense as they occur or included in the carrying amount of assets through capitalisation of borrowing costs. Page 39 NOTES TO THE FINANCIAL STATEMENTS -------------------------------- NOTE 38. RECONCILIATIONS TO U.S. GAAP (CONTINUED) (i) Derivative instruments (continued) Effective 1 January 2001, the Company adopted SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities", as amended. SFAS No. 133 requires derivatives to be recorded at their fair value as either an asset or liability in the statement of financial position. Gains or losses on derivatives which qualify and are effective as cash flow hedges are accumulated in equity as other comprehensive income and are recognised in the statement of financial performance when the hedged transaction occurs. Gains or losses on non-qualifying derivatives are recognised in the statement of financial performance immediately. Gains or losses on fair value hedges and on the underlying item being hedged are also recorded in the statement of financial performance. Although SFAS No. 133 permits hedge accounting for hedges of forecasted transactions, the Company had not met the restrictive documentation, designation and effectiveness assessments required under SFAS No. 133. As a result, the derivative contracts used to hedge forecasted transactions continue to be marked to market through the statement of financial performance. The Company did not meet the restrictive documentation, designation and effectiveness assessments required under SFAS No. 133 for its interest rate contracts. As a result, upon adoption of SFAS 133, a transition adjustment equal to the fair value of the interest rate contracts was recorded in shareholders' equity. Subsequent movements in the fair value of the interest rate contracts are recognised in the statement of financial performance. The transition adjustment is reclassified from shareholders' equity to the statement of financial performance over the life of the contracts existing at transition. The application of U.S. GAAP, results in the recording on the statement of financial position of liabilities of $56.5 million and $70.8 million as at 31 December 2002 and 2001, respectively, and assets of $3.0 million and nil as at 31 December 2002 and 2001, respectively. In reconciling to U.S. GAAP, the net liability in relation to deferred losses and the corresponding equal and opposite asset arising on forward foreign exchange options and contracts intended as hedges of anticipated transactions recognised on the statement of financial position under A GAAP of $22.0 million and $66.4 million as at 31 December 2002 and 2001, respectively, would have been reversed, with no net impact in reconciling to U.S. GAAP net profit or shareholders equity. During June 2002, the Company entered into a foreign currency derivative to hedge its investment in a foreign subsidiary. At the inception of the hedge, the Company did not meet the restrictive designation and effectiveness requirements of SFAS No. 133. The reconciliations include adjustments to recognise the derivative instrument at fair value and to reverse the amounts recognised in the currency translation reserve and earnings under A GAAP. (j) Investment in GSI Holdings The Company has recorded its investment in 100% of the preference shares in GSI Holdings at historical cost. Dividend income is recognised when declared. Under U.S. GAAP, the assets and liabilities of GSI Holdings would be consolidated as the ordinary shareholder has not made a substantive capital investment and substantially all the risks and rewards of ownership are retained by the Company. In addition, GSI Holdings' significant asset, consisting of an approximate 17.9% interest in the International Wine Investment Fund, would be accounted for using the equity method. As at 31 December 2002 and 2001, the International Wine Investment Fund held approximately 10.4% and 11.6%, respectively, of the outstanding ordinary shares of the Company. Under U.S. GAAP, the cross shareholding would be treated as treasury stock and recorded in shareholders' equity. Corresponding adjustments would also be made to dividends paid and the weighted average number of shares outstanding. The U.S. GAAP reconciliations include adjustments to record the cross shareholding as treasury stock; to account for the interest in the International Wine Investment Fund using the equity method; to reverse the dividend income recognised under A GAAP for dividends received from GSI Holdings; to increase the carrying value of the equity investment in the International Wine Investment Fund for dividends paid on Company shares; and to record the purchase or sale of additional shares by the International Wine Investment Fund as equity transactions. The treasury stock method decreases the basic and diluted weighted average number of shares outstanding for earnings per share purposes by 3,312,843 shares in 2002 and 3,973,156 shares in 2001. (k) Deferred income taxes The Company recognises deferred income taxes using the liability method of tax-effect accounting, adjusting for permanent differences. Tax loss carry forwards are recognised when realisation is virtually certain. Certain deferred tax liabilities which do not reverse for many years are discounted and recognised at net present value. Under U.S. GAAP, SFAS 109 "Accounting for Income Taxes" requires the recognition of deferred tax assets and liabilities for temporary differences between book and tax balances and the recognition of deferred tax assets for tax loss carry forwards and credits if realisation is more likely than not. Discounting of deferred tax assets or liabilities is not permitted. Deferred tax assets and liabilities are adjusted for changes in tax rates in the period of enactment. The U.S. GAAP reconciliations include adjustments to reverse the impact of discounting; to recognise as temporary differences certain adjustments classified as permanent under A GAAP; and to recognise the change in tax rates in the period of enactment. In addition, the U.S. GAAP reconciliations include adjustments to reflect the SFAS 109 tax impact of the U.S. GAAP differences. Page 40 NOTES TO THE FINANCIAL STATEMENTS -------------------------------- NOTE 38. RECONCILIATIONS TO U.S. GAAP (CONTINUED) (l) Revaluation of property, plant and equipment The Company periodically revalued land and buildings to the directors' valuation based on independent valuers' estimates of fair value in accordance with AASB 1041 "Revaluation of Non-Current Assets" which permits use of either the cost basis or the fair value basis to measure non-current assets. Under U.S. GAAP, property, plant and equipment are recorded at acquisition cost. Revaluations are not permitted. The reconciliations include adjustments to remove the effects of the revaluations including the increased value of the assets and the adjustments recognised through retained profits for the change in accounting principle. The impact of the revaluations on depreciation expense and on gains (losses) from disposal are not significant (the revaluations relate to land) and have not been adjusted. (m) Minority interest Under A GAAP, outside interests in controlled entities are recorded as a component of shareholders' equity. Under U.S. GAAP, outside interests in controlled entities are recorded outside of shareholders' equity. (n) Dividends Effective 1 January 2002, the Company recorded dividends in the period declared in accordance with the requirements of AASB 1044 "Provisions, Contingent Assets and Contingent Liabilities". This is consistent with U.S. GAAP. Prior to 1 January 2002, the Company provided for dividends expected to be declared by the directors post year-end and deducted the amount from shareholders' equity at the end of the relevant accounting period. The reconciliations include adjustments to reverse the provision for dividends expected to be declared as at 31 December 2001. (o) Equipment leases The Company entered into certain sale-leaseback transactions with a financial institution beginning in 1998. Under A GAAP, the equipment was removed from the balance sheet and the leasebacks accounted for as operating leases. No gains or losses were recognised on the sales. Under U.S. GAAP, the transactions do not qualify for sale-leaseback accounting because of continuing involvement by the lessee; specifically, the leases provide the Company with an option to repurchase the property at the end of the lease term. Under U.S. GAAP, the arrangement is accounted for as a financing lease. Accordingly, in reconciling to U.S. GAAP, the Company would recognise equipment of $28.6 million and $30.4 million as at 31 December 2002 and 2001, respectively, and liabilities of $27.0 million and $29.2 million as at 31 December 2002 and 2001, respectively. The difference in treatment does not result in a material adjustment to profit. (p) Statement of cash flows Under both Australian and US GAAP, a statement of cash flows is presented, which discloses cash flows from operating, investing and financing activities. Under US GAAP, bank overdrafts would be reflected as a financing activity. Presented below is summarised cash flow information in accordance with US GAAP for the years ended 31 December 2002, 2001. CASH FLOWS IN ACCORDANCE WITH US GAAP YEAR ENDED 31 DECEMBER 2002 2001 $'000 $'000 -------- -------- Cash flows (used in) from operating activities (45,147) 21,842 Cash flows used in investing activities (83,084) (306,260) Cash flows from financing activities 132,045 303,817 Exchange rate adjustment on beginning cash 74 480 -------- --------- Net increase (decrease) in cash 3,888 19,879 Opening cash 39,665 19,786 -------- --------- Closing cash 43,553 39,665 ======== ========= Page 41 DIRECTORS' DECLARATION --------------------- The directors declare that the financial statements and notes 1 to 37: (a) comply with the Corporations Act 2001, Australian Accounting Standards and other mandatory professional reporting requirements; and (b) give a true and fair view of the financial position as at 31 December 2002 and 31 December 2001 of BRL Hardy Limited and the consolidated entity and of their performance, for the two years ended on 31 December 2002 and 31 December 2001. In the directors' opinion, there are reasonable grounds to believe that BRL Hardy Limited will be able to pay its debts when they become due and payable. This declaration is made in accordance with a resolution of the directors. /s/ Stephen Millar /s/ Angus Kennedy Stephen Millar Angus Kennedy Director Director Reynella As at 6 March 2003 (except for Note 37 for which the date is 23 April 2003) Page 42 REPORT OF INDEPENDENT ACCOUNTANTS To the members of BRL Hardy Limited In our opinion, the accompanying consolidated statements of financial position and the related consolidated statements of financial performance and statements of cash flows present fairly, in all material respects, the financial position of BRL Hardy Limited and its controlled entities (the "Company") as at 31 December 2002 and 2001, and the results of their operations and their cash flows for each of the two years in the period ended 31 December 2002, in conformity with the Corporations Act, Australian Accounting Standards and other authoritative pronouncements of the Australia Accounting Standards Board and Urgent Issues Group Consensus Views (collectively "A GAAP"). These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in Australia and the United States, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion. Accounting principles generally accepted in Australia vary in certain significant respects from accounting principles generally accepted in the United States. The application of the latter would have affected the determination of consolidated net profit attributable to members expressed in Australia Dollars for each of the two years in the period ended 31 December 2002 and the determination of consolidated equity also expressed in Australian Dollars as at 31 December 2002 and 2001 to the extent summarised in Note 38 to the consolidated financial statements. /s/ PricewaterhouseCoopers PricewaterhouseCoopers Chartered Accountants /s/ AG Forman AG Forman Adelaide, Australia 6 March 2003 (except for notes 37 and 38 for which the date is 23 April 2003) Liability is limited by the Accountant's Scheme under the Professional Standards Act 1994 (NSW) Page 43 UNAUDITED PRO FORMA COMBINED FINANCIAL DATA On January 17, 2003, Constellation Brands, Inc. ("Constellation" or the "Company") and BRL Hardy Limited, now known as Hardy Wine Company Limited, an Australian corporation ("Hardy"), entered into an agreement to effect an acquisition of all of the outstanding shares of Hardy by a wholly-owned, indirect subsidiary of Constellation. On March 27, 2003, Constellation acquired control of Hardy's Board of Directors pursuant to the terms of the agreement. On April 9, 2003, the Company completed its acquisition of all of Hardy's outstanding capital stock (the "Hardy Acquisition"). Total consideration paid in cash and Class A Common Stock to the Hardy shareholders was valued at $1,137.4 million for accounting purposes. The Class A Common Stock consisted of 3,288,913 shares which were valued at $77.2 million. Additionally, the Company recorded direct acquisition costs of $20.0 million. The acquisition date for accounting purposes is March 27, 2003, the date which coincides with the assumption of control by Constellation. The Company has recorded a $1.6 million reduction in the purchase price to reflect imputed interest between the accounting acquisition date and the final payment of consideration. The following unaudited pro forma combined financial data of the Company consists of (i) an unaudited pro forma condensed combined balance sheet as of February 28, 2003 (the "Pro Forma Balance Sheet"), and (ii) an unaudited pro forma combined statement of income for the year ended February 28, 2003 (the "Pro Forma Statement of Income" and, collectively, the "Pro Forma Statements"). Constellation's February 28, 2003 information was derived from its audited consolidated financial statements filed in its Annual Report on Form 10-K for the fiscal year ended February 28, 2003. Constellation's historical information was prepared using accounting principles generally accepted in the United States ("U.S. GAAP") and United States Dollars ("US$" or "$"). Hardy's information was derived from its audited consolidated financial statements as of and for the fiscal year ended December 31, 2002. Hardy's historical information was originally prepared using accounting principles generally accepted in Australia, which differs in certain material respects from U.S. GAAP, and Australian Dollars ("A$"). This historical information has been modified to present Hardy's information in conformity with the financial statement presentation of Constellation, using U.S. GAAP and US$. The US$/A$ exchange rate used to convert information as of December 31, 2002, was $0.5616. The average US$/A$ exchange rate used to convert information for the year ended December 31, 2002, was $0.5440. The Pro Forma Balance Sheet is presented as if the Hardy Acquisition was consummated on February 28, 2003. The Pro Forma Balance Sheet reflects the combination of the consolidated balance sheet of Constellation as of February 28, 2003, the consolidated balance sheet of Hardy as of December 31, 2002, and pro forma adjustments. The Pro Forma Statement of Income is presented as if the Hardy Acquisition was consummated on March 1, 2002. The Pro Forma Statement of Income reflects the combination of the consolidated income statement of Constellation for the year ended February 28, 2003, the consolidated statement of Hardy for the year ended December 31, 2002, and pro forma adjustments. The pro forma adjustments include the consolidation of Pacific Wine Partners LLC ("PWP"). Prior to the Hardy Acquisition, PWP was equally owned by Constellation and Hardy. Consolidation adjustments include the elimination of the effects of using the equity method of accounting and any applicable elimination entries. The pro forma adjustments also include the acquisition adjustments to reflect the purchase method of accounting for the Hardy Acquisition. PWP's historical information was prepared using U.S. GAAP and US$. The Pro Forma Statements are for illustrative purposes only and should be read in conjunction with the separate historical financial statements of Constellation and Hardy and the notes thereto and with the accompanying notes to the Pro Forma Statements. The Pro Forma Statements are based upon currently available information and upon certain assumptions that the Company believes are reasonable under the circumstances. The purchase price allocation is based upon certain management estimates and preliminary independent appraisals of the fair value of assets acquired and liabilities assumed. These preliminary independent appraisals include a valuation of property, plant and equipment, and intangible assets. These amounts may differ significantly from the results of the final independent appraisals which will also include valuations of inventories and grape supply contracts. Management has estimated the fair value of the remaining assets acquired and liabilities assumed. The Pro Forma Statements do not reflect any expected annual savings resulting from any operating synergies anticipated by the Company's management. The Pro Forma Statements do not purport to represent what the Company's financial position or results of operations would actually have been if the Hardy Acquisition had, in fact, occurred on such dates or to project the Company's financial position or the results of operations at any future date or for any future period. CONSTELLATION BRANDS, INC. AND SUBSIDIARIES UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET AS OF FEBRUARY 28, 2003 (in thousands) Historical ----------------------------- Pro Forma Pro Forma Constellation Hardy Adjustments Combined ------------ ----------- ----------- ----------- ASSETS ------ CURRENT ASSETS: Cash and cash investments $ 13,810 $ 24,459 $ 6,328 (a) $ 119,770 75,173 (d) Accounts receivable, net 399,095 108,976 26,906 (a) 534,977 Inventories, net 819,912 303,730 51,952 (a) 1,165,184 (10,410) (b) Prepaid expenses and other 97,284 12,277 2,175 (a) 116,759 5,023 (b) ------------- ----------- ------------ ----------- Total current assets 1,330,101 449,442 157,147 1,936,690 PROPERTY, PLANT AND EQUIPMENT, net 602,469 271,324 58,654 (a) 933,168 721 (b) GOODWILL 722,223 5,750 63,958 (a) 1,394,392 602,461 (b) INTANGIBLE ASSETS, net 382,428 10,144 73,636 (a) 821,414 355,206 (b) OTHER ASSETS 159,109 137,141 85 (a) 68,087 (3,576) (b) 27,610 (c) (252,282) (a) ------------- ----------- ------------ ----------- Total assets $ 3,196,330 $ 873,801 $ 1,083,620 $ 5,153,751 ============= ========== ============ =========== LIABILITIES AND STOCKHOLDERS' EQUITY ----------------------------------- CURRENT LIABILITIES: Notes payable $ 2,623 $ (2,000) (d) $ 623 Current maturities of long-term debt 71,264 $ 81,881 295 (a) 459,711 306,271 (d) Accounts payable 171,073 35,388 11,622 (a) 218,083 Accrued excise taxes 36,421 1,018 324 (a) 37,763 Other accrued expenses and liabilities 303,827 73,122 17,744 (a) 444,524 2,370 (b) 47,461 (c) ------------- ----------- ------------ ----------- Total current liabilities 585,208 191,409 384,087 1,160,704 LONG-TERM DEBT, less current maturities 1,191,631 274,132 1,427 (a) 2,298,248 831,058 (d) DEFERRED INCOME TAXES 145,239 5,243 120,130 (b) 270,612 OTHER LIABILITIES 99,268 23,916 50,253 (b) 173,437 ------------- ----------- ------------ ----------- Total liabilities 2,021,346 494,700 1,386,955 3,903,001 STOCKHOLDERS' EQUITY 1,174,984 379,101 77,243 (b) 1,250,750 (991) (b) (486) (e) (379,101) (f) ------------- ----------- ------------ ----------- Total liabilities and stockholders' equity $ 3,196,330 $ 873,801 $ 1,083,620 $ 5,153,751 ============= =========== ============ =========== See Notes to the Unaudited Pro Forma Condensed Combined Balance Sheet. CONSTELLATION BRANDS, INC. AND SUBSIDIARIES NOTES TO THE UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET AS OF FEBRUARY 28, 2003 (in thousands) (a) Reflects the consolidation of PWP, a joint venture previously owned equally by the Company and Hardy, and the elimination of the effects of using the equity method of accounting in the historical financial statements. (b) Reflects the estimated purchase accounting adjustments for the Hardy Acquisition based upon certain management estimates and preliminary independent appraisals of the fair value of assets acquired and liabilities assumed. These preliminary independent appraisals include a valuation of property, plant and equipment, and intangible assets. These amounts may differ significantly from the results of the final independent appraisals which will also include valuations of inventories and grape supply contracts. Management has estimated the fair value of the remaining assets acquired and liabilities assumed. The purchase price was calculated as follows: Cash paid $ 1,060,156 Value of stock issued 77,243 Direct acquisition costs 20,000 Imputed interest (1,626) ------------ Total purchase price $ 1,155,773 ============ The Company issued 3,288,913 shares of Class A Common Stock, which were valued at $77,243 based on the simple average of the closing market price of the Company's Class A Common Stock for the period beginning two days before and ending two days after April 4, 2003, the day the Hardy shareholders elected the form of consideration they wished to receive. The cash paid amount includes $19,256 paid to Hardy to effect the cancellation of all of its outstanding stock options in March 2003, just prior to the Hardy Acquisition. The nonrecurring charge of $19,256 recorded by Hardy to effect this cancellation is not included in the Pro Forma Statement of Income. In addition, the Company has recorded a $1,626 reduction in the purchase price ($991, net of related tax effect) to reflect imputed interest between the accounting acquisition date, March 27, 2003, and the final payment of consideration, April 9, 2003. This charge is not reflected in the Pro Forma Statement of Income but has been reflected in the Company's first quarter of fiscal 2004 earnings. The allocation of the purchase price and the related estimated pro forma adjustments are as follows: Allocation of Purchase Price -------------- Purchase price $ 1,155,773 -------------- Allocation of purchase price: Total current assets $ 444,055 Property, plant and equipment 272,045 Intangible assets 365,350 Other assets 133,565 -------------- Total assets acquired 1,215,015 Current liabilities 193,779 Long-term liabilities 473,674 ------------- Total liabilities assumed 667,453 -------------- Goodwill $ 608,211 ============== The pro forma adjustments relating to total current assets consist of a decrease in the book value of Hardy's inventories of $10,410 and an increase in current deferred tax assets of $5,023. The pro forma adjustments relating to intangible assets represent an increase in trademark values. As the trademarks that are being valued have long been established, management expects that these intangible assets will be classified as indefinite lived, and, as such, will not be amortized. Consequently, the Pro Forma Statement of Income does not include any additional amortization expense related to these intangible assets. The pro forma adjustment relating to other assets represents the elimination of the prepaid pension asset of $3,576 upon the recording of the liability for the projected benefit obligation in excess of plan assets based upon an actuarial valuation performed as of the acquisition date. The pro forma adjustments relating to current liabilities and long-term liabilities represent (i) an increase in current and long-term liabilities of $2,370 and $48,311, respectively, for the estimated liability arising from unfavorable firm purchase commitments assumed at the time of the acquisition ("adverse grape supply"); (ii) an increase in long-term pension liability of $1,942 as a result of the actuarial valuation performed as of the acquisition date; and (iii) an increase in long-term deferred tax liabilities of $120,130. Deferred taxes were established for the fair value adjustments on inventories, adverse grape supply, property, plant and equipment, intangible assets and pension liability and have been classified in accordance with the underlying asset or liability. As Constellation previously owned 50% of PWP, all fair value adjustments related to PWP's net assets are limited to the incremental fair value acquired in the Hardy Acquisition. Prior to its acquisition by Constellation, Hardy was in the process of asserting an insurance claim for loss of inventory and related costs resulting from faulty taps provided by a third party vendor. No effect has been given to this matter in Hardy's historical U.S. GAAP financial statements as realization of the claim was not deemed likely to be received. No pro forma adjustment has been made in these Pro Forma Statements for the claim. Future recognition of amounts realized under this claim, if any, will be treated as a preacquisition contingency, with a corresponding reduction to goodwill for accounting purposes. (c) As of February 28, 2003, the Company had recorded $5,654 of direct acquisition costs in the line items other assets (debit) and other accrued expenses and liabilities (credit). Consequently, this adjustment reflects the additional liability for direct acquisition costs of $14,346 (resulting in total direct acquisition costs of $20,000), the liability for deferred financing costs of $34,064 associated with the Hardy Acquisition financing described in note (d) immediately below and the tax effects of the imputed interest and deferred debt issuance cost adjustments. The amount adjusted to other assets consists of the financing costs of $34,064, less the $5,654 of direct acquisition costs which were previously classified in other assets, but are now being allocated to goodwill as part of the purchase price allocation in note (b) above (see $20,000 of direct acquisition costs in the calculation of the purchase price) and the $800 reduction of deferred debt issuance costs described in (e) below. (d) Reflects the Hardy Acquisition financing, refinancing of the Company's then existing credit agreement (notes payable and term loans) and refinancing of Hardy's long-term debt. Proceeds in excess of the cash paid at closing of $75,173 were available for general corporate purposes. The Hardy Acquisition financing was completed in April 2003. The sources and uses of funds are as follows: Sources of funds: Proceeds from the Credit Agreement - current $ 50,000 Proceeds from the Credit Agreement - long-term 1,150,000 Proceeds from the Bridge Loan Agreement - current 400,000 ------------ Total sources of funds $ 1,600,000 ============ Uses of funds: Cash purchase price $ 1,060,156 Repayment of notes payable 2,000 Repayment of term loans - current portion 67,082 Repayment of term loans - long-term 78,281 Repayment of Hardy's debt - current 76,647 Repayment of Hardy's debt - long-term 240,661 Excess cash drawn down 75,173 ------------ Total uses of funds $ 1,600,000 ============ (e) Reflects the write-off, net of tax effect, of the portion of unamortized deferred debt issuance costs attributable to lenders who will no longer be participating in the Credit Agreement subsequent to the Hardy Acquisition. (f) Reflects the elimination of Hardy's stockholders' equity. CONSTELLATION BRANDS, INC. AND SUBSIDIARIES UNAUDITED PRO FORMA COMBINED STATEMENT OF INCOME FOR THE YEAR ENDED FEBRUARY 28, 2003 (in thousands, except per share data) Historical ------------------------------ Pro Forma Pro Forma Constellation Hardy Adjustments Combined ------------- ----------- ------------ ----------- Gross sales $ 3,583,082 $ 466,019 $ 115,602 (a) $ 4,139,384 (24,349) (a) (970) (a) Less - Excise taxes (851,470) (48,394) (3,012) (a) (902,876) ------------- ----------- ------------ ----------- Net sales 2,731,612 417,625 87,271 3,236,508 Cost of product sold (1,970,897) (291,851) (69,203) (a) (2,301,287) 24,349 (a) 2,450 (a) 3,865 (d) ------------- ----------- ------------ ----------- Gross profit 760,715 125,774 48,732 935,221 Selling, general and administrative expenses (350,993) (64,728) (19,058) (a) (446,625) (1,480) (a) 472 (b) (12,045) (e) 1,207 (d) Restructuring charges (4,764) (4,764) ------------- ----------- ------------ ----------- Operating income 404,958 61,046 17,828 483,832 Gain on change in fair value of derivative instruments 23,129 7,231 30,360 Equity in earnings of joint ventures 12,236 12,664 (24,744) (a) 156 Interest expense, net (105,387) (16,435) 113 (a) (199,349) (76,045) (c)

(1,595) (f) ------------ ----------- ------------ ----------- Income (loss) before income taxes 334,936 64,506 (84,443) 314,999 (Provision for) benefit from income taxes (131,630) (19,256) 33,186 (g) (117,700) ------------ ----------- ------------ ----------- Net income (loss) $ 203,306 $ 45,250 $ (51,257) $ 197,299 ============ =========== ============ =========== Share Data: Earnings per common share: Basic $ 2.26 $ 2.12 Diluted $ 2.19 $ 2.05 Weighted average common shares outstanding: Basic 89,856 3,289 (h) 93,145 Diluted 92,746 3,289 (h) 96,035 See Notes to the Unaudited Pro Forma Combined Statement of Income. CONSTELLATION BRANDS, INC. AND SUBSIDIARIES NOTES TO THE UNAUDITED PRO FORMA COMBINED STATEMENT OF INCOME FOR THE YEAR ENDED FEBRUARY 28, 2003 (IN THOUSANDS, EXCEPT PER SHARE DATA) (a) Reflects the consolidation of PWP, a joint venture previously owned equally by the Company and Hardy, and the elimination of the effects of using the equity method of accounting in the historical financial statements, including the elimination of (i) sales and cost of product sold from Hardy to PWP of $20,386; (ii) revenues for crush, wine production, bottling and storage services provided by PWP to the Company of $3,963; (iii) sales of grapes and concentrate of $970 from the Company to PWP; and (iv) charges for other administrative services of $1,480 provided by the Company to PWP. (b) Reflects the elimination of stock-based compensation expense recognized in accordance with FASB Interpretations No. 44 ("FIN No. 44"), "Accounting for Certain Transactions Involving Stock Compensation (an Interpretation of APB Opinion No. 25)" recorded by PWP for the Company and Hardy options granted to employees of PWP, previously considered non-employees under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," resulting in fair value measurement in accordance with FIN No. 44. (c) Reflects the effects of the Hardy Acquisition financing and its use in consummating the Hardy Acquisition, including the elimination of certain of Hardy's interest expense due to the refinancing of certain of Hardy's debt, the additional interest expense incurred on the debt to finance the Hardy Acquisition and the incremental interest expense on the Company's historical borrowings resulting from the higher interest rate in the Credit Agreement. In determining the pro forma adjustment, the Company has assumed interest rates on its LIBOR-based Credit Agreement ranging from 4.6% to 5.1% for the pro forma period. The assumed interest rate on the Bridge Loan Agreement, which has escalation provisions, range from 6.1% in the first three months to 8.4% in the last three months of the pro forma period. The overall effective interest rate was 5.65% for the pro forma year ended February 28, 2003. The Company has recorded a $1,626 reduction in the purchase price to reflect imputed interest between the accounting acquisition date and the final payment of consideration. This charge is not reflected in the Pro Forma Statement of Income but will be reflected in the Company's first quarter of fiscal 2004 earnings. The Pro Forma Statement of Income reflects interest expense for the Bridge Loan Agreement pursuant to its terms despite the Company's intention to repay this loan during fiscal 2004. Since the timing of repayment and exact nature and amount of the refinancing are not yet determinable, its impacts have not been reflected. (d) Reflects the adjustment to depreciation expense related to the acquired property, plant and equipment of Hardy. These assets have been restated at their estimated fair values and depreciated using the Company's depreciation methods over the remaining useful lives of the assets as identified in the preliminary independent appraisal. The decrease in depreciation expense of $5,072 was due primarily to longer useful lives per the preliminary independent appraisal as compared to the estimated useful lives used by Hardy, and was allocated to cost of product sold and selling, general and administrative expenses as indicated. (e) Reflects incremental amortization expense associated with the deferred debt issuance costs as follows: Year Ended February 28, 2003 ------------ Credit Agreement $ 3,900 Bridge Loan Agreement 8,145 ------------ $ 12,045 ============ The deferred debt issuance costs associated with these agreements are being amortized over the life of the related debt. Deferred debt issuance costs associated with the Bridge Loan Agreement are being amortized over five months, the period of time that the Company expects the related borrowings to be outstanding. (f) Reflects interest expense on the present value of adverse grape contracts. (g) Reflects the tax effect of the pro forma adjustments using the Company's statutory tax rate of 39.3%. (h) Reflects the issuance of 3,288,913 shares of the Company's Class A Common Stock given as part of the consideration in consummation of the Hardy Acquisition. SIGNATURES Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, hereunto duly authorized. CONSTELLATION BRANDS, INC. Dated: July 17, 2003 By: /s/ Thomas F. Howe ------------------------------ Thomas F. Howe, Senior Vice President and Controller INDEX TO EXHIBITS Exhibit No. Description ----------- ----------- 1 UNDERWRITING AGREEMENT Not Applicable. 2 PLAN OF ACQUISITION, REORGANIZATION, ARRANGEMENT, LIQUIDATION OR SUCCESSION 2.1 Implementation Deed dated 17 January 2003 between Constellation Brands, Inc. and BRL Hardy Limited (filed as Exhibit 99.1 to the

Registrant's Current Report on Form 8-K dated January 21, 2003 and incorporated herein by reference). 2.2 Transaction Compensation Agreement dated 17 January 2003 between Constellation Brands, Inc. and BRL Hardy Limited (filed as Exhibit 99.2 to the Registrant's Current Report on Form 8-K dated January 21, 2003 and incorporated herein by reference). 2.3 No Solicitation Agreement dated 13 January 2003 between Constellation Brands, Inc. and BRL Hardy Limited (filed as Exhibit 99.3 to the Registrant's Current Report on Form 8-K dated January 21, 2003 and incorporated herein by reference). 2.4 Backstop Fee Agreement dated 13 January 2003 between Constellation Brands, Inc. and BRL Hardy Limited (filed as Exhibit 99.4 to the Registrant's Current Report on Form 8-K dated January 21, 2003 and incorporated herein by reference). 2.5 Letter Agreement dated 6 February 2003 between Constellation Brands, Inc. and BRL Hardy Limited (filed as Exhibit 2.5 to the Registrant's Current Report on Form 8-K dated March 27, 2003). 4 INSTRUMENTS DEFINING THE RIGHTS OF SECURITY HOLDERS, INCLUDING INDENTURES 4.1 Amended and Restated Credit Agreement, dated as of March 19, 2003, among Constellation Brands, Inc. and certain of its subsidiaries, the lenders named therein, JPMorgan Chase Bank, as Administrative Agent, and JPMorgan Europe Limited, as London Agent (filed as Exhibit 4.1 to the Registrant's Current Report on Form 8-K dated March 27, 2003). 4.2 Amended and Restated Bridge Loan Agreement, dated as of January 16, 2003 and amended and restated as of March 26, 2003, among Constellation Brands, Inc. and certain of its subsidiaries, the lenders named therein, and JPMorgan Chase Bank, as Administrative Agent (filed as Exhibit 4.2 to the Registrant's Current Report on Form 8-K dated March 27, 2003). 14 CODE OF ETHICS Not Applicable. 16 LETTER RE CHANGE IN CERTIFYING ACCOUNTANT Not Applicable. 17 LETTER RE DIRECTOR RESIGNATION Not Applicable. 20 OTHER DOCUMENTS OR STATEMENTS TO SECURITY HOLDERS Not Applicable. 23 CONSENTS OF EXPERTS AND COUNSEL 23.1 Consent of PricewaterhouseCoopers dated July 17, 2003 (filed herewith). 24 POWER OF ATTORNEY Not Applicable. 99 ADDITIONAL EXHIBITS Not Applicable.