FOLEY WINES

made by land & hand

ANNUAL REPORT | 2020

Contents

FOLEY WINES LIMITED | ANNUAL REPORT 2020

made by land & hand

Foley Wines is a collection of iconic wineries and brands from New Zealand's most acclaimed wine regions

Each with a unique story of New Zealand to tell, our wineries and distillery are linked by a common unrelenting purpose; to make great wine that people love to drink around the world – made by land & hand.

Our wineries & distillery

Martinborough Vineyard
Martinborough

Te Kairanga
Martinborough

Lighthouse Gin
Martinborough

Grove Mill
Wairau Valley, Marlborough

Vavasour
Awatere Valley, Marlborough

Mt Difficulty
Central Otago

Performance Highlights

CONTINUED PREMIUMISATION

CASE SALES	533,000 (up 2%)
DOMESTIC CASES	157,000 (up 32.8%)
BOTTLED SALES REVENUE	$49,951,000 (up 13.4%)
OPERATING EARNINGS	$7,750,000 (up 53.2%)
REPORTED PROFIT AFTER TAX	$ 6,921,000 (up 96.7%)
OPERATING EBITDA	$15,163,000 (up 53.2%)
OPERATING CASHFLOW	$10,792,000 (up 68.3%)
DECLARED DIVIDEND	3 cents per share fully imputed

2020 has been a year of significant progress, but one which was also impacted by Covid-19. The strategy has been one of continued premiumisation, which put simply is around value over volume, by selling premium wine at higher price points through high quality channels.

Bottled case sales

BOTTLED CASE SALES (000'S) 12 MONTHS TO JUNE

		JUNE '20	JUNE '19	% CHANGE	JUNE '18	% CHANGE
	New Zealand	157	118	+33%	144	+9%
	Australia	132	138	(4)%	113	+17%
	USA/Canada	121	145	(17)%	122	(1)%
	UK/Europe	92	97	(5)%	73	+26%
	Rest of World	31	24	+29%	19	+63%
	TOTAL	**533**	**522**	**+2%**	**471**	**+13%**

Operating Performance

ANOTHER RECORD YEAR

The Company reports a record operating profit before revaluations and income tax ("operating earnings") of $7,750,000 compared with $5,059,000 for the previous financial year. As outlined previously, we are of the firm belief that operating performance (underlying profit) is the key metric to demonstrate the progress the Company is making due to the complexity around the accounting standards and fair value adjustments.

Profit for the period net of tax attributable for the shareholders was $6,921,000, up 96.7% compared with $3,518,000 the previous year. After adjusting for the one-off deferred tax adjustment of $1,519,000 required due to the re-introduction of the depreciation on commercial buildings from the 2020/2021 tax year the net profit was $5,402,000, up 53.6% on the prior year.

Mark Turnbull, CEO and Director

CEO & DIRECTORS' REPORT

Positive Momentum

"Despite global headwinds, genuine progress is being made."

On behalf of Directors of Foley Wines Limited (FWL) we are pleased to present the 2020 operating results and annual report for the 12 months ended 30 June 2020.

COVID-19

Along with many businesses around the world, Covid-19 had significant implications for the business. Thankfully we were able to harvest grapes during alert level 4 under strict conditions. However, our portfolio is a premium portfolio that is served in restaurants (on-premise) and airlines around the world. As we all know, these sectors have been hard hit globally with many businesses closed for a long period. Some, e.g. in Victoria and Auckland, have reopened and subsequently closed again.

While case sales for the Company were up 2% for the year, case sales for the final quarter were down approximately 27,000 cases compared with the prior year. However, this doesn't reflect the positive momentum the business is gaining on the sales front as all markets were performing well prior to the disruption of Covid-19. The export data outlined above does not reflect the genuine progress being made.

This year significant new routes to market have been secured in Australia and Asia, sales for which are not reflected in 2020. These new channels are for premium brands that retail for over $20 per bottle and are a reflection of our premiumisation strategy gaining attention. Our intention is to focus on channels that want brands, and this is very much a value over volume play.

As outlined in 2019, the value of the Company's portfolio and centralised business model is creating significant opportunities with retailers and importers seeking premium brands and streamlined procurement. The ability to supply five winery brands from three acclaimed regions and a craft gin, with one point of contact, is gaining attention around the world. It is fundamental we keep to this course and continue to build our brands, underpinned by high quality winemaking.

Finally, like many businesses we were eligible for the wage subsidy. This enabled us to retain all staff across the Company and no staff have lost their jobs. This means we were able to quickly reopen both the cellar doors and also the restaurant at Mt Difficulty to a 7 day a week operation.

CASHFLOW

Operating cash flow was $10,792,000 for the year, up from $6,413,000 the previous year. This year's cashflow was significantly influenced by increased profitability.

Capital expenditure was $4,417,000 for the year, compared with $2,948,000 the previous year. A key item of expenditure was a new amenities building at the Grove Mill winery. This facility ensures improved working conditions for the team there which has increased in staff numbers over the years since this business was acquired. However the intention continues to be that the Company's capital expenditure is less than annual depreciation other than significant one-off investments for growth.

The Company is forecasting to reduce this year's capital expenditure by 50%, not including the proposed new development in Martinborough.

The total dividend paid for the year was $1,972,000.

MT DIFFICULTY CASE SALES

Mt Difficulty was acquired on 3 January 2019 and the 2020 year represents the first full years trading. Sales revenue was $11.3m at an average selling price of $157 per case for the full year.

Mt Difficulty sales were probably the most adversely affected by Covid-19 in the portfolio due to its on-premise focus, as outlined above. The cellar door and restaurant was closed for most of the final quarter. Furthermore, case sales were down 28% for the last quarter compared to the same quarter last year.

LIGHTHOUSE GIN

Lighthouse Gin continues to be a small but important part of the business. Sales were 35,540 litres (equivalent to approximately 50,772 700ml bottles) compared with 24,309 litres (equivalent to approximately 34,727 700ml bottles) in the prior 12 months.

Lighthouse continues to go from strength to strength in Australia, proving to be a hugely successful product for our key retail partner in that market.

Lighthouse continues to garner international recognition with Gold and 95 Points recently awarded by the International Wine & Spirits Competition in London. This follows the coveted title of 'Master' awarded last year at the Spirits Business Gin Masters competition in the UK and demonstrates the high quality of Lighthouse Gin.

The Company continues to be very optimistic that this growth will continue in the year ahead and intends to build a new purpose-designed distillery in 2021.

FOLEY WINES LIMITED | CEO AND DIRECTORS' REPORT

BUILDING POWERFUL BRANDS

The 2020 year saw further investment in building the premium positioning and profile of our brands to ensure our multi-channel distribution delivers a strong rate of sale for our customers.

Significant investment in advertising with an increasing emphasis on targeted digital and outdoor advertising has continued to build brand awareness and appetite amongst premium wine lovers. At the same time, PR coverage in high quality lifestyle titles has brought our brands' genuine stories of people and place to new and engaged audiences.

The relaunch of the Foley Wine Club website gives us a powerful platform to showcase our portfolio of premium brands and sell directly to consumers, including rare and library wines which have limited availability in the market. In tandem with the launch of the Foley Rewards loyalty programme, we have achieved a significant increase in the numbers we are reaching through this platform.

We continue to reduce our reliance on awards and accolades as we shift to engaging consumers with our genuine brand stories. However, positive results do continue to serve as a valuable decision-making tool for consumers navigating wine and gin shelves, and stand as a testament to the teams' skill in the vineyards, wineries and distillery.

- Russian Jack Pinot Gris 2019, Pinot Gris Trophy at the New Zealand Wine of the Year Awards 2019
- Martinborough Vineyard Te Tera Sauvignon Blanc 2019, Wairarapa Regional Trophy at the New Zealand Wine of the Year Awards 2019
- Dashwood Pinot Noir 2018 and Vavasour Sauvignon Blanc 2019, Top 100 & Blue Gold at the Sydney International Wine Competition 2020
- Lighthouse Gin, Gold with 95 Points at the International Wine & Spirits Competition 2020
- Lighthouse Gin, 'Master' at the Drinks Business Gin Masters 2019

Te Kairanga digital billboard, PONSONBY

Mt Difficulty digital billboard, PARNELL

2020 HARVEST

The harvest totalled 7,802 tonnes across the Marlborough, Martinborough and Mt Difficulty wineries, an overall decrease of 6% on last year's harvest of 8,304 tonnes. The harvest decrease was predominately driven by contracted growers being down 15% on last year while fruit from FWL's own vineyards was up 1.8%

Foley Wines Group Chief Winemaker Alastair Maling MW said, "With a long drawn out summer and perfect conditions over March and April in Martinborough, Marlborough and Central Otago the quality of wines from 2020 will be some of the best in recent years."

SUSTAINABILITY

It is the view of the Company that acting sustainably is a matter of urgency, not a 'nice to have'. Events during the course of the year, including the bushfires in Australia, have propelled environmental issues even further into the forefront of consumers' minds.

The practical, tangible sustainability practices that underpin our operations go beyond the Sustainable Winegrowing New Zealand accreditation held by each of our wineries. Our practices carry through from vineyards to packaging, with further steps toward safeguarding our environment for future generations made during the 2020 year.

Recycled New Zealand Glass

In an industry dominated by coal-powered glass produced overseas, we have chosen to bottle our wines in New Zealand, using New Zealand sourced, recycled glass, reducing our carbon footprint and supporting our local industry.

Industry-leading Water Conservation

Winery wastewater at all wineries is recycled to irrigate our vineyards and native plantings through systems held up as benchmarks in Marlborough and Central Otago.

FOLEY WINES LIMITED | CEO AND DIRECTORS' REPORT

Restoring Local Habitats

The wetlands we have established beside our central bottling and warehousing facility plays an important role in maintaining a healthy eco-system and is a thriving habitat for local fauna. At our most recent planting day 700 beneficial native species were planted and 58 predators were removed in the past year.

Powered By Solar

Solar energy at four of our five wineries reduces our use of energy from the main grid.

Small Footprints Part Of The Landscape

Our small wineries are positioned amongst our vineyards, reducing the carbon footprint of incoming grapes during harvest, and integrating into the landscape. The living roof at Mt Difficulty is designed to encourage biodiversity, evaporative cooling and heat retention.

DIVIDEND

The Directors consider that the underlying operational performance and cashflows and the work done on securing new distribution channels justify retaining a fully imputed dividend of 3 cents per share. FWL has a strong balance sheet and is focused on increasing the dividend yield to Shareholders as the Company grows. The policy of the Board is to evaluate present and projected cash flows, sustainable operating earnings and, if prudent, to declare a dividend subject to current and future capital and acquisition expenditure requirements.

OUTLOOK

Over the course of the past two years the Company has demonstrated that it is gaining momentum with its premiumisation strategy. However, the world is in extremely uncertain times due to Covid-19, meaning the ability to give guidance is extremely difficult. The Company has laid a strong foundation for growth to take advantage of opportunities as they arise and will continue to focus on brand building and developing new routes to market at the premium price points.

For and on behalf of the Board of Directors

Mark Turnbull
CEO and Director

Directors' Responsibility Statement

For the year ended 30 June 2020

The Directors are responsible for the preparation, in accordance with New Zealand law and generally accepted accounting practice, of financial statements which fairly present the financial position of Foley Wines Limited and Group as at 30 June 2020 and the results of their operations and cash flows for the year ended 30 June 2020.

The Directors consider that the financial statements of the Company and the Group have been prepared using accounting policies appropriate to the Company and Group circumstances, consistently applied and supported by reasonable and prudent judgements and estimates, and that all applicable New Zealand Equivalents to International Financial Reporting Standards have been followed.

The Directors have responsibility for ensuring that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the Company and Group and enable them to ensure that the financial statements comply with the Financial Markets Conduct Act 2013 and Financial Reporting Act 2013.

The Directors have responsibility for the maintenance of a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting. The Directors consider that adequate steps have been taken to safeguard the assets of the Company and Group and to prevent and detect fraud and other irregularities.

The Directors are pleased to present the financial statements of Foley Wines Limited and Group for the year ended 30 June 2020.

This annual report is dated 27 August 2020 and is signed in accordance with a resolution of the Directors made that day pursuant to section 211(1)(k) of the Companies Act 1993.

For and on behalf of the Directors

WP Foley II
Chairman

AM Turnbull
CEO and Director

Financial Statements

Income Statement

For the year ended 30 June 2020

	Notes	Group 2020 $'000	Group 2019 $'000
Total Revenue	3	**55,856**	**47,943**
Expenses			
Cost of sales		(35,911)	(32,364)
Selling, marketing and promotion expenses		(5,985)	(5,303)
Administration and corporate governance expenses		(4,222)	(3,051)
Other expenses	4	(144)	(680)
Expenses excluding interest		**(46,262)**	**(41,398)**
Operating Profit before interest, impairment, revaluations & income tax		**9,594**	**6,545**
Interest revenue		3	31
Interest expense	5	(1,829)	(1,562)
Net finance costs		**(1,826)**	**(1,531)**
Operating Profit before impairment, revaluations & income tax		**7,768**	**5,014**
Impairment			
Impairment of inventory	2.2 (d)	(18)	45
Operating Profit before revaluations & income tax		**7,750**	**5,059**
Revaluation gains and losses			
Unrealised gain in fair value of financial asset/liabilities	24(k)	12	187
Unrealised gain on harvested grapes	21	1,243	415
Realised reversal of gain on harvested grapes		(594)	(513)
Revaluation of property, plant & equipment	2.3.9	(818)	(93)
Profit before income tax		**7,593**	**5,055**
Income tax expense	6.1	(2,191)	(1,537)
Income tax benefit – re-introduction of tax depreciation on buildings	6.1	1,519	–
Profit for the year net of tax, attributable to Shareholders of the Parent Company		**6,921**	**3,518**
Basic Earnings per share cps (after tax)	7	10.53	5.89
Diluted Earnings per share cps (after tax)	7	10.10	5.89

These financial statements should be read in conjunction with the Notes to the Financial Statements on pages 26 to 72.

Statement of Comprehensive Income

For the year ended 30 June 2020

	Notes	Group 2020 $'000	Group 2019 $'000
Profit for the year		**6,921**	**3,518**
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Revaluation of property, plant and equipment	2.3.9	2,888	3,347
Income tax on items taken directly to or transferred from equity	6.2	(334)	(450)
Other comprehensive income for the year, net of tax		**2,554**	**2,897**
Total comprehensive income for the year, net of tax		**9,475**	**6,415**

These financial statements should be read in conjunction with the Notes to the Financial Statements on pages 26 to 72.

Statement of Changes in Equity

For the year ended 30 June 2020

Group	Notes	Fully Paid Ordinary Shares $'000	Asset Revaluation Reserve $'000	Retained Earnings $'000	Total $'000
Equity at 1 July 2019		86,518	16,009	16,780	119,307
Adjustment on initial application of NZ IFRS 16 including deferred tax	2.3.26 (c)	–	(2)	(1,299)	(1,301)
Adjusted balance at 1 July 2019		86,518	16,007	15,481	118,006
Profit for the year		–	–	6,921	6,921
Other comprehensive income for the year		–	2,521	33	2,554
Total comprehensive income for the year		–	2,521	6,954	9,475
Distributions to owners	8	–	–	(1,972)	(1,972)
Transactions with owners during the year		–	–	(1,972)	(1,972)
Added to equity during the year		–	2,521	4,982	7,503
Equity at 30 June 2020		86,518	18,528	20,463	125,509
Dividends paid per share cps	8				3.0
Equity at 1 July 2018		66,518	13,337	14,627	94,482
Profit for the year		–	–	3,518	3,518
Other comprehensive income for the year		–	2,672	225	2,897
Total comprehensive income for the year		–	2,672	3,743	6,415
Contributions by owners	9	20,000	–	–	20,000
Distributions to owners	8	–	–	(1,590)	(1,590)
Transactions with owners during the year		20,000	–	(1,590)	18,410
Added to equity during the year		20,000	2,672	2,153	24,825
Equity at 30 June 2019		86,518	16,009	16,780	119,307
Dividends paid per share cps	8				3.0

These financial statements should be read in conjunction with the Notes to the Financial Statements on pages 26 to 72.

Statement of Financial Position

As at 30 June 2020

	Notes	Group 2020 $'000	Restated Group 2019 $'000
CURRENT ASSETS			
Cash and cash equivalents		5,921	3,445
Trade and other receivables	17	7,576	9,279
Other financial assets	16	110	93
Inventories	18	46,721	44,080
Biological work in progress	19 & 21	1,511	1,302
Prepaid expenses		406	677
Other current assets		431	356
		62,676	59,232
NON-CURRENT ASSETS			
Property, plant and equipment	20	102,515	101,245
Right-of-use assets	14.1	11,466	–
Intangible assetss	22	35,122	35,122
		149,103	136,367
TOTAL ASSETS		**211,779**	**195,599**

These financial statements should be read in conjunction with the Notes to the Financial Statements on pages 26 to 72.

Statement of Financial Position (continued)

As at 30 June 2020

	Notes	Group 2020 $'000	Restated Group 2019 $'000
CURRENT LIABILITIES			
Trade and other payables	12	6,786	7,235
Loans and borrowings	13	7,353	2,261
Lease liabilities	14.2	896	–
Convertible notes	15	10,900	10,900
Other financial liabilities	16	–	3
Current tax liabilities	6.3	1,662	1,087
		27,597	21,486
NON-CURRENT LIABILITIES			
Loans and borrowings	13	31,500	37,601
Lease liabilities	14.2	11,943	–
Other financial liabilities	16	8	–
Deferred tax liabilities	6.4	15,222	17,205
		58,673	54,806
TOTAL LIABILITIES		86,270	76,292
EQUITY			
Share capital	9	86,518	86,518
Reserves	10	18,528	16,009
Retained earnings	11	20,463	16,780
TOTAL EQUITY		125,509	119,307
TOTAL LIABILITIES AND EQUITY		**211,779**	**195,599**

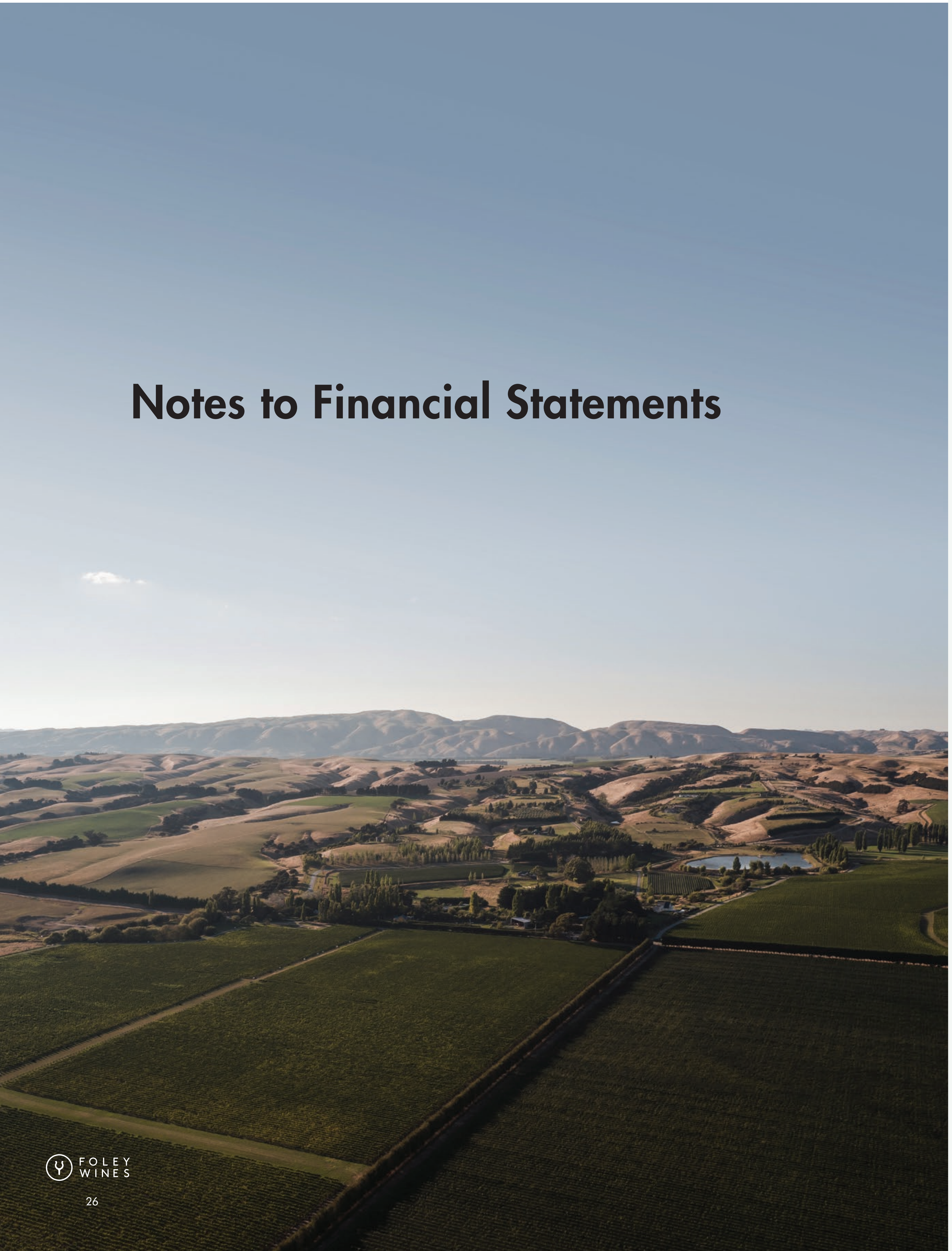
These financial statements should be read in conjunction with the Notes to the Financial Statements on pages 26 to 72.

Statement of Cash Flows

For the year ended 30 June 2020

	Notes	Group 2020 $'000	Group 2019 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash was provided from (applied to)			
Receipts from customers		60,628	50,229
Insurance proceeds		–	605
Government grants/assistance		638	–
Interest received		3	31
Payments to suppliers and employees		(46,838)	(42,303)
Interest and other costs of finance paid		(1,730)	(1,512)
Income tax paid		(1,909)	(637)
Net cash flow from operating activities	23	10,792	6,413
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash was obtained from (applied to)			
Sale of property, plant and equipment		74	74
Purchase of property, plant and equipment and biological assets – excluding Mt Difficulty acquisition		(4,417)	(2,948)
Acquisition of Mt Difficulty business and assets, net of cash received	30	-	(47,081)
Net cash flow from investing activities		(4,343)	(49,955)
CASH FLOW FROM FINANCING ACTIVITIES			
Cash was provided for (applied to)			
Issue of equity share capital	9	–	20,000
Dividends paid	8	(1,972)	(1,590)
Loans advanced	13	1,000	30,000
Loans repaid	23 (b)	(2,108)	(4,191)
Lease liabilities repaid	23 (c)	(893)	–
Net cash flow from financing activities		(3,973)	44,219
Net increase in cash held		2,476	677
Cash and cash equivalents at beginning of year		3,445	2,768
Cash and cash equivalents at end of year		5,921	3,445
Comprising: Cash and cash equivalents		5,921	3,445

These financial statements should be read in conjunction with the Notes to the Financial Statements on pages 26 to 72.



Notes to the Financial Statements

For the year ended 30 June 2020

1. REPORTING ENTITY

Foley Wines Limited ("the Company", "the Parent") is a company domiciled in New Zealand, registered under the Companies Act 1993 and listed on the NZX Main Board (NZSX) of the New Zealand Stock Exchange ("NZX"). The Company is an FMC reporting entity in terms of the Financial Markets Conduct Act 2013.

The Company is an integrated wine company producing table wines with the marketing and sales of premium wines in New Zealand and various export markets.

The Company is 52.80% (2019: 52.80%) owned by Foley Family Wines Holdings, New Zealand Limited, which in turn is owned 80.47% by Foley Family Wines Holdings, Inc., a company domiciled in the United States of America.

2. SUMMARY OF ACCOUNTING POLICIES

The financial statements of Foley Wines Limited ("the Company", "the Parent") and its subsidiaries and controlled entities (together referred to as "the Group") have been prepared in accordance with generally accepted accounting practice in New Zealand ("NZ GAAP"). The Company is a profit-oriented company incorporated in New Zealand with its registered office at 13 Waihopai Valley Road, RD6, Blenheim 7276, New Zealand.

2.1 STATEMENT OF COMPLIANCE

The Company is a reporting entity for the purpose of the Financial Markets Conduct Act 2013 and its financial statements comply with that Act.

The financial statements comply with New Zealand equivalents to International Financial Reporting Standards ('NZ IFRS') and other applicable Financial Reporting Standards as appropriate for profit-oriented entities. The financial statements also comply with International Financial Reporting Standards ("IFRSs").

The financial statements were authorised for issue by the Directors on 27 August 2020.

2.2 BASIS FOR PREPARATION

The financial statements have been prepared on the historical cost basis except for land and buildings, land improvements including biological bearer plants (refer note 2.2(a)) and derivative financial instruments each of which have been measured at fair value. The reporting currency is New Zealand dollars and all values are rounded to the nearest thousand dollars ($'000).

Judgements, Estimates and Assumptions and Accounting Policies

In the application of NZ IFRS the Directors are required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgements. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Notes to the Financial Statements (continued)

For the year ended 30 June 2020

2. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

2.2 BASIS FOR PREPARATION (CONTINUED)

Judgements, Estimates and Assumptions and Accounting Policies (Continued)

The significant areas of estimation, assumptions and critical judgements made in the preparation of these financial statements are as follows:

(a) Fair Value of Land, Land Improvements and Buildings

The fair value of land, land improvements (vineyards) and buildings is determined by an independent valuer. The fair value of land, vineyards, including bearer plants (grape vines) and other vineyard infrastructure, and buildings were determined under the principle of highest and best use at balance date. Fair value is the amount for which the assets could have been exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction as at the valuation date. Fair value is determined by direct reference to recent market transactions on arm's length terms for vineyards comparable in size, location and varietal mix to those held by the Group. To determine the fair value the independent valuer uses valuation techniques which are inherently subjective and involve estimation. The Directors consider that market data exists to support this basis of valuation but note that the Valuers have this year included clauses in their Valuation Reports noting that there is market uncertainty due to the Covid-19 outbreak that has resulted in significant valuation uncertainty and that market conditions are constantly changing. Refer to note 20.

(b) Fair Value of Grapes at the Point of Harvest

The fair value of grapes at the point of harvest is determined by reference to market prices for each variety of grape grown in the local area at the time of harvest. The Directors' assessment of the fair value at the point of harvest is determined after reviewing the market price paid to independent grape growers including reference to New Zealand Winegrowers annual Grape Price Data.

(c) Lease Accounting

The Group has entered into long-term vineyard leases which allow the Group to control the growing and harvesting of the grapes used in the production of finished product. After taking into consideration the terms and conditions within the leases, it is believed that the lessor retains substantially all of the risks and rewards of ownership and the leases are accordingly classified as operating leases.

Significant estimates and judgements that have been required for the implementation of NZ IFRS 16 Leases are:

- The determination of whether an arrangement contains a lease;
- The determination of lease term for some lease contracts in which the Group is a lessee that include renewal options and termination options, and the determination whether the Group is reasonably certain to exercise such option;
- The determination of the incremental borrowing rate used to measure lease liabilities;
- The determination of the expected cost to dismantle and remove lease improvements at end of the lease.

(d) Impairment of Assets other than Goodwill and Indefinite Life Intangibles

The Group assesses impairment of all assets at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. If an impairment trigger exists the recoverable amount of the asset is determined. At balance date management considered that the indications of impairment were significant enough to test the Group's inventories for impairment in this (and the prior) reporting period.

Notes to the Financial Statements (continued)

For the year ended 30 June 2020

2. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

2.2 BASIS FOR PREPARATION (CONTINUED)

Judgements, Estimates and Assumptions and Accounting Policies (Continued)

(d) Impairment of Assets other than Goodwill and Indefinite Life Intangibles (Continued)

In relation to inventories the recoverable amount, or net realisable value, represents the estimated selling price in the ordinary course of business, less estimated costs of completion and estimated costs to be incurred in the marketing, selling and distribution. Following this review of net realisable value of inventories an impairment of inventory of $18,000 for the Group has been recorded in the current year (2019: reversal $45,000).

(e) Impairment of Goodwill and Indefinite Life Intangibles

The Group determines at least annually whether goodwill and indefinite life intangible assets are impaired. This requires an estimation of the recoverable amount of the cash generating units to which the goodwill and intangible asset was allocated

The calculation of the recoverable amount of the cash generating unit involves assumptions to be made in terms of the timing and extent of net cash flows expected to arise from the cash generating unit and the selection of an appropriate discount rate in order to determine the present value. The Group has determined that in the current year there is only one cash generating unit for the whole business and the value of the goodwill and intangible assets was supported by value-in-use calculations. These calculations required the use of estimates. These estimates are set out in note 22.

(f) Derivative financial instruments

The Group has derivative financial instruments which are classified as level 2, as they have inputs other than observable quoted prices. In calculating the mark to market values, management has considered the market rates.

(g) Business Combination

The significant estimates, assumptions and judgements in relation to the Mt Difficulty Acquisition are outlined in note 30.

The Directors continually review all accounting policies and areas of judgement in presenting the financial statements.

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported. A summary of significant accounting policies is disclosed in section 2.3.

2.3 SIGNIFICANT ACCOUNTING POLICIES

The following significant accounting policies have been adopted in the preparation and presentation of the financial statements:

2.3.1 REVENUE RECOGNITION

Revenue is recognised to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the vendor expects to be entitled in exchange for those goods or services.

Notes to the Financial Statements (continued)

For the year ended 30 June 2020

2. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

2.3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3.1 REVENUE RECOGNITION (CONTINUED)

The following specific recognition criteria must also be met before revenue is recognised:

(a) Sale of goods

Revenue is measured based on the consideration to which the Group expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognises revenue when it transfers control of a product or service to a customer. Control is considered transferred to the buyer at the time of delivery of the goods to the customer or at the free on board (FOB) port/delivery point or as otherwise contractually determined. Delivery occurs when the goods have been shipped to the customer's specific location. For sales of goods to retail customers, transfer is at the point the customer purchases the goods at the retail outlet. Payment of the transaction price is due immediately at the point the customer purchases the goods

(b) Interest revenue

Revenue is recognised as the interest accrues (using the effective interest method which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset).

2.3.2 BORROWING COSTS

Borrowing costs are recognised as an expense when incurred except to the extent that they are directly attributable to the acquisition, construction or production of a qualifying asset.

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset will be capitalised as part of the cost of that asset.

2.3.3 IMPAIRMENT OF ASSETS OTHER THAN GOODWILL AND INDEFINITE LIFE INTANGIBLES

At each reporting date, the Group reviews the carrying value of its tangible and intangible assets and assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists or when annual impairment testing for an asset is required, the Group makes a formal assessment of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered to be impaired and is written down to its recoverable amount.

Impairment losses relating to property, plant and equipment are recognised in the current period profit or loss, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease only to the extent that there are sufficient previous reserves.

Financial assets, other than those "at fair value through profit or loss" (FVTPL), are assessed for indicators of impairment at the end of each reporting period. The Group recognises a loss allowance for lifetime expected credit losses (ECL) for trade receivables. In determining the expected credit losses for these assets, the Company has taken into account the historical default experience, the financial position of the counterparties and considered various external sources of actual and forecast economic information, as appropriate, in estimating the probability of default of each of these financial assets occurring within their respective loss assessment time horizon, as well as the loss upon default in each case.

Notes to the Financial Statements (continued)

For the year ended 30 June 2020

2. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

2.3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3.4 CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash on hand, cash at bank and investments on call or in short-term deposits with an initial maturity of three months or less. Bank overdrafts are shown within loans and borrowings in current liabilities in the Statement of Financial Position.

For the purposes of the cash flow statement, cash and cash equivalents includes cash on hand, demand deposits and short-term, highly liquid investments that are readily convertible into known amounts of cash and includes at call borrowings such as bank overdrafts, used by the Group as part of its day-to-day cash management.

2.3.5 TRADE AND OTHER RECEIVABLES

Trade receivables are recognised at fair value and subsequent to initial recognition are carried at amortised cost less impairment. Bad debts are written off during the year in which they are identified.

Other receivables are initially recognised at fair value of the consideration received or receivable. Other receivables are classified as current assets unless the balances are expected to settle at least 12 months after balance date, in which case they are classified as non-current other receivables. Subsequent measurement of other non-current receivables occurs at amortised cost less impairment, where the nominal value is discounted to present value, using the effective interest rate of the asset over the expected period of settlement.

2.3.6 INVENTORIES

All inventories are valued at the lower of cost or deemed cost and net realisable value. Cost is calculated on an average cost basis. Inventory costs include a systematic allocation of appropriate production overheads that relate to putting inventories in their present location and condition but exclude borrowing costs. The allocation of production overheads is based on the normal capacity of the production facilities. The deemed cost for the Group's agricultural produce (grapes) is fair value at harvest date less estimated point-of-sale costs in accordance with NZ IAS 41 'Agriculture'.

Net realisable value represents the estimated selling price in the ordinary course of business, less estimated costs of completion and estimated costs to be incurred in the marketing, selling and distribution.

2.3.7 LEASES

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. All leases are accounted for by recognising a right-of-use asset and a lease liability except for Leases of low value assets; and Leases with a term of 12 months or less.

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate inherent in the lease unless (as is typically the case) this is not readily determinable, in which case the Group's incremental borrowing rate on commencement of the lease is used. Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate. In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments are expensed in the period to which they relate.

Notes to the Financial Statements (continued)

For the year ended 30 June 2020

2. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

2.3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3.7 LEASES (CONTINUED)

On initial recognition, the carrying value of the lease liability also includes:

- amounts expected to be payable under any residual value guarantee;
- the exercise price of any purchase option granted in favour of the Group if it is reasonably certain to exercise that option;
- any penalties payable for terminating the lease, if the term of the lease has been estimated on the basis of termination option being exercised.

Right of use assets are initially measured at the amount of the lease liability, reduced for any lease incentives received, and increased for:

- lease payments made at or before commencement of the lease;
- initial direct costs incurred; and
- the amount of any provision recognised where the group is contractually required to dismantle, remove or restore the leased asset.

Subsequent to initial measurement lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made. Right-of-use assets are amortised on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset if, rarely, this is judged to be shorter than the lease term. Lease liabilities are remeasured when there is a change in future lease payments arising from a change in an index or rate or when there is a change in the assessment of the term of any lease.

2.3.8 AGRICULTURE (BIOLOGICAL ASSET PRODUCE AND BIOLOGICAL WORK IN PROGRESS)

Agriculture comprises agricultural produce (harvested grapes) from bearer plants (grape vines).

All costs incurred in deriving produce from the current year's harvest or maintaining agricultural assets (bearer plants) are recognised as expenses in profit or loss. Costs incurred in deriving produce from a future harvest are capitalised and treated as Biological work in progress in the Statement of Financial Position.

The fair value of harvested grapes (agricultural produce or "consumable biological asset") less estimated point-of-sale costs is recognised in profit or loss as gain/loss on harvested grapes in the period of harvest. The fair value of grapes is determined by reference to market prices for grapes in the local area, at the time of harvest. This becomes the deemed "cost" for inventory valuation purposes.

FOLEY WINES LIMITED | ANNUAL REPORT 2020

Notes to the Financial Statements (continued)

For the year ended 30 June 2020

2. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

2.3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3.9 PROPERTY, PLANT AND EQUIPMENT

Land, land improvements (vineyards), including bearer plants (grapes vines) and other vineyard infrastructure, and buildings are valued at fair value less accumulated depreciation. Land and grape vines are not depreciated. Fair value is determined on the basis of an independent valuation prepared by external valuation experts annually. The fair values are recognised in the financial statements and are reviewed at the end of each reporting period to ensure that the carrying value is not materially different from their fair value. Fair value is determined by reference to market-based evidence, which is the amount for which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction as at the valuation date. Any subsequent acquisitions since the last revaluation are recorded at cost less accumulated depreciation and impairment losses.

Land improvements include all costs incurred in developing vineyards including direct material (including grapes vines), direct labour and an allocation of overhead and financing cost. These are not depreciated until the integrated vineyard asset reaches full commercial production which is typically two to three years after planting. Grape vines are not depreciated.

Revaluation increases are taken directly to the revaluation reserve except to the extent that they reverse a previous revaluation decrease of the same asset that was recognised as an expense in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously charged.

Decreases in value are debited directly to the revaluation reserve to the extent that they reverse previous surpluses of the same asset and are otherwise recognised as expenses in profit or loss.

All other items of property, plant and equipment are recorded on the cost basis less accumulated depreciation and impairment losses.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Resulting impairment losses are recognised as an expense in profit or loss.

All items of property, plant and equipment other than land and grape vines, are depreciated on a straight line basis at rates which will write off their cost or revalued amount less estimated residual value over their expected useful lives. The estimated useful lives, residual values and depreciation methods are reviewed at the end of each annual reporting period. The estimated useful lives of major classes of assets are as follows:

Buildings	10 – 50 years
Land improvements	5 – 50 years
Plant, equipment and vehicles	1 – 20 years

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period the asset is derecognised.

Notes to the Financial Statements (continued)

For the year ended 30 June 2020

2. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

2.3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3.10 INTANGIBLE ASSETS OTHER THAN GOODWILL

Purchased identifiable intangible assets, comprising trademarks, are shown at cost less any accumulated impairment losses. Trademarks have been assessed as having an indefinite life, since the Company has the rights to the brand while it is registered and has no intention of relinquishing those rights. Trademarks are not amortised but are subject to annual impairment testing whereby the recoverable amount is estimated and an impairment loss is recognised to the extent that the recoverable amount is lower than the carrying amount.

Intangible assets acquired in a business combination and recognised separately from goodwill, such as brands acquired, are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from de-recognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

2.3.11 PAYABLES

Trade payables and other accounts payable are recognised when the Group becomes obliged to make future payments resulting from the purchase of goods and services.

2.3.12 LOANS AND BORROWINGS

Borrowings are initially recorded at fair value of the consideration received, net of issue costs directly associated with the borrowing. Deferred consideration payable as part of a business combination are treated as borrowings and recorded at fair value at the date of completion of the transaction.

After initial recognition, borrowings are subsequently measured at amortised cost, which present values the borrowing using the effective interest rate method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on issuance.

2.3.13 EMPLOYEE BENEFITS

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of employee benefits expected to be settled within 12 months are measured at their nominal values using the remuneration rate expected to apply at the time of settlement. Provisions made in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to reporting date.

Liabilities for short term bonus plans are recognised where there is a contractual or constructive obligation and accrued on an undiscounted basis.

Notes to the Financial Statements (continued)

For the year ended 30 June 2020

2. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

2.3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3.14 FOREIGN CURRENCIES

In preparing the financial statements of each individual group entity, all transactions denominated in a currency other than the entity's functional currency (foreign currencies) occurring during the financial year are translated into the functional currency using the exchange rate in effect at the date of the transaction. Monetary items receivable or payable in a foreign currency are translated at the exchange rate existing at balance date. Foreign exchange gains or losses resulting from the settlement of transactions and from the translation at balance date are recognised in profit or loss in the period in which they arise.

2.3.15 INCOME TAX

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or loss for the year. It is calculated using the tax rates and tax laws that have been enacted or substantively enacted by the reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable) at the reporting date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax base of those items. In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets or liabilities which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from goodwill.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the consolidated entity expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the company intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax is recognised as an expense or income in profit or loss, except when it relates to items credited or debited directly to equity or in other comprehensive income, in which case the deferred tax or current tax is also recognised directly in equity or in other comprehensive income.

2.3.16 GOODS AND SERVICES TAX

Revenues, expenses, assets and liabilities are recognised net of the amount of goods and services tax (GST), except for receivables and payables which are recognised inclusive of GST, where invoiced.

Cash flows are included in the statement of cash flows on a gross basis.

Notes to the Financial Statements (continued)

For the year ended 30 June 2020

2. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

2.3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3.17 DERIVATIVE FINANCIAL INSTRUMENTS

The Group uses derivative financial instruments including forward exchange contracts, option contracts and interest rate swaps for the primary purpose of reducing its exposure to fluctuations in foreign currency exchange rates and interest rates.

Derivatives are initially recognised at fair value on the date the derivative contract is entered into (the trade date) and are subsequently re-measured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event, the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

The Group has not adopted hedge accounting during the year. All derivative financial instruments are measured at fair value and changes in their fair value are recognised immediately in profit or loss (FVTPL). The fair value of forward exchange contracts, foreign exchange option contracts and interest rate swaps is based on market values of equivalent instruments at the reporting date.

2.3.18 FINANCIAL INSTRUMENTS ISSUED BY THE GROUP

Debt and equity instruments

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual agreement.

Transaction costs on the issue of equity instruments

Transaction costs arising on the issue of equity instruments are recognised directly in equity as a reduction of the proceeds of the equity instruments to which the costs relate. Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and which would not have been incurred had those instruments not been issued.

Interest and dividends

Interest and dividends are classified as expenses or as distributions of profit consistent with the Statement of Financial Position classification of the related debt or equity instruments or component parts of compound instruments.

2.3.19 STATEMENT OF CASH FLOWS

The cash flow statement is prepared inclusive of GST.

Definitions of the terms used in the statement of cash flows are:

"Cash and cash equivalents" includes cash on hand, demand deposits and short-term, highly liquid investments that are readily convertible into known amounts of cash and includes at call borrowings such as bank overdrafts, used by the Group as part of its day-to-day cash management.

"Investing activities" are those activities relating to the acquisition and disposal of current and non-current investments, and any other non-current assets, and includes dividends received.

"Financing activities" are those activities relating to changes in equity and debt capital structure of the Group and dividends paid on the Company's equity capital.

"Operating activities" include all transactions and other events that are not investing or financing activities.

Notes to the Financial Statements (continued)

For the year ended 30 June 2020

2. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

2.3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3.20 SEGMENT REPORTING

The Group adopted NZ IFRS 8 Operating Segments, with effect from 1 July 2009. NZ IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker (CODM) in order to allocate resources to the segment and to assess its performance. The CODM is considered to be the Board of Directors and has established that the Group operates in one segment (refer note 27).

2.3.21 GOVERNMENT GRANTS

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate.

2.3.22 BUSINESS COMBINATIONS

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain

2.3.23 GOODWILL

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see 2.3.22 above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated income statement. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Notes to the Financial Statements (continued)

For the year ended 30 June 2020

2. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

2.3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3.24 CHANGES IN ACCOUNTING POLICIES

There have been no changes in accounting policies during the year except as noted in 2.3.25.1 below.

2.3.25 ADOPTION STATUS ON RELEVANT FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS

2.3.25.1 Standards and interpretations effective in the current year

The following Standards and Amendments to NZ IFRS, which are relevant to the Group's financial statements, and became effective mandatorily for the annual periods beginning on or after 1 January 2019, were adopted by the Group from 1 July 2019.

- NZ IFRS 16 Leases – mandatory for annual periods beginning on or after 1 January 2019. NZ IFRS 16 is the new standard on the recognition, measurement, presentation and disclosure of leases. The standard replaced NZ IAS 17: Leases. The scope of the new standard includes leases of all assets, with certain exceptions. A lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. NZ IFRS 16 requires lessees to account for all leases under a single on-balance sheet model (subject to certain exemptions) in a similar way to finance leases under NZ IAS 17: Leases. Lessees are required to recognise a liability to pay rentals with a corresponding asset, and recognise interest expense and depreciation separately. Reassessment of certain key considerations (e.g. lease term, variable rents based on an index or rate, discount rate) by the lessee is required upon certain events. Lessor accounting is substantially the same as lessor accounting under NZ IAS 17's dual classification approach.
- NZ IFRIC 23 Uncertainty over Income Tax Treatments - Addresses how to reflect uncertainty in accounting for income taxes under NZ IAS 12 – mandatory for annual periods beginning on or after 1 January 2019.

The Group had to change its accounting policies and make retrospective adjustments as a result of adopting NZ IFRS 16 Leases. The impact of the adoption of the leasing standard and the new accounting policies are disclosed in note 2.3.26 below. The other standards did not have any impact on the Group's accounting policies and did not require retrospective adjustments.

2.3.25.2 Standards and interpretations effective in future periods

Certain new Standards, Interpretations and Amendments to existing standards have been published that are mandatory for later periods and which the Group has not early adopted. The key items include:

- Definition of a Business (Amendments to NZ IFRS 3) - To clarify whether a transaction should be accounted for as a business combination or as an asset acquisition – mandatory for annual periods beginning on or after 1 January 2020.
- Definition of Material (Amendments to NZ IAS 1 and NZ IAS 8) – To clarify the requirements for the definition of material - mandatory for annual periods beginning on or after 1 January 2020.
- Classification of Liabilities as Current or Non-current (Amendments to NZ IAS 1) – To clarify the classification of debt and other liabilities with an uncertain settlement date in the statement of financial position, including the settlement of debt by converting to equity – mandatory for annual periods beginning on or after 1 January 2023.

Notes to the Financial Statements (continued)

For the year ended 30 June 2020

2. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

2.3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3.25 ADOPTION STATUS ON RELEVANT FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS (CONTINUED)

2.3.25.2 Standards and interpretations effective in future periods (Continued)

The Group's management have completed an initial assessment of the new standards and do not expect the adoption of these standards to have a material financial impact on the financial statements of the Group but may affect disclosure.

Management will work through a full analysis of each standard and will provide further information on the expected impact of adoption of these standards in future reports ahead of their effective dates. The Group does not expect to adopt these standards before their effective date.

2.3.26 ADOPTION OF NEW AND REVISED STANDARDS – IMPACT OF INITIAL APPLICATION OF NZ IFRS 16 LEASES

The Group has applied NZ IFRS 16 Leases that is effective for annual periods that begin on or after 1 January 2019 in the current year. The date of initial application of NZ IFRS 16 for the Group is 1 July 2019.

NZ IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets when such recognition exemptions are adopted. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Details of these new requirements are set out in note 2.3.7. The impact of the adoption of NZ IFRS 16 on the Group's consolidated financial statements is described below.

The Group has applied NZ IFRS 16 using the modified retrospective approach which:

- Requires the Group to recognise the cumulative effect of initially applying NZ IFRS 16 as an adjustment to the opening balance of retained earnings at the date of initial application.
- Does not permit restatement of comparatives, which continue to be presented under the previous accounting policies (under NZ IAS 17 Leases and NZ IFRIC 4 Determining whether an Arrangement Contains a Lease).

a) Impact of the new definition of a lease

The Group has made use of the practical expedient available on transition to NZ IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with NZ IAS 17 and NZ IFRIC 4 will continue to be applied to those leases entered or changed before 1 July 2019.

The change in definition of a lease mainly relates to the concept of control. NZ IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration. This is in contrast to the focus on 'risks and rewards' in NZIAS 17 and NZIFRIC4.

The Group applies the definition of a lease and related guidance set out in NZ IFRS 16 to all lease contracts entered into or changed on or after 1 July 2019. In preparation for the first-time application of NZ IFRS 16, the Group has carried out a review which has shown that the new definition in NZ IFRS 16 will not significantly change the scope of contracts that meet the definition of a lease for the Group.

Notes to the Financial Statements (continued)

For the year ended 30 June 2020

2. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

2.3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3.26 ADOPTION OF NEW AND REVISED STANDARDS – IMPACT OF INITIAL APPLICATION OF NZ IFRS 16 LEASES (CONTINUED)

(b) Impact on Lessee Accounting

NZ IFRS 16 changes how the Group accounts for leases previously classified as operating leases under NZ IAS 17, which were off balance sheet.

Applying NZ IFRS 16, for all leases (except as noted below), the Group:

a. Recognises right-of-use assets and lease liabilities in the statement of financial position, initially measured at the present value of the future lease payments, with the right-of-use asset adjusted by the amount of any prepaid or accrued lease payments;

b. Recognises amortisation (depreciation) of right-of-use assets and interest on lease liabilities in the consolidated statement of profit or loss and in biological work in progress;

c. Separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the consolidated statement of cash flows.

Under IFRS 16, right-of-use assets are tested for impairment in accordance with NZ IAS 36.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (which includes printers and eftpos terminals), the Group has opted to recognise a lease expense on a straight-line basis as permitted by NZ IFRS 16. This expense is presented within 'Selling' and 'Administration' expenses in profit or loss.

The Group has used the following practical expedients when applying the modified retrospective approach to leases previously classified as operating leases applying NZ IAS 17.

- The Group has applied a single discount rate to a portfolio of leases with reasonably similar characteristics.
- The Group has elected not to recognise right-of-use assets and lease liabilities to leases for which the lease term ends within 12 months of the date of initial application.
- The Group has excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application.
- The Group has used hindsight when determining the lease term when the contract contains options to extend or terminate the lease.

The Group does not have any leases that were previously classified as finance leases under NZ IAS 17.

FOLEY WINES LIMITED | ANNUAL REPORT 2020

Notes to the Financial Statements (continued)

For the year ended 30 June 2020

2. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

2.3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3.26 ADOPTION OF NEW AND REVISED STANDARDS – IMPACT OF INITIAL APPLICATION OF NZ IFRS 16 LEASES (CONTINUED)

(c) Financial impact of initial application of NZ IFRS 16

The weighted average lessees incremental borrowing rate applied to lease liabilities recognised in the statement of financial position on 1 July 2019 is 3.26% pa.

The following table shows the operating lease commitments disclosed applying NZ IAS 17 at 30 June 2019, discounted using the incremental borrowing rate at the date of initial application and the lease liabilities recognised in the statement of financial position at the date of initial application.

Impact on retained earnings as at 1 July 2019:

	Group 2019 $'000
Operating lease commitments at 30 June 2019	15,701
Short-term leases not recognised under NZ IFRS 16	(93)
Leases of low-value assets not recognised under NZ IFRS 16	(27)
Correction to lease amounts and terms used for disclosure	(854)
Effect of discounting the above amounts	(2,874)
Present value of the lease payments due in periods covered by extension options that are included/excluded in the lease term and previously excluded/included in operating lease commitments	1,810
Lease liabilities recognised at 1 July 2019	13,663

The Group has recognised $12,408,000 of right-of-use assets on initial recognition and $13,663,000 of lease liabilities upon transition to NZ IFRS 16 and has de-recognised $552,000 of land improvements relating to vineyard leases previously recognised as part of the Mt Difficulty acquisition on 3 January 2019 and $(2,000) of asset revaluations relating to these leases. Deferred tax of $507,000 on the timing difference at the date of application has been recognised. The difference of $1,299,000 is recognised in retained earnings.

(d) Significant Accounting Policies

The Group has applied NZ IFRS 16 using modified retrospective approach and therefore comparative information has not been restated and is presented under NZ IAS 17.

Accounting policy subsequent to transition is outlined in note 2.3.7 above.

2.4 BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 30 June each year. Control is achieved when the Company - has the power over the investee; is exposed, or has rights, to variable returns from its involvement with the investee; and has the ability to use its power to affects its returns.

Notes to the Financial Statements (continued)

For the year ended 30 June 2020

2. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

2.4 *BASIS OF CONSOLIDATION (CONTINUED)*

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated Income Statement and Statement of Comprehensive Income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

	Group 2020 $'000	Group 2019 $'000
3. PROFIT FOR THE YEAR		
Included in profit before income tax for the year are the following:		
REVENUE:		
Sales revenue – sale of goods – bottled wine	49,951	44,046
Sales revenue – other	5,214	3,663
Total sales revenue	55,165	47,709
Other revenue – insurance proceeds	–	234
Other revenue – government grant (refer note 4 re Covid-19)	601	–
Other revenue – dividend received	90	–
Total revenue	55,856	47,943
Sales revenue – other includes the sale of other products such as bulk wine, spirits, merchandise, restaurant meals and non-alcoholic beverages.		
EXPENSES:		
Amortisation – lease right-of-use assets	1,009	–
Depreciation	4,560	3,353
Directors' fees	232	193
Employee benefits expense:		
– Short-term employee benefits	9,239	8,202
Excise duty and HPA levy	4,600	3,220
Fees paid to auditors (2020: Deloitte; 2019 PwC):		
– Audit of the financial statements (including fees and disbursements)	86	91
Other services (PwC)	3	–

Notes to the Financial Statements (continued)

For the year ended 30 June 2020

	Group 2020 $'000	Group 2019 $'000
4. OTHER EXPENSES		
Included in other expenses for the year are the following:		
Covid-19 related expenses (see note below)	144	–
Acquisition expenses	–	216
Capital raising costs	–	38
Insurance claim related expenses	–	426
	144	680

Covid-19 - During the year the Covid-19 Coronavirus pandemic spread throughout the World. On 21 March 2020 the New Zealand Government declared a State of Emergency and implemented a four-tier Alert level system. New Zealand started in Alert level 2 on 21 March and then moved to Alert level 3 from 23 March which resulted in the closure of the Group's cellar doors and restaurant and all of the employees of the company who were able to work from home did so from that day. The country moved to Alert level 4 lockdown on 25 March 2020 and moved back to Alert level 3 on 27 April 2020 and then Alert level 2 on 13 May 2020. During the Alert level 4 lockdown period the Company applied to and was approved as an Essential Business which allowed it to continue to operate under strict conditions to complete the annual harvest of grapes. During this time the company incurred additional costs of operating such as accommodation and transport costs for workers to operate within the requirements. The company's hospitality staff were paid in full during the period of the closure of the cellar doors and restaurants until 22/23 May 2020. The Company received the Government Covid-19 Wage Subsidy of $624,000 in April 2020 and Essential Worker Lease Support payments of $14,000 to assist to pay employees who were unable to work from home. The Company qualified for the Wage Subsidy as it was adversely affected by Covid-19 and its revenue was down by approximately 40% in May 2020 vs May 2019. Sales have subsequently improved and the Board and Management are confident that the Company's premiumisation strategy will assist in reducing the ongoing impact of Covid-19 on the results of the Company. Refer note 2.3.21 for accounting policy for government grants and note 3 for the revenue recorded in the current period.

The acquisition expenses in the prior year relate to the Mt Difficulty Wines purchase which was completed on 3 January 2019 following the receipt of Overseas Investment Office approval.

The capital raising costs in the prior year related to the $20 million equity share issue approved by the shareholders to partly fund the Mt Difficulty Wines acquisition.

During the prior year the Group received insurance proceeds for two main insurance claims. The first related to damage to a wine tank (which was included in property, plant and equipment) and the second to the glycol contamination of bulk wine due to a tank failure. The material damage insurance policy covered the cost to replace the tank subject to the first claim and the contaminated products insurance policy covered the cost of the inventory (bulk wine lost) and business interruption loss of profits on the lost wine.

Notes to the Financial Statements (continued)

For the year ended 30 June 2020

	Group 2020 $'000	Restated Group 2019 $'000
5. INTEREST EXPENSE		
Interest on loans and borrowings	1,015	804
Interest on convertible notes	710	709
Interest expense on lease liabilities	5	-
Accounting interest cost recorded on deferred consideration payment	99	49
Total Interest expense	1,829	1,562
6. INCOME TAX		
6.1 INCOME TAX RECOGNISED IN PROFIT		
IIncome tax expense comprises:		
Current tax expense – current year	2,470	1,791
Current tax expense – adjustment to prior year	14	–
Current tax expense	2,484	1,791
Deferred tax expense/(benefit) – origination & reversal of temporary differences	(293)	(254)
Deferred tax expense – adjustment to prior year	–	–
Deferred tax expense/(benefit)	(293)	(254)
Total income tax expense	2,191	1,537
Income tax benefit – deferred tax benefit – change in tax base due to change in depreciation on buildings	(1,519)	–
Reconciliation of income tax expense:		
Profit before income tax	7,593	5,055
Income taxation expense calculated at current rate of 28%	2,126	1,415
Non–deductible expenses	285	87
Other deferred movements	(220)	35
Income tax expense as reported	2,191	1,537

The "Income tax benefit – deferred tax benefit – change in tax base due to change in deprecation on buildings" adjustment of $1,519,000 results from the decrease in deferred tax liability as a result of the Government's COVID-19 Response (Taxation and Social Assistance Urgent Measures) Act that received Royal Assent on 25 March 2020 which re-introduced the depreciation deductions for commercial and industrial buildings with an estimated useful life of 50 years or more from the 2020/21 tax year.

6.2 INCOME TAX RECOGNISED DIRECTLY IN OTHER COMPREHENSIVE INCOME

The following current and deferred amounts were charged/(credited) directly to other comprehensive income during the year:

	Group 2020 $'000	Restated Group 2019 $'000
Deferred tax: Revaluation of property, plant and equipment	334	450

Notes to the Financial Statements (continued)

For the year ended 30 June 2020

	Group 2020 $'000	Group 2019 $'000
6. INCOME TAX (CONTINUED)		
6.3 CURRENT TAX ASSETS AND LIABILITIES		
Current tax assets: Tax refund receivable	–	–
Current tax liabilities: Tax payable	1,662	1,087

6.4 DEFERRED TAX BALANCES

Taxable and deductible temporary differences arise from the following:

	Balance Sheet		Income Statement	
	Group 2020 $'000	Group 2019 $'000	Group 2020 $'000	Group 2019 $'000
(i) Deferred tax liabilities				
Tax and accounting book differences – property, plant and equipment	10,407	12,015	(1,943)	(60)
Brand intangible assets (value-in-use deferred tax)	5,150	5,150	–	–
Inventories and biological work in progress	269	144	125	(66)
Fair value through profit or loss financial assets/liabilities	29	26	3	26)
Other including WET rebate receivable	104	102	2	(50)
Gross deferred tax liabilities	15,959	17,437	(1,813)	(150)
(ii) Deferred tax assets				
Annual, sick leave and employee entitlements, accruals and provisions	(214)	(231)	17	(131)
Fair value through profit or loss financial assets/liabilities	–	(1)	1	27
Lease liabilities and right-of use assets	(523)	–	(17)	–
Gross deferred tax assets	(737)	(232)	1	(104)
Net deferred tax liabilities	15,222	17,205		
Deferred tax expense/(benefit)			(1,812)	(254)
Disclosed in the Income Statement as part of:				
Income tax expense (refer note 6.1)			(293)	(254)
Income tax benefit – change in depreciation on buildings (refer note 6.1)			(1,519)	–

All deferred tax assets and liabilities are disclosed as non-current.

During the year it was confirmed that the depreciation of commercial buildings was to be re-introduced from the 2020/2021 tax year. This has resulted in the reversal of the previous deferred tax on the non-deductible buildings of $1,519,000 being taken out of deferred tax and a deferred tax benefit recognised in profit and loss (refer note 6.1).

Notes to the Financial Statements (continued)

For the year ended 30 June 2020

6. INCOME TAX (CONTINUED)

	Group 2020 $'000	Group 2019 $'000
6.5 IMPUTATION CREDITS		
Imputation credits available for subsequent reporting periods based on a tax rate of 28%	5,727	4,011

The above amounts represent the balance of the imputation account as at the end of the reporting period, adjusted for:

a. Imputation credits that will arise from the payment of the amount of the provision for income tax
b. Imputation debits that will arise from the payment of dividends recognised as a liability at the reporting date; and
c. Imputation credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

7. EARNINGS PER SHARE

	Group 2020 cents per shares	Group 2019 cents per shares
Basic Earnings per share	10.53	5.89

The calculation of basic earnings per share in respect of 2020 is based on profit of $6,921,000 (2019: $3,518,000) and the weighted average of 65,736,148 ordinary shares on issue during the year (2019: 59,759,612).

Diluted Earnings per share	10.10	5.89

The calculation of diluted earnings per share in respect of 2020 based on profit of $7,433,000 (2019: $4,028,000), being profit for the year adjusted for the interest on the convertible notes after income tax, and the weighted average of 73,599,173 ordinary shares on issue during the year (2019: 67,622,637) becomes anti-dilutive in the comparative year and therefore the diluted earnings per share is the same as basic earnings per share in that year.

The weighted average number of ordinary shares for the purposes of diluted earnings per share reconciles to the weighted average number of ordinary shares used in the calculation of basic earnings per share as follows:

	Group 2020 Number of shares	Group 2019 Number of shares
Weighted average number of ordinary shares (Basic)	65,736,148	59,759,612
Convertible notes outstanding at year end	7,863,025	7,863,025
Weighted average number of ordinary shares (Diluted)	73,599,173	67,622,637

Notes to the Financial Statements (continued)

For the year ended 30 June 2020

8. DISTRIBUTION TO OWNERS

The Company paid a final dividend for 2019 of 3 cents per share fully imputed on 18 October 2019 totalling $1,972,000 (2019: $1,590,000: 3 cents per share paid 18 September 2018). No final dividend for the financial year has been declared and included in these financial statements. A final dividend of 3 cents per share fully imputed, was approved by the Board on 27 August 2020 for payment on 23 October 2020 (refer note 31).

	Parent 2020 Number of shares issued	Parent 2019 Number of shares issued	Group 2020 $'000	Group 2019 $'000
9. SHARE CAPITAL				
FULLY PAID UP ORDINARY SHARES				
Balance at beginning of financial year	65,736,148	52,222,534	86,518	66,518
Movements in share capital	–	13,513,614	–	20,000
Balance at end of financial year	65,736,148	65,736,148	86,518	86,518

The Company has only one class of shares and all shares have the same voting rights and share equally in dividends and any surpluses on winding up. The shares have no par value.

Share issues during the year:

There were no share issues during the year.

There were 13,513,614 ordinary shares issued during the prior year as follows:

3 July 2018 – Share Purchase Plan Share Issue - 765,634 shares at $1.48 – a total $1,133,000;

19 December 2018 – Share Placement Share Issues - 12,747,980 shares at $1.48 – a total of $18,867,000.

Shares reserved for issuance:

Convertible notes on issue at year end – convertible to 7,863,025 ordinary shares – refer note 15 (2019: 7,863,025).

	Group 2020 $'000	Group 2019 $'000
10. RESERVES		
ASSET REVALUATION RESERVE		
Balance at beginning of financial year	16,009	13,337
Adjustment on initial application of NZ IFRS16 Leases	(2)	–
Revaluation increments/(decrements)	2,888	3,347
Reversal of previous revaluation decrements taken through profit & loss	(16)	(225)
Transferred to retained earnings	(17)	–
Deferred tax liability arising on revaluation (note 6.2)	(334)	(450)
Balance at end of financial year	18,528	16,009

The asset revaluation reserve arises on the revaluation of land, buildings and land improvements. Where a revalued asset is sold that proportion of the asset revaluation reserve which relates to that asset, and is effectively realised, is transferred directly to retained earnings.

Notes to the Financial Statements (continued)

For the year ended 30 June 2020

	Group 2020 $'000	Group 2019 $'000
11. RETAINED EARNINGS		
Balance at beginning of financial year	16,780	14,627
Adjustment on initial application of NZ IFRS16 Leases incl deferred tax	(1,299)	–
Profit for the year net of tax, attributable to Shareholders of the Parent Co.	6,921	3,518
Dividends paid relating to 2019 (2019: 2018)	(1,972)	(1,590)
	20,430	16,555
Reversal of previous revaluation reserve taken through profit & loss	16	225
Transferred from asset revaluation reserve	17	–
Balance at end of financial year	20,463	16,780
12. TRADE AND OTHER PAYABLES		
Trade creditors	4,609	4,674
Employee entitlements	1,322	997
Other accruals	855	1,564
	6,786	7,235

13. LOANS AND BORROWINGS

At amortised cost:	Interest Rate %	Interest Rate Review Date	Expiry Date	Group 2020 $'000	Group 2019 $'000
Bank of New Zealand Term Loan #03	1.87% pa	31/7/20	31/8/20	6,000	5,001
Bank of New Zealand Term Loan #05	2.28% pa	3/7/20	5/1/22	27,653	29,760
Endovanerra Ltd (formerly Mt Difficulty Wines Ltd) – Deferred Consideration Payment	0% pa		3/7/20	5,200	5,101
TOTAL LOANS AND BORROWINGS				38,853	39,862
Weighted average effective interest rate on BNZ Term Loans				2.21%	3.56%
Loans due within 1 year				7,353	2,261
Total current loans and borrowings				7,353	2,261
Loans due 1 to 2 years				25,500	12,101
Loans due 2 to 5 years				6,000	25,500
Loans due after 5 years				–	–
Total non-current loans and borrowings				31,500	37,601
Total loans and borrowings				38,853	39,862

For loans covered by interest rate swap contracts (swaps) interest is charged on the underlying loan based on the 1 month floating rate. Interest rate swaps have been taken out by the Group to convert this floating interest rate obligation to a fixed interest rate obligation. Refer note 24 for further details of interest rate swap contracts.

Notes to the Financial Statements (continued)

For the year ended 30 June 2020

13. LOANS AND BORROWINGS (CONTINUED)

BANK OF NEW ZEALAND FACILITIES

The details and terms of the BNZ facilities are as follows:

- The $5 million Market Connect Overdraft Facility to fund ongoing working capital requirements. The interest rate payable on the facility is the BNZ Market Connect Overdraft Prime Rate (with 0% margin). An overdraft facility fee of 0.80%pa is payable in arrears. All outstanding debt under the facility is repayable upon demand. The balance available to be drawn down at 30 June 2020 was $5 million (2019: $5m).
- The $20 million term loan facility (loan #03). This loan facility is an interest only facility until maturity on 31 August 2020. The full facility limit of $20 million is available for redraw throughout the term. Interest is payable at 1.55% per annum above the base rate. The base rate is the 'BKBM' rate as quoted on the Reuters Monitor Money Rates Services page. A non-utilisation fee is payable of 0.4% pa. All outstanding debt under the facility is repayable on the maturity date. The balance available at 30 June 2020 was $14 million (2019: $15m).

  On 30 June 2020 the Company entered into a banking facility document with Bank of New Zealand (BNZ) for a new $20 million term loan facility (loan #06) to refinance the term loan facility maturing on 31 August 2020 (loan #3). This loan facility is an interest only facility until maturity on 31 August 2023. The full facility limit of $20 million is available for redraw throughout the term. Interest is payable at 1.95% per annum above the base rate. The base rate is the one month 'BKBM' rate. On 24 August 2020 $11 million of this facility was drawn down and used to repay BNZ term loan #03 (refer note 31).
- The $30 million term loan (loan #05). The loan was drawn down in full on 3 January 2019 and matures on 5 January 2022. The terms of the agreement are as follows: Principal repayments of $500,000 are payable quarterly and the facility limit reduces by this amount each quarter. Interest is payable at 1.75% per annum above the base rate. The base rate is the three month 'BKBM' rate as quoted on the Reuters Monitor Money Rates Services page.

An event of review occurs under the BNZ facilities if entities owned or controlled by Mr William Foley no longer own at least 50.10% of the Group.

SECURITY

The Bank has registered a first ranking general security agreement over all the present and after acquired property of the Company and of its wholly owned subsidiaries, a specific security agreement over any separately identifiable intellectual property of the Company or its wholly owned subsidiaries and a first ranking mortgage over all of the land and improvements owned by the Company.

BANK COVENANTS

The Company complied with all of the financial covenants imposed by the Bank of NZ during the year.

MT DIFFICULTY ACQUISITION DEFERRED CONSIDERATION PAYMENT

In accordance with the Sale and Purchase Agreement the Deferred Consideration Payment of $5,200,000 is due for payment on 3 July 2020. The fair value of this payment at balance date is $5,200,000 (2019: $5,101,000) (refer note 30).

Notes to the Financial Statements (continued)

For the year ended 30 June 2020

14. LEASES

14.1 LEASE RIGHT OF USE ASSETS

Group	Land $'000	Buildings $'000	Land Improve-ments $'000	Plant, Equip. & Vehicles $'000	Total $'000
Year ended 30 June 2020					
Net carrying amount					
At 1 July 2019	7,714	160	4,524	10	12,408
Additions	–	–	67	–	67
Amortisation charge for the period	(446)	(69)	(488)	(6)	(1,009)
At 30 June 2020	7,268	91	4,103	4	11,466

The Group leases vineyard land, office space (buildings), producing vineyards (land improvements) and a motor vehicle. The average lease term is 11.3 years at 30 June 2020.

The vineyard land lease agreements have normal provisions for periodic rent reviews to market rates and the producing vineyard lease agreements have annual CPI linked rent reviews.

The maturity analysis of lease liabilities relating to these leases is presented below.

	Group 2020 $'000
Amounts recognised in profit and loss:	
Amortisation expense on right-of-use assets	74
Interest expense on lease liabilities	5
Expense relating to short-term leases	–
Expense relating to leases of low value assets	15
Amounts capitalised to biological work in progress:	
Amortisation expense on right-of-use assets	935
Interest expense on lease liabilities	431
Expense relating to short-term leases	193
Expense relating to leases of low value assets	–

At 30 June 2020, the Group is committed to $16,000 for short-term leases.

The total cash outflow for leases during the period was $1,535,000 (2019: $1,184,000).

Notes to the Financial Statements (continued)

For the year ended 30 June 2020

14. LEASES (CONTINUED)

14.2 LEASE LIABILITIES

	Group 2020 $'000
Classified as:	
Current	896
Non-Current	11,943
Total	12,839
Maturity analysis (undiscounted cash flows):	
Year 1	1,302
Year 2	1,136
Year 3	1,072
Year 4	1,052
Year 4	1,051
Over 5 Years	12,481
Total	18,094

The Group does not face a significant liquidity risk with regard to its lease liabilities. Lease liabilities are monitored within the Group's treasury function.

All lease obligations are denominated in New Zealand dollars.

Notes to the Financial Statements (continued)

For the year ended 30 June 2020

	Group 2020 $'000	Group 2019 $'000
15. CONVERTIBLE NOTES		
Foley Family Wines Holdings, New Zealand Limited	10,900	10,900
Disclosed as:		
Current convertible notes	10,900	10,900

As part of the merger transaction with The New Zealand Wine Company Limited (renamed Foley Family Wines Limited and later Foley Wines Limited ("FWL")) on 4 September 2012, the Company issued an 18 month convertible note to Foley Family Wines Holdings, New Zealand Limited ("Foley Holdings") for the principal amount of $10,900,000 thereby assuming Foley Family Wines NZ Limited's current loan liability to Foley Family Wines Holdings, New Zealand Limited of the same amount under a promissory note.

The principal terms of the Convertible Note are:

- the term of the Convertible Note is a minimum term of 18 months. After that period or earlier if FWL is in breach of its obligations under the Convertible Note, the Convertible Note converts at the option of Foley Holdings or alternatively Foley Holdings may demand repayment in lieu of conversion;
- the issue price on the conversion of any shares under the Convertible Note is $1.386 per share which is the same price at which the shares have been issued to Foley Holdings pursuant to the Merger of The New Zealand Wine Company Limited and Foley Family Wines New Zealand Limited. On conversion of the Convertible Note issued by FWL, 7,863,025 shares in FWL could be issued to Foley Holdings at a price of $1.386 per share by way of off-set against the amount owing to Foley Holdings under the Convertible Note. Assuming no change in the shares on issue in FWL between the date of the issue of the Convertible Note and its conversion to new shares, this would when aggregated with the shares issued under the Merger increase the holdings of Foley Holdings in FWL to 83%.
- the Convertible Note does not give Foley Holdings any right to vote. Foley Holdings will acquire voting rights with the ordinary shares it receives on any exercise of the right to convert under the Convertible Note;
- interest is payable, quarterly in arrears (not compounding), on the Convertible Note pending conversion at the rate of 6.5% pa. The interest rate has been agreed between FWL and Foley Holdings as being representative of market rates for an unsecured loan of its type; and
- all shares issued pursuant to the exercise of the Convertible Note will rank equally in all respects with all other FWL shares on issue

The Convertible Note can be converted at the option of Foley Holdings after 18 months from the date of issue, that is, from 4 March 2014, and there are no performance hurdles required to be met before conversion can occur. The Convertible Note has been classified as current. At balance date, and up to the date of these financial statements, no notification had been received to convert the note.

Notes to the Financial Statements (continued)

For the year ended 30 June 2020

	Group 2020 $'000	Group 2019 $'000
16. OTHER FINANCIAL ASSETS/(LIABILITIES)		
At fair value:		
Foreign currency forward contracts	110	89
Foreign currency option contracts	–	4
Other financial assets – FVTPL – Current	110	93
Other financial assets – FVTPL – Total	**110**	**93**
Interest rate swap contracts	–	(3)
Other financial liabilities – FVTPL – Current	–	(3))
Foreign currency forward contracts	(8)	–
Other financial liabilities – FVTPL – Non Current	(8)	–
Other financial liabilities – FVTPL – Total	**(8)**	**(3)**

Derivative financial instruments are used by the Group in the normal course of business in order to hedge exposure to fluctuations in interest and foreign exchange rates. Refer note 24 for details of financial instruments used by the Group.

	Group 2020 $'000	Group 2019 $'000
17. TRADE AND OTHER RECEIVABLES		
Trade receivables	7,097	8,756
Impairment of trade receivables	–	–
Other receivables	479	523
	7,576	9,279

The carrying amount disclosed above is a reasonable approximation of fair value. Trade receivables are non-interest bearing and are generally due the last working day of the month following invoice for domestic customers and 30-120 day terms for export customers.

Not Past Due	6,936	8,756
Past Due 1–30 days	28	–
Past Due 31–60 days	117	–
Past Due 61–90 days	6	–
Past Due > 91 days	10	–
	7,097	8,756

Notes to the Financial Statements (continued)

For the year ended 30 June 2020

17. TRADE AND OTHER RECEIVABLES (CONTINUED)

Trade receivables that are less than 90 days past due are generally not considered impaired. As of 30 June 2020 trade receivables of $10,000 (2019: $Nil) were past due but not impaired.

The Group recognises a loss allowance for lifetime expected credit losses (ECL) for trade receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date. Based on the assessment undertaken at balance date the Group has not recorded an Impairment of Trade Receivables in the current year (2019: $Nil). No bad debts were written off during the year (2019: $Nil) and nothing was recovered from a bad debt written off in the previous financial years (2019: $Nil). The gross debt relating to the trade receivables which were considered to be impaired at balance date was $Nil (2019: $Nil).

	Group 2020 $'000	Group 2019 $'000
18. INVENTORIES		
Raw materials	422	746
Consumable stores	122	104
Work in progress	31,115	30,403
Finished goods	15,079	12,827
Impairment of inventory	(18)	–
Total inventories at lower of cost and net realisable value	46,721	44,080
Impairment of Inventory:		
Opening balance	–	45
Impairment charge reversal during the year	–	(45)
Impairment charge during the year	18	–
Closing balance	18	–
19. BIOLOGICAL WORK IN PROGRESS		
Growing costs related to next harvest	1,511	1,302

The growth on the vines in the period from harvest to 30 June 2020 cannot be reliably measured due to the lack of market information and the variables in completing the biological transformation process between balance date and the time of harvest. As allowed under NZ IAS 41 the cost of agricultural activity in the period to 30 June has been recognised as work in progress for the next harvest. This assumes the cost of the agricultural activity approximates fair value in determining the value of the biological transformation that has occurred in that period. The value of work in progress at balance date was $1,511,000 (2019: $1,302,000).

Notes to the Financial Statements (continued)

For the year ended 30 June 2020

20. PROPERTY, PLANT AND EQUIPMENT

Group	Freehold Land at Fair Value $'000	Freehold Buildings at Fair Value $'000	Land Improvements at Fair Value $'000	Plant, Equip. & Vehicles at Cost $'000	Total $'000
Year ended 30 June 2020					
At 1 July 2019, net of accumulated depreciation and impairment	28,704	18,287	33,541	20,713	101,245
De-recognised on initial application of NZ IFRS16	–	–	(552)	–	(552)
Additions	–	656	70	3,691	4,417
Disposals	–	(11)	(9)	(87)	(107)
Revaluations	1,661	551	(140)	–	2,070
Depreciation charge for the year	–	(373)	(393)	(3,794)	(4,560)
At 30 June 2020, net of accumulated depreciation and impairment	30,365	19,110	32,517	20,523	102,515
At 30 June 2020					
Cost or fair value	30,365	19,110	32,517	41,934	123,926
Accumulated depreciation (accum impairment nil)	–	–	–	(21,411)	(21,411)
Net carrying amount	30,365	19,110	32,517	20,523	102,515
Year ended 30 June 2019					
At 1 July 2018, net of accumulated depreciation and impairment	19,473	13,647	26,435	15,079	74,634
Additions excluding Mt Difficulty acquisition	19	141	467	2,577	3,204
Additions – Mt Difficulty acquisition	7,700	4,500	5,856	5,852	23,908
Disposals	–	(4)	(70)	(148)	(222)
Revaluations	1,512	326	1,236	–	3,074
Depreciation charge for the year	–	(323)	(383)	(2,647)	(3,353)
At 30 June 2019, net of accumulated depreciation and impairment	28,704	18,287	33,541	20,713	101,245
At 30 June 2019:					
Cost or fair value	28,704	18,287	33,541	36,224	116,756
Accumulated depreciation (accum impairment nil)	–	–	–	(15,511)	(15,511)
Net carrying amount	28,704	18,287	33,541	20,713	101,245

COMMITMENTS

At balance date the Group had capital commitments of $130,000 for a CARL copper pot still (2019: $500,000 for an Amenities Building at the Grove Mill/Waihopai Valley site).

Notes to the Financial Statements (continued)

For the year ended 30 June 2020

20. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

REVALUATION OF LAND, BUILDINGS AND LAND IMPROVEMENTS

Land, buildings and land improvements (which includes biological bearer assets) shown at valuation were valued at fair value under the principle of highest and best use by Alexander Hayward Limited, registered independent valuers, for the Marlborough properties, Telfer Young (Hawkes Bay) Limited, registered independent valuers, for the Martinborough properties, and Colliers International (2019: Logan Stone Ltd), registered independent valuers, for the Central Otago properties, on 30 June 2020 (2019: 30 June 2019). Fair value is the amount for which the assets could have been exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction as at the valuation date.

Freehold land and land improvements at fair value (viticulture planted land) is valued by reference to recent market transactions on arm's length terms for similar assets, considering grape varietal, soil quality and access to water on a per hectare basis. Adopted rates per hectare range from $88,000 to $239,000. The Valuers have determined an adopted rate based on comparable transactions adjusted for the specific characteristics of the viticulture planted land. Adopted values increase as the adopted rate per hectare increases. The valuation includes inputs which are adjusted for the size, location and varietal mix held by the Group. Based on these valuation techniques these fair values are included in Level 3 in the fair value hierarchy (refer note 24(j)). Freehold Buildings are valued using a combination of the income approach and optimised depreciated replacement cost method. The valuation comprises inputs for estimated rental, adopted capitalisation rates and estimated cost to replace the assets on a like for like basis. The adopted capitalisation rates range from 7.75% to 8.75%. As capitalisation rates decrease adopted building values increase. Based on these valuation techniques these fair values are included in Level 3 in the fair value hierarchy (refer note 24(j)).

The Directors note that the Valuers have this year included clauses in their Valuation Reports noting that there is market uncertainty due to the Covid-19 outbreak that has resulted in significant valuation uncertainty and that market conditions are constantly changing.

The carrying amount of land, buildings and land improvements had they been recognised under the historic cost model would have been $16,016,000, $17,355,000 and $18,597,000 respectively (2019: $16,016,000, $16,710,000, $18,351,000). Land Improvements comprise of vineyards including biological bearer plants (grape vines). The valuation of bearer plants at 30 June 2020 was $24,438,000 (2019: $24,631,000).

21. BIOLOGICAL ASSET PRODUCE

Biological assets consist of grape vines (bearer plants). Bearer plants are classified as Property, Plant and Equipment and are included as part of land improvements (vineyard) in note 20. The Company grows grapes to use in the production of wine, as part of normal operations. Vineyards are located in Marlborough, Martinborough and Central Otago, New Zealand. Grapes are harvested between March and May each year.

At 30 June 2020 the Group held approximately 250 hectares of land owned or leased by the Company in Marlborough (2019: 250), 190 hectares of land owned or leased by the Group in Martinborough (2019: 190) and 180 hectares of land owned or leased by the Group in Central Otago (2019: 180). 200 hectares are currently in commercial production in Marlborough (2019: 200), 137 hectares in Martinborough (2019: 137) and 161 hectares in Central Otago (2019: 161).

Notes to the Financial Statements (continued)

For the year ended 30 June 2020

21. BIOLOGICAL ASSET PRODUCE (CONTINUED)

During the year ended 30 June 2020 the Company harvested 4,378 tonnes of grapes (2019: 4,301). The grapes harvested are recognised at fair value at the point of harvest after taking into consideration various market factors, as well as reviewing the district average pricing report for grapes of similar quality and variety. Any adjustment to bring the cost of sale to fair value is recognised in inventory and the revaluation gains and losses section of the Income Statement. The fair value adjustment for the 2020 harvest was $1,243,000 (2019: $415,000). Refer to note 19 for recognition of the biological transformation between the time of harvest and balance date.

The Group is exposed to financial risks in respect of agricultural activity. The agricultural activity of the Company consists of the management of vineyards to produce grapes for use in the production of wine. The primary financial risk associated with this activity occurs due to the length of time between expending cash on the purchase or planting and maintenance of grape vines and on harvesting grapes, and ultimately receiving cash from the sale of wine to third parties. The Company's strategy to manage this financial risk is to actively review and manage its working capital requirements. The quality and quantity of the grape harvest is dependent on seasonal climatic factors such as rainfall, sunshine and temperature, including frosts. The Group manages this risk by diversifying its vineyards across the Marlborough, Martinborough and Central Otago regions and through the use of windmills and helicopters for normal frost protection purposes.

22. INTANGIBLE ASSETS

	Group 2020 $'000	Restated Group 2019 $'000
TRADEMARKS		
At start of period, net of impairment	151	151
Additions during the year	–	–
At 30 June, net of impairment	151	151
Cost (gross carrying value)	151	151
Accumulated impairment losses	–	–
Net carrying amount	151	151

Trademarks pertain to the registration of trademarks in local and overseas jurisdictions for the Company's brands. Trademarks are carried at cost, less any accumulated impairment losses. Trademarks have been assessed as having an indefinite life since the Company has the rights to the brand while it is registered and has no intention of relinquishing those rights. The recoverable amount is estimated annually and an impairment loss recognised to the extent that the recoverable amount is lower than the carrying amount.

Notes to the Financial Statements (continued)

For the year ended 30 June 2020

	Group 2020 $'000	Restated Group 2019 $'000
22. INTANGIBLE ASSETS (CONTINUED)		
GOODWILL		
At start of period, net of impairment	16,303	4,727
Additions during the year	–	11,576
At 30 June, net of impairment	16,303	16,303
Cost (gross carrying value)	16,303	16,303
Accumulated impairment losses	–	–
Net carrying amount	16,303	16,303

After initial recognition, goodwill acquired is measured at cost less any accumulated impairment losses. Goodwill is not amortised but is subject to impairment testing on an annual basis or whenever there is an indication of impairment. Goodwill relates to the acquisition of the Vavasour Wines' business assets on 1 September 2003, Goldwater Wines' business assets on 1 April 2006, Clifford Bay's business assets on 1 March 2007, the reverse acquisition of The New Zealand Wine Company Ltd (Grove Mill) on 4 September 2012, the acquisition of Martinborough Vineyards on 30 June 2014 and the acquisition of Mt Difficulty Wines' business and assets on 3 January 2019. The value of Goodwill at balance date includes a deferred tax liability on acquired indefinite life intangibles (brands) of $5,150,000 (2019: $2,212,000) and acquired non-depreciable buildings in the prior year of $1,782,000.

	Group 2020 $'000	Restated Group 2019 $'000
BRANDS AND INTELLECTUAL PROPERTY		
At start of period, net of impairment	18,668	8,175
Additions – current year additions	–	10,493
Impairment	–	–
At 30 June, net of impairment	18,668	18,668
Cost (gross carrying value)	18,668	18,668
Accumulated impairment losses	–	–
Net carrying amount	18,668	18,668

Brands are regarded as having indefinite useful lives as there are no legal restrictions on the use of the brands or technological barriers to their ongoing usefulness. Brands are not amortised but are subject to impairment testing on an annual basis or whenever there is an indication of impairment. The Brands included are Vavasour, Goldwater, Dashwood, Clifford Bay, Martinborough Vineyard and Lighthouse Gin.

	Group 2020 $'000	Restated Group 2019 $'000
TOTAL INTANGIBLE ASSETS	35,122	35,122

Notes to the Financial Statements (continued)

For the year ended 30 June 2020

22. INTANGIBLE ASSETS (CONTINUED)

(A) *IMPAIRMENT TESTS FOR GOODWILL AND INTANGIBLES WITH INDEFINITE USEFUL LIVES*

The Group has determined that in the current year the value of the goodwill and intangible assets was supported by value-in use calculations performed for the cash generating unit, being the whole business. The recoverable amount of the cash generating unit was determined based on pre-tax cash flow projections based on the current results of the Group and the following key assumptions: Earnings Before Interest and Tax estimated growth rate: 3% pa (2019: 3%); Terminal value of 2.61% (2019: 3%); a period of projection of five years and a pre-tax discount rate 6.3% pa (2019: 6.3% pa). The discount rate used is consistent with companies operating in the same industry. No reasonable possible change in assumptions would lead to an impairment. The recoverable amount determined did not indicate any impairment and no adjustment was deemed to be required.

	Group 2020 $'000	Group 2019 $'000
23. CASH FLOW INFORMATION		
(A) *RECONCILIATION OF PROFIT FOR THE YEAR TO NET CASH FLOW FROM OPERATING ACTIVITIES*		
PROFIT AFTER INCOME TAX FOR THE YEAR	6,921	3,518
NON–CASH ITEMS:		
Depreciation	4,560	3,353
Amortisation	1,009	–
Increase/(decrease) in deferred tax	(1,812)	(254)
Impairment loss/(gain) recognised on trade and other receivables	–	–
Impairment loss/(gain) recognised on inventories	18	(45)
Accounting interest recorded on deferred consideration payment	99	–
Adjustments resulting from revaluation of grapes	(649)	98
Loss/(gain) on disposal of property, plant and equipment	33	156
Loss/(gain) on asset revaluations	818	93
	4,076	3,401
MOVEMENTS IN WORKING CAPITAL BALANCES:		
Trade and other receivables	1,704	145
Inventories	(2,010)	(2,825)
Biological work in progress	(209)	(429)
Prepaid expenses and other current assets	196	(448)
Trade and other payables	(449)	2,085
Other financial assets/liabilities	(12)	(188)
Current tax assets/liabilities	575	1,154
	(205)	(506)
NET CASH FLOW FROM OPERATING ACTIVITIES	10,792	6,413

Notes to the Financial Statements (continued)

For the year ended 30 June 2020

	Group 2020 $'000	Group 2019 $'000
23. CASH FLOW INFORMATION (CONTINUED)		
(B) NET LOANS AND BORROWINGS RECONCILIATION		
Total Loans and borrowings (refer note 13)	38,853	39,862
Loans advanced during the year	1,000	30,000
Loans repaid during the year	(2,108)	(4,191)
Net movement in net debt – all cash flows	(1,108)	25,809
(B) NET LOANS AND BORROWINGS RECONCILIATION		
Total Lease liabilities repayable (refer note 14.2)	12,839	–
Leases recognised on initial application of NZ IFRS 16 – non-cash	13,665	–
Leases recognised due to lease remeasurement – non-cash	67	–
Lease liabilities repaid during the year - cash outflows	(893)	–
Lease liabilities – net movement	12,839	–

24. FINANCIAL INSTRUMENTS

(A) CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of debt, which includes loans and borrowings disclosed in note 13, cash and cash equivalents and equity, comprising issued capital, reserves and retained earnings as disclosed in notes 9, 10 and 11 respectively. The Group's Board of Directors reviews the capital structure on a semi-annual basis. As part of the review the Board considers the cost of capital and the risks associated with each class of capital as well as the requirement by the Group's bank, Bank of New Zealand, to maintain adjusted tangible equity percentage at a level of at least 50% of adjusted total tangible assets. The Board will balance the Group's overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt. The Group's overall strategy remains unchanged from 2019.

(B) SIGNIFICANT ACCOUNTING POLICIES

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2 to the financial statements.

(C) FINANCIAL RISK MANAGEMENT OBJECTIVES

The Group is exposed to financial risks relating to the operations of the Group. These risks include agricultural risk, market risk (including currency risk and interest rate risk), credit risk and liquidity risk.

Notes to the Financial Statements (continued)

For the year ended 30 June 2020

24. FINANCIAL INSTRUMENTS (CONTINUED)

(C) FINANCIAL RISK MANAGEMENT OBJECTIVES (CONTINUED)

The agricultural activity of the Group consists of the management of vineyards to produce grapes for use in the production of wine. The primary financial risk associated with this activity occurs due to the length of time between expending cash on the purchase or planting and maintenance of grape vines and on harvesting grapes, and ultimately receiving cash from the sale of wine to third parties. The Group's strategy to manage this financial risk is to actively review and manage its working capital requirements. In addition, the Group maintains credit facilities at a level sufficient to fund the Group's working capital during the period between cash expenditure and cash inflow. At balance date, the Group had unused credit facilities in the form of undrawn bank overdrafts and loan facilities of $19 million (2019: $20 million).

The Group seeks to minimise the effects of these risks, by obtaining independent advice and using derivative financial instruments to hedge these risk exposures. The use of financial derivatives is governed by the Group's policies approved by the Board of Directors, which provide written principles on the use of financial derivatives. Compliance with policies and exposure limits is reviewed by the Board of Directors on a periodic basis. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

(D) MARKET RISK

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates (refer note 24(e)) and interest rates (refer note 24(f)). The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign currency risk, including:

(i) forward foreign exchange contracts and foreign currency option contracts to hedge the exchange rate risk arising on the export of wine principally to the United States, United Kingdom, Europe and Australia; and

(ii) interest rate swaps to mitigate the risk of rising interest rates.

There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risk.

(E) FOREIGN CURRENCY RISK MANAGEMENT

The Group undertakes certain transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved parameters utilising forward foreign exchange contracts and foreign exchange option contracts.

Foreign currency denominated assets and liabilities at balance date are:

	Group 2020 $'000	Group 2019 $'000
Cash and cash equivalents	967	1,655
Trade and other receivables	5,219	6,027
Trade and other payables	(142)	(373)
Net exposure at balance date	6,044	7,309

Notes to the Financial Statements (continued)

For the year ended 30 June 2020

24. FINANCIAL INSTRUMENTS (CONTINUED)

(E) FOREIGN CURRENCY RISK MANAGEMENT (CONTINUED)

SENSITIVITY ANALYSIS

The Group is mainly exposed to US dollars (USD), Great British pounds (GBP), Australian dollars (AUD) and Euro (EUR). If there was a 10% upward movement in the New Zealand dollar against the relevant currencies the profit before tax and equity would decrease by $222,000, $120,000, $164,000 and $44,000 respectively for the Group (2019: $259,000, $114,000, $256,000 and $35,000). If there was a 10% downward movement in the New Zealand dollar against the relevant currencies the profit before tax and equity would increase by $271,000, $146,000, $201,000 and $53,000 respectively for the Group (2019: $317,000, $140,000, $313,000 and $42,000). The 10% sensitivity rate used represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for the listed percentage change in foreign currency rates.

FORWARD FOREIGN EXCHANGE CONTRACTS AND OPTION CONTRACTS

It is the policy of the Group to enter into forward foreign exchange contracts to cover specific foreign currency payments and receipts up to 100% of the exposure generated. The Group also enters into forward foreign exchange contracts and option contracts including collars to manage the risk associated with anticipated sales and purchase transactions out to 60 months within 25-100% of the exposure generated, subject to certain criteria being met. Forward foreign exchange contracts and option contracts are measured at fair value through profit or loss. The fair value of forward foreign exchange contracts and option contracts is based on market values of equivalent instruments at the reporting date.

The aggregate notional principal of forward foreign exchange contracts outstanding for the Group as at balance date was $9,686,000 (2019: $6,291,000). The aggregate notional principal of foreign exchange option contracts outstanding at balance date was a net of $Nil (2019: $214,000).

(F) INTEREST RATE RISK MANAGEMENT

The Company and the Group is exposed to interest rate risk as it borrows funds at both fixed and floating interest rates. The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowings, by use of interest rate swap contracts. Hedging activities are evaluated regularly with the assistance of independent advice to align with interest rate views and defined risk appetite; ensuring optimal hedging strategies are applied or protecting interest expense through different interest rate cycles. The Company and the Group's exposure to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note or in note 13.

SENSITIVITY ANALYSIS

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivative and non-derivative instruments at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period. A 100 basis point (1%) increase or decrease is used and represents management's assessment of the reasonably possible change in interest rates.

At balance date, if interest rates had been 1% lower or higher and all other variables were held constant, the Company and Group's net profit and equity would increase/decrease by approximately $341,000 (2019: $214,000) respectively. This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings.

Notes to the Financial Statements (continued)

For the year ended 30 June 2020

24. FINANCIAL INSTRUMENTS (CONTINUED)

(F) INTEREST RATE RISK MANAGEMENT (CONTINUED)

SENSITIVITY ANALYSIS (CONTINUED)

The Company and Group's sensitivity to interest rates has increased during the current year mainly due to the increase in floating interest rate exposure.

INTEREST RATE SWAP CONTRACTS

Under interest rate swap contracts, the Group agrees to exchange the difference between the fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Group to mitigate the risk of changing interest rates on debt held. The fair value of interest rate swaps are based on market values of equivalent instruments at the reporting date as disclosed below.

The aggregate notional principal amount of the outstanding interest rate swap contracts at balance date was $Nil (2019: $233,000). The interest rate applicable to the interest rate swap contract during the year was 6.01% pa (2019: 5.30% pa – 6.01% pa).

Interest rate swap contracts exchanging floating rate interest amounts for fixed rate interest amounts are used to reduce the Group's cash flow exposure resulting from variable interest rates on borrowings. These are measured at fair value through profit or loss. The interest rate swaps and the interest payments on the loan occur simultaneously on a monthly basis. The floating rate on the interest rate swaps is the 1 month BKBM rate. The Group will settle the difference between the fixed and floating interest rate on a net basis.

(G) CREDIT RISK MANAGEMENT

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with credit worthy counterparties as a means of mitigating the risk of financial loss from defaults. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are approved by the Board of Directors and are monitored on a regular basis. The Group does not require collateral in respect of trade and other receivables.

A default on a financial asset is when the counterparty fails to make contractual payments within 60 days of when they fall due. Probability of default constitutes a key input in measuring expected credit loss (ECL). Probability of default is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable and, where appropriate, trade credit insurance is purchased.

The Group does not have any significant concentrations of net credit risk. The Company does not expect the non-performance of any obligations at balance date. The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international agencies.

The carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represent the Group's maximum exposure to credit risk.

Notes to the Financial Statements (continued)

For the year ended 30 June 2020

24. FINANCIAL INSTRUMENTS (CONTINUED)

(H) LIQUIDITY RISK MANAGEMENT

Liquidity risk represents the Group's ability to meet its contractual obligations. Ultimate responsibility for liquidity risk management rests with the Board of Directors, who has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. At balance date, the Group had unused credit facilities in the form of undrawn bank overdrafts and loan facilities of $19 million (2019: $20 million) to further reduce liquidity risk

LIQUIDITY TABLES

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. Refer to note 13 for the weighted average effective interest rate..

	Less than 1 year $'000	1-2 years $'000	2-5 years $'000	Over 5 years $'000
Group 2020				
Trade and other payables	6,786	–	–	–
Loans and borrowings	7,800	25,896	6,000	–
Convertible notes	11,609	–	–	–
Lease liabilities	1,302	1,136	3,175	12,481
	27,497	27,032	9,175	12,481
Group 2019				
Trade and other payables	7,235	–	–	–
Loans and borrowings	3,157	14,154	26,142	–
Convertible notes	11,609	–	–	–
	22,001	14,154	26,142	–

Notes to the Financial Statements (continued)

For the year ended 30 June 2020

24. FINANCIAL INSTRUMENTS (CONTINUED)

(H) LIQUIDITY RISK MANAGEMENT (CONTINUED)

LIQUIDITY TABLES (CONTINUED)

The following table details the Group's liquidity analysis for its derivative financial instruments. The table has been drawn up based on the undiscounted net cash inflows/(outflows) on the derivative instrument that settle on a net basis and the undiscounted gross inflows and (outflows) on those derivatives that require gross settlement. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves existing at the reporting date.

	Less than 6 mths $'000	6-12 mths $'000	1-2 years $'000	Over 2 years $'000
Group 2020				
Forward exchange contracts – cash inflows	4,848	2,975	1,863	–
Forward exchange contracts – cash outflows	(4,795)	(2,918)	(1,871)	–
	53	57	(8)	–
Group 2019				
Interest rate swaps – net settled cash flows	(2)	–	–	–
Forward exchange contracts – cash inflows	4,598	2,046	–	–
Forward exchange contracts – cash outflows	(4,722)	(2,015)	–	–
Foreign currency option contracts – cash inflows	214	–	–	–
Foreign currency option contracts – cash outflows	(209)	–	–	–
	(121)	31	–	–

(I) FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair values of financial assets and liabilities are determined as follows:

- the fair value of financial assets and liabilities with standard terms and conditions and traded on active markets are determined with reference to the quoted market prices; and
- the fair value of derivative instruments are calculated based on discounted cash flows using market inputs.

The Directors consider that the carrying value of all financial instrument assets and liabilities in the financial statements approximate their fair value.

Notes to the Financial Statements (continued)

For the year ended 30 June 2020

24. FINANCIAL INSTRUMENTS (CONTINUED)

(J) FAIR VALUE MEASUREMENTS RECOGNISED IN THE STATEMENT OF FINANCIAL POSITION

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the assets or liability that are not based on observable market data (unobservable inputs).

	Group 2020 $'000	Group 2019 $'000
Financial assets FVTPL		
Other financial assets (derivative financial assets) – Current	110	93
Other financial assets (derivative financial assets) – Non–Current	–	–
Total financial assets	110	93
Financial liabilities FVTPL		
Other financial liabilities (derivative financial liabilities) – Current	–	(3)
Other financial liabilities (derivative financial liabilities) – Non–Current	(8)	–
Total financial liabilities	(8)	(3)

All financial assets and liabilities of the Group that are measured at fair value subsequent to initial recognition are included in Level 2 as the fair value of these instruments are not quoted on an active market and is determined by using valuation techniques. These valuation techniques rely on observable market data. There were no transfers between Level 1 and 2 during the year.

(K) CHANGE IN FAIR VALUE OF FINANCIAL ASSETS/LIABILITIES

Foreign currency forward contracts	13	169
Foreign currency option contracts	(4)	4
Interest rate swaps	3	14
	12	187

25. DIRECTORS AND KEY MANAGEMENT PERSONNEL COMPENSATION

Key management personnel are the Directors of the Company and the executives with the greatest authority for the strategic direction of the Company. The compensation of the Directors and the key management personnel is set out below:

Short-term employee benefits	2,304	1,651

Notes to the Financial Statements (continued)

For the year ended 30 June 2020

26. RELATED PARTY DISCLOSURES

(A) INVESTMENT IN SUBSIDIARIES

The Parent entity in the consolidated entity is Foley Wines Limited. The Parent entity of Foley Wines Limited is Foley Family Wines Holdings, New Zealand Limited who own 52.80% (2019: 52.80%) of the shares in Foley Wines Limited. The ultimate parent is Foley Family Wines Holdings, Inc., who own 80.47% of Foley Family Wines Holdings, New Zealand Limited and as such owns 42.49% (2019: 42.49%) of the Company.

The consolidated financial statements include the financial statements of Foley Wines Limited (FWL) and the following subsidiaries:

Name of Entity	Principal Activity	Parent Company	Country of Incorpo-ration	Ownership Interest % 2020	Ownership Interest % 2019
Vavasour Wines Ltd	Non-operating	Foley Wines Ltd	NZ	100%	100%
Goldwater Wines Ltd	Non-operating	Foley Wines Ltd	NZ	100%	100%
Clifford Bay Wines Ltd	Non-operating	Foley Wines Ltd	NZ	100%	100%
Te Kairanga Wines Ltd	Non-operating	Foley Wines Ltd	NZ	100%	100%
Grove Mill Wine Company Ltd	Non-operating	Foley Wines Ltd	NZ	100%	100%
Sanctuary Wine Company Ltd	Non-operating	Foley Wines Ltd	NZ	100%	100%
The New Zealand Wine Company Ltd	Non-operating	Foley Wines Ltd	NZ	100%	100%
Martinborough Vineyard Wines Ltd	Non-operating	Foley Wines Ltd	NZ	100%	100%
Mt Difficulty Wines Ltd	Non-operating	Foley Wines Ltd	NZ	100%	100%
Burnt Spur Ltd	Non-operating	Foley Wines Ltd	NZ	100%	100%

The New Zealand Wine Company (Europe) Ltd was dissolved on 12 February 2019.

Martinborough Terraces Ltd changed its company name to Mt Difficulty Wines Ltd on 3 January 2019.

(B) TRANSACTIONS WITH RELATED PARTIES – DIRECTORS AND KEY MANAGEMENT PERSONNEL

Details of the compensation paid to Directors and key management personnel are set out in note 25.

	Group 2020 $'000	Group 2019 $'000
Certain Directors and key management personnel have interests in contracts with the Group as follows. All transactions were at normal commercial rates.		
AM Turnbull (Lighthouse Distillery Ltd – purchase of Spirits for resale)	192	579
AM Turnbull (Lighthouse Distillery Ltd – charges from FWL for labour, rent, electricity and administration)	62	78

Notes to the Financial Statements (continued)

For the year ended 30 June 2020

26. RELATED PARTY DISCLOSURES (CONTINUED)

(C) *TRANSACTIONS WITH OTHER RELATED PARTIES*

Material transactions with related parties during the period are set out below:

(i) Sales were made to Foley Family Wines, Inc., a 100% owned subsidiary of Foley Family Wines Holdings, Inc., the ultimate parent of Foley Wines Limited. Sales for the year were $8,787,000 (2019: $9,184,000).

(ii) Marketing support services were provided by Foley Family Wines Inc., a 100% owned subsidiary of Foley Family Wines Holdings, Inc., the ultimate parent of Foley Wines Limited. Marketing support charges for the year were $114,000 (2019: $108,000).

(iii) Interest was paid/payable to Foley Family Wines Holdings, New Zealand Limited the parent of the Foley Wines Limited under the convertible note (note 15). Interest paid/payable for the year was $710,000 (2019: $709,000).

(iv) Sales were made to Wharekauhau Country Estate Limited, a luxury lodge 74.6% owned by Bill Foley, the majority shareholder of the ultimate parent. Sales for the year totalled $48,000 (2019: $30,000). Administration Charges for the year totalled $Nil (2019: $2,000). Accommodation, meals and events provided by Wharekauhau to the Company during the year totalled $34,000 (2019: $22,000).

(v) Lighthouse Gin product was purchased for global distribution from Lighthouse Distillery Limited, a company owned by Mark Turnbull, CEO and Director of Foley Wines Limited. Purchases during the period totalled $192,000 (2019: $579,000). Administration services, rental, electricity and contract distilling services were provided to Lighthouse Distillery Limited during the period of $62,000 (2019: $78,000).

	Group 2020 $'000	Group 2019 $'000
Amounts owing to related parties as at balance date:		
Foley Family Wines Holdings, New Zealand Limited – convertible note	10,900	10,900
Wharekauhau Country Estate Limited	–	1
Lighthouse Distillery Limited	48	27
Amounts owing from related parties as at balance date:		
Foley Family Wines, Inc.	1,807	2,010
Wharekauhau Country Estate Limited	7	5
Lighthouse Distillery Limited	11	20

Notes to the Financial Statements (continued)

For the year ended 30 June 2020

27. SEGMENT INFORMATION

The Group operates in the wine industry and is considered to operate in one segment. Financial information available to management including the chief operating decision maker is principally based on the information provided in these financial statements. There are therefore no additional disclosures included in these financial statements.

Included in sales revenue are revenues of approximately $16,664,000 (2019: $11,256,000), $8,787,000 (2019: $9,184,000) and $4,765,000 (2019: $4,844,000) which arose from sales to the Group's largest customers. No other single customers contributed 10% or more to the Group's revenue in either 2020 or 2019. The second largest customer is a related party – refer note 26.

The Group derived sales revenue from New Zealand customers of $24,924,000 and overseas customers of $30,241,000 (2019: NZ $17,612,000; Overseas $29,726,000).

28. COMMITMENTS

In the ordinary course of business the Group has Grower Agreements which would require it to purchase grapes during harvest which occurs between March and May each year throughout the period of the Agreement.

At balance date the Group had capital commitments of $130,000 for a CARL copper pot still (2019: $500,000 for an Amenities Building at the Grove Mill/Waihopai Valley site). The Group has also committed to a capital expenditure project not exceeding $3 million for the Mt Difficulty Restaurant redevelopment.

29. CONTINGENT LIABILITIES

There were no contingent liabilities at balance date (2019: Nil).

Notes to the Financial Statements (continued)

For the year ended 30 June 2020

30. MT DIFFICULTY WINES ACQUISITION

On 3 January 2019 the Company completed its purchase of the assets and business of Mt Difficulty Wines, a wine business with a winery, vineyards and cellar door/restaurant located in Central Otago.

The impact of this acquisition on the balance sheet was as follows:

	Group 2019 Final $'000	Group 2019 Preliminary $'000
Cash	1	1
Trade and other receivables	381	381
Inventories	8,612	8,612
Biological work in progress	2,489	2,489
Prepayments	201	201
Property, plant and equipment	23,908	23,908
Intangible assets (brands)	10,493	-
Total assets acquired	46,085	35,592
Trade and other payables	(247)	(247)
Deferred tax	(5,281)	(2,343)
Total liabilities acquired	(5,528)	(2,590)
Net assets acquired	40,557	33,002
Goodwill on acquisition	11,576	19,131
Total net assets acquired	52,133	52,133
Funded as follows:		
Liabilities – Loans and borrowings	27,082	27,082
Equity – Share capital	20,000	20,000
Total paid in the financial year to 30 June 2019	47,082	47,082
Liabilities – Loans and borrowings – Deferred consideration	5,051	5,051
Total amount paid/payable	52,133	52,133

Notes to the Financial Statements (continued)

For the year ended 30 June 2020

30. MT DIFFICULTY WINES ACQUISITION (CONTINUED)

The Deferred Consideration Payment of $5,200,000 is due to be paid on 3 July 2020 in accordance with the Sale and Purchase Agreement. The fair value (net present value) of the deferred consideration at acquisition date was $5,051,000. At year end the fair value of this payment was $5,200,000 and is included in Current Loans and borrowings (2019: $5,101,000 included in Non-current Loans and borrowings).

The acquisition aligns with and supports the Company's strategic direction to become NZ's most revered wine group by becoming a super-premium wine producer and a leader in the super-premium category. The addition of a third iconic wine region, providing geographical diversification, complement the Foley Wines branded wine portfolio and provide further opportunity to strengthen distribution in New Zealand and internationally. The goodwill is attributable to the key customer contracts and high profitability of the acquired business and synergies from combining the businesses. It will not be deductible for tax purposes.

Further analysis undertaken determined that there were identifiable intangible assets, being brands of $10,493,000, that were able to be fair valued at the acquisition date and separately recognised in the financial statements. This resulted in an increase in the deferred tax (being the value-in-use deferred tax on brands) of $2,938,000 and a reduction in the Goodwill recognised on the acquisition of $7,555,000. The fair value of the brand intangible assets acquired were determined using a relief-from-royalty valuation method.

SIGNIFICANT ESTIMATE: CONTINGENT CONSIDERATION: Mt Difficulty Cellar Door and Restaurant Development (Redevelopment) - If the total aggregate cost to the Company of the Redevelopment (exclusive of GST) (Redevelopment Final Cost) is less than $3,000,000 then upon final completion and operation of the Redevelopment, the Company will be required to pay to the previous Mt Difficulty Wines (shareholders), as an adjustment to the purchase price, the difference (if any) between $3,000,000 and the Redevelopment Final Cost. Based on the information available at balance date the Company does not expect that there will be any further amount payable for the purchase under this provision.

ACQUIRED RECEIVABLES: The fair value and gross contractual value of acquired trade receivables is $381,000. This has all subsequently been collected therefore there is no portion of this estimated to be uncollectible.

*TRANSACTION COSTS:*The acquisition-related costs in the prior year (included in Other expenses - refer Note 4) were $591,000. In addition, the costs associated with the equity share capital issues to partly fund the acquisition in the prior year were $38,000 (Note 4).

There were no acquisitions in the year ended 30 June 2020.

Notes to the Financial Statements (continued)

For the year ended 30 June 2020

31. SUBSEQUENT EVENTS

On 3 July 2020 the interest rate on the BNZ Term Loan #05 facility was reviewed. The new interest rate on this loan facility for the period from 3 July 2020 to 5 October 2020 was 2.11% pa.

On 31 July 2020 the interest rate on the BNZ Term Loan #03 facility was reviewed. The new interest rate on this facility for the period from 31 July 2020 to 31 August 2020 remained at 1.87% pa.

On 3 July 2020 $5,000,000 was redrawn on the BNZ term loan facility #03.

On 3 July 2020 the Deferred Consideration Payment for the Mt Difficulty Wines acquisition of $5,200,000 was paid to Endovanerra Ltd (formerly Mt Difficulty Wines Ltd).

On 24 August 2020 $11 million was drawn down against the new BNZ term loan #06 facility and the $11 million simultaneously repaid the balance outstanding on BNZ term loan #03 that was repayable in full on 31 August 2020. The interest rate on this new loan facility for the period from 24 August 2020 to 31 August 2020 was 2.27% pa.

On 27 August 2020, the Board approved a final dividend on 3 cents per share, fully imputed, for payment on 23 October 2020.

No other material events have occurred since balance date.

	Group 2020 $	Group 2019 $
32. NET TANGIBLE ASSETS PER SHARE		
Net tangible assets per share	1.37	1.33

The calculation of net tangible per share in respect of 2020 is based on net tangible assets of $90,387,000, being Net assets $125,509,000 less intangible assets $35,122,000 (2019: $87,123,000 being $119,307,000 less $32,184,000) and the 65,736,148 ordinary shares on issue at balance date (2019: 65,736,148).

33. FOREIGN CURRENCY EXCHANGE RATES

The following spot foreign exchange rates have been applied at balance date:	30 June 2020		30 June 2019	
NZ $1.00 =	FWL Buy	FWL Sell	FWL Buy	FWL Sell
Australian dollar	0.9317	0.9385	0.9528	0.9596
United States dollar	0.6388	0.6441	0.6671	0.6726
Great British pound	0.5201	0.5225	0.5265	0.5289
Euro	0.5688	0.5737	0.5868	0.5919

Independent Auditor's Report

Deloitte.

Independent Auditor's Report

To the Shareholders of Foley Wines Limited

Opinion

We have audited the consolidated financial statements of Foley Wines Limited (the 'Company') and its subsidiaries (the 'Group'), which comprise the consolidated statement of financial position as at 30 June 2020, and the consolidated income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements, on pages 20 to 72, present fairly, in all material respects, the consolidated financial position of the Group as at 30 June 2020, and its consolidated financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards ('NZ IFRS') and International Financial Reporting Standards ('IFRS').

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ('ISAs') and International Standards on Auditing (New Zealand) ('ISAs (NZ)'). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

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

We are independent of the Group in accordance with Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)*, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Other than in our capacity as auditor, we have no relationship with or interests in the Company or any of its subsidiaries, except that partners and employees of our firm deal with the Company on normal terms within the ordinary course of trading activities of the business of the Company.

Audit materiality

We consider materiality primarily in terms of the magnitude of misstatement in the consolidated financial statements of the Group that in our judgement would make it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced (the 'quantitative' materiality). In addition, we also assess whether other matters that come to our attention during the audit would in our judgement change or influence the decisions of such a person (the 'qualitative' materiality). We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Key audit matters

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

Deloitte.

Key audit matter	How our audit addressed the key audit matter

Valuation of land, land improvements and buildings
 	
As disclosed in Note 20 of the financial statements, the Company has recorded the following assets at fair value:
 	
Freehold land $30.3 million
Freehold buildings $19.1 million
Land improvements $32.5 million
$81.9 million
 	
Land improvements comprise vineyards including $24.4 million of grape vine biological bearer plants.
 	
Independent valuers determined the fair values at balance date. The valuations of freehold land and land improvements are prepared using a "comparative sales" basis and include an assumption over the comparability of certain key inputs, such as location, size of parcel of land, soil quality, vine varietal and access to water at each of the wineries and vineyards.
 	
The valuation of Freehold buildings are prepared using either or a combination of income or replacement cost methods and include assumptions for estimated rental, capitalization rates and estimated replacement costs.
 	
The valuers have determined a value for each property as a whole taking into account the valuation methods above and current market conditions to arrive at a range of valuation outcomes, from which they derive a fair value estimate.
 	
The outbreak of the Novel Coronavirus (Covid-19) was declared as a 'Global Pandemic' by the World Health Organisation on 11 March 2020. Certain travel restrictions were implemented by many countries, including New Zealand.
 	
The market that comparable properties are transacted in is being impacted by the uncertainty that the Covid-19 outbreak has caused. The landscape and market conditions are changing daily at present. Given the market conditions that existed at 30 June 2020, the independent valuers reported on a basis of "significant valuation uncertainty" and note that, as a result, less certainty and a higher degree of caution should be attached to the valuations.
 	
The valuation of these assets is a key audit matter due to the subjective judgements and assumptions in the valuations, including those that relate to the impact of COVID-19.
	We have evaluated the appropriateness of the valuation in respect of the land, buildings and land improvements by performing the following:
	
	• Assessing the independence, objectivity and competence of each valuer;
	• Holding discussions with the valuers to understand the procedures and processes they performed in undertaking the valuations and the methodology they used. We discussed the following with each valuer:
	  ○ Valuation methodology used for each asset type and comparative sales transactions used given the current market conditions which have been disrupted due to Covid-19;
	  ○ How those current market conditions were reflected in the valuations;
	  ○ How they obtained knowledge of the characteristics of each vineyard, for example by site inspection to confirm soil type, location and grape varietal; and
	  ○ How they have determined the key inputs for each asset type.
	• Involving our internal valuation expert to consider and challenge the reasonableness of the assumptions and valuation methodology applied;
	• Reviewing the valuations for any limitations of scope, as a result of Covid-19, that would impact the reliability of the valuations; and
	• Evaluating the related disclosures included in Note 20 to the financial statements

Deloitte.

Other information

The directors are responsible on behalf of the Group for the other information. The other information comprises the information in the Annual Report that accompanies the consolidated financial statements and the audit report.

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

Our responsibility is to read the other information and consider whether it is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If so, we are required to report that fact. We have nothing to report in this regard.

Directors' responsibilities for the consolidated financial statements

The directors are responsible on behalf of the Group for the preparation and fair presentation of the consolidated financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible on behalf of the Group for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and ISAs (NZ) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is located on the External Reporting Board's website at:

https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1

This description forms part of our auditor's report.

Restriction on use

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

Deloitte Limited

Silvio Bruinsma, Partner
for Deloitte Limited
Wellington, New Zealand
27 August 2020

This audit report relates to the consolidated financial statements of Foley Wines Limited (the 'Company') for the year ended 30 June 2020 included on the Company's website. The Directors are responsible for the maintenance and integrity of the Company's website. We have not been engaged to report on the integrity of the Company's website. We accept no responsibility for any changes that may have occurred to the consolidated financial statements since they were initially presented on the website. The audit report refers only to the consolidated financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these consolidated financial statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited consolidated financial statements and related audit report dated 27 2020 to confirm the information included in the audited consolidated financial statements presented on this website.

Corporate Governance Statement

Corporate Governance Statement

For the year ended 30 June 2020

This statement is designed to provide an overview for Shareholders to reflect the main governance policies and practices adopted or followed during the financial year ended 30 June 2020 and has been approved by the Board. *For further information refer to the Company's website (www.foleywines.co.nz).*

The Board is committed to high standards of best practice corporate governance and ethical conduct as being integral to overall business integrity and to delivery of long term shareholder value.

Foley Wines Limited's (FWL) shares are listed on the NZX Main Board. In this statement we disclose the extent to which the Board believes that the Group's policies and practices have complied with the NZX Corporate Governance Code (NZX Code) contained in Appendix 1 of the NZX Main Board Listing Rules issued on 1 January 2019 which applied to the Company from 1 July 2019 (or where applicable, an explanation as to why a recommendation was not followed and any alternative practice followed in lieu of the recommendation).

NZX CODE

PRINCIPLE 1 – CODE OF ETHICAL BEHAVIOUR

"Directors should set high standards of ethical behaviour, model this behaviour and hold management accountable for these standards being followed throughout the organisation."

CODE OF ETHICS

The Board maintains a Code of Ethics Policy Statement, reviewed at least bi-annually, to underpin FWL's vision and values and expected standards of conduct for Directors and employees.

The Group expects its Directors and employees to act in the best interests of the Company, its Shareholders and stakeholders and maintain the highest standards of honesty, integrity and ethical conduct in day to day behaviour and decision making. They must be objective, apply skill and professional competence, and keep information that they obtain in their role confidential.

New Directors and employees are provided with a copy of the Code of Ethics as part of the induction process and advised that this is also available on the Group's website. All Directors and employees must provide acknowledgement that they have read and understood the content. When the Code is reviewed by the Board a copy of the revised Code is circulated to all current employees as a reminder of its content.

The Code requires Directors and employees to promptly report material breaches of the Code and sets out a procedure for doing so.

The Code was last reviewed by the Board in August 2019.

FINANCIAL PRODUCT DEALING POLICY

The Board maintains a Financial Product Dealing Policy that explains what processes are in place to manage the legal and reputational risks associated with director and staff share trading to provide transparency about expectations and requirements to protect them from the risk of breaching insider trading laws. In particular:

- directors and employees may not buy or sell FWL shares in the trading "black-out" periods set out in the Policy (these periods occur prior to the release of FWL's financial results to the market); and
- directors and employees must obtain consent from the Board to buy or sell FWL's shares.

Training on the Policy is included as part of the induction process for new directors and employees and a copy of the Policy is available on the Group's website.

The Policy was last reviewed by the Board in August 2020.

Corporate Governance Statement (continued)

For the year ended 30 June 2020

PRINCIPLE 2 – BOARD COMPOSITION & PERFORMANCE

"To ensure an effective board, there should be a balance of independence, skills, knowledge, experience and perspectives."

BOARD CHARTER

The Board operate under a written charter which sets out the respective roles, responsibilities, composition and structure of the Board and senior management, and this is available on the Group's website.

The Directors are responsible, collectively as the Board under its Chairman, for the success of FWL and are accountable to shareholders for the Company's overall ethical conduct, strategic development, annual performance and long-term sustainable increase in shareholder value.

The Board exercises its powers on behalf of all Shareholders, except for those powers specifically required to be exercised by Shareholders by law, the NZX Listing Rules or the FWL Constitution. Except for powers specifically reserved to the Directors under the Companies Act or the Delegated Authorities Policy, the Board in turn delegates authorities to the Chief Executive Officer (CEO), with sub-delegations to members of the Management Team, with the CEO (Executive Director) responsible for the day-to-day management of the FWL business and delivering against the agreed strategic plans, operating budgets and performance targets.

The Role of the Board is to provide the overall framework for governance, accountability, risk control and deliverability of the strategic and operating plans. To do so the Board meets with management normally at approximately quarterly intervals, and more frequently if warranted, otherwise contact shall occur via email or teleconference to ensure Directors are fully apprised about key Company activities and issues.

The Chairman, on behalf of the Board, is the formal channel of communication to external stakeholders and to the CEO who in turn has delegated responsibility for management and staff and for achieving agreed policies, business strategies, operating plans and budgets. The CEO reports regularly to the Chairman on critical issues being faced by the Company, as well as progress being made against strategic plans.

In addition to the foregoing, the Directors are responsible for preparing and providing to Shareholders the financial statements, as prescribed in the Financial Reporting Act. These shall give a true and fair view of the financial (and operational) state of affairs of FWL for the period, as portrayed in the Income Statement, Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Financial Position and Statement of Cash Flows. These financial statements are unaudited for the half-year report but must be audited by the External Auditor for the full financial year report ended 30th June.

The Board Charter is reviewed at least every two years and was last reviewed in August 2019.

DIRECTOR NOMINATION

The responsibility for identifying suitable candidates for recruitment to the Board, is undertaken by the Board, drawing on advice from independent consultants as appropriate. Nominated candidates are assessed against a number of criteria which include character, background, professional skills and experience, and their availability to commit to the role. The Board also considers the Composition of the Board requirements contained in the Constitution and the NZX Listing Rules.

Under the Constitution there shall be a minimum of 3 Directors and the maximum number of Directors may be determined from time to time by the Board, and unless so determined, is 8. The Board is therefore authorised to appoint one or more additional Directors to fill a casual vacancy or to expand the Board for increased effectiveness or to help meet the Company's objectives.

Corporate Governance Statement (continued)

For the year ended 30 June 2020

PRINCIPLE 2 – BOARD COMPOSITION & PERFORMANCE (Continued)

DIRECTOR NOMINATION (CONTINUED)

Under the NZX Main Board Listing Rules a minimum of two Directors must be ordinarily resident in New Zealand and one third of the Directors, and a minimum of two, must be independent, as defined in the NZX Listing Rules. The NZX Code recommends that the Board consists of a majority of Independent Directors and that Board Chairman is either independent or that the Board Chairman and the CEO are different people.

Directors are elected by shareholders at the first annual meeting after appointment. After that, at each annual meeting, the NZX Listing Rules and the Company's Constitution require Directors to retire after they have served three years since their last election. Directors who have served for more than nine years on the Board shall retire annually. Retiring Directors are eligible for re-election.

INDEPENDENCE

During the current financial year there were four Non-Executive Directors, three of which were independent, and one Executive Director. Details of all Directors as at the date of this report, including their qualifications, length of service and experience, independence and ownership interests, are shown in Section 1 of the Statutory Information section of this Annual Report. The Board Chairman is a different person to the CEO.

In order to ensure that any "interest" of a Director in a particular matter to be considered by the Board are known by each Director, the Company has developed protocols, consistent with obligations imposed by the Companies Act 1993, to require each Director to disclose any relationships, duties or interests held that may give rise to a potential conflict.

WRITTEN AGREEMENT

The Company provides a letter of appointment to each newly appointed Director setting out the terms of their appointment. The letter includes information regarding expected time commitments, the board's responsibilities, remuneration, independence requirements, disclosure requirements, confidentiality obligations, indemnity and insurance provisions, intellectual property rights and cessation of appointment.

DIVERSITY

The Board maintains a Diversity and Inclusion Policy that provides a framework to embed and support a diverse workforce and inclusive workplace environment. The Policy sets out how FWL will set measurable objectives for achieving diversity and inclusion, and how it will assess its progress towards achieving these objectives. The Policy also sets out the diversity and inclusion initiatives FWL currently has in place, together with the initiatives it is currently implementing. A copy of the Policy is available on the Group's website.

The Diversity and Inclusion scorecard as at 30 June 2020 was:

Board and Key Management Personnel:

Gender Diversity: At 30 June 2020 the Directors were all Male (5) and the Key Management Personnel were 75% Male (3) and 25% Female (1). These percentages were the same at the prior balance date, 30 June 2019.

For all employees at 30 June 2020 based on information provided by employees:

Gender Diversity: 44% were Male and 56% were Female.

Ethnic Diversity: Ethnicity they identify with: European 85%; Maori 7%; Pacific 3%; Asian 3%; and Other 3%.

Age Breakdown: < 20 1%; 20-29 19%; 30-39 23%; 40-49 30%; 50-59 17%; 60-69 10%.

Information was not collected for employees in the prior year.

Corporate Governance Statement (continued)

For the year ended 30 June 2020

PRINCIPLE 2 – BOARD COMPOSITION & PERFORMANCE (Continued)

BOARD PERFORMANCE EVALUATION AND TRAINING

All Non-Executive Directors are expected to participate in performance reviews, particularly prior to the re-election of a Non-Executive Director to the Board. The findings of the performance review process are used to identify, assess and enhance Director competencies and to define characteristics or skills which should be sought in future Board candidates. The Board undertakes a performance evaluation of the Board and its members bi-annually. Directors undertake appropriate training to remain current on how best to perform their duties as directors of the Company.

PRINCIPLE 3 – BOARD COMMITTEES

"The Board should use committees where this will enhance its effectiveness in key areas, while still retaining board responsibility."

To enhance the effectiveness of the Board there is an Audit and Risk Committee. Due to the size of the Board all other matters including Remuneration matters are considered by the full Board. The Board may establish an ad hoc Committee at any appropriate time to consider a special issue.

The committees have their own charters setting out the objectives, composition, and responsibilities of the committee. The Board will periodically review the charters. The Board Chairman may not be the Chairman of the Audit and Risk Committee. A quorum shall be two Committee members, including the Committee Chairman. Any Director may attend any Committee meeting as an observer if he/she so wishes. The Committee may request the CEO, Chief Financial Officer and/or any Management Team member to attend.

AUDIT AND RISK COMMITTEE

The Audit and Risk Committee comprises of three Directors: Grant Graham (Chairman), Anthony Anselmi and Paul Brock, and meets formally a minimum of two times during the financial year. The Board is of the opinion that sufficient financial expertise and knowledge of the industry in which the Company operates is possessed by the members of the Audit and Risk Committee. Details of the qualifications of the Audit and Risk Committee members are set out in Section 1 of the Statutory section of this Annual Report. The primary objective of the Audit and Risk Committee is to assist the Board of Directors in fulfilling its responsibilities relating to annual reporting, tax planning and compliance, and risk management practices.

TAKEOVER POLICY

The Takeover Policy sets out the procedure to be followed if there is a takeover offer for FWL. A copy of the Policy is available on the Group's website. This Policy is reviewed by the Board at least bi-annually or as required due to legislation changes. It was last reviewed in August 2019.

PRINCIPLE 4 – REPORTING & DISCLOSURE

"The Board should demand integrity in financial and non-financial reporting, and in the timeliness and balance of corporate disclosures."

CONTINUOUS DISCLOSURE

FWL's Continuous Disclosure Policy sets out FWL's arrangements to ensure material information is identified, reported, assessed and, where required, disclosed to the market in a timely manner. The Company is committed to providing relevant and timely information to its shareholders and to the broader market, in accordance with its obligations under the NZX Listing Rules.

Corporate Governance Statement (continued)

For the year ended 30 June 2020

PRINCIPLE 4 – REPORTING & DISCLOSURE (CONTINUED)

CONTINUOUS DISCLOSURE (CONTINUED)

It is the responsibility of the Board to monitor compliance with the Continuous Disclosure Policy. The Board considers at each board meeting whether any information discussed at the meeting requires disclosure. The Policy is reviewed at least annually and was last reviewed in August 2020. A copy of the Policy is available on the Group's website.

CHARTERS AND POLICIES

The key corporate governance documents referred to in this Statement are available on the Group's website.

FINANCIAL REPORTING

FWL is committed to ensuring integrity and timeliness in its financial reporting and in providing information to the market and shareholders which reflects a considered view on its present and future prospects.

The Audit and Risk Committee oversees the quality and integrity of external financial reporting including the accuracy, completeness and timeliness of financial statements, and ensuring the financial reporting is balanced, clear and objective. It reviews annual and half year financial statements and makes recommendations to the Board concerning the application of accounting policies and practices, areas of judgement, compliance with accounting standards, NZX and legal requirements, and the results of the external audit.

NON-FINANCIAL REPORTING

The Group assesses its exposure to environmental, economic and social sustainability as part of the overall framework for managing risk (see Principle 6 – Risk Management). The Group is committed to improving standards of environmental performance to enable a more efficient and sustainable future. Accordingly, the Group follows longstanding practices around management of environmental factors affecting the business, including strategies relating to water conservation, viticulture management, sustainable wine growing practices and wetland preservation initiatives. Reporting on these matters are included in the Director and CEO Report.

PRINCIPLE 5 – REMUNERATION

"The remuneration of directors and executives should be transparent, fair and reasonable."

REMUNERATION – NON-EXECUTIVE DIRECTORS

Remuneration levels are set at competitive levels to attract and retain appropriately qualified and experienced Directors taking in to account the responsibilities and time commitments provided by those Directors to the Company in discharging their duties.

Directors' fees are recommended to and confirmed by Shareholders' resolution at an Annual Meeting. In accordance with the Listing Rules the Shareholders approve the total aggregate amount of fees payable to all Directors as Directors' fees, with the fee allocation to be determined by Directors. Currently the maximum aggregate amount of fees payable to Directors is $240,000 per annum.

The Company's policy is to pay all of its Directors in cash. The Directors fees paid during the year are shown in Section 3 of the Statutory Information section of this Annual Report.

Corporate Governance Statement (continued)

For the year ended 30 June 2020

PRINCIPLE 5 – REMUNERATION (Continued)

REMUNERATION – NON-EXECUTIVE DIRECTORS (CONTINUED)

The Board reviews annually and recommends to Shareholders any increase in Directors' fees when profit performance warrants. The criteria for reviewing Non-Executive Director remuneration includes obtaining advice from external consultants, where appropriate, information on Board arrangements for other corporations of similar size and complexity, and the review of current and expected workloads of non-executive Directors. The Board will continue to review its remuneration strategies in relation to non-executive Directors from time to time, in line with general industry practice.

REMUNERATION POLICY

The purpose of the Remuneration Policy is to outline the principles and approach to remuneration for all employees and Directors of FWL and to ensure the principles are fair, reasonable and aligned to FWL's strategic goals.

The Group is committed to applying fair and equitable remuneration and reward practices in the workplace, taking into account internal and external relativity, the commercial environment, the ability to achieve the Group's business objectives and the creation of Shareholder value. Under the Group's remuneration practices, job size relative to the relevant competitive market for talent, as well as individual performance against defined key performance objectives, are key considerations in all remuneration-based decisions.

REMUNERATION – CEO (EXECUTIVE DIRECTOR) AND SENIOR EXECUTIVES

The criteria for reviewing the remuneration for senior executives includes, as appropriate, advice obtained from external consultants, participation in independent surveys, specific market comparison of individual roles, and level of achievement against business and personal objectives.

The total remuneration paid to the CEO/Executive Director for the year ended 30 June 2020 is disclosed in Section 3 of the Statutory Information section of this Annual Report. The remuneration of the CEO comprises both a formal fixed and an informal variable performance component. Fixed remuneration includes a base salary, car allowance, car parking and a wine allowance. CEO Mark Turnbull's annual base salary for the year ended 30 June 2020 was $500,000. This was the same in the prior year. There were no formal short term or long term incentive schemes in place during the current or prior year. CEO performance is assessed based on FWL financial performance against plan and progress on executing the long term strategy of the company. During the year the Board approved a discretionary bonus for performance and achievement of long term strategic goals for the previous two financial years of $300,000 and $325,000 for the current financial year.

PRINCIPLE 6 – RISK MANAGEMENT

"Directors should have a sound understanding of the material risks faced by the issuer and how to manage them. The Board should regularly verify that the issuer has appropriate processes that identify and manage potential and material risks."

Risk management is an acknowledged important factor in corporate governance. The Board is responsible for the Group's risk assessment, management and internal control and considers it has carried out a robust risk assessment process. The Board has identified a number of risks in the Company's operations that are commonly faced by other entities in the wine industry. The Board and management of the Company believe they have taken all reasonable steps to manage and mitigate those risks.

In viticulture the issues of weather, disease and pest control are an ongoing management activity. Viticultural techniques are in place and in practice which the Board and Management considers effectively mitigate this risk.

Corporate Governance Statement (continued)

For the year ended 30 June 2020

PRINCIPLE 6 – RISK MANAGEMENT (Continued)

Brand reputation and brand security is an identified risk that is the subject of ongoing surveillance, and techniques and practices are in place which the Board and Management considers effectively mitigate this risk.

Supply Chain risk is monitored, and the Group has identified a range of suppliers operating in different jurisdictions to mitigate the risk of the loss of a single supplier.

Grape supply - The quality and quantity of the grape harvest is dependent on seasonal climatic factors such as frosts, rainfall, sunshine and temperature. Harsh adverse climatic conditions could affect the quality of grapes and hence marketable quality of and prices received for the Company's finished wines. To mitigate this risk the Group has diversified and is further diversifying its grape supplies and vineyards throughout various regions across New Zealand. The Group sources grapes from owned or leased vineyards as well as from contract growers.

Resource and Water Supply and Waste Disposal Consents – the Group can only operate with approved resource consents. These have been obtained and are maintained for all of the Group's winery sites. The Group ensures it holds water rights for all foreseeable demands for the wineries and its owned and leased vineyards.

Technology risk, particularly in relation to hacking or illegal access and cyber-attacks, is an identified risk that is the subject of ongoing surveillance, and techniques and practices are in place which the Board and Management considers effectively mitigate this risk.

The senior management team regularly complete a risk assessment affecting the business and maintain a risk matrix which is used to monitor and mitigate these risks. A risk matrix measures the impact of the risk and likelihood of occurrence and outlines the practices and processes in place to address the identified risk. This is provided to the Audit and Risk Committee and Board annually. The Group maintains insurance policies that it considers adequate to meet insurable risks taking into consideration the size and nature of the Company's business and risk profile.

HEALTH AND SAFETY

The Board has responsibility for ensuring the Company maintains a health and safety management system that meets best practice standards to protect the health and safety of its employees and contractors engaged by the Company. The Board maintains a Health and Safety Policy, reviewed annually, to underpin the Company's commitment to providing a safe working environment for its employees and contractors. The Board receives a monthly Workplace Health and Safety Report from the Company's Health and Safety Manager.

The Health and Safety Policy was last reviewed in August 2020.

PRINCIPLE 7 – AUDITORS

"The board should ensure the quality and independence of the external audit process."

EXTERNAL AUDITOR

The Audit and Risk Committee makes recommendations to the Board on the appointment and removal of the external auditor.

The Audit and Risk Committee is responsible to ensure the External Auditor's independence is maintained so that financial reporting is reliable and credible. The Audit and Risk Committee monitors the nature and extent of other services provided by the external auditor, and the ratio of audit fees to non-audit fees, to ensure that those services are complementary to the external audit and compatible with maintaining external audit independence.

The External Auditor is responsible for reviewing and making recommendations on these underlying control systems to ensure they produce accurate and consistent reports on which Shareholders may rely and, to assist meeting this

Corporate Governance Statement (continued)

For the year ended 30 June 2020

PRINCIPLE 7 – AUDITORS (CONTINUED)

EXTERNAL AUDITOR (CONTINUED)

responsibility, the External Auditor shall have full access to all board papers and minutes and all financial and related records. The Audit and Risk Committee routinely has time with the External Auditor without management present.

It is paramount the independence of The External Auditor is maintained for Shareholders' benefit.

The Company invites the External Auditor to attend the Annual Meeting of Shareholders and they are available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

INTERNAL AUDIT

The underlying internal control and accounting and operational systems determine the accuracy of the financial statements and results presented to the Board. The Group does not have an internal audit function. Procedures have been established at the Board and executive management levels that are designed to safeguard the assets and interests of the Company and ensure the integrity of reporting. The Board acknowledges that it is responsible for the overall internal control framework but recognises that no cost-effective internal control system will preclude all errors and irregularities. The Board has undertaken a risk review and considers that the Group have a sound system of internal control which is operating effectively in all material respects in relation to financial reporting risk.

PRINCIPLE 8 – SHAREHOLDER RIGHTS & RELATIONS

"The Board should respect the rights of shareholders and foster constructive relationships with shareholders that encourage them to engage with the issuer."

INFORMATION FOR AND COMMUNICATION WITH SHAREHOLDERS

The Group is committed to communicating regularly with Shareholders in an open and transparent way. The Board aims to ensure that all Shareholders are provided with all information necessary to assess the Group's direction and performance.

To facilitate this general information flow, the Company maintains a comprehensive website including an investor section (www.foleywines.co.nz). This contains the constitution, annual and half-yearly reports and financial statements, corporate governance policies and documents, releases to the NZX or media and any presentations to third parties. Contact details are provided on the website to allow shareholders to contact the Company. Shareholders are actively encouraged to received communications from FWL and its Share Registrar electronically.

SHAREHOLDER RIGHTS

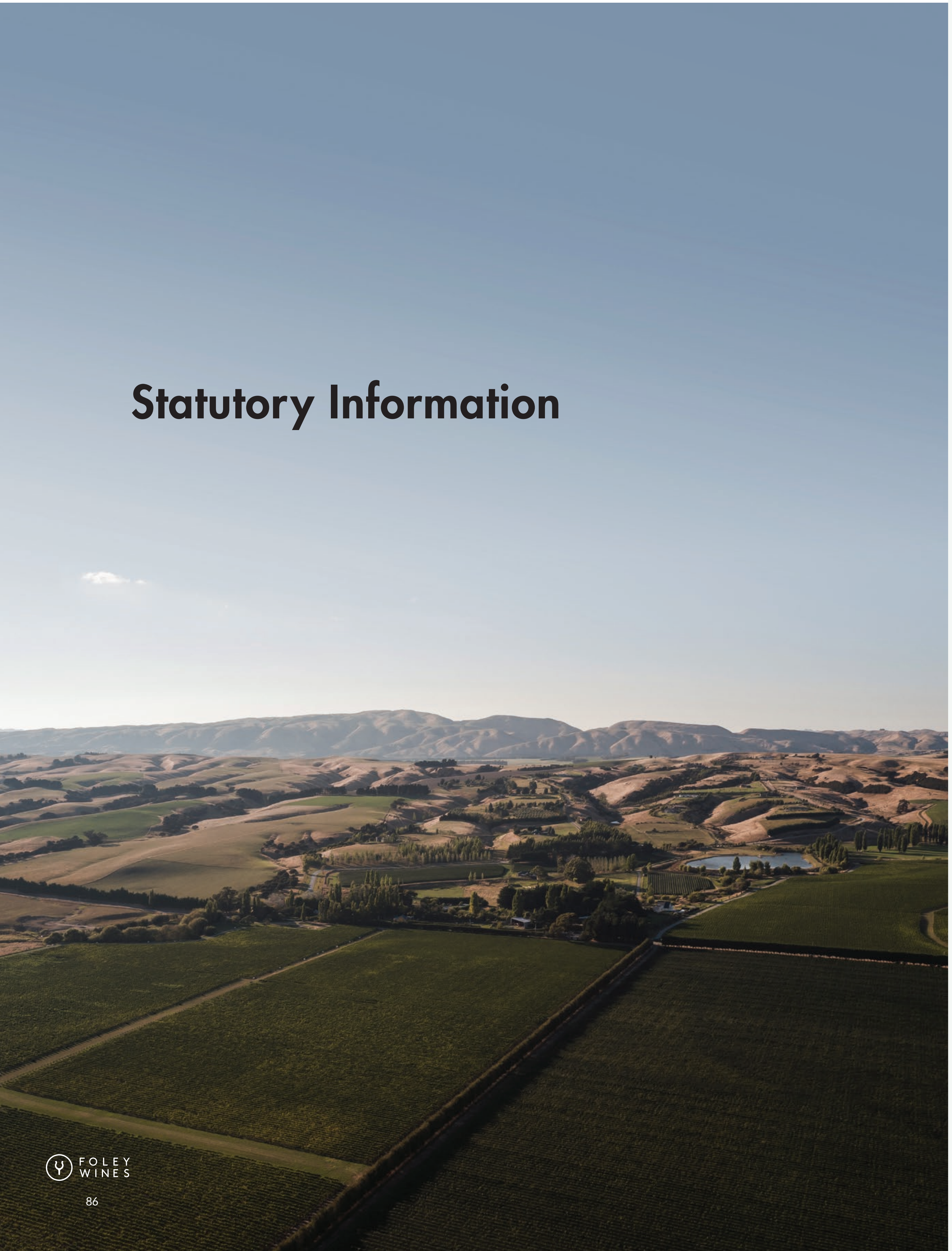
In accordance with the Companies Act 1993, FWL's Constitution, and the NZX Listing Rules, the Group refers any major decisions which may change the nature of FWL to Shareholders for approval at a Shareholders' meeting.

Resolutions for which requisite Notice are given are voted upon by way of a poll and on the basis of one share, one vote. There are no priority or special voting shares.

When the Group is seeking additional equity capital it will offer further equity securities to existing shareholders of the same class on a pro-rata basis, and on no less favourable terms, before further equity securities are offered to other investors.

NOTICE OF ANNUAL SHAREHOLDERS MEETING

The Group posts any Notices of Shareholder Meetings on its website as soon as these are available. The general practice is to make these available not less than four weeks prior to the Shareholders' meeting.



Statutory Information

For the year ended 30 June 2020

1. DIRECTOR PROFILES

WILLIAM P FOLEY II – *CHAIRMAN*

William P Foley II (Bill) was appointed to the Board in September 2012. Mr. Foley has served as the Executive Chairman of Fidelity National Financial, Inc. (FNF) since October 2006 and, prior to that, as Chairman of the Board of FNF since 1984. Mr. Foley also served as Chief Executive Officer of FNF from 1984 until May 2007 and as President of FNF from 1984 until December 1994. Mr. Foley also serves as the Executive Chairman of Black Knight since January 2014, Executive Chairman of Foley Trasimene Acquisition Company since March 2020 and as the Chairman of Cannae Holdings since July 2017. Mr. Foley also serves as the Chairman of Dun & Bradstreet, which is a Cannae Holdings portfolio company Within the past five-years, Mr. Foley served as the Vice Chairman of FIS, as the Chairman of Remy, and as a director of Ceridian from September 2013 to August 2019. Mr. Foley also serves on the board of directors of the Foley Family Charitable Foundation and the Folded Flag Charitable Foundation. Mr. Foley also is Chairman, CEO and President of Foley Family Wines Holdings, Inc., which is the holding company of numerous vineyards and wineries located in the U.S. and in New Zealand. Mr Foley, also is the Executive Chairman and Chief Executive Officer of Black Knight Sports and Entertainment LLC, which is the private company that owns the Vegas Golden Knights, a National Hockey League

Mr. Foley's qualifications to serve on the Board include his 30 plus years as a director and executive officer of FNF, his experience as a board member and executive officer of public and private companies in a wide variety of industries, and his strong track record of building and maintaining shareholder value and successfully negotiating and implementing mergers and acquisitions.

PAUL BROCK – *DEPUTY CHAIRMAN – NON-EXECUTIVE INDEPENDENT DIRECTOR*

Paul Brock was appointed to the Board with effect from 1 November 2018 and was appointed Deputy Chairman. Paul Brock was the Kiwibank Group Chief Executive from 2010-2017. He was Co-Founder of the bank which was launched in 2002. As Group Chief Executive Paul led the Kiwibank Group through a period of rapid growth and diversification into business banking, wealth management, insurance and asset finance. The bank is now a major player in the New Zealand market with one in four New Zealanders holding an account with Kiwibank.

Paul has a strong background in governance, management, growth business development, brand development and marketing. An extensive background in the financial services industry has also included senior management positions with Westpac and Trust Bank. Paul has been Chairman of Gareth Morgan Investments Ltd and Kiwibank Investment Management Ltd and a Director of Kiwi Insurance Ltd, New Zealand Home Loans Ltd, Kiwibank Custodial Services Ltd, AMP Home Loans Ltd, Kiwi Capital Securities Ltd, Kiwi Capital Funding Ltd and Kiwi Wealth Management Ltd. Paul is currently Chair of the board of the New Zealand Story Group, a country reputation programme to enhance the New Zealand brand and increase the benefits to New Zealand from export trade, and is also a member of the Massey University Business School Advisory Board.

Paul holds a Bachelors degree in Business Studies from Massey University.

ANTHONY ANSELMI O.B.E. – *NON-EXECUTIVE INDEPENDENT DIRECTOR*

Anthony Anselmi (Tony) was appointed to the Board in September 2012 and is a member of the Audit and Risk Committee. Tony's business career began in his late teens in footwear retail, and today the family owned business Overland Footwear Company Ltd. of which Tony is Chairmen, owns and operates retail stores throughout New Zealand and in the State of Victoria, Australia. Tony opened a manufacturing plant in 1966 and Fabia Products Ltd soon became one of the larger footwear manufacturers in New Zealand, selling its products throughout New Zealand, Australia and the Pacific Islands. He has considerable experience in farming and developed a large area of neglected land into an extensive dairy farming enterprise. He has also developed a kiwi fruit orchard in Katikati.

Statutory Information (continued)

For the year ended 30 June 2020

1. DIRECTOR PROFILES (CONTINUED)

ANTHONY ANSELMI O.B.E. – *NON-EXECUTIVE INDEPENDENT DIRECTOR (CONTINUED)*

Tony was appointed a Director of the State Owned Enterprise, Forestry Corporation and served on the Board until it was sold by the Government. He was appointed an inaugural director of Inframax Ltd. a road construction and maintenance L.A.T.E. owned by the Waitomo District council. Tony was for two years Chairman of the New Zealand Footwear Manufacturers Federation and served on the board of and later became chairman of the King Country Regional Development Council.

Tony was an investor in the New Zealand Wine Fund Ltd (Vavasour Wines) and when this was purchased in 2009 by Foley Family wines Ltd. at the invitation of Mr. Bill Foley transferred his investment to the new company.

GRANT GRAHAM – NON-EXECUTIVE INDEPENDENT DIRECTOR

Grant Graham was appointed to the Board with effect from 1 February 2019 and as Chair of the Board Audit and Risk Committee. Grant is a Partner at advisory and investment firm Calibre Partners with a strong background in corporate finance and advisory in valuation, restructuring and as an expert witness.

Over 20 years, Grant has written numerous Independent Advisors' reports for listed company activity subject to NZX listing rules and the New Zealand Takeovers' Code. In the process, he has gained an enviable reputation for the quality of these reports, his clear and concise communication style, and pragmatic advice.

Grant has a Bachelor of Commerce and is a Chartered Accountant with Chartered Accountants Australia New Zealand (CAANZ) holding a Certificate of Public Practice and CAANZ Accredited Insolvency Practitioner status. Grant is a member of the Institute of Directors in New Zealand.

ANTONY MARK TURNBULL – *CEO (EXECUTIVE DIRECTOR)*

Antony Mark Turnbull (Mark) was appointed Chief Executive Officer and Director of the Company in September 2012. Mark's career started as an accountant with Ernst and Young, then for the next 18 years was Managing Partner of the brand consultancy Designworks. Mark was Chairman of the New Zealand Wine Fund when it was acquired by Foley Family Wines in 2009. In 2011 Mark had a sabbatical year and attended London Business School where he completed a Masters of Science in Leadership and Strategy with Distinction. Mark is a Chartered Accountant with Chartered Accountants Australia and New Zealand.

2. INTEREST REGISTERS

The following entries were recorded in the Directors' interest register of the Company during the year:

SHARE DEALINGS IN THE SHARES OF FOLEY WINES LIMITED

There were no share transactions during the year.

Share transactions undertaken during the prior year were as follows:

WP Foley II – purchased 8,981,487 jointly with CJ Foley at $1.48 per share on 18 December 2018;

AM Turnbull – purchased 10,136 shares as part of the Share Purchase Plan at $1.48 per share on 3 July 2018 and 40,211 shares on market for $55,127 (an average price per share of $1.37) on 28 November 2018. The balance held at year end was 60,347 shares.

SHARE DEALINGS IN THE SHARES OF FOLEY WINES LIMITED SUBSIDIARY COMPANIES

There were no transactions during the year (2019: Nil).

Statutory Information (continued)

For the year ended 30 June 2020

2. INTEREST REGISTERS (CONTINUED)

	2020 $'000	2019 $'000
TRANSACTIONS		
Certain Directors have interests in contracts with Foley Wines Limited.		
AM Turnbull (Lighthouse Distillery Ltd – purchase of Spirits for resale)	192	579
AM Turnbull (Lighthouse Distillery Ltd – charges from FWL for labour, rent, electricity and administration)	62	78

LOANS TO DIRECTORS

No loans to directors were authorised during the year.

IMDEMNITY AND INSURANCE

The Directors' and Officers' liability insurance is held to cover risks normally covered by such policies arising out of acts or omissions of directors and employees in their capacity as such except for specific matters which are expressly excluded.

3. DIRECTORS REMUNERATION AND MEETING ATTENDANCE REGISTER

Directors of the Company during the year and remuneration and other benefits paid to directors by the Company were as follows:

	2020 $'000	2019 $'000
DIRECTORS' FEES		
WP Foley II	85	100
AJ Anselmi	43	39
PR Brock	52	33
GR Graham	52	21

REMUNERATION AND OTHER BENEFITS

AM Turnbull was a Director and the Chief Executive Officer during the year and as such did not receive Director's Fees. Remuneration and other benefits paid to Executive Directors during the year was $1,148,000 (2019: $548,000). The remuneration for the current year included a discretionary bonus approved by the Board for the previous two financial years of $300,000 and $325,000 for the current financial year. There were no short term or long term incentive schemes in place during the year.

Statutory Information (continued)

For the year ended 30 June 2020

3. DIRECTORS REMUNERATION AND MEETING ATTENDANCE REGISTER (CONTINUED)

MEETING ATTENDANCE REGISTER

The attendance of Directors of the Company at Board meetings and Board Audit and Risk Committee meetings were as follows:

	2020 Board	2020 Audit & Risk Committee
WP Foley II	5 / 5	N/A
AJ Anselmi	5 / 5	4 / 4
PR Brock	5 / 5	4 / 4
GR Graham	5 / 5	4 / 4
AM Turnbull	5 / 5	4 / 4

4. EMPLOYEES' REMUNERATION

Section 211(1)(g) of the Companies Act 1993 required disclosure of remuneration and other benefits, including redundancy and other payments made on termination of employment, in excess of $100,000 per year, paid by the Company or any of its subsidiaries worldwide to any employees who are not Directors of the Company:

	Number of Employees
$100,000 – $109,999	3
$110,000 – $119,999	3
$130,000 – $139,999	3
$140,000 – $149,999	2
$240,000 – $249,999	1
$250,000 – $259,999	1
$270,000 – $279,999	1
$380,000 – $389,999	1

5. DONATIONS

Foley Wines Limited made no cash donations during the year (2019: $Nil).

Statutory Information (continued)

For the year ended 30 June 2020

6. SHAREHOLDER BREAKDOWN

Shareholding as at 30 June 2020	Number of shareholders	Total shares held	% of share capital
1-999	522	129,998	0.20%
1,000-9,999	367	1,233,695	1.87%
10,000-49,999	144	2,646,560	4.03%
50,000-99,999	25	1,686,606	2.57%
100,000-499,999	20	3,879,212	5.90%
500,000+	10	56,160,077	85.43%
	1,088	65,736,148	100.00%

7. DIRECTORS' SHAREHOLDING

As at 30 June 2020 Directors held the following direct interests in the Company.

WP Foley – Individually and with CJ Foley held a direct interest in Foley Wines Limited (FWL) of 61% through his shareholding in Foley Family Wines Holdings, Inc. (FWLH), the ultimate parent of Foley Family Wines Holdings, New Zealand Limited (FWLH-NZ) which is the New Zealand based parent company and majority shareholder of FWL, through his shareholding in FWLH-NZ and through the ownership of 8,981,487 ordinary FWL shares (2019: 61%). This interest was 64% including the shares to be issued under the Convertible Note (note 15) (2019: 64%).

AJ Anselmi – held a direct interest in FWL of 1.7% through his shareholding in FWLH-NZ (2019: 1.7%). This interest was 1.8% including the shares to be issued under the Convertible Note (note 15) (2019: 1.8%).

AM Turnbull – held a direct interest in FWL of 1.2% (2019: 1.2%) through his shareholding in FWLH-NZ (1.15%; 2019: 1.15%) and through the ownership of 60,347 ordinary FWL shares (0.09% 2019: 0.09%). This interest was 1.3% including the shares to be issued under the Convertible Note (note 15) (2019: 1.3%).

Statutory Information (continued)

For the year ended 30 June 2020

8. 20 LARGEST REGISTERED HOLDERS

Ordinary shares held at 30 June 2020:	Ordinary shares held	% of share capital
Foley Family Wines Holdings, New Zealand Limited *	34,708,796	52.80%
WP Foley II & CJ Foley	8,981,487	13.66%
National Nominees New Zealand Limited on behalf of Milford Asset Management Limited *	3,842,553	5.85%
Accident Compensation Corporation	2,712,589	4.13%
Lion NZ Limited	2,027,027	3.08%
Alfa Lea Horticulture Limited	903,330	1.37%
New Zealand Permanent Trustees Limited - NZCSD	890,000	1.35%
JP Morgan Chase Bank NA NZ Branch - Segregated Clients Acct - NZCSD	875,910	1.33%
Sky Hill Limited	645,572	0.98%
BNP Paribas Nominees (NZ) Limited - NZCSD	572,813	0.87%
Public Trust RIF Nominees Limited - NZCSD	383,930	0.58%
FNZ Custodians Limited	382,698	0.58%
JD Croft	322,388	0.49%
Phaben Holdings Limited	300,001	0.46%
Kynance Holdings Limited	300,000	0.46%
MG Fairhall	295,116	0.45%
Custodial Services Limited	203,490	0.31%
CM & BW Doig	198,794	0.30%
JD Orchard, CS Orchard & JG Orchard	160,000	0.24%
J Fu	147,420	0.22%
Sub-total	58,853,914	89.53%
Others (1,009 Shareholders)	6,882,234	10.47%
TOTAL	65,736,148	100.00%

* These shareholders are **substantial product holders** as defined in Section 274 of Sub-part 5 of Part 5 of the Financial Markets Conduct Act 2013 as they have a **substantial holding** in the Company.

9. NZX WAIVERS

No waivers were granted in the current year. In the prior year: The Company traded its ordinary shares on the NZX Alternative Market (NZAX) until 30 November 2018 under the ticker code "FFW". On 3 December 2018 the Company migrated to the NZ Main Board (NZSX) and commenced trading Foley Wines Limited ordinary shares under the ticker code "FWL" (following a company name change on 1 December 2018). As part of the migration process the Company applied to, and the NZX granted, a number of waivers from certain NZX Main Board Listing Rules. The details of these waivers can be viewed on the NZX website www.nzx.com (http://nzx-prod-s7fsd7f98s.s3-website-ap-southeast-2.amazonaws.com/attachments/FFW/327240/291048.pdf).

FOLEY WINES LIMITED | ANNUAL REPORT 2020

Company Directory

For the year ended 30 June 2020

DIRECTORS:
WP Foley, II (Chairman)
PR Brock (Deputy Chairman)
AJ Anselmi
GR Graham
AM Turnbull (CEO)

HEAD OFFICE ADDRESS:
13 Waihopai Valley Road
RD6, Blenheim, 7276, Marlborough, New Zealand
Telephone +64 3 572 8200
Facsimile +64 3 572 8211

POSTAL ADDRESS: PO Box 67, Renwick 7243, Marlborough, New Zealand

EMAIL: info@foleywines.co.nz

WEBSITES:
www.foleywines.co.nz
www.grovemill.co.nz
www.vavasour.com
www.tekairanga.com
www.martinborough-vineyard.co.nz
www.mtdifficulty.nz
www.lighthousegin.co.nz

NATURE OF BUSINESS: Production and distribution of wine

AUDITORS:
2020: Deloitte Limited, Wellington
2019: PricewaterhouseCoopers, Napier

SOLICITORS:
Bell Gully, Auckland
Jennifer Mills & Associates, Auckland

BANKERS: Bank of New Zealand, Auckland

REGISTRATION NO. 307139

REGISTERED OFFICE: 13 Waihopai Valley Road, RD6 Blenheim 7276, Marlborough, New Zealand

SHARE REGISTRAR:
Computershare Investor Services Limited
159 Hurstmere Road, Takapuna, North Shore City 0622
Private Bag 92119, Auckland 1142
Telephone +64 9 488 8777
Facsimile +64 9 488 8787
Email: enquiry@computershare.co.nz (please quote CSN or shareholder number)
Website for shareholders to change address or payment instructions or view investment portfolio: www.computershare.co.nz/investorcentre

SHARE TRADING:
NZX – NZSX Market
Security Code "FWL"

FOLEY WINES

made by land & hand

Investors who wish to join the Foley Investors Wine Club, please email info@foleywines.co.nz